Study Questions

1. Why did Gorbachev’s policy of *perestroika* fail?

2. Briefly discuss the main structural economic differences between the East and West.

3. GDP is growing at 10 percent per annum, labor at 1 percent per annum, and capital at 10 percent per annum. Labor accounts for 75 percent of income and capital for 25 percent of income. Find:
   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

4. 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?

5. What characteristics of initial conditions are assessed in studying transition economies? How can one measure initial conditions in an economy? What is the relationship between an economy’s initial condition and its transition to being a market economy?

6. Discuss the significance of liberalization and its role in transition.

7. The early years of transition were characterized as demonstrating a “J” curve. What was the “J” curve, and to what extent has it been relevant to our understanding of the transition process?

8. What led to the phenomenon of a collapse of GDP being a general concomitant of liberalization?

9. Why was inflation a common feature of transitional states?

10. Discuss the concept of the “big push.” What are the policy characteristics that distinguish it?

11. What is the gradualist approach to transition? Can transition be both “evolutionary” and have “big push”? How does the evolutionary approach help economists to study transition in ways that the “big push” does not? What useful perspectives does the evolutionary approach provide?

12. What is meant by corporatization?
13. It is widely argued that if markets are to be used as a mechanism for allocating resources in the formerly planned socialist economic systems, the single most important change necessary during transition is property rights. Discuss.

14. Although privatization occupies center stage in many countries in the 1990s, in fact the nature and process of privatization is very different in existing market economies when compared to privatization in the former socialist economies. Discuss.

15. The voucher system of privatization has been used in a number of the former socialist countries. What is a voucher system, how does it function in practice, and what are the major results of voucher privatization in Eastern Europe?

16. Discuss the mechanisms for privatization in Eastern Europe?

17. Why is privatization generally easier for small-scale industries than large-scale industries?

18. Despite decreased state spending after the collapse of command economies, most governments ran deficits. Why?

19. Define the term “sterilization policy.” What circumstances lead to this policy action?

20. Do you think that the central bank in a post-socialist state should be independent and insulated from political pressure?

21. Although experiences have varied widely from country to country, what general initial conditions have profoundly impacted the development of international trade in transition economies?

22. Speculate as to why CIS countries have largely failed to attract foreign direct investment. Do Eastern European countries have the same experience?

23. Describe the sources of unemployment in transition economies.

24. Compare and contrast income distribution from the communist era to contemporary times.

25. Have the Eastern European countries or the CIS countries achieved more rapid transition? What factors indicate this success?

26. 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?