

## Letter from Editors

Three papers published in the first issue of volume 9 are devoted to important issues of empirical economic modelling.

In the first paper, Robert Kelm tests the rationality of expectations in the Polish foreign exchange market. The analysis is conducted within the model that builds on the hypothesis of imperfect knowledge economics (IKE). The modelling strategy consists of the formulation of assumptions about the persistence of nominal rate, prices and interest rates. Since, in the mainstream literature on exchange rate modelling, the rational expectations (RE) hypothesis is usually taken as a point of reference in empirical investigations, one of the aims of the paper is the verification of competing scenarios corresponding to RE and IKE. The outcome of the paper is the rejection of the RE hypothesis in favour of the IKE alternative.

In the second paper, Łukasz Lenart examines seasonal volatility in disaggregated and total HICP for eight Baltic Region countries. Non-parametric tests of seasonal volatility are used, and then it is checked whether allowing time-varying periodic variance of error terms in exponential smoothing models helps in better forecasting of HICP components. The seasonal pattern is clearly observed in levels of many HICP (month over month) components, while a periodic phenomenon in variance is rare and weaker, but still present in selected components. An exponential smoothing model with periodic variance of error terms is proposed to capture seasonal variation in conditional or unconditional second order moments. However, the empirical evidence shows that models with constant error variance have comparative forecasting performance.

In the third paper, Kamil Makiela thoroughly investigates the Bayesian approach to generalized true random-effects (GTRE) models; such specifications have been proposed in efficiency analysis quite recently. It is shown that, under suitably defined priors for transient and persistent inefficiency terms, the posterior characteristics of such models are well approximated using Gibbs sampling with no model re-parameterization. The proposed prior structure not only allows to make more reasonable (less informative) assumptions as regards transient and persistent inefficiency distribution, but also appears to be more reliable in handling noisy data sets. The relationship between inefficiency terms in GTRE, true random-effects (TRE), generalized stochastic frontier and standard stochastic frontier models is examined in the empirical part of the paper.