Economics 1670-W
Professor Berkowitz
Formerly Socialist Economies and Transition
February 26, 2004

Materials for tutorials
Preparation for midterm on March 30th

1. The local textile company has been privatized. However, while its manager is the owner, the local mayor can use his control over the supply of land and utilities to this company to force the managers to over-employ workers. Under what conditions is the manager willing and able to buy out the local mayor’s de facto control rights so that he can employ the efficient level of workers? Now, suppose that the manager has control rights. Under what conditions can the mayor bribe to managers so that he will over-employ workers?

2. Explain conditions under which inflationary finance and high-yield government bonds (GKOs) can provide rents to Russia’s emerging commercial banking sector. Describe how, according to Shleifer and Treisman, commercial bankers were bought out so that they would become proponents of stabilization. What were the costs and benefits of this reform strategy?

3. Consider a simple demand curve, \( Q = A - P \). Explain how price controls can provide bribe revenues to managers of firm operating under these price controls who have monopoly power. What is the impact of a small increase in the price control on quantity supplied and on bribes revenues? In what kinds of markets is this model a useful description of reality? In what kinds of markets is it a much less useful description?

4. Explain how any large-scale institutional reform must be both ex ante feasible and ex post feasible so that status quo bias is overcome. Why is exogenous uncertainty more the issue in achieving ex ante efficiency, while individual specific or “idiocyncratic” uncertainty is important in achieving ex post feasibility.

5. Compare and contrast the view of Chinese reform developed in the articles by Alwyn Young and Thomas Rawski et al. In particular, why does Young argue that the combination of initial conditions in 1970s and reform starting in 1978 led to emergence of regional trade wars. Why do Rawski et al argue that Chinese gradualism was a success?

6. Compare the Russian and Polish reforms with respect to large scale privatization, soft budget constraints for enterprises, subsidies of households and entry of small startup enterprises and explain just why, according to Jackson et al, Poland was able to use political reform to advance economic reform, while political reform in Russia may have led to a retreat on economic reform.

Preparation: second writing assignment.

You will need the Berkowitz and DeJong papers entitled, “Accounting for Growth in Post-Soviet Russia,” and “Policy Reform and Growth in Post-Soviet Russia” and the accompanying data. Both are available on the website, [www.pitt.edu/~dmberk](http://www.pitt.edu/~dmberk)
1. Pick one region in Russia that is included in the list of 48 regions in the Berkowitz and DeJong papers. Present a list of at least four secondary sources in the MLA format that describe economic developments in that region.

2. Describe the role of education, reform, foreign investment, new enterprise formation and initial conditions in that particular region’s growth performance. In constructing your answer, take into account the direct and indirect effects of a one standard deviation increase in these growth determinants.

3. Is the Berkowitz and DeJong framework a useful predictor of economic growth in your region (hint: a useful predictor is less than a standard deviation and a half off in its prediction of growth)?

4. Explain how the variables IO, INITIAL and DEFENSE capture initial conditions. What should be their impact on growth (GROWTH) and new enterprise formation (NEWENT)? Why are the variables FINV, REF and EDU good proxies for reform and property rights within regions? What should be their impact on GROWTH and NEWENT? What should be the impact of the policy variables on GROWTH and NEWENT?

5. Compute the predicted level of GROWTH and NEWENT in your particular region? What is the size of the prediction error? Why are the reasons for this error?

6. What do you think are the important sources of GROWTH and NEWENT in your region that are and are not accounted for in Berkowitz-DeJong models?

7. Using your secondary sources, summarize and explain the growth performance of your particular region.

8. Using the results from points 3 and 4, outline a paper that explains growth in your region, and just how it compares with the growth performance of the average Russian region. The paper should follow the five-point structure that we employed in the first paper.

REMEMBER! Your outlines are due in class on March 23rd.