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The Applicability of Political Business Cycle Theories in Transition Economies

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Abstract

The paper focuses the applicability of political cycles theories in specific circumstances of economies in transition which are at the same time the new democracies. Economic and political transition in these countries change both people's and politicians' preferences, institutions and generate specific politically motivated misuse of economic policymaking. Theories of political cycles in macroeconomics have been developed since 1970s, when the fact that policymakers could use economic policy as an efficient tool for increasing their chances for reelection became obvious. In countries with parliamentary democracies, incentives of policymakers to influence election results could be opportunistically motivated (opportunistic models) or ideologically motivated (partisan models). On the other side, voters could be naïve or rational, with different economic outcomes, as argued in extensive political cycles literature. The paper studies specific political motives of politicians in transition economies which are faced, especially in first fazes of transition with weak institutional mechanism and rules, and naïve voters. Consequently, opportunistic motives dominate ideological ones. The paper also focuses how the development of the institutional environment, especially in the context of international integration, such as accession to the European Union, reflects on the political business cycles in these countries.

Keywords: transition economies, political business cycles theories, institutions

Comparative Statics Analysis of Differentiated Oligopolies

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Abstract

This paper aims to identify, by using comparative statics analysis, the possible implications of quantity competition in markets with differentiated products. The stylised facts suggest that markets with homogeneous products are suitably modelled with quantity competition, while markets with differentiated products are suitably modelled with price competition. Contrary to this canonical wisdom, we argue that the degree of product differentiation in one market should not be considered as the crucial element for the choice of a strategic variable for a particular game. In the set of possible variables, the strategic variable is precisely the one that is the most difficult to change when the firm commits to a certain level of that variable. In industries characterised by capacity commitments, prices change quickly, on a daily basis, and firms use revenue management that is tailored to fill fixed capacities. Hence, even in the presence of differentiation, it is more realistic to expect that quantities are the choice variable of rational players. Different equilibria of a static game occur depending on the degree of asymmetry of players, which will crucially affect the shape of their best response functions. Asymmetry can stem from players' advantage in demand and costs, their different objective functions, or from the first-mover advantage. The reduction of asymmetry may intensify competition in the industry and, consequently, reduce entry barriers. Our findings provide some practical recommendations for conducting antitrust policy, as well as other sector-specific regulations, where the introduction and higher intensity of competition are desirable.

Keywords: differentiated oligopoly, capacities, quantity competition, asymmetry players

Diversity as a Public Good

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Abstract

After 30 years of transition the question of optimal diversity becomes relevant for less developed countries. Ever since the formalization of the Chamberlin model by Dixit and Stiglitz, preference for diversity has been tackled in many ways. Interestingly, very few authors consider the implications of diversity as a public good (bad). Consumers do realize their non-decisiveness in generating diversity, but contrary to other public good (bad) problems - a lack of positive correlation between their potential actions and the outcome. We try to show why the general equilibrium representative consumer approach fails to capture the nature of the optimal diversity problem and remind of Kaldor's suggestion that even on the highest level of abstraction we should not expect the consumers to be so "far-sighted" as to concentrate on the purchase of a few varieties merely in the hope of thereby reducing prices in the future. With representative consumer, preference for diversity and elasticity of demand are in a functional relation (they are identical in benchmark CES model case), which is why we cannot explain the fact that same market outcomes can be generated by vastly different consumers' general preference for diversity.

Keywords: variety, preference for diversity, optimal diversity, Dixit-Stiglitz model.

The R&D Spillovers, Innovation and Knowledge-Based Economy

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Abstract

The R&D processes generate knowledge and enhance innovation activity. Knowledge and ideas developed by one agent may spill over to and can be used for economic and acquired by other agents. The results of these processes are known as the R&D spillover effects. Factors, that have influence on innovation diffusion, and determines the place of the R&D spillovers in knowledge-based economy have been investigated in the article. The definition and types of knowledge have been examined. The relationship between the R&D cooperation, different types of knowledge, knowledge spillovers and innovation have been traced. The main objectives of the paper are to consider the concept of the R&D spillovers and connection between different types of knowledge and the R&D spillover effects. Systematic comparative analysis, synthesis and generalization of the scientific literature have been carried out in order to create the theoretical background of the research of the R&D spillovers and innovation. The qualitative research methods have been employed to investigate relationship between the R&D spillovers and different types of knowledge. The R&D positive effect of spillovers on innovation activity, promotion of cooperation between different agents (individuals, business entities, organizations, and countries), spreadability and access to knowledge on nonprofit basis and enhancement of innovation diffusion have been identified.

Keywords: innovations, knowledge, tacit and explicit knowledge, the R&D spillovers, the R&D spillover effects.

Balance of Payments Deficit and Currency Board Arrangement Sustainability in Bosnia and Herzegovina

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Abstract

Constant current account deficit in Bosnia and Herzegovina results from a large foreign trade imbalance, which in turn is a consequence of uncompetitiveness of the economy in the global market. The current account deficit is mainly financed by foreign remittances, foreign aid, and least of all by foreign investment. Lately, the outflow of the active, working population has been decreasing the labor force (especially the qualified and highly educated employees), as well as the domestic demand, which will exert further pressure on the balance of payments account. On the other hand, monetary policy is operating under the principles of currency board, i.e. applying a firm exchange rate, so the question arises whether and to what extent it is sustainable, under the conditions of a high current account deficit. The purpose of this paper is precisely to examine the relation between the deficit of balance of payments and the sustainability of the currency board arrangement in Bosnia and Herzegovina, under such conditions.

Keywords: current account, currency board, balance of payments deficit

Ranking of Hotels in Mediterranean Countries to Improve the Tourist Offer

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Abstract

This paper presents the application of the Analytic Hierarchy Process, as a multi criteria decision making method in ranking five-star hotels on the Adriatic. The paper is aimed at determining which hotel is the best choice for tourists based on the predetermined criteria. Therefore, this research helps tourists to make an adequate decision regarding the ranking of hotels that will meet their needs and provide the desired atmosphere. This is especially important keeping in mind that tourism and the tourist offer is of great importance for the development of Mediterranean countries.

Thus, the research covers countries that have access to the Adriatic Sea: Slovenia, Croatia, Montenegro, Albania and Italy. Several criteria have been laid down for hotel ranking, such as the price of a double room, proximity to the airport or road infrastructure, customer reviews, hotel location, additional facilities, presentation on social networks.

The drawn conclusions and recommendations put forward in the paper can prove to be useful not only for tourists, but also for tourism policymakers in their efforts to create better quality and more substantial tourist offer in the Mediterranean countries.

Keywords: ranking, five-star hotels, AHP, tourism, Adriatic coast

Does Culture Matter: the Impact of Cultural Factors on Foreign Direct Investment in Transition Economies

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Abstract

Foreign Direct Investments (FDI) has been largely found to positively affect economic growth in transition economies. Increases in FDI have been associated with productivity and export growth of local companies via knowledge spillovers and complementary effects on domestic investment. The impact of FDI on economic growth seems, however, conditional on the level of human capital and absorptive capacity of a host economy. Determinants of FDI in transition economies have been intensely researched highlighting the importance of traditional factors, institutions and policy choices in determining locational decisions of Multi National Corporations (MNCs). Although informal institutions and cultural factors have increasingly been characterised as important factors that off-set for the underdeveloped institutional capacity of transition economies, the impact of cultural ties on FDI remains fairly under researched. Informal economic structures and cultural similarities emanate trust and enable strong business ties across borders. How important are these factors in explaining differences in FDI flows among transition economies is the principal question investigated in this research.

The cultural features seem to have been disregarded as important factors which influence the way in which markets develop and evolve. Homogenous cultures tend to understand the rules and norms of social behaviour in which firms operate and construct their capabilities. These tacit aspects of market, reflected in diverse cultural features of a society, shape and model the behaviour of local economic agents. As such, these are also likely to influence MNC's decisions on where to invest. They seem to reveal hidden behavioural patterns that underpin

societal prosperity, such as responsibility, ethics and trust. The idea that these norms affect companies' efficiency and growth prospects cannot be dismissed. On the contrary, these factors should be perceived as important determinants of FDI that not only minimise transaction costs, but also enhance productivity potential of foreign affiliates, and/or simply create an environment conducive to business growth. Such an environment is perceived as friendly and or familiar market from MNC perspective.

In this research we provide strong and robust evidence that cultural factors, depicted in Hofmann cultural indices, influence MNCs' locational decisions. Other things held constant, specific cultural features seem more important than formal institutions, which seems at odds with standard neoclassical propositions, and shed some new light on the way we understand international business transactions. We rely on gravity econometric framework and examine the impact of cultural factors on FDI using bilateral FDI flows between home (i.e. major trading partners) and 8 transition economies, depicted as host countries, in the period 2000-2018. We study this relationship in an integrated framework considering principal gravity forces, traditional FDI determinants, policy and institutional factors.

Keywords: FDI, cultural factors, gravity model, transition economies

The Customer and Entrepreneurial Behavior Towards the Collaborative Economy in the European Union

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Abstract

In recent years, the collaborative economy has emerged, and it is now used across the world. The collaborative economy covers a wide range of sectors, is rapidly developing in the European Union, and simultaneously represents new opportunities for both consumers and entrepreneurs. However, there are rules and obligations that need to be accepted. In June 2016, the EU provided clarity on applicable EU rules and policy recommendations to help consumers and businesses benefit from new business models that will influence the collaborative economy development. It is essential to find the balance between new service providers and existing market operators, support the development of the latest and current services, and protect all market participants in a new environment. The collaborative economy creates more choices and lower prices for consumers, and it creates more opportunities for entrepreneurs by giving them a chance to offer services either on an occasional basis or professionally, contributing to growth and jobs in Europe. This paper's main objective is to analyze customer and entrepreneurial behavior towards using collaborative platforms, which are the product of the collaborative economy. Moreover, to analyze the consumption of the EU's collaborative economy the authors will examine the Eurobarometer survey Flash Eurobarometer 438 and 467 with 14050 and 26544 respondents, respectively, from 28 countries in the EU. Univariate and bivariate statistical methods will be used to represent the results of the conducted analysis.

Keywords: collaborative economy, consumers, entrepreneurs, services

The Eurozone’s Influence on the Cyclical Macroeconomic Performance: Comparative Analysis of Slovenia and Croatia¹

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Abstract

The purpose of this paper is to analyse how the dissimilarities in the utilized monetary and fiscal policies affect cross-country macroeconomic performance with different levels of European integration. These differences are explored through the comparative study of Slovenia and Croatia, for the period between 2005 and 2018. From the theoretical viewpoint, the investigation is restricted to the macroeconomic analysis of economic policy. Derived from the statistical data, the empirical component allowed for the investigation of the distinct cross-country cyclical adjustment, demonstrated within the period of a pronounced economic cycle. The interpretation of the cross-country differences in the observed patterns takes into account the Eurozone's fundamental institutional peculiarities, which exert vast influence over the employment of monetary and fiscal policies. The analysis shows that the impact of the country's international interconnectedness, stemming from the economic and geographical links, bears greater importance than the impact of the Eurozone's membership. However, the particular economic circumstances occurring within the analysed period proved to be highly dependent on the economic policy measures brought about by the Eurozone's institutional design. This yields implications regarding the country's international trade involvement, price movements, economic fluctuations, exchange rate utilization, and external borrowing dynamics. This disposition confirms that the country's integration into the common currency area can be viewed both as an asset and a liability, subject to a wide array of factors. Whether

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or not the Eurozone's integrational benefits will outweigh its costs, related to the loss of monetary sovereignty, depends entirely upon the macroeconomic objectives pursued by each country. Consequently, the subordination of the national economic policies to those placed forward by the Eurozone institutional setting can bring both individual costs and benefits to the country in question. At the same time, their interplay determines the ultimate beneficiaries of the European integrational project.

Keywords: Economic Cycles, Macroeconomic Performance, Economic policy, Slovenia, Croatia.

Incomplete Transition – Is there a “Mid-Transition Trap”?

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Abstract

The subject of this paper is the analysis of the classification of economic systems. The traditional classifications of capitalist, socialist centrally planned, and socialist market systems, and the newer classification of variants of capitalism into the Anglo-Saxon, European continental, and Asian models, are inadequate to explain new phenomena in a globalized economy. After the collapse of central planning, countries in transition became a category describing processes of deep socio-economic transformation. These transition countries aspired to meet the standards of developed European market economies, as well as governance standards regarding democracy, human rights, and the rule of law. A new classification of economic systems by Balcerowicz (2014) combines the traditional classification of economic systems with the characteristics of well-governed democratic societies in order to come up with a matrix that shows the interaction of economic system characteristics and governance outcomes.

This paper builds on Balcerowicz's classification by introducing and delineating the categories of state capitalism, crony capitalism, and state capture in order to provide a new classification of economic systems. It uses these concepts to empirically analyze the transition countries, with special reference to states aspiring to EU membership and the new EU member states. The methodology used is analytical and empirical. The results find that the transition is incomplete, especially in terms of governance, leading to the hypothesis of a ‘mid-transition trap’, similar to the much discussed ‘middle-income trap’. The results should lead to further, more refined research.

Keywords: economic systems, transition, new state capitalism, crony capitalism, state capture

Market Position of Public Television in Post-Transition Countries of the European Union

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Abstract

Public television is present in every European country, and its position on the market has been changing during the process of transition from monopoly to oligopoly and further towards monopolistic competition market. In most transition countries of the European Union, this process started in early 1990s and today public television represents only one player on the market. This paper analyzes the position of public television in 8 countries: Bulgaria, Croatia, Czech Republic, Hungary, Poland, Romania, Slovakia and Slovenia for the period from 1995 till today. The aim is to show the changes in the share that public television acquires in these countries, as well as to compare public television position in these 8 countries. Countries are further divided into three groups, those with strong, middle and weak position of public television. Additionally, concentration analysis based on HHI will show how similar or different these markets are.

Keywords: public television, post-transition countries, audience share

Indeks globalne konkurentnosti kao pokazatelj razvijenosti tranzicijskih zemalja – primjer Hrvatske

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Sažetak

Postizanje i održavanje visokog stupnja konkurentnosti zadatak je svih zemalja kako bi ostvarile dugoročno održivi ekonomski rast. U ovom radu daje se pregled indeksa konkurentnosti koji se najčešće pojavljuju u literaturi i prati se razina konkurentnosti Hrvatske kao tranzicijske zemlje prije i nakon krize financijske krize. Bivarijatnom OLS regresijskom analizom utvrđuje se povezanost Indeksa globalne konkurentnosti, Indeksa ekonomskih sloboda i Indeksa lakoće poslovanja, te njihovih komponenti sa stupnjem razvijenosti gospodarstva (mjereno bruto nacionalnim dohotkom po glavi stanovnika). S obzirom da se u svim indeksima pored objektivnih, mjerljivih pokazatelja, pojavljuju i subjektivni elementi, u radu se istražuje utjecaj i značaj istih na vrijednost samog indeksa, ponajprije Indeksa globalne konkurentnosti. Analiza pokazuje kako je potonji nešto bolji pokazatelj razvijenosti ekonomije nego preostala dva unatoč svojim slabim stranama. Naime, prekomjerno oslanjanje na subjektivno mišljenje u izračunu Indeksa globalne konkurentnosti (oko jedne trećine ukupne vrijednosti indeksa) kod zemalja niskog i srednjeg nižeg dohotka, te tranzicijskih zemalja, iskrivljuje sliku njihove razine konkurentnosti i predstavlja ograničenje na koje je važno obratiti pozornost pri komparaciji među zemljama.

Ključne riječi: konkurentnost hrvatskog gospodarstva, tranzicijske zemlje, Global Competitiveness Index, Doing Business, Index of Economic Freedom

Sustainability Assessment of European Pension Systems Using Data Envelopment Analysis with Sensitivity and Cross-Efficiency Analysis

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Abstract

This paper assesses the sustainability of pension systems of eleven New Member States of the European Union that have undergone the transition to a market economy and the establishment of a multi-pillar pension model. Investigating pension sustainability from a slightly different perspective, we apply the methodology of the Melbourne Mercer Global Pension Index, whose sustainability sub-index measures indicators which are believed to have a significant influence on the likelihood that the current pension system will be able to provide benefits into the future. However, the methodology of MMGPI predefines the weights for each indicator, which can be limiting for countries that have large oscillation between indicators. To obtain a sustainability analysis without predefined weights, we apply data envelopment analysis (DEA) to calculate efficiency scores using sustainability indicators as inputs. Furthermore, since DEA generally allows each country to load on their strong indicators as much as possible, allowing thus for self-appraisal, we perform the analysis of the perturbations in the data and examine how these changes affect the overall relative positions of the countries in the set. Also, we explore the cross-efficiency approach to define peer-appraisal as a more objective efficiency score and detect both maverick and resilient pension systems.

Keywords: Data Envelopment Analysis, Melbourne Mercer Global Pension Index, Pension Sustainability.

Evolutionary Theory of the Firm as a Framework for the Analysis of the Transition Process in Croatia: The Case Study of Hotel Companies

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Abstract

In the process of environmental adaptation, more successful firms should dominate in the population (Alchian, 1950). What factors determine which firms outperform others? Literature on the evolutionary model of economic growth has emphasised the role of dynamic, spontaneous, and historical processes that determine firm economic growth (Nelson and Winter, 1982). Determined by the degree of diversity of behaviours within a population, selection among firms should raise the average capability (fitness) of population of firms to the level of the highest individual capability (fitness) (Metcalf, 1998; Foss, 2001). How is this process realized in the environment of fundamental transitional changes of institutional structures often accompanied by failures of the state, failures of reformers and limited social capital (Franičević, 2005)?

The paper aims to analyze the functioning of selection process in conditions of transition from the perspective of different ownership of firms (Coad, 2009) as a factor that can generate asymmetric effects of external factors. Profit is used as a proxy variable that describes the capabilities (fitness) of companies (Witt, 2016), and the analysis is performed on the set of all Croatian hotel companies that constantly operated in the period from 1998 to 2008, during which the most important transition processes took place.

The analysis is based on a dynamic regression model that allows estimating the relationship between ownership and the ability of firms to accept and adapt to changes in the environment or, in other words, that allows reviewing the relationship between firm fitness and firm size with respect to firm ownership. The analysis was performed on panel data of published annual financial reports of hotel companies in the sample period, and the estimation of the model parameters was conducted by the Arellano-Bond estimator in two steps.

The analysis showed that company ownership is related to the change in population structure as a consequence of different opportunities and needs of companies to change and adapt to changes in the environment and their competition.

Živi li u Bosni i Hercegovini energetska siromašno stanovništvo?

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Sažetak

Rat, tranzicija gospodarstva i privatizacija, sve je to „snašlo“ Bosnu i Hercegovinu u posljednja tri desetljeća. Iz bivše države izašla je kao jedna od nerazvijenijih republika, bogata vodom. Vodni resursi su dobro iskorišteni u proizvodnji električne energije i na razini države električna energija je jedan od vodećih izvoznih proizvoda.

Od 1.1.2015. godine liberaliziranim tržištem električne energije dominiraju tri elektroprivredna poduzeća još uvijek u većinskom državnom vlasništvu. Usluge koje pružaju, proizvodnja i distribucija električne energije spadaju u kategoriju usluga od općeg ekonomskog interesa, usluga čija dostupnost izravno utječe na razinu životnog standarda.

Zakonsko potpuno otvaranje tržišta nije dovelo do očekivanog pada cijena električne energije te se u radu iskazujući udio troškova za električnu energiju u ukupnim troškovima jednočlanih, dvočlanih, tročlanih i četveročlanih kućanstava čija dohodak čini 60%, odnosno 50% i 70% medijane nacionalnog dohotka pokušavaju detektirati koje skupine od navedenih imaju problema sa plaćanjem izdataka za električnu energiju. Takve skupine potrošača nazivaju se energetska siromašnim.

Ključne riječi: električna energija, usluga od općeg ekonomskog interesa, javna poduzeća, liberalizacija tržišta električne energije, energetska siromašno stanovništvo.

The Interplay of Supply-Side Incentives and the Profit Non-Distribution Constraint within a Public Healthcare Network

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Research area: Health economics, economics of education and welfare

Objectives: The paper addresses the definition, role and implications of non-profit healthcare service provision. It focuses on the interplay of supply-side incentives and the profit non-distribution constraint within a public healthcare network. It shows that this interplay is inadequately addressed if the residual of revenue over costs is regarded as a homogenous category disregarding different types of profits that can be generated by health care providers.

Methods: Firstly, authors review the definitions of non-profit provision and examine how the existing literature addresses the underlying reasons for the introduction of non-profits in health care, particularly in public health care systems. Secondly, they critically evaluate the existent concepts and build on economic theories to differentiate between distinct types of profit and provide a more precise definition of non-profit health care provision. Thirdly, the authors illustrate regulatory requirements for non-profits in Slovenia and discuss how they affect the strength of incentives for alternative types of providers with different legal entity types.

Results: Authors show that profit subject to the non-distribution constraint should not be regarded as a homogenous category if one wants to link it to supply-side incentive mechanisms used in health care systems to impact provider efficiency and performance. They define three types of profit that can be generated by health care providers, i.e. disequilibrium, normal and extra profit. They argue that (1) in regulated public health care systems disequilibrium profits do not play an important role typically observed in market-driven contexts, (2) the role of normal profits depends on the providers' ownership type while (3)

extra profits represent the key efficiency incentive for public health care providers. The non-distribution constraint imposed on this type of profit thus also impedes the incentive mechanisms embedded in payment models used in public health care systems. The authors conclude that adequate price policies play a critical role in enforcing non-profit healthcare service provision regardless of provider ownership.

Discussion: The interplay of supply-side incentives and the profit non-distribution constraint within a public healthcare network highlights two issues. The first one refers to the nature of the principal-agent problem within health care providers that is particularly relevant for state-owned health care providers. The second one relates to empirical challenges of quantifying different types of profits using accounting data to adequately inform price setting policies.

Keywords: nonprofits, supply-side incentives, public health care system

Utjecaj demografskih obilježja na vjerojatnost nestandardnog zaposlenja u Republici Hrvatskoj

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Sažetak

Nestandardni oblici zaposlenja jedno su od glavnih obilježja suvremenih tržišta rada čiji se udio u ukupnom zaposlenju kontinuirano povećava i u Republici Hrvatskoj. Uključuju ugovore i radne aranžmane koji se razlikuju od radnog standarda od osam sati tjedno kroz pet radnih dana (četrdeset radnih sati tjedno), kao što su privremeno, sezonsko zaposlenje ili zaposlenje s nepunim radnim vremenom. Dosadašnja istraživanja ove tematike pokazala su kako su razni oblici nestandardnog zaposlenja doprinijeli fleksibilizaciji tržišta rada, ali ujedno i stvaranju određene razine nesigurnosti zaposlenja. Cilj ovog istraživanja je ispitati utjecaj demografskih obilježja kao što su dob, spol, razina obrazovanja, mjesto stanovanja na vjerojatnost nestandardnog zaposlenja u Republici Hrvatskoj. Istraživanje će se provesti na temelju podataka iz Ankete o radnoj snazi koju provodi Državni zavod za statistiku. Kako bi se ispitaio utjecaj kojeg demografske varijable imaju na vjerojatnost hoće li pojedinac biti zaposlen u nekom od oblika nestandardnog zaposlenja, koristit će se statističke metode multivarijantne analize.

Ključne riječi: nestandardno zaposlenje, privremeno zaposlenje, sezonsko zaposlenje, demografska obilježja

Institutions as Fundamental Factor of Development

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Abstract

Institutions are designated as fundamental factor of social and economic development. In transitional theory and practice institutions were neglected, considered as remnant of state, od even more, socialist heritage. The rise of interest for institutions is connected with emergence of Political macroeconomy (PM) focused on relationship between politics and economics in the periods of political business cycles, inflation and unemployment, proximate and fundamental factors of dictatorship, democracy, inequality and economic growth, economic instability and social conflicts. PM points towards the fundamental influence of social and government interests and institutions on the process of formulation and implementation of economic policy within the complex network of social, political and economic factors.

Main fields of research of PM are:

- the nature of monetary and fiscal policy: within the political process, political support and votes of individuals are “bought” with output increase and at the price of delayed inflation;
- the relationship between government, workers and central bank: information access insufficient on the side of workers about the real nature of government, its weaknesses and strengths, which is essential in creating their expectations on future output and inflation;
- political business cycles: the relationship between economy and politics contained in the basic triangle described by a) the goal meaning the winning of elections, b) the instrument being output increase, and c) the price to be paid is increased inflation;
- the interdependence within the world economy: gains and losses from global integration in the world perspective.

Good institutions are at the center of research of PM and are characterized with three attributes: first, they establish and protect property rights; second, they restrict social elites which strive to expropriate income and property of others members of society; third, they provide equal chances for employment, social security and civil rights to all individuals. Good

institutions contribute to political stability, successful macroeconomic policy and enhance initiatives. Key role of institutions is in securing stability and continuity.

Different destinies of particular countries and non-existence of warranted economic and social prosperity are explained by two paradigms: geographical and institutional one. Geographical paradigm insists upon significance of physical geography, climate, ecology, that shape technology and individual behaviour. Institutional paradigm attributes the central role to institutions which promote investment in human, physical capital and technology. Within institutional paradigm emphasis is nowadays is put upon inclusive institutions.

Institutions have central position in network relations characterized by cooperation and partnership of key social and economic actors – stakeholders. Extractive (bad) institutions in dual way negatively affect entrepreneurship and whole social development, as they: 1. increase opportunity costs, and 2. reduce return to entrepreneurship. Those institutions must be object of constraining regulation of regulatory institutions. Inclusive (good) institutions act in opposite direction and they are object of incentive regulation, as they take care of interest of all networked stakeholders.

Key words: political macroeconomy, institutions, inclusive institutions, good governance

Slovenia’s Economy: Past, Present and the Future

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Abstract

Slovenia’s economy experienced various ups and downs before and after the beginning of the 20th century, when it was part of the Austro-Hungarian (Habsburg) empire. Afterwards it was part of various South Slavic entities, and during this period experienced rapid economic growth until the 1930s. After World War II, however, as part of the Socialist Federal Republic of Yugoslavia (SFRY), it started stagnating and eventually began to lag behind.

When Slovenia gained independence in 1991, the country’s entire economic and monetary system experienced a shock, since it had to change from a centrally planned to a free market economy. Yet, as already mentioned, compared to other transitional economies (Slovakia, the Czech Republic, the Baltic states) at the beginning of the 1990s, Slovenia was fortunately much more developed and economically advanced, which was mostly due to past economic development and reforms already carried out during the Habsburg era. Consequently, it was in a position to choose whether this transition should be achieved through gradualism or shock therapy. The first concept prevailed, for inter alia economic reasons, and gave relatively good results at the beginning of the 1990s. However, in the following years, this approach began to hinder any serious systemic reforms, especially in the judiciary, labour market, pensions system, healthcare, etc.

Nevertheless, Slovenia achieved all its important political, economic and diplomatic goals in its first 15 years of independence. It became a full EU member in May 2004, the first of the former SFRY republics to do so. In 2007 it fulfilled the Maastricht criteria as the first ‘new’ EU Member State and joined the eurozone. In 2008 Slovenia took over the presidency of the EU Council, again as the first ‘new’ Member State to do so, and at that time had already reached 90 per cent of the average development of EU Member States, measured in GDP per capita.

However, with the end of 2008 all the dreams of the best ‘student’, as Slovenia was often referred to, collapsed. Slovenia’s economy was completely unprepared for the global financial

and economic crisis, and recorded one of the largest falls in economic growth of the EU Member States in 2009, namely a fall of 7.8 per cent. In the following years Slovenia was almost going towards the Greek scenario of a bailout, but escaped the claws of the debt crisis at the last minute, mainly due to the excellent performance of its exporters and a more positive global economic climate.

Nevertheless, since its independence Slovenia's economy has, comparatively speaking, been losing against other transitional economies; or more precisely, other economies have been catching up much faster. Bearing all this in mind, and looking at the data for 2017 and 2018, we can see that some other transitional economies that were lagging far behind Slovenia's development in 1991 have now almost caught up.

What, therefore, has happened to Slovenia in the last quarter century? Why, despite a relatively advanced (compared to other transitional economies) and developed economy at the beginning of the 1990s, did the country get hit so hard by the last financial crisis and in comparative terms lose pace against other transitional economies, such as Slovakia, the Czech Republic or various Baltic states?

In this regard the focus of this chapter will be to comparatively analyse the economic performance of Slovenia and some other selected transitional economies. For our research we have preliminarily chosen Slovakia, Latvia, Estonia and Hungary.

Having obtained all these results, we will look at different policies and segments of the selected economies, such as foreign direct investment, privatisation, monetary policy and the performance of their legal systems, which have all differed considerably in the countries investigated. Using these results, we will search for any correlation between these implemented policies and the economic performance of the selected economies.

Finally, concrete proposals and policy recommendations will be provided.

Good Jobs, Bad Jobs: Regulating the Prevalence of Student Work in Slovenia

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Abstract

The prevalence of student work is an important feature of Slovenian labor market. The main advantage compared to other forms of work is its high degree of flexibility and low payment. Moreover, there are practically no limitation about the use of student work in Slovenia: neither for students nor for companies. Although anecdotic and academic references, based on individual surveys, point to many positive effects mainly in the form of enhancing their skills, the main motive of employers in Slovenia is not providing adequate, study-field related working experience for students and increase their job related skills but to substitute employees. In order to regulate this part of the labor market it is important to understand mechanisms that affect demand and supply for this particular type of work.

In our contribution we analyze the prevalence of student work in different industries in Slovenia by explaining supply and demand mechanism of student work. Comparing the profitability of industries with different share of student work that has been identified by using Labour Force Survey microdata in the period of 2000 – 2018, and complemented with balance sheets' data for particular industries, enables us to identify the main motives of employers in Slovenia and compare them with Belgium, Austria and Germany where student work is regulated in terms of hours and overall payment. Moreover, by using probit model we evaluate marginal effect of student work on employability of graduates in Slovenia and compare them with countries that face more stringent regulation of student work.

Keywords: student work, labor market, flexibility, curriculum

The Causal Link Between Savings and Economic Growth in Bosnia and Herzegovina

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Abstract

Accelerating economic growth and maintaining macroeconomic stability are very important economic issues. In developing countries, this issue is not only analytically interesting, but has crucial practical relevance. The relative role of capital accumulation, as the driving force behind the growth rate of output and national income, is one of the controversies in developing economies. Domestic savings can be a significant catalyst for growth, as higher savings rates allow investment to grow at higher rates and continue economic growth. The causal link between savings and economic growth has been extensively discussed in the economic growth and development literature, but the question of the direction of this link has not yet been clearly defined. The aim of this paper is to determine the direction and intensity of savings causality (components of private savings) and economic growth in BiH. Granger's causality test, the Toda-Yamamoto procedure, was applied to test for causality between savings and economic growth. The results of Granger's causality test indicated that there is no causal link between household savings and economy with economic growth in BiH, with savings and economic growth showing cointegration, which means that the variables have a common stochastic trend. The contribution of the work is reflected in examining the direction and maturity of the causality between savings and economic growth, since there is no unique view in economic theory on this relation. It was found that among the variables there is cointegration, but not causality, which fully corresponds to the characteristics of the BiH economy.

Keywords: saving, economic growth, macroeconomics, econometric analysis

New Kids on the Block: The Role of Subsidies as a Pull Factor for Startups

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Abstract

According to the Jovanovic model (1982) startups do not know their costs ex ante. However, the costs of entry and operations can be decreased if the startup gets a subsidy. By design of the industrial policy, the subsidies are not uniform across industries. Large amounts of subsidies in a specific industry can therefore be anticipated and can act as a pull factor for startups. Actually, subsidies for startups have a twofold effect: they might increase the entry rates as well as the probability of survival after the entry. The current literature provides limited evidence on the entry and post-entry growth of startups which are subsidy recipients. To fill in this gap, data on an entire population of Slovenian startups (their performance indicators and subsidies received from 2006 until 2019) are used in an empirical investigation. We first calculate the effect of the sum of subsidies awarded in a specific industry ex ante on the probability of firm entry and the size of the entry (in terms of employment and assets). Post entry, firms exhibit different hazard ratio of failure in time of operation. Negative dependence is usually exhibited early on, until the turning point when it is followed by the positive duration dependence. Following Holmes et al. (2010) we use a survival analysis and compute the survival and hazard rates as a function of subsidies received. Due to possible sample selection bias arising from the possibility of positive correlation between start-up size

(in terms of either employment or assets) and survival, the Heckman (1979; 2003) two step procedure is applied.

Keywords: new firm survival, government subsidies, Slovenia

Immigrants in Croatia: Theoretical Considerations of Composition Effects

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Abstract

The phenomenon of migration is a current social, economic, political and environmental issue with frequent negative connotations of the impact of migrants on a domicile population in a destination country. Although the number of immigrants in Croatia is not comparable in the context of the number of immigrants in other Western European countries, it is important to compare the labor market profile of the natives and immigrants in Croatia in order to theoretically assess the potential impact of immigrants on different labor market outcomes. The profile of immigrants will be analyzed by taking into account several possible definitions of immigrants that are addressed in the literature of migration economics. These definitions are based on different elements i.e. place of birth, citizenship and length of stay in the country. The source of data is the 2015 Labor Force Survey.

This paper fills the gap by giving a descriptive analysis between natives and immigrants in Croatia and answering a question whether we can expect structural changes in Croatian domicile population due to immigrants. We give an additional insight into the labor market profiles of immigrants and investigate the possibility of “displacement effect”, in which immigrants substitute natives.

Given the results, the existence of composition effect in Croatia regarding the labor market status between natives and immigrants cannot be expected although some differences are visible, mainly in the area of income distribution and the distribution of observed groups of population among different activities.

Keywords: immigrants, labor market, natives, Croatia

Trust and Business Environment in Western Balkan Countries

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Abstract

There is a large body of literature that emphasise importance of trust for well-functioning markets (e.g. Fukuyama, 1995; North, 1981; Kornai, Rothstein and Rose-Ackerman 2004). Trust is particularly important in transactions that are not formalized through the contractual arrangements. Some of the known benefits of trust include reduction of transaction costs, increased government efficiency, financial development, better functioning of firms etc. However, in transition countries, trust is a *commodity* in a relatively short supply (Raiser et al., 2003). The main goal of this paper is to analyse the effects of (dis)trust on various aspects of business environment in Western Balkan countries: Albania, Bosnia and Herzegovina, Kosovo, North Macedonia, Montenegro and Serbia. Although the process of economic transition in these countries was quite divergent, they are all faced with substantial problems in their business environment, legal systems, quality of governance etc. In achieving this goal, we primarily employ data from survey conducted in transition countries by EBRD and World Bank, i.e. the *Business Environment and Enterprise Performance Survey (BEEPS)*. The methodological approach is based on cross-sectional analysis on firm level which will provide insights into the effects of trust on business environment quality.

Keywords: transition, Western Balkan, trust, business environment

High Profile Corruption and Trust in Politics

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Abstract

Political economy analysis of Croatia’s transformation process since 1990s indicates that Croatia has gone through a multiple process of transformation: state, political and economy with state transformation being the only process that has finished since then. Several characteristics of Croatia’s model of political economy of capitalism enacted have emerged out of which clientelism, crony capitalism, low transparency and overarching corruption stem among the most important. We focus on the latter since corruption creates constraint to successful political and economic transformation. Namely, we are interested in how does a high-profile corruption scandal change trust in politics and politicians? This paper answers this question by examining the consequences of the arrest and prosecution on corruption charges of Prime Minister of Croatia Ivo Sanader on political preferences and trust. Using a difference in differences methodology, this shock allows to identify the effect of a corruption scandal by comparing the average change in political attitudes over time in Croatia as compared to the average change in the control group of countries consisting of Slovenia, Bulgaria, Romania, Slovakia and Hungary. To do so, we use three waves of the European Social Survey (ESS) measuring individual level socio-demographic characteristics and political attitudes for over 20,000 respondents before and in the aftermath of the corruption scandal. We find that the corruption scandal had a significant large and negative effect on trust in politicians, the serving parliament and politics overall. We find this decrease in trust is mainly driven by young voters that are on the Left, the ideological opposite of the party of Ivo Sanader. We conduct a series of robustness analysis that confirm our findings.

Keywords: Difference in Differences Design, Croatia, Corruption

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