We study the endogenous formation of R&D networks between two domestic and one foreign firms in a unionized oligopoly. We find that the equilibrium networks are sensitive to the extent of knowledge spillovers between networked firms. If spillovers are sufficiently low, the complete network will arise in equilibrium; however, if spillovers are sufficiently high, the foreign partial network that includes a domestic and a foreign firm will arise. Moreover, for intermediate spillovers, no equilibrium network emerges. These results have implications for aggregate outcomes: equilibrium networks are not necessarily optimal in terms of aggregate effective R&D and aggregate firm profits. © 2013 CEIS, Fondazione Giacomo Brodolini and Blackwell Publishing Ltd.

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