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Homophily and Search

Abstract

We study the formation of social ties among heterogeneous agents in a model where who meets who is determined through a random search process. Our aim is to understand how the incentives to connect with similar agents vary across social groups, and what role is played by groups' sizes. The key element of our approach is that search is more effective when exerted in large pools. We show that search equilibrium is characterized by a threshold in terms of group size, so that larger groups only search among similar agents, while smaller groups search among the whole population. Under the assumption that search is subject to small frictions, this type of equilibrium behaviour is shown to generate patterns of homophily which are consistent with empirical evidence from diverse social environments, such as high school friendships and interethnic marriages. In particular, homophily is largest in medium sized groups, and most inter-group ties occur between members of very small groups.