

**Economics 1670-W**  
**The Former Socialist Economies and Transition**  
**Professor Berkowitz**  
**Spring 2007**

Course Time: Tuesday & Thursday, 11-12:15

Course Location: WWPB 4940

Professor Berkowitz's coordinates:

Office: WWPB 4711

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Note: This is a Writing intensive course.

**Prerequisites:** Intermediate microeconomic and/or macroeconomic theory.

**Course Description:** This course is a survey of the problems confronting former socialist economies making a transition to a market economy. We focus primarily on Russia and make comparisons with China and Poland. We will evaluate the impact of particular reforms on growth, income distribution, and the development of market enhancing institutions.

**Course Requirements:** There are three major writing assignments: the first assignment is a paper that analyzes the impact of initial conditions and particular reforms on economic performance; the second is an in-class essay exam based on reading and lectures (questions will be issued roughly three weeks before the exam); the third assignment is a paper that analyzes the extent to which effective market enhancing institutions have emerged during the transition.

The requirements for each paper assignment are an outline, followed by a first draft and then a final draft. All written work must be double-spaced and typed. The outline, first draft and final draft must contain a sharp thesis statement, an argument in defense of the thesis, counter-argument, a rebuttal to the counter-argument, a summary and a bibliography (The requirements for the outline, first draft and final are explained in detail in the **Writing Resources** section of this syllabus and should be used in both assignments). Detailed written and oral comments on the outline and first draft will be provided; and, the first draft and final draft must address these comments. The first draft and final draft should be five to seven pages (including the bibliography), double-spaced, typed in 12-point font, and submitted in class on the due date. Bibliographies and citations must follow the MLA (Modern Language Association) format. All late outlines, first drafts and final drafts will be penalized. Each student is required to make at least one appointment at the Writing Center at the University of Pittsburgh (see below) in order to obtain help in writing a paper (going to a walk-in at the Writing Center does not fulfill this requirement!) You must provide a note from the Writing Center that you have gone

to your appointment. There will be an in-class exam based upon class lectures and the first writing assignment.

### **Writing Resources:**

Students are required to make an appointment with the Writing Center at the University of Pittsburgh at the main M-2 Thaw Hall cite early on in the semester. The best strategy is to get help from the Writing Center early in the process of writing a paper! The website of the Writing Center is <http://www.english.pitt.edu/writingcenter/> and their telephone number is 412-624-6556.

A writing resources that you should consult is:

William Strunk. *Elements of Style*. Online edition published July 1999 by Bartleby.com at <http://www.bartleby.com/141/> ; and

**Required Texts:** Andrei Shleifer and Daniel Treisman, *Without a Map: Political Tactics and Economic Reform in Russia*, [MIT Press](#), 1999, Timothy Frye, *Brokers and Bureaucrats: Building Market Institutions in Russia*, [Michigan Press](#), 2000; John E. Jackson, Jacek Klich and Krystyna Poznaña, *The Political Economy of the Transition in Poland: The Creation of New Firms and Reform Governments*, [Cambridge University Press](#), 2005.

Course Requirements will be given the following weights in your final grade:

First paper assignment	25%
Second paper assignment	35%
Class participation	10%
In-class midterm exam	30%

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Lectures and Readings

- I. Course Overview and Writing Requirement: January 4
- II. The Socialist Experiment: January 9 and 11
  - A. Private versus state ownership
    - A1. Assets
    - A2. Control
    - A3. Ownership
    - A4. Principal-agent problems
  - B. Planned versus market prices
    - B1. Equity versus efficiency
    - B2. Corruption
  - C. Rule of law
    - C1. Planning institutions
    - C2. Market Institutions
  - D. Issues of Transition
    - D1. Privatization
    - D2. Price Liberalization
    - D3. Institutional changes
  - E. The CIS and Russia
    - E1. Pre-1917 Initial Conditions
    - E2. Human Capital
    - E3. Physical Capital
    - E4. Human and Capital and the Demise of Socialism
    - E5. Physical Capital and the Demise of Socialism
  - F. Initial Conditions on the Eve of Post-Socialist Transition
    - F1. Prices
    - F2. Private Property
    - F3. Human Capital
    - F4. Physical Capital
    - F5. Geography
    - F6. Small Enterprises
    - F7. Rule of Law

Readings:

Shleifer and Treisman, *Without a Map: Political Tactics and Economic Reform in Russia*, Chapter 1.

Lazarev, Valery, and Paul R. Gregory (2003). "Commissars and Cars: A Case Study in the Political Economy of Dictatorship." *Journal of Comparative Economics*, 31(1), 1-19 (Downloadable from Professor Berkowitz's website).

- III. The Russian Reform: January 16, 18, 23, 25, 30, February 1, 6 and 8.
  - A. Accounting for Growth in Russia
    - A1. Price Decontrol
    - A2. Large Privatization
    - A3. Small Privatization
    - A4. Initial Conditions
    - A5. Understanding Regression Results
    - A6. Comparing Predicted Results with Actual Results
    - A7. The Limits of Regression Analysis and the Need for Theory and Evidence
  - B. The Political Economy of Reform
    - A1. Status quo bias
    - A2. Feasibility
    - A3. Irreversibility
    - A4. Competition
  - C. Privatization
  - D. Price Liberalization
  - E. Inflation
  - F. Corporate Governance
  - G. The Role of Market Complementing Institutions

Readings:

Andrei Shleifer and Daniel Treisman, *Without a Map: Political Tactics and Economic Reform in Russia*, [MIT Press](#), 1999, Chapters 2, 3, 4, 5 & 6.

Daniel Berkowitz and David N. DeJong, "Policy Reform and Growth in Post-Soviet Russia," the *European Economic Review*, 2003, and available online at <http://www.pitt.edu/~dmberk/growtheerfinal.pdf>

Gerard Roland, *Transition and Economics: Politics, Markets and Firms*, [MIT Press](#), 2000, chapters 1&2 (Xerox copy will be provided).

Katharina Pistor, Martin Raiser and Stanislaw Gelfer, "Law and Finance in Transition Economies," *Economics of Transition* 8: 325-368, 2000, and available online at <http://www.pitt.edu/~dmberk/lawfinance.pdf>

Timothy Frye, *Brokers and Bureaucrats*, [Michigan Press](#), 2000, Chapters 1&2.

Daniel Berkowitz and Yadviga Semikolenova, "Privatization with Government Control: Evidence from the Russian Oil Sector," November 2005, revised February 2006, online at <http://www.pitt.edu/~dberk/berksem0206.pdf>

IV. Reform and Market Complementing Institutions: February 13, 15, 20, 24, 27, March 1 and 13

Timothy Frye, *Brokers and Bureaucrats*, Michigan Press, 2000, Chapters 3, 4, 5 & 6.

Black, Bernard S., Kraakman, Reinier H. and Tarassova, Anna, "Russian Privatization and Corporate Governance: What Went Wrong?" *Stanford Law Review*, Vol. 52, pp. 1731-1808, 2000. <http://ssrn.com/abstract=181348>

Katharina Pistor, Martin Raiser and Stanislaw Gelfer, "Law and Finance in Transition Economies," *Economics of Transition* 2000. Available online at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=214648](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=214648)

Julia Shvets, "Law Enforcement and Firms' External Finance: Evidence from Russia," mimeo, University of Cambridge, September 2006 (downloadable on Professor Berkowitz's website)

"Are Russian Commercial Courts Biased? Evidence from a Bankruptcy Law Transplant", mimeo, February 2007, by Ariane Lambert-Mogilansky, Konstantin Sonin, and Ekatarina Zhuravskaya (downloadable on Professor Berkowitz's website)

V. March 15- In class midterm exam

VI. Poland versus Russia: March 20, 22, 27, 29

- A. Early Reform Strategies
- B. Initial Conditions
- C. Growth
- D. De Novos and Entrepreneurship
- E. Income Distribution
- F. Accession

Readings:

Jackson et al, Chapters 1, 2, 4, 5, 6

Daniel Berkowitz and John Jackson, "Entrepreneurship and the Evolution of Income Distributions in Poland and Russia," the *Journal of Comparative Economics*, June 2006, at <http://www.pitt.edu/~dberk/incdist0605.pdf>

Simon Johnson, John McMillan and Christopher Woodruff, “Property Rights and Finance,” the *American Economic Review*, December 2001, at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=305078](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=305078)

- VII. China versus Russia: April 3, 5, 10, 12
- A. Regional Property Rights and Fiscal Federalism
  - B. Prices
  - C. SOEs and TVES
  - D. Total Factor Productivity

Readings:

Thomas Rawski et al., "Organization, Ownership, Productivity Change, and Financial Performance in Chinese Industry." *Journal of Comparative Economics*, 2000.

<http://www.pitt.edu/~tgrawski/papers2000/jcetxt.pdf>

Yingyi Qian, Hehui Jin and Barry R. Weingast, "Regional Decentralization and Fiscal Incentives: Federalism, Chinese Style," *Journal of Public Economics*, 2005; available online at <http://elsa.berkeley.edu/~yqian/96-2.pdf>

Alwyn Young. "The Razor's Edge: Distortions and Incremental Reform in the People's Republic of China." *Quarterly Journal of Economics* 115, no. 4 (November 2001): 1091 - 1135. <http://www.nber.org/papers/w7828.pdf>

C. Simon Fan and Xiangdong Wei, "The Law of One Price: Evidence from the Transitional Economy of China." *The Review of Economics and Statistics* LXXXVIII, no.4: 682-697.

<http://ejsccontent.ebsco.com/ContentServer/FullTextServer.asp?format=fulltext&ciid=DCC9B5B9200DDBFDCF44802C969DB3EE4690B062FB2228AB5F359153A32B8004904DBFB1C333D1C6&ftindex=1&cid=0138DB18C0FEE0041BE41D41761588699A69ED6FEEE50833948B2CEC9C3A6A2A&ext=.pdf>

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Schedule of Assignments

First paper: Pick a particular region within Russia covered in the paper “Policy Reform and Growth in Post-Soviet Russia.” Discuss how initial conditions, policy reform and entrepreneurship have contributed to this region’s economic performance. Using library and internet sources, explain the reasons for this particular region’s overall economic performance.

Important deadlines for first paper:

January 30 – Outline due in-class;  
February 8 – First draft due in-class;  
February 27 – Final draft due in class.

March 15 – In-class midterm

Second Paper: Using the case of China, Poland or Russia, describe the emergence of a market enhancing institution such as the courts, the banking sector, regulation of small (start-up) enterprises, or voting. Evaluate the effectiveness of this institution in enhancing economic performance.

Important deadlines for second paper:

April 3 – Outline due in-class;  
April 13 – First draft due in-class;  
1 PM, April 20 – Final draft due