Summary

Stochastic Seigniorage and Sustainable Debt in the Economy of Transition

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The Russian (1998) default clearly outlined several questions concerning risks on the market of government debts, their assessment by private investors in the process of lending to the government. It highlighted the importance of the problem of debt sustainability and the government reliability as a borrower. These and more questions arise in the short run, and long run consequences notwithstanding, the plausible answers has to be consistent with the rational behavior of investors on financial market. This approach meets some methodological difficulties on the macrolevel however, due to nontradability of the total government debt outstanding (macrodebt, in short), for the latter cannot be sold or bought as a whole. But analogies with the debt instruments trading remain sound, if proper relations were established between debt, borrowing and money in the short run on the macrolevel.

Stochastic seigniorage, government debt and borrowing dynamics in the short run are modeled in the context of a transition economy. Rational investors assessing market risks, hedge against them and construct riskless portfolios of seigniorage and debts. Risk-neutral asset valuation made it possible to formulate equilibrium conditions for the debt sustainability. Lending to the government is considered as a perpetual American call option that is optimized with respect to seigniorage without defaulting on the debt outstanding. The model is applied to the August 1998 domestic debt default in Russia in order to determine short-run effects of seigniorage upon the government debt sustainability.

Dynamic General Equilibrium Model with Stock Market

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In this article a model of intertemporal equilibrium is presented. The primary goal of the study is to find out whether models of intertemporal equilibrium are adequate for description of economic transitional processes. An intertemporal equilibrium model with two agents: a firm-producer and a proprietor-consumer is analysed where the agents are aggregate proxies for production and non-production spheres of an economy. The goal of a firm is to maximize earnings of its shareholder while shareholder maximizes discounted flow of utility arising from consumption of goods. Studying not only goods market equilibrium but also stock market equilibrium is model peculiarity. A full model solution for any initial conditions is obtained. The efficiency of equilibrium is studied. All equilibrium trajectories are proved to be non-efficient i.e. do not maximize consumption utility flow over the feasible production set. At the same time over the trajectories close to efficient ones firm's own capital is close to zero. Such trajectories are characterized by maximum possible initial price of share. Examples of transitional processes arising from different values of consumer's and firm's planning time horizons ratio are presented.

Fear of Unemployment and Wage Flexibility in Russia

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Main motivation of this study is to explain non-standard evolution of the Russian unemployment in the 90-es. It has never reached peak values that are typical for many CEE countries and has been much lower than we could expect given actual duration and depth of the transformational recession. There is a huge gap between what was initially expected and what has actually been observed. We assume that this phenomenon can be partially attributed to strong and persistent fear of job loss and unemployment in the Russian society.

Regardless of the actual rate of unemployment the fear could affect workers' behavior. More people are scared of losing jobs more they should be ready to accept concessions in order to preserve job stability. This in turn increases probability of relative (and in some cases even of absolute) wage decline. Using RLMS microdata for 1994–2000, we explore a) relationships between the fear of unemployment and actual unemployment over time and b) effects of fear of unemployment on real wages, incidence and size of wage arrears. Estimating cross-sections and panel regressions for the years 1994–2000 we show that a) earlier in the period, fear of unemployment had very weak correlations with actual unemployment situation. However, over time this link became statistically significant; b) initially the fear of unemployment was effective in bringing wages down and allowing wage arrears to grow, while effects of actual unemployment were of little significance. By the middle of the period the effects of fear decreased and the effects of unemployment became more significant. These outcomes can be explained by actual dynamics of unemployment and accumulation of learning in the Russian society.