ABSTRACTS OF THE ARTICLES

Innovation: the competitive view

Michele Boldrin and David K. Levine

The study illustrates a competitive model of innovation and growth under constant returns to scale. Previous models of growth under constant returns cannot model technological innovation. Current models of endogenous innovation rely on the interplay between increasing returns and monopolistic markets. The authors argue that ideas have value only insofar as they are embodied in goods or people, and that there is no economic justification for the common assumption that ideas are transmitted through costless 'spillovers'. In the absence of unpriced spillovers, it is argued, competitive equilibrium without copyrights and patents fails to attain the first best only because ideas are indivisible, not because of increasing returns. Moreover, it may be that indivisibility results in socially valuable ideas failing to be produced, but when new ideas are built on old ideas, government grants of intellectual monopoly may lead to even less innovation than there would be under competition. The theory of the competitive provision of innovations built is important both for understanding why there has been thriving innovation in the absence of copyrights and patents in many current and historical markets, and why intellectual property in the form of copyrights and patents may be socially undesirable in the presence of the rent-seeking behaviour induced by government grants of monopoly.

Nominal growth in a small open economy

Péter Benczúr and István Kónya

This paper develops a flexible price, two-sector nominal growth model, to study the nominal effect of capital accumulation (nominal and real convergence). The authors adopt a classical model of a small open economy with traded and non-traded goods, and enrich its structure with gradual investment and a preference for real money holdings. The modelling framework gives the following results. (1) The level of the exchange rate has a medium-run impact on nominal and real variables but no long-run effect on real variables. (2) Along the real equilibrium path of the economy, capital accumulation implies an increase of the price of non-tradables (real appreciation). (3) By comparing the nominal and the real equilibrium paths, the authors introduce a notion of misalignment. (4) The same comparison makes it possible to analyse the effect of misalignment on nominal and real variables.

Opportunities for investing in international stocks, seen from the viewpoint of the new Central and East European member-states of the European Union

Gyöngyi Bugár and Máté Uzsoki

The study sets out to clarify the scope for international diversification of share portfolios that is open to investors in the CEE member-states of the EU. A steady decrease in interest rates can be observed in most countries in the region, unsurprisingly, as these rates must converge on those of the Euro zone before the Euro is introduced. Falling interest rates increase the importance of stock markets, as the fall in the yield of low-risk bonds makes equity investment more attractive. The research was based on a comprehensive database covering 17 countries: 8 new CEE members of the EU, Russia, and 8 countries with developed capital markets. The 1997–2003 period was examined for characteristics of the stock-market yields and risks in these countries, along the scope for reducing risks and enhancing yields with internationally diversified portfolios. Three strategies for optimizing portfolios and a method of choosing a so-called naïve portfolio were assessed using a so-called *ex ante* reverse-testing procedure. The results obtained for the developing CEE stock markets were compared with those of developed markets and various distinguishing marks of the developing-market portfolios were identified.

What is happening and what will happen with private pension-fund services?

János Stahl

The study was prompted because the time left before private pension-fund services have to begin is becoming shorter, but the legislation to regulate precisely the private pension-fund pillar of the social security system is still lacking. The author begins with the need to change existing legislation, as the framework it provides cannot be utilized in an acceptable way. The second part presents mathematical programming models that will or could help to devise feasible, acceptable legislation that defines the service to be provided by private pension funds.

Are social-insurance pension systems public goods?

György Németh

József Mészáros's article in the March issue of this journal employs some surprising and unusual methods of economics in an attempt to arrive at a deeper understanding of the operation and problems of the social-insurance pension system. Science indeed progresses as ideas at variance with dominant views shed doubts about the reality-explaining force of a period's mainstream thinking, prompting a search for more convincing and satisfying explanations. The breakthrough often comes from methods not previously employed that point out hitherto invisible relationships. The question is whether József Mészáros has made such a breakthrough by treating social-insurance pension systems as public goods and applying the apparatus of game theory. The author explains in the article why he is convinced that this has not been done.

Gyula Kautz, a great exponent of modern Hungarian economics, born 175 years ago

Antal Mátyás

The cameralism of Sonnenfels was on the compulsory economics syllabus of Hungarian colleges in Gyula Kautz's student days, right up to the 1850s. But Kautz as a teacher broke with cameralism and placed the German historical school on theoretical foundations. When Kautz joined it, the German historical school counted as a modern school of economics. The study presents its main characteristics. Influenced by the school, Kautz starts his examination not the individual, but from society, prompted not just by self-interest, but by a 'well-conceived interest' that encompasses general condition, philanthropy and morality as well. Where this is absent, he argues, a guiding hand from above—the regulatory function of the state—is required. This takes the place in Kautz of Adam Smith's invisible hand. In rejecting the abstraction method, Kautz strays in his research into economic laws. But he points to attributes of economic activity ignored by the dominant schools of the day, by not confining his ideas to the rigid logical frames of economic systems intent on seeking laws and by considering factors that an economist must ignore during abstraction. He puts before us a lively account of the actors in the economy and consequent economic processes. Kautz takes account of the historical development of economic processes and the effect of institutional factors on the economy. The study shows the influence of Kautz on some prominent later Hungarian economists and the similarity of his conclusions to t hose of important economists today.