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Caminati, Mauro

DEPFID, University of Siena

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A knowledge based approach to collaboration in basic research

Mauro Caminati

*DEPFID-Department of Economic Policy,
Finance and Development
University of Siena
E-mail: caminati@unisi.it*

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Abstract

This paper suggests a knowledge based approach to the formation of collaboration networks in basic research. Though mainly focused on foundations, it provides the example of a set of knowledge distributions supporting pairwise equilibrium outcomes which correspond to a star-like collaboration network. Restrictions yielding the small world property are also specified. A closing remark expands on the knowledge growth maximizing allocation of effort, compared to the allocation produced by private incentives.

JEL classification: D85, O30

Keywords: ideas, knowledge endowment, modularity, collaboration game, pairwise equilibrium, star network, small world.

1 Aims and scope of the paper

This paper recomposes under a unifying framework two styles of analysis concerned with the production of ideas, but so far developed in separate and seemingly independent strands of the literature. One is the evolutionary approach to the knowledge based analysis of the division of labour. This takes place not only in the production of goods, but also and most crucially in the production of ideas (a review essay is Marengo, Pasquali and Valente [22]). Here the analysis has often availed itself of Stuart Kauffman's $N - K$ fitness landscapes and of other tools and concepts borrowed from the natural sciences. The second field of enquiry is concerned with the incentive based explanation (as opposed to the statistical explanation) of collaboration networks in scientific research. Here the analysis is focused on the structural characteristics and the incentive mechanisms which may be responsible of the empirical finding that research networks, like many other social networks, meet the small world property. Recent

contributions in the second field are Carayol and Roux [7], Goyal, van der Leij and Moraga [13], [12].

The social network approach to the production of ideas has paid only lip service to the fact that agents are widely heterogeneous with respect to their knowledge endowment, and that the distribution of this endowment is a main determinant of the network architectures which can be sustained as equilibrium outcomes. Rather than introducing a knowledge stock variable, Goyal, van der Leij and Moraga [13], [12] introduce a agent's type variable (high or low quality), and explain network formation on this premise. In our view, the main limit of this approach is that the agent type comes to be an innate, unchanging property. The approach is not suited to allow for the simple de-facto observation that often research collaborations take place because there are positive complementarities between agents' specializations. Moreover, it seems most appropriate that the formation of a research collaboration feeds back into the individual accumulation of ideas of its participants. In this way, the very process of idea growth provides endogenously changing incentives to research collaboration.

In this paper, agents' quality is determined by what they know. The specification of the aggregate knowledge stock leads to an endogenous determination of the knowledge fields in the economy, with the expectation that individual knowledge is mostly specialized in a particular field or subfield. The further specification of a knowledge distribution over the set of agents induces a measure of knowledge heterogeneity on this set (as opposed to the geographical distance introduced in Carayol and Roux [7]), which gives rise to a trade off in the allocation of private effort to isolated research projects, or to collaboration with more, or less, heterogeneous agents. For a given size of i 's and j 's knowledge endowments, the larger the knowledge heterogeneity between them, the higher the joint competence of their collaboration project. Still, a greater heterogeneity signals a higher heterogeneity between agents' specializations, which makes collaboration more demanding in terms of the private effort which is necessary to make that competence effective.

The paper is organized as follows. Section 2 presents a short list of the structural properties shared by the co-authorship networks in a number of scientific disciplines. Section 3 presents the main line of argument. Section 4 builds the basic framework concerning the definition and properties of a knowledge endowment and produces an endogenous partition of the aggregate knowledge stock at a given date into disciplinary fields, based on the notion of modularity. Section 5 introduces a knowledge distribution over the set of agents and provides an accurate distinction between basic research, aimed at discovering new types (lineages) of ideas, and development, the activity of finding improved ideas within the existing lineages. The paper is mainly concerned with the former. Section 6 develops the knowledge based approach to the formation of collaboration networks in basic research. Section 7 concludes.

2 Scientific collaboration networks: empirical properties

In this section we present a synthetic list of the main structural features that are shared by the co-authorship networks in a number of scientific disciplines, such as mathematics, physics, biology and medical science, economics¹. A review of these properties is available in Newman [27] and in Goyal, van der Leij and Moraga [12]. It will turn out that these properties are consistent with the predictions of the model developed in this paper. A scientific collaboration network is built as follows. Every node identifies a researcher, and two nodes are linked if they co-authored a paper in a given time interval. The weight of the link in question is an increasing function of the number of co-authored papers.

1. The set of researchers can be endogenously partitioned into scientific communities on the ground that a node belongs to a community if its within community relations are stronger than its between community relations. Newman and Girvan [29] apply their method of community-structure identification to the collaboration network of scientists at the Santa Fe Institute, and find that the communities thus identified broadly correspond to scientific fields and sub-fields.
2. The distribution of collaborators has a fat tail: a small fraction of scientists has a very large number of collaborators².
3. The typical collaboration network has 1 giant component comprising the majority of nodes; the other components are relatively small.
4. The relational distance between two nodes is the minimum number of links separating the nodes. The average relational distance between nodes is small, and the maximum relational distance (the diameter) is also small.
5. The average clustering coefficient (the fraction of a node's neighbours that are each-other neighbours) is high, at least compared to random networks.
6. Nodes with many collaborators have a higher than average probability of being directly connected (positive assortativity), and most of their indirect connections go through small number of collaborators.
7. Network connectivity is susceptible to removal of the most connected nodes³.
8. Collaboration grows through time.

¹According to the findings reported in Moody ([24]) sociology may be a partial exception, but the hypothesis seems to require corroboration through more directly comparable tests.

²Unlike other networks, the distribution for these collaboration networks do not strictly follow a power-law (are not scale free), although it has been suggested that they may follow a power law with an exponential cut-off (Newman, [27]).

³More precisely, of the nodes with the highest betweenness score (Newman[27]). Moreover, the betweenness scores of collaborators are uncorrelated.

9. Network structure is broadly consistent with the preferential attachment model of network formation⁴.

Conjecture 1 *The undirected representation of a typical scientific collaboration network is approximated by a system of quasi-stars hierarchically connected, mostly through their centres.*

Definition 2 *A N star is a connected undirected network with N nodes and $N - 1$ links. The centre node is directly connected to each of the other $N - 1$ nodes, which form the periphery. A N quasi star is a connected undirected network with N nodes, such that: the number of links is larger than $N - 1$; the centre node is directly connected to each of the other $N - 1$ nodes; self-loops are allowed; a periphery node may have $P > 1$ links, provided that $\frac{P}{N-1}$ is sufficiently small.*

There are two models of network formation explaining the above characterization of collaboration networks:

- The preferential attachment model (Barabasi and others [5]) introduces the following hypothesis: the probability that a new published paper contributes new connections to an individual researcher is an increasing function of the number of connections that the individual already has.
- The incentive based, game theoretic model (Goyal, van der Leij and Moraga [13]) is based on the hypothesis that there are two types of researchers, the smart ones, which can produce high quality ideas (and papers), and the others, which produce low quality ideas, but may contribute to the routine work, which is needed in research.

Claim 3 *To support a quasi-star structure as a pairwise equilibrium outcome it is not necessary to introduce innate, intrinsic differences between agents. To that end, it is sufficient to assume that the knowledge endowments differ in composition, although they may not differ in size. Notice that the agent's knowledge, unlike the innate agent's type, changes endogenously through time as a result of discoveries.*

3 The line of argument

Our basic assumption is that there is a selection for modularity in the evolution of knowledge (Simon, [36], Marengo et al. [22]). As a result, the knowledge

⁴In the preferential attachment model the links, once they are formed, are preserved in the future periods. In the incentive based model the links are optimally chosen, each period. We may contaminate the model developed in this paper with the idea of preferential attachment, by assuming that the intellectual formation of the new nodes takes place through a period of acquaintance with 1 pre-existing node. The choice of acquaintance is influenced by the reputation stock of the existing nodes. This comes close to preferential attachment in the choice of education. After education, collaboration strategies are chosen optimally.

set characterizing a scientific discipline is nearly decomposable into modules corresponding to more or less specialized fields or subfields. Like in Simon and Ando ([37]) original formulation of near-decomposability, the fitness interactions between ideas belonging to different modules are unfrequent, but, contrary to Simon ([36]), if the interaction occurs, it may have a strong influence on fitness (relative performance). If this is the case, the interaction between the specialized modules cannot be neglected (see Watson, [38]).

Definition 4 *Ideas are embodied in the human brains. An idea is codified knowledge defined by a string $\mathbf{a} \in \{0, 1, s\}^N$ of N elements. An element a_n is identified by its location n , $1 \leq n \leq N$ on the string. A location n is silent (uneffective) for idea \mathbf{a} if and only if $a_n = s$. The family (type) of \mathbf{a} is defined by its subset of non silent locations: $\mathbf{NS}(\mathbf{a}) \subseteq \{1, \dots, N\}$ such that $a_n \neq s$, for $n \in \mathbf{NS}(\mathbf{a})$.*

Definition 5 *Development is the search for better configurations of a set of idea types, which leaves the set of types unchanged. Basic research is the activity aimed at discovering new types of ideas.*

Every agent spends her time endowment in development and basic research according to fixed proportions. The time endowment available for basic research is E , which is uniform across agents.

The benefits of modularity are most relevant in development. To make sure that the benefits from knowledge specialization do not entail the loss of the positive complementarities between the different fields, it is necessary that a set of agents, the knowledge integrators, preserve in their endowment the core ideas which provide the interfaces connecting the specialized fields. The above premises justify a distribution of knowledge, defined as a distribution of types, such that the endowments of two specialists in different fields are sufficiently heterogeneous; the endowments of two specialists in the same field are highly homogeneous; for very specialized endowment, there is a 'knowledge integrator's endowment, which is only partly heterogeneous with respect to the former.

- We introduce a measure $d(ij)$ of heterogeneity between i 's and j 's knowledge endowments. If i and j form a collaboration, their joined competence is increasing with respect to the heterogeneity of their endowments. The trade off is that higher heterogeneity means that higher effort is required to make the collaboration effective.
- The set \mathbf{H} of agents is partitioned into $M+1$ communities. $\mathbf{H} = \{\mathbf{H}^1, \dots, \mathbf{H}^M, \mathbf{H}^{M+1}\}$, such that \mathbf{H}^z , with $z = 1, \dots, M$, is the scientific community of agents which develop the ideas belonging to field z . \mathbf{H}^{M+1} is the community of agents endowed with the core ideas, that is, the knowledge interfaces.
- There are $RM + P$ agents. R is the number of agents in each community $z = 1, \dots, M$.

- For the sake of simplicity we assume that if i and j belong to the same specialized community, $d(ij) = 0$; if i and j belong to different specialized communities, $d(ij) \geq \Omega > 1$; for every $z \in \{1, \dots, M\}$ and $i \in \mathbf{H}^z$, there exists $h \in \mathbf{H}^{M+1}$ such that $d(ih) = 1$.
- We assume that if $d(ij)$ is sufficiently large, the private effort required to sustain the research output of collaboration (ij) becomes arbitrarily large. As a result, two specialists in different fields are not prepared to collaborate.
- Every agent $i \in \mathbf{H}$ can allocate her time endowment to a collaboration project (ij) with $j \in \mathbf{H}^z$, and/or to a collaboration (ih) with $h \in \mathbf{H}^{M+1}$, and/or to a isolated research project (ii) .

Definition 6 A collaboration strategy of agent i is a choice of effort allocation $\mathbf{S}_i = \{e_{i1}, \dots, e_{iH}\}$, where e_{ij} is i 's effort contribution to the collaboration (ij) .

Definition 7 A strategy profile $\mathbf{S}^* = \{\mathbf{S}_1^*, \dots, \mathbf{S}_H^*\}$ is a pairwise equilibrium if: (i) \mathbf{S}^* is a Nash equilibrium. (ii) For every i and j in \mathbf{H} , such that $0 = e_{ij} \in \mathbf{S}_i^*$, $0 = e_{ji} \in \mathbf{S}_j^*$, there is no strategy pair $(\mathbf{S}'_i, \mathbf{S}'_j)$, such that: $0 < e_{ij} \in \mathbf{S}'_i$, $0 < e_{ji} \in \mathbf{S}'_j$, and both i and j prefer the strategy profile $\mathbf{S}' = (\mathbf{S}^*_{-(i+j)}, \mathbf{S}'_i, \mathbf{S}'_j)$ to the profile \mathbf{S}^* .

Claim 8 The knowledge distribution motivated by the above axioms supports a quasi-star network as a pairwise equilibrium outcome.

4 Ideas

An idea is codified knowledge defined by a string $\mathbf{a} \in \{0, 1, s\}^N$ of N elements. An element a_n is identified by its location n , $1 \leq n \leq N$ on the string. A location n is silent for idea \mathbf{a} if and only if $a_n = s$. This means that location n plays no role in the definition of the idea in question. A non silent location n is active, in which case, $a_n \in \{0, 1\}$. $\mathbf{NS}(\mathbf{a}) \subseteq \mathbf{N} \equiv \{1, \dots, N\}$ is the set of the active (non silent) locations of \mathbf{a} . A family, or type, of useful ideas, for instance, the family of the different versions of 'the wheel', is the subspace $\mathbf{F} \subseteq \{0, 1, s\}^N$ of ideas with identical silent and non silent locations: if $\mathbf{a} \in \mathbf{F}$ and $\mathbf{a}' \in \mathbf{F}$, then $a_n = s$ if and only if $a'_n = s$. An idea is a configuration of a family type, and a type \mathbf{F} is uniquely identified by the set of its non silent locations $\mathbf{NS}(\mathbf{F})$. \mathbf{F} is useful, if at least one useful idea in \mathbf{F} has been discovered. Γ_t is the set of useful types at t , and $\alpha(\Gamma_t) = \#\Gamma_t$ is the number of such types. We fix a labelling of types in Γ , such that $\Gamma = \{\mathbf{F}_1, \mathbf{F}_2, \dots, \mathbf{F}_{\alpha(\Gamma)}\}$. A configuration of Γ , or knowledge configuration, is a list $\tau = \{\mathbf{a}(\mathbf{F}_1), \mathbf{a}(\mathbf{F}_2), \dots, \mathbf{a}(\mathbf{F}_{\alpha(\Gamma)})\}$ specifying one idea configuration $\mathbf{a}_f = \mathbf{a}(\mathbf{F}_f)$ for each family \mathbf{F}_f in Γ . $\tau = \{\mathbf{a}_f \cup \mathbf{a}_{-f}\}$, where \mathbf{a}_{-f} is the configuration of the families other than \mathbf{F}_f . In general, only a vanishing small fraction of the possible configurations of each idea type is 'useful'. The usefulness of an idea configuration \mathbf{a}_f is, like fitness in biology, a relative, not an absolute concept, and can only be evaluated in the context of

the given concomitant knowledge configuration \mathbf{a}_{-f} . This is because usefulness is affected by the positive or negative complementarities between ideas. The relative fitness of two ideas \mathbf{a}_f and \mathbf{a}'_f belonging to the same type \mathbf{F}_f is evaluated by a fitness ratio $V(\mathbf{a}_f, \mathbf{a}_{-f})/V(\mathbf{a}'_f, \mathbf{a}_{-f})$, where $V()$ is a real function $V : \Gamma \rightarrow R_+$. We distinguish between discovery and development. Discovery at t is the finding of a new useful string \mathbf{a}' which defines a new type $\mathbf{F}' \notin \Gamma_t$. In particular, a radical discovery may not only define a new set $\Gamma_{t+1} \supset \Gamma_t$, but may also (though not invariably) expand the set of components: $\mathbf{a}' \in \{0, 1, s\}^{N(t+1)}$, with $N_{t+1} > N_t$. Development is adaptation in the configuration of a given type \mathbf{F} , which leads to develop ever improved ideas belonging to the same family. The set \mathbf{A} of ideas can be partitioned into $\alpha(\Gamma)$ disjoint subsets $\{\mathbf{A}^1, \mathbf{A}^2, \dots, \mathbf{A}^{\alpha(\Gamma)}\}$ each subset containing all and only the ideas belonging to a given type.

Ideas can be used as building blocks for the production of other ideas. If \mathbf{a} is a building block of \mathbf{a}' , then $a_n = a'_n$, for every $n \in \mathbf{NS}(\mathbf{a})$. The subset $\mathbf{NS}(\mathbf{a}) \cap \mathbf{NS}(\mathbf{a}') \subseteq \mathbf{N}$ is the overlap between the types \mathbf{F} and \mathbf{F}' , such that $\mathbf{a} \in \mathbf{F}$ and $\mathbf{a}' \in \mathbf{F}'$, or between \mathbf{a} and \mathbf{a}' for short. By extension, if \mathbf{B} and \mathbf{C} are subsets of \mathbf{A} , the set $\{\cup_{\mathbf{c} \in \mathbf{C}} \mathbf{NS}(\mathbf{c})\} \cap \{\cup_{\mathbf{b} \in \mathbf{B}} \mathbf{NS}(\mathbf{b})\} \subset \mathbf{N}$ is the overlap between \mathbf{B} and \mathbf{C} . The overlap size is the cardinality of the overlap. Types \mathbf{F} and \mathbf{F}' are independent if and only if they have an empty overlap: $\mathbf{NS}(\mathbf{F}) \cap \mathbf{NS}(\mathbf{F}') = \emptyset$. Γ is *separable* if every couple of types in Γ is independent. Γ is *block separable* (alternatively, *nearly decomposable*), if there exists a partition $\{\Gamma^1, \dots, \Gamma^Z\}$ of Γ , such that the size of the overlap between every couple of subsets Γ^j, Γ^h in the partition, with $j \neq h, j, h = 1, \dots, Z$, is zero (alternatively, sufficiently small). We assume that if the types \mathbf{F}_f and \mathbf{F}_g are independent, then there are no positive or negative complementarities between them. This means that the relative fitness of two different ideas \mathbf{a}_f and \mathbf{a}'_f belonging to \mathbf{F}_f is invariant to a change of \mathbf{a}_{-f} , if the latter is produced exclusively by a change $\mathbf{a}_g \rightarrow \mathbf{a}'_g$ in the state of \mathbf{F}_g .

4.1 Modularity in idea space

Both discovery and development face constraints resulting from the complementarities between non independent ideas.

A configuration change in the active locus n of $\mathbf{F} \in \Gamma$ may affect the relative fitness between couples of ideas belonging to each other type \mathbf{F}' which shares with \mathbf{F} the active locus n . This is why the fitness function $V()$ is defined on the domain Γ , rather than on a single family type. The difficulty arising from a wide potential overlap (interaction) between the types in Γ is that the improvements in the design of one type may conflict with other potential improvements in the design of the types with which it interacts (Simon [36], p. xi).

The difficulty can be reduced if Γ can be partitioned into subsets with (sufficiently) small overlaps between the components. Consistently with the literature (Callebaut and Rasskin-Gutman [8]) we call modularity the measure of the extent in which the interaction (complementarity) between the elements (ideas) in the same subset is stronger than the interaction between the subsets. Adaptively changing systems exhibiting this structural property are nearly decomposable

(Simon [35], [34]), or modular, and are shown to develop greater evolvability (Altenberg [1], Marengo et al. [22])⁵.

4.1.1 Modularity measures in idea space

The relevance of a modularity measure on Γ is here judged from the view point of the relation between 'modularity' and the minimum number $\beta_{Min}(\Gamma)$ of configurations of Γ which need evaluation, to find the optimal configuration. $\beta_{Min}(\Gamma)$ is the minimum dimension of the search space Γ . Intuitively, the modularity of a search space is a measure of the relative extent in which the dimension of the search space can be reduced.

To avoid the difficulties faced by other measures of modularity in idea space (appendix A), we propose that modularity measures suggested in the network literature be borrowed for the purpose of measuring the decomposability of Γ . A preliminary step in this direction is the definition of the network structure between the types in Γ .

Definition 9 We fix an ordering of the types in Γ , such that $\Gamma = \{\mathbf{F}_1, \mathbf{F}_2, \dots, \mathbf{F}_{\alpha(\Gamma)}\}$. $\mathbf{L}(\Gamma) = \{1, 2, \dots, \alpha(\Gamma)\}$ the set of labels corresponding to the types in Γ . \mathbf{NS}_j is the set of the active locations corresponding to type \mathbf{F}_j . The knowledge network induced by Γ is the weighted directed network $(\mathbf{L}(\Gamma), \mathbf{W}(\Gamma))$, where \mathbf{L} is the set of nodes, $\mathbf{W}(\Gamma)$ is the set of weighted links between such nodes, and will be referred to as network $\mathbf{W}(\Gamma)$ ⁶. The strength w_{hg} of the link from node g to node h is derived as follows. Let $n_{hg} = n_{gh} = \#\{\mathbf{NS}_h \cap \mathbf{NS}_g\}$, for $g \neq h$; $n_{hh} = \#\mathbf{NS}_h$. For every g and h in \mathbf{L} , $w_{hg} = \frac{n_{hg}}{\#\mathbf{NS}_g}$. By definition, $0 \leq w_{hg} \leq 1$. For ease of notation, \mathbf{W} shall also denote the $\alpha(\Gamma) \times \alpha(\Gamma)$ matrix $[w_{hg}]$ of connection weights.

w_{hg} is a measure of the average frequency with which a configuration change in one active component of type g may affect the relative fitness of type h 's configuration. Accordingly, the network (\mathbf{L}, \mathbf{W}) is separable if \mathbf{W} is diagonal; it is block-separable if there exists a partition $\{\mathbf{L}^1, \dots, \mathbf{L}^Z\}$ of \mathbf{L} and a corresponding permutation matrix \mathbf{P} , such that \mathbf{PWP}^T is block diagonal⁷.

If the conditions for the block separability of \mathbf{W} are quite demanding, the modularity of \mathbf{W} is more a matter of degree. From an intuitive view point,

⁵The benefits of modularity should not be overemphasized or misrepresented. Some degree of interaction between modules may yield the optimal trade-off between the advantage of reducing the dimension of the search space, and the benefit resulting from the exploitation of positive between module complementarities. In particular, if the fitness functions embed a sufficiently strong non linearity, the additional gain obtained from solving the coordination between the configurations of two weakly (at a low time frequency) interacting modules α_h and α_f is potentially very large. Watson [38] provides examples of such strongly non linear cases, in which finding the appropriate coordination between the modules may confer a decisive advantage in evolution. Examples of compositional evolution abound in nature and in engineered systems, as shown by sex, by symbiosis, by the relations between a cell and its environment, or by the interactions between a subroutine and the rest of a computer program.

⁶The script (Γ) will be omitted, if unnecessary.

⁷Here, T is the transpose operator.

the modularity of the interaction matrix \mathbf{W} has to do with the possibility of finding a partition of \mathbf{L} into groups $\{\mathbf{L}^1, \dots, \mathbf{L}^Z\}$, such that the frequency of interaction between any two different groups of the partition is sufficiently low, relative to the average frequency of interaction within the two groups⁸. This intuitive and quite general idea of modularity admits a quantitative expression, based on recent contributions to the mathematical theory of networks and its applications. The construction of a network between idea types, brings to our disposal the measures of network modularity, such as the Newman and Girvan ([30]) Q measure, extended by Leicht and Newman ([20]) to weighted directed networks. For each possible partition of $\mathbf{L}(\Gamma)$ Leicht and Newman ([20]) define a corresponding Q measure of modularity. Network modularity $Q(\mathbf{W})$ is the measure corresponding to the Q maximizing partition. If there is no meaningful way of defining different modules in \mathbf{W} , $Q(\mathbf{W})$ is zero. If \mathbf{W} is diagonal, $Q(\mathbf{W})$ is maximal for the given $\alpha(\Gamma)$, which is written $Q(\mathbf{W}) = Q_{\alpha(\Gamma)}$, and $\lim_{\alpha(\Gamma) \rightarrow \infty} Q_{\alpha(\Gamma)} = 1$ (see appendix B).

The notion of a knowledge network \mathbf{W} induced by Γ and the related operational definition of network modularity, together with de facto observation, motivate the definition of a disciplinary knowledge field as a module in the space Γ .⁹

Definition 10 *The set of disciplinary fields $\{1, \dots, Z\}$ is endogenously defined by the Q maximizing partition of \mathbf{L} into modules $\{\mathbf{L}^1, \dots, \mathbf{L}^Z\}$.*

We developed a number of simulations suggesting that the Q measure performs well as an indicator of the extent in which the dimension of a search space Γ can be reduced to the end of finding its optimal configuration. If Γ and Γ' are such that $\alpha(\Gamma) = \alpha(\Gamma')$, and $\beta_{Min}(\Gamma) < \beta_{Min}(\Gamma')$, then $Q(\Gamma) > Q(\Gamma')$. In this respect, Q performs better than the measure of modularity on technological fitness landscapes recently suggested in Frenken [11] (see appendix A).

5 The carriers of ideas

In what follows, we expand on the fact that ideas are generally embodied in human brains, although they may also be embodied in artefacts, or real world objects. \mathbf{H} is the set of agents, and H is the cardinality thereof. The statement that \mathbf{a} is an element in the set \mathbf{A}_i of *codifiable* ideas embodied in agent i 's

⁸"Another way to describe this structure is to state that the frequencies of interaction among elements in any particular subsystem of a system are an order of magnitude or two greater than the frequencies of interaction between the subsystems. We call systems with this property nearly completely decomposable systems, or for short, nearly decomposable (ND) systems (Simon and Ando [37])". (Simon [36], p. x, citation in the original).

⁹Some quantitative evidence of the modular organization of knowledge into disciplinary fields, which broadly correspond to application domains, is offered by the network of patent-citation flows connecting the technology fields. The patent citation networks recovered from USPTO data for the periods 1975-1986 and 1987-1999 yield Q measures above 0.6 (Caminati and Stabile[9]).

brain, does not simply mean that agent i has access to the information string corresponding to \mathbf{a} . It means instead that agent i understands the relations between \mathbf{a} and its fellow ideas in \mathbf{A}_i , so that she has some capability to carry out a set of operations on $\mathbf{\Gamma}_i$. We may refer here to a standard example, which marks the difference between having a mathematics handbook at one's disposal, and having a full grasp of the proofs and potential applications of the mathematical proposition printed in the text. As a rule, agents' knowledge is specialized in a disciplinary field defined as above and a field identifies a scientific community¹⁰.

Although agents have a physical existence of their own, an agent i is here uniquely identified by the set \mathbf{A}_i of codifiable ideas embodied in her brain at a given date, which defines also the set $\mathbf{\Gamma}_i$ of types to which such ideas belong. We shall abstract in what follows from innate exogenous differences between agents, concerning their capabilities in the processing of ideas. Ideas processing by agent i requires some endowment of the capability to carry out operations on a subset of ideas, such as the copying of ideas from an exogenous source into \mathbf{A}_i , or more significantly the production of new ideas. To the extent that such operations are codifiable, the endowment of the capability in question is itself a subset of ideas. For our purposes, we distinguish between two classes of operations. Operations in the first class expand \mathbf{A} , but leave the aggregate set $\mathbf{\Gamma}$ of types unchanged. They generate new configurations of $\mathbf{\Gamma}$ and test their usefulness. These operations are essential to the activity of development which consists of the search procedures aimed at finding better configurations within a given set of types. The second class of operations expands the set $\mathbf{\Gamma}$, and is constitutive of basic research, which is the activity of producing discoveries. Although research and development are separate activities, every agent engages in both. For the sake of simplicity, we assume that the amount of time allocated to development and research is fixed and uniform across agents.

The knowledge output of a development project is measured, not by the number of new ideas produced, but by the fitness improvement enabled by these new configurations of $\mathbf{\Gamma}$. In basic research, the fitness improvement corresponding to a new type of idea is only potential, because the new type may need to go through a long development phase, before it can successfully compete with pre-existing ideas. Since usefulness is only potential in basic research, novelty and originality is all what matters. We assume that research output is measured by the number of new types produced by a research project. A research contribution is more 'original' if it produces a larger number of new and potentially useful types.

There are complementarities between development and research. On the ground that modularity reduces the dimension of the search space faced by the activity of development, there is a powerful incentive to specialization in human capital formation. This intuition is made more precise as follows.

¹⁰This means that there exists a partition of \mathbf{H} into M communities, $\{\mathbf{H}^1, \dots, \mathbf{H}^M\}$, such that the union of the knowledge sets of the agents belonging to the same community, covers some disciplinary field (formally, there exist $\mathbf{\Gamma}^z$ in $\{\mathbf{\Gamma}^1, \dots, \mathbf{\Gamma}^Z\}$, and \mathbf{H}^m in $\{\mathbf{H}^1, \dots, \mathbf{H}^M\}$, such that $\mathbf{\Gamma}^z \subseteq \cup_i \mathbf{\Gamma}_i, i \in \mathbf{H}^m$, where $\mathbf{\Gamma}_i$ is agent i 's knowledge set).

5.1 Specialization in development

Given the set \mathbf{L} of labels corresponding to the types in Γ , consider the Q maximizing partition $\{\mathbf{L}^1, \dots, \mathbf{L}^Z\}$ of \mathbf{L} into label groups, which define the set of disciplinary fields or subfields. If the groups \mathbf{L}^y and \mathbf{L}^x have an empty overlap, the activity of developing the types in \mathbf{L}^y can be carried out independently of the corresponding activity on \mathbf{L}^x . This provides a straightforward powerful incentive to specialization in development, and through this, also to specialization in human capital formation. If instead the groups \mathbf{L}^y and \mathbf{L}^x have a low, but non zero, frequency of interaction, the possibility of reducing the dimension of the search space is still provided by the organization of the search activity according to a hierarchic modular design. In particular, if the weak interactions between \mathbf{L}^y and \mathbf{L}^x are not sparse, but are carried by specific nodes (types), then the hierarchic form of modularity is supported by a decentralization of development to specialized agents. We may think of the example in which $\mathbf{L}^y = \{y, y + 1, \dots, y + m\}$, $\mathbf{L}^x = \{x, x + 1, \dots, x + n\}$ and the interaction between the two groups takes place through the link connecting the nodes (types) y and x . Conditional on the configuration of y and x , the choice of the optimal configuration of the two subfields $\{\mathbf{L}^y - y\}$ and $\{\mathbf{L}^x - x\}$ can be assigned to different specialized agents, which may have in their knowledge endowment only the fields \mathbf{L}^y and \mathbf{L}^x , respectively. The two specialists do not need to communicate between them, if they communicate with a third agent who is endowed with the knowledge of both types y and x . These types contain the core ideas, connecting the fields \mathbf{L}^y and \mathbf{L}^x . The agent endowed with the core ideas acts like a knowledge integrator. Upon communication of the best selections separately made by the specialists, she can fix the optimal joint configuration of the types y and x .

This argument provides useful guidelines suggesting what may be relevant distributions of the knowledge endowment across the set of agents. To the extent that the knowledge network is highly, but not perfectly modular, we expect a distribution of the knowledge endowments such that a large number of agents is specialized in a specific field or subfield¹¹. The number of types shared by agents i and j will be typically high or low, depending on whether they are specialized in the same or in different fields. Simultaneously, knowledge specialization requires that there agents preserving in their knowledge endowment the core ideas providing the knowledge interfaces connecting the specialized fields or subfields.

¹¹If there are non negligible interactions between fields \mathbf{L}^y and \mathbf{L}^x in idea space, we expect to find meaningful knowledge flows between the communities working in such fields. These knowledge flows take place in a variety of ways (e.g. access to paper and patent publications, as evidenced by citations), including direct collaboration between the scientists. The point made in the text is that the desirable extent of knowledge specialization is increased, if the need of direct and frequent communication between different-field specialists is replaced by the fixation and adaptation of the appropriate interface standards between the fields. The ideas providing such interfaces are in the knowledge endowment of one or more agents acting as knowledge integrators. This argument is partly reminiscent of the literature on system integration in production technology ([10]).

6 Collaboration networks in basic research

Discoveries (new types of ideas) are the outcome of the innovation effort produced by the agents engaged in basic research¹². Research projects may be carried out in collaboration with another agent, or in isolation. For the sake of simplicity, we assume that at most two members of \mathbf{H} collaborate on a single project. A couple jointly working on a project is also called a collaboration; at any date a collaboration is engaged in a single project, although a single agent can participate in many projects simultaneously. A 'self-collaboration' is a project carried out by one agent in isolation.

We hold to the view that new types of ideas grow as a result of recombinations of pre-existing types ideas (Weitzman)¹³. On this premise, we move some steps toward the construction of a knowledge based approach to the explanation of collaboration networks in basic research.

We assume that for every $i \in \mathbf{H}$, the set $\mathbf{\Gamma}_i \neq \emptyset$. $B(i, j)$ is the flow of new basic ideas (new types) produced by the collaboration (ij) between agents i and j . We assume that $B(i, j)$ depends on the effective competence $k(ij) = k(e_{ij}, e_{ji})$ and effective effort $e(ij) \geq 0$ of the coalition (ij). Formally:

$$B(ij) = B(k(ij), e(ij)) = B(k(e_{ij}, e_{ji}), e(e_{ij}, e_{ji})) \quad (1)$$

$$B(k, e) = k^\lambda e \quad \lambda \geq 1 \quad (2)$$

For the sake of simplicity we assume that every project has a maximum scale: $0 \leq e(ij) \leq D$.

The competence of the collaboration (ij) reflects the joint size of i 's and j 's knowledge contributions, provided that their respective effort in the collaboration is strictly positive.

$$k(e_{ij}, e_{ji}) = \alpha(\mathbf{\Gamma}_i \cup \mathbf{\Gamma}_j) \text{ if } e_{ij} \cdot e_{ji} > 0; \quad k(e_{ij}, 0) = \alpha(\mathbf{\Gamma}_i); \quad k(0, e_{ji}) = \alpha(\mathbf{\Gamma}_j) \quad (3)$$

where $0 \leq e_{ij} \leq E$ and $0 \leq e_{ji} \leq E$ are the individual efforts produced by i and j (respectively) within the collaboration (ij).

The joint effort $e(ij) = e(e_{ij}, e_{ji})$ is a performance function $e()$ which depends on the parameters w_{ij} and $d = d(ij)$.

$$e(ij) = [f(d)]^{-1} \left[w_{ij} (e_{ij})^\rho + (1 - w_{ij}) (e_{ji})^\rho \right]^{1/\rho} \quad (4)$$

where: $\rho = 1 - d$, $f' \geq 0$, and $\lim_{d \rightarrow \infty} f(d) = F$.

¹²Occasionally, the discovery of a new type is the serendipitous outcome of a development project. For the sake of simplicity, we rule the possibility of serendipitous discoveries and assume that a research output is the outcome of a deliberate allocation of effort to a research project.

¹³The occasional hint at the possibility that a recombination is potentially useful, may be offered by input ideas that are not the fittest in their family. Evidence in this sense is provided by radical discoveries occasioned by seemingly obsolete input ideas.

w_{ij} enters the performance function to characterize how the relative size of i 's and j 's knowledge contributions:

$$w_{ij} = \frac{\alpha(\mathbf{\Gamma}_i)}{\alpha(\mathbf{\Gamma}_i) + \alpha(\mathbf{\Gamma}_j)}; \quad w_{ji} = (1 - w_{ij}) = \frac{\alpha(\mathbf{\Gamma}_j)}{\alpha(\mathbf{\Gamma}_i) + \alpha(\mathbf{\Gamma}_j)}; \quad w_{ii} = 1 \quad (5)$$

$d(ij)$ is the heterogeneity between i 's and j 's idea types:

$$d(ij) = \frac{\alpha(\mathbf{\Gamma}_i \cup \mathbf{\Gamma}_j) - \alpha(\mathbf{\Gamma}_i \cap \mathbf{\Gamma}_j)}{\alpha(\mathbf{\Gamma}_i \cap \mathbf{\Gamma}_j)} = \frac{\alpha(\mathbf{\Gamma}_i \cup \mathbf{\Gamma}_j)}{\alpha(\mathbf{\Gamma}_i \cap \mathbf{\Gamma}_j)} - 1; \quad d(ii) = 0 \quad (6)$$

$d(ij)$ has the properties: $0 \leq d(ij) \leq \infty$; $d(ii) = 0$; $d(ij) = d(ji)$; $d(ij) = \infty$ if and only if $\mathbf{\Gamma}_i \cap \mathbf{\Gamma}_j = \emptyset$. It is worth stressing that the function $d(ij)$ may not meet the triangle inequality. For instance, if i and j do not have any idea in common, but each of them shares some idea with h , then $\infty = d(ij) > d(ih) + d(hj)$. $d(ij)$ affects the joint effective effort in two ways. In the first place, the productivity of i 's and j 's individual efforts may be lower (*ceteris paribus*), if the heterogeneity $d(ij)$ between their knowledge sets is larger, because the agents are less familiar with each other fields of specialization, which makes the production of coordinated research effort more demanding. We therefore assume that a parametric increase in $d(ij)$ beyond the threshold $d(ij) = 1$ lowers the effective joint effort $e(ij)$:

$$\frac{\partial e}{\partial d} = 0 \text{ if } 0 \leq d \leq 1; \quad \frac{\partial e}{\partial d} < 0 \text{ if } d > 1; \quad \lim_{d \rightarrow \infty} e(ij) = 0 \quad (7)$$

More precisely, we assume the following specification of $f(d)$ in equation (4): $f(d) = 1 + \phi(d)$, $\phi(d) = 0$ if $0 \leq d \leq 1$; $\phi' > 0$ if $d > 1$.

In the second place, the rules by which the efforts e_{ij} and e_{ji} cooperate to produce new ideas depend on the circumstances affecting the substitutability or complementarity between i 's and j 's idea sets. We assume that the higher the heterogeneity $d(i, j)$, the lower the substitutability between i 's and j 's knowledge, hence, the higher the complementarity between e_{ij} and e_{ji} . If i and j have identical types of ideas, $d(ij) = 0$, and their efforts are perfect complements, if they do not have any idea in common, $d(ij) = \infty$, and their efforts are perfect complements; in the intermediate situation where $d(ij) = 1$, $e()$ is Cobb Douglas (see appendix C). In particular, if $\alpha(\mathbf{\Gamma}_i) = \alpha(\mathbf{\Gamma}_j)$, so that $w_{ij} = w_{ji} = 1/2$, this yields the following restrictions:

$$d(ij) = 1 \rightarrow e(ij) = e_{ij}^{1/2} e_{ji}^{1/2} \quad (8)$$

$$d(ij) = 0 \rightarrow e(ij) = \frac{1}{2}(e_{ij} + e_{ji}) \quad (9)$$

$$e(ii) = e_{ii}$$

The $B(\cdot)$ function determines the knowledge output of the R&D effort produced by the collaboration (ij) . Although in the real world economies the social incentive to collaboration in research may not be perfectly in line with the social

target of knowledge growth, it is instructive to consider the abstract case in which the former is largely determined by the latter. In particular, we shall assume that the reputation payoff earned by each member of the coalition (ij) is $rB(ij)$, where $0 < r < 1$, if $i \neq j$, and $r = 1$, if $i = j$. The cost to agent i of her participation in the project (ij) is a linear increasing function $c \cdot e_{ij}$ of the effort produced.

A basic research strategy by agent i is a choice $\mathbf{S}_i = (e_{i1}, \dots, e_{iH})$. $e_{ij} = 0$ means that i is not prepared to collaborate with $j \in \mathbf{H}$. Agent i chooses \mathbf{S}_i to maximize net pay-off:

$$\Pi_i = B(ii) - ce_{ii} + \left[\sum_{z \in \mathbf{H}-i} rB(iz) - c \sum_{z \in \mathbf{H}-i} e_{iz} \right] \quad (10)$$

subject to the constraint:

$$\sum_{z \in \mathbf{H}} e_{iz} = E$$

Network formation is formalized as a simultaneous 'collaboration game'. Each agent $i \in \mathbf{H}$ simultaneously announces her strategy \mathbf{S}_i . The collaboration (ij) takes place if and only if $e_{ij} > 0$, $e_{ji} > 0$; $g_{ij}(\mathbf{S}) = g(e_{ij})$ for $e_{ij} \in \mathbf{S}_i \in \mathbf{S}$. $\Pi_i(\mathbf{S})$ is i 's payoff induced by the strategy profile \mathbf{S} .

It is worth summarizing some implications which follow from the knowledge production function $B(ij)$. and the payoff function (10).

a. Since it is never optimal to offer collaboration to an agent who is not reciprocating the offer, a very weak necessary requirement for \mathbf{S} being a pairwise equilibrium is $g_{ij}(\mathbf{S}) > 0$ only if $g_{ji}(\mathbf{S}) > 0$.

b. An agent obtains a competence advantage from collaborating with those agents which contribute with ideas that are not in her field of specialization. In particular, for fixed cardinalities $\alpha(\Gamma_i)$ and $\alpha(\Gamma_j)$, competence $k(ij)$ increases with heterogeneity $d(ij)$. If instead i and j have identical ideas, $d(ij) = 0$, and the competence benefit from a positive collaboration (ij) is null: $k(ij) = k(ii) = k(jj)$. Moreover (see appendix C), in this case, i 's and j 's efforts are perfect substitutes in the production of joint effort: $e(ij) = e_{ij} + e_{ji}$.

c. There is a drawback in collaborating with an agent whose field of specialization is too remote from ours. A productive collaboration (ij) will be one in which i and j share some knowledge background. This is formalized by assuming that the limit in (7) is zero.

Definition 11 *The strategy profile \mathbf{S} generates the square $H \times H$ weight matrix $\mathbf{g}(\mathbf{S})$, such that for every i and j in \mathbf{H} , $g_{ij}(\mathbf{S}) = e_{ij}$. This defines the weighted directed network $\{\mathbf{H}, \mathbf{g}(\mathbf{S})\}$, where \mathbf{H} is the set of nodes, and there exists a directed link from node i to node j , if and only if the weight $g_{ij}(\mathbf{S}) > 0$. $\mathbf{g}(\mathbf{S})$ fully defines the weighted directed network supported by \mathbf{S} and will be referred to as network $\mathbf{g}(\mathbf{S})$ in what follows.*

Definition 12 *The weighted directed network $\mathbf{g}(\mathbf{S})$ defines the $H \times H$ adjacency matrix $\mathbf{G}(\mathbf{S})$, such that for every i and j in \mathbf{H} , $G_{ij}(\mathbf{S}) = G_{ji}(\mathbf{S}) = 1$, if and only*

if $g_{ij}(\mathbf{S}) > 0$ and $g_{ji}(\mathbf{S}) > 0$; $G_{ij}(\mathbf{S}) = G_{ji}(\mathbf{S}) = 0$ otherwise. $\mathbf{G}(\mathbf{S})$ uniquely defines the unweighted undirected network $\{\mathbf{H}, \mathbf{\Lambda}(\mathbf{S})\}$ such that ij is a link in $\mathbf{\Lambda}(\mathbf{S})$ if and only if $G_{ij}(\mathbf{S}) = G_{ji}(\mathbf{S}) = 1$. For ease of reference, $\mathbf{G}(\mathbf{S})$ denotes in what follows the undirected network supported by \mathbf{S} .

It is worth observing that, if $e_{ji} = 0$, then agent j would give no contribution whatsoever to the collaboration (ij) , but would share its gross output $B(ij)$. Thus, $e_{ij} > 0$ is never a best reply to $e_{ji} = 0$. Correspondingly, a Nash equilibrium \mathbf{S}^* of the collaboration game has the property: for every i and j in \mathbf{H} , $e_{ij}(\mathbf{S}^*) > 0$ only if $e_{ji}(\mathbf{S}^*) > 0$. The following definition extends the corresponding definition in Goyal ([14]), which refers to undirected networks.

6.1 Equilibrium in collaboration in a system with field specialists and knowledge integrators

Equipped with the remarks above, we consider the collaboration equilibria which are supported by specialization in the knowledge system of the form discussed above. We assume that there exists a partition $\{\mathbf{H}^1, \dots, \mathbf{H}^M, \mathbf{H}^{M+1}\}$ of \mathbf{H} , such that \mathbf{H}^z , with $z = 1, \dots, M$, is the scientific community of agents which develop the ideas belonging to field z . \mathbf{H}^{M+1} is the community of agents endowed with the core ideas, that is, the knowledge interfaces which may directly or indirectly connect the specialized fields. For the sake of simplicity, we assume that every community \mathbf{H}^z $z = 1, \dots, M$, contains the same number R of researchers; moreover, any two agents belonging to the same community have identical knowledge endowments; if they belong to different specialized fields, their endowment are 'sufficiently' heterogeneous. We study the equilibrium collaborations which are supported by the varying heterogeneity, as opposed to the varying size, of agents' endowments. In particular, we consider the following case:

Case 13 *A knowledge distribution supporting a star-like equilibrium*

1. For every $i \in \mathbf{H}$, $\alpha(\mathbf{\Gamma}_i) = \alpha$.
2. $\#\mathbf{H}^z = R$, $z = 1, \dots, M$; $H = RM + P$, where $P = \#\mathbf{H}^{M+1}$.
3. Fix $z \in \{1, \dots, M\}$. If $i \in \mathbf{H}^z$, $j \in \mathbf{H}^z$, then, $d(ij) = 0$.
4. Fix $i \in \mathbf{H}^{M+1}$. As j spans through $\{\mathbf{H}^{M+1} - i\}$, the conditions $Min[d(ij)] = 1$; $Max[d(ij)] = \Omega > 1$ hold true.
5. If $i \in \mathbf{H}^z$, $j \in \mathbf{H}^v$, with $v \neq z$, $\{v, z\} \subset \{1, \dots, M\}$, then, $d(ij) \geq \Omega > 1$.
6. Fix $z \in \{1, \dots, M\}$. There exists one and only one $j \in \mathbf{H}^{M+1}$ such that $i \in \mathbf{H}^z$ implies: $d(ij) = 1$; $d(ih) \geq \Omega > 1$, if $h \in \{\mathbf{H}^{M+1} - j\}$.

Proposition 14 *Assume case 1 above. The following restriction holds.*

$$k(ij) = 2\alpha \frac{d(ij) + 1}{d(ij) + 2} = k(d(ij)) \quad (11)$$

Remark 15 We may notice from 11 that competence $k(ij)$ increases with heterogeneity $d(ij)$, but at a slower rate; moreover, $d(ij) = 0$ implies $k(ij) = \alpha$; $d(ij) = 1$ implies $k(ij) = \alpha \frac{4}{3}$.

Definition 16 A collaboration (ij) is symmetric if and only if $e_{ij} = e_{ji}$.

Proposition 17 If $e_{ii} < D$ and $e_{jj} < D$, a symmetric collaboration project (ij) such that $d(ij) = 0$ can not be sustained as a Nash outcome..

Proof: For any value of $r \in [0, 1]$, i 's marginal benefit from increasing effort in project (ii) is higher than i 's marginal benefit from increasing effort in (ij) .

$$\alpha^\lambda - c > \frac{1}{2}r\alpha^\lambda - c$$

Proposition 18 Assume $e_{ii} = D$ and $e_{jj} = D$. A symmetric collaboration project (ij) such that $d(ij) = 0$ can be sustained as a Nash outcome only if

$$\frac{1}{2}r\alpha^\lambda(e_{ij} + e_{ji}) - ce_{ij} = e_{ij} [r\alpha^\lambda - c] > 0$$

Proposition 19 Assume that agent i has the opportunity to participate in a collaboration (ih) such that $d(ih) = 1$. i 's marginal effort re-allocation away from a symmetric collaboration (ij) such that $d(ij) = 0$, towards (ih) is payoff increasing (neutral) if:

$$\frac{e_{ih}}{e_{hi}} < (=) \left(\frac{4}{3}\right)^{2\lambda} \quad (12)$$

i 's marginal effort re-allocation away from a project (ii) towards (ih) is payoff increasing (neutral) if:

$$\frac{e_{ih}}{e_{hi}} < (=) \frac{1}{4} \left(\frac{4}{3}\right)^{2\lambda} \quad (13)$$

Proposition 20 Assume that the restrictions of the case above hold, $[r\alpha^\lambda - c] > 0$, $P = M$, and Ω is sufficiently large. There exists a non empty range of the parameters λ , R , E/D supporting a pairwise equilibrium with the following properties. (i) Every collaboration (ij) with $d(ij) = 0$ is symmetric. (ii) For every $h \in \mathbf{H}^{M+1}$ there exists a unique $z \in \{1, \dots, M\}$ such that, for every $i \in \mathbf{H}^z$, h enters a size D collaboration (ih) with $d(ih) = 1$. Every $h \in \mathbf{H}^{M+1}$ enters a collaboration (ph) with $d(ph) = 1$, and $p \in \mathbf{H}^{M+1}$. (iii) For each $z \in \{1, \dots, M\}$, every $i \in \mathbf{H}^z$ invests simultaneously her effort: in a project (ii) of size D ; in one and only one project (ih) such that $d(ih) = 1$ and $h \in \mathbf{H}^{M+1}$; in a number $V \geq 0$ of projects (ij) such that $d(ij) = 0$ and $j \in \mathbf{H}^z$.

Proof (outline): For every $z \in \{1, \dots, M\}$, every $i \in \mathbf{H}^z$ has the following investment opportunities: the project (ii) ; $R-1$ projects (ij) such that $d(ij) = 0$ and $j \in \mathbf{H}^z$; one and only one project (ih) such that $d(ih) = 1$ and $h \in \mathbf{H}^{M+1}$. At e_{ih}/e_{hi} such that 12 holds with strict equality, project (ii) is i 's preferred

alternative. i invests $e_{ii} = D$ in the project (ii) and for $E \geq D + \left(\frac{4}{3}\right)^\lambda D$, she is prepared to invest $e_{ih} = \left(\frac{4}{3}\right)^\lambda D$ in the project (ih) of size D . She invests the residual endowment $E - D \left[1 + \left(\frac{4}{3}\right)^\lambda\right]$ in V projects of type $d(ij) = 0$, where $0 \leq V \leq R - 1$, and V is the largest integer T meeting $T \leq E/D - \left[1 + \left(\frac{4}{3}\right)^\lambda\right]$. Such projects of type $d(ij) = 0$ are sustainable as Nash outcomes under the specified conditions. For every $h \in \mathbf{H}^{M+1}$ there exists one $z \in \{1, \dots, M\}$, such that for $i \in \mathbf{H}^z$ the project (ih) is of type $d(ih) = 1$, and it is h 's best investment opportunity at $e_{hi}/e_{ih} = \left(\frac{3}{4}\right)^{2\lambda}$. For E sufficiently large, h invests $R \left(\frac{3}{4}\right)^\lambda D$ in R projects of this type. At $\left(\frac{4}{3}\right)^\lambda \geq 2$, h invests the residual endowment in symmetric projects (hp) such that $d(hp) = 1$ and $p \in \mathbf{H}^{M+1}$. To fix our ideas, choose λ and E/D such that $V = E/D - \left[1 + \left(\frac{4}{3}\right)^\lambda\right]$. With this restriction, $E/D = V + 1 + \left(\frac{4}{3}\right)^\lambda$ and $R \leq \left(\frac{4}{3}\right)^\lambda \left[V + 1 + \left(\frac{4}{3}\right)^\lambda\right]$.

7 Conclusions and directions of further work

The main goal of this paper is to move some steps towards a foundation of a knowledge based approach to the analysis of division of labour and collaboration in research. So far, the knowledge based approach to the division of labour, and the incentive based explanation of research networks, have been separated fields of analysis in the economic literature. In this closing section we outline some implications of our approach, and suggest promising directions of further work.

The general intuition behind the propositions of the preceding section is that the measure of heterogeneity between agents' knowledge endowments induces a trade off in the allocation of effort to isolated projects, or to joint collaborations with more or less heterogeneous agents. For a given size $\alpha(\mathbf{\Gamma}_i)$ and $\alpha(\mathbf{\Gamma}_j)$ of i 's and j 's knowledge endowment, the larger the heterogeneity $d(ij)$ between them, the higher the competence $k(ij)$ of their joint project. Still, a larger $d(ij)$ makes research activity more demanding, in terms of the private effort which is necessary to produce the same amount of effective joint effort. As a result, when the distribution of the knowledge endowment $\alpha(\mathbf{\Gamma}_i)$ is not too asymmetric across the set of j ' potential collaborators, ceteris paribus, j will find it more profitable to collaborate with an agent whose scientific specialization is neither too similar, nor too dissimilar, compared to j 's specialization. Taking into account the previous remarks concerning the definition of the disciplinary fields as modules in the space $\mathbf{\Gamma}$, this points to the conclusion that we are to expect collaborations to occur only between those agents with partly different specializations in the same field, or between agents with trans-disciplinary knowledge endowments.

The example of equilibrium network discussed in the previous section exploits the drastic assumption that the heterogeneity between selected couples of nodes is 'sufficiently large'. This assumption can be weakened, without changing the qualitative nature of the results, but at the cost of making computation much more cumbersome. The star-like equilibria produced by these propositions

show a centre and periphery nodes which are identified by the special composition of their knowledge endowment. In this way, it may be suggested that our results, like the equilibrium networks produced in a recent paper on research collaboration in economics (Goyal, van der Leij and Moraga, 2004, 2006), rely on the critical assumption that there are basic differences concerning the *types* of agents in the economy. In our view, a great advantage of the approach suggested in this paper, is that such differences between agent types do not rest in our case on the innate and unchanging characteristics of their qualitative nature, but only on their knowledge endowment. To the extent that the model is about knowledge production, it is natural to think of dynamic extensions in which i 's knowledge endowment at t is the outcome of her endowment at $t - 1$, and of the knowledge output of the projects entered by i at $t - 1$. In this dynamic version, the types of agents becomes an endogenous variable.

8 Appendix

8.1 Appendix A. On a pleiotropy based measure of modularity

The structural complementarities imposed by wide overlaps between idea types can be partly described by adapting to our purpose the biologically inspired definition of a system pleiotropy. The number P_j of idea types in Γ sharing the active location j is the pleiotropy of j . Assuming that location j is not always silent in Γ , then $1 \leq P_j \leq \alpha$. Frenken [11] measures system pleiotropy P as:

$$P = \alpha \log \left(\prod_{n=1}^N P_n \right) \quad (14)$$

Here $\alpha \log$ is base α logarithm. The structural relation between string components and types is described by the $\alpha \times N$ matrix $\Phi = [\phi_{fn}]$. Each row in this matrix corresponds to a different type in Γ , and $\phi_{fn} = 1$, or $\phi_{fn} = 0$ depending on whether n is or is not a active location of the f th type in Γ . Biologically inspired problem representations identify a string \mathbf{a} with a phenotype character and label Φ the genotype–phenotype map. Following Frenken [11], we may assume a non-separable space Γ , and observe that the proposed P measure (14) achieves its minimum P_{\min} when $N - 1$ components have $P_j = 1$ and one and only one component has $P_j = \alpha$. This yields $P_{\min} = \alpha \log(\alpha) = 1$. Maximum system pleiotropy P_{\max} obtains when all components j have $P_j = \alpha$, yielding $P_{\max} = \alpha \log(\alpha^N) = N$. Frenken [11] suggests a measure M of system modularity based on the notion that the lower P , the lower the average interdependency between the idea types. More precisely, M depends on the comparison between P_{\max} and the observed value of P .

$$M = 1 - \frac{P}{P_{\max}} = 1 - \frac{P}{N} \quad (15)$$

According to this measure, the modularity of a non-separable system is inversely related with system pleiotropy; its maximum $M_{\max} = \frac{N-1}{N}$ tends to 1 as N tends to ∞ ; its minimum is $M_{\min} = 0$. Apart from the restriction that M is by definition applicable only to non-separable systems, the main problem with this measure is that, in so far as it depends only on the product of pleiotropy measures P_n , it does not retain more detailed information on the *interdependence structure* between the types in Γ . It turns out that two sets Γ and Γ' , such that $N(\Gamma) = N(\Gamma')$, $\alpha(\Gamma) = \alpha(\Gamma')$, and $M(\Gamma) = M(\Gamma')$ may nevertheless have $\beta_{Min}(\Gamma) \neq \beta_{Min}(\Gamma')$.

8.2 Appendix B. Modularity measure on weighted directed networks

For the given partition $\{\alpha^1, \dots, \alpha^Z\}$ of α , the total intensity of an outward link from group h directed to itself or to other groups is $\hat{a}_h = \sum_i \sum_j w_{ij}$, $j \in \alpha^h, i = 1, \dots, Z$. The corresponding total intensity of an inward link to group h from itself or from other groups is $\check{a}_h = \sum_j \sum_i w_{ij}$, $i \in \alpha^h, j = 1, \dots, Z$. If the total intensity of links in \mathbf{W} is $T = \sum_i \sum_j w_{ij}$, $i, j = 1, \dots, Z$, then the average relative frequency with which an outward link in \mathbf{W} originates from, and arrives to, group h is $\hat{e}_h = \frac{\hat{a}_h}{T}$ and $\check{e}_h = \frac{\check{a}_h}{T}$, respectively. The modularity measure Q_h of the links from and to group h in the context of the given network \mathbf{W} , is then expressed by the extent to which the frequency of within-group links exceeds the frequency that would be expected from the hypothesis of a random wiring.

$$Q_h = \frac{1}{T} \left[\sum_{i \in \{\mathbf{F}_h\}} \sum_{j \in \{\mathbf{F}_h\}} w_{ij} \right] - \hat{e}_h \check{e}_h \quad (16)$$

The modularity of \mathbf{W} according to the partition $\{\alpha^i\}_{i=1}^Z = \{\alpha^1, \dots, \alpha^Z\}$ is then expressed by the sum $Q = \sum_{h=1}^Z Q_h$, which may be negative, if the partition is ill-chosen. Indeed, the relative goodness of two alternative partitions of α is evaluated by choosing the partition yielding a higher value of Q . In this spirit, the modules of the network $\{\alpha, \mathbf{W}\}$ are endogenously determined by selecting the Q -maximizing partition $\{\alpha^{i^*}\}_{i=1}^{Z^*}$ ([30]), and the modularity of $\{\alpha, \mathbf{W}\}$ is the Q -measure induced by such partition. Z^* is the number of modules in the Q maximizing partition. Since the Q modularity of the null partition $\{\alpha\}$ is zero, the Q modularity of \mathbf{W} takes values in the interval $[0, 1]$. If \mathbf{W} is diagonal, then $Q(\mathbf{W}) \rightarrow 1$ as $F \rightarrow +\infty$. A fast algorithm for the computation of Q in large undirected networks [28] was subsequently extended to weighted undirected and directed networks ([20], [9]).

8.3 Appendix C. Complementarity and substitutability in the production of effective collaboration effort

We assume that effective joint effort $e(ij)$ is specified by:

$$e(ij) = [f(d(ij))]^{-1} \left[w_{ij} (e_{ij})^\rho + (1 - w_{ij}) (e_{ji})^\rho \right]^{1/\rho} \quad (17)$$

where: $\rho = 1 - d(ij)$; $f(d) = 1 + \phi(d) \cdot d$; $\phi(d) = 0$ if $0 \leq d \leq 1$; $f' > 0$ if $d > 1$; $\lim_{d \rightarrow \infty} f(d) = F$. For a given fixed specification of the parameters w_{ij} , and $d(ij)$, the $e(\cdot)$ function 17 belongs to the family of CES functions, linear homogeneous with respect to e_{ij} , e_{ji} (Klump and Preissler [18], p.46), and elasticity of substitution $1/(\rho - 1) = -1/d(ij)$ between e_{ij} and e_{ji} . If agents i and j contribute to the coalition with identical types of ideas, $d(ij) = 0$, and $w_{ik} = w_{ji} = 1/2$. i 's and j 's efforts are then perfect substitutes, with constant marginal contributions to effective effort $e(ij)$.

$$e(ij) = \frac{w_{ij} e_{ij}}{f(d(ij))} + \frac{w_{ji} e_{ji}}{f(d(ij))} = \frac{e_{ij} + e_{ji}}{2f(d(ij))} = \frac{1}{2}(e_{ij} + e_{ji}) \quad (18)$$

The intermediate case $d(ij) = 1$ implies $\rho = 0$, so that $e(\cdot)$ is Cobb-Douglas:

$$e(ij) = \left(\frac{e_{ij}}{f(d(ij))} \right)^{w_{ij}} \left(\frac{e_{ji}}{f(d(ij))} \right)^{w_{ji}} = e_{ij}^{w_{ij}} e_{ji}^{w_{ji}} \quad (19)$$

Finally, if $d(ij) = +\infty$, then $\rho = -\infty$: when i 's and j 's knowledge sets are disjoint, their efforts are perfect complements; the performance function is then Leontiev.

$$e(ij) = \min \left[\frac{e_{ij}}{f(d(ij))}, \frac{e_{ji}}{f(d(ij))} \right] = \min \left[\frac{e_{ij}}{F}, \frac{e_{ji}}{F} \right] \quad (20)$$

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