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978-0-521-19533-1 - Networks, Crowds, and Markets: Reasoning about a Highly Connected World

David Easley and Jon Kleinberg

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## Networks, Crowds, and Markets

Over the past decade there has been a growing public fascination with the complex connectedness of modern society. This connectedness is found in many incarnations: in the rapid growth of the Internet, in the ease with which global communication takes place, and in the ability of news and information as well as epidemics and financial crises to spread with surprising speed and intensity. These are phenomena that involve networks, incentives, and the aggregate behavior of groups of people; they are based on the links that connect us and the ways in which our decisions can have subtle consequences for others.

This introductory undergraduate textbook takes an interdisciplinary look at economics, sociology, computing and information science, and applied mathematics to understand networks and behavior. It describes the emerging field of study that is growing at the interface of these areas, addressing fundamental questions about how the social, economic, and technological worlds are connected.

David Easley is the Henry Scarborough Professor of Social Science and the Donald C. Opatrny '74 Chair of the Department of Economics at Cornell University. He was previously an Overseas Fellow of Churchill College, Cambridge. His research is in the fields of economics, finance, and decision theory. In economics, he focuses on learning, wealth dynamics, and natural selection in markets. In finance, his work focuses on market microstructure and asset pricing. In decision theory, he works on modeling decision making in complex environments. He is a Fellow of the Econometric Society and is Chair of the NASDAQ-OMX Economic Advisory Board.

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# Networks, Crowds, and Markets

*Reasoning about a Highly Connected World*

**David Easley**

*Cornell University*

**Jon Kleinberg**

*Cornell University*



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# Contents

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<i>Preface</i>	<i>page xi</i>
<b>1 Overview</b>	<b>1</b>
1.1 Aspects of Networks	2
1.2 Central Themes and Topics	7
<b>Part I Graph Theory and Social Networks</b>	
<b>2 Graphs</b>	<b>21</b>
2.1 Basic Definitions	21
2.2 Paths and Connectivity	23
2.3 Distance and Breadth-First Search	29
2.4 Network Data Sets: An Overview	35
2.5 Exercises	39
<b>3 Strong and Weak Ties</b>	<b>43</b>
3.1 Triadic Closure	44
3.2 The Strength of Weak Ties	46
3.3 Tie Strength and Network Structure in Large-Scale Data	51
3.4 Tie Strength, Social Media, and Passive Engagement	54
3.5 Closure, Structural Holes, and Social Capital	58
3.6 Advanced Material: Betweenness Measures and Graph Partitioning	62
3.7 Exercises	74
<b>4 Networks in Their Surrounding Contexts</b>	<b>77</b>
4.1 Homophily	77
4.2 Mechanisms Underlying Homophily: Selection and Social Influence	81
4.3 Affiliation	83
4.4 Tracking Link Formation in Online Data	88
4.5 A Spatial Model of Segregation	96
4.6 Exercises	103

<b>5 Positive and Negative Relationships</b>	<b>107</b>
5.1 Structural Balance	107
5.2 Characterizing the Structure of Balanced Networks	110
5.3 Applications of Structural Balance	113
5.4 A Weaker Form of Structural Balance	115
5.5 Advanced Material: Generalizing the Definition of Structural Balance	118
5.6 Exercises	132
<b>Part II Game Theory</b>	
<b>6 Games</b>	<b>139</b>
6.1 What Is a Game?	140
6.2 Reasoning about Behavior in a Game	142
6.3 Best Responses and Dominant Strategies	146
6.4 Nash Equilibrium	149
6.5 Multiple Equilibria: Coordination Games	151
6.6 Multiple Equilibria: The Hawk–Dove Game	154
6.7 Mixed Strategies	156
6.8 Mixed Strategies: Examples and Empirical Analysis	161
6.9 Pareto Optimality and Social Optimality	165
6.10 Advanced Material: Dominated Strategies and Dynamic Games	167
6.11 Exercises	179
<b>7 Evolutionary Game Theory</b>	<b>189</b>
7.1 Fitness as a Result of Interaction	190
7.2 Evolutionarily Stable Strategies	191
7.3 A General Description of Evolutionarily Stable Strategies	196
7.4 Relationship between Evolutionary and Nash Equilibria	197
7.5 Evolutionarily Stable Mixed Strategies	199
7.6 Exercises	204
<b>8 Modeling Network Traffic Using Game Theory</b>	<b>207</b>
8.1 Traffic at Equilibrium	207
8.2 Braess’s Paradox	209
8.3 Advanced Material: The Social Cost of Traffic at Equilibrium	211
8.4 Exercises	219
<b>9 Auctions</b>	<b>225</b>
9.1 Types of Auctions	225
9.2 When Are Auctions Appropriate?	226
9.3 Relationships between Different Auction Formats	228
9.4 Second-Price Auctions	229
9.5 First-Price Auctions and Other Formats	232
9.6 Common Values and the Winner’s Curse	233
9.7 Advanced Material: Bidding Strategies in First-Price and All-Pay Auctions	234
9.8 Exercises	242

Cambridge University Press

978-0-521-19533-1 - Networks, Crowds, and Markets: Reasoning about a Highly Connected World

David Easley and Jon Kleinberg

Frontmatter

[More information](#)

## CONTENTS

vii

**Part III Markets and Strategic Interaction in Networks**

<b>10 Matching Markets</b>	<b>249</b>
10.1 Bipartite Graphs and Perfect Matchings	249
10.2 Valuations and Optimal Assignments	253
10.3 Prices and the Market-Clearing Property	255
10.4 Constructing a Set of Market-Clearing Prices	258
10.5 How Does This Relate to Single-Item Auctions?	261
10.6 Advanced Material: A Proof of the Matching Theorem	262
10.7 Exercises	270
<b>11 Network Models of Markets with Intermediaries</b>	<b>277</b>
11.1 Price Setting in Markets	277
11.2 A Model of Trade on Networks	280
11.3 Equilibria in Trading Networks	286
11.4 Further Equilibrium Phenomena: Auctions and Ripple Effects	290
11.5 Social Welfare in Trading Networks	294
11.6 Trader Profits	295
11.7 Reflections on Trade with Intermediaries	297
11.8 Exercises	297
<b>12 Bargaining and Power in Networks</b>	<b>301</b>
12.1 Power in Social Networks	301
12.2 Experimental Studies of Power and Exchange	304
12.3 Results of Network Exchange Experiments	305
12.4 A Connection to Buyer–Seller Networks	309
12.5 Modeling Two-Person Interaction: The Nash Bargaining Solution	310
12.6 Modeling Two-Person Interaction: The Ultimatum Game	312
12.7 Modeling Network Exchange: Stable Outcomes	314
12.8 Modeling Network Exchange: Balanced Outcomes	317
12.9 Advanced Material: A Game-Theoretic Approach to Bargaining	320
12.10 Exercises	327

**Part IV Information Networks and the World Wide Web**

<b>13 The Structure of the Web</b>	<b>333</b>
13.1 The World Wide Web	333
13.2 Information Networks, Hypertext, and Associative Memory	335
13.3 The Web as a Directed Graph	340
13.4 The Bow-Tie Structure of the Web	344
13.5 The Emergence of Web 2.0	347
13.6 Exercises	349
<b>14 Link Analysis and Web Search</b>	<b>351</b>
14.1 Searching the Web: The Problem of Ranking	351
14.2 Link Analysis Using Hubs and Authorities	353
14.3 PageRank	358

Cambridge University Press

978-0-521-19533-1 - Networks, Crowds, and Markets: Reasoning about a Highly Connected World

David Easley and Jon Kleinberg

Frontmatter

[More information](#)

viii	CONTENTS	
14.4	Applying Link Analysis in Modern Web Search	363
14.5	Applications beyond the Web	366
14.6	Advanced Material: Spectral Analysis, Random Walks, and Web Search	368
14.7	Exercises	378
<b>15</b>	<b>Sponsored Search Markets</b>	<b>385</b>
15.1	Advertising Tied to Search Behavior	385
15.2	Advertising as a Matching Market	388
15.3	Encouraging Truthful Bidding in Matching Markets: The VCG Principle	391
15.4	Analyzing the VCG Mechanism: Truth-Telling as a Dominant Strategy	395
15.5	The Generalized Second-Price Auction	398
15.6	Equilibria of the Generalized Second-Price Auction	401
15.7	Ad Quality	404
15.8	Complex Queries and Interactions among Keywords	406
15.9	Advanced Material: VCG Prices and the Market-Clearing Property	407
15.10	Exercises	420
<b>Part V Network Dynamics: Population Models</b>		
<b>16</b>	<b>Information Cascades</b>	<b>425</b>
16.1	Following the Crowd	425
16.2	A Simple Herding Experiment	427
16.3	Bayes' Rule: A Model of Decision Making under Uncertainty	430
16.4	Bayes' Rule in the Herding Experiment	434
16.5	A Simple, General Cascade Model	436
16.6	Sequential Decision Making and Cascades	440
16.7	Lessons from Cascades	442
16.8	Exercises	444
<b>17</b>	<b>Network Effects</b>	<b>449</b>
17.1	The Economy without Network Effects	450
17.2	The Economy with Network Effects	453
17.3	Stability, Instability, and Tipping Points	456
17.4	A Dynamic View of the Market	457
17.5	Industries with Network Goods	462
17.6	Mixing Individual Effects with Population-Level Effects	465
17.7	Advanced Material: Negative Externalities and the El Farol Bar Problem	470
17.8	Exercises	476
<b>18</b>	<b>Power Laws and Rich-Get-Richer Phenomena</b>	<b>479</b>
18.1	Popularity as a Network Phenomenon	479
18.2	Power Laws	481
18.3	Rich-Get-Richer Models	482

## CONTENTS

ix

<b>18.4</b>	The Unpredictability of Rich-Get-Richer Effects	484
<b>18.5</b>	The Long Tail	486
<b>18.6</b>	The Effect of Search Tools and Recommendation Systems	489
<b>18.7</b>	Advanced Material: Analysis of Rich-Get-Richer Processes	490
<b>18.8</b>	Exercises	493

**Part VI Network Dynamics: Structural Models**

<b>19</b>	<b>Cascading Behavior in Networks</b>	<b>497</b>
<b>19.1</b>	Diffusion in Networks	497
<b>19.2</b>	Modeling Diffusion through a Network	499
<b>19.3</b>	Cascades and Clusters	506
<b>19.4</b>	Diffusion, Thresholds, and the Role of Weak Ties	509
<b>19.5</b>	Extensions of the Basic Cascade Model	512
<b>19.6</b>	Knowledge, Thresholds, and Collective Action	514
<b>19.7</b>	Advanced Material: The Cascade Capacity	517
<b>19.8</b>	Exercises	532
<b>20</b>	<b>The Small-World Phenomenon</b>	<b>537</b>
<b>20.1</b>	Six Degrees of Separation	537
<b>20.2</b>	Structure and Randomness	538
<b>20.3</b>	Decentralized Search	541
<b>20.4</b>	Modeling the Process of Decentralized Search	543
<b>20.5</b>	Empirical Analysis and Generalized Models	546
<b>20.6</b>	Core–Periphery Structures and Difficulties in Decentralized Search	552
<b>20.7</b>	Advanced Material: Analysis of Decentralized Search	554
<b>20.8</b>	Exercises	564
<b>21</b>	<b>Epidemics</b>	<b>567</b>
<b>21.1</b>	Diseases and the Networks That Transmit Them	567
<b>21.2</b>	Branching Processes	569
<b>21.3</b>	The SIR Epidemic Model	572
<b>21.4</b>	The SIS Epidemic Model	576
<b>21.5</b>	Synchronization	578
<b>21.6</b>	Transient Contacts and the Dangers of Concurrency	582
<b>21.7</b>	Genealogy, Genetic Inheritance, and Mitochondrial Eve	585
<b>21.8</b>	Advanced Material: Analysis of Branching and Coalescent Processes	590
<b>21.9</b>	Exercises	602

**Part VII Institutions and Aggregate Behavior**

<b>22</b>	<b>Markets and Information</b>	<b>607</b>
<b>22.1</b>	Markets with Exogenous Events	608
<b>22.2</b>	Horse Races, Betting, and Beliefs	609
<b>22.3</b>	Aggregate Beliefs and the “Wisdom of Crowds”	615
<b>22.4</b>	Prediction Markets and Stock Markets	618
<b>22.5</b>	Markets with Endogenous Events	622



Cambridge University Press

978-0-521-19533-1 - Networks, Crowds, and Markets: Reasoning about a Highly Connected World

David Easley and Jon Kleinberg

Frontmatter

[More information](#)

x

## CONTENTS

22.6	The Market for Lemons	623
22.7	Asymmetric Information in Other Markets	627
22.8	Signaling Quality	631
22.9	Quality Uncertainty Online: Reputation Systems and Other Mechanisms	632
22.10	Advanced Material: Wealth Dynamics in Markets	635
22.11	Exercises	641
<b>23</b>	<b>Voting</b>	<b>645</b>
23.1	Voting for Group Decision Making	645
23.2	Individual Preferences	646
23.3	Voting Systems: Majority Rule	649
23.4	Voting Systems: Positional Voting	654
23.5	Arrow's Impossibility Theorem	657
23.6	Single-Peaked Preferences and the Median Voter Theorem	658
23.7	Voting as a Form of Information Aggregation	663
23.8	Insincere Voting for Information Aggregation	665
23.9	Jury Decisions and the Unanimity Rule	668
23.10	Sequential Voting and the Relation to Information Cascades	672
23.11	Advanced Material: A Proof of Arrow's Impossibility Theorem	673
23.12	Exercises	678
<b>24</b>	<b>Property Rights</b>	<b>681</b>
24.1	Externalities and the Coase Theorem	681
24.2	The Tragedy of the Commons	685
24.3	Intellectual Property	688
24.4	Exercises	691
	<i>Bibliography</i>	693
	<i>Index</i>	711

Cambridge University Press

978-0-521-19533-1 - Networks, Crowds, and Markets: Reasoning about a Highly Connected World

David Easley and Jon Kleinberg

Frontmatter

[More information](#)

## Preface

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Over the past decade, there has been a growing public fascination with the complex “connectedness” of modern society. This connectedness is found in many incarnations: in the rapid growth of the Internet and the Web, in the ease with which global communication now takes place, and in the ability of news and information as well as epidemics and financial crises to spread around the world with surprising speed and intensity. These are phenomena that involve networks, incentives, and the aggregate behavior of groups of people; they are based on the links that connect us and the ways in which each of our decisions can have subtle consequences for the outcomes of everyone else.

Motivated by these developments in the world, there has been a coming-together of multiple scientific disciplines in an effort to understand how highly connected systems operate. Each discipline has contributed techniques and perspectives that are characteristically its own, and the resulting research effort exhibits an intriguing blend of these different flavors. From computer science and applied mathematics has come a framework for reasoning about how complexity arises, often unexpectedly, in systems that we design; from economics has come a perspective on how people’s behavior is affected by incentives and by their expectations about the behavior of others; and from sociology and the social sciences have come insights into the characteristic structures and interactions that arise within groups and populations. The resulting synthesis of ideas suggests the beginnings of a new area of study, focusing on the phenomena that take place within complex social, economic, and technological systems.

This book grew out of a course that we developed at Cornell, designed to introduce this topic and its underlying ideas to a broad student audience at an introductory level. The central concepts are fundamental and accessible ones, but they are dispersed across the research literatures of the many different fields contributing to the topic. The principal goal of this book is therefore to bring the essential ideas together in a single unified treatment and to present them in a way that requires as little background knowledge as possible.

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David Easley and Jon Kleinberg

Frontmatter

[More information](#)

**Overview.** The book is intended to be used at the introductory undergraduate level, and as such it has no formal prerequisites beyond a level of comfort with basic mathematical definitions at a precalculus level. In keeping with the introductory style, many of the ideas are developed in special cases and through illustrative examples; our goal is to take concepts and theories that are complex in their full generality and to provide simpler formulations where the essential ideas still come through.

In our use of the book, we find that many students are also interested in pursuing some of these topics more deeply, and so it is useful to provide pathways that lead from the introductory formulations into the more advanced literature on these topics. With this in mind, we provide optional sections labeled *Advanced Material* at the ends of most chapters. These advanced sections are qualitatively different from the other sections in the book; some draw on more advanced mathematics, and their presentation is at a more challenging level of conceptual complexity. Aside from the additional mathematical background required, however, even these advanced sections are self-contained; they are also strictly optional, in the sense that nothing elsewhere in the book depends on them.

**Synopsis.** The first chapter of the book provides a detailed description of the topics and issues that we cover. Here we give a briefer summary of the main focus areas.

The book is organized into seven parts of three to four chapters each. Parts I and II discuss the two main theories that underpin our investigations of networks and behavior: *graph theory*, which studies network structure, and *game theory*, which formulates models of behavior in environments where people's decisions affect each other's outcomes. Part III integrates these lines of thought into an analysis of the network structure of markets and the notion of power in such networks. Part IV pursues a different integration, discussing the World Wide Web as an information network, the problem of Web search, and the development of the markets that currently lie at the heart of the search industry. Parts V and VI study the dynamics of some of the fundamental processes that take place within networks and groups, including the ways in which people are influenced by the decisions of others. Part V pursues this topic at an aggregate scale, where we model interactions between an individual and the population as a whole. Part VI continues the analysis at the more fine-grained level of network structure, beginning with the question of influence and moving on to the dynamics of search processes and epidemics. Finally, Part VII considers how we can interpret fundamental social institutions – including markets, voting systems, and property rights – as mechanisms for productively shaping some of the phenomena we've been studying.

**Use of the Book.** The book is designed for teaching as well as for any reader who finds these topics interesting and wants to pursue them independently at a deeper level.

Several different types of courses can be taught from this book. When we teach from it at Cornell, the students in our class come from many different majors and have a wide variety of technical backgrounds; this diversity in the audience has served as our primary calibration in setting the introductory level of the book. Our course includes a portion of the material from each chapter; for the sake of concreteness, we provide the approximate weekly schedule we follow below. (There are three 50-minute lectures

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978-0-521-19533-1 - Networks, Crowds, and Markets: Reasoning about a Highly Connected World

David Easley and Jon Kleinberg

Frontmatter

[More information](#)

## PREFACE

xiii

each week, except that weeks 6 and 7 of our course contain only two lectures each. In each lecture, we don't necessarily include all the details from each indicated section.)

- Week 1: Chapters 1; 2.1–2.3; 3.1–3.3, 3.5; 4.1
- Week 2: Chapters 5.1–5.3; 6.1–6.4; 6.5–6.9
- Week 3: Chapters 8.1–8.2; 9.1–9.6; 10.1–10.2
- Week 4: Chapters 10.3; 10.4–10.5; 11.1–11.2
- Week 5: Chapters 11.3–11.4; 12.1–12.3; 12.5–12.6
- Week 6: Chapters 12.7–12.8; 13
- Week 7: Chapter 14.1–14.2; 14.3–14.4
- Week 8: Chapter 15.1–15.2; 15.3–15.4; 15.5–15.6, 15.8
- Week 9: Chapter 16.1–16.2; 16.3–16.4; 16.5–16.7
- Week 10: Chapters 17.1–17.2; 17.3–17.5; 18
- Week 11: Chapters 19.1–19.2; 19.3; 19.4, 19.6
- Week 12: Chapter 22.1–22.4; 22.5–22.9; 7.1–7.4
- Week 13: Chapters 20.1–20.2; 20.3–20.6; 21.1–21.5
- Week 14: Chapters 23.1–23.5; 23.6–23.9; 24

There are many other paths that a course could follow through the book. First, a number of new courses are being developed at the interface of computer science and economics, focusing particularly on the role of economic reasoning in the design and behavior of modern computing systems. The book can be used for such courses in several ways, building on four chapters as a foundation: Chapter 2 on graphs, Chapter 6 on games, Chapter 9 on auctions, and Chapter 10 on matching markets. From here, a more expansive version of such a course could cover the remainder of Parts II and III, all of Parts IV and V, Chapter 19, and portions of Part VII. A more focused and potentially shorter version of such a course concerned principally with auctions, markets, and the online applications of these ideas could be constructed from Chapters 2, 6, 9, 10, 13, 15, 17, 18, and 22, and drawing on parts of Chapters 11, 12, 14, 16, and 19. When these courses are taught at a more advanced level, the advanced sections at the ends of most of these chapters would be appropriate material; depending on the exact level of the course, the text of many of these chapters could be used to lead into the more advanced analysis in their respective final sections.

In a different but related direction, new courses are also being developed on the topic of social computing and information networks. The book can be used for courses of this type by emphasizing Chapters 2–6, 13, 14, 17–20, and 22; many such courses also include sponsored search markets as part of their coverage of the Web, which can be done by including Chapters 9, 10, and 15 as well. The advanced sections in the book can play a role here too, depending on the level of the course.

Finally, portions of the book can serve as self-contained modules in courses on broader topics. To pick just a few examples, one can assemble such modules on network algorithms (Sections 2.3, 3.6, 5.5, 8.3, 10.6, 14.2, 14.3, 14.6, 15.9, 20.3, 20.4, and 20.7); applications of game theory (Chapters 6–9 and 11; Sections 12.9, 15.3–15.6, 19.2, 19.3, 19.5–19.7, and 23.7–23.9); social network analysis (Chapters 2–5; Sections 12.1–12.3 and 12.5–12.8; and Chapters 18–20); the role of information in economic settings (Chapters 16 and 22, and Sections 23.6–23.10); and the analysis of large-scale network data sets (Sections 2.3, 3.2, 3.3, 3.6, 4.4, 5.3, 13.3, 13.4, 14.2–14.5, 18.2, 18.5, and 20.5). Most of these modules use graphs and/or games as fundamental

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David Easley and Jon Kleinberg

Frontmatter

[More information](#)

building blocks; for students not already familiar with these topics, Chapters 2 and 6, respectively, provide self-contained introductions.

**Acknowledgments.** Our work on this book took place in an environment at Cornell that was particularly conducive to interaction between computing and the social sciences. Our collaboration began as part of a project with Larry Blume, Eric Friedman, Joe Halpern, Dan Huttenlocher, and Éva Tardos funded by the National Science Foundation, followed by a campus-wide “theme project” on networks sponsored by Cornell’s Institute for the Social Sciences, with a group that included Larry and Dan together with John Abowd, Geri Gay, Michael Macy, Kathleen O’Connor, Jeff Prince, and David Strang. Our approach to the material in the book draws on perspectives – ways of thinking about these topics and ways of talking about them – that we’ve learned and acquired from this interdisciplinary set of colleagues, a group that includes some of our closest professional collaborators.

The course on which the book is based grew out of discussions that were part of the Cornell theme project; the two of us had taught distinct portions of this material separately in graduate courses that we had developed, and Michael Kearns’s *Networked Life* course at University of Pennsylvania demonstrated the vibrancy and relevance this material could have for an introductory undergraduate audience as well. We were intrigued by the prospect of combining different perspectives that hadn’t previously appeared together – a process that would be educational not only to the students in the course but to us as well. Creating and teaching this new interdisciplinary course was made possible by the support of our departments, Computer Science and Economics, and by support from the Solomon Fund at Cornell University.

Once the book had begun to take shape, we benefited enormously from the feedback, suggestions, and experiences of colleagues who taught from early drafts of it. In particular, we thank Daron Acemoglu (MIT), Lada Adamic (Michigan), Allan Borodin (Toronto), Noshir Contractor (Northwestern), Jason Hartline (Northwestern), Nicole Immorlica (Northwestern), Ramesh Johari (Stanford), Samir Khuller (Maryland), Jure Leskovec (Stanford), David Liben-Nowell (Carleton), Peter Monge (USC), Asu Ozdaglar (MIT), Vijay Ramachandran (Colgate), R. Ravi (CMU), Chuck Severance (Michigan), Aravind Srinivasan (Maryland), and Luis von Ahn (CMU). The graduate and undergraduate teaching assistants in our own teaching of this subject have been very helpful as well; we thank Alex Ainslie, Lars Backstrom, Jacob Bank, Vlad Barash, Burak Bekdemir, Anand Bhaskar, Ben Cole, Bistra Dilkina, Eduard Dogaru, Ram Dubey, Ethan Feldman, Ken Ferguson, Narie Foster, Eric Frackleton, Christie Gibson, Vaibhav Goel, Scott Grabnic, Jon Guarino, Fahad Karim, Koralai Kirabaeva, Tian Liang, Austin Lin, Fang Liu, Max Mihm, Sameer Nurmohamed, Ben Pu, Tal Rusak, Mark Sandler, Stuart Tetterer, Ozgur Yoner, Chong-Suk Yoon, and Yisong Yue.

In addition to the instructors who used early drafts, a number of other people provided extensive comments on portions of the book, leading to many improvements in the text: Lada Adamic, Robert Kerr, Evie Kleinberg, Gueorgi Kossinets, Stephen Morris, David Parkes, Rahul Sami, Andrew Tomkins, and Johan Ugander. We also thank a further set of colleagues, in addition to those already listed, who have provided very useful advice

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Frontmatter

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**PREFACE**

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and suggestions on this project as it has proceeded: Bobby Kleinberg, Gene Kleinberg, Lillian Lee, Maureen O'Hara, Prabhakar Raghavan, and Steve Strogatz.

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*David Easley  
Jon Kleinberg  
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