

The behaviour of the nominal exchange rate after a change of monetary regime

Péter Benczúr

A model based on rational expectations provides very firm conclusions about the behaviour of the nominal exchange rate after monetary tightening: substantial initial strengthening followed by a steady weakening. This picture strongly contradicts actual observations, including recent experiences in Hungary and Poland, where systematic weakening did not follow the initial strengthening. The study examines whether the hypothesis of rational expectations can be rescued by including uncertainty and learning in the model. The results show that an optimistic learning scenario (involving an unpleasant inflation experience in every period) or a pessimistic learning process (better inflation figures than expected in every period), coupled with a reduced risk content of the nominal rate of interest, can explain the exchange-rate behaviour observed.

Cameralism, the historical school and Austrian economics. Three outlines from the history of German and Austrian economic debate

Aladár Madarász

Cameralism was a practical political science and university subject in 16th–18th century Germany, summarizing the theoretical and practical economic knowledge required in the training of officials. The assumption was that the prosperity of the ruler depended on the welfare and happiness of the subjects, but the subjects themselves were not capable of achieving this happiness without permanent directions from above. Cameralism's emphasis on administration and university institutionalization means that this approach cannot be seen as a local variant of mercantilism. The traditional account of the German historical school from 1840 to 1945 emphasized for over a century the contrast between the German and the Neoclassical traditions. It underlined the significance of the organic approach, the concept of development and individuality, the importance of the social question, and the denial of the deductive method and unalterable laws of the economy. Modern reconstructions see the historical school as one European response to the post-Classical crisis, offering an inductive alternative grounded empirically on history. The Austrian school formed in 1871 was at once a constituent of the Neoclassical paradigm and a rival to it. Methodological individualism, subjectivism, the importance of time, the role of knowledge, the theory of alternative costs etc. were absorbed into mainstream economics, but the focusing on these issues allowed the Austrian school, in keeping alive its demand for a social-theoretical explanation, to preserve something of an alternative discourse.

Dynamic pricing on electronic markets*Éva Kocsis and Katalin Szabó*

Long-forgotten forms of bargaining have been reviving on electronic markets and seem to be breaking down the defencelessness of buyers to price dictation. Any buyer is just a couple of clicks away from viewing the whole market supply. Perfect competition can move from the pages of microeconomic textbooks into everyday life and prices may go down to rock bottom on some markets where buying and selling transactions take place electronically. The cast of 'price makers' and 'price takers' that remained steady in the final decades of the 20th century changes at electronic auctions, where any number of buyers can switch on at once. However, the big companies soon also find ways in virtual space to segment the markets, reduce their transparency and make buyers rather than sellers compete for favours. They are installing on the Web pricing software that uses data on buyers to estimate their individual propensities to pay and thereby 'optimizes' their profits. Known coyly as 'income management', this method helps to prevent goods being sold for less than the consumer would be prepared to pay for them. The authors present the now somewhat ambiguous advance of dynamic pricing in the context of the new production method of mass tailoring. Only one thing is certain: the centuries-old practice of *cost-based* pricing is slowly ending.

Ties of locality. An explanation of the development of the geographical division of labour based on social networks*László Letenyey*

The question of 'regional economic systems', 'geographical division of labour' or 'location problem' has an important literature. Economic approaches emphasize the rationally calculated advantages of the specialized industrial areas: the benefit of the exploitation of discovered resources, more cooperative relations, etc. The paper stresses the role of *social networks* in the location problem: economically specialized areas formed because of the suggestions and tips of connected enterprises, cooperative partners. The hypothesis is based on the experiences of two case studies, made in a Peruvian rural area and a Mexican modern industrial area.

State or market in environmental protection? The environmental pollution-regulating matrix*Tamás Kocsis*

Economists are familiar with many forms of market failure, among the best known being the economic externalities in the field of environmental protection. Due to the market failures, the economy is not in a Pareto-optimal situation, in other words, the welfare of some cannot be raised without reducing the welfare of others. The question is whether this means in the case of a polluting firm or industry that the market mechanism has to be excluded when remedying the problem, or whether the market can still play some part in overcoming the difficulties.