

Freie Universität Berlin
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 Winter Semester 2016/17

Transition Economics

Seminar: Mondays, 10-12, Garystr. 55, OEI, Hörsaal A.

Lecture: Tuesdays, 12-14, Garystr. 55, Room 101.

Office Hours: Tuesdays, 14-16, Garystr. 55, OEI, Room 101A.

Modules:

Master of Science in Economics: *Economic Systems*

Master of Arts in East European Studies: *Disziplinäre Grundlagen A+B*

This is a course on transition economics with reference to Eastern Europe. The first part of the course will focus on the economics of socialism in order to provide the students with a solid background on the analytical and structural determinants of communist economic organization. The second part of the course will concentrate in political economics of post-socialist transition. Lectures will cover both rigorous economic concepts and policy debates. Students are expected to become conversant with the analytical tools and theoretical discussions presented in the literature. Attendance in all sessions is required. Students are expected to make a 20-minute presentation in a week of their choice. The course grade is defined by a final exam in the end of the semester.

Required Textbooks:

Seminar

1. Kornai Janos. *The Socialist System: The Political Economy of Communism*. Princeton University Press 1992.
2. Roland Gérard. *Transition and Economics: Politics, Markets and Firms*. MIT Press 2004.

Lecture

1. Tadelis Steven. *Game Theory: An Introduction*, Princeton University Press, 2013.
2. Osborne Martin J. *An Introduction to Game Theory*, Oxford University Press, 2004.

Grade:

Final Exam: Economics Masters Students.

Research Paper: East European Studies/Political Science/IR Masters Students.

Week 1: Socialism

Seminar: Introduction to the Socialist Economic System

- Kornai, Ch. 1-8.

Lecture: Static Games of Complete Information I

- Tadelis, Ch. 3.
- Osborne, Ch. 11.

Week 2: Shortage

Seminar: Introduction to the Socialist Economic System

- Kornai, Ch. 9-12.

Lecture: Static Games of Complete Information II

- Tadelis, Ch. 4.
- Osborne, Ch. 12.

Week 3: Central Planning & Moral Hazard

Seminar: The Soviet System of Incentives

- Weitzman Martin L. "The New Soviet Incentive Model", *Bell Journal of Economics*, Vol. 7, No. 1 (Spring 1976): 251-257.
- Murrell Peter, "The Performance of Multiperiod Managerial Incentive Schemes", *American Economic Review*, Vol. 69, No. 5 (December 1979): 934-940.
- Bonin John P. and Alan J. Marcus, "Information, Motivation and Control in Decentralized Planning: The Case of Discretionary Managerial Behavior", *Journal of Comparative Economics*, Vol. 3, No. 3 (September 1979): 235-253.

Lecture: Static Games of Complete Information III

- Tadelis, Ch. 5.
- Osborne, Ch. 2 and 3.

Week 4: Review of Central Planning

Seminar: Consumption and Distribution

- Kornai, Ch. 13 and 15.

Lecture: Static Games of Complete Information IV

- Tadelis, Ch. 6.
- Osborne, Ch. 4.

Week 5: Introduction to Transition

Seminar: Stylized Facts & Reform

- Roland, Ch. 1 (with slides).
- Roland, Ch. 2 (with slides).
- Roland G. "The Political Economy of Transition". *Journal of Economic Perspectives* Vol. 16(1): 29-50.

Lecture: Dynamic Games of Complete Information I

- Tadelis, Ch. 7.
- Osborne, Ch. 5.

Week 6: Economics of Reform

Seminar: Comparative Reforms

- Roland, Ch. 3 (with slides).

- Qian Y. and C. Xu, (1993). "Why China's Economic Reforms Differ: The M-Form Hierarchy and Entry/Expansion of the Non-State Sector" *Economics of Transition* 1: 135-170.
- Roland, Ch. 4.
- Frydman Roman, Cheryl Gray, Marek Hessel and Andrej Rapaczynski (1999), "When Does Privatization Work? The Impact of Private Ownership on Corporate Performance in the Transition Economies", *Quarterly Journal of Economics* 114 (4): 1153-1191.
- Bolton, Patrick and Gérard Roland, (1992),"Privatization in Central and Eastern Europe", *Economic Policy*, 15: 276-309.

Lecture: Dynamic Games of Complete Information II

- Tadelis, Ch. 8.
- Osborne, Ch. 6.

Week 7: Liberalization

Seminar: Liberalization, Output Fall & Policy Failures

- Roland, Ch. 5.
- Roland, Ch. 6.
- Roland, Ch. 7.

Lecture: Dynamic Games of Complete Information III

- Tadelis, Ch. 9.
- Osborne, Ch. 7.

Week 8: Government & Institutions

Seminar: Government Collapse, Economic Performance & Legal Systems

- Roland, Ch. 8.
- Pistor K., M. Raiser and S. Gelfer. "Law and Finance in Transitional Economies" *Economics of Transition*, 8 (2): 325-368. 2000.
- Roland Gérard and Thierry Verdier. "Law Enforcement and Transition". *European Economic Review* 47 (2003): 669 - 685.

Lecture: Dynamic Games of Complete Information IV

- Tadelis, Ch. 10.
- Osborne, Ch. 14 and 15.

Week 9: The Soft Budget Constraint

Seminar: Managerial Incentives & Business-Government Relations

- Roland, Ch. 9 and 12.
- Qian Yingyi and Gérard Roland. "Federalism and the Soft Budget Constraint". *American Economic Review*, Vol. 88 (5): 1998.
- Dewatripont M. and E. Maskin. "Credit and Efficiency in Centralized and Decentralized Economies", *Review of Economics and Statistics*, Vol. 62 (4): 541-555, 1998.
- Grigoriadis Theocharis. "Aid Effectiveness and the Soft Budget Constraint: EU Development Aid to the former Soviet Union", *Economics Letters*, Vol. 112, No. 3 (September 2011): 287-289.

Lecture: Dynamic Games of Complete Information V

- Tadelis, Ch. 11.
- Osborne, Ch. 16.

Week 10: Privatization

Seminar: Theory & Applications of Privatization

- Roland, Ch. 10.
- McFaul Michael. "State Power, Institutional Change, and the Politics of Privatization in Russia". *World Politics* Vol. 47, No. 2 (Jan. 1995): 210-243.
- Carlin Wendy, Colin Mayer, Hans-Werner Sinn, and Vittorio Grilli. "Restructuring Enterprises in Eastern Europe", *Economic Policy*, Vol. 7, No. 15, (October 1992): 312-352.

Lecture: Static Games of Incomplete Information I

- Tadelis, Ch. 12.
- Osborne, Ch. 9.

Week 11: Natural Resources

Seminar: Energy Regulation & Institutions

- Tarr David G. and Peter D. Thomson (2004). "The Merits of Dual Pricing of Russian Natural Gas". *The World Economy* 27 (8): 1173-1194.
- Aslund Anders. "Russian Resources: Curse or Rents?" *Eurasian Geography and Economics*, 2005, 46, No. 8: 610-617.
- Grigoriadis, Theocharis and Benno Torgler, "Energy Polarization and Popular Representation: Evidence from the Russian Duma", *Energy Economics*, Vol. 31, No. 2 (March 2009): 322-334.

Lecture: Static Games of Incomplete Information II

- Tadelis, Ch. 13.

Week 12: Bureaucracy & Property Rights

Seminar: Restructuring & State Capacity

- Roland, Ch. 10 and 11.
- McFaul Michael. "State Power, Institutional Change, and the Politics of Privatization in Russia". *World Politics* Vol. 47, No. 2 (Jan. 1995): 210-243.
- Carlin Wendy, Colin Mayer, Hans-Werner Sinn, and Vittorio Grilli. "Restructuring Enterprises in Eastern Europe", *Economic Policy*, Vol. 7, No. 15, (October 1992): 312-352.
- Zhuravskaya Ekaterina V. "Incentives to provide local public goods: Fiscal federalism, Russian style". *Journal of Public Economics* Volume 76, Issue 3, June 2000: 337-368.
- Olson Mancur. "Dictatorship, Democracy and Development". *American Political Science Review*, Vol. 87, No. 3 (Sep., 1993): 567-576.

Lecture: Dynamic Games of Incomplete Information I

- Tadelis, Ch. 15.
- Osborne, Ch. 10a.

Week 13: Imperial Legacies & Long-Term Roots

Seminar: Imperial Origins & Development

- Zhuravskaya Ekaterina and Irena Grosfeld. "Cultural vs. economic legacies of empires: Evidence from the partitions of Poland" *Journal of Comparative Economics*, 43 (1): 55-75, February 2015.
- Desmet Klaus, Ignacio Ortuno-Ortin and Romain Wacziarg. "The political economy of linguistic cleavages". *Journal of Development Economics* 97 (2012): 322-338.
- Spolaore Enrico and Romain Wacziarg. "How deep are the roots of economic development?". *Journal of Economic Literature* 51 (2) (2013): 325-369.
- Grosfeld Irena, Alexander Rodnyachky and Ekaterina Zhuravskaya. "Persistent Anti-Market Culture: A legacy of the Pale of Settlement after the Holocaust". *American Economic Journal: Economic Policy* 5 (3) (August 2013): 189-226.

Lecture: Dynamic Games of Incomplete Information II

- Tadelis, Ch. 16.
- Osborne, Ch. 10b.

Week 14: Iran & the Arab World

Seminar: Economics of the Near East

- Yousef Tarik. "Development, growth and policy reform in the Middle East and North Africa since 1950". *Journal of Economic Perspectives*, Vol. 18 (Summer 2004): 91-115.
- Griffin Peter, Thomas Laursen and James Robertson, "Egypt: Guiding Reform of Energy Subsidies Long-Term", *World Bank Policy Research Working Paper No. 7571*.
- Guillaume Dominique, Roman Zytok and Mohammad Reza Farzin. "Iran: The Chronicles of the Subsidy Reform", *IMF Working Paper 11/167*.

Lecture: Dynamic Games of Incomplete Information III

- Tadelis, Ch. 18.

Week 15: Asia & Latin America

Seminar: Exporting Transition

- Miguel Edward and Gerard Roland. "The long-run impact of bombing Vietnam". *Journal of Development Economics* Vol. 96, No. 1 (September 2011): 1-15.
- LaPorta Rafael and Andrei Shleifer. "Informality & Development", *Journal of Economic Perspectives*, Vol. 28, No. 3 (Summer 2014): 109-126.
- Birdsall Nancy, Nora Lustig and Christian J. Meyer. "The strugglers: the new poor in Latin America?". *World Development* Vol. 60, August 2014: 132-146.

Lecture: Review I