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«ОДЕСЬКА ПОЛІТЕХНІКА»

Кафедра іноземних мов

МЕТОДИЧНІ ВКАЗІВКИ ДО ПРАКТИЧНИХ ЗАНЯТЬ З АНГЛІЙСЬКОЇ МОВИ

за спеціальністю
292 «Міжнародна економіка»

Затверджено
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Зміст

Передмова

Метою “Методичних вказівок” є формування впродовж 72 годин аудиторних занять у студентів (вхідний рівень володіння мовою – В1) вмінь та навичок читання, письма та говоріння за тематикою спеціальності «Міжнародна економіка» на II курсі навчання Інституту економіки та менеджменту (вихідний рівень володіння мовою – В2). За рахунок тренування і виконання читання текстів і комунікативних завдань студенти зможуть досягти практичного володіння англійською мовою за фахом.

Практичне володіння іноземною мовою в рамках даного курсу припускає наявність таких умінь в різних видах мовної комунікації, які дають можливість:

- вільно читати оригінальну літературу іноземною мовою у відповідній галузі знань;
- оформляти витягнуту з іноземних джерел інформацію у вигляді перекладу або резюме;
- робити повідомлення і доповіді іноземною мовою на теми, пов'язані з науковою роботою майбутнього фахівця;
- вести бесіду за фахом.

Кожний урок складається з тексту й комплекса мовних вправ, які розраховані на удосконалення навичок активізації словарного і граматичного мінімуму професійного спрямування.

“Методичні вказівки” забезпечують підготовку до міжнародного усного і письмового спілкування англійською мовою для спеціальних цілей, а саме - оволодіння лексичними, граматичними і стилістичними навичками, а також умінням розмовляти, читати, переписуватися, перекладати, конспектувати, згортати і розгортати усну і письмову англомовну інформацію наукового функціонального стилю, що передбачено вимогами Програми вивчення іноземних мов у нефілологічному ВУЗі.

Lesson 1

THE READING MODULE

Read the text: **What Is Economics?**

Economics is often thought of either as the answers to a particular set of questions (How do you prevent unemployment? Why are prices rising? How does the banking system work? Will the stock market go up?) or as the method by which such answers are found. Neither description adequately defines economics, both because there are other ways to answer such questions and because economists use economics to answer many questions that are not usually considered "economic" (What determines how many children people have? How can crime be controlled? How will governments act?).

I prefer to define economics as a particular way of understanding behavior; what are commonly thought of as economic questions are simply questions for which this way of understanding behavior has proved particularly useful in the past:

Economics is that way of understanding behavior that starts from the assumption that people have objectives and tend to choose the correct way to achieve them.

The second half of the assumption, that people tend to find the correct way to achieve their objectives, is called *rationality*. This term is somewhat deceptive, since it suggests that the way in which people find the correct way to achieve their objectives is by rational analysis--analyzing evidence, using formal logic to deduce conclusions from assumptions, and so forth. No such assumption about how people find the correct means to achieve their ends is necessary.

One can imagine a variety of other explanations for rational behavior. To take a trivial example, most of our objectives require that we eat occasionally, so as not to die of hunger (exception--if my objective is to be fertilizer). Whether or not people have deduced this fact by logical analysis, those who do not choose to eat are not around to have their behavior analyzed by economists. More generally, evolution may produce people (and other animals) who behave rationally without knowing why. The same result may be produced by a process of trial and error; if you walk to work every day, you may by experiment find the shortest route even if you do not know enough geometry to calculate it. Rationality in this sense does not necessarily require thought.

Half of the assumption in my definition of economics was rationality; the other half was that people have objectives. In order to do much with economics, one must strengthen this part of the assumption somewhat by assuming that people have *reasonably simple objectives*; with no idea at all about what people's objectives are, it is impossible to make any prediction about what people will do. Any behavior, however peculiar, can be explained by assuming that the behavior itself was the person's objective.

To take a more plausible example of how a somewhat complicated objective can lead to apparently irrational behavior, consider someone who has a choice between two identical products at different prices. It seems that for almost any objective we can think of, he would prefer to buy the less expensive item. If his objective is to help the poor, he can give the money he saves to the poor. If his objective is to help his children, he can spend the money he saves on them. If his objective is to live a life of pleasure and luxury, he can spend the money on Caribbean cruises and caviar.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

objective, rationality, assumption, conclusion, route, behavior, trial, error, evidence, achieve, deceptive, prediction, require

Exercise 2. Answer the questions:

1) Why is the term rationality somewhat deceptive?
2) How can any behavior be explained?
3) How does the author prefer to define economics?
4) Does rationality necessarily require thought?

Exercise 3. Match the left part with the right:

1. What are commonly thought of as economic questions	a) who behave rationally without knowing why.
2. Evolution may produce people (and other animals)	b) those who do not choose to eat are not around to have their behavior analyzed by economists.
3. The second half of the assumption,	c) are simply questions for which this way of understanding behavior has proved particularly useful in the past.
4. Whether or not people have deduced this fact by logical analysis,	d) that people tend to find the correct way to achieve their objectives, is called *rationality*.

Exercise 4. Open brackets choosing the right words:

Economics is that way of understanding behavior that starts from the (rejection/assumption) that people have objectives and tend to (refuse/choose) the correct way to achieve them.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **rationality, objective, prediction, evidence**

using the suggested words and expressions as in example:

rationality assumption, tend, way, objectives, achieve, half, people, the second, way, the correct, to find **example:** The second half of the assumption, that people tend to find the correct way to achieve their objectives, is called *rationality*..

objective that, you, an aim, trying, are, to achieve

prediction something, happen, is, to, going, that, say, you

evidence Facts, make, believe, you, that, true, is, something, objects, signs, that

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: The second half of the assumption is called *rationality*.

2) Question: ____ ?
Answer: The way in which people find the correct way to achieve their objectives is by rational analysis.

3) Question: ____ ?
Answer: Economics is often thought of either as the answers to a particular set of questions.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **objectives, idea, assumption, economics, prediction**

In order to do much with _______, one must strengthen this part of the ______ somewhat by assuming that people have *reasonably simple objectives*; with no _____ at all about what people's ______ are, it is impossible to make any _______ about what people will do.

Exercise 2. Compose a story on one of the topics (up to 100 words):

"Economics as a particular way of understanding behavior"
"Explanations for rational behavior"

Lesson 2

THE READING MODULE

Read the text**: Why economics might work**

Economics is based on the assumption that people have reasonably simple objectives and choose the correct means to achieve them. Both halves of the assumption are false; people sometimes have very complicated objectives and they sometimes make mistakes. Why then is the assumption useful?

Suppose we know someone's objective and also know that half the time that person correctly figures out how to achieve it and half the time acts at random. Since there is generally only one right way of doing things (or perhaps a few) but very many wrong ways, the "rational" behavior can be predicted but the "irrational" behavior cannot. If we predict this person's behavior on the assumption that he is rational, we will be right half the time. If we assume he is irrational, we will almost never be right, since we still have to guess *which* irrational thing he will do. We are better off assuming he is rational and recognizing that we will sometimes be wrong. To put the argument more generally, the tendency to be rational is the consistent (and hence predictable) element in human behavior. The only alternative to assuming rationality (other than giving up and concluding that human behavior cannot be understood and predicted) would be a *theory* of irrational behavior--a theory that told us not only that someone would not always do the rational thing but also *which particular irrational thing* he would do. So far as I know, no satisfactory theory of that sort exists.

There are a number of reasons why the assumption of rationality may work better than one would at first think. One is that we are often concerned not with the behavior of a single individual but with the aggregate effect of the behavior of many people. Insofar as the irrational part of their behavior is random, its effects are likely to average out in the aggregate.

Suppose, for example, that the rational thing to do is to buy more hamburger the lower its price. People actually decide how much to buy by first making the rational decision then flipping a coin. If the coin comes up heads, they buy a pound more than they were planning to; if it comes up tails, they buy a pound less. The behavior of each individual will be rather unpredictable, but the total demand for hamburger will be almost exactly the same as without the coin flipping, since on average about half the coins will come up heads and half tails.

A second reason why the assumption works better than one might expect is that we are often dealing not with a random set of people but with people who have been selected for the particular role they are playing. Consider the heads of companies. If you selected people at random for the job, the assumption that they want to maximize the company's profits and know how to do so would not be a very plausible one. But people who do not want to maximize profits, or do not know how to, are unlikely to be chosen for the job; if they are, they are unlikely to keep it; if they do, their companies are likely to become increasingly unimportant in the economy, until eventually the companies go out of business. So the simple assumption of profit maximization plus rationality turns out to be a good way to predict how firms will behave.

A similar argument applies to the stock market. We may reasonably expect that the average investment is made by someone with an accurate idea of what companies are worth--even though the average American, and even the average investor, may be poorly informed about such things. Investors who consistently bet wrong on the stock market soon have very little to bet with. Investors who consistently bet right have an increasing amount of their own money to risk--and often other people's money as well. Hence the well-informed investors have an influence on the market out of proportion to their numbers as a fraction of the population. If we analyze the workings of the market on the assumption that all investors are well informed, we may come up with fairly accurate predictions in spite of the inaccuracy of the assumption. In this as in all other cases, the ultimate test of the method is whether its predictions turn out to describe reality correctly. Whether something is an economic question is not something we know in advance. It is something we discover by trying to use economics to answer it.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

plausible, at random, profit, decision, predictable, concern, unlikely, expect, deal with, bet, stock, inaccuracy

Exercise 2. Answer the questions:

1) What is economics based on?
2) What tendency is the consistent element in human behavior?
3) Why may the assumption of rationality work better than one would at first think?
4) What investors have an influence on the market out of proportion to their numbers as a fraction of the population?

Exercise 3. Match the left part with the right:

1. If we predict this person's behavior on the assumption that he is rational,	a) why the assumption of rationality may work better than one would at first think.
2. There are a number of reasons	b) turns out to be a good way to predict how firms will behave.
3. Hence the well-informed investors	c) we will be right half the time.
4. So the simple assumption of profit maximization plus rationality.	d) have an influence on the market out of proportion to their numbers as a fraction of the population.

Exercise 4. Open brackets choosing the right words:

We may reasonably expect that the average investment is made by someone with an (accurate/wrong) idea of what companies are worth--even though the average

American, and even the average investor, may be (well/poorly) informed about such things.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **a *theory* of irrational behavior, the "rational" behavior, stock market, assumption, investor** using the suggested words and expressions as in example:

a *theory* of irrational behavior Rational, irrational, always, particular, do, thing, someone, would, do **example**: A *theory* of irrational behavior--a theory that told us not only that someone would not always do the rational thing but also *which particular irrational thing* he would do.

the "rational" behavior behavior, predicted, be, can

stock market stocks, shares, bought, are, a, sold, place, where, and

assumption something, think, you, proof, is true, have, no, although, you

investor someone, gives, who, money, business, bank, in order to, a, profit, get, to a company

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: People sometimes have very complicated objectives and they sometimes make mistakes.

2) Question: ____ ?

Answer: The well-informed investors have an influence on the market out of proportion to their numbers as a fraction of the population

3) Question: ____ ?
Answer: People actually decide how much to buy by first making the rational decision then flipping a coin.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **spite, market, with, assumption, informed**

If we analyze the workings of the _________ on the _________that all investors are well ________, we may come up _____fairly accurate predictions in ______ of the inaccuracy of the assumption.

Exercise 2**.** Compose a story on one of the topics (up to 100 words):

"The assumption of rationality"
"A *theory* of irrational behavior"

Lesson 3

THE READING MODULE

Read the text: **Wants and Needs**

The economist's assumption that all (valued) goods are in this sense comparable shows itself in the use of the term *wants* rather than *needs*. The word *needs* suggests things that are infinitely valuable. You need a certain amount of food, clothing, medical care, or whatever. How much you need could presumably be determined by the appropriate expert and has nothing to do with what such things cost or what your particular values are. This is the typical attitude of the noneconomist, and it is why the economist's way of looking at things often seems unrealistic and even ugly. The economist replies that how much of each of these things you will, and should, choose to have depends on how much you value them, how much you value other things you must give up to get them, and how much of such other things you must give up to get a given amount of clothing, medical care, or whatever. Your choices depend, in other words, on your tastes and on the costs to you of the alternative things that you desire.

One reply the noneconomist (perhaps I mean the antieconomist) might make is that we ought to have enough of everything. If you have enough movies and enough ice cream cones and enough of everything else you desire, you no longer have any reason to choose less medical care or nutrition in order to get more of something else (although combining good nutrition with enough ice cream cones could be a problem for some of us). Perhaps our objective should be a society where everybody has enough. Perhaps, it is sometimes argued, the marvels of modern technology, combined with the right economic system, could bring such a society within our reach, making the problems of choosing among different values obsolete.

This particular argument was more popular 20 years ago than it is now. Currently the fashion has changed and we are being told that limitations in natural resources (and in the ability of the environment to absorb our wastes) impose stringent limitations on how much of everything we can have. Yet even if that is not true, even if (as I suspect) resource limits are no more binding now than in the past, "enough of everything" is still not a reasonable goal. Why?

It is often assumed that if we could only produce somewhat more than we do, we would have everything we want. In order to consume still more, we would each have to drive three cars and eat six meals a day. This argument confuses increasing the value of what you consume with increasing the amount you consume. A modern stereo is no bigger and consumes no more power than its predecessor of 30 years ago, yet moving from one to the other represents an increase in "consumption." I have no use for three cars, but I would like a car three times as good as the one I now have. There are many ways in which my life could be improved if I consumed things that are more costly to create but no larger than those I now have. My desire for pounds of food is already satiated and my desire for number of cars could be satiated with a moderate increase in my income, but my desire for quality of food or quality of car would remain even at a much higher income, and my desire for more of *something* would remain unsatiated as long as I remained alive and conscious under any circumstances I can imagine.

From both introspection and conversation, I have formulated a general law on this subject. Everyone feels that there is a level of income above which all consumption is frivolous. For everyone, that level is about twice his own. An Indian peasant living on $500/year believes that if only he had $1,000/year, he would have everything he could want with a little left over. An American physician living on $50,000/year (after taxes) doubts that anyone has any real use for more than $100,000/year.

Both the peasant and the physician are wrong, but both opinions are the result of rational behavior by those who hold them. Whether you are living on $500/year or $50,000/year, the consumption decisions you make, the goods you consider buying, are those appropriate to such an income. Heaven would be a place where you had all the things you have considered buying and decided not to. There is little point wasting your time learning or thinking about consumption goods that cost ten times your yearly income, so the possession of such goods is not part of your picture of the good life.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

consumption, circumstances, satiate, conscious, introspection, tax, appropriate, waste, possession, goal, nutrition, obsolete, society, goods, peasant, physician

Exercise 2. Answer the questions:

1) What does the word *needs* suggest?
2) What do your choices depend on?
3) What can make the problems of choosing among different values obsolete?
4) What is the economist's way of looking at things?

Exercise 3. Match the left part with the right:

1. Currently the fashion has changed and we are being told	a) is that we ought to have enough of everything.
2. This argument confuses increasing the value of what	b) that limitations in natural resources impose stringent limitations on how much of everything we can have.
3 Your choices depend, in other words,	c) you consume with increasing the amount you consume.
4. One reply the noneconomist (perhaps I mean the antieconomist) might make	d) on your tastes and on the costs to you of the alternative things that you desire.

Exercise 4. Open brackets choosing the right words:

The economist replies that how much of each of these things you will, and should, choose to have depends on how (much/many) you value them, how much you value other things you must give up to get them, and how (much/many) of such other things you must (acquire/give) up to get a given amount of clothing, medical care, or whatever.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **consumption, possession, nutrition, tax, circumstance** using the suggested words as in example:

consumption products, buying, the act, and, using, of **example**: The act of buying and using products.

possession having, the state, owing, or, something, of

nutrition health, good, the process of, and, growth, giving, or, the right kind, food, of , for

tax must, to the government, pay, you, an amount of money, according to, income, your, property

circumstance a situation, the conditions, affect, that, action, event

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: Heaven would be a place where you had all the things you have considered buying and decided not to .

2) Question: ____ ?
Answer: Perhaps our objective should be a society where everybody has enough.

3) Question: ____ ?
Answer: This argument confuses increasing the value of what you consume with increasing the amount you consume.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **income, wasting, possession, part, thinking**

There is little point ______your time learning or ______ about consumption goods that cost ten times your yearly ______, so the _______of such goods is not ______of your picture of the good life.

Exercise 2**.** Compose a story on one of the topics (up to 100 words):

The problems of choosing.
The society of consumption.
The use of the term *needs*.

Lesson 4

THE READING MODULE

Read the text: **Value**

So far we have discussed, and tried to defend, two of the assumptions that go into economics: *comparability*, the assumption that the different things we value are comparable, and *non-satiation*, the assumption that in any plausible society, present or future, we cannot all have everything we want and must give up some things we desire in order to have others. In talking about value, I have also implicitly introduced an important definition--that *value* (of things) means how much we value them and that how much we value them is properly estimated not by our words but by our actions. In discussing the trade-off between the value of life and the value of the pleasure of smoking, my evidence that the two are comparable was that people choose to smoke, even though they believe doing so lowers their life expectancy. This definition is called the *principle of revealed preference*--meaning that your preferences are revealed by your actions.

The first part of the definition of value embodied in the principle of revealed preference might be questioned by those who prefer to base value on some external criterion--what we should want or what is good for us. The second might be questioned by those who believe that their values are not fairly reflected in their actions, that they value health and life but just cannot resist one more cigarette. But economics is supposed to describe how people act, and we are therefore concerned with value as it relates to action. A smoker's statement that he puts infinite value on his own life may help to explain what he believes, but it is less useful for understanding what he will do than is the kind of value expressed when he takes a cigarette out and lights it.

Even if revealed preference is a useful concept for our purpose, should we call what it reveals value? Does not the word carry with it an implication of something beyond mere individual preference? That is a philosophical question that goes beyond the subject of this book. If using the word *value* to refer equally to a crust of bread in the hands of a starving man and a syringe of heroin in the hands of an addict makes you uncomfortable, then substitute *economic value* instead. But remember that the addition of "economic" does not mean "having monetary value," "being material," "capable of producing profit for someone," or anything similar. Economic value is simply value to individuals as judged by them and revealed in their actions.

Economics Joke #l: *Two economists walked past a Porsche showroom. One of them pointed at a shiny car in the window and said, "I want that." "Obviously not," the other replied.*

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

comparability, value, refer, infinite, reveal, preference, resist, relate, judge, equal, instead, criterion, fairly, therefore, beyond, substitute

Exercise 2. Answer the questions:

1) What does *value* mean?
2) What definition is called the *principle of revealed preference*?
3) Who might argue over the second part of the definition in question?
4) What is economic value?

Exercise 3. Match the left part with the right:

1. That is a philosophical question	a) might be questioned by those who prefer to base value on some external criterion.
2. The first part of the definition of value embodied in the principle of revealed preference	b) does not mean "having monetary value," "being material," "capable of producing profit for someone," or anything similar.
3. A smoker's statement that he puts infinite value on his own life	c) that goes beyond the subject of this book.
4. But remember that the addition of "economic"	d) may help to explain what he believes.

Exercise 4. Open brackets choosing the right words:

In discussing the trade-off between the value of life and the value of the pleasure of smoking, my evidence that the two are (compatible/comparable) was that people choose to smoke, even though they believe doing so (lowers/increases) their life expectancy.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **comparability, non-satiation, value, principle of revealed preference, economic value**
using the suggested words and expressions as in example:

comparability

different, the assumption, value, we , things, comparable
example:
The assumption that the different things we value are comparable.

non-satiation
cannot, in order to, others, have, everything, all, we, we, give up, things, some, must, want, we, want, and

value
how much, them, estimated, properly, by our actions, not, our words , by, means, we, it, that

principle of revealed preference
means, it, preference, actions, revealed, by, your, your, are

economic value
individuals, as, judged, revealed, actions, their, by, in, to, simply, it

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: We cannot all have everything we want and must give up some things we desire in order to have others.

2) Question: ____ ?
Answer: Economics is supposed to describe how people act, and we are therefore concerned with value as it relates to action.

3) Question: ____ ?
Answer: The first part of the definition of value embodied in the principle of revealed preference might be questioned by those who prefer to base value on some external criterion.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentence with the suggested words: **expressed, understanding, than, infinite, believes**

A smoker's statement that he puts _______ value on his own life may help to explain what he ______, but it is less useful for ______what he will do _____ is the kind of value _________when he takes a cigarette out and lights it.

Exercise 2. Compose a story on one of the topics (up to 100 words):

"Value and economical value"
"Principle of revealed preference"
"Infinite value"

Lesson 5

THE READING MODULE

Read the text: **Choice or Necessity?**

The difference between the approaches to human behavior taken by economists and by noneconomists comes in part from the economist's assumptions of comparability and insatiability, in part from the definition of value in terms of revealed preference, and in part from the fundamental assumption of rationality that I made and defended in the previous chapter. One form in which the difference often appears is the economist's insistence that virtually all human behavior should be described in terms of choices. To many noneconomists, this seems deceptive. What, after all, is the point of saying that you choose not to buy something you cannot afford?

When you say that you cannot afford something, you usually mean only that there are other things you would rather spend the money on. Most of us would say that we could not afford a $1,000 shirt. Yet most of us could save up $1,000 in a year if it were sufficiently important--important enough that you were willing to spend only a dollar a day on food (roughly the cost of the least expensive full-nutrition diet--powdered milk, soy beans, and the like), share a one-room apartment with two roommates, and buy your clothing from Goodwill.

Consider an even more extreme case, in which you have assets of only a few hundred dollars and there is something enormously valuable to you that costs $100,000 and will only be available for the next month. In a month, you surely cannot earn that much money. It seems reasonable, in this case at least, to say that you cannot afford it. Yet even here, there is a legitimate sense in which what you really mean is that you do not want it.

Suppose the object were so valuable that getting it made your life wonderful forever after and failing to get it meant instant death. If you could not earn, borrow, or steal $100,000, the sensible thing to do would be to get as much money as possible, go to Reno or Las Vegas, work out a series of bets that would maximize your chance of converting what you had into exactly $100,000, and make them. If you are not prepared to do that, then the reason you do not buy the object is not that you cannot afford its $100,000 price. It is that you do not want it--enough.

In part, the claim that people do not really have any choice confuses the lack of alternatives with the lack of attractive or desirable ones. Having chosen the best alternative, you may say that you had little choice; in a sense you are correct. There may be only one best alternative.

One example of this confusion that I find particularly disturbing is the argument that the poor should be "given" essential services by government even if (as is often the case) they end up having to pay for the services themselves through increased taxes. Poor people, it is said, do not really choose not to go to doctors--they simply cannot afford to. Therefore a benevolent government should take money from the poor and use it to provide the medical services they need.

If this argument seems convincing, try translating it into the language of choice. Poor people choose not to go to doctors because to do so they would have to give up things still more important to them--food, perhaps, or heat. It may sound heartless to say that someone chooses not to go to a doctor when he can do so only at the cost of starving to death, but putting it that way at least reminds us that if you "help" him by forcing him to spend his money on doctors, you are compelling him to make a choice--starvation--that he rejected because it was even worse than the alternative--no medical care--that he chose.

The question of how much choice individuals really have reappears on a larger scale in discussions of how flexible the economy as a whole is--to what extent it can vary the amount of the different resources it uses. Our tendency is to look at the way things are now being done and assume that that way is the only possible one. But the way things are now done is the solution to a particular problem--producing goods as cheaply as possible given the present cost of various inputs. If some input--unskilled labor, say, or energy or some raw material--were much more or less expensive, the optimal way of producing would change.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

convincing, compel, starvation, flexible, input, confusion, essential, afford, benevolent, disturbing, deceptive, reasonable, bet, input, roughly

Exercise 2. Answer the questions:

1) What does the difference between the approaches to human behavior taken by economists and by noneconomists come from?
2) What do you usually mean when you say that you cannot afford something?
3) Why do poor people choose not to go to doctors?
4) How can a benevolent government provide the medical services?

Exercise 3. Match the left part with the right:

1. One form in which the difference often appears is the economist's insistence	a) try translating it into the language of choice.
2. If this argument seems convincing	b)to say that you cannot afford it.
3. But the way things are now done is the solution to a particular problem	c) that virtually all human behavior should be described in terms of choices..
4. It seems reasonable, in this case at least,	d) -producing goods as cheaply as possible given the present cost of various inputs.

Exercise 4. Open brackets choosing the right words:

One example of this (explanation/confusion) that I find particularly disturbing is the argument that the poor should be "given" essential services by government even if they (give up/end up) having to pay for the services themselves through increased taxes.

THE SPEAKING MODULE

II. Speaking Exercises

Exercise 1. Describe **: assets, insatiability, preference, choice, necessity** using the suggested words and expressions as in example:

assets company, property, can, exchange, easily, the, a, for, the, that, has, money, or **example:** The money that a company or person has, and the property they can easily exchange for money.

insatiability something, of, wanting, always, more and more

preference like, you, best, the thing, of, in a group, things

choice choosing, act, the, of, something

necessity need, you, to, something, have, that

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: There is a legitimate sense in which what you really mean is that you do not want it.

2) Question: ____ ?
Answer: The claim that people do not really have any choice confuses the lack of alternatives with the lack of attractive or desirable ones.

3) Question: ____ ?
Answer: Virtually all human behavior should be described in terms of choices.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **revealed, comparability, difference, from, comes**

The _________ between the approaches to human behavior taken by economists and by noneconomists _______in part from the economist's assumptions of _______ and insatiability, in part from the definition of value in terms of _______ preference, and in part ______the fundamental assumption of rationality.

Exercise 2. Compose a story on one of the topics (up to 100 words):

“The different approaches to human behavior taken by economists and by noneconomists”
“People do not really have any choice”

Lesson 6

THE READING MODULE

Read the text: Planning of activity of the enterprise

Entrepreneurs and business managers are often so preoccupied with immediate issues that they lose sight of their ultimate objectives. That's why a preparation of a strategic plan is a virtual necessity. This may not be a recipe for success, but without it a business is much more likely to fail.

A strategic plan is not the same thing as an operational plan. The former should be visionary, conceptual and directional in contrast to an operational plan which is likely to be shorter term, tactical, focused, implementable and measurable. As an example, compare the process of planning a vacation (where, when, duration, budget, who goes, how travel are all strategic issues) with the final preparations (tasks, deadlines, funding, weather, packing, transport and so on are all operational matters).

A strategic plan should not be confused with a business plan. The former is likely to be a (very) short document whereas a business plan is usually a much more substantial and detailed document. A strategic plan can provide the foundation and frame work for a business plan.

A satisfactory strategic plan must be realistic and attainable so as to allow managers and entrepreneurs to think strategically and act operationally

Decide on your Type of Business Plan at the Outset

Before you put "pen to paper", decide the type of business plan you need:

Basic plans are short (often under 10 pages plus appendices etc.); relatively quick to prepare (under one or two months); use limited external assistance; need few drafts; and require much more researching than writing. They are somewhat more difficult to prepare than anticipated - all parts equally difficult. They are frequently used to assess the viability of a business or for internal/personal use and they are rated as important/useful for the business.

Comprehensive plans are longer than basic plans; require some months to prepare; make slightly greater use of external help; and require somewhat more time researching than writing.

They are more difficult to prepare than anticipated, especially the financial projections and market analysis parts. They are often used to help raise venture capital/equity or bank loans, and they are viewed as being critically important/useful to the business.

Before Starting to Write a Business Plan

Before any detailed work commences on writing a comprehensive business plan, you should:

- Clearly define the target audience
- Determine its requirements in relation to the contents and levels of detail
- Map out the plan's structure (contents page)
- Decide on the likely length of the plan
- Identify all the main issues to be addressed.

Shortcomings in the concept and gaps in supporting evidence and proposals need to be clearly identified. This will facilitate an assessment of research to be undertaken **before** any drafting commences. Bear in mind that a business plan should be the end result of a careful and extensive research and development project which must be completed before any serious writing of a plan should be started. Under no circumstances should you start writing a plan before all the key issues have been crystallized and addressed.

Looking for New Business Ideas

When looking around for business ideas, bear in mind that these could be based on any of the following approaches:

- A **manufactured product** where you buy materials or parts and make up the product(s) yourself.
- A **distributed product** where you buy product from a wholesaler/MLM, retailer, or manufacturer.
- A **service** which you provide.

You should narrow your search to specific market or product areas as quickly as possible. For example, the "food business" is too broad a search area. Do you mean manufacturing, distribution or retailing, or do you mean fresh, frozen, pre-prepared etc. or do you mean beverages, sauces, confectionery etc.? It is better to pursue several specific ideas (hypotheses) rather than one diffuse concept which lacks specifics and proves impossible to research and evaluate. Generally, you should always aim for quality rather than cheapness. Be very cautious about pursuing ideas which involve any prospect of price wars or are very price sensitive; of getting sucked into short-lived fads; or of having to compete head-to-head with large, entrenched businesses.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

anticipate, deadline, shortcoming, retail, wholesale, facilitate, equity, venture, draft, diffuse, assessment, comprehensive, evaluate

Exercise 2. Answer the questions:

1) Is a strategic plan the same thing as an operational plan ?
2) Why must a satisfactory strategic plan be realistic and attainable?
3) What can facilitate an assessment of research to be undertaken before any drafting commences?
4) Why should you narrow your search to specific market or product areas as quickly as possible?

Exercise 3. Match the left part with the right:

1. The former is likely to be a (very) short document	a) especially the financial projections and market analysis parts.
2. They are more difficult to prepare than anticipated,	b) whereas a business plan is usually a much more substantial and detailed document.
3. Under no circumstances should you start writing a plan	c)but without it a business is much more likely to fail.
4. This may not be a recipe for success,	d) before all the key issues have been crystallized and addressed.

Exercise 4. Open brackets choosing the right words:

It is better to (pursue/give up) several specific ideas (hypotheses) rather than one diffuse concept which (obtains/lacks) specifics and proves impossible to research and evaluate.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **basic plans, comprehensive plans, strategic plan, operational plan, target audience**
using the suggested words and expressions as in example**:**

basic plans prepare, quick, to, relatively, short, drafts, few, use, assistance, limited, need, than, researching, writing, require **example:** **Basic plans** are short, relatively quick to prepare, use limited external assistance, need few drafts, require much more researching than writing.

comprehensive plans longer, some months, require, researching, require, more time, writing, than, somewhat, slightly, make, use, help, external, greater, of

strategic plan realistic, to allow, attainable, managers, operationally, act, entrepreneurs, think, and, must be

operational plan

tactical, shorter, implementable, focused, measurable, term

target audience group, limited, a plan, idea, that, at, is aimed

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: Shortcomings in the concept and gaps in supporting evidence and proposals need to be clearly identified.

2) Question: ____ ?
Answer: A strategic plan can provide the foundation and frame work for a business plan.

3) Question: ____ ?
Answer: A strategic plan should not be confused with a business plan.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words**: development, mind, completed, should, careful**

Bear in ______ that a business plan should be the end result of a ______ and extensive research and ______project which must be _______ before any serious writing of a plan ______ be started.

Exercise 2. Compose a story on one of the topics (up to 100 words):

“Writing a comprehensive business plan”
“Types of Business Plans”
“Looking for New Business Ideas”

Lesson 7

THE READING MODULE

Read the text**: Financial planning**

Financial planning (like all planning) begins with the establishment of goals and objectives. Next, planners must assign costs to these goals and objectives. That is, they must determine how much money is needed to accomplish each one. Finally, financial planners must identify available sources of financing and decide which to use. In the process, they must make sure that financing needs are realistic and that sufficient funding is available to meet those needs.

Establishing Organizational Goals and Objectives. Establishing goals and objectives is an important management task. A goal is an end state that the organization wants to achieve. Objectives are *specific* statements detailing what the organization intends to accomplish within a certain period of time. If goals and objectives are not specific and measurable, they cannot be translated into costs, and financial planning cannot proceed. They must also be realistic. Otherwise, it may be impossible to finance or achieve the

Budgeting for Financial Needs. *A budget* is a financial statement that projects income and/or expenditures over a specified future period of time. Once planners know what the firm's goals and objectives are for a specific period of time - say, the next calendar year- they can estimate the various costs the firm will incur and the revenues it will receive. By combining these items into a companywide budget, financial planners can determine whether they must seek additional funding fan sources outside the firm.

Usually the budgeting process begins with the construction of individual budgets for sales and for each of the various types of expenses: production, human resources, promotion, administration, and so on. Budgeting accuracy is improved when budgets are first constructed for individual departments and for shorter periods of time. These budgets can easily be combined into a companywide *cash budget.* In addition, departmental budgets can help managers monitor and evaluate financial performance throughout the period covered by the overall cash budget

Most firms today use one of two approaches to budgeting. In the traditional approach, each new budget is based on the dollar amounts contained in the budget for the preceding year. These amounts are modified to reflect any revised goals, and managers must justify only new expenditures. The problem with this approach is that it leaves room for the manipulation of budget items to protect the (sometimes selfish) interests of the budgeter or his or her department.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

accomplish, expenses, accuracy, expenditures, manipulation, measurable, promotion, available, sufficient, funding, preceding, revise, selfish, throughout, incur, revenues

Exercise 2. Answer the questions:

1) What does financial planning (like all planning) begin with?
2) What must financial planners identify?
3) What does the budgeting process begin with?
4) What is the traditional approach to budgeting based on?

Exercise 3. Match the left part with the right:

1. In the process, they must make sure that financing needs	a) they cannot be translated into costs, and financial planning cannot proceed.
2. If goals and objectives are not specific and measurable,	b) into a companywide *cash budget.*
3. These amounts are modified to reflect any revised goals,	c) are realistic and that sufficient funding is available to meet those needs.
4. These budgets can easily be combined	d) and managers must justify only new expenditures.

Exercise 4. Open brackets choosing the right words:

Once planners know what the firm's goals and objectives are for a specific period of time - say, the next calendar year- they can (estimate/reject) the various costs the firm will incur and the (losses/revenues) it will receive.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **budget, goal, objective, revenues, expenses** using the suggested words and expressions as in example:

budget
statement, projects, income, expenditures, and/or, financial, period, future, specified, time, that
example
A budget is a financial statement that projects income and/or expenditures over a specified future period of time

goal
to achieve, state, end, that, the organization, wants

objective
statement, organization, to accomplish, intends, what, specific, is, period, certain, of time, within

revenues
money, receives, a business, that, a period, time, of, time

expenses
money, you, spend, have to, of, the amount, on something

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: Budgeting accuracy is improved when budgets are first constructed for individual departments and for shorter periods of time.

2) Question: ____ ?
Answer: Financial planners must determine how much money is needed to accomplish goals and objectives.

3) Question: ____ ?
Answer: These budgets can easily be combined into a companywide *cash budget.*

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **shorter, improved, throughout, addition, covered**

Budgeting accuracy is ______when budgets are first constructed for individual departments and for ______ periods of time. In ______, departmental budgets can help managers monitor and evaluate financial performance ______the period _____ by the overall cash budget

Exercise 2. Compose a story on one of the topics (up to 100 words):

“Goals and objectives in financial planning”
“The budgeting process”
“A budget”

Lesson 8

THE READING MODULE

Read the text: Fixed capital

Fixed capital is a concept in economics and accounting, first theoretically analysed in some depth by the economist David Ricardo. It refers to any kind of real or physical capital (fixed asset) that is not used up in the production of a product and is contrasted with circulating capital such as raw materials, operating expenses and the like. Fixed capital is that portion of the total capital which is invested in fixed assets (such as land, buildings, vehicles and equipment) which stay in the business almost permanently.

Refining the distinction between fixed and circulating capital in Das Kapital, Karl Marx emphasizes that it is really purely relative, i.e. refers only to the comparative rotation speeds (turnover time) of different types of capital assets. Fixed capital also "circulates", except that the circulation time is much longer, because a fixed asset may be held for 5, 10 or 20 years before it has yielded its value and is discarded/sold off or depreciated.

In national accounts, fixed capital is conventionally defined as the stock of tangible, durable fixed assets owned or used by resident enterprises for more than one year. This includes plant, machinery, vehicles & equipment, the value of land improvements, and buildings. Land itself is not included in fixed capital even though it is a fixed asset, because it is not a product (a reproducible good). But the value of land improvements is included.

Attempts have been made to estimate the value of the stock of fixed capital for the whole economy using direct enterprise surveys of "book value", administrative business records, tax assessments, and data on gross fixed capital formation, price inflation and depreciation schedules.

Using the so-called "perpetual inventory method", one starts off from a benchmark asset figure, and adds on the net additions to fixed assets year by year, while deducting annual depreciation, all data being adjusted for price inflation using a capital expenditure price index. In this way, one obtains a time series of annual fixed capital stocks.

However, it is widely acknowledged that it is extremely difficult to obtain any accurate measurement of the value of fixed capital, especially because even the owner himself or herself may not know what assets are currently "worth". Some valuations for fixed assets may refer to historic cost (acquisition cost) or book value, others to current replacement cost, current sale value in the market, or scrap value. The depreciation write-off permitted for tax purposes may also diverge from so-called "economic depreciation" or "real" depreciation rates. Economic depreciation rates are calculated on the basis of the observed average market prices that depreciated assets at different ages actually sell for. Sometimes statisticians try to estimate the average "service lives" of fixed assets as a basis for calculating depreciation and scrap values.

A business executive who invests in or accumulates fixed capital is tying up money in a fixed asset, hoping to make a future profit. Thus, such an investment usually implies a risk. Sometimes depreciation write-offs are also viewed partly as a compensation for this risk.

An owner can obtain fixed capital from the aptly-named capital market, where loans are given on a long-term basis. It can also come from reserve funds, the selling of shares and the issuing of debentures.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

Conventionally, loan, share, depreciation, write-off, diverge, benchmark, reproducible, tangible, debentures, acquisition, scrap, deduct, imply, stock

Exercise 2. Answer the questions:

1) Is fixed capital used up in the production of a product?
2) What was used to estimate the value of the stock of fixed capital for the whole economy?
3) Why is it extremely difficult to obtain any accurate measurement of the value of fixed capital?
4) How is fixed capital defined in national accounts?

Exercise 3. Match the left part with the right:

1. Land itself is not included in fixed capital even though	a) that depreciated assets at different ages actually sell for.
2. Sometimes statisticians try to estimate the average "service lives" of fixed assets	b) that is not used up in the production of a product and is contrasted with circulating capital.
3. It refers to any kind of real or physical capital (fixed asset)	c) as a basis for calculating depreciation and scrap values.

4. Economic depreciation rates are calculated on the basis of the observed average market prices	d) it is a fixed asset, because it is not a product (a reproducible good).

Exercise 4. Open brackets choosing the right words:

Using the so-called "perpetual inventory method", one starts off from a benchmark asset figure, and (adds/deducts) on the net additions to fixed assets year by year, while deducting annual depreciation, all data being (demolished/adjusted) for price inflation using a capital expenditure price index.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **fixed capital, circulating capital, inflation, share** using the suggested words and expressions as in example:

fixed capital physical, kind, capital, fixed asset, is not, the production, used up, refers to, it, any, in, of a product **example:** It refers to any kind of real or physical capital (fixed asset) that is not used up in the production of a product

circulating capital refers to, it, is used, that, in, of a product, the production, raw, materials, such as, operating, expenses

inflation increase, continuing, in prices,

share

into which, one of, the ownership, the equal parts, is divided, of a company

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: Land itself is not included in fixed capital even though it is a fixed asset.
2) Question: ____ ?
Answer: The depreciation write-off permitted for tax purposes may also diverge from so-called "economic depreciation" or "real" depreciation rates.
3) Question: ____ ?
Answer: A business executive who invests in or accumulates fixed capital is tying up money in a fixed asset.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **assets, obtain, owner, fixed, acknowledged**

It is widely _______that it is extremely difficult to _____ any accurate measurement of the value of _____capital, especially because even the _____himself or herself may not know what _____are currently "worth".

Exercise 2. Compose a story on one of the topics (up to 100 words):

“Fixed capital and circulating capital”
“Fixed capital and depreciation”

Lesson 9

THE READING MODULE

Read the text: **Capacity utilization**

Capacity utilization is a concept in economics which refers to the extent to which an enterprise or a nation actually uses its installed productive capacity. Thus, it refers to the relationship between actual output produced and potential output that could be produced with installed equipment, if capacity was fully used.

If market demand grows, capacity utilization will rise. If demand weakens, capacity utilization will slacken. Economists and bankers watch capacity utilization indicators for signs of inflation pressures.

It is believed when utilization rises above somewhere between 82% and 85%, price inflation will increase. Excess capacity means that insufficient demand exists to warrant expansion of output.

All else constant, the lower capacity utilization falls (relative to the trend capacity utilization rate), the better the bond market likes it. Strong capacity utilization (above the trend rate) reports leads to bonds being sold off, as investors expect higher interest rates (which decreases bond prices) to offset the higher expected rate of inflation.

Much statistical and anecdotal evidence shows many industries in the developed capitalist economies suffer from chronic excess capacity. Critics of market capitalism therefore argue the system is not as efficient as it may seem, since at least 1/5 more output could be produced and sold, if buying power was better distributed. However, a level of utilization somewhat below the maximum prevails, regardless of economic conditions.

In economic statistics, capacity utilization is normally surveyed for goods-producing industries at plant level. The results are presented as an average percentage rate by industry and economy-wide, where 100% denotes full capacity. This rate is also sometimes called the "operating rate". If the operating rate is high, this is called "overcapacity", while if the operating rate is low, a situation of "excess capacity" or "surplus capacity" exists. The observed rates are often turned into indexes.

There has been some debate among economists about the validity of statistical measures of capacity utilization, because much depends on the survey questions asked, and on the valuation principles used to measure output. Also, the efficiency of production may change over time, due to new technologies.

One of the most used definitions of the "capacity utilization rate" is the ratio of actual output to the potential output. But potential output can be defined in at least two different ways.

One is the "engineering" or "technical" definition, according to which potential output represents the maximum amount of output that can be produced in the short-run with the existent stock of capital. Thus, a standard definition of capacity utilization is the (weighted) average of the ratio between the actual output of firms to the maximum that could be produced per unit of time, with existing plant and equipment. Obviously, "output" could be measured in physical units or in market values, but normally it is measured in market values.

However, as output increases and well before the absolute physical limit of production is reached, most firms might well experience an increase in the average cost of production (even if there is no change in the level of plant & equipment used). For example, higher average costs can arise, because of the need to operate extra shifts, undertake additional plant maintenance, and so on.

An alternative approach, sometimes called the "economic" utilization rate, is therefore to measure the ratio of actual output to the level of output, beyond which the average cost of production begins to rise. In this case, surveyed firms are asked by how much it would be practicable for them to raise production from existing plant and equipment, without raising unit costs. Typically, this measure will yield a rate around 10 percentage points higher than the "engineering" measure, but time series show the same movement over time.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

utilization, yield, warrant, output, average, surplus, amount, interest rate, capacity, survey, denote, experience, validity

Exercise 2. Answer the questions:

1) What do economists and bankers watch capacity utilization indicators for?
2) Why may the efficiency of production change over time?
3) Why can higher average costs arise?
4) What is the ratio of actual output to the potential output?

Exercise 3. Match the left part with the right:

1. However, a level of utilization somewhat below the maximum prevails,	a) but normally it is measured in market values.
2. . Obviously, "output" could be measured in physical units or in market values,	b) while if the operating rate is low, a situation of "excess capacity" or "surplus capacity" exists.

3. If market demand grows,	c) regardless of economic conditions. .
4. If the operating rate is high, this is called "overcapacity",	d) capacity utilization will rise

Exercise 4. Open brackets choosing the right words:

There has been some debate among economists about the validity of statistical measures of capacity utilization, because much (determines/depends) on the survey questions asked, and on the (valuation/definition) principles used to measure output.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **capacity utilization, excess capacity**, **potential output, operating rate**
using the suggested words and expressions as in example:

capacity utilization enterprise, a nation, refers to, a concept, in economics, the extent, productive, installed, capacity, which, actually **example:** **Capacity utilization** is a concept in economics which refers to the extent to which an enterprise or a nation actually uses its installed productive capacity.
excess capacity insufficient, to warrant, output, of, means, demand, expansion, that, exists

potential output existent, be produced, can, stock of capital, in the short-run, output, amount of, maximum, with

operating rate percentage rate, average, by industry, full, capacity, economy-wide, 100%, where, denotes

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: Obviously, "output" could be measured in physical units or in market values, but normally it is measured in market values

2) Question: ____ ?
Answer: If demand weakens, capacity utilization will slacken.

3) Question: ____ ?

Answer: The lower capacity utilization falls (relative to the trend capacity utilization rate), the better the bond market likes it.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **stock, represents, definition, amount, which**

One is the "engineering" or "technical" ______, according to _____ potential output ______ the maximum ______ of output that can be produced in the short-run with the existent _____ of capital.

Exercise 2. Compose a story on one of the topics (up to 100 words):

"Capacity utilization in economic statistics"
"Definitions of potential output"

Lesson 10

THE READING MODULE

Read the text: **Intangible assets**

Intangible assets are defined as those non-monetary assets that cannot be seen, touched or physically measured and which are created through time and/or effort. There are two primary forms of intangibles - legal intangibles (such as trade secrets (e.g., customer lists), copyright, patents, trademarks, and goodwill – the success of a company, and its good relationship with its customers, calculated as part of its value when it is sold) and competitive intangibles (such as knowledge activities (know-how, knowledge), collaboration activities, leverage activities, and structural activities). Legal intangibles generate legal property rights defensible in a court of law. Competitive intangibles, whilst legally non-ownable, directly impact effectiveness, productivity, wastage, and opportunity costs within an organization - and therefore costs, revenues, customer service, satisfaction, market value, and share price. Human capital is the primary source of competitive intangibles for organizations today. Competitive intangibles are the source from which competitive advantage flows, or is destroyed.

Millions are spent each year by corporations to research and develop new intangible assets. To protect their research and development (R&D) efforts, corporations generally rely on intellectual property law.

The International Accounting Standards Board (IASB) offers some guidance (IAS 38) as to how intangible assets should be accounted for in financial statements. In general, legal intangibles that are developed internally are not recognized and legal intangibles that are purchased from third-parties are recognized.

Intangible assets are typically expensed according to their respective life expectancy. Intangible assets have either an identifiable or indefinite useful life. Intangible assets with identifiable useful lives are amortized on a straight-line basis over their economic or legal life, whichever is shorter. Examples of intangible assets with identifiable useful lives include copyrights and patents. Intangible assets with indefinite useful lives are reassessed each year for impairment. If an impairment has occurred, then a loss must be recognized. An impairment loss is determined by subtracting the asset's fair value from the asset's book/carrying value. This impairment loss may only be reversed under certain circumstances. Trademarks and goodwill are examples of intangible assets with indefinite useful lives.

For personal income tax purposes, some costs with respect to intangible assets must be capitalized rather than treated as deductible expenses. Treasury regulations generally require capitalization of costs associated with acquiring, creating, or enhancing intangible assets. For example, an amount paid to obtain a trademark must be capitalized. Certain amounts paid to facilitate these transactions must also be capitalized. Some types of intangible assets are categorized based on whether the asset is acquired from another party or created by the taxpayer. The regulations contain many provisions intended to make it easier to determine when capitalization is required.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

intangible, provision, collaboration, leverage, defensible, wastage, revenues, copyright, enhance, impairment, goodwill

Exercise 2. Answer the questions:

1) What are two primary forms of intangibles?
2) How much money is spent each year by corporations to research and develop new intangible assets?
3) How do corporations protect their research and development efforts?
4) What do treasury regulations generally require?

Exercise 3. Match the left part with the right:

1. Legal intangibles generate legal property rights	a) include copyrights and patents.

2. Examples of intangible assets with identifiable useful lives	b) defensible in a court of law.
3. For personal income tax purposes, some costs with respect to intangible assets	c) of competitive intangibles for organizations today.
4. Human capital is the primary source	d) must be capitalized rather than treated as deductible expenses .

Exercise 4. Open brackets choosing the right words:

Competitive intangibles, whilst legally non-ownable, directly (implement/impact) effectiveness, productivity, wastage, and opportunity costs (within/outside) an organization - and therefore costs, revenues, customer service, satisfaction, market value, and share price.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **intangible assets, copyright, goodwill trademark, income tax**

using the suggested words and expressions as in example:

intangible assets
assets, non-monetary, defined, are, be, cannot, seen, physically, touched, measured, created, time, are, through, effort, and/or
example:
Intangible assets are defined as those non-monetary assets that cannot be seen, touched or physically measured and which are created through time and/or effort.

copyright
right, the exclusive, copies, to produce, granted, by law

goodwill
of the company, the success, and, with its customers, good, relationships, its, calculated, when, sold, it is, of its, part, value, as

trademark
name, or sign, special, on a product, that is marked, to show, is made, that, by a company, particular

income tax
paid, tax, that, earn, on the money, you

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?

Answer: Competitive intangibles are the source from which competitive advantage flows, or is destroyed

2) Question: ____ ?
Answer: Legal intangibles that are developed internally are not recognized and legal intangibles that are purchased from third-parties are recognized

3) Question: ____ ?
Answer: An impairment loss is determined by subtracting the asset's fair value from the asset's book/carrying value.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: useful, intangible, copyrights, for, lives

Examples of _____ assets with identifiable useful _____include _____ and patents. Intangible assets with indefinite _____ lives are reassessed each year ____impairment.

Exercise 2. Compose a story on one of the topics (up to 100 words):

"Primary forms of intangibles"
"Intangible assets and their life expectancy"

Lesson 11

THE READING MODULE

Read the text: **Labour economics**

Labour economics seeks to understand the functioning of the market and dynamics for labour. Labour markets function through the interaction of workers and employers. Labour economics looks at the suppliers of labour services (workers), the demanders of labour services (employers), and attempts to understand the resulting pattern of wages, employment, and income.

It is an important subject because unemployment is a problem that affects the public most directly and severely. Full employment (or reduced unemployment) is a goal of many modern governments.

There are two sides to labour economics. Labour economics can generally be seen as the application of microeconomic or macroeconomic techniques to the labour market. Microeconomic techniques study the role of individuals and individual firms in the labour market. Macroeconomic techniques look at the interrelations between the labour market, the goods market, the money market, and the foreign trade market. It looks at how these interactions influence macro variables such as employment levels, participation rates, aggregate income and Gross Domestic Product.

The labour force (AKA the U.S> civilian labor force) is defined as the number of individuals age 16 and over, excluding those in the military, who are either employed or actively looking for work. The participation rate is the number of people in the labour force divided by the size of the adult civilian noninstitutional population (or by the population of working age that is not institutionalised). The nonlabour force includes those who are not looking for work, those who are institutionalised such as in prisons or psychiatric wards, stay-at home spouses, children, and those serving in the military. The unemployment level is defined as the labour force minus the number of people currently employed. The unemployment rate is defined as the level of unemployment divided by the labour force. The employment rate is defined as the number of people currently employed divided by the adult population (or by the population of working age). In these statistics, self-employed people are counted as employed.

Variables like employment level, unemployment level, labour force, and unfilled vacancies are called stock variables because they measure a quantity at a point in time. They can be contrasted with flow variables which measure a quantity over a duration of time. Changes in the labour force are due to flow variables such as natural population growth, net immigration, new entrants, and retirements from the labour force. Changes in unemployment depend on: inflows made up of non-employed people starting to look for jobs and of employed people who lose their jobs and look for new ones; and outflows of people who find new employment and of people who stop looking for employment. When looking at the overall macroeconomy, several types of unemployment have been identified, including:

Frictional unemployment — This reflects the fact that it takes time for people to find and settle into new jobs. If 12 individuals each take one month before they start a new job, the aggregate unemployment statistics will record this as a single unemployed worker. Technological change often reduces frictional unemployment, for example: the internet made job searches cheaper and more comprehensive.

Structural unemployment — This reflects a mismatch between the skills and other attributes of the labour force and those demanded by employers. If 4 workers each take six months off to re-train before they start a new job, the aggregate unemployment statistics will record this as two unemployed workers. Technological change often increases structural unemployment, for example: technological change might require workers to re-train.

Natural rate of unemployment — This is the summation of frictional and structural unemployment. It is the lowest rate of unemployment that a stable economy can expect to achieve, seeing as some frictional and structural unemployment is inevitable.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

supplier, demander, aggregate, inevitable, unemployment, variable, participation, achieve, comprehensive, skill, require, due to

Exercise 2. Answer the questions:

1) What do labour markets function through?
2) What do changes in unemployment depend on?
3) What do microeconomic techniques study?
4) What are changes in the labour force due to?

Exercise 3. Match the left part with the right:

1. The unemployment rate is defined as	a) currently employed divided by the adult population.
2. It is the lowest rate of unemployment,	b) the level of unemployment divided by the labour force.
3. This reflects the fact that it takes time for people	c) that a stable economy can expect to achieve.
4. The employment rate is defined as the number of people	d) to find and settle into new jobs.

Exercise 4. Open brackets choosing the right words:

Labour economics looks at the suppliers of labour services (workers), the demanders of labour services (employers/employees), and attempts to understand the resulting pattern of (wages/losses), employment, and income.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **labour force, unemployment level, employment rate, frictional unemployment, natural rate of unemployment**

using the suggested words and expressions as in example:

labour force
individuals, the number, excluding, in the military, who are, is defined, age 16 and over, either, actively
example:
The labour force is defined as the number of individuals age 16 and over, excluding those in the military, who are either employed or actively looking for work

unemployment level
minus, force, labour, currently, the number of, employed, is defined, as, people

employment rate
employed, currently, the number of, divided, people, population, by the adult, is defined, as

frictional unemployment
the fact, reflects, this, for people, takes, time, it, into new jobs, and settle, to find, that

natural rate of unemployment
unemployment, and structural, the summation, frictional, of, this is

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: Changes in the labour force are due to flow variables such as natural population growth, net immigration, new entrants, and retirements from the labour force.
2) Question: ____ ?
Answer: Structural unemployment reflects a mismatch between the skills and other attributes of the labour force and those demanded by employers
3) Question: ____ ?
Answer: Labour economics can generally be seen as the application of microeconomic or macroeconomic techniques to the labour market.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **population, participation, age, force, adult**

The _______rate is the number of people in the labour _____divided by the size of the ______ civilian noninstitutional _______ (or by the population of working ____ that is not institutionalised).
.
Exercise 2. Compose a story on one of the topics (up to 100 words):

"Two sides to labour economics"
"Types of unemployment"

Lesson 12

THE READING MODULE

Read the text: **Depreciation**

Depreciation is a term used in accounting, economics and finance with reference to the fact that assets with finite lives lose value over time.

In accounting, depreciation is a term used to describe any method of attributing the historical or purchase cost of an asset, across its useful life, roughly corresponding to normal wear and tear. It is of most use when dealing with assets of a short, fixed service life, and which is an example of applying the matching principle as per generally accepted accounting principles. Depreciation in accounting is often mistakenly seen as a basis for recognizing impairment of an asset, but unexpected changes in value, were seen as significant enough to account for, are handled through write-downs or similar techniques which adjust the book value of the asset to reflect its current value. Therefore, it is important to recognize that depreciation, when used as a technical accounting term, is the allocation of the historical cost of an asset across time periods when the asset is employed to generate revenues. This process of cost allocation has little or no direct relationship to the market value or current selling price of the asset, it is simply the recognition that a portion of the asset's cost--the portion that will never be recuperated through re-sale or disposal of the asset--was "used up" in the generation of revenues for that time period.

The use of depreciation affects the financial statements and in some countries the taxes of companies and individuals. The recording of depreciation will cause an expense to be recognized, thereby lowering stated profits on the income statement, while the net value of the asset (the portion of the historical cost of the asset that remains to provide future value to the company) will decline on the balance sheet (a statement of how much money a business has earned and how much money it has paid for goods and services). Depreciation reported for accounting and tax purposes may differ substantially.

Depreciation and its related concept, amortization (generally, the depreciation of intangible assets), are non-cash expenses. Neither depreciation nor amortization will directly affect the cash flow (the movement of money coming into a business as income and going out as wages, materials etc.) of a company, as both are accounting representations of expenses attributable to a given period. In accounting statements, depreciation may neither figure in the cash flow statement, or may be "added back" to netincome (along with other items) to derive the operating cash flow. Depreciation recognized for tax purposes will, however, affect the cash flow of the company, as tax depreciation will reduce taxable profits; there is generally no requirement that treatment of depreciation for tax and accounting purposes be identical. Where depreciation is shown on accounting statements, the figure usually does not relate to depreciation for tax purposes.

In economics depreciation is the decrease in the economic value of the capital stock of a firm, nation or other entity, either through physical depreciation, obsolescence or changes in the demand for the services of the capital in question. If capital stock is C_0 at the beginning of a period, investment is I and depreciation D, the capital stock at the end of the period, C_1, is $C_0 + I - D$.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

depreciation, decrease, obsolescence, cash flow, amortization, demand, allocation, stock, reduce, affect, attribute, roughly, statement, taxable, entity, substantially

Exercise 2. Answer the questions:

1) How is depreciation seen in accounting?
2) Does depreciation affect the cash flow of the company?
3) What will the recording of depreciation cause?
4) What is depreciation when used as a technical accounting term?

Exercise 3. Match the left part with the right:

1. Depreciation in accounting is often mistakenly seen	a) the figure usually does not relate to depreciation for tax purposes.
2. Depreciation reported for accounting and tax purposes	b) which is an example of applying the matching principle as per generally accepted accounting principles.
3. Where depreciation is shown on accounting statements,	c) may differ substantially.

4. It is of most use when dealing with assets of a short, fixed service life, and	d) as a basis for recognizing impairment of an asset.

Exercise 4. Open brackets choosing the right words:

Depreciation recognized for tax purposes will, however, (affect/effect) the cash flow of the company, as tax depreciation will (increase/reduce) taxable profits; there is generally no requirement that treatment of depreciation for tax and accounting purposes be identical

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **depreciation in accounting, depreciation in economics, the net value of the asset, cash flow, the balance sheet**
using the suggested words and expressions as in example:

depreciation in accounting attributing, describes, any method, of, purchase, or historical, cost, across, of an asset, its useful life, corresponding, to normal, roughly, wear and tear **example:** In accounting, depreciation is a term used to describe any method of attributing the historical or purchase cost of an asset, across its useful life, roughly corresponding to normal wear and tear

depreciation in economics entity, the decrease, of the capital, in the economic value, stock of a farm, other, nation

the net value of the asset remains, future value, to provide, the portion, of the asset, of the historical, cost, to the company
cash flow coming into, of money, the movement, a business, going out, as income, materials, as, wages the balance sheet (a statement of how much money a business has earned and how much money it has paid for goods and services).

the balance sheet a business, how much, has earned, money, how much, for goods, has paid, and services, a statement, of, it

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: Depreciation recognized for tax purposes will, however, affect the cash flow of the company.

2) Question: ____ ?

Answer: In economics depreciation is the decrease in the economic value of the capital stock of a firm, nation or other entity.

3) Question: ____ ?

Answer: Depreciation is a term used in accounting, economics and finance with reference to the fact that assets with finite lives lose value over time

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **disposal, current, allocation, recuperated, revenues**

This process of cost ______ has little or no direct relationship to the market value or ______ selling price of the asset, it is simply the recognition that a portion of the asset's cost--the portion that will never be _______ through re-sale or ______ of the asset--was "used up" in the generation of _______ for that time period.

Exercise 2. Compose a story on one of the topics (up to 100 words):

“Depreciation in accounting”
“Depreciation in economics”

Lesson 13

THE READING MODULE

Read the text: **Strategic management**

Strategic management is the process of developing and executing a series of competitive moves to enhance the success of the organization both in the present and in the future. These competitive moves are derived from the demands of the external environment in which the firm operates as well as the internal capabilities which it has developed or can reasonably hope to build or acquire. While managers may follow somewhat different strategic management routines, a sound process should include an analysis of the current business situation, the formulation of objectives and strategies based on that analysis, and an implementation and evaluation procedure that ensures progress toward each strategy and objective. This article focuses on the formulation of appropriate strategic objectives based on a sound understanding of the internal and external environments faced by the firm. A brief discussion of implementation is included though this topic is covered in greater detail in other entries.

SITUATIONAL ANALYSIS In order to create appropriate strategic objectives, organizations work to understand their internal capabilities as well as the environment in which they operate. Further, they also seek to clarify their purpose or mission. The situation analysis firmly focuses management’s attention on these issues, allowing it to create a fit between its resources and the demands of the competitive situation. The steps to be taken in a situational analysis are largely agreed upon, though there does exist some debate as to whether one starts with a mission statement or with an analysis of the state of the organization. Those who believe that a mission statement is the logical starting point argue that management must first think carefully and creatively about the future direction of the company if they are to create and implement effective objectives (Thompson and Strickland, 1998). In this way, managers can choose their own vision of what the company ought to be rather than be unduly affected by company history or industry exigencies. On the other hand, managers may want to have a keen understanding of the history and current performance of a company as well as important industry factors so as to craft a strategic vision that is attainable in terms of organizational competencies and industry dynamics. While both sides have merit, this article discusses the state of the organization first.

STATE OF THE ORGANIZATION In analyzing the state of the organization,managers take a candid measure of its recent performance. Typically, they consider such issues as profitability, stock price performance, market share, revenue growth, customer satisfaction, product innovation, and so forth. These measures can vary from industry to industry. Product innovation, for example, is important to the pharmaceutical industry, while the number of new distributors signed may be a more important measure in the multilevel marketing industry. In addition to this performance review, managers typically examine a company's (s)trengths, (w)eaknesses, (o)pportunities, and (t)hreats by conducting a (SWOT) analysis. Strengths consist of those things that a company does particularly well relative to its competition and that provide it with some competitive advantage. Strengths can be found in many different areas, including people, such as a particularly competent sales force; systems, such as Federal Express's information systems; locations, like that occupied by a restaurant with sweeping ocean views; and intangible assets, such as a strong brand name. These strengths provide the competitive advantage needed to succeed in the marketplace.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

To enhance the success, demand, to acquire, situational analysis, strategic objectives, to clarify, to be agreed upon, mission, mission, effective objectives, unduly, organizational managers, marketing industry

Exercise 2. Answer the questions:

1.What is strategic management?
2.What must be done in order to create appropriate strategic objectives?
3.What can managers choose?
4.What do managers usually consider?
5.What does management typically examine?

Exercise 3. Match the left part with the right:

1. Strategic management is	a) the demands of the external environment in which the firm operates as well as the internal capabilities which it has developed or can reasonably hope to build or acquire.

2. These competitive moves are derived from	b) the process of developing and executing a series of competitive moves to enhance the success of the organization both in the present and in the future.
3. The situation analysis firmly focuses	c) consider such issues as profitability, stock price performance, market share, revenue growth, customer satisfaction, product innovation, and so forth.
4. The organization,managers	d) management's attention on these issues, allowing it to create a fit between its resources and the demands of the competitive situation.

Exercise 4. Open brackets choosing the right words:

These measures can (vary/differentiate) from industry to industry. Product innovation, for example, is (important/unimportant) to the pharmaceutical industry, while the number of (new/old) distributors signed may be a more important measure in the multilevel marketing industry.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **Strategic management, situational analysis, a mission statement, product innovation**
using the suggested words and expressions as in example:

Strategic management
the process of developing and executing, is, a series of competitive moves, both, to enhance the success of the organization in the present and in the future. **example:**
Strategic management is the process of developing and executing a series of competitive moves to enhance the success of the organization both in the present and in the future.

situational analysis
its resources, management's attention on these issues, focuses, allowing it to create a fit between, and, the demands of the competitive situation, firmly.

mission statement
is, the logical starting point, argue that, carefully and creatively, about, if they are to create and implement effective objectives, the future direction of the company, management must first think.

product innovation
for example, multilevel, to the pharmaceutical industry, is, while the number of new distributors signed, may be a more important measure in, the, important marketing industry.

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?

Answer: Strategic management is the process of developing and executing a series of competitive moves to enhance the success of the organization both in the present and in the future..

2) Question: ____ ?
Answer: The steps to be taken in a situational analysis are largely agreed upon, though there does exist some debate as to whether one starts with a mission statement or with an analysis of the state of the organization.

3) Question: ____ ?
Answer: Managers typically examine a company's (s)trengths, (w)eaknesses, (o)pportunities, and (t)hreats by conducting a (SWOT) analysis.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **systems, people, market place, strong brand name**

Strengths consist of those things that a company does particularly well relative to its competition and that provide it with some competitive advantage. Strengths can be found in many different areas, including ______, such as a particularly competent sales force; ______, such as Federal Express's information systems; locations, like that occupied by a restaurant with sweeping ocean views; and intangible assets, such as a______. These strengths provide the competitive advantage needed to succeed in the______.

Exercise 2. Compose a story on one of the topics (up to 100 words):
"The notion of the Strategic Management"
"Situational analysis"
"State of the organization"

Lesson 14

THE READING MODULE

Read the text: **Investment management**

Investment management comprises a broad spectrum of topics ranging from the workings of **capital markets,** to valuation of financial **securities,** to the construction of portfolios of assets to meet the objectives of investors. Investment itself can be considered any activity that requires the commitment of current wealth to some set of specified assets for the purpose of enhancing future wealth. These assets can be either real (e.g., gold, art, **real estate)** or financial (e.g., **stocks, bonds).** The enhancement of future wealth can be derived from appreciation in the value of the asset itself, referred to as **capital gains,** or as **income** provided to the owner of the asset.

There are well-developed financial markets around the world that have evolved to assist in the transfer of funds from investors to individuals and organizations who have a need for capital. These markets can be divided into primary and secondary categories. Primary markets capture the initial transfer of funds from investors to those with viable projects requiring additional cash. For example, a corporation may sell stock to the public in order to raise needed funds for an expansion of productive capacity, or to undertake new initiatives in new markets. This type of transaction is typically mediated by an investment banker who will assist the corporation in the sale of its securities. Other than the fee charged by the investment banker, the corporation actually receives the cash generated from the stock sale. The investor receives shares of stock representing partial ownership of the firm.

Secondary markets are resale markets where financial securities are traded among investors. Although corporations receive no additional cash flow from the purchase or sale of their securities in secondary markets, these markets provide the important ingredient of liquidity to investors. Liquidity refers to the ability to quickly exchange assets and cash at reasonable prices. The New York Stock Exchange (NYSE) is the largest example of a secondary market in the world. On the floor of the NYSE, traders exchange shares of corporations after agreeing on the proper price. Other major stock exchanges in the world are located in Tokyo, London, Frankfurt, Toronto, Paris, and in most other developed economies. In addition, there are significant markets that have no physical location. The **over-the-counter** (OTC) market in the United States, is one such example. This market is really a **computer** network of dealers who maintain inventories of various securities and serve as market makers. Dealers post prices at which they would be willing to purchase additional securities (the bid price) and prices at which they would be willing to sell securities that they hold (the ask price).

Investors who want to buy or sell financial assets typically engage the services of a broker. The broker transmits orders to buy or sell to the trading floor of the appropriate exchange or views price quotes provided by dealers and executes the order at the best available price. Investors can submit either market orders or limit orders. A market order is an instruction to buy or sell at the current market price. A limit order carries conditions that must be met before the transaction can be carried out. These conditions relate to the price level of the security and the time period during which the order remains valid.

Additionally, investors can hold a long position in a security, by purchasing a quantity and holding it, or a short position, by borrowing securities and selling them. While the motivation behind the long position is clear—the investor expects the value of the security to increase or expects it to provide income in the future—the motivation for short selling requires further explanation. By borrowing securities now, selling them at the current price, and agreeing to replace them at a later date, the investor is clearly forecasting a decrease in price. If the price does decline, then the investor can purchase securities at this lower price, repay the loan that is denominated in securities, not money, and profit from the decline. If the price rises after the initial sale, however, the investor will sustain a loss when the shares are eventually purchased and replaced. Brokers will assist in this transaction by locating shares that can be borrowed and sold.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

Capital markets, financial securities, wealth, capital gains, income, transactions, investors, to hold, to expect, to sell, to purchase

Exercise 2. Answer the questions:

1.What can the enhancement of future wealth be derived from?

2.What markets can be divided into primary and secondary categories?

3.What are primary and secondary markets?

4.What is the difference between stock exchange market and over-the-counter market?

5.Who usually engages the services of a broker?

Exercise 3. Match the left part with the right:

1. Investment management	a) can be considered any activity that requires the commitment of current wealth to some set of specified assets for the purpose of enhancing future wealth.
2. Investment itself	b) the process of developing and executing a series of competitive moves to enhance the success of the organization both in the present and in the future.
3. Primary markets	c) capture the initial transfer of funds from investors to those with viable projects requiring additional cash.
4. Secondary markets	d) resale markets where financial securities are traded among investors.

Exercise 4. Open brackets choosing the right words:

There are (well-developed/poor-developed) financial markets around the world that have (evolved/decreased) to assist in the transfer of funds from investors to individuals and organizations who have a need for capital. These markets can be (divided/grouped) into primary and secondary categories. Primary markets capture the initial transfer of funds from investors to those with viable projects requiring (additional/non-additional) cash.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **Investment, primary markets, secondary markets, liquidity, investors** using the suggested words and expressions as in example:

Investment Itself, any activity, that requires, to some set of specified assets, for the purpose of enhancing future wealth, the commitment of current wealth, can be considered **example:** Investment itself can be considered any activity that requires the commitment of current wealth to some set of specified assets for the purpose of enhancing future wealth.

Primary markets
the initial transfer of funds, capture, from investors, additional cash, to those with viable projects requiring

Secondary markets
Markets, are, resale, financial securities, among investors, are traded, where

Liquidity
cash at reasonable prices, to the ability to quickly, refers, exchange assets, and, cash at reasonable prices.

Investors
Additionally, a long position in a security, by purchasing a quantity, holding it, or a short position, can hold, by borrowing securities and selling them, and.

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: These assets can be either real (e.g., gold, art, **real estate)** or financial (e.g., **stocks, bonds).**

2) Question: ____ ?
Answer: The **over-the-counter** (OTC) market is really a **computer** network of dealers who maintain inventories of various securities and serve as market makers.

3) Question: ____ ?
Answer: By borrowing securities now, selling them at the current price, and agreeing to replace them at a later date, the investor is clearly forecasting a decrease in price.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **rises, decline, replaced, purchased**

If the price does______, then the investor can purchase securities at this lower price, repay the loan that is denominated in securities, not money, and profit from the decline. If the price______ after the initial sale, however, the investor will sustain a loss when the shares are eventually ______and______.

Exercise 2. Compose a story on one of the topics (up to 100 words):
“Investment management”
“Types of financial markets”
“Investors”

Lesson 15

THE READING MODULE

Read the text: **Business language**

The foreign exchange market is a market where foreign exchange transactions take place; that is, where different currencies are bought and sold. In practice, this market is not located in any one place, most transactions being conducted by telephone, wire service, or cable.

The three functions of the foreign exchange market are to transfer purchasing power, provide credit, and minimize exchange risk.

The market is dominated by banks; nonbank foreign exchange dealers; individuals and firms conducting commercial and investment transactions; and exchange brokers who buy and sell foreign currencies, making a profit on the difference between the exchange rates and interest rates among the various world financial centers.

In addition to the settlement of obligations incurred through investment, purchases, and other trading, the foreign exchange market involves speculation in exchange futures. New York and London are the major centers for these transactions.

Foreign exchange is an instrument used for international payment. Instruments of foreign currency consist not only of currency, but also of checks, drafts, and bills of exchange.

A foreign exchange market is available for trading foreign currencies.

A foreign exchange rate is the price of one currency in terms of another. For example, one American dollar is c 135 yen in Japanese currency.

Fixed exchange rates result from an international financial arrangement in which governments directly intervene in the foreign exchange market to prevent exchange rates from deviating more than a very small margin from some central value.

Flexible rates derive from an arrangement by which exchange rate levels are allowed to change daily in response to market demand and supply. Arrangements may vary from free float, that is, absolutely no government intervention, to managed float, that is, limited but sometimes aggressive government intervention in the foreign exchange market.

The forward rate is the contracted exchange rate for receipt of and payment for foreign currency at a specified date, usually 30 days, 90 days, or 180 days in the future, at a stipulated current or “spot” price.

By buying and selling forward exchange contracts, importers and exporters can protect themselves against the risks of fluctuations in the current exchange market.

There are three forces that will lead to alleviation of a country’s payments imbalance: A rise in the home country’s price of imports; a fall in the foreign country's price of exports; and a possible rise in interest rates.

In the event of a depreciation of a currency, that currency will, of course, purchase fewer units of foreign currency, and imports will thus become more expensive to domestic consumers. If, for example, the dollar depreciates, the dollar amount of U.S. expenditure on imports will fall if demand is elastic, but will rise if demand is inelastic.

The Marshall-Lerner condition states that depreciation of a currency will result in an excess of exports over imports for the depreciating country if the sum of the elasticities of the home and foreign demands is greater than one. This assumes that supply elasticities are infinite, and that the trade balance was zero before the depreciation.

Since currency depreciation has inflationary effects, the monetary authorities of a country undergoing depreciation may choose to use contractionary monetary policy. If so, there will be a rise in interest rates that will attract a short-term capital inflow. This capital inflow will help to cure the payments imbalance.

Conflicts will occur between external and internal polices in cases where a country has a balance of payments deficit during a period of internal recession.

Contractionary monetary and fiscal policies are appropriate to cure the trade deficit but recession calls for expansionary monetary and fiscal policies.

One way to reduce pressure toward currency depreciation is to restrict imports, as well as to place special axes on interest or dividends from foreign investment. Such policies tend to disrupt trade and resource allocation and are not widely favored by economists. Comparing international investments, like comparing apples and oranges, can be a difficult task. Just as an apple and an orange can be priced according to its weight, an international investment can be evaluated according to its total return, the total increase in value plus any dividend or other payments.

College endowment funds, pension fund managers, insurance companies, and individual investors use yields to compare their growing portfolios of global investments. In this way, all investment instruments — ranging from stocks and commodities to art and real estate — can be compared and evaluated by looking at their yield: their percentage increase in value over a given period of time.

Yield, however, is only one factor to consider in evaluating international investments. The final decision has to take into account the risks and tax considerations as well. Inflation also has to be considered when comparing international investments. Money is worth only what it will buy in goods and services. If prices rise, money loses its value. For example, in order to have the same purchasing power after a decade of inflation, a $10,000 investment in 1980 have had to rise to $16,410 by 1990 just to keep up with the rise in prices.

I. Reading Exercises:

Exercise 1. Read and memorize using a dictionary:

Foreign market exchange, transactions, credit, to make a profit, to incur, to involve a speculation, fixed exchange rates, flexible rates, aggressive government intervention, excess of, between external and internal polices, yield

Exercise 2. Answer the questions :

1.What is foreign exchange market?

2.What are three functions of the foreign exchange?

3.What are forces that will lead to alleviation of a country's payments imbalance?

4.In what circumstances can contractionary monetary policy be used?

5.What are ways to reduce pressure toward currency depreciation?

Exercise 3. Match the left part with the right:

1. The foreign exchange market	a) is a market where foreign exchange transactions take place; that is, where different currencies are bought and sold.
2. The three functions of the foreign exchange market	b) are appropriate to cure the trade deficit but recession calls for expansionary monetary and fiscal policies.
3. The market is dominated by	c) by banks; nonbank foreign exchange dealers; individuals and firms conducting commercial and investment transactions; and exchange brokers who buy and sell foreign currencies, making a profit on the difference between the exchange rates and interest rates among the various world financial centers.
4. Contractionary monetary and fiscal policies	d) are to transfer purchasing power, provide credit, and minimize exchange risk.

Exercise 4. Open brackets choosing the right words:

Since (money/currency) depreciation has inflationary effects, the monetary (authorities/groups) of a country (undergoing/going) depreciation may (choose/chose) to use contractionary monetary policy. If so, there will be a (rise/decline) in interest rates that will attract a short-term capital inflow. This capital (inflow/flow) will help to cure the payments imbalance.

THE SPEAKING MODULE

II. Speaking Exercises:

Exercise 1. Describe **currency, a foreign exchange market, a foreign exchange rate, a country's payments imbalance, all investment instruments** using the suggested words and expressions as in example:

Currency Instruments, of foreign currency, not only of currency, but also of checks, drafts, and bills of , consist, exchange **example:**

Instruments of foreign currency consist not only of currency, but also of checks, drafts, and bills of exchange.

A foreign exchange market
Available, is, for, foreign currencies, trading

A foreign exchange rate
the price, is, of, currency in terms of another, one

A country's payments imbalance
a rise in the home country's price of exports; a fall in the foreign country's price of imports;; and a possible rise in interest rates, consists of

All investment instruments
— ranging from stocks and commodities to art and real estate — and, evaluated by looking at their yield, can be compared, in this value: their percentage increase, over a given period of time.

Exercise 2. Ask questions to the given answers:

1) Question: ____ ?
Answer: Since currency depreciation has inflationary effects, the monetary authorities of a country undergoing depreciation may choose to use contractionary monetary policy

2) Question: ____ ?
Answer: Conflicts will occur between external and internal polices in cases where a country has a balance of payments deficit during a period of internal recession.

3) Question: ____ ?
Answer: Contractionary monetary and fiscal policies are appropriate to cure the trade deficit but recession calls for expansionary monetary and fiscal policies.

THE WRITING MODULE

III. Writing exercises:

Exercise 1. Complete the sentences with the suggested words: **factor, decision, investments, inflation, money, prices**

Yield, however, is only one______ to consider in evaluating international______. The final ______has to take into account the risks and tax considerations as well. ______ also has to be considered when comparing international investments. ______ is worth only what it will buy in goods and services. If ______rise, money loses its value.

Exercise 2. Compose a story on one of the topics (up to 100 words):
"Foreign exchange as an instrument used for international payment"
"Depreciation of currency"
"The role of investment instruments"

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