

### PERSUASION AND SETTLEMENT IN A DYNAMIC BARGAINING GAME

Péter Eső and Chris Wallace

In a dynamic model of bargaining, parties to a trade can obtain, and publicly disclose if they wish, persuasive and verifiable evidence about the value of agreement. In equilibrium the parties disclose only favourable evidence and conceal unfavourable evidence; in the absence of disclosure delay may occur on the path to equilibrium. The time up to settlement depends upon how optimistic about the value of agreement each of the parties is, and upon how skilled they are in obtaining hard evidence. More optimism may lead to longer delays before settlement and/or to lower prices, whilst greater ability to generate verifiable evidence can reduce a party's payoff.

### INTEREST PREMIUM, CREDIT CRISIS AND BALANCE-SHEET ADJUSTMENT IN A SMALL OPEN ECONOMY

Péter Benczúr and István Kónya

The paper studies the adjustment process of a small open economy to a sudden worsening of external conditions. To model the sudden stop, the authors use a highly non-linear specification that captures credit constraints in a convenient way. The advantage of this approach is that the effects of the shock become highly conditional on the external debt position of the economy. A two-sector model is adopted with money-in-the-utility, which allows study of the sectoral asymmetries in the adjustment process, and of the role of currency mismatch. The model is calibrated to the behaviour of the Hungarian economy in the 2000s and its crisis experience in 2008–11 in particular. Also calculated are three counterfactuals: one with smaller initial indebtedness, and two with different exchange rate policies (free-float and a perfect peg). Overall, the model is able to fit movements of key aggregate and sectoral macro-economic variables after the crisis by producing a large and protracted deleveraging process. It also offers a meaningful quantification of the policy trade-off between facilitating the real adjustment by letting the currency depreciate, and protecting consumption expenditures by limiting the adverse effect of exchange-rate movements on household balance sheets.

### JOB CREATION AND EMPLOYMENT

Klára Major and Tamás Tétényi

Although job creation is only one of the transmission channels of economic policy, it is usually cited in development programmes as the route to increasing employment. Based on two decades' data and a macroeconomic forecast, the authors analyse interference between

job demand and employment, and the impacts and potential of job creation. The spatial econometric job-market model identified in local panel data shows a significant, but small employment impact by job creation: the impacts of employability and of the business cycle are larger by an order of magnitude. Analysis shows that only a fragment (generally less than 10 percent) of jobs created result in permanent employment. Extra employment is usually generated not locally, but rather in neighbouring districts with an ample employable workforce. Most local job markets, with the notable exception of bigger cities and especially Budapest, are generally short of employable workforce, a lack accentuated by the unfolding development programmes. The employment prospects from job-creation programmes from the mid-decade are depressing. It is more effective to attain employment goals by concentrating economic policy on other transmission channels.

#### CAN THE INVISIBLE HAND BE RENDERED VISIBLE? EXPERIENCES OF AN AGENT-BASED MARKET MODEL

Orsolya Hau, Tamás Mellár and Tamás Sebestyén

Economic theory tends to consider market mechanisms as equilibrium systems, in which reaching equilibrium is at most a matter of time. This view, however, is based on a set of strong assumptions: (i) the explicit appearance of an “invisible hand” in the form of the Walrasian auctioneer, excluding transactions inconsistent with the equilibrium, (ii) rational behaviour by the actors, (iii) perfect information. In addition, macro-level analyses heavily build on the assumptions of (iv) homogeneity among the actors (representative agents), and (v) separating the price and quantity-adjustment mechanisms. As real market circumstances hardly satisfy these assumptions, the stability of market mechanisms is questionable. This paper builds an agent-based model, designed to trace market dynamics when these assumptions are not met. With this bottom-up model, the authors analyse the effect of market micro-structures and decision mechanisms on the equilibrium processes of the market. The research showed that (i) the number of market actors has a strong effect on adjustment processes even if they are homogenous, (ii) price and quantity considerations in the decision-making rules do not have a significant effect on the market price or quantity, (iii) broadening information flows enhances market adjustment, and (iv) heterogeneity has a sounder effect if producers are heterogeneous.

#### DOES ENERGY EFFICIENCY AFFECT THE PRICES OF RESIDENTIAL UNITS?

Áron Horváth, Hubert János Kiss and Aliz McLean

The paper deals with the relationship between energy efficiency and housing prices based on international research and the authors’ Hungarian case study. International results show that higher energy efficiency, if it can be credibly communicated, may result in a price premium reflecting savings; credible communication is not, however, self-evident. The case study evaluates the effects of the energy efficiency-related renovation of a block house known as Faluház in Hungary, using the fact that other, otherwise similar blocks in the area (the control group) did not undergo renovation. The results show that flats in Faluház are approximately 10 per cent dearer than they would have been without the renovation, a result which is in line with published international findings. It is further shown that the price increment is greater than the cost of the renovation to the occupants, but lower than the total cost of the renovation, which was partly financed from outside sources.