

МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ  
ХАРКІВСЬКА НАЦІОНАЛЬНА АКАДЕМІЯ МІСЬКОГО ГОСПОДАРСТВА

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**ЗБІРНИК ТЕКСТІВ І ЗАВДАНЬ З ДИСЦИПЛІНИ «ІНОЗЕМНА МОВА»  
(АНГЛІЙСЬКА МОВА) ДЛЯ ОРГАНІЗАЦІЇ ПРАКТИЧНОЇ РОБОТИ**  
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## **INTRODUCTION**

These educational materials are designed for the students of the 2 course of speciality “Economics of structural enterprises” and “Business accounting and Audit” to develop their knowledge and skills in English language according to their profession.

The manual is based on the authentic texts concerning the economic problems. It also has the tasks for reading, translating, lexical and grammar tasks, texts for self-study. It has 15 units. Each unit contains:

- activities on vocabulary;
- activities on grammar.

The manual can be also recommended for students’ self-study. It is expected to teach students working at English texts on their own, to increase the level of their knowledge and to form foreign communicative competence.

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## UNIT 1.

### SUPPLY, DEMAND AND MARKET PRICES

#### 1. Read and memorize the following words, word-combinations and word-groups:

price – ціна

e.g. He managed to get a good price for the car.

to ration – розподіляти, нормувати, видавати

e.g. The amount of email you can keep online is rationed.

to attend an auction – відвідувати аукціон

e.g. Did you ever attend an auction?

rationing effect – раціональний вплив

e.g. What you saw at the auction was the rationing effect of prices.

bidder – покупець на аукціоні

e.g. The company's assets will be sold to the highest bidder.

to drive out of the market – витіснити з ринку

e.g. This company was driven out of the market.

the level of output – рівень виробництва

e.g. A variable cost is a cost that varies with the level of output.

demand and supply – попит та пропозиція

e.g. The price is determined by the balance between demand and supply.

elasticity – еластичність, гнучкість

e.g. The elasticity of demand for luxury goods tends to be higher than for necessities.

#### 2. Give English equivalents of the following:

покупець на аукціоні

закон попиту

вартість продукції

кількість товарів та послуг

закон пропозиції

товари для продажу

еластичність

ринкова економіка

### 3. Fill in the blanks with appropriate words:

*market seller goods rationed prices bidders demand sale consumers  
auction*

1. Coffee \_\_\_\_\_ have fallen by 15% this year.
2. The law is intended to protect both the buyer and the \_\_\_\_\_.
3. Traders reported a strong \_\_\_\_\_ from investors.
4. Interest rate cuts have persuaded \_\_\_\_\_ to spend more.
5. The hardware \_\_\_\_\_ is severely depressed.
6. The painting was sold at \_\_\_\_\_ for \$50 000.
7. The population was \_\_\_\_\_ to 4 litres of water per person per day.
8. I haven't made a \_\_\_\_\_ all week.
9. The group is one of six \_\_\_\_\_ competing for the \$500 million contract.
10. In the single market, \_\_\_\_\_, people and money can move freely across countries.

### 4. Read and translate the text:

Market economies are directed by prices. Prices ration scarce resources, and they motivate production. As a general rule, the more scarce something is, the higher its price will be, and the fewer people will want to buy it. Economists describe this as the rationing effect of prices.

Prices encourage producers to increase or decrease their level of output. Economists refer to this as the production-motivating function of prices. Prices send out "signals" to buyers and sellers, keeping the economy responsive to the forces of supply and demand.

In a free market economy, prices are determined by the interaction of the forces of supply and demand. Perfectly competitive markets are those in which many buyers and sellers, with full knowledge of market conditions, buy and sell products that are identical to one another.

Demand is a consumer's willingness and ability to buy a product or service at a particular time and place. If you would love to own a new pair of

athletic shoes but can't afford them, economists would describe that your feeling is desire, not demand. If, however, you had the money and were ready to spend it on shoes, you would be included in their demand calculations.

The law of demand describes the relationship between prices and the quantity of goods and services that would be purchased at each price. It says that all else being equal, more items will be sold at a lower price than at a higher price.

The degree to which price changes affect demand will depend upon the elasticity of demand for a particular item.

If total revenue increased following a price decrease, demand would be elastic. If the price decrease led to a decrease in total revenue, the demand for the item would be described as inelastic.

The demand for some goods and services will be inelastic for one or more of the following reasons:

- They are necessities.
- It is difficult to find substitutes.
- They are relatively inexpensive.
- It is difficult to delay a purchase.

Sometimes things happen that change the demand for an item at each and every price. When this occurs, we have an increase or a decrease in demand.

Supply, which is the quantity of goods or services that sellers offer for sale at all possible prices at a particular time and place, varies directly with price. In other words, at a higher price, more goods and services will be offered for sale than at a lower one, and vice versa.

The price at which goods and services actually change hands is known as the equilibrium, or market price. It is the point at which the quantity demanded exactly equals the quantity supplied. Market price can be represented graphically as the point of intersection of the supply and demand curves.

Shifts in demand or supply will affect market price. When everything else is held constant, an increase in demand will result in an increase in market

price, and vice versa. Similarly, an increase in supply will result in a decrease in price, and vice versa.

The market price is the only price that can exist for any length of time under perfect competition conditions. Perfect competition exists when the following conditions prevail:

- Buyers and sellers have full knowledge of the prices quoted in the market.
- There are many buyers and sellers so that no individual or group can control prices.
- The products are identical with one another. Therefore, it would not make sense for buyers to pay more than the market price, nor for sellers to accept less.
- Buyers and sellers are free to enter or leave the market at will.

**5. Answer the following questions:**

1. Describe the rationing effect of prices.
2. What happens in a free market economy?
3. What is demand?
4. What does the law of demand describe?
5. What are the reasons when the demand for some goods and services are inelastic?
6. What is supply?
7. What is the equilibrium?
8. What can exist for any length of time under perfect competition conditions?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|           |   |
|-----------|---|
| 1. market | a) a thing that is manufactured, developed, produced or grown, usually for sale |
| 2. price  | b) the extent to which people want to buy more or less of a product or service  |

|                |  |
|----------------|--|
|                | when its price changes   |
| 3. production  | c) business or trade; the amount of trade in a particular type of goods, services, investments, etc  |
| 4. product     | d) a person or group that offers to pay an amount of money to buy sth  |
| 5. economy     | e) the amount of sth that a person, a machine, an organization or an industry produces   |
| 6. to ration   | f) the amount of money that you must pay for sth   |
| 7. auction     | g) to limit the amount of sth that people are allowed to have, usually because there is not enough for everyone to have as much as they want       |
| 8. bidder      | h) the process of making goods or materials or growing food, especially large quantities; the department in a company that is responsible for this |
| 9. output      | i) the relationship between production, trade and the supply of money in a particular country or region  |
| 10. elasticity | j) a public event at which things are sold to the person who offers the most money for them  |

**7. Read the sentences and decide if they are true or false:**

1. Prices ration scarce resources, and they motivate production.
2. In a command economy, prices are determined by the interaction of the forces of supply and demand.
3. Demand is a consumer's willingness and ability to buy a product or service at a particular time and place.
4. The law of supply describes the relationship between prices and the quantity of goods and services that would be purchased at each price.
5. Supply is the quantity of goods or services that sellers offer for sale at all possible prices at a particular time and place.
6. The market profit is the only profit that can exist for any length of time under perfect competition conditions.

**8. Fill in the gaps with the words and expressions from the text:**

1. Market economies are directed by \_\_\_\_\_.
2. Prices encourage producers to \_\_\_\_\_ their level of output.
3. \_\_\_\_\_ is a consumer's willingness and ability to buy a product or service at a particular time and place.
4. The degree to which price changes affect demand will depend upon the elasticity \_\_\_\_\_.
5. The price at which goods and services actually change hands is known as \_\_\_\_\_.
6. The market price is the only price that can exist for any length of time under perfect competition conditions.

**9. Find pairs of words as they occur in the text:**

|              |               |
|--------------|---------------|
| 1. scarce    | a. economy    |
| 2. motivate  | b. revenue    |
| 3. rationing | c. versa      |
| 4. market    | d. conditions |
| 5. total     | e. effect     |
| 6. price     | f. resources  |

|                 |               |
|-----------------|---------------|
| 7. to delay     | g. a purchase |
| 8. vice         | h. hands      |
| 9. change       | i. decrease   |
| 10. competition | j. production |

**10. Translate the sentences into Russian.**

1. I'm only buying it if it's the right price.
2. The law is intended to protect both the buyer and the seller.
3. The movie has created a huge demand for the books and related products.
4. Mexicans are believed to be the biggest consumers of soft drinks.
5. They have increased their share of the market by 12 per cent.
6. The stores will be put up for auction by the parent company.
7. The amount of email you can keep online is rationed.
8. She gets 10% commission on each sale.
9. The group is one of six bidders competing for the \$500 million contract.
10. There will be a reduced tariff rate on agricultural goods like fruit and vegetables.

## UNIT 2

### THE CONSUMER IN OUR ECONOMY

#### 1. Read and memorize the following words, word-combinations and word-groups:

wage – заробітна плата

e.g. You will receive a basic weekly wage of €500 plus bonuses.

wealth – багатство

e.g. His personal wealth is estimated at \$100 million.

to deposit money in a savings account – класти гроші на ощадний рахунок

e.g. We decided to deposit money in a savings account.

to earn interest – одержувати відсотки

e.g. This deposit earns interest, which is usually calculated daily.

to loan – позичати, давати позику

e.g. The bank loaned the business more than \$200 000.

expenditure – витрати

e.g. The group has been aggressive in cutting expenditure.

savings – заощадження

e.g. He used his savings to start up his own company.

to exceed - перевищувати

e.g. Total sales are expected to exceed €250 million.

surplus – лишок

e.g. The country has a huge budget surplus as it is a large oil exporting nation.

rate of return – норма прибутку

e.g. The average rate of return on assets was 9.3%.

yield – прибуток

e.g. This will give a yield of 10% on your investment.

endowment - вклад

e.g. The university has a \$10.5 billion endowment fund.

consumer credit – споживчий кредит

e.g. In order to restrict consumer credit, the government is forced to raise interest rates.

finance charge – фінансові витрати

e.g. He has huge credit-card debt and pays hundreds of dollars a month in finance charges.

## 2. Give English equivalents of the following:

класти гроші на банківський рахунок                      фінансові витрати

одержувати відсотки    ЛИШОК

норма прибутку    заощадження

споживчий кредит    заробітна плата

## 3. Fill in the blanks with appropriate words:

*salaries credit surplus budget yields loans income money insurance wealth*

1. I bought it on \_\_\_\_\_.
2. The director said that average fare \_\_\_\_\_ were lower than usual.
3. Tourism is a major source of \_\_\_\_\_ for the area.
4. It's time to renew your motor \_\_\_\_\_.
5. Many people now spend half their \_\_\_\_\_ on rent or mortgages.
6. Each department sets its own \_\_\_\_\_.
7. How much \_\_\_\_\_ is there in my account?
8. The purpose of industry is to create \_\_\_\_\_.
9. The government offers low-interest \_\_\_\_\_ to small companies.
10. The final-salary pension plan still has a healthy \_\_\_\_\_.

## 4. Read and translate the text:

Most of the income you are likely to earn will come from work. In return for working, you will receive a wage or salary. (The term “wage” typically refers to the earning of workers paid by the hour or unit of production. “Salary” refers to earning paid on a weekly or monthly basis.) How much you earn will depend on your job, your abilities, your performance, and a number of other factors.

Wealth can be expressed as the value of the things you own. Adding the value of all your possessions by banks accounts, savings, and the like will give you the total amount of your wealth.

Used in certain ways, wealth can earn income. If you owned a motorcycle, you might be able to let others use it for a fee. In that instance economists would say that you used your wealth to earn “rent”. Wealth in the form of money that is loaned to others or deposited in a savings account will earn interest. Interest and rent are the two forms of income that can be earned by wealth.

The number and value of things we are able to buy depends upon the size of our income and how wisely we spend it.

To help keep track of income and expenditures, many people use personal budgets. A budget is a financial plan that summarizes income and expenditures over a period of time. When a budget has expenses that exactly equal income, it is said to be balanced. When proposed expenses are greater than expected income, the budget is said to have a deficit. Budgets in which income exceeds expenditures will have a surplus.

Although there are as many ways to prepare a budget as there are people who use them, the process usually involves three steps: setting financial goals, estimating income, and planning expenditures.

Bank and savings institutions protect your money against fire, theft and other disasters.

One of the main reasons people save their money is to earn interest, the income from allowing someone else to use one’s capital. The amount that they earn is known as the rate of return which is expressed as a percentage of the amount on deposit for a period of a year. A deposit of \$100 in an account paying 5 percent, for example, would earn a total of \$5 in interest over a year. The \$5 is the return; the rate of return is 5 percent (\$5 divided by \$100).

Most accounts offer compound interest. This is interest computed on the principal and on the interest that was previously paid.

The rate of return offered by banks and savings institutions will vary with economic conditions and the length of time they hold your money. It is also important to distinguish between rate of return and yield, the actual amount of interest earned. Yield depends on the rate of return and the frequency of compounding.

Liquidity is a measure of the ease with which you can convert your savings to cash. The easier it is to withdraw your funds, the greater is the liquidity.

Theft, accident, sickness, and natural disasters are daily risks of life. Just as we do our best to avoid the physical consequences of these perils, we can also protect ourselves from their financial cost. We do this by sharing the risk of that loss with others through insurance. You can purchase insurance on your life and to pay your medical bills. You can purchase property insurance to protect your car, home, and other major possessions from damage or theft. Liability insurance protects you if you should injure others or damage their property.

One of the principal services offered by savings institutions and banks is the checking account. Some of the things that consumers need to know in using and maintaining a checking account are reviewed in the Study Guide.

Credit allows you to purchase the things you want now and pay for them over a special period of time. Credit can be useful but it does require good character, capital, and capacity to repay the loan. Credit can be expensive. Two of the most important things to look for when shopping for a loan are the finance charge and the APR.

The purpose of advertising is to sell goods and services. While certain advertising techniques benefit consumers, others do not. Consequently, consumers ought to be familiar with the kinds of strategies that advertisers use to sell their products.

The principal responsibility for consumer protection lies with government agencies at the federal state and local levels. There are, however, a number of organizations, sponsored by the private sector, whose purpose is to

protect consumers. These include such well-known institutions as the Better Business Bureau and local Chambers of Commerce.

Because consumers make up the largest economic sector (business and government are the other two), the level of consumer spending has a direct impact on the economy as a whole.

**5. Answer the following questions:**

1. What is the difference between “wage” and “salary”?
2. How can “wealth” be expressed?
3. What is a budget?
4. What makes up your personal budget?
5. What is the rate of return?
6. What is liquidity?
7. What does credit allow you?
8. What is the purpose of advertising?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|             |   |
|-------------|---|
| 1. wage     | a) the extra money that you have to pay when you borrow money   |
| 2. wealth   | b) the act of spending or using money; an amount of money that sb/sth spends during a particular period of time |
| 3. deposit  | c) an amount of sth such as time or money that you do not need to use or spend                                  |
| 4. interest | d) the total amount of profits or income that you get from an investment or from a business                     |
| 5. to loan  | e) a regular amount of money that you earn, usually every week, for work or services                            |

|                |  |
|----------------|--|
| 6. expenditure | f) an arrangement that you make with a bank, shop/store, etc., to be able to buy things now and pay for them later       |
| 7. saving      | g) to lend sth to sb, especially money   |
| 8. surplus     | h) a large amount of money, property, etc. that a person or country owns; how much money, etc. a person or a country has |
| 9. yield       | i) an amount that is extra or more than you need   |
| 10. credit     | j) an amount of money that is paid into a bank or savings account  |

**7. Read the sentences and decide if they are true or false:**

1. Most of the income you are likely to earn will come from work. In return for working, you will receive a wage or salary.
2. Credit can be expressed as the value of the things you own.
3. The number and value of things we are able to buy depends upon the size of our income and how wisely we spend it.
4. Most accounts offer consumer credit.
5. Liquidity is a measure of the ease with which you can convert your savings to cash.
6. The purpose of advertising is to buy goods and services.

**8. Fill in the gaps with the words and expressions from the text:**

1. Wealth can be expressed as \_\_\_\_\_.
2. \_\_\_\_\_ are the two forms of income that can be earned by wealth.
3. Bank and savings institutions protect your money against \_\_\_\_\_.
4. Most accounts offer \_\_\_\_\_.
5. The purpose of advertising is to sell \_\_\_\_\_.

6. \_\_\_\_\_ lies with government agencies at the federal state and local levels.

**9. Find pairs of words as they occur in the text:**

|               |                 |
|---------------|-----------------|
| 1. earn       | a. money        |
| 2. to won     | b. of return    |
| 3. to deposit | c. risk         |
| 4. to make    | d. charge       |
| 5. to keep    | e. interest     |
| 6. rate       | f. credit       |
| 7. compound   | g. track        |
| 8. to share   | h. a motorcycle |
| 9. consumer   | i. interest     |
| 10. finance   | j. decision     |

**10. Translate the sentences into Russian.**

1. It is unlikely that the bank will extend additional credit to the firm.
2. The union submitted a wage claim for a 9% rise.
3. The new manager brings a great wealth of experience to the job.
4. Their business account pays 3% interest.
5. Deposits can be made at any branch.
6. Many people take out a loan to buy a new car.
7. Consumers have not yet switched from consumption to saving.
8. Skilled workers are in surplus in some regions.
9. Organic yields on a given area of land tend to be variable and low.
10. The project will only go ahead if they can raise the necessary finance.

## UNIT 3.

### LAUNCHING A BUSINESS

#### 1. Read and memorize the following words, word-combinations and word-groups:

start a business – розпочати справу

e.g. Nowadays it is difficult to start a business in our country.

to face a problem – стикатися з проблемою

e.g. Small businesses face many problems.

to risk - ризикувати

e.g. She risked all her capital in the new business.

sole proprietorship – одноосібне володіння

e.g. The students have started several sole proprietorships, including a video-copying service and a hot dog stand.

pay taxes – сплачувати податки

e.g. They have to pay taxes immediately.

to assume the debts – брати на себе сплату боргів

e.g. If a business fails, the owner must personally assume the debts.

stockholder – акціонер, власник акцій

e.g. They have increased their debt to meet stockholder demand for earnings growth.

partnership – товариство, компанія

e.g. The brothers formed a successful partnership that ran several restaurants in the area.

#### 2. Give English equivalents of the following:

товариство

акціонер

стикатися з проблемою

брати на себе сплату боргів

одноосібне володіння

ризикувати

сплачувати податки

### 3. Fill in the blanks with appropriate words:

*company experience to risk stockholder partnership creditors owner  
managers business sole proprietorship*

1. She has 10 years \_\_\_\_\_ in the job.
2. The property will be sold to pay off their \_\_\_\_\_.
3. We are an importer, exporter and \_\_\_\_\_ of structural steel items.
4. Good \_\_\_\_\_ know how to use the skills of the people who work under them.
5. She works in the computer \_\_\_\_\_.
6. They are a large insurance and investment \_\_\_\_\_.
7. The students have started several \_\_\_\_\_, including a video-copying service and a hot dog stand.
8. She was offered a \_\_\_\_\_ in the law firm.
9. The group is the \_\_\_\_\_ of the largest shopping mall in the country.
10. He would not \_\_\_\_\_ his reputation if he did not think he could get the deal.

### 4. Read and translate the text:

There are numerous reasons that make people think about owning a business of their own. Personal independence, unlimited profit potential, the opportunity to work at something that they really love and at hours they choose are some of the reasons people have given for trying entrepreneurs. Many business leaders begin their careers as entrepreneurs after four years of undergraduate college training and even additional graduate school training. Others become successful entrepreneurs without special training.

Many colleges now offer programs that teach students how to start and operate a business. Basic information is combined with hands-on experience and the advice of successful business consultants. These programs help potential entrepreneurs decide whether their own ideas are good and how to follow through with them. With the high rate of business failure, this approach can prevent personal financial losses.

A common way to learn about business, and the opportunities for starting one similar to it, is to learn while working for someone else. It provides a source of steady income to people while they are planning to start their own businesses. About 50 percent of entrepreneurs start their businesses in industries in which they have some experience.

Evidence shows that people who come from families whose members were in business themselves are more likely to start their own companies. Unfortunately, the record shows that two out of three new businesses fail within their four years.

Small businesses face many problems. Bad economic times affect small business more than they do big business. In addition, small business profits tend to fall faster, and small businesses are more likely to fail.

What are the problems that face small business now? In January, 1985 the National Federation of Independent Business reported that the four top problems facing small business at that time were taxes, slow sales, the high cost of borrowing money and competition from other businesses.

In a large business the tasks of organizing and operating are done by many hired managers.

A corporation is one kind of business organization. Other kinds of business organizations are sole proprietorships and partnerships. Sole proprietorships are the most numerous kind of business organization, but most are very small. The reason for their popularity is that they are the easiest and least costly to organize.

Sole proprietors own all the profits of their enterprises, and they are their “own bosses”, free to make whatever changes they please. They have minimal legal restrictions and do not have to pay the special taxes placed on corporations. Sole proprietors also have opportunity to achieve success and recognition through their individual efforts.

There are also disadvantages. A very serious one is the unlimited liability that each proprietor faces. All debts and all problems associated with the

business belong to the owner. A second disadvantage of the sole proprietorship is that it has limited capital. The money that a proprietor can raise is limited by the amount of his or her savings and ability to borrow. Also, when the owner dies, the business dies. Other disadvantages may include lack of opportunities for employees, limitations of size and lack of management resources.

A partnership is a business organization that is owned by two or more persons. Partnerships offer certain advantages over sole proprietorships:

- Partners bring additional funds to a proprietorship.
- Partners can bring fresh ideas and talents to business organizations.
- Like the sole proprietorship, partnerships are relatively easy to form and are not subject to special taxation. Partnerships have the following disadvantages:
  - In many cases, each of the partners is subject to unlimited liability. Partners are individually responsible for all the debts of the business. In other words, if the business were to fail, its creditors would have the right to recover their money from any, or all, of the partners.

A corporation is a business organization created under a government charter. Ownership of a corporation is represented by shares of stock, and for that reason corporate owners are known as stockholders. One feature of the corporation is that the courts treat it as a legal “person”. It can, for example, sue or be sued and enter into contracts, and it must pay taxes.

There are some other types of business organizations. They are: the corporation for small business, not-for-profit corporation, government-owned corporations, cooperatives and franchises.

##### **5. Answer the following questions:**

1. What makes people think about owning a business of their own?
2. How do many business leaders begin their careers as entrepreneurs?
3. What helps potential entrepreneurs to start and operate a business?
4. What problems do small businesses face?
5. Who does the tasks of organizing and operating in a large business?

6. What kinds of business organizations do you know?
  7. What are the advantages and disadvantages of sole proprietorship, partnership and corporation?
  8. What other special types of business organizations do you know?
- 6. Match the words from the left-side column with their definitions from the right-side column:**

|                        |   |
|------------------------|---|
| 1. business            | a. to give sb money for work, goods, services, etc  |
| 2. to risk             | b. the money that you make in business or by selling things, especially after paying the costs involved             |
| 3. sole proprietorship | c. a person who makes money by starting or running businesses, especially when this involves taking financial risks |
| 4. to pay              | d. a business that is owned and run by one person   |
| 5. tax                 | e. a business that is owned by a group of professional people who work together and share the profits               |
| 6. debt                | f. the activity of making, buying, selling or supplying goods or services for money                                 |
| 7. stockholder         | g. an amount of money that a person, a company, a country, etc. owes  |
| 8. partnership         | h. to put smth valuable or important in a dangerous situation, in which it could be lost or damaged                 |
| 9. profit              | i. a person or group that owns shares in  |

|                  |  |
|------------------|--|
|                  | a company or business  |
| 10. entrepreneur | j. money that you have to pay to the government so that it can pay for public services |

**7. Read the sentences and decide if they are true or false:**

1. There are not many reasons that make people think about owning a business of their own.
2. Many colleges now offer programs that teach students how to start and operate a business.
3. A common way to learn about business, and the opportunities for starting one similar to it, is to learn while working for someone else.
4. Large businesses face many problems.
5. In a small business the tasks of organizing and operating are done by many hired managers.
6. A corporation is a business organization created under a government charter.

**8. Fill in the gaps with the words and expressions from the text:**

1. There are numerous reasons that  
\_\_\_\_\_.
2. Many colleges now offer programs that  
\_\_\_\_\_.
3. \_\_\_\_\_ start their businesses in industries in which they have some experience.
4. Bad economic times affect small business \_\_\_\_\_.
5. Other kinds of business organizations are  
\_\_\_\_\_.
6. A corporation is a business organization created under a government charter.

**9. Find pairs of words as they occur in the text:**

|               |                   |
|---------------|-------------------|
| 1. to own     | a. debts          |
| 2. to face    | b. experience     |
| 3. to pay     | c. a problem      |
| 4. to assume  | d. liability      |
| 5. hands-on   | e. a business     |
| 6. sole       | f. restriction    |
| 7. steady     | g. money          |
| 8. to borrow  | h. income         |
| 9. legal      | i. taxes          |
| 10. unlimited | j. proprietorship |

**10. Translate the sentences into Russian.**

1. He has business interests on both sides of the Atlantic.
2. Going into partnership allows us to share the financial risks.
3. The students have started several sole proprietorships, including a video-copying service and a hot dog stand.
4. How much are people willing to pay for your product?
5. All menu prices are exclusive of tax.
6. The group has debts of \$3 billion.
7. They have increased their debt to meet stockholder demand for earnings growth.
8. The brothers formed a successful partnership that ran several restaurants in the area.
9. They reported a profit of \$512 million.
10. The company is reported to have liabilities of nearly €90 000.

## UNIT 4.

### FINANCING A BUSINESS

#### 1. Read and memorize the following words, word-combinations and word-groups:

internal funds – внутрішні борги

external funds – зовнішні борги

to meet one's expenses – покривати чиїсь витрати

e.g. It is difficult to meet his expenses because her salary is very small.

depreciation – знецінення, зниженні цін

e.g. The decline reflects the depreciation of the euro against sterling.

to wear out – зношуватися, спрацьовуватися

e.g. Depreciation represents the cost of replacing assets that wear out.

To cover the cost of smth – покрити вартість чого-небудь

e.g. These money don't cover the cost of this car.

short-term loans – короткострокова позика

e.g. Most of our staff have short-term loans.

long-term loans – довгострокова позика

e.g. This company has long-term loans with this bank.

the principal – запозичена сума

e.g. You must make the required interest and principal payments.

common stock – спільні акції

e.g. The price of a share of a company's common stock generally changes daily.

preferred stock – привілейовані акції

e.g. They plan to issue 500 million shares of common stock and 20 million shares of preferred stock.

to have voting rights – мати право голосу

e.g. Almost every citizen of the country has voting rights.

security exchange – фондова біржа

e.g. Security exchange is a market where brokers meet to buy and sell stocks and bonds for their customers.

default – невиконання договору

e.g. The country is trying to avoid a default on its foreign debt.

mutual funds – спільні фонди

e.g. Investing in a mutual fund reduces risks for small investors.

balance sheet – балансовий звіт

e.g. At present, the airline has zero debt on its balance sheet.

income statement – звіт про прибуток

e.g. Income statement is an official financial record that gives details of all a company's income and expenses for a particular period.

asset – актив (балансу)

e.g. The vehicle is recorded as an asset in the company accounts.

liabilities – пасив (балансу), борги, заборгованість

e.g. We need to make sure we have enough money set aside to meet future liabilities.

net worth – вартість майна за винятком зобов'язань, власний капітал підприємства

e.g. The average net worth of a household is €22 000.

## 2. Give English equivalents of the following:

внутрішні борги

фондова біржа

зовнішні борги

невиплата

знецінення

спільні фонди

короткострокова позика

балансовий звіт

довгострокова позика

актив

запозичена сума

пасив

спільні акції

звіт про прибуток

привілейовані акції

власний капітал підприємства

## 3. Fill in the blanks with appropriate words:

*bonds net worth investors assets capital long-term money liability  
customers profit*

1. \_\_\_\_\_ in the fund lost all their money.

2. Our \_\_\_\_\_ is all tied up in property.
3. I make more \_\_\_\_\_ in this job than in the last one.
4. The company has a negative \_\_\_\_\_ and is still losing money.
5. The company has around 7 million \_\_\_\_\_ worldwide.
6. Government \_\_\_\_\_ are usually considered to be a safe investment.
7. The government's \_\_\_\_\_ aim is to bring spending under control.
8. \_\_\_\_\_ from exports rose 7.3%.
9. The company cannot accept \_\_\_\_\_ for any damage caused by natural disasters.
10. The group has sold \$730 million worth of real estate \_\_\_\_\_ and investments.

#### **4. Read and translate the text:**

Most of the money used by business comes from the sale of its products and services. Since these funds come from within the firm they are described as internal funds. The rest must come from outside, or external funds.

As a firm sells its products or services, it receives money, which it uses to meet its expenses. One of these expenses, depreciation, represents the cost of replacing assets (like tools, machinery, and buildings) that wear out. Typically, businesses use internal funds to cover the cost of depreciation.

Business loans are generally classified as either short-term or long-term loans. For short-term loans, the principal (the amount borrowed) must be repaid within one year. Long-term loans mature (come due) in more than a year.

Short-term loans are used to finance the everyday costs of doing business, such as payrolls, raw materials and merchandise. Long-term loans are more likely to be used to purchase equipment, buildings and other high cost items.

All corporations issue common stock; some, however, also issue preferred stock. Unlike common stockholders, preferred stockholders usually do not have voting rights.

A security exchange is a market where brokers meet to buy and sell stocks and bonds for their customers.

The largest of the securities exchanges are the New York Stock Exchange and the American Stock Exchange.

There is some risk of default on the bonds of even the strongest corporations. For this reason many people invest in mutual funds. Mutual funds are corporations that sell stock and used the proceeds to invest or speculate in the security markets.

Two of the most important pieces of information contained in every prospectus and annual report are the balance sheet and the income statement. The balance sheet summarizes a corporation's assets, what it owns; its liabilities, what it owes; and its net worth, the difference between the two sums at a given time. The income statement summarizes a firm's revenues, costs, and the difference between the two (the profit or loss) over a period of time.

**5. Answer the following questions:**

1. Where does most of the money used by business come from?
2. What do we call internal funds?
3. What does depreciation represent?
4. What remains after paying expenses?
5. How do you understand the term "external funds"?
6. What can the firm do to get more money?
7. What rights have common stockholders?
8. What is the difference between common and preferred stockholders?
9. What is the reason for investing in mutual funds?
10. How do you read a balance sheet and income statement?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|            |   |
|------------|---|
| 1. fund    | a. an amount of money that is lent or invested to earn interest |
| 2. expense | b. a thing of value that a person or a                          |

|                 |  |
|-----------------|--|
|                 | company owns, such as money or property or the right to receive payment of a debt  |
| 3. depreciation | c. money that a business spends on supplies, workers, services, etc  |
| 4. cost         | d. the goods that a business has for sale at a particular time   |
| 5. loan         | e. failure to do sth that is required by an agreement or by law, especially paying a debt  |
| 6. principal    | f. a fall in the value of a country's currency, compared to the currencies of other countries  |
| 7. stock        | g. an amount of money that is saved or collected for a particular purpose, especially for investing in companies, projects, etc.; an organization that controls this money |
| 8. exchange     | h. the amount of money that you need in order to buy, make or do sth   |
| 9. default      | i. money that an organization such as a bank lends and sb borrows  |
| 10. asset       | j. an act of giving sth to sb or doing sth for sb and receiving sth in return  |

**7. Read the sentences and decide if they are true or false:**

1. Most of the money used by business comes from the sale of its products and services.
2. As a firm buys its products or services, it receives money, which it uses to meet its expenses.

3. Business loans are generally classified as either short-term or long-term loans.
4. Long-term loans mature (come due) in less than a year.
5. Short-term loans are used to finance the everyday costs of doing business, such as payrolls, raw materials and merchandise.
6. Two of the most important pieces of information contained in every prospectus and annual report are the balance sheet and the income statement.

**8. Fill in the gaps with the words and expressions from the text:**

1. Most of the money used by business comes\_\_\_\_\_.
2. \_\_\_\_\_, it receives money, which it uses to meet its expenses.
3. Business loans are generally classified as either \_\_\_\_\_.
4. Short-term loans are used to finance the everyday costs of doing business, \_\_\_\_\_.
5. All corporations issue common stock; some, however, \_\_\_\_\_.
6. Two of the most important pieces of information contained in every prospectus and annual report are \_\_\_\_\_.

**9. Find pairs of words as they occur in the text:**

|               |              |
|---------------|--------------|
| 1. internal   | a. expenses  |
| 2. to meet    | b. loan      |
| 3. to wear    | c. stock     |
| 4. to cover   | d. exchange  |
| 5. short-term | e. statement |
| 6. common     | f. funds     |
| 7. net        | g. out       |
| 8. security   | h. sheet     |

|            |          |
|------------|----------|
| 9. balance | i. worth |
| 10. income | j. cost  |

**10. Translate the sentences into Russian.**

1. We set up a fund for technological research.
2. Labour is the airline industry's biggest expense.
3. The decline reflects the depreciation of the euro against sterling.
4. The airport was built at a cost of \$5.3 billion.
5. The banks have refused to extend more loans to the company.
6. By paying \$100 a month off the principal you can eliminate 67 months of payment.
7. The company's common stock trades on the Nasdaq National Market.
8. The two countries have agreed to an exchange of information on tax matters.
9. The risk of default is very high.
10. We plan to strengthen our balance sheet by selling some of our assets.

## UNIT 5.

### PRODUCTION AND MARKETING. THE BUSINESS OF BUSINESS

#### 1. Read and memorize the following words, word-combinations and word-groups:

standard of living – рівень життя

e.g. In many countries children born today will enjoy a higher standard of living than their parents.

productivity – продуктивність праці

e.g. Wage rates depend on levels of productivity.

input – витрати

e.g. Women provide 25% of the labour input in farming.

output – продуктивність, випуск продукції

e.g. Manufacturing output has risen by 8%.

division of labour – розподіл праці

e.g. He believes that division of labour improves productivity as people specialize in what they do best.

skilled workers – кваліфіковані робітники

consumption – споживання

e.g. Consumption of soft drinks has grown by about 4 per cent this year.

#### 2. Give English equivalents of the following:

споживання

витрати

розподіл праці

випуск продукції

рівень життя

кваліфіковані робітники

продуктивність праці

#### 3. Fill in the blanks with appropriate words:

*capacity standard of living output market employers technologies goods promotion service productivity*

1. The hardware \_\_\_\_\_ is severely depressed.

2. In many countries children born today will enjoy a higher \_\_\_\_\_ than their parents.

3. The company has just unveiled two promising new digital \_\_\_\_\_.
4. Her \_\_\_\_\_ to Sales Manager took everyone by surprise.
5. Better training for workers leads to greater \_\_\_\_\_.
6. The factory is working at full \_\_\_\_\_.
7. They're very good \_\_\_\_\_.
8. New orders for costly manufactured \_\_\_\_\_ are falling.
9. We can provide a home-delivery \_\_\_\_\_.
10. The larger workforce will increase the plant's annual \_\_\_\_\_ from 1.1 to 1.8 million tonnes.

#### **4. Read and translate the text:**

A nation's standard of living is measured by the amount of goods and services available to its citizens. One way to calculate living standard is to divide total production (the gross national product) by the population (Production % Population = per capita GNP). When production is increasing faster than the population, more goods and services are available per person, and living standards are likely to improve. Productivity is a measure of how efficiently we work. To measure productivity, economists determine the amount of goods and services produced for every unit of input. Input can be any resource that goes into the production process. Productivity is usually measured in terms of output per worker per hour. Among the principal ingredients of productivity are the education and training of workers. Well-educated and skilled workers perform their tasks more efficiently than those who are unskilled or poorly educated.

Another ingredient in productivity is the enthusiasm workers have for their jobs. Those who like their jobs and feel they gain dignity and respect from the work will produce more than those who lack motivation to do their best. To use machinery efficiently, producers must also use division of labor – the practice of breaking down large, complex tasks into a series of small ones so that each worker can become an expert in his or her particular task. To an economist, everything that takes place between production and consumption

falls into the category of marketing. Marketing, then, includes the activities that bring the buyer and seller together. Marketing includes buying and selling, transporting and storing, product planning, market research, product support, customer service, financing, insuring and other activities.

**5. Answer the following questions:**

1. What is a nation's standard of living measured by?
2. When are living standards likely to improve?
3. What is "input"?
4. What does the quality of labor force depend upon?
5. What is a key part of marketing?
6. What is the final part of marketing?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|                      |  |
|----------------------|--|
| 1. productivity      | a. the way in which different people do different tasks in a process in order to make the best use of time and money and produce as many goods as possible           |
| 2. input             | b. a person who studies or writes about economics  |
| 3. output            | c. the activity of presenting, advertising and selling a company's products in the best possible way   |
| 4. division of labor | d. the rate at which a worker, a company or a country produces goods, and the amount produced, compared with how much time, work and money is needed to produce them |
| 5. skill             | e. a supply of sth such as money, labour, etc. that an organization or a person has and can use  |

|                |  |
|----------------|--|
| 6. consumption | f. any person or thing that is involved in producing goods or providing services         |
| 7. production  | g. the ability to do sth well  |
| 8. resource    | h. the process of making goods or materials or growing food, especially large quantities |
| 9. economist   | i. the amount of sth that a person, a machine, an organization or an industry produces   |
| 10. marketing  | j. the act of using goods, services, energy, food or materials; the amount used          |

**7. Read the sentences and decide if they are true or false:**

1. A nation's standard of living is measured by the amount of goods and services available to its citizens.
2. When production is decreasing faster than the population, more goods and services are available per person, and living standards are likely to improve.
3. Productivity is a measure of how efficiently we work.
4. Among the principal ingredients of productivity are the education and training of employers.
5. Unskilled workers perform their tasks more efficiently than those who are well-skilled.
6. Another ingredient in productivity is the enthusiasm workers have for their jobs.

**8. Fill in the gaps with the words and expressions from the text:**

1. A nation's standard of living is measured by the

\_\_\_\_\_.

2. \_\_\_\_\_ is to divide total production (the gross national product) by the population (Production % Population = per capita GNP).
3. To measure productivity, economists determine the amount of goods and services \_\_\_\_\_.
4. \_\_\_\_\_ is usually measured in terms of output per worker per hour.
5. Another ingredient in productivity is \_\_\_\_\_.
6. \_\_\_\_\_ includes the activities that bring the buyer and seller together.

**9. Find pairs of words as they occur in the text:**

|                   |               |
|-------------------|---------------|
| 1. standard       | a. of labor   |
| 2. division       | b. standard   |
| 3. skilled        | c. production |
| 4. living         | d. dignity    |
| 5. total          | e. of living  |
| 6. gross national | f. of workers |
| 7. training       | g. motivation |
| 8. gain           | h. workers    |
| 9. lack           | i. place      |
| 10. takes         | j. product    |

**10. Translate the sentences into Russian.**

1. In many countries children born today will enjoy a higher standard of living than their parents.
2. Better training for workers leads to greater productivity.
3. Inputs of labour, capital and energy are becoming more costly.
4. Greater efficiency leads to higher outputs.
5. He believes that division of labour improves productivity as people specialize in what they do best.

6. The job requires skill and an eye for detail.
7. The region produces crops for domestic consumption.
8. These latest redundancies bring the total number of job cuts to over 3 000.
9. The rate of inflation increased by 2%.
10. The whole purpose of the selection process is to pick the best person for the job.

## UNIT 6.

### MONEY

#### 1. Read and memorize the following words, word-combinations and word-groups:

fluctuation - коливання

e.g. We saw wild fluctuations in sales from week to week.

to hoard – запасати, накопичувати

e.g. The group has traditionally hoarded any spare cash rather than returning it to shareholders.

portability – портативність

durability – міцність

e.g. She doubts the durability of the economic recovery.

uniformity – однаковість; однорідність

e.g. Money should possess such features as portability, durability, uniformity.

dollar – долар

e.g. All prices are quoted in dollars.

medium of exchange – спосіб обміну

e.g. Money serves us as medium of exchange.

measure of value – міра цінності

e.g. Money serves us as measure of value.

to enable – давати право або можливість

e.g. Internet-enabled business is like any other business.

#### 2. Give English equivalents of the following:

міцність

портативність

міра цінності

спосіб обміну

коливання

однаковість

#### 3. Fill in the blanks with appropriate words:

*money paper money denomination to hoard payment dollar medium fluctuation barter advantage*

1. The central bank is considering higher \_\_\_\_\_ coins.

2. We accept \_\_\_\_\_ by cash, cheque, or credit/debit card.
3. \_\_\_\_\_ are money in the form of paper, not coins or cards.
4. The Internet can be an effective advertising \_\_\_\_\_.
5. The company found there was no \_\_\_\_\_ in printing publicity material themselves.
6. The farmers try to sell or \_\_\_\_\_ whatever they grow.
7. Foreign investors have poured \_\_\_\_\_ into US real estate.
8. We saw wild \_\_\_\_\_ in sales from week to week.
9. With a cash \_\_\_\_\_ of over \$30 billion, the company needs no help financing the takeover.
10. The \_\_\_\_\_ closed two cents down.

#### **4. Read and translate the text:**

What is money? Money can be anything that is generally accepted in payment for goods and services.

Although anything can serve as money, as a practical matter the material should possess the following qualities:

*Stability.* The value of money should be more or less the same today as tomorrow. In societies where value of money fluctuates (goes up and down) people will hoard it in the hope that its value will increase, or spend it immediately thinking it will be worth less tomorrow. Either action could be harmful to the economy.

*Portability.* Modern money has to be small enough and light enough for people to carry. Bowling balls would not be a practical form of money.

*Durability.* The material chosen has to have a reasonable life expectancy. For that reason most countries use a very high quality paper for their money.

*Uniformity.* Equal denomination of money should have the same value. It's easy to see that if some quarters or dollar bills were worth more than others, things could be pretty confusing.

*Divisibility.* One of the principal advantages of money over barter is its ability to be divided into parts. In other words, while making change for a dollar is easy, making change for a chicken is more difficult.

*Recognizability.* Money should be easily recognized for what it is and hard to copy. The quality of the paper and the engravings make paper money extremely difficult to counterfeit.

We can also define money by what it does, which is to provide: A Medium of Exchange; A Measure of value; A Store of Value.

*A Medium of Exchange.* The principal difference between a barter economy and a money economy is that in a barter economy you must find someone who has what you want and wants what you have. In a money economy people can sell what they have to anyone and use the money to buy what they want. Money, therefore, is the medium that enables exchanges to be made easily.

*A Measure of Value.* Money enables us to state the price of something in terms that everyone can understand. We can say the eggs we have for sale worth 85 cents a dozen. That is far simpler than having to figure out how much milk or meat or clothing we would expect in payment for a dozen eggs.

*A Store of Value.* Money enables us to use the value of something that we sell today to make a purchase sometime in the future. For example, our egg seller could put the money from the day's sale toward a college education sometime in the future. You can imagine the difficulties if that person tried to save one or two year's worth of eggs toward a college education.

*Currency.* The money you are most familiar with, currency, consists of the paper money and coins that you almost use daily.

##### **5. Answer the following questions:**

1. What is money?
2. What qualities should the material for money possess?
3. What is the principal difference between a barter economy and a money economy?

4. What functions does money play in the society?

5. What is currency?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|                |   |
|----------------|---|
| 1. fluctuation | a. likely to last for a long time without breaking or getting weaker                                |
| 2. to hoard    | b. an official action that is done in order to achieve a particular aim                             |
| 3. portable    | c. an act of giving sth to sb or doing sth for sb and receiving sth in return                       |
| 4. durable     | d. frequent changes in the size, amount, level, etc. of sth, especially from one extreme to another |
| 5. payment     | e. a way of communicating information, etc. to people   |
| 6. dollar      | f. to collect and keep large amounts of money, supplies, food, etc., especially secretly            |
| 7. medium      | g. the act of paying a person, paying a bill or debt, or of being paid                              |
| 8. measure     | h. how much sth is worth in money or other goods for which it can be exchanged                      |
| 9. value       | i. the unit of money in the US, Canada, Australia and several other countries                       |
| 10. exchange   | j. that is easy to carry or to move   |

**7. Read the sentences and decide if they are true or false:**

1. Money can be anything that is generally accepted in payment for goods and services.

2. The value of money should not be more or less the same today as tomorrow.
3. Modern money has to be small enough and light enough for people to carry.
4. It's difficult to see that if some quarters or dollar bills were worth more than others, things could be pretty confusing.
5. Money should be easily recognized for what it is and hard to copy.
6. Money enables us to use the value of something that we sell today to make a purchase sometime in the past.

**8. Fill in the gaps with the words and expressions from the text:**

1. Money can be anything that is generally accepted  
\_\_\_\_\_.
2. \_\_\_\_\_ would not be a practical form of money.
3. For that reason most countries use \_\_\_\_\_.
4. Money should be easily recognized for\_\_\_\_\_.
5. Money enables us to state the price of something in  
\_\_\_\_\_.
6. The money you are most familiar with, currency, consists of  
\_\_\_\_\_.

**9. Find pairs of words as they occur in the text:**

|            |                 |
|------------|-----------------|
| 1. dollar  | a. of value     |
| 2. medium  | b. of money     |
| 3. measure | c. denomination |
| 4. value   | d. of exchange  |
| 5. bowling | e. of value     |
| 6. life    | f. bill         |
| 7. barter  | g. expectancy   |
| 8. store   | h. money        |
| 9. modern  | i. money        |
| 10. equal  | j. ball         |

**10. Translate the sentences into Russian.**

1. We saw wild fluctuations in sales from week to week.
2. Distributors hoarded oil supplies in the hope of selling them at high prices if war broke out.
3. Cell phones are easy to use, personal and portable.
4. He claims their software is more durable and reliable.
5. The strong dollar has made US goods expensive overseas.
6. The ad campaign will run across all media.
7. Workers agreed to a pay cut in exchange for shares in the company.
8. Banks are introducing measures to make it easier for customers to change accounts.
9. Share values have fallen by 20% in the last year.
10. She demanded payment in advance for the work.

## UNIT 7.

### ECONOMIC STABILITY

#### 1. Read and memorize the following words, word-combinations and word-groups:

circumstance – обставина

e.g. The weather is a circumstance to be taken into consideration.

to have serious drawbacks – мати серйозні недоліки

e.g. Fiscal policy solutions have several serious drawbacks.

revenue – прибуток

e.g. Revenue from local advertisers fell by 6%.

fiscal policy – фінансова політика

e.g. Loose fiscal policy (= low taxes and/or high government spending) could lead to high inflation.

monetary policy – грошова політика

e.g. Demand can be stimulated by the proper mix of fiscal and monetary policy.

tax receipts – грошові надходження від оподаткування

e.g. It is the responsibility of the President to control the level of this tax receipts in the country.

budget deficit – дефіцит бюджету

e.g. Budget deficit occurs when government's revenues are less than its expenditures.

money supply – грошові надходження

e.g. The government has taken measures to control the money supply.

#### 2. Give English equivalents of the following:

грошова політика

прибуток

грошові надходження

фінансова політика

обставина

дефіцит бюджету

### 3. Fill in the blanks with appropriate words:

*spending to reduce circulation drawback fiscal policy revenue inflation  
budget money deficit*

1. The company has \_\_\_\_\_ costs and cut its workforce.
2. The government has promised to maintain tight \_\_\_\_\_.
3. \_\_\_\_\_ rose again this year.
4. Corporate spending cuts have led to a sharp drop in advertising \_\_\_\_\_.
5. Each department sets its own \_\_\_\_\_.
6. Germany was running a budget \_\_\_\_\_ of 3.75 per cent.
7. Factory automation systems can save you time and \_\_\_\_\_.
8. The main \_\_\_\_\_ to the plan is the cost.
9. There is a large amount of forged money in \_\_\_\_\_.
10. The company has annual \_\_\_\_\_ of around £3 billion.

### 4. Read and translate the text:

Ever since the days of the Great Depression, the federal government has sought to stabilize the economy.

To achieve these goals the government relies upon two sets of “tools” or strategies: fiscal policy and monetary policy.

*Fiscal Policy.* Fiscal policy is applied by changing the level of tax receipts relative to federal spending. It is the responsibility of the President and Congress because they control taxing and spending.

When taxes are reduced, individuals and business firms will have more money available to spend for the things they want. As business and consumer spending begins to increase, the economy will enter the expansion phase. If taxes are increased consumers and business would have less to spend. This would create a contraction in the total demand for goods that should reduce inflation.

*Fiscal Policy Has Its Critics:* Many economists feel that when properly applied, fiscal policies can provide effective tools with which to fight recession

and inflation. Others, however, believe fiscal policy solutions have several serious drawbacks.

When government reduces taxes to fight a recession, it often creates a budget deficit. That is its revenues will be less than its expenditures, and the government's debt will increase. When taxes are reduced, the government can still spend because it can borrow or print money.

If the government chooses to borrow from the public to offset a tax reduction, the money it borrows cannot be spent by the lenders.

The federal government can also finance its debts by printing money

Unfortunately, such increases in the money supply tend to fuel inflation by pushing up prices. For that reason a number of economists are opposed to this strategy.

Fiscal policies must be timed so that they are applied at the right moment.

*Monetary Policy.* Monetary policy refers to regulating the supply of money as a way of stabilizing the economy. Monetary policy is the responsibility of the Federal Reserve System.

There is a direct relationship between the amount of money in circulation and the level of business activity. When the money supply is increased, consumer spending and business spending tend to increase with it. It follows that in time of contraction and recession, an increase in the money supply will help to bring about economic recovery. When the opposite situation prevails and the booming economy is pushing up prices in an inflationary spiral, a reduction in the money supply will serve to reduce demand and lower prices.

### **5. Answer the following questions:**

1. What strategies does government rely upon to promote maximum employment, production and purchasing?
2. What is fiscal policy?
3. How is fiscal policy applied?
4. In what ways could the recession be reserved?
5. What will happen when business and consumer spending begins to increase?

6. Can fiscal tools be used to slow the economy?
7. What serious drawbacks have fiscal policy solutions?
8. What is monetary policy?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|                  |   |
|------------------|---|
| 1. revenue       | a. what you can use to buy and sell things and earn through your work, investments, sales, etc  |
| 2. policy        | b. money that you have to pay to the government so that it can pay for public services  |
| 3. fiscal policy | c. a plan of action agreed or chosen by a business, an organization or a political party  |
| 4. monetary      | d. the amount by which money that a government or business spends or owes is greater than money received in a particular period of time |
| 5. tax           | e. the act of providing sth or making it available to be used   |
| 6. receipt       | f. a plan for a particular period of time of the income and spending of a company, an organization or part of a company, etc            |
| 7. budget        | g. the money that is received by a business usually from selling goods or services  |
| 8. deficit       | h. connected with money or currencies   |
| 9. money         | i. the way in which a government  |

|            |  |
|------------|--|
|            | charges taxes or spends money in order to manage the economy |
| 10. supply | j. money that a business, bank or government receives        |

**7. Read the sentences and decide if they are true or false:**

1. Ever since the days of the Great Depression, the federal government has sought to stabilize the economy.
2. It is the responsibility of the President because he controls taxing and spending.
3. When taxes are increased, individuals and business firms will have more money available to spend for the things they want.
4. When government reduces taxes to fight a recession, it often creates a budget deficit.
5. If the government chooses to borrow from the public to offset a tax reduction, the money it borrows cannot be spent by the lenders.
6. Fiscal policy is the responsibility of the Federal Reserve System.

**8. Fill in the gaps with the words and expressions from the text:**

1. To achieve these goals the government relies upon  
\_\_\_\_\_.
2. Fiscal policy is applied by changing the level of tax receipts  
\_\_\_\_\_.
3. \_\_\_\_\_, the economy will enter the expansion phase.
4. When government reduces taxes to fight a recession,  
\_\_\_\_\_.
5. Fiscal policies must be time \_\_\_\_\_.
6. There is a direct relationship between  
\_\_\_\_\_.

**9. Find pairs of words as they occur in the text:**

|               |               |
|---------------|---------------|
| 1. to have    | a. policy     |
| 2. fiscal     | b. deficit    |
| 3. monetary   | c. Depression |
| 4. tax        | d. government |
| 5. budget     | e. upon       |
| 6. money      | f. drawbacks  |
| 7. Great      | g. policy     |
| 8. federal    | h. supply     |
| 9. to rely    | i. phase      |
| 10. expansion | j. receipts   |

**10. Translate the sentences into Russian.**

1. Cost is a minor circumstance in this case.
2. A delay in the supply of parts stopped work at the plant for a week.
3. Smaller companies have found it difficult to borrow money to invest in assets.
4. The trade balance is in deficit.
5. Revenues are approximately in line with the budget.
6. They have put a tax on cigarettes.
7. Receipts from tourism fell by about one third.
8. The company has adopted a firm policy on shoplifting.
9. Our society places a monetary value on labour.
10. They reported a three per cent increase in advertising revenue for the first half of the year.

## UNIT 8.

### GLOBAL ECONOMY

#### **1. Read and memorize the following words, word-combinations and word-groups:**

to benefit – отримувати користь

e.g. Small businesses have benefitted from the changes in the law.

transaction – справа, угода

e.g. He broke the law by using a residential property for the transaction of business.

advantage – перевага

e.g. The company found there was no advantage in printing publicity material themselves.

to restrict – обмежувати

e.g. The company is accused of restricting competition.

revenue – прибуток

e.g. Revenue from local advertisers fell by 6%.

to levy – оподаткувати

e.g. A tax of 15% is levied on the sale of shares.

surplus – надлишок

e.g. The area has large job surpluses, requiring 10 000 people to fill available posts.

revenue tariff – тариф на прибуток

e.g. Revenue tariff are levied as a way to raise money as a principal source of income.

protective tariff – пільговий тариф для вітчизняного виробника

e.g. The goal of the protective tariff is to make the foreign product more expensive than a similar item produced I the country.

dumping – демпінг; розвантажування

e.g. They claim the dumping of steel below the cost of production is harming the domestic industry.

administrative red tape – адміністративне регулювання

e.g. Administrative red tape is the deliberate use of governmental rules and regulations to make it difficult to import goods from abroad.

## 2. Give English equivalents of the following:

прибуток

справа

отримувати користь

пільговий тариф

демпінг

обмежувати

перевага

оподатковувати

тариф на прибуток

надлишок

## 3. Fill in the blanks with appropriate words:

*advantage supply specialize tariff transportable gain labor opportunity  
cost efficiently quota*

1. These storage units are compact and easily \_\_\_\_\_.
2. A delay in the \_\_\_\_\_ of parts stopped work at the plant for a week.
3. The price will include \_\_\_\_\_ and materials.
4. He never takes his full \_\_\_\_\_ of holidays.
5. She decided to \_\_\_\_\_ in media sales.
6. The \_\_\_\_\_ of expanding the Marketing Department is that Human Resources will have to be made smaller.
7. New import \_\_\_\_\_ have been imposed on a wide range of agricultural products.
8. They did the job quickly and \_\_\_\_\_.
9. I have \_\_\_\_\_ a lot of experience in the job.
10. Familiar brands have an \_\_\_\_\_ over less well known brands.

## 4. Read and translate the text:

Nations trade with one another for the same reason that individuals and business firms within a country trade: both sides expect to benefit from the transaction. They benefit because trade enables them to exchange things they don't need (their surplus goods and services) for the things they do need and want. Some areas can produce things that others cannot. Because of its warm

climate and the type of soil it has, Florida grows oranges but not wheat. Kansas grows no oranges, but it does grow wheat. The people in Florida and Kansas would like to have wheat and oranges, and so each specialize in one of those crops and trades its surplus with the other.

Manufacturing can also be performed more efficiently in some parts of our country than in others. Natural resources, an adequate labor supply, and transportation facilities have promoted the development of certain industries in particular regions of the country. For example, the computer industry is concentrated in northern California, the steel industry developed in western Pennsylvania, and large automobile factories were first built in southern Michigan.

*Absolute Advantage.* Nations will gain because of differences in terms of climate, natural resources, labor supply, capital, and technology. These differences make it sensible for them to specialize in the production of some products and to buy the other things they need from other countries.

Despite the many advantages of trade between nations, most countries, including our own, often restrict that trade in a number of ways. Some of these ways are discussed below.

*Tariffs.* A tariff is a duty, or tax, on imports. There are two basic types of tariffs. *Revenue Tariffs* are levied as a way to raise money. Through most of its history (until 1910), the United States looked to the revenue tariff as its principal source of income. *Protective Tariffs* are levied to protect a domestic industry from foreign competition. The goal is to make the foreign product more expensive than a similar item produced in the United States. Then people will stop buying the foreign made item and purchase its domestic counterpart.

*Quotas.* Restrictions on the numbers of certain specified goods that can enter the country from abroad are called quotas. Like protective tariffs, quotas limit the amount of foreign competition a protected industry will have to face. In the 1980's, for example, the government protected the U. S. automobile

industry by placing a quota on the number of automobiles that could be imported from Japan.

*Other Tactics.* There are a number of other devices that directly affect the flow of trade among nations. One of these is the export subsidy – a payment by a country to its exporters that enables them to sell their products abroad at a lower price than they could sell them at home. Selling the same product for a lower price abroad than at home is called dumping.

Still another tactic that has been used to restrict foreign trade can be classified as “administrative red tape”. This is the deliberate use of governmental rules and regulations to make it difficult to import goods from abroad.

**5. Answer the following questions:**

1. Why do countries trade with each other?
2. What is absolute advantage?
3. Why do nations gain when they specialize?
4. How can you explain the term “comparative advantage”?
5. What does the law of comparative advantage explain?
6. Why do most countries restrict trade?
7. In what ways do some countries restrict trade?
8. What is tariff?
9. How can quotas restrict trade?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|                |   |
|----------------|---|
| 1. to benefit  | a. to limit the size, amount or range of sth  |
| 2. transaction | b. the money that is received by a business usually from selling goods or services  |
| 3. advantage   | c. the practice of selling large amounts of goods in a particular country at prices |

|                |  |
|----------------|--|
|                | that are unfairly low  |
| 4. to restrict | d. to be in a better position because of sth   |
| 5. revenue     | e. the activity of buying and selling or of exchanging goods or services between people or countries |
| 6. to levy     | f. a piece of business that is done between people, especially an act of buying or selling           |
| 7. surplus     | g. to demand and collect a payment, tax, etc   |
| 8. tariff      | h. an amount that is extra or more than you need   |
| 9. dumping     | i. a tax that is paid on goods coming into or going out of a country                                 |
| 10. trade      | j. a thing that helps you to be better or more successful than other people                          |

**7. Read the sentences and decide if they are true or false:**

1. Nations trade with one another for the same reason that individuals and business firms within a country trade: both sides expect to benefit from the transaction.
2. The people in California would like to have wheat and oranges, and so each specialize in one of those crops and trades its surplus with the other.
3. Manufacturing can also be performed more efficiently in some parts of our country than in others.
4. People will gain because of differences in terms of climate, natural resources, labor supply, capital, and technology.
5. A tariff is a duty, or tax, on imports.

6. Like revenue tariffs, quotas limit the amount of foreign competition a protected industry will have to face.

**8. Fill in the gaps with the words and expressions from the text:**

1. Nations trade with one another for the same reason that individuals and business firms within a country trade:

\_\_\_\_\_.

2. Nations will gain because of differences in terms of

\_\_\_\_\_.

3. \_\_\_\_\_ is a duty, or tax, on imports.

4. \_\_\_\_\_ are levied as a way to raise money.

5. \_\_\_\_\_ are levied to protect a domestic industry from foreign competition.

6. There are a number of other devices that

\_\_\_\_\_.

**9. Find pairs of words as they occur in the text:**

|                   |                     |
|-------------------|---------------------|
| 1. revenue        | a. red tape         |
| 2. protective     | b. supply           |
| 3. administrative | c. industry         |
| 4. warm           | d. tariff           |
| 5. natural        | e. industry         |
| 6. labor          | f. source of income |
| 7. transportation | g. climate          |
| 8. computer       | h. tariff           |
| 9. principal      | i. resources        |
| 10. domestic      | j. facilities       |

**10. Translate the sentences into Russian.**

1. Trade between the two countries has increased.
2. We want our shareholders to derive (= get) full benefit from the deal.

3. He broke the law by using a residential property for the transaction of business.
4. Staff with a good command of a second language are at an advantage.
5. Private investors were restricted to just 35 shares each.
6. We need to find alternative sources of revenue.
7. A tax of 15% is levied on the sale of shares.
8. The country has a huge budget surplus as it is a large oil exporting nation.
9. Thailand has complained that high tariffs on its tuna exports makes it uncompetitive.
10. They claim the dumping of steel below the cost of production is harming the domestic industry.

## UNIT 9.

### SOME CURRENT ECONOMIC PROBLEMS

#### 1. Read and memorize the following words, word-combinations and word-groups:

environment – навколишнє середовище

e.g. They have created an environment in which productivity should flourish.

pollution – забруднення

e.g. We need stricter measures to reduce environmental pollution.

acid rainfall – кислотний дощ

e.g. Dust and moisture combine in the atmosphere to form acids in clouds, and eventually there is an acid rainfall or snowfall.

pesticides – пестициди

chemical fertilizers – хімічні добрива

e.g. Fertilizer is a substance added to soil to make plants grow more successfully.

prohibition – заборона

e.g. Some companies have a prohibition against/on personal Internet and email use.

effluent fees – збір за скидання відходів

e.g. Effluent fees were levied on a factory pumping its waste into the atmosphere and a nearby stream.

incinerator – сміттєспалювальна піч

e.g. Pollution control includes the prohibition of burning waste in incinerators.

tax credits – пільги з оподаткування

e.g. A business donor making a \$1 000 donation to an approved project in a rural area would receive a \$700 tax credit.

#### 2. Give English equivalents of the following:

пільги з оподаткування

забруднення

хімічні добрива

кислотний дощ

навколишнє середовище

заборона

**3. Fill in the blanks with appropriate words:**

*fee pollutant tax credit pollution environment fuel prohibition pollution  
credit regulation acid*

1. Chemical \_\_\_\_\_ were found on the site.
2. A cloud of \_\_\_\_\_ hangs over the city.
3. The cold weather has increased demand for heating \_\_\_\_\_.
4. Several plants have used up their annual \_\_\_\_\_ so cannot restart without incurring a fine.
5. These shrubs must have an \_\_\_\_\_, lime-free soil.
6. Some big companies are failing to meet government \_\_\_\_\_.
7. A business donor making a \$1 000 donation to an approved project in a rural area would receive a \$700 \_\_\_\_\_.
8. Some companies have a \_\_\_\_\_ against/on personal Internet and email use.
9. They have created an \_\_\_\_\_ in which productivity should flourish.
10. There's an upfront \_\_\_\_\_ of €50 and a small annual charge.

**4. Read and translate the text:**

By the mid-twentieth century the air over urban and industrial centers had become foul and the waters filthy.

The costs of cleaning up the damage caused by pollution do not naturally fall on those who cause it. Though many companies acting as good citizens make efforts to protect the environment; there is little economic incentive for them to do so.

Modern technology produces massive amounts of wastes. Burning fossil fuel in cars and factories releases pollutants into the air. Then dust and moisture combine in the atmosphere to form acids in clouds, and eventually there is an acid rainfall or snowfall. The results are deadly. Acid rain kills fish and plants in lakes. It also builds up in the soil and damages crops. It wears away building surfaces. Blown by winds, the acid rain may fall far from the source of

pollution. Acid rain caused by pollutants in our country may fall on other countries. In fact, studies indicate that about half the acid rainfall in Canada may originate in the United States.

Water is considered polluted when it cannot be used for its intended purpose, such as drinking, recreation, farming, or manufacturing. Pesticides and chemical fertilizers used by farmers and home owners pollute streams, rivers, and ground water when they are transported by rain-water runoff.

Government efforts to control pollution have taken three forms: direct regulation, effluent fees and tax credits.

*Direct regulation* refers to government rules to protect the environment. The prohibition of burning waste in incinerators, or the dumping of sewage in a river, and the banning of a pesticide are examples of this form of pollution control. Those who fail to obey government regulations are subject to fine, imprisonment, or both.

*Effluent fees* are charges levied on polluters for discharging waste. For example, a factory that pumps its waste into the atmosphere or a nearby stream will be charged on the basis of the quantity of waste discharged.

*Tax credits* enable firms to reduce their taxes in exchange for investing in equipment that will enable them to reduce the amount of pollution they generate.

**5. Answer the following questions:**

1. What forms acid rainfall or snowfall?
2. What is the damage caused by acid rainfall?
3. May acid rain caused by pollutants in our country fall on other countries?
4. When is water considered to be polluted?
5. What forms have government efforts taken to control pollution?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|                |   |
|----------------|---|
| 1. environment | a. the process of making air, water, soil, etc. dirty; the state of being dirty                                       |
| 2. pollution   | b. an amount of money that you pay for professional advice or services  |
| 3. fertilizer  | c. physical harm caused to sth which makes it less valuable or for which sb can claim money from an insurance company |
| 4. prohibition | d. scientific knowledge used in practical ways in industry, for example in designing new machines                     |
| 5. fee         | e. money that you have to pay to the government so that it can pay for public services                                |
| 6. tax         | f. the conditions that affect the behaviour and development of sb/sth; the physical conditions that sb/sth exists in  |
| 7. credit      | g. a substance added to soil to make plants grow more successfully  |
| 8. damage      | h. the act of stopping sth being done or used, especially by law  |
| 9. technology  | i. an official rule made by a government or some other authority  |
| 10. regulation | j. an arrangement that you make with a bank, shop/store, etc., to be able to buy things now and pay for them later    |

**7. Read the sentences and decide if they are true or false:**

1. By the mid-twentieth century the air over urban and industrial centers had become foul and the waters filthy.
2. Modern technology produces massive amounts of fossil fuels.
3. Acid rain kills fish and plants in lakes.
4. Water is considered to be clean when it cannot be used for its intended purpose, such as drinking, recreation, farming, or manufacturing.
5. Government efforts to control pollution have taken three forms: direct regulation, effluent fees and tax credits.
6. Tax credits enable firms to increase their taxes in exchange for investing in equipment that will enable them to reduce the amount of pollution they generate.

**8. Fill in the gaps with the words and expressions from the text:**

1. By the mid-twentieth century the air over urban and industrial centers \_\_\_\_\_.
2. Modern technology produces \_\_\_\_\_.
3. Water is considered polluted when it cannot be used for its intended purpose, such as \_\_\_\_\_.
4. Government efforts to control pollution have taken three forms: \_\_\_\_\_.
5. Direct regulation refers to government rules \_\_\_\_\_.
6. Effluent fees are charges levied on polluters for \_\_\_\_\_.

**9. Find pairs of words as they occur in the text:**

|               |                |
|---------------|----------------|
| 1. acid       | a. credit      |
| 2. chemical   | b. environment |
| 3. effluent   | c. water       |
| 4. tax        | d. runoff      |
| 5. industrial | e. fertilizer  |
| 6. to protect | f. rainfall    |
| 7. economic   | g. center      |

|                |               |
|----------------|---------------|
| 8. modern      | h. fee        |
| 9. ground      | i. incentive  |
| 10. rain-water | j. technology |

**10. Translate the sentences into Russian.**

1. They have created an environment in which productivity should flourish.
2. The company denied responsibility for the pollution of local lakes and rivers.
3. Fertilizer is a substance added to soil to make plants grow more successfully.
4. Some companies have a prohibition against/on personal Internet and email use.
5. Does the bank charge a fee for setting up the account?
6. They have put a tax on cigarettes.
7. I bought it on credit.
8. The storm didn't do much damage.
9. The company has just unveiled two promising new digital technologies.
10. They are going to introduce charges for special deliveries.

## UNIT 10.

### THE ECONOMY

#### 1. Read and memorize the following words, word-combinations and word-groups:

economy – господарство

e.g. The economy is in recession.

factors of production – чинники виробництва

e.g. Land, labour and capital are the main factors of production.

opportunity costs – оптимальні витрати

e.g. Opportunity cost is an important part of the process of making decisions.

economics – економіка

e.g. The economics of the project are very encouraging.

production possibilities – виробничі можливості

e.g. Production possibilities are the alternative combinations of final goods and services that could be produced in a given time period with all available resources and technology.

law of increasing opportunity costs – закон зростання оптимальних витрат

e.g. According to the law of increasing opportunity costs we must give up ever increasing quantities of other good and services in order to get more of a particular good.

economic growth – економічне зростання

e.g. Economic growth is an increase in output, an expansion of production possibilities.

market mechanism – ринковий механізм

e.g. The market relies on the market mechanism to balance supply and demand.

#### 2. Give English equivalents of the following:

виробничі можливості

чинники виробництва

господарство

економічне зростання

оптимальні витрати

ринковий механізм

### 3. Fill in the blanks with appropriate words:

*production resource growth output input cost goods economy market price*

1. We do not have the \_\_\_\_\_ to update our computer software.
2. Women provide 25% of the labour \_\_\_\_\_ in farming.
3. New orders for costly manufactured \_\_\_\_\_ are falling.
4. The hardware \_\_\_\_\_ is severely depressed.
5. He managed to get a good \_\_\_\_\_ for the car.
6. \_\_\_\_\_ of the new aircraft will start next month.
7. Manufacturing \_\_\_\_\_ has risen by 8%.
8. While exports have improved the domestic \_\_\_\_\_ remains weak.
9. The airport was built at a \_\_\_\_\_ of \$5.3 billion.
10. Sales showed 0.3 per cent \_\_\_\_\_ in the first quarter.

### 4. Read and translate the text:

The economy is for us. “The economy” is simply an abstraction that refers to the sum of all our individual production and consumption activities. In order to produce anything, we need resources, or factors of production. Factors of production are the inputs – land, labor, and capital (buildings and machinery) we use to produce final goods and services (output).

Unfortunately, the quantity of available resources is limited. We cannot produce everything we want in the quantities we desire. Resources are scarce relative to our desires. This fact forces us to make difficult choices. Hence the more missiles we build, the less of other goods and services we can produce at the same time.

Opportunity costs exist in all situations when available resources are not abundant enough to satisfy all our desires.

Indeed, economics is often defined as the study of how to allocate scarce resources. The study of economics focuses on “getting the most from what we’ve got”, on making the best use of our scarce resources.

Production possibilities are the alternative combinations of final goods and services that could be produced in a given time period with all available resources and technology.

According to the law of increasing opportunity costs we must give up ever increasing quantities of other goods and services in order to get more of a particular good.

Economic growth is an increase in output; an expansion of production possibilities.

Over time the quantity of resources available for production has also increased. Each year our population grows a bit, thereby enlarging the number of potential workers. Our stock of capital equipment has increased even faster. In addition the quality of our labor and capital resources has improved, as a result of more education (labor) and better machinery (capital).

Market mechanism is the use of market prices and sales to signal desired outputs (or resource allocations).

Thus the essential feature of the market mechanism is the price signal. If you want something and have sufficient income, you buy it. If enough people do the same thing, the total sales of that product will rise, and perhaps its price will as well. Producers, seeing sales and prices rise, will be inclined to increase production.

**5. Answer the following questions:**

1. What is “the economy”?
2. What do you need to produce the textbook and what are these inputs called?
3. Why are we compelled to choose among goods?
4. How is economics often defined?
5. What do we call the law according to which we must give up ever increasing quantities of other goods and services in order to get more of a particular good?
6. What are the essentials of the market mechanism?
7. What is economics all about?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|               |  |
|---------------|--|
| 1. economy    | a. the whole system of rules that everyone in a country or society must obey   |
| 2. production | b. the study of the production, distribution and use of goods and services; the study of how a society organizes its money, trade and industry     |
| 3. cost       | c. any person or thing that is involved in producing goods or providing services   |
| 4. law        | d. an increase in the size, amount or degree of sth  |
| 5. economics  | e. the amount of money that you must pay for sth   |
| 6. growth     | f. the relationship between production, trade and the supply of money in a particular country or region  |
| 7. market     | g. the process of making goods or materials or growing food, especially large quantities; the department in a company that is responsible for this |
| 8. mechanism  | h. business or trade; the amount of trade in a particular type of goods, services, investments, etc  |
| 9. price      | i. a method or system for achieving sth  |
| 10. input     | j. the amount of money that you need in order to buy, make or do sth   |

**7. Read the sentences and decide if they are true or false:**

1. “The economy” is simply an abstraction that refers to the sum of all our individual production and consumption activities.
2. Factors of production are the outputs – land, labor, and capital (buildings and machinery) we use to produce final goods and services (output).
3. Opportunity costs exist in all situations when available resources are not abundant enough to satisfy all our desires.
4. The study of economics focuses on “getting the least from what we’ve got”, on making the best use of our scarce resources.
5. Economic growth is an increase in output; an expansion of production possibilities.
6. Market mechanism is the use of market prices and sales to signal desired outputs (or resource allocations).

**8. Fill in the gaps with the words and expressions from the text:**

1. “The economy” is simply an abstraction that  
\_\_\_\_\_.
2. \_\_\_\_\_, the quantity of available resources is limited.
3. Opportunity costs exist in all situations when  
\_\_\_\_\_.
4. Indeed, economics is often defined as  
\_\_\_\_\_.
5. \_\_\_\_\_ is an increase in output; an expansion of production possibilities.
6. \_\_\_\_\_ is the use of market prices and sales to signal desired outputs (or resource allocations).

**9. Find pairs of words as they occur in the text:**

|                |               |
|----------------|---------------|
| 1. factors     | a. growth     |
| 2. opportunity | b. production |
| 3. production  | c. activity   |
| 4. economic    | d. desire     |

|                |                  |
|----------------|------------------|
| 5. market      | e. resources     |
| 6. individual  | f. possibilities |
| 7. consumption | g. of production |
| 8. available   | h. costs         |
| 9. to satisfy  | i. mechanism     |
| 10. scarce     | j. resources     |

**10. Translate the sentences into Russian.**

1. Input prices rose by 2.8% in December.
2. The US is moving from a manufacturing economy to a service one.
3. The new computer will be in production by the end of the year.
4. You need to take economic factors into account.
5. Business should bear the full cost of developing greener energy sources.
6. The economics of the project are very encouraging.
7. You would be breaking the law by not paying health insurance.
8. Sales showed 0.3 per cent growth in the first quarter.
9. The company performed well despite difficult market conditions.
10. What mechanisms are in place for dealing with complaints?

## UNIT 11.

### AGGREGATE SPENDING

#### 1. Read and memorize the following words, word-combinations and word-groups:

aggregate demand – загальний попит

e.g. Aggregate demand is the total quantity of output demanded at alternative price levels in a given time period.

aggregate supply – загальна пропозиція

e.g. Aggregate supply is the total quantity of output producers are willing and able to supply at alternative price levels in a given time period.

equilibrium – збалансування

e.g. He believes that the steel market is reaching an equilibrium.

aggregate spending – загальні витрати

e.g. Aggregate spending is the rate of total expenditure desired at alternative levels of income.

derived demand – похідний попит

e.g. A car manufacturer has a derived demand for manufacturing equipment, components, steel, etc. so that it can satisfy its customers.

consumption – споживання

e.g. Consumption of soft drinks has grown by about 4 per cent this year.

disposable income – чистий прибуток

e.g. Higher fuel costs reduce people's disposable income.

saving – накопичення

e.g. With the new heating system we can make big savings on fuel bills.

investment – інвестиція

e.g. We need to attract foreign investment.

#### 2. Give English equivalents of the following:

загальні витрати

загальна пропозиція

інвестиція

чистий прибуток

похідний попит

споживання

**3. Fill in the blanks with appropriate words:**

*to hire interest rate supply income expenditure consumption demand goods quantity service*

1. A delay in the \_\_\_\_\_ of parts stopped work at the plant for a week.
2. The group has been aggressive in cutting \_\_\_\_\_.
3. \_\_\_\_\_ for new cars has fallen.
4. The factory initially produced a small \_\_\_\_\_ of lamps and these sold quickly.
5. She was \_\_\_\_\_ three years ago.
6. New orders for costly manufactured \_\_\_\_\_ are falling.
7. How much does the basic phone \_\_\_\_\_ cost?
8. They receive a proportion of their \_\_\_\_\_ from the sale of goods and services.
9. The region produces crops for domestic \_\_\_\_\_.
10. The Bank of England has cut \_\_\_\_\_ by half a percentage point.

**4. Read and translate the text:**

Producers have some notion of how much output they are willing and able to produce at various price levels. Likewise, consumers, businesses, governments, and the rest of the world have some notion of how much output they are willing and able to buy at different price levels. These forces of aggregate demand and aggregate supply confront each other in the market place. Eventually, buyers and sellers discover that only one “price-output” combination is acceptable to both sides. This is the “price-output combination we designate as (macro) equilibrium.

At equilibrium, the aggregate quantity of goods demanded exactly equals the aggregate quantity supplied. In the absence of macro disturbances, the economy will gravitate toward equilibrium - and stay there.

Dollar expenditures (total spending) are directly related to the flow of real goods and services; the level of employment depends on the willingness of people to spend their incomes. Businesses hire workers only if the goods and services such workers produce can be sold in product markets. Firms will demand more labor only if the demand for goods and services such labor produces is sufficiently strong.

In this sense we say that employers have a derived demand for labor, a demand that is derived from demands for final goods and services.

Consumer expenditures account for two-thirds of total spending in the U.S economy. We need to determine what factors influence the rate of consumption and thus the potential for achieving full employment.

Consumption decisions are influenced by a variety of forces, including income, prices, interest rates, wealth and expectations.

Disposable income represents the amount of income consumers can actually choose to spend or not to spend (save) in a given time period.

Business firms purchase a new plant and equipment for the purpose of expanding or improving their output capabilities; such purchases are called fixed investment. Firms also acquire inventories of goods that can be used to satisfy consumer demands; such expenditures are called inventory investment. Both forms of investment represent a demand for output and are therefore counted as part of aggregate spending.

**5. Answer the following questions:**

1. What forces confront each other in the market place?
2. What is the aggregate spending?
3. How do we call the demand, that is derived from demands for final goods and services?
4. What factors influence the rate of consumption?
5. What does disposable income represent?
6. What do we call saving?
7. What is investment?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|                |   |
|----------------|---|
| 1. demand      | a. an amount of sth such as time or money that you do not need to use or spend  |
| 2. supply      | b. the act of spending or using money; an amount of money that sb/sth spends during a particular period of time   |
| 3. equilibrium | c. the act of providing sth or making it available to be used   |
| 4. spending    | d. the action or process of using money in order to make a profit or earn interest, for example by buying shares, bonds, property, etc  |
| 5. consumption | e. the amount of money that is spent by a person, a government or an organization   |
| 6. income      | f. the desire or need of customers for goods or services which they want to buy or use  |
| 7. disposable  | g. the money that a person, a region, a country, etc. earns from work, from investing money, from business, etc   |
| 8. saving      | h. a situation in which the amount of particular goods or services that people want to buy ( <b>demand</b> ) at a particular price equals the amount that businesses want to supply ( <b>supply</b> ) |
| 9. investment  | i. the act of using goods, services,  |

|                 |  |
|-----------------|--|
|                 | energy, food or materials; the amount used                   |
| 10. expenditure | j. produced cheaply and intended to be thrown away after use |

**7. Read the sentences and decide if they are true or false:**

1. Producers have some notion of how much output they are willing and able to produce at various price levels.
2. These forces of aggregate spending and aggregate supply confront each other in the market place.
3. At equilibrium, the aggregate quantity of goods demanded exactly equals the aggregate quantity supplied.
4. Firms will demand more labor only if the demand for goods and services such labor produces is sufficiently weak.
5. Consumer expenditures account for two-thirds of total spending in the U.S economy.
6. Consumption decisions are influenced by a variety of forces, including income, prices, interest rates, wealth and expectations.

**8. Fill in the gaps with the words and expressions from the text:**

1. Producers have some notion of how much output they are \_\_\_\_\_.
2. These forces of \_\_\_\_\_ confront each other in the market place.
3. At equilibrium, the aggregate quantity of goods demanded exactly \_\_\_\_\_.
4. Firms will demand more labor only if \_\_\_\_\_.
5. Consumer expenditures account for \_\_\_\_\_.

6. Consumption decisions are influenced by a variety of forces, including

**9. Find pairs of words as they occur in the text:**

|                   |                 |
|-------------------|-----------------|
| 1. aggregate      | a. spending     |
| 2. aggregate      | b. combination  |
| 3. aggregate      | c. expenditure  |
| 4. derived        | d. demand       |
| 5. disposable     | e. level        |
| 6. price          | f. other        |
| 7. each           | g. disturbances |
| 8. "price-output" | h. demand       |
| 9. macro          | i. supply       |
| 10. dollar        | j. income       |

**10. Translate the sentences into Russian.**

1. The group has been aggressive in cutting expenditure.
2. Investment in these savings plans is expected to grow rapidly.
3. He used his savings to start up his own company.
4. They receive a proportion of their income from the sale of goods and services.
5. Consumption of soft drinks has grown by about 4 per cent this year.
6. Corporate spending cuts have led to a sharp drop in advertising revenue.
7. A delay in the supply of parts stopped work at the plant for a week.
8. The plant has increased production in order to meet demand.
9. The company is a producer of industrial and electronic materials.
10. Graduates are finding it more and more difficult to find employment.

## UNIT 12. INFLATION

### 1. Read and memorize the following words, word-combinations and word-groups:

inflation – інфляція

e.g. Inflation rose again this year.

deflation – дефляція

e.g. The government is introducing measures to combat deflation.

relative price – відносна ціна

e.g. Relative price is the price of one good in comparison with the price of other good.

nominal income – номінальний дохід

e.g. Nominal income is the amount of money you receive in a particular time period.

real income – реальний дохід

e.g. Real income is the purchasing power of that money, as measured by the quantity of goods and services your dollars will buy.

money illusion – грошова ілюзія

e.g. Money illusion is the use of nominal dollars rather than real dollars to gauge changes in one's income wealth.

Consumer Price Index – індекс споживчих цін

e.g. The consumer price index rose 0.3 per cent in May.

inflation rate – темп інфляції

e.g. Inflation rate is the annual rate of increase in the average price level.

price stability – стабільність цін

e.g. Price stability is the absence of significant changes in the average price level.

demand-pull inflation – інфляція, спричинена попитом

e.g. Demand –pull inflation is an increase in prices due to the fact that the demand for goods and services rises quicker than the amount of goods and services that can be supplied.

cost-push inflation – інфляція, спричинена вартістю

e.g. Cost-push inflation is when a cost such as wages or raw materials increases and businesses then increase their prices in order to keep their profits.

## 2. Give English equivalents of the following:

реальний дохід

інфляція

грошова ілюзія

дефляція

темп інфляції

відносна ціна

стабільність цін

номінальний дохід

## 3. Fill in the blanks with appropriate words:

*nominal inflation index price relatively deflation stability income  
consumer to increase*

1. Wage increases must be in line with \_\_\_\_\_.
2. Companies are still laying off employees as \_\_\_\_\_ continues to reduce their revenue.
3. How much are these? They don't have a \_\_\_\_\_ on them.
4. They receive a proportion of their \_\_\_\_\_ from the sale of goods and services.
5. \_\_\_\_\_ wages remain the same, while real wages (= the amount you can buy with this money) are falling.
6. Revenues \_\_\_\_\_ 4.5 per cent to ¥3 537 billion.
7. The software is \_\_\_\_\_ cheap.
8. Interest rate cuts have persuaded \_\_\_\_\_ to spend more.
9. The manufacturing sector \_\_\_\_\_ jumped to 4.9 in December.
10. There are doubts about the firm's financial \_\_\_\_\_.

#### **4. Read and translate the text:**

Most people associate inflation with price increases on specific goods and services. The economy is not necessarily experiencing an inflation, however, every time the price of a cup of coffee goes up. We must be careful to distinguish the phenomenon of inflation from price increases for specific goods. Inflation is an increase in the average level of prices, not a change in any specific price.

We first determine the average price of all output – the average price level – then look for changes in that average. A rise in the average price is referred to as inflation.

The average price level may fall as well as rise. A decline in average prices – a deflation – occurs when price decreases on some goods and services outweigh price increases on all others. Relative price is the price of one good in comparison with the price of other goods.

Because inflation and deflation are measured in terms of average price levels, it is possible for individual prices to rise or fall continuously without changing the average price level. Nominal income is the amount of money you receive in a particular time period; it is measured in current dollars. Real income, by contrast, is the purchasing power of that money, as measured by the quantity of goods and services your dollars will buy. If the number of dollars you receive every year is always the same, your nominal income doesn't change – but your real income will rise or fall with price changes.

There are two basic lessons about inflation to be learned:

Not all prices rise at the same rate during an inflation. Typically, some prices rise very rapidly, others only modestly, and still others not at all.

Not everyone suffers equally from inflation. Those people who consume the goods and services that are rising faster in price bear a greater burden of inflation; their real income falls more. Other consumers bear a lesser burden, or even none at all, depending on how fast the prices rise for the goods they enjoy.

Money illusion is the use of nominal dollars rather than real dollars to gauge changes in one's income or wealth.

The most common measure of inflation is the Consumer Price Index. As its name suggests, the CPI is a mechanism for measuring changes in the average price of consumer goods and services.

Inflation Rate is the annual rate of increase in the average price level.

Price stability is the absence of significant changes in the average price level; officially defined as a rate of inflation of less than 3 percent. Our goal of "full" employment is defined as the lowest rate of unemployment consistent with stable prices.

The most familiar form of inflation is called demand-pull inflation. Demand-pull inflation is an increase on the price level initiated by excessive aggregate demand. The name suggests that demand is pulling the price level. If the demand for goods and services rises faster than production, there simply won't be enough goods and services to go around.

Cost-push inflation is an increase in the price level initiated by an increase in the cost of production. In 1979, for example, the Organization of Petroleum Exporting Countries (OPEC) sharply increased the price of oil. For domestic producers, this action meant a significant increase in the cost of producing goods and services. Accordingly, domestic producers could no longer afford to sell goods at prevailing prices. They had to raise prices. The result was a cost-push inflation.

**5. Answer the following questions:**

1. What is inflation?
2. What is deflation?
3. What do we call the price of one good in comparison with the price of other goods?
4. What are the two basic lessons about inflation?
5. What phenomenon do economists call money inflation?
6. What is the most common measure of inflation?

7. How can we calculate the inflation rate?

8. What is demand-pull inflation?

9. What is cost-push inflation?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|               |  |
|---------------|--|
| 1. inflation  | a. the amount of money that you must pay for sth   |
| 2. deflation  | b. the quality or state of being steady and not changing in any way  |
| 3. price      | c. used to describe a rate or other figure that refers to current prices or numbers, but has not been changed to consider the effects of inflation                             |
| 4. income     | d. a rise in the general prices of goods and services in a particular country over a period of time, resulting in a fall in the value of money; the rate at which this happens |
| 5. nominal    | e. a person who buys goods or services for their own use   |
| 6. increase   | f. a reduction in the amount of money in a country's economy so that prices fall or remain the same  |
| 7. relatively | g. a rise in the amount, number or value of sth  |
| 8. consumer   | h. a system that shows the level of prices, wages, etc. so that they can be compared with those of a previous day or time  |

|               |   |
|---------------|---|
| 9. index      | i. the money that a person, a region, a country, etc. earns from work, from investing money, from business, etc |
| 10. stability | j. to a fairly large degree, especially in comparison to sth else   |

**7. Read the sentences and decide if they are true or false:**

1. Most people associate inflation with price increases on specific goods and services.
2. An increase in average prices – a deflation – occurs when price decreases on some goods and services outweigh price increases on all others.
3. Because inflation and deflation are measured in terms of average price levels, it is possible for individual prices to rise or fall continuously without changing the average price level.
4. There are three basic lessons about inflation to be learned.
5. Not everyone suffers equally from inflation.
6. Cost-push inflation is an increase in the price level initiated by an increase in the cost of production.

**8. Fill in the gaps with the words and expressions from the text:**

1. The economy is not necessarily experiencing an inflation, however, \_\_\_\_\_.
2. A rise in the average price is \_\_\_\_\_.
3. The average price level may \_\_\_\_\_.
4. Real income, by contrast, is the purchasing power of that money, as measured by the quantity of goods and services your dollars will buy.
5. Inflation Rate is \_\_\_\_\_.
6. The most familiar form of inflation is called \_\_\_\_\_.

**9. Find pairs of words as they occur in the text:**

|                |                |
|----------------|----------------|
| 1. relative    | a. income      |
| 2. nominal     | b. illusion    |
| 3. real        | c. rate        |
| 4. money       | d. inflation   |
| 5. consumer    | e. price       |
| 6. inflation   | f. inflation   |
| 7. price       | g. price index |
| 8. demand-pull | h. income      |
| 9. cost-push   | i. level       |
| 10. price      | j. stability   |

**10. Translate the sentences into Russian.**

1. There are doubts about the firm's financial stability.
2. The number of new houses being built is a good index of a country's prosperity.
3. Low interest rates were responsible for the consumer boom.
4. Share prices were still relatively high.
5. We need to increase productivity.
6. They bought the company for a nominal €20.
7. They receive a proportion of their income from the sale of goods and services.
8. Shoppers are unwilling to pay full price for electrical goods.
9. Companies are still laying off employees as deflation continues to reduce their revenue.
10. The price of food, adjusted for inflation, has fallen by around 1% annually.

## UNIT 13.

### NATIONAL-INCOME ACCOUNTING

#### 1. Read and memorize the following words, word-combinations and word-groups:

national-income accounting – облік національного доходу

e.g. National-income accounting is the measurement of aggregate economic activity, particularly national income and its components.

gross national product (GNP) – валовий національний продукт (ВНП)

e.g. Today farming produces only about 2-4% of GNP.

GNP per capita – валовий національний продукт у розрахунку на душу населення

e.g. GNP per capita is total population: average GNP.

intermediate goods – проміжний продукт

e.g. Orders for intermediate goods rose 3.5%.

nominal GNP – номінальний валовий національний продукт

e.g. Nominal GNP is the value of final output measured in that year's prices.

real GNP – реальний валовий національний продукт

e.g. When we calculate real GNP, we value goods and services at constant prices.

inflation – інфляція

e.g. Policymakers predicted slower growth and inflation.

production possibilities – можливості виробництва

e.g. Production possibilities are the alternative combinations of final goods and services that could be produced in a given time period with all available resources and technology.

depreciation – амортизація

e.g. The decline reflects the depreciation of the euro against sterling.

net national product (NNP) – чистий національний продукт

e.g. NNP is the amount of output we could consume without reducing our stock of capital.

gross investment – валові капіталовкладення

e.g. Gross investment in plant and machinery for that year was over \$60 billion.

net investment – чисті інвестиції

e.g. Whenever gross investment exceeds depreciation, net investment is positive.

export – експортований товар

e.g. Copper is Chile's biggest export.

import – імпортований товар

e.g. Our largest agricultural import is wheat.

## 2. Give English equivalents of the following:

імпортований товар

номінальний валовий

національний продукт

амортизація

експортований товар

проміжний продукт

реальний валовий національний  
продукт

чисті інвестиції

чистий національний продукт

валовий національний продукт

валові капіталовкладення

## 3. Fill in the blanks with appropriate words:

*policy exports accounting component imports activity inflation gross national product intermediate goods depreciation*

1. Some domestic producers had been harmed by cheap \_\_\_\_\_.
2. Demand for Asian \_\_\_\_\_ has grown.
3. The price of food, adjusted for \_\_\_\_\_, has fallen by around 1% annually.
4. The decline reflects the \_\_\_\_\_ of the euro against sterling.
5. Orders for \_\_\_\_\_ rose 3.5%.
6. Shareholders lost money as the result of \_\_\_\_\_ errors.
7. Today farming produces only about 2-4% of \_\_\_\_\_.
8. Manufacturing \_\_\_\_\_ fell in March.
9. Petroleum is a key \_\_\_\_\_ of their economy.
10. The company has adopted a firm \_\_\_\_\_ on shoplifting.

#### **4. Read and translate the text:**

National-income accounting is the measurement of aggregate economic activity, particularly national income and its components. The measurement of aggregate economic activity by national-income accounting serves two basic functions. First, it enables us to identify economic problems. The second function of national-income accounting is to provide an objective basis for evaluating policy.

National-income accounts help us not only to measure the economy but also to understand how it functions.

Gross national product (GNP) is the total market value of all final goods and services produced in a given time period.

GNP per capita is total population: average GNP. GNP per capita relates the total value of annual output to the number of people who share that output; it refers to the average GNP per person.

Even when we focus on domestic market activity we encounter problems in calculating GNP. A very basic problem arises from the fact the production of output typically involves a series of distinct stages. Consider the production of bread, for example. For bread to reach the supermarket, the farmer must grow some wheat, the miller must convert it to flour, and the baker must make bread with it.

We must focus on the value of final goods and services and exclude intermediate goods from our calculation.

Intermediate goods are goods or services purchased for use as input in the production of final goods or services.

Nominal GNP is the value of final output produced in a given period, measured in the prices of that period (current prices).

To distinguish increases in the quantity of goods and services from increases in their prices, we must construct a measure of GNP that takes into account price level changes. We do so by distinguishing between real GNP and nominal GNP. Nominal GNP is the value of final output measured in that year's

prices, whereas calculating real GNP, we value goods and services at constant prices.

Inflation is an increase in the average level of prices of goods and services.

Production possibilities are the alternative combinations of final goods and services that could be produced in a given time period with all available resources and technology.

Depreciation is the consumption of capital in the production process; the wearing out of plant and equipment. This calculation leaves us with yet another measure of output; net national product (NNP). This is the amount of output we could consume without reducing our stock of capital.

The distinction between GNP and NNP is thus mirrored in a distinction between gross investment and net investment. Gross investment is positive as long as some new plants and equipment are being produced. But our stock of capital – our total collection of plant and equipment – will not grow unless gross investment exceeds depreciation. That is, the flow of new capital must exceed depreciation, or our stock of capital will decline. Whenever gross investment exceeds depreciation, net investment is positive.

Exports are goods and services sold to foreign buyers.

Imports are goods and services purchased from foreign countries.

International trade is not a one-way street. While we export some of our own output, we also import goods and services from other countries. Whatever their use, imports represent purchases of goods and services that were not produced in their country.

The GNP accounts subtract imports from exports. The difference represents net exports.

##### **5. Answer the following questions:**

1. What are the two basic functions of national-income accounting?
2. How can we determine last year's GNP?
3. What is GNP per capita used for?

4. What is the easiest way to calculate GNP?
5. What is the difference between nominal GNP and real GNP?
6. What is inflation?
7. What do our production possibilities depend on?
8. Where is the distinction between GNP and NNP mirrored?
9. What represents net exports?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|                           |  |
|---------------------------|--|
| 1. import                 | a. a fall in the value of a country's currency, compared to the currencies of other countries  |
| 2. export                 | b. one of several parts of which sth is made   |
| 3. inflation              | c. the total value of all the goods and services produced by a country in a particular period including the income from investments in foreign countries |
| 4. depreciation           | d. a plan of action agreed or chosen by a business, an organization or a political party   |
| 5. intermediate goods     | e. a product or service that is brought into one country from another  |
| 6. accounting             | f. a product or service that is sold and sent or supplied to another country   |
| 7. gross national product | g. partly finished goods that are used in the manufacture of other goods   |
| 8. activity               | h. the work of keeping and checking the financial records of a person, a company or an organization  |

|              |  |
|--------------|--|
| 9. component | i. a situation in which sth is happening or a lot of things are being done   |
| 10. policy   | j. a rise in the general prices of goods and services in a particular country over a period of time, resulting in a fall in the value of money; the rate at which this happens |

**7. Read the sentences and decide if they are true or false:**

1. National-income accounting is the measurement of aggregate economic activity, particularly national income and its components.
2. National-income accounts don't help us not only to measure the economy but also to understand how it functions.
3. Intermediate goods are goods or services purchased for use as input in the production of final goods or services.
4. Nominal GNP is the value of final output produced in a given period, measured in the prices of that period (current prices).
5. Inflation is the consumption of capital in the production process.
6. Exports are goods and services sold to foreign buyers.

**8. Fill in the gaps with the words and expressions from the text:**

1. Gross national product (GNP) is \_\_\_\_\_.
2. We must focus on the value of final goods and services and \_\_\_\_\_.
3. Intermediate goods are \_\_\_\_\_.
4. Nominal GNP is \_\_\_\_\_.
5. Inflation is \_\_\_\_\_.
6. Depreciation is \_\_\_\_\_.

**9. Find pairs of words as they occur in the text:**

|                    |                     |
|--------------------|---------------------|
| 1. national-income | a. goods            |
| 2. gross           | b. GNP              |
| 3. GNP             | c. national product |
| 4. intermediate    | d. investment       |
| 5. nominal         | e. accounting       |
| 6. real            | f. national product |
| 7. production      | g. per capita       |
| 8. net             | h. GNP              |
| 9. gross           | i. possibilities    |
| 10. net            | j. investment       |

**10. Translate the sentences into Russian.**

1. Petroleum is a key component of their economy.
2. We have to wear jeans on Fridays-it's company policy.
3. Newspapers report a higher level of activity in the foreign exchange markets.
4. Today farming produces only about 2-4% of GNP.
5. Investors had become suspicious of the company's accounting practices.
6. Orders for intermediate goods rose 3.5%.
7. The decline reflects the depreciation of the euro against sterling.
8. Inflation rose again this year.
9. Total exports of goods and services to the EU rose by 3% last year.
10. Exports fell while imports rose.

## UNIT 14.

### COSTLY TRANSACTIONS

#### 1. Read and memorize the following words, word-combinations and word-groups:

transaction – угода, операція

e.g. He broke the law by using a residential property for the transaction of business.

commodity – товар

e.g. Time is a precious commodity.

consumption – споживання

e.g. Consumption of soft drinks has grown by about 4 per cent this year.

pervasive – що поширюється, проникає скрізь

e.g. Transaction costs are pervasive.

gains – доход, прибуток; виграш; вигода

e.g. This figure includes a €1.7 million one-off gain from sale of assets.

to evolve – розвиватися

e.g. The company has evolved into a major electronics manufacturer.

indirect trade – непряма торгівля

e.g. An indirect trade channel can be more costly than the direct approach.

intermediary – посередник

e.g. The company acts as an intermediary between buyers and growers.

household – сім'я, домашнє господарство

e.g. This report is based on a survey of around 5 000 households.

to undermine – підривати, руйнувати

e.g. The President's enemies are spreading rumours to undermine his authority.

uncertainty – невизначеність

e.g. Uncertainty about what can and cannot be done undermines the gains from exchange or specialization.

to exclude – виключати

e.g. The price of the trip excludes insurance.

restriction – обмеження

e.g. There should be fewer restrictions on trading, not more.

appropriate – належний, відповідний

e.g. Accommodation is comfortable and appropriate to nature of horse trekking.

property rights – права власності

e.g. Every economy has to develop something like property rights.

## 2. Give English equivalents of the following:

|                 |                  |
|-----------------|------------------|
| угода           | непряма торгівля |
| розвиватися     | сім'я            |
| посередник      | виключати        |
| підривати       | обмеження        |
| невизначеність  | споживання       |
| належний        | що поширюється   |
| права власності | дохід            |
| товар           |                  |

## 3. Fill in the blanks with appropriate words:

*evolve restriction transaction household commodity exclude consumption intermediary gain trade*

1. He broke the law by using a residential property for the \_\_\_\_\_ of business.
2. Time is a precious \_\_\_\_\_.
3. This is the country with the highest fuel \_\_\_\_\_ in the world.
4. Media shares enjoyed strong \_\_\_\_\_ this week.
5. Their business \_\_\_\_\_ from a series of mergers.
6. \_\_\_\_\_ between the two countries has increased.
7. Internet sites such as eBay allow people to do business directly with one another rather than through an \_\_\_\_\_.
8. How much does the average \_\_\_\_\_ spend on food each week?
9. The cost of borrowing has been \_\_\_\_\_ from the inflation figures.
10. There are no \_\_\_\_\_ on the amount of money you can withdraw.

#### **4. Read and translate the text:**

Transacting often takes more time; scarce resources that might have been used to produce goods and services are frequently used in transacting. For instance, resources used to transport commodities from one location to another cannot be used to produce commodities that individuals might consume. In this case, exchange will have an opportunity cost in terms of other uses to which these resources could have been put.

Transaction costs are the opportunity costs of using productive resources (including time and effort) in making trades rather than in producing goods and services for consumption.

Transaction costs are so pervasive and the gains from exchange and specialization so great, however, that social arrangements have evolved in order to lower transaction costs for every one. In general, when transactions are costly, indirect trade rather than direct trade will lower transaction costs. The two important social arrangements that set up indirect trade are the use of money and the use of intermediaries. Money is the thing that is commonly used in virtually all transactions consequently, it is frequently referred to as the medium of exchange. An intermediary is a person or organization that specializes in trading rather than producing goods, thereby lowering the costs of transaction for any non-specialists who use the services of the intermediary. Frequently intermediaries are called middlemen. Firms and households also lower certain kinds of transaction costs by organizing economic activity in particular ways. Finally, when uncertainty about what can and cannot be done undermines the gains from exchange or specialization a society may evolve rules in an effort to lower the costs associated with uncertainty.

The gains from exchange and specialization can only be fully realized if self-interested individuals have future interests or expectations. These expectations are of three sorts:

- expectations about the right to exclude;
- expectations about the right to consume with minimal restrictions;

- expectations about the right to transfer.

These kinds of expectations are referred to as property rights. Every economy, whether capitalist, socialist, communist, or traditional, has to decide how it will create the appropriate sort of expectations about future use.

In this sense every economy has to develop something like property rights.

**5. Answer the following questions:**

1. What are transaction costs?
2. Why have social arrangements evolved?
3. What are the important arrangements that set up indirect trade?
4. What is money?
5. What is an intermediary?
6. What may a society evolve in an effort to lower the costs?
7. What other social arrangements lower transaction costs?
8. What kinds of expectations are referred to property rights?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|                |  |
|----------------|--|
| 1. transaction | a. a rule or law that limits what you can do or what can happen  |
| 2. commodity   | b. a person or an organization that helps other people or organizations who are unable or unwilling to deal with each other directly to reach an agreement |
| 3. consumption | c. a product or a raw material, such as grain, coffee, cotton or metals, that can be bought and sold in large quantities, especially between countries     |
| 4. gain        | d. all the people living together in a single house or flat/apartment, considered as a unit  |

|                 |  |
|-----------------|--|
| 5. to evolve    | e. a piece of business that is done between people, especially an act of buying or selling               |
| 6. trade        | f. the act of using goods, services, energy, food or materials; the amount used                          |
| 7. intermediary | g. an increase or an improvement in the amount, value or level of sth                                    |
| 8. household    | h. to deliberately not include sth in what you are doing or considering                                  |
| 9. to exclude   | i. the activity of buying and selling or of exchanging goods or services between people or countries     |
| 10. restriction | j. to develop gradually, especially from a simple to a more complicated form; to develop sth in this way |

**7. Read the sentences and decide if they are true or false:**

1. Transacting often takes more time; scarce resources that might have been used to produce goods and services are frequently used in transacting.
2. Opportunity costs are the costs of using productive resources (including time and effort) in making trades rather than in producing goods and services for consumption.
3. In general, when transactions are costly, direct trade rather than indirect trade will lower transaction costs.
4. Money is the thing that is commonly used in virtually all transactions consequently, it is frequently referred to as the medium of exchange.
5. Frequently intermediaries are called middlemen.
6. The gains from exchange and specialization can only be fully realized if self-interested individuals have future interests or expectations.

**8. Fill in the gaps with the words and expressions from the text:**

1. Transacting often takes more time; scarce resources that

\_\_\_\_\_.

2. The two important social arrangements that

\_\_\_\_\_.

3. An intermediary is a person or organization that specializes in trading rather than producing goods,

\_\_\_\_\_.

4. The gains from exchange and specialization can only be fully realized if

\_\_\_\_\_.

5. These kinds of expectations are \_\_\_\_\_.

6. In this sense every economy has

\_\_\_\_\_.

**9. Find pairs of words as they occur in the text:**

|                    |                 |
|--------------------|-----------------|
| 1. indirect        | a. resources    |
| 2. property        | b. costs        |
| 3. scarce          | c. of exchange  |
| 4. opportunity     | d. individuals  |
| 5. transaction     | e. restrictions |
| 6. social          | f. trade        |
| 7. medium          | g. rights       |
| 8. economic        | h. costs        |
| 9. self-interested | i. arrangements |
| 10. minimal        | j. activity     |

**10. Translate the sentences into Russian.**

1. Restriction of supply will help support prices.
2. The public were excluded from the board meeting.
3. There has been a sharp increase in household debt.
4. The company acts as an intermediary between buyers and growers.

5. It has been a bad year for the retail trade.
6. We constantly evolve our products to meet the changing needs of customers.
7. Wall Street saw an early 140-point gain wiped out within minutes.
8. Consumption of soft drinks has grown by about 4 per cent this year.
9. The downbeat (= negative) comments from the manufacturer have depressed the markets.
10. He broke the law by using a residential property for the transaction of business.

## UNIT 15.

### MEASURING ECONOMIC ACTIVITY

#### 1. Read and memorize the following words, word-combinations and word-groups:

measures of economic activity – показники економічної діяльності

e.g. Understanding how an economy works and carefully examining different perspectives on the economy frequently require quantitative measures of economic activity.

to lower – знижуватися

e.g. The Fed lowered interest rates again yesterday.

unit of account – одиниця обчислення

e.g. Unit of account is the standard system of money that is used in a particular country.

to quote a price in terms of smth. – визначати ціну в чомусь

e.g. When prices are quoted in terms of the domestic unit of account it is easy to determine how many units of one good trade for another.

implicit – не виражений прямо, прихований

exchange ratio – мінове відношення

e.g. This implicit exchange ratio of goods is the relative price.

relative price – відносна ціна

e.g. Relative prices play an important role in the decisions that individuals make.

purchase – купівля

e.g. How many visitors to the store actually made a purchase?

microeconomics – мікроекономіка

e.g. Traditional microeconomics assumes a large number of buyers and sellers.

aggregate price level – загальний рівень цін

e.g. It is often useful to have a measure of the general or aggregate price level in addition to measures of specific relative prices.

price index – індекс цін

e.g. The government is to start publishing a new monthly house price index.

market prices – ринкові ціни

e.g. Without a shift in demand and/or supply there will be no change in market price.

to normalize expenditures – нормувати витрати

e.g. The expenditures at each subsequent date are also normalized, using the base period expenditures.

current prices – існуючі ціни

e.g. At current prices, the company is worth around €23 billion.

aggregate output – сукупний обсяг виробництва

e.g. Aggregate output is the way to measure the dollar value or the total production of goods and services in an economy.

to evaluate – оцінювати

e.g. We use written tests and interviews to evaluate job candidates.

to deflate – знижувати ціни

e.g. The government raised interest rates in an attempt to deflate the economy.

## **2. Give English equivalents of the following:**

знижуватися

індекс цін

прихований

сукупний обсяг виробництва

відносна ціна

оцінювати

купівля

ринкові ціни

мінове відношення

існуючі ціни

мікроекономіка

знижувати ціни

## **3. Fill in the blanks with appropriate words:**

*to evaluate exchange aggregate purchase output to deflate price market price index microeconomic*

1. She has now purchased an \_\_\_\_\_ of 16% of the company's shares.

2. Manufacturing \_\_\_\_\_ has risen by 8%.

3. He managed to get a good \_\_\_\_\_ for the car.

4. The government is to start publishing a new monthly house \_\_\_\_\_.

5. Students of \_\_\_\_\_theory will know that output is related to price.
6. We use written tests and interviews \_\_\_\_\_job candidates.
7. The technology bubble has began \_\_\_\_\_
8. We produce this version for the Japanese \_\_\_\_\_.
9. The company's shares are traded on the Euronext \_\_\_\_\_ in Paris.
10. The company has just announced its €50 million\_\_\_\_\_of the hotel.

#### **4. Read and translate the text:**

Understanding how an economy works and carefully examining different perspectives on the economy frequently require quantitative measures of economic activity.

Money is important to an economy because it lowers transaction costs, thereby increasing the gains to individuals from exchange and specialization. Once money has developed in an economy, however, it serves other very useful roles. One of the most important of these roles is that money often becomes a convenient way of measuring economic activity. That is, money is frequently used as a unit of account.

When prices are quoted in terms of the domestic unit of account it is easy to determine how many units of one good trade for another. This implicit exchange ratio of goods for goods is the relative price.

The study of what determines relative prices and what happens when relative prices change is called microeconomics. While relative prices are of great importance, in an economy that produces tens of thousands of goods, it is useful to have some idea of what is happening to the prices of all goods taken together, particularly when comparing changes in prices through time. That is, it is often useful to have a measure of the general or aggregate price level in addition to measures of specific relative prices.

The price level is measured using a price index. A price index is usually created by pricing a basket of goods at market prices in a base year and normalizing the expenditures on those goods to 100. The same basket of goods is priced at current market prices at subsequent dates. The difference in the

expenditures on the basket from those made in the base year indicates the changes that have occurred in the price level. The expenditures at each subsequent date are also normalized, using the base period expenditures so that the price index begins at 100 and then moves upward or downward depending upon whether there is inflation or deflation.

Aggregate output, domestic product, or national income are ways to measure the dollar value of the total production of goods and services in an economy. A common measure of aggregate output, domestic product, or national income is the Gross National Product (GNP), which is the dollar value of output in an economy over a one-year period evaluated at current dollar prices. A price index can be used to create a measure of real aggregate output, real GNP, by deflating nominal GNP. If an economy imports goods and services, the individuals within the economy have more goods and services to consume than those produced within the economy, while if an economy exports goods and services, the individuals within the economy have fewer goods and services to consume. Therefore, whether more or fewer goods and services are available than those produced within the economy will depend upon whether exports exceed imports or imports exceed exports.

**5. Answer the following questions:**

1. Why can money be used to measure economic activity?
2. What is the relative price?
3. What do relative prices measure?
4. What is called microeconomics?
5. Why is it useful to have a measure of the aggregate price level?
6. What is price index usually created by? What is the Gross National Product?  
What can a price index be used for?

**6. Match the words from the left-side column with their definitions from the right-side column:**

|                   |   |
|-------------------|---|
| 1. aggregate      | a. business or trade; the amount of trade in a particular type of goods, services, investments, etc   |
| 2. output         | b. an act of giving sth to sb or doing sth for sb and receiving sth in return   |
| 3. price          | c. the amount of sth that a person, a machine, an organization or an industry produces  |
| 4. price index    | d. the branch of <b>economics</b> that studies individual markets or the decisions and choices made by individual businesses, families, etc. about spending or earning money, for example the choice to charge a particular price for goods |
| 5. microeconomics | e. the total number or amount made up of smaller amounts that are collected together  |
| 6. to evaluate    | f. to reduce the amount of money being used in a country so that prices fall or stay steady   |
| 7. to deflate     | g. the act or process of buying sth   |
| 8. market         | h. to study all the available information about sb/sth and then form an opinion about them/it   |
| 9. exchange       | i. the amount of money that you must pay for sth  |
| 10. purchase      | j. a figure that shows the change in the  |

|  |  |
|--|--|
|  | price of something over a period of time |
|--|--|

**7. Read the sentences and decide if they are true or false:**

1. Understanding how an economy works and carefully examining different perspectives on the economy frequently require quantitative measures of economic activity.
2. Money is not important to an economy because it lowers transaction costs, thereby increasing the gains to individuals from exchange and specialization.
3. The study of what determines relative prices and what happens when relative prices change is called macroeconomics.
4. The price level is measured using a price index.
5. Aggregate output, domestic product, or national income are ways to measure the dollar value of the total production of goods and services in an economy.
6. A price index can be used to create a measure of real aggregate output, real GNP, by deflating nominal GNP.

**8. Fill in the gaps with the words and expressions from the text:**

1. Understanding how an economy works and carefully examining different perspectives \_\_\_\_\_.
2. Money is important to an economy because \_\_\_\_\_.
3. \_\_\_\_\_ it is easy to determine how many units of one good trade for another.
4. The study of what determines relative prices and what happens when relative prices change is \_\_\_\_\_.
5. The price level \_\_\_\_\_.
6. Aggregate output, domestic product, or national income are \_\_\_\_\_.

**9. Find pairs of words as they occur in the text:**

|             |                 |
|-------------|-----------------|
| 1. measures | a. of account   |
| 2. unit     | b. price        |
| 3. to quote | c. expenditures |

|                 |                         |
|-----------------|-------------------------|
| 4. exchange     | d. output               |
| 5. relative     | e. of economic activity |
| 6. aggregate    | f. price level          |
| 7. price        | g. a price              |
| 8. market       | h. ratio                |
| 9. to normalize | i. index                |
| 10. aggregate   | j. prices               |

**10. Translate the sentences into Russian.**

1. The two countries have agreed to an exchange of information on tax matters.
2. I did not notice the defects at the time of purchase.
3. They hope to break into the teenage market.
4. Food prices are deflating by 1.5% a year.
5. A lot of people don't evaluate whether or not their product can sell.
6. Students of microeconomic theory will know that output is related to price.
7. Price index is a figure that shows the change in the price of something over a period of time.
8. Shoppers are unwilling to pay full price for electrical goods.
9. The three factories have achieved record levels of output.
10. The aggregate cost of the equipment was about \$1 million.

## **Texts for supplementary reading**

### **Text № 1. Exchange and specialization.**

An economy exists because there are gains from exchange and from specialization that link individuals together in extraordinarily important ways. There are two kinds of gains.

First, if individuals are free to exchange goods and resources, they can give up those things they value relatively less in exchange for those things that they value relatively more. Exchanges or trades of this sort increase individual well-being.

Second, if individuals can freely exchange resources and goods, they can specialize in particular production activities. Generally, specialization leads to an increase in the production of goods and services even if the resources that an economy has do not change. As a consequence, specialization will also increase individual well-being.

These two ideas, exchange and specialization, are the topics of this text. It is simply not possible to understand how possibly a market economy works without a clear understanding of why it is that individuals sometimes interact in apparently cooperative ways with other individuals even though there is no explicit intention to cooperate. But simply, exchange and specialization are the bases of economic activity for any society, although there may be a number of different ways that societies can choose to organize so as to facilitate exchange and specialization.

Individuals are better-off when they have opportunities to trade. While well-being is not always measurable, some of the gains from exchange can be measured; they are not merely subjective. This is important because it provides an incentive for individuals to facilitate the exchanges among other individuals. The more different individual tastes and preferences are, the greater will be potential gains from exchange between the individuals.

Just because someone's well-being is enhanced by exchange does not imply that another person's well-being is undermined.

Exchange induces individuals to specialize so as to minimize the costs of producing goods.

So long as individuals are different from one another, each will have a comparative advantage relative to some other person in at least one activity.

The gains from exchange and specialization need not be equally divided among those who trade and specialize. Indeed, as relative prices change, the division of the gains will also change. Higher relative prices for the goods you are specialized in producing will increase your share of the gains, while lower relative prices for the same goods will decrease your share.

Specialization implies dependence on others for the goods that one might have produced but for which one trades. In this important sense, specialization and exchange link individuals together creating an economy.

### **Text № 2. Public goods, information and uncertainty.**

Goods are called public goods, not because they are provided by the government, but because they differ from the usual goods and services that we privately enjoy. Public goods pose a serious problem for a market economy: markets are organized on the basis of individual decision-making, but in a sense, public goods require collective decisions.

A public good is any good or service whose consumption by one person is not affected by the consumption of the same good or service by someone else.

Public goods have three characteristics that create problems for markets. First, consumption of a public good by one individual is not competitive with consumption by another individual. Second, consumption is nonexclusive. Third, the production of public goods is accompanied by positive externalities.

Consumption of a public good by a single individual does not affect the ability of others to consume the same public good. Hence a public good can be jointly consumed by two, three, or many thousands of people, consumption of a public good is noncompetitive and there is no rationing problem.

It is generally not possible to keep those who do not pay for a public good from consuming it. Consumption of a public good is nonexclusive.

Finally, if it is not possible to exclude others from consuming a public good, the purchase or provision of a public good by one person creates a positive externality since others benefit from the purchase or provision without having to pay.

These three aspects of public goods create a special problem that makes it difficult for markets to produce them.

The problem is free riding. Free riding occurs when a person consumes a valuable good or service without having to pay. Because the consumption of public goods is nonexhaustive and noncompetitive, each of us has an incentive to free ride, that is, consume goods and services that others have purchased.

Information is enormously important in making decisions in a market economy.

Since this information is valuable, we might expect that there would be a market for it, a place where we could purchase information about automobiles, stereos, canned and frozen goods, and other commodities of, where a firm could purchase information about the quality of potential employees. However, these markets are very difficult to create because of the public-good nature of the information.

Searching for information is a very important way for individuals to gain the information necessary for individual economic choice; searching produces information, that cannot in general be purchased in some market.

Reputation is important because it lowers search costs by allowing information gathered in the past to be used in the future. Frequently, reputation becomes associated with a label or brand name.

Use of an economically valuable idea by one person does not lessen the value when the idea is used by another person.

One response to these problems is to create property rights in ideas, particularly when the ideas are embodied in piece of equipment or are written

down. For technological innovations we have patents and for other kinds of ideas in printed or recorded form we have copyrights. We even protect the information about quality of goods associated with brand names by allowing for legally registered trademarks.

### **Text № 3. Markets.**

A market is a set of transactions in which a particular kind of commodity is exchanged, and in which the transactions for this commodity among different individuals and firms are related.

There are markets for hundreds of thousands of things. Some of these things are tangible and satisfy individual desires, while others are intangible but also important in satisfying individual interests. These things are frequently referred to as products. Frequently, product markets are divided into two classes: goods and services. For example, a hamburger is a good, while a doctor's examination is a service. When you buy an automobile, you are purchasing a good. When you have someone adjust a carburettor, however, you are purchasing a service.

A good is something tangible that is produced, and consumed, often having been purchased in a market. A service is something intangible that is produced and consumed, also frequently having been purchased in a market.

Resources are things used to produce goods, services and capital. Some people come to a market because they want to buy (demanders), others come because they want to sell (suppliers). The interaction of demanders and suppliers determines a market price and a market allocation of a particular commodity. This interaction also creates a set of incentives for subsequent decisions by both suppliers and demanders that may affect many markets. To understand these incentives, as well as how market prices and allocations are determined, we need to understand how suppliers and demanders respond to different relative price and the quantity of a particular commodity that individuals or firms (suppliers) would be willing to provide to the market.

Demand is all combinations of relative price and the quantity of a particular commodity that individuals or firms (demanders) would be willing to purchase in a market.

A market is created when those who willingly supply a good, service, or resource exchange with those who desire to use, control, or consume a good, service, or resource.

Markets reallocate commodities from suppliers to demanders. What if suppliers want to provide more than demanders want to purchase? Or, what if demanders want more than suppliers are willing to provide?

Excess supply occurs when, at particular market price, the quantity that suppliers want to provide to the market exceeds the quantity that demanders want to purchase.

Excess demand occurs when, at a particular market price, the quantity that suppliers want to provide to the market is less than the quantity that demanders want to purchase.

In an open or free market, the relative price for a commodity will generally decrease when there is excess supply; the relative price will generally increase when there is excess demand.

Excess demand will be eliminated if the relative price is free to increase.

Markets adjust in predictable ways if, when there is excess demand, the relative price increases and if, when there is excess supply, the relative price decreases. These changes in relative prices tend to eliminate the excess supply or excess demand.

A market is in equilibrium when the quantity that suppliers are willing to provide to the market at a specific market price is exactly the quantity that demanders desire to purchase in the market at the same market price.

The importance of equilibrium is that the equilibrium relative price is the only price at which the interests of demanders happen to coincide precisely with the interest of the suppliers. At any other relative price, the interests of suppliers and demanders do not coincide.

#### **Text № 4. International markets for commodities and currencies.**

When transportation costs are low and governments do not interfere much in transactions that cross national boundaries, firms and individuals frequently look across those boundaries for opportunities to buy and sell. Indeed, for many commodities there are international rather than domestic markets, and for most commodities there are international effects on markets.

Commodities that are produced in a foreign economy, but which are consumed by individuals within a domestic economy, are imports, while commodities which are produced within a domestic economy, but which are consumed by individuals in a foreign economy, are exports.

If the world price of commodity is below the domestic price, there will be an incentive to import the commodity, purchasing it from foreign producers.

Money once again solves the problem of coincident or reciprocal wants: individuals or firms who want to import a commodity can make the exchange using money, while those individuals or firms who want to export do so in exchange for money. As long as money can be used in international transactions (as well as within an economy), exporters and importers do not need to be the same individuals. The complexity arises because foreign firms usually want to be paid in money useful in the domestic economy, while foreigners to whom they must sell if they are to export usually want to pay for the commodities using money from their own economy.

When the money used in the international exchange is different from that used in the domestic economy, the person receiving payment in the foreign currency will want to exchange it for a domestic currency.

Hence, international trade creates markets for different kinds of money. Such markets are called foreign exchange or foreign currency markets.

A foreign exchange market is a market where one kind of money is traded for a different kind of money.

Changes in supply and demand in these markets change the rate at which one currency will be exchanged for another currency. As a consequence, the

price of goods that are traded will change either because of a change in the price in the economy where they are produced or because of a change in the exchange rate.

The difference between the value of exports and imports is the foreign trade balance. If the value of imports exceeds the value of exports then trade balance is deficit.

### **Text № 5. Economic fairness and the distribution of economic rewards.**

The central task of any economy is providing for and enhancing the material well-being of those who live within it. There are two aspects to this task: the production of more and better goods and services, and the distribution of those goods and services in a fair manner.

In a market economy some are rewarded handsomely while others are perhaps not rewarded at all. How a society is to deal with those who are, in a sense, outside of the economic system is one of the pressing problems of our era, our economy, and our society.

Notice that the percentage of aggregate income received by each fifth of the population is relatively constant through time. This stability or constancy is one of the surprising facts about the U. S. economy: the distribution of income has been relatively stable for a long time. Indeed, inequality in income, as measured this way, is about the same now as it was just following World War 2.

France and the United States appeared to have the greatest inequality in the distribution of income when compared with other industrialized nations.

There will, of course, always be bottom 20 or 10 or 5 percent of any distribution. Suppose, for example, that every family's real income quadrupled in the next year. Would it be useful to think of the bottom of the distribution as a group in poverty? For example, "A family is in poverty if its income is less than one-half the median income."

Who are the poor? Using the U. S. Government's definition of poverty, the percentage of black persons below the poverty line, although declining since 1964, remains above 35 percent. Similarly, about 35 percent of those families headed by women are below the official poverty line.

It should be clear that differences in individual characteristics are closely associated with differences in income.

Earnings differ because of the lack of mobility. Lack of mobility may occur because individuals choose not to make changes in order to increase their earnings; because individuals are not allowed to make changes in order to increase their earnings (for instance, discrimination); or because individuals have abilities that differ which cannot be easily obtained by others who would like to increase their earnings (special talents).

A tax is proportional if persons with higher incomes pay the same fraction of their income in taxes as do persons with lower incomes. A tax is progressive if persons with higher incomes pay a higher fraction of their income in taxes than do persons with lower incomes.

Transfers, in turn, may also be either progressive (transfers to those lower incomes) or regressive (transfers to those with higher incomes). In addition, transfers may be in cash or in goods and services. The latter are referred to as in-kind transfers.

There are two ideas behind the negative income tax proposed to which economists are strongly attached. First, once a society has made a decision to transfer income to the poor, it is better for the poor if the transfer is in cash rather than in-kind. Second, once a society has made the decision to transfer income to the poor, it is better for the poor if the transfer system provides positive incentives to increase transfer plus market income in the market. Put simply, "Give cash and give it in such a way that the recipient always has incentive to work".

### **Text № 6. Aggregate supply.**

We begin our analysis of macroeconomic fluctuations by examining the determinants of potential real output and aggregate supply. This potential real output is determined by the natural resources available to an economy, the technologies that it has developed or acquired, the amount of capital that it has accumulated, and the amount of labor it has available. If these productive inputs are fully and efficiently employed, there is a maximum amount that the economy can produce – its production possibilities.

Potential real output is the output that would be produced if all resources, including labor, were fully employed. Labor resources are fully employed when there is an equilibrium in each labor market. That is, when everyone who wants to work at the prevailing wage is able to work, labor is fully employed.

Full employment is associated with the amount of labor firms want to employ – labor demand – and the amount of time that individuals want to supply to the market, given the other uses to which these individuals can put their time – labor supply.

The real wage is the purchasing power of the wage payment, which is in turn the amount of money paid to workers per hour, week, or month of work.

Equilibrium in the labor market, as in any market, occurs when the amount willingly supplied is equal to the amount willingly demanded, that is, when the number of persons willing to work at a particular real wage is exactly equal to the number of persons that firms want to employ.

Unemployment occurs, because the real wage does not quickly adjust to a new equilibrium when the demand or supply of labor changes.

Frictional unemployment results when individuals leaving one job (or looking for a first job) do not immediately find a new job, even though there are vacancies in the economy.

Not all unemployment is frictional, however. Another part of unemployment is true unemployment – there are no job openings corresponding to those who are without work. Looking for a job does not solve this

unemployment problem – there is no corresponding vacancy. Sometimes the lack of jobs is a consequence of the business cycle unemployment, but the lack of jobs may also correspond to a problem with skills and training (structural unemployment). For example, someone who doesn't have a high-school education may be willing to work but will probably have fewer job-related skills and thus fewer employment opportunities.

Published unemployment data will underestimate the true unemployment rate because discouraged workers will have quit looking for jobs out of frustration.

When labor is unemployed, however, nominal wages will eventually begin to decline. As they do, real wages will fall. As real wages fall, firms will increase their employment of workers and real output will increase. Thus a recession will be accompanied by declining prices and nominal wages, but the economy will eventually tend toward full employment and the production of potential real output.

### **Text № 7. Aggregate demand.**

Aggregate demand and aggregate supply are useful concepts only if they help us understand why an economy may not always fully employ its productive resources, have price stability, or grow at an acceptable rate.

Supply and demand help us organize the way we think about these markets because each directly corresponds to the intentions of self-interested firms or individuals.

Individuals (and economies that are not engaged in international trade) can only do two things with their income: they can consume it or save it.

Individual consumption is directly influenced by individual income.

While consumption is undoubtedly related to income, it is unlikely that consumption will vary exactly as income varies.

Saving is foregone consumption. Essentially, saving allows people to transfer consumption from the present to the future.

When a person's income fluctuates from month to month, he or she can smooth consumption by saving and dissaving and consumption will be based on some expected or average monthly income rather than on actual monthly income.

Aggregate consumption may differ from aggregate real output because an individual wants to save in order to smooth consumption relative to income.

What determines current consumption if we save for retirement? In part, current consumption will be based on our best estimate of our lifetime income and how long we expect to live. This kind of smoothing behavior is known as life-cycle consumption behavior.

We also save because of uncertainty about our future income and about how long we will live. We may get sick or injured in some way or we may become unemployed. If we do, our income will fall, perhaps dramatically.

Saving is a way of transferring current income into future consumption. Because of fluctuating incomes associated with our jobs, declining incomes with retirement, and uncertainties about length of life, sickness, incapacitation, or unemployment, individuals will choose to consume some of their current income and save or dissave, thereby smoothing consumption through time.

Current consumption will not be based solely on current income.

Investment occurs when real output is used to increase the existing capital stock or offset depreciation.

If desired aggregate saving exceeds desired aggregate investment, firms will accumulate unwanted inventories. Conversely, if desired investment exceeds desired saving, firms will find that their inventories are lower than they want them to be.

Many different kinds of adjustment might occur. Prices may change. Interest rates may change. The production of real output may change. It turns out that with sticky prices, output changes occur before prices fully respond.

Individuals make consumption and saving decisions. Firms make investment decisions. But there is another participant in the economy – the

government. Government activities may affect the economy in one of two ways. First, government spending directly affects aggregate demand. Second, government taxes and subsidies directly affect consumption, saving, and investment and, hence, indirectly affect aggregate demand. Government spending, taxes, and subsidies are the fiscal activities of government.

Increased government expenditure (like increased desired consumption or increased desired investment) increases aggregate demand. Decreased government expenditure (like decreased desired consumption or decreased desired investment) decreases aggregate demand.

Since consumption expenditures are determined by income, albeit in complex ways, changes in income will also affect consumption. How individuals respond to changes in income turns out to be important. Economists define the marginal propensity to consume (MPC) as the change in consumption per dollar change in income.

#### **Text № 8. Further constraints on stabilization policy.**

It is important to remember that the crucial issue for stabilization policy is whether an economy moves toward full employment quite rapidly or quite slowly. In short, the important question for much of macroeconomics is: How long is the long run?

Even if stabilization policies were useful because they could move the economy toward full employment or stabilize prices more quickly than the economy would of its own accord, there remains an important policy issue: What is the best way to stabilize the economy – with activist, countercyclical monetary and fiscal policies or with nonactivist, rules-directed monetary and fiscal policies?

The relative effectiveness of fiscal and monetary policies depends in part on how sensitive desired investment and the demand for money are to interest-rate changes or, in the jargon of economics, on the interest elasticities of investment demand and money demand.

Obviously appropriate fiscal policy will be relatively more effective if stimulative policies do not affect interest rates by much or if interest rates do not affect investment by much (that is, if crowding out does not occur).

Monetary policy will be less effective if either the demand for money is inelastic with respect to the interest rate.

The response of the demand for money to a change in the level of real output is also important to stabilization policy. Long-term monetary policies will be affected by the income elasticity of demand for real money balances and price-level elasticity of demand for nominal money balances. Because individuals use saving as a way of smoothing consumption relative to changes in income, temporary changes in income will not necessarily result in consumption changes of equal size. This poses a serious problem, for fiscal policy. If a tax change, say a tax cut designed to stimulate aggregate demand, is perceived as temporary, individuals might increase consumption somewhat but are more likely to increase their saving in order to smooth consumption. Why? With a temporary tax cut, individuals should expect lower disposable income in the future because taxes will increase after the temporary tax cut. Consumption does not respond fully to changes in income. To offset changes in desired investment which would otherwise lead to a change in aggregate demand, then, requires a relatively large tax change. In addition if the tax change is viewed as temporary, consumption may not change.

Temporary change in tax policy will not affect consumption much since consumption is determined by expectations about income over a long period of time.

An automatic stabilizer is an expenditure law or tax law that automatically increases expenditures (or decreases taxes) when an economy enters a recession, and automatically decreases expenditures (or decreases taxes) when an economy enters a period of inflation.

A second source of macroeconomic stability is the relative stability of government expenditures through economic cycles. While investment and, to

some degree, consumption expenditures rise and fall with the economic cycle, the relative stability of government expenditures means that these expenditures become relatively more important during recessions and relatively less important during booms.

A third source of macroeconomic stability is the government's transfer system. During a recession, individuals automatically qualify for welfare and unemployment compensation should they become unemployed. Since more people are becoming unemployed during a recession, government's transfer payments increase. Conversely, during a recovery or a boom when the unemployment rate decreases, so do unemployment and some transfer payments.

Government transfer payments automatically increase during a recession and automatically decrease during a recovery or boom, thereby automatically stabilizing the economy.

An important reason for rule-governed policy is that expectations about policy responses can influence how a policy affects an economy. Predictability is important in efficiently organizing economic activity and the inconsistency of expectations with the actual policies pursued will create a less predictable economic environment.

### **Text № 9. The national debt.**

We try to take a closer look at annual budget deficits and the national debt they create. The national debt grew sporadically until World War 2, then sky-rocketed. A string of huge deficits in the 1980s increased the national debt to \$3 trillion. The U. S. Treasury must finance the deficit by borrowing money. To do so it sells U. S. Treasury bonds.

The first thing to note about the national debt is that it represents not only a liability but an asset as well. Every dollar of national debt represents a dollar of assets to the people who hold U. S. Treasury bonds. Most U. S. bonds are held by government agencies, American households, U. S. banks, insurance companies and other institutions. They represent internal debt. Approximately

86 per cent of the national debt is internal. The last major group of bondholders is foreign. All of the bonds held by foreign households and institutions is referred to as external debt. At present, external debt accounts for about 14 per cent of total U. S. debt.

New bonds have been issued to replace old bonds. This refinancing of the debt is a routine feature of the U. S. Treasury's debt management.

The most of America's national debt is internal. External debt, however, poses some special problems and can be a more legitimate worry. External debt can eliminate the initial opportunity of debt-financed spending and impose a real burden on future taxpayers.

The only way to limit or reduce the national debt is to eliminate the budget deficits that create debt. The first step in debt reduction is a balanced annual budget deficit. A balanced budget will at least stop the debt from growing further. A deficit ceiling of zero compels a balanced budget.

Explicit debt ceilings are another mechanism for curbing the national debt. They are at best a substitute for deficit ceilings. If a limit is set on the national debt, the only way to stay within that limit is to reduce or eliminate the annual federal deficit.

Deficit and debt ceilings are largely symbolic efforts to force consideration of real trade offs, restrain government spending, and change the mix of output.

### **Text № 10. Financial markets.**

To answer the questions of what, how and for whom to produce we look at three major financial markets: the stock market, the bond market and the futures market (where everything from frozen pork bellies to U. S. Treasury bonds are traded).

Stock markets are one of the institutions that serve as financial intermediaries. Stock markets help channel savings into investment. Although most people immediately think of Wall Street when they hear "stock exchange"

the stock market is highly dispersed. There are 17 different stock exchanges in the United States and over a hundred additional exchanges in other countries.

What people buy and sell on the stock exchanges are ownership shares of corporations. A corporation tends to be the largest type of enterprise, with average asset values measured in millions of dollars.

The ownership of corporation is defined of stock shares. Each share of corporate stock represents partial ownership of the business. People holding shares of corporations hope to realize a financial gain from these assets. As part owners, shareholders are entitled to any profits the corporation makes.

Shareholders do not necessarily receive their share of the company's profit in cash. The corporation may choose to retain earnings or pay them out to shareholders as dividends. There are two motivations for buying and holding stock – the expectation of dividends and anticipated capital stocks.

Stock prices depend upon demand and supply in financial markets. If demand for the stock increases the stock's price will tend to rise. Similarly, an increasing reluctance of owners to sell would push the stock's price higher.

The bond market operates much like the stock market. The major difference is in the kind of paper traded. In the stock market people buy and sell shares of corporate ownership. In the bond market people buy and sell promissory notes ("IOUs" – I owe you). A bond is a written promise to repay a loan. The borrower may be a corporation ("corporate bonds"), local governments "municipal bonds"), the federal government ("treasury bonds") and other institutions.

A bond is issued when an institution wants to borrow money. The company had great ideas but not enough resources to start production. Previously, the problem was solved by issuing stock. A second alternative for raising necessary funds – is to borrow money. The advantage of borrowing funds is that we can keep control of the company. Lenders are not owners. On the other hand, if we borrow, we have to pay the lenders back, with interest.

Thus, the bond market also functions as a financial intermediary, transferring available savings (wealth) to those who want to acquire more resources (invest). The critical issue here is the “price” of the bond. At low rates of interest no one is willing to lend funds to the company. The increased willingness to lend funds is reflected in an increased demand for bonds. This increased demand will push up the price of the bond. As bond prices rise their implied effective interest rate (yield) falls.

In futures market people buy and sell things that are to be “delivered” in the future at prices agreed on today. Futures markets make life easier for the farmer and consumer.

To summarize: The central purpose of financial markets is to help channel the savings of consumers and businesses into productive investments.

### **Text № 11. International finance.**

International trade would be inefficient without foreign exchange markets. We are able to exchange dollars for any national currency we may desire. Thus an exchange rate is simply the price of one currency in terms of another.

We should recognize that the demand for foreign exchange is likely to have familiar downward slope, while the supply of foreign exchange will have the usual upward slope.

Exchange-rate changes have their own terminology. Depreciation of a currency refers to the fact that one currency has become cheaper in terms of another currency.

The other side of depreciation is appreciation, and increase in value of one currency as expressed in another country’s currency. Whenever one currency depreciates, another currency must appreciate.

Exchange rates change for the same reasons that any market price changes. Among the important sources are

- Relative income changes.
- Relative price changes.

- Changes in product availability.
- Relative interest-rate changes.
- Speculation.

All of these kinds of changes are taking place every minute of every day, thus keeping foreign-exchange markets active.

Places where foreign currencies are bought and sold are foreign-exchange markets.

Significant changes occur in currency values, however, only when several of these forces move in the same direction at the same time.

One way to eliminate fluctuations in exchange rates is to fix their value. To fix exchange rates, each country may simply proclaim that its currency is “worth” so much in relation to that of other countries. The easiest way to do this is for each country to define the worth of its currency in terms of some common standard. The standard that has been most popular is gold. Under a gold standard, each country determines that its currency is worth so much gold.

In 1944 the value of the U. S. dollar was defined as being equal to 0.0294 ounces of gold, while the British pound was defined as being worth 0.0823 ounces of gold. This exchange rate between British pounds and U. S. dollars was fixed at 1 pound = \$2.80.

The excess demand for pounds implies a balance-of-payments deficit for United States: more dollars are flowing out of the country than into it. A balance-of-payments deficit is an excess demand for foreign currency at current exchange rates. The same disequilibrium represents a balance-of-payments surplus for Britain, because its outward flow of pounds is less than its incoming flow. Balance-of-payments surplus is an excess demand for domestic currency at current exchange rates. With flexible exchange rates, the quantity of foreign exchange demanded always equals the quantity supplied, and there is no imbalance.

Government may buy and sell foreign exchange for the purpose of

narrowing rather than eliminating exchange-rate movements. Such limited intervention in foreign-exchange markets is referred to as managed exchange rates, or, more popularly “dirty floats”.

### **Text № 12. International trade.**

After examining the arguments for and against international trade, we try to draw some general conclusions about optimal trade policy.

U. S. imports represent 9 percent of total GNP. These imports include the consumer items as well as capital equipment, raw materials and food. While the country is buying goods and services from the rest of the world, foreigners are buying U. S. exports.

U. S. exports represent 7 percent of total output. As the figures indicate, U. S. imports and exports were not equal in 1989. Quite the contrary: the USA had a large imbalance in the trade flows, with many more imports than exports. The trade balance is computed as the difference between exports and imports: that is

$$\text{trade balance} = \text{exports} - \text{imports}$$

During 1989 the USA imported more than exported and so had a negative trade balance. A negative trade balance is called a trade deficit.

If the United States had a trade deficit with the rest of the world, then other countries must have an offsetting trade surplus. On a global scale, imports must equal exports, since every good exported by one country must be imported by another.

When countries engage in international trade, they are expressing the commitment to specialization, and the reason is: specialization increases total output.

Two countries that trade can together produce more output than they could in the absence of trade. So, the gain from trade will be increased world output and thus a higher standard of living in both countries.

Although the potential gains from world trade are perhaps clear, we must recognize one central fact of life: some producers have a vested interest in

restricting international trade. Microeconomic resistance to international trade arises from the fact that imports mean fewer jobs and less income for some domestic industries. Exports represent increased jobs and income for other industries. Thus on a microeconomic level there are gainers and losers from international trade. Trade not only alters the mix of output but also redistributes income from import-competing industries to export industries.

Resistance to trade emanates from workers and firms that must compete with imports. Even though the country as a whole stands to benefit from trade, these individuals and companies may lose jobs and incomes in the process.

The means of restricting trade are many and diverse. Embargoes are outright prohibitions against import or export of particular goods. Quotas limit the quantity of a good imported or exported. Tariffs discourage imports by making them more expensive. Trade-adjustment assistance is a mechanism for compensating people who incur economic losses as a result of international trade, thus it represents an alternative to trade restrictions. To summarize: International trade permits each country to concentrate its resources on those goods it can produce efficiently. This kind of productive specialization increases world output.

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