Abstract

We study a college admissions problem in which colleges accept students by ranking students’ efforts in entrance exams. Students’ ability levels affect the cost of their efforts. We solve and compare equilibria of “centralized college admissions” (CCA) where students apply to all colleges and “decentralized college admissions” (DCA) where students only apply to one college. We show that lower ability students prefer DCA whereas higher ability students prefer CCA. Many predictions of the theory are supported by a lab experiment designed to test the theory, yet we find a number of differences that render DCA less attractive than CCA compared to the equilibrium benchmark.