

Underreported earnings and redistribution in the overlapping-generations model

András Simonovits

This paper analyses the interconnections between underreported earnings and redistribution. Two generations overlap: the young and the old. The young earn, contribute to the pension system, pay taxes, and if they can, save. The old receive pensions and dissave. Public expenditures are financed from wage taxes. We derive the reported earnings and savings from individual utility maximization, assuming over-discounting of the future, partial satisfaction from reporting earnings, and possible free riding in the use of public services. The government maximizes a social welfare function formed from paternalistic objective utility functions, yielding the parameter values of the socially optimal tax and pension system. For a utilitarian social welfare function and logarithmic utility functions, the optimal proportional (contributory) pension system provides higher welfare than any system containing a flat (basic) component in a dark grey economy, and lower welfare in a light grey economy. But the superiority of the proportional system can probably be re-established if an appropriate means-tested pension is added.

Foreign operating capital and foreign indebtedness. An attempt to examine macroeconomic capital structure from a new angle

Iván Bélyácz and Mónika Kuti

The article sets out to examine macroeconomic capital structure from a corporate point of view based on capital-structure theories and analytical frames for corporate financing. Trade-off theory on a macro level can be seen in terms of the levelling effect of the consumption of foreign debt and the risk of bankruptcy; pecking-order theory can be applied to the order in which global resource flows are tapped; the theory of free cash flow stresses the disciplinary force of debt. The macro-level significance of all these has been pointed up by the credit crisis and the IMF package. Macroeconomic figures prove convincingly that the growth in the aggregate foreign capital employed per unit of GDP has been accelerating in the last decade and the resulting indebtedness precludes important conditions for sustainable economic growth/operation. The authors seek to confirm that this leads to an unbridgeable efficiency gap in utilization of the foreign resources employed. Although Hungary's economic policy-makers remain convinced that the mounting external debt can still be handled, it would be a mistake to ignore the anomalies of macroeconomic operation by which the efficiency gap is being widened.

Chronic depression – the movement of the stock-market index*András Bródy*

The operation and disturbances of the US stock market around the turn of the millennium were treated in detail by Shiller (2000) and Soros (2008). Since the present protracted and general depression will have deep effects on the operation, theories and regulation of the economy, it is worth re-examining the forms in which it developed. The study puts forward a mathematical line of argument, but without formulae or equations, concerned with the operation of the economy, its pattern of movement, and the scope for modelling it. The flexibility of the group of models describing the mutual financial effects allows a better fit and forecasting ability than before, while revealing the theoretical roots of the present difficulties.

The relations between retail chains and their suppliers*Krisztina Dobos*

Research was conducted in February–June 2007 to map out the business relations and contracting practices of large retail chains and their suppliers. The Hungarian Competition Authority (GVH) was assigned to explore how far supplier firms were aware of the commercial legislation enacted in 2006 and to what extent everyday business practice was complying with its goals. The first step was to perform a qualitative review through 16 semi-structured interviews with representatives of supplier firms. Based on this a questionnaire was prepared and survey data gathered at 392 firms through personal visits. The research showed that the chains use their buyer power more against suppliers with a stronger market position, which are often in foreign ownership. The demands and expectations of large chains figure as an important factor in implementation of changes and enhancements that affect manufacturers/producers.

The establishment, growth and economic role of technology firms in the light of the specialist literature*Zsolt Makra*

The article is intended to review the literature based on an empirical survey of young technology companies in Hungary. It begins by mapping the “conceptual jungle”, presenting the often synonymous and hybrid terms applied to the technology firms, interpreting the various definitions, and arriving at a possible definition of this group of businesses. It then uses international research findings to estimate the real economic role of the technology firms. From the theoretical side and summing up the main findings of the empirical research, it identifies the conditions influencing its growth and the possible paths of its development. Finally, the author prepares a snapshot of the situation in this country, describes the main findings of earlier researches into technology businesses, and points to a need for a comprehensive empirical research project.