

# The linking effect: causal identification and estimation of the effect of peer relationship

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## Abstract

The endogeneity of network formation has been a major obstacle to the empirical study of peer influence. This paper puts forward the first causal identification strategy in a potential outcome framework to study the effect of endogenously formed peer relationships. It reveals the minimum set of assumptions needed for causal identification, which, unlike existing econometric methods, needs neither a network formation model nor an outcome model. Using the proposed method, I empirically estimate the effect of high school friendships on bachelor's degree attainment. While previous literature finds that exposure to more high-achieving boys makes girls less likely to graduate from college, I show the opposite is true when the girls consider the boys as friends. Thanks to their high-achieving male friends, girls become more confident in their intelligence, although no changes are found in their academic performance. Since friendship endogeneity has been addressed, the estimated effects have causal interpretations.

## 1 Introduction

Interest in understanding the impact of peer influence within economic and social networks has been growing rapidly in the economics literature, with an increasing emphasis on establishing causality. Knowing how connected agents are affected by each other is important, as

welfare can be improved through cultivating certain relationships while discouraging others. However, due to the lack of credible and implementable causal identification strategy for endogenously formed networks, researchers have been deterred from empirically evaluating the causal impact of many important types of relationships, such as friendship networks, buyer-supplier networks, banking networks, etc.

The difficulty in establishing causal identification partly comes from the absence of a causal framework specifically designed for the study of the effect of peer relationships. After all, the first step to identifying any causal effect should be to define such effect through a properly formulated framework where treatments and potential outcomes are clearly defined. In this paper, each potential relationship is a unique treatment. In other words, the existence of each network link is the subject of manipulation or intervention in a hypothetical experiment where we could assign network links at will. This contrasts with the existing literature on peer effects where the treatment is implicitly assumed to be some summary statistics of the network as a whole, such as the share of network nodes with certain characteristics<sup>1</sup>. In this paper, the effect of relationships is called the **linking effect**, emphasizing the fact that the treatment is the assignment of links. Explicitly viewing every pairwise relationship as a treatment opens the door to building upon existing causal inference tools for the study of the linking effect. In particular, due to the multiplicity of possible relationships for any network node, we are able to embed the study of the network linking effect in the multi-treatment causal inference framework.

This newly discovered connection between these two previously disassociated literature turns out to be highly consequential for the causal identification of the linking effect in endogenous networks. Through a recent finding in the multi-treatment causal inference literature ([Wang and Blei, 2019](#)), I prove that the linking effects are identified under a set of general assumptions that are easy to interpret. As in traditional causal inference with observational data ([Imbens and Rubin, 2015](#)), identification is achieved through establishing unconfoundedness. A major appeal of my identification strategy is that unconfoundedness does not need the restrictive assumption that all confounding variables are observed in the data. Instead, we only need to assume that any confounder that affects one and only one

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<sup>1</sup>In [Manski \(1993\)](#), this treatment is associated with the contextual peer effect.

network link formation is either observed or does not exist<sup>2</sup>. This is because all unobserved confounders that affect more than one link, or more precisely, the propensity scores of these confounders, could be inferred from the network adjacency matrix itself. Therefore, we are able to have an unconfoundedness condition that is much weaker than that required in traditional causal inference.

My identification result naturally points to the use of propensity score-based estimators. Unlike traditional propensity score estimation procedures where the probability of treatment is regressed on a set of observed pre-treatment variables, here the propensity scores of the unobserved confounders are estimated using only the observed network links. One way to operationalize the estimation is to use probabilistic factor models to capture the joint distribution of the links (Wang and Blei, 2019). This involves specifying the distributions of the unobserved confounders and the distributions of the network links conditional on the unobserved confounders. It is, however, not important which specific distributions one chooses to use, as long as the overall joint distribution of the network links is well captured. Another way to estimate the propensity scores is to use graphon estimation procedures. This is because when the network nodes are seen as randomly sampled from the superpopulation, the distribution of the network links has the same form as the distribution of a graphon, which can be estimated both non-parametrically (e.g. Zhang et al., 2017) and parametrically. With the estimated propensity scores, we can then use inverse probability weighting, subclassification, or propensity score matching to estimate the desired causal effect.

Thanks to these identification and estimation results, this paper will conduct one of the first empirical analyses aiming to understand the causal effect of one of the most well-known endogenous networks, friendships. Despite being the main focus of the social network literature, the impact of friendship networks has not been well-understood empirically due to the endogeneity problem. The only few existing papers that attempted to address the endogeneity issue did so by making strong assumptions both on the way friendships are formed (e.g., homophily) and the variables that affect this formation (e.g., race), subjecting the estimated results to bias when the true network formation process has a different form

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<sup>2</sup>This assumption is likely to hold in networks of non-trivial size because as the number of possible peer links to choose from increases, it becomes more and more difficult to conceive an individual level confounding variable that affects only one of these choices but not any other.

(Goldsmith-Pinkham and Imbens, 2013; Badev, 2018; Gagete-Miranda, 2020).

Most papers in the empirical peer effect literature circumvent this by looking at other social networks which are quasi-randomly formed. For example, Cools et al. (2019) investigates how the presence of more high-achieving male and female students in high school affects boys' and girls' bachelor's degree attainment differently. They do so by exploiting the random variations in cohort composition, a strategy commonly employed in the peer effect literature (the Danish thing, Olivetti, the military thing by Sacerdote, etc.). Cools et al. (2019) find that being exposed to more male high achievers decreases girls' likelihood of obtaining a bachelor's degree, in part by decreasing their confidence and aspiration. While these studies offer exciting findings on the effect of cohort composition, a common drawback is that the impact of social interactions cannot be separated from the influence of other factors that also vary across cohorts, such as differences in teachers' attitudes. Moreover, some of the most meaningful social interactions with long-term consequences only exist among close friends and not those who simply attend the same school during the same year. As a consequence, the patterns of peer influence among friends have largely remained unknown.

Using high school friendship data from AddHealth, the same dataset used by Cools et al. (2019) and many other studies on social networks<sup>3</sup>, I test whether the negative impact of high-achieving male students on female students persists when these boys are considered friends by the girls. Interestingly, I find that an additional male high-achieving friend causally increases the probability that a female student obtains a bachelor's degree by 3 p.p. Further analysis suggests that this positive influence results from an increase in their confidence and not their academic ability. Indeed, having one more male high-achieving friend means the female student becomes 3.75 p.p more likely to self-report being more intelligent than their same-age peers, but no effect is found for their grades in any of the main subjects<sup>4</sup>. Taking these results together with the findings of Cools et al. (2019), it seems that girls are intimidated by high-achieving boys whom they do not have close relationships with, but are encouraged by those whom they see as friends. This suggests that a possible way to boost

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<sup>3</sup>For example, Goldsmith-Pinkham and Imbens (2013); Bifulco et al. (2014); Badev (2018); Olivetti et al. (2020)

<sup>4</sup>Both the self-reported intelligence and the grades are measured one year after the friendship data was collected. The main subjects are math, science, English, and history.

the confidence of female students and increase their chances of graduating from college is by fostering friendships with high-achieving boys in their high school.

This paper is closely related to the literature on peer effect, especially the so-called contextual peer effect defined in [Manski \(1993\)](#). Roughly speaking, contextual peer effect refers to the effect of peer characteristics on own outcome and is usually expressed as a parameter in a regression model. In order to give a causal interpretation to the estimated parameter, empirical researchers have taken advantage of settings with either random treatments or random peers. The former is where peer relationships are fixed and characteristics of the network nodes are randomized, while the latter is where nodal characteristics are fixed but peer relationships are randomized. In other words, the former is related to treatment spillover, while the latter is about the linking effect. Because these two cases correspond to two completely different hypothetical interventions, using one parameter to represent their effects can sometimes lead to misleading interpretations of the estimates<sup>5</sup>. This paper addresses the issue by developing a causal framework tailored for the study of linking effects where random peers are a special case<sup>6</sup>. Since in the linking effect framework the only type of treatment is the existence of the links, the interpretation of the estimates is clear.

To the best of my knowledge, [Li et al. \(2019\)](#) and [Basse et al. \(2021\)](#) are the only papers to have made the distinction between randomized treatments and randomized peers using a formalized causal framework. However, the focus of their papers is on inference issues rather than identification, as they only consider cases where agents are assigned to groups randomly. They also focus their analysis on peer networks with a non-overlapping group structure, such as roommate networks. My framework, in contrast, allows the networks to have arbitrary structures and is suitable for analyzing both experimental and observational data.

In terms of identification, several econometrics papers have emerged in recent years to tackle the network endogeneity issue for [Manski \(1993\)](#)'s linear-in-means model. The majority do so by jointly modeling the outcome equation and the network formation equation.

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<sup>5</sup>See [Bramoullé et al. \(2020\)](#) for more analysis on the problem of misinterpretation.

<sup>6</sup>If peer relationships are randomized, there will be no need to address the confounding (endogeneity) problem. The causal framework of the linking effect can still be used; the only difference is that there will be no need to infer the unobserved confounders and use them to correct for confounding, as randomization guarantees no confounding exists.

From Goldsmith-Pinkham and Imbens (2013) and Hsieh and Lee (2016), to Arduini et al. (2015) and Johnsson and Moon (2021a), then to Auerbach (2022), assumptions used to achieve identification have been progressively relaxed. This paper takes a step further and reveals the minimum set of assumptions needed for identification<sup>7</sup>. Even though the assumptions of this paper are formulated in the potential outcome framework, they can be translated into modeling restrictions in the linear-in-means regression context. This translation exercise leads to three important observations. First, all aforementioned papers impose the assumptions that form this minimum set. Second, some assumptions made in the aforementioned papers are redundant because they are implied the minimum set of assumptions. Third, neither outcome modeling nor network formation modeling is necessary for identification. This means we do not need to know which observed and unobserved variables enter the outcome equation and network formation equation or how they enter the equations, be it additive, multiplicative, or interactive. In fact, not only is it unnecessary, but it could be harmful because incorrectly specifying these equations could lead to biased estimates.

The rest of the paper will be organised as follows. Section 2 gives the formal definitions of the treatment and the potential outcome, based on which several linking effect estimands to study peer influence are proposed. Section 3 provides the identification conditions and Section 4 discusses how existing propensity score-based estimators can be adapted for estimation. Section 5 gives simulation evidence on the bias reduction performance of the proposed identification and estimation strategy. Finally, Section 6 applies these estimators to real data to study the effect of high school friendship on students’ bachelor’s degree attainment.

## 2 Treatments, potential outcomes, and estimands

Suppose we are interested in a certain peer relationship network with  $N$  nodes and directed links among these nodes. A link from one node to another represents the existence of a directed peer relationship. The adjacency matrix  $\mathbf{D}$  of the network is a  $N$  by  $N$  matrix

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<sup>7</sup>More specifically, this is the minimum set of assumptions needed when identification achieved with a single network

where each entry represents the existence of a link:

$$\mathbf{D} = \begin{bmatrix} 0 & D_1^2 & \dots & D_1^N \\ D_2^1 & 0 & \dots & D_2^N \\ \dots & \dots & \dots & \dots \\ D_N^1 & D_N^2 & \dots & 0 \end{bmatrix},$$

In this paper, I will write  $D_i^j = 1$  if there is a directed link from node  $j$  to node  $i$ . The diagonal of the adjacency matrix is 0 because we do not allow one to be their own peer. When a node is on the receiving end of the link, I call it the **link receiver**. When a node is on the sending side of the link, I call it a **link sender**. A node can act as a link receiver in one link while acting as a link sender in another and vice versa. In this paper, the outcomes of interest are measured on the link receivers, but we could just as easily measure outcomes on the link senders. When I write a pair of nodes  $(i, j)$ , the first component is the link receiver, and the second component is the link sender. Whenever suitable, I also use subscripts to indicate the link receiver and superscripts as the link sender.

## 2.1 Treatments and potential outcomes

The treatment of interest is the (directed) linking status among pairs of network nodes. For example, for a friendship network, the treatment of interest would be the directed friendship from one person to another<sup>8</sup>. With two hypothetical pairwise relationships, Figure 1 highlights the hypothetical intervention, aka the treatment, that is the focus of this paper. Each relationship has three components: the receiver (R), the sender (S), and the linking status ( $D$ ). In this example, the two relationships have the same receiver and sender but have different linking statuses. On the left, the link from the sender to the receiver exists, but on the right, the link doesn't exist. The type of causal question this paper asks is “What would the receiver  $R_1$ 's potential outcome be if it were “treated” with a link from sender  $S_1$  (left of Figure 1), and what would the potential outcome be if it weren't “treated” with this

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<sup>8</sup>Friendship doesn't need to be a reciprocal relationship, as one person consider another person as a friend doesn't necessarily mean the other way holds. This is evidenced by the friendship nominations of high school students in the Add Health data.

Figure 1: Hypothetical intervention: two counterfactuals



link (right of Figure 1 ), and the difference between the two potential outcomes? ”. In other words, what is the difference between  $Y_1(D_{R_1}^{S_1} = 1)$  and  $Y_1(D_{R_1}^{S_1} = 0)$ ? The only difference between the two hypothetical cases is the existence of the directed link from the sender to the receiver. This is why we call the linking status the “treatment”.

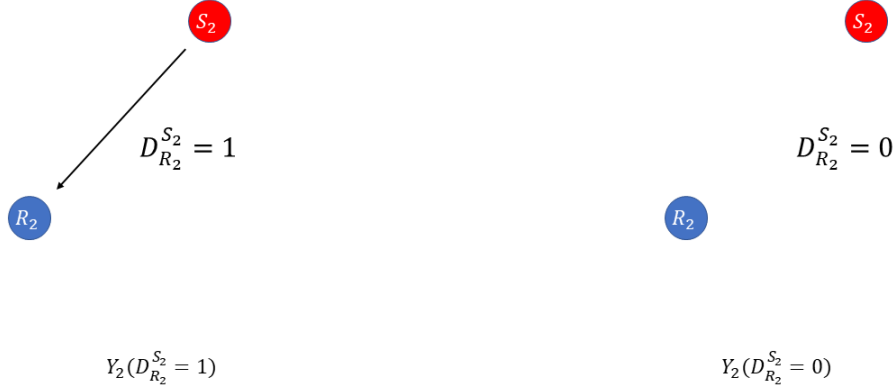
It is important to emphasize that the hypothetical intervention this paper studies is NOT the change in the sender characteristics<sup>9</sup>. In this paper, link sender nodal characteristics define the multiple versions of the treatment. As an example, consider color as the nodal characteristic<sup>10</sup>. Figure 2 shows two hypothetical relationships between  $R_1$  and a different sender  $S_2$ , where  $S_2$  is red while  $S_1$  is orange. This means the effect of  $D_{R_1}^{S_1}$  on  $R_1$  could be different from the effect of  $D_{R_1}^{S_2}$  on  $R_1$ , therefore a link from  $S_2$  should be viewed as a different treatment than a link from  $S_1$ . In the most general case, we could allow linking effects to differ in arbitrary observed and unobserved sender nodal characteristics. This is the stance taken by this paper. As a result, links from senders with different *identities* are viewed as different treatments. Since sender identity and the link itself has a one-to-one relationship in this paper, I sometimes also refer the link sender as the treatment. However, it should be

<sup>9</sup>It is, however, the focus of the treatment spillover literature.

<sup>10</sup>For instance, [Li et al. \(2019\)](#) and [Basse et al. \(2021\)](#) assume the effect of linking only depends on some observed characteristic of the node chosen by the researcher ex-ante.



Figure 2: A different link sender



clear that the hypothetical intervention is on the relationship instead of the sender.

Given that any link receiver could potentially receive a link from  $N - 1$  different link senders, and each of these links is considered a unique treatment with a unique effect on the receiver, we are in the case of **multiple treatments**, or multi-cause, causal inference. In other words, for any link receiver  $i$ , its **treatment** is a vector of  $N - 1$  linking status  $\mathbf{D}_i := (D_i^1, \dots, D_i^{i-1}, D_i^{i+1}, \dots, D_i^N)$ .

In traditional treatment causal inference, the potential outcome of any subject, the entity that bears the treatment and whose outcome is measured, could depend on the treatment status of all subjects in the population if no further assumption is made. The Stable Unit Treatment Assumption (SUTVA) restricts the potential outcome to depend only on the subject's own treatment status. Here I will make a similar assumption to allow potential outcomes to only depend on the receiver's own treatment status. As just discussed, for any receiver  $i'$ , because her treatment is a vector of all pairwise linking status with the senders, this means  $i$ 's potential outcome can be a function of all pairwise linking status where  $i$  is the receiver, but couldn't depend on the linking status where  $i$  is not the receiver. I call this assumption the Linking-effect Stable Unit Treatment Unit Assumption (L-SUTVA) to differentiate it from the usual SUTVA.

**Assumption 1** (L-SUTVA).

$$Y_i(\mathbf{D}_i, \mathbf{D}_{-i}) = Y_i(\mathbf{D}_i, \tilde{\mathbf{D}}_{-i})$$

for any  $(\mathbf{D}_{-i}, \tilde{\mathbf{D}}_{-i})$  and any  $i$ , where  $\mathbf{D}_{-i} = (\mathbf{D}_1, \dots, \mathbf{D}_{i-1}, \mathbf{D}_{i+1}, \dots, \mathbf{D}_N)$ .

Under L-SUTVA, the potential outcome can be written as  $Y_i(\mathbf{D}_i)$  or  $Y_i(D_i^1, D_i^2, \dots, D_i^N)$ . In traditional causal inference, SUTVA is sometimes called the no-interference assumption. However, this paper studies the effect of relationships, which suggests agents must interact or interfere in some way. At first sight, the two may seem to be at odds. The reason why L-SUTVA is perfectly compatible with the study of linking effect lies in the definition of treatment. Recall what SUTVA says is that the *treatment assignment* of one subject does not interfere with another subject’s *potential outcome*. In particular, it doesn’t require the non-existence of network structure among the units. Whether SUTVA is likely to hold depends on the definition of treatment and potential outcome. In this paper, since the treatment is the relationship, the no-interference assumption implied by L-SUTVA means that one’s potential outcome is only affected by one’s own relationships. L-SUTVA helps reduce the space of possible potential outcomes and makes it easier to identify and estimate causal estimands. In this paper, I will always assume that L-SUTVA holds<sup>11</sup>.

## 2.2 Estimands

With the perspective that relationships are multiple treatments, causal estimands could be flexibly defined by contrasting different types of potential outcomes. In this section, I will focus on the most straightforward set of estimands, which, loosely speaking, looks at the effect of an additional link. Several other possible estimands, including the commonly used linear-in-means estimands, are outlined in Section A1.

As a first step, I define the pairwise estimand  $\tau_i^j$  as the following contrast of  $i$ ’s potential outcomes:

$$\tau_i^j = Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})$$

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<sup>11</sup>L-SUTVA might not be realistic in some situations. In the future, I will extend the analysis by relaxing L-SUTVA to allow some interference.

where  $\mathbf{D}_i^{-j} = (D_i^1, \dots, D_i^{j-1}, D_i^{j+1}, \dots, D_i^N)$ , and  $\bar{\mathbf{d}}_i^{-j}$  is the corresponding vector of the **re-*alised*** or **observed** treatment assignment for  $i$  after taking out  $d_i^j$ .  $\tau_i^j$  contrasts link receiver  $i$ 's potential outcome when it receives treatment (a link) from link sender  $j$  with its potential outcome when it doesn't receive the link from  $j$ , while keeping the linking status from other link senders fixed at their observed value.

Based on  $\tau_i^j$ , we can proceed to define an average linking effect for links with  $j$  as the sender:

$$\begin{aligned}\tau^j &:= \mathbb{E}_i[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})] \\ &:= \frac{1}{N} \sum_{i=1}^N Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})\end{aligned}$$

This is simply taking the average of the linking effect  $\tau_i^j$  overall link receivers.  $\tau^j$  is the expected effect of the sender- $j$  link. From all the link receivers, if we were to repeatedly pick a receiver at random each time,  $\tau^j$  is what on average the causal effect of the sender- $j$  link would be.

Next, instead of looking at the average linking effect from one link sender  $j$ , we could look at the average linking effect from link senders with some attributes  $A = a$ .

$$\begin{aligned}\tau^a &:= \mathbb{E}_{(i,j):A^j=a}[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})] \\ &:= \frac{1}{N} \sum_{i=1}^N \left( \frac{1}{\sum_{j=1}^N A^j = a} \sum_{A^j=a} (Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})) \right)\end{aligned}$$

Finally, we could restrict our attention to link receivers with certain attributes  $R = r$ , where I use  $R$  to denote the attributes of interest for the link receivers. This can be easily done by only averaging over the link receivers with  $R = r$ :

$$\begin{aligned}\tau_r^a &:= \mathbb{E}_{(i,j):R_i=r, A^j=a}[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})] \\ &:= \frac{1}{\sum_{i=1}^N R_i = r} \sum_{i=1}^N \left( \frac{1}{\sum_{j=1}^N A^j = a} \sum_{A^j=a} (Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})) \right)\end{aligned}$$

The interpretation of these estimands deserves some special attention. Under L-SUTVA,

these estimands are well-defined and can be interpreted as the all-or-nothing effect in the following sense. Take  $\tau^a$  as an example, it can be interpreted as the **expected** contrast between the **average** potential outcome of assigning a sender- $j$  link to *everyone* in the node set and the **average** potential outcome of assigning a sender- $j$  link to *no one* in the node set, where this  $j$  is **chosen randomly** (hence the expected contrast) with equal probability from the set of link senders with attribute  $A^j = a$ . The interpretation of  $\tau_r^a$  is similar to that of  $\tau^a$ , except that instead of looking at all link receivers in the node set, now we only look at link receivers with  $R_i = r$ . However, similar estimands can also be defined without the assumption of L-SUTVA. In this case, we could simply modify the potential outcome function to include the entire adjacency matrix  $(D_i^j, \mathbf{D}_{-(i,j)})$ . But we can no longer interpret the estimands as the all-or-nothing effect. This is because when we simultaneously change  $(D_1^j, D_2^j, \dots, D_N^j)$  for a given sender  $j$ ,  $\mathbf{D}_{-(i,j)}$  is no longer at its observed value. Instead, the estimands need to be interpreted as the **expected** treatment effect of  $j$  on a **randomly chosen** link receiver  $i$ , again keeping the other links at their realized value. The difference is that in the second interpretation, in every hypothetical experiment, intervention is only done on one link, and the average linking effect  $\tau^j$  is the average from repeated experiments where a different link is modified each time. This is similar to the *EATE* in [Sävje et al. \(2021\)](#) and the  $\tau$  defined in [Forastiere et al. \(2021\)](#).

### 3 Identification

At the center of causal identification is the treatment assignment mechanism. In experimental studies where network links are randomized, the assignment mechanism is known, such as the cases studied in [Sacerdote \(2001\)](#); [Carrell et al. \(2013\)](#); [Li et al. \(2019\)](#); [Basse et al. \(2021\)](#); [Olivetti et al. \(2020\)](#). In this case causal identification does not pose any challenge. However, in non-experimental studies with observational data, the assignment mechanism is unknown, and assumptions must be imposed on it to make causal discoveries. This is the case with endogenously formed peer networks. These assumptions on the links assignment mechanism are variations of the three assumptions used in traditional causal inference: individualistic assignment mechanism, unconfoundedness, and positivity.

### 3.1 Doubly Individualistic Assignment Mechanism

In the study of linking effects, the individualistic assignment mechanism assumption takes the form of conditionally independent links across both the link receivers and the link senders. In other words, conditional independence is required both across the subjects and the treatments.

**Assumption 2** (Doubly Individualistic Assignment Mechanism). There exists sequences of random variables (vectors)  $\{\mathbf{U}_i\}_{1 \leq i \leq N}$  and  $\{\mathbf{V}_i\}_{1 \leq i \leq N}$  such that equation (1) holds.

$$Pr(\mathbf{D} = \mathbf{d} | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N) = \prod_{i=1}^N \prod_{j \neq i}^N Pr(D_i^j = d_i^j | \mathbf{U}_i, \mathbf{V}_j) \quad (1)$$

We can think of  $\mathbf{U}_i$  as link receiver specific variables and  $\mathbf{V}_j$  as link sender specific variables. For any node  $i$ ,  $\mathbf{U}_i$  and  $\mathbf{V}_i$  could share some common components. For example, for a high school friendship network, the ambition of student  $i$  could affect both from whom they receive links through  $\mathbf{U}_i$  and to whom they send links through  $\mathbf{V}_i$ .

To compare the linking effect Doubly Individualistic Assignment Mechanism Assumption with the Individualistic Assignment Mechanism Assumption of traditional causal inference, it is useful to rewrite the ‘‘Doubly’’ assumption as follows.

$$\begin{aligned} Pr(\mathbf{D} = \mathbf{d} | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N) \\ &= \prod_{i=1}^N Pr(\mathbf{D}_i = \mathbf{d}_i | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) \\ &= \prod_{i=1}^N Pr(D_i^1 = d_i^1, \dots, D_i^N = d_i^N | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) \\ &= \prod_{i=1}^N \prod_{j \neq i}^N Pr(D_i^j = d_i^j | \mathbf{U}_i, \mathbf{V}_j) \end{aligned}$$

Recall that the vector  $\mathbf{D}_i$  represents the treatment assignment vector of link receiver  $i$ , therefore the first equation, and equivalently, the second equation, is exactly the Individualistic Assignment Mechanism Assumption in traditional causal inference, which states that conditional on some random variables, the treatment assignments across *subjects*, in our case,

the link receivers, are independent<sup>12</sup>. This assumption always holds if we view the subjects as randomly sampled from some superpopulation, as a result of the De Finetti’s theorem (Imbens and Rubin, 2015)<sup>13</sup>. On top of that, the linking effect Doubly Individualistic Assignment Mechanism Assumption also assumes that for each link receiver  $i$ , the assignment of each individual link across all link senders are independent conditional on some link sender specific variable: as the name “doubly” suggests. However, if the network nodes are randomly sampled from a superpopulation, the linking effect Doubly Individualistic Assignment Mechanism Assumption will be satisfied as a direct result of the Aldous-Hoover Theorem (Crane, 2018), the equivalence of the De Finetti’s Theorem for network data<sup>14</sup>. This means with the super population perspective, both Doubly Individualistic Assignment Mechanism Assumption and the usual Individualistic Assignment Mechanism Assumption will automatically hold.

When the data is *not* sampled from a superpopulation, the assignment mechanism is usually modeled as a stochastic process. For example, we might view the choice of a binary treatment as the result of a random utility model. In traditional causal inference, for the given treatment, the Individualistic Assignment Mechanism Assumption restricts this stochastic process of treatment assignment to be conditionally independent across subjects. In the network case, the observed nodes may also be regarded as the finite population itself. But because nodes are both link receivers and link senders, they are both subjects and treatments. This is why modeling of two (or double) stochastic processes is needed. The first part of the Doubly Individualistic Assignment Mechanism Assumption requires that in the modeled stochastic process, each link receiver is independently assigned the vector of all links, conditional on their own receiver specific variables. Here, “individualistic”, or “independence”, is with regard to the subjects, or the link receivers. The second part of the assumption requires that in the modelled stochastic process, for each link receiver, their link assignment from each sender is independent across all link senders, conditional on the sender specific variables. Here “individualistic”, or “independence”, is with regard to the

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<sup>12</sup> $\mathbf{V}_1, \dots, \mathbf{V}_N$  can be thought of as the parameters related to each treatment.

<sup>13</sup>Superpopulation sampling is a perspective commonly adopted in traditional causal inference. See Imbens and Rubin (2015) and Hernán and Robins (2020) for more discussions on this.

<sup>14</sup>More details of this are provided in Section A3.1.

treatments, or the link senders. This means with the finite population perspective, the Doubly Individualistic Assignment Mechanism Assumption requires more restrictions than the usual Individualistic Assignment Mechanism Assumption.

The second layer of the Doubly Individualistic Assignment Mechanism Assumption requires that for any given link receiver, when they decide which links to form, the linking decisions must be mutually independent to some extent. That means even though the decisions might not be unconditionally mutually independent, they must be conditionally mutually independent. This excludes some networks, such as those with a non-overlapping group structure by construction. For example, a roommate network cannot be conditionally mutually independent. This is because if  $i$  and  $j$  are roommates, and  $j$  and  $k$  are not roommates, that means  $i$  and  $k$  are not roommates, no matter what variables are conditioned on. However, the assumption does accommodate cases where networks are formed with strategic considerations, as long as the equilibrium linking decisions are not direct functions of each other. An example where the assumption could be satisfied is the case analyzed by [Leung \(2015\)](#). In that paper, the network formation game is characterized by strategic interactions with incomplete information, where utility depends on the entire network structure. The idea is that when the agents' objective is to maximize their *expected* utility,  $i$ 's linking decisions will be a function of equilibrium beliefs about others' linking decisions, which is a function of the observed attributes of all agents in the network. This means for each agent  $i$ , her linking decisions are not directly dependent of each other. If we allow independent utility shocks for all her linking decisions, the Doubly Individualistic Assignment Mechanism Assumption will be satisfied. More details of this example are given in Section A3.2.

It is important to point out that Assumption 2 is different from, and in fact, less restrictive than the assumption underlying dyadic regressions. Dyadic regressions, such as those analyzed in [Graham \(2020\)](#), usually assumes that linking decisions are independent conditional on some observed attributes  $X$  and unobserved latent attributes  $\epsilon$  satisfying  $\mathbb{E}[\epsilon|X = 0]$ :

$$Pr(\mathbf{D} = \mathbf{d} | X_1, X_2, \dots, X_N, \epsilon_1, \epsilon_2, \dots, \epsilon_N) = \prod_{i=1}^N \prod_{j \neq i}^N Pr(D_i^j = d_i^j | X_i, X_j, \epsilon_i, \epsilon_j) \quad (2)$$

Running a dyadic regression requires one to impose a functional form for the pairwise linking probability:  $Pr(D_i^j = 1|X_i, X_j, \epsilon_i, \epsilon_j) = f(X_i, X_j, \epsilon_i, \epsilon_j)$  for some known  $f$ . This functional form differentiates dyadic regressions and the assumption of Doubly Individualistic Assignment Mechanism. When the functional form restriction does not reflect the true data-generating process, the parameters in dyadic regressions are biased for the true effect of  $X$  on the pairwise linking probabilities and inference is invalid<sup>15</sup>. But why is the functional form assumption necessary for dyadic regressions but not for this paper? This is due to different objectives of the two cases. The goal of dyadic regressions is usually to estimate the parameters associated with the observed covariates to understand the role of these covariates in determining linking probabilities, such as those in estimating the gravity models studying the association between GDP and trade flow. In contrast, this paper aims to identify and estimate the causal parameters of the outcome equation. Assumptions on link formation, are only used to correct for confounding. Identifying such causal effects does not require knowing the functional form of the linking equation. Therefore, there is no need to estimate parameters associated with the observed attributes.

### 3.2 Unconfounded Assignment Mechanism

**Assumption 3** (No single link confounder). Any confounder must be a cause of more than one link.

**Proposition 1** (Unconfoundedness). Let  $\mathbf{Y}_i^{pot}$  be the vector of  $i$ 's potential outcomes. Under Assumption 2 and Assumption 3, the following holds:

$$Pr(D_i^j = 1|\mathbf{U}_i, \mathbf{V}_j, \mathbf{Y}_i^{pot}) = Pr(D_i^j = 1|\mathbf{U}_i, \mathbf{V}_j)$$

for  $\mathbf{U}_i, \mathbf{V}_j$  defined in equation (1).

*Proof.* First, suppose there exists another variable  $\mathbf{U}_i'$  that is a cause of  $\mathbf{Y}_i^{pot}$  and a cause of more than one of the links that  $i$  potentially receives, say  $D_i^1$  and  $D_i^2$ . Then if we omit  $\mathbf{U}_i'$

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<sup>15</sup>To see why inference is invalid, note that mis-specifying the functional form will make the linking probabilities dependent across pairs, while pairwise independence is crucial for likelihood based inference.



in the conditioning set of

$$\begin{aligned} & Pr(\mathbf{D} = \mathbf{d} | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N) \\ &= Pr(\mathbf{D}_1 = \mathbf{d}_1, \dots, D_i^1 = d_i^1, D_i^2 = d_i^2, \dots, D_i^N = d_i^N, \dots, \mathbf{D} = \mathbf{d} | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N) \end{aligned}$$

$D_i^1$  and  $D_i^2$  couldn't be conditionally independent (without conditioning on  $\mathbf{U}'_i$ ). This is a contradiction to our starting point, which is that conditioning on  $\mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N$  makes all links independent (equation (2)). In other words, the variables  $\mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N$  by definition make all links independent, and the existence of  $\mathbf{U}'_i$  is in contradiction of that definition.

With similar logic, suppose there exists a variable  $\mathbf{V}'_j$  that is a cause of  $\mathbf{Y}_i^{pot}$  and is a cause of more than one of the links that  $j$  potentially sends, say  $D_1^j$  and  $D_2^j$ . Then if we omit  $\mathbf{V}'_j$  in the conditioning set of

$$\begin{aligned} & Pr(\mathbf{D} = \mathbf{d} | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N) \\ &= Pr(D_1^2 = d_1^2, \dots, D_1^j = d_1^j, \dots, D_1^N = d_1^N, \dots, D_2^1 = d_2^1, \dots, D_2^j = d_2^j, \dots, D_2^N = d_2^N, \dots, \\ & \quad D_N^1 = d_N^1, \dots, D_N^j = d_N^j, \dots, D_N^{N-1} = d_N^{N-1} | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N) \end{aligned}$$

$D_1^j$  and  $D_2^j$  couldn't be conditionally independent (without conditioning on  $\mathbf{V}'_j$ ). This again is a contradiction to our starting point, which is that conditioning on  $\mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N$  makes all links independent (Equation 2).

By Assumption 3, which states confounders that only affect one link don't exist, we have effectively ruled out the existence of any confounders that affect the formation of any link. This means

$$\begin{aligned} & Pr(D_i^j = 1 | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N, \mathbf{Y}_i^{pot}) \\ &= Pr(D_i^j = 1 | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N) \\ &= Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j) \end{aligned}$$

The last equation comes from equation (2). This argument is a direct adaption of the

identification proof in [Wang and Blei \(2019\)](#)

□

The intuition is that  $\mathbf{U}_i, \mathbf{V}_j$  must include all the multiple-link causes of link formation. Otherwise, the Doubly Individualistic Assignment Mechanism Assumption wouldn't have held. Some of these causes will confound the outcome variable; some will not. In theory, we only need to condition on the confounders, but the insight is that since we don't know which are the confounders, conditioning on all of these causes will for sure address confounding. It is for this reason that I call  $\mathbf{U}_i, \mathbf{V}_j$  the *sufficient confounders*.

Next, I prove that the unconfoundedness condition also holds conditional on the propensity score based on  $\mathbf{U}_i, \mathbf{V}_j$ . The propensity score  $e(\mathbf{U}_i, \mathbf{V}_j)$  is defined as  $e(\mathbf{U}_i, \mathbf{V}_j) := Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j)$ .

**Lemma 1.**  $e(\mathbf{U}_i, \mathbf{V}_j)$  is a balancing score, that is:

$$Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j, e(\mathbf{U}_i, \mathbf{V}_j)) = Pr(D_i^j = 1 | e(\mathbf{U}_i, \mathbf{V}_j))$$

**Lemma 2** (Unconfoundedness given  $e(\mathbf{U}_i, \mathbf{V}_j)$ ).

$$Pr(D_i^j = 1 | Y_i^{pot}, e(\mathbf{U}_i, \mathbf{V}_j)) = Pr(D_i^j = 1 | e(\mathbf{U}_i, \mathbf{V}_j))$$

This result is similar to the propensity score property result in the traditional causal inference, where unconfoundedness holds given the propensity score. The proof of Lemma 2 is given in Section A4.2.

### 3.3 From Unconfoundedness to the Identification of Estimands

**Lemma 3.**  $Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j)$  from the conditional independence condition (1) is identified when  $N \rightarrow \infty, \forall i, j$ .

This is proved in [Diaconis and Janson \(2007\)](#). Since the propensity score  $e(\mathbf{U}_i, \mathbf{V}_j) = Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j)$ , the propensity score is also identified  $\forall i, j$ .

**Assumption 4** (Positivity).  $0 < Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j) < 1$  for all  $i \neq j \leq N$

**Proposition 2.** Under Assumptions 1-4, the direct linking effect is identified. For link receivers with characteristics  $r$  and link senders with characteristics  $a$ , this means

$$\begin{aligned}\tau_r^a &= \mathbb{E} \left[ \mathbb{E}_{(i,j):R_i=r, A^j=a} [Y_i^{obs} | e(\mathbf{U}_i, \mathbf{V}_j), D_i^j = 1] \right] \\ &\quad - \mathbb{E} \left[ \mathbb{E}_{(i,j):R_i=r, A^j=a} [Y_i^{obs} | e(\mathbf{U}_i, \mathbf{V}_j), D_i^j = 0] \right]\end{aligned}$$

This is proved in Section A4.3.

### 3.4 Relationship with previous literature

The assumptions used to prove proposition 2.1 and proposition 2.2 are the minimum set of assumptions. Without any one of these assumptions, the linking effect cannot be identified with observational data when no instrument is available. To see how the identification strategy relates to the existing econometric methods, I will first express my assumptions in terms of modeling assumptions. A model equivalent to the potential outcome framework is expressed by equation (3) and equation (4).  $x$  is the treatment of interest. For example,  $x_i$  is the mean characteristic of one's peers in linear-in-means models and is  $D_i^{j:A^j=a}$  for the estimand considered by this paper.  $w$ ,  $\epsilon$ , and  $\eta_i^j$  are all unobserved variables.

$$Y_i = g(x_i, w_i, \epsilon_i) \tag{3}$$

$$D_i^j = \mathbb{1}\{f(w_i, w_j) \geq \eta_i^j\} \quad i \neq j \tag{4}$$

First, recall that the Doubly Individualistic Assignment Mechanism assumption states that there exists random vectors  $\mathbf{U}$  and  $\mathbf{V}$  such that after conditioning on  $\mathbf{U}$  and  $\mathbf{V}$ , the distribution of pairwise links are independent. Bringing this assumption to the formulation of equation (4), this is equivalent to requiring  $\{\eta_i^j\}_{i,j=1}^N$  being independently distributed. In this case,  $\mathbf{U} = \mathbf{V} = w$ . Second, the no single-link confounder assumption is equivalent to requiring  $\eta_i^j$  and  $\epsilon_i$  being independent. Recall that the no single-link confounder assumption says that any random variable that is a cause of only one link cannot be a cause of the outcome. Here in the link formation equation, the only possible single-link cause is  $\eta_i^j$  because  $w_i$  ( $w_j$ ) enters all link formation equation where  $i$  ( $j$ ) is a node. Other than  $x_i$  and

$w_i$ , the outcome  $Y_i$  only depends on  $\epsilon_i$ . Therefore,  $\eta_i^j$  not being a confounder is equivalent to  $\eta_i^j$  being independent of  $\epsilon_i$ . Finally, positivity says that  $0 < Pr(x_i = x|w) < 1$  for all  $x \in \mathcal{X}$ , where  $\mathcal{X}$  is the set of all treatment values of interest.

Comparing these assumptions with the assumptions made in previous econometric papers (Goldsmith-Pinkham and Imbens, 2013; Hsieh and Lee, 2016; Arduini et al., 2015; Johnsson and Moon, 2021b; Auerbach, 2022), the first obvious difference is on the modelling of the outcome equation. All previous papers are concerned with a linear outcome model. In particular, they assume  $Y_i = x_i\beta + \lambda(w_i) + \epsilon_i$ , where the marginal effect of  $x_i$  is constant ( $\beta$ ) and  $w_i$  enters the equation separately through some function  $\lambda(\cdot)$ . A limitation of the identification strategies based on this model is that they cannot deal with the case where the effect of  $x_i$  is heterogeneous in  $w_i$ . In contrast, I do not make such restrictions on the outcome model. The second major difference is in the modeling of the network formation equation. Except for Auerbach (2022), all the other papers achieve identification through decomposing  $w$  into observed and unobserved components and specifying how these components enter the equation, e.g., through homophily or additive. In contrast, just like this paper, Auerbach (2022) does not make any functional assumptions on equation (4). Intuitively, both papers address confounding by using only the information provided by the adjacency matrix.

To understand how the two papers in terms of identification conditions, I list five of Auerbach (2022)'s main assumptions and discuss how they relate to the assumptions of this paper.

1. The random sequence  $\{x_i, w_i, \epsilon_i\}_{i=1}^N$  is independent and identically distributed with entries mutually independent of  $\{\eta_i^j\}_{i,j=1}^N$ . That is,  $\eta_i^j$  is assumed to be independent of  $\epsilon_k$  for all  $k = 1, \dots, N$ . In comparison, I only assume  $\eta_i^j$  to be independent of  $\epsilon_k$  for  $k = i$ . This is the assumption of no single link confounder.
2.  $\{\eta_i^j\}_{i,j=1}^N$  are i.i.d. As discussed above, this is related to the assumption of doubly individualistic assignment mechanism.
3.  $\mathbb{E}[\epsilon_i|x_i, w_i] = 0$ , that is, the treatment  $x_i$  is unconfounded after conditioning on  $w_i$ . Proposition 1 of this paper proves that unconfoundedness is implied, not assumed, by the doubly individualistic assignment mechanism assumption and the no single link

confounder assumption.

4. There is variation in  $x_i$  after conditioning on  $w_i$ . This is related to the positivity condition that  $0 < \Pr(x_i = x|w_i) < 1$  for all  $x \in \mathcal{X}$ , because if there is no variation in  $x_i$  after conditioning on  $w_i$ ,  $\Pr(x_i = x|w_i)$  must be either 0 or 1, violating the positivity assumption.
5. The function  $f(w_i, \cdot)$  is enough for controlling for the confounding from  $\lambda(w_i)$ . This assumption is not needed when  $x_i$  is peer characteristics because  $f(w_i, \cdot)$  is actually the generalized propensity score. As all propensity scores, it has the property that unconfoundedness holds by either conditioning on  $w_i$  or conditioning on the propensity score of  $w_i$ .

## 4 Estimation

The estimation of the linking effect involves two steps. The first step is to estimate the propensity scores. Unlike in traditional causal inference, the propensity scores estimated in the first step are functions of unobserved latent variables. Therefore, the traditional propensity score estimation methods won't apply here. In Section 4.1, I show how techniques developed in the graphon estimation literature in network analysis and the multiple treatment literature in causal inference can be used for propensity score estimation. The second step is to use the estimated propensity scores to estimate the linking effects. Here many established methods from traditional causal inference can be used, such as inverse probability weighting (IPW), propensity score matching, and propensity score subclassification. In Section 4.2, I will illustrate how the inverse probability weighting method can be used to estimate the linking effects. Propensity score matching and subclassification can be adapted similarly as shown in Section A2.

## 4.1 1st-step estimation: propensity scores

### 4.1.1 Graphon Estimation

As discussed in Section A3.1, the linking probability in a graphon and the propensity score  $e_{ij}$  are, in fact, exactly the same when nodes are randomly sampled from superpopulation. This means we could use the many statistical methods in graphon estimation to estimate the propensity scores. Here I briefly discuss how the neighborhood smoothing method proposed by [Zhang et al. \(2017\)](#) works. Compared to other graphon estimation methods, such as stochastic block models ([Olhede and Wolfe, 2014](#)), it has the advantage of not making restrictive assumptions on how links are formed.

First let's define a probability slice as  $e(\mathbf{U}_i, \cdot) = (e(\mathbf{U}_i, \mathbf{V}_1), e(\mathbf{U}_i, \mathbf{V}_2), \dots, e(\mathbf{U}_i, \mathbf{V}_N))$ . The main idea is that for any link receiver  $i$ , if we could find other link receivers with similar probability slices as  $i$ , we could then use the realized treatment assignment of these link receivers to estimate  $(e(\mathbf{U}_i, \mathbf{V}_1), e(\mathbf{U}_i, \mathbf{V}_2), \dots, e(\mathbf{U}_i, \mathbf{V}_N))$ . Specifically, let  $\mathcal{N}_i := \{i' : e(\mathbf{U}_{i'}, \cdot) \approx e(\mathbf{U}_i, \cdot)\}$  be the neighbourhood of link receiver  $i$ . Then an estimator for  $e_i^j := e(\mathbf{U}_i, \mathbf{V}_j)$  would be

$$\tilde{e}_i^j = \frac{\sum_{i' \in \mathcal{N}_i} D_{i'}^j}{|\mathcal{N}_i|} \quad (5)$$

To define the neighborhood, we first need a definition of similarity, or equivalently the distance, between probability slices. [Zhang et al. \(2017\)](#) uses the  $d^2$  distance:

$$d(i, i') = \|e(\mathbf{U}_i, \cdot) - e(\mathbf{U}_{i'}, \cdot)\|_2 = \left\{ \int_v |e(\mathbf{U}_i, v) - e(\mathbf{U}_{i'}, v)|^2 \right\}^{1/2}$$

Then

$$\begin{aligned}
d(i, i')^2 &= \int_v e(u_i, v)e(u_i, v) + \int_v e(u_{i'}, v)e(u_{i'}, v) - 2 \int_v e(u_i, v)e(u_{i'}, v) \\
&= \int_v (e(u_i, v) - e(u_{i'}, v))e(u_i, v) + \int_v (e(u_{i'}, v) - e(u_i, v))e(u_{i'}, v) \\
&\leq \left| \int_v (e(u_i, v) - e(u_{i'}, v))e(u_{\tilde{i}}, v) \right| + \left| \int_v (e(u_i, v) - e(u_{i'}, v))e(u_{\tilde{i}'}, v) \right| + 2e_N \\
&\leq \max_{k \neq i, i'} 2 \left| \int_v (e(u_i, v) - e(u_{i'}, v))e(u_k, v) \right| + 2e_N
\end{aligned}$$

where  $\tilde{i}$  and  $\tilde{i}'$  are such that  $|u_{\tilde{i}} - u_i| \leq e_N$  and  $|u_{\tilde{i}'} - u_{i'}| \leq e_N$ , and  $e_N$  depends on  $n$  and is the error rate. [Zhang et al. \(2017\)](#) shows that such  $\tilde{i}$  and  $\tilde{i}'$  can be found with high probability.

The first part of  $\max_{k \neq i, i'} 2 \left| \int_v (e(u_i, v) - e(u_{i'}, v))e(u_k, v) \right|$  can be estimated by

$$\tilde{d}(i, i') = \max_{k \neq i, i'} \frac{|(\mathbf{D}_i - \mathbf{D}_{i'})\mathbf{D}'_k|}{n}.$$

Intuitively, neighbourhood  $\mathcal{N}_i$  should include  $i'$  with small  $\tilde{d}(i, i')$ . [Zhang et al. \(2017\)](#) defines  $\mathcal{N}_i$  as

$$\mathcal{N}_i = \{i' \neq i : \tilde{d}(i, i') \leq q_i(m)\}$$

where  $q_i(m)$  is the  $m$ 'th quantile of  $\{i' \neq i : \tilde{d}(i, i')\}$ . [Zhang et al. \(2017\)](#) showed that with  $m = C(n^{-1} \log n)^{1/2}$  for any constant  $C \in (0, 1]$ , if the propensity score function  $e(\cdot, \cdot)$  is Piecewise-Lipschitz, then  $\tilde{e}_i^j$  is consistent for  $e(\mathbf{U}_i, \mathbf{V}_j)$ .<sup>1617</sup>

#### 4.1.2 Factor models

Propensity scores  $e(\mathbf{U}_i, \mathbf{V}_j)$  can also be estimated with factor models. This method requires us to specify the distribution of  $\mathbf{U}_i$ ,  $\mathbf{V}_j$ , and  $Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j)$  for all  $i, j = 1, \dots, N$ . For

<sup>16</sup>Definition of Piecewise-Lipschitz: For any  $\delta, L > 0$ , let  $\mathcal{F}_{\delta, L}$  denote a family of piecewise-Lipschitz functions  $m: [0, 1]^2 \rightarrow [0, 1]$  such that (i) there exists an integer  $K \geq 1$  and a sequence  $0 = x_0 < \dots < x_K$  satisfying  $\min_{0 \leq s \leq K-1} (x_{s+1} - x_s) \geq \delta$ , and (ii) both  $|e(u_1, v) - e(u_2, v)| \leq L|u_1 - u_2|$  and  $|e(u, v_1) - e(u, v_2)| \leq L|v_1 - v_2|$  hold for all  $u, u_1, u_2 \in [x_s, x_{s+1}]$ ,  $v, v_1, v_2 \in [x_t, x_{t+1}]$  and  $0 \leq s, t \leq K - 1$ .

<sup>17</sup>[Auerbach \(2022\)](#) uses a similar idea but bounds the distance  $d(i, i')$  with a different metric.

exposition purposes, let  $\mathbf{U}_i = (U_{1i}, U_{2i})$  and  $\mathbf{V}_j = (V_{1j}, V_{2j})$  be vectors of length 2. A simple factor model could be

$$\begin{aligned}\alpha, U_{1i}, U_{2i}, V_{1j}, V_{2j} &\sim \mathcal{N}(0, 1), \quad i, j = 1, \dots, N \\ e(\mathbf{U}_i, \mathbf{V}_j) &= \text{logit}(\alpha + U_{1i}V_{1j} + U_{2i}V_{2j}), \quad i, j = 1, \dots, N\end{aligned}\tag{6}$$

Even though estimating the propensity scores with factor models impose additional functional form assumptions on the network formation, they are very flexible and versatile. Every aspect of the model can be modified, including the length of unobserved sufficient confounders, their distributions<sup>18</sup> and how these confounders enter the probability distribution of the propensity scores, be it additive or multiplicative, be it linear or quadratic.

To operationalize the use of factor models, I follow the deconfounding procedure proposed by Wang and Blei (2019). The deconfounder is a procedure proposed by Wang and Blei (2019) to address confounding in the setting of multiple treatments. It can be used in our setting because each link can be viewed as a treatment. Applying the deconfounder to estimate the propensity scores involves three steps. In the first step, we need to randomly select a portion of links in the adjacency matrix and set them to 0, effectively partitioning it into training data and validation data. In the second step, we need to pick a factor model and fit the factor model with the training data. In the third step, validation data is used to compute a test statistics to decide whether the factor model fits the data well enough. If the test is passed, then we proceed to the estimation with the estimated propensity scores. If the test fails, then another factor model could be used and step two repeated until we find a factor model that passes the test<sup>19</sup>.

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<sup>18</sup>Not only can we choose another family of distributions, it is also possible to allow dependence among  $\mathbf{U}$  and  $\mathbf{V}$  by adding another layer of factorization. For example,

$$\begin{aligned}w_i, w_j &\sim \mathcal{N}(0, 1), \quad i, j = 1, \dots, N \\ U_{1i}, U_{2i}, V_{1j}, V_{2j} | w_i, w_j &\sim \mathcal{N}(w_i + w_j, 1), \quad i, j = 1, \dots, N\end{aligned}$$

<sup>19</sup>The idea of using a statistical test on validation data to see if propensity scores are accurately estimated can also be used for the neighborhood smoothing estimator, or any other graphon estimator. In fact, a similar idea was used in Zhang et al. (2017) to compare the performance of different graphon estimators.



## 4.2 2nd-step estimation: treatment effect

Once the propensity scores of link formation are estimated, we could use the many propensity score-based methods commonly used in the treatment effect estimation literature to estimate the linking effects of interest. In this section, I will use an inverse probability weighting estimator to illustrate how these propensity score-based methods can be adapted to the current setting. The most basic IPW estimator is the Horvitz–Thompson estimator. The augmented inverse probability weighting (AIPW) could be used to include covariates in the outcome model. AIPW is commonly referred to as the doubly robust estimator because it is consistent if either the propensity score is correctly estimated or the outcome model is correctly specified.

The IPW estimator for the linking effect

$$\tau_r^a := \mathbb{E}_{(i,j):R_i=r,A^j=a}[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})]$$

is

$$\frac{1}{\sum_{i=1}^N R_i = r} \cdot \frac{1}{\sum_{j=1}^N A^j = a} \left( \sum_{i:R_i=r} \sum_{j:A^j=a} \frac{D_i^j \cdot Y_i^{obs}}{e(\mathbf{U}_i, \mathbf{V}_j)} - \sum_{i:R_i=r} \sum_{j:A^j=a} \frac{(1 - D_i^j) \cdot Y_i^{obs}}{1 - e(\mathbf{U}_i, \mathbf{V}_j)} \right) \quad (7)$$

where  $e(\mathbf{U}_i, \mathbf{V}_j)$  is substituted with its estimate since the true propensity score is unknown. Same as the conventional IPW estimator, the IPW estimator in equation 7 is unbiased for the linking effect  $\tau_r^a$ . The proof is detailed in Section A4.4. A regression model (8) can be used to incorporate additional pre-treatment control variables, where each pairwise observation is weighted based on their propensity score. The additional control variables help reduce finite sample biases just as in the traditional augmented inverse probability weighting estimator.

$$Y_i = \alpha + \beta D_i^j + \theta Controls + \epsilon_i^j \quad (8)$$

## 5 Simulation

In this section, I conduct simulation exercises with synthetic data to assess the performance of the proposed linking effect estimators. I will generate the synthetic data according to

the data generation model (9); one is a version of the homophile model, and the other is a statistical block model. Then I use a factor model to estimate the propensity scores. These propensity scores are then used in the second stage estimation with three different estimators: the inverse probability weighting (IPW) estimator, the nearest matching estimator, and the subclassification estimator. Finally, I will compute the bias and the mean absolute error (MAE) of the estimates relative to the true effect and compare them with the bias and MAE of the naive OLS estimator that ignores confounding.

$$\begin{aligned}
\epsilon_i^c &\sim \mathcal{N}(0, 1) \\
\epsilon_i^b &\sim U[0, 1] \\
X_i &\sim \text{Bernoulli}(0.6) \\
C_i &\sim U[0, 1] \\
\eta_{ij} &\sim U[0, 1] \\
D_{ij} &= \mathbb{1}\{g(C_i, C_j) \geq \eta_{ij}\}, \quad g = g1, g2 \\
Y_i^c &= \alpha^c + \mathbf{D}_i \beta^c + \gamma^c C_i + \delta^c X_i + \epsilon_i^c \\
Y_i^b &= \mathbb{1}\{\text{logit}(\alpha^b + \mathbf{D}_i \beta^b + \gamma^b C_i + \delta^b X_i) \geq \epsilon_i^b\} \\
&\text{where } \text{logit}(s) = \frac{1}{1 + \exp(-s)}
\end{aligned} \tag{9}$$

where  $(\alpha^c, \gamma^c, \delta^c) = (0.5, 4, 1)$ ,  $(\alpha^b, \gamma^b, \delta^b) = (-4, 4, 1)$ .  $\beta^{c(b)} = (\beta_1^{c(b)}, \dots, \beta_j^{c(b)}, \dots, \beta_N^{c(b)})$  is a vector of parameters relating to the causal effect of a link from sender  $j$ . I set  $\beta_j^c = X_j/2$  for all  $j$ .  $\beta_j^b = X_j/2$  for all  $j$ .  $g_1$  is specified in equation (10) and  $g_2$  is specified in Section A6.1, equation (22).

$$g_1 : P_i^j = 1/5(1 + \exp(-(-6 + 2.5C_1 + 1.5C_j + |C_i - C_j|))) \tag{10}$$

In this simulation exercise, I consider both continuous and binary outcome variables, which are denoted by  $Y^c$  and  $Y^b$ , respectively. The network links are generated through a binomial process with success probability specified according to two different link generation

processes,  $g_1$  as in equation (10) and  $g_2$  as in equation (22).  $g_1$  incorporates both degree heterogeneity and homophily. On the one hand, it is an increasing function in  $C_i$  and  $C_j$ . On the other hand, the probability of linking increases as the difference in  $C_i$  and  $C_j$  becomes smaller between the link receiver and the link sender.  $g_2$  corresponds to a stochastic block model. The details of  $g_2$  and its corresponding simulation result is detailed in Section A6.1. Both  $g_1$  and  $g_2$  generate directed networks. In our setup  $C_i$  is the confounder. It enters both the outcome and link formation equations and is unobserved to the econometrician.  $C_i$ ,  $X_i$ ,  $\epsilon_i^c, \epsilon_i^b$  and  $\eta_{ij}$  are independent of each other, for all  $i, j = 1, \dots, N$ .

The mean degree distribution of  $g_1$  from the simulated datasets is given in Table 1. As the network size increases, the degree increases. This is because the linking probability doesn't change as the network grows in our link generation model. This means the more nodes there are in the network, the more link senders there are, and thus the more links a link receiver will have.

Table 1: Mean degree distribution for simulated  $g_1$  networks

	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
N=100	0	0	0	0	0	0.1	0.8	1	1.1	1.9	4.2
N=300	0	0	0.2	1	1	1.6	2	2.6	3.3	4.7	10.2
N=500	0	0.2	1	1.5	2	2.7	3.2	4.1	5.5	7.4	15.7

Note: This table reports the mean degree distribution of the simulated networks. For each size N=100,300,500, and for each simulated network of that size, I calculate the deciles of the number of links each link receiver receives, and average over all the 500 simulated networks of that size.

For the continuous outcome, I estimate the linking effects with the linear OLS regression (11), and the binary outcome is estimated with the logistic regression (12). I run these regressions separately for link senders with  $X_j = 0$  and link senders with  $X_j = 1$  to study the effects of these link senders separately. For the propensity score-based methods, the regressions are weighted with weights based on propensity scores that correct for confounding. For the naive OLS, the regressions are unweighted, thus not correcting for any confounding. The target estimand in this simulation exercise is ATT. This choice is reflected in the regression weights.

$$Y_i^c = \mu_i = \rho_0 + \rho_1 D_i^j + v_i \quad (11)$$

$$Pr(Y_i^b = 1) = \frac{1}{1 + \exp(-(\rho_2 + \rho_3 D_i^j))} \quad (12)$$

Table 2 compares the bias and MAE for the three propensity score-based estimators and the naive ols estimator. The propensity score used in this table is estimated using the factor model specified in equations (13)-(15). Comparing this factor model to the one in Section 4.1.2,  $Z_i$  can be seen as  $\gamma_i \mathbf{U}_i$  and  $\mathbf{V}_j$  can be seen as  $\beta_j \mathbf{V}_j$  where  $\mathbf{U}_i$  for  $i = 1, \dots, N$  are vectors of length two. The number of matches for the matching estimator is 1, and the number of subclasses for the subclassification estimator is 8. The rows under  $X_0$  are the estimates for the linking effect of a link from a sender with  $X_j = 0$ , whose true effects are 0 on both the binary and the continuous outcomes. The rows under  $X_1$  are the estimates for the linking effect of a link from a sender with  $X_j = 1$ , whose true effect is 0.5 on the continuous outcome. The true effect of an additional link from a sender with  $X_j = 1$  on the binary outcome depends on the number of other links from senders with  $X_j = 1$  because the true data generation process is non-linear. It is therefore calculated from the data generation process for each observation and then averaged over all observations.

$$Z_i = (z_{1i}, z_{2i}) \sim \mathcal{N}(0, 1) \times \mathcal{N}(0, 1), \quad i = 1, \dots, N \quad (13)$$

$$K_j = (k_{1j}, k_{2j}) \sim \mathcal{N}(0, 1) \times \mathcal{N}(0, 1), \quad j = 1, \dots, N \quad (14)$$

$$D_i^j | Z_i, K_j \sim \text{Bernoulli}(\text{logit}(Z_i + K_j)), \quad i, j = 1, \dots, N \quad (15)$$

From Table 2, we can see that the estimators based on the propensity scores estimated by the factor model offer significant bias reduction compared to the naive ols estimator. The inverse probability weighting estimator performs the best among the three propensity score-based estimators. Compared to the naive ols estimator, the inverse probability weighting

estimator reduces 90% - 97% of the biases for the binary outcome and 51% - 83% of the biases for the continuous outcome. As the network becomes larger, the bias reduction increases. An interesting observation from the table is that the bias from the naive ols estimator increases as the network becomes larger. This is because as the network becomes larger, the number of links for link receivers increases. This will lead to increasingly larger accumulated linking effects from all the other links being attributed to the effect of the link under consideration as in equation (7). This phenomenon doesn't happen if confounding is corrected because, in this case, the other links are independent of the link under consideration. As we see from the first three columns, the bias from the propensity score-based estimators continues to decrease as  $N$  increases despite the increasing bias from the naive ols estimator. Table (16) in Section A6 shows similar results for the statistical block model for network formation.

In Section A6, I also show the biases and MAEs of propensity score-based estimators using the factor model estimated propensity scores concerning the estimators using the true propensity scores (Table 19 and Table 20). Finally, I show simulation results when I increase the number of matches (from 1 to 3 to 5) and the number of subclasses (from 8 to 10 to 12) as the size of the network increases. The results from these different comparisons stay similar to the ones shown in Table 2.

## 6 Empirical Application

Almost everyone would agree that friendship is one of the most important social networks in a person's life. After all, one does not simply spend time with their friends; they also share information, receive their help, value their opinions, mimic their actions, and learn from their experiences. But it would be much more difficult to get everyone to agree on the direction and extent to which a person would be affected by their friends. The social network literature has long been interested in understanding the pattern of peer influence among friends for outcomes including risky behavior, smoking habits, obesity, education level, labor outcomes, fertility, etc. However, due to the obstacle posed by endogenous friendship formation, these questions remain largely unanswered, at least not in ways where the endogeneity issue is adequately accounted for.

Table 2: Simulation results for  $g_1$ 

				IPW	Matching	Sub	Naive ols
Yb	Bias	$X_0$	N=100	0.077445	0.096851	0.093895	0.132864
			N=300	0.051917	0.086736	0.091974	0.1705
			N=500	0.033176	0.084199	0.087752	0.184117
		$X_1$	N=100	0.078718	0.094838	0.092844	0.132779
			N=300	0.04753	0.083476	0.087602	0.166086
			N=500	0.034532	0.085371	0.089037	0.185265
	MAE	$X_0$	N=100	0.102707	0.137418	0.111374	0.142808
			N=300	0.054298	0.087305	0.091974	0.1705
			N=500	0.03435	0.084199	0.087752	0.184117
		$X_1$	N=100	0.09447	0.11907	0.103271	0.137679
			N=300	0.050589	0.0838	0.087611	0.166086
			N=500	0.036061	0.085371	0.089037	0.185265
Yc	Bias	$X_0$	N=100	0.494439	0.591209	0.583515	0.802809
			N=300	0.261106	0.483215	0.498769	0.9596
			N=500	0.173155	0.512221	0.533149	1.144263
		$X_1$	N=100	0.454354	0.534451	0.539381	0.765181
			N=300	0.257676	0.47056	0.493571	0.95376
			N=500	0.174887	0.507023	0.533092	1.142917
	MAE	$X_0$	N=100	0.518549	0.62927	0.595459	0.806389
			N=300	0.26409	0.483215	0.498769	0.9596
			N=500	0.176396	0.512221	0.533149	1.144263
		$X_1$	N=100	0.466298	0.558012	0.542142	0.765513
			N=300	0.258652	0.47056	0.493571	0.95376
			N=500	0.176375	0.507023	0.533092	1.142917

Note: This table reports for the  $g_1$  model the bias and the mean absolute error (MAE) of the inverse probability weighting estimator, the nearest neighbour matching estimator with replacement, the subclassification estimator and the naive ols estimator, compared to the true linking effects, for link sender with  $X_j = 0$  and  $X_j = 1$  separately. The number of matches for the matching estimator is 1, the number of subclasses for the subclassification estimator is 8. All the estimates are for the average treatment effect for the treated.

Thanks to the theoretical results developed in this paper, I am able to make one of the first steps toward uncovering the true impacts of friendship. With the AddHealth data, I will be investigating the patterns of peer influence among high school friends in the U.S. Specifically, I look at how students’ probability of graduating from college is affected by having more high-achieving friends, and whether this effect differs by both the gender of themselves and the gender of the high-achieving friend<sup>20</sup>. The analysis is inspired by the recent paper by [Cools et al. \(2019\)](#), which also uses the AddHealth data and finds that being exposed to more high-achieving males in one’s high school decreases the likelihood that a female student obtaining a bachelor’s degree. It also finds that this negative effect could be partly explained by a decrease in the girls’ confidence and aspirations, as well as their grades in math and science. But do high-achieving male *friends* also have this negative impact on girls? At the end of the day, interactions and social influence among close friends could be very different from those among students who simply attend the same school and might not have close and friendly interactions.

The results indicate that the effect of friendship could indeed be very different from the effect of cohort peers. Noticeably, an additional male high flyer friend increases the probability of a female student obtaining a bachelor’s degree by 3 percentage points. Heterogeneity analysis reveals that this positive effect of male high flyer friendship is mainly driven by female students with below median ability as measured by their PVT score. Evidence also suggests that the effect mainly comes from a confidence boost instead of a tangible influence on their GPA.

## 6.1 Data

The data is from the National Longitudinal Study of Adolescent to Adult Health (Add Health)<sup>21</sup>. It is a longitudinal study of a nationally representative sample of adolescents

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<sup>20</sup>A high-achieving student is defined as a student who has at least one residential parent with a postgraduate degree. This is the same definition used in [Cools et al. \(2019\)](#)

<sup>21</sup>This research uses data from Add Health, funded by grant P01 HD31921 (Harris) from the Eunice Kennedy Shriver National Institute of Child Health and Human Development (NICHD), with cooperative funding from 23 other federal agencies and foundations. Add Health is currently directed by Robert A. Hummer and funded by the National Institute on Aging cooperative agreements U01 AG071448 (Hummer) and U01AG071450 (Aiello and Hummer) at the University of North Carolina at Chapel Hill. Add Health was designed by J. Richard Udry, Peter S. Bearman, and Kathleen Mullan Harris at the University of North

in grades 7-12 in the United States during the 1994-95 school year (Wave I). In total, 172 schools were sampled. The Wave I data consists of an in-school questionnaire for all students in the sampled schools, followed by an in-home interview conducted for only a sample of these students. Out of the 172 schools, 16 are the so-called saturated schools, where all students who answered the in-school questionnaire were selected for the in-home interview. The sample of students who answered the Wave I in-home interview was interviewed again during the 1995-1996 school year (Wave II), another time in 2001-2002 (Wave III), again in 2007-2008 (Wave IV), and most recently in 2016-2018 (Wave V).

For my empirical analysis, information on educational attainment is taken from the Wave IV data, when respondents were between 26-32 years old. They were asked to give their highest level of education achieved by the time of the interview. As in [Cools et al. \(2019\)](#), I define a dummy variable for bachelor's degree attainment equal to 1 if the respondent had obtained a four-year college degree or more and 0 otherwise. Some other secondary outcome variables are also used in this analysis. These include Wave II information on students' grades, willingness and confidence in going to college, and self-assessment of their intelligence compared to their peers.

Friendship information comes from the Wave I in-home interviews. During the interview, students were asked to nominate at most five of their female friends and five of their male friends from their school's and the sister school's roster. Students' pre-treatment information comes from Wave I. This includes background information on the students and their parents. On the students' side, I use data on their gender, age, race, whether they were born in the US, and their PVT score<sup>22</sup>. On the parents' side, I use data on the residential mother and father's education level, whether they worked for pay for more than 10 hours per week at the time interview was conducted, whether they were born in the U.S., and the annual family income. The exact definitions of all variables are detailed in Table 11, along with the definitions used in [Cools et al. \(2019\)](#). In order to compare the results with the CFP paper,

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Carolina at Chapel Hill. The Add Health Parent Study/Parents (2015-2017) data collection was funded by a grant from the National Institute on Aging (RO1AG042794) to Duke University, V. Joseph Hotz (PI) and the Carolina Population Center at the University of North Carolina at Chapel Hill, Kathleen Mullan Harris (PI).

<sup>22</sup>A Picture Vocabulary Test (PVT) was administered by the interviewer during the Wave I in-home interview. PVT measures an individual's verbal ability.



I further restrict the data following their procedure, keeping only those in grades 7-12 during Wave I, except those with less than 20 students.

## 6.2 Estimation of propensity scores and the linking effects

The first step of estimating the linking effect is to estimate the propensity scores from the adjacency matrix. When students were interviewed for the AddHealth data, they were only allowed to nominate their friends within the same school. This means that for each school  $s$ , we have a network represented by an adjacency matrix  $\mathbf{D}_s$  with  $N_s$  nodes. The  $N_s$  nodes include every student on the school roster. In each school, a sample of  $n_s$  students who were also in the school roster was selected for the in-home interview and therefore asked to nominate their friends from the  $N_s$  students listed on the roster. For each  $i$  of the sampled students and each student  $j$  on the school roster,  $D_{s,i}^j$  is recorded as 1 if  $i$  nominates  $j$  as their friend and is recorded as 0 if  $j$  is nominated by  $i$  as a friend. I remove any column  $j$  of the adjacency matrix  $\mathbf{D}_s$  if  $j$  was not nominated by any sampled student  $i$ . For the  $N_s - n_s$  students who were not sampled for the in-home interview, their adjacency matrix entries are missing, which prevents us from estimating their propensity scores of linking. This is not a problem for our analysis for two reasons. First, since they were not selected for the in-home interviews, their information on outcome variables would also be missing, meaning they wouldn't have been included in the analysis anyway. Second, the propensity scores of linking of the sampled students can still be estimated through factor models, even though they can no longer be estimated by graphon estimators. The factor model I use for this empirical analysis is the same as specified in (6).

After the propensity scores of linking are estimated for all the sampled students in each school, we are ready to estimate the linking effects of interest. In this empirical analysis, I use the augmented inverse probability weighting estimator. Specifically, I run the propensity score re-weighted pairwise regression specified in (16) for each characterization of the link receivers and the link senders  $c$ . For example  $c_1$  could correspond to female link receivers and male high-achieving senders.

$$Y_{c,s,i} = \beta_{c,s} + \beta_{c,s} D_{c,s,i}^{c,s,j} + \rho_{c,s} \mathbf{X}_{c,s,i} + \epsilon_{c,s,i}^{c,s,j} \quad (16)$$

where  $Y_{c,s,i}$  and  $\mathbf{X}_{c,s,i}$  are respectively the outcome and covariates of student  $i$  that satisfies restriction  $c$  in school  $s$ .  $D_{c,s,i}^j$  is a dummy variable that equals to 1 if student  $i$  nominates  $j$  as their friend where both  $i$  and  $j$  are from school  $s$  and satisfies restriction  $c$  in school  $s$ . Each pairwise observation is weighted according to its propensity of linking and its linking status. Here I estimate the treatment effect of treated (ATT), which means the weights are generated according to (17).

$$w_{c,s,i}^{c,s,j} = \begin{cases} 1 & \text{if } D_{c,s,i}^{c,s,j} = 1 \\ \frac{p_{c,s,i}^{c,s,j}}{1-p_{c,s,i}^{c,s,j}} & \text{if } D_{c,s,i}^{c,s,j} = 0 \end{cases} \quad (17)$$

where  $w_{c,s,i}^{c,s,j}$  is the pairwise weight and  $p_{c,s,i}^{c,s,j}$  is the estimated propensity of linking from  $j$  to  $i$ . Note that using the propensity score weighted regressions to estimate the linking effects does not mean we assume the true effect is linear and additive with respect to the covariates. Just like in traditional causal inference, regressions are only used as a way of estimation.

[Wang and Blei \(2019\)](#) suggested using a test statistics to assess the adequacy of propensity score estimation. This test statistics is based on the idea that well-estimated propensity scores should have good predictive power for the validation data. Following their procedure, our estimated propensity scores for each school network pass the test and perform well.

Traditionally, the adequacy of the estimated propensity scores is assessed by balance tests, where the difference in pre-treatment variables between the treated group and the control group is calculated using the propensity score-adjusted sample. This method is not directly applicable to our context. First of all, since each link sender is associated with a unique treatment, ideally, we would compare for each link sender the pre-treatment characteristics of the students who were treated by this link sender and the students who were not treated by this link sender. Because in our networks of finite size, each link sender only has a few treated students, this comparison suffers from finite sample bias. We could, however, average the differences in pre-treatment variables between treated and control students over all link senders. The second issue is that our propensity scores are based on the unobserved sufficient confounders that do not correspond directly to any observed variables. Since the propensity scores were not estimated using any observed pre-treatment variables, there is no guarantee

that any selected pre-treatment variable will be balanced across the treated and the control groups. Nonetheless, we could still evaluate the balance for some variables we believe are part of the confounders.

Balance tests could be conducted by running a pairwise regression similar to 16, except that the covariates will become the outcome variables. Table 3 shows the result of a balance test for some pre-treatment variables. According to [Currarini et al. \(2009\)](#) race is a strong predictor of friendship formation, and ([Carrell et al., 2013](#)) suggests the same for ability. Table 3 shows that the balance for the ability variables (column 3 and column 4) and the race variable of being black are improved.

Table 3: Balance test

	<i>Pre-treatment variable:</i>											
	Male	US born	PVT	PVT +	M C+	F C +	Income	Age	M nHH	F nHH	Black	Hispanic
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)
Original	0.002 (0.002)	-0.002*** (0.001)	0.688*** (0.041)	0.025*** (0.002)	0.023*** (0.001)	0.022*** (0.001)	0.037*** (0.003)	-0.993*** (0.043)	-0.004*** (0.001)	-0.006*** (0.001)	-0.014*** (0.001)	-0.001 (0.001)
IPW	0.001 (0.002)	-0.001 (0.001)	0.449*** (0.044)	0.016*** (0.002)	0.017*** (0.001)	0.012*** (0.002)	0.036*** (0.003)	-0.637*** (0.048)	-0.002** (0.001)	-0.006*** (0.001)	-0.008*** (0.001)	0.001 (0.001)

Note: This table reports the average differences between the treated and the control across all link senders. The first row is the balance test for the original sample. The second row is the balance test for the sample re-weighted by the propensity scores according to inverse probability weighting method. Standard errors are estimated with subsample bootstrapping with 900 subsamples drawn randomly. At each bootstrap, 90% of the individuals (nodes) within each school are sampled without replacement. The pre-treatment variables from column 1 to column 12 are: whether the ego is male, born in US, their PVT score, whether their PVT score is above the population median, whether their mother has college degree or above, whether their father has college degree or above, their annual family income (log), their age in months, whether their mother is not in the household, whether their father is not in the household, whether the respondent is black, and whether the respondent is hispanic. \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

### 6.3 Results

Table 4 reports the estimated effect of friendships from different types of link sender on bachelor degree attainment (column 1) and some intermediate outcomes recorded during Wave II interviews. Each row corresponds to a characterization of the friendship based on the character of the receiver and the sender. The receiver characteristic is shown before the underbar “\_”, and the sender characteristic is shown after. “F” and “M” refer to the gender female and male, respectively. “H” and “L” refer to whether the individual is a high achiever or non-high achiever (low achiever), respectively. For example, “F\_FL” means the linking effect is estimated for female link receivers and female non-high achiever link senders.

Table 4: Effect of friendship on bachelor degree attainment and confidence

	<i>Dependent variable:</i>			
	Bachelor Degree (p.p)	Want (p.p)	Will (p.p)	Intelligence (p.p)
	(1)	(2)	(3)	(4)
F_FL	0.354* (0.191)	-0.171 (0.241)	-0.819*** (0.227)	-0.389 (0.242)
F_ML	0.336 (0.313)	-0.361 (0.381)	-0.797** (0.373)	-0.602 (0.439)
F_FH	1.877 (1.262)	2.377* (1.245)	0.737 (1.062)	1.364 (1.345)
F_MH	2.981*** (0.978)	1.602 (1.116)	2.370*** (0.858)	3.748*** (1.324)
M_FL	-0.041 (0.279)	0.144 (0.269)	-0.026 (0.270)	-0.623* (0.336)
M_ML	-0.068 (0.227)	0.058 (0.204)	-0.553** (0.247)	-0.816*** (0.253)
M_FH	2.801 (1.906)	0.930 (1.818)	-1.919 (1.764)	-1.652 (1.773)
M_MH	4.645*** (1.526)	1.361 (1.544)	0.821 (1.314)	4.539*** (1.153)

Note: This table reports the estimated effects of high school friendship on students' bachelor degree attainment (column 1), and their intermediate outcomes (column 2-4). The dependent variable in Column (2) is a dummy variable recording whether the student reported a scale 5 (1 is the lowest and 5 is the highest) on the extent of how much they want to go to college (Wave II). The dependent variable in Column (3) is a dummy variable recording whether the student reported a scale 5 (1 is the lowest and 5 is the highest) on the likelihood that they will go to college (Wave II). The dependent variable in Column (4) is a dummy variable recording whether the student reported a scale 5 or 6 (1 is the lowest and 6 is the highest) on their intelligence compared to other people of their age (Wave II). The estimands are all ATT. Each row corresponds to a characterisation of the friendship, based on the character of the receiver and the sender. Receiver characteristics is shown before the underbar -, and sender characteristics is shown after. "F" and "M" are used to refer to the gender female and male respectively. "H" and "L" are used to refer to whether the individual is a high flyer or non-high flyer (low flyer) respectively. For example, "F\_FL" means the linking effect is estimated for female link receivers and female non-high flyer link senders. The regressions reported in all columns include cohort dummies, whether the student was born in the US, their PVT score, whether their PVT score is above the population median PVT score, whether their mother's and father's highest degree is high school, some college, college, or post college, whether their mother's and father's highest education level is missing, the student's log family income, whether family is missing, the age of the student during Wave I, whether the student's mother and father were in the household, dummies for whether the student is black, hispanic, white, asian and indian. Standard errors are estimated with subsample bootstrapping with 900 subsamples drawn randomly. At each bootstrap, 90% of the individuals (nodes) within each school are sampled without replacement. \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table 5: Heterogeneous effects of friendship on bachelor degree attainment and intelligence

	<i>Dependent variable:</i>			
	Bachelor degree		Intelligence	
	PVT Median - (1)	PVT Median + (2)	PVT Median - (3)	PVT Median + (4)
F_FL	0.510 (0.362)	−0.347 (0.424)	−1.121*** (0.429)	−0.026 (0.451)
F_ML	0.818 (0.634)	−1.038* (0.540)	−0.139 (0.836)	−1.823** (0.903)
F_FH	5.912*** (2.294)	−0.782 (2.656)	6.552** (3.054)	−1.115 (2.531)
F_MH	3.649* (2.084)	0.492 (1.952)	10.283*** (2.585)	−2.967 (2.620)
M_FL	−0.780 (0.649)	0.329 (0.581)	−1.916** (0.802)	1.550*** (0.568)
M_ML	0.670 (0.451)	−0.260 (0.423)	−2.051*** (0.474)	0.736 (0.462)
M_FH	0.305 (5.056)	3.377 (2.160)	−5.573 (3.607)	−0.074 (2.236)
M_MH	4.231 (3.005)	8.267*** (2.511)	−2.164 (2.911)	11.954*** (2.225)

Note: This table reports the estimated heterogeneous effects of high school friendship on students' bachelor degree attainment and self-assessed intelligence. Column (1) and (3) reports results for ego whose PVT score is below population median PVT score. Column (2) and (4) reports results for ego whose PVT score is above population median PVT score. The estimands are all ATT. Each row corresponds to a characterisation of the friendship, based on the character of the receiver and the sender. Receiver characteristics is shown before the underbar -, and sender characteristics is shown after. "F" and "M" are used to refer to the gender female and male respectively. "H" and "L" are used to refer to whether the individual is a high flyer or non-high flyer (low flyer) respectively. For example, "F\_FL" means the linking effect is estimated for female link receivers and female non-high flyer link senders. The regressions reported in all columns include cohort dummies, whether the student was born in the US, their PVT score, whether their PVT score is above the population median PVT score, whether their mother's and father's highest degree is high school, some college, college, or post college, whether their mother's and father's highest education level is missing, the student's log family income, whether family is missing, the age of the student during Wave I, whether the student's mother and father were in the household, dummies for whether the student is black, hispanic, white, asian and indian. Standard errors are estimated with subsample bootstrapping with 900 subsamples drawn randomly. At each bootstrap, 90% of the individuals (nodes) within each school are sampled without replacement. \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table 4 shows a close to 3 p.p increase in female students' likelihood of obtaining a bachelor's degree by having an additional male high-achieving friend. For male students, an extra male high-achieving friend means an increase of 4.6 p.p in the probability of graduating from college. Looking at the last three columns of the table, it seems that the positive effect of a male high-achieving friend on both female and male students could be attributed to an increase in their confidence. In particular, an additional male high-achieving friend increases the probability that a female student reports having a high likelihood of going to college and being more intelligent than their same-age peers during the Wave II interview, one year after friendship information was recorded. As for male students, their self-assessment of being more intelligent than their same-age peers is also increased.

Female egos are also slightly more likely to graduate from college when they have an additional female friend who is not a high achiever. However, this effect disappears if we separately look at the effect on low-ability and high-ability female students. As shown in Table 5, estimates for both ability groups of female students are not significantly different from 0. Moreover, the positive effect of male high achiever friends seems to only exist for low-ability female students and high-ability male students, with an increase in the probability of going to college by about 3.6 p.p and 8.3 p.p, respectively. These positive effects are also found in their self-assessment of being more intelligent than their peers. However, is this positive impact on self-assessment of intelligence due to a confidence boost or an increase in academic performance? To answer this question, I look at the effect of friendship on egos' grades during Wave II. Table 6 and Table 7 show that across all four academic subjects, none of the grades of low-ability female students were increased by having an additional male high-achieving friend. As for male high-ability students, their English grade was improved by 0.196 points on average (lowest 1, highest 5) by having an additional male high-achieving friend, but none of the grades of the other subjects were improved.

## 7 Conclusion

This paper develops a new conceptual framework to study the causal effects of peer relationships. It allows researchers to define flexible estimands, including the commonly used

Table 6: Heterogeneous effects of friendship on English and Math grades

	<i>Dependent variable:</i>			
	English grade		Math grade	
	PVT Median -	PVT Median +	PVT Median -	PVT Median +
	(1)	(2)	(3)	(4)
F_FL	−0.004 (0.007)	−0.002 (0.008)	0.002 (0.007)	−0.007 (0.008)
F_ML	−0.035** (0.016)	0.037** (0.017)	0.002 (0.014)	−0.020 (0.019)
F_FH	0.050 (0.045)	0.014 (0.028)	0.232*** (0.053)	0.022 (0.025)
F_MH	−0.025 (0.036)	0.050 (0.032)	0.039 (0.037)	−0.012 (0.041)
M_FL	0.021 (0.015)	−0.006 (0.010)	−0.044** (0.019)	−0.008 (0.008)
M_ML	0.009 (0.008)	0.00001 (0.006)	−0.025*** (0.009)	0.004 (0.008)
M_FH	0.159** (0.079)	−0.00003 (0.067)	0.080* (0.043)	0.061 (0.045)
M_MH	−0.039 (0.055)	0.196*** (0.053)	0.060 (0.075)	0.002 (0.043)

Note: This table reports the estimated heterogeneous effects of high school friendship on students English and Math grades (Wave II). Column (1) and (3) reports results for ego whose PVT score is below population median PVT score. Column (2) and (4) reports results for ego whose PVT score is above population median PVT score. The estimands are all ATT. Each row corresponds to a characterisation of the friendship, based on the character of the receiver and the sender. Receiver characteristics is shown before the underbar  $\_$ , and sender characteristics is shown after. “F” and “M” are used to refer to the gender female and male respectively. “H” and “L” are used to refer to whether the individual is a high flyer or non-high flyer (low flyer) respectively. For example, “F\_FL” means the linking effect is estimated for female link receivers and female non-high flyer link senders. The regressions reported in all columns include cohort dummies, whether the student was born in the US, their PVT score, whether their PVT score is above the population median PVT score, whether their mother’s and father’s highest degree is high school, some college, college, or post college, whether their mother’s and father’s highest education level is missing, the student’s log family income, whether family is missing, the age of the student during Wave I, whether the student’s mother and father were in the household, dummies for whether the student is black, hispanic, white, asian and indian. Standard errors are estimated with subsample bootstrapping with 900 subsamples drawn randomly. At each bootstrap, 90% of the individuals (nodes) within each school are sampled without replacement. \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table 7: Heterogeneous effects of friendship on History and Science grades

	<i>Dependent variable:</i>			
	History grade		Science grade	
	PVT Median - (1)	PVT Median + (2)	PVT Median - (3)	PVT Median + (4)
F_FL	−0.008 (0.006)	−0.013 (0.008)	−0.025*** (0.007)	−0.011 (0.013)
F_ML	0.046*** (0.016)	0.014 (0.013)	−0.014 (0.017)	0.022 (0.018)
F_FH	0.081 (0.058)	−0.025 (0.032)	0.142** (0.062)	−0.030 (0.026)
F_MH	−0.028 (0.041)	0.104*** (0.037)	0.007 (0.046)	0.010 (0.026)
M_FL	−0.035 (0.024)	0.030*** (0.008)	−0.042** (0.016)	0.007 (0.008)
M_ML	−0.025*** (0.008)	−0.014* (0.008)	0.010 (0.013)	−0.002 (0.006)
M_FH	0.091 (0.059)	−0.129** (0.051)	0.086** (0.042)	−0.130** (0.052)
M_MH	−0.093 (0.061)	0.037 (0.037)	0.004 (0.078)	−0.033 (0.036)

Note: This table reports the estimated heterogeneous effects of high school friendship on students History and Science grades (Wave II). Column (1) and (3) reports results for ego whose PVT score is below population median PVT score. Column (2) and (4) reports results for ego whose PVT score is above population median PVT score. The estimands are all ATT. Each row corresponds to a characterisation of the friendship, based on the character of the receiver and the sender. Receiver characteristics is shown before the underbar -, and sender characteristics is shown after. “F” and “M” are used to refer to the gender female and male respectively. “H” and “L” are used to refer to whether the individual is a high flyer or non-high flyer (low flyer) respectively. For example, “F\_FL” means the linking effect is estimated for female link receivers and female non-high flyer link senders. The regressions reported in all columns include cohort dummies, whether the student was born in the US, their PVT score, whether their PVT score is above the population median PVT score, whether their mother’s and father’s highest degree is high school, some college, college, or post college, whether their mother’s and father’s highest education level is missing, the student’s log family income, whether family is missing, the age of the student during Wave I, whether the student’s mother and father were in the household, dummies for whether the student is black, hispanic, white, asian and indian. Standard errors are estimated with subsample bootstrapping with 900 subsamples drawn randomly. At each bootstrap, 90% of the individuals (nodes) within each school are sampled without replacement. \*p<0.1; \*\*p<0.05; \*\*\*p<0.01



linear-in-means/sum peer effect parameter. Moreover, it provides identification conditions for endogenously formed networks without the need for natural experiments. This identification is based on an adapted version of the traditional unconfoundedness condition. Thanks to the nature of network data, I show that propensity scores of unobserved sufficeint confounders can be inferred from the adjacency matrix. Finally, estimation of causal effects can be easily and flexibly done with existing statistical packages. The results of this paper not only can be used for peer networks, but also bipartite networks where link receivers and link senders are from two different populations, e.g workers and firms.

Empirical application on the effect of high school friendship on students' likelihood to obtain a bachelor's degree reveals interesting results not known in the literature before. Contrary to the findings in [Cools et al. \(2019\)](#), female students, particularly those with low ability, benefit from having high-achieving male friends. They become more confident in their intelligence and are more likely to graduate from college, despite no evidence that their grades improved. As for male students, it is the high-ability ones that benefit from having high-achieving male friends. Their English grade improves significantly, and they become more confident and are more likely to graduate from college.

# Additional analysis and results for the study of linking effect

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([For the latest draft](#))

## A1 Extensions

### A1.1 Treatment defined over all links

Suppose we are interested in the comparison between two configurations, such as  $c^1$  and  $c^2$ . A configuration is a rule  $C$  that the treatment vector has to satisfy. For example,  $c^1$  could be 2 female and 1 male and  $c^2$  be 1 female and 2 male. Assume L-SUTVA holds, for any node  $i$  let us denote the set of treatments that satisfies configuration  $c$  as  $D_i^c = \{\mathbf{D}_i | C(\mathbf{D}_i) = c\}$ , where  $\mathbf{D}_i = (D_{i1}, \dots, D_{ij}, \dots, D_{iN})$ . For any  $d^{c1} \in D^{c1}$  and  $d^{c2} \in D^{c2}$ . we can define an estimand  $m_i^{c1, c2}$ :

$$m_i^{d^{c1}, d^{c2}} = Y_i(d^{c1}) - Y_i(d^{c2})$$

For any configuration  $c$ , use  $|D^c|$  to denote the number of elements in the set  $D^c$  and the expectation  $\mathbb{E}_c$  as the expectation over the set  $D^c$  with uniform probability. Average over

the set of treatments that satisfy the configuration rules, we can define the treatment effect of configuration  $c^1$  v.s.  $c^2$  on node  $i$  as:

$$\begin{aligned} m_i^{c^1, c^2} &= \mathbb{E}_{c^1}[Y_i(d^{c^1})] - \mathbb{E}_{c^2}[Y_i(d^{c^2})] \\ &:= \frac{1}{|D^{c^1}|} \sum_{d^{c^1} \in D^{c^1}} Y_i(d^{c^1}) - \frac{1}{|D^{c^2}|} \sum_{d^{c^2} \in D^{c^2}} Y_i(d^{c^2}) \end{aligned}$$

Finally, by averaging over the set of egos, we can easily define the average treatment effect of configuration  $c^1$  v.s.  $c^2$  as:

$$\begin{aligned} m^{c^1, c^2} &= \mathbb{E}_i [\mathbb{E}_{c^1}[Y_i(d^{c^1})] - \mathbb{E}_{c^2}[Y_i(d^{c^2})]] \\ &:= \frac{1}{N} \sum_{i=1, \dots, N} \left( \frac{1}{|D^{c^1}|} \sum_{d^{c^1} \in D^{c^1}} Y_i(d^{c^1}) - \frac{1}{|D^{c^2}|} \sum_{d^{c^2} \in D^{c^2}} Y_i(d^{c^2}) \right) \end{aligned}$$

**Lemma 4** (Unconfoundedness when treatment is defined over all links).

$$Pr(D_i = d^c | Y_i^{pot}, \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) = Pr(D_i = d^c | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N)$$

and

$$Pr(D_i = d^c | Y_i^{pot}, e(\mathbf{U}_i, \mathbf{V}_1), \dots, e(\mathbf{U}_i, \mathbf{V}_N)) = Pr(D_i = d^c | e(\mathbf{U}_i, \mathbf{V}_1), \dots, e(\mathbf{U}_i, \mathbf{V}_N))$$

*Proof.* The first half of the proof is identical to that of Proposition 1. For the last part, instead we have

$$\begin{aligned} &Pr(D_i = d^c | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N, \mathbf{Y}_i^{pot}) \\ &= Pr(D_i = d^c | \mathbf{U}_1, \dots, \mathbf{U}_N, \mathbf{V}_1, \dots, \mathbf{V}_N) \\ &= Pr(D_i = d^c | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) \end{aligned}$$

The first equation holds because we have ruled out any confounders that affect any of the links, which means there are no confounders to affect all of  $i$ 's links. The second equation comes from Equation (2).  $\square$

**Assumption 5** (Overlap for all links).  $0 < Pr(\mathbf{D}_i = d^{c_1} | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) < 1$

**Proposition 3.** Under assumption 1,2,3 and 5,  $m^{c_1, c_2}$  is identified:

$$m^{c_1, c_2} = \mathbb{E} \left[ \mathbb{E}_i \left[ \mathbb{E}_{d^{c_1}} [Y_i(\mathbf{D}_i = d^{c_1}) | e(\mathbf{U}_i, \mathbf{V}_1), \dots, e(\mathbf{U}_i, \mathbf{V}_N), \mathbf{D}_i = d^{c_1}] \right] \right. \\ \left. - \mathbb{E} \left[ \mathbb{E}_i \left[ \mathbb{E}_{d^{c_2}} [Y_i(\mathbf{D}_i = d^{c_2}) | e(\mathbf{U}_i, \mathbf{V}_1), \dots, e(\mathbf{U}_i, \mathbf{V}_N), \mathbf{D}_i = d^{c_2}] \right] \right] \right]$$

Proposition (3) is proved in Section A4.5.

Notice here in order to estimate this estimand, we need to condition not just on the single pairwise propensity score  $e(\mathbf{U}_i, \mathbf{V}_j)$ , but rather on the vector of propensity scores  $e(\mathbf{U}_i, \mathbf{V}_1), \dots, e(\mathbf{U}_i, \mathbf{V}_N)$ . To gain some intuition, first recall that in the main analysis, the hypothetical intervention was on a single pair, and the estimand is the average of potential outcomes under repeated hypothetical interventions over different pairs each time. Here the hypothetical intervention, however, is on all the relationships of node  $i$ , thus the need to condition on the propensity scores of all relationships being formed.

Finally, note that as  $N$  goes to infinity, the overlap condition will fail to hold. To see why, write the generalised propensity score as the product of individual pairwise propensity score:

$$Pr(\mathbf{D}_i = d^{c_1} | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) \\ = \prod_{j=1}^N (Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j))^{d_i^{c_1}} (1 - Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j))^{1-d_i^{c_1}}$$

Since  $0 < Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j) < 1$ , this product goes to 0 as  $N$  goes to infinity, causing the overlap condition to fail. However, if our target estimand is ATT, this shouldn't be a problem: the existence of treated nodes means the propensity score is larger than 0.

## A1.2 Alternative estimands

In the main analysis the treatment effect of sender- $j$  relationship on receiver  $i$ 's potential outcome is defined as the following contrast of potential outcomes:

$$\tau_i^j = Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})$$

where all the non-sender- $j$  relationships of receiver  $i$  are fixed at their observed level. This is only one of the many ways we can define the pair level estimand. In fact, for any  $i, j$  and  $\mathbf{d}_i^{-j}$  we could define

$$\tilde{\tau}_i^j(\mathbf{d}_i^{-j}) = Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) \quad (18)$$

In this case, we could define an average linking effect for link receivers with characteristic  $R_i = r$  and link senders with characteristic  $A^j = a$  by averaging the pair level treatment effects over the probability distribution of the linking status of  $i$ 's other (than  $j$ ) relationships:

$$\tilde{\tau}_r^a = \mathbb{E}_{(i,j): R_i=r, A^j=a} \sum_{\mathbf{d}_i^{-j} \in \mathfrak{D}^j} \tilde{\tau}_i^j(\mathbf{d}_i^{-j}) Prob(\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) \quad (19)$$

where  $\mathfrak{D}^j = \cup_i \mathbf{d}_i^{-j}$  and  $i$  is a representative node randomly drawn from the population of senders satisfying  $R_i = r$ ,<sup>1</sup>. Next I will prove that  $\tilde{\tau}_r^a$  is identified.

---

<sup>1</sup>This estimand is similar to the kind of estimands usually defined in the literature of treatment interference, e.g. [Forastiere et al. \(2021\)](#). The difference is that in the treatment inference literature the “direct” or main estimand is defined by averaging over the treatments of interfering units, while here we average over the non-focal links of the same receiver.

*Proof.*

$$\begin{aligned}
& \mathbb{E}_{(i,j):R_i=r,A^j=a} \left[ \sum_{\mathbf{d}_i^{-j} \in \mathfrak{D}^j} Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) Prob(\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) \right] \\
&= \mathbb{E} \left[ \mathbb{E}_{(i,j):R_i=r,A^j=a} \left[ \sum_{\mathbf{d}_i^{-j} \in \mathfrak{D}^j} Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) Prob(\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N \right] \right] \\
&= \mathbb{E}_{(i,j):R_i=r,A^j=a} \left[ \sum_{\mathbf{d}_i^{-j} \in \mathfrak{D}^j} \mathbb{E} \left[ Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) Prob(\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N \right] \right] \\
&= \mathbb{E}_{(i,j):R_i=r,A^j=a} \left[ \sum_{\mathbf{d}_i^{-j} \in \mathfrak{D}^j} \mathbb{E} \left[ Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N \right] \right. \\
&\quad \left. \times Prob(\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j} | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) \right] \\
&= \mathbb{E}_{(i,j):R_i=r,A^j=a} \left[ \sum_{\mathbf{d}_i^{-j} \in \mathfrak{D}^j} \mathbb{E} \left[ Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N, D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j} \right] \right. \\
&\quad \left. \times Prob(\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j} | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) \right] \\
&= \mathbb{E}_{(i,j):R_i=r,A^j=a} \left[ \sum_{\mathbf{d}_i^{-j} \in \mathfrak{D}^j} \mathbb{E} \left[ Y_i^{obs} | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N, D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j} \right] \right. \\
&\quad \left. \times Prob(\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j} | \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) \right]
\end{aligned}$$

The first equation comes from the law of iterated expectations, the second equation is due to linearity of expectations, the third equation is due to the independence between potential outcome and linking probability conditional on  $(\mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N)$  (same d-separation argument as before), the fourth equation comes from the unconfoundedness of  $Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j})$  conditional on  $(\mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N)$  (4), and the fifth equation holds because when  $D_i^j = 1$  and  $\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}$ ,  $Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) = Y_i^{obs}$ . This means if  $(\mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N)$  were observed, or equivalently if  $\{e(\mathbf{U}_i, \mathbf{V}_1), \dots, e(\mathbf{U}_i, \mathbf{V}_N)\}$  were observed,

$$\mathbb{E}_{(i,j):R_i=r,A^j=a} \left[ \sum_{\mathbf{d}_i^{-j} \in \mathfrak{D}^j} Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) Prob(\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) \right]$$

is identified, and can be estimated with observed data. The same proof holds for  $\mathbb{E}_{(i,j):R_i=r,A^j=a} \left[ \sum_{\mathbf{d}_i^{-j} \in \mathfrak{D}^j} Y_i(0, \mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) Prob(\mathbf{D}_i^{-j} = \mathbf{d}_i^{-j}) \right]$ . This means estimand  $\tilde{\tau}_r^a$  is identified.  $\square$



Figure 3: Indirect linking effect

### A1.3 Other types of linking effect to explore in the future

#### A1.3.1 Indirect linking effect

As shown in Figure 3, we can define an indirect effect that contrasts  $i$ 's potential outcome when some link sender  $j$  is linked to one of  $i$ 's existing direct peer and its potential outcome when  $j$  is not linked to one of  $i$ 's existing direct peer, while keeping  $i$ 's existing peers fixed at the realised value. This requires the relaxation of L-SUTVA and is similar to the study of spillover effects in traditional setting ([Forastiere et al., 2021](#)).

#### A1.3.2 Triangle reinforced linking effect

The triangle reinforced linking effect contrasts  $i$ 's potential outcome when its direct peer  $j$  also sends a link to one of  $i$ 's other existing direct peer and its potential outcome when  $j$  is not linked to one of  $i$ 's existing direct peer, while keeping  $i$ 's existing peers fixed at the realised value. This could be used to study whether direct linking effect could be reinforced by an additional indirect link. If the underlying mechanism for the peer effect is information flow, then triangle reinforced effect shouldn't exist. It also requires the relaxation of L-SUTVA to



Figure 4: Triangle reinforced linking effect

allow for interference.

#### A1.4 Small networks

When networks are small, the estimation of propensity scores might be difficult, even if we have a large number of such small networks. This is because the estimation of propensity score is based on each single network. If the individual network is small, there is very little information for the inference of sufficient confounders and their propensity scores.

In this case, we could still make causal discovery based on additional assumptions. The idea is to assume that the effective treatment is some characteristic of the node, instead of the identity of the node. Let  $Y_i^g(\cdot)$  denote the potential outcome of link receiver  $i$  in network  $g$ , this assumption is formalised as Assumption 6.

**Assumption 6.** For some function  $l : \{0, 1\}^N \rightarrow \mathbb{R}^M$

$$\begin{aligned} Y_i^g(D_{i1}, D_{i2}, \dots, D_{iN}) &= Y_i^g(l(D_{i1}, D_{i2}, \dots, D_{iN})) \\ &= Y_i^g(l_1, \dots, l_M) \end{aligned}$$



Function  $l(\cdot)$  defines the effective treatment. For example if  $l(\cdot) = \sum_{j=1,\dots,n} D_{ij}X_j$  where  $X$  is a dummy variable, assumption 6 means  $i$ 's links affect  $i$ 's potential outcome only through the total number of links with characteristics  $X$ . Similarly, if  $l(\cdot) = \frac{\sum_{j=1,\dots,n} D_{ij}X_j}{\sum_{j=1,\dots,n} D_{ij}}$ , assumption 6 means  $i$ 's links affect  $i$ 's potential outcome only through the share of  $i$ 's links with characteristics  $X$ . Note that here we do not assume that the potential outcome is a linear function of  $l(\cdot)$  as in the linear-in-means and linear-in-sum models. In both examples, we have  $M = 1$ , but this is not necessary. For example,  $l(D_{i1}, D_{i2}, \dots, D_{iN}) = (\sum_{j=1,\dots,n} D_{ij}X_j^1, \sum_{j=1,\dots,n} D_{ij}X_j^2)$  means the effective treatment is the total number of links with characteristics  $X^1$  and the total number of links with characteristics  $X^2$ .

Next I show that under Assumption 6, causal identification and estimation of linking effect could be achieved by inferring sufficient confounders that render the distribution of effective treatment conditionally independent, as long as  $M \geq 2$ .

**Definition A1.1.** Let  $N^g$  be the number of nodes in network  $g$ , and  $N = \sum_{g=1} N^g$ .  $o_1, \dots, o_N$  and  $q_1, \dots, q_M$  are two vectors of random variables that satisfy the following condition:

$$Pr(l_{i1}, \dots, l_{iM} | o_i, q_1, \dots, q_M) = \prod_{m=1}^M Pr(l_{im} | o_i, q_m) \quad i = 1, \dots, N$$

Effectively  $l_{i1}, \dots, l_{iM}$  is the multiple treatment vector of link receiver  $i$ , and since  $M$  is a fixed number, we are in the standard case studied in [Wang and Blei \(2019\)](#). Therefore  $o_1, \dots, o_N$  and  $q_1, \dots, q_M$  are sufficient confounders in the sense that after conditioning on them, treatment  $(l_{i1}, \dots, l_{iM})$  is independent of the potential outcome  $Y_i(l_{i1}, \dots, l_{iM})$ .

Assumption 6 makes it possible to identify and estimate linking effects when networks are small. The intuition is that since nodes from different networks all share the same set of possible treatment  $l_1, \dots, l_M$ . we could pool the link receivers across networks together to infer the sufficient confounders and their propensity scores. Note that in this case the estimators from the statistical network analysis literature, such as the neighbourhood smoothing estimator, won't work. But the factor models can still be used to estimate the propensity scores.

Finally, note that if this assumption doesn't hold, we will get biased causal estimates. This is because the sufficient confounders are defined as variables that make the suppos-

edly effective treatments conditionally independent. If treatments are in fact at a more disaggregated level, these sufficient confounders are no long ‘sufficient’.

## A2 Alternative 2nd-step treatment effect estimations

As mentioned earlier, the inverse probability weighting estimator described in Section 4.2 is not the only 2nd-step estimator we could use to estimate the linking effect. Two of the popular ones in the causal inference literature are propensity score matching and propensity score subclassification. Here I will explain in detail how subclassification works and omit the details for matching. The case of propensity score matching is similar to subclassification. The only difference is that instead of dividing pairs into blocks based on similarity of propensity scores, we will find for each pair its M-nearest neighbour(s) in terms of their propensity scores. As in traditional propensity score matching, we could do both matching with replacement or without replacement. Next I will start with a simple example to illustrate the steps of subclassification. Then I will provide formal justification of the subclassification estimator.

### A2.1 An example of subclassification estimator

In this example there are 8 link receivers with characteristic  $R = r$  (labelled 1 to 8) and 7 link senders with characteristic  $A = a$  (labelled a to g). The treatment assignment for the link receivers is given in Table 8. Here I omit the link receivers with characteristic  $R \neq r$  and the link senders with characteristic  $A \neq a$  because they are not needed for the estimand  $\tau_r^a$ . Note that the matrix in Table 8 is not an adjacency matrix itself, but the intersection of a selection of rows and columns from the underlying adjacency matrix.

The matrix of propensity scores are shown in Table 9. These propensity scores are fictional and are only meant for illustration purpose. In particular, they are not estimated using any of the methods from Section ???. The observed outcomes of the link receivers are:  $Y_1 = Y_2 = Y_4 = Y_7 = 1$ , and  $Y_3 = Y_5 = Y_6 = Y_8 = 0$ .

The main idea of subclassification is that if we divide the estimated propensity scores into small intervals, or subclasses, units within the same subclass will have similar estimated propensity scores and therefore can be viewed as having the same potential outcome distributions due to unconfoundedness. Here a unit is a link receiver link sender pair. Then, within

Table 8: Example treatment assignment

	a	b	c	d	e	f	g
1	0	0	0	1	0	0	0
2	0	0	1	0	0	1	0
3	1	0	0	1	0	0	0
4	0	0	0	0	0	0	1
5	0	0	1	0	0	0	1
6	1	0	0	0	1	1	0
7	0	0	0	0	0	0	0
8	1	0	1	0	0	0	0

Table 9: Example propensity scores

	a	b	c	d	e	f	g
1	0	0.1	0	0.11	0.33	0	0
2	0	0	0.5	0	0	0.33	0.16
3	0.25	0	0	0.67	0	0.25	0
4	0.15	0.33	0	0.33	0.1	0	0.27
5	0	0	0.2	0.2	0	0	0.3
6	0.33	0	0	0	0.6	0.56	0
7	0	0.2	0.3	0	0	0	0.1
8	0.5	0	0.1	0	0.3	0	0

the same subclass, the average of the missing potential outcomes for the treated units can be unbiasedly estimated by the observed outcomes of the control (untreated) units. Going back to the data above, I divide the propensity scores into three subclasses:  $b_1 = (0, 0.3)$ ,  $b_2 = [0.3, 0.5)$ ,  $b_3 = [0.5, 1)$ , with the assumption that uncounfoundedness holds within each subclass. Note that some pairs have an estimated propensity score of 0, which violates the positivity condition, so I leave them out in the data analysis. This means the estimator is now unbiased for the average effect only for those pairs within positive treatment probability.<sup>2</sup>

This leads to the classification of link receiver link sender pairs as shown in Table 10.

---

<sup>2</sup>In fact, in subclassification analysis, researchers often leave out units with too low or too high propensity scores, even if they are not exactly 0 or 1. This is because with finite sample, there are often too few treated units within the subclass of very low propensity scores and too few control units within the subclass of very high propensity scores.

Table 10: Subclassification of pairs

	(0,0.3)	[0.3,0.5)	[0.5,1)
$D_i^j=1$	(3,a)	(6,a)	(8,a)
	(5,c)	(2,f)	(2,c)
	(8,c)	(5,g)	(3,d)
	(1,d)		(6,e)
	(4,g)		
$D_i^j=0$	(4,a)	(4,b)	(7,e)
	(1,b)	(7,c)	
	(7,b)	(4,d)	
	(5,d)	(1,e)	
	(4,e)	(8,e)	
	(3,f)		
	(2,g)		
	(7,g)		
number of pairs	13	8	5

The estimator is then:

$$\begin{aligned} & \frac{13}{13+8+5} \left( \frac{Y_3 + Y_5 + Y_8 + Y_1 + Y_4}{5} - \frac{Y_4 + Y_1 + Y_7 + Y_5 + Y_4 + Y_3 + Y_2 + Y_7}{8} \right) \\ & + \frac{8}{13+8+5} \left( \frac{Y_6 + Y_2 + Y_5}{3} - \frac{Y_4 + Y_7 + Y_4 + Y_1 + Y_8}{5} \right) + \frac{5}{13+8+5} \left( \frac{Y_8 + Y_2 + Y_3 + Y_6}{4} - Y_7 \right) \end{aligned}$$

Notice that the outcome of the same link receiver could be used multiple times, such as  $Y_4$ . They can appear both in the treated group and the control group, across multiple subclasses of propensity scores. This is because the propensity score is based on the pair, while the outcome is based on the link receiver only, and the same link receiver could appear in multiple pairs.

Note that unconfoundedness given propensity scores doesn't imply pairs with the same propensity scores have the same  $(u_i, u_j)$ . Instead, it means that the treated units and control units have the same distribution of  $u_i, u_j$ , and that treated units and control units have the same distribution of potential outcomes.

## A2.2 Subclassification formally

For exposition purpose, let's focus on the estimand

$$\tau_a^r = \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a}[Y_i^{obs}|e(\mathbf{U}_i, \mathbf{V}_j), D_i^j = 1]] - \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a}[Y_i^{obs}|e(\mathbf{U}_i, \mathbf{V}_j), D_i^j = 0]]$$

Suppose we decide to divide the propensity scores into  $B$  subclasses and assume the propensity scores within the same subclass are roughly constant, then  $\tau_a^r$  can also be written as

$$\begin{aligned} \tau_a^r &= \frac{1}{B} \sum_{b=1}^B \frac{N_b}{N} \mathbb{E}_{(i,j):R_i=r,A^j=a}[Y_i^{obs}|(i,j) \in b, D_i^j = 1] \\ &\quad - \frac{1}{B} \sum_{b=1}^B \frac{N_b}{N} \mathbb{E}_{(i,j):R_i=r,A^j=a}[Y_i^{obs}|(i,j) \in b, D_i^j = 0] \\ &= \frac{1}{B} \sum_{b=1}^B \tau_{a,b}^r \end{aligned}$$

where  $N_b$  is the number of  $(i, j)$  pairs in subclass  $b \in B$ , and  $\tau_{a,b}^r = \frac{N_b}{N} (\mathbb{E}_{(i,j):R_i=r,A^j=a}[Y_i^{obs}|(i,j) \in b, D_i^j = 1] - \mathbb{E}_{(i,j):R_i=r,A^j=a}[Y_i^{obs}|(i,j) \in b, D_i^j = 0])$ . To estimate  $\tau_{a,b}^r$ , we can simply compare the sample mean of the outcomes of the link receiver in treated pairs ( $D_i^j = 1$ ) and the sample mean of the outcomes of the link receiver in control pairs ( $D_i^j = 0$ ) belong to the subclass  $b$ . Alternatively, we could use linear regressions to estimate  $\tau_{a,b}^r$  for all  $b \in B$ , thanks to the equivalence between  $\tau_{a,b}^r$  and  $\beta_b$  of the following regression function:

$$Y_i = \alpha_b + \beta_b D_i^j + \epsilon_i^j$$

where observation is at the pair level. Within each subclass  $b$ ,  $D_i^j$  is as good as random and independent of potential outcome. This means  $\mathbb{E}[\epsilon_i^j|D_i^j] = 0$ , and that  $\tau_{a,b}^r = \beta_b$ :

$$\begin{aligned} \tau_{a,b}^r &= \mathbb{E}_{(i,j):R_i=r,A^j=a}[Y_i^{obs}|(i,j) \in b, D_i^j = 1] - \mathbb{E}_{(i,j):R_i=r,A^j=a}[Y_i^{obs}|(i,j) \in b, D_i^j = 0] \\ &= \mathbb{E}_{(i,j):R_i=r,A^j=a}[\alpha_b + \beta_b + \epsilon_i^j|(i,j) \in b, D_i^j = 1] - \mathbb{E}_{(i,j):R_i=r,A^j=a}[\alpha_b + \epsilon_i^j|(i,j) \in b, D_i^j = 0] \\ &= \beta_b \end{aligned}$$

Expressing  $\tau_{a,b}^r$  as a regression coefficient allows the easy incorporation of additional covariates into the analysis. Including pre-treatment predictors of the outcome in the regression could help reduce the bias coming from the variation of propensity scores within the same subclass, as well as increasing estimation precision, the same as in the conventional subclassification method [Imbens and Rubin \(2015\)](#).

## A3 Discussion of Assumption 2

### A3.1 Super Population

We are interested in the super population if the estimands of interest are functions of the infinite population, for example the contrast in the mean potential outcomes for all units in the infinite population, including the ones not sampled. Assumption 2 is automatically satisfied if the sample network  $\mathbf{D}$  is viewed as constructed by uniform random sampling of nodes from an infinite super population network with infinite number of nodes, where a link is recorded in the sample if it exists in the super population network. Under this construction, the randomness in link formation, or in other words, the assignment mechanism, solely comes from random sampling.

To see why random node sampling from super population implies Assumption 2, we proceed in 3 steps. First step, based on the definition in [Crane \(2018\)](#), Assumption 2 is equivalent to  $\mathbf{D}$  being vertex exchangeable. Second step, under the Aldous-Hoover theorem, the equivalence of the De-Finetti theorem for network data, the distribution of vertex exchangeable network links can *always* be represented by some graphon process:

**Definition A3.1** (Graphon ([Crane, 2018](#))). Function  $\phi \in \Phi : [0, 1] \times [0, 1] \rightarrow [0, 1]$  has 0 diagonal. Fix any  $\phi \in \Phi$  and draw  $w_1, w_2, \dots$  i.i.d. Uniform[0,1]. Given  $w_1, w_2, \dots$ , assign  $D_i^j$  conditionally independently with probabilities

$$Pr(D_i^j = 1 | w_1, w_2, \dots; \phi) = \phi(w_i, w_j) \quad (20)$$

This way of constructioning  $\mathbf{D}$  is called a **graphon process**.

Therefore random node sampling guarantees that there exists i.i.d.  $\{w_i\}_{1 \leq i \leq n}$  such that

$$Pr(\mathbf{D} = \mathbf{d} | w_1, w_2, \dots, w_N) = \prod_{i=1}^N \prod_{j \neq i}^N Pr(D_i^j = d_i^j | w_i, w_j) \quad (21)$$

Third step, comparing Equation (21) to Equation (1), we can see the difference is that here  $\{w_i\}_{1 \leq i \leq n}$  are i.i.d., while in Equation (1)  $\{\mathbf{U}_i\}_{1 \leq i \leq n}$  can be dependent of each other. This means if Equation (21) holds, Equation (1) will also hold.

In conclusion, when the sample network is constructed by random node sampling from an infinite super population network, the assumption of individualistic assignment mechanism must be true. This is similar to the case of conventional causal inference where random sampling from super population guarantees that the assignment mechanism is individualistic [Imbens and Rubin \(2015\)](#). Note that only random node sampling guarantees Assumption 2. Other sampling schemes, such as random link sampling, do not enjoy this property. An example of link sampling is in the study of co-authorship network where article is the sampling unit instead of the authors being the sampling unit.

### A3.2 Finite Population

In [Leung \(2015\)](#)'s network formation model,  $i$ 's linking decision could depend on the anticipated network structure. Network nodes simultaneously form directed links to maximise expected utility given their beliefs about the state of the network. Because the objective is the expected utility,  $i$ 's linking probability will be a function of equilibrium beliefs about others' linking decisions, conditioning on the observed attributes of all agents in the network. For this reason, equilibrium linking decisions are functions of the exogenous attributes only. As such, the pairwise linking decision can be expressed as

$$D_i^j = h(Z_i, Z_j, \theta_{ij})$$

where  $Z_i$  includes both  $i$ 's equilibrium beliefs about the the state of the network and  $i$ 's observed exogenous attributes. Observed exogenous attributes are assumed to be common knowledge. [Leung \(2015\)](#) assumes that  $\theta_{ij}$  are unobserved node or pairwise attributes that

are private information and satisfy  $\theta_{ij} \perp\!\!\!\perp \theta_{kl}$  for  $i \neq k$ . This allows  $\theta_{ij}$  to be correlated with  $\theta_{il}$ , which means by just conditioning on  $Z_i$  and  $Z_j$  we couldn't yet write the probability distribution of the entire network links as a conditionally independent process in the form of equation (1). But if we partition  $\theta_{ij}$  into  $(v_{1,i}, v_{2,ij})$  where  $v_{1,i}$  are unobserved shocks to link formation common to more than one sender  $j$ , and  $v_{2,ij}$  are mutually independent pairwise shocks. The idea is that we could always separate out variables that cause correlations among  $\theta_{ij}$  and  $V_{il}$  for  $j \neq l$ , and put them in  $v_{1,i}$ . Then

$$D_i^j = h(Z_i, Z_j, \theta_{ij})$$

becomes

$$D_i^j = h(Z_i, Z_j, v_{1,i}, v_{2,ij}) = \tilde{h}(\mathbf{U}_i, \mathbf{V}_j, v_{2,ij})$$

where  $\mathbf{U}_i = (Z_i, v_{1,i})$ . Conditioning on  $\mathbf{U}_i, \mathbf{V}_j$ , the probability distribution of network links then becomes exactly as in equation (1). Therefore, network formation games with network externalities as specified in [Leung \(2015\)](#) satisfy the Individualistic Assignment Mechanism Assumption.

## A4 Proofs

### A4.1 Proof of Lemma 1

*Proof.* LHS:

$$Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j, e(\mathbf{U}_i, \mathbf{V}_j)) = Pr(D_i^j = 1 | \mathbf{U}_i, \mathbf{V}_j) = e(\mathbf{U}_i, \mathbf{V}_j)$$

The first equality holds because  $e(\mathbf{U}_i, \mathbf{V}_j)$  is a function of  $\mathbf{U}_i, \mathbf{V}_j$ , the second equality holds from the definition of  $e(\mathbf{U}_i, \mathbf{V}_j)$ .



RHS:

$$\begin{aligned}
Pr(D_i^j = 1|e(\mathbf{U}_i, \mathbf{V}_j)) &= \mathbb{E}[D_i^j|e(\mathbf{U}_i, \mathbf{V}_j)] = \mathbb{E}[\mathbb{E}[D_i^j|\mathbf{U}_i, \mathbf{V}_j, e(\mathbf{U}_i, \mathbf{V}_j)]|e(\mathbf{U}_i, \mathbf{V}_j)] \\
&= \mathbb{E}[\mathbb{E}[D_i^j|\mathbf{U}_i, \mathbf{V}_j]|e(\mathbf{U}_i, \mathbf{V}_j)] = \mathbb{E}[e(\mathbf{U}_i, \mathbf{V}_j)|e(\mathbf{U}_i, \mathbf{V}_j)] \\
&= e(\mathbf{U}_i, \mathbf{V}_j)
\end{aligned}$$

□

## A4.2 Proof of Lemma 2

*Proof.*

$$\begin{aligned}
Pr(D_i^j = 1|Y_i^{pot}, e(\mathbf{U}_i, \mathbf{V}_j)) \\
&= \mathbb{E}[D_i^j = 1|Y_i^{pot}, e(\mathbf{U}_i, \mathbf{V}_j)] \\
&= \mathbb{E}[\mathbb{E}[D_i^j = 1|Y_i^{pot}, \mathbf{U}_i, \mathbf{V}_j, e(\mathbf{U}_i, \mathbf{V}_j)]|Y_i^{pot}, e(\mathbf{U}_i, \mathbf{V}_j)]
\end{aligned}$$

The inner expectation is equal to  $\mathbb{E}[D_i^j = 1|\mathbf{U}_i, \mathbf{V}_j, e(\mathbf{U}_i, \mathbf{V}_j)]$  by unconfoundedness given  $\mathbf{U}_i, \mathbf{V}_j$ . And by the balancing property of the propensity score, this is  $\mathbb{E}[D_i^j = 1|e(\mathbf{U}_i, \mathbf{V}_j)]$ . Therefore the last expression is

$$\begin{aligned}
&\mathbb{E}[\mathbb{E}[D_i^j = 1|e(\mathbf{U}_i, \mathbf{V}_j)|Y_i^{pot}, e(\mathbf{U}_i, \mathbf{V}_j)] \\
&= \mathbb{E}[D_i^j = 1|e(\mathbf{U}_i, \mathbf{V}_j)] \\
&= Pr(D_i^j = 1|e(\mathbf{U}_i, \mathbf{V}_j))
\end{aligned}$$

□

### A4.3 Proof of proposition 2

*Proof.*

$$\begin{aligned}
\tau_a^r &= \mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) - Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})] \\
&= \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_j]] \\
&\quad - \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_j]] \\
&= \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_j, D_i^j = 1]] \\
&\quad - \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_j, D_i^j = 0]] \\
&= \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) | e(\mathbf{U}_i, \mathbf{V}_j), D_i^j = 1]] \\
&\quad - \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) | e(\mathbf{U}_i, \mathbf{V}_j), D_i^j = 0]] \\
&= \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i^{obs} | \mathbf{U}_i, \mathbf{V}_j, D_i^j = 1]] - \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i^{obs} | \mathbf{U}_i, \mathbf{V}_j, D_i^j = 0]] \\
&= \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i^{obs} | e(\mathbf{U}_i, \mathbf{V}_j), D_i^j = 1]] - \mathbb{E} [\mathbb{E}_{(i,j):R_i=r,A^j=a} [Y_i^{obs} | e(\mathbf{U}_i, \mathbf{V}_j), D_i^j = 0]]
\end{aligned}$$

Here the expectations are always over the node sampling distribution. The second equation is from law of iterated expectations. The third and fourth are from unconfoundedness given both  $\mathbf{U}_i, \mathbf{V}_j$  and  $e(\mathbf{U}_i, \mathbf{V}_j)$ . The fifth and the last equalities are from no multiple versions of treatment assumption. Since  $e(\mathbf{U}_i, \mathbf{V}_j)$  is identified  $\forall i, j$  by Lemma 3,  $\tau_r^a$  is identified.

□

### A4.4 Proof of unbiasedness of IPW estimator

*Proof.* With slight abuse of notation for simplicity, in the following I will write  $\mathbb{E}_{(i,j):R_i=r,A^j=a}[\cdot]$  as  $\mathbb{E}[\cdot]$ .

Here I will only prove that

$$\mathbb{E} \left[ \frac{1}{\sum_{i=1}^N R_i = r} \cdot \frac{1}{\sum_{j=1}^N A^j = a} \sum_{i:R_i=r} \sum_{j:A^j=a} \frac{D_i^j \cdot Y_i^{obs}}{e(\mathbf{U}_i, \mathbf{V}_j)} \right] = \mathbb{E}[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})].$$

The case for

$$\mathbb{E} \left[ \frac{1}{\sum_{i=1}^N R_i = r} \cdot \frac{1}{\sum_{j=1}^N A^j = a} \sum_{i: R_i=r} \sum_{j: A^j=a} \frac{(1 - D_i^j) \cdot Y_i^{obs}}{1 - e(\mathbf{U}_i, \mathbf{V}_j)} \right] = \mathbb{E}[Y_i(D_i^j = 0, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})]$$

can be similarly proved.

$$\begin{aligned} & \mathbb{E} \left[ \frac{1}{\sum_{i=1}^N R_i = r} \cdot \frac{1}{\sum_{j=1}^N A^j = a} \sum_{i: R_i=r} \sum_{j: A^j=a} \frac{D_i^j \cdot Y_i^{obs}}{e(\mathbf{U}_i, \mathbf{V}_j)} \right] \\ &= \mathbb{E} \left[ \frac{Y_i^{obs} \cdot D_i^j}{e(\mathbf{U}_i, \mathbf{V}_j)} \right] \\ &= \mathbb{E} \left[ \frac{Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) \cdot D_i^j}{e(\mathbf{U}_i, \mathbf{V}_j)} \right] \\ &= \mathbb{E} \left[ \mathbb{E} \left[ \frac{Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) \cdot D_i^j}{e(\mathbf{U}_i, \mathbf{V}_j)} \middle| \mathbf{U}_i, \mathbf{V}_j \right] \right] \end{aligned}$$

The first equation is due to i.i.d. sampling of the nodes, the second equation holds because  $Y_i^{obs} = Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})$  when  $D_i^j = 1$ , the third equation is from iterated expectations.

Then the inner expectation can be re-written as

$$\begin{aligned} & \mathbb{E} \left[ \frac{Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) \cdot D_i^j}{e(\mathbf{U}_i, \mathbf{V}_j)} \middle| \mathbf{U}_i, \mathbf{V}_j \right] \\ &= \frac{\mathbb{E}[D_i^j | \mathbf{U}_i, \mathbf{V}_j] \cdot \mathbb{E}[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_j]}{e(\mathbf{U}_i, \mathbf{V}_j)} \\ &= \frac{e(\mathbf{U}_i, \mathbf{V}_j) \cdot \mathbb{E}[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_j]}{e(\mathbf{U}_i, \mathbf{V}_j)} \\ &= \mathbb{E}[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) | \mathbf{U}_i, \mathbf{V}_j] \end{aligned}$$

where the first equation holds because  $D_i^j$  and  $Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})$  are independent

conditional on  $\mathbf{U}_i, \mathbf{V}_j$ , by unconfoundedness 1. Therefore

$$\begin{aligned}
& \mathbb{E} \left[ \mathbb{E} \left[ \frac{Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) \cdot D_i^j}{e(\mathbf{U}_i, \mathbf{V}_j)} \mid \mathbf{U}_i, \mathbf{V}_j \right] \right] \\
&= \mathbb{E} \left[ \mathbb{E}[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j}) \mid \mathbf{U}_i, \mathbf{V}_j] \right] \\
&= \mathbb{E}[Y_i(D_i^j = 1, \mathbf{D}_i^{-j} = \bar{\mathbf{d}}_i^{-j})]
\end{aligned}$$

□

#### A4.5 Proof of Proposition 3

*Proof.*  $m^{c_1, c_2} = \mathbb{E}_i [\mathbb{E}_{d^{c_1}}[Y_i(d^{c_1})]] - \mathbb{E}_i [\mathbb{E}_{d^{c_2}}[Y_i(d^{c_2})]]$ . Here I will only prove that  $\mathbb{E}_i [\mathbb{E}_{d^{c_1}}[Y_i(d^{c_1})]]$  is identified. The identification of  $\mathbb{E}_i [\mathbb{E}_{d^{c_2}}[Y_i(d^{c_2})]]$  follows similarly.

$$\begin{aligned}
& \mathbb{E}_i [\mathbb{E}_{d^{c_1}}[Y_i(d^{c_1})]] = \mathbb{E}_i [\mathbb{E}_{d^{c_1}}[Y_i(\mathbf{D}_i = d^{c_1})]] \\
&= \mathbb{E} \left[ \mathbb{E}_i [\mathbb{E}_{d^{c_1}}[Y_i(\mathbf{D}_i = d^{c_1}) \mid \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N]] \right] \\
&= \mathbb{E} \left[ \mathbb{E}_i [\mathbb{E}_{d^{c_1}}[Y_i(\mathbf{D}_i = d^{c_1}) \mid \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N, \mathbf{D}_i = d^{c_1}]] \right] \\
&= \mathbb{E} \left[ \mathbb{E}_i [\mathbb{E}_{d^{c_1}}[Y_i(\mathbf{D}_i = d^{c_1}) \mid \Pr(\mathbf{D}_i = d^{c_1} \mid \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N), \mathbf{D}_i = d^{c_1}]] \right] \\
&= \mathbb{E} \left[ \mathbb{E}_i [\mathbb{E}_{d^{c_1}}[Y_i(\mathbf{D}_i = d^{c_1}) \mid e(\mathbf{U}_i, \mathbf{V}_1), \dots, e(\mathbf{U}_i, \mathbf{V}_N), \mathbf{D}_i = d^{c_1}]] \right]
\end{aligned}$$

The first equation comes from the law of iterated expectations. The second equation follows the unconfoundedness condition in Lemma 4. The third equation comes from the balancing property of generalised propensity scores. The last equation holds because

$$\begin{aligned}
& \Pr(\mathbf{D}_i = d^{c_1} \mid \mathbf{U}_i, \mathbf{V}_1, \dots, \mathbf{V}_N) \\
&= \prod_{j=1} (Pr(D_i^j = 1 \mid \mathbf{U}_i, \mathbf{V}_j))^{d_i^{c_1}} (1 - Pr(D_i^j = 1 \mid \mathbf{U}_i, \mathbf{V}_j))^{1-d_i^{c_1}} \\
&= \prod_{j=1} (e(\mathbf{U}_i, \mathbf{V}_j))^{d_i^{c_1}} (1 - e(\mathbf{U}_i, \mathbf{V}_j))^{1-d_i^{c_1}}
\end{aligned}$$

□

## A5 Empirical application supplementary material

## A6 Additional simulation results

### A6.1 Details of network formation model $g_2$

The second network link generation process  $Prob(D_i^j = 1) = g_2(C_i, C_j)$  is a slightly more complicated version of a statistical block model. The linking probabilities are asymmetric, that is  $g_2(C_i, C_j) \neq g_2(C_j, C_i)$ . For any node  $i$  and  $j$ , the probability of  $i$  receiving a link from  $j$  is in general higher if i)  $C_i$  is larger and ii)  $C_j$  is slightly higher than  $C_i$ . If we think of  $C$  as the ability of the node, this is a model where higher ability nodes receive more friendships, but only from nodes who are slightly more able than themselves. This might be because they don't like people who are less able than them, and admire people who are more able, but become jealous of people who are too much more able than themselves.

$$g_2 : P_i^j = \begin{cases} 0.05 & \text{if } C_i \in [0.1, 0.2) \text{ \& } C_j \in (0.2, 0.21] \\ 0.1 & \text{if } C_i \in [0.2, 0.3) \text{ \& } C_j \in (0.3, 0.31] \\ 0.15 & \text{if } C_i \in [0.3, 0.4) \text{ \& } C_j \in (0.4, 0.41] \\ 0.2 & \text{if } C_i \in [0.4, 0.5) \text{ \& } C_j \in (0.5, 0.51], \text{ or if, } C_i \in [0.5, 0.6) \text{ \& } C_j \in (0.6, 0.61] \\ 0.25 & \text{if } C_i \in [0.6, 0.7) \text{ \& } C_j \in (0.7, 0.71], \text{ or if, } C_i \in [0.7, 0.8) \text{ \& } C_j \in (0.8, 0.81] \\ 0.3 & \text{if } C_i \in [0.8, 0.9) \text{ \& } C_j \in (0.9, 0.91], \text{ or if, } C_i \in [0.9, 1] \text{ \& } C_j \in (0.99, 1] \\ 0.01 & \text{if } C_i \in [a, a + 0.1) \text{ \& } C_j \in [a, a + 0.1) \text{ for } a = 0.1, 0.2, 0.3, 0.4, 0.5, 0.6, 0.7, 0.8 \\ & \text{or if, } C_i \in [0, 0.1) \text{ \& } C_j \in [0, 0.05) \\ 0 & \text{otherwise} \end{cases} \quad (22)$$

Table 11: Variable definitions for CFP friendship re-analysis

Variable	Definition in the original papers	Definition in this paper
Post college education for parents	Dummy variable equal to 1 if the respondent reports that the highest level of education attained by their residential father and residential mother has a post-college education, and 0 otherwise. If a student either does not have a residential father/mother or the information is missing, that parent's level of education is imputed using the other parent's education <sup>a</sup> .	Same definition. The difference is that in-home data is used instead. If the in-home data is missing, in-school data is used. This is because for saturated schools, data from in-home interviews have less missing values than data from the in-school survey.
log family income	log of total household income (thousands). If family income is missing, family income is set to the mean value for the school and a dummy is included for missing family income.	Same. In addition, for families with 0 annual family income, their income is replaced with 0.1, in order for the log income to take real values.
Grade	Grade point average is calculated based on self-reported student grades in math, science, english, and history from the Wave I in-home survey where A=4, B=3, C=2, and D or lower=1.	Same. Note: If the respondent didn't take the subject, I code the grade as missing.
MaleFrac (FemaleFrac) high	They are the fraction of male and female high flyers (those with at least one post-college parent) in the grade and school.	Same
Bachelor degree	Dummy variable equal to 1 if the respondent has completed a bachelor's degree (four-year college) and 0 otherwise.	Same
LFP	Dummy variable equal to 1 if the respondent is currently working at least 10 hours per week, is on sick leave or temporarily disabled, is on maternity/paternity leave, or is unemployed and looking for work, and is equal to zero otherwise.	Same
Ever married	Dummy variable equal to one if the respondent reported they have ever been married	Same
Children	Total number of (non-deceased) biological children they have.	Same

<sup>a</sup>For example, if the residential father's education is missing, but the residential mother has a high-school education, they impute a value for father post-college by taking the average value of father post-college among students of the same gender within the school who also have a residential mother with a high-school education. If there are no students with equivalent mother's education and non-missing information on father's education, they impute father post-college using the value of father post-college among all students in the school who have a residential mother with a high-school education.

Table 12: Naive OLS estimates for the effect of friendship

	Bachelor Degree (p.p)	Want (p.p)	Will (p.p)	Intelligence (p.p)
F_FL	0.638*** (0.163)	0.195 (0.208)	-0.109 (0.206)	0.214 (0.209)
F_ML	1.150*** (0.342)	0.525 (0.379)	0.284 (0.363)	0.175 (0.441)
F_FH	2.984*** (1.118)	4.441*** (0.987)	2.600** (1.065)	0.955 (1.699)
F_MH	2.052 (1.435)	1.474 (1.344)	1.429 (1.120)	3.451** (1.741)
M_FL	0.473* (0.282)	0.152 (0.272)	0.147 (0.283)	-0.697** (0.314)
M_ML	0.499** (0.202)	-0.058 (0.189)	-0.253 (0.217)	-0.327 (0.244)
M_FH	4.145** (1.777)	1.971 (2.013)	-3.514 (2.480)	0.021 (2.833)
M_MH	3.262** (1.561)	1.765 (1.378)	2.540** (1.123)	4.102*** (1.145)

Note: This table reports the naive OLS estimated effects of high school friendship on students' bachelor degree attainment (column 1), and their intermediate outcomes (column 2-4). The dependent variable in Column (2) is a dummy variable recording whether the student reported a scale 5 (1 is the lowest and 5 is the highest) on the the extent of how much they want to go to college (Wave II). The dependent variable in Column (3) is a dummy variable recording whether the student reported a scale 5 (1 is the lowest and 5 is the highest) on the likelihood that they will go to college (Wave II). The dependent variable in Column (4) is a dummy variable recording whether the student reported a scale 5 or 6 (1 is the lowest and 6 is the highest) on their intelligence compared to other people of their age (Wave II). Each row corresponds to a characterisation of the friendship, based on the character of the receiver and the sender. Receiver characteristics is shown before the underbar  $\_$ , and sender characteristics is shown after. "F" and "M" are used to refer to the gender female and male respectively. "H" and "L" are used to refer to whether the individual is a high flyer or non-high flyer (low flyer) respectively. For example, "F\_FL" means the linking effect is estimated for female link receivers and female non-high flyer link senders. The regressions reported in all columns include cohort dummies, whether the student was born in the US, their PVT score, whether their PVT score is above the population median PVT score, whether their mother's and father's highest degree is high school, some college, college, or post college, whether their mother's and father's highest education level is missing, the student's log family income, whether family is missing, the age of the student during Wave I, whether the student's mother and father were in the household, dummies for whether the student is black, hispanic, white, asian and indian. Standard errors are estimated with subsample bootstrapping with 900 subsamples drawn randomly. At each bootstrap, 90% of the individuals (nodes) within each school are sampled without replacement. \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Table 13: Effect of friendship on long-term outcomes

	LFP	Num Children	Married
	(1)	(2)	(3)
F_FL	0.002 (0.002)	0.003 (0.005)	0.007*** (0.002)
F_ML	0.001 (0.004)	-0.031*** (0.008)	-0.001 (0.004)
F_FH	-0.016 (0.012)	-0.081*** (0.031)	0.046*** (0.012)
F_MH	0.024 (0.015)	-0.064*** (0.018)	0.006 (0.010)
M_FL	0.010*** (0.003)	0.004 (0.008)	0.009*** (0.003)
M_ML	0.003 (0.003)	-0.003 (0.006)	-0.003 (0.003)
M_FH	-0.055** (0.024)	0.024 (0.031)	-0.015 (0.016)
M_MH	-0.034** (0.013)	-0.057*** (0.021)	0.025* (0.013)

*Note:* \*p<0.1; \*\*p<0.05; \*\*\*p<0.01

Note: This table reports the estimated effects of high school friendship on students' long term outcomes measured in Wave IV. The dependent variable in Column (1) is a dummy variable recording whether the respondent was part of the labour force. The dependent variable in Column (2) is the number of children the respondent. The dependent variable in Column (3) is a dummy variable recording whether the respondent has ever been married. The estimands are all ATT. Each row corresponds to a characterisation of the friendship, based on the character of the receiver and the sender. Receiver characteristics is shown before the underbar -, and sender characteristics is shown after. "F" and "M" are used to refer to the gender female and male respectively. "H" and "L" are used to refer to whether the individual is a high flyer or non-high flyer (low flyer) respectively. For example, "F\_FL" means the linking effect is estimated for female link receivers and female non-high flyer link senders. The regressions reported in all columns include cohort dummies, whether the student was born in the US, their PVT score, whether their PVT score is above the population median PVT score, whether their mother's and father's highest degree is high school, some college, college, or post college, whether their mother's and father's highest education level is missing, the student's log family income, whether family is missing, the age of the student during Wave I, whether the student's mother and father were in the household, dummies for whether the student is black, hispanic, white, asian and indian. Standard errors are estimated with subsample bootstrapping with 900 subsamples drawn randomly. At each bootstrap, 90% of the individuals (nodes) within each school are sampled without replacement. \*p<0.1; \*\*p<0.05; \*\*\*p<0.01



Table 14: Heterogeneous effects of friendship on desire and likelihood to go to college

	<i>Dependent variable:</i>			
	Want		Will	
	PVT Median - (1)	PVT Median + (2)	PVT Median - (3)	PVT Median + (4)
F_FL	−2.100*** (0.508)	0.603 (0.385)	−1.256*** (0.350)	−0.328 (0.407)
F_ML	0.216 (0.798)	−0.462 (0.876)	−1.396* (0.774)	0.091 (0.697)
F_FH	5.494*** (2.089)	−0.387 (1.708)	2.600 (3.457)	−0.410 (1.584)
F_MH	4.506* (2.393)	−0.722 (1.548)	5.365*** (1.816)	−0.441 (1.260)
M_FL	0.153 (0.767)	−0.893* (0.496)	0.394 (0.746)	−0.890* (0.522)
M_ML	1.010** (0.436)	−0.525 (0.437)	−0.352 (0.480)	−0.884** (0.436)
M_FH	1.805 (2.537)	0.648 (1.928)	−5.984** (2.426)	0.746 (2.587)
M_MH	−4.820** (2.295)	10.053*** (2.411)	−3.905 (2.912)	9.147*** (2.593)

Note: This table reports the estimated heterogeneous effects of high school friendship on students' desire and likelihood of going to college. The dependent variable in Column (1) and Column (2) is a dummy variable recording whether the student reported a scale 5 (1 is the lowest and 5 is the highest) on the the extent of how much they want to go to college (Wave II). The dependent variable in Column (3) and Column (4) is a dummy variable recording whether the student reported a scale 5 (1 is the lowest and 5 is the highest) on the likelihood that they will go to college (Wave II). Column (1) and (3) reports results for ego whose PVT score is below population median PVT score. Column (2) and (4) reports results for ego whose PVT score is above population median PVT score. The estimands are all ATT. Each row corresponds to a characterisation of the friendship, based on the character of the receiver and the sender. Receiver characteristics is shown before the underbar  $\_$ , and sender characteristics is shown after. "F" and "M" are used to refer to the gender female and male respectively. "H" and "L" are used to refer to whether the individual is a high flyer or non-high flyer (low flyer) respectively. For example, "F\_FL" means the linking effect is estimated for female link receivers and female non-high flyer link senders. The regressions reported in all columns include cohort dummies, whether the student was born in the US, their PVT score, whether their PVT score is above the population median PVT score, whether their mother's and father's highest degree is high school, some college, college, or post college, whether their mother's and father's highest education level is missing, the student's log family income, whether family is missing, the age of the student during Wave I, whether the student's mother and father were in the household, dummies for whether the student is black, hispanic, white, asian and indian. Standard errors are estimated with subsample bootstrapping with 900 subsamples drawn randomly. At each bootstrap, 90% of the individuals (nodes) within each school are sampled without replacement. \* $p < 0.1$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$

Table 15: Mean degree distribution for simulated g2 networks

	0%	10%	20%	30%	40%	50%	60%	70%	80%	90%	100%
N=100	0	0	0	0	0	0.2	0.8	1	1.1	1.9	4.3
N=300	0	0	0.2	1	1	1.5	2	2.6	3.3	4.7	10.2
N=500	0	0.3	1	1.5	2	2.7	3.2	4.1	5.5	7.4	15.7

Note: This table reports the mean degree distribution of the simulated networks. For each size N=100,300,500, and for each simulated network of that size, I calculate the deciles of the number of links each link receiver receives, and average over all the 500 simulated networks of that size.

Table 16: Simulation results for  $g_2$ 

				IPW	Matching	Sub	Naive ols
Yb	Bias	$X_0$	N=100	0.083264	0.096999	0.099578	0.135588
			N=300	0.048002	0.084757	0.087946	0.167218
			N=500	0.036638	0.088748	0.091242	0.186257
		$X_1$	N=100	0.074813	0.087677	0.089541	0.126791
			N=300	0.04956	0.086555	0.08927	0.167975
			N=500	0.035027	0.085468	0.089596	0.184303
	MAE	$X_0$	N=100	0.103605	0.134378	0.112983	0.143077
			N=300	0.050245	0.085861	0.087946	0.167218
			N=500	0.037016	0.088748	0.091242	0.186257
		$X_1$	N=100	0.094632	0.114537	0.10228	0.13395
			N=300	0.052468	0.087344	0.089483	0.167975
			N=500	0.03631	0.085468	0.089596	0.184303
Yc	Bias	$X_0$	N=100	0.465683	0.529408	0.561574	0.779459
			N=300	0.2608	0.470754	0.494971	0.956848
			N=500	0.186274	0.526728	0.546989	1.148476
		$X_1$	N=100	0.456105	0.536314	0.54596	0.76797
			N=300	0.263195	0.482857	0.495973	0.954869
			N=500	0.177633	0.512275	0.537143	1.136513
	MAE	$X_0$	N=100	0.489148	0.601876	0.575155	0.784664
			N=300	0.262791	0.470754	0.494971	0.956848
			N=500	0.187562	0.526728	0.546989	1.148476
		$X_1$	N=100	0.465316	0.555527	0.548736	0.768234
			N=300	0.263612	0.482857	0.495973	0.954869
			N=500	0.179018	0.512275	0.537143	1.136513

Note: This table reports for the  $g_2$  model the bias and the mean absolute error (MAE) of the inverse probability weighting estimator, the nearest neighbour matching estimator with replacement, the subclassification estimator and the naive ols estimator, compared to the true linking effects, for link sender with  $X_j = 0$  and  $X_j = 1$  separately. The number of matches for the matching estimator is 1, the number of subclasses for the subclassification estimator is 8. All the estimates are for the average treatment effect for the treated.

Table 17: True Propensity Score vs True Effects for  $g_1$ 

			IPW	Matching	Sub
Yb	Bias	$X_0$			
		N=100	-0.00618	0.00017	-0.00134
		N=300	0.002273	0.002384	0.006239
		N=500	-0.00044	-0.00046	0.004332
		$X_1$			
		N=100	-0.00422	-0.00806	-0.00598
	MAE	N=300	-0.00232	-0.00379	0.00157
		N=500	0.000664	0.00104	0.005368
		$X_0$			
		N=100	0.080231	0.097323	0.073752
		N=300	0.026164	0.029931	0.023283
		N=500	0.013928	0.018599	0.013309
	$X_1$				
	N=100	0.065956	0.085406	0.061449	
	N=300	0.025165	0.029701	0.023626	
	N=500	0.016689	0.018747	0.016217	
	Yc	Bias	$X_0$		
N=100			0.005795	0.011732	0.04541
N=300			-0.00335	-0.00898	0.026149
N=500			0.000463	-0.00044	0.033232
$X_1$					
N=100			-0.02251	-0.05712	-0.01709
MAE		N=300	-0.01018	-0.01714	0.018337
		N=500	-0.0004	-0.00359	0.031436
		$X_0$			
		N=100	0.259116	0.281393	0.208147
		N=300	0.101655	0.104463	0.079084
		N=500	0.069394	0.070489	0.056754
	$X_1$				
	N=100	0.219053	0.215143	0.159517	
	N=300	0.086806	0.088471	0.066411	
N=500	0.058299	0.058505	0.049941		

Note: This table reports for the  $g_1$  model the bias and the mean absolute error (MAE) of the inverse probability weighting estimator, the nearest neighbour matching estimator with replacement, and the subclassification estimator using true propensity scores, compared to the true linking effects, for link sender with  $X_j = 0$  and  $X_j = 1$  separately. The number of matches for the matching estimator is 1, the number of subclasses for the subclassification estimator is 8. All the estimates are for the average treatment effect for the treated.

Table 18: True Propensity Score vs True Effects for  $g_2$ 

				IPW	Matching	Sub
Yb	Bias	$X_0$	N=100	0.000634	0.000271	0.003285
			N=300	-0.00094	0.00024	0.004268
			N=500	0.000682	0.000218	0.004587
		$X_1$	N=100	-0.00704	-0.01052	-0.00802
			N=300	0.000635	-0.00019	0.004349
			N=500	-0.00077	-0.00149	0.004058
	MAE	$X_0$	N=100	0.077348	0.094386	0.067707
			N=300	0.02476	0.030613	0.02275
			N=500	0.015357	0.019648	0.014188
		$X_1$	N=100	0.068187	0.088944	0.063137
			N=300	0.024323	0.029334	0.022893
			N=500	0.016496	0.017966	0.014982
Yc	Bias	$X_0$	N=100	0.002911	-0.00577	0.02452
			N=300	-0.00701	-0.00254	0.028533
			N=500	0.003169	-0.00064	0.031012
		$X_1$	N=100	-0.01186	-0.01944	-0.00279
			N=300	-0.00522	-0.01368	0.020637
			N=500	-0.00502	-0.00856	0.027283
	MAE	$X_0$	N=100	0.270586	0.274076	0.199427
			N=300	0.100294	0.103225	0.080769
			N=500	0.068604	0.071309	0.055641
		$X_1$	N=100	0.211424	0.224245	0.162451
			N=300	0.084764	0.091543	0.068273
			N=500	0.062315	0.059699	0.049605

Note: This table reports for the  $g_2$  model the bias and the mean absolute error (MAE) of the inverse probability weighting estimator, the nearest neighbour matching estimator with replacement, and the subclassification estimator using true propensity scores, compared to the true linking effects, for link sender with  $X_j = 0$  and  $X_j = 1$  separately. The number of matches for the matching estimator is 1, the number of subclasses for the subclassification estimator is 8. All the estimates are for the average treatment effect for the treated.

Table 19: Using estimated propensity scores vs true propensity scores for  $g_1$ 

			IPW	Matching	Sub	
Yb	Bias	$X_0$				
		N=100	0.083621	0.096681	0.095233	
		N=300	0.049644	0.084352	0.085735	
		N=500	0.033614	0.084658	0.083421	
		$X_1$				
		N=100	0.082936	0.102901	0.098823	
	MAE	N=300	0.049853	0.087267	0.086033	
		N=500	0.033867	0.08433	0.083669	
		$X_0$				
		N=100	0.08604	0.13704	0.096486	
		N=300	0.0501	0.085676	0.085735	
		N=500	0.033836	0.084672	0.083421	
	$X_1$					
	N=100	0.084721	0.124468	0.09916		
	N=300	0.050546	0.087735	0.086033		
	N=500	0.034166	0.08433	0.083669		
	Yc	Bias	$X_0$			
			N=100	0.488645	0.579477	0.538106
N=300			0.26446	0.492194	0.47262	
N=500			0.172692	0.512657	0.499917	
$X_1$						
N=100			0.476862	0.591576	0.556474	
MAE		N=300	0.26786	0.4877	0.475234	
		N=500	0.17529	0.510615	0.501656	
		$X_0$				
		N=100	0.488645	0.635377	0.541816	
		N=300	0.264799	0.492258	0.47262	
		N=500	0.172846	0.512657	0.499917	
	$X_1$					
	N=100	0.476916	0.619324	0.556625		
	N=300	0.267956	0.4877	0.475234		
	N=500	0.175635	0.510615	0.501656		

Note: This table reports for the  $g_1$  model the bias and the mean absolute error (MAE) of the inverse probability weighting estimator, the nearest neighbour matching estimator with replacement, and the subclassification estimator using factor model estimated propensity scores, compared to the linking effects estimated using the true propensity scores, for link sender with  $X_j = 0$  and  $X_j = 1$  separately. The number of matches for the matching estimator is 1, the number of subclasses for the subclassification estimator is 8. All the estimates are for the average treatment effect for the treated.

Table 20: Using estimated propensity scores vs true propensity scores for  $g_2$ 

			IPW	Matching	Sub	
Yb	Bias	$X_0$	N=100	0.08263	0.096729	0.096293
			N=300	0.048945	0.084517	0.083678
			N=500	0.035957	0.088529	0.086655
		$X_1$	N=100	0.081855	0.098198	0.097559
			N=300	0.048925	0.086743	0.084921
			N=500	0.035799	0.086957	0.085537
	MAE	$X_0$	N=100	0.086134	0.138018	0.097608
			N=300	0.049154	0.086261	0.083678
			N=500	0.036224	0.088529	0.086655
		$X_1$	N=100	0.084542	0.120627	0.098128
			N=300	0.049115	0.086914	0.084921
			N=500	0.036091	0.086957	0.085537
Yc	Bias	$X_0$	N=100	0.462772	0.535179	0.537054
			N=300	0.267808	0.473296	0.466438
			N=500	0.183105	0.527369	0.515976
		$X_1$	N=100	0.467964	0.555751	0.548748
			N=300	0.268415	0.496538	0.475336
			N=500	0.182649	0.520831	0.50986
	MAE	$X_0$	N=100	0.462914	0.601572	0.537354
			N=300	0.267808	0.473863	0.466438
			N=500	0.183854	0.527369	0.515976
		$X_1$	N=100	0.46845	0.574089	0.549009
			N=300	0.268415	0.496538	0.475336
			N=500	0.182914	0.520831	0.50986

Note: This table reports for the  $g_2$  model the bias and the mean absolute error (MAE) of the inverse probability weighting estimator, the nearest neighbour matching estimator with replacement, and the subclassification estimator using factor model estimated propensity scores, compared to the linking effects estimated using the true propensity scores, for link sender with  $X_j = 0$  and  $X_j = 1$  separately. The number of matches for the matching estimator is 1, the number of subclasses for the subclassification estimator is 8. All the estimates are for the average treatment effect for the treated.

Table 21: Matching and Subclassification with increasing matches and subclasses vs True Effects for  $g_1$

				Matching	Sub
Yb	Bias	$X_0$	N=100	0.096851	0.093895
			N=300	0.088153	0.091161
			N=500	0.083725	0.085986
		$X_1$	N=100	0.094838	0.092844
			N=300	0.082749	0.08666
			N=500	0.084929	0.087267
	MAE	$X_0$	N=100	0.137418	0.111374
			N=300	0.088258	0.091161
			N=500	0.083725	0.085986
		$X_1$	N=100	0.11907	0.103271
			N=300	0.082933	0.086674
			N=500	0.084929	0.087267
Yc	Bias	$X_0$	N=100	0.591209	0.583515
			N=300	0.483253	0.493814
			N=500	0.508767	0.522097
		$X_1$	N=100	0.534451	0.539381
			N=300	0.467582	0.488238
			N=500	0.507616	0.521799
	MAE	$X_0$	N=100	0.62927	0.595459
			N=300	0.483253	0.493814
			N=500	0.508767	0.522097
		$X_1$	N=100	0.558012	0.542142
			N=300	0.467582	0.488238
			N=500	0.507616	0.521799

Note: This table reports for the  $g_1$  model the bias and the mean absolute error (MAE) of the nearest neighbour matching estimator with replacement and the subclassification estimator with factor model estimated propensity scores, compared to the true linking effects, for link sender with  $X_j = 0$  and  $X_j = 1$  separately. The number of matches for the matching estimator is 1 for networks with  $N = 100$ , 3 for networks with  $N = 300$ , 5 for networks with  $N = 500$ . The number of subclasses for the subclassification estimator is 8 for networks with  $N = 100$ , 10 for networks with  $N = 300$ , 12 for networks with  $N = 500$ . All the estimates are for the average treatment effect for the treated.



Table 22: Matching and Subclassification with increasing matches and subclasses vs True Effects for  $g_2$

				Matching	Sub
Yb	Bias	$X_0$	N=100	0.096999	0.099578
			N=300	0.083618	0.086948
			N=500	0.088433	0.089523
		$X_1$	N=100	0.087677	0.089541
			N=300	0.086064	0.08834
			N=500	0.085855	0.087839
	MAE	$X_0$	N=100	0.134378	0.112983
			N=300	0.083826	0.086948
			N=500	0.088433	0.089523
		$X_1$	N=100	0.114537	0.10228
			N=300	0.086486	0.08858
			N=500	0.085855	0.087839
Yc	Bias	$X_0$	N=100	0.529408	0.561574
			N=300	0.470578	0.489446
			N=500	0.525757	0.535877
		$X_1$	N=100	0.536314	0.54596
			N=300	0.47555	0.490552
			N=500	0.513496	0.526042
	MAE	$X_0$	N=100	0.601876	0.575155
			N=300	0.470578	0.489446
			N=500	0.525757	0.535877
		$X_1$	N=100	0.555527	0.548736
			N=300	0.47555	0.490552
			N=500	0.513496	0.526042

Note: This table reports for the  $g_2$  model the bias and the mean absolute error (MAE) of the nearest neighbour matching estimator with replacement and the subclassification estimator with factor model estimated propensity scores, compared to the true linking effects, for link sender with  $X_j = 0$  and  $X_j = 1$  separately. The number of matches for the matching estimator is 1 for networks with  $N = 100$ , 3 for networks with  $N = 300$ , 5 for networks with  $N = 500$ . The number of subclasses for the subclassification estimator is 8 for networks with  $N = 100$ , 10 for networks with  $N = 300$ , 12 for networks with  $N = 500$ . All the estimates are for the average treatment effect for the treated.

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