I. (9) Define and explain each of the following (in one to two sentences each)

1. Liberalization
2. J-curve
3. Agnoin-Blanchard model

II. (6) Evaluate the following statements providing supporting information for your conclusion

1. The political dilemma facing many of the former socialist economies in the early 1990s was that moving to a market economy would result in short-run benefits but long-run costs.
2. In their transition to market economies, the former socialist economies had to terminate the central planning apparatus, establish price ceilings, and provide for full convertibility of their currencies.

III. (12) GDP is growing at 10 percent per annum, labor at 2 percent per annum, and capital at 9 percent per annum. Labor accounts for 70 percent of income and capital for 30 percent of income. What is (show your calculations):

a) The rate of growth of labor productivity
b) The rate of growth of capital productivity
c) The rate of growth of total factor productivity

IV. (12) Western observers of the planned socialist economic systems typically argued that these systems were “distorted.” What does the concept of distortion mean, and why might it be relevant to an understanding of the transition process?

V. (14) You must decide whether the transition strategy will be gradual or “big push” (shock therapy). What are the key differences? What are the relative advantages of each one?

VI. (12) What methods have transition economies used to privatize industries?

VII. (12) The conventional view is that living standards have fallen dramatically due to price liberalization. Why might official reports of falling living standards overstate the true effect?

VIII. (12) Why CIS countries have largely failed to attract foreign direct investment. Do Eastern European countries have the same experience?

IX. (11) The concept of transition implies a temporary process as an economy changes. Will transition come to an end? How will we know when transition is over?