

Economics 380-A01: Economies in Transition

Syllabus: Summer 2011

Classes: MTWR: 9:30 am – 11:45am

Location: Robinson Hall B205

Instructor: Olga Nicoara

Email: onicoara@gmu.edu

Office Hours: After class, or please email for an appointment.

Course Description

Why is underdevelopment still a reality and not an exception for the majority of the former socialist countries of Europe, Asia, and the ex-Soviet bloc? This course focuses on investigating the case of underdevelopment in transition economies as part of a broader question transcending centuries, from Adam Smith's *"An Inquiry into the Nature and Causes of the Wealth of Nations"* to modern development literature, of why some countries are growing prosperous, while others remain stagnant and poor.

In order to acquire the analytical skills necessary to approach the question of underdevelopment in post-socialist states we will read a combined list of foundational and modern works in comparative economic systems, the process of economic change, entrepreneurship and development, and empirical case studies on country-specific institutional and policy reform experiences over the past two decades. The course will start with a review of basic economic concepts to which we will refer throughout the rest of the semester.

Achieving a good understanding of the concepts drawn from these readings will enable you to form your own opinion about the causes of underdevelopment in transition economies, make qualitative comparative analyses, and assess the desirability, feasibility and sustainability of various national and international programs designed to overcome poverty and foster stability and growth.

This course is organized as a lecture-seminar and implies intense reading and writing on the part of the student. Each session will be divided into two parts. The first half of the session will be lecture, while the second will be organized around discussing the readings. You are expected to do all the assigned readings before class and come prepared to participate with your own reflections and questions.

Requirements and Grading

1. Attendance and informed participation – 10%

Attendance is essential, and you are expected to come prepared to discuss the assigned readings. For class participation you are expected to make at least one significant contribution throughout the entire semester. Alternatively, you will have the option to make a short 6-minutes oral summary of one of the journal articles or country case studies from the list of readings assigned for a specific session.

2. Weekly quizzes – 50%

The quizzes will take place at the beginning of the first day of each week of classes and will aim at evaluating your understanding of the material covered in the previous week.

3. Short presentations of paper ideas – 10%

Toward the end of the semester, you will be required to make short presentations stating the main thesis and arguments of your final paper. A clear, concise and persuasive 5-minutes presentation will be rewarded with an A.

4. Final Paper - 30%

For your final paper, you should explore an original question of interest in the area by applying the concepts discussed in class. Papers should be 12-15 pages, double-spaced, 1 inch margins, font 12 Times New Roman or comparable.

A hard copy of the paper is due, no later than 5:00 pm, last day of classes, June 23. I will make no extensions. The papers will be evaluated according to the following criteria: originality and relevance of the main idea of the paper and the economic arguments used to support it, organization and clarity, and writing style. Recommended guide for style – “Economical Writing” by Deirdre McCloskey.

Course Prerequisites: (ECON 103) and (ECON 104)

Required Books:

1. Aslund, Anders. 2007. *How Capitalism Was Built: The Transformation of Central and Eastern Europe, Russia, and Central Asia*. Cambridge University Press.
2. Boettke, Peter J. 2002. *Calculation and Coordination: Essays on Socialism and Transitional Political Economy*.
3. Powell, Benjamin. 2008. *Making Poor Nations Rich. Entrepreneurship and the Process of Economic Development*.

Recommended books:

1. Gwartney et al. 2010. *Common Sense Economics: What Everyone Should Know About Wealth and Prosperity*.
2. Boettke, Peter J. 1993. *Why Perestroika Failed. The Politics and Economics of Socialist Transformation*.
3. King, Charles. 2009. *Extreme Politics: Nationalism, Violence, and the End of Eastern Europe*.

Grading scale:

A+ 97+
A 96-90
A- 89-88
B+ 87-86
B 85-82
B- 81-79
C+ 78-76
C 75-72
C- 71-69
D 68-60
F <60

All students must strictly follow the University Honor Code, which can be consulted online <http://www.gmu.edu/catalog/apolicies/>. Suspected cases of Academic dishonesty including plagiarism will be immediately reported to the Honor Committee.

If you are a student with a disability and you need academic accommodations, please see me and contact the Disability Resource Center (DRC) at 703-993-2474

Important Dates:

Last day to drop with no tuition penalty for A session May 27

Last day to add for A session May 27

Memorial Day, University closed May 30

Last day to drop A session with 50% Liability June 3

Course Outline:

Week 1 – Socialism vs. Capitalism: the Battle of Ideas

May 23: Introduction & Course Overview + Review of:

(a) Commons Sense Economics Essays:

1. [Incentives Matter](#)
2. [Understanding Costs](#)
3. [How Markets Work](#)
4. [How Prices Emerge](#)
5. [Comparative Advantage](#)
6. [The Division of Labor](#)
7. [The Extended Order of Cooperation](#)
8. [How Politicians Behave](#)
9. [What Politicians Can and Cannot Do](#)

(b) Key Economic Principles:

1. [Supply and Demand and common mistakes students make when using them](#)
 2. [Applications of Supply & Demand – Taxes, Subsidies, and Price Controls](#)
 3. [The Theory of the Consumer](#)
 4. [Consumer Surplus, Producer Surplus and Efficiency](#)
 5. [The Theory of the Firm](#)
 6. [How Markets Use Knowledge](#)
- We will watch part of episode 1 of “The Commanding Heights: The Battle for the World Economy” in the remaining time.

May 24: The Soviet Experiment with Socialism (I)

(The Legacy of Marx, War Communism, New Economic Policy (NEP), Industrialization and Terror under Stalin)

1. Aslund, Chapter 1- “Communism and Its Demise”
2. Boettke, Chapter 6 – “The Soviet Experiment with Pure Communism”
3. Desai, P., “Russia at the Crossroads. The Legacy of Marx and the Rise of the Soviet Union. An interview with introduction by Brian Snowdon, Volume 7, Number 2, 2006, pages 11 – 19.

May 25: The Soviet Experiment with Socialism (II)

(The [Economics of Shortage](#) and Totalitarianism)

1. Boettke – Introduction, plus Chapter 7 – The Political Economy of Utopia: Communism in Soviet Russia.
2. Hayek “The Road to Serfdom”, Chapters 7 & 10.
3. Movie in Class: “Goodbye Lenin” (If time allows).

May 26: The Socialist Calculation Debate

1. Boettke, Chapter 3 – “Economic Calculation” (p. 31-45)
2. von Mises, Ludwig. 1920. "Economic Calculation in the Socialist Commonwealth." pp. 2-33.
3. Hayek, Friedrich A. 1945. "The Use of Knowledge in Society." *American Economic Review* 35(4): 519-530.
4. Read L., “I Pencil.”

Week 2 – The Political Economy of Transition to Capitalism (I)

May 30: No class. Memorial Day.

May 31: Shock Therapy vs. Gradualism Approach to Privatization (I)

1. Aslund, Chapter 2.
2. Boettke, Chapter 10.
3. Tullock, Gordon. 1967. "The Welfare Costs of Tariffs, Monopolies, and Theft." *Western Economic Journal* 5 (3): 224–232
4. Murphy, Shleifer, Vishny (1992) “Pitfalls of Partial Reform.”
(Quiz during the first 30’ of class)

June 1-2: Shock Therapy vs. Gradualism Approach to Privatization (II)

1. Aslund, Chapter 4.
2. Kornai, Janos. 2000. "What the Change of System From Socialism to Capitalism Does and Does Not Mean." *Journal of Economic Perspectives* 14(1):27-42
3. Boettke – Chapters 11, 12, 13.

Week 3 – The Political Economy of Transition to Capitalism (II)

June 6: Government and Legal Reform

1. Shleifer (1993) “Corruption”.
2. Aslund, Chapter 10.
3. Frye, Timothy and Andrei Shleifer. 1997. "The Invisible and the Grabbing Hand." *The American Economic Review* 87(2): 354-358;
(Quiz during the first 30’ of class)

June 7: Democracy Deficit and Development

1. Aslund, Chapter 8
2. Olson, Mancur. 1993. "Dictatorship, Democracy, and Development." *The American Political Science Review* 87(3): 567-576.
3. Acemoglu D., “[The Form of Property Rights. Oligarchic versus Democratic Societies.](#)”

June 8-9: Unintended consequences: the hyperinflation of the 90's

1. Aslund, Anders, Chapter 5.
2. Bruno, Michael and William Easterly. 1998. "Inflation crises and long-run growth." *Journal of Monetary Economics* 41: 3-26.
3. Janos Kornai, "Hardening the budget constraint: The experience of the post-socialist countries."

Week 4 – Institutions, Entrepreneurship and Development in Transition Economies

June 13: Institutions and Entrepreneurship: Theory and Practice

1. Powell, Chapters 2, 3, 4, 5.
(Quiz during the first 30' of class)

June 14: Institutional Successes and Failures

1. Coyne J. C., Leesen T. P. 2004. "The Plight of Underdeveloped Countries," *Cato Journal*, vol. 24, No. 3.
2. Kornai, Janos. 2005. "The Great Transformation of Central Eastern Europe: Success and Disappointment." [Working Paper](#).
3. Powell, Chapters 8, 10, 13.

June 15: The Failures of Development Aid

1. Aslund, Anders, Chapter 11.
2. Wallich, Christine (1995), "What's Right and Wrong with World Bank Involvement in Eastern Europe," *Journal of Comparative Economics*, vol. 20.
3. Boettke et al (2007) "Institutional Stickiness and the New Development Economics".
4. Easterly, William. 2009. "Can the West Save Africa?" *Journal of Economic Literature* 47(2): 373-447.

June 16: Student Paper Workshop (research paper presentations)

Week 5 – Fostering Entrepreneurship and Growth in Transition Economies

June 20: The Notion and Function of Entrepreneurship, the Market Process Theory, and Development

1. Baumol W. 1990. "Entrepreneurship, Productive, Unproductive and Destructive."
2. Kirzner I. & Sautet F. "The Nature and Role of Entrepreneurship in Markets: Implications for Policy".
(Last Quiz during the first 30' of class)

June 21: Conclusions: Lessons for development in over 20 years of transition

1. Boettke, Chapter 14.
2. Aslund, Conclusions.

June 22: Reading Day – student paper workshop

June 23: Last day of classes. A hard copy of your research paper is due. I will make no exceptions.

Note: I reserve the right to add more relevant papers or subtract others, according to how well the class will go.

Additional Resources:

History of Economic Thought and History of Communism:

- For historical background and empirical facts check Bryan Caplan's "[Museum of Communism](#)"
- On the battle of Ideas: "Commanding Heights: The Battle for The World Economy", PBS documentary series.