

Review Questions

1. "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?
2. "The arbitrary nature of prices in the planned economy concealed the true size and structure of the economy." Explain.
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 in the attempt to keep doing it." Discuss. What is the logic, if any, of this statement?
7. Explain how the welfare effects of price liberalization can be studied using Harberger triangles. Are the benefits calculated in this way likely to be overstated or understated? Does the "triangle" method capture all the benefits of price liberalization? Explain.
8. Official statistics indicate that output in many transition economies has decreased by more than 40%. Yet many observers argue that official data overstates the true decline in income. Why might official decline be overstated?
9. A common feature of transition is a decline in output, especially industrial output. Yet real income often increases at the same time that output falls. How can this be reconciled? Explain.
10. What is meant by the term *negative value added*? Why is it important for understanding transition?

11. Is it possible for measured real income to decline and welfare to increase in transition economies? Explain.
12. Some observers of the Russian transition claim that the primary explanation of the failure of stabilization was a "lack of credibility on the part of the reformers." Why might credibility be an important factor in stabilization? Why might this explanation be deemed to be too simple? Discuss.
13. What is "shock therapy?" What is the logic behind this approach? What are the limitations of this approach? Is Poland an example of the successful employment of shock therapy? How about Russia? Explain.
14. What are the arguments that are made in favor of "gradualism?" Why might a gradual approach to transition be superior to shock therapy? What are the problems with gradualism?
15. Explain what is meant by the term "monetary overhang"? What importance, if any, does this have for understanding the impact of price liberalization?
16. "Attempts to reform Soviet-type economies were frequent and unsuccessful. This is because partial attempts at reform either skirted the fundamental problems with the system, or were inconsistent with the fundamental mechanism of planning, and hence, doomed to failure." Assess this statement.
17. "The nature of pricing in STE's hid the magnitude of the distortions created by planning. Hence, the true costs of planning would only be revealed by price liberalization." Discuss. Explain how prices were determined in Soviet-type economies and why they made it difficult to measure the true cost of economic activities.