

**Endogenous Market Formation:
Theory and Evidence from Chilean College Admissions**

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Abstract

Policy makers around the world have adopted market-design-inspired centralized matching systems for assigning students to public schools. However, the question of whether policy intervention is necessary for such adoptions has been little studied. Examining a setting with application costs and heterogeneity in college quality, we show that sizable application costs and small heterogeneity in college quality may lead to voluntary transition to a centralized matching system. Using the 2012 system change in Chile, we demonstrate the plausibility of our theoretical setting and show that the enlarged pool of colleges in the centralized admission is welfare-improving, particularly for those students facing high application costs.