Trading mechanisms and market frictions. Microstructure of the financial markets
Tamás Erb and Dániel Havran

The article reviews the main state-of-the-art economic theories of market transactions. It follows the literature on the microstructure of financial markets in describing the various trading mechanisms under market frictions. The analysis is confined to markets in secondary financial assets. Within a unified microeconomic framework, the authors introduce the most common approaches of decentralized market-trading theories such as search and bargaining, middlemen, and trading in networks. They then investigate the principal theories of centralized trading, such as the behaviour of the market makers and trading explanations related to order-driven markets. The study reports the trading volume of the financial markets by microstructures and by asset classes.

How does imperfect knowledge of pension rules affect workers’ decisions?
András Simonovits

Part one of the paper outlines Benitez-Silva, Demiralp and Liu’s 2009 work on how exactly US workers know the social security rules and how to model the impact of imperfect knowledge on their decisions. Part two applies their approach to the Hungarian situation, presenting previous relevant studies by Csontos, Kornai and Tóth in 1996, Ágoston and Kovács in 2007 and Czibik and Medgyesi in 2007. The impact of imperfect knowledge of the pension rules on individual decisions is modelled in two frameworks, and three special models are discussed. Documented in an appendix are permanent changes in the main rules, which undermine the satisfactory level of their knowledge.

Financial stability concerns and global exposure of monetary policy
István Ábel

The monetary policy practices of leading developed economies may influence significantly the national policies of emerging market economies, through globally interconnected money and financial markets. Both monetary transmission mechanisms and conditions for macro-financial stability have changed in recent years. Although free capital movements and financial globalization have been around for a long time,
there are now some new challenges to monetary policy, including risk of sudden stops and reversals in capital flows, triggered by fixed-income securities investment funds. Investors’ attention to yield behaviour alters monetary-policy transmission by introducing a new channel dubbed by Hanson and Stein in 2012 as the recruitment channel. This differs from the traditional interest-rate and expectation channels. The other outcome of global interconnection of financial markets is shown in the move from a focus on solely domestic factors of inflation to a wider stability mandate, including price stability and financial stability. In response to the global financial crisis, interest rates fell in most countries and investment funds seeking yields turned to bonds, increasing their exposure to longer maturity dates. This raised their exposure to interest-rate risk. Globally important central banks will increase their interest rates, but at low interest rates a relatively small increase may lead to significant losses in longer-term portfolios. Investment funds seeking to minimize losses by shortening their portfolio durations may trigger abrupt changes in capital flows. Increased volatility may undermine financial stability. This type of stability risk is independent of a country’s liquidity situation or whether banks are well capitalized or profitable. Such risks cannot be managed with macro-prudential tools.

**Centralization: Last Chance or a Foreshadowing of Collapse?**

**On the General Nature of Planning**

Zoltán Bakonyi

Significant similarities can be seen between the Mises, Hayek and Lange planning-economy debate of the 1930s and the Mintzberg and Ansoff corporate-planning debate of 1990s. Based on the main constituents of these debates, a general model of planning can be formulated that is equally applicable to firms and to national economies. The central elements in the model are the informational and behavioural aspects of resources that define the degree of the centralization of planning. While centralized planning can cause global efficiency, decentralized planning can enforce local adaptation. The excessive pursuit of either extreme may result in failure of organizational operations.