



## **CIEE Prague, Czech Republic**

<b>Course Name:</b>	Economies in Transition
<b>Course Number:</b>	ECON 3005 PRAG
<b>Programs offering course:</b>	CES, CNMJ
<b>Language of instruction:</b>	English
<b>U.S. Semester Credits:</b>	3
<b>Contact Hours:</b>	45
<b>Term:</b>	Fall 2019

### **Course Description**

This course focuses on transition economies, i.e. CEE countries that underwent the change of economic model from socialism to a market economy. These countries are described as giant economic laboratories in which the governments experimented with alternatives to the market economy as well as with ways to reintroduce a functioning market economy after 1989. Firstly, we will theoretically define the basic elements of the socialist centrally planned economy. Then we will explore some historical case studies of its rise and end, including the reasons for it. Thus, the course will not only help students understand the reasons for failures of central planning and used strategies for the transition back to the market economy, it will also enable them to gain a deeper insight into the current economic and social situation in the CEE markets and other countries experiencing a similar change (e.g. China). The experience and problems of the transition countries are very relevant in the current world, in which many politicians ask for alternatives to traditional capitalism. Although the lectures and readings will contain lots of empirical evidence and data, emphasis will be put upon understanding the logic and economics of the analyzed processes.

### **Learning Objectives**

After taking this course students will be able to:

- classify countries into transition economies and traditional developing countries;
- describe the historical context for the development of socialist economies and make relevant inferences to case studies;
- illustrate the problems of central planning and the causes of economic problems of CEE countries (and China);
- outline the logic of market liberalization and privatization processes;
- assess the benefits of shock therapy and gradual approaches;
- apply the concepts of soft (and hard) budget constraints and corporate governance.

### **Course Prerequisites**



None.

### **Methods of Instruction**

Students will read selected parts of the relevant literature for each weekly topic. This will allow them to participate in discussions during the interactive lectures. Students will be further required to create structured projects and present them at the end of the course during the final class session. There will be required trips and excursions.

### **Assessment and Final Grade**

1. Homework	10%
2. Project + presentation of the project	20%+5%
3. Midterm Exam	20%
4. Written Final Exam	25%
5. Class participation:	20%

### **Course Requirements**

#### **1. Memos**

Memos prepared by students as a basis for discussion will be part of the overall assessment. The memos should be about 300 words long and stem from required readings presented in this syllabus for each class and therefore allow students to take part in meaningful discussion. Therefore, the overall content of the reading and keynotes should be included. Every required reading should have a separate memo. Twice during the semester the prepared memos will be graded.

#### **2. Project + its presentation**

The topic and hypothesis of the 3000-word written project should be dedicated to the ways of reforming a selected transition country. One class will be specifically dedicated to the structure and research methods that should be used. Students will present their projects to the rest of the class at the end of the semester.

#### **3. Exams**

Written mid-term exam  
Written final exam

### **CIEE Prague Class Participation Policy**

Assessment of students' participation in class is an inherent component of the course grade. Participation is valued as **meaningful contribution in the digital and tangible classroom**, utilizing the resources and materials presented to students as part of the course. Students are required to actively, meaningfully and thoughtfully contribute to class discussions and all types



of in-class activities throughout the duration of the class. Meaningful contribution requires students to be prepared, as directed, in advance of each class session. This includes valued or informed engagement in, for example, small group discussions, online discussion boards, peer-to-peer feedback (after presentations), interaction with guest speakers, and attentiveness on co-curricular and outside-of-classroom activities.

Students are responsible for following the course content and are expected to ask clarification questions if they cannot follow the instructor's or other students' line of thought or argumentation.

The use of electronic devices is only allowed for computer-based in-class tests, assignments and other tasks specifically assigned by the course instructor. Students are expected to take notes by hand unless the student is entitled to the use of computer due to his/her academic accommodations. In such cases the student is required to submit an official letter issued by his/her home institution specifying the extent of academic accommodations.

Class participation also includes students' active participation in Canvas discussions and other additional tasks related to the course content as specified by the instructor.

Students will receive a partial participation grade every three weeks.

### **CIEE Prague Attendance Policy**

Regular class attendance is required throughout the program, and **all absences are treated equally regardless of reason** for any affected CIEE course. Attendance policies also apply to any required co-curricular class excursions or events, as well as Internship.

Students who transfer from one CIEE class to another during the add/drop period will not be considered absent from the first session(s) of their new class, provided they were marked present for the first session(s) of their original class. Otherwise, the absence(s) from the original class carry over to the new class and count against the grade in that class.

**Missing classes** will lead to the following penalties:

#### ***90-minute semester classes:***

<i>Number of 90-minute classes</i>	<i>Equivalent percentage of the total course hours missed</i>	<i>Minimum penalty</i>
<b>one to two</b> 90-minute classes	up to 10%	no penalty
<b>three</b> 90-minute classes	10.1–15%	reduction of the final grade by 3%
<b>four</b> 90-minute classes	15.1–17%	reduction of the final grade by 5%; <b>written warning</b>
<b>five</b> 90-minute classes	17.1–20%	reduction of the final grade by 7%; <b>written warning</b>



<b>six and more</b> 90-minute classes	more than 20%	automatic <b>course failure</b> and possible expulsion
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**180-minute semester classes:**

<i>Number of 180-minute classes</i>	<i>Equivalent percentage of the total course hours missed</i>	<i>Minimum penalty</i>
<b>one</b> 180-minute class	up to 10%	no penalty
<b>two</b> 180-minute classes	10.1–20%	reduction of the final grade by 5%; <b>written warning</b>
<b>three and more</b> 180-minute classes	more than 20%	automatic <b>course failure</b> and possible expulsion

Persistent absenteeism (students approaching 20% of the total course hours missed, or violating the attendance policy in more than one class) will result in a written warning, a notification to the student’s home school, and possibly a dismissal from the program.

**Missing more than 20% of the total class hours** will lead to a **course failure**, and **potential program dismissal**. This is a CIEE rule that applies to all CIEE courses and is in line with the Participant Contract that each CIEE student signs before arriving on-site.

**Late arrival to class** will be considered a partial (up to 15 minutes late) or full (15 or more minutes late) absence. **Three partial absences due to late arrivals will be regarded as one full class absence.**

**Students must notify their professor and Program Coordinators (PC) beforehand if they are going to miss class for any reason** and are responsible for any material covered in class in their absence.

If missing a class during which a test, exam, the student’s presentation or other graded class assignments are administered, **make-up assignment will only be allowed in approved circumstances**, such as serious medical issues. In this case, the student must submit a local doctor’s note within 24 hours of his/her absence to the PC, who will decide whether the student qualifies for a make-up assignment. Doctor’s notes may be submitted via e-mail or phone (a scan or a photograph are acceptable), however **the student must ensure that the note is delivered to the PC.**

Should a truly **extraordinary situation** arise, the student must contact the PC immediately concerning permission for a make-up assignment. Make-up assignments are not granted automatically! The PC decides the course of action for all absence cases that are not straightforward. **Always contact the PC with any inquiry about potential absence(s) and the nature thereof.**



**Personal travel (including flight delays and cancelled flights), handling passport and other document replacements, interviews, volunteering and other similar situations are not considered justifiable reasons for missing class or getting permission for make-up assignments.**

**For class conflicts** (irregularities in the class schedule, including field trips, make-up classes and other instances), **always contact the Academic Assistant** to decide the appropriate course of action.

Course attendance is recorded on individual Canvas Course Sites. **Students are responsible for checking their attendance regularly to ensure the correctness of the records.** In case of discrepancies, students are required to contact the Academic Assistant **within one week of the discrepancy date** to have it corrected. Later claims **will not** be considered.

CIEE staff does not directly manage absences at FAMU and ECES, but they have similar attendance policies and attendance is monitored there. Grade penalties may result from excessive absences.

### **CIEE Academic Honesty Policy**

CIEE subscribes to standard U.S. norms requiring that students exhibit the highest standards regarding academic honesty. Cheating and plagiarism in any course assignment or exam will not be tolerated and may result in a student failing the course or being expelled from the program. Standards of honesty and norms governing originality of work differ significantly from country to country. We expect students to adhere to both the American norms and the local norms, and in the case of conflict between the two, the more stringent of the two will preside. Three important principles are considered when defining and demanding academic honesty. These are related to the fundamental tenet that one should not present the work of another person as one's own.

**The first principle** is that final examinations, quizzes and other tests must be done without assistance from another person, without looking at or otherwise consulting the work of another person, and without access to notes, books, or other pertinent information (unless the professor has explicitly announced that a particular test is to be taken on an "open book" basis).

**The second principle** applies specifically to course work: the same written paper may not be submitted in two classes. Nor may a paper for which you have already received credit at your home institution be submitted to satisfy a paper requirement while studying overseas.

**The third principle** is that any use of the work of another person must be documented in any written papers, oral presentations, or other assignments carried out in connection with a course. This usually is done when quoting directly from another's work or including information told to you by another person. The general rule is that if you have to look something up, or if you learned it recently either by reading or hearing something, you have to document it.



The penalty ranges from an F grade on the assignment, failure in the course to dismissal from the program. The Academic Director is consulted and involved in decision making in every case of a possible violation of academic honesty.

## **Weekly Schedule**

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| Week 1 | <p><b>Topics:</b> Course introduction; administration of the course; preparation for the project assignment; What are the Basic Elements of a Socialist, Centrally Planned Economy? How are economies being differentiated based on ownership and decision-making processes?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"><li>• Lavigne (1999), chapter 1</li><li>• Rosser &amp; Rosser (2004)</li></ul>  |
| Week 2 | <p><b>Topics:</b> Setting the Context: Highlights of Russian and Soviet Economic History; Why Russia developed socialist economy? What were the stages of Soviet economy model before the fall of communism?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"><li>• Evan (2004), chapter 4.1</li><li>• Angresano (1996), chapter 16</li></ul>                                                                 |
| Week 3 | <p><b>Topics:</b> The Rise and Performance of the Socialist Centrally Planned Economies (the cases of Soviet and National Socialist planning), the surprisingly similar economic policies of those regimes. Would it be possible to have socialist planning without terror?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"><li>• Temin (1991), pp. 573-593</li><li>• Ellman (2007), chapter</li></ul>       |
| Week 4 | <p>PC-lab: testing the hypothesis, learning the Practical part of the project.</p> <p><b>Topics:</b> Corporate and private life under socialism; Alternatives, the case of Yugoslavian market socialism; why was Yugoslavian model seemingly successful until the end of 70s?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"><li>• S. Estrin (1991)</li><li>• Lavigne (1999), chapter 2, pp.25-29</li></ul> |

Week 5	<p><b>Topics:</b> Problems of central planning; the performance and shortage economy; the problem of soft budget constraints; Why were the economies of the Eastern Block losing out to the West in all relevant aspects in the 80s?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"> <li>• Kornai, Maskin &amp; Roland (2003)</li> <li>• Lavigne (1999), chapter 4</li> </ul>
Week 6 Midterm Exam Period	<p>Special assignment: watch movie “Good bye, Lenin!”</p> <p>Midterm exam</p> <p><b>Topics:</b> The end of the socialist economies and transition strategies (Shock Therapy vs. Gradualism Approach), Why was the speed essential? What is it market liberalization and macroeconomic stabilisation?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"> <li>• Lavigne (1999), chapter 6</li> </ul>
Week 7 Midterm Exam Period	<p>Czech National Bank, excursion to permanent exposition (Wednesday)</p> <p><b>Topics:</b> The end of the socialist economies and transition strategies (Shock Therapy vs. Gradualism Approach), Why was the speed essential? What is it market liberalization and macroeconomic stabilisation?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"> <li>• Lavigne (1999), chapter 6, only up to page 121 inclusive</li> </ul>
Week 8	<p>Midterm results and midterm feedback available</p> <p><b>Topics:</b> The shortest transition - the East Germany Case; Privatization Methods and Strategies; What are the positives and what are the negatives when someone else is paying for your transition?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"> <li>• von Hagen, Strauch &amp; Wolff (2002)</li> <li>• Brada (1996)</li> </ul>
Week 9	<p><b>Topics:</b> Privatization Performance; what are the various methods strong and weak points? Why every country applied several different methods? Why privatisation is the centrepiece of the transition? Why is it so difficult?</p> <p><u>Required reading:</u></p>

- Bennett, Estrin, Maw & Urga (2004)
- Estrin, Hanousek, Kocenda & Svejnar (2009)

Week 10	<p><b>Topics:</b> Return to the world market, opening up of the closed economies; How to make up for the lost Comecon markets? What was it internal and external convertibility of currency?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"> <li>• Lavigne (1999), chapter 6</li> <li>• Evan (2004), chapter 4.4</li> </ul>
Week 11	<p><b>Topics:</b> The longest transition – reforms of Chinese economy since 1978; China reforms are the slowest of all reforming countries. Why? What is yet to be done with China economy?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"> <li>• Angresano, chapter 17</li> <li>• Hofman &amp; Wu (2009)</li> </ul>
Week 12	<p><b>Topics:</b> CEE countries 20+ years of Transition; when is it over? Who was successful and who was not and why?</p> <p><u>Required reading:</u></p> <ul style="list-style-type: none"> <li>• Evan (2004), chapter 4.2</li> <li>• Lavigne (1999), chapter 6</li> </ul>
Final Exam Week	<p>Presentation of projects, Review and consultations Final Exam</p>

## Course Materials

### **Required Reading**

*Books (selected chapters):*

Angresano, J. (1996). *Comparative Economics*. 2nd edition. Upper Saddle River: Prentice Hall.

Evan, T. (2004). *Introduction to European Economic History*. Prague: Karolinum Press.

Lavigne, M. (1999). *The Economics of Transition: From Socialist Economy to Market Economy*. New York: Palgrave.

Estrin, S., Kolodko, G.W. & Uvalic, M. (eds.). (2007). *Transition and Beyond*. New York: Palgrave Macmillan.

Rosser, J.B. & Rosser, M. V. (2004): *Comparative Economics in a Transforming World Economy*. Cambridge, Mass.: The MIT Press.



*Papers:*

Bennett, J., Estrin, S., Maw, J. & Urga, G. (2004). Privatisation Methods and Economics Growth in Transition Economies. *CEPR Discussion Papers*, 4291.

Brada, J.C. (1996, spring). Privatization is Transition – Or is it? *The Journal of Economic Perspectives*, 10(2), pp. 67-86.

Estrin, S., Hanousek, J., Kocenda, E. & Svejnar J. (2009). Effects of Privatization and Ownership in Transition Economies. *World Bank Policy Research Working Papers*, 4811.

Estrin S. (1991): Yugoslavia: The Case of Self-Managing Market Socialism. *The Journal of Economic Perspectives*, Vol. 5, No. 4 (Autumn 1991), pp. 187-194.

von Hagen J., Strauch R.R. & Wolff G. (2002). East Germany: Transition with Unification, Experiment and Experiences. *ZEI Working Paper*, B19/2002.

Hofman, B. & Wu, J. (2009). Explaining China's Development and Reforms. *The International Bank for Reconstruction and Development / The World Bank Working Paper 50*, 2009.

Kornai, J., Maskin, E. & Roland, G. (2003). Understanding the Soft Budget Constraint. *Journal of Economic Literature*, 41(4), pp. 1095-1136.

Temin P. (1991). Soviet and Nazi Economic Planning in the 1930s. *Economic History Review*, XLIV(4), pp. 573-593.

**Recommended Reading**

Berglof, E. & Roland, G. (2007). *The Economics of Transition*. New York: Palgrave Macmillan.

Bardhan P. (2000). The New Institutional Economics and Development Theory, In G. Meier & J. Rauch (Eds.). *Leading Issues in Economic Development* (pp. 359-360). Oxford University Press.

Dabrowski, M., Gomulka, S. & Rostowski, J. (2000). Whence Reform? Critique of the Stiglitz Perspective. *CEP Discussion Paper dp0471*.

Ham, J. C., Svejnar, J. & Terrell K. (1998). Unemployment and the Social Safety Net During Transitions to a Market Economy: The Czech and Slovak Republics. *AER*, 88(5), pp. 1117-1142.

Hayek F. A. (1945). The Use of Knowledge in Society. *AER*, 35(4), pp. 519–530.

Kornai J. (1986). The Soft Budget Constraint. *Kyklos*, 39(1), pp. 3-30.

Leeflang P.S.H. & van Raaij W.F. (1995). The changing Consumer in the European Union: A “Meta-Analysis”. *International Journal of Research in Marketing* 12 , pp. 373-387.

Rosefield S. (2002). *Comparative Economic Systems: Culture, Wealth, and Power in the 21st Century*. Hoboken: Wiley-Blackwell.

Sabirianova, K. (2000). The Great Human Capital Reallocation: Russia. *The William Davidson Institute WP 309*.



Shleifer A. & Vishny R. W. (1993) Corruption. *Quarterly Journal of Economics*, 108, pp. 599-617.

Stiglitz J. (1999). Whither Reform. Ten Years of Transition. *World Bank ABCDE Conference*

Svejnar J. & Singer M. (1994): Using Vouchers to Privatize and Economy: The Czech and Slovak Case. *Economics of Transition* 2, pp. 43-64.