Since the end of the Cold War, countries have been less likely to use violent force against one another. At the same time, they have become more likely to use forms of economic statecraft when trying to coerce each other. This study assesses the role economic sanctions have come to play in international diplomacy by asking two questions.

The first question relates directly to scenario mentioned above, assessing the link between economic and military forms of international coercion. Using a formal, game theoretic model, I develop a theory of interstate dispute escalation. In the model, conflicts between states move from a low level of threatened economic sanctions, escalate to sanction imposition, and culminate in the use of violent force. Quantitative tests of my theory support my argument, which contends that the more the challenging state values the issue under dispute, the more likely it is to escalate the conflict through these varying levels of coercion to attain its goal. My findings are significant for researchers and policymakers alike, as mine is the first study utilizing game theory and empirical data to link economic and military coercion in a single model. For policymakers, my results have major implications in that the way states use the power of the purse has changed dramatically since the end of the Cold War, suggesting that leaders should be aware of these shifts in international norms.

The second research question tests a long-standing assumption in the literature. Researchers have presumed that sanctions serve as tacit signals to states other than their primary target - that is, third party states - to avoid the target’s behavior that brought about the sanction. I put this assumption to the test and find no direct evidence of this signaling channel. However, I argue that further research is needed to fully uncover this signaling process. As economic statecraft is increasingly used, it is important for scholars and national leaders to understand the various roles sanctions can play in foreign policy.