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Complexity and heterogeneity in a dynamic network

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Complexity and Heterogeneity in a Dynamic Network

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Complexity and Heterogeneity in a Dynamic Network

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Abstract

We present an analytical solution for the connectivity of a network model with a "non-simultaneous" linking scheme. Despite its simplicity, this model exhibits node-space correlations in the link distribution, and anomalous fluctuations behavior of the time series of the connectivity variable, and a finite-size effect: the maximum number of links occurs away from the critical value of the system parameter. We derive an exact Master Equation for this model using a quantum algebra approach to stochastic processes. Fluctuations are much more important than the mean-field approximation predicts, which we attribute to the heterogeneity in the model. The maximal heterogeneous population corresponds to the critical value of the system. Finally as an explanatory case we evaluate the growth of the network value in relation with the system interconnectedness.

Keywords: Complexity, heterogeneity, critical phenomena, network value, coordination costs, stochastic processes
JEL codes: D85, C02, C22, C62

1. Introduction

Complexity is a polymorphous concept, with definitions that vary from one discipline to another. Herein, we will refer to a system as complex if it exhibits spontaneous emergent phenomena over a small range of values of the free parameter(s) of the system. One of our working hypotheses is that complexity is closely tied to heterogeneity. The results below indicate that node heterogeneity is instrumental in determining the degree of interconnectedness in a model for network dynamics.

Since we work with a network with a dynamic topology, it is the fluctuations and heterogeneity of the network that are most relevant to the behaviors observed. Indeed, at the parameter values at which the network is complex, these fluctuations in the degree of interconnectedness become extraordinarily large, comparable in size with their allowed range.

This emphasis on the dynamical aspects of network properties represents a departure from the standard approaches to studying networks. Most social and financial networks have been studied with an emphasis on their characteristic topological features, especially the *patterns of connection* (often referred to as complexity) between their elements [1, 2]. For example, financial economists have largely discussed the benefits of interactions among financial intermediaries. Some degree of interconnectedness is crucial to the proper functioning of financial systems, as no single institution can access the full range of available capital and investment opportunities in the economy. Connections among financial institutions are also assumed to facilitate risk sharing, decrease the uncertainty faced by individual agents, and so allow agents to offer better services to the economy.

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On the other hand, complexity is also regarded as a source of system breakdown [3]. In particular, increasing interconnectedness in the market in terms of contracts among financial institutions comes at the price of increasing inaccuracy in the estimation of systemic risk [4]. So in financial markets, the challenge for market participants, policymakers, and regulators is to find a balance between the benefits of interconnectedness and its potentially harmful destabilizing effects [5], [6].

In the present paper, we examine a model from a new network class based on agent preferences, namely preferred degree networks [7], where the number of links continuously fluctuates and the system has a non-trivial steady state distribution. In this class of networks, the system undergoes a phase transition from a sparsely connected network to a densely connected one. The intermediate critical condition is the condition of maximal population heterogeneity among the nodes and the system shows an abrupt onset of anomalously large fluctuations in the network connectivity, which emphasizes the heterogeneity of the units' preferences. Our analytical results reveal that these large fluctuations are poorly accounted for by the mean-field approximation of the model.

This class of networks differs from the standard literature of pairwise network formation [8] in that a link is not a bilateral compromise between pairs of nodes. An asymmetry that is in contrast with the statistical symmetry present in other common methods of generation of random graphs, such as via a linking probability matrix.

This class of models is based on the initiative of single units, which according to their preferences can propose to generate or destroy a connection with another node (which can accept or reject the proposition). This change of perspective introduces a dramatic difference in the dynamics of networks displaying the emergent phenomena typical of complex systems.

The model which we analyse has two types of units [9]: generators and destroyers of links. We propose an analytical solution for the equilibrium mean value of the connectivity, which exhibits a phase transition. We provide a closed-form equation for the phase transition thereby characterizing the correspondent critical point.

These results are obtained using a relatively new approach to stochastic processes which makes use of mathematical notations reminiscent of the quantum mechanical formalism [10], and a mean-field approximation to the Fokker-Planck equation for the probability density of links. In order to provide a microscopic description of the network, we write an approximated Langevin equation which allows one to characterize the network in terms of emergent properties at criticality through the study of spatial and temporal correlations. Additionally, we highlight some limitations of the mean field approximation in capturing the heterogeneity of the nodes in their dynamics of creating and destroying links. These corrections are non-negligible when the system is at its critical point.

As further hallmarks of complexity, we stress the importance of finite-size effects, observing how finite networks produce more links away from the critical condition. Indeed, real-world systems' statistical properties are affected by finite-size and other truncation effects which can play an important role in defining the complexity of networks in terms of the effects of systems in constrained situations such as a limited number of units in the system (i.e., small groups), which is related to coordination issues [11]. This gives rise to a paradigm of emergent properties of groups including the fact that larger team sizes lead to an increasing need for coordination that can limit the efficiency of group members, pointing attention to the optimal connectivity condition as a function of the global size of the network.

The model we describe is an expository model, having the purpose of highlighting and explaining the most crucial mechanisms underlying the phenomena of complex evolving systems as discussed in many disciplines, in particular economics and finance [12, 13, 14].

So, without any predictive intention, we set forth an abstract example of a system which gains value according to its interconnectedness, and bears a cost depending on the number of active nodes (i.e., generators of links). The resulting profitability shows a signature of complexity in terms of finite-size network effects: small groups reach a maximal profitability far from the critical point of maximal heterogeneous population, but they tend to suffer less uncertainty of the expected connectivity. As the size of the network increases, we imagine that the system tends to organize itself near a critical point where the network has its maximal profitability; however, this point is also associated with a very high uncertainty (connection volatility). In this state, the system can be more vulnerable to possible systemic failure since it spends some part of its time in an unprofitable state. In terms of social and economic policy, minimizing the importance of heterogeneity also in mathematical terms (by using the mean-field approximation) leads one to drastically underestimate the size of fluctuations at the critical point, which could lead to an underestimation of the instability of the system.

2. The generators-destroyers model and its analytical description

Among the possible models in the class of unit-driven networks, we select the most simple heterogeneous case where we have a bipartite graph in which two types of nodes exist: one group of nodes aims to create new links every time they are selected, the other group aims to cut a link with previously connected partners.

The Generators-Destroyers model is a model for the intergroup link dynamics between a group of link generators and a group of link destroyers directly derived from the introvert-extrovert model (XIE) as introduced and studied in [7, 9]. In the following calculations, it is assumed that time is continuous (in the sense that there is no fixed minimum time between changes in the number of links), one can think of this as an event-based approach. Links are bi-directional, and there can be at most one link between any two units. Neither self-links nor intragroup links are considered, as these subgraphs quickly go to a static equilibrium state, thus the graphs produced come from a subset of the set of simple graphs. The generators create links as long as there is at least one destroyer available to which it has no link. Destroyers destroy links until they are not linked to any generators.

In the present mathematical description we focus on an analytical treatment in terms of the average number of links and link distribution, instead of the degree-distribution and average degree as in [8]. In order to derive an equation of motion for the link distribution, we write a Fokker-Planck equation for this model starting from the formalism of creation and annihilation operators. The only free parameter in this representation is the total rate of events, i.e., an overall constant in the following equation:

$$H = \frac{1}{N} \sum_{i=1}^{N_1} \sum_{j=1}^{N_0} (L_{ij}^\dagger - S_{ij}^\dagger) \frac{1}{N_0 - \sum_{k=1}^{N_0} L_{ik}^\dagger L_{ik}} S_{ij} + (S_{ij}^\dagger - L_{ij}^\dagger) \frac{1}{N_1 - \sum_{\ell=1}^{N_1} S_{\ell j}^\dagger S_{\ell j}} L_{ij}. \quad (1)$$

In this equation, H is the infinitesimal time-evolution operator, which can be used to generate the master equation of the associated non-homogeneous birth-death linking process. The symbols with daggers represent creation operators, those without denote annihilation operators. N_0 is the number of destroyers of links, while N_1 is the number of generators of links, and $N = N_1 + N_0$ is the total number of units. The L operators have to do with setting or erasure of ones in the element of the adjacency matrix given by the positive integers i, j . Similarly, the S operators set or erase zeros in the element of the adjacency matrix corresponding to their subscripts.

The first term in Eq.(1) corresponds to the conversion of zeros to ones, and is associated with the actions of the i -th generator on the j -th destroyer. The second term corresponds to the conversion of ones to zeros, and is associated with the action of the j -th destroyer on the i -th generator. It is necessary to include the A type of operator because there is a conserved quantity in the system: the total number of ones and zeros in the relevant portion of the adjacency matrix (this is equal to $N_0 N_1$ and is also the maximum total number of links).

This conservation law makes it possible to view absent links as undergoing a process of creation and destruction dual to that of ordinary links. The model has a symmetry between these shadow links (hence the S symbol in the operators) and the ordinary links. If one exchanges ordinary links for shadow links and generators for destroyers, the model is unchanged.

We are interested in the ratio of the difference between the number of ordinary links and the number of unoccupied (shadow) links to the maximum total number of links, formally:

$$\hat{\ell} = \frac{1}{N_1 N_0} \sum_{i=1}^{N_1} \sum_{j=1}^{N_0} (L_{ij}^\dagger L_{ij} - S_{ij}^\dagger S_{ij}). \quad (2)$$

which is the (rescaled) *connectance*¹ observable related to the raw total number of links L through:

$$\ell = \frac{2L}{N_1 N_0} - 1, \quad \ell \in [-1, 1] \quad (3)$$

¹The connectance is defined as the link density of the network, which is the fraction of the number of actual links over the number of potential links between pairs of nodes. We use the term interconnectedness with the same meaning as we did in the introduction. In contrast, the term connectivity indicates a generic property of the network which gives a measure of the link density in the network.

in terms of the control parameter:

$$\Delta = \frac{N_1 - N_0}{N}, \quad \Delta \in [-1, 1] \quad (4)$$

which is the scaled population difference between the two groups (note that if we exclude the degenerate cases $N_1 = 0$ and $N_0 = 0$, $\Delta \in [-1 + \frac{1}{N}, 1 - \frac{1}{N}]$).

The next step is to recover an analytic estimation of the average connectance $\langle \ell \rangle$ for various values of the population parameter Δ , thus finding a closed-form solution for the shape of the phase transition plot for this kind of network.

3. Phase transition and time evolution of the average connectance

From the macroscopic Master Equation eq.(1) it is possible to provide the time evolution of the probability density function of the connectance and find the stationary condition. We use a mean-field approximation to obtain a Fokker-Planck equation and the associated drift-diffusion process, from which we recover an accurate prediction of the equilibrium value of the connectance and the corresponding phase transition. This precise understanding of the "first-order" equilibrium variable is obtained at the cost of misjudging the intensity of fluctuations (variance) at criticality where correlations among the units are not negligible.

The equation of motion of (the Fourier transform of) the probability density of the variable corresponding to the connectance operator (see eq.(2)) is given by:

$$\frac{d \langle e^{i\lambda \ell} \rangle}{dt} = \frac{1}{N} \left\langle \sum_{i=1}^{N_1} \sum_{j=1}^{N_0} \left[\left(e^{\frac{i\lambda}{N_0 N_1}} - 1 \right) \frac{1 - \ell_{ij}}{N_0 + 1 - \sum_{k \neq j} \ell_{ik}} + \left(e^{-\frac{i\lambda}{N_0 N_1}} - 1 \right) \frac{1 + \ell_{ij}}{N_1 + 1 - \sum_{m \neq i} \ell_{mj}} \right] e^{i\lambda \ell} \right\rangle \quad (5)$$

and in the case of the mean-field approximation we assume $\ell_{i,j} = \ell$, since the ℓ_{ij} are all exchangeable and have mean ℓ .

$$\frac{d \langle e^{i\lambda \ell} \rangle}{dt} = \left\langle e^{i\lambda \ell} N_1 N_0 \left[\frac{1}{N} \left(e^{\frac{2i\lambda}{N_1 N_0}} - 1 \right) \frac{1 - \ell}{N_0 + 1 - (N_0 - 1)\ell} + \frac{1}{N} \left(e^{-\frac{2i\lambda}{N_1 N_0}} - 1 \right) \frac{1 + \ell}{N_1 + 1 + (N_1 - 1)\ell} \right] \right\rangle \quad (6)$$

Expanding in $\frac{1}{N_1 N_0}$ and replacing $i\lambda$ by $\frac{\partial}{\partial x}$

$$\frac{\partial \langle e^{i\lambda x} \rangle}{\partial t} = \left\langle \frac{2}{N} \left[\frac{(N_1 - N_0)(1 - \ell^2) - 4\ell}{(N_0 + 1 - (N_0 - 1)\ell)(N_1 + 1 + (N_1 - 1)\ell)} \frac{\partial}{\partial \ell} + \frac{2}{N_1 N_0} \frac{N + 2 - (N - 2)\ell^2}{(N_0 + 1 - (N_0 - 1)\ell)(N_1 + 1 + (N_1 - 1)\ell)} \frac{\partial^2}{\partial \ell^2} \right] e^{i\lambda \ell} \right\rangle \quad (7)$$

Via integration by parts,

$$\frac{\partial P(\ell, t)}{\partial t} = \frac{2}{N} \frac{\partial}{\partial \ell} \{A(\ell) P(\ell, t)\} + \frac{2}{N N_1 N_0} \frac{\partial^2}{\partial \ell^2} \{B(\ell) P(\ell, t)\} \quad (8)$$

which is the Fokker-Planck equation for the Generators-Destroyers model, where the drift and the diffusion non-homogeneous coefficients are :

$$A(\ell) = \frac{(N_1 - N_0)(\ell^2 - 1) + 4\ell}{[N_0 + 1 - (N_0 - 1)\ell][N_1 + 1 + (N_1 - 1)\ell]} \quad (9)$$

$$B(\ell) = \frac{N + 2 - (N - 2)\ell^2}{[N_0 + 1 - (N_0 - 1)\ell][N_1 + 1 + (N_1 - 1)\ell]} \quad (10)$$

The fundamental result of our study of the Generators-Destroyers model (and thus XIE networks) is the closed-form solution for the equilibrium mean connectance as function of the population parameter Δ :

$$\langle \ell \rangle_{eq.} = \begin{cases} \frac{\sqrt{\Delta^2 + (2/N)^2} - 2/N}{\Delta} & \text{for } \Delta \neq 0 \\ 0 & \text{for } \Delta = 0, \end{cases} \quad (11)$$

which comes from the stationary solution of the probability density in the Fokker-Planck equation eq.(8) using the drift term. Note that eq.(11) has a removable discontinuity at the critical value $\Delta = 0$, i.e., $N_0 = N_1$. This equation also makes clear that the phase transition is discontinuous in the limit as $N \rightarrow \infty$. We see in Fig.1 how it predicts the average connectance of the model, where the bipartite network shows a transition from a sparse condition to a dense one passing through a critical point with an abrupt jump between the two conditions. The transition becomes steeper and steeper as we increase the size of the network, i.e., as $N \rightarrow \infty$, in fact in the thermodynamic limit we have only three equilibrium points given by $\langle \ell \rangle_{eq.}^{\infty} = \text{sign}(\Delta)$.

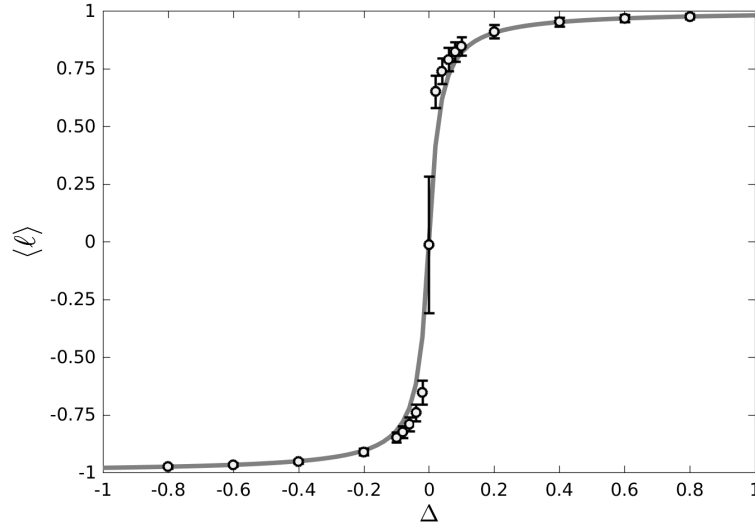


Figure 1: The average connectance as a function of the scaled population difference Δ . The solid gray line represents the prediction of eq.(11). The points come from the results of monte carlo simulations, with error bars indicating the standard deviation. This figure was done with $N = 100$ nodes.

At this point, it is possible to write an equation of motion for single trajectories as an Ito process driven by a standard Wiener process W_t and described by the stochastic differential equation:

$$d\ell = -\frac{2}{N}A(\ell) \cdot dt + \sqrt{\frac{2}{NN_1N_0}}B(\ell) \cdot dW_t, \quad (12)$$

which yields a mean-field approximation of the connectance time-series. Despite the fact that the equilibrium mean values of the connectance are in agreement with the mean-field predicted values, the standard deviation at the critical point is much larger than the mean-field prediction. Even though away from the critical point the fluctuations are also in agreement with the theory, one expects higher-order corrections there as well. In summary, the Fokker-Planck equation Eq.(8) accurately describes the real network for off-critical values of the population parameter and for large networks ($N \rightarrow \infty$).

4. The mean-field simplification and the heterogeneity issue close to criticality

The simulated network model shows an anomalous behavior not captured by our derivation. As already discussed in [9] and measured in [8], the system shows persistent fluctuations even for very large networks, thus indicating the presence of correlations among the units. Indeed, at criticality the connectance shows a variance of the fluctuations of the order of one. This fact is not described by the Fokker-Planck equation eq.(8) nor the trajectory eq.(12), which instead predict that the intensity of fluctuations will vanish as one increases the number of units. The principal suspect of this mathematical shortcoming is the use of the mean-field approximation.

The main idea of the mean-field simplification is that for each unit we replace the state variable (the node's degree) with the average number of links per node across the system. In this approximation, each unit interacts with the "average individual". This implies that some local interactions are disregarded and the fluctuations among different

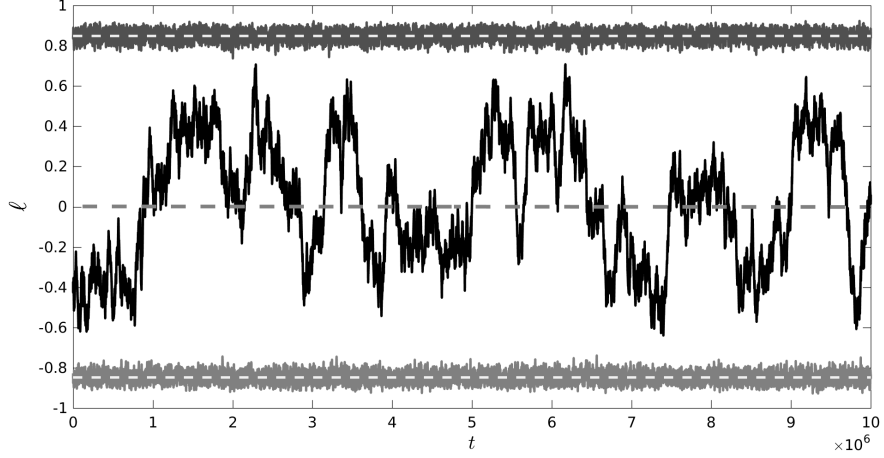


Figure 2: Three different trajectories of the connectance ℓ for three different values of the population parameter Δ . The top dark gray time series is the case $\Delta = 0.1$, the central black time series is for the critical value of $\Delta = 0$, the bottom light gray series is for $\Delta = -0.1$. The dashed horizontal line is the zero connectance, Above this line the system is in a dense network state, below the line the system is in a sparse network state. The dashed horizontal lines represented the average values as predicted by the analytical calculations.

individuals are assumed to be uncorrelated. However, in this kind of network, especially close to criticality, the links between pairs are correlated, since different nodes can have very different numbers of links.

In our case, the mean-field approximation is entirely encompassed in replacements of the form

$$\frac{1}{1 - \Delta + 2\varepsilon - 2\varepsilon \sum_{k \neq j} \ell_{ik}} \rightarrow \frac{1}{1 - \Delta + 2\varepsilon - (1 - \Delta - 2\varepsilon)\ell}. \quad (13)$$

However, this replacement is not exact. In particular, it omits systematic corrections due to fact that the random variables are dichotomous, or perhaps more to the point, due to the fact that the variance of the sums replaced is larger than that of the random variable by which they are replaced. Thus we would need a way to avoid neglecting the correlation between links of different pairs and to take into account the heterogeneity among nodes, which is especially prominent at criticality (when the variance is of order one and the nodes' correlations are very intense). This is the reason why at criticality the number of links explores a wide range of values over time, passing from an almost empty network to an almost complete network during the evolution, as shown in Fig.3. The failure of the

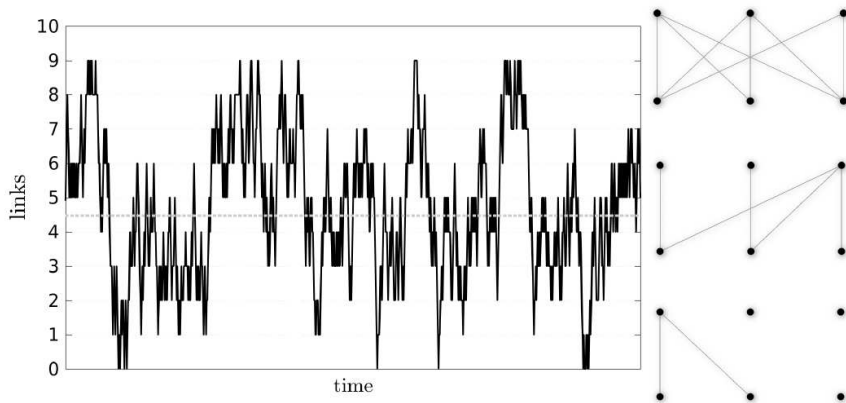


Figure 3: Left: An example of a small network with $N = 10$ nodes at criticality (i.e., $\Delta = 0$). Right: Example states of the system with $N_1 = N_0 = 3$, showing highly connected, intermediate, and sparsely connected states.

mean-field approach is evident at the critical point, in fact, this inaccuracy is still present close to criticality as shown in

Fig.1, where we have small deviations of the analytical phase transition from the real transition. The corrections affect both the drift term and the diffusion term, where higher-order approximations should take in account the correlations. The corrections to the drift term should improve the equilibrium value of the connectance, and the corrections to the diffusion term should recover the non-vanishing variance at criticality.

5. Finite-size and small group effects

A crucial aspect of unit-driven network models is that finite networks exhibit certain universal properties and emphasize the presence of correlations in the system. An important aspect of the finite-size effect is related to the existence of an extreme Thouless effect in this model, i.e., a mixed phase transition at which the connectance parameter displays a discontinuous jump and there are large dynamical fluctuations. We have discussed the nature of persistent fluctuations at criticality even for $N \rightarrow \infty$ (also attested to by the steep jump in the analytical sigmoid function of eq.(11)) in the thermodynamic limit as shown in Fig.4.

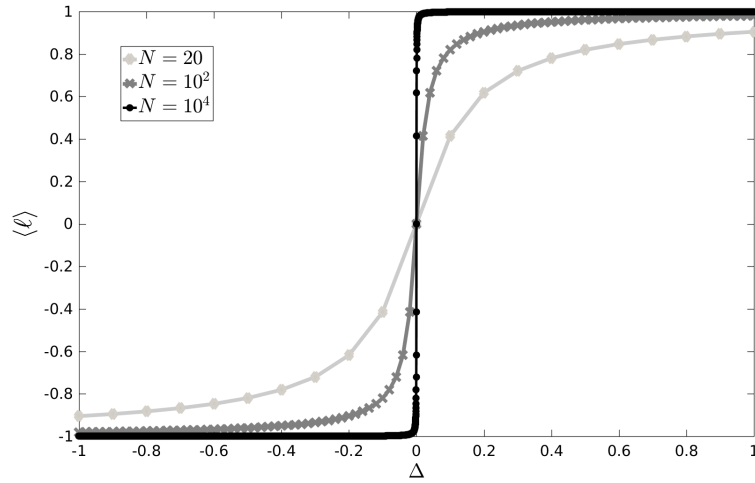


Figure 4: Finite size effects on the equilibrium value of the connectance.

Another key effect of finite network size on these networks is that the maximum number of links is obtained relatively far from the critical point, thus the critical condition is not the optimum case for the maximal number of links in the network. In the limit of infinite networks we have that the critical point coincides with the point where the maximum number of links are created in the network.

Let us write the equation for the average value of the total number of links in the network, using eq.(3) and eq.(11), as:

$$\langle L \rangle_{eq.} = \begin{cases} \frac{N^2}{8} (1 - \Delta^2) \left(\frac{\sqrt{\Delta^2 + (2/N)^2} - 2/N}{\Delta} + 1 \right) & \text{for } \Delta \neq 0 \\ \frac{N^2}{8} & \text{for } \Delta = 0 \end{cases} \quad (14)$$

where we have expressed the number of generators and destroyers respectively as $N_1 = (1 + \Delta)N/2$ and $N_0 = (1 - \Delta)N/2$. In the present model, a relevant finite-size effect consists of the fact that the critical point is not the point of maximal connectivity. In other words, the maximum number of links, for finite networks, happens for $\Delta > 0$, i.e., when the number of generators is larger than the number of destroyers. This is an effect which is important for small groups and becomes negligible for large groups, where the critical point becomes (in the limit) the point of maximal connectivity.

Proposition 1. *For a given size of the network N , let us define $S(N)$ to be the set of population parameters Δ for which the average number of links $\langle L \rangle_{eq.}$ is maximum. The maximum points $S(N)$ are obtained always for $\Delta > 0$ in the case of finite-size systems and tend asymptotically to $\Delta = 0$ when $N \rightarrow \infty$.*

Proof. Now, let us define a function of two variables $f(\Delta, N) := \langle L \rangle_{eq.}$, and study it as the objective function where we want to maximize f with respect to Δ treating N as given:

$$\max_{\Delta \in [-1, 1]} f(\Delta, N), \quad (15)$$

where clearly the solution will depend on N : let the maximal value be $S(N)$ attained at $\Delta = S(N)$. The value function is defined by

$$V(N) = f(S(N), N) \quad (16)$$

The Berge maximum theorem guarantees that $S(N) = \arg \max_{\Delta} f(\Delta, N)$ is a continuous function since f is a strictly quasi-concave function [15]. Then it follows from the equations:

$$N^3 S^4 - 4N^3 S^3 V + 8NS^2 V - 16S V^2 - 2N^3 S^2 + 4N^2 S V - 8NV + N^3 = 0 \quad (17)$$

$$N^3 S^3 - 3N^3 S^2 V + 4NS V - 4V^2 - N^3 S + N^2 V = 0 \quad (18)$$

that $S(N)$ is positive for finite N and converges to 0 as $N \rightarrow \infty$. □

Using the mean field approximation, one can write the, asymptotic expression of the maximum loci as well as its maximum value as:

$$S(N) \sim \left(\frac{1}{4N} \right)^{\frac{1}{3}} \quad V(N) \sim \frac{N^2}{4} - \frac{3}{4} \left(\frac{N}{2} \right)^{\frac{4}{3}}. \quad (19)$$

The behavior of the expected number of links and the numerical results of the maximization problem are plotted in Fig.5 and Fig.6.

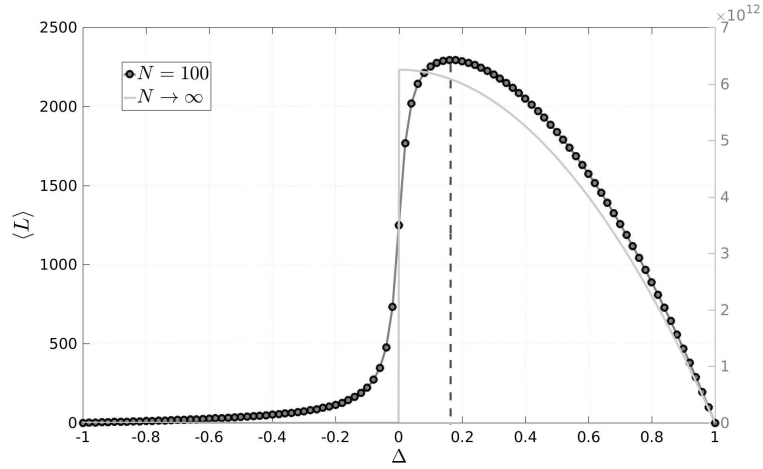


Figure 5: Average number of actualized links in a network with $N = 100$ units, dotted dark gray points. We observe how the maximum number of links is obtained for $\Delta > 0$ (located at the dashed line), so the maximum point is not the critical point as in the case of an infinite network (here 1 million nodes) represented by the light grey curve.

Now let us discuss a plausible picture in which there is a purpose behind the construction of connections. In our plausible world, we consider a trade-off between the effort needed (resources) to create connections and the possible revenue which can be derived from the available connections. We identify the value of the network with the total number of occupied links. One can imagine this value as accounting for ways in which units receive benefits from having links, for example a positive feedback due to exchanged information, knowledge diffusion or a profit deriving from an external investment realized through a financial loan. So, the occupied connections represent an opportunity to gain some form of payoff for the individuals². We imagine that the cost of the network depends on the number of

²In other terms [16], the utility function representing the benefit that a node obtains if it is connected to another, is considered constant since the neighbor selection is uniformly random.

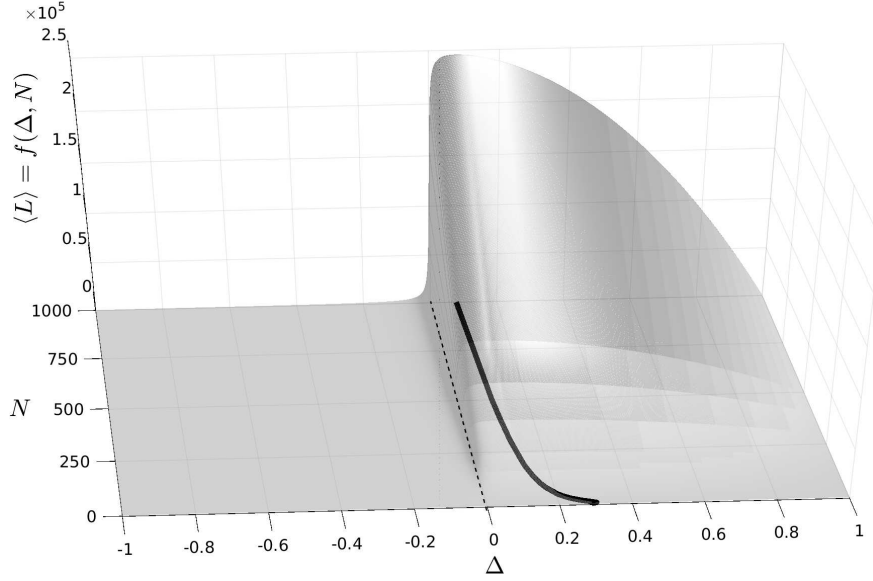


Figure 6: A three dimensional plot of the expected number of links as a function of the scaled population difference Δ and the system size N . The black curve in the horizontal plane represents the loci of maximum points, $S(N)$, for which we have the highest number of links for each system size. We see that for small networks the maximum point is in the super-critical regime ($\Delta > 0$), as the network size increases the maximum points tend asymptotically to the critical value of $\Delta = 0$.

generators that make the effort to create links, i.e., each individual has a certain cost to behave as a generator, which are the units creating the connections³.

We define the profitability of the bipartite network to be the ratio of the total links L (sources of a possible gain) to the cost of having N_1 generators (source of a loss), the cost (in this simplified world) to create a link can be roughly thought of as proportional to the number of generator units. So the profitability index of the bipartite network is defined as:

$$\mathcal{P} = \frac{\langle L \rangle_{eq.}}{\alpha N_1} \quad (20)$$

which, in terms of benefit/cost analysis, is the index given by the ratio of the total cash inflows to the initial investment. If the index is larger than 1 the system is profitable. Our choice of a linear cost function is an arbitrary choice just for the purpose of discussing a simple situation. In fact, there is no universal law for cost curves but, in fact, they depend on the specific case under study. A popular example of performance and costs is given by Metcalfe's law in information and communication networks [17, 18, 19], e.g., Ethernet nodes and WWW servers, There are also many examples in economics [20, 21] where network performance can influence market structure, firm behavior and economic outcomes.

At this point, taking the cost of links to be a linear function it is possible to find an analytical solution for the minimal condition to have a certain population parameter Δ for which the network is profitable.

Proposition 2. *For a given network size N and a cost-per-unit α , it is possible to satisfy the profitability condition $\mathcal{P} > 1$ only if the following minimal requirement is fulfilled:*

$$\frac{N - \sqrt{N} - 1}{\sqrt{N}(N - 1)} > \alpha \quad (21)$$

³Let us note that the network cost is not the cost of creating a link which actually could be included in the neat utility discounted by a possible linking cost. Here the cost is meant as the effort to become and maintain the condition of being a link generator. Similarly, we could also consider the cost to cut a connection incurred by the nodes that destroy links, but since we consider linear-costs the net-value between cutting and creating a link, we take only the cost for the creation.

Proof. The profitability index, for a linear cost curve, is given by eq. (20). The maximum of the profitability can be obtained with the first derivative test respect to Δ , it is

$$\Delta_{max} = \frac{N - \sqrt{N} - 1}{\sqrt{N}(N - 1)}. \quad (22)$$

There exists a least value of N for which the network can be profitable when $\Delta_m > \alpha$, i.e., when the population heterogeneity has its maximum point at a value larger then the connection cost per generator node α . The minimal requirement of the proposition follows. \square

In general, there could be an interval of values of Δ for which the average network is profitable. In any case, if we always have $\Delta < \alpha$ the network is never profitable, for that given system size N .

We defined the profitability as an expected value, but we know there are fluctuations that can make the system more unstable in terms of network performance.

Let us focus our attention on the uncertainty of the profitability index, which comes from the anomalous behavior of link fluctuations. We observe that as $N \rightarrow \infty$ the maximum profit point is for $\Delta_{max} \rightarrow 0$ which is the critical point, where there are non-vanishing fluctuations. So, for very large networks the maximum profitability is the point of minimal effort (total cost), but also the point of largest risk, where risk is defined as the uncertainty of the profitability index. In small networks, Δ_{max} is far from criticality, though the effect of uncertainty on profitability is still present, because fluctuations still exist with size $\sim O(1/N)$. In Fig.7 we summarize these results; here the system is profitable inside an interval where the network has varying uncertainty.

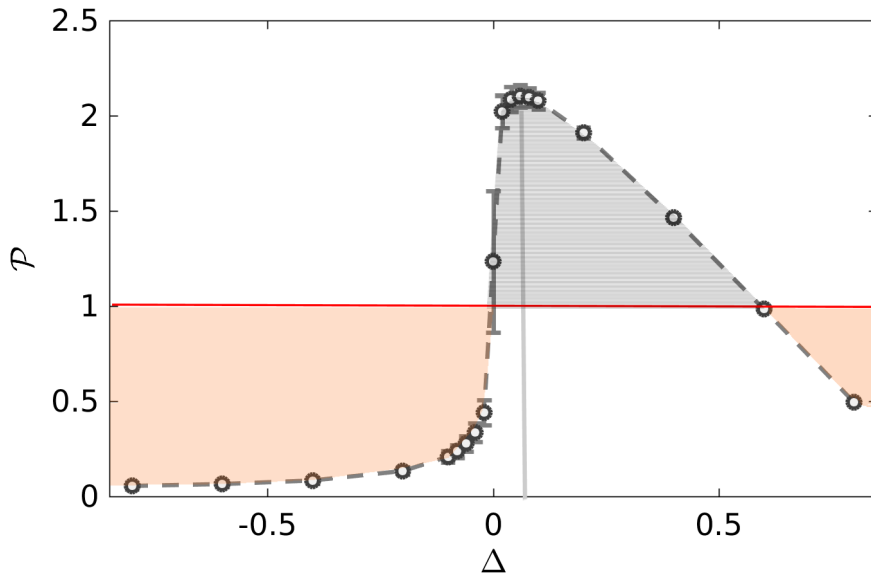


Figure 7: Profitability of a network with $N = 100$ total nodes in a Monte Carlo simulation. The horizontal line represent the profitability threshold. For the points which are below the line the system is in an unprofitable state. Above the line, the system can be profitable since $\mathcal{P} > 1$. The shaded-striped area represents the interval for which the network is profitable in this specific case of linear cost. The vertical line indicates the point of maximal profitability Δ_{min} . The error bars represent the uncertainty of the profitability since the system undergoes fluctuations due (in our mode) to the linking variance and are of the order of $\sigma(\mathcal{P}) = \sigma(\ell)N_0/2\alpha$. So, at criticality \mathcal{P} has the largest uncertainty and in our example this means that the network goes through unprofitable periods during its temporal evolution. During those times the system can be more vulnerable to losses, for example, by external shocks.

In fact, despite the fact that the critical point is a profitable point, the large fluctuations make the system unprofitable for certain portion of the time. This introduces a certain degree of risk that, if not considered, can lead to negative effects on the stability of the network⁴.

⁴We are not considering the mechanism that makes Δ change, we rest on some external dynamics which mimics a collective society that tends

In conclusion, the point of maximal profit does not necessarily coincide with the point of minimal risk. In the time series perspective, the system can end up in long time periods during which it is exposed to losses, and the whole network could become more susceptible to losses, triggering systemic crisis and possible collapses.

In terms of finite size effects as hallmarks of complexity, we showed that very large networks, while tending to a maximal benefit that happens at criticality $\Delta_{max} = 0$, can precipitate more easily a network breakdown due to the large uncertainty in the interconnectedness. Instead, for small groups, the network should make more effort to reach the maximal performance since $\Delta_{max} > 0$ but with a lower risk.

In an equivalent way we can see the profitability condition in terms of the intersection between the benefit curve (the number of links) and the cost curve (the number of generators) as in Fig.8, where we see again that the maximum profit is obtained far from criticality but for very infinitely large network it tends towards the critical point. Whatever is the function curve, the essential idea is that there is a trade-off between the value of the network related to the number of actual links and the cost of the network as the number of generators which employ the energy to create connections.

Clearly, if we select different shapes of the cost curve, the profitability conditions changes as shown in Fig.9. However, whatever function one could choose, it is expected to get a similar existence condition for a network to be profitable for some variable of heterogeneity population parameter Δ as in Proposition 2. Finally, we see how if the total value of a network grows with number of potential links instead of actual links, the maximum profitability would have always been the criticality value regardless the system size N , not showing finite size effects on an optimum connectivity condition.

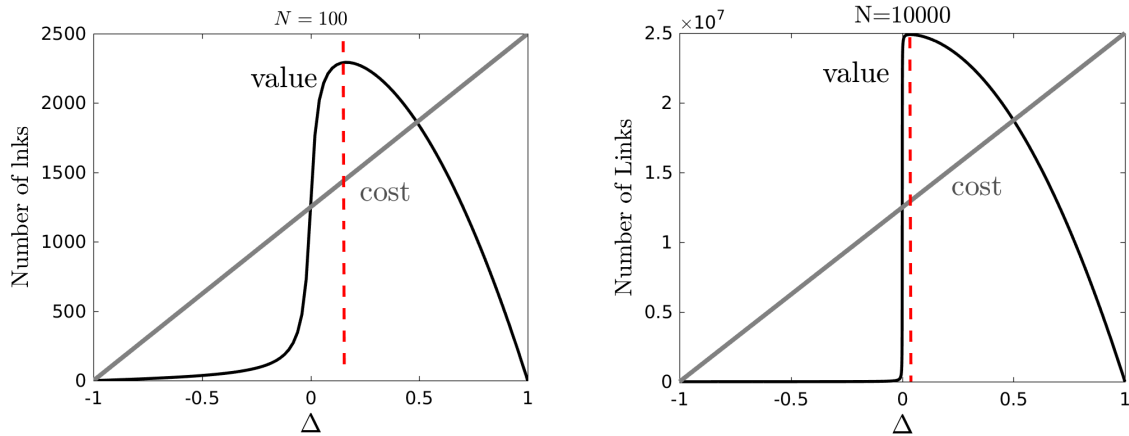


Figure 8: We see how the maximum profit is obtained for value of Δ that tend to the critical point as $N \rightarrow \infty$. In this case we took $\alpha = N/4$ to compare the two graphs. The largest distance between the value curve and the cost curve is point of the maximum profitability. The value curve has been plot using the analytical prediction as in eq.(14).

As a route to possible future applications, we note that the performance and the profitability of a network can have an important impact on the study of optimal system size. A better understanding of which would allow one to reach a given global wealth more efficiently, as well as shed light on the mechanism(s) by which large uncertainty arises as the system grows and the total connections increase. Consequently, one could rigorously prove that interconnections among network nodes are not an unalloyed good.

to organize itself near the point of maximal profitability (highest wealth). Additionally, one can imagine that when the system is flourishing other participants want to join the system and more nodes are added to the network thus increasing the system size N . At this point, the system again moves towards the new point of maximal profitability. The result is that these mechanisms shift maximal point towards the critical point which is the point of minimal cost for the society but it is also the point of maximal risk where the network is very sensitive to systemic crises or external shocks. To make the mechanisms consistent, one should imagine a cost per unit α that changes when the system size increases; in fact, "resources" become less available and the cost becomes higher, since more effort is needed to generate connections. We arbitrarily choose $\alpha = N/4$ to be able to compare the profitability of different network sizes.

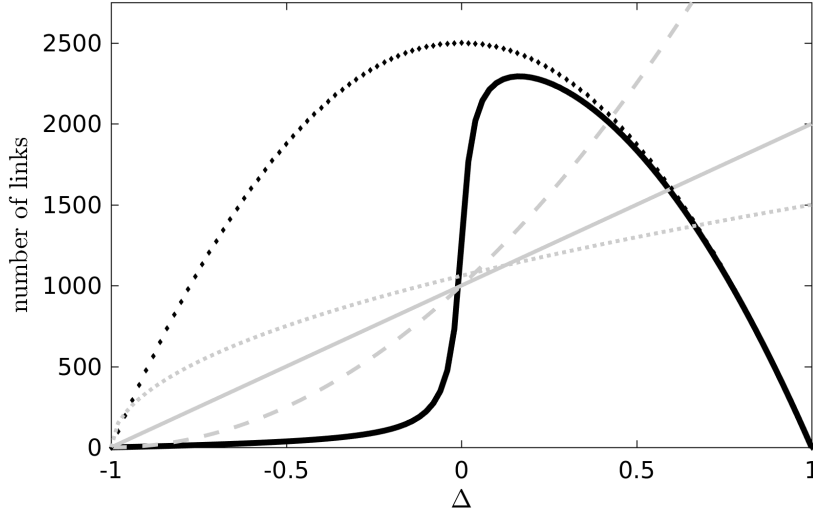


Figure 9: Example of non-linear cost functions. The profitable region changes and the Δ_{max} shifts according to shape of the cost function which can have any generic shape according to a specific context. In the figure, the gray curves represent various cost functions. To keep the curves consistent we have arbitrarily chosen the linear cost function as $\frac{N}{5}N_1$, the quadratic cost function as $\frac{N}{25}N_1^2$, and the square root cost function as $\frac{3N}{2}\sqrt{N_1}$. On the other side, the black curves represent the values of the network. The bold one corresponds to the actual created links as by eq.(5), whereas the dotted black line is the number of the potential links $N_0N_1 = N^2(1 - \Delta^2)/4$ which has its maximum value at $\Delta = 0$ for any system size N .

6. Conclusions

In this paper we presented an analytical solution of a minimal model belonging to a new class of agent-driven networks[7]. We exhibited a complex evolving system which starts from the most basic notion of "complexity", capturing at the very least that a system is made up of multiple interacting actors. The key feature in the network is the heterogeneity of the population since there are two types of units which are characterized by conflicting behaviors. The ones who create links and the ones who delete them as they act in the system. The control parameter Δ is the level of heterogeneity in the network, which indicates the difference between the number of units in each group. The most heterogeneous case is also the critical point of the phase transition in the system. At this point, the connectivity time series shows non-vanishingly large fluctuations and strong correlations. In our mean-field solution we demonstrate that if we do not consider the interdependence among nodes, we decrease the importance of heterogeneity in complex networks.

Further work should be done to go beyond the mean-field approximation and to generalize the model pushing toward a new class of network formation methods which are agent-driven and not simultaneous pair connected. We also showed that using new mathematical tools analogous the quantum mechanical formalism, it is possible to solve stochastic dynamics in an alternative and sometimes more efficient way than using the standard mathematics for stochastic processes [9, 8].

Finally, we depicted an abstract explanatory case in which the network shows a group effect in terms of profitability analysis in systems where the network value is related to the connectivity and the cost to the active units which create the connections. We show how small networks produce fewer connections but with lower uncertainty, while large networks have maximum profitability near the critical case with a high degree of uncertainty in the average payoff. Additional studies should focus attention on optimal system size in terms of reward in comparison to the available resources.

Simply by considering a different approach to the way units in the network connect, in this simple model we have found two fundamental ingredients of system complexity: interconnectedness and diversity. These are two fundamental concepts deeply discussed by the scientific and economic communities since the 2008 financial crisis [22, 23, 24]. These communities have been trying hard to find a relationship between systemic risk and network effects. Further investigation is necessary to improve the realism of this class of network through prediction-centered models calibrated to the details of the observed phenomena of interest. We expect that other characterizations of complex networks emerge when we observe the response of the network to perturbations and the way networks adapt

and evolve during and after random disruptive events, which tend to change the network structure [25, 26]. In this case, the dynamic nature of these agent-driven networks could give rise to interesting new anomalous behaviors in terms of the adaptability of complex networks to exogenous or endogenous shocks.

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