

Location Choice in Two-Sided Markets with Indivisible Agents

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Abstract

Consider a model of location choice by two sorts of agents, called “buyers” and “sellers:” In the first period agents simultaneously choose between two identical possible locations; following this, the agents at each location play some sort of game with the other agents there. Buyers prefer locations with fewer other buyers and more sellers, and sellers have the reverse preferences. We study the set of possible equilibrium sizes for the two markets, and show that two markets of very different sizes can co-exist even if larger markets are more efficient. This extends the analysis of Ellison and Fudenberg [3] (EF), who ignored the constraint that the number of agents of each type in each market should be an integer, and instead analyzed the “quasi-equilibria” where agents are treated as infinitely divisible.