Measuring the Welfare Gains from Cardinal-Preference Pseudomarkets in School Choice

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We compare cardinal-preference and ordinal-preference mechanisms for assignment problems such as school choice, with a focus on a variant of the pseudomarket mechanism of Hylland and Zeckhauser (1979). We introduce and theoretically analyze a variant of the pseudomarket mechanism that has an equilibrium selection rule. We also introduce a computer algorithm to compute the implied stochastic assignment. We estimate cardinal preferences over schools using data on student submissions of rank ordered lists of schools in Seattle. Using these estimated preferences, we measure the welfare gains from using the pseudomarket mechanism instead of the ordinally-efficient probabilistic serial mechanism.