

Econ 495_wi 2017, Judith Thornton

Class: MW 12:30-2:20, CMU 226, Office hours: 11:00-12:00 MW and by appointment; Office: Savery 332; Course Web Site: <https://catalyst.uw.edu/workspace/thornj/41747/297540>

Economies in Transition

Introduction

Economies in Transition investigates the relationship between economic institutions and economic performance by surveying institutional changes and economic growth in socialist and former socialist economies that have undertaken large-scale economic reforms. Countries undertaking rapid institutional change include Asian countries, such as China and Viet Nam, the states of the former Soviet Union in Europe and Central Asia, and the former socialist states of Central Europe. Economic growth and productivity show great variation across countries with different patterns of institutional change.

What is a transitional economy? This term refers to current and former socialist economies engaged in establishing market-supporting governmental and legal institutions to increase the roles of private ownership, investment, entrepreneurship, and market competition. Transitional economies are characterized by rapid and significant changes in institutional infrastructure, laws, and property rights that alter the information and incentives facing individuals and firms. Moreover, members of the society face changes in relative prices and in the structure of economic activity combined with high risk and uncertainty.

The Twentieth Century was an era in which, briefly, almost half of the world's population was governed by Marxist states. These states transferred the ownership of land, resources, and physical capital stocks to the government and established centralized administrative mechanisms for managing production. Today, many of these Soviet-style economic systems are gone as major economic reform programs evolve in dozens of formerly command economies to put in place institutions underpinning what their policy-makers define as a "normal economy." By "normal", they mean a system in which independent individuals may enjoy private ownership of land, housing, and assets and are free to establish independent enterprises. Individuals may enter into voluntary, mutual exchange in markets at market-determined prices. They can invest in productive assets, innovate, and enter competitive markets, facing uncertain benefits and costs in a risky world.

After more than thirty years of experience, there is great variation in the institutions of public governance in these countries and in their economic performance. What can we learn from this mammoth social experiment? How did some reforming transitional economies embark on a path of rising growth and welfare while others still suffer stagnation and poverty? To understand the role of institutions in economic performance, we look at the incentive features of administrative and market institutions and the effects of economic arrangements, focusing on market liberalization, property rights, enterprise governance, macroeconomic policy and the role of the state in providing public infrastructure and rule of law.

Course Goals:

1. Applied Goals

Survey the historical experience of a sample of economies undergoing rapid institutional change asking how institutional change impacts incentives and sources of economic growth, productivity, poverty, and welfare. We explore the sources of institutional change as well, asking how economic performance influences the incentives to strengthen market-supporting economic institutions.

Understand how administrative decision-makers collect information and make decisions in non-market environments and how individuals and firms make choices subject to market constraints and incentives.

Understand how government policies influence the allocation of resources, productivity, and growth in a command economy and in a market economy.

Understand how prices and property rights in a market system inform the decisions about what to produce, how to produce it, and who gets it.

Develop skill in presenting economic concepts and the results of empirical analysis in presentation of analytical case studies to an audience of social scientists.

2. Problem-Solving Goals

Apply microeconomic theory to the role of institutions in administrative and market systems.

Understand how economic arrangements influence the behavior of decision-makers, focusing on incentives, constraints, and sources of uncertainty.

Understand how institutional constraints and incentives impact the economic environment faced by individuals.

Investigate the strategic choices of individuals when outcomes depend on the actions of more than one player.

Use the theory of risk to understand how individuals respond to uncertain economic outcomes.

Understand how market structure and regulatory policies influence allocation of resources.

Course Requirements:

Class lectures and discussions follow the syllabus, below. Grades are based on 3 hour tests, and a final essay. Each exam counts 25% and the final essay counts 25%.

Hour tests are divided between solution of microeconomic problems and a written essay on the applied material.

The final essay addresses the lessons from European and Asian transition for sources of growth and productivity in advanced and developing economies. At the end of the quarter, each student writes a brief (3-4 page) essay on a topic of his/her choice regarding sources of growth and productivity, drawing on the economic performance of one or more transitional economies.

Academic Integrity:

Academic integrity is the cornerstone of the Department's rules for student conduct and evaluation of student learning. Students accused of academic misconduct will be referred directly to the Office of Community Standards and Student Conduct for disciplinary action pursuant to the Student Conduct Code and, if found guilty, will be subject to sanctions. Sanctions range from a disciplinary warning, to academic probation, to immediate dismissal for the Department and the University, depending on the seriousness of the misconduct. Dismissal can be, and has been, applied even for first offenses. Moreover, a grade of zero can be assigned by the instructor for the course.

Required Texts:

Aslund, Anders. 2013. *How Capitalism Was Built*, Second Edition. Cambridge Univ Press.

Lardy, Nicholas. 2014. *Markets Over Mao*, Peterson Institute for International Affairs.

Lankov, Andrei. 2015. *The Real North Korea*. Oxford University Press.

Thornton lecture notes. (<https://catalyst.uw.edu/workspace/thornj/41747/297540> for materials.)

Optional References

European Bank for Reconstruction and Development. Transition Report 2016-2017;

<http://www.ebrd.com/news/publications/transition-report/ebd-transition-report-201516.html> (free on-line)

Perl off, Jeffrey *Microeconomics* (any edition)

Reading List

Introduction: Institutional Change and Property Rights in Europe

Limited Access Orders: Notes from North and Weingarten, "*In the Shadow of Violence*" (web)

Thornton, Notes on Feudalism, the Rise of the City State, and Institutional Change (web)

Introduction: What is Transition? (Web)

Robert Hall and Charles Jones (1999) "Why Do Some Countries Produce So Much More Output per Worker than Others?" *Quarterly Journal of Economics*, Feb, 83-116. Notes on web

I Socialism in Europe and Eurasia

1. The Rise and Decline of Communism; Socialist Economies and Central Planning

Aslund, Anders, *How Capitalism Was Built*, Ch. 1 Communism
 Thornton, Judith. *Marxian Economic Theory* (web);
 Thornton, Judith. *Stalin's Development Strategy* (web)
 Thornton, Judith, "Administrative Allocation and Rationing," (web)
 Thornton, Judith, "Introduction to Input-Output," (web)

2. The Planned Economy in Practice: The Firm and Household; Growth and Productivity

Thornton, Judith, "Russian Collectivization" (web)
 Thornton, Judith, "Linear Programming," (web)

3. Reform Strategies: Liberalization, Privatization, Stabilization

Aslund, Anders, Ch. 2, 3, 4, 5, 6
 Thornton, Judith, "Risk and Uncertainty," (web)
Optional Reference:
 Perloff, Jeffrey *Microeconomics*, Ch. 17: Uncertainty

Hour Test 1

II Asian Transition and Growth; China and North Korea

4. China in the Socialist Era

Naughton, Barry, Summary Notes on the Web, Socialism and Early Reform

5. Chinese Transition Strategy

Naughton, Barry, Early Reform in China (notes on web)
 Naughton, Barry, Structural Change in China notes on web)
 Lardy, Nicholas, Markets over Mao (Overview, Chapter 1)

6. Reform of State-Owned Enterprises

Lardy, Nicholas Ch. 2 Reform of SOEs

7. Rise of the Private Sector

Lardy Nicholas, Ch. 3 Rise of Private Sector

Hour Test 2

8. Macroeconomics and Finance

Lardy, Nicholas, Notes on China and Global Rebalancing
 Lardy, Nicholas, Markets over Mao, Chapter 4 "Implementing a Reform Agenda"

9. North Korea Today

Lanoka, Andrei. *The Real North Korea*: Ch. 1 North Korean History
 Lanoka, Ch. 2, and 3, Crisis and Response.
 Lankov, Ch. 4, 5, Survival Diplomacy, the Rise of the Informal Economy

10. Lessons from Transition

North and Weingarten, "Notes on Lessons "

Hour Test 3 Final Essay due (March 8)

Optional Sources:

World Bank, Doing Business. <http://www.doingbusiness.org/>
 World Bank: The Business Environment and Enterprise Performance Survey (BEEPS)
 Permanent URL: <http://go.worldbank.org/L0Q3E6RKS0>

Life in Transition at <http://www.ebrd.com/pages/research/publications/special/transitionII.shtml>
 World Bank Enterprise Surveys; 120,000 firms in 130 countries <http://www.enterprisesurveys.org/>
 University of North Carolina Population Center, China Health and Nutrition Survey:
<http://www.cpc.unc.edu/projects/china/index.html?searchterm=China> data)
 Development Data NYU, <http://devecondata.blogspot.com/search/label/China>
 World Bank. Doing Business <http://www.doingbusiness.org/>
<http://www.doingbusiness.org/Documents/CountryProfiles/CHN.pdf>
 Integrated Public Use Microdata Series, International
 IPUMS, University of Minnesota <https://international.ipums.org/international/>
 University of Michigan, China Online (may access through UW web)
 National Bureau of Statistics of China (www.stats.gov.cn/english/)

Schedule and Readings	
Monday,	Wednesday
	4-Jan
	Institutions and Limited Access Orders
9-Jan	11-Jan
Marxism and the Centrally Planned Economy	Central Planning, Input-Output
16-Jan	18-Jan
Firms and Linear Programming	Transition: Liberalization, Stabilization
23-Jan	25-Jan
Privatization, Welfare	Hour Test 1
30-Jan	1-Feb
5. Growth and Welfare in Eurasia	China in the Socialist Reform and Early Transition
6-Feb	8-Feb
Chinese Transition	Chinese Growth and Welfare
13-Feb	15-Feb
Chinese Trade and Finance	Hour Test 2
20-Feb	22-Feb
China Today	North Korea History
27-Feb	1-Mar
North Korea Crisis	North Korea Today
6-Mar	8-Mar
Lessons from Transition	HT 3 final essays due