Economics of Transition and beyond

<table>
<thead>
<tr>
<th>Lecturers:</th>
<th>Vilém Semerák and Krešimir Žigić</th>
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<tbody>
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<td>Office hours:</td>
<td>Vilem: by appointment, office 125 (ext. 199), Kreso: by appointment, office 306 (ext. 245)</td>
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<td>Course website:</td>
<td><a href="http://upces.jingjixue.net/">http://upces.jingjixue.net/</a></td>
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Notice:
This syllabus is preliminary and the scheduling of classes as well as reading may be updated. We are also trying to organize a visit to the museum of the Czech National Bank and possibly some other extra activities.

Course description: The course deals with main economic issues related to transition from central planning in Soviet bloc, former Yugoslavia, and China to a new economic system (market economy or state capitalism). Compared to other similar courses, this course attempts to be less descriptive and more analytical; we will use economic models and results of econometric studies where appropriate. We will also try to apply an experimental approach in order to provide the students with direct experience with asymmetric information markets and soft-budget constraints. The course is trying to focus on aspects of transition which can be used to shed light on more permanent (indeed even future) problems of economics systems and which can help reduce future exposure to similar errors.

The first part of the course deals with the theory of comparative economics systems reviewing the theory of capitalism, and analyzing functioning of central planning. It also deals with the motivation, design and implementation of non-market systems (central planning and other arrangements such as Yugoslavian self-managed firms, or current Chinese economy). This includes the main theoretical concepts useful for understanding the problems of non-market economies (e.g. soft budget constraints).

The second part of the course explains the design, implementation and logic of reforms and of main transition-related changes. We will also deal with basic theoretical models that attempt to explain the nature of problems experienced by transition economies.

The final part will focus on selected issues related to institutional weaknesses of post-transition economies both at micro level (corporate governance) and macro level (corruption and state capture).

After studying this course, students should be able to:
1. Understand the key differences between economic systems of “non-market” economies and various models of market economies.
2. Explain the logic of main traps and “poison pills” that may cause problems to transition countries (or emerging countries in general) during their attempts to speed up economic growth and normalize their economies.
3. Understand the differences between countries of the former Soviet bloc and China both in 1980s and at present, and learn more about Chinese economic reforms and their internal logic.
4. Understand the logic and importance of motivation and corporate governance, and of the role of efficient financial markets in a market economy.
5. Understand the importance of information asymmetries and deficiencies in institutional design in models analyzing transition economies (and in actual performance of the economies).
Grading policy
Class participation/attendance: 10 %
Paper: 25 %
Mid-term exam: 25 %
Final exam: 40 %

Rules for the paper:
Topics must be selected (and discussed with the lecturers) by November 1st.
Papers must be submitted by December 14th, papers can be submitted by email.
Standard forms of citations are expected, any widely used form of citations is fine.
Any attempts at plagiarism will be (i) announced to your home universities, (ii) “rewarded” by F.
Expected length of the paper: 5-10 pages / 2500-3000 words

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<tr>
<th>Letter Grade</th>
<th>Percentage</th>
<th>Description</th>
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<tr>
<td>A</td>
<td>93-100</td>
<td>Outstanding work</td>
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<tr>
<td>A-</td>
<td>90-92</td>
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<tr>
<td>B+</td>
<td>87-89</td>
<td>Good work</td>
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<tr>
<td>B</td>
<td>83-86</td>
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<tr>
<td>B-</td>
<td>80-82</td>
<td>Acceptable Work</td>
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<td>C+</td>
<td>77-79</td>
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<tr>
<td>C</td>
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<tr>
<td>C-</td>
<td>70-72</td>
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<tr>
<td>D+</td>
<td>67-69</td>
<td>Work that is significantly below average</td>
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<td>D</td>
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<tr>
<td>D-</td>
<td>60-62</td>
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<tr>
<td>F</td>
<td>0-59</td>
<td>Work that does not meet the minimum standards for passing the course</td>
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UPCES Non-Discrimination/Harassment Policy
The UPCES program in Prague promotes a diverse learning environment where the dignity, worth, and differences of each individual are valued and respected. Discrimination and harassment, whether based on a person's race, gender, sexual orientation, color, religion, national origin, age, disability, or other legally protected characteristic, are repugnant and completely inconsistent with our objectives. Retaliation against individuals for raising good faith claims of harassment and/or discrimination is prohibited.

UPCES Diversity Policy
UPCES fully embraces diversity and strives to create a safe and welcoming environment for students from all backgrounds. Prague is a wonderfully diverse community and UPCES is no different. All students should feel at home while studying abroad and UPCES will do its utmost to make sure that becomes a reality. Although unique challenges may arise, we believe that students from all walks of life will encounter wonderful opportunities for enrichment as they explore a new culture while studying abroad.
Schedule of classes

Week 1
Orientation Week
Lectures on basic features of Czech economy and life during Socialism and transition.

Week 2
Why is transition still relevant?

Overview of course, data on Czech economy and Central Europe
Outline of the course, brief outline of political and economic history of the region, importance of transition and introduction to comparative economic system.
Rosser & Rosser (2004): chapter 1

Gregory, Stuart (1999): chapter 2, 3
Roland (2000), chapter 1 and 2
Stiglitz (2018) chapter 11

Week 3
How Do We Compare Economies?

Attributes of an economic system
Rosser & Rosser (2004): chapter 1
Gregory, Stuart (1999): chapter 2

Rosser & Rosser (2004): chapter 3
Gregory, Stuart (1999): chapter 6

Week 4
The Theory of Market Capitalism

Invisible hand, perfectly competitive market and market failures
Rosser & Rosser (2004): chapter 2
Gregory, Stuart (1999): chapter 2 and 5
Solimano (2014): Part 2

Macroeconomic instability and income distribution
Rosser & Rosser (2004): chapter 2
Gregory, Stuart (1999): chapter 2 and 5
Solimano (2014): Part 1 and 2

Week 5
Marxism, Socialism and motivation for central planning.

Intellectual background of the non-market economic models
Rosser & Rosser (2004): chapter 3
Gregory, Stuart (1999): chapter 6

How was central planning supposed to work?
Gregory, Stuart (1999): chapter 6
Week 6
Central planning: design of the system

State capitalism

Input-output model – and its modern use (Vilém)

Week 7
Midterm week

Command and control, efficiency and motivation in different systems

Midterm Exam.

Week 8
Design of reforms, policy constraints

Roland (2000) – chapter 2
Aslund (2013) – chapter 2

Deregulation and Liberalization.
Macroeconomic development in early transition. Trade, Exchange Rates during early transition.
Roland (2000) – chapter 6

Week 9
Real Transition: macroeconomic issues

Economics of transformation recessions.
Roland (2000) – chapter 7

GDR as a special case of transition with idiosyncratic macroeconomic shock
Lessons for North Korea?
Aslund (2013), chapters 3-4

Week 10
Economics and Politics of Privatization

Privatization – role, logic and methods. State-owned enterprises in the current world.
Aslund (2013), chapter 6

Mass privatizations – methods and problems.
The special Case of Czech Voucher Privatization.
Week 11
Privatization, Financial markets, Phishers and Phools

Empirical studies of effects of privatization on performance.

Financial markets. Banking crises in transition economies

Week 12
Corruption, State Capture, Oligarchs

Corruption and “unofficial economy”. Political constraints to the efficiency and stability of the new economic models.
A. Aslund: Comparative Oligarchy: Russia, Ukraine and the United States, 2005

Chinese economy: specific financial features of Chinese state capitalism
Hahm Chaibong: China’s Future is South Korea’s Present – Why Liberalization Will Follow Stagnation. Foreign Affairs, September 2018

Week 13
Final Exam Week

Consultations for final exam and/or final papers: December 10th
Final exam: Thursday, December 13th

Reading

Books:
A. Aslund (2013): How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, the Caucasus, and Central Asia. Cambridge University Press; 2 edition

Books – alternative options:
Additional reading (not compulsory for the exam).

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.

Papers and articles:
A. Aslund: Comparative Oligarchy: Russia, Ukraine and the United States, 2005
Dabrowski, Gomulka, Rostowski: Whence Reform? Critique of the Stiglitz Perspective

Selected topical articles from the Economist/FT/other periodicals will be recommended during the term.