This dissertation is comprised of three essays that examine how firms make foreign direct investment (FDI) decisions. The first essay uses a game-theoretic framework to examine strategic interdependency between investment decisions by foreign firms and reform decisions by host governments in the countries of the former Soviet bloc. Two equilibria arise: one in which a government is committed to rapid reform and FDI through acquisitions contributes to economic restructuring, and another in which a government caters to political objectives while firms seek to minimize operational uncertainties through new plant investments. Policy implications of the model's equilibria point to the need for increased cooperation between host governments and multilateral institutions.

The significant economic and political developments in transition economies over the past decade motivate the second essay, which seeks to evaluate the consequences of
when, where, and how U.S. firms enter the region. Empirically, this question is addressed using announcements of expansion into eighteen countries, through four entry modes, over thirteen years. The timing of entry - a result not examined in previous literature - has important consequences for shareholder wealth as illustrated by significant value creation from expansion in 1999. With respect to entry mode, new plants and acquisitions are on average perceived as less value enhancing than expansion through non-FDI modes, such as exports. Over time, the choice of host country is also associated with differences in wealth effects - a result consistent with the waves of instability in the region since the onset of market reforms.

Finally, the third essay in this dissertation is an empirical investigation of whether networking in FDI can explain variation in foreign-asset and foreign-sales intensities by U.S. manufacturing firms over the period 1992-97. Chief executive officer characteristics, such as cultural, geographical, and linguistic knowledge of foreign regions are used as a proxy for networking effects which, in this paper, are defined as links between the multinational enterprise and the regions it invests in. Overall, the empirical results present evidence in support of networking effects in FDI: foreign-asset intensity improves for companies who elect foreign-born CEOs but declines for companies who elect U.S.-born executives.