

ABSTRACTS OF THE ARTICLES

Change of paradigm in the development of small business

László Kállay

Policy for developing small and medium-scale firms can be effective if it takes a functional instead of a structural approach, i.e. if it seeks instead of target groups intervention areas where the market for services conducive to the competitiveness of small firms fails to operate satisfactorily. There is an essential difference between market-supplanting and market-building business development. The former conserves market failure, while the latter brings a chance of resolving the problem. Before a reduction in transaction costs can lead to growth on a macroeconomic level, there has to be an actual cost reduction resting on efficiency improvements. Programmes that simply accept high costs and get others to pay for them instead of the entrepreneur do not appreciably affect the economy as a whole. Hungary's market for financial and business services, which began growing in the second half of the 1990s, is capable of improving the competitiveness of small and medium-scale firms, reducing their scale-related competitive disadvantages, and extracting efficiency from them. There is present and developing a market both for operational services that assist businesses in their day-to-day operations and for strategic services that influence their competitive position in the medium and long term.

Changes in the structure of agricultural production in the developed countries. Part I. Why are family farms the dominant business form?

Imre Fertő

The study examines the problem of business organization in the agriculture of the developing countries. Despite the concentration that has occurred in the agricultural structure, the role of family holdings has remained decisive. Similarly important is the large and stable proportion of part-time or multi-occupation farms and the large number of small-scale holdings. These facts cast doubt on the Marxist-inspired forecasts that hierarchically organized units based on wage labour will become decisive in agriculture, as they have in industry. The theories presented in the study examine the various types of farm unit mainly from the labour side. The Schmitt model identifies as the reasons for the survival of family farms the transaction costs relating to the employment of labour and the relatively low level of qualifications of labour. The Allen and Lueck model points out that the nature of agricultural production restricts the gains to be made from specialization. On the other hand, it emphasizes the differences of technology between the branches of agriculture, which also appear as a factor in the choice of business form. The second part of the study will discuss the question of unit size.

The fundamental proposition of financial-resource pricing in discrete-time models*Péter Medvegyev*

The author sets out to determine by mathematical examination the size of the risks reducible by financial means. He discusses the simplest statements of mathematical finance and presents the first and second theorems of arbitrage pricing theory with a discrete, finite time horizon.

The depth of bank mediation*Zsófia Árvai*

The author analyses the depth of bank mediation in Hungary, the Czech Republic and Poland, based on data for the last decade. She draws conclusions about the short and long-term trend in the depth of Hungarian bank mediation, based on experience here and internationally. Thorough examination of the subject is needed because the depth of financial mediation in the Central and Eastern European countries is less than in the EU countries. The depth of bank mediation can be improved primarily by a stable macroeconomic environment coupled with low inflation and interest rates. However, a rapid and insufficiently monitored deepening of bank mediation brings risks to macroeconomic and financial stability. That is one reason why it will be especially important in the coming years to identify the risks to the stability of the financial system.

The Hungarian system of student grants. Theoretical criteria and an international comparison*Balázs Majer*

A longstanding omission was rectified in 2001 when Hungary introduced the institution of student loans, a method of financing modern higher education generally accepted in the OECD countries. However, the standing of 'student credit' in Hungary is not so clear as the political rhetoric would suggest. Alongside several positive features, the system of student credit in Hungary fails on several counts (for instance, in the interest-rate policy currently applied) to meet the theoretical criteria (of efficiency and fairness) or conform to general practice in the developed countries in several other important respects. The study summarizes the essential theoretical propositions of educational economics from the student-loan point of view. It analyses the Hungarian system in terms of the criteria deducible from these and of international experience, identifying the points where the present structure needs to be changed.

Simulated determination of credit risk in portfolio terms*Balázs Janecskó*

The type of risk that poses the greatest danger to the profitability of commercial banks is credit risk. In simplified terms, this derives from debtors failing to meet their obligations towards the bank. The bank's actual credit loss from any possible case of non-performance

becomes accurately quantifiable after the work-out of the outstanding debt. This raises the question of what could be the maximum loss from the bank's total loan portfolio over a given time span and with a given degree of likelihood, how the risk is distributed among sub-portfolios compiled according to various criteria, and how the individual loans contribute to the total portfolio risk. The first step towards answering this is to devise an economic model that describes the process by which firms fail, the mutual influences of failures, and the process of selling off the cover after the failure. The second step is mathematical formalization of the model. Finally, the mathematical problem has to be solved and the results interpreted economically. This article presents an economic model that is extremely flexible and could be additionally useful in several other tasks far removed from the problem of credit risk. However, the associated mathematical model can only be solved with equations in very special cases, so that the author, instead of 'hand calculation', simulated on a computer the economic process (the randomness of instances of failure) and then examined the statistic for the total loss sustained by the loan portfolio.

Financial resources for regional development in the European Union and in Hungary

Iván Illés

Even by European standards, Hungary devotes significant budget resources to regional development, but the criteria of regional policy apply only in part or in a distorted way to regulation on how these resources are used. The author analyses the system of financial resources for regional development that began to build up in Hungary in the second half of the 1990s and how those resources are applied. The basis for comparison has mainly been the regulations for the structural funds of the European Union. Then comes a review of elements of these regulations (selection of beneficiary regions, distribution of subsidies among counties and regions, determination of rates and proportions of support), of the system of institutions for granting the supports, and of the experience with utilizing them. The author concludes with some proposals for altering and developing the regulations in Hungary.