

Transparency in non-market allocations

Abstract:

A principal wishes to allocate an item to an agent if and only if he is suitable, while the latter wants the item regardless. The agent's suitability is determined by the match quality of the principal's and the agent's type, which are their own private information. We study how the principal optimally allocates the item when monetary transfers are not feasible but misreporting is costly for the agent. In doing so, we provide conditions such that the principal is optimally transparent or opaque about her preferences with the agent. We discuss applications to regulatory transparency, allocation of public benefits and recruiting.