Social Interactions and Selection*

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Abstract

The objective of the present paper is to extend the analysis in Bisin, Horst and Özgür (*JET* 2006) to a more general class of dynamic economies with social interactions. These include overlapping social groups, simple networks, heterogenous interaction structures with varying levels of connectivity, local and global interactions, etc. For these economies, we provide equilibrium existence results (Markov-Perfect Equilibrium in pure strategies) and characterize equilibrium properties such as ergodicity and speed of convergence. Also, we study the welfare properties of equilibria and we characterize equilibria in terms of spatial equilibrium correlations, local norm formation, social multiplier effects, depending on the nature of interactions. Furthermore, we study formally the issue of the empirical identifications of the parameters of social interaction with population data, that is, e.g., how to distinguish if spatial correlations in agents' action are induced by social interactions or rather by a selective location process.

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