

Multinational Corporations and International Capital Flows: Theories and Concepts

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Abstract

This paper reviews two connected theories: 1) Theory of Multinational Corporation and 2) Theory of International Capital Flows. The theory of international capital mobility differ from the theory of multinational corporation in the sense that it focuses on the flows and movement of capital as well as factor prices of capital, and its purpose to explain the causes and effects of this movement on resource, while the theory of Multinational Corporation represents types of activity associated with multinational enterprises on *vertical* and *horizontal* operation. Because the Multinational Corporation is a firm with plants in several countries, the basic issue to be addressed is why a firm chooses to set up such a plant. Both theories are somewhat similar; capital will move internationally and tend to generate profit for the investors. However, the contrary aspects are even stronger when international capital movement theory is usually concerned to the related topics of portfolio and equity market, while multinational firms are considered in industrial organization topics with cross-border production and marketing of the multinational corporations.

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