

EC 356 TRANSITION TO MARKET ECONOMY IN CENTRAL EUROPE

IES Abroad Vienna

DESCRIPTION: A comparative study of the problems of economic transition in the former Soviet bloc states of Central and Eastern Europe and the role Western Europe and U.S. play in this process. The course deals with the origins and nature of the economic and structural upheaval, with the reform strategies, and problems associated with introducing market economies. It analyzes the issues of the Soviet-type system, reasons of its collapse, reviews the transitional strategies, the issues of monetary stabilization, ownership changes, fiscal problems, developments in the labor markets. The course reviews the relationship to the International Monetary Fund and the entry process in the European Union. Special emphasis will be put on the EU members' economy that of the Czech Republic, Estonia, Hungary, Poland, Slovakia and Slovenia etc. Their development will be contrasted with the Russian and the Ukraine economies' transformation. Lessons and challenges from the entry into the euro-zone will be presented. The impact of the global economic crisis and that of the recent EU debt crisis will be analyzed.

CREDITS: 3 credits

LANGUAGE OF INSTRUCTION: English

PREREQUISITES: Studies in macroeconomics, international economics or in international relations.

METHOD OF PRESENTATION:

- Lectures, seminars and group discussions (team work is encouraged), presentations.

REQUIRED WORK AND FORM OF ASSESSMENT:

- Midterm (in-class exam) – 25%;
- Final (in-class exam) – 25%;
- Class participation and discussion of the readings - 10%;
- Two quizzes: open ended questions on the readings and class notes – 10%
- Two research papers (5 pages each, 1.5 spaced, 12 letter, printed) – 15%+15%

1. Research paper one:

Economic legacy and start of transition in one CEE country (1985-1995)

Choose one CEE country and analyze its economic development in the last years of the Soviet type system. Focus on its special economic policy and the reasons of the economic imbalances. You need to consider such economic problems as slow-down of economic growth, rising consumer prices, growing shortages, increasing foreign indebtedness. What was the economic policy of the last communist government? Second part of the paper will deal with the economic policy of the early years of the transition. What were the special features of your selected country in the first half of the 1990s? How did they use stabilization and liberalization measures? How did they manage to introduce currency convertibility? How deep was transformation recession? (You can include statistical tables and diagrams in the text. The bibliography may come at the end of the paper. Should you quote someone you put the name of the author and the date of the publication in the text). Your policy paper can rely on economic experts' views but you should include your individual opinion in the paper.

Deadline of the first policy paper: 10th October 2018

2. Research paper two:

'Economic development of the Central and East European countries' during the recent global and EU crisis (2007-2015)'

The paper can deal with one CEE country's economic policy included economic growth, budgetary policy, public debt, exchange rate, employment, international competitiveness and other relevant questions. The policy paper will investigate the impact of the global crisis and of the EU debt crisis on these economies. Among others, students can write about the

impact of the crisis on the currency exchange rate, on the banking sector or on the households' indebtedness. Other impacts of the crisis can also be discussed. You can analyze what are the strong and weak points in the relevant CEE country. What was the national government policy in the crisis management?

Students use sources of the international organizations (IMF, World Bank, EBRD, EU, ECB, OECD) and English sources of the CEE national governments (National Bank, Ministry of Finance, Statistical Office, research agencies).

The paper contains statistical tables and diagrams. Bibliography is at the end of the paper.

Deadline of the second policy paper: 28th. November 2018

Each written examination (midterm and final) will consist of several questions (1-2 essay questions and several short questions). Students should learn the terms of various international economic issues being used in the readings and in the class lectures. Students will get a collection of slides that contains the class lectures.

Students are expected to attend class regularly and to participate in discussions. Students must complete each reading assignment before class and come prepared to discuss the material. It is important to attend the lectures and seminars. Class participation is an important part of your final grade. Readings will be discussed in the class. Electronic devices (laptop, notebook, mobile phones etc) can only be used for making notes and for discussion of the readings. Students are encouraged to have printed copies in hand from the readings.

LEARNING OUTCOMES:

By the end of the course students will be able to:

- Students will understand the economic and social development of the central–east European countries
- They will get specific knowledge on the various countries' economic transition to the market-type system
- Students will get expertise how to evaluate and analyze the central-east European countries' recent economic transformation
- By the end of the course they have a detailed and thorough knowledge on this region. They will learn about the position of the central-east European countries in the global economy.
- The course will give the students specialized knowledge on the economic development of the CEE countries and by this expertise they will be more able to work in the business sector or in government agencies. Your expertise on the international economy will be expanded.

ATTENDANCE POLICY:

IES Vienna requires attendance at all class sessions, including field study excursions, internship meetings, scheduled rehearsals, and all tests and exams. Attendance will be taken for every class. If a student misses more than two classes without an excuse, the final grade will be reduced by one-third of a letter grade (for example, A- to B+) for every additional unexcused absence.

Excused absences are permitted only when:

- 1) a student is ill (health issues),
- 2) when class is held on a recognized religious holiday traditionally observed by the particular student, or
- 3) in the case of a grave incident affecting family members;
- 4) Exceptions may be made for conflicting academic commitments, but only in writing and only well in advance of missed class time.

Please refer to IES Vienna Attendance Policy for details on how to get your absences excused.

CONTENT:

| Session | Content | Reading for Next Class |
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| Week 1 | Introduction. Reasons of the collapse in the Soviet economic model. Major features of the Soviet-type | <u>Communism and its Demise</u> p. 11-23 In: Aslund, Anders (2007): How Capitalism Was Built. The Transformation of Central and Eastern Europe, Russia, and Central Asia, Cambridge University Press |

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| | <p>system in the Central and Eastern European countries. Country differences. Economic reforms. Plan and market relationship. Foreign indebtedness. Crisis management. Economic policy under Gorbachev. Collapse of the Soviet-type system.</p> | |
| Week 2 | <p>Discussion of the reading.</p> <p>Transition from command to market-type economy. Strategies of economic transformation. Shock-therapy versus gradualism. Economic stabilization + liberalization + opening up. Quiz one on the first reading and class notes</p> | <p><u>Shock Therapy versus Gradualism</u> p. 29-38 In: Aslund, Anders (2007): How Capitalism Was Built. The Transformation of Central and Eastern Europe, Russia, and Central Asia, Cambridge University Press</p> |
| Week 3 | <p>Discussion of the reading.</p> <p>National variations of the economic transformation. The Polish, Czechoslovak and Hungarian models at the start of the transition. Economic issues of the German unification.</p> | <p>Sachs, Jeffrey (1994): <u>Shock Therapy in Poland: Perspectives of Five Years</u>. University of Utah, p. 26</p> |
| Week 4 | <p>Discussion of the reading.</p> <p>Transformational recession and second transition crisis. Factors behind economic decline. Second transition crisis. Twin deficit. Hungarian economic adjustment in the mid 1990s. Economic recessions in Bulgaria, Czech Republic, Romania and Slovakia. Adjustment policies. Deadline of research paper one</p> | <p>Kornai, Janos (1994): <u>Transformational Recession: The Main Causes</u>. Journal of Comparative Economics 19, 39-63.</p> |
| Week 5 | <p>Discussion of the reading.</p> <p>CEE countries and the outside world. The European Union and the Association Agreements. Enlargement. Entry criteria.</p> | <p>Deutsche Bank Research (2009): <u>As time goes by- Mixed showing after five years of EU eastern enlargement</u>, Frankfurt am Main, p. 32</p> |
| Week 6 | <p>Discussion of the reading.</p> <p>Economies of the new EU members and the global economic crisis.</p> | <p>Mühlberger, Marion – Körner, Kevin (2014): <u>CEE: fit for the next decade in the EU</u>, Deutsche Bank Research, Frankfurt am Main, p. 11 CESEE Back on Track to Convergence. Economic Analysis and Outlook for Central, East and Southeast Europe (2017), Forecast Report, The Vienna Institute for international Economic Studies, Vienna, p. 174</p> |
| Week 7 | <p>Discussion of the reading.</p> <p>Economic convergence and divergence in CEE countries.</p> | <p>Forgo, B, Jevcak, A. (2015): <u>Economic Convergence of Central and Eastern European EU Member States over the Last Decade (2004-2014)</u> European Commission, Brussels, Discussion Paper, p. 36</p> |

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| | Quiz two on the previous week's reading and class-notes | UniCredit Bank (2018): <u>CEE Quarterly</u> , March, p. 100 |
| Week 8 | <p>Discussion of the reading.</p> <p>The Russian and Ukraine economy. Disintegration of the Soviet Union. The economy from Yeltsin to Putin. Effect of the global economic crisis. Economic imbalances in Ukraine. Political and economic crisis in Ukraine. Impact of the Ukraine crisis on the world economy.</p> | Havlik, Peter (2018): <u>Russia's Reform Failures and Putin's Future Challenges</u> . WIIW, March 2018, Vienna, Austria, p. 28 |
| Week 9 | <p>Discussion of the reading</p> <p>Privatization process and foreign direct investment. Models for privatization. FDI inflow. Motivations of multinational firms. Government-MNEs relationship.</p> <p>Deadline of research paper two</p> | Estrin, Paul (2007): <u>The Impact of Privatization in Transition Economies</u> , Article for the New Palgrave Dictionary of Economics, 2 nd Edition, p. 21 |
| Week 10 | <p>Discussion of the reading.</p> <p>Labor market and social transformation. Changes in the employment structure. Social costs of the transition. Wage policy. Transformation of the social welfare system.</p> | <p>Stanowsky, Jürgen (2007): <u>Central and eastern European demographics – that shrinking feeling</u>. Allian Dresdner Economic Research No. 88 p. 11</p> <p>Kornai, Janos (2006): <u>The great transformation of Central and Eastern Europe, Success and disappointment</u>. Economics of Transition, Volume 14/2, p. 207-244</p> |

REQUIRED READINGS:

- Aslund, Anders (2007) How Capitalism Was Built. The Transformation of Central and Eastern Europe, Russia, and Central Asia, Cambridge University Press, ISBN 978-0-521-68382-1
- Sachs, Jeffrey (1994): Shock Therapy in Poland: Perspectives of Five Years. University of Utah, p. 26
- Kornai, Janos (1994): Transformational Recession: The Main Causes. Journal of Comparative Economics 19, 39-63.
- Deutsche Bank Research (2009): As time goes by- Mixed showing after five years of EU eastern enlargement, Frankfurt am Main, p. 32
- Mühlberger, Marion – Körner, Kevin (2014): CEE: fit for the next decade in the EU, Deutsche Bank Research, Frankfurt am Main, p. 11
- The Vienna Institute for International Economic Studies (2017): CESEE Back on Track to Convergence. Economic Analysis and Outlook for Central, East and Southeast Europe, Vienna, p.174
- Forgo, B, Jevcak, A. (2015): Economic Convergence of Central and Eastern European EU Member States over the Last Decade (2004-2014), European Commission, Brussels, Discussion Paper, p. 36
- UniCredit Bank (2018): CEE Quarterly, March, p. 100
- Havlik, Peter (2018): Russia's Reform Failures and Putin's Future Challenges. WIIW, March 2018, Vienna, Austria, p. 28
- Estrin Paul (2007): The Impact of Privatization in Transition Economies, Article for the New Palgrave Dictionary of Economics, 2nd Edition, p. 21
- Stanowsky, Jürgen (2007): Central and eastern European demographics – that shrinking feeling. Allianz Dresdner Economic Research No. 88 p. 11
- Kornai, Janos (2006): The great transformation of Central and Eastern Europe, Success and disappointment. Economics of Transition, Volume 14/2, p. 207-244

- Package of slides

RECOMMENDED READINGS:

- Aslund, Anders [2002] Building Capitalism, The Transformation of the Former Soviet Bloc, Cambridge University Press, pp.508 ISBN 0521 80525 2.
- Roland, Gerard (2005): After enlargement: Institutional achievements and prospects in the new member states. http://econ.berkeley.edu/~groland/pubs/Roland_Text.pdf
- Economies in Transition, The Long-Run View (2012), Edited by Gérard Roland, Palgrave Macmillan, UNU-WIDER, UK
- Aslund, Anders (2012): Lessons from Reforms in Central and Eastern Europe in the Wake of the Global Financial Crisis, Working Paper Series, WP-12-7, April, Peterson Institute for International Economics, Washington DC
- Wood, Andrew (2014): Putin's Legacy, Chatham House, London, p. 10 (Internet)
- Dabrowski, Marek (2014): Ukraine: Can Meaningful Reform Come Out of Conflict, Bruegel, Brussels, p.9 (available on the Internet)