

Matching with homophily *

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We study a matching model in which agents have to be matched in pairs in order to undertake a project. Each agent partitions the set of partners into friends and outsiders, and the set of possible projects, into good and bad ones (dichotomous preferences). The overall preference ordering on partner, project pairs is separable. Friendship is mutual and preferences over projects among friends exhibit value homophily in the following sense: when comparing two friends, the set of good projects for one individual is included in the set of good projects of her friend. We propose appropriate notions of stability and non-manipulability in this model and propose an algorithm, the *Minimum Demand Priority Algorithm* that generates stable allocations, satisfies a limited notion of Pareto efficiency called friendship efficiency and has good strategic properties. Finally we show stable allocations may not exist if the value homophily and dichotomous preferences assumptions are relaxed.

*joint work with Antonio Nicolo and Arunava Sen.