

CEE Growth & Development

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Theories of Growth

- Pe Olde Science
 - Mercantilists and Physiocrats
- (Neo-)Classic Theories
 - Karl Heinrich Marx
- Outdated Theories
 - Harrod-Domar
- Development Economics

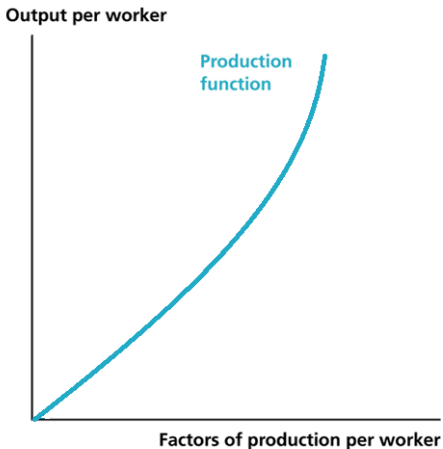
Marxism

'Class struggle'

- Primitive
- Slave society (masters vs. slaves)
- Feudal society (lords vs. serfs)
- Capitalist society (bourgeoisie vs. proletariat)
- Communism

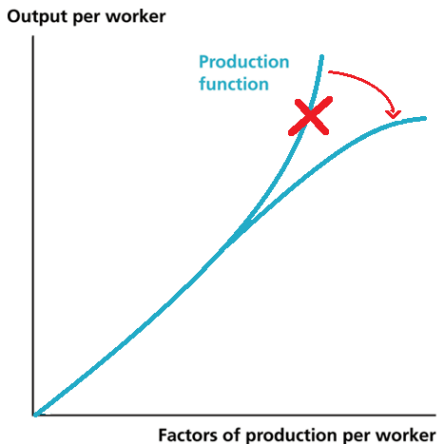
Classic Theories

- Adam Smith's Optimistic Theory
 - Production function, $F(K, L)$



Classic Theories

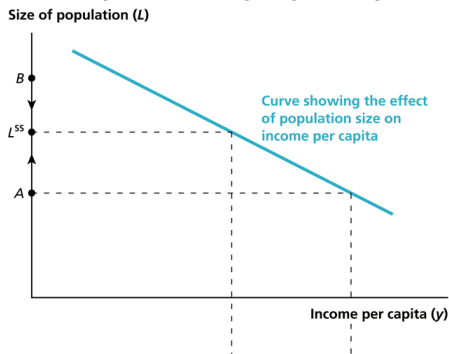
- David Ricardo's Pesimistic Theory
 - Decreasing marginal product



Classic Theories

- The Revd. Thomas Malthus' Dismal Theory
 - People breed to poverty

(a) Relationship Between Income per Capita and Population Size



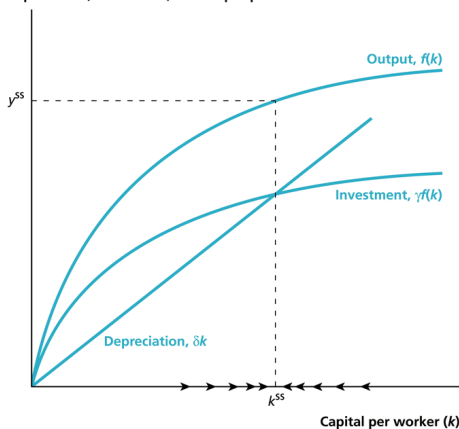
Theories

- Adam Smith (Optimistic)
- Ricardo, Revd. Malthus (Pessimistic)
- Karl Heinrich Marx (Revolutionary)
- Harrod-Domar (Perpetual)
- Solow-Swan (Neoclassical)
- New Theories (Endogenised)

Neo-Classic Theories

- Robert Solow's Dynamic-Stationary Theory
 - Capital accumulation $\Delta K = I - \delta K$ and Steady State

Depreciation, investment, and output per worker

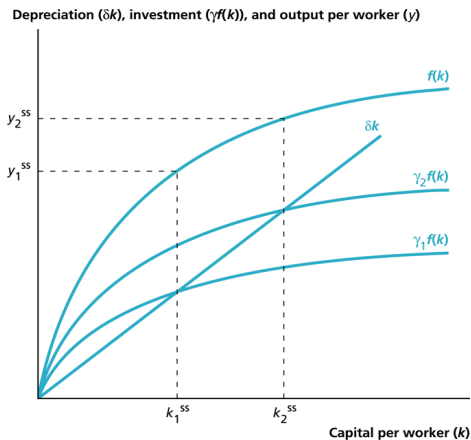


Capital per worker (k)



Neo-Classic Theories

- Robert Solow's Dynamic-Stationary Theory
 - Changes in the savings rate, $I = \gamma Y$, and Growth Rate

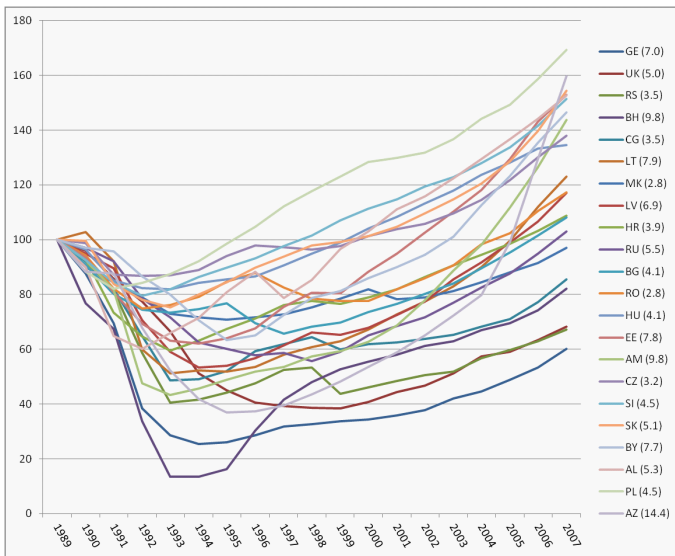


Note: $\gamma_2 > \gamma_1$

Solow Model Predictions

- Countries will eventually end up in their steady states
- Countries will grow at different rates if they are at different distance from the steady state level
 - (in case they have the same steady state!)

CEE Transition



CEE in Numbers

	AL	AM	AZ	BG	BH	BY	CG	CZ	EE	GE	HR
1997-2007	5.3	9.8	14.4	4.1	9.8	7.7	3.5	3.2	7.8	7.0	3.9
base 1989	60.1	43.4	37.0	65.7	13.5	63.3	48.7	86.9	62.2	25.4	59.5
1990-2010	3.5	3.1	4.3	0.6	3.5	3.1	-0.2	1.6	1.8	-1.4	0.3

	HU	LT	LV	MK	PL	RO	RS	RU	SI	SK	UK
1997-2007	4.1	7.9	6.9	2.8	4.5	2.8	3.5	5.5	4.5	5.1	5.0
base 1989	81.9	51.1	53.3	70.9	82.2	74.9	40.6	55.6	79.7	75.3	38.5
1990-2010	1.2	0.8	0.6	0.2	3.0	0.5	-0.8	0.5	1.8	2.5	-1.5