

Pay differentials between industries in Hungary. I. The basic models

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The paper analyses the extent of inter-industry pay differentials in Hungary at the end of the 1990s and the reasons for them. Part I looks briefly at the main theoretical considerations behind these differentials and the basic types of model for analysing them. The authors recommend a non-competitive bargaining model for analysing the Hungarian situation and introduce empirically verifiable statistical models into their assumptions about company and employee rents. Part II (to be published in the December issue) turns to the measurements and tests the theoretical model. The paper examines the sources of the inter-industry pay differentials between industries in two stages: by estimating the pay free of equalizing influences and then analysing it on an industry level. The main conclusion is that cases of high market concentration coupled with union activity in Hungary in 1998 were the best predictors for high pay in the industry concerned.

The investor horizon and the ‘forward puzzle’

Zoltán Schepp

The study sets out to present a new approach to interpreting the widespread *ex post* defect of uncovered parity, in a way that maintains the possibility of rational expectations and risk-indifferent investors. Since long-term bond positions are decisively important to international institutional investors, the customary short-horizon, *ex post* defects in the expectation hypothesis of the yield curve may be carried over – through realization of bond-price gains – into short-term exchange-rate movements that are very likely to correspond to anomalies found in practice. The empirical examples to demonstrate this support the need for further research.

Inflation, capital costs and the competitive disadvantage of Hungarian owners

Márk Radó

The Fisher formula most commonly used to describe the relationship between expected inflation and expected returns completely disregards taxes and therefore cannot be considered to be of general validity. Alternative theories explicitly incorporating tax effects may be better descriptors of reality. Tax does not affect all Hungarian companies and owners equally. Domestic owners realize a taxable inflationary capital gain that does not arise for foreign owners. Owing to this, companies with different ownership backgrounds may face differing costs of equity and firms with domestic owners are at a clear competi-

tive disadvantage. The phenomenon is proportional to the magnitude of inflation and gradually disappears with falling inflation. The author estimates that the difference in the cost of capital has fallen from a high of 2–3 per cent (200–300 basis points) at the beginning of 1990s to about 0.5 per cent today, thereby significantly reducing the competitive disadvantage of companies in domestic ownership. However, inflationary capital gains are still taxed under the Hungarian tax system. A solution to this would contribute improving domestic capital accumulation.

How can the new economy be measured? Estimating change in product quality with the help of price indices

Áron Négyesi

Knowledge and information about products and services has increasing importance in today's economy. These, along with the increasing speed of economic events, cause accelerating changes in the quality of products. The difficulty of measuring quality and following the appearance and disappearance of products, as well as the importance of doing so correctly, is apparent in international literature and even in the international standards for statistics. According to these standards, price indices have to measure purely the change in price, with all other factors, such as changes in product quality, being consigned to the volume index. However, even those devising the regulations governing the statistical services of the EU countries concede that it is unclear with many products how the distinction should be drawn in practice. The author attempts to overcome the problem and present the methods for measuring quality, especially the hedonic indices accepted internationally, but still seldom used in Hungary.

Examining innovation activity by econometric methods

Annamária Inzelt and László Szerb

The study uses selected businesses in a region to present the scope for employing econometric methods in a way not done so far in innovation literature in Hungary. The authors examine in turn the two great groups of technological innovation – innovation in products and in technology – and the factors affecting them. Two indicators have been used to gauge the success of innovation activity: the proportion of new products in sales, and export performance. Of the factors affecting the implementation and success of innovation, the authors examined innovation cooperation schemes and the relation of firm size to innovation performance.