

„Competing Mechanisms in Markets for Lemons “ joint with Sarah Auster (Bocconi University)

We study the competitive equilibria in a market with adverse selection and search frictions. Uninformed buyers post general direct mechanisms and informed sellers choose where to direct their search. We show there exists a unique equilibrium allocation and characterize its properties: all buyers post the same mechanism, and a low quality object is traded whenever such object is present in a meeting with a buyer. Thus we have screening ex post. The equilibrium is constrained inefficient when the common value component is not too small. The properties of the equilibrium are rather different from the case where buyers are restricted to posting prices, in which case the equilibrium is separating: surplus is higher for most but not all parameter values (when the level of the common value component is either sufficiently small, or sufficiently high).