

Semester	Spring 2015
Class code	ECON-UB 9271 – 001
Instructor Details	Vilém Semerák, Ph.D. vilem.semerak@cerge-ei.cz +420 608 152261 NYU professor's office in Malé náměstí 2; Thursdays after class or on appointment
Class Details	OWNERSHIP AND CORPORATE CONTROL IN ADVANCED AND TRANSITION ECONOMIES Thursdays 17:10 – 18:30, 18:40-20:00 Location: Kupka classroom
Prerequisites	ECON-UB 1, ECON-UA 10 or ECON-UA 11, Intermediate Microeconomics or Microeconomics (Theory). or equivalent.
Class Description	<p>The subject of the course is to analyze implications of two of the most profound changes to take place in the history of the world and European economies for company environment and efficiency – i.e. implication of (i) the rapid and fundamental change from centrally planned economies to market economies followed by (ii) the integration of those economies into the European Union market and economic space.</p> <p>The first part of the course focuses on the concepts of ownership, corporate control, as well as general issues relevant for the relationship between ownership, control, motivation, and performance. In the second part of the course, we will therefore analyze the functioning of centrally planned economies (and of their modern versions: state capitalism).</p> <p>The third part will focus on the transition (reform) process, including price and external trade liberalization, exchange rate policy reform and the introduction of currency convertibility, the reform of fiscal and tax frameworks as well as the process of privatization (including its different methods applied in different Central and Eastern European countries (CEE) and consequent corporate restructuring, including the reintroduction of financial markets. Especially the issue of privatization, development of new ownership forms and their effects on efficiency (and financial stability) will be analyzed in detail.</p> <p>The final part deals with the current issues (results of the whole process) and with implications of the effects of European integration.</p>
Desired Outcomes	<ul style="list-style-type: none">- Understanding of the shortcomings of traditional microeconomic model of behaviour of firms, especially of the multitude of possible objective functions and interactions between managers and stakeholders.- Understanding of the macro and microeconomic causes of failures of centrally-planned economies.- Explaining and understanding of the complexity of the economic reforms in CEE; underlining how deep and comprehensive process it has been;- Explaining and understanding the lasting effects of the socialist period on their international position and competitiveness of the countries and on managerial structures and preferences.- Understand interaction between regulatory changes, privatization, and the structure of financial markets.- Understand the causes and effects of corruption in transition economies.- Explaining and understanding the effects of EU accession at micro level (companies) and

macro level (macroeconomic environment)

**Assessment
Components**

- active class participation/ attendance – **5%**;
- assignments – **20%**
- written essay/ paper presented verbally at the end of semester – **15%+5%** (recommended size of the paper – 5 pages of the standard wording; oral presentation for approximately 5 minutes for each student, plus consequent discussion; topics of the essay recommended on a “menu” during the semester well before the deadline);
- written mid-term test – **20%** (in the form of five questions summarizing the course issues of the first half of the semester);
- written final test – **35%** (in the form of three questions summarizing the course issues of the second half of the semester)

Failure to submit or fulfil any required course component results in failure of the class.

**Assessment
Expectations**

Grade A: Exceptional level of accurate, clear and analytical work (both written and oral)

Grade B: Very good level of work (both written and oral) but falling short of the highest level

Grade C: Satisfactory and sufficiently accurate written and oral work.

Grade D: Adequate level of written work but weak as far as own analysis is concerned.

Grade F: Muddled, poorly presented written and oral analytical work.

Grade conversion

A=94-100

A-=90-93

B+=87-89

B=84-86

B-=80-83

C+=77-79

C=74-76

C-=70-73

D+=67-69

D=65-66

F= below 65

**Attendance
Policy**

Absences only for medical reasons and for religious observance will be excused. To obtain an excused absence, you are obliged to supply either a doctor’s note or corroboration of your illness by a member of the housing staff (either an RA or a Building Manager). To be excused for religious observance, you must contact the instructor and the Associate Director via e-mail one week in advance of the holiday. Your absence is excused for the holiday only and does not include days of travel associated with the holiday. Unexcused absences will be penalized with a two percent deduction from your final course grade for every week of classes missed.

Late Submission of Work

All the duties specified in the assessment components have to be fulfilled until the last class in the semester (mid-term test within the scheduled time). Any other later terms are not accepted.

Plagiarism Policy

According to the Liberal Studies Program Student Handbook, plagiarism is defined as follows:

Plagiarism is presenting someone else's work as though it were one's own. More specifically plagiarism is to present as one's own a sequence of words quoted without quotation marks from another writer, a paraphrased passage from another writer's work; facts or ideas gathered, organized and reported by someone else, orally and/or in writing. Since plagiarism is a matter of fact, not of the student's intention, it is crucial that acknowledgment of the sources be accurate and complete. Even where there is no conscious intention to deceive, the failure to make appropriate acknowledgment constitutes plagiarism.

The College of Arts and Science's Academic Handbook defines plagiarism similarly and also specifies the following:

"presenting an oral report drawn without attribution from other sources (oral or written), writing a paragraph which, despite being in different words, expresses someone else's idea without a reference to the source of the idea, or submitting essentially the same paper in two different courses (unless both teachers have given their permission in advance).

Receiving help on a take-home examination or quiz is also cheating – and so is giving that help – unless expressly permitted by the teacher (as in collaborative projects). While all this looks like a lot to remember, all you need to do is give credit where it is due, take credit only for original ideas, and ask your teacher or advisor when in doubt."

"Penalties for plagiarism range from failure for a paper, failure for the course or dismissal from the university." (**Liberal Studies Program Student Handbook**)

Required Text(s)

Main literature:

Anders Aslund: *How Capitalism was Built – The Transformation of Central and Eastern Europe, Russia, and Central Asia*. Cambridge University Press, 2007 or 2013 (2nd edition). ISBN 978-1107628182 (also available as an ebook).

Recommended literature:

More technical (model based) reading on transition: Gerard Roland: *Transition and Economics: Politics, Markets, and Firms*. MIT Press, 2000, ISBN: 978-0262182034

Alternative to Aslund: 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

Additional sources:

OECD: *Corporate Governance Factbook*, February 2014

Mc Gee (ed.): *Corporate Governance in Transition Economies*. Springer, 2008. ISBN: 978-0-387-84830-3

A special website with additional links to literature and data will be available: <http://nyu.jingjixue.net/>

A Chinese magazine Caixin provides lots of interesting information on Chinese economy, it often attempts to be as open as the situation allows: <http://english.caixin.com/> It may serve both as a source of insight on Chinese economy as well as the source of inspiration for case studies/papers and further research.

Supplemental Texts(s) (not required to purchase as copies are in NYU-P Library)

CERGE-EI library contains one of the best collections of literature on transition in Europe. It is not far from the NYU location, students are encouraged to use this source extensively when working on their own papers.

Internet Research Guidelines

Official pages of the European Union: <http://europa.eu>.
Transition report of the EBRD: <http://tr.ebrd.com/>
The Vienna Institute for International Economic Studies: <http://www.wiiw.ac.at/>
OECD website on corporate governance: <http://www.oecd.org/corporate/>

Links to other relevant institutions and sources of information are provided on the course website.

As usual, students are encouraged to search for alternative and independent sources of data and inspiration online, but they are also advised to apply a standard critical approach and verify the claims and information they want to use in their own work.

Additional Required Equipment

None.

Session 1

Thursday,
Feb 5

Introduction to the course: definition and description of the main content and targets of the course

- Why and how can companies behave differently in different systems/countries?
- Basic information on Czech economy and neighboring countries, and on changes in economic organization in Central and Eastern Europe during 20th century

Reading:

- J. Kornai (2006): The Great Transformation of Central and Eastern Europe – Success and Disappointment. *Economics of Transition*, Volume 14 (2) 2006, 207-244

Session 2

Thursday,
Feb 12

Ownership and control: general view.

- Corporate governance, corporate control: definitions, measurements, basic principles, typical models
- Environment, individual preferences and international differences.
- Introduction into relevant economic theory: principal agent model

Assignment #1: governance and ownership models (assigned)

Reading:

- E. Hilt (2008): When did Ownership Separate from Control? *Corporate Governance in the Early Nineteenth Century (interesting as historical introduction, includes U.S. evidence)*
- Chapter “Corporate Governance Framework” (p. 13-27) from the OECD Corporate Governance Factbook (2014)
- Additional reference: Oman, Fries, Buiters (2003): CORPORATE GOVERNANCE in Developing, Transition and Emerging–Market Economies.

Session 3

Thursday,
Feb 19

Economics of control, ownership, and performance - companies, managers, owners, stakeholders

- Principal-agent interaction: additional details
- Empirical analysis of effects of differences in ownership & control: overview of problems

Reading: Mueller (2006): *Corporate Governance and Economic Performance*

Assignment #1: due

Session 4	Non-market systems: theoretical background, experiments, identified problems
Thursday, Feb 26	Reading: - S. L. Richman (1981): War Communism to NEP: The Road to Serfdom. The Journal of Libertarian Studies. Vol. V., No. 1 (Winter 1981) - P. Temin (1991): Soviet and Nazi economic planning in the 1930s. Economic History Review, XLIV, 4 (1991) pp. 573-593
Session 5	Central planning: methods, implementation issues, overview of effects on R&D, motivation, efficiency. Special part: input-output methodology
Thursday, March 5	Reading: Aslund (2002), chapter 1 Assignment #2: Own experiments with the use of input-output methods for economic analysis
Session 6	Banking and international transactions under central planning Labor markets and motivation
Thursday, March 12	Reading: TBA Assignment #2: due
Session 7	Companies and managers under central planning. Economics of soft budget constraints.
Thursday, March 19	Reading: Kornai, Maskin, Roland (2003): Understanding the soft budget constraints. Assignment #2: due
Session 8	Midterm exam (first part of the session).
Thursday, March 26	The special case of Yugoslavian market socialism: self-managed firms? CEE countries: reform attempts before 1989. Hungarian reforms, Soviet perestroika. Reading: 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
Session 9	Transition Strategies: Components and Policy Choices. Washington Consensus
Thursday, April 2	Policy choices in early transition (and analysis of their motivation). Liberalization and deregulation. Reading: Aslund (2013) – chapter 2 & 4
Spring Break	
April 6-10	
Session 10	Macroeconomic development during early transition: implication for companies and households
Thursday, April 16	- Transformation recessions (causes, a simple theoretical model of disorganization) - Special case of the GDR Reading: - J. von Hagen, R.R. Strauch, G. Wolff (2002): East Germany: Transition with Unification, Experiences and Experiences. ZEI working paper B19/2002 - Aslund (2013), chapter 3 & 5 Topic for the final paper due!
Session 11	Privatization: methods, desired outcomes and real effects.
	Case study on effects of Czech voucher privatization.

Thursday,
April 23

Reading:

- Aslund (2002), chapter 6
- S. Estrin, J. Hanousek, E. Kocenda, J. Svejnar (2009): Effects of Privatization and Ownership
- B.G. Katz, J. Owen (2002): Voucher Privatization: A detour on the road to transition?
- E. Kocenda, J. Hanousek (2012): State ownership and control in the Czech Republic
- G. Chen et al. (2009): Does the type of ownership control matter? Evidence from China's listed companies

Assignment #3: Methods of privatization in CEE countries

Session 12

Thursday,
April 30

Financial markets in Transition. Bankruptcies and restructuring.

Case study: Ponzi funds and Albania

Debate: banking in current China: reformed or not?

Reading:

- C. Jarvis (2000): The Rise and Fall of Albania's Pyramid Schemes
- B. Hofman, J. Wu (2009): Explaining China's Development and Reforms. The International Bank for Reconstruction and Development / The World Bank, Working paper No. 50, 2009
- E. Berglof, P. Bolton (2001): The Great Divide and Beyond: Financial Architecture in Transition, 2001

Assignment #3 due

Session 13

Thursday,
May 7

Incomes and wealth, motivation & economic efficiency. Corruption & oligarchic control structures.

Reading:

- Aslund (2013): chapters 9 & 10
- M. Tomass (1998): Mafianomics: How Did Mob Entrepreneurs Infiltrate and Dominate the Russian Economy?
- I. Denisova et al. (2012): Everyone hates privatization, but why? Survey evidence from 28 post-communist countries

Session 14

Thursday,
May 14 (last
day of classes)

International effort, EU integration and changes in regulatory environment in Central & Eastern Europe.

Presentations of the papers (second part of the session).

Reading:

- Aslund (2013): chapter 11
- Foo & Witkowska (2011): The Role of Corporate Governance in Transition Countries

Session 15

Thursday,
May 21
Final exam

Final exam (sample exams will be provided).

Papers due on the date of the exam.

**Classroom
Etiquette**

The use of electronics for taking notes, checking up on relevant facts etc. is encouraged. However, the use of electronic devices should be related only to the course and it should not disturb others.

**Required Co-
curricular
Activities**

**Suggested Co-
curricular
Activities**

Visit of the Czech National Bank (and of their small museum on the monetary and economic history of the region) is recommended.

A company visit may be organized (not guaranteed yet).