

# **Social networks and the process of "globalization"**

*(joint with Georg Duernecker)*

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We propose a stylised dynamic model to understand the role of social networks in the phenomenon we call "globalization." This term refers to the process by which even agents who are geographically far apart come to interact, thus overcoming what would otherwise be a fast saturation of local opportunities. A key feature of our model is that the social network is the main channel through which agents search and exploit new opportunities. Thus only if the social network becomes global (heuristically, "reaches far") can global interaction be steadily sustained. To shed light on the conditions under which such a transformation may, or may not, take place is the main objective of the paper.

One of our interesting insights is that in order for a local social network to turn global, the economy needs to display a degree of "geographical cohesion" that is neither too high (for then global opportunities simply do not arise) nor too low (in which case there is too little social structure for the process to take off). And if globalization does arise, we show that it often occurs abruptly and consolidates as a robust state of affairs. We also show how it is affected by improvements in the flow at which information travels in the network, or the range at which the social network helps to monitor behavior.