CENTRO DE ECONOMÍA APLICADA

**Abstract**

We study dynamic markets in which participants are randomly matched to bargain over the price of a heterogeneous good. There is a continuum of players drawn from a finite set of types. Players exogenously enter the market over time and then exit upon trading. At every date, the matching probabilities for each pair of types are endogenously determined by the distribution of players in the market. A player's bargaining power at any stage depends on intra- and inter-temporal variations in the potential gains from trade, the feasible agreements at future dates, and the induced distribution of bargaining partners.

We establish that an equilibrium always exists. Moreover, all equilibria that feature the same evolution of the macroeconomic variables are payoff equivalent. However, we show that multiple self-fulfilling expectations about the trajectory of the economy, generating distinct equilibrium dynamics and payoffs, may coexist. We also prove the existence of steady states in stationary environments. Our analysis extends and complements several models of bargaining in markets.