

Reading list Transition and Economics

Main reference

TRANSITION AND ECONOMICS. Politics, Markets and Firms.

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Outline

1) **Transition and Economics. An introduction.**

(Based on introduction + chapter 1)

This course will introduce the general topic of transition, review what we know about the failures of socialism and the tasks of transition. The challenges of transition processes to economic theory and the requirements for a theory of transition will be discussed.

Other readings:

M. Dewatripont and G. Roland "Transition as a Process of Large Scale Institutional Change", in D. Kreps and K. Wallis (ed), *Advances in Economic Theory*, Cambridge University Press, (forthcoming).

Lipton, D. and J. Sachs, (1990a), "Creating a Market Economy in Eastern Europe: the Case of Poland", *Brookings Papers on Economic Activity*, no. 1, pp. 75-133.

McMillan, J. (1996), "Markets in Transition", in D. Kreps and K. Wallis (ed), *Advances in Economic Theory*, Cambridge University Press, (forthcoming).

McMillan, J. and B. Naughton (1992), "How to Reform a Planned Economy: Lessons from China", *Oxford Review of Economic Policy*, vol. 8, pp. 130-143.

Blanchard, O., Dornbusch, R., Krugman, P., Layard, R. and L. Summers (1991), *Reform in Eastern Europe*, MIT Press, Cambridge, Mass.

2) **Political constraints under aggregate uncertainty**

(based on chapter 2)

This lecture will analyse the effects of the type of uncertainty and complementarities on the choice of the speed of transition.

Other readings:

M. Dewatripont and G. Roland, "The Design Reform Packages under Uncertainty", *American Economic Review*, vol 83, no 5, 1995, pp.1071-223.

Fernandez, R. and Rodrik, D. (1991), "Resistance to Reform: Status Quo Bias in the

Presence of Individual Specific Uncertainty", *American Economic Review*, 81, p.1146-1155.

Qian, Y. and C. Xu (1993), "Why China's Economic Reforms Differ: The MForm Hierarchy and Entry/Expansion of the NonState Sector", *Economics of Transition*, vol. 1, pp. 135-170.

Bertocchi, G. and M. Spagat (1993), "Structural Uncertainty and Subsidy Removal for Economies in Transition", mimeo, Brown University.

3) **Political Constraints without aggregate uncertainty**

(based on chapter 3)

The effects of heterogeneity in interests will be introduced in the analysis. The effect of political constraints on the speed, sequencing, budgetary costs and incentives to secede will be analysed.

Other readings:

Dewatripont, M. and G. Roland (1992a), "Economic Reform and Dynamic Political Constraints", *Review of Economic Studies*, vol. 59, pp. 703-730.

Dewatripont, M. and G. Roland (1992b), "The Virtues of Gradualism and Legitimacy in the Transition to a Market Economy", *Economic Journal*, vol. 02, pp. 291-300.

Bolton, P. and G. Roland, (1994), "The Breakup of Nations: A Political Economy Perspective", mimeo, ECARE, Universite Libre de Bruxelles.

Aghion, P. and P. Bolton (1991), "Government Domestic Debt and the Risk of Default: a Political Economy Model of the Strategic Role of Debt", in Dornbusch, R. and Draghi, R. (ed.), *Debt Management: Theory and History*, Cambridge University Press, Cambridge.

Alesina, A. and A. Drazen (1991), "Why are Stabilizations Delayed?", *American Economic Review*, vol. 81, pp. 1170-1188.

Alesina, A. and E. Spolaore (1994), "On the Number and Size of Nations", *NBER working paper*, no. 5050.

Persson, T. and Svensson, L. (1989) "Why a Stubborn Conservative Would Run a Deficit: Policy with Timeinconsistent Preferences", *Quarterly Journal of Economics*, vol. 104, pp. 325-346.

Wei, ShangJing, (1991), "To Divide or to Unite: A Theory of Secessions", mimeo, Harvard University.

Wei, ShangJing, (1993), "Gradualism versus Big Bang: Speed and unstainability of Reforms", mimeo, Harvard University.

4) **Dealing with soft budget constraints of firms and banks.**
(based on a survey paper I am writing with J. Kornai and E. Maskin)

Other readings:

Shleifer, A. and R. Vishny, (1994), "Politicians and Firms", *Quarterly Journal of Economics*, vol. 109, pp. 995-1025.

Debande, O. and G. Friebel, (1995), "Privatization, Employment and Managerial DecisionTaking", mimeo, ECARE, Universite Libre de Bruxelles.

Aghion, Ph., O. Blanchard and R. Burgess (1994); "The Behaviour of State Firms in Eastern Europe Preprivatization", *European Economic Review*, vol. 38, pp. 1327-1349.

Pinto, B., Belka, M. and S. Krajewski (1993), "Transforming State enterprises in Poland", *Brookings Papers on Economic Activity*, no.1, pp.213-270.

Segal, I. (1993), "Monopoly and Soft Budget Constraints", mimeo, Harvard University.

Berglöf, E. and G. Roland, "Bank Restructuring and Soft Budget Constraints in Financial Transition", *Journal of Japanese and International Economics*, 1995, vol. 9, pp. 354-375.

Berglöf, E. and G. Roland, "Soft Budget Constraints and Credit Crunches in Financial Transition", *European Economic Review*, 1997..

Anderson, R. and C. Kegels, (1996), *Transition Banking: The Financial Development of Central and Eastern Europe*, Oxford University Press, Oxford.

Mitchell, J. (1994), "Strategic Creditor Passivity in Economies in Transition, mimeo, Cornell University