

Econ 495_autumn 2015.

Judith Thornton

Class: TTh 1:30-3:20 Gould 322,

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<https://catalyst.uw.edu/workspace/thornj/41747/297540>

Economies in Transition

Introduction

The study of Economies in Transition investigates the relationship between economic institutions and economic performance by surveying the processes of institutional change 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? We use this term to characterize 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 arrangements 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 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 writing and in presentation of analytical case studies to an audience of social scientists.

2. Problem-Solving Goals

Apply microeconomic theory to an understanding of the role of institutions in a variety of 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 strategic 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 the 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 that will receive constructive criticism on its analysis, rigor and substance.

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 economy.

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: Transformation of Central and Eastern Europe, Russia and Central Asia. Cambridge University Press.

Naughton, Barry. 2007 The Chinese Economy: Transitions and Growth. MIT Press.

Lankov, Andrei. 2015. The Real North Korea: Life and Politics in a Stalinist State. Oxford University Press. (Read only Chapters 1 through 5)

Optional References

European Bank for Reconstruction and Development. Transition Report 2014; Innovation and Productivity in Transition

(<http://www.ebrd.com/pages/research/publications/flagships/transition.shtml>)

(Free on-line)

Thornton lecture notes: you will find discussions of economic issues for many of the individual chapters, below. There are also lecture notes and practice problems. (See <https://catalyst.uw.edu/workspace/thornj/41747/297540> for class materials.

Optional References:

Perloff, Jeffrey *Microeconomics* (any edition). We assume the ability to apply microeconomic tools. Students who are unsure of their ability to use microeconomic tools should review the basics in any edition of Perloff (suggested materials, below.)

Reading List**Introduction: Institutional Change and Property Rights in Europe**

Limited Access Orders: Notes from North and Weingast, [In the Shadow of Violence](#) (web)

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

I Socialism in Eurasia**1. The Rise and Decline of Communism; Socialist Economies and Central Planning**

Aslund, Anders. *How Capitalism Was Built*. Introduction, Ch 1 Communism and its Demise

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)

Practice problems in Input-output; Practice problems on Rationing

Optional References

Perloff, Applying Demand and Supply, Ch 4

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

Thornton, Judith, "Russian Collectivization" (web)

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

Practice problems in linear programming

Optional Reference:

Perloff, Chapter 6.4 to 6.6: Long-run Production

3. Reform Strategies: Liberalization, Privatization, Stabilization

Aslund, Anders. *How Capitalism Was Built*. Ch. 2, Radical Reform vs. Gradualism,;

4. From Slump to Recovery

Aslund, Ch. 3, Output Slump and Recovery; Ch. 5, Hyperinflation

5. Liberalization

Aslund, Ch. 4, Liberalization

Thornton, Judith, "Risk and Uncertainty, (web)

Optional Reference:

Perloff, Jeffrey *Microeconomics*, Chapter 9: Applying the Competitive Model ; Ch 17: Uncertainty

6. Privatization and Welfare

Aslund, Ch. 6 and 10, Privatization; and Ch 7, Welfare

7. Evaluation of European Transition Today

Aslund, Ch 9, Crime and Law, Ch 10, The European Union; Ch. 11 Global Financial Crisis

Optional References:

Review growth indicators for transition economics at **EBRD Transition Report 2014; Innovation and Productivity**

(<http://www.ebrd.com/pages/research/publications/flagships/transition.shtml>)

Practice problems on growth accounting

Hour Test 1 (October 27)

II Asian Transition and Growth; China and North Korea

8. China in the Socialist Era

Naughton, Barry *The Chinese Economy*, Ch 2 and Ch 3 The Socialist Era

Naughton, Ch. 5 and 10, Urban-Rural Divide

9. Chinese Transition Strategy

Naughton, Ch 4 Market Transition: Strategy and Process, Ch 6, Growth

10. Labor and Welfare

Naughton, Ch. 7, 8, 9.

11. Trade, Investment, Technology

Naughton, Ch. 15, 16, 17

12. Macroeconomics and Finance

Naughton, Ch. 18, 19.

Hour Test 2 (November 19)

13. North Korea Today

Lankov, Andrei. 2015. *The Real North Korea: Life and Politics in a Stalinist State*. Oxford University Press. (Read only Parts 1 through 4)

Lankov, Ch 1, 2, and 3, Origins of North Korea, Crisis and Response.

Lankov, Ch 4, 5, Successes and Challenges

14. Lessons from Transition

Review EBRD Reports, World Bank, National Bureau of Statistics of China

Hour Test 3 Final Essay Due (December 10)

Schedule and Readings	
Tuesday	Thursday
	1-Oct Limited Access Orders Institutional Change and Property Rights in Europe
6-Oct Marxian Economics Administrative Allocation Input-Output	8-Oct Socialist Firms and Farms Collectivization Linear Programming
13-Oct Demand for Reform Shock Therapy vs. Gradualism	15-Oct From Slump to Recovery Hyperinflation, uncertainty (Aslund Ch 5)
20-Oct Liberalization Aslund Ch 4	22-Oct Privatization and Welfare Aslund Ch 6, 7
27-Oct Hour Test 1	29-Oct Evaluation of European Transition Today Aslund, Ch 9, 10,11
3-Nov China's Socialist Economy Naughton: Early Chinese Economy (Ch 2) Naughton: The Socialist Era (Ch 3)	5-Nov Naughton: Urban-Rural Divide (Ch 5, Ch 10)
10-Nov Naughton: Transition Strategy and Growth (Ch 4, 6)	12-Nov Naughton: Labor and Welfare (Ch 7, 8, 9)
17-Nov Naughton: Trade, Investment, Technology (Ch 15, 16, 17) Macroeconomics, Finance (Ch 18, 19)	19-Nov Hour Test 2
24-Nov North Korea Today Lankov (Ch 1)	Thanksgiving
1-Dec North Korea Crisis and Response Lankov(Ch 2, 3)	3-Dec North Korea: Successes and Challenges Lankov (Ch 4)
8-Dec North Korea Today (Ch 5) Lessons from Transition (EBRD Transition Reports)	10-Dec Hour Test 3 Final Essay Due

Additional Data Sources:
EBRD Transition Report data

<http://www.ebrd.com/pages/research/publications/flagships/transition.shtml>

World Bank Countries

www.worldbank.org/WBSITE/external/countries/ECAEXT/Estoniaextrn/

Russian Economic Reports

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/RUSSIANFEDERATIONEXTN/0,,contentMDK:20888536~menuPK:2445695~pagePK:1497618~piPK:217854~theSitePK:305600,00.html>

Doing Business. World Bank. <http://www.doingbusiness.org/>

World Bank: The Business Environment and Enterprise Performance Survey (BEEPS)

<http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/ECAEXT/0,,contentMDK:22587588~pagePK:146736~piPK:146830~theSitePK:258599,00.html>

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

(Example: China Health and Nutrition Survey:

[http://www.cpc.unc.edu/projects/china/index.html/?searchterm=China data](http://www.cpc.unc.edu/projects/china/index.html/?searchterm=China%20data))

Development Data NYU

<http://devecondata.blogspot.com/search/label/China>

World Bank. Doing Business (Example: national and subnational surveys; time and resource costs of 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/)