

Review Questions: Volume 1

1. "The arbitrary nature of prices in the planned economy concealed the true size and structure of the economy." Explain.
2. "The Soviet Growth Model was effective at extensive growth but ineffective at intensive growth." Describe the basic features of the Soviet Growth Model. What is the difference between the two types of growth? What type of evidence is used to support the statement in quotes?
3. How did the economic structure of the Soviet economy differ from that of market economies with similar levels of per-capita income? Which sectors were larger and which were smaller? What factors may account for these differences? Is this due entirely to the preferences of central planners? What other factors may have played a role?
4. What are the two main explanations for the decline in the growth rates of Soviet per-capita income? Carefully explain the economics of the two explanations. What are the major implications of the two views? What problems arise in doing growth accounting exercises for the Soviet economy?
5. Explain the logic, under the conditions of Soviet central planning, behind the division of the money supply into cash money and non-cash money. What problems did this system lead to when the autonomy of enterprises was increased under perestroika? Why is this division of the money supply problematic in the period of monetary reform?
6. "The major problem the Soviet-type system ran into was that it produced too much of the wrong things, and it ran out of money to keep doing it." Discuss. What is the logic, if any, of this statement?
7. How did economic growth evolve in the USSR in comparison to the USA? Give the general picture without necessarily citing exact figures.
8. Describe the canonical bonus function. Explain how the plan bonus incentive could lead to bad quality of products?
9. What is the ratchet effect in the Soviet context? Why was this a problem in Soviet-type economies? What conditions must be met in order for the ratchet effect to occur?
10. What is the soft budget constraint? What did it mean in the context of central planning? Why is this phenomenon more general under socialism?
11. Why did one observe more excess demands (shortages) than excess supply under socialism?
12. What is "forced substitution"?

13. Why did ministries often change enterprise plans during the year?
14. What is the cause and effect of hoarding behavior?
15. Why was there a tendency toward vertical integration in the socialist economy and what were the inefficiencies associated to it?
16. Were socialist managers interested in innovation? Explain.
17. Why was there low labor discipline under socialism?
18. Was there high unemployment under socialism? Explain.
19. Under Gorbachev, shops were empty and people's refrigerators were full. Why?
20. The STE can be usefully described as a multi-divisional corporation. Do you agree or disagree? Explain. Where does labor fit in to this picture?
21. A socialist economy with central planning is incompatible with democracy. Discuss. Motivate by discussing some properties of central planning.
22. Why was the socialist economy able to function despite unbalanced plans and absence of market coordination?
23. Organizing big shifts in the composition of production was harder under central planning than keeping the same composition of output. Explain.
24. What was the effect of the end of purges on the efficiency of the command system? Explain.
25. Why did the socialist system become more and more inefficient over time?