

# Introduction to Economic Issues: Economics of Transition Syllabus Spring 2011

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Office hours: Monday 12:30 p.m. – 1:30 p.m., NYU Prague or by appointment

**Course description:** The course deals with the main economic issues related to the transition from centrally-planned economies of Soviet bloc, Yugoslavia, and China to market economies. Compared to other similar courses, this course will be less descriptive and more analytical; we will use economic models and the results of econometric studies where appropriate. We will also try to apply an experimental approach in order to provide the students with direct experience with asymmetric information markets and soft-budget constraints. The course attempts to focus on the aspects of transition which can be used to shed light on more permanent problems of economics systems and policies, and which can help reduce future exposure to similar errors.

The first part of the course analyzes the functioning of central planning and selected topics related to corporate governance under central planning (e.g. Yugoslavian self-managed firms) and provides explanation of the gradual economic decline and main structural problems experienced by the countries.

The second part focuses on the main transition steps and their economic logic, we will also deal with basic theoretical models that attempt to explain problems experienced by transition economies.

The last part will deal with specific problems: performance of firms and the role of corporate governance, ownership and institutions, corruption and changes in societies of transition countries. Special attention will be paid to financial markets and to current developments in China.

After studying this course, students should be able to:

1. Understand the key differences between economic systems of “socialist” economies and market economies, as well as the main problems of these “alternative systems”.
2. Explain the logic of the main traps that may cause problems to transition countries (or emerging countries in general) during their attempts to speed up economic growth and modernize their economies.
3. Understand the differences between the countries of the former Soviet bloc and China and learn more about Chinese economic reforms.
4. Understand the logic and importance of motivation and corporate governance, and of the role of efficient financial markets in a market economy.

**Grading policy**

Class participation/attendance:	5 %
Assignment (input-output analysis)	10%
Short paper and presentation of the paper:	20% + 5%
Mid-term:	25 %
Final:	35 %

## Schedule of classes

### *Week 1 – Introduction to the Class*

January 24<sup>th</sup> - **Overview of course** (outline of the course, brief outline of political and economic history of the region, current economic situation in the region). **Discussion about influence of financial crisis on CEE countries.**

January 26<sup>th</sup> - **Communism and society: What was socialism/communism? Transition to socialism in the Soviet bloc, Yugoslavia and China**

Ellman: Rise and Fall of Central Planning – chapter 1 in S. Estrin, G.W. Kolodko, M. Uvalic (eds., 2007): Transition and Beyond. Palgrave, 2007

### *Week 2 - Central planning.*

January 31<sup>st</sup> - **How was central planning supposed to work? Myths and facts. Planning disasters – USSR**

P. Temin (1991): Soviet and Nazi economic planning in the 1930s. Economic History Review, XLIV, 4 (1991), pp. 573-593

S. L. Richman (1981): War Communism to NEP: The Road to Serfdom. The Journal of Libertarian Studies. Vol. V., No. 1 (Winter 1981)

February 2<sup>nd</sup> – **Input-Output Analysis – Explanation of methodology. Its Current Use**  
*Assignment 1*

### *Week 3 - Economic Life under Socialism*

February 7<sup>th</sup> - **Organization of economic activities: firms. Yugoslavian case.**

**Economic life under socialism: Foreign trade and banking under central planning**

*Assignment 1 due*

Estrin (1991): Yugoslavia: The Case of Self-Managing Market Socialism. The Journal of Economic Perspectives, Vol. 5, No. 4 (Autumn 1991), pp. 187-194

M. Schrenk (1991): The CMEA System of Trade and Payments – the Legacy and the Aftermath of Its Termination. World Bank WPS 753

February 9<sup>th</sup> – **Economic life under socialism: R&D, innovations. Role of ideological bias and inherent problems of central planning.**

Case study: R&D and science in the USSR

Aslund (2002), chapter 2

### *Week 4 - Analysis of the Causes of the Problems*

February 14<sup>th</sup> - **Corporate Governance: Soft Budget Constraints**

Kornai, Maskin, Roland (2003): Understanding the soft budget constraint – reader

Brixiova and Bulir (2001): Growth Slowdown in Bureaucratic Systems: An Issue Revisited. IMF Working Paper 06/2001 – reader

February 16<sup>th</sup> – **Partial reforms of CPEs and their failures. Hungarian “Goulash Socialism”**

### *Week 5 – From Gorbachev to the Beginning of Real Transition*

February 21<sup>st</sup> – **Changes in USSR, Gorbachev’s reforms. Differences between the beginning of Chinese and Central European Transition**

February 23<sup>rd</sup> - **Reforms: components and policy choices. Washington Consensus**  
Aslund (2002), chapter 3

*Week 6 – Specific cases of Transition Strategies*

February 28<sup>th</sup> - **GDR as a special case of transition**

J. von Hagen, R.R. Strauch, G. Wolff (2002): East Germany: Transition with Unification, Experiment and Experiences. ZEI working paper B19/2002

Short homework assigned (GDR and DPRK comparison)

March 2<sup>nd</sup> – **Initial stabilization, foreign trade and exchange rates. Economics of Transformation Recessions.**

Aslund (2002), chapter 4

Short homework due.

*Week 7 – Privatization, deregulation, privatization*

March 7<sup>th</sup> - **Deregulation and liberalization. Privatization and mass privatizations – methods and problems.**

J.C. Brada (1996): Privatization is Transition – Or is it? The Journal of Economic Perspectives, Vol. 10, No. 2 (Spring, 1996), pp. 67-86

Aslund (2002), chapter 5

March 9<sup>th</sup> – **Mass privatizations in CEE countries. Case study: Czech “voucher privatization” and its effects.**

Reading TBA

*Week 8 – Transition: Economic Problems*

March 14<sup>th</sup> – **Economics of privatization. Empirical studies of effects of privatization on performance.**

S. Estrin, J. Hanousek, E. Kocenda, J. Svejnar (2009): Effects of Privatization and Ownership

March 16<sup>th</sup> - **Midterm Exam. Introduction to economics of asymmetric information**

K.-G. Lofgren, T. Persson, J.W. Weibull (2002): Markets with Asymmetric Information: The Contributions of George Akerlof, Michael Spence and Joseph Stiglitz. The Scandinavian Journal of Economics, Vol. 104, No. 2 (Jun., 2002), pp. 195-211

*Week 9 – Spring Break – no classes*

*Week 10 – Factor Markets in Transition Countries*

March 28<sup>th</sup> – **Economics of asymmetric information.**

K.-G. Lofgren, T. Persson, J.W. Weibull (2002): Markets with Asymmetric Information: The Contributions of George Akerlof, Michael Spence and Joseph Stiglitz. The Scandinavian Journal of Economics, Vol. 104, No. 2 (Jun., 2002), pp. 195-211

March 30<sup>th</sup> - **Capital markets and economic systems.**

E. Berglof, P. Bolton (2001): The Great Divide and Beyond: Financial Architecture in Transition, 2001 – reader

*Week 11- Factor Markets in Transition Countries*

March 28<sup>th</sup> – **Banking crises in transition economies**

S. Fries, D. Neven, P. Seabright (2002): Bank Performance in Transition Economies. William Davidson Institute Working Paper 505

March 30<sup>th</sup> - **Labor markets, unemployment and income distribution**

B. Milanovic (1999): Explaining the increase of inequality during transition. Economics of Transition. Volume 7 (2), 1999, p. 299-341

*Week 12- Interaction between Economy and Political System.*

April 11<sup>th</sup> - **Corruption and “unofficial economy”. Introduction**

Transparency International: Global Corruption Report. Global Corruption Barometer.

J.S. Hellman, G. Jones, D. Kaufmann (2000): State Capture, Corruption and Influence in Transition. World Bank Policy Research Paper, No. 2444/2000

April 13<sup>th</sup> – **“State capture”. Role of Mafia-like groups in Eastern European economies.**

M. Tomass (1998): How Did Mob Entrepreneurs Infiltrate and Dominate the Russian Economy? Journal of Economic Issues. Vol 32, No. 2, (Jun., 1998), pp. 565-574

*Week 13- Transition in Asia: What is different?*

April 18<sup>th</sup> - **Chinese planning and Chinese economy – Deng’s reforms.**

Wei Li, D. T. Yang (2005): The Great Leap Forward: Anatomy of Central Planning Disaster. Journal of Political Economy, 2005, Vol. 113, No. 4

April 20<sup>th</sup> – **Chinese reforms - comparison with CEE countries. Transition in Vietnam?**

J.Y. Lin (2004): Lessons of China’s Transition from a Planned Economy to Market Economy, 2004 - reader

*Week 14 – Future of Transition Countries*

April 25<sup>th</sup> - Easter

April 27<sup>th</sup> – **Transition countries during the financial crisis**

IMF: Economic Outlook for Europe, October 2010

*Week 15 - Future of Transition Countries*

May 2<sup>nd</sup> - **Transition – success or failure? Future role of CEE countries?**

J. Kornai (2000): Ten Years After “The Road to a Free Economy”: The Author’s Self-Evaluation. World Bank ABCDE Conference, 2000

J. Svejnar (2002): Transition Economies: Performance and Challenges. Journal of Economic Perspectives, Vol. 16, No. 1, Winter 2002

May 4<sup>th</sup> - Students’ presentations. Review session.

*Week 16 --Exam week*

**Final exam: May 9<sup>th</sup>**

## Reading

### Books:

- A. Aslund (2002): *Building Capitalism: The Transformation of the Former Soviet Bloc*. Cambridge University Press, 2002, ISBN 0 521 80139 7 or 0 521 80525 2
- D. Gros and A. Steinherr (1995): *Winds of Change: Economic Transition in Central and Eastern Europe*. Longman Group, 1995, ISBN 0 582 102715 or 0 582 102707
- D. Gros and A. Steinherr (2004): *Economic Transition in Central and Eastern Europe – Planting the Seeds*. Cambridge University Press, 2004, ISBN 0 521 82638 1 or 0 521 53379 1
- M. Lavigne: *The Economics of Transition: From Socialist Economy to Market Economy*  
S. Estrin, G.W. Kolodko, M. Uvalic (eds., 2007): *Transition and Beyond*. Palgrave, 2007

### Papers and articles:

- E. Berglof, P. Bolton (2001): *The Great Divide and Beyond: Financial Architecture in Transition, 2001 – reader*
- J.C. Brada (1996): *Privatization is Transition – Or is it?* *The Journal of Economic Perspectives*, Vol. 10, No. 2 (Spring, 1996), pp. 67-86
- Brixiova and Bulir (2001): *Growth Slowdown in Bureaucratic Systems: An Issue Revisited*. IMF Working Paper 06/2001 - reader
- Dabrowski, Gomulka, Rostowski: *Whence Reform? Critique of the Stiglitz Perspective*
- S. Fries, D. Neven, P. Seabright (2002): *Bank Performance in Transition Economies*. William Davidson Institute Working Paper 505
- S. Estrin (1991): *Yugoslavia: The Case of Self-Managing Market Socialism*. *The Journal of Economic Perspectives*, Vol. 5, No. 4 (Autumn 1991), pp. 187-194
- S. Estrin, J. Hanousek, E. Kocenda, J. Svejnar (2009): *Effects of Privatization and Ownership in Transition Economies*. World Bank Policy Research Paper 4811
- J. von Hagen, R.R. Strauch, G. Wolff (2002): *East Germany: Transition with Unification, Experiment and Experiences*. ZEI working paper B19/2002
- J.S. Hellman, G. Jones, D. Kaufmann (2000): *State Capture, Corruption and Influence in Transition*. World Bank Policy Research Paper, No. 2444/2000
- J. Kornai (2000): *Ten Years After “The Road to a Free Economy”*: The Author’s Self-Evaluation. World Bank ABCDE Conference, 2000
- J.Y. Lin (2004): *Lessons of China’s Transition from a Planned Economy to Market Economy, 2004 - reader*
- D. C. Mueller (2006): *Corporate Governance and Economic Performance*. *International Review of Applied Economics*, Vol. 20, No. 5, 623-643
- M. Lavigne (2000): *Ten years of transition: a review article*. *Communist and Post-Communist Studies*. Volume 33, Issue 4, December 2000, Pages 475-483
- K.-G. Lofgren, T. Persson, J.W. Weibull (2002): *Markets with Asymmetric Information: The Contributions of George Akerlof, Michael Spence and Joseph Stiglitz*. *The Scandinavian Journal of Economics*, Vol. 104, No. 2 (Jun., 2002), pp. 195-211
- B. Milanovic (1999): *Explaining the increase of inequality during transition*. *Economics of Transition*. Volume 7 (2), 1999, p. 299-341
- S. L. Richman (1981): *War Communism to NEP: The Road to Serfdom*. *The Journal of Libertarian Studies*. Vol. V., No. 1 (Winter 1981)
- J. Rutkowski (2001): *Earnings Inequality in Transition Economies of Central Europe – Trends and Patterns During 1990s*. World Bank

K. Sabirianova, J. Svejnar, K Terrell (2005): Foreign Investment, Corporate Ownership, and Development: Are Firms in Emerging Markets Catching Up to the World Standard? William Davidson Institute Working Paper No. 734, January 2005

M. Schrenk (1991): The CMEA System of Trade and Payments – the Legacy and the Aftermath of Its Termination. Worldbank WPS 753

J. Stiglitz (1999): Whither Reform. Ten Years of Transition. World Bank ABCDE Conference

J. Svejnar (2002): Transition Economies: Performance and Challenges. Journal of Economic Perspectives, Vol. 16, No. 1, Winter 2002

P. Temin (1991): Soviet and Nazi economic planning in the 1930s. Economic History Review, XLIV, 4 (1991), pp. 573-593

M. Tomass (1998): How Did Mob Entrepreneurs Infiltrate and Dominate the Russian Economy? Journal of Economic Issues. Vol 32, No. 2, (Jun., 1998), pp. 565-574

Wei Li, D. T. Yang (2005): The Great Leap Forward: Anatomy of Central Planning Disaster. Journal of Political Economy, 2005, Vol. 113, No. 4

S. Yusuf, K. Nabeshima (2006): Two Decades of Reform: the Changing Organisation Dynamics of Chinese Industrial Firms, 2006 - reader