

COMPARATIVE ECONOMICS FIELD EXAM
May 2011
Department of Economics
UC Berkeley

Answer all four questions.

1. Write down the soft budget constraint (Dewatripont-Maskin) model with a state enterprise. Use this model to show the effect of enterprise privatization. To what extent does privatization solve the soft budget constraint problem? (5 points)
2. Assume an institutional reform program with 2 reforms $i=1$ and 2. Consider 2 situations: 1) only idiosyncratic uncertainty over reforms where each agent has the probability p_i of getting a positive outcome $g_i > 0$ and $(1-p_i)$ of getting a negative outcome $l_i < 0$; only aggregate uncertainty where there is the same probability p_i of getting a positive aggregate outcome $G_i > 0$ and the probability $(1-p_i)$ of getting a negative aggregate outcome $L_i < 0$. Compare formally the costs and benefits of a big bang and a gradualist strategy of reforms in the two cases. When gradualism is optimal, what can be said about sequencing of reforms in the context of those specific assumptions? How do you relate these results to reform processes in the real world? (5 points)
3. In China it is said that local governments have helped the reform process and economic growth. In Russia, it is said that local governments have hurt enterprise expansion by their predatory behavior. How can one explain these differences? What does the literature say about this? (5 points)
4. What are considered the main institutional reasons behind the success of Chinese growth and reform in the last 30 years? What does the literature say about this? Discuss various important points. Compare the answer to the standard approach of the role of institutions on growth (5 points).