

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. (30%) 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. (15%) "An essential feature of transition is the transformation of the basic nature of economic relationships. Under socialism transactions depend on the identity of the persons involved. The transition to the market is supposed to change this."
 - (a) Explain the logic of this transformation. Why is exchange more idiosyncratic under socialism and more anonymous in a market?
 - (b) Observers of the transition might argue that this transformation has not succeeded. Why are relations still so important in some transition economies? Explain.
 - (c) What phenomena could you point to that illustrate the continued importance of relationships in transition?

3. (30%) "The pattern of performance across transition economies reflects the differing legacies from socialism at least as much as different policies pursued."
 - (a) What are the key legacies of socialism that effect performance in transition?
 - (b) Choose a specific legacy that you argue is important, and explain how it impacts on the transition process.
 - (c) What are the key legacies that *differ* across transition economies and explain differences in performance? Explain.

4. (25%) 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?