

Report on manuscript 968 for Economics: „Endogenous Ranking in a Two-Sector Urn-Ball Matching Process“, by Giuseppe Rose.

The author sets up a two-sector matching model of the labor market. His main interest is to show that optimal hiring behavior of firms may change. To this end, he lets firms choose between ranking and not ranking applicants according to their abilities/skills. The main upshot of the analysis is that firms in the high-tech sector may end up in two different regimes of the labor market. One in which they are mostly concerned about the low average level of abilities of the applicants. Then they prefer to rank applicants. In the other regime, the labor market for high skill workers is tight (and average ability is relatively higher). Now, firms prefer to not rank workers in order to incentive the marginal worker to go for education. The marginal costs (which may be linked to a particular educational system) of acquiring an education essentially determine the regime.

The matching function has become an important tool in modeling frictions in labor markets. I very much like the idea of the paper to investigate more deeply into the (maybe) inappropriate assumption of an exogenous matching function. What if the matching function is endogenous to policies? The implication would be that policy recommendations derived from flow models are potentially flawed. The author's attempt to show that firms may choose different hiring schemes, implying distinct matching functions, if a policy is applied to improve or restrict access to the educational system is a very nice case against an exogenous matching function.

The set-up of the model is mostly well described, and the assumptions are linked to the existing literature.

I have a few suggestions that may help improving the paper:

- The author may think about a graph or figure making more explicit the sequencing of the decisions taken by the actors.
- What I would very much like to see is another figure on the reactions functions (see eq. (29)), i.e. in the share of firms going high-tech and the share of workers acquiring education.
- Furthermore, a discussion of not only the reaction function for the firms but also for the workers would be appropriate where it is shown that multiple equilibria (more than one intersection) can be ruled out. Can they?
- Along these lines, the effect of the marginal education cost function on the shape of these reaction functions could be discussed, as well as how the reaction functions change as firms move from a hiring policy with ranking of applicants to no ranking of applicants.