This thesis proposes strategic complementarities that arise in markets with search frictions as explanation for market volatility. In markets with search frictions, externalities are the norm and not the exception. Taking any resulting positive feedback loops into account is crucial for understanding recent developments in labor, goods and housing markets. Search frictions can also explain the co-existence of different organizational forms in markets. This thesis shows that there is a role for institutions to improve the functioning of such markets, and that these can simultaneously increase equity and efficiency.

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