Abstract of the articles

PRICE LEVEL CONVERGENCE IN THE NEW MEMBER STATES OF THE EU: EMPIRICAL RESULTS FROM A CROSS-COUNTRY PANEL REGRESSION MODEL

ZSOLT DARVAS–GYÖRGY SZAPÁRY

The new EU member states are characterized by lower per capita incomes and lower price levels compared to the more developed euro area member countries. It is a well known economic phenomenon that the convergence of per capita GDP involves the convergence of price levels. The exchange rate regime has a bearing on how the price level convergence will take place during the catching-up process. Under fixed exchange rate, the price level convergence can only be done by higher general inflation. With floating exchange rate, the price level convergence can take place either through a nominal appreciation of the exchange rate or by higher inflation, or by a combination of the two. This means that on the way to euro adoption, a country might encounter difficulties in satisfying at the same time both the inflation and the exchange rate criterion stipulated by the Maastricht Treaty, and once in the euro area, it might face the prospect of higher inflation. How challenging the situation will be will depend on the initial level of economic development and the associated price level gap, and on the speed of real convergence. With the help of panel models, the study calculates the impact on inflation of the price level convergence under different scenarios. It concludes that a floating rate regime is better suited than hard pegs to manage the price level catching-up process if the price level gap is still large.

DIVERSIFICATION ON COMPLEX CAPITAL MARKETS – THE IMPACT OF HUMAN FACTOR ON MOVEMENT OF CAPITAL MARKETS

GÁBOR DÁVID KISS–PÉTER KUBA

Diversification is the most common tool of risk management. Circumstances of extreme price movements were examined – from the world of CAPM to the word of interaction networks, shorter term preferences and leptocurtism – in the first part of our research. Mispricing in one segment of global capital markets could accelerate price-bubble blowing – a divergence between fundamental and market value in other segments.

This analysis with a market risk-based approach examines these inter-market correlations driven by special circumstances and leptocurtism. The model was tested on market data of Dow Jones Composite, BUX index, Brent type oil, gold, copper, aluminium and zinc prices on the London Stock Exchange between 9. January 2006 and 21. November 2008.

THEORY AND MODELLING OF SHAREHOLDER VALUE CREATION THROUGH CORPORATE RISK MANAGEMENT ACTIONS

Ádám Flesch

In this paper, I briefly review the impact mechanisms and diverse set of tools of corporate risk management aiming at shareholder value creation, and emphasize that companies operating in different market environements need to select different risk management objectives.

Ross (1996) shows that by reducing the asset yield volatility of the company, its debt capacity can be permanently increased, which can create 10-15% additional value for shareholders. I introduce an alternative model by calibrating the EBIT-based asset yields of a company with a mean reversion process.

I show that the volatility of the asset yield process cannot be eliminated with a steady swap-based hedging, even if sufficiently long swap-terms are used. On the other hand, swap-based hedging can eliminate the volatility of the corporate value process even in low mean reversion environments by increasing the swap-term of the periodically refreshed swap-basket. The longer the swap-term, the higher shareholder added value can be achieved for given reversion factor, higher asset growth rate amplifies the impact on shareholder value, while swap transaction costs work against it.

WINNING AND LOSING ON SME CLIENTS: THE BANK'S PERSPECTIVE

György Walter

How much profit a bank can earn on a client seems to be sometimes very mysterious and intransparent not only for non-professionals but also for the majority of companies. Indeed, it is not easy to determine how much cost and revenue a client generates even for bankers. Therefore in the first part the article analyses a real SME (Small Medium Enterprise) portfolio from both perspective in an empirical research. It presents what the typical products are that an average SME uses, furthermore how much profit is earned on these products and on clients as aggregate. In the second part we get a general overview what the most important cost and credit risk perspectives for Hungarian SMEs are, which could destroy the profitability of a client relation or even the performance of a whole portfolio.