

Economics of Transition: Final Exam

Instructions: Read the entire exam over carefully before beginning. The value of each question is given. Allocate your time efficiently given the price schedule that is imposed. There are no trick questions.

1. (25%) 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.
 - (a) What does this tell us about the importance of privatization in the transition process? Explain.
 - (b) How has Poland achieved this turnaround; that is, what is the Polish secret to success?
 - (c) What concrete differences can you point to between Poland and Russia to account for the different experiences of transition?

2. (20%) Unemployment has been a more severe problem in Central Europe than in Russia and Ukraine, yet the former economies have on the whole been more successful in reforming their economies. Why?
 - (a) What does this tell us about the relationship between success in transition and unemployment? Explain.
 - (b) What is the most effective method of dealing with the problem of unemployment in transition? Distinguish between short-term and longer-term remedies.

3. (30%) The market value of shares in Russian enterprises during the early period of privatization suggested that many enterprises were highly "under-valued" when compared with "similar" enterprises in western economies. What are the most important factors responsible for this "under-valuation?" Explain.
 - (a) To what extent does this under-valuation represent a problem?
 - (b) Is it meaningful to speak of undervalued assets? What does this actually mean, if anything, economically?
 - (c) What needs to be changed to enhance the market values of Russian enterprises?
 - (d) Why might enterprise directors resist some of these policies?

4. (25%) "The pattern of performance across transition economies reflects the differing legacies from socialism at least as much as different policies pursued." Do you agree or disagree? Explain. What are the key policy differences that have led to variations in performance? What are the key differences in initial conditions that can account for some of the variation that is observed?