

Letter from Editors

The fourth issue of volume 9 consists of one paper devoted to the fundamental issues of modern decision theory under risk and uncertainty and two papers focused on macroeconomic modelling.

The first paper, written by Michał Lewandowski, is a survey article presenting the prospect and the expected utility theories in a comparative way. The author discusses which assumptions of the classical EU theory are being questioned in the prospect theory, how modern approaches try to find the balance between the basic rationality postulates, psychological plausibility and mathematical elegance, and how risk attitudes are modelled. In particular, prospect stochastic dominance and the three-pillar structure of modelling risk attitudes in the prospect theory are presented, and also example of applications are given.

We hope that the line of survey papers will be continued, in order to promote scientific discussion on issues that are fundamental to economic modelling.

In the second paper, Piotr Wdowiński and Dobromił Serwa propose a new method to verify robustness of impulse response functions to the ordering of variables in the structural VAR models. The method amounts to using permutations of orderings of variables and applying Cholesky decomposition of the error covariance matrix in order to identify parameters. Impulse response functions are computed for all permutations and then combined. The application is based on the macro-financial linkages in the Polish economy. The results indicate that the combined impulse response functions can be more uncertain, but some empirical findings remain robust with respect to permutations of ordering of variables.

In the third paper, Aleksandar Vasilev investigates the quantitative importance of efficiency wages in explaining fluctuations in Bulgarian labour markets. This is done by augmenting a standard real business cycle model with workers effort (unobservable by employers) and wage contracts, as well as a detailed government sector. The imperfection in labour markets introduces an important propagation mechanism that allows the model to capture the business cycles in Bulgaria better than in earlier models. The model performs well in an empirical study, and dominates the market-clearing labour market framework of the standard RBC model.