

# ABSTRACTS OF THE ARTICLES

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## **The soft budget constraint I**

*János Kornai, Eric Maskin and Gérard Roland*

The authors propose a clarification of the notion of soft budget constraint, which is widely used in analysis of socialist, transitional and market economies alike. The interpretation in the study is broad enough to embrace most existing approaches to soft budget constraint phenomena and provides a classification of the causes and consequences of these. In the light of this, the study goes on to review the theoretical literature on the subject and compare it with work on other dynamic commitment problems in economics.

## **Interest rates and price levels in a small open economy**

*János Vincze*

The study examines what effects various interest rates have on the price level and nominal prices in an open (primarily small) economy with free flows of capital. A closed economy calls for a distinction only between nominal and real rates of interest, but in an open economy, questions of interest-rate parity have to be considered as well. It is necessary to clarify the factors behind the real interest rate important for price-level pass-through and for the scale of risk premium. Analysis of interest-rate effects begins with the mechanism whereby the interest rate influences the cost of fixed assets (explicit or implicit rents). Secondly, the mechanism behind the relation of export-sector production decisions and domestic interest rates is examined. It emerges that decisions of the export sector are independent of domestic interest rates. Thirdly, certain types of pricing behaviour are studied. It is shown that a rise in the interest rate that does not alter the present exchange rate is a price-raising factor for the importing country. It can be assumed that if the interest rate has a demand effect in a closed economy, this will presumably be much weaker in a small open economy.

## **Target-zone rearrangement and exchange-rate behaviour in an options-based model**

*Anna Naszódi*

This paper sets up an options-based model of the exchange rate in a target-zone system, according to which the observed exchange rate is equivalent to a floating exchange rate adjusted to the value of two options. The strike prices of the options are the limits of the band, but the two options are interrelated, which complicates valuation of them. Within that framework, the direct effect of the band rearrangement on the exchange rate can be

measured by the change of the option prices caused by the change of the strike prices. The author applies this options-based model to analyse depreciation of the forint in the summer of 2003. Depreciation is decomposed into (a) the direct effect of the band shift; (b) changing expectations relating to the final conversion rate in the EMU, and (c) changing uncertainty.

### **Non-tariff obstacles to Hungarian exports. Lessons of a corporate survey**

*Ádám Török and Zsuzsa Deli*

Non-tariff means of market protection and the increasing relegation of tariffs bring uncertain and incalculable sales conditions for firms expanding on international markets. Utilization of such means is arbitrary in most cases. It is decided by the situation, the exporter and the character of goods what means firms entering the market find themselves facing, while analysing the effects of such means and allowing for a strategic calculation of consequences is cumbersome and often impossible. The study sets out to summarize the non-tariff barriers encountered by Hungarian firms on foreign markets and thereby make Hungarian firms on foreign markets better acquainted with the range of means applicable and the effects of these.

### **The effect of new ventures compared internationally**

*László Szerb, Zoltan J. Acs, Attila Varga, József Ulbert and Éva Bodor*

Analysis of the effect of new ventures on the economy has been widely investigated in the last decade. However, the Global Entrepreneurship Monitor (GEM) international research organization was the first to provide a consistent, comparable estimation of entrepreneurial activity over nations. The study describes the main findings of the GEM research over the 2001–3 period, focusing on Hungary. For the two most important measures—the Total Entrepreneurial Activity (TEA) and Firm Entrepreneurial (FEI) indices, Hungary is in the middle range of participating countries. Its situation compares well within the Central and Eastern European region – Croatia, Poland, Russia and Slovenia – and comes out slightly better than the EU average. Since the formation effect of new firms on economic growth and employment creation outweighs that of existing firms five to six times over, new firms should receive greater emphasis in Hungarian policy towards entrepreneurship.

### **Corporate behaviour and chances of survival in a post-socialist transitional economy**

*Béla Janky and György Lengyel*

The study uses panel data to examine the factor affected medium-term changes in the chances of survival among Hungarian manufacturing firms. The researchers revisited in 2000 firms surveyed in a 1993 sample. The figures show firms' survival chances vary essentially not only by industry, size of labour force and utilization of capacity, but according to managerial behaviour and corporate strategy. Those whose managers believed in 1993 that behaviour breaching accepted norms would succeed in the economy had a lower than average likelihood of surviving until the end of the decade. The survival rate was higher among those whose managers thought they would be successful or were

already applying crisis-management techniques of a remedial nature in 1993, than among those using delaying tactics to tackle a crisis caused by the transformational recession.

**The role of ‘business angels’ in developing small firms in Hungary with growth potential**

*Zsolt Makra and Andreász Kosztopulosz*

The study presents a relatively little-known form of funding for small firms in Hungary. ‘Business angels’ are institutional venture capitalists who obtain a stake in unquoted companies with growth potential and often participate in developing them as well. A questionnaire survey was used to prove the existence of a rudimentary informal venture-capital market in Hungary. The findings point to a limited spread of business-angel activity in the country. Arguments are advanced for the importance of this type of investment and proposals made for developing the market for it.