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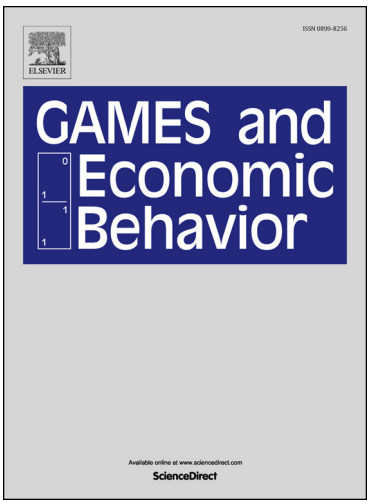

Peer effects and local congestion in networks

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Highlights

- We study games on networks with peer effects at distance one and strategic substitution at distance two.
- Indirect substitution (local congestion) allows for an interior equilibrium in the region of high largest eigenvalues.
- Equilibrium is proportional to a weighted version of Bonacich centrality.
- The ranking of individual actions can be reverted as an effect of local congestion.
- We provide empirical evidence of local congestion.

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