

Review Questions III

1. An output collapse in the early stages of transition is a robust phenomenon. Why is the collapse of output in the early stages of transition a theoretical curiosity? Explain.
 - (a) Why might the collapse in measured output overstate the true magnitude of this collapse? Explain.
 - (b) To what extent is the collapse in measured output welfare-enhancing? Explain.
 - (c) Among the competing hypotheses concerning the output collapse present one that you think is most sensible. Explain.
 - (d) If transition involves an adjustment from an inefficient state sector to a more efficient private sector how can output fall? Explain
2. Why might welfare rise even while output is falling in transition?
3. Privatization has been more successful in the Czech Republic, Hungary and Russia than in Poland. Yet Poland is the transition economy that returned to positive economic growth first, and that has the highest growth rate of output. What does this tell us about the importance of privatization in the transition process? How has Poland achieved their turnaround; that is, what is the Polish secret to success?
4. What does the Coase theorem imply about privatization in transition?
 - (a) Is the Coase theorem really relevant?
 - (b) Why might income effects limit the applicability of the Coase theorem in transition?
5. Privatization leads to more restructuring because it makes politicians pay for the profits foregone from state ownership.
 - (a) Explain why privatization leads to more restructuring.
 - (b) Why is bribery more effective than privatization at achieving restructuring? Explain.
 - (c) Why is outside ownership more effective at inducing restructuring? Explain.
6. Why must insiders be bought off to generate restructuring? Explain. Why does it matter if insiders can coordinate on the decision to sell their shares? Explain. What does this suggest about the role of corporate governance?
7. When Russian assets were privatized the market value of the assets was very low compared with comparable western valuations? What explanations can you offer for this phenomenon?
8. Estimating the effects of privatization on economic performance is anything but straightforward. Why is this the case?

- (a) What are the problems that complicate making such inferences?
 - (b) What robust results have been observed?
 - (c) What are the major differences observed between privatization in Central Europe and the former Soviet Union.
9. Some economists have pointed out that electricity consumption has fallen less than output in the early transition. What implications are typically drawn from this observation? It has also been pointed out that this discrepancy was larger in the former Soviet Union than in Central Europe. What conclusion is typically drawn from this observation? Are there alternative interpretations?
10. Explain the Camellia effect? Why is this important? Why might this be more important in Russia than in other transition economies?
11. Why might the dynamics of aggregate GDP be misleading for understanding the transition? Explain.
12. What is relational capital? What is the relevance of this to transition?
13. When is economic reform monotonic? What does this mean?
- (a) Why might reforms not be monotonic?
 - (b) What implications does this have for the implementation of economic reforms? Explain.
 - (c) What policies might increase the incentive for restructuring?
14. How is it possible for lossmaking enterprises to survive in transition?
15. Eliminating the option for peasants to leave collective farms in China had a devastating effect on productivity? Why?
- (a) Explain the nature of the self-enforcing contract that reduces shirking when exit is possible?
 - (b) Why does exit matter? Explain.
16. Explain the dual-track system. Why does the dual track produce a Pareto-improving reform, as opposed to the big bang? What are the key requirements for dual track to be successful?
17. Two basic viewpoints can be distinguished with respect to privatization. One view suggests that the primary problem of privatization is to create proper incentives within enterprises, primarily through privatization itself. The other view suggests that the key element is to improve the market infrastructure within which enterprises operate. Discuss the relative merits of the two views.
- (a) Which element do you think is the most important for transition?
 - (b) How is the contribution of privatization to economic performance understood according to these two views?

- (c) Are there empirical implications that may allow you to distinguish between these two views? What does the record of privatization in, say Russia, suggest about the relative merits?
- (d) Are there different policy implications depending on these two views?