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978-0-521-67753-0 - Multinational Enterprise and Economic Analysis, Third Edition

Richard E. Caves

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MULTINATIONAL ENTERPRISE AND ECONOMIC ANALYSIS  
THIRD EDITION

Multinational enterprise is an important subject for students and researchers, both practitioners of business administration and scholars of economics. This highly accessible book surveys the fruits of research from both quarters. It shows how economic analysis can explain multinationals' activity patterns and how economics can shed conceptual light on problems of business policies and managerial decisions arising in practice. It addresses the welfare problems arising from multinationals' activities and the logic of governments' preferences and choices in their dealings with multinationals. The book is readily useful to both researchers and students. This third edition incorporates knowledge about multinationals accumulated over the past decade of research.

Richard E. Caves is the Nathaniel Ropes Professor of Political Economy, Emeritus, at Harvard University. He is the author of many articles on multinational enterprise and other topics in the fields of international economics and industrial organization. He is the co-author of a leading textbook on international economics, *World Trade and Payments*. His most recent books deal with the arts and entertainment industries, *Creative Industries: Contracts between Art and Commerce* and *Switching Channels: Organization and Change in TV Broadcasting*.

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## CAMBRIDGE SURVEYS OF ECONOMIC LITERATURE

**Multinational Enterprise and Economic Analysis***Third Edition*Richard E. Caves, *Harvard University*

**Multinational Enterprise and Economic Analysis**, surveys the contributions that economic analysis has made to our understanding of why multinational enterprises exist and their consequences for the workings of the national and international economies. Covering both theories and tests of hypotheses, and synthesizing material from social science and applied disciplines, Richard E. Caves develops the logic behind public policies that affects multinational enterprises. He shows the points of harmony and conflict between national policies and sources of discrepancy between national and world welfare. The book summarizes what economists have learned about why multinational firms stretch their activities across national borders and what consequences their presence has for competing local businesses, public policy-makers, and the general public.

Professor Caves has completely updated the book to cover contributions appearing through 2005. Many parts have been rewritten to reflect new ideas and lines of research appearing since the second edition. It remains the only survey volume to draw equally on analytical contributions of both economics and business administration bearing on the multinational firm.

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## Preface

The multinational enterprise (MNE) has attracted much writing, scholarly and otherwise. Treatises bedecked with boxes and arrows instruct business managers on how to run MNEs. Passionate polemics chronicle their alleged misdeeds and call for the regulatory hand of government. Between these poles are found reams of description and comparison. Economic analysis has certainly not neglected the MNE. However, when the first edition of this book was written, the analytical treatments seemed seriously fragmented, as each branch of economic analysis carved its initials into the MNE without worrying much about what other branches made of it. This book's first edition (1982) therefore sought to integrate the research literature in two ways. It characterized the MNE as one form of internalization of transactions, thus placing it in the transaction-cost approach to economic organization, and integrated this core concept with the findings about MNEs reported by each standard functional branch of economic analysis. The second form of integration drew together theory and evidence, the former largely the domain of economics, the latter found adrift in the seas of business administration, political science, and the like. This integrative effort apparently proved useful to readers, which is why this organizational structure has survived two revisions essentially unchanged.

The book was written to reach a rather heterogeneous audience. It aims mainly to serve scholars in economics and business administration. Although it lacks the apparatus of a textbook, it was designed to also provide collateral reading for students in courses that touch on multinational enterprise. That goal accounts for a few patches of undergraduate-level textbook exposition of key concepts and models. The exposition level in general is aimed at users with substantial economics background, but not necessarily much prior acquaintance with every branch of economics that sheds some light on MNEs.



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When this book first appeared (1982), its titular subject could be regarded as new. In the 1960s and 1970s, a critical mass emerged consisting of cogent empirical description and insightful applications of economic theory. It seemed feasible (to me, anyhow) to provide a wall-to-wall summary treatment in a book of reasonable length. The critical mass provided an opening for scholars with many interests and research strategies. The ensuing rapid growth of scholarly interest in foreign direct investment warranted occasional revision of this book. A second edition in 1996 followed.

Revising the book presented some difficult choices, however. The stock of knowledge (think of the upthrusting mountain of scholarly pages published on the MNE) was growing apace. Should this summary of that stock grow proportionally? Clearly, its coherence and pedagogical value would decay rapidly – a dismaying outcome for both me and the publisher. Should the book jettison the old and embrace the new (*Multinational Enterprise since Last February*)? Because we are dealing with an accumulating body of knowledge (rather than, say, sartorial fashion), that approach's flaw is immediately apparent. Providing a framework within which innovations can be organized and understood is essential to this survey's usefulness.

That leaves the approach actually taken. The book's account of the basic knowledge stock remains its core, although that core has undergone some compression. The shadow price for reportage of new contributions has been raised somewhat. Where several research papers make overlapping contributions, only one may be summarized. One consequence: a higher shadow price for recent contributions than for early ones. The early contributions and insights (this book's original core) retain their place in the presentation, just as the book itself retains the framework that emerged in the subject's first flowering. For example, the book retains references to early case-study material but barely heeds recent cases (the journal article has become the unit of account). Recent theoretical contributions have probably suffered the most; we attempt to cover important recent contributions to theory but omit the more specialized confections. Also missing from the book is quantitative and descriptive information concerning the MNE population.

Time waits for no survey author. I aimed to cover current contributions up to the beginning of 2006. Apologies are extended to 2005 (and earlier!) authors who were unintentionally omitted. In pursuit of timeliness, I did pay more attention than in previous editions to the current stock of working papers, especially those from the National Bureau of Economic Research and the Centre for Economic Policy Research series. The gain in timeliness from including their nascent contribution surely offsets any substantive gain from waiting out the purifying fires of journals' referee process.

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In this revision, each chapter and section has undergone significant change. However, over the past decade, new contributions have been concentrated strongly in three areas. First, advances in international trade theory have brought it closer to the distinctive features of MNEs. Second, business administration researchers have swarmed over the question of modal choice: When does the firm entering a new market forgo a wholly owned subsidiary for exporting, a joint venture, or a contractual arrangement? Third, productivity spillovers have received much attention. Does the MNE affiliate spill significant productivity gains onto its neighbors and market competitors? When does it absorb spillage from them?

For encouraging timely revision of this book, I am grateful to Scott Parris of Cambridge University Press and for efficient production assistance to Ann Flack.