

Modelling problems of market power on the Hungarian electricity-generation market after deregulation

László Paizs and Mátyás Tamás Mészáros

The study uses a quantitative model to examine how exposed is the Hungarian power-generation market to the danger of horizontal market power being exerted. The Hungarian market for electricity, with its significant international grid connections coupled with concentration of domestic production, was modelled as a static Cournot market. Using this model, calibrated with past data for costs and consumption, the authors carried out equilibrium simulations at demand levels typical for various times of day. The results showed that the country's international grid connections are (or will be) strong enough to produce international competition that will coerce the dominant producers on the domestic electricity market into competitive behaviour.

From Comecon trading to EU accession. Issues of trade reorientation in the system-changing countries, especially Hungary. II. After reorientation – on the verge of membership

András Köves

The first part of the article looked at the main characteristics of the direction change in foreign trade that occurred as part of the change of system, especially the way the once-dominant Soviet (Comecon) orientation became impossible and the EU countries rapidly gained predominance in the 1990s. Part II examines important strengths and weaknesses in post-reorientation trade structure: how, why and with what consequences Germany became a strong focal point in the integration, continued relegation of trade with East-Central and South-East European countries, and how to explain neglect of Russia (especially in Hungary's exports). The article concludes that further major quantitative changes in the regional structure are unlikely. However, other orientation problems in a broader sense may arise from the uncertainties about the Euro-Atlantic relationship and the internal institutional development of the EU.

Experiments and prospects – in connection with Daniel Kahneman's Nobel Prize

Balázs Hámos

The study, *à propos* the life's work of Daniel Kahneman, who received the Nobel Prize for Economics in 2002, summarizes the non-rational behaviour patterns and the prospect theory that has flourished in the last decade or two. According to the prospect theory

devised by Kahneman and Tversky and the subsequent burgeoning research on anomalies in economic decision-making, people reaching decisions in the midst of uncertainties do not follow in their decisions the estimates to be expected according to the hypothesis of probable utility. Instead they reach decisions through a few basic heuristic procedures and rules of thumb. It is vital in many fields beyond the economy, from military strategy to medicine, to follow Kahneman's proposal and start from real decisions instead of seemingly logical, unconfirmable hypotheses and approach prejudiced human decisions without prejudice. Psychological experiments designed to reveal the actual regularities behind the decisions were received initially with some doubt. By now, these and the theories associated with them have managed to convince even such critical sections as finance. A considerable amount of financial research today concerns the science of financial behaviour, which has greater predictive force than the theory of efficient markets. Nonetheless, many researchers have criticized Kahneman's ideas and put forward weighty counter-arguments against the assumptions of prospect theory and the experimental methods leading up to them.

The effect of monetary union on European capital markets

Attila Marján

Introduction of the euro gave a boost to Europe's capital markets and standardization of them, but the effects differed between market segments. The *bond market* became bigger and more integrated with a higher average size of issue. The market in *state securities* became more homogenous, but was outstripped by the market in *corporate bonds*, reversing a situation thought to be immutable. The bond market of the euro zone started to be a major source of finance for companies, although the tendency is not favoured by the present slowdown in the world economy. Further improvements in efficiency and reductions in costs can be expected on the euro-zone money market, and market-type (Anglo-Saxon) financing is likely to strengthen. Financial services have reorganized their internal structures and investment philosophies, so that they accord better with procedures on a pan-European level. It is hard to distinguish from other structural factors the effect the euro has had on European *equity markets*, which appears more in price setting and less in structural aspects of trading. However, the home bias of institutional investors in the euro area decreased significantly. The European *foreign-exchange markets* have been engaged in a round dance with each other, exploring almost every variant of fusion and alliance.

Policy on land rental and land ownership in the European Union and some acceding countries

Anna Gimes Burger

Privatization of farmland has produced an ownership structure of small, fragmented holdings in most EU candidate and associated countries. The land has been returned, completely or in part, to its owners after the post-Second World War land reforms or to their heirs. This has produced a stratum of absentee landowners, from whom many of the farmers rent their land. The difficulties associated with holding sizes inappropriate for efficient modern farming are compounded by the fact that other assets belonging to the agricultural cooperatives were privatized to the cooperative members, not the new owners of the land.