Abstract

We reconsider de Marti and Zenou (2017) model of friendship network formation where individuals belong to two different communities and costs of forming links depend on community memberships. Many inefficient friendship networks such as segregation can arise when all individuals are myopic. Once there are myopic and farsighted individuals in both communities, we show that if there are enough farsighted individuals in the dominant community relatively to the number of individuals in the small community, then the friendship network where the smaller community ends up being assimilated into the dominant community is likely to emerge and is strongly and Pareto efficient. Moreover, this friendship network Pareto dominates the complete segregation network.