

FOR MONEY OR FOR LIFE? EMPIRICAL FINDINGS ON THE HETEROGENOUS WELFARE EFFECTS OF SOME ECONOMIC-POLICY INTERVENTIONS

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Hungary has undergone several changes of VAT rates in recent years. The resulting price changes are used to estimate the price and income elasticities of household expenditures. In a novel move, they introduce an interaction term in estimating the demand system and show that the own-price elasticity of food increases with an increase in production for own consumption. Based on the estimates, the authors compute the average welfare effect of the changes and describe also its heterogeneity of effect within the population. It is found that the VAT reforms in 2006 and 2009 both decreased the welfare of those in the uppermost income quintile. Also examined are the welfare effects of multiple hypothetical reforms, such as a decrease in the VAT rate on food, a decrease in utility prices, and a subsidy on production for own consumption. It is found that the best targeted measure is an income transfer to the low-income unemployed, either directly or through participation in the public-work employment programme.

NARROWER SELECTION, WIDER DEMAND. EXAMINING THE EFFECTS OF THE 1999 POLISH EDUCATION REFORM

Luca Flóra Drucker and Dániel Horn

Thorough education reform in Poland in 1999 extended the previous eight-year undifferentiated, comprehensive period of education to nine years, introduced core curricula, and installed a new examination, admission and assessment system. The reform is claimed to have succeeded in increasing average PISA test scores, especially those of low performers. However, what is still awaited is reliable impact assessment on long-run labour-market effects of the reform. This paper fills the gap by looking at the causal effects of the reform. A comparison of the labour-market outcomes of the pre- and post-reform cohorts in a difference-in-difference framework reveals a non-negligible, positive effect on employment probabilities and wages. On average, the treatment group is around 2–3 per cent likelier to obtain employment and to earn 3–4 per cent more. These effects are more pronounced for those with low educational attainment.

THE STRUCTURE AND DYNAMICS OF LIMIT ORDERS ON THE BUDAPEST STOCK EXCHANGE: THE CASES OF OTP AND MOL SHARES

Dániel Havran and Kata Váradi

The paper describes the main trading features of the two highest-turnover Hungarian stocks (OTP and MOL) on the Budapest Stock Exchange, using data for the first ten months of 2013. The shape of the limit-order book is approached with three components estimated from the time series of the Budapest Liquidity Measure: steepness, convexity and hump-shape. The authors then apply indicators calculated from these order, transaction and turnover data. First they show the intraday patterns of trading, comparing them with those in the literature carried out on other data from various stock exchanges. They then analyse how a market order changes the market price in the short run, by estimating price-impact equations, which measure separately the effect of the order size and the transaction cost. These are gauged on the assumption that traders issuing a market order know how deep the order book is before the transaction. The effect on the period is measured after the opening and closing of trading. Thirdly they analyse how the bid and ask prices, spread, and components describing the shape of the limit order book change if there arrives an aggressive market order (greater than orders available at the best price level in the book). Thus they document the movement in the shape of the limit-order book, which depicts the aggregate behaviour of traders issuing limit orders.

THE LOSS FROM CENTRAL CLEARING HOUSES

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A regulatory answer to the financial instruments for addressing the crisis leads increasingly to forced, central clearance, even in over-the-counter markets, so that risk management, especially the loss of central clearing houses, has essential importance for the stability of the whole financial system. The paper builds a model for the operation of a central clearing house and analyses the potential losses that may have derived from insufficient margins in equity trading over the last eight years. These losses are compared with some other market proxies for financial stress, like the Conflict-Free Sourcing Initiative, a general stress index used by the US Federal Reserve. It is found that a general stress index has less predictive force for the loss of a clearing house than does a tailor-made model calibrated to the special needs of the given clearing house, because general stress indices do not take into consideration the special features of the clearing industry (high specialization, symmetric exposures, path dependency of margin accounts, etc.)