

### **Disinflation simulations with a disaggregated output gap-based model**

*Viktor Várpalotai*

The paper sets out to compare the costs to Hungary of various disinflation strategies and scenarios, using simulations based on a more developed version of the 'small-scale macro-model' presented in Benczúr, Simon and Várpalotai (2002). The aggregated output-gap variable in the model has been broken down into gaps for household and government consumption, investment, exports and imports. The equations describing the behaviour of these have been estimated from data for the period 1991–2002. This new model with a more detailed structure is used to calculate the costs of various strategies and the lengths of the disinflation periods associated with them. The author simulates the effects of nominal exchange-rate appreciation and the policy of fiscal loosening, and a policy mix of exchange-rate appreciation coupled with fiscal tightening. Although the absolute values of the sacrifice ratios calculated must be interpreted cautiously, comparison of the various scenarios delivers a clear message. Disinflation is both faster and cheaper where the restriction of demand occurs in each sector in parallel. Where such coordination is lacking, disinflation becomes slower and more expensive.

### **The inflationary expectations of macro analysts in Hungary**

*Judit Krekó and Balázs Vonnák*

The study appraises professional inflation forecasts in Hungary. The first six years of a survey conducted by Reuters seem to confirm the initial suspicion that averaging the forecasts of individual macro analysts reduces average forecasting error. The average of the forecasts is an undistorted estimate of actual inflation, although it does not immediately reflect new information in all cases. Month-by-month variation in the sample and the wide dispersion of the forecasts mean that variations of less than 0.1–0.2 per cent in the survey average can only be ascribed with a low level of probability to actual changes in market inflationary expectations. Three successive movements in one direction, however, indicate an actual change in expectations in a decisive majority of cases. Based on the findings, the authors consider, in view of the accessibility of the data and its adequate forecasting characteristics, that a consensus of the forecasts makes an optimum choice for inflation planning in the short term (one or two years).

**Mutant firms? On internal hybrids***Judit Kapás*

The study seeks to contribute to a theoretical understanding of the internal hybrids proliferating in the knowledge economy. The author's starting point is whether internal hybrids embracing decentralized structures built on self-organizing teams are really new organizational forms (as the literature claims), or simply mutants of an existing form, namely that of the firm. Clarity calls for clear and unambiguous definition of the organizational forms and of the firm. The paper establishes that internal hybrids are mutants of firms in the same way that a multi-divisional form can be treated as mutant by comparison with a centralized hierarchy. The author introduces the concept of 'firm-ness', based on which the various forms of firm become explainable. The forms of firm (centralized hierarchy, multi-divisional enterprise, internal hybrid) differ in the proportions in which the coordination mechanisms operate within them: coordination mechanisms characteristic of the market and of internal hybrids are present to a greater extent in external hybrids. Firms can exist in many different variants that exhibit different degrees of 'firm-ness'. The author underlines that internal hybrids constitute an organizational solution that has comparative advantages in the knowledge economy.

**The European Monetary System and ERM-2***Éva Katalin Polgár*

The negotiations recently concluded probably mean that the European Union will gain ten new members in 2004. The new members have to adopt the *acquis communautaire* in full, and as part of that, make efforts to join the European Economic and Monetary Union and meet the convergence criteria for so doing. One criterion calls for stability of the exchange rate with the euro for at least two years before entry, which means formally that the states concerned have to take part in the EU exchange-rate system, ERM-2, over that two-year period. This system differs from its predecessor, the ERM, in basic respects, while showing several similarities as well. The study therefore begins by summarizing the experiences with exchange-rate cooperation within the European Monetary System, paying special attention to the crisis in the system and a possible explanation for it. Building on that basis, it then goes on to deal with ERM-2.

**Asymmetric price effects in the Austrian meat industry—lessons for this country***József Tóth*

The study examines market behaviour in the full vertical structure of the Austrian meat industry in the period 1973–96, which included entry into the EU. The author seeks to discover whether the largely oligopolistic structure of the consumer market caused excessive distortion in the operation of that market. The econometric analysis conducted to decide that reveals that changes in the producer prices on the Austrian meat market moved the consumer prices and the presence of an asymmetric price effect can be shown in the period examined. After drawing conclusions from this, the study ends by formulating some very useful lessons for Hungary.