

Review Questions

1. What are the major theories that explain the collapse of output in transition economies?
 - (a) Why is the collapse of output in the early stages of transition a theoretical curiosity?
 - (b) Why might the collapse in measured output overstate the true effect?
 - (c) Which explanations of the output fall make the most sense? Explain.
2. What is the difference between *corporatization* and *privatization*?
3. Why is inside-ownership a potential problem in privatization? Under what conditions will inside ownership prevent efficient takeovers of enterprises? Explain. What implications does this have for the design of corporate governance in transition economies?
4. Describe the primary methods of privatization that have been used in transition economies. What are the relative advantages and disadvantages of these various methods?
5. Describe the main features of the privatization process in Russia. What are the major hurdles that must be overcome for privatization to be successful? Be specific.
6. The current market value of shares in privatized Russian enterprises suggests that many enterprises are "under-valued" when compared with "similar" enterprises in western economies. What are the most important factors responsible for this "under-valuation?" Which of these do you think is most important? Explain.
 - (a) To what extent does this under-valuation represent a problem? Is it meaningful to speak of undervalued assets? What does this actually mean, if anything, economically?
 - (b) What factors can be undertaken to enhance the market values of Russian enterprises?
 - (c) Why might enterprise directors resist some of these policies?
7. "The primary problem of the transition is that anti-social behavior is contagious. If only a few people (enterprises) engage in such behavior it is easy to eliminate, but when the vast majority of society behaves this way the State may collapse." Discuss, providing specific examples wherever possible. What is the economic interpretation of this statement? How important is this problem in the transition? What specific features of the transition can be explained by this phenomenon? Be precise.
8. 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. What do you think is the most important element for transition?

9. 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.
10. Empirical studies suggest that countries that chose faster liberalization have been the first to experience resumption of growth. What is the logic behind this result? To what extent is this empirical finding illusory? Explain.
11. What is meant by the term "network capital?" Why, if at all, is this concept useful for studying enterprises in transition?
12. What is meant by the term *informal profit-seeking*? Provide some examples of informal profit-seeking behavior.
13. 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?
14. Why does income distribution worsen in the transition process? Is this a necessary feature of transition or the result of bad policy?
15. Why is unemployment an especially knotty problem for transition economies? Why is it seemingly worse in Central Europe than in Russian and Ukraine? What can be done to reduce the problem?
16. Describe the basic features of Chinese-style "dual-track liberalization." What is the logic behind this system of reform. Why might this system be more applicable in China than in the Soviet Union? Explain.