Semester: Spring 2016
Class code: ECON-UB9271001
Instructor Details: Vilém Semerák, Ph.D. vs66@nyu.edu
NYU professors’ office in Malé náměstí 2; Tuesdays/Thursdays after class or by appointment.

Class Details: OWNERSHIP AND CORPORATE CONTROL IN ADVANCED AND TRANSITION ECONOMIES
Tuesday, 4:30 – 5:50 p.m., Thursday, 4:30-5:50 p.m.
Location: Kupka classroom (Richter).

Prerequisites: ECON-UB 1, ECON-UA 10 or ECON-UA 11, Intermediate Microeconomics or Microeconomics (Theory) - or equivalent, please consult the instructor if you have any questions or if you consider enrolling and you have not passed any of the afore-mentioned courses.

Class Description: The subject of the course is to analyze issues related to enterprise ownership and control using the experience and data generated by two profound changes which have taken place in the recent economic history of the world - i.e. the implication of (i) the rapid and fundamental change from centrally planned economies to market economies in CEE countries, followed by (ii) the integration of those economies into the European Union market and economic space. The whole process will be evaluated theoretically and empirically, and compared also with the process of economic reforms in China and other relevant economies.

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). In particular, we will focus on two major weaknesses of similar systems: soft budget constraints and allocation efficiency.

The third part will focus on the transition (reform) process, including liberalization and deregulation, the reform of fiscal and tax frameworks and most importantly the process of privatization and restructuring. Logic, implementation, and results of different methods of privatization applied in different Central and Eastern European countries (and in China) will be compared, as well as their interaction with the attempts to reintroduce real financial markets in the economies.

The final part deals with the current issues (results of the whole process) and with implications of the effects of European integration on capital market integration, corporate governance and future opportunities for the initially poorer and weaker economies of Central and Eastern Europe.

Besides meeting in class which will include lectures, discussions over reading, and simple classroom experiments, we will also try to organize a visit to a major Czech company which has undergone privatization and complete restructuring. If students are interested, a joint visit to the Czech National Bank (museum and introduction to monetary/financial history of the Czech Republic) can be organised. Students are also encouraged to attend public lectures organized at the CERGE-EI and the Institute of Economic Studies of Charles Universities (schedule will be provided by the lecturer).

Desired Outcomes:
- Understanding of the shortcomings of traditional microeconomic model of behavior 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 and the logic of privatization-based reforms.
- 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 and
corruption-related behavior.
- Understand interaction between regulatory changes, privatization, and the structure of financial markets.
- Explaining and understanding the effects of EU accession at micro level (companies) and macro level (macroeconomic environment)
- active class participation – 5%;
- assignments – 20% (5 assignments, expected output: about 1-2 pages of text each)
- written essay/ paper – 20% (15% the paper, 5% its presentation in class)
- 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 fulfill any required course component results in failure of the class.

Rules for the paper:
Expected length: 5-10 pages (standard spacing/fonts).
The topic must be discussed with (and approved by) the instructor by November 6th. The paper must be submitted by May 21st (submission by email is possible).
All sources must be given proper credit (any standard for of citations is acceptable), plagiarism is not acceptable.

General rule for both the paper and the assignments: Clarity, logic, and originality matter much more than formal criteria (simply submitting “a text” with the right number of pages and formatting does not have to guarantee a good grade).

Assessment Components

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<th>Assessment Components</th>
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<tr>
<td>Grade A: Exceptional level of accurate, clear and analytical work (both written and oral).</td>
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<tr>
<td>Grade B: Very good level of work (both written and oral) but falling short of the highest level.</td>
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<tr>
<td>Grade C: Satisfactory and sufficiently accurate written and oral work.</td>
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<tr>
<td>Grade D: Adequate level of written work but weak as far as own analysis is concerned.</td>
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<td>Grade F: Muddled, poorly presented written and oral analytical work.</td>
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Grading guidelines
At NYU Stern, we strive to create courses that challenge students intellectually and that meet the Stern standards of academic excellence. To ensure fairness and clarity of grading, the Stern faculty have adopted a grading guideline for core courses with enrollments of more than 25 students in which approximately 35% of students will receive an “A” or “A-” grade. In core classes of less than 25 students, the instructor is at liberty to give whatever grades they think the students deserve, while maintaining rigorous academic standards.

Grade conversion
Every component of the assessment will be graded at the 0-100 scale.
Final score (and grade) will be based on the arithmetic weighted average of the grades for the assessment components.

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 Academic 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 2% percent deduction from your final course grade for every week of classes missed.

Please note that Friday, April 29 (9am – 5pm) is reserved as a make-up day for missed classes. Do not schedule any trips for this day.

Late Submission of Work
Any late submission must be agreed upon with the instructor. If allowed, point deductions will be applied in most situations. Please, behave responsibly and inform the instructor about possible delays as soon as possible.

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.”

Note on the required texts. While the list (and size) of the required books may seem excessive, please note that only selected chapters from the texts will be required. This approach has been necessary because there does not seem to be a single text available which would adequately address all the facets of issues important for the analysis of governance and ownership changes in transition and emerging markets.

Access to all relevant texts and other materials will be provided to students – some of them via the local NYU library, others in an electronic form or printed. If the students are interested, the instructor will also help the students arrange access to the CERGE-EI library. CERGE-EI library contains one of the best collections of literature on economics of transition and privatization in Europe. It is not far from the NYU location; students are encouraged to use this source extensively when working on their own papers/projects.

Main text on corporate governance:


Note: References in the syllabus may in some cases still refer to the first edition.

Main text on transition (including introduction into socio-political background of the processes):


Additional recommended literature:


Additional sources (databases, yearbooks, surveys): OECD: Corporate Governance Factbook, February 2014


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.


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.

none

Introduction to the course: definition and description of the main content and objectives of the course
- Basic information on Czech economy and neighboring countries, and on changes in economic organization in Central and Eastern Europe during 20th century
- Outline of the problems caused by separation of ownership and control.

Economics of ownership & control I.
- Ownership and control in market economies: a brief historical overview
- Introduction into relevant economic theory: principal agent model – experimental evidence
Basic reading: Tricker (2012), chapter 1

Economics of ownership & control II.
- More details on the principal agent model
- Empirical evidence on effects of corporate governance in different countries with market economies
- Methodological problems of attempts to provide empirical evidence on effects of differences in corporate governance.
Reading: Tricker (2012), chapter 9
Additional information on (and more rigorous models of) principal-agent interaction can be also found in Varian’s Microeconomic Analysis (chpt. 25).

Ownership and control under market economy: official/unofficial rules and institutions
Reading:
- Tricker (2012), chapter 2 (sections: Definitions of Corporate Governance, The Scope of Corporate Governance, Drivers of Good Corporate Governance) and chapter 7
Additional reading: Chapter “Corporate Governance Framework” (p. 13-27) from the OECD Corporate Governance Factbook (2014)
Assignment #1: governance and ownership models (assigned)

Models of corporate governance: international perspective
Reading: Tricker (2012), chapter 8
Assignment #1: due

Assignment #2 assigned (international differences in behavioral patterns)

International differences in rules and institutions: deeper causes?
- Companies in economic theory and reality. Why and how can individuals and companies behave differently in different systems/countries?
- Cultural aspects of entrepreneurship and economic relations.
- Shareholders in the USA and European economies
- Bankruptcies: US v. European economies
Reading:
- OECD: Key Policy Issues in Entrepreneurship and SME Development – Chpt 1, Entrepreneurial
Culture and Attitudes:  http://www.oecd.org/site/cfecpr/42202841.pdf

Assignment #2: due

Session 7
Tuesday, February 23
Alternative modes of control in organizations: worker managed companies, theory and practice

Debate on experiments in economic organizations: Zappos and the “Holacracy” experiment

Session 8
Thursday, February 25
Control and monitoring: financial markets perspective
- Information asymmetries in financial markets
- Credit crunches and related troubles
- Theoretical model of intermediation troubles

Session 9
Tuesday, March 1
Asymmetric information, related inefficiencies, opportunities for fraud: shareholders, customer and management perspective
- Importance of information (and of costs of processing of information)
- Effects on market dynamics (lemon market)
- Role of bankruptcies
Reading: KPMG: Who is a typical fraudster?

Debate on information asymmetries in traditional markets: the case of Mast Brothers

Session 10
Thursday, March 3
Non-market systems: theoretical background, early experiments and early problems
- Motives to search for an alternative?
- War communism in the USSR, and planned economy in Nazi Germany
- Future of similar attempts – state capitalism?

Session 11
Tuesday, March 8
Central planning: methods and logic. Input-output methodology
- Central planning methods: what is missing from the point of view of governance, motivation, and control?
- Material balances
- Brief introduction to IO methodology and its current use
Reading: Aslund (2013), chapter 1

Assignment #3: Current use of IO methodology. Estimates of sensitivity to direct effects of BREXIT

Session 12
Thursday, March 10
Banking and international transactions under central planning
Labor markets and motivation – relationship between managers and employees.
Additional reading: A.L. Kalleberg & D. Stark (1993): Career strategies in capitalism and socialism:
work values and job rewards in the United States and Hungary. Social Forces, Vol. 72, No. 1 (Sep. 1993), pp. 181-198

Assignment #3: due

**Session 13**
Tuesday, March 15

Central planning: micro and macroeconomic effects.
- Economic shortages (extreme cases: China during the Great Leap Forward)
- Coordination problems
- Macro implications: growth problems of centrally-planned economies


**Session 14**
Thursday, March 17

Economics of soft budget constraints.
- A more rigorous model of microeconomic sources of poor efficiency and motivation
- Soft budget constraints and governance
- Can state capitalism, socialist economies or mixed economies with a significant role of state interventions avoid the negative effects of SBCs?


**Session 15**
Tuesday, March 22

Transition: logic, motives and prior beliefs/expectations
- Washington consensus
- Role of privatization
- Differences between Central and Eastern Europe, and China.

Reading: Aslund (2013) – chapter 2 & 4

**Session 16**
Thursday, March 24

Midterm exam (first part of the session).

Debate over the first half of the term, discussion of topics for the final paper.

(No classes)

**Spring Break**
March 28 – April 3

**Session 17**
Tuesday, April 5

Is private ownership better than public ownership: theoretical view
- Is private ownership always better than public ownership?
- Agency and governance problems: public versus private sector


Due: Topic for the final paper.

**Session 18**
Thursday, April 7

Privatization: methods, constraints and desired outcomes
- Motives for the use of non-orthodox (esp. mass) methods in Central and Eastern Europe
- Comparison of approaches used in former GDR, Hungary, the Czech Republic, Russia
- Logic and methods of privatization-like activities used in China (P.R.C.) Reading: Aslund (2002), chapter 6


Assignment 4: Czech voucher privatization and its effects on governance

**Session 19**
Tuesday, April 12

Voucher privatizations: advantages and problems
- More detailed analysis of the implementation and results of Czech voucher privatization
- Effects of voucher privatization on the development (creation) of financial markets

Reading:

Additional reading:
<table>
<thead>
<tr>
<th>Session 20</th>
<th>Thursday, April 14</th>
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<tr>
<td><strong>Assignment 4 due</strong></td>
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<tr>
<td><strong>Financial market: creation and subsequent reforms. Differences between CEE countries and China</strong></td>
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<td><em>Case study: Ponzi funds and Albania</em></td>
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<td><em>Debate: banking in current China: reformed or not?</em></td>
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<tr>
<td><em>Reading:</em></td>
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<td>- C. Jarvis (2000): The Rise and Fall of Albania’s Pyramid Schemes</td>
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<th>Session 21</th>
<th>Tuesday, April 19</th>
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<tr>
<td><strong>Unofficial economy and corruption. Oligarchic control structures.</strong></td>
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<td><em>- Oligarchic control structures as an undesirable side-effect of economic reforms and privatization</em></td>
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<td><em>- State capture</em></td>
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<tr>
<td><em>Reading:</em></td>
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<td>- Aslund (2013): chapters 9 &amp; 10</td>
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<th>Session 22</th>
<th>Thursday, April 21</th>
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<tr>
<td><strong>From transition to EU accession: national economic policies and EU integration</strong></td>
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<tr>
<td><em>- Logic of European integration</em></td>
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<td><em>- Prerequisites for EU accession (Copenhagen criteria) Reading: Aslund (2013): chapter 11</em></td>
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<td><strong>Assignment 5: Capital market(s) in the current EU</strong></td>
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<th>Session 23</th>
<th>Tuesday, April 26</th>
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<td><strong>EU integration: governance and capital market view</strong></td>
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<td><em>- Harmonization of accounting rules and business law in the EU</em></td>
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<td><em>- Creating a real capital market union in the EU?</em></td>
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<td><em>Reading:</em></td>
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<td><strong>Assignment 5 due</strong></td>
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<th>Session 24</th>
<th>Thursday, April 28</th>
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<td><strong>Regulatory environment in Central &amp; Eastern Europe.</strong></td>
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<td><em>- Corporate governance in CEE countries</em></td>
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<td><em>- Bankruptcies and restructuring in CEE countries</em></td>
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<tr>
<td><em>Reading: Janda &amp; Rakicova (2014): Corporate Bankruptcies in Czech Republic, Slovakia, Croatia and Serbia</em></td>
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<tr>
<th>Make-up Day</th>
<th>Friday, April 29</th>
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<td><strong>Make-up day for missed classes</strong></td>
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(9am-5pm)

**Session 25**
Tuesday, May 3

**Financial crisis and “post-crisis” development in CEE countries**
- Modern financial instruments, risk management, and rating, and their role in the run-up to the financial crisis
- Differences in origin and effects of the crisis (Western Europe v. new member countries)

Reading:
- IMF: Regional Economic Issues: Central, Eastern and Southeastern Europe. May 2015

**Session 26**
Thursday, May 5

**Greek and EU Governance Crisis from the perspective of governance and control**

Reading:

**Session 27**
Tuesday, May 10

**State capitalism and the future of BRICS countries**
- Latest reforms in China
- Current economic troubles of Brazil
- Interesting features of corporate governance in China and Brazil
- The future of “strong states” and state capitalism?

Reading: TBA

**Session 28**
Thursday, May 12 (last day of classes)

**Latest issues in privatization and governance in CEE countries and China. Future of corporate governance.**

**Presentation of students’ papers.**

*The papers do not have to be finished, but you should be able to explain the core argument and conclusions of your analysis.*

Reading:
- Tricker (2012): chapter 16

**Session 29**
Tuesday, May 17
Final exam

**Session 30**
Thursday, May 19
Final 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**

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

**Suggested Co-curricular Activities**

A company visit may be organized (not guaranteed yet – as it depends on compatibility of students’ schedules).