ABSTRACTS OF THE ARTICLES

The effect of labour-market institutions on the unemployment rate

Gergely Horváth

The study deals with the effects of labour-market institutions and rigidities on the rate of unemployment, analysing four institutions: unemployment benefit, the trade unions, taxation, and dismissal constraints. The pay model presented is a version of those associated with Pissarides. An attempt is made with this to express numerically the individual and compound effects of the institutions on the unemployment rate, and to gauge how much they influence the process of accommodation that follows shocks. The results show that taxes and dismissal constraints do not increase the rate of unemployment significantly; the effect of them becomes significant only when coupled with high unemployment benefit. A greater contribution to high unemployment is made by the bargaining power of the unions and the scale of unemployment benefit, but these effects can be ameliorated only by factors that do not feature in the model. The constraints on dismissal included in the model slow the reaction to the productivity shock, but the extent of this is not significant.

The relationship of international bond spreads and sovereign credit ratings. A cross-section analysis

Zalán Kocsis and Zsuzsa Mosolygó

An essential component of interest payments on public debt is the sovereign risk component, which compensates bond investors for taking the risk of the sovereign issuer not fulfilling its foreign-currency obligations. The study of this sovereign risk and the related international bond-spread component is important to understanding the nature and causes of interest-rate movements and bond-market developments. The authors model the relationship between sovereign credit ratings – an explicit proxy of sovereign risk – and the market's risk assessment, encompassed by international bond spreads. Based on the model, they consider whether the risk spread paid by the Hungarian sovereign issuer is consistent with the Hungarian credit rating, i. e. whether the evaluations of Hungarian sovereign risk by market participants and by rating agencies are consistent with each other. The study also examines, with two cross-section samples in global sovereign bond markets, how the relationship of ratings and spreads changed in 2005 and what factors the differences can be attributed to.

The adjustment cost of the Association Agreement in the Hungarian food industry

Imre Fertő

The article examines the structure of Hungary's food trade expansion over the 1995–2003 transition period and its implications for labour-market adjustment. An econometric analysis of trade and employment data suggests that changes in domestic consumption and productivity have significant influence on employment changes. Strong positive and significant effects on these are also exerted by market concentration, while FDI has no influence on them. The results do not provide clear support for the smooth-adjustment hypothesis of intra-industry trade. However, the results should be interpreted with care, due to sensitivity to choice of period and lag structure.

Vernon and the computer. Connections between the information technology revolution and the product-cycle hypothesis

András Székely-Doby

The study examines how far the Vernon product-cycle hypothesis can explain the characteristics of the American hardware sector in recent decades. It emerges from analysis of macroeconomic data and statistical timelines for the activity of transnational corporations that although the original hypothesis stands up essentially in certain areas (such as computer manufacture), it characterizes the developments of recent decades in others only to a small extent. However, the explanatory power of the theory can be improved if the ideas are interpreted dynamically, i. e. if the longer-term behaviour and mutual influences of the industries are examined. For instance, it is found that as the *new economy* gains ground, the various industries begin to affect and fertilize each other, and very often to transform each other entirely. Furthermore, it is found that new Vernon cycles appear within certain industries as an effect of technological development, and that these are capable of renewing such an industry by being more or less superimposed upon it.