

This review sheet is intended to cover everything that could be on the exam. However, it is possible that I may have inadvertently overlooked something. You are still responsible for everything in the chapters covered except anything that I explicitly say you are not responsible for. Therefore, if I left something off of this sheet, it can still be on the exam. There will be no multiple-choice questions. Most of the questions will be like the ones on the homework assignments, and possibly a few definition questions. I am more likely to ask questions that make you use definitions rather than have you recite them. I will probably ask one of the questions from the book at the end of the chapters.

The review session for this class will be at a time to be determined, probably Wednesday, 3/4.

Chapter 7: Some of this material I added to what the book had. Know how **theoretical communism** determines **what to produce, how to produce it, who gets it, and how to prepare for the future**. What did **Marx** mean by **dialectic materialism**? How did he feel that determined history? How would it lead to **socialism** and eventually to communism? How does theoretical communism **distribute income**? What are the strengths and weaknesses of that? Explain the **Labor Theory of Value**, how it would work, the problems caused by it, how Marx modified it, and what problems were created by the modification of the **socially necessary labor**. Why is the constrained optimization of **deciding how much to produce and how to produce it** a major problem? Why did the USSR create **comrades, a.k.a. nomenklatura**? What are in the **1-year, 5-year, and 10-year plans**? Why? How does theoretical communism get around the problem of not having **price signals** for determining how much to produce? How does theoretical communism score on **income distribution, efficiency, growth, stability, and long-run viability**? Why did **Mises and Hayek** predict the fall of communism?

Chapter 16: What is a **transitional economy**? (For this course, we are only concerned with transitioning from communism to capitalism.) How does the initial situation of **resources, degree of openness, degree of markets, and how long they were communist** affect the country's transition? How can a **fear that reforms may be reversed** affect the transition? What occurs during the phases of transition: **collapse, initial transition, secondary transition, and end of transition**? Why do those occur? Why must countries **liberalize wages and prices**? Why do they need to create the following laws: **property rights, bankruptcy, and contract**? What are the advantages and disadvantages of **privatization** done by **auctions, giving to workers, and selling via vouchers**? What are the problems with **determining who can buy the firms, getting people to want to buy the company, and what is the correct price for the firm**?

Chapters 14, 15, and Czechia: Know in general how the countries are doing as far as **unemployment, GDP per capita, growth rate of GDP, inflation, government deficit, government debt, interest rates, Gini Coefficient, and trade deficit or surplus**. Also, how does the country do with respect to the six outcomes we discuss, growth, efficiency, income distribution, stability, long-run viability, and environmental viability. *I will not ask for specific numbers, rather does the country have good values or are the values too low or too high. Look at old Exams #2 & #3 for the types of questions I might ask.* During communism, how did their economies differ from theoretical communism?

Chapter 14 (Russia): What was **Lenin's NEP**? In what way was it good and what way was it bad? How did **Stalin** behave? This includes his taking the **USSR** completely communist, his **party purges**, and creating the **nomenklatura**? How do managers of factories have problems with **motivation, principal-agent problem, unrealistic goals, and soft budgets**? In what ways were the **labor markets** nearly capitalistic? *Branches could adjust wage differentials to get more or fewer people for certain jobs. They could also provide non-economic incentives like status. Also, except for the forced labor camps, people had choice of their jobs.* Why was there a **black market** in some goods? How did it work? Was this good for efficiency? How was the Soviet Union when it came to **international trade**? What were **glasnost and perestroika** instituted by **Gorbachev**? What were their effects on the USSR? Why did the USSR collapse? How did their transition go? *In general, how did they privatize, what order did they do things like letting prices float and creating*

*new laws. Why did they have **hyper-inflation**? What has **Putin** done since he came into power? Has he moved more forward or back towards communism? What has happened to people's rights? What has happened to corruption? What are the strengths and weaknesses of its economy?*

Chapter 15 (China): Know how **Chairman Mao's Great Leap Forward** and his later **Cultural Revolution** changed China's economy and why their economy suffered greatly. What changes did **Deng Xiaoping** after the deaths of the **Gang of Four**? Why is the term of members of the **Politburo** limited? Why did Xi eliminate term limits for the chairman? How does the **M-form** of governing give better results than the Soviet **U-form**? How does it create **tournament competition** and why is that important? How did the "**spontaneous agriculture reform**" in 1978 lead to the powerful country China is now? How did it change the contracts for the farmers? How have **Hong Kong** and special **export zones** like Macau helped China open up to trade? Why is it important the China joined the **WTO** in 2001 especially when it comes to **intellectual property rights**? In general, what is required for a firm to be called a **state-owned enterprise (SOE)**? Why does the list of SOEs include most of the big companies, as seen by 90% of the value of the listed stock, 50% of the GDP, and all "**national champions**"? How do their **soft budgets** affect the banking system? Why does China still have problems with **property rights, pollution** and **corruption**? What are the differences between "**A shares**" be only available to Chinese citizens and "**B shares**" be sold in US\$ available to foreigners? Why do these matter? Why is there a large **informal lending market**, about 10% of GDP? How did the **labor laws implemented in 2008** affect China in the short-run and long-run? What is meant by the statement, China is a master of using **soft power**? How have the protests around the country, especially in Hong Kong affected the country?

The Czechia: Remember that from 1919 through 1992, there was a country called **Czechoslovakia**. It is now Czechia and The Slovak Republic or sometimes called Slovakia. Until World War II, Czechoslovakia was democratic and capitalist. How did the agreement to end World War II, which meant it was part of the "**Soviet satellite countries**" affect it. Of all of the satellite countries, only East Germany was more closely aligned with the USSR. How did the fact that 98% of the economy was controlled by the government including strict controls on prices and wages affect it? What were the effects of the **Prague Spring** in 1968? How did it do as a member of **CMEA**? What happened during the **Velvet Revolution** of 1989? Why did Czechoslovakia privatize \$5 billion worth of land and companies via **restitution**? Why did they use **auctions** and **vouchers** for other firms? The country split in two on 1993/1/1. Czechia taking a more capitalistic path and the Slovak Republic took a more socialist path even though it is capitalist.

This is the nongraded Assignment #7A that will be reviewed on 3/3 with Assignment #7.

- 1) (10 points) Czechia has done better than The Slovak Republic. Why do you think this is the case?
- 2) (20 points) Do you think Russia, China, or Czechia will have the best economy in twenty years? Explain your logic pointing to the strength of that country and the weaknesses in the other two.
- 3) (20 points) If you were Vláclav Havel, the President of Czechoslovakia when they converted to capitalism, would you have done the transition quickly or slowly? Explain your logic citing at least two reasons and why those qualities matter.
- 4) (20 points) What was CMEA a.k.a. COMECON? For a country like Czechoslovakia, what were one advantage and one disadvantage of being in it?
- 5) (10 points each) For each of the countries, if you could make one change to help their economy in the future, what would it be? Explain your logic.
 - A) Russia
 - B) China
 - C) Czechia