

## **Hungarian fiscal policy: *quo vadis?***

*Gábor Orbán and György Szapáry*

The study reviews the causes and macroeconomic effects of the persistently high budget deficit in Hungary in recent years and then outlines the possible directions of a solution. A concise theoretical account is followed by analysis of the process of loosening fiscal policy and its effect on external equilibrium and the country's risk rating. Attention is drawn to the dangers that a chronic budget deficit poses to long-term balanced growth. Finally, without aiming at completeness, the authors draw some conclusions for economic policy.

## **The competitiveness of Europe's higher education and the Lisbon targets. Comments on the credibility of international university ranking lists**

*Ádám Török*

Production of university ranking lists has become a cottage industry. The global picture drawn from such comparisons shows clearly that Europe's higher education system is losing ground compared with its competitor, that of the United States. The growing number of university ranking lists are based on a multitude of methodological approaches, making comparisons between them extremely difficult. Detailed analysis of three international such lists, using elements also from some others, shows that this analytical "industry" is still far from maturity. Nonetheless, the growing gap between North America and Europe in this field cannot be questioned. If this is really so, the higher-education element in Europe's competitiveness strategy needs to be made a key issue in the Lisbon Programme.

## **Redistributive fiscal policy in an open economy**

*Katalin Szilágyi*

The study examines the effect of an expansive fiscal policy on a small open economy through a two-sector real model. The budget policy in the model redistributes the resources: the state budget is expansive if it enhances this redistribution. It is shown that in this case – given realistic assumptions of the consumption structure of those injured and those benefited by the redistribution – a two-sector real model is capable of illustrating many observations (stylized facts) seen as customary in the literature. The model is not calibrated, for its operation is a outline example, a numerical exercise in approximate qualitative description of certain experienced characteristics, and it cannot be viewed as

an adjusted simulation of the actual economy. However, it is argued that in this simple, rudimentary form, it can be an interesting illustration, even for evaluating recent developments in this country.

### **Price transmission and asymmetric price development in the vertical structure of the milk industry in Hungary**

*Péter András Popovics and József Tóth*

The study analyses the market behaviour of the vertical structure of Hungary's milk industry in 1995–2003. It examines whether the individual customary prices in the structure have developed in line with market forces, and which actors in the structure have the greatest influence on those prices. The asymmetric nature of milk prices justifies a price-transmission examination. If the movements in the inflation-corrected prices at various vertical stages are investigated, it becomes clear that this cannot be called perfect market competition; the price movements show more of an oligopolistic character. The econometric analysis shows that the prices on the milk market in Hungary work upwards in the lower stage of the vertical structure and downwards in the upper stage, and that the price transmission between two extremes of the vertical structure, in the period examined, is not perfect, but asymmetrical and delayed in time, which has a marked effect on the current crisis on the milk market. The study makes proposals for using knowledge of the price transmission in economic policy and concludes with a few lessons from the case.

### **Predatory prices. Pricing designed to annihilate competitors**

*Márk Erdélyi*

The article presents predatory pricing as anti-competitive behaviour. It describes theories of pricing below cost, from the inception of the concept to the present day, that are decisive to economic assessment of it. The Chicago School questions the rationalism of predatory pricing; Areeda and Turner approached the problem on the basis of short-term average changing costs, but others analysed the long-term effects of predatory pricing. A game-theory approach placed predatory pricing in another light, as entirely rational behaviour under certain conditions, while recent and present-day theories have used newer methods to present predatory pricing. The article also mentions the circumstances that can legitimize this otherwise damaging behaviour. Since selling at under cost is the subject of debate today, it is important to analyse when it poses a danger to welfare, according to the theories.