

### **Growth and convergence in Hungary, 1995–2009**

*István Kónya*

The paper sets out to interpret the main macroeconomic developments in Hungary in the last 15 years through a stochastic neoclassical growth model. The methodology is an adaptation to converging economies of the business cycle accounting introduced by Chari, Kehoe and McGrattan (2007). Applying the Hungarian data raises several problems with this methodology, and so the author has adopted a different, more robust empirical approach. Results show that in the last 15 years of the Hungarian economy, labour and investment decisions have both been distorted significantly. While the labour market distortion was higher at the outset and at the end of the period examined, the capital market distortion became significant towards the end.

### **The development opportunities for the Central-East European market economies within the European Union**

*Beáta Farkas*

The study uses the textbook approach to variants of capitalism and builds on an empirical analysis in order to place the CEE union member-states as a new model beside those of the old member-states. The institutional analysis is collated with macroeconomic examinations; these confirm that the model developed in the region has brought marked development, but also constraints that shed doubt on whether one of the main aims of the systemic change can be reached: convergence with the development level of the old member-states. Lack of development in education, R & D and innovation, coupled with a relatively low savings rate saving and a declining population, makes it likely that the present asymmetric interdependence with the developed countries will remain. A switch to the innovation-led economic development envisaged in the EU strategies may succeed only exceptionally, in a few countries at most.

### **Is my friend a dictator? The relation between friendship and impartiality**

*Attila Gulyás*

Several studies have pointed out in the last few decades that in some situations, preferences that regard others provide much stronger incentives than self-interest. These preferences – for example fairness, altruism and reciprocity – have been the topics of numerous research projects that use the tools of experimental economics. Although these studies focus on numerous behavioural factors, one of the simplest social relationships – friendship – has yet to be examined. The article tries to make up for this by using dictator and ultimatum games. Results show that fair behaviour does not mean “equality” per se. It is based on a

much more complex set of norms, in which interpersonal relationships may have a crucial role. The experimental results support the assumption that people share more altruistically with their friends than with strangers, so “fair split” has a different meaning depending on who the goods are being split with. They also show a relation between splits perceived as fair and expectations of others’ perceptions of a fair split.

### **Does the currency exchange rate count?**

*Tibor Erdős*

Next to the author’s article in the October 2010 of *Közgazdasági Szemle* was another piece by Péter Bihari and Ákos Valentinyi taking issue with it. The latter included several statements that cannot be left unanswered. Since it was a contribution to debate, the present author waited for others to contribute, which has not happened so far. This piece is grouped around four questions. 1. Is there a connection between change in the exchange rate and the growth rate of exports? How is the link expressed in this country? 2. Does a rise in the exchange rate necessarily increase interest rates? When inflation is rising, can interest rates and the exchange rate move in opposite directions? 3. Can the expansion of foreign-currency based credit be avoided? 4. What is the relation between demand and cost inflation on the one hand and the shortage economy on the other?

### **Innovation-driven growth?**

*Andrea Szalavetz*

The paper surveys the ambiguities around the term innovation-driven growth (IDG) and refines the definition of it. It surveys the statistical and methodological efforts undertaken to measure IDG formally, with special emphasis on measuring intangible investments and on growth-accounting exercises that integrate investments into knowledge in the calculations. It is found that investment into knowledge is strongly related not only to output and productivity growth, but also to innovation “driven-ness”, as such investments substantiate non-technological innovations, without which the productivity and growth effects of technological innovations cannot prevail. Refining the definition of IDG by complementing it with non-technological aspects, it can be claimed that competitiveness at or near the technological frontier is determined by technological and non-technological innovation capabilities, and by the interactions between technological and non-technological innovations. In the long run, economic and productivity growth are driven by technological and non-technological innovations. As a country approaches the technological frontier, it is not only the intensity of technological innovations that increases (to a level higher than the average for countries near the frontier), but that of non-technological innovations as well. Proximity to the frontier and innovation “driven-ness” are manifest in the sizeable weight and dynamic growth of non-technological innovations within total innovations. In the concluding section we present the practical, economic policy implications of our theoretical arguments.