observed economic events. Instead, their identification of the fundamental principles facilitates predictions of what will occur when the causal conditions alter. The predictions are conditional, in the sense that they are of the form that if specific causal conditions are present then inevitable consequences will result.

A conceptual framework for making predictions about MNEs must begin from the economic causes of firms. A firm is a social arrangement among two or more individuals to co-ordinate or manage their productive activities by commands or directives. These commands or directives allocate input resources just as prices allocate products in the markets that firms supply. Prices and commands are alternative social devices for signalling the allocation of resources among alternative uses.[2] The economic causes of a firm are the preconditions that make managerial commands the appropriate device for allocating input resources.

Managerial commands administered within the firm are more appropriate when prices in the same role would fail to indicate accurately the scarcity of the resources that are allocated. Prices fail to indicate scarcities when some costs of furnishing the resource are shifted to other activities. This shifting results from interdependence of productive input activities. The interdependence is often a consequence of the technical requirements of the production process.

Cost shifting in a complex production technique can be extremely difficult to monitor. For example, an assembly line process incorporates interdependence