ABSTRACTS OF THE ARTICLES

Segregation in the primary-school system, I. Causes and consequences

Gábor Kertesi and Gábor Kézdi

The paper looks at how segregation mechanisms in the primary-school system can aggravate social inequality. School segregation (teaching students with different social background in different schools or different classrooms) can emerge in many ways. It can be initiated by local authorities, but laissez-faire or universal-voucher system is also likely to lead to segregation if parents are free to choose schools and schools are free to choose students. There are documented cases of segregation in the first way in Hungary, but the second way is even more important, as the Hungarian primary-school system is close to a universal-voucher model. Based on economic theory and international evidence, the paper argues that in a segregated environment, children from disadvantaged families are bound to receive education of a lower quality than they would in a more integrated environment. Besides peer effects, lower-quality teaching in classrooms with more disadvantaged students is a necessary consequence if teachers are not compensated for the extra work – as they are not in Hungary. Hungarian data are scarce, but the available evidence suggests that primary schools have become more unequal since 1989, which has led to more unequal student outcomes. Correlation of family background and student outcomes is extremely strong in Hungary, by international comparison. Unequal primary schooling is probably an important factor in creating that correlation. Hungarian primary schools therefore play a significant role in increasing inherited inequality, which is clearly detrimental for efficiency and moral reasons.

The interest ripple effect in Hungary

Csilla Horváth, Judit Krekó and Anna Naszódi

The analysis employs error-correction models to examine transmission between market yields and bank forint-credit and forint-deposit interest rates in the 1997–2004 period, using aggregate data and figures from individual banks. Linear analysis shows that adjustment on the market for short-term corporate loans can be considered full in the long term and relatively rapid. But other sections of the market are marked by partial and/or slow price adjustment, with consumer credit and short-term personal deposit rates seeming especially sticky. Also investigated was the possibility of non-linearity in the price filtering of banks. The authors' findings were that adjustment of bank interest rates depends on deviation from equilibrium value and degree of yield variation. Filtering proves significantly faster above a certain threshold that can be justified by menu costs. The filter speed is also influenced in the direction of the yield shocks: it was found that corporate credit rates are stickier downwards. However, the findings contradicted the

expected behaviour of profit-maximizing banks: personal deposit rates responded faster to a rise in yield than to a fall. Nonetheless, the findings may be explained by the fact that the observed rises in yield were greater than the falls.

The domino effect on the Hungarian interbank market

Ágnes Lublóy

The study sets out to measure quantitatively the infection on the Hungarian interbank market. The linking loan agreements among banks may produce a situation in which failure of a few institutions brings down the whole banking sector. The study applies simulation methods to trace the effect that the single, idiosyncratic failure of each bank would have. The author measures the domino effect using a modified definition of failure, also taking market expectations into account. She examines within various scenarios what would happen if several banks with the same exposure failed at once. The domino effect in Hungary, in absolute and relative terms, turns out to be limited even in extreme cases, which can be ascribed mainly to the fact that banks' exposure to interbank transactions is low compared with their underlying capital.

The multiplicator and its history

András Bródy

The multiplicator is a theoretical tool used by Keynes, to prove and calculate the beneficial effect of additional budget expenditure. The stimulant effect of the extra money was first described by Hume. Some version of the multiplicator principle, as a basic and frequently employed tool of economic analysis and examination of effects, has been examined by many authors. It is worth considering again, because it contains another message as well, which has yet to be recognized.