In this chapter, Moravcsik lays out the theoretical framework for his study of European integration. His model has three stages: national preference formation, interstate bargaining, and choice of international institutions.

The domain of national preference formation examines the process by which states form their objectives. Moravcsik reviews what he terms four "geopolitical" explanations of the formation of national preferences. He further demarcates this theoretical strain into four distinct views: neo-Realist, Realist/ideational, Institutionalist, and ideational Liberal. However, after presenting the substance of each of these tacks, he argues that each of these explanations are "mutually supportive," such that in his study, they are bundled together as "variants of a single explanation," pointing to the primacy of geopolitical structures in the formation of national preferences.

The second theory of national preference formation is driven by political economic concerns. Moravcsik differentiates "political economic" from "economic" via the nation that whereas economic theories focus only on the consequences of policy for overall market efficiency, political economic theories take into account both efficiency and distributional concerns—that is, the relative strength of various interest groups (producers, consumers, taxpayers, etc.) within a state plays a role in determining how that state's preferences get formed.

Contrasting the these two competing theories of national preference-formation (geopolitical vs. political economic), Moravcsik finds that they offer competing predictions with respect to five dimensions of national preference formation: cross-country/issue variation, timing of innovations in EC policy, policy consistency and negotiating demands, domestic actors and cleavages, and salient concerns in domestic policy discourse.

The second stage of Moravcsik's framework, "interstate bargaining," examines how the heterogeneous preferences of states are integrated into actual bargains. He again counterposes two competing theories in this stage. The first, supranational bargaining theory, focuses on the role supranational officials play in helping states to overcome bargaining dilemmas. The second, intergovernmental bargaining theory, focuses on how underlying state preferences and power determine the content of agreements. Again, the two competing theories generate two different sets of predictions, this time along three dimensions—availability of information, process of negotiation, and pattern of outcomes.

The third and last stage of Moravcsik's framework is that of institutional choice, which seeks to explain why state actors delegate responsibility to international institutions. Three theories compete in this sphere: federalist ideology, which suggest that institutional outcomes derive from the ideological beliefs of state actors; technocratic governance, which focuses on the role that international institutions play in managing complex economies; and credible commitments, a theory which focuses on how institutions "lock in" policy coordination. These three theories, suggests Moravcsik, offer differing predictions along the dimensions of variation across issues, domestic cleavages and discourse, and the identity of and institutional controls on those holding delegated or pooled power.