Servicing mortgage loans in forints and in foreign currency: simple models

Júlia Király and András Simonovits

Since the short, temporary period of popularity of FX-denominated loans during the great financial and economic crisis (2007–13), the cost of servicing such loans has become impossible for borrowers to afford. The authors have designed a family of simple models to compare the cash flow of instalments and the path of outstanding principal denominated in domestic and in foreign currencies. These models allow several conclusions to be drawn that are relevant to the recent debates on FX loans. The study demonstrates the key role played by the uncovered interest-rate parity. Moreover, it gives a closed-form solution to the trade-off between the depreciation and the unilateral interest-rate increases by the banks. There is a simple model for determining optimal amounts for domestic and for FX-denominated loans.

The elasticity of the effective corporate tax rate in Hungary: evidence from the tax cut between 2009 and 2011

Péter Elek and László Lőrincz

The paper analyses the effects of the corporate tax cut between 2009 and 2011 on corporate tax receipts, based on panel data at firm level. First, the authors examine the firm-specific determinants of the average effective tax rate (the ratio of corporate tax due and earnings before taxes) with cross-sectional regression models. It is found – after controlling for other factors – that exporting companies, the smallest and largest companies, and companies in agriculture are the sub-sectors that have a lower than average effective tax rate, after subtracting tax benefits and other correction items. The paper goes on to analyse the elasticity of the effective tax rate to the notional tax rate, by fixed-effect panel regression techniques, and find an elasticity of around 0.7–0.9. The validity of this estimate is checked by propensity-score matching, making use of a special tax benefit in the Hungarian tax system.

Market adjustment under sticky prices: the price rigidity of a Calvo type in an agent-based model

Miklós Váry

The paper introduces price rigidity into an agent-based market model in a way similar to Calvo pricing. It is argued that the usual consequences of rigidity of prices observable in DSGE models (trade-off between the volatility of the price and the output, and the constancy of average values as a function of price rigidity), are merely implied by the specific assumptions of the models. It is shown that the effects are different in an agent-based model. Here there is a positive relation between price volatility and output as a function of price rigidity, which affects the volatility of the variables in a reversed U-shaped relation. Higher price flexibility leads to higher average output as well. The heterogeneity of firms in price rigidity does not affect the variables. If firms place greater weight on the prices of their competitors in price decision-making, then with flexible prices the volatility of the price and the output decrease, while with sticky prices they increase. An increase in the density of the network of acquaintances among firms decreases the volatility of the variables with flexible prices, but it does not affect them with sticky prices.

Surplus and scarcity in history and science

Annamária Artner

The study aims to criticize the basic thesis of mainstream economics that scarcity plays a determining role in production. To do so it outlines the essence of and relation between scarcity and surplus, and the role they play in the development of society. The author argues that scarcity is the result of appropriation of the means of production and of production that aims at surplus. With the general mode of the production of surplus, the study introduces the notion of initial advantage, cumulative advantage and class surplus. It highlights how the production of surplus has been changed under capitalism, where it has become subordinated to the specific rules of the market instead of the subjective needs of those who hold the benefits. Consequently the class surplus produced nowadays is enough to put an end to scarcity in general. The need to eliminate general scarcity is underlined by the fact that the production of surplus and the collateral production of scarcity halt from time to time and exacerbate existing socio-economic problems in times of crises.