

# Linear Regression with Centrality Measures

---

Yong Cai

January 10, 2023

Northwestern University

# Linear Regression with Centrality Measures

- Suppose researchers observe agents in a network
- Want to know how network position of an agent affects economic outcome
- Network is high dimensional  $\Rightarrow$  summarize using centrality measures
- Use OLS to study relationship between outcome and centrality

# Linear Regression with Centrality Measures

- Suppose researchers observe agents in a network
- Want to know how network position of an agent affects economic outcome
- Network is high dimensional  $\Rightarrow$  summarize using centrality measures
- Use OLS to study relationship between outcome and centrality
- When is linear regression with centrality measures statistically valid?

- Better-networked venture capital firms are more profitable (Hochberg, Ljungqvist, and Lu, 2007)
- Greater take-up when seeding microfinance to central villagers (Banerjee, Chandrasekhar, Duflo, and Jackson, 2013)
- Central families overrepresented in political offices in the Philippines (Cruz, Labonne, and Querubin, 2017)

# Linear Regression with Centrality Measures

- Researchers study:

$$Y_i = \underbrace{C_i}_{\text{centrality}} \beta + \underbrace{X_i'}_{\text{controls}} \gamma + \varepsilon_i \quad , \quad E[X_i \varepsilon_i] = 0, E[C_i \varepsilon_i] = 0$$

- $\beta$  is parameter of interest
- Different centrality measures capture different ways of being important
- Estimate  $\beta$  by OLS; conduct inference using  $t$ -test

# Statistical Challenges

- Networks may be **sparse**
  - Many more agents than links per agent
  - Not enough variation to identify  $\beta$
  - Sparsity is “stylized fact”

# Statistical Challenges

- Networks may be **sparse**
  - Many more agents than links per agent
  - Not enough variation to identify  $\beta$
  - Sparsity is “stylized fact”
- Networks may be constructed using **proxies**
  - Interaction of interest may not be observed
  - Use a related network instead
  - E.g. want risk sharing network, have friendship network

# Statistical Challenges

- Networks may be **sparse**
  - Many more agents than links per agent
  - Not enough variation to identify  $\beta$
  - Sparsity is “stylized fact”
- Networks may be constructed using **proxies**
  - Interaction of interest may not be observed
  - Use a related network instead
  - E.g. want risk sharing network, have friendship network

⇒ Weak signals harder to separate from noise



# When is linear regression on centrality measures statistically valid?

- Degree, diffusion and eigenvector centralities
- Cross-sectional: one large network
- Novel asymptotic framework with sparse, proxy networks
- More similar to data  $\Rightarrow$  asymp. approx. more accurate in finite sample

1. Show that OLS can become **inconsistent** with sparse, proxy networks
  - Characterize threshold at which inconsistency occurs
  - Show that eigenvector is **less robust** than degree and diffusion
  - Comparing significance involves both economic *and* statistical properties
  - **Rule-of-Thumb** for sparsity regime

1. Show that OLS can become **inconsistent** with sparse, proxy networks
  - Characterize threshold at which inconsistency occurs
  - Show that eigenvector is **less robust** than degree and diffusion
  - Comparing significance involves both economic *and* statistical properties
  - **Rule-of-Thumb** for sparsity regime
2. Distributional theory with sparse, proxy networks
  - Even when consistent, OLS estimators are **asymptotically biased**
  - Asymptotic bias can be large relative to variance
  - **Slower rate of convergence** than reflected by robust standard errors
  - Usual confidence intervals and tests may not be valid

1. Show that OLS can become **inconsistent** with sparse, proxy networks
  - Characterize threshold at which inconsistency occurs
  - Show that eigenvector is **less robust** than degree and diffusion
  - Comparing significance involves both economic *and* statistical properties
  - **Rule-of-Thumb** for sparsity regime
2. Distributional theory with sparse, proxy networks
  - Even when consistent, OLS estimators are **asymptotically biased**
  - Asymptotic bias can be large relative to variance
  - **Slower rate of convergence** than reflected by robust standard errors
  - Usual confidence intervals and tests may not be valid
3. Novel bias correction and inference methods

- Linear Regression with Centrality Measures
  - **Eigenvectors:** Le and Li (2020); Cai, Yang, Zhu, Shen, and Zhao (2021)
- Estimation of Centrality Statistics with Proxy Networks
  - **Simulations:** Costenbader and Valente (2003); Borgatti, Carley, and Krackhardt (2006)
  - **Theory:** Dasaratha (2020); Avella-Medina, Parise, Schaub, and Segarra (2020)
- Econometric Challenges from Sparse Networks
  - **Network Formation:** Jochmans (2018); Graham (2020b)

# Table of Contents

1. Centrality Measures
2. Model and Assumptions
3. Theoretical Results
4. Simulations
5. Empirical Demonstration
6. Conclusion

## Centrality Measures

---

# Centrality Measures

- Network data is symmetric adjacency matrix  $A$
- $A_{ij}$  records intensity of relationship between  $i$  and  $j$



# Centrality Measures

- Network data is symmetric adjacency matrix  $A$
- $A_{ij}$  records intensity of relationship between  $i$  and  $j$
- Centrality measures summarize network positions into “importance”
- When  $A$  is known, centrality measures exactly computable

# Centrality Measures

- Network data is symmetric adjacency matrix  $A$
- $A_{ij}$  records intensity of relationship between  $i$  and  $j$
- Centrality measures summarize network positions into “importance”
- When  $A$  is known, centrality measures exactly computable
- Many different ways to measure importance  $\Rightarrow$  many centrality measures
- Focus on **degree**, **diffusion** and **eigenvector**

- Degree is the total intensity of direct connections:

$$C^{(1)}(A) = A_{\iota}$$

# Degree and Diffusion Centralities

- **Degree** is the total intensity of direct connections:

$$C^{(1)}(A) = A_{\iota}$$

- **Diffusion** reflects ability to broadcast messages in a network:

$$C^{(T)}(A) = \left( \sum_{t=1}^T \delta^t A^t \right)_{\iota}$$

- $T, \delta$  are chosen by researchers

- **Eigenvector** is the leading eigenvector of  $A$ , scaled

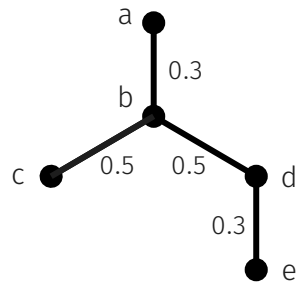
$$C^{(\infty)}(A) = a_n v_1(A)$$

- Friends of important agents are themselves more important

- Various choices of  $a_n$  in literature
- $a_n$  turns out to matter for statistical properties
- Today:  $a_n = \sqrt{\lambda_1(A)}$

	Applied Work	Econometrics
$a_n = 1$	Banerjee et al. (2013) Cruz et al. (2017)	Dasaratha (2020)
$a_n = \sqrt{n}$	Chandrasekhar et al. (2018) Banerjee et al. (2019)	Avella-Medina et al. (2020) Cai et al. (2021)

**Table 1:** Examples of  $a_n$  in econometric theory and empirical work

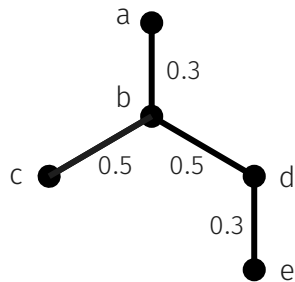


$$\begin{pmatrix} 0 & 0.3 & 0 & 0 & 0 \\ 0.3 & 0 & 0.5 & 0.5 & 0 \\ 0 & 0.5 & 0 & 0 & 0 \\ 0 & 0.5 & 0 & 0 & 0.3 \\ 0 & 0 & 0 & 0.3 & 0 \end{pmatrix}$$

# Centrality Statistics

$$\begin{pmatrix} 0.3 \\ 1.3 \\ 0.5 \\ 0.8 \\ 0.3 \end{pmatrix}$$

Degree  
 $C^{(1)}$



$$\begin{pmatrix} 0 & 0.3 & 0 & 0 & 0 \\ 0.3 & 0 & 0.5 & 0.5 & 0 \\ 0 & 0.5 & 0 & 0 & 0 \\ 0 & 0.5 & 0 & 0 & 0.3 \\ 0 & 0 & 0 & 0.3 & 0 \end{pmatrix}$$



# Centrality Statistics

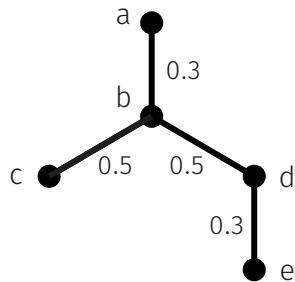
$$\begin{pmatrix} 0.3 \\ 1.3 \\ 0.5 \\ 0.8 \\ 0.3 \end{pmatrix}$$

Degree  
 $C^{(1)}$

$$\begin{pmatrix} 0.28 \\ 0.94 \\ 0.46 \\ 0.64 \\ 0.24 \end{pmatrix}$$

Diffusion  
 $C^{(T)}$

$$(T = 3, \delta = 0.5)$$



$$\begin{pmatrix} 0 & 0.3 & 0 & 0 & 0 \\ 0.3 & 0 & 0.5 & 0.5 & 0 \\ 0 & 0.5 & 0 & 0 & 0 \\ 0 & 0.5 & 0 & 0 & 0.3 \\ 0 & 0 & 0 & 0.3 & 0 \end{pmatrix}$$

$$\begin{pmatrix} 0.3 \\ 1.3 \\ 0.5 \\ 0.8 \\ 0.3 \end{pmatrix}$$

Degree  
 $C^{(1)}$

$$\begin{pmatrix} 0.28 \\ 0.94 \\ 0.46 \\ 0.64 \\ 0.24 \end{pmatrix}$$

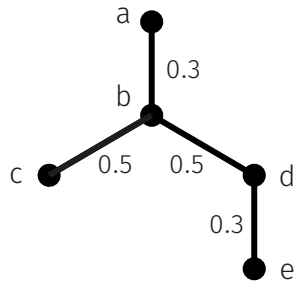
Diffusion  
 $C^{(T)}$

$(T = 3, \delta = 0.5)$

$$0.89 \cdot \begin{pmatrix} 0.25 \\ 0.68 \\ 0.42 \\ 0.50 \\ 0.18 \end{pmatrix}$$

Eigenvector  
 $C^{(\infty)}$

$(a_n = \sqrt{\lambda_1(A)})$

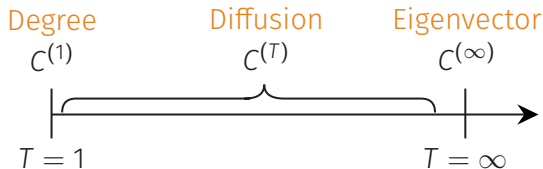


$$\begin{pmatrix} 0 & 0.3 & 0 & 0 & 0 \\ 0.3 & 0 & 0.5 & 0.5 & 0 \\ 0 & 0.5 & 0 & 0 & 0 \\ 0 & 0.5 & 0 & 0 & 0.3 \\ 0 & 0 & 0 & 0.3 & 0 \end{pmatrix}$$

- When  $T = 1$ ,  $C^{(1)}(A) \propto C^{(T)}(A)$
- Banerjee et al. (2019): If  $\delta$  is larger than the inverse of leading eigenvalue of  $A$ ,

$$\lim_{T \rightarrow \infty} C^{(T)}(A) \propto C^{(\infty)}(A)$$

- The statistics we study can thus be represented on a line:



## Model and Assumptions

---

# Model and Assumptions

- For simplicity, consider regression without other covariates

- For  $d \in \{1, T, \infty\}$ :

$$Y_i = \beta^{(d)} C_i^{(d)} + \varepsilon_i^{(d)}$$

- Will make enough assumptions so  $\beta^{(d)}$  is slope of CEF
- DGP yields i.i.d. draws of  $\{(\varepsilon_i, U_i)\}$
- $U_i \sim U[0, 1]$  is unobserved latent type used to construct network

- Let  $A$  be the  $n \times n$  symmetric adjacency matrix
- For  $f : [0, 1]^2 \rightarrow [0, 1]$ ,  $p_n \in (0, 1]$  and  $j > i$ , let

$$A_{ij} := p_n f(U_i, U_j)$$

Symmetry:  $A_{ij} = A_{ji}$ ; normalisation:  $A_{ii} = 0$

- When  $A_{ij}$  is large, agents  $i$  and  $j$  have a strong relationship
- $p_n \rightarrow 0$  reflects sparsity

## Informal Insurance and Consumption Smoothing

- $Y_i$ : variance in consumption expenditure
- $A_{ij}$ : probability that  $i$  lends  $j$  money or vice versa
- $U_i$ : social class

## Informal Insurance and Consumption Smoothing

- $Y_i$ : variance in consumption expenditure
- $A_{ij}$ : probability that  $i$  lends  $j$  money or vice versa
- $U_i$ : social class

## Graphons ( $f$ )

- “Full” Insurance:  $f(U_i, U_j) = 1$
- Assortative:  $f(U_i, U_j) = 1 - (U_i - U_j)^2$



- When  $A$  is observed, can exactly compute centrality measures
- Form the estimator

$$\tilde{\beta}^{(d)} = \frac{Y' C^{(d)}}{(C^{(d)})' C^{(d)}}$$

- When  $A$  is not observed, use  $\hat{A}$ : for  $j > i$ ,

$$\hat{A}_{ij} \mid \mathbf{U} \stackrel{\text{iid}}{\sim} \text{Bernoulli}(A_{ij})$$

Below the diagonal,  $\hat{A}_{ij} = \hat{A}_{ji}$

- Proxy error is “white noise”

- When  $A$  is not observed, use  $\hat{A}$ : for  $j > i$ ,

$$\hat{A}_{ij} \mid \mathbf{U} \stackrel{\text{iid}}{\sim} \text{Bernoulli}(A_{ij})$$

Below the diagonal,  $\hat{A}_{ij} = \hat{A}_{ji}$

- Proxy error is “white noise”
- Use  $\hat{A}$  as **plug-in** for  $A$  to compute  $\hat{C}^{(d)}$
- Estimate

$$\hat{\beta}^{(d)} = \frac{Y' \hat{C}^{(d)}}{(\hat{C}^{(d)})' \hat{C}^{(d)}}$$

## Informal Insurance and Consumption Smoothing

- $Y_i$ : variance in consumption expenditure
- $A_{ij}$ : probability that  $i$  lends  $j$  money or vice versa
- $U_i$ : social class

## Proxy Networks

- Social:  $\hat{A}_{ij} = 1$  if either  $i$  or  $j$  reports the other as a friend
- Financial:  $\hat{A}_{ij} = 1$  if  $i$  borrows from or lends to  $j$

- Want to understand the properties of  $\tilde{\beta}^{(d)}$  and  $\hat{\beta}^{(d)}$  when networks are sparse
- Theoretical device:  $p_n \rightarrow 0$  as  $n \rightarrow \infty$ :

$$A_{ij} := p_n f(U_i, U_j) \quad , \quad \hat{A}_{ij} = \text{Bernoulli}(p_n f(U_i, U_j))$$

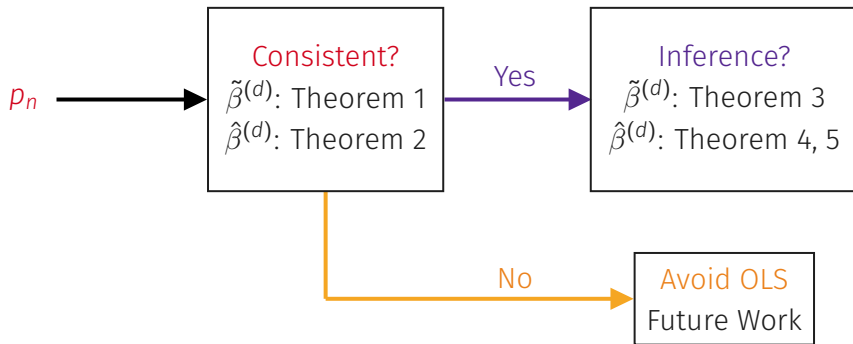
- Weak interaction in true network:  $A_{ij} \rightarrow 0$
- Sparse proxy networks: many  $\hat{A}_{ij}$ 's are 0
- Rate at which  $p_n \rightarrow 0$  reflects different amounts of sparsity

- Proxy Networks:  $\hat{A}$  is observed but  $A$  economically meaningful
  - **Node-Level Regressions:** Auerbach (2022), Le and Li (2020), Cai et al. (2021)
  - **Dyadic Models:** see e.g. De Paula (2017) Section 3, Graham (2020a) Section 6
- Bickel-Chen Model of Sparsity (Bickel and Chen 2009)
  - Graham (2020a): “The Bickel-Chen model is the default one in the nonparametric statistics and machine learning literatures on random graphs.”
  - **Dyadic Models:** Jochmans (2018), Graham (2020b)
- Standard models of proxy networks and sparsity to study linear regression

- Main question: how do  $\tilde{\beta}^{(d)}$  and  $\hat{\beta}^{(d)}$  behave at as we vary  $p_n$ ?

## Preview of Results

- Main question: how do  $\tilde{\beta}^{(d)}$  and  $\hat{\beta}^{(d)}$  behave at as we vary  $p_n$ ?





## Theoretical Results

---

## Theorem 1

$\tilde{\beta}^{(1)}$  and  $\tilde{\beta}^{(T)}$  are consistent if and only if

$$p_n \gg n^{-\frac{3}{2}}.$$

$\tilde{\beta}^{(\infty)}$  is consistent if  $a_n = \sqrt{\lambda_1(A)}$ .

- $n \cdot n^{-3/2} \rightarrow 0$
- Inconsistent only under extreme sparsity
- Consistency requires  $\|C^{(d)}\|_2 \rightarrow \infty$  w.p.a. 1
- $a_n$  inflates eigenvector, counters sparsity

## Theorem 2

$\hat{\beta}^{(1)}$  and  $\hat{\beta}^{(T)}$  are consistent if and only if

$$p_n \gg n^{-1} .$$

- $\hat{\beta}^{(1)}, \hat{\beta}^{(T)}$  less robust to sparsity than  $\tilde{\beta}^{(1)}, \tilde{\beta}^{(T)}$
- Consistency with proxy networks in dense regime

## Theorem 2

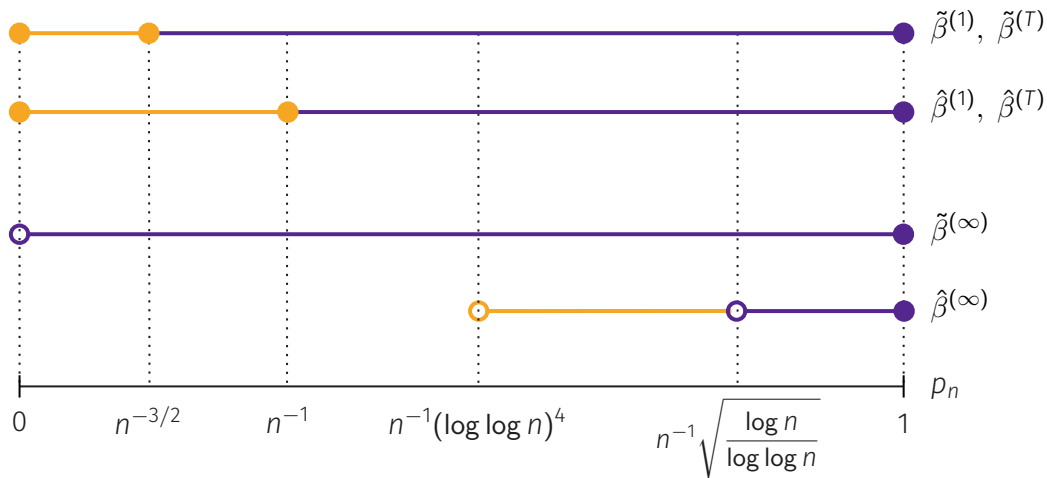
$\hat{\beta}^{(\infty)}$  consistent if

$$p_n \gg n^{-1} \sqrt{\frac{\log n}{\log \log n}} .$$

It is inconsistent if

$$n^{-1} (\log \log n)^4 \ll p_n \ll n^{-1} \sqrt{\frac{\log n}{\log \log n}} .$$

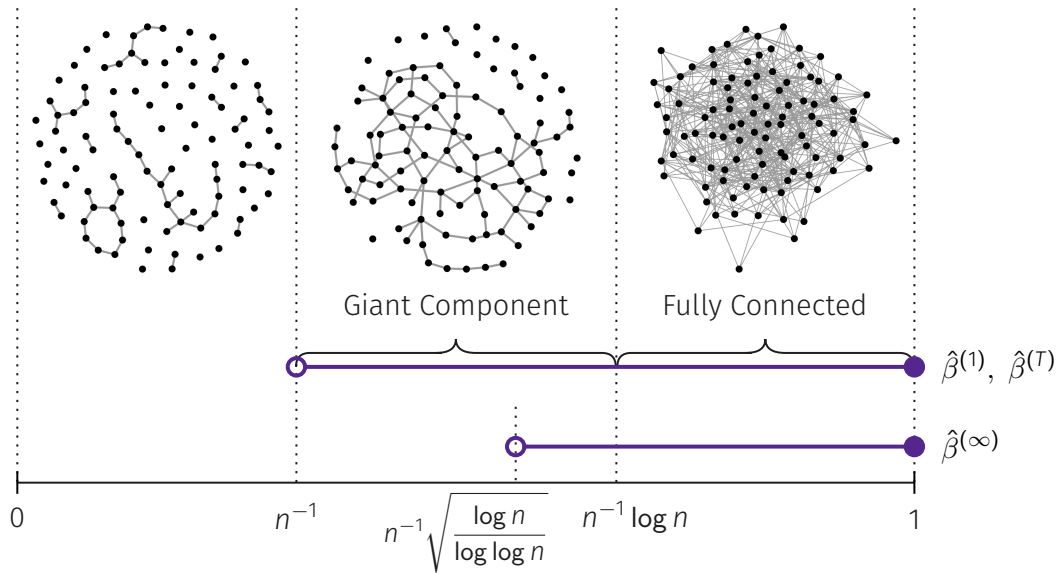
# Consistency Thresholds



○—● Consistent

○—○ Inconsistent

# Rule of Thumb for Consistency



# Theoretical Results

---

## Distributional Theory

## Theorem 3

For  $d \in \{1, T, \infty\}$ , suppose  $\tilde{\beta}^{(d)}$  is consistent. Then,

$$\frac{\tilde{\beta}^{(d)} - \beta^{(d)}}{\sqrt{V_0^{(d)}}} \xrightarrow{d} N(0, 1) ,$$

where  $V_0^{(d)} = E[(C_i^{(d)})^2]^{-2} E[(C_i^{(d)} \varepsilon_i)^2]$ .



## Theorem 4

Suppose for  $d \in \{1, T, \infty\}$  that  $\hat{\beta}^{(d)}$  is consistent. Then if  $\beta^{(d)} = 0$ ,

$$\frac{\hat{\beta}^{(d)}}{\sqrt{V_0^{(d)}}} \xrightarrow{d} N(0, 1)$$

where  $V_0^{(d)} = E[(C_i^{(d)})^2]^{-2} E[(C_i^{(d)} \varepsilon_i)^2]$ .

- Plug-in estimation works for  $V_0^{(d)}$  in the cases above
- Robust/hc t-statistic appropriate for  $\tilde{\beta}^{(d)}$  for **any null**
- Appropriate for  $\hat{\beta}^{(d)}$  if null is  **$\beta^{(d)} = 0$** .

## Theorem 4

For  $d \in \{1, T\}$ , suppose  $\hat{\beta}^{(d)}$  is consistent. If  $\beta^{(d)} \neq 0$ ,

$$\frac{\hat{\beta}^{(d)} - \beta^{(d)} (1 - B^{(d)})}{\sqrt{V^{(d)}}} \xrightarrow{d} N(0, 1)$$

# Distributional Theory with Proxy Network $\hat{A}$

$$\underbrace{\sqrt{V_0^{(d)}}}_{O_p(n^{-3/2}p_n^{-1})} \ll \underbrace{\sqrt{V^{(d)}}}_{O_p(n^{-1}p_n^{-1/2})} \stackrel{p_n \rightarrow 0}{\ll} \underbrace{B^{(d)}}_{O_p(n^{-1}p_n^{-1})}$$

- Using proxy network slows down rate of convergence
- Bias can be much larger than variance if  $p_n \rightarrow 0$
- Bias correction **necessary** for obtaining non-degenerate limit distribution
- hc/robust  $t$ -statistic not appropriate when  $\beta^{(d)} \neq 0$
- $t$ -statistic based confidence intervals are **invalid**

- $\hat{B}^{(d)}$  and  $\hat{V}^{(d)}$  in paper

- Bias-corrected estimator:

$$\check{\beta}^{(d)} = \frac{\hat{\beta}^{(d)}}{1 - \hat{B}^{(d)}}$$

- Adjusted tests and confidence intervals in paper
- No additional data requirement;  $p_n$  need not be specified
- Bias estimation is challenging since  $B^{(d)}$  much larger than  $\sqrt{V^{(d)}}$

## Theorem 5

Suppose  $f$  has rank  $R < \infty$ . Suppose also for  $\eta > 0$  that

$$p_n \gg n^{-1} \left( \frac{\log n}{\log \log n} \right)^{\frac{1}{2} + \eta} \quad (1)$$

and that  $a_n = \sqrt{\lambda_1(A)}$ . Then,

$$\frac{\hat{\beta}^{(\infty)} - \beta^{(\infty)}}{\sqrt{V_0^{(\infty)}}} \xrightarrow{d} N(0, 1) , \quad (2)$$

where

$$V_0^{(\infty)} = E \left[ (C_i^{(\infty)})^2 \right]^{-2} E \left[ (C_i^{(\infty)} \varepsilon_i)^2 \right]$$

- Chose  $a_n$  so that distribution is easy to characterize
- Usual hc/robust  $t$ -statistic valid for all null hypotheses
- Trade-off: choosing a model with slower, known rate of convergence for one with faster, unknown rate
- Using  $\sqrt{\lambda_1(\hat{A})}$  does not change result

	Proxy Network		True Network
	$\beta^{(1)} / \beta^{(T)}$	$\beta^{(\infty)}$	$\beta^{(1)} / \beta^{(T)} / \beta^{(\infty)}$
$H_0 : \beta^{(d)} = 0$	Dense: t-test*		
$H_0 : \beta^{(d)} = b$			
Confidence Intervals			

**Table 2:** \*:  $p_n \gg n^{-1/2}$  (Le and Li, 2020). For  $\beta^{(\infty)}$ ,  $a_n = \sqrt{\lambda_1(A)}$ .

	Proxy Network		True Network
	$\beta^{(1)} / \beta^{(T)}$	$\beta^{(\infty)}$	$\beta^{(1)} / \beta^{(T)} / \beta^{(\infty)}$
$H_0 : \beta^{(d)} = 0$	Dense: t-test*		
$H_0 : \beta^{(d)} = b$			t-test
Confidence Intervals			t-stat based

**Table 2:** \*:  $p_n \gg n^{-1/2}$  (Le and Li, 2020). For  $\beta^{(\infty)}$ ,  $a_n = \sqrt{\lambda_1(A)}$ .

Key: Theorem 3,



	Proxy Network		True Network
	$\beta^{(1)} / \beta^{(T)}$	$\beta^{(\infty)}$	$\beta^{(1)} / \beta^{(T)} / \beta^{(\infty)}$
$H_0 : \beta^{(d)} = 0$	<i>t</i> -test	Dense: <i>t</i> -test*	<i>t</i> -test
$H_0 : \beta^{(d)} = b$	New Method		
Confidence Intervals	New Method		<i>t</i> -stat based

**Table 2:** \*:  $p_n \gg n^{-1/2}$  (Le and Li, 2020). For  $\beta^{(\infty)}$ ,  $a_n = \sqrt{\lambda_1(A)}$ .

Key: Theorem 3, Theorem 4,

	Proxy Network		True Network
	$\beta^{(1)} / \beta^{(T)}$	$\beta^{(\infty)}$	$\beta^{(1)} / \beta^{(T)} / \beta^{(\infty)}$
$H_0 : \beta^{(d)} = 0$	<i>t</i> -test	Dense: <i>t</i> -test* Sparse: <i>t</i> -test	<i>t</i> -test
$H_0 : \beta^{(d)} = b$	New Method	<i>t</i> -test	
Confidence Intervals	New Method	<i>t</i> -stat based	<i>t</i> -stat based

**Table 2:** \*:  $p_n \gg n^{-1/2}$  (Le and Li, 2020). For  $\beta^{(\infty)}$ ,  $a_n = \sqrt{\lambda_1(A)}$ .

Key: Theorem 3, Theorem 4, Theorem 5

# Simulations

---

- Suppose  $f = 1$  so that

$$A_{ij} = \begin{cases} p_n & \text{if } i \neq j, \\ 0 & \text{otherwise.} \end{cases}$$

- Our regression model is:

$$Y_i = \beta C_i^{(d)} + \varepsilon_i^{(d)}$$

$$\varepsilon_i^{(d)} \stackrel{\text{i.i.d.}}{\sim} N(0, 1) \text{ and } \varepsilon_i^{(d)} \perp\!\!\!\perp \hat{A}_{jk} \text{ for all } i, j, k \in [n].$$

# Inconsistency with Proxy Networks

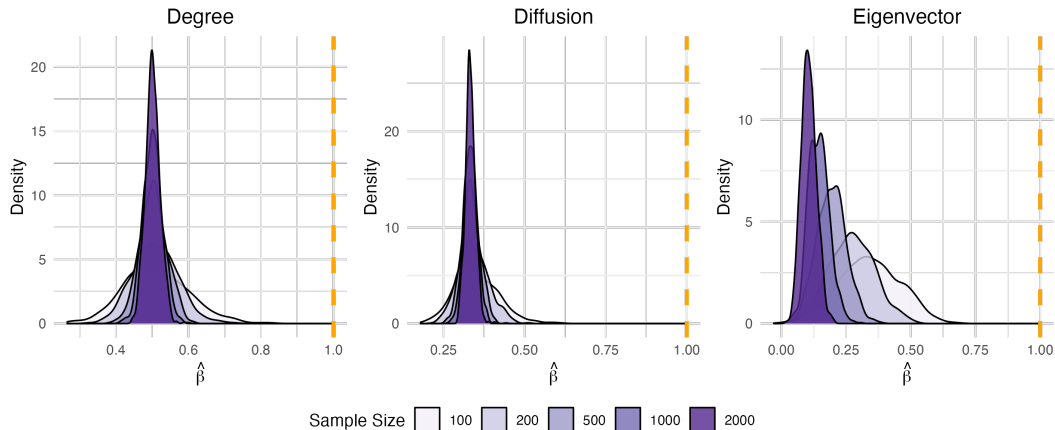


Figure 1: Distribution of  $\hat{\beta}^{(d)}$  for  $p_n = 1/n$ . For  $\hat{\beta}^{(\infty)}$ ,  $a_n = \sqrt{n}$ .  $\beta = 1$  (orange dashed line).

# Consistency with True Networks

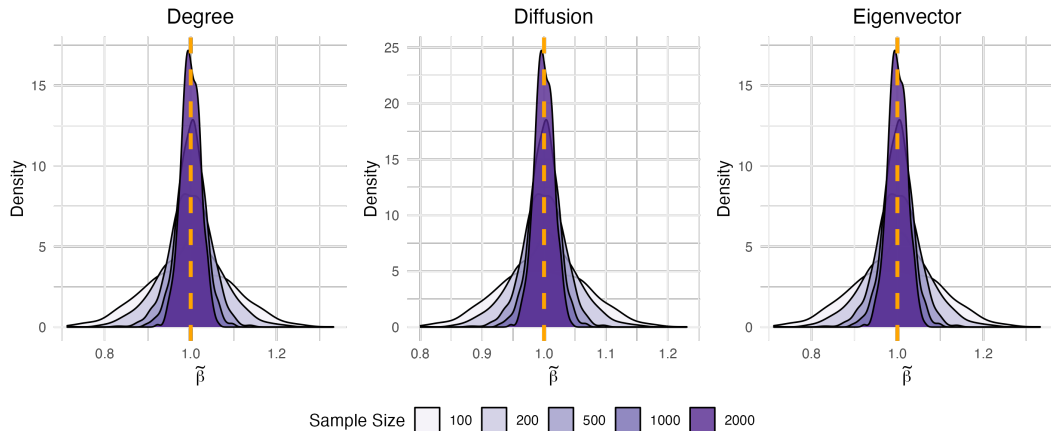
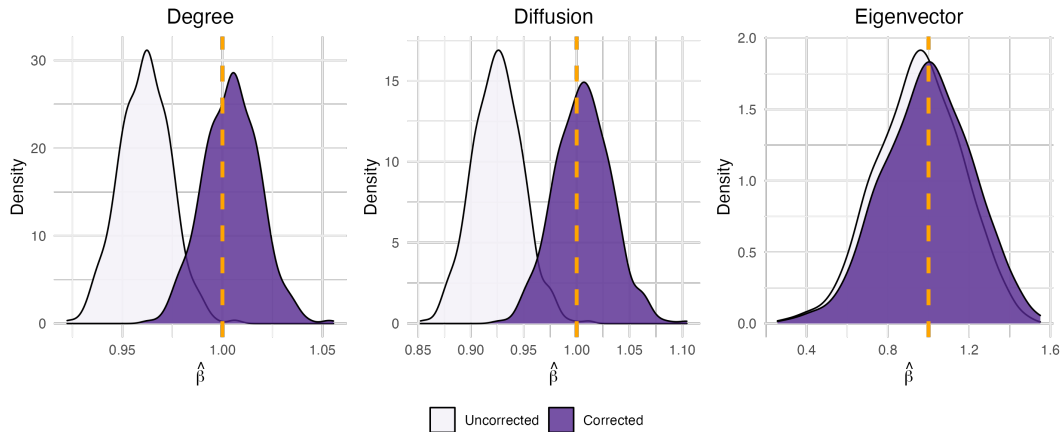


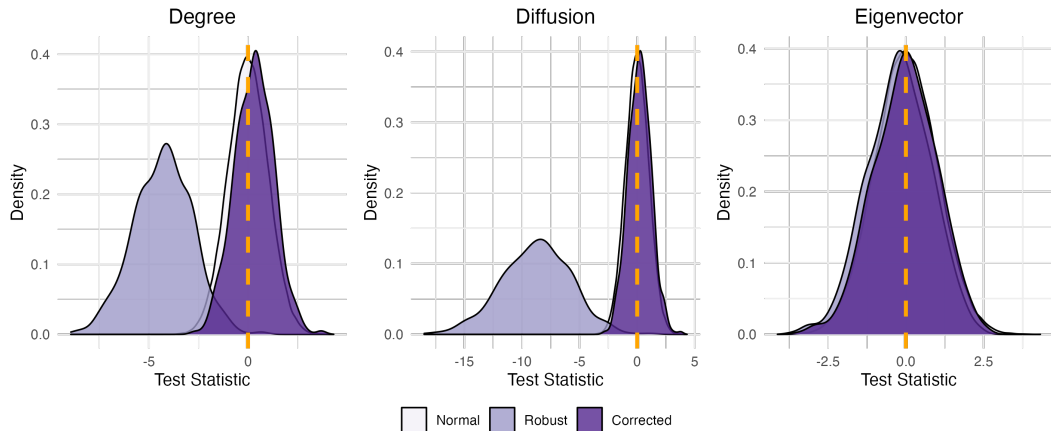
Figure 2: Distribution of  $\tilde{\beta}^{(d)}$  for  $p_n = 1/n$ . For  $\tilde{\beta}^{(\infty)}$ ,  $a_n = \sqrt{n}$ .  $\beta = 1$  (orange dashed line).

# Bias correction is effective



**Figure 3:** Distributions of  $\hat{\beta}^{(d)}$  and their bias corrected versions  $\check{\beta}^{(d)}$  for  $p_n = 1/\sqrt{n}$ ,  $n = 500$ ,  $a_n = \sqrt{\lambda_1(\hat{A})}$ .  $\beta = 1$  (orange dashed line).

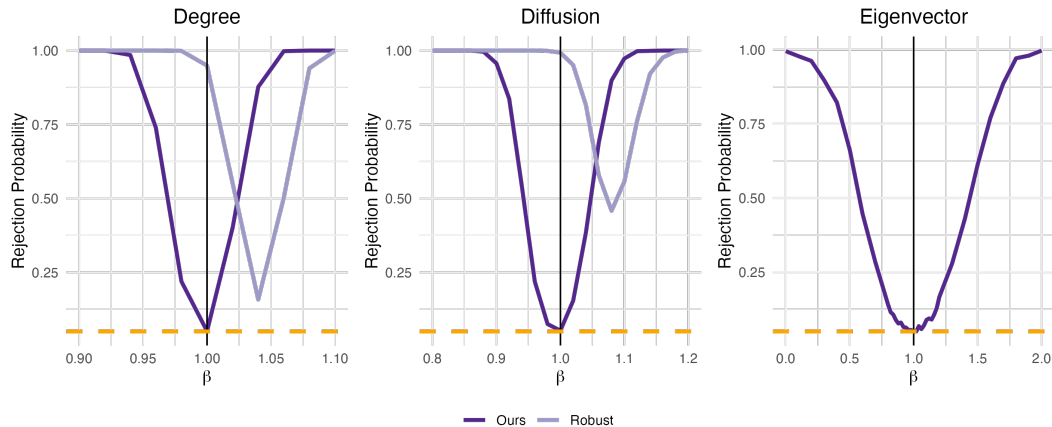
# Distributional theory is accurate



**Figure 4:** Distribution of the centered and scaled test statistics. Robust refers to tests based on  $t$ -statistic with robust (hc) standard errors.  $p_n = 1/\sqrt{n}$ ,  $n = 500$ ,  $a_n = \sqrt{\lambda_1(\hat{A})}$ .



# Adjusted tests are better



**Figure 5:** Power of the two-sided test of  $H_0 : \beta = 1$  under various alternatives. Test at 5% level of significance (orange dashed line).  $p_n = 1/\sqrt{n}$ ,  $n = 500$ ,  $a_n = \sqrt{\lambda_1(\hat{A})}$ .

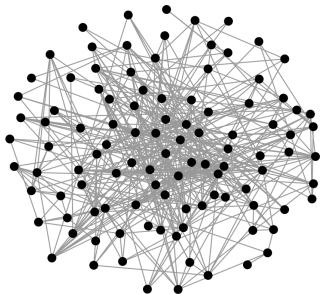
# Empirical Demonstration

---

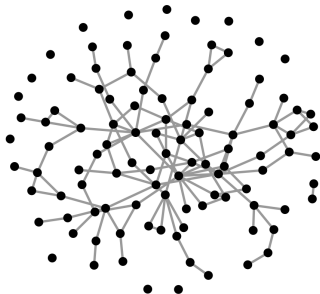
- De Weerdt and Dercon (2006): want to know if informal insurance can help consumption smoothing
- Village of 119 households in Nyakatoke, Tanzania
- Regress variance in food expenditure on centrality in network

# Empirical Demonstration

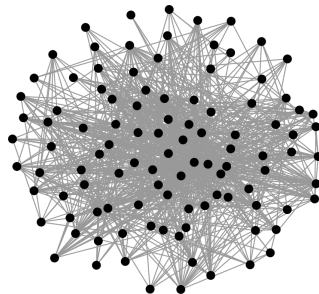
Unilateral Social



Bilateral Social



Unilateral Financial



( $n = 119$ )	Mean	Median	Min	Max
Unilateral Social	8.02	7	1	31
Bilateral Social	2.30	2	0	10
Unilateral Financial	16.53	14	3	79

**Table 3:** Degree distributions of various networks in Nyakatoke

		Estimate	p-value	Atten.	Bias Corr.
Unilateral Social	Degree	-1064	0.67	0.91	-1172
	Diffusion	-4274	0.77	1.00	-4290
	Eigenvector	-12353	0.86	0.91	-13548
Bilateral Social	Degree	-11604	0.06	0.74	-15592
	Diffusion	-23672	0.16	0.95	-24883
	Eigenvector	-10543	0.93	0.78	-13434
Unilateral Financial	Degree	-412	0.70	0.96	-429
	Diffusion	-4559	0.74	1.00	-4561
	Eigenvector	-15040	0.77	0.96	-15699

**Table 4:** Regression results. For diffusion,  $\delta = 1/\sqrt{\lambda_1(\hat{A})}$ ,  $T = 2$ . For eigenvector,  $a_n = \sqrt{\lambda_1(\hat{A})}$ .

# Conclusion

---

1. Show that OLS can become **inconsistent** with sparse, proxy networks
  - Characterize threshold at which inconsistency occurs
  - Show that eigenvector is **less robust** than degree and diffusion
  - Comparing significance involves both economic *and* statistical properties
  - **Rule-of-Thumb** for sparsity regime
2. Distributional theory with sparse, proxy networks
  - Even when consistent, OLS estimators are **asymptotically biased**
  - Asymptotic bias can be large relative to variance
  - **Slower rate of convergence** than reflected by robust standard errors
  - Usual confidence intervals and tests may not be valid
3. Novel bias correction and inference methods

Thank you!

---



## References

---

- Alt, J., R. Ducatez, and A. Knowles (2021a). Extremal eigenvalues of critical Erdős–Rényi graphs. *The Annals of Probability* 49(3), 1347–1401.
- Alt, J., R. Ducatez, and A. Knowles (2021b). Poisson statistics and localization at the spectral edge of sparse Erdős–Rényi graphs. *arXiv preprint arXiv:2106.12519*.
- Athey, S., M. Bayati, N. Doudchenko, G. Imbens, and K. Khosravi (2021). Matrix completion methods for causal panel data models. *Journal of the American Statistical Association* 116(536), 1716–1730.
- Auerbach, E. (2022). Identification and estimation of a partially linear regression model using network data. *Econometrica* 90(1), 347–365.
- Avella-Medina, M., F. Parise, M. T. Schaub, and S. Segarra (2020). Centrality measures for graphons: Accounting for uncertainty in networks. *IEEE Transactions on Network Science and Engineering* 7(1), 520–537.

- Banerjee, A., A. G. Chandrasekhar, E. Duflo, and M. O. Jackson (2013). The diffusion of microfinance. *Science* 341(6144), 1236–1248.
- Banerjee, A., A. G. Chandrasekhar, E. Duflo, and M. O. Jackson (2019). Using gossips to spread information: Theory and evidence from two randomized controlled trials. *The Review of Economic Studies* 86(6), 2453–2490.
- Bickel, P. J. and A. Chen (2009). A nonparametric view of network models and Newman–Girvan and other modularities. *Proceedings of the National Academy of Sciences* 106(50), 21068–21073.
- Borgatti, S. P., K. M. Carley, and D. Krackhardt (2006). On the robustness of centrality measures under conditions of imperfect data. *Social networks* 28(2), 124–136.
- Cai, J., D. Yang, W. Zhu, H. Shen, and L. Zhao (2021). Network regression and supervised centrality estimation. *Available at SSRN* 3963523.

- Candès, E. J. and T. Tao (2010). The power of convex relaxation: Near-optimal matrix completion. *IEEE Transactions on Information Theory* 56(5), 2053–2080.
- Chan, N. H. and C.-Z. Wei (1987). Asymptotic inference for nearly nonstationary  $ar(1)$  processes. *The Annals of Statistics*, 1050–1063.
- Chandrasekhar, A. and R. Lewis (2016). Econometrics of sampled networks. *Working Paper*.
- Chandrasekhar, A. G., C. Kinnan, and H. Larreguy (2018). Social networks as contract enforcement: Evidence from a lab experiment in the field. *American Economic Journal: Applied Economics* 10(4), 43–78.
- Chatterjee, S. (2015). Matrix estimation by universal singular value thresholding. *The Annals of Statistics* 43(1), 177–214.

- Costenbader, E. and T. W. Valente (2003). The stability of centrality measures when networks are sampled. *Social networks* 25(4), 283–307.
- Cruz, C., J. Labonne, and P. Querubin (2017). Politician family networks and electoral outcomes: Evidence from the philippines. *American Economic Review* 107(10), 3006–37.
- Dasaratha, K. (2020). Distributions of centrality on networks. *Games and Economic Behavior* 122, 1–27.
- De Paula, A. (2017). Econometrics of network models. In *Advances in economics and econometrics: Theory and applications, eleventh world congress*, pp. 268–323. Cambridge University Press Cambridge.
- De Weerd, J. and S. Dercon (2006). Risk-sharing networks and insurance against illness. *Journal of development Economics* 81(2), 337–356.

## References v

- Eagle, N., M. Macy, and R. Claxton (2010). Network diversity and economic development. *Science* 328(5981), 1029–1031.
- Graham, B. S. (2020a). Network data. In *Handbook of Econometrics*, Volume 7, pp. 111–218. Elsevier.
- Graham, B. S. (2020b). Sparse network asymptotics for logistic regression.
- Granovetter, M. S. (1973). The strength of weak ties. *American journal of sociology* 78(6), 1360–1380.
- Griffith, A. (2022). Name your friends, but only five? the importance of censoring in peer effects estimates using social network data. *Journal of Labor Economics* 40(4), 779–805.
- Hochberg, Y. V., A. Ljungqvist, and Y. Lu (2007). Whom you know matters: Venture capital networks and investment performance. *The Journal of Finance* 62(1), 251–301.

- Holland, P. W., K. B. Laskey, and S. Leinhardt (1983). Stochastic blockmodels: First steps. *Social networks* 5(2), 109–137.
- Jochmans, K. (2018). Semiparametric analysis of network formation. *Journal of Business & Economic Statistics* 36(4), 705–713.
- Le, C. M., E. Levina, and R. Vershynin (2017). Concentration and regularization of random graphs. *Random Structures & Algorithms* 51(3), 538–561.
- Le, C. M. and T. Li (2020). Linear regression and its inference on noisy network-linked data. *arXiv preprint arXiv:2007.00803*.
- Lewbel, A., X. Qu, X. Tang, et al. (2021). *Social Networks with Mismeasured Links*. Boston College.
- Negahban, S. and M. J. Wainwright (2012). Restricted strong convexity and weighted matrix completion: Optimal bounds with noise. *The Journal of Machine Learning Research* 13(1), 1665–1697.

- Rajkumar, K., G. Saint-Jacques, I. Bojinov, E. Brynjolfsson, and S. Aral (2022). A causal test of the strength of weak ties. *Science* 377(6612), 1304–1310.
- Reagans, R. and E. W. Zuckerman (2001). Networks, diversity, and productivity: The social capital of corporate r&d teams. *Organization science* 12(4), 502–517.
- Rothenberg, T. J. (1984). Approximating the distributions of econometric estimators and test statistics. *Handbook of econometrics* 2, 881–935.
- Staiger, D. and J. H. Stock (1997). Instrumental variables regression with weak instruments. *Econometrica* 65(3), 557–586.
- Thirkettle, M. (2019). Identification and estimation of network statistics with missing link data. *Working Paper*.
- Wang, Y. (2018). Panel data with high-dimensional factors: inference on treatment effects with an application to sampled networks. Technical report, Working paper.



Young, S. J. and E. R. Scheinerman (2007). Random dot product graph models for social networks. In *International Workshop on Algorithms and Models for the Web-Graph*, pp. 138–149. Springer.

## Regularized Eigenvectors

---

## Regularized Eigenvectors

- Suppose  $d = np_n$  is known. Define:

$$w_i := \min \left\{ \frac{2d}{C_i^{(1)}(\hat{A})}, 1 \right\}$$

- $w_i$  is the ratio by which the degree of  $i$  exceeds  $2d$ .
- Let the regularized matrix  $\tilde{A}$  be defined as follows:

$$\tilde{A}_{ij} = \sqrt{w_i w_j} \cdot \hat{A}_{ij}$$

- $\tilde{A}$  is the adjacency matrix in which we down-weight the links of high-degree agents so that degree is windsorized at  $2d$ .

- Le et al. (2017) show that this regularized matrix concentrates to  $A$  in spectral norm even under sparsity.

### Proposition 1 (Regularized Eigenvector)

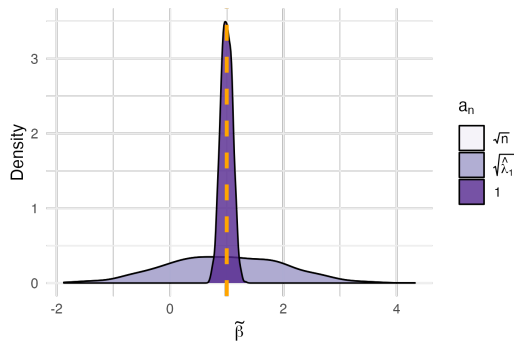
*Suppose  $a_n \rightarrow \infty$ . The linear regressions of  $Y$  on  $C^{(\infty)}(\tilde{A})$  is consistent if and only if*

$$p_n \gg n^{-1}.$$

## Additional Simulations

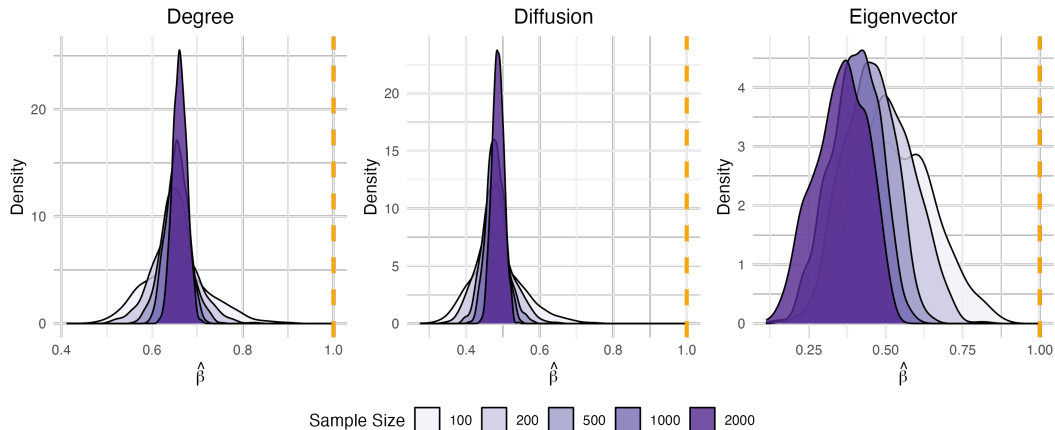
---

# Scaling of Eigenvector Matters



**Figure 6:** Distribution of  $\tilde{\beta}^{(\infty)}$  for  $n = 100$ ,  $p_n = 1/n$  under various  $a_n$ .  $\beta = 1$  (orange dashed line).

# Eigenvector is more sensitive to sparsity than Degree and Diffusion



**Figure 7:** Distribution of  $\hat{\beta}^{(d)}$  for  $p_n = n^{-1}\sqrt{\log n / \log \log n}$ . For  $\tilde{\beta}^{(\infty)}$ ,  $a_n = \sqrt{n}$ .  $\beta = 1$  (orange dashed line).

# Size of $H_0 : \beta = 1$

$p_n$	Statistic		Sample Size				
			100	200	500	1000	2000
0.1	Degree	Ours	0.055	0.052	0.067	0.062	0.065
		Robust	0.656	0.673	0.690	0.668	0.674
	Diffusion	Ours	0.049	0.053	0.064	0.059	0.060
		Robust	0.889	0.894	0.887	0.871	0.898
	Eigenvector		0.045	0.043	0.037	0.056	0.044
$n^{-1/3}$	Degree	Ours	0.066	0.065	0.067	0.058	0.065
		Robust	0.330	0.450	0.573	0.705	0.783
	Diffusion	Ours	0.080	0.070	0.074	0.057	0.064
		Robust	0.645	0.734	0.813	0.888	0.934
	Eigenvector		0.045	0.042	0.051	0.042	0.058
$n^{-1/2}$	Degree	Ours	0.072	0.049	0.051	0.037	0.062
		Robust	0.659	0.801	0.949	0.993	0.999
	Diffusion	Ours	0.071	0.045	0.053	0.037	0.059
		Robust	0.881	0.948	0.993	1.000	1.000
	Eigenvector		0.077	0.045	0.050	0.050	0.047



# Power of $H_0 : \beta = 0$ under the alternative $H_1 : \beta = 1$

$\rho_n$	Statistic	Sample Size				
		100	200	500	1000	2000
0.1	Degree - Robust	1.000	1.000	1.000	1.000	1.000
	Diffusion - Robust	1.000	1.000	1.000	1.000	1.000
	Eigenvector	0.845	0.995	1.000	1.000	1.000
$n^{-1/3}$	Degree - Robust	1.000	1.000	1.000	1.000	1.000
	Diffusion - Robust	1.000	1.000	1.000	1.000	1.000
	Eigenvector	0.998	1.000	1.000	1.000	1.000
$n^{-1/2}$	Degree - Robust	1.000	1.000	1.000	1.000	1.000
	Diffusion - Robust	1.000	1.000	1.000	1.000	1.000
	Eigenvector	0.832	0.947	0.994	1.000	1.000

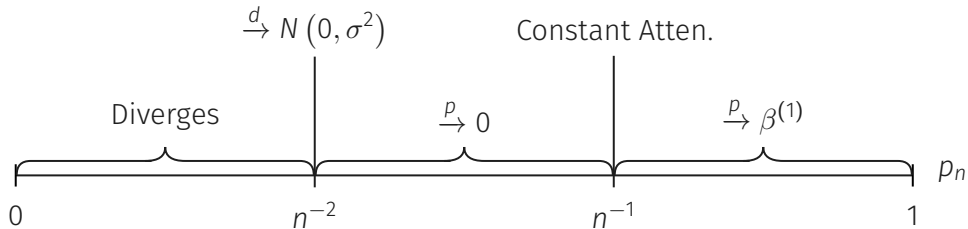
**Table 6:** Power of 5% level two-sided tests of  $H_0 : \beta = 0$  when  $\beta = 1$ . Under this  $H_0$ , the our test statistics is the usual  $t$ -statistic with robust (heteroskedasticity-consistent) standard errors.

- Similar in spirit to modeling:
  - Correlation of weak instruments and endogenous variables decaying to 0 (e.g. Staiger and Stock 1997).
  - Power of tests using local alternatives (Pitman drift, see e.g. Rothenberg 1984).
  - Local to unity asymptotics for time series (e.g. Chan and Wei 1987)

# Weak Ties Theory

- Granovetter (1973): Weak ties which are more numerous are key drivers of outcomes
  - Weak ties:  $A_{ij}$  is small
  - Numerous: most  $A_{ij}$  non-zero ( $O(n^2)$ )
- Job referrals in Newton, MA:
  - Most recent job changers found jobs through friends “marginally included in the current network of contacts”.
  - *“It is remarkable that people receive crucial information from individuals whose very existence they have forgotten.”*
- Other examples: innovation (e.g. Reagans and Zuckerman 2001), economic development (e.g. Eagle et al. 2010), job referrals (e.g. Rajkumar et al. 2022).

# All Phase Transitions in $\hat{\beta}^{(1)}$



# Rule of Thumb for Consistency

## Rule of Thumb

- (a) Treat  $\hat{\beta}^{(1)}$  and  $\hat{\beta}^{(T)}$  as consistent if there exists a giant component with at least  $N/2$  nodes.
- (b) Treat  $\hat{\beta}^{(\infty)}$  as consistent if the network is fully connected.

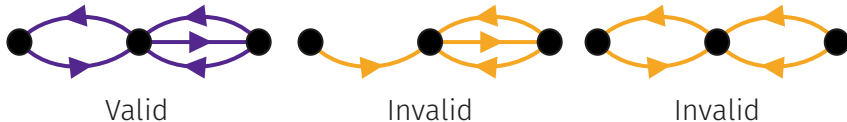
# Bias Correction

- Bias correction reduces to the problem of

$$E \left[ \iota' \left( \hat{A} - A \right)^2 t_{\iota} \mid U \right]$$

at a sufficiently fast rate.

- Given that  $E[(\hat{A}_{ij} - A_{ij})^2 | U] \approx A_{ij}$ , an intuitive estimator is  $\iota' A^t_{\iota}$
- Consistent, but does not converge fast enough
- Difference between the two relates to the number of paths of a given length on a line in which each edge is traversed at least twice.



# Low Rank Assumption

## Assumption 1 (Rank R Graphon)

Suppose  $f$  has rank  $R < \infty$ :

$$f(u, v) = \sum_{r=1}^R \tilde{\lambda}_r \phi_r(u) \phi_r(v) \quad , \quad (3)$$

where  $\|\phi_r\| = 1$  for all  $r \in [R]$  and if  $r \neq s$ ,

$$\int_{[0,1]} \phi_r(u) \phi_s(u) du = 0 \quad .$$

Furthermore, suppose that

$$\Delta_{\min} = \min_{1 \leq r \leq R-1} \left| \tilde{\lambda}_r - \tilde{\lambda}_{r+1} \right| > 0$$

# Low Rank Assumption

- The rank assumption means the networks have “structure” (Chatterjee 2015).
- Many popular network models are low rank
  - Stochastic Block Model (Holland et al. 1983)
  - Random Dot Product Graphs (Young and Scheinerman 2007)
- Also common in the matrix completion literature (e.g. Candès and Tao 2010, Negahban and Wainwright 2012, Athey et al. 2021).



		90%	95%	99%
Degree	Robust	$(-19500, \infty)$	$(-21700, \infty)$	$(-25900, \infty)$
	Ours	$(-18800, \infty)$	$(-20000, \infty)$	$(-22700, \infty)$
Diffusion	Robust	$(-45000, \infty)$	$(-51000, \infty)$	$(-62400, \infty)$
	Ours	$(-25200, \infty)$	$(-25300, \infty)$	$(-25500, \infty)$

**Table 7:** One-sided confidence intervals for degree and diffusion in Bilateral Social network.