

# Foster Care: A Dynamic Matching Approach \*

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## Abstract

This paper studies the two-sided dynamic matching problem that occurs in the US foster care system. In this market, foster parents and foster children can form reversible *foster matches*, which may separate, continue in its reversible state, or transition to permanency via adoption. I first present an empirical analysis that yields four new facts related to match transitions of children in foster care. Thereafter, I develop a two-sided search and matching model with four key features: (a) children are heterogeneous in their disability status, (b) children search for parents while foster matched to another parent, (c) parents receive a smaller per-period payoff when adopting than fostering (capturing the presence of a financial penalty on adoption), and (d) matches differ in their quality. I use the model to derive conditions for the empirical facts to arise in equilibrium and carry out predictions regarding match quality. An interesting insight is that the intrinsic disadvantage (being less preferred by foster parents) faced by children with a disability exacerbates due to the penalty. Moreover, I show that foster parents in high-quality matches (relative to foster parents in low-quality matches) might have fewer incentives to adopt.

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# 1 Introduction

Each year more than a half-million children spend at least one day in the US foster care system, a federal program that costs taxpayers almost US\$30 billion dollars annually. The foster care system provides out-of-home care for children removed from their homes due to abuse, maltreatment, neglect, or other reasons.<sup>1</sup> While in foster care, children are placed in foster family homes or institutional care, and can be moved from one foster home to another, or from a foster home to institutional care.<sup>2</sup> The stay in foster care is meant to be temporary until children can reunite with their birth families, but when reunification is not possible, children might be relinquished for adoption.<sup>3</sup> Each year, close to 18% of children in foster care are at risk of experiencing long-term care if they are not adopted. In fact, more than 20,000 children leave foster care each year without an adoptive family, and out of those children, less than 3% will earn a college degree, and almost 20% will become homeless.<sup>4</sup>

For policymakers, the main concerns regarding the foster care system are match separations and permanency via adoption. First, research has shown that match separations have adverse effects on children, and it has become a priority for child welfare agencies to limit the match disruptions experienced by children.<sup>5</sup> And, since evidence suggests that adoption is a better alternative than long-term foster care, policymakers had made significant efforts to increase the adoption rates of children through major federal policies.<sup>6</sup> However, my findings suggest that limiting match separation might be counterproductive for the adoption goal: parents have incentives to foster a child indefinitely (without adopting) due to the

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<sup>1</sup> A child can enter foster care for several reasons such as sexual or physical abuse, parents' drug or alcohol addictions, parents' incarceration, parents' inability to provide care, parents' death, inadequate housing, abandonment, child's behavioral problem, child's drug addiction, or child's alcohol addiction.

<sup>2</sup> Foster homes are private homes licensed to provide 24-hour care for children in a family-based environment. Institutional care are licensed facilities that provide 24-hour care for several children at once (groups from seven to twenty), and it includes group homes, shelter care, and other institutions.

<sup>3</sup> By federal law, if a child has been in foster care for at least 15 of the last 22 months, the process to terminate her parental rights must be started immediately. Further, a judge can decide to terminate parental rights at any moment in time if it is in the best interest of the child.

<sup>4</sup> Source: National Foster Youth Institute.

<sup>5</sup> Match disruptions experienced by children is part of the national outcome standards used by federal agencies to monitor the state's performance.

<sup>6</sup> The Adoption and Safe Families Act of 1997 (ASFA), created the Adoption Incentive Program, which establishes performance bonuses to states that increase the adoption of children. The performance bonuses consisted of US\$4,000 dollars per child plus an additional US\$2,000 if the child has special needs (including disability). Later on, the Increasing Adoptions Act of 2008 increased the extra bonus to US\$4,000 if the child has special needs.

presence of a financial penalty. First, the monthly payments received by parents (from the state child welfare agency) are lower as an adoptive parent than as a foster parent and often fall to zero. Second, parents are responsible for the medical and educational expenditures of adopted children. Thus, parents face the following trade-off when deciding to adopt: accept the adoption penalty in exchange for eliminating the likelihood that the child disrupts the match in the future. Hence, match disruptions play a crucial role in adoption by influencing the incentives of foster parents to adopt.<sup>7</sup>

Therefore, from a policy perspective it is crucial to understand why certain children are more likely to have their matches separated and why certain children are less likely to be adopted. Besides, the presence of the adoption penalty might have a different effect on certain children, and it might influence the type of matches that transit to adoption (in terms of match quality). I distinguish children by whether they have a disability and study how this affects match disruption and adoption. I focus on disability for two reasons. First, most of the efforts made to increase adoption target children with a disability. Second, the adoption penalty might be higher for children with a disability as parents are responsible for higher medical expenditures. Nevertheless, the model can be used to study the effect of other observable characteristics of the child, such as gender, race, and ethnicity.

This paper studies both, theoretically and empirically, the two-sided dynamic matching problem that occurs in the US foster care system. First, I present an empirical analysis that yields four new facts related to match transitions of children in foster care and their exit through adoption. Second, I develop a two-sided search and matching model to disentangle the driving forces behind the empirical facts and derived other equilibrium properties. The main finding is that the penalty on adoption exacerbates the disadvantage faced by children with a disability (being less preferred by parents), and it also creates incentives for high-quality matches to not transit from a reversible fostering to adoption.

Using a rich panel dataset, describing the universe of children relinquished for adoption in the US foster care system over the period 2010 to 2016, I document the following empirical facts: (1) the presence of a disability decreases the probability that a child transits to permanency via adoption, (2) the presence of a disability increases the probability that a foster placement separates, (3) the presence of a disability decreases the probability that a child transits from institutional care to a foster home (becomes foster matched), and (4) the presence of a disability

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<sup>7</sup>The empirical literature supports this intuition; [Argys and Duncan \(2012\)](#) show that when the difference between the foster and adoption monthly payments decreases, a child's probability of adoption increases.

increases the probability that a child transits from a foster home to institutional care (becomes unmatched).

To analyze how different forces interact in the agents' decisions of forming a foster match, disrupting a foster match, and transiting to permanency via adoption, I develop a dynamic matching model with search frictions (it takes time to find a match) and non-transferable utility (transfers are exogenously given). Children and parents can form two types of matches: foster (reversible) and adoption (irreversible). The setting assumes that children are heterogeneous (with and without a disability), agents must be foster matched before forming an adoption match, parents receive a smaller per-period payoff when adoption matched than when foster matched, and matches differ in their quality. Children and parents prefer matches of higher quality, and parents prefer children without a disability to children with a disability. The timing is as follows. Every period, when a child (unmatched or foster matched) and parent meet (unmatched only), agents draw a match quality. Before deciding whether to form a foster match, they observe only a noisy signal about this quality. A foster match forms if and only if both accept. If a new foster match forms, any old foster match dissolves. The uncertainty about the quality resolves once foster match forms, and it remains constant throughout the match. After observing the match quality, agents decide whether to destroy the foster match (and become unmatched), transit to adoption, or remain foster matched.

The theoretical model allows me to disentangle the driving forces behind the aforementioned empirical facts. More concretely, I establish sufficient conditions on primitives for these facts to emerge in equilibrium. One of the key features captured by the model is that a foster separation can be the result of the uncertainty resolving, or it can be the result of a child forming a new foster match. Thus, foster match separations allow agents to avoid 'bad matches', and more importantly, it enables children to search for 'better matches' while in a foster environment. Concerning the child's observable characteristics, I find that foster separations involving children with a disability are mainly driven by the uncertainty on the quality of the match, while foster separations affecting children without a disability are driven mostly by the search of the child to improve the match quality. Moreover, I show that the increase in the probability of foster match separation due to a disability (fact 2) depends on two driving forces working in opposite directions. On the one hand, children with a disability are more likely (relative to children without a disability) to have a foster match destroy after the uncertainty is resolved, which itself makes them more likely to separate. On the other hand, I find that

children with a disability are less likely (relative to children without a disability) to form a new foster match, which itself makes them less likely to separate. Hence, fact 2 suggests that the former driving force prevails.

Another important insight of the model is that the decrease in the probability of being adopted due to a disability (fact 1) arises for two reasons. First, I show that children with a disability are less likely to form a foster match because foster parents require higher signals to be willing to form a foster match with them. Second, parents foster matched to these children (relative to parents foster matched to children without a disability) have a greater incentive to remain in the reversible foster match and not transit to adoption. The reason is that the adoption penalty for children with a disability is higher, and the likelihood that they break the match in the future is lower. Thus, the intrinsic disadvantage (being less preferred by foster parents) faced by children with a disability exacerbates in the presence of the adoption penalty.

Furthermore, the model allows me to obtain additional predictions improving our understanding of the mechanics behind the match transitions and adoption of children. In particular, I analyze the impact of match quality on the probability of foster match separation, probability of becoming unmatched, and probability of becoming adoption matched. Concerning foster match separation, I find that high-quality matches are less likely to separate, and both types of separations are aligned. Surprisingly, I find that parents in high-quality matches might have fewer incentives to adopt. The result is driven by the fact that children in foster matches of high-quality have fewer incentives to separate the foster match in the future. Hence, the adoption penalty not only exacerbates the intrinsic disadvantage faced by children with a disability, but it also creates incentives for high-quality matches to not transit to adoption.

**Related Literature.** As a first attempt to analyze the foster care system, this paper contributes to the literature on dynamic matching and research on foster care. Most of the literature on dynamic matching with heterogeneous agents, analyze environments where matches do not reverse endogenously. Under this assumption, the literature has addressed issues regarding stability ([Doval, 2021](#)), matching algorithms and its implications on welfare ([Ünver, 2010](#); [Anderson et al., 2015](#); [Akbarpour et al., 2020](#); [Baccara et al., 2020](#); [Leshno, 2021](#)), and positive assortative matching ([Burdett and Coles, 1997](#); [Eeckhout, 1999](#); [Shimer and Smith, 2000](#); [Chade, 2001, 2006](#); [Smith, 2006](#)). In these papers, agents face the trade-off of whether to form a match today or wait for a better partner. Now, if agents are allowed to form a match today and reverse it when a better partner arrives, an

additional feature arises. In the presence of reversibility, agents must take into account that today's partner and the potential better partner of tomorrow might leave the match in the future. There is a small literature analyzing dynamic matching environments with reversibility of matches, but the focus is on stability and cooperative solution concepts (Damiano and Lam, 2005; Kurino, 2009; Kadam and Kotowski, 2018; Liu, 2021). This paper is more related to the literature on positive assortative matching analyzing two-sided markets with search frictions, heterogeneous agents, and irreversible matches. My contribution adds to the literature on sorting along two dimensions. First, I allow for irreversible and reversible matches. Second, instead of addressing positive sorting, I estimate stylized facts present on the market and establish sufficient conditions for these patterns to arise in equilibrium.

Regarding foster care, there is a vast literature analyzing the effect of children's characteristics on, placement disruption and adoption (Courtney and Wong, 1996; Barth, 1997; Wulczyn et al., 2003; James, 2004; Snowden et al., 2008). A few papers are studying the effect of the number of placements on adoption from a quantitative perspective. Some studies found that the number of placements does not affect the probability of being adopted (Potter and Klein-Rothschild, 2002; Park and Ryan, 2009). On the contrary, other studies show that the number of placements negatively affect adoption (Smith, 2003; Akin, 2011). This paper contributes by providing a theoretical environment that analyzes how different forces interact in the agents' decisions of forming a foster-match, disrupting a foster-match, and transiting to permanency via adoption.

**Organization of the Paper.** The rest of the paper is organized as follows. Section 2 presents the empirical analysis and the facts that motivate the theoretical model. Section 3 describes the theoretical environment, and introduces the equilibrium definition. Section 4 presents the equilibrium analysis and the conditions under which the equilibrium is consistent with the stylized facts, as well as the model predictions. Lastly, section 5 concludes. All proofs are in the Appendix.

## 2 Empirical Analysis

I motivate the key features of the two-sided dynamic matching model described in the next section with an empirical analysis. Using data describing the universe of children in the US foster care system over the period 2010 to 2016, I document four new facts about the match process between foster children and foster parents.<sup>8</sup>

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<sup>8</sup>For a more detail background of the foster care system in the US see Appendix A.

## 2.1 Data and Descriptive Statistics

I use the 6-month Foster Care Files from AFCARS,<sup>9</sup> an unbalanced panel of all children in the US foster care system between the federal fiscal years of 2010 and 2016. The data track a child upon entry into foster care until she exits, which could be due to reunification with birth-family, adoption, emancipation, guardianship, transfer to another agency, runaway, or death. If a child exits foster care, both the exit manner and date of exit are indicated. Additionally, the data include a rich set of variables describing the child,<sup>10</sup> such as gender, race and ethnicity, disability, whether the child is federally funded by Title IV-E,<sup>11</sup> date of birth, date of most recent entry into foster care, and date of termination of parental rights (if applicable).<sup>12</sup> The disability variable, which is the focus of my empirical analysis, indicates whether a child has been clinically diagnosed with a disability, clinically diagnosed without a disability, or not yet diagnosed.<sup>13</sup> I say a **child has a disability** if she has been clinically diagnosed with at least one disability, and a child has no disability otherwise.

For each period (semester in the data) that a child remains in foster care, the data provide information about the last placement of the child during that period, including the start date of the placement. These placements are classified as: pre-adoptive home, non-relative foster home, relative foster home, group home, institution, supervised independent living, and runaway. Using these variables, I define a child as being **foster matched** in a given period if the child is placed in a pre-adoptive home, a non-relative foster home, or a relative foster home.<sup>14</sup> I define a child as being **unmatched** in a given period if the child is placed in a group home or institution.

To maintain a consistent estimation sample, I restrict the sample to children younger than age 16 whose parental rights have been terminated. The former restriction excludes older children who often exit through legal emancipation, and the latter is to ensure that children are eligible for adoption. I also restrict the

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<sup>9</sup>AFCARS is a federally mandated data collection system. All fifty US states and the District of Columbia are required to collect data on all children in foster care and all children adopted from foster care.

<sup>10</sup>Following [Buckles \(2013\)](#) and [Brehm \(2017\)](#), for all demographics I use the most recent record of each child since it updates all information.

<sup>11</sup>Title IV-E is a federal program through which states receive reimbursement of payments made on behalf of eligible children.

<sup>12</sup>To protect the confidentiality of the child, the date of birth is set to the 15th of the month and all dates are recoded to maintain consistent spans of time.

<sup>13</sup>A child can be diagnosed with more than one disability; unfortunately data do not allow to quantify either the number of disabilities nor the severity.

<sup>14</sup>It is important to mention that foster parents are not identifiable; when a child is placed in a foster home only family structure, foster parents' race and foster parents' year of birth are reported.

sample to children who are either foster matched or unmatched. This leaves a full sample of 451,967 children (sample A). Additionally, I create two subsamples. The first subsample (sample B) keeps only those child-period observations where the child is foster matched at the beginning of the period and still in foster care at the end of the period. The second subsample (sample C) keeps only those child-period observations where the child is unmatched at the beginning of the period and still in foster care at the end of the period. Table 1 presents summary statistics for the full sample and the two subsamples, and Table A1 presents these summary statistics conditioned on, the variable of interest, child's disability.

In Table 1 (sample A), children are, on average, almost 7 years old and have had their parental rights terminated for 17 months. Out of all children, 41 percent have been diagnosed with a disability. In a given period, 93 percent of children are foster matched, with the average duration of that match being 16 months. I say a child is **adopted** if she exits the system through adoption. On average, 28 percent of children are adopted in each period. I say a child **becomes unmatched** if conditional on being foster matched at the beginning of a period she is unmatched at the end of the same period. Conditional on starting the period foster matched (sample B), the probability that a child becomes unmatched is 2 percent. Now, I say a child **becomes foster matched** if conditional on being unmatched at the beginning of a period she is foster matched at the end of the same period. The probability that a child becomes foster matched is 24 percent (sample C). It is important to highlight that the rates at which children experience match transitions are affected by the rates at which foster matches are separated. I say a child's **foster match separates** if conditional on being foster matched at the beginning of a period the child is no longer foster matched to the same parent at the end of the period.<sup>15</sup> Table 1 (sample B) shows that foster matches separate with probability 19 percent. In practice, a separation can arise for different reasons such as the social worker decides to move the child to institutional care, the parent requests the removal of the child, or the social worker finds a more suitable foster parent for the child and decides to move the child. Unfortunately, the dataset does not contain this information.

## 2.2 Empirical Specifications and Stylized Facts

I estimate the effect of disability on four outcomes: (1) the probability that a child is adopted, (2) the probability that a foster match separates, (3) the probability

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<sup>15</sup>Even though, foster parents are not identifiable, a variable recording the number of placements allows me to identify whether the child is being fostered by the same parent.

Table 1: Descriptive Statistics, All Samples

	Sample A <i>obs</i> = 1,165,818		Sample B <i>obs</i> = 659,253		Sample C <i>obs</i> = 65,970	
	Mean	sd	Mean	sd	Mean	sd
Adopted	0.28	0.45	-	-	-	-
Foster matched	0.93	0.25	1.00	0.00	0.00	0.00
Becomes foster matched	-	-	-	-	0.24	0.42
Becomes unmatched	-	-	0.02	0.14	-	-
Foster match separates	-	-	0.19	0.39	-	-
Age in years	6.80	4.43	6.81	4.36	12.17	2.80
Disabled	0.41	0.49	0.43	0.50	0.68	0.47
Male	0.53	0.50	0.52	0.50	0.63	0.48
White	0.43	0.50	0.42	0.49	0.44	0.50
Black	0.24	0.43	0.26	0.44	0.27	0.44
Hispanic	0.22	0.41	0.22	0.42	0.20	0.40
Title IV-E eligible	0.48	0.50	0.51	0.50	0.47	0.50
Months in foster care	34.87	24.38	34.86	24.86	53.10	36.72
Months since PRT*	17.09	22.62	16.23	22.15	41.99	36.86
ending in adoption	12.46	11.85	-	-	-	-
Months in current placement	16.06	15.72	17.31	16.32	10.85	13.99
foster matched	16.44	15.78	-	-	-	-

*Notes:* Data are from Adoption and Foster Care Analysis and Reporting System (AFCARS). Means and standard deviations are calculated for child-period observations. Sample A is the full sample containing all children younger than age 16 whose parental rights have been terminated and who are either foster matched or unmatched. Sample B and Sample C are subsamples of A. Sample B (sample C) keeps only those child-period observations such that the child is foster matched (unmatched) at the beginning of the period and still in foster care at the end of the period.

\* PRT stands for Parental Rights Terminated.

that a child becomes foster matched, and (4) the probability that a child becomes unmatched. For each outcome, I estimate the following linear probability model:

$$y_{ijt} = \alpha + \gamma \text{disability}_i + \beta X_i + \theta Z_{it} + \xi_j + \lambda_t + \epsilon_{ijt} \quad (1)$$

where  $y_{ijt}$  is an indicator for the outcome of child  $i$  in state  $j$  at period  $t$ .  $\text{disability}_i$  is an indicator equal to one if child  $i$  has a disability and zero otherwise.  $X_i$  is a vector of time-invariant characteristics of child  $i$  such as gender, race, ethnicity, and whether the child is federally funded through Title IV-E.  $Z_{it}$  is a vector of time-

Table 2: Stylized Facts from Foster Care - Effect of Disability

	Adoption I	Foster match Separation II	Becomes Foster matched III	Becomes Unmatched IV
Disability $\gamma$	-0.059*** (0.005)	0.023*** (0.002)	-0.045*** (0.006)	0.011*** (0.001)
Mean of dependent variable	0.279	0.185	0.236	0.021
Number of child-period observations	1,165,818	659,253	65,970	659,253

Notes: Data are from Adoption and Foster Care Analysis and Reporting System (AFCARS). All specifications control for child's demographics, states indicators and period indicators. The first and second columns consider sample A, third and fifth columns use sample B, and the fourth column uses sample C. Standard errors are cluster at the state-period level and shown in parentheses. \*\*\* $P < 0.01$ ; \*\* $P < 0.05$ ; \* $P < 0.10$ .

varying characteristics of child  $i$  including age in months, number of months in foster care, and number of months since parental rights have been terminated. I include a vector of period fixed-effects  $\lambda_t$  to control for time-trends, and a vector of state fixed-effects  $\xi_j$  to control for unobserved state characteristics.

### Fact 1: Disability Decreases the Probability of Being Adopted

The adoption rates of children with and without a disability are 0.22 and 0.32, respectively (see Table A1). To evaluate the significance of this effect conditional on other demographics, I use sample A to estimate Equation 1 where the dependent variable  $y_{ijt}$  is equal to one if child  $i$  in state  $j$  is adopted in period  $t$  and zero if she either remains in foster care or exits through any other manner. Table 2 column I shows that children with a disability are 6 percent less likely to be adopted than children without a disability.

As many states require parents to foster a child before an adoption can take place, the fact that children with a disability are less likely to be adopted might be driven by the fact that these children are less likely to be fostered in the first place. To analyze this, I estimate a version of Equation 1 where the dependent variable  $y_{ijt}$  is redefined to take the value of one if child  $i$  in state  $j$  is foster matched in period  $t$  and zero otherwise. As in adoption, the coefficient on disability is negative (see Table A2). While this is suggestive, the theoretical model will allow me to identify separately, the effect of being foster matched and the effect of transiting from a foster match to adoption, on the total probability of being adopted. Specifically,

the model will show that children with a disability are less likely to be adopted not only because they are less likely to be foster matched, but they are also less likely to transit from a foster match to adoption.

### **Fact 2: Disability Increases the Probability of Foster Match Separation**

From the data, foster matches constituted by children with and without a disability separate at rates 0.19 and 0.18, respectively (see Table A1). Using sample B, I estimate Equation 1 where the dependent variable  $y_{ijt}$  is equal to one if child  $i$  in state  $j$  has her foster match separated in period  $t$  and zero otherwise. Here, the vector  $Z_{it}$  includes the number of months that the child has been in her current foster match and what type of foster match it is (i.e., whether a pre-adoptive home, non-relative foster home or relative foster home).

Table 2 column II shows that children with a disability are 2 percent more likely to have their foster match separated than children without a disability. Even though, the dataset does not allow to identify the reason of the separation, the theoretical model will separately identify two types of separations: (1) the child transits from foster matched to unmatched i.e. from foster home to institutional care, and (2) the child transits from a foster match to another foster match i.e. from foster home to foster home. Furthermore, I will show that these two forces work on opposition directions: children with a disability are more likely to experience the first type of separation but less likely to experience the second type.

### **Fact 3: Disability Decreases the Probability of Becoming Foster Matched**

The rates of foster match formation (conditional on starting the period unmatched) of children with and without a disability are 0.22 and 0.28, respectively (see Table A1). To study the effect of disability on the probability of becoming foster matched, I use sample C to estimate Equation 1 where the dependent variable  $y_{ijt}$  equal one indicates that child  $i$  in state  $j$  becomes foster matched in period  $t$  and zero otherwise. In this specification, the vector  $Z_{it}$  additionally includes the number of months that the child has been in her current unmatched state and where she is currently living (i.e., whether a group home or institution).

Table 2 column III shows that disability decreases the probability of becoming foster matched by 5 percent. That is, children with a disability are less likely to become foster matched than children without a disability. The theoretical model will show that this probability is driven by the fact that disability decreases the probability that a child finds a parent willing to foster her, and if they do, disability increases the probability that the foster match is later on destroyed.

#### **Fact 4: Disability Increases the Probability of Becoming Unmatched**

From the data, the rates of unmatched formation (conditional on starting the period foster matched) of children with and without a disability are 0.03 and 0.01, respectively (see Table A1). Here, I use sample B to estimate Equation 1 where the dependent variable  $y_{i,j,t}$  equal one indicates child  $i$  in state  $j$  becomes unmatched in period  $t$  and zero otherwise. As in the previous estimation,  $Z_{it}$  includes the number of months that the child has been in her current foster match and the type of foster match.

As we can see from Table 2 column IV, disability increases the probability of becoming unmatched. In the model, the probability of becoming unmatched will depend on the rate at which foster matches separate and the probability that a child finds a parent willing to foster her. Thus, behind this stylized fact, there are driving forces working on opposite directions, as in the case of separations.

#### **Other Demographics**

Table A3 exhibits the complete results of all regressions. The effect of one more year of age is the same, qualitatively, to the effect of a disability. Similarly, being a male has a similar pattern to disability, except that it decreases the probability of disruption. Now, an interesting result is that the probability of being adopted is decreasing in the length of time that a child remains in foster care since her parental rights have been terminated. This is very similar to the documented evidence in unemployment spells and job finding rates. On the one hand, the child's behavior might become 'more difficult' the longer she stays in foster care, searching for an adoptive family. On the other hand, parents might interpret a long wait as a signal that those children might be 'difficult'. As future research, it would be interesting to build a model incorporating these features and analyze these two effects.

### **3 Model**

I develop a search and matching model to analyze how different incentives interact in the agents' decisions of forming a foster match, destroying a foster match, and forming an adoption match.

### 3.1 Environment

Time is discrete with an infinite-horizon. One side of the market is populated by **children** who differ in an observable attribute  $x \in X = \{x_1, x_2\}$  where  $x_1$  denotes a child with a disability,  $x_2$  indicates a child without a disability, and  $x_1 < x_2$ . Each period, a strictly positive mass of children  $\rho$  enters the market and each child draws an attribute from a full support probability distribution  $l(x)$ . The other side of the market is constituted by homogeneous **parents**. The mass of parents out of the market is strictly positive, and parents make entry and exit decisions each period.

Children and parents who are in the market can be unmatched or matched. Let  $u_t^p \geq 0$  denote the endogenous distribution of unmatched parents in the market, and  $u_t^c(x)$  denote the endogenous distribution of unmatched children in the market. Matches are one-to-one, formed between children and parents, and heterogeneous in **quality** denoted as  $q \in Q = \{q_1, q_2\}$  where  $q_1 < q_2$ .<sup>16</sup> Further, I define two types of matches: **foster matches** (reversible) and **adoption matches** (irreversible). Agents who form a foster match (hereafter *f-match*) remain in the market, while agents who form an adoption match (hereafter *a-match*) leave the market. Let  $m(x, q)$  denote the endogenous distribution over f-matches. Thus, the aggregate state of the market is summarized by  $\phi = (u^p, u^c, m)$ .

All agents are risk-neutral and discount future at rate  $\beta \in (0, 1)$ . Payoffs for unmatched children are normalized to zero. For children who are f-matched or a-matched, payoffs are given by the real-valued function  $b^c(x, q, z)$  where  $z \in \{f, a\}$ , where  $z = f$  indicates an f-match,  $z = a$  indicates an a-match, and  $a > f$ . I assume that children's payoff function satisfies the following:

**Assumption 1 (Children's payoffs).** (a)  $b^c(x, q, a) > b^c(x, q, f) \geq 0$  for all  $(x, q)$ ;

(b)  $b^c(x, q, z)$  is decreasing in  $x$ ;

(c)  $b^c(x, q, z)$  is increasing in  $q$ ;

(d)  $b^c(x, q_2, f) > b^c(x, q_1, a)$ ;

(e)  $b^c(x, q, z)$  is supermodular in  $(x, z)$ ;

(f)  $b^c(x, q, z)$  is submodular in  $(x, q)$ ; and

(g)  $b^c(x_1, q_2, f) - b^c(x_1, q_1, a) > b^c(x_2, q_2, f) - b^c(x_2, q_1, a)$ .

<sup>16</sup>Match quality captures other factors affecting the match independent of the child's attribute, such as the emotional bond between the child and parent, and the relationship between the parent and the child's birth family.

Assumption 1(a) captures that children are better-off with a foster parent than in institutional care, and better-off when adopted than fostered. 1(b) reflects that children with a disability benefit more from the family environment and emotional stability provided by foster and adoption. The intuition that children are better-off in high-quality matches is addressed in 1(c). Assumption 1(d) states that children prefer to be f-matched when the quality is high than a-matched when the quality is low. 1(e) imposes that the gain of being adopted is greater for children without a disability, and 1(f) captures that the gain of being in high-quality matches is greater for children with a disability. Lastly, assumption 1(g) implies that the gain of being in an f-match of high-quality versus being in an a-match of low-quality is greater for children with a disability.

Payoffs for parents out of the market are normalized to zero. Parents incur on a per-period cost  $k > 0$  to hold a license and stay in the market. Parents who are f-matched or a-matched receive payoffs according to the real-valued function  $b^p(x, q, z)$ . I assume that parents' payoff function satisfies the following:

**Assumption 2** (Parents' payoffs). (a)  $b^p(x, q, f) > b^p(x, q, a)$  for all  $(x, q)$ ;

(b)  $b^p(x, q, z)$  is increasing in  $x$ ;

(c)  $b^p(x, q, z)$  is increasing in  $q$ ;

(d)  $b^p(x, q, z)$  is log-supermodular in  $(x, z)$ ; and

(e)  $b^p(x, q, z)$  is log-submodular in  $(q, z)$ .

Assumption 2(a) reflects the presence of the adoption penalty. 2(b) captures the intuition that parents prefer children without a disability to children with a disability. 2(c) reflects that parents in high-quality matches benefit more from fostering/adopting than parents in low-quality matches. Now, the term  $1 - \frac{b_a^p(x, q)}{b_f^p(x, q)}$  represents the **adoption penalty**. Assumption 2(d) states that the adoption penalty is higher for children with a disability. Lastly, assumption 2(e) imposes that the adoption penalty is increasing in the match quality.



Figure 1: Timeline

Figure 1 exhibits the timeline within a period. Each period is divided into four stages:

**1. Search and f-matching stage.** Children search when unmatched or f-matched, and parents search only when unmatched. Meetings are stochastic and can be described in terms of the market tightness  $\theta \in \mathbb{R}_+$  (i.e. parents-to-children ratio):

$$\theta = \frac{u^p}{\sum_x u^c(x) + \sum_q m(x, q)}. \quad (2)$$

A child meets a parent with probability  $\pi^c(\theta)$  which is a strictly increasing and strictly concave function such that  $\pi^c(0) = 0$ . Similarly, a parent meets a child with probability  $\pi^p(\theta)$  which is a strictly decreasing and convex function such that  $\pi^p(\theta) = \frac{\pi^c(\theta)}{\theta}$  and  $\pi^p(0) = 1$ . Next, when a child and parent meet, a match quality  $q$  is drawn from the full support probability distribution  $h(q)$ . A match quality is constant through the duration of the f-match, and learned through experience. Before forming an f-match, agents observe a noisy signal  $s \in S = \{s_1, s_2\}$  generating a full support conditional probability distribution  $g(q|s)$  such that if  $s' > s$  then  $G(q|s') \leq G(q|s)$ . After observing the noisy signal, agents announce simultaneously 'foster' or 'reject'. An f-match is formed if and only if both agents announce foster. If a new f-match is formed, any old f-match dissolves.

**2. Payoff realization stage.** Agents in newly formed f-matches perfectly observe the quality  $q$ . Once a match quality is complete information, payoffs received during the remaining duration of the f-match are known.

**3. Destruction and a-matching stage.** A child  $x$  is adopted by a relative with exogenous probability  $\delta_x \in (0, 1)$  where  $\delta_{x_2} \geq \delta_{x_1}$ .<sup>17</sup> The f-match separates, if a child is adopted exogenously. Now, If the f-match remains, then child and parent announce simultaneously 'adoption', 'destroy', or 'remain'. An f-match destroys if at least one agent announces destroy, and an a-match takes place if and only if both agents announce adoption. If an f-match destroys, the parent remains unmatched that period and the child searches. Agents who form an a-match receive adoption payoffs to perpetuity, and I assume  $q$  remains the same when transitioning from f-matched to a-matched. Children adopted by a relative receive  $b^c(x, q_N, a)$  to perpetuity.

**4. Entry and exit stage.** A mass of new children enters the market and parents make entry/exit decisions. Parents and children who enter the market remain un-

<sup>17</sup>In some cases, relatives reach out when they learn about the situation and request to adopt the child. Child welfare agencies have strong preferences for relatives.

matched that period. Agents who formed an a-match during the previous stage leave the market, and only unmatched parents can decide to exit the market.

I restrict attention to stationary pure symmetric Markov strategies. Strategies depend on the aggregate state of the market  $\phi$ , and to simplify notation I suppress it. I refer to a parent f-matched to child  $x$  with match quality  $q$  as **parent**  $(\mathbf{x}, \mathbf{q})$ . For each parent, a strategy consists of the tuple  $(in, out, f^p, d^p, a^p)$  where  $in \in \{no, yes\}$  is the entry strategy,  $out \in \{no, yes\}$  is the exit strategy,  $f^p(x, s) : X \times S \rightarrow \{reject, foster\}$  is the decision to form an f-match with child  $x$  after observing signal  $s$ ,  $d^p : X \times Q \rightarrow \{0, 1\}$  is the decision to destroy the f-match such that  $d^p(x, q) = 1$  when parent  $(x, q)$  announces destroy, and  $a^p : X \times Q \rightarrow \{0, 1\}$  is the decision to form an a-match such that  $a^p(x, q) = 1$  when parent  $(x, q)$  announces adoption. Now, refer to child  $x$  f-matched with quality  $q$  as **child**  $(\mathbf{x}, \mathbf{q})$ , and refer to an unmatched child  $x$  as **child**  $(\mathbf{x}, \mathbf{q}_0)$ . To make reference to a child's match status, I define an auxiliary set  $\bar{Q} = Q \cup \{q_0\}$ . For each child  $x$ , a strategy consists of the triple  $(f^c, d^c, a^c)$  where  $f^c : X \times \bar{Q} \times S \rightarrow \{reject, foster\}$  is the decision to form a new f-match after child  $(x, \bar{q})$  observes signal  $s$ , and  $d^c : X \times Q \rightarrow \{0, 1\}$  and  $a^c : X \times Q \rightarrow \{0, 1\}$  are the destruction and adoption decisions, respectively.

Lastly, let  $d(x, q) = d^c(x, q) + (1 - d^c(x, q))d^p(x, q)$  and  $a(x, q) = a^c(x, q)a^p(x, q)$  denote the joint destruction and adoption decisions of an f-match  $(x, q)$ , and define the f-matching correspondence as follows:

**Definition 1.** A *foster-matching correspondence* is a map  $\mathcal{M} : X \times \bar{Q} \mapsto S$  such that  $s \in \mathcal{M}(x, \bar{q})$  if and only if (i) child  $(x, \bar{q})$  is willing to form an f-match after observing signal  $s$ , and (ii) unmatched parent is willing to form an f-match after meeting child  $x$  and observing signal  $s$ .

## 3.2 Value Functions

### Value Functions for Children

Let  $\mathcal{C}(x, \bar{q})$  denote the value function for child  $(x, \bar{q})$  at the end of a period, and define  $\hat{\mathcal{C}}(x, \bar{q})$  as the search value for child  $(x, \bar{q})$  at the beginning of the search and f-matching stage. The search value function is specified by Equation 3. At the beginning of the search and f-matching stage, child  $(x, \bar{q})$  meets a parent with endogenous probability  $\pi^c(\theta)$ . If no meeting takes place, status-quo is preserved and she receives the continuation value  $\mathcal{C}(x, \bar{q})$ . If a meeting takes place, a noisy signal  $s$  is realized where  $f(s)$  is the probability distribution over signals derived from  $h(q)$  and  $g(q|s)$ . If at least one agent announces reject after observing  $s$ , then the status-quo is preserved. If both agents announce foster after observing  $s$ , then

the child receives the conditional expected value  $\mathbb{E}_s[\mathcal{C}(x, q)] = \sum_q \mathcal{C}(x, q)g(q|s)$ .

$$\hat{\mathcal{C}}(x, \bar{q}) = \left(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, \bar{q})} f(s)\right) \mathcal{C}(x, \bar{q}) + \pi^c(\theta) \sum_{\mathcal{M}(x, \bar{q})} \mathbb{E}_s[\mathcal{C}(x, q)]f(s) \quad (3)$$

Thus, child  $(x, \bar{q})$  announces foster after observing  $s$  if and only if the conditional expected value of forming a new f-match is greater than the continuation value of the status-quo i.e.  $\mathbb{E}_s[\mathcal{C}(x, q)] \geq \mathcal{C}(x, \bar{q})$ . For child  $x$  who is unmatched at the end of a period, the value function is:

$$\mathcal{C}(x, q_0) = \beta\delta_x \frac{b^c(x, q_N, a)}{1 - \beta} + \beta(1 - \delta_x)\hat{\mathcal{C}}(x, q_0) \quad (4)$$

Now, consider a child  $x$  f-matched with quality  $q$  at the end of a period. Child  $(x, q)$ 's value function is specified by Equation 5. In the current period, she receives the f-match payoff  $b^c(x, q, f)$ . At the beginning of the next period, she is adopted by a relative with probability  $\delta_x$ . If the f-match remains, child and parent decide between transit to an a-match, destroy the f-match, or remain f-matched. In each case, child  $(x, q)$ 's possible continuation values are  $\frac{b^c(x, q, a)}{1 - \beta}$ ,  $\hat{\mathcal{C}}(x, q_0)$ , and  $\hat{\mathcal{C}}(x, q)$  respectively.

$$\begin{aligned} \mathcal{C}(x, q) = & b^c(x, q, f) + \beta\delta_x \frac{b^c(x, q_N, a)}{1 - \beta} + \beta(1 - \delta_x) \left[ d^p(x, q)\hat{\mathcal{C}}(x, q_0) \right. \\ & + a^p(x, q) \max \left\{ \frac{b^c(x, q, a)}{1 - \beta}, \hat{\mathcal{C}}(x, q_0), \hat{\mathcal{C}}(x, q) \right\} \\ & \left. + \left(1 - d^p(x, q) - a^p(x, q)\right) \max \left\{ \hat{\mathcal{C}}(x, q_0), \hat{\mathcal{C}}(x, q) \right\} \right] \quad (5) \end{aligned}$$

Thus, child  $(x, q)$  chooses adoption if and only if the value of being adopted is greater than the value of continue searching while unmatched and the value of continue searching while f-matched when the quality is  $q$ . Hence, a child faces the following trade-off: receive a higher adoption payoff but forgo the opportunity of finding a 'better' match. Similarly, child  $(x, q)$  chooses destroy if and only if the value of searching while unmatched is greater than the value of being adopted and the value of continue searching while f-matched. Hence, when a child decides to destroy a f-match, she is destroying a 'bad' match.

### Value Functions for Parents

At the end of a period, let  $\mathcal{P}^u$  denote the value function for an unmatched parent and  $\mathcal{P}(x, q)$  denote the value function for parent  $(x, q)$ . For an unmatched

parent, the value function is presented in Equation 6. In the current period, the unmatched parent incurs in the per-period cost  $k$  of holding a license. Next, the parent decides between stay or exit the market. If she exits her payoff is zero, and if she stays she meets a child with probability  $\pi^p(\theta)$ . When no meeting takes place, the parent remains unmatched. When a meeting takes place, a child is drawn from the endogenous probability distribution  $\hat{m}(x, \bar{q})$  derived from  $u^c$  and  $m$  (for detail see Appendix C.1). After meeting child  $(x, \bar{q})$ , agents observe some signal. If at least one agent announces reject, then the parent remains unmatched. If both announce foster, then the parent receives  $\mathbb{E}_s[\mathcal{P}(x, q)]$ .

$$\mathcal{P}^u = \max \left\{ 0, \frac{-k + \beta \pi^p(\theta) \sum_{\mathcal{M}(x, \bar{q})} \sum_{x, \bar{q}} \mathbb{E}_s[\mathcal{P}(x, q)] \hat{m}(x, \bar{q}) f(s)}{1 - \beta \left( 1 - \pi^p(\theta) \sum_{\mathcal{M}(x, \bar{q})} \sum_{x, \bar{q}} \hat{m}(x, \bar{q}) f(s) \right)} \right\} \quad (6)$$

Thus, an unmatched parent forms an f-match with child  $(x, \bar{q})$  after observing signal  $s$  if and only if the conditional expected value of forming the f-match is greater than the unmatched value.

For parent  $(x, q)$ , the value function is Equation 7. In this period, she receives the f-match payoff  $b^p(x, q, f)$ . Next period, she becomes unmatched with exogenous probability  $\delta_x$ . If the f-match remains, child and parent decide between transit to adoption, destroy the f-matched or remain f-matched. When transiting to adoption, the parent receives  $\frac{b^p(x, q, a)}{1 - \beta}$ . When the f-match destroys, the parent receives the unmatched value  $\mathcal{P}^u$ . Lastly, when the f-match remains, her continuation value depends on the outcome of the search and f-matching stage: with probability  $\pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s)$  she becomes unmatched due to the child forming a new f-match, and with probability  $(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s))$  the f-match remains.

$$\begin{aligned} \mathcal{P}(x, q) = & b^p(x, q, f) + \beta \delta_x \mathcal{P}^u + \beta (1 - \delta_x) \left[ d^c(x, q) \mathcal{P}^u \right. \\ & + a^c(x, q) \max \left\{ \frac{b^p(x, q, a)}{1 - \beta}, \mathcal{P}^u, \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \right) \mathcal{P}(x, q) + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \mathcal{P}^u \right\} \\ & \left. + \left( 1 - d^c(x, q) - a^c(x, q) \right) \max \left\{ \mathcal{P}^u, \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \right) \mathcal{P}(x, q) + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \mathcal{P}^u \right\} \right] \end{aligned} \quad (7)$$

When parent  $(x, q)$  is deciding to adopt she faces the following trade-off: eliminate the likelihood that the f-match is destroyed but forgo part of the per-period payoff.

### 3.3 Aggregate State of the Market

The distribution of unmatched parents in the market depends on the entry and exit strategies of parents. Thus, the stationary mass of unmatched parents  $u^p$  satisfies the following inequality:

$$\pi^p \left( \frac{u^p}{\sum_x u^c(x) + \sum_q m(x, q)} \right) \leq \frac{k}{\beta \sum_{\mathcal{M}(x, \bar{q})} \sum \mathbb{E}_s[\mathcal{P}(x, q)] \hat{m}(x, \bar{q}) f(s)} \quad (8)$$

with equality if  $u^p$  is strictly positive. For distributions  $u^c(x)$  and  $m(x, q)$  to be time invariant, the mass destruction and mass creation must exactly balance (for detail see Appendix C.2).

### 3.4 Definition of Equilibrium

I use the following equilibrium definition:

**Definition 2.** A *foster care equilibrium* consists of tuple  $(\mathcal{M}, d^c, d^p, a^c, a^p, in, \mathcal{C}, \mathcal{P}^u, \mathcal{P}, \phi)$  such that the following properties are satisfied:

(1) **Value Functions.**

- (a) Given  $(\mathcal{M}, d^c, d^p, a^c, a^p, \phi)$ , value functions  $\mathcal{C}(x, q_0)$  and  $\mathcal{C}(x, q)$  are specified by Equations 4 and 5, respectively.
- (b) Given  $(\mathcal{M}, d^c, d^p, a^c, a^p, in, \phi)$ , value functions  $\mathcal{P}^u$  and  $\mathcal{P}(x, q)$  are specified by Equations 6 and 7, respectively.

(2) **Strategies.**

- (a) Given  $(d^c, d^p, a^c, a^p, \mathcal{C}, \mathcal{P}^u, \mathcal{P}, \phi)$ ,  $s \in \mathcal{M}(x, \bar{q})$  if and only if  $\mathbb{E}_s[\mathcal{P}(x, q)] \geq \mathcal{P}^u$  and  $\mathbb{E}_s[\mathcal{C}(x, q)] \geq \mathcal{C}(x, \bar{q})$ .
- (b) Given  $(\mathcal{M}, d^p, a^p, \mathcal{C}, \phi)$ ,  $a^c(x, q) = 1$  if and only if Equation C.4 holds, and  $d^c(x, q) = 1$  if and only if Equation C.5 holds.
- (c) Given  $(\mathcal{M}, d^c, a^c, \mathcal{P}^u, \mathcal{P}, \phi)$ ,  $in = \text{yes}$  if and only if C.6 holds,  $a^p(x, q) = 1$  if and only if Equation C.7 holds, and  $d^p(x, q)$  is one if and only if Equation C.8 holds.

(3) **Aggregate state of the market.**

- (a) Given  $(\mathcal{M}, d^c, d^p, a^c, a^p, in, \mathcal{P}^u, \mathcal{P}, u^c, m)$ ,  $u^p$  satisfies Equation 8.
- (b) Given  $(\mathcal{M}, d^c, d^p, a^c, a^p)$ , for each  $x$ ,  $u^c(x)$  and  $\{m(x, q_i)\}_{i=1}^N$  solve the system of equations given by Equations C.2 and C.3.

## 4 Theoretical Analysis

I first derive equilibrium properties and identify the driving forces behind the empirical results estimated in section 2. Afterwards, I use these properties to ensure that the stylized facts arise in equilibrium and carry out model predictions.

### 4.1 Equilibrium Analysis

The analysis focuses on foster care equilibria with a positive mass of parents in the market i.e  $u^p > 0$  which implies that  $\mathcal{P}^u = 0$  [from equations (6) and (8)]. Moreover, I assume that for each child, there is at least one signal such that parents receive a positive expected foster payoff.

**Assumption 3.** For each  $x$ , there exists  $\hat{s}$  such that  $\mathbb{E}_{\hat{s}}[b^p(x, q, f)] \geq 0$ .

Proposition 1 exhibits how the destruction of f-matches varies with disability and match quality. First, I show that f-matches involving children with a disability destroy more than f-matches involving children without a disability. Formally, if the f-match  $(x_2, q)$  is destroyed then the f-match  $(x_1, q)$  is also destroyed. Recall that, an f-match can be destroyed by either the child or the parent,  $d(x, q) = d^c(x, q) + (1 - d^c(x, q)) d^p(x, q)$ . By assumption 1(a), it follows that children never destroy an f-match. Thus, in equilibrium, the destruction is driven by parents, which is consistent with the anecdotal evidence suggesting that when a child moves from foster home to institutional care is generally due to the request of the foster parent. Now, by assumption 2(b), it follows that if  $d^p(x_2, q) = 1$  then  $d^p(x_1, q) = 1$  for all  $q$ .

**Proposition 1 (Destruction).** Assume children' payoffs satisfy assumption 1(a), and parents' payoffs satisfy assumptions 2(a) to (c). In any foster care equilibrium:

- (i) **Disability.** F-match destruction is greater for children with a disability,  $d(x_1, q) \geq d(x_2, q)$  for all  $q$ .
- (ii) **Match Quality.** F-match destruction is greater for low quality matches,  $d(x, q_1) \geq d(x, q_2)$  for all  $x$ .

*Proof.* See Appendix D.1. □

Proposition 1(ii) states that if the f-match  $(x, q_1)$  is destroyed, then f-matches  $(x, q_2)$  is also destroyed. In words, if a parent f-matched to child  $x$  when the quality is  $q_2$  is not willing to continue providing care, then a parent f-matched to child  $x$  when the quality is  $q_1$  is also not willing to continue providing care. This follows from assumption 2(c).

**Assumption 4.** For each  $(s, x)$ , if  $\mathbb{E}_s[b^p(x, q)] < 0$  then the following condition on primitives holds:

$$\sum_q b^p(x, q) g(q|s) + \beta (1 - \delta_x) \sum_q \max \left\{ \frac{b_a^p(x, q)}{1 - \beta}, 0, \frac{b^p(x, q)}{1 - \beta (1 - \delta_x)} \right\} g(q|s) < 0$$

To establish the empirical facts later on, I ensure that parents' strategies satisfy the following: (1) if a parent is willing to form an f-match with child  $x_1$  after observing signal  $s$ , then he is also willing to form an f-match with child  $x_2$  after observing signal  $s$ ; and (2) if a parent is willing to adopt child  $x_1$  when the quality is  $q$ , then he is also willing to adopt child  $x_2$  when the quality is  $q$ . Since (1) might contradict (2), I impose assumption 4 which allows me to characterize parents' f-match formation strategies using the per-period payoffs. This assumption ensures that, if the conditional expected payoff received by a parent f-matched to child  $(x_2, q)$  is negative then the conditional expected value of being f-matched to child  $(x_1, q)$  is also negative.

**Proposition 2 (F-match formation of unmatched children).** Assume children's payoffs satisfy assumption 1(a), parents' payoffs satisfy assumptions 2(b)(c), 3 and 4. In any foster care equilibrium:

- (i) **Disability.** Formation of new f-matches is lower for unmatched children with a disability,  $\mathcal{M}(x_1, q_0) \subseteq \mathcal{M}(x_2, q_0)$ . Moreover,  $\mathcal{M}(x, q_0)$  is non-empty for all  $x$ .
- (ii) **Match Quality.** Formation of new f-matches is greater for higher signals,  $s_1 \in \mathcal{M}(x, q_0)$  implies  $s_2 \in \mathcal{M}(x, q_0)$  for all  $x$ .

*Proof.* See Appendix D.2. □

Proposition 2 exhibits how the formation of f-matches involving unmatched children varies with disability and match quality. Recall that f-matches must be mutually agreed upon, that is,  $s \in \mathcal{M}(x, q_0)$  if and only if  $s \in F^p(x)$  and  $s \in F^c(x, q_0)$ . By assumption 1(a), it follows that children always announce foster after observing signal  $s$ . Intuitively, as the law requires, children are placed in foster family homes whenever possible. Thus, the formation of an f-match depends on the parent's decision. First, I show that conditional on observing signal  $s$ , if a parent is willing to foster a child with a disability, then he must also be willing to foster a child without a disability [if  $s \in F^p(x_1)$  then  $s \in F^p(x_2)$ ]. This follows from assumption 2(b). In words, children with a disability are less likely to find a parent willing to foster them. Second, I show that if a parent announces foster after

meeting child  $x$  and observing signal  $s_1$ , then he also announces foster after observing signal  $s_2$ . The result follows from assumption 2(c). Since  $G(q|s)$  first-order stochastically dominates  $G(q|s')$ , it follows that the conditional expected value received by a parent when fostering a child is increasing in the signal.

**Proposition 3 (F-match formation of f-matched children).** *Assume children's payoffs satisfy assumptions 1(a)(c)(d), and parents' payoffs satisfy assumptions 2(a)(b)(c), 3 and 4. In any foster care equilibrium:*

- (i) **Disability.** *Formation of new f-matches is lower for children with a disability,  $\sum_{\mathcal{M}(x_2, \bar{q})} f(s) \geq \sum_{\mathcal{M}(x_1, \bar{q})} f(s)$  for all  $\bar{q}$ .*
- (ii) **Quality.** *Formation of new f-matches is greater when the old match is low quality,  $\sum_{\mathcal{M}(x, q_1)} f(s) \geq \sum_{\mathcal{M}(x, q_2)} f(s) = 0$  for all  $x$ .*

*Proof.* See Appendix D.3. □

Proposition 3 exhibits how f-match formation involving f-matched children varies with disability and match quality. Item (i) states that children without a disability are more likely to form a new f-match than children with a disability. The result is driven by the parents' decision: children without a disability are more demanded by foster parents. Item (ii) shows that low-quality matches are more likely to form new f-matches than high-quality matches. The result is driven by the children's decision. By assumption 1(d), children value more quality than the adoption status, thus they have no incentives to separate high-quality matches.

**Assumption 5.** *Assume children's payoffs satisfy the following:*

- (a)  $\frac{\delta_{x_1}}{\delta_{x_2}} > \frac{b_a^c(x_2, q_2) - b_a^c(x_2, q_1)}{b_a^c(x_1, q_2) - b_a^c(x_1, q_1)}$ ,
- (b)  $\frac{\{b^c(x_1, q_2) - b_a^c(x_1, q_1)\}(1 - \beta(1 - \delta_{x_1})) - \{b_a^c(x_1, q_2) - b^c(x_1, q_2)\}\beta(1 - \delta_{x_1})}{1 - \beta(1 - \delta_{x_1})} > b^c(x_2, q_2) - b_a^c(x_2, q_1)$ ;
- (c)  $\frac{\{b^c(x_1, q_2) - b_a^c(x_1, q_1)\}\beta\delta_{x_1} - \{b_a^c(x_1, q_2) - b^c(x_1, q_2)\}(1 - \beta)}{g(q_2|s_1)} > b^c(x_2, q_2)(1 - \beta) + b_a^c(x_2, q_2)\beta - b_a^c(x_2, q_1)$ .

Due to Proposition 3(i), children with a disability are more willing to announce adoption after observing a low-quality match because their search opportunities are lower. However, the intuition suggests that social workers might be pickier when searching for an adoptive parent for a child with a disability since these children benefit more from higher quality matches. Thus, to ensure that this intuition arises in equilibrium, I impose stronger conditions specify in assumptions 5(a) to (c). These conditions will help to ensure that if a child with a disability is willing to give up the opportunity of continue searching for a high-quality match, then children without a disability will also be willing to give up this opportunity.

**Proposition 4 (Adoption).** *Assume children's payoffs satisfy assumptions 1(a) to (g) and 5(a) to (c), parents' payoffs satisfy assumptions 2(a) to (e), 3 and 4. In any foster care equilibrium:*

- (i) **Disability.** *A-match formation is lower for children with a disability,  $a(x_2, q) \geq a(x_1, q)$  for all  $q$ .*
- (ii) **Match Quality.** *A-match formation is greater for low quality matches,  $a(x, q_1) \geq a(x, q_2)$  for all  $x$ .*

*Proof.* See Appendix D.4. □

Proposition 4 exhibits how adoption outcomes vary with disability and match quality. Item (i) states that children with a disability transit to adoption less than children without a disability. Both parents' and children's decisions drive the result. Item (ii) shows that if the probability that the child leaves the f-match is sufficiently low, then high-quality matches do not transit to adoption due to the parents' decision. Thus, high-quality matches transit to adoption less than low-quality matches.

## 4.2 Stylized Facts and Model Predictions

Now, I establish sufficient conditions on primitives such that the empirical results estimated in section 2 emerge in equilibrium, and analyze the role of match quality in the empirical facts.

### Probability of Being Adopted

The probability that a child is adopted depends on whether she is unmatched or f-matched. Consider a child  $(x, \bar{q})$  at the beginning of a period (after the exogenous adoption is realized), and let  $A(x, \bar{q})$  denote the probability that she becomes a-matched next period.

$$A(x, \bar{q}) = \begin{cases} \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s) \sum_{q'} g(q'|s) [\delta_x + (1 - \delta_x) a(x, q')] & \text{if } \bar{q} = q_0 \\ a(x, q) + d(x, q) \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s) \sum_{q'} g(q'|s) [\delta_x + (1 - \delta_x) a(x, q')] & \text{if } \bar{q} = q \\ +(1 - a(x, q) - d(x, q)) \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \sum_{q'} g(q'|s) [\delta_x + (1 - \delta_x) a(x, q')] & \end{cases}$$

In the first case, the probability that a child  $(x, q_0)$  is adopted endogenously depends on: child forming an f-match during the search and f-matching stage, and

both agents announcing adoption after observing some quality  $q$ . In the second case, the probability that child  $(x, q)$  is adopted endogenously can be decomposed in three events: (a) the f-match  $(x, q)$  transits to adoption, (b) the f-match  $(x, q)$  destroys and the unmatched child transits to an a-match with another parent, and (c) the f-match  $(x, q)$  remains but the child dissolves the f-match and transits to an a-match with another parent.

**Corollary 1.** *In any foster care equilibrium:*

- (i) **Disability.** *If  $\frac{\delta_{x_2} - \delta_{x_1}}{1 - \delta_{x_1}} > \bar{\pi}$  then disability decreases the probability of being adopted.*
- (ii) **Match Quality.** *If  $b_a^p(x, q_1) > 0$  and  $\frac{b_a^p(x, q_2)}{b^p(x, q_2)} \leq \frac{1 - \beta}{1 - \beta(1 - \delta_x)}$  then the probability of being adopted is decreasing in match quality.*

Corollary 1(i) exhibits sufficient conditions for fact 1 to arise in equilibrium. I say that disability decreases the probability of being adopted if  $A(x_2, \bar{q}) \geq A(x_1, \bar{q})$  for all  $\bar{q}$ . That is, children with a disability are less likely to form an f-matched, and if they do, they are less likely to transit to adoption.

Corollary 1(ii) presents the impact of match quality on the probability of being adopted. I say that the probability of being adopted is decreasing in match quality if  $A(x, q_1) \geq A(x, q_2)$  for all  $x$ . In the presence of the adoption penalty, when the exhibited conditions are satisfied, high-quality matches are less likely to transit to an a-match than low-quality matches. Intuitively, if the separation of high-quality matches is low enough, then parents have no incentives to choose adoption. Note that this result strongly depends on the presence of the adoption penalty, that is, in the absence of the adoption penalty it breaks down.

### Probability of Foster Match Separation

Consider a child  $(x, q)$  at the beginning of a period (after the exogenous adoption is realized), and let  $D(x, q)$  denote the probability that the f-match separates next period.

$$D(x, q) = (1 - a(x, q)) \left[ d(x, q) + (1 - d(x, q)) \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) (1 - \delta_x) \right]$$

The probability that an f-match  $(x, q)$  separates is decomposed in two events. First, if the f-match  $(x, q)$  destroys during the destruction and a-matching stage. Second, if the f-match  $(x, q)$  remains but, during the search and f-matching stage, child  $x$  forms a new f-match with some parent after observing signal  $s$ . In words,

an f-match separates because it is ‘bad’, or due to the search of the child to find a ‘better’ parent.

**Corollary 2.** *In any foster care equilibrium:*

- (i) **Disability.** *If  $\frac{\delta_{x_2} - \delta_{x_1}}{1 - \delta_{x_1}} \geq f(s_1)$  then disability increases the probability of foster match separation.*
- (ii) **Match Quality.** *If  $a(x, q_1) = 0$  and  $a(x, q_2) = 0$  then the probability of foster match separation is decreasing in match quality.*

Corollary 2(i) exhibits sufficient conditions for fact 2 to arise in equilibrium. I say that disability increases the probability of foster match separation if  $D(x_2, q) \geq D(x_1, q)$  for all  $q$ . This depends on two forces working on opposite directions, and the empirical result sheds light on which of the driving forces prevails in equilibrium. On the one hand, Proposition 1(i) shows that children with a disability are more likely to have an f-matched destroyed, which by itself makes them more likely to separate. On the contrary, proposition 3(i) shows that children with a disability are less likely to form a new f-match which by itself makes them less likely to separate. In other words, foster separation involving children with a disability are mainly driven by the uncertainty on the quality of the match, while foster separations affecting children without a disability are driven mostly by the search to improve the match quality.

Corollary 2(ii) presents sufficient conditions such that the probability of foster match separation is decreasing in match quality,  $D(x, q_1) \geq D(x, q_2)$  for all  $x$ . In this case, the driving forces behind separation are aligned. Specifically, as long as agents’ payoffs are increasing in the match quality (along with other conditions), the probability of separation is decreasing in match quality.

### Probability of Becoming Foster Matched

Consider child  $x$  who is unmatched at the beginning of a period, then the probability that child  $x$  becomes f-matched is denoted as  $M(x)$  and equal to:

$$M(x) = \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s) \sum_q g(q|s)(1 - d(x, q))$$

Corollary 3 describes the sufficient conditions for stylized fact 3 to arise in equilibrium. I say that disability decreases the probability of becoming foster matched if  $M(x_2) \geq M(x_1)$ . First, children with a disability are less likely to form an f-match. Second, if they form an f-match, children with a disability are more likely to have it destroyed.

**Corollary 3.** *In any foster care equilibrium, disability decreases the probability of becoming foster matched.*

### Probability of Becoming Unmatched

Consider child  $x$  who is f-matched when the quality is  $q$  at the beginning of a period. Let  $U(x, q)$  denote the probability that child  $x$  f-matched when the quality is  $q$  becomes unmatched specified as:

$$U(x, q) = (1 - \delta_x)(1 - a(x, q)) \left\{ \underbrace{d(x, q) \left[ 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s) \sum_{q'} g(q'|s) (1 - d(x, q')) \right]}_{1 - \gamma^3(x)} \right. \\ \left. + (1 - d(x, q)) \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \sum_{q'} g(q'|s) d(x, q') \right\}$$

Child  $x$  f-matched when the quality is  $q$  becomes unmatched in two cases. First, if the f-match  $(x, q)$  is destroyed and she remains unmatched after the search and f-matching stage. Second, if the f-match  $(x, q)$  dissolves and the new f-match is later on destroyed.

**Corollary 4.** *In any foster care equilibrium:*

- (i) **Disability.** *If  $\frac{\delta_{x_2} - \delta_{x_1}}{1 - \delta_{x_1}} \geq f(s_1)$  and  $\frac{1 - \delta_{x_1}}{2 - \delta_{x_1} - \delta_{x_2}} > \bar{\pi}$  then disability increases the probability of becoming unmatched.*
- (ii) **Match Quality.** *If  $a(x, q_1) = 0$  and  $a(x, q_2) = 0$  then the probability of becoming unmatched is decreasing in match quality.*

Corollary 4(i) exhibits sufficient conditions for fact 4 to arise in equilibrium. I say that disability increases the probability of becoming unmatched if  $U(x_1, q) \geq U(x_2, q)$  for all  $q$ . There are potentially two driving forces working on opposite directions in this case. On the one hand, by Proposition 1(i) and Corollary 3, children with a disability are more likely to destroy an f-match and more likely to remain unmatched, which makes them more likely to become unmatched. On the other hand, by Propositions 1(i) and 3(i), children with a disability are less likely to form a new f-match but are more likely to destroy the new f-match later on, thus is not clear who is more likely to become unmatched.

Corollary 4(ii) shows that the probability of becoming unmatched is decreasing in match quality,  $U(x, q_1) \geq U(x, q_2)$  for all  $x$ . In this case, the driving forces behind becoming unmatched are aligned.

## 5 Concluding Remarks

This paper provides an extensive analysis of the match transitions and exit through adoption of children relinquished for adoption in the US foster care system. For policymakers, the primary concerns regarding foster care are to decrease foster match separation, and increase permanency via adoption. Yet, I find that foster match separation play a crucial role in adoption by influencing the incentives of foster parents to adopt. Due to the presence of the financial penalty on adoption, parents face the following trade-off when deciding to adopt: accept the penalty in exchange for eliminating the likelihood that the child breaks the foster match in the future. Moreover, I show that foster separation allow agents to avoid ‘bad matches’, and more importantly, enables children to search for ‘better matches’ while in a foster environment.

Concerning the child’s observable characteristics, I show that foster separation involving children with a disability are mainly driven by the uncertainty on the quality of the match, while foster separation involving children without a disability are driven to improve the match quality. Also, I find that high-quality matches are less likely to be separated. For adoption, I show that the adoption penalty not only exacerbates the intrinsic disadvantage faced by children with a disability, but it also creates incentives for high-quality matches to not transit to adoption.

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# A Appendix: Foster Care in the US

## A.1 Overview

Foster care is authorized by title IV-E of the Social Security Act, and all states are eligible to participate in the program and receive federal funding. According to [Rosinsky and Connelly \(2016\)](#), the national spending on child welfare in 2014 was approximately \$29.1, out of which \$12.8 billion was federally funded, and the remaining was financed directly by states.<sup>18</sup> Furthermore, 47% of the national spending was destined to out of home placement expenditure (including payments to foster parents and their training), and 17% was intended to finance adoption and guardianship programs (including monthly payments to adoptive parents and adoption fees).

Researchers and child welfare agencies have focused their attention on three significant issues: children' placements while in foster care, children' exit from foster care through adoption, and placement separation.

### Foster Homes and Institutional Care

Foster parents provide the highest source of out-of-home care.<sup>19</sup> At the end of the federal fiscal year of 2014, the number of children in foster care was 415,129, out of which 79% were placed with foster parents, and 14% were placed in institutional care ([U.S. Department of Health and Human Services, 2014](#)). Federal and state child welfare agencies have a strong preference for foster homes over institutional care<sup>20</sup>, and research supports this preference. First, evidence shows that institutional care is between six to ten times more expensive than foster family homes ([Barth, 2002](#)). Second, research shows that children placed in institutional care have lower academic outcomes, lower levels of education, higher risk to engage in delinquent behavior, and a higher risk of criminal convictions when adults ([Berrick et al., 1993](#); [Mech et al., 1994](#); [Ryan et al., 2008](#); [Dregan and Gulliford, 2012](#)).

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<sup>18</sup>Federal fund sources include Title IV-E and Title IV-B of the Social Security Act, Medicaid, Social Services Block Grant, Temporary Assistance for Needy Families, and other federal grants and awards.

<sup>19</sup>Foster homes are divided in relative and non-relative. In a relative foster home, the foster parent is a relative or someone with a prior connection to the child who joins the program to care for a particular child. In a non-relative foster-home, the foster parent joins the program without prior connection to any child and later on is matched to a child to care for.

<sup>20</sup>The Adoption Assistance and Child Welfare Act of 1980 (AACWA) requires children to be placed in the most family-like placement when possible

## Adoption and Long-term Care

At the end of the federal fiscal year of 2014, 18% of children in foster care had their parental rights terminated, out of which 41% were adopted (U.S. Department of Health and Human Services, 2014). Research suggests that adoption is a better alternative to long-term care for two main reasons. First, maintaining a child in long-term care is more expensive than adoption (Barth, 1993; Barth et al., 2006; Hansen, 2008). Second, adoption generates better outcomes for children. Triseliotis (2002) and Hansen (2008) show that children who are adopted exhibit better social and educational outcomes. Since adoption from foster care is a major concern for policy markets, laws have been enacted to increase adoption. In particular, AACWA created the Adoption Assistance Program, which mandates states to make adoption assistance payments to parents who adopt children with special needs, including disability.<sup>21</sup>

## Placement Separation

Research shows that an increase in the number of placements can delay academic skills formation, increase problematic behavior among children, and increase the risk of delinquency among male children (Zima et al., 2000; Newton et al., 2000; Ryan and Testa, 2005). At the end of the federal fiscal year of 2014, children exhibited in average 2.7 placements for a single foster care episode.<sup>22</sup> This is above the ideal number set by the Children's Bureau that defines adequate placement stability as limiting the number of placements for a child to no more than two for a single foster care episode. This paper focuses on the role that placement separation plays on adoption, which has not been addressed in the literature.

## A.2 Matching Process

Foster care is conducted and administered at the state level by Child Protective Services (CPS). When an allegation concerning a child's well-being is received, CPS assigns a social worker to the case and initiates an investigation. If sufficient evidence supporting an accusation is found, the case is presented to a juvenile or family court, where a judge decides whether the child is removed from her birth-family home and placed in foster care. If the social worker believes that the child

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<sup>21</sup>AACWA states that 'a child with special needs is a child who: can not be returned to her birth-family home, has a special condition such that the child can not be placed for adoption without providing assistance, and has not been able to be placed for adoption without assistance'.

<sup>22</sup>A child can enter foster care multiple times, each time a child enters foster care is a different foster care episode.

is in serious or imminent danger; she is allowed to execute an emergency removal without the court's approval. Yet, the decision must be later on approved by the judge.

In most states, decisions concerning children's placements are made by social workers. On behalf of a child, the social worker (a) searches and contacts foster parents, (b) arranges a meeting between the foster parent and child in order to obtain information of whether the foster parent is a good fit for the child, and (c) decides where to place the child. A placement in a foster home must be mutually agreed upon between the foster parent and social worker. The social worker can switch a child from one foster home to another or from a foster home to institutional care. Similarly, foster parents can request the child's removal from their home. Adoptions must be mutually agreed upon between the foster parent and social worker. Once the child is adopted, she exits foster care. It is essential to mention that an increasing number of states require parents to foster a child before adopting. For example, some states mandate that the child must reside in the foster home for at least six months before foster parents can adopt.

Foster parents must hold a license to provide care for children. The licensing process includes a home study and training requirements. The home study ensures that the foster parent's house is clean, in good condition, and free from danger. The initial training (15 to 30 hours of mandatory classes) addresses topics such as agency policies and procedures, roles and responsibilities of foster parents, and behavior management. Also, most states require ongoing post-training to maintain the license.

Foster parents receive financial transfers when a child is placed on their care, which differ on whether the parent is fostering or adopting. While in foster, the parent receives financial payments for the duration of the placement. If the child is adopted, the parent gets monthly financial payments until the child reaches at least 18 years old. Each state has its own payment scheme, but as a rule-of-thumb, foster parents who provide care for a child with higher needs receive higher payments and adoption payments are lower than foster payments. For more detail on payment schemes, see [DeVooght and Blazey \(2013\)](#).

## B Appendix: Tables

Table A1: Descriptive Statistics by Disability, All Samples

Disability	Sample A <i>obs</i> = 1, 165, 818		Sample B <i>obs</i> = 659, 253		Sample C <i>obs</i> = 65, 970	
	Yes	No	Yes	No	Yes	No
Adopted	0.22 (0.41)	0.32 (0.47)	-	-	-	-
Foster matched	0.89 (0.31)	0.96 (0.19)	1.00 (0.00)	1.00 (0.00)	0.00 (0.00)	0.00 (0.00)
Becomes foster matched	-	-	-	-	0.22 (0.41)	0.28 (0.45)
Becomes unmatched	-	-	0.03 (0.18)	0.01 (0.11)	-	-
Foster match separates	-	-	0.19 (0.40)	0.18 (0.38)	-	-
Age in years	7.96 (4.45)	6.01 (4.23)	7.79 (4.35)	6.07 (4.22)	12.34 (2.56)	11.81 (3.22)
Male	0.57 (0.50)	0.50 (0.50)	0.60 (0.50)	0.50 (0.50)	0.65 (0.48)	0.58 (0.49)
White	0.43 (0.49)	0.44 (0.50)	0.41 (0.49)	0.42 (0.50)	0.45 (0.50)	0.42 (0.49)
Black	0.25 (0.43)	0.23 (0.42)	0.27 (0.44)	0.24 (0.43)	0.26 (0.44)	0.29 (0.45)
Hispanic	0.22 (0.41)	0.22 (0.41)	0.22 (0.41)	0.23 (0.42)	0.19 (0.39)	0.21 (0.41)
Title IV-E eligible	0.49 (0.50)	0.47 (0.50)	0.53 (0.50)	0.50 (0.50)	0.45 (0.50)	0.50 (0.50)
Months in foster care	41.20 (28.66)	30.53 (19.80)	40.91 (28.62)	30.23 (20.37)	55.94 (37.34)	46.99 (34.54)
Months since PRT*	21.71 (26.53)	13.91 (18.83)	20.09 (25.27)	13.29 (18.92)	44.14 (37.02)	37.34 (36.09)
Months in current placement	16.67 (17.32)	15.64 (14.51)	18.18 (18.16)	16.64 (14.72)	11.03 (14.67)	10.47 (12.38)

*Notes:* Data are from Adoption and Foster Care Analysis and Reporting System (AFCARS). Means and standard deviations are calculated for child-period observations. Sample A is the full sample containing all children younger than age 16 whose parental rights have been terminated and who are either foster matched or unmatched. Sample B and Sample C are subsamples of A. Sample B (sample C) keeps only those child-period observations such that the child is foster matched (unmatched) at the beginning of the period and still in foster care at the end of the period.

\* PRT stands for Parental Rights Terminated.

Table A2: Stylized Facts from Foster Care - Effect of Disability

	Foster matched
Disability $\gamma$	-0.043*** (0.002)
Mean of dependent variable	0.934
Number of child-period observations	1,165,818

*Notes:* Data are from Adoption and Foster Care Analysis and Reporting System (AFCARS). All specifications control for child's demographics, states indicators and period indicators. The first and second columns consider sample A, third and fifth columns use sample B, and the fourth column uses sample C. Standard errors are cluster at the state-period level and shown in parentheses. \*\*\* $P < 0.01$ ; \*\* $P < 0.05$ ; \* $P < 0.10$ .

Table A3: Regression Output

	Adoption I	Foster match Separation II	Becomes Foster matched III	Becomes Unmatched IV
Age in years	-0.002*** (0.000)	0.001*** (0.000)	-0.002*** (0.000)	0.000*** (0.000)
Disability	-0.059*** (0.005)	0.023*** (0.002)	-0.045*** (0.006)	0.011*** (0.001)
Male	-0.011*** (0.001)	-0.003*** (0.001)	-0.030*** (0.004)	0.003*** (0.000)
White	0.022** (0.002)	-0.006** (0.002)	-0.002 (0.007)	0.001 (0.001)
Black	-0.025*** (0.003)	0.005 (0.003)	-0.009 (0.007)	0.000 (0.001)
Hispanic	0.007*** (0.003)	-0.004 (0.002)	-0.007 (0.009)	-0.001 (0.001)
Receiving Title IV-E	-0.079*** (0.005)	-0.002 (0.002)	0.013*** (0.004)	-0.000 (0.001)
Months in foster care	0.002*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)	-0.000*** (0.000)
Months since PRT*	-0.001*** (0.000)	0.000*** (0.000)	-0.001*** (0.000)	-0.000*** (0.000)
Months in the current placement		-0.002*** (0.000)	-0.001*** (0.000)	-0.001*** (0.000)
Mean of dependent variable	0.279	0.185	0.236	0.021
Number of child-period observations	1,165,818	659,253	65,970	659,253
R-square observations	0.073	0.113	0.053	0.046

Notes: Data are from Adoption and Foster Care Analysis and Reporting System (AFCARS). All specifications control for child's demographics, states indicators and period indicators. The first and second columns consider sample A, third and fifth columns use sample B, and the fourth column uses sample C. Standard errors are cluster at the state-period level and shown in parentheses. \*\*\* $P < 0.01$ ; \*\* $P < 0.05$ ; \* $P < 0.10$ .

\*PRT stands for Parental Rights Terminated.

## C Appendix: Omitted Equations

### C.1 Endogenous Distribution of Children

A parent can meet a child who is unmatched or f-matched with quality  $q$ . Thus, an unmatched parent meets a child  $(x, \bar{q})$  according to the probability distribution  $\hat{m}(x, \bar{q})$  where:

$$\hat{m}(x, \bar{q}) = \begin{cases} \frac{u^c(x)}{\sum_x u^c(x) + \sum_q m(x, q)} & \text{if } \bar{q} = q_0 \\ \frac{m(x, q)}{\sum_x u^c(x) + \sum_q m(x, q)} & \text{if } \bar{q} = q \end{cases} \quad (\text{C.1})$$

Therefore, a parent meets an unmatched child  $x$  with total probability  $\pi^p(\theta)\hat{m}(x, q_0)$ . Similarly, a parent meets a child  $(x, q)$  with total probability  $\pi^p(\theta)\hat{m}(x, q)$ .

### C.2 Aggregate State of the Market

For each  $x$ ,  $u^c(x)$  satisfies the following equality:

$$\underbrace{u^c(x) \left\{ \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s) \sum_q \left[ \delta_x + (1 - \delta_x)(1 - d(x, q))g(q|s) \right] + \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s) \right) \delta_x \right\}}_{\text{mass destruction}} = \underbrace{\sum_q m(x, q)(1 - \delta_x) \left\{ \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \sum_{q'} g(q'|s)d(x, q') + \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \right) d(x, q) \right\} + \rho l(x)}_{\text{mass creation}} \quad (\text{C.2})$$

For each  $(x, q)$ ,  $m(x, q)$  satisfies the following equality:

$$\underbrace{m(x, q) \left\{ \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) + \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \right) \left[ \delta_x + (1 - \delta_x)d(x, q)a(x, q) \right] \right\}}_{\text{mass destruction}} = \underbrace{u^c(x)\pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s)g(q|s)(1 - \delta_x)(1 - d(x, q))(1 - a(x, q)) + \sum_{q'} m(x, q')\pi^c(\theta) \sum_{\mathcal{M}(x, q')} f(s)g(q|s)(1 - \delta_x)(1 - d(x, q))(1 - a(x, q))}_{\text{mass creation}} \quad (\text{C.3})$$

### C.3 Children' Decision Conditions

Child  $(x, q)$  chooses  $a^c(x, q) = 1$  if and only if:

$$\frac{b^c(x, q, a)}{1 - \beta} > \max \left\{ \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s) \right) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) , \right. \\ \left. \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \right) \mathcal{C}(x, q) + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \right\} \quad (\text{C.4})$$

Child  $(x, q)$  chooses  $d^c(x, q) = 1$  if and only if:

$$\left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s) \right) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) > \max \left\{ \frac{b^c(x, q, a)}{1 - \beta} , \right. \\ \left. \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \right) \mathcal{C}(x, q) + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \right\} \quad (\text{C.5})$$

### C.4 Parents' Decision Conditions

A parent chooses  $in = 1$  if and only if:

$$-k + \beta \pi^p(\theta) \sum_{\mathcal{M}(x, \bar{q})} \sum_{x, \bar{q}} \mathbb{E}_s[\mathcal{P}(x, q)] \hat{m}(x, \bar{q}) f(s) > 0 \quad (\text{C.6})$$

Parent  $(x, q)$  chooses  $a^p(x, q) = 1$  if and only if:

$$\frac{b^p(x, q, a)}{1 - \beta} > \max \left\{ \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \right) \cdot \frac{b^p(x, q, f)}{1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s))} , \mathcal{P}^u \right\} \quad (\text{C.7})$$

Parent  $(x, q)$  chooses  $d^p(x, q) = 1$  if and only if:

$$\mathcal{P}^u > \max \left\{ \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s) \right) \cdot \frac{b^p(x, q, f)}{1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s))} , \frac{b^p(x, q, a)}{1 - \beta} \right\} \quad (\text{C.8})$$

## D Appendix: Proofs of Theoretical Analysis

### D.1 Proof of Proposition 1

I start by describing the destruction strategies of children and parents. Lemma 1 states that, in any foster care equilibrium, child  $x$  does not destroy an f-match of quality  $q$  if  $b^c(x, q, f)$  is non-negative.

**Lemma 1** (Destruction Strategies of Children). *In any foster care equilibrium,  $d^c(x, q) = 0$  if  $b^c(x, q, f) \geq 0$  for each  $(x, q)$ .*

*Proof.* Fix  $(x, q)$  and assume that  $b^c(x, q, f)$  is non-negative. By contradiction, suppose  $d^c(x, q) = 1$  then, by the equilibrium definition, it follows that  $\hat{C}(x, q_0) > \hat{C}(x, q)$ . Equivalently, the following inequality must hold:

$$\begin{aligned} \left(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s)\right) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) > \\ \left(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s)\right) \mathcal{C}(x, q) + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \end{aligned} \quad (\text{D.1})$$

By assumption  $\hat{C}(x, q_0) > \hat{C}(x, q)$ , then the value function for child  $x$  f-matched when the quality is  $q$  is equal to:

$$\begin{aligned} \mathcal{C}(x, q) = b^c(x, q, f) + \beta \delta_x \frac{b^c(x, q_N, a)}{1 - \beta} \\ + \beta(1 - \delta_x) \left[ \left(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s)\right) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \right] \end{aligned}$$

Since  $b^c(x, q, f)$  is non-negative, it follows that:

$$\begin{aligned} \mathcal{C}(x, q) &= b^c(x, q, f) + \beta \delta_x \frac{b^c(x, q_N, a)}{1 - \beta} \\ &+ \beta(1 - \delta_x) \left[ \left(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s)\right) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \right] \\ &\geq \beta \delta_x \frac{b^c(x, q_N, a)}{1 - \beta} \\ &+ \beta(1 - \delta_x) \left[ \left(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s)\right) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \right] \\ &= \mathcal{C}(x, q_0) \end{aligned}$$

Before continuing, let me do the following remark. In equilibrium,  $s \in \mathcal{M}(x, \bar{q})$  if and only if  $\mathbb{E}_s[\mathcal{C}(x, q)] \geq \mathcal{C}(x, \bar{q})$  and  $\mathbb{E}_s[\mathcal{P}(x, q)] \geq \mathcal{P}^u$ . Thus, if  $\mathcal{C}(x, q) \geq \mathcal{C}(x, q_0)$

then  $\mathcal{M}(x, q) \subseteq \mathcal{M}(x, q_0)$ . Now, I show that  $\mathcal{C}(x, q) \geq \mathcal{C}(x, q_0)$  contradicts  $\hat{\mathcal{C}}(x, q_0) > \hat{\mathcal{C}}(x, q)$ . For this, I analyze two cases:  $\mathcal{C}(x, q) = \mathcal{C}(x, q_0)$  and  $\mathcal{C}(x, q) > \mathcal{C}(x, q_0)$ .

► **Case 1:** If  $\mathcal{C}(x, q) = \mathcal{C}(x, q_0)$  then  $\mathcal{M}(x, q) = \mathcal{M}(x, q_0)$ . Thus  $\hat{\mathcal{C}}(x, q) = \hat{\mathcal{C}}(x, q_0)$  which implies that  $d^c(x, q) = 0$ . A contradiction.

► **Case 2:** If  $\mathcal{C}(x, q) > \mathcal{C}(x, q_0)$  then  $\mathcal{M}(x, q) \subset \mathcal{M}(x, q_0)$ . Here I define the set  $\hat{\mathcal{M}}(x, q) = \{s \in S \mid s \in \mathcal{M}(x, q_0) \setminus \mathcal{M}(x, q)\}$ . Thus, the following holds:

$$\begin{aligned}
\hat{\mathcal{C}}(x, q) &= \left(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s)\right) \mathcal{C}(x, q) + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \\
&= \left(1 - \pi^c(\theta)\right) \mathcal{C}(x, q) + \pi^c(\theta) \sum_{s \notin \mathcal{M}(x, q)} f(s) \mathcal{C}(x, q) + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \\
&= \left(1 - \pi^c(\theta)\right) \mathcal{C}(x, q) + \pi^c(\theta) \sum_{s \notin \mathcal{M}(x, q_0)} f(s) \mathcal{C}(x, q) + \pi^c(\theta) \sum_{s \in \hat{\mathcal{M}}(x, q)} f(s) \mathcal{C}(x, q) \\
&\quad + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \\
&> \left(1 - \pi^c(\theta)\right) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{s \notin \mathcal{M}(x, q_0)} f(s) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{s \in \hat{\mathcal{M}}(x, q)} f(s) \mathcal{C}(x, q) \\
&\quad + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s)
\end{aligned}$$

By definition, if  $s \in \hat{\mathcal{M}}(x, q)$  then  $\mathcal{C}(x, q) > \mathbb{E}_s[\mathcal{C}(x, q)] > \mathcal{C}(x, q_0)$ . Thus, the following holds:

$$\begin{aligned}
\hat{\mathcal{C}}(x, q) &> \left(1 - \pi^c(\theta)\right) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{s \notin \mathcal{M}(x, q_0)} f(s) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{s \in \hat{\mathcal{M}}(x, q)} f(s) \mathcal{C}(x, q) \\
&\quad + \pi^c(\theta) \sum_{\mathcal{M}(x, q)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) \\
&> \left(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} f(s)\right) \mathcal{C}(x, q_0) + \pi^c(\theta) \sum_{\mathcal{M}(x, q_0)} \mathbb{E}_s[\mathcal{C}(x, q)] f(s) = \hat{\mathcal{C}}(x, q_0)
\end{aligned}$$

which contradicts equation D.1. Hence, if  $b^c(x, q, f) \geq 0$  then  $d^c(x, q) = 0$ .  $\square$

Lemma 2 shows that a parent destroys an f-match of quality  $q$  with child  $x$  if and only if  $b^p(x, q, f)$  is negative.

**Lemma 2** (Destruction Strategies of Parents). *Assume parents' payoffs satisfy assumption 2(a). In any foster care equilibrium,  $d^p(x, q) = 1$  if and only if  $b^p(x, q, f) < 0$  for each  $(x, q)$ .*

*Proof.* ( $\Rightarrow$ ) Fix  $(x, q)$ . Assume  $d^p(x, q) = 1$  then the following inequality must

hold:

$$0 > \max \left\{ \left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s) \right) \cdot \frac{b^p(x,q,f)}{1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s))}, \frac{b^p(x,q,a)}{1 - \beta} \right\}$$

By contradiction, suppose  $b^p(x, q, f)$  is non-negative. Since  $1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s) \geq 0$  and  $1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s)) \geq 0$ , there is a contradiction. Hence,  $d^p(x, q) = 1$  only if  $b^p(x, q, f)$  is negative.

( $\Leftarrow$ ) Fix  $(x, q)$  and assume that  $b^p(x, q, f)$  is negative. By contradiction, suppose  $d^p(x, q) = 0$ . There are two possible cases:  $a^p(x, q) = 1$  or  $a^p(x, q) = 0$ .

► **Case 1:** If  $a^p(x, q) = 1$  then  $\frac{b^p(x,q,a)}{1-\beta} > 0$  must hold. Since  $b^p(x, q, f)$  is negative then, by assumption 2(a),  $b^p(x, q, a)$  is also negative. Hence, there is a contradiction.

► **Case 2:** If  $a^p(x, q) = 0$  and  $d^p(x, q) = 0$ , then the following inequality must hold:

$$\left( 1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s) \right) \cdot \frac{b^p(x, q, f)}{1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s))} \geq \max \left\{ 0, \frac{b^p(x, q, a)}{1 - \beta} \right\}$$

Since  $b^p(x, q, f)$  is negative then, by assumption 2(a),  $b^p(x, q, a)$  is also negative. Thus, it must be that  $d^p(x, q) = 1$ .  $\square$

Now, I prove Proposition 1 using Lemmas 1 and 2. By assumption 1(a) and lemma 1, it follows that  $d^c(x, q) = 0$  for all  $(x, q)$ . This implies that the total probability of destruction of an f-match  $(x, q)$  is  $d(x, q) = d^p(x, q)$ . In words, the destruction of f-matches depends on the destruction strategies of parents.

- (i) Fix some quality  $q$ . Suppose a parent f-matched to child  $x_2$  when the quality is  $q$  chooses  $d^p(x_2, q) = 1$ . Then, by lemma 2,  $b^p(x_2, q, f)$  is negative. By assumption 2(b),  $b^p(x_1, q, f)$  is also negative. Thus, by lemma 2,  $d^p(x_1, q) = 1$ . Hence,  $d(x_1, q) \geq d(x_2, q)$ .
- (ii) Fix some child  $x$ . Suppose a parent f-matched to child  $x$  when the quality is  $q$  chooses  $d^p(x, q) = 1$ . Then, by lemma 2,  $b^p(x, q, f)$  is negative. Now, consider some  $q'$  such that  $q > q'$ . By assumption 2(c),  $b^p(x, q', f)$  is also negative. Thus, by lemma 2,  $d^p(x, q') = 1$ . Hence,  $d(x, q') \geq d(x, q)$  whenever  $q > q'$ .

## D.2 Proof of Proposition 2

I start by describing the f-match formation strategies of unmatched children and parents. Lemma 3 shows that an unmatched child  $x$  announces foster after observing signal  $s$  if  $\mathbb{E}_s[b^c(x, q, f)]$  is non-negative.

**Lemma 3** (F-match Formation Strategies of Unmatched Children). *For each  $(x, s)$ , in any foster care equilibrium,  $s \in F^c(x, q_0)$  if  $\mathbb{E}_s[b^c(x, q, f)] \geq 0$ .*

*Proof.* Fix  $x$ . In any foster care equilibrium,  $s \in F^c(x, q_0)$  if and only if  $\mathbb{E}_s[\mathcal{C}(x, q)] \geq \mathcal{C}(x, q_0)$ . Now, I show that if  $\mathbb{E}_s[b^c(x, q, f)] \geq 0$  then  $\mathbb{E}_s[\mathcal{C}(x, q)] \geq \mathcal{C}(x, q_0)$ , for all  $s \in S$ . Fix  $s$  and consider the conditional expected value  $\mathbb{E}_s[\mathcal{C}(x, q)]$  given by:

$$\begin{aligned} \mathbb{E}_s[\mathcal{C}(x, q)] &= \sum_q b^c(x, q, f)g(q|s) + \\ &\beta\delta_x \frac{b^c(x, q_N, a)}{1-\beta} + \beta(1-\delta_x) \sum_q \left[ d^p(x, q)\hat{\mathcal{C}}(x, q_0) + a^p(x, q) \max \left\{ \frac{b^p(x, q, a)}{1-\beta}, \hat{\mathcal{C}}(x, q_0), \hat{\mathcal{C}}(x, q) \right\} \right. \\ &\quad \left. + (1 - d^p(x, q) - a^p(x, q)) \max \left\{ \hat{\mathcal{C}}(x, q_0), \hat{\mathcal{C}}(x, q) \right\} \right] g(q|s) \end{aligned}$$

Since the destruction of f-matches is unilateral, the conditional expected value  $\mathbb{E}_s[\mathcal{C}(x, q)]$  is bounded bellow by  $\sum_q b^c(x, q, f)g(q|s) + \beta\delta_x \frac{b^c(x, q_N, a)}{1-\beta} + \beta(1-\delta_x)\hat{\mathcal{C}}(x, q_0)$ . Given that  $\sum_q b^c(x, q, f)g(q|s)$  is non-negative, the following inequality holds:

$$\begin{aligned} \mathbb{E}_s[\mathcal{C}(x, q)] &\geq \sum_q b^c(x, q, f)g(q|s) + \beta\delta_x \frac{b^c(x, q_N, a)}{1-\beta} + \beta(1-\delta_x)\hat{\mathcal{C}}(x, q_0) \\ &\geq \beta\delta_x \frac{b^c(x, q_N, a)}{1-\beta} + \beta(1-\delta_x)\hat{\mathcal{C}}(x, q_0) = \mathcal{C}(x, q_0) \end{aligned}$$

Hence, if  $\mathbb{E}_s[b^c(x, q, f)] \geq 0$  then  $\mathbb{E}_s[\mathcal{C}(x, q)] \geq \mathcal{C}(x, q_0)$ .  $\square$

Lemma 4 shows that an unmatched parent announces foster after observing signal  $s$  if and only if the conditional expected payoff of being f-matched is non-negative.

**Lemma 4** (F-match Formation Strategies of Parents). *Assume parents' payoffs satisfy assumption 4. For each  $(x, s)$ , in any foster care equilibrium,  $s \in F^p(x)$  if and only if  $\mathbb{E}_s[b^p(x, q, f)] \geq 0$ .*

*Proof.* ( $\Rightarrow$ ) Fix  $x$ . In any foster care equilibrium,  $s \in F^p(x)$  if and only if  $\mathbb{E}_s[\mathcal{P}(x, q)] \geq 0$ . I show that if  $\mathbb{E}_s[b^p(x, q, f)] \geq 0$  then  $\mathbb{E}_s[\mathcal{P}(x, q)] \geq 0$ . Fix  $s$  and consider the con-

ditional expected value  $\mathbb{E}_s[\mathcal{P}(x, q)]$  given by:

$$\begin{aligned} \mathbb{E}_s[\mathcal{P}(x, q)] &= \sum_q b^p(x, q, f)g(q|s) \\ &+ \beta(1 - \delta_x) \sum_q \left[ a^c(x, q) \max \left\{ \frac{b^p(x, q, a)}{1 - \beta}, 0, \frac{(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s)) b^p(x, q, f)}{1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s))} \right\} \right. \\ &\left. + (1 - d^p(x, q) - a^p(x, q)) \max \left\{ 0, \frac{(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s)) b^p(x, q, f)}{1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x, q)} f(s))} \right\} \right] g(q|s) \end{aligned}$$

Since f-match destruction is unilateral, the conditional expected value  $\mathbb{E}_s[\mathcal{P}(x, q)]$  is bounded bellow by  $\sum_q b^p(x, q, f)g(y|s)$ . Thus, if  $\mathbb{E}_s[b^p(x, q, f)] \geq 0$  then  $\mathbb{E}_s[\mathcal{P}(x, q)] \geq 0$ .

( $\Leftarrow$ ) Fix  $(x, s)$ . I show that, if  $\mathbb{E}_s[b^p(x, q, f)]$  is negative then  $\mathbb{E}_s[\mathcal{P}(x, q)]$  is also negative. Note that  $\sum_q \mathcal{P}(x, q)g(q|s)$  is bounded above by the following expression:

$$\begin{aligned} \sum_q \overline{\mathcal{P}(x, q)}g(q|s) &= \sum_q b^p(x, q, f)g(q|s) \\ &+ \beta(1 - \delta_x) \sum_q \left[ \max \left\{ \frac{b^p(x, q, a)}{1 - \beta}, 0, \frac{b^p(x, q, f)}{1 - \beta(1 - \delta_x)} \right\} \right] g(q|s) \end{aligned}$$

Since  $\sum_q b^p(x, q)g(q|s)$  is negative, by assumption 4,  $\sum_q \overline{\mathcal{P}(x, q)}g(q|s)$  is also negative.  $\square$

Now, I prove Proposition 3 using Lemmas 3 and 4. By definition, f-matches must be mutually agreed upon  $s \in \mathcal{M}(x, q_0)$  if and only if  $s \in F^c(x, q_0)$  and  $s \in F^p(x)$ . First, I analyze f-match formation strategies of children. By assumption 1(a), it follows that  $\mathbb{E}_s[b^c(x, q, f)] \geq 0$  for all  $s \in S$ . Hence, by lemma 3,  $F^c(x, q_0) = S$ .

- (i) Fix signal  $s$ , I show that if  $s \in F^p(x_1)$  then  $s \in F^p(x_2)$ . Suppose  $s \in F^p(x_1)$  then, by lemma 4, it follows that  $\mathbb{E}_s[b^p(x_1, q, f)]$  must be non-negative. Since  $b^p(x_2, q, f) \geq b^p(x_1, q, f)$  for all  $q$  [assumption 2(b)], then  $\mathbb{E}_s[b^p(x_2, q, f)]$  is also non-negative. Thus, by lemma 4,  $s \in F^p(x_2)$ . By assumption 3, it follows that  $F^p(x_1)$  and  $F^p(x_2)$  are non-empty. Hence,  $\mathcal{M}(x, q_0)$  is non-empty for all  $x$ , and  $\mathcal{M}(x_1, q_0) \subseteq \mathcal{M}(x_2, q_0)$ .

### D.3 Proof of Proposition 3

First I show that, as a best-response, children with and without a disability choose the same f-match formation strategy, and both are more willing to separate from an f-match of low-quality  $q_1$  than a high-quality match  $q_2$ . Formally:

**Lemma 5** (F-match formation strategies of f-matched children). *Assume children' payoffs satisfy assumptions 1(a)(c)(d). If  $d(x, q_1) \geq d(x, q_2)$  for all  $x$ , then  $F^c(x_1, q_1) = F^c(x_2, q_1) = \{s_1, s_2\}$  and  $F^c(x_1, q_2) = F^c(x_2, q_2) = \{\emptyset\}$ .*

*Proof.* For each  $x$ , it follows that  $F^c(x, q_2) \cap F^c(x, q_1) = \{s_1, s_2\}$  or  $F^c(x, q_2) \cap F^c(x, q_1) = \{\emptyset\}$ . The reason is the following. For each signal  $s$ ,  $s \in F^c(x, q_2)$  if and only if  $\mathbb{E}_s[\mathcal{C}(x, q)] = \mathcal{C}(x, q_1)g(q_1|s) + \mathcal{C}(x, q_2)g(q_2|s) \geq \mathcal{C}(x, q_2)$ . Then, it must be that  $\mathcal{C}(x, q_1) \geq \mathcal{C}(x, q_2)$  independent of the distributions. Now, if  $\mathcal{C}(x, q_1) > \mathcal{C}(x, q_2)$  then  $s \notin F^c(x, q_1)$ , and if  $\mathcal{C}(x, q_1) = \mathcal{C}(x, q_2)$  then  $s \in F^c(x, q_1)$ . Hence, there are three possible cases: (1)  $F^c(x, q_2) = F^c(x, q_1) = \{s_1, s_2\}$ , (2)  $F^c(x, q_2) = \{s_1, s_2\}$  and  $F^c(x, q_1) = \{\emptyset\}$ , and (3)  $F^c(x, q_2) = \{\emptyset\}$  and  $F^c(x, q_1) = \{s_1, s_2\}$ .

Fix  $x$ . I show that  $\mathcal{C}(x, q_2) > \mathcal{C}(x, q_1)$  holds, thus only the third case is feasible. Since  $d(x, q_1) \geq d(x, q_2)$ , the following cases might arise:

► **Case a:** Suppose  $a(x, q_1) = 1$  then  $\mathcal{C}(x, q_1) = b^c(x, q_1, f) + \beta\delta_x \frac{b^c(x, q_2, a)}{1-\beta} + \beta(1 - \delta_x) \frac{b^c(x, q_1, a)}{1-\beta}$

(a1) if  $a(x, q_2) = 1$  then  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) = b^c(x, q_2, f) - b^c(x, q_1, f) + \beta(1 - \delta_x) \left[ \frac{b^c(x, q_2, a)}{1-\beta} - \frac{b^c(x, q_1, a)}{1-\beta} \right]$

(a2) if  $a(x, q_2) = 0$  and  $d(x, q_2) = 0$  then  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) = b^c(x, q_2, f) - b^c(x, q_1, f) + \beta(1 - \delta_x) \left[ \hat{\mathcal{C}}(x, q_2) - \frac{b^c(x, q_1, a)}{1-\beta} \right]$

► **Case b:** Suppose  $d(x, q_1) = 1$  then  $\mathcal{C}(x, q_1) = b^c(x, q_1, f) + \beta\delta_x \frac{b^c(x, q_2, a)}{1-\beta} + \beta(1 - \delta_x)\hat{\mathcal{C}}(x, q_0)$

(b1) if  $d(x, q_2) = 1$  then  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) = b^c(x, q_2, f) - b^c(x, q_1, f)$

(b2) if  $a(x, q_2) = 1$  then  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) = b^c(x, q_2, f) - b^c(x, q_1, f) + \beta(1 - \delta_x) \left[ \frac{b^c(x, q_2, a)}{1-\beta} - \hat{\mathcal{C}}(x, q_0) \right]$

(b3) if  $a(x, q_2) = 0$  and  $d(x, q_2) = 0$  then  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) = b^c(x, q_2, f) - b^c(x, q_1, f) + \beta(1 - \delta_x) \left[ \hat{\mathcal{C}}(x, q_2) - \hat{\mathcal{C}}(x, q_0) \right]$

► **Case c:** Suppose  $a(x, q_1) = 0$  and  $d(x, q_1) = 0$  then  $\mathcal{C}(x, q_1) = b^c(x, q_1, f) + \beta\delta_x \frac{b^c(x, q_2, a)}{1-\beta} + \beta(1 - \delta_x)\hat{\mathcal{C}}(x, q_1)$

- (c1) if  $a(x, q_2) = 1$  then  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) = b^c(x, q_2, f) - b^c(x, q_1, f) + \beta(1 - \delta_x) \left[ \frac{b^c(x, q_2, a)}{1-\beta} - \hat{\mathcal{C}}(x, q_1) \right]$
- (c2) if  $a(x, q_2) = 0$  and  $d(x, q_2) = 0$  then  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) = b^c(x, q_2, f) - b^c(x, q_1, f) + \beta(1 - \delta_x) \left[ \hat{\mathcal{C}}(x, q_2) - \hat{\mathcal{C}}(x, q_1) \right]$

Assume **1(a)(c)**, then  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) > 0$  in cases (a1), and (b1). For case (b3), if  $d(x, q_2) = 0$  then it must be that  $\hat{\mathcal{C}}(x, q_2) \geq \hat{\mathcal{C}}(x, q_1)$ . Thus, by assumption **1(a)(c)** it follows that  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) > 0$  in case (b3). By assumption **1(d)** it follows that  $\frac{b^c(x, q_2, a)}{1-\beta} \geq \hat{\mathcal{C}}(x, \bar{q})$  for all  $q$ . Hence, by assumptions **1(a)(c)(d)** it follows that  $\mathcal{C}(x, q_2) - \mathcal{C}(x, q_1) > 0$  for all the other cases.

Therefore,  $F^c(x_1, q_2) = F^c(x_2, q_2) = \{\emptyset\}$  and  $F^c(x_1, q_1) = F^c(x_2, q_1) = \{s_1, s_2\}$ .  $\square$

Now, I show Proposition 3. First, by assumptions **1(a)** and **2(a)(c)**, it follows that proposition **1(ii)** holds. Thus, for children the result in lemma 5 holds, that is,  $F^c(x, q_2) = \{\emptyset\}$  and  $F^c(x, q_1) = \{s_1, s_2\}$  for all  $x$ . For parents, by assumptions **2(b)**, **2**, and **4**, it follows that proposition **2(i)** holds, that is,  $F^p(x)$  is non-empty for all  $x$ , and  $F^p(x_1) \subseteq F^p(x_2)$ . Moreover, by adding assumption **2(c)**, proposition **2(ii)** holds. That is, if  $s_1 \in F^p(x)$  then  $s_2 \in F^p(x)$  for all  $x$ .

Given that  $s \in \mathcal{M}(x, q)$  if and only if  $s \in F^c(x, q)$  and  $s \in F^p(x)$ , it follows that (a)  $\mathcal{M}(x, q_1)$  is non-empty for all  $x$ , (b)  $\mathcal{M}(x, q_2) = \{\emptyset\}$  for all  $x$ , (c)  $\mathcal{M}(x_1, q_1) \subseteq \mathcal{M}(x_2, q_1)$ , and (d)  $s_1 \in \mathcal{M}(x, q_1)$  implies  $s_2 \in \mathcal{M}(x, q_1)$  for all  $x$ .

Therefore, since  $\mathcal{M}(x, q_2) = \{\emptyset\}$  for all  $x$ , then  $\sum_{\mathcal{M}(x, q_2)} f(s) = 0$  for all  $x$ . Hence,  $\sum_{\mathcal{M}(x, q_1)} f(s) \geq \sum_{\mathcal{M}(x, q_2)} f(s)$ . Now, since  $\mathcal{M}(x_1, q_1) \subseteq \mathcal{M}(x_2, q_1)$  then  $\sum_{\mathcal{M}(x_2, q_1)} f(s) \geq \sum_{\mathcal{M}(x_1, q_1)} f(s)$  for all  $q$ .

## D.4 Proof of Proposition 4

I start by describing the adoption strategies of children and parents. Lemma 6 presents some properties of the adoption strategies of parents.

**Lemma 6** (Adoption Strategies of Parents). *Assume parents' payoffs satisfy assumptions **2(a)(b)** and **2(d)(e)**. Then, the adoption strategies of parents exhibit the following properties.*

- (i) for each  $(x, q)$ , if  $b^p(x, q, a) > 0$  and  $\frac{b^p(x, q, a)}{b^p(x, q, f)} > \frac{1-\beta}{1-\beta(1-\delta_x)}$  then  $a^p(x, q) = 1$ .
- (ii) for all  $q$ , if  $\sum_{\mathcal{M}(x_2, q)} f(s) \geq \sum_{\mathcal{M}(x_1, q)} f(s)$  then the best-response of parents satisfies the following: if  $a^p(x_1, q) = 1$  then  $a^p(x_2, q) = 1$ .

(iii) for all  $x$ , if  $\sum_{\mathcal{M}(x,q')} f(s) \geq \sum_{\mathcal{M}(x_1,q)} f(s)$  and  $b^p(x, q', a) > 0$  whenever  $q' < q$  then the best-response of parents satisfies the following: if  $a^p(x, q) = 1$  then  $a^p(x, q') = 1$ .

*Proof.* Assume **2(a)**. A parent f-matched to child  $x$  when the quality is  $q$  announces adoption if and only if the following inequalities hold:

$$\frac{b^p(x, q, a)}{1 - \beta} > 0 \quad (\text{D.2})$$

$$\frac{b^p(x, q, a)}{1 - \beta} > (1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s)) \cdot \frac{b^p(x, q, f)}{1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s))} \quad (\text{D.3})$$

(i) Fix  $(x, q)$ . Assume  $b^p(x, q, a)$  is positive then  $a^p(x, q) = 1$  if and only if inequality **D.3** holds. The right-hand side of this inequality is decreasing in  $\pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s)$ . Thus, for  $a^p(x, q)$  to take value one independent of the endogenous objects  $\pi^c(\theta)$  and  $\mathcal{M}(x, q)$ , the following inequality must hold:

$$\frac{b^p(x, q, a)}{b(x, q)} > \frac{1 - \beta}{1 - \beta(1 - \delta_x)}$$

Or, equivalently  $\delta_x > \frac{b^p(x, q, f) - b^p(x, q, a)}{b^p(x, q, a)} \frac{1 - \beta}{\beta}$ .

(ii) Consider a parent f-matched to child  $x_1$  when the quality is  $q$ . Assume  $a^p(x_1, q) = 1$ , then inequalities **D.2** and **D.3** hold for  $x = x_1$ . By assumption **2(b)**, it follows that  $b^p(x_2, q, a) > 0$ . Hence,  $a^p(x_1, q) = 1$  implies  $a^p(x_2, q) = 1$  if the following inequality holds:

$$\frac{b^p(x_2, q, a)}{b^p(x_2, q)} > \frac{b^p(x_1, q, a)}{b^p(x_1, q, f)}$$

$$\frac{(1 - \beta)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x_1,q)} f(s))}{1 - \beta(1 - \delta_{x_1})(1 - \pi^c(\theta) \sum_{\mathcal{M}(x_1,q)} f(s))} \geq \frac{(1 - \beta)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x_2,q)} f(s))}{1 - \beta(1 - \delta_{x_2})(1 - \pi^c(\theta) \sum_{\mathcal{M}(x_2,q)} f(s))}$$

By assumption **2(d)**, the first inequality holds. Since  $\delta_{x_2} \geq \delta_{x_1}$  and  $\sum_{\mathcal{M}(x_2,q)} f(s) \geq \sum_{\mathcal{M}(x_1,q)} f(s)$ , then the second inequality holds.

(iii) Consider a parent f-matched to child  $x$  when the quality is  $q$ . Assume  $a^p(x, q) = 1$ , then inequalities **D.2** and **D.3** hold. Also, consider a parent f-matched to child  $x$  when the quality is  $q'$  such that  $q' < q$ . Since  $b^p(x, q', f) \geq 0$ , then  $a^p(x, q) = 1$  implies  $a^p(x, q') = 1$  if the following inequality holds:

$$\frac{b^p(x, q', a)}{b^p(x, q', f)} > \frac{b^p(x, q, a)}{b^p(x, q, f)}$$

$$\frac{(1 - \beta)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s))}{1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q)} f(s))} \geq \frac{(1 - \beta)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q')} f(s))}{1 - \beta(1 - \delta_x)(1 - \pi^c(\theta) \sum_{\mathcal{M}(x,q')} f(s))}$$

By assumption 2(e), the first inequality always holds. The second inequality holds since  $\sum_{\mathcal{M}(x,q')} f(s) \geq \sum_{\mathcal{M}(x,q)} f(s)$  by assumption.

□

**Lemma 7** (Adoption Strategies of Children). *Assume children' payoffs satisfy 1(a) to (g), and 5(a) to (c). Moreover, suppose the following (a)  $d(x, q_2) = 0$  for all  $x$ , (b)  $\mathcal{M}(x, q_1)$  is non-empty for all  $x$ , (c)  $\mathcal{M}(x, q_2)$  is empty for all  $x$ , (d)  $\mathcal{M}(x_1, q_1) \subseteq \mathcal{M}(x_2, q_1)$ , (e)  $s_1 \in \mathcal{M}(x, q_1)$  implies  $s_2 \in \mathcal{M}(x, q_1)$  for all  $x$ , and (f)  $a^p(x_2, q) \geq a^p(x_1, q)$  for all  $q$ . Then, the adoption strategies of children are  $a^c(x_2, q) \geq a^c(x_1, q)$  for all  $q$ , and  $1 = a^c(x, q_2) \geq a^c(x, q_1)$  for all  $x$ .*