Introduction

Economics 666 is the second half of a two-semester course sequence in the field of economic development and transition. It is designed to cover a range of issues and topics in the field, which is evolving rapidly given the on-going development in the transition and emerging market economies. Our focus will be on issues encountered by the one-third of the world population that lived under central planning and is now undergoing the transition to a market economy. We will analyze the principal theoretical and empirical studies, evaluate existing data sets and identify research topics. In addition to providing an overview of the most important phenomena, the course will review frontier research in order to help students to identify research topics. As part of this course, we will also review the performance of the former centrally planned and labor-managed economies in order to provide the student with a historical context as well as an understanding of the sources of many problems encountered in the transition economies. Finally, we will cover selected topics in modern development economics.


Students are expected to read the starred assignments on the reading list before class and participate in class discussions. Students will also be asked to lead discussions of some papers on the reading list. Class participation accounts for 30% of the final grade. The rest of the requirement is a substantial term paper due on the last day of class in April. A prospectus of the term paper is due by the fifth week of the term, at which point each student should schedule a meeting with me to discuss the feasibility of his/her project. As an alternative, a final exam will be offered to those students making a special arrangement with me.
The Reading List

1. Background to Central Planning and Transition


2. Traditional Topics of Comparative Economics and Development


2.1 Plan versus Market: Theoretical Discussions


2.2. Incentive Problems in Socialist Systems


### 2.3 Shortages and Rationing


### 2.4 Government, Labor and the Behavior of Firms


### 2.5 A Positive Political Economy Approach to Socialist Systems


### 2.6 Some Models of Economic Development and Growth


### 3. Major Issues of Transition

#### 3.1 Price Liberalization, Macroeconomic Stabilization and Output Fall


### 3.2: Reforms and Behavior of State Owned Enterprises


Aghion, Philippe and Olivier Blanchard, “….,” *European Economic Review*, …

Olivier Blanchard, *The Economics of Post-Communist Transition*, Ch. 3-4, pp. 61-127.

### Speed and Methods of Reform

*Roland, Gerard: “Speed and Methods of Price Liberalization,” *Transition and Economics*, MIT Press, 2000, Chapter 6, pp. 131-152. (covers the material of the following two articles)


**Restructuring and Privatization of Firms**


**Productivity, Employment, and Wages**


**Investment Behavior, Financial Sector Development and Soft Budget Constraints**


**Entrepreneurs, Credit Constraints and Bribes**


**3.3 Labor Market and Income Distribution**

**Human Capital**


**Labor Mobility**


**Income Distribution and Welfare**


Angus Deaton, TBA

**Unemployment**


*_________, “Factors Affecting Women’s Unemployment During the Transition in the Czech and Slovak Republics,” *Economics of Transition*, 7(1) 1999, 47-78.*


**3.4. Reforming International Trade**


3.5. Reforming Public Finance and the Government


### 4. Recent Topics in Development

**Foreign Direct Investment**

Aitken and Harrison, TBA


**Law and Institutions**
