

among inputs whereby malfunctions of one piece of equipment or shirking by an assembly line worker imposes costs on the remaining equipment and labour inputs. An effective pricing arrangement in this circumstance would necessitate a reduced price for the malfunctioning equipment or the shirking worker sufficient to compensate for the costs imposed on remaining inputs. Individual pricing by the input owners is unlikely to adjust adequately to this cost shifting. Hence, the signalling properties of prices are unlikely to provide appropriate signals for allocating the input resources. Managerial commands or directives can take the interdependence of inputs into account more readily and command the replacement of malfunctioning equipment or discipline the shirking worker.<sup>3</sup> The co-ordination of productive activities in a firm by managerial commands results from the superior ability of managerial resources to take interdependence into consideration. This superior monitoring capability generates a more productive production process yielding greater returns than would be available by using a pricing system.

The MNE is a specific type of firm distinguished by foreign control enforced through ownership of domestic equity. The interdependence that causes MNEs is a variant of interdependence discussed above. The interdependence is between inputs in one country and inputs in other countries whereby international co-ordination of productive activity by managerial commands yields greater wealth than either domestic co-ordination by firms or international co-ordination of markets.<sup>4</sup> The international interdependence among inputs that causes MNEs occurs in several distinct manifestations.