Performance and Turnover in a Stochastic Partnership

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Abstract

This paper characterizes the social-welfare maximizing equilibrium of a "stochastic partnership matching market", in which players paired to play a stochastic game may quit to be costlessly and anonymously re-matched. Patterns of performance and turnover in this equilibrium are consistent with the well-known "survivorship bias" and, if partners form "meaningful first impressions", with the "honeymoon effect". By contrast, maximizing social welfare in standard repeated games with re-matching typically requires that players receive low payoffs at the start of each relationship. Welfare and turnover comparative statics are also provided: higher partnership-states are associated with higher joint payoffs and, in the special case of an exogenous stochastic process, with both higher joint stage-game and joint continuation payoffs as well as longer-lasting relationships.

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