

Econ 495 au 2018

Judith Thornton; Class: MW 12:30-2:20; Savery 131

Office hours: 10:30-12:00 MW and by appointment; Office: Savery 332; notes on Canvas

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 chose large-scale economic reforms. Countries undertaking rapid institutional change include 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 establishing market-supporting governmental and legal institutions to increase the roles of private ownership, investment, entrepreneurship, and market competition. Transitional economies display 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 to manage production. Today, many of these Soviet-style economic systems have introduced economic reform programs to put in place institutions underpinning what their policy-makers call a "normal economy." By "normal", they mean a system in which independent individuals 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 almost thirty years, there is great variation in the institutions in these countries and in their economic performance. What can we learn from this mammoth social experiment? How did some reforming economies embark on a path of rising growth and welfare while others suffer stagnation and poverty? To understand the role of institutions in economic performance, we look at the incentive in administrative and market economies 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 changes impact incentives, productivity, poverty, welfare, and sources of economic growth. We explore the sources of institutional change as well, asking how gaps between potential and actual economic performance influence 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, and who gets it.

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

2. Problem-Solving Goals

Apply microeconomic theory to understand 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 strategic actions of more than one player.

Analyze risk to understand how individuals respond to uncertain economic outcomes.

Understand how market structure and regulation influence the allocation of resources.

Course Requirements:

Class lectures and discussions follow the syllabus, below. Grades are based on brief quizzes, and 3 hour tests. Hour tests are divided between solution of microeconomic problems and a written essay on applied material. The final essay is cumulative. It addresses the role of institutions that impact growth and productivity. It compares 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.

Reading List

Byung-Yeon Kim, *Unveiling the North Korean Economy*, 2017. Cambridge University Press

Anders Aslund, *The Great Rebirth*. 2014. Peterson Institute.

Yasheng Huang, *Capitalism with Chinese Characteristics*, 2010, Cambridge University Press.

Thornton discussion notes. (Posted on canvas.)

1 Introduction: Institutional Change and Property Rights

Robert Hall and Charles Jones, Why Do Some Countries Produce So Much More Output Per Worker Than Others? 1999. *Quarterly Journal of Economics*, Vol. 114, No. 1 (Feb., 1999), pp. 83-116.

Thornton, Transition? (web)

1.1 The Rise and Decline of Communism; Socialist Economies and Central Planning

Thornton, Judith. Marxian Economic Theory (web);

Thornton, Judith. Stalin's Development Strategy" (web)

Judith Thornton, Administrative Allocation and Rationing, (web)

Judith Thornton, Introduction to Input-Output, (web)

Judith Thornton, Firm and Household; Introduction to Linear Programming, (web)

1.2 European Reform Strategies: Liberalization, Privatization, Stabilization

Anders Aslund, *The Great Rebirth*, Introduction; Early Reformers, Ch. 1-4 (Choose one.)

Anders Aslund, *The Great Rebirth*, Late Reformers and Reversals, Ch 5-9 (Choose one.)

Quiz 1 (Wednesday, October 17)

Anders Aslund, *The Great Rebirth*, Ch 10 (Djankov), Ch 11 (Wyplosz) After Twenty-Five Years, Ch 14 (Treisman) Political Economy of Reform

Hour Test 1 (Wednesday, October 24)

2. Asian Transition and Growth; China

2.1 China in the Socialist Era

Naughton, Barry, *Socialism and Early Reform*, (Notes on the Web)

2.2 Rural and Urban Reform in China

Yasheng Huang, *Capitalism with Chinese Characteristics*, Ch. 1: How Capitalist is China? Ch 2: The Entrepreneurial Decade, 1980s, Ch. 3: Great Reversal. Ch. 4: Shanghai, Ch. 5: China Today

Hour Test 2 (Wednesday, November 14)

3 North Korea

3.1 Byung-Yeon Kim, *Unveiling the North Korean Economy*, Ch 1: North Korea's Planned Economy

Ch. 2: North Korean Socialist Economy

3.2 Crisis in China

Byung-Yeon Kim, *Unveiling the North Korean Economy*, Ch 2.3 Households, 2.4 Firms, 2.5 Corruption

3.2 Transition of the North Korean Economy

Byung-Yeon Kim, *Unveiling the North Korean Economy*, Ch. 3 Transition of North Korea

Hour Test 3 (Wednesday, Dec 5)

Optional Sources

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

Permanent URL: <http://go.worldbank.org/L0Q3E6RKS0>

Life in Transition: <http://www.ebrd.com/pages/research/publications/special/transitionII.shtml>

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 (through UW web) National Bureau of Statistics of China

(www.stats.gov.cn/english/)

| Schedule and Readings | |
|---|---|
| Monday | Wednesday |
| | 26-Sep Hall- Jones; Transition; Marx |
| 1-Oct Kim: Ch 2, The Socialist Economy | 3-Oct Central Planning; Input-Output |
| 8-Oct Firms and Linear Programming | 10-Oct Aslund: Introduction; Ch 10, (Djankov |
| 15-Oct Aslund: Early Reformers Choose one: Ch 1-4 | 17-Oct Aslund: Russia plus Choose one: Ch. 6-9 Quiz 1 |
| 22-Oct Aslund: Ch 14, Treisman, Political Economy of Change | 24-Oct Hour Test 1 |
| 29-Oct China in Socialist Era Huang Ch 1 Plan and Market | 31-Oct China Early Transition Huang Ch 2 1980s |
| 5-Nov Huang Ch 3 1990s and Shanghai | 7-Nov Huang Ch 4 China Today |
| 12-Nov Huang Ch 5: Chinese Reform | 14-Nov Hour Test 2 |
| 19-Nov North Korean History | 21-Nov Kim Ch 2 North Korean Economy |
| 26--Nov North Korea Crisis | 28-Nov North Korean Reform |
| 3-Dec Lessons from Transition | 5-Dec Hour Test 3 |