Introduction to Economic Issues: Economics of Transition

Why Economics and Business in Prague and Beijing differ from New York or Washington

Syllabus Spring 2012

Vilém Semerák, Ph.D.
E-mail: vilem.semerak@cerge-ei.cz Phone: (+420) 224005167
Office hours: Wednesday 12:30 p.m. – 1:30 p.m., NYU Prague or by appointment

Course description:
The course deals with main economic issues related to transition from systems based on central planning (Soviet bloc and China) to market economy. Compared to other similar courses, this course will be less descriptive and more analytical; we will use economic models and results of econometric studies where appropriate. It also differs in its emphasis upon the analysis of Chinese economy. We will also try to apply experimental approach in order to provide the students with direct experience with asymmetric information markets and soft-budget constraints. The course is trying to focus on 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 deals with the functioning of central planning and selected topics related to corporate governance under central planning (e.g. Yugoslavian self-managed firms). Also included are main theories explaining the reasons for the gradual economic decline of the centrally-planned economies and discussion of the main structural problems experienced by the countries.

The second part focuses on main transition steps and their economic logic; we will also deal with basic theoretical models that attempt to explain problems experienced by transition economies. Specifically we will be comparing three strategies: partial reforms of central planning, full transition as attempted by CEE countries, and the Chinese gradual economic reforms.

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 the current development in China.

After studying this course students should be able to:
1. Understand the key differences between economic systems of “socialist” economies (and other predominantly non-market economies” and market economies, as well as main problems of these “alternative systems”.
2. Explain the logic of 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 logic and importance of motivation and corporate governance, and of the role of efficient financial markets in a market economy.
4. Understand the differences between countries of the former Soviet bloc and China and learn more about Chinese economic reforms and prospects of further development of Chinese economy.

**Grading policy**

<table>
<thead>
<tr>
<th>Component</th>
<th>Weight</th>
</tr>
</thead>
<tbody>
<tr>
<td>Class participation/attendance</td>
<td>5 %</td>
</tr>
<tr>
<td>Assignments (input-output analysis)</td>
<td>20%</td>
</tr>
<tr>
<td>- Input-output analysis</td>
<td></td>
</tr>
<tr>
<td>- Soft budget constraints</td>
<td></td>
</tr>
<tr>
<td>- Disorganization model of transformation recession</td>
<td></td>
</tr>
<tr>
<td>Short paper and presentation of the paper</td>
<td>15% + 5%</td>
</tr>
<tr>
<td>Mid-term</td>
<td>20 %</td>
</tr>
<tr>
<td>Final</td>
<td>35 %</td>
</tr>
</tbody>
</table>

**Schedule of classes**

**Week 1 – Introduction to the Class**

13 February - **Overview of course** (outline of the course, brief outline of political and economic history of the region, current economic situation in the region).

**Discussion: current China v. current CEE countries**

15 February - **Communism, socialism and society: What was socialism/communism?**

**Transition to socialism in the Soviet block, Yugoslavia and China**

Reading: Kornai (2006): The great transformation of Central and Eastern Europe

**Week 2 - Central planning**

20 February - **How was central planning supposed to work? Myths and facts. Planning disasters – USSR, China**


22 February - **Input-Output Analysis – Explanation of methodology. Its Current Use**

**Assignment 1**


**Week 3 - Economic Life under Socialism**


29 February - 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 – Problems of Central Planning: Analysis of the Likely Causes of the Problems
5 March - Corporate Governance: Soft Budget Constraints
Kornai, Maskin, Roland (2003): Understanding the soft budget constraint – reader
Assignment 2: Soft budget constraints

7 March – Is an efficient alternative to markets possible or not? Summary of the problems faced by centrally-planned economies. Growth accounting view of growth in CEE countries.

Week 5 - From Gorbachev to the Beginning of Real Transition
12 March - Partial reforms of CPEs and their failures. Hungarian “Goulash Socialism”.
Assignment 2 due

14 March - Changes in USSR, Gorbachev’s reforms, 1989 revolutions. Differences between the beginning of Chinese and Central European Transition

Week 6 - Transition Strategy and Initial Stages
19 March - Transition: domestic intellectual background (and constraints) and foreign inspiration. Why did we follow the Chinese example? Washington Consensus.

21 March – Macroeconomic development during early transition. Initial stabilization, deregulation and liberalization, foreign trade and exchange rates.
Aslund (2002), chapter 4

Week 7 - Transition: Stabilization and Transformation Recessions
26 March - Transformation Recessions – overview and a simple economic model
Assignment 3 (voluntary): Transformation recessions
Reference for the assignment: Blanchard & Kremer (1997): Disorganization

28 March – Midterm exam (first part of the session)
GDR as a special case of transition
Assignment 4: Unification of South and North Korea

Week 8 – Privatization and Microeconomic Transformation
2 April - Privatization and mass privatizations – methods and problems.
Aslund (2002), chapter 5
**Reading:** Ellerman (2001): Lessons from Eastern Europe's Voucher Privatization

**Assignment 3 (voluntary) due**

4 April - **Mass privatizations in CEE countries. Case study: Czech “voucher privatization” and its effects.**
Assignment 4 due

**Week 9 – Spring Break – no classes**

**Week 10 - Problems experienced during transition**
16 April - **Economics of privatization. Empirical studies of effects of privatization on performance.**

18 April - **Introduction to economics of asymmetric information**

**Week 11 - Factor Markets in Transition Countries**
23 April - **Capital markets, banking crises and economic systems.**

25 April - **Labor markets, unemployment and income distribution**

**Week 12 - Interaction between Economy and Political System**
30 April - **Corruption and “unofficial economy”. Introduction**

2 May - **“State capture”. Role of Mafia-like groups in Eastern European economies.**
Transparency International: Global Corruption Report.

**Week 13 - Chinese Economic Reforms**
7 May – **China: necessary introduction. Macroeconomic development.**

9 May – **Specific features of Chinese reforms with special focus on financial system. 2012: China on the crossroads – what should we expect?**
TBA

**Week 14 - Lessons Learnt. Future of Former Centrally-Planned Economies**
14 May - **Whither transition? What should have been done in a different way?**
M. Dabrowski, S. Gomulka, J. Rostowski: Whence Reform? Critique of the Stiglitz Perspective

16 May - Students’ Presentations

**Week 15 --Exam week**

May 22nd – **Final exam**

**Reading**

**Books:**
Basic reference:

or

Additional option:

**Papers and articles:**
Dabrowski, Gomulka, Rostowski: Whence Reform? Critique of the Stiglitz Perspective