

Contents

1	Introduction	1
2	A Survey of the Literature on Network Formation	5
2.1	Networks in Sociology	5
2.2	Networks in Economics	8
2.3	Cooperative Game Theory with Graph Structure	9
2.4	Network Formation Models	10
2.5	Stable Networks	11
2.6	A Tension Between Stable and Efficient Outcomes	15
2.7	Directed and Weighted Networks	17
2.8	Dynamics of Network Formation	19
2.9	Games on Networks	23
3	The Model and Definitions	25
3.1	The Network Society	25
3.2	The Consent Game	27
3.3	Notions of Stability	28
3.4	Efficiency	31
4	Convexity and Complementarity in Network Formation: Implications for the Existence of Pairwise Stable Networks	33
4.1	Convexity and Concavity in Network Formation	35
4.2	Lattices and Supermodular Functions	40
4.3	The Existence of Pairwise Stable Networks	43
4.4	Convexity and Complementarity	47
4.5	Concavity and Substitutability	50
4.6	Other Properties Sufficient for the Existence of Pairwise Stable Networks	57
4.7	Conclusion	60
4.8	Proofs of Chapter 4	62
5	Stable and Efficient Networks	81
5.1	Over-connected and Under-connected networks	84

5.2	Positive Externalities	85
5.2.1	The Connections Model Revisited	89
5.3	Negative Externalities	92
5.4	Degree Dependent Utility Functions with Negative Externalities	97
5.4.1	The Co-author Model	99
5.4.2	Patent Races	101
5.4.3	Free Trade Agreements	102
5.5	Extension to a Generalized Link Announcement Game	103
5.5.1	Framework	104
5.5.2	Bilateral Network Formation	108
5.5.3	Unilateral Network Formation	113
5.6	Conclusion	115
5.7	Proofs of Chapter 5	118
6	Dynamics of Network Formation	131
6.1	Introduction	131
6.2	The Best-Response Dynamics of the Consent Game	140
6.3	Basic Properties of Markov Chains	142
6.4	Recurrent Classes of Networks	143
6.5	A Characterization of Networks Representing Recurrent Classes	148
6.6	The Logit-Response Dynamics of the Consent Game	155
6.7	Dynamics of the Costly Proposal Game	159
6.8	Conclusion	168
6.9	Proofs of Chapter 6	171
7	Conclusion	189
	References	193