

Econ 120: Socialist Economies in Transition

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Spring 2005
Lecture: MW 9-10:50
Room 200-203
Office Hours:
Tuesday 1:15-3:15pm

Overview

The transition from planned to market economies in Central and Eastern Europe and China has fundamentally altered the lives of more than 1.7 billion people. Econ 120 analyzes the challenges transition countries faced at the onset, the reform policies countries have chosen and their 'success' since the fall of the Berlin Wall. We will study such phenomena as the 'big bang', corruption in Russia, Chinese dual-track privatization, the phenomenal success of Yukos Oil and the evolution of income inequality.

The course uses basic microeconomic tools and analytical thinking. It is designed for undergraduate economics majors and students from other disciplines with an interest in transition economics and policy. Basic microeconomics is a prerequisite.

Each lecture is planned to have two parts: we will first study an important economic mechanism or simple model from the textbook. In the second part, we will apply the concepts and model to a particular country or case study. The empirical applications will give you a real-world flavor of how transition worked (or did not work) in practice as well as help you understand the theoretical concepts and their limitations. I expect you to actively participate in the discussion of the empirical cases and ask a lot of questions.

While the course is on transition countries, many of the concepts and issues are highly relevant for economic development in general. Learning why reforms have largely succeeded in China, but not in Russia also teaches us a lot about the institutional foundations of advanced market economies such as the United States.

Course Readings

The textbook required for the course is: Gerard Roland, *Transition Economics: Politics, Markets and Firms*, The MIT Press, 2000. In addition, I prepared a Course Reader, which contains the empirical cases to be discussed in class or the TA section. Both the textbook and the course reader can be purchased from the Campus bookstore.

I might also post a few additional required readings, such as newspaper articles related to the course, on the course website.

Course Website

The course website is at: <http://coursework.stanford.edu>

The website will have the most up-to-date information about our schedule. I will use announcements to remind you of special dates. The website will also contain materials such as problem sets, solutions to problem sets and additional readings.

In order to use CourseWork you need to register for it by going through the steps on the CourseWork homepage. If you have registered for CourseWork before, you do not need to do it again. To access the course website, you need to login. Once you are logged in, you may or may not see Econ 120 listed as one of your courses. If you have not registered for the course through Access, you can manually add Econ 120 to your course list. This is however no substitute for registering for the class. To officially register, you must go through Axess.

Office Hours

My Office hours are Tuesday 1:15-3:15pm in my Office in #227 Landau Economics Building. If you cannot make it, you can also see me after class.

Sections

The Section is an important part of the course and you are expected to attend it. The Section will be used to review some of the lecture material and discuss parts of the problem sets or midterm. This is also an excellent time to ask any remaining questions you might have.

The TA for the class is Andrew Nigrinis (nigrinis@stanford.edu).

TA section: Friday TBA

TA Office hours: TBA

Grading Policy

There will be a Midterm and a Final Exam. Also, there will be four Problem Sets, of which the best three count towards your grade. The Problem Sets will be posted on CourseWork and you will have one week to solve them. Problem Sets can be handed in in class or dropped off in the Econ 120 Mailbox in Room 136 on the first floor of the Economics Building by 4pm of the due date. Late homeworks will not be accepted.

The weights to determine your grade will be as follows:

Midterm	30%
Final	45%
Problem Sets	15%
Participation	10%

Your total weighted point score is the primary determinant of the letter grade you receive. There is no set curve for grading. If every student in the class deserves a good grade, I will give only good grades. The best way to succeed in this class is to work hard on the homework assignments and to prepare well for the exams. In studying for the exams, your first priority should be the lecture and lecture notes. Your second priority are the required readings in the textbook and course reader as well as those posted on the course website.

Policies

The date of the midterm and final are fixed and no exemptions to this rule will be granted.

Your problem set with the lowest score will be dropped from your grade calculation. This gives you the chance to skip one at your discretion without being penalized.

The Economics Department has a common set of course management policies. These policies govern such matters as late work, missed examinations, and re-grading. If you are not familiar with these policies, make sure you read them carefully and familiarize yourself with them. They can be found at: <http://www-econ.stanford.edu/academics/courses.html>

Students with Documented Disabilities

The Provost has asked instructors to include the following paragraph in the syllabus: Students who have a physical, psychological or learning disability that may necessitate an academic accommodation or the use of auxiliary aids and services in a class must initiate the request with the Student Disability Resource Center (SDRC). The SDRC will evaluate the request along with the required documentation, recommend appropriate accommodations, and prepare a verification letter dated in the current academic term in which the request is being made. Please contact the SDRC as soon as possible; timely notice is needed to arrange for appropriate accommodations. The SDRC is located at 563 Salvatierra Walk (Phone 723-1066).

Schedule

The following schedule is a rough outline of the topics, the associated readings, and the dates I intend to cover them. The list of topics might be revised over the course of the quarter as I may not be able to cover all the material. Please refer to the course website for the latest syllabus and changes in the topics and readings.

Readings marked with (*) are required and refer to the textbook or are contained in the course package. Other readings are optional. Most of them can be downloaded from Jstor.

Week 1. Introduction (March 30)

(*) Roland, Introduction and Ch.1

J. Svejnar (2002), "Transition Economies: Performance and Challenges," *Journal of Economic Perspectives*, 16,1: 3-28.

Week 2. Macroeconomics of Transition

A. Legacy of Socialism (April 4)

(*) J. Kornai (1992), *Socialist System*. Ch. 5-8, 10, 11

(*) R. Ericson (1991), "The Classical Soviet-Type Economy: Nature of the System and Implications for Reform," *Journal of Economic Perspectives*, 5(4), 11-27

J. Kornai (2000), "What the Change of System from Socialism to Capitalism Does and Does Not Mean," *Journal of Economic Perspectives*, 14(1), 27-42

B. Output Collapse and Recovery (April 6)

(*) Roland, Ch 7

(*) N.F. Campos and F. Coricelli (2002), Growth in Transition: What We Know, What We Don't, and What We Should," *Journal of Economic Literature*, 40, 3, 793-810

Week 3+4. Political Economy of Transition

A. Reform Strategies: Big Bang or Gradualism (April 11)

(*) Roland, Ch.3

(*) G. Akerlof, A.K. Rose, J.L. Yellen and H. Hessenius (1991), "East Germany in from the Cold: Economic Aftermath of Currency Union," *Brookings Paper on Economic Activity*,1, 1-87

B. Price Liberalization: Partial or Dual? (April 13)

(*) Roland Ch. 6

(*) W. Li (1997), "The Impact of Economic Reform on the Performance of Chinese State Enterprises, 1980-89," *Journal of Political Economy*, 105(5), 1080-1106

C. Changing Role of Government (April 18)

(*) A. Shleifer (1997), "Government in Transition," *European Economic Review*, 41, 385-410

(*) A. Greif and E. Kandel (1995), "Contract Enforcement Institutions: Historical Perspective and Current Status in Russia," in: *Economic Transition in Eastern Europe and Russia*, edited by E. P. Lazear, Hoover Institution Press.

Roland Ch. 11

D. Shadow Economy and Corruption (April 20)

(*) Roland, Ch. 8

(*) S. Johnson, D. Kaufmann, J. McMillan and C. Woodruff (2000), "Why Do Firms Hide? Bribes and Unofficial Activity after Communism," *Journal of Public Economics*, 76(3), 495-520

World Bank (2000), *Anticorruption in Transition. A Contribution to the Policy Debate*.
Washington

Week 5+6. Industrial Organization of Transition

A. Privatization and Restructuring (April 25 and April 27)

(*) Roland, Ch. 4, 10

(*) R. Frydman, C. Gray, M. Hessel and A. Rapaczynski (1999), "When Does Privatization Work? The Impact of Private Ownership on Corporate Performance in the Transition Economies," *Quarterly Journal of Economics*, 114(4), 1153-91

(*) N. Barberis, M. Boycko, A. Shleifer, N. Tsukanova (1996), "How Does Privatization Work? Evidence from the Russian Shops", *Journal of Political Economy*, 104(3), 764-90

B. Role of Entrepreneurs (May 2)

(*) Roland, Ch.9

(*) J. McMillan and C. Woodruff (2002), "The Central Role of Entrepreneurs in Transition Economies," *Journal of Economic Perspectives*, 16, 3, 153-70

C. Case Study: Russia and Yukos (May 4)

(*) B. Black, R. Kraakman and A. Tarrasova (2000), "Russian Privatization and Corporate Governance: What Went Wrong?," *Stanford Law Review*, 52, 1731-1808

(*) D. Yousef-Martinek, R. Minder and R. Rabimov (2003), "Yukos Oil: A Corporate Governance Success Story," *Chazen Web Journal of International Business*, 2003

Midterm Exam: May 9 In Class

Week 7-9: Labor Economics of Transition

A. Optimal Speed of Labor Reallocation (May 11)

(*) Roland, Ch. 5.1

(*) S. Juradja and K. Terrell (2001), "On the Speed of Reallocation in Transition: Micro Evidence from the Czech Republic and Estonia", working paper

T. Boeri and K. Terrell (2002), "Institutional Determinants of Labor Reallocation in Transition",
Journal of Economic Perspectives, 16,1: 51-76

Movie in Class: "Goodbye Lenin" (May 16)

B. Changes in the Wage Structure and Employment (May 18)

(*) E. Brainerd (1998), "Winners and Losers in Russia's Economic Transition," *American Economic Review*, 88, 1094-1116

(*) D. Munich, K. Terrell and J. Svejnar (2001), "Returns to Human Capital under the Communist Wage Grid and during the Transition to a Market Economy", working paper, forthcoming in *Review of Economics and Statistics*, 87(1)

C. Income Inequality (May 23)

(*) X. Meng, R. Gregory and Y. Wang (2005), "Poverty, Inequality and Growth in Urban China, 1986-2000", working paper

J. Fleming and J. Micklewright (2000), "Income Distribution, Economic Systems and Transition," in: *Handbook of Income Distribution*, edited by A.B. Atkinson and F. Bourguignon, Elsevier Science

D. Social Policies and Government Transfers (May 25)

(*) Roland, Ch. 3

(*) M. Keane and E. Prasad (2002): "Inequality, Transfers and Growth: New Evidence from the Economic Transition in Poland," *Review of Economics and Statistics*, 84(2), 324-41

M. Ravallion and M. Lokshin (2000), "Who Wants to Redistribute? The Tunnel Effect in 1990s Russia," *Journal of Public Economics*, 76: 87-104

Memorial Day (May 30) No Classes

Week 10. Lessons and Challenges Ahead (June 1)

(*) J.E. Stiglitz (1999), "Whither Reform? Ten Years of Transition," World Bank Annual Conference on Development Economics, Keynote Address

(*) M. Dabrowski, S. Gomulka and J. Rostowski (2000), "Whence Reform? A Critique of the Stiglitz Perspective," working paper, forthcoming in *Policy Reform*

Roland, Ch. 13