MINISTRY OF HIGHER AND SECONDARY SPECIAL EDUCATION OF THE REPUBLIC OF UZBEKISTAN

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ENGLISH FOR ECONOMISTS

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Ushbu o'quv qo'llanmani yaratishda muallif bugungi kunda nofilologik mutaxassisliklar bo'yicha til o'rganishning asosiy yondashuvlari hisoblangan STEM/STEAM tizimi va CLIL texnologiyasiga asoslangan. Qo'llanmadagi leksik mavzular turli xil kashfiyotlar va ularning tarixi, har xil davlatlarning bu sohadagi erishgan yutuqlari va perspectiv rejalari, o'sha mamlakatlatning qishloq xo'jaligi va sanoati, san'at va madaniyati haqida ma'lumot beradi.

Ushbu qo'llanma to'rtta bo'limdan iborat bo'lib, o'n to'qqizta darsni o'z ichiga oladi. Har bir dars iqtisodiyot yo'nalishiga oid matn va mashqlardan iborat. Bu yerdagi matnlar asosan iqtisodiy bo'lib, har darsning o'z izohli glosariy lug'ati ham yoritilgan, matnlarda iqtisodiyotning rivojlanishi haqida ma'lumot berilgan.

Qo'llanma Buxoro muhandislik-texnologiya institutida ishlab chiqilgan va institut Kengashida tasdiqlangan xorijiy til fanining o'quv dastur asosida tayyorlangan bo'lib, u nofilologik oliy ta'lim muassalarida bakalavr bosqichida tahsil olayotgan talabalar uchun mo'ljallangan.

Ushbu "English for Economists" nofilologik oliy o'quv yurtlari bakalavr bosqichi talabalari uchun ingliz tili o'quv qo'llanmasi «Xorijiy tillar» kafedrasi yig'lishida muhokama qilindi va institut uslubiy kengashiga tavsiya qilindi.

При создании данного учебного пособия автор опирался на систему STEM/STEAM и технологию CLIL, которые на сегодняшний день являются основными подходами к изучению языка по неофилологическим специальностям. Лексические темы в пособии рассказывают о различных открытиях и их истории, достижениях и перспективных планах различных государств в этой области, сельском хозяйстве и промышленности, искусстве и культуре этих стран.

Это руководство состоит из четырех разделов и включает в себя девятнадцать уроков. Каждый урок состоит из текста и упражнений по направлению Экономики. Тексты здесь преимущественно экономические, также освещается собственный толковый словарь-глоссарий каждого урока, в текстах дается информация о развитии экономики.

Пособие разработано в Бухарском инженерно-технологическом институте и подготовлено на основе учебной программы по иностранному языку, утвержденной советом Института, предназначено для студентов, обучающихся на уровне бакалавриата в нефилологических высших учебных заведениях.

Данное учебное пособие по английскому языку для студентов бакалавриата нефилологических вузов" English for Economists «обсуждено на заседании кафедры» Иностранные языки " и рекомендовано методическому совету института.

When creating this textbook, the author relied on the STEM/STEAM system and CLIL technology, which today are the main approaches to language learning in neophilological specialties. The lexical topics in the manual tell about various discoveries and their history, achievements and long-term plans of various states in this field, agriculture and industry, art and culture of these countries.

This manual consists of four sections and includes nineteen lessons. Each lesson consists of a text and exercises in the direction of Economics. The texts here are mainly economic, also highlights its own explanatory dictionary-glossary of each lesson, the texts provide information about the development of the economy.

The manual was developed at the Bukhara Institute of Engineering and Technology and prepared on the basis of a foreign language curriculum approved by the Council of the Institute, intended for students studying at the bachelor's level in non-philological higher educational institutions.

This manual on English for undergraduate students of non-philological universities " English for Economists " was discussed at a meeting of the department " Foreign Languages " and recommended to the methodological council of the Institute.

BuxMTI «Xorijiy tillar» kafedrasi ingliz tili katta o'qituvchisi: M.Z. Salomova

BuxDU "Ingliz adabiyotshunosligi" kafedrasi dotsenti Fayzullayev O.M.

INTRODUCTION.

Attention to the foreign languages has greatly changed in the Independent Republic of Uzbekistan. There appeared a chance for studying in foreign countries, our youth must have a possibility to do their works in foreign languages, as they do it in their native language. Taking this fact into consideration this textbook “English for economists” is worked out for the further improving of oral speech and writing skills, studying the third course students at higher educational technical establishments. This textbook consists of 4 units, 19 lessons and includes texts on this speciality, dialogues, pictures, exercises on the given texts. Besides a glossary and definition in the English language, tests for self - control is also attached. I think that every theme and exercise of this textbook will give a possibility to students for studying hard and developing their world – view and help to extend their thinking ability.

Author.

CONTENT

UNIT 1

LESSON 1

PROFESSION OF AN ECONOMIST

DISCOVERING CONNECTIONS

1. Why have you chosen the profession of an economist?
2. Would you like to work for a company, teach economic disciplines at university or operate your own economic business?
3. Do you think you have entrepreneurial flair or talent? What traits is a successful businessman supposed to possess?

READING

PROFESSION

The professionalization of economics, reflected in the growth of graduate programs on the subject, has been described as "the main change in economics since around 1900". Most major universities and many colleges have a major, school, or department in which academic degrees are awarded in the subject, whether in the liberal arts, business, or for professional study; see Master of Economics.

The Nobel Memorial Prize in Economic Sciences (commonly known as the Nobel Prize in Economics) is a prize awarded to economists each year for outstanding intellectual contributions in the field. In the private sector, professional economists are employed as consultants and in industry, including banking and finance. Economists also work for various government departments and agencies, for example, the national Treasury, Central Bank or Bureau of Statistics.

Exercise: 1. As you read the text, focus on different types of economists and their activities.

CAREERS: ECONOMIST

Economists study the ways in which individuals and society choose to use limited resources, such as natural resources, labor, factories, and machines, in an effort to satisfy unlimited wants. They are concerned with the production, distribution, and consumption of goods and services and are interested in helping society get as much satisfaction as possible from its limited resources.

Economists collect, process, and analyze data to determine the costs and benefits of using resources in various ways.

Economists are employed in a number of different job settings. About half of them are academic economists, who engage in teaching, writing and doing research in colleges, and Universities. They also write textbooks and journal articles, develop and test new theoretical models, provide consulting services to governments and businesses, and engage in variety of other professional activities. The other half of all economists work for government or business.

Government economists collect and analyze information about economic conditions in the nation and possible changes in government economic policies. Much of this information is published in government bulletins and reports. Often the government economist wears a second hat as a policy analyst. Economists forecast tax revenues and interest rates, analyze, who gains and who loses from particular changes, monitor prices, compute total output and perform other useful tasks in the public sector.

Business economists work for banks, insurance companies, investment companies, manufacturing firms, economic research firms, and management consulting firms.

Some economists operate their own economic businesses. They are called entrepreneurs. This is a French word that has been accepted into the English language. Entrepreneurs are a mystery to some people, especially those who are only comfortable with a nine-to-five existence and assured weekly paychecks and fringe benefits. The entrepreneur is a business person who prefers to take calculated risks in order to be his or her own boss. An individual hoping to start up a new company needs to have entrepreneurial flair or talent, as well as good technical skills and financial skills, because they make a profit through risk-taking or initiative. They are self-employed, and often work long hours for less pay than they would if they were an employee of another company. While the percentage of growth for men entering into business independence could be measured in the teens, women's increase in a single decade was 69 percent. There is no mystery here. Women go into business for the same reason men do –to make money and to be their own bosses.

Entrepreneurship is regarded to be the first track to success. Rather than to take a low-wage, big-industry job, people opt to use their wits and energy to climb the ladder of independence. People who are successful in business and so have become rich and powerful are called tycoons. Speaking about entrepreneurship, Professor K. Vesper of the University of Washington says that "A driving force in entrepreneurship is addictiveness.

Once people have a taste of freedom in a business of their own, they like it. They don't want to go back to working for someone else."

NOTES:

1. Wear a second hat – hold a second position.
2. Opt – to make a choice; prefer (for; between).
3. Addictiveness – producing a strong inclination to do, use, or indulge in something repeatedly.

VOCABULARY FOCUS

Exercise:2. Study the meaning of the following words, then use them to fill in the gaps: *monitor, check and control.*

–We check something to see if it is correct.

–The word control refers to power and domination. It is both a noun and a verb.

–If you monitor something you regularly check its progress.

1. I've … the documentation and everything is in order.

2. Inflation has not gone away but it is under … .

3. We constantly … the situation and if anything goes wrong we take action immediately.

4. We apologize for the delay which is due to reasons beyond our … .

5. Economists … prices, compute total output and perform other useful tasks.

Salary, wages and fringe benefits (also known as perks).

–A salary is paid monthly and usually by bank transfer. We use the word salary for monthly payments to professional employees.

–Wages are paid weekly to manual or unskilled workers.

–Fringe benefits (also known as perks) are extra payments (a company car, free accommodation etc.). In many job advertisements the combination of salary plus perks is called a remuneration package.

Complete this extract from a job advertisement.

We are offering an attractive … …, including basic … of 60 K p.a1., plus numerous … such as subsidized accommodation, free medical insurance etc.

NOTE: 1. K p. a. –one thousand per annum.

Exercise: 3. Match the following word combinations in column A with their equivalents in column B:

A	**B**
1) academic argument	a) iqtisodchi kasbini ega bo'lish
2) to provide fringe benefits	b) savdo bilan shug'ullanish
3) a private entrepreneur	c) qat'iy nazariy dalillar
4) an independent entrepreneur	d) ishni boshqarish
5) to show a flair	e) soliq daromadi, soliq tushumlari
6) to engage in business	f) qobiliyatni aniqlash (biror narsa uchun)
7) to monitor performance	g) mustaqil tadbirkor
8) to qualify as an economist	h) o'z-o'zini ish bilan band
9)tax revenue	i) qo'shimcha imtiyozlar berish

Exercise:4. Express in one word.

Involving a greater amount of reading and study than technical or practical work; extra things that some people get from their job in addition to their salary; a person who starts or organizes a commercial enterprise; a natural ability to do something well; the place of work; to watch and check something over a period of time; to reach the standard of ability; knowledge required in order to enter a particular profession; working independently for customers or clients and not for an employer; to say in advance what is expected to happen; an amount of money needed for a particular activity or purpose, especially in business; to make something available for somebody to use by giving it.

Words for reference: costs, provide, academic, entrepreneur, self-employed, perks (fringe benefits), monitor, forecast, job-setting; flair, qualify, skill.

Exercise:5. Choose the words with similar meaning from two columns and arrange them in pairs.

A	B
1) costs (n)	a) supply, equip, outfit
2) monitor (v)	b) expenses, outlay
3) flair (n)	c) control, manage
4) entrepreneur (n)	d) skill, talent, inclination
5) forecast (n)	e) employer
6) provide (v)	f) responsible
7) job-setting (n)	g) place of work
8) liable (a)	h) prediction, prophecy

Exercise:6. Complete the sentences using the words given below.

1. … means having the qualities that are needed to succeed as an entrepreneur.

2. An … is a person who sets up business and business deals.

3. A … is a person who is successful in business and so has become rich and powerful.

4. The industry will have to pass its increased … on to the consumer.

5. The management will … accommodation, food and drink for thirty people.

6. He has always been … for his children.

7. The … … of the job include a car and free health insurance.

8. He won't … as an economist until next year.

9. An individual hoping to start up a new company needs to have entrepreneurial … or talent.

10. Unfortunately … of higher profits did not come true.

11. Economists are concerned with the production, … and … .

<u>Words for reference</u>: self-employed, forecasts, benefits or fringe benefits, qualify, flair, entrepreneurial, costs, provide, liable; tycoon, distribution, consumption.

COMPREHENSION

Exercise:7. Expand the sentences.

1. Economists study the ways in which individuals and society choose to use … .

2. They are concerned with … .

3. About half of them are academic economists who … .

4. The other half of the profession work for …

5. Government economists forecast … .

6. Business economists work for … .

7. Rather than to take low-wage, big-industry job, people opt to … .

8. An individual hoping to start up a new company needs to have … .

9. Entrepreneurship is regarded to be … .

Exercise:8. Answer the questions.

1. What do economists study?

2. What job settings are economists employed in?

3. What are the spheres of activities of:

a) academic economists?

b) government economists?

c) business economists?

4. How do entrepreneurs differ from above mentioned economists?

5. What is a driving force in entrepreneurship?

6. What is the percentage of growth for men and women entering into business independence?

Exercise: 9. Re-order the sentences to make a paragraph with a logical sequence.

1. The entrepreneur has no guarantee that this new business venture will be successful, and often invests his or her own savings in the business, meaning that the entrepreneur needs to be a risk taker.
2. The entrepreneur's flair or talent ensures that the business becomes successful.
3. An entrepreneur begins with an idea and the forms of a new business.
4. The new organization begins producing goods or services.

UNIT 1

LESSON 2

Exercise:1. While reading the passage pay attention to the description of degrees in economics.

DEGREES IN ECONOMICS

The amount of training required to become an economist in most countries abroad depends on the type of employment that a potential economist is seeking for. Most students studying at the university for the first time take a degree, called a first degree. They are undergraduate students. This degree is called Bachelor of Art (B.A.) or Bachelor of Science (B.S.) The B.A. in Economics requires different courses. Below you can see a choice of subjects offered by the University of South Florida.

Basic Courses

Economic Principles	Introduction to Macroeconomics

Intermediate Price Theory	Statistics for Economics and Business
Intermediate Income and Monetary Analysis	Employment Laws
	Principles of Management
History of Economic Thought	Personnel Management
Management	Small Business Management
Principles of Accounting	Introduction to Mathematical Economics
Ethical Issues in Business	
Business Administration	

Supporting Courses

International Economics	Organizational Behavior Analysis
Comparative Economic	Systems Communication and Information Theory
Monetary Theory	Quantitative Methods in Business
Labor Economics	International Business
Public Finance	Industrial Psychology

A bachelor's degree (four years of college) with a major in economics is sufficient for many entry-level management positions.

However, most job openings for economists require advanced training.

Those college graduates who wish to seek higher level jobs usually enroll in graduate school and obtain either a master's degree or a doctorate in economics. A master's degree requires approximately one year of advanced training, and a doctorate usually requires at least four. Economists must have a thorough understanding of economic theory, mathematical methods of economic analysis, and basic statistical procedures. In addition, training in computer science is becoming increasingly important. The M.A. studies in economics prepare students for careers as professional economists in business and government. It is also excellent preparation for continued graduate study in economics.

Requirements: strong motivation, aptitude and basic intellectual ability are needed for success in graduate study in economics.

Program requirements: all students are required to take courses in advanced economic theory and economics. Students preparing for professional carriers

choose additional applied courses in industrial organization, international economics, natural and human resources, and urban and public economics.
Students preparing for doctoral studies select from these and additional courses in economic theory, mathematics, and quantitative methods.
Students must satisfy all University requirements for the M.A. degree.
Courses should be selected with the approval of graduate advisor.

REQUIRED COURSES:

–microeconomics: microeconomic behavior of consumers, producers, and resource suppliers; price determination in output and factor markets; general market equilibrium.

–aggregate economics: advanced microeconomics analysis of income; employment; prices; interest rates and economic growth rates.

–econometrics 1

–econometrics 2.

The Master of Business Administration Degree (M.B.A.) is a professional degree designed to prepare graduates for managerial roles in business and non-profit organizations. Graduates will develop the necessary skills and problem-solving techniques that will permit them to make an early contribution to management and eventually to move into broad, general management responsibilities at the executive level. You can get this degree abroad and in Belarus as well: at the International Graduate School of Business and Management of Technology (BSU). It offers a program for managers with business background. The aim of this program is to provide theoretical and practical knowledge in general management and prepare high-level managers. The period of education is two years. Classes are conducted at very convenient evening time. The language of classes is English or Russian.

REQUIRED COURSES

Year 1

Microeconomics Macroeconomics Business
Financial Accounting Statistics

Marketing

Business Law

Business Finance

Managerial Accounting

English

Year 2

Strategic Management

Consumer Behavior

Managerial Information Systems

Human Resource Management

Personal Development

Business Planning

Operational Management

Negotiations and Conflict Management

Financial Markets, Investments, and Banking

Marketing Communications

International Management

English

New Product management

The faculty uses various delivery systems in the classroom: the traditional lecture/discussion, case method, simulation, model building, and laboratory techniques. These methods emphasize an analytical, conceptual, and theoretical balance throughout the program, which helps sharpen students' resourcefulness in solving complex problems and selecting optimal courses of action. Students are given many opportunities to demonstrate their writing and verbal competency and to improve interpersonal communication. At the end of the second year students defend Master's Theses.

Exercise:2. Answer the questions

1. What degree do undergraduate students study for?

2. What a second, more specialized degree does students study for?

3.What are similarities and differences of an economic course curriculum in American universities and the BSU? Write a list of courses you are taking in the first year. Consult a dictionary if it is necessary.

4. What kind of degree is MBA? What is the aim of this program? What courses does the program of International Graduate School of Business and Management of Technology (BSU) offer?

5.What field of activity would you choose: economics or business administration? Give your arguments.

NOTE:

1. One of the techniques to create an argument is as follows:

a) state the claim;

b) explain the claim;

c) prove the claim. Provide evidence and reasoning;

d) make a conclusion.

Example of an argument:

a) Good manager plays an important role in the company.

b) He fulfills the vital functions: planning, organizing, forecasting.

c) By applying his managerial skills the manager can bring profit to the company.

d) That is why the manager's role in the company cannot be over-estimated.

GLOSSARY-VOCABULARY

Exercise:3. Learn, read and memorize the following words and phrases:

1. **to be concerned with** - interested in; having to do with**:** about
2. **exchange** - something offered, given, or received in an exchange
3. **consumption** - the act or process of consuming; use of something
4. **goods and services** - something manufactured or produced for sale the occupation or function of serving
5. **business enterprises** - a unit of economic organization or activity, *especially***:** a business organization
6. **objective** - something toward which effort is directed**:** an aim, goal, or end of action
7. **psychology** - the science of mind and behavior
8. **sociology**- the science of society, social institutions, social relationships
9. **behaviour** - the way that someone behaves
10. **microeconomics** - a study of economics in terms of individual areas of activity (such as a firm)

11. **interplay** - the ways that people or things affect each other or react when they are put together

12. **supply and demand** - the amount of goods and services that are available for people to buy compared to the amount of goods and services that people want to buy

13. **a competitive market** - a market of competitive sellers

14. **wage rates** - the amount of base wage paid to a worker per unit of time (as per hour or day) or per unit of output if on piecework

15. **profit margins** - the difference between the cost of buying or making something and the price at which it is sold

16. **rental changes** - rent changes

17. **consumer** - one that utilizes economic goods

18. **income** - a gain or recurrent benefit usually measured in money that derives from capital or labor

19. **entrepreneur** - one who organizes, manages, and assumes the risks of a business or enterprise

20. **to deal with** - to be about (smth)**;** to have (smth) as a subject

21. **employment** - activity in which one engages or is employed

22. **to increase** - to become progressively greater (as in size, amount, number, or intensity)

23. **interest** - a charge for borrowed money generally a percentage of the amount borrowed

Exercise:4. Read and retell the meaning of the text.

To implement the measures referred to in the third direction - "The development and liberalization of the economy", provides for ensuring the stability of the national currency and prices, the gradual introduction of modern market of currency regulation mechanisms, expanding the revenue base of local budgets, the expansion of foreign economic relations, introduction of modern technologies for the production of export-oriented products, and materials, development of transport and logistics infrastructure, improvement of investment attractiveness for the development of business and foreign investors, improvement of tax administration, introduction of modern principles and mechanisms of regulation of banking activities, the development of diversified farms, as well as the rapid development of the tourism industry.

This area also includes for the protection of private property, financial market measures, modernization of agriculture, the development of the jewelry industry, preparing for an initial public offering (IPO) of individual national companies on foreign stock exchanges authoritative.

In the years 2017-2021 it is planned to implement sectoral programs with a total of 649 investment projects worth 40 billion US dollars. As a result, over the next 5 years, the production of industrial goods increased by 1.5 times, its share in GDP - from 33.6 percent to 36 percent, the share of processing industry - from 80 percent to 85 percent.

UNIT 1

LESSON 3

OUTSTANDING ECONOMISTS

READING

Exercise:1. Read and translate the text.

THE FOUNDER OF ECONOMICS

Adam Smith was born in Kirkcaldy located to the north of Edinburgh in the year 1723. Adam Smith was to become the first political economist the world had ever known. He was to take his place at the head of the first school of economics, one that continues and is known as the "classical school." In 1740, at the age of seventeen, Smith was sent off to Oxford on scholarship. In 1751, at age twenty-eight, Adam Smith became a professor of Logic at Glasgow. It was his first academic appointment. Smith was a curious human being. He treasured his library, and was continually absorbed in abstractions; he was notoriously absent-minded. Smith led a quiet and sheltered life; he lived with his mother (she lived to be ninety) and remained a bachelor all his life. Though silent and awkward in social situations, Adam Smith possessed, in considerable perfection, the peculiarly Scotch gift of abstract oratory. Even in common conversation, when once moved, he expounded his favourite ideas very admirably. As a teacher in public he did even better; he wrote almost nothing, and though at the beginning of a lecture he often hesitated, we are told, and seemed 'not to be sufficiently possessed of the subject,' yet in a minute or two he became fluent, and poured out an interesting series of animated arguments. Adam Smith acquired a great reputation as a lecturer. Sometime later he became a tutor to a wealthy Scottish duke. Then he received a grant of 300 pounds a year. It was a very big sum, 10 times the average income at that time. With the financial security of his grant, Smith devoted 10 years to writing his work which founded economic science. Its full name was ‘An Inquiry into the Nature and Causes of the Wealth of Nations’ It was published with great success in 1776.

The Wealth of Nations opens with a description of the specialization of labour in the manufacture of pins; the book covers a variety of subjects: from the professorships at Oxford to the statistics on the herring catch since 1771; from stamp duties to the coined money used by the Romans. The book is full of detail. What Adam Smith did in his book was to explain how self-interest was the engine of the economy and competition its governor. He set forth the great lesson that all economists come to sooner or later. Robert Heilbroner wrote: “First,

he [Adam Smith] has explained how prices are kept from ranging arbitrarily away from the actual cost of producing a good. Second, he has explained how society can induce its producers of commodities to provide it with what it wants. Third, he has pointed out why high prices are a self-curing disease, for they cause production in those lines to increase. And finally, he has accounted for a basic similarity of incomes at each level of the great producing strata of the nation. In a word, he has found in the mechanism of the market a self-regulating system which provides for society's orderly provision.”

On July 17th, 1790, Adam Smith died at Edinburgh; he was buried in the Canongate churchyard.

Exercise:2. Read and try to express meaning of the text with your own words.

DAVID RICARDO (1772–823)

David Ricardo was born on 19 April 1772 in London. He was the third son (out of seventeen!) of a Dutch Jew who had made a fortune on the London Stock Exchange. At the age of fourteen, after a brief schooling in Holland, Ricardo's father employed him full-time at the London Stock Exchange, where he quickly acquired a knack for the trade. At 21, Ricardo broke with his family and his orthodox Jewish faith when he decided to marry a Quaker called Priscilla Anne Wilkinson; Ricardo then converted to Christianity. His family disinherited him for marrying outside his Jewish faith.

Ricardo had to establish his own business. He continued as a member of the stock exchange, where his ability won him the support of an eminent banking house. He did so well that in a few years he acquired a fortune. This enabled him to pursue his interests in literature and science, particularly in mathematics, chemistry, and geology.

He became rich in a very short time. When he died, his estate was worth over $100 million in today's dollars.

In 1799 he read Adam Smith’s Wealth of Nations and got excited about economics. So for the next ten years he studied economics. Bright and talkative, Ricardo discussed his own economic ideas with his friends, notably James Mill. But it was only after the persistent urging of the eager Mill that Ricardo actually decided to write them down. In 1809 he wrote that England's inflation was the result of the Bank of England's propensity to issue excess bank notes. In short, Ricardo was an early believer in the quantity theory of money, or what is known today as monetarism.

In 1814, at the age of 42, Ricardo retired from business and took up residence at Gatcombe Park in Gloucestershire, where he had extensive landholdings. In 1819 he became MP for Port Arlington. He did not speak often but his free-trade views were received with respect, although they opposed the economic thinking of the day. Parliament was made up of landowners who wished to maintain the Corn Laws to protect their profits. In 1815 Ricardo responded to the Corn Laws by publishing his Essay on the Influence of a Low Price of Corn on the Profits of Stock, in which he argued that raising the duties on imported grain had the effect of increasing the price of corn and hence increasing the incomes of landowners and the aristocracy at the expense of the working classes and the rising industrial class. He said that the abolition of the Corn Laws would help to distribute the national income towards the more productive groups in society.

In 1817, Ricardo published Principles of Political Economy and Taxation in which he analyzed the distribution of money among the landlords. David Ricardo formalized the Classical system more clearly and consistently than anyone before had done. For his efforts, he acquired a substantial following in Great Britain and elsewhere –what became known as the "Classical" or "Ricardian" School. His system, however, was improved very little by his disciples. Perhaps only John Stuart Mill (1848) and Karl Marx (1867– 94) added insights of any great weight.

He died on 11 September at Gatcombe Park (which is now the home of the Princess Royal and her family). He was 51.

Exercise:3. Read and translate the text.

JOHN MAYNARD KEYNES (1883-1946)

The English economist John Maynard Keynes is regarded as the originator of modern macroeconomics. In 1935 George Bernard Shaw received a letter from John Maynard Keynes in which Keynes asserted, “I believe myself to be writing a book on economic theory, which will largely revolutionize… the way the world thinks about economic problem”. And, in fact, Keynes’s The general theory of employment, interest and money (1936) did revolutionize economic analysis and established Keynes as one of the most influential economists of all time. The son of an eminent English economist, Keynes was educated at Eton and Cambridge. While his early interests were in mathematics and probably theory, Keynes ultimately turned to economics.

Keynes was far more than an economist. He was an active, many-sided man who also played such diverse roles as principal representative of the Treasury at the World War I Paris Peace Conference, a director of the Bank of England, trustee of the National Gallery, editor of the Economic Journal. He also ran an investment company, organized the Camargo Ballet (his wife, Lydia Lopokova, was a renowned star of the Russian Imperial Ballet), and built the Art Theatre at Cambridge.

In addition Keynes found time to amass a $2 million personal fortune by speculating in stocks, international currencies, and commodities. He was also a leading figure in the "Bloomsbury Group", an avant-garde of intellectual luminaries who greatly influenced the artistic and literally standard of England. Most importantly, Keynes was a prolific scholar. His book encompassed such widely ranging topics as probably theory, monetary economics, and the economic consequences of the World War I peace treaty. His magnum opus, however, was the General Theory, which was described as "a work of profound obscurity, badly written and prematurely published". Yet the General Theory attacked the classical economists' contention that recession will automatically cure itself. Keynes' analysis suggested that recession could easily spiral downward into a depression. Keynes claimed that modern capitalism contained no automatic mechanism which would propel the economy back towards full employment. The economy might languish for many years in depression, and the depression of the 1930s seemed to provide sufficient evidence that Keynes was right. His basic policy recommendation –a starting one in view of the balanced-budget sentiment at the time –was for government in these circumstances to increase its spending to include more production and put unemployed back to world.

	Adam Smith	**David Ricardo**	**John Keynes**
Date of Birth (DOB)			

Place of Birth (POB)			
Background			
Education			
Scientific Activity			
Works			
Impact on Economics			

READING

Exercise:5. Look through then give your own opinion.

WOMAN'S PLACE IN MANAGEMENT

Bad news for female managers. Their subordinates resent being disciplined by them. Men and women alike would far rather be scolded by a male boss than a female one. Indeed, a study of gender and discipline at work, by Leanne Atwater, a professor at the school of Management at Arizona State University, and two colleagues, finds that women dislike being told off by another woman even more than men do. Many studies of male and female have claimed that the sexes differ in their styles of leadership: women do better at the people's side, men at the getting the-job-done side. Sociologists

have studied the different reactions of girls and boys to discipline at school: boys get used to being reprimanded whereas girls, who are more rarely rebuked, take it more personally. But nobody seems to have studied discipline and gender at work. MS Atwater and her colleagues interviewed 163 workers from a broad range of jobs who had been disciplined in a variety of ways, from being fired to being ticked off. In about 40% of cases, they found, subordinates changed their behavior as a result of their telling –off, and female bosses were as successful in this as men. But male bosses were much more severe than women: they were three times as likely to suspend or sack a subordinate, and only half as likely to give merely an oral wigging. Even so, when female subordinates were asked if they felt responsible for their bad behavior, 52% said no when a female boss read the riot act –but only 18% when the boss was male. One explanation for such differences, suggested by a member of the audience at the Academy of Management conference in Toronto where the paper was recently presented, is that women tend to resolve conflicts quickly –and are therefore blamed for overreacting –while men wait in the hope that things will blow over.

Another explanation, from Alice Eagly, a professor of psychology at North-western University, is that women are recent arrivals in managerial roles, and so have less legitimacy than men. There is also a problem of "gender spillover": people assume women are kind and gentle at home, and expect the same at work. Spillover, though, works both ways. The paper called "Wait Until Your Father Gets Home", a line that small family subordinates are all too used to hearing.

Exercise:6. Read and retell the given passage the meaning.

Economic education is the training of specialists in planning, accounting, finance and other areas of economic work in the national economy, in the field of scientific and pedagogical activities. The emergence of economic educational institutions is associated with the development of industry and trade. In the second half of the XVIII century, the first commercial schools were organized in Russia. The teaching of economic disciplines at universities began in the XIX century. The first specialized universities for training specialists for commercial and industrial activities appeared at the beginning of the XX century (commercial universities in Moscow and Kiev). Economic institutions also appeared in Belarus in the XX century.

Economic specialties can also be purchased in a number of other universities in the country. At BSU, training is conducted in the following specialties: economics, economic theory, management, finance and credit.

SPEAKING

Exercise: 7. Work in pairs. Ask your partner these questions:

–Which of the jobs that you have heard about would you most like to do yourself? Why?

–Which would you least like to do? Why?

READING

Exercise:8. Read the interview in which Andy Rees, Head of Studies at Leicester Business School, dwells on business degrees.

Q: Explain briefly the type of business-related degree courses on offer.

A: Leicester Business School offers a huge breadth of academic and industrial expertise[1]. Courses available at undergraduate degree level include advertising and marketing communications, international marketing and business, accounting and finance, human resource management, public administration and managerial studies, public policy and management, housing studies, marketing and business studies. All the degree programmes have a strong vocational focus, with an emphasis on skills development and a placement option.

Q: Describe briefly the structure of the degrees (e.g. are they modular, how much is core compared to option?) and duration.

A: All undergraduate courses are modular and can be completed on either a full-or part-time bases. Our BA business studies degree can also be studied via Open Learning. During the first year students study key areas of their chosen discipline which they build upon in subsequent years. In the second and third years the ratio[3] of core to optional modules depends on the pathway/area of specialization chosen and professional accreditation requirements.

Q: Are there specialist routes[4] available or is it a standard course?

A: During the second and third years students can develop specialist areas of study within the more general degrees such as business studies, focusing on human resource management, finance or marketing. Alternatively, students follow more specialist routes from year one on courses such as accounting and finance or public policy.

Q: What flexibility is there for moving between routes, once you have started a course?

A: Leicester Business School makes every effort to support students who may discover that a pathway is unsuitable for them and wish to change subject areas. All cases are considered individually.

Q: Is a placement year available and, if so, how do you find a placement?

A: A 1-year paid industrial placement (taken after the second year) is an option for most undergraduate students. The specialist team, experienced in dealing with placement students and employers, identifies vacancies available for students to apply for and helps students find placements that suit them.

Q: If available, what is the value of a placement year? Give examples of the type of placements available.

A: A placement year is an invaluable opportunity to gain experience of the business world. Successful completion of the formally assessed placement enables students to graduate with a sandwich degree qualification. Recently, students have been placed with IBM, Hewlett Packard, Siemens, Volkswagen and the Ministry of Defense.

Q: What types of assessments are used?

A: Essays, reports, assignments, presentations, group projects, case study analysis, formal exams and a dissertation.

Q: How much contact time is there per week and how much independent study is expected?

A: Approximately 12-15 hours contact time per week (mainly lectures, seminars and tutorials) and 15-30 hours self-directed study per week.

Q: Do all students have to do a project/dissertation in order to get their degree?

A: No. Students can complete two taught modules rather than a dissertation in their final year if preferred.

Q: What is the employment rate of business graduates like and what type of jobs do they move into?

A: Our graduates are highly rated by industry. Recent graduates have found employment with BT, Virgin Atlantic Airways, Broadcasting Standards Council, Barclays Bank, BP, County Council Race Relations Unit, BUPA, the Police Force, English Nature, NHS Hospital Trusts, the
Inland Revenue and Housing Associations.

Q: Why do you think students choose De Montfort University business degrees?

A: DMU is one of the ten largest providers of business and management
education in the UK. It is a leading research centre. Students also benefit from living in Leicester, a vibrant, cosmopolitan city that is home to over 30,000 students during term-time. It's an ideal city for students, with the cost of living well below the national average and the city centre just a few minutes' walk from the university campus. Road and rail links to other major UK cities are good and open countryside is within easy reach.

NOTES:

1. **Expertise** –expert knowledge or skill.
2. **Modular** –composed of separate units from which students may select a specific number.
3. **Ratio** –a relation between two amounts, which shows how many times one contains the other.
4. **Specialist route** –a fixed course.
5. **Placement** –the action of placing somebody/something (e.g. The students spend the third year of the course on a placement with an industrial firm.).
6. **Sandwich course** –an educational course in which there are periods of study between periods of working in a company, in industry.
7. **Vibrant** –full of life and energy.

Exercise:9. You are going to get a degree at Leicester Business School. Discuss with your partner the following issues.

1. Business-related degree courses Leicester Business School offers.

2. Entry requirements.

3. Special routes and flexibility for moving between them.

4. Placements available.

5. Types of assessments.

6. The employment rate of business graduates.

Exercise:10. Discuss the following issues:

1. Have you changed your attitude to the profession of an economist after learning the information of the Unit?

2. What kind of economist would you like to become: academic, government or business? Why?

3. Do you think it is enough to take a bachelor degree to become an experienced economist? What are you plans for the future? Are you going for further education after getting the first degree? Why?

4. Do you belong to the people who are comfortable with a nine-to-five existence? Are there many people of this type among your friends, relatives, colleagues?

5. Would you like to be your own boss? What business do you see yourself in?

GLOSSARY - VOCABULARY

academic adj – relating to, or associated with an academy or school especially of higher learning

be employed – to provide with a job that pays wages or a salary

benefit n – something that produces good or helpful results or effects or that promotes well-being

fringe ~/perks – additional benefits

consume v – to use a supply of something such as time, energy, or fuel

consumer n – a person who buys goods and services

consumption n – the use of something such as fuel or energy, or the amount that people use

distribute v – To share or divide something between people

distribution n – the process of spreading something over an area or the way in which it is spread distribution of:

engage (in) v – to provide with a paying job

entrepreneur n – a person who starts a business and is willing to risk loss in order to make money

entrepreneurial adj – willing to work hard and take risks in order to build up a business

flair n – a special and usually inborn ability

forecast n – a declaration that something will happen in the future

job setting n – workplace/ working environment

liable adj – legally responsible for causing damage or injury, so that you have to pay something or be punished (for –за)

monitor v – to regularly check something or watch someone in order to find out what is happening

operate one' own business - run his business

provide v – to put (something) into the possession of someone for use or consumption

qualify v to make competent (as by training, skill, or ability) for a particular office or function.

salary n – the money paid regularly to a person for labor or services

self-employed adj – working for yourself instead of for an employer and paid directly by the people who you provide a product or service to

specialize in – used by or intended for experts in a particular field of knowledge

tycoon – a businessperson of exceptional wealth, power, and influence**:** MAGNATE

wage (pl) n – a payment usually of money for labor or services usually according to contract and on an hourly, daily, or piecework basis —often used in plural

work for – to be a servant for (company)

GLOSSARY

- **Academic economists** engage in teaching, writing and doing research.

❖ ·**Government economists** collect and analyze information about economic conditions in the nation and possible changes in government economic policies.

❖ ·**Business economists** work for banks, insurance companies, investment companies, manufacturing firms, economic research firms, and management consulting firms.

❖ ·**Entrepreneurs** operate their own economic businesses.

❖ ·**Bachelor of Art (B.A.) or Bachelor of Science (B.S.)** is a person who holds a first university degree.

❖ ·**Master of Art (M.A.) or Master of Science (M.S.)** is a holder of the second university degree.

❖ ·**Doctorate** is the highest university degree.

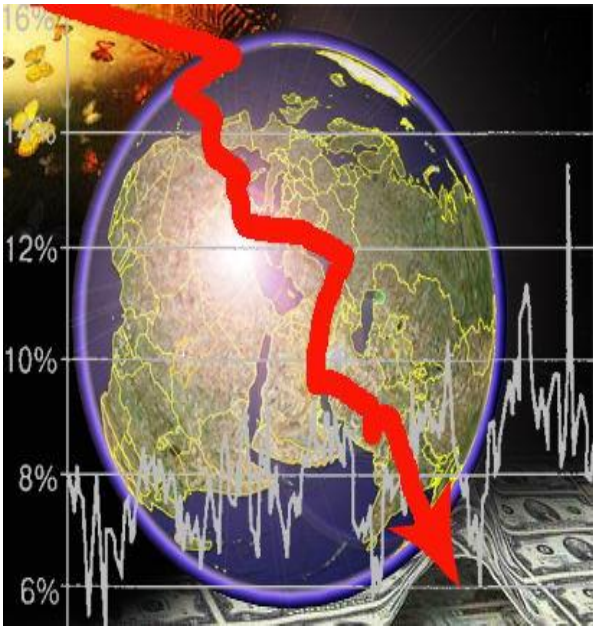
❖ ·**Tycoon** is a person who is successful in business and so has become rich and powerful.

UNIT 2

LESSON 1

ECONOMICS AS A SCIENCE

READING: ECONOMICS



Economics, social science concerned with the production, distribution, exchange, and consumption of goods and services. Economists focus on the way in which individuals, groups, business enterprises, and governments seek to achieve efficiently any economic objective they select. Other fields of study also contribute to this knowledge: Psychology and ethics try to explain how objectives are formed; history records changes in human objectives; sociology interprets human behavior in social contexts. Standard economics can be divided into two major fields. The *first*, *price* *theory* or microeconomics, explains how the interplay of supply and demand in competitive markets creates a multitude of individual prices, wage rates, profit margins, and rental changes. Microeconomics assumes that people behave rationally. Consumers try to spend their income in ways that give them as much pleasure as possible. As economists say, they maximize utility. For their part, entrepreneurs seek as much profit as they can extract from their operations. The *second field*, macroeconomics, deals with modern explanations of national income and employment. Macroeconomics dates from the book, The General Theory of Employment, Interest, and Money (1935), by the British economist John Maynard Keynes. His explanation of prosperity and depression centers on the total or aggregate demand for goods and services by consumers, business investors, and governments. Because, according to Keynes, inadequate aggregate demand increases unemployment, the indicated cure is either more investment by businesses or more spending and consequently larger budget deficits by government.

EXERCISES ON THE TEXT

Exercise:1. Find and Give English equivalents to:

social science; distribution of goods and services; to try to explain; sociology interprets human behavior; to create a multitude of individual prices; to spend their income; as much pleasure as possible; they maximize utility; for their part; to deal with modern explanation; prosperity and depression; demand for goods and services; business investors; according to Keynes; larger budget deficits.

Exercise:2. Read and memorize the following words and phrases:

1. Science - the study and knowledge of the physical world and its behavior that is based on experiments and facts that can be proved, and is organized into a system

2. scientist - someone who is trained in science, especially someone whose job is to do scientific research

3. To make a contribution to/in something - to be one of the things that help to make something happen

4. extraordinary - very unusual and surprising

5. customs - a government department that collects taxes on goods that people bring into a country

6. to undergo customs – to pass a customs clearance

7. tutor- teacher, instructor

8. wealth- a large amount of money and other valuable things; the total of one's money and property

9. duke - a man with a very high social position, just below that of a prince. A woman who has the same social position as a duke, or who is married to a duke, is called a duchess.

10. financial security- financial provision

11. founder - a person who establishes a whole new field of endeavor

12. Inquiry(=enquiry) - a systematic search for the truth or facts about something

13. enquiry for- request for something

14. to inquire - to ask someone for information about something

15. invisible hand - a hypothetical economic force that in a freely competitive market works for the benefit of all

16. laissez faire - a doctrine opposing governmental interference in economic affairs beyond the minimum necessary for the maintenance of peace and property rights

17. utility- something useful or designed for use

Exercise:3. Answer the following questions:

1. What is economics?
2. On what problems do economists focus their attention?
3. What do psychology and ethics try to explain?
4. What does sociology interpret in social contexts?
5. Into what fields can be standard economics divided?
6. What does microeconomics explain?
7. How do consumers try to spend their income?

8. Do they maximize utility?

9. What questions does the second field study?

10. Who is the author of the book «The General Theory of Employment, Interest, and Money»?

11. How does he explain prosperity and depression?

GRAMMAR EXERCISES

Exercise:4. Write these phrases in the possessive form, i.e. with '*s* or '

1. the corporations of the nation.
2. the activities of the people.
3. the desires of consumers.
4. the image of a product.
5. the reputation of a seller.
6. the work of a day.
7. the economy of a country.
8. the problems of the economists.
9. the play of the government.
10. the works of Keynes.
11. the dollar of a consumer.

Exercise:5. Give the comparative and superlative of the following:

Example: ***high -higher - the highest***;

professional - more professional - the most professional.

efficient, rational, modern, total, large, rich, poor, little, good, traditional, important.

Exercise:6. Translate the following into your native language:

1.There are, however, no «pure» market economies in the world today.

2.Economists note that there is no limit to the amount or kinds of things that people want.

3.There is, however, a limit to the resources.

4.In addition to buyers and sellers, there are several other essential elements in a market economy.

5. There are many buyers and sellers so that no individual or group can control prices.

6. There are two ways to earn income: from your work and from the use of your wealth.

Exercise:7. Choose the right word to the words given in the first column:

Many	goods
Much	economists
a lot of	enterprises
Little	knowledge
Few	markets
	governments
	explanations
	time
	activities
	work

Exercise:8. Give and find meanings from given text:

1. Economists have two ways of looking at economics and economy.

2. Macroeconomics is the study of the economy as a whole, micro-economics is the study of individual consumers and the business firm.

3.Each factor of production has a place in our economic system, and each has a particular function.

4. Price stability refers to times during which prices remain constant.

5. A budget is a financial plan that summarizes income and expenditures over a period of time.

6. Saving is one of the most important things that people do with their incomes.

7. Economic forces also affect decisions in the world of business.

8.The United States government also employs economists to study economic problems and to suggest ways to solve them.

9. Consumers are people who use goods and services to satisfy their wants.

10. Efficiency is a measure of how much we get for what we use.

11. Demand is a consumer's willingness and ability to buy a product or service at a particular time and place.

Exercise:9. Get meaning of given English joke.

A: Our math professor talks to himself, does yours?

B: Yes, but he doesn't realize it. He thinks we're listening.

UNIT 2

LESSON 2

ECONOMICS AND ECONOMIC METHODS

DISCOVERING CONNECTIONS

Exercise:1. Answer the questions.

1. Can you explain the difference between wants and needs? Is it possible to satisfy all the desires? Why?

2. Do you know what scarcity is? Do you agree that scarcity is typical for all nations?

3.What is a luxury and what is a necessity?

READING

Exercise:2. As you read the text, focus on the difference between macroeconomics and microeconomics.

ECONOMICS: THE STUDY OF SCARCITY AND CHOICE

Our world is a finite place where people, both individually and collectively, face the problem of scarcity. Scarcity is the condition in which human wants are forever greater than the available supply of time, goods, and resources. Because of scarcity, it is impossible to satisfy every desire. Pause for a moment to list some of your unsatisfied wants. Perhaps you would like a big home, gourmet meals, designer clothes, clean air, better health care, shelter for the homeless, more leisure time, and so on. Unfortunately, nature does not offer the Garden of Eden, where every desire is fulfilled. Instead, there are always limits on the economy's ability to satisfy unlimited wants.

You may think your scarcity problem would disappear if you were rich, but wealth does not solve the problem. No matter how affluent an individual is, the wish list continues to grow. The condition of scarcity means all individuals, whether rich or poor, are dissatisfied with their material well-being and would like more. What is true for individuals also applies to society.

Economics is the study of how society chooses to allocate its scarce resources to the production of goods and services in order to satisfy unlimited wants. Society makes two kinds of choices: economy-wide, or macro choices and individual, or micro, choices. The prefixes macro and micro come from the Greek words meaning "large" and "small," respectively. Reflecting the macro and micro perspectives, economics

consists of two main branches: macroeconomics and microeconomics.

Macroeconomics

The old saying "Looking at the forest rather than the trees" fits macroeconomics. Macroeconomics is the branch of economics that studies decision making for the economy as a whole. Macroeconomics examines economy-wide variables, such as inflation, unemployment, growth of the economy, money supply, and national incomes. Macroeconomic decision making considers such "big picture" policies as the effect of balancing the federal budget on unemployment and the effect of changing the money supply on prices.

Microeconomics

Examining individual trees, leaves, and pieces of bark, rather than surveying the forest, illustrates microeconomics. Microeconomics is the branch of economics that studies decision making by a single individual, household, firm, industry, or level of government. Microeconomics applies a microscope to specific parts of an economy, as one would examine cells in the body. The focus is on small economic units, such as economic decisions of particular groups of consumers and businesses.

We have described macroeconomics and microeconomics as two separate branches, but they are related. Because the overall economy is the sum or aggregation of its parts, micro changes affect the macro economy, and macro changes produce micro changes.

VOCABULARY FOCUS

Easily confused words: economic / economics / economy / economical /economist / economize.

Study the explanations of the words.

Economic means concerned with the organization of the money, industry, and trade of a country, region, or social group. A business that is economic produces a profit.

Something that is **economical** does not require a lot of money to operate. If someone is **economical**, they spend money carefully and sensibly. **Economical** also means using the minimum amount of something that is necessary.

Exercise:3. Complete the following sentences with the appropriate word from the list below.

economic	economist
economical	economize
economics	economy

1. A good manager is _____ in the use of his funds.
2. An _____ person saves money and expense wherever possible.
3. An _____ is a person who studies, teaches, or writes about economics.
4. By exercising strict _____ he saved enough money to retire early.
5. By using _____ in buying food and clothes, we were soon able to save money for the new car we needed.
6. _____ is a social science concerning behavior in the fields of production, consumption, distribution, and exchange.
7. In times of difficulties we all have to _____.

8. It is much more _____ to buy in bulk.

9. Nations experience different rates of _____ growth.

10. The country is in the period of _____ and industrial crisis.

Exercise:4. From two columns choose the words with similar meaning and arrange them in pairs.

A	B
1) scarcity	a) insufficiency / shortage
2) goods	b) merchandise
3) degree of merit	c) manufacture
4) economical	d) quality
5) production	e) work done for somebody or something
6) service	f) infinite
7) unlimited	g) option
8) choice	h) thrifty
9) pervasive	i) all-encompassing

Exercise:5. From two columns choose the words with opposite meaning and arrange them in pairs.

A	B
1) wealth	a) abundance
2) to satisfy	b) poverty
3) scarcity	c) to dissatisfy
4) to raise	d) to lower
5) to improve	e) to make worse
6) to spend	f) to economize
7) revenue	g) expenditure
8) macro	h) micro

COMPREHENSION

Exercise:6. Expand the sentences, using the text.

1. Our world is a finite place where people … .

2. Scarcity is the condition in which… .

3. Economics is the study of how … .

4. Macroeconomics is the branch of economics that … .

5. Microeconomics is … .

Exercise:7. Choose the right variant.

1. The condition of scarcity:

a. cannot be eliminated.

b. prevails in poor economies.

c. prevails in rich economies.

d. all of the above.

e. none of the above.

2. The condition of scarcity can be eliminated if:

a. people satisfy needs rather than false wants.

b. sufficient new resources were discovered.

c. output of goods and services were increased.

d. all of the above.

e. none of the above.

3. The subject of economics is primarily the study of:

a. the government decision-making process.

b. how to operate a business successfully.

c. decision-making because of the problem of scarcity.

d. how to make money in the stock market.

4. Which of the following is included in the study of macroeconomics?

a. Salaries of college professors.

b. Computer prices.

c. Unemployment in the nation.

d. Silver prices.

5. Microeconomics approaches the study of economics from the viewpoint of:

a. individual or specific markets.

b. the national economy.

c. government units.

d. economy-wide markets.

Exercise:8. As you read the text, underline the main ideas and supporting information in reference to opportunity cost.

OPPORTUNITY COST

Do you have things you want? Probably not. Very few people ever reach the stage where they have everything they want. In fact, one want often leads to another. It is important to point out however, that there is a difference between wants and needs. Everyone needs food, clothing and shelter but other so-called “needs” are really “wants”. For example, you may insist that you need a car but you may live in an area where you really don’t have to have one. You can walk, bicycle, or rely on public transportation to get around.

Similarly, you may want new clothes, but whether or not you need them is a value judgment. If you think about it, you probably will agree that most people's needs are limited. In contrast, people's wants are unlimited. Because of the problem of scarcity nations, businesses, and individuals all must make choices in an effort to satisfy unlimited wants with limited resources. These choices are not always easy. Suppose you have saved some money and are thinking of buying a new bicycle. Before buying the bicycle, however, you may give some consideration to the possibility of buying something else instead. Would a stereo system give you more pleasure than the bicycle?

What about the possibility of buying a used bike so you will have enough money left over to buy the new shoes you need or to put some money aside for college? Or would it be better to save the money toward a down payment on a used car that you can use on your part-time job as well as at college? Because your income is limited and you can buy only a limited number of things, you probably will give considerable thought to the situation before making your purchase.

However, you decide to use your money you will have to give up the opportunity to purchase something else that also may have given you pleasure. If you decide to purchase the second-hand bicycle so that you will have some money to put aside for college, you will have to give up the opportunity to buy the stereo system or to buy the new bicycle. Economists use the term opportunity cost to refer to the next best alternative that is given up when a decision is made to use resources in a particular way. In this example, if your second choice would have been the purchase of a stereo system, then the opportunity cost of buying the used bicycle and putting aside the money for college is the stereo system you could have had.

Money is not the only scarce resource that individuals have. Time is also a scarce resource. Suppose that on a particular Saturday night you have the opportunity to go out on a date with a person you like very much. At the same time, you also have the opportunity to go roller-skating with several of your friends. Because you can't do both you must make a choice. No matter which choice you make, you are going to pay a price in terms of the opportunity cost of your decision. If you decide to go out on the date the opportunity cost of your choice is giving up the opportunity to go roller skating. If you decide to go roller skating, the opportunity cost of that decision is giving up the opportunity to go out on the date.

Nations, too, are constantly faced with the realities of opportunity costs. For example, the government must decide how much it will spend for national defense and how much will be spent on nondefense programs, such as education, transportation, and other public services. Since the government has a limited amount of money, a decision to spend more money on national defense usually will require funding for nondefense programs to be cut. Thus, the opportunity cost of the increased defense spending is the reduction of funding of nondefense programs.

Exercise: 9. Choose the best answer to the following questions, using the text.

1. Why is scarcity the most basic of all economic problems?

a. because the federal government must decide how much it will spend for natural defense.

b. it gives you an opportunity to buy something else.

c. because it is the most important issue in balancing unlimited needs with limited resources.

2. What is meant by the term "opportunity cost"?

a. it is your limited income.

b. it is defined as a decision to spend money.

c. it refers to the next best alternative that is given up when a decision is made to use resources in a particular way.

3. How do opportunity costs affect both individuals and nations?

a. a state must spend less money on education.

b. an individual has to give up something that gives him pleasure.

c. an individual or a nation has to sacrifice something for the choice made.

Exercise:10. Say if these statements are true or false.

1. Because of the problem of scarcity nations, businesses, and individuals all must make choices in an effort to satisfy unlimited wants with limited resources.

2. Economists use the term opportunity cost to refer to the next best alternative.

3. Any time you decide to use scarce resource in a particular way, you do not incur an opportunity cost –the cost of the next best alternative use of that resource.

4. Governments never have problems with defense spending.

UNIT 2. LESSON 3

Exercise:1. As you read the text, focus on the following terms:

1) economic goods;

2) economic services;

3) factors of production.

SATISFYING PEOPLE'S WANTS

Economics is the study of how individuals and society choose to use limited resources in an effort

to satisfy people's unlimited wants. Satisfying such wants involves the production of economic goods and services. We will first define the terms "economic goods" and "economic services", and then turn our attention to the factors of production needed to produce them.

Economic goods are things of value that you can see, and show to the others. They are things like bicycles, books, stereos, and clothing. Economic goods also include such things as factories, stores, machines, and tools.

Economic services are intangible things that have value but often cannot be seen, touched, or shown to others. Suppose you go bowling on Saturday night. At the bowling alley, you pay for the rental of a pair of bowling shoes and a bowling ball and for the privilege of bowling several games. You enjoy the evening immensely and consider the outing worth the money you spent. However, in terms of tangible purchases, you have nothing to show for your money. This is an example of an economic service. Other examples of economic services are medical care, legal advice, movies and national defense.

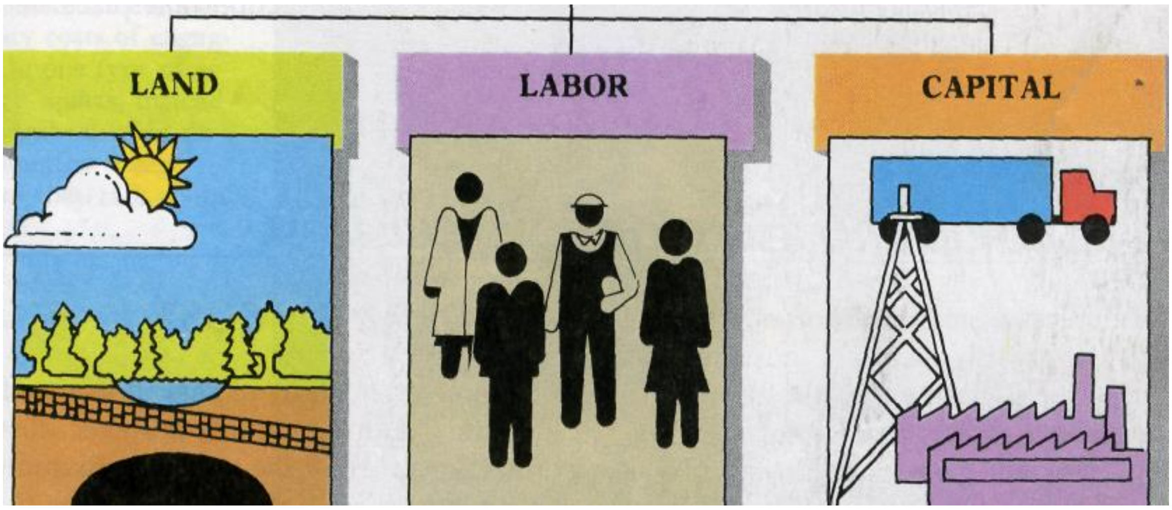
Factors of production which are also called productive resources, are the basic resources needed for the production of economic goods and services. Economists, traditionally, have divided the factors of production into three basic categories: (1) natural resources; (2) capital goods; (3) labor. In addition, many economists add a fourth factor of production, entrepreneurship to the list.

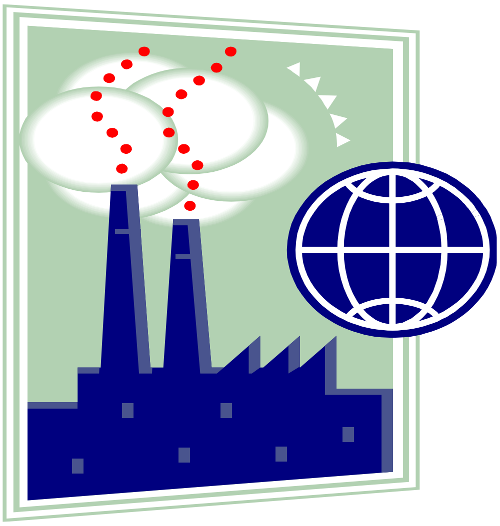
Natural resources are things provided by nature. Land, air, water, forests, coal, iron ore, oil, and other minerals are examples of natural resources. They are the starting points of all production, and they represent the most basic limitations of the productive capacity of an economy. In other words, no matter how much skilled labor and technological knowledge an economy has, it cannot create goods if it lacks natural resources.

Capital goods are human-made resources that are used for the production of other goods and services. Factories, machines, tools, railroads, trucks, and business buildings are all examples of capital goods. It is important to distinguish between capital goods and consumer goods.

Consumer goods which are not a factor of production - are finished products sold to consumers for their own personal use. They include such things as food, clothing, TV sets, and newspapers. In contrast capital goods are things that are used in the production of consumer goods and services. A factory that manufactures TV sets is a capital good. Some things can be either consumer goods or capital goods, depending on how they are used. For example, an automobile purchased for personal use is a consumer good. However, automobiles purchased for use as taxis or for other business purposes are capital goods.

Labor sometimes called human resources, is any form of human effort exerted in production. It includes all kinds of work. The work of a janitor, teacher, lawyer, engineer, and the governor of your state are all examples of labor. Labor is





essential to production, since natural resources and capital goods are of no value unless they can be put to use.

The three facts of production described above - natural resources, capital goods and labor must be combined and organized before production can take place. This is where entrepreneurship, the fourth factor of production, enters the picture.

Entrepreneurship may be defined as the function of combining and organizing natural resources, capital goods, and labor, assuming the risks of business failure, and providing the creativity and managerial skills necessary for production to take place. An entrepreneur is a person who carries out these tasks in the hope of making financial gains from the endeavor.

Exercise: 2. Find the information in the text to answer the questions:

1. What is the difference between economic goods and economic services? Give examples to illustrate them.
2. What are the basic categories of the factors of production?
3. Are consumer goods considered to be factors of production too? What is the difference between consumer and capital goods?
4. How can you prove that labor is an essential factor of production?
5. Are there any other factors that influence production in modern world?

Exercise: 3. Put down words and word combinations from the text you are going to use while giving its short summary.

WRITING

Exercise:4. Scan the text and do the following tasks:

A. Choose the headline which best expresses the main idea of each paragraph:

–Economics Theory.

–Descriptive Economics.

–Economic Policy.

B. Reduce the text to one-fifth of its original length giving the most important information in writing.

METHODOLOGY

In studying any problem or segment of the economy, the economist must first gather the relevant facts. These facts must then be systematically arranged, interpreted, and generalized upon. These generalizations are useful not only in explaining economic behaviour, but also in predicting and therefore controlling future events.

❖

All sciences are empirical. All sciences are based upon facts, that is, upon observable and verifiable behaviour of certain data or subject matter. In the physical sciences the factual data are inorganic. As a social science, economics is concerned with the behaviour of individuals and institutions engaged in the production, exchange, and consumption of goods and services.

The first major step, then, in investigating a given problem or a specific segment of the economy is to gather the facts. This can be an infinitely complex task. The world of reality is cluttered with a myriad of interrelated facts. The economist therefore must use discretion in fact gathering. One must distinguish economic from non-economic facts and then determine which economic facts are relevant and which are irrelevant for the particular problem under consideration. But even when this sorting process has been completed, the relevant economic facts may appear diverse and unrelated.

❖

A conglomeration of facts is relatively useless; mere description is not enough. To be meaningful, facts must be systematically arranged, interpreted, and generalized upon. This is the task of economic theory or analysis. Principles and theories –the end result of economic analysis - bring order and meaning to a number of facts, by tying these facts together, putting them in correct relationship to one another, and generalizing upon them: "Theories without facts may be barren, but facts without theories are meaningless."

The interplay between the levels of fact and theory is rather complex. Principles and theories are meaningful statements drawn from facts but facts, in turn, serve as a constant check on the validity of principles already established. Facts - how individuals and institutions actually behave in producing, exchanging, and consuming goods and services change with time. This makes it essential that economists continuously check existing principles and theories against the changing economic environment.

❖

The creation of specific policies designed to achieve the broad economic goals of our society is no simple matter. A brief examination of the basic steps in policy formulation is in order.

1. The first step is to make a clear statement of goals. If we say that we have "full employment", do we mean that everyone between, say, 16 and years of age has a job? Or do we mean that everyone who wants to work has a job?

2. Next, we must state and recognize the possible effects of alternative policies designed to achieve the goal. This entails a clear-cut understanding economic impact, benefits, costs, and political feasibility of alternative programs. Thus, for example, economists currently debate the relative merits and demerits of fiscal policy (changing government spending and taxes) and monetary policy (altering the supply of money) as alternative means of achieving and maintaining full employment.

3. We are obligated to both ourselves and future generations to look back upon our experiences with chosen policies and evaluate their effectiveness; it is only through this type of evaluation that we can hope to improve policy applications. Did a given change in taxes or the supply of money alter the level of employment to the extent originally predicted? If not, why not?

READING

Exercise:5. Get the meaning of given text.

ECONOMIC THEORY AND MODELS

Economic theories simplify reality to allow us to understand basic economic forces and how individuals cope with the problems of scarcity. We can observe actions and their consequences. Observation and description are not sufficient for understanding and ultimately predicting actions. Theory establishes relationships between cause and effect. We use it to interpret actions and outcomes so we can explain the process by which the actions were undertaken and the outcomes achieved. The purpose of theory in all scientific analyses is to explain the causes of phenomena we observe. To conduct economic analyses we frequently need to engage in abstraction. This involves making assumptions about the economic environment and human motivation that simplify the real world enough to allow us to isolate forces of cause and effect. Any theory is a simplification of actual relationships.

An economic model is a simplified way of expressing how some sector of the economy functions. An economic model contains assumptions that establish relationships among economic variables. We use logic, graphs, or mathematics to determine the consequences of the assumptions. In this way we can use the model to make predictions about how a change in economic conditions results in changes in decisions affecting economic variables. Economists often use the term "model" as a synonym for theory.

Exercise:6. Find meaning of given passage.

Economics is a social science that studies behavior in the spheres of production, consumption, distribution and exchange. Economists analyze the processes taking place in these areas and investigate their consequences for individuals, organizations, such as firms, and society as a whole. There are many competing directions in economics, but the main division is the division into classical and neoclassical schools. The system of economic sciences includes sciences that study the functional aspects of economic development (finance and credit, pricing, labor economics, logistics, planning of economic and social development, etc.) or its sectoral features (economics of industry, agriculture, transport, etc.).

SPEAKING

Exercise:7. Discuss the following questions.

1. Do you agree that economics is helpful in everyday life? Give your arguments.
2. Try to think of several important decisions that you have made recently. What was the opportunity cost of each decision?
3. Do you think economics is a theoretical or applied discipline?
4. Imagine a world without a problem of scarcity. Would you enjoy living in such a world?

GLOSSARY-VOCABULARY

Exercise:8. Read and learn.

affluent adj – having an abundance of goods or riches**:** WEALTHY

allocate v – to apportion for a specific purpose or to particular persons or things

allocation n – an amount or share of something that is given to someone or used for a particular purpose

arrange v – to put into a proper order or into a correct or suitable sequence, relationship, or adjustment

assume v – to believe that something is true, even though no one has told you or even though you have no proof

assumption n – something that you consider likely to be true even though no one has told you directly or even though you have no proof

choice n – the act of choosing **:** SELECTION

cost n – the amount or equivalent paid or charged for something**:** PRICE

opportunity ~ – a favorable juncture of circumstances

~ **of production** – production costs

complementary adj – things that are complementary combine well together or look attractive together, often because they have different qualities

concern n – a feeling of worry about something, especially one that a lot of people have about an important issue

deduction n – an act of taking away; an amount or number taken from a total

derive v – to take, receive, or obtain especially from a specified source

descriptive adj – presenting observations about the characteristics of someone or something **:** serving to describe

economics n – a social science concerned chiefly with description and analysis of the production, distribution, and consumption of goods and services

economy n – the structure or conditions of economic life in a country, area, or period *also***:** an economic system

goods n – something manufactured or produced for sale**:** WARES, MERCHANDISE

capital ~ – a stock of accumulated goods especially at a specified time and in contrast to income received during a specified period

consumer ~ – one that utilizes economic goods

luxury ~ – a condition of abundance or great ease and comfort**:** sumptuous environment

induction n – the act or process of inducting (as into office)

influence v – the power or capacity of causing an effect in indirect or intangible ways**:** SWAY

involve v – to engage as a participant

labour n – the workers in a particular country, industry, or company considered as a group

needs n (pl.) – necessity

to satisfy one's **needs** – meet the requirements

principal n – most important, consequential, or influential

procedure n – a particular way of accomplishing something or of acting

relevant adj – directly connected with and important to what is being discussed or considered

resource n – something that you can use to help you to achieve something, especially in your work or study

scarce adj – if something is scarce, there is not very much of it

scarcity n – a situation in which the supply of something is not enough for the people who want it or need it

tangible adj – tangible properties or tangible assets are real things that a company has, such as buildings or equipment

GLOSSARY

- ❖ ***Economics*** is the study of how individuals and society choose to allocate scarce resources in order to satisfy unlimited wants.
- ❖ ***Macroeconomics*** applies an economy wide perspective that focuses on such issues as inflation, unemployment, and the growth rate of the economy.
- ❖ ***Microeconomics*** examines individual decision-making units within an economy.
- ❖ ***Models*** are simplified descriptions of reality used to understand and predict economic events. An economic model can be stated verbally or in a table, graph, or equation.
- ❖ ***Resources*** are factors of production classified as land, labour, and capital.
- ❖ **Entrepreneurship** is a special type of labour. An entrepreneur combines resources to produce innovative products.
- ❖ ·***Scarcity*** is the fundamental economic problem that human wants exceed the availability of time, goods, and resources. Individuals and society therefore can never have everything they desire.
- ❖ ·**Opportunity cost** –the value of the best alternative surrounded when the choice is made.
- ❖ **Advertising** is a modern form of selling products. Each company wants to interest customers, clients by a modern advertising. I think it's effective way for producers nowadays.

- ❖ **Price** is the amount of money given or asked for when goods or services are bought or sold***Needs*** –basic necessities or requirements.
- ❖ ·***Want*** –a desire for something.
- ❖ **Goods** are products, or items, that we may buy or someone else may buy for us. Goods can be physically measured or weighed.
- ❖ **Natural resources** include all the things that come from the air, water, or earth.

UNIT 2.

LESSON 4

ECONOMIC SYSTEMS

DISCOVERING CONNECTIONS

1. What is your idea of an economic system?
2. How many economic systems do you know?
3. What is the basic difference between market and planned economies?
4. What kind of economic system does Belarusian economy belong to?

READING

Exercise:1. As you read the text, focus on the concept "Economic system".

ECONOMIC SYSTEM

People and societies organize economic life to deal with the basic problems raised by scarcity and opportunity cost through economic systems. An economic system works via the interaction of three invisible forces: the invisible hand (economic forces), invisible foot (political forces) and invisible handshake (social forces). An economic system can be described as the collection of institutions, laws, activities, controlling values, human incentives that collectively provide a framework for economic decision-making. An economic system is closely tied to a political system through which people decide what their society desires. In a democracy, voting procedures determine society’s will. In an autocracy, a ruling individual or group of individuals decides what society’s desires are. Before we discuss how the invisible forces operate, we need to find out what people can reasonably expect from an economic system.

There are three basic economic questions that every nation must consider. They are (1) What goods and services shall be produced?
(2) How shall they be produced? and (3) For whom shall they be produced? Let us briefly examine each of these questions.

Within every nation, people must have some method of deciding what combination of goods and services they should produce with their limited resources. For example, they must decide what portion of total production will be devoted to capital goods and what portion will be devoted to consumer goods. Once this decision is made, it is necessary to decide what kinds of consumer and capital goods will be produced. For example, will the production of consumer goods be restricted to the basic necessities, or will luxury goods, such as stereos and cameras, be produced as well? If luxury goods are to be produced, what kind and how many of each will be produced?

Once the question of what to produce is answered, it is necessary to decide what production methods are to be used. For example, food can be produced by a large number of workers using simple and inexpensive tools, or by a small number of workers using complex and expensive machinery. The same is true of the production of most items you use every day. Because no nation can produce enough goods and services to satisfy everybody’s wants, it is necessary for people to have a method of deciding who gets the goods and services produced. Should everybody get an equal share, or should some people get more goods and services than others? If some people are to get more, how much more should they receive? This second question is perhaps the most difficult of all because it involves the issue of fairness; and different people have different ideas about what is fair.

Any economic system must use one or more decision –making methods or rules. Though the list of ways to make decisions is long, there are three basic approaches to economic decisions. One of them is based on tradition (families often decide to do something the "old way"; people generally repeat the decisions made at an earlier time or by an earlier generation, etc.).

The second approach is based on authority or command (the boss, appointed or elected, can decide what is produced and who gets it).

The third is based on markets (individuals bargain with one another privately to obtain goods) and so on. Most economic systems use one of three basic methods to make economic decisions.

VOCABULARY FOCUS

Exercise:2. Match the words in column A with their definitions in column B.

A	B
1) invisible hand	a) social forces
2) invisible foot	b) economic forces
3) invisible handshake	c) political forces
4) labour resources	d) absolute power
5) autocracy	e) physical and mental talents that people can make available for production

Exercise:3. Complete the sentences, use the words and expressions from the text.

1. An economic system works via … of three invisible forces.
2. An economic system can be described as the collection of laws, activities, values and human ….
3. In a … voting procedures determine society's will.
4. In an …, a ruling individual decides what society's desires are.
5. Before we discuss how the … operate, we need to find out what people can expect from an economic system.
6. It is necessary to decide if the production of … will be restricted to the….
7. If … are to be produced, what kind and how many of each will be produced.
8. There are three basic … to economic decisions.
9. One of them is based on… or command.

Words for reference: invisible forces, basic necessities, approaches, the interaction, incentives, autocracy, democracy, consumer goods, luxury goods, authority.

Exercise:4. Match the Russian word combinations from A with their English equivalents from B.

A	B
1. alternativ qiymat, narx; ehtimol narxi	a) capital goods
2. ko'rinmas kuchlar	b) opportunity cost
3. ishlab chiqarish vositalari	c) economic decision
4. iste'mol tovarlari	d) invisible forces
5. ovoz berish tartibi	e) bargain
6. ehtiyojlarini qondirish	f) voting procedures
7. narx haqida savdolashib	g) satisfy wants
8. iqtisodiy xulosa	h) consumer good

Exercise: 5. Fill in the following prepositions: into, for, by, with, from, out, through, to.

1. An economic system is closely tied … a political system.
2. … a political system people decide what their society desires.
3. We need to find … what people expect … an economic system.
4. People must decide what goods and services they should produce … their limited resources.
5. Food can be produced … a large number of workers.
6. It is necessary … people to have a method of deciding who gets the goods and services produced.
7. Economic systems are classified … four broad categories.

COMPREHENSION

Exercise:6. Complete the sentences, use the information from the text.

1. People and societies organize economic life through … .

2. An economic system works via the interaction of three invisible forces. They are… .

3. An economic system can be described as … .

4. There are three basic economic questions that every nation must consider. They are ...

5. Three basic approaches to economic decisions are … .

Exercise:7. Say if the statements are true or false.

1. An economic system works via the interaction of three invisible forces: the invisible hand (economic forces), invisible foot (political forces) and invisible handshake (social forces).

2. An economic system is interrelated with a political system.

3. In an autocracy voting procedures determine society's will.

4. In a democracy a group of individuals decide what society's desires are.

5.Every nation can produce enough goods and services to satisfy everybody's wants.

6.Every economic system answers three basic questions: what, how and for whom.

7. There are three basic approaches to economic decisions.

Exercise:8. Answer the following questions.

1. How can economic systems be classified?

2. What are the three invisible forces which make economic system work?

3. What are the tree basic economic questions that every nation must answer?

4. What are three basic approaches to economic decisions based on?

5. What economic systems do you know?

6. How can you characterize the economy of Belarus?

Exercise:9. As you read the text, think what the best title for it is and explain your choice:

–market economy and command economy;

–mixed economy;

–basic types of economic systems.

Economic systems are classified into four broad categories. These are traditional, command, market, and mixed economies. Each of these systems works well to some degree at different points in time and for different cultures, but some are often better for answering one of the basic economic questions, while other systems may answer other questions more successfully.

Traditional economy is an economic system using social customs to answer the basic economic questions. Nowadays traditional economies are found primarily in the rural, nonindustrial areas of the world. In such areas, there is no national economy. Instead, there are many small segmented economies, each centred around a family or tribal unit. Each unit produces most of its own goods and consumes what it produces. The basis economic questions of "what", "how", and "for whom" are answered directly by the people involved, and the answers are usually
based on tradition.

In command economies, the basic economic questions are answered by
government officials. Government leaders decide what goods and services will be produced, how they will be produced, and how they will be distributed. Individuals have little control or influence over the way the basic economic questions are answered. They are told what to produce, how to produce it, and what they will receive.

Command economies are often called planned economies, because the
government engages in elaborate, detailed planning in an effort to produce and distribute goods and services in a way that is consistent with the wishes of government leaders. Command economies usually are also characterized by government ownership of the economy's natural resources and capital goods.

A market economy is the opposite of a command economy. In a command economy, the government answers the basic economic questions. In a market economy, basic economic questions are answered by individual households and businesses through a system of freely operating markets. In market economies, natural resources and capital goods are usually privately owned. In such economies, buyers and sellers have a great deal of economic freedom, and they send signals to one another as they interact through the system. For example, by purchasing more of an item than usual, buyers send a signal to producers to increase production of that item. Similarly, by reducing their purchases of an item, buyers signal producers to reduce production of that item.

All major economies are ***mixed economies*** in the sense that some decisions are made through a system of freely operating, or free markets, by individual households and businesses, and some are made by the government. In mixed economies, a distinction is usually made between the private sector, in which decisions are made primarily by individual households and businesses, and the public sector, in which decisions are made by the government. Mixed economy is an economic system that relies on a mixture of markets, government commands and tradition. This economic system is used in most countries. The United States are an example of this type of economy. Most decisions there are made by individuals and firms as they exchange goods, services, and resources in private markets. But some decisions are made through the political process of government. Although several countries own most resources, especially land and large basic enterprises like steel plants, hospitals, and electric power plants, markets are allowed to play a role in certain economic activities, such as dining in restaurants, repairing shoes, selling garden produce.

Exercise:10. Find in the text definitions of:

–market economy;

–command economy;

–mixed economy.

Exercise:11. Which of the statements express the main ideas or supporting details?

1. Nowadays traditional economies are found primarily in the rural, nonindustrial areas of the world. In such areas, there is no national economy.

2. In command economies, the basic economic questions are answered by government officials.

3. In a market economy, basic economic questions are answered by individual households and businesses through a system of freely operating markets.

4. The American economy is predominantly a market economy.

5. Mixed economy is an economic system that relies on a mixture of markets, government commands and tradition. This economic system is used in most countries.

Exercise:12. Speak on the basic kinds of economic systems, their advantages and disadvantages.

WRITING

Write an essay to define the type of economic system of Uzbekistan. Give your arguments.

Exercise:13. Give and find the meaning of the text into English.

The economies of transition countries are characterized by a number of patterns, regardless of their level of development. The transition to a market economy is accompanied by inevitable difficulties for both the country's economy and its population. There is a very sharp decline in industrial production, leading to unemployment. Under these conditions, the state should take a course for active stabilization: conducting a moderately tough financial policy, curbing inflation by economic methods, selective support for the most promising sectors of the economy.

SPEAKING

Exercise:14. Discuss the following issues

1. What kind of system is traditional economy? What areas of the world are they primarily found nowadays? The basic economic questions What, How and For whom in these economies are based on tradition, aren’t they?

2. Who are the basic economic questions answered in command economies by? Why are they called planned economies? What is the role of individuals in this type of economies?

3. What economy is the opposite to command economy? What is the core idea of this type of economy? What are the examples of countries with market economy?

4. All major economies in the world are mixed ones, aren't they? What are mixed economies characterized by?

5. Are there any purely capitalist or socialist states in the world?

VOCABULARY

collapse n – to fall or shrink together abruptly and completely**:** fall into a jumbled or flattened mass through the force of external pressure

command economy – an economic system in which activity is controlled by a central authority and the means of production are publicly owned

fluctuate v – to shift back and forth uncertainly

fluctuation n – an act or instance of fluctuating: an irregular shifting back and forth or up and down in the level, strength, or value of something

household n – those who dwell under the same roof and compose a family

impose v – to take unwarranted advantage of something

incentive n – something that incites or has a tendency to incite to determination or action

involvement n – the act or an instance of involving someone or something

market economy – an economy in which most goods and services are produced and distributed through free markets

mixed economy – an economy in which some companies are owned by the government and other companies are not

overlap v – to extend over or past and cover a part of

own v – to have or hold as property**:** POSSESS

owner n – a person who owns something : one who has the legal or rightful title to something : one to whom property belongs

ownership n – the state, right, relation, or fact of being an owner

restriction n – a limitation on the use or enjoyment of property or a facility

suppress v – to stop or prohibit the publication or revelation of

traditional economy – an economic system using social customs to answer the basic economic questions.

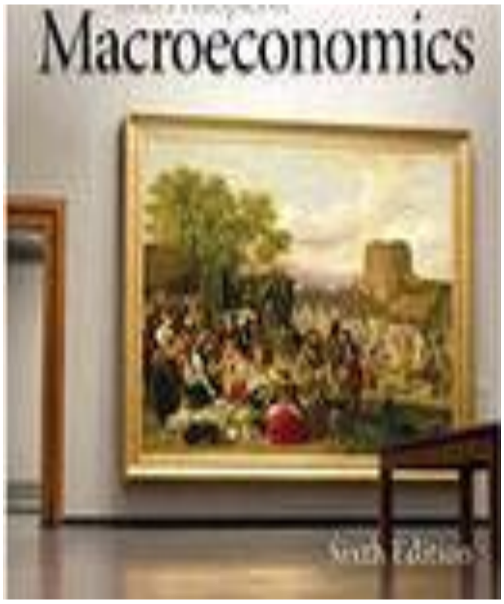
GLOSSARY

- ·**Traditional economy** is an economic system using social customs to answer the basic economic questions.
- ·**In command economies**, the basic economic questions are answered by government officials.
- ·**In a market economy**, basic economic questions are answered by individual households and businesses through a system of freely operating markets.
- ·**In mixed economies**, a distinction is usually made between the private sector, in which decisions are made primarily by individual households and businesses, and the public sector, in which decisions are made by the government.
- **Transition economies** face the task of moving from a centrally-planned system of resource allocation towards a more market-oriented approach.

UNIT 3 LESSON 1

THE MACROECONOMY

DISCOVERING CONNECTIONS



Have you ever thought about the economic activity that goes on in an economy? Firms hire labour and use capital goods to produce goods and services.

People sell their labour to earn income so they can spend on goods and services and become consumers. The government intervenes in various ways, with taxes and transfers and with ensuring the provision of nonmarket services such as health, law and order, and education. People buy goods from abroad – and firms sell some of their output overseas. Or to put it in another way, output is produced, and income is earned and spent.

Is it possible to measure the overall performance of the economy? Is there such a measure? What is a key way in which the performance of an economy can be monitored?

READING

Exercise:1. As you read the text, analyze the definition of GDP.

GROSS DOMESTIC PRODUCT

The total amount of goods and services produced, or the total amount of income earned, or the total amount of expenditure undertaken, all tell us something about the overall performance of the economy in providing resources for the members of the society. If we could measure these totals, we could examine whether the resources available to the residents of a country were changing through time, or try to compare the country's situation with that in other nations. Of course, there is such a measure. It is called GDP and it is a key way in which we try to monitor the performance of an economy.

Here is a definition of GDP:

Gross domestic product (GDP) is the market value of all final goods and services produced within a country in a given period of time. Let's consider each phrase in this definition with some care.

"GDP is a Market Value ..." You have probably heard the adage, "You can't compare apples and oranges". Yet GDP does exactly that. GDP adds together many different kinds of products into a single measure of the value of economic activity. To do this, it uses market prices. Because market prices measure the amount people are willing to pay for different goods, they reflect the value of those goods. If the price of an apple is twice the price of an orange, then an apple contributes twice as much to GDP as does an orange.

"Of All . . ." GDP tries to be comprehensive. It includes all items produced in the economy and sold legally in markets. GDP measures the market value of all the goods. GDP also includes the market value of the housing services provided by the economy's stock of housing. For rental housing, this value is easy to calculate –the rent equals both the tenant's expenditure and the landlord's income. Yet many people own the place where they live and, therefore, do not pay rent. The government includes this owner-occupied housing in GDP by estimating its rental value. That is, GDP is based on the assumption that the owner, in effect, pays rent to himself, so the rent is included both in his expenditure and in his income.

There are some products, however, that GDP excludes because measuring them is so difficult. GDP excludes items produced and sold illicitly, such as illegal drugs. It also excludes most items that are produced and consumed at home and, therefore, never enter the marketplace. Vegetables you buy at the grocery store are part of GDP; vegetables you grow in your garden are not.

"Final. . ."When International Paper makes paper, which Hallmark then uses to make a greeting card, the paper is called an intermediate good, and the card is called a final good. GDP includes only the value of final goods. The reason is that the value of intermediate goods is already included in the prices of the final goods. Adding the market value of the paper to the market value of the card would be double counting. That is, it would (incorrectly) count the paper twice.

An important exception to this principle arises when an intermediate good is produced and, rather than being used, is added to a firm's inventory of goods to be used or sold at a later date. In this case, the intermediate good is taken to be “final” for the moment and its value as inventory investment is added to GDP. When the inventory of the intermediate good is later used or sold, the firm's inventory investment is negative, and GDP for the later period is reduced accordingly.

"Goods and Services . . ."GDP includes both tangible goods (food, clothing, cars) and intangible services (haircuts, housecleaning, doctor visits). When you buy a CD by your favorite singing group, you are buying a good, and the purchase price is part of GDP. When you pay to hear a concert by the same group, you are buying a service, and the ticket price is also part of GDP.

"Produced . . ."GDP includes goods and services currently produced. It does not include transactions involving items produced in the past. When General Motors produces and sells a new car, the value of the car is included in GDP.

When one person sells a used car to another person, the value of the used car is not included in GDP.

"Within a Country . . ."GDP measures the value of production within the geographic confines of a country. When a Canadian citizen works temporarily in the United States, his production is part of U.S. GDP. When an American citizen owns a factory in Haiti, the production at his factory is not part of U.S. GDP. (It is part of Haiti's GDP.) Thus, items are included in a nation's GDP if they are produced domestically, regardless of the nationality of the producer.

". . . In a Given Period of Time." GDP measures the value of production that takes place within a specific interval of time. Usually that interval is a year or a quarter (three months). GDP measures the economy's flow of income and expenditure during that interval.

When the government reports the GDP for a quarter, it usually presents GDP “at an annual rate”.

In addition, when the government reports quarterly GDP, it presents the data after they have been modified by a statistical procedure called seasonal adjustment. The unadjusted data show clearly that the economy produces more goods and services during some times of year than during others. (As you might guess, December's Christmas shopping season is a high point.) When monitoring the condition of the economy, economists and policymakers often want to look beyond these regular seasonal changes. Therefore, government statisticians adjust the quarterly data to take out the seasonal cycle. The GDP data reported in the news are always seasonally adjusted.

Economists distinguish between nominal GDP and real GDP. Nominal **GDP** is the value of all final goods based on the prices existing during the time period of production. Real GDP is the value of all final goods produced during a given time period based on the prices existing in a selected base year. In other words, the prices in the base year provide the basis for comparing quantities in different years.

As we have just seen, nominal GDP reflects both the prices of goods and services and the quantities of goods and services the economy is producing. By contrast, by holding prices constant at base-year levels, real GDP reflects only the quantities produced. From these two statistics, we can compute a third called the GDP deflator, which reflects the prices of goods and services but not the quantities produced.

VOCABULARY FOCUS

Exercise: 2. Match the words from A with their synonyms from B.

A	B
1) adjust	a) inside a particular country
2) value	b) coming between two things in time
3) consume	c) cost
4) transaction	d) consumption
5) intermediate	e) adapt
6) domestic	f) interfere
7) expenditure	g) use up
8) intervene	h) apiece of business done

Exercise:3. Match the verbs and nouns below to make verb-noun partnerships that are found in the text.

A	B
1) intermediate	a) the marketplace
2) seasonal	b) goods
3) intangible	c) expenditures
4) undertake	d) value
5) measure/estimate	e) adjustment
6) tangible	f) service
7) enter	g) the performance
8) market	h) goods

Exercise:4. Make the opposite to the following words by adding negative prefixes:

il-; ex-; in-; non-; un-. Use the dictionary if necessary.

Legally; comprehensive; include; market; tangible; available; adjusted.

Exercise:5. Match the words in column A with their English equivalents in column B:

A	B
1) nobozor xizmatlarini taqdim etish	a) to produce output
2) mahsulot ishlab chiqarish	b) total amount of the expenditure undertaken
3) xarajatlarning umumiy hajmi	c) items produced and sold illicitly
4) noqonuniy ishlab chiqariladigan va sotiladigan tovarlar	d) deflator
5) oraliq mahsulot	e) the provision of non-market services
6) yakuniy mahsulot	f) intermediate good
7) ko'chmas mahsulotlar	g) produced domestically
8) hisoblar orasidagi pul harakati	h) intangible services
9) nomoddiy / nomoddiy xizmatlar	i) tangible goods
10) mamlakat ichida ishlab chiqarilgan	j) final goods
11) deflyator	k) funds transfer

Exercise:6. Match the words from A with their definitions from B.

A

1) GDP
2) Gross National Product
3) final goods
4) net domestic product
5) output
6) expenditure
7) inventory
8) adjustment
9) transfer

B

a) the amount of something product

b) the market value of all final goods and services produced in a nation during the period of time

c) the market value of all final goods and services produced by a nations residents no matter where they are located;

d) finished goods or services produced for the ultimate user;

e) the gross domestic product minus depreciation of capital work out in producing output.

f) altering something by a small amount so that it will fit properly or be right for use

g) an amount of money spent

h) stocks of raw materials and finished goods

i) the action of transferring something /somebody

COMPREHENSION

Exercise:7. Complete the following sentences, use the prompts below:

1. _________________ is the most widely used measure of a nation's economic performance and is the market value of all final goods produced in the country during a period of time.

2.To avoid double counting. GDP does not include__________________.

3. The ____________________ sums the four major spending components of GDP consisting of: consumption, investment, government, and net exports.

4.GDP less depreciation of fixed capital equals ___________________.

5. ________________ is total income received by households and is calculated as national income less corporate taxes, retained earnings, Social Security taxes plus transfer payments and net interest from government securities.

6. _________________ is personal income minus personal taxes.

7. _________________ measures all final goods produced in a given time period valued at the prices existing during the time period of production.

8. _________________ is the value of all final goods and services produced during any time period valued at prices existing in a base year.

9. _________________ is the market value of all final goods and services produced by a nation's residents no matter where they are located.

10. A government payment to individuals not in exchange for goods or services currently produced is called a ______________.

11. ________________ are finished goods and services produced for the ultimate user.

Words for reference: gross domestic product (GDP); intermediate goods; expenditure approach; net domestic product; personal income; disposable personal income; nominal GDP; real GDP; gross national product (GNP); transfer payment; final goods.

Exercise:8. Based on your understanding of the text, are the following TRUE or FALSE?

1. Gross domestic product is the market value of all intermediate and final goods and serviced produced within a country in a given period of time.
2. Market prices measure the amount people are willing to pay the different goods and reflect the value of those goods.
3. GDP includes all items produced in the economy and sold both legally and illegally in the markets.
4. GDP does not include the market value of the housing services.
5. GDP excludes most items that are produced and consumed at home.
6. The value of intermediate goods is not included into the value of the final goods.
7. GDP excludes intangible services.
8. GDP is the market value of all final goods and services produced by nation's residents no matter where they are located.
9. GDP measures the value of production that takes place within a specific integral of a time, which is usually a month.
10. How do nominal and real GDP differ?
11. What is the GDP deflator?

Exercise:9. Answer the questions.

1.What factors are taken into account to describe the overall performance of the economy?

2. How can Gross Domestic Product be defined?

3.How do they manage to compare the value of absolutely different goods?

4. How do you understand the fact that GDP tries to be comprehensive?

5. Does GDP include the value of intermediate good?

6.What are the tangible goods and intangible services that GDP includes?

7. Does GDP include transactions involving items produced in the past?

8.Are items produced abroad by subsidiaries included in a nation's GDP?

9. What are most common intervals for measuring GDP?

10. How do real and nominal GDP differ?

Exercise:10. Scan the text, find the definitions of Gross National Product, Net national Product, National income, Personal Income and Disposable Personal Income. Dwell on each of them.

OTHER MEASURES OF INCOME

When the U.S. Department of Commerce computes the nation's GDP every three months, it also computes various other measures of income to get a more complete picture of what's happening in the economy. These other measures differ from GDP by excluding or including certain categories of Income. What follows is a brief description of five of these income measures, ordered from largest to smallest.

Gross national product (GNP) is the total income earned by a nation's permanent residents (called nationals). It differs from GDP by including income that our citizens earn abroad and excluding income that foreigners earn here. For example, when a Canadian citizen works temporarily in the United States, his production is part of U.S. GDP, but it is not part of U.S. GNP. (It is part of Canada's GNP.) For most countries, including the United States, domestic residents are responsible for most domestic production, so GDP and GNP are quite close.

Net national product (NNP) is the total income of a nation's residents (GNP) minus losses from depreciation. Depreciation is the wear and tear on the economy's stock of equipment and structures, such as trucks rusting and light bulbs burning out. In the national income accounts prepared by the Department of Commerce, depreciation is called the "consumption of fixed capital".

National income is the total income earned by a nation's residents in the production of goods and services. It differs from net national product by excluding indirect business taxes (such as sales taxes) and including business subsidies. NNP and national income also differ because of a “statistical discrepancy” that arises from problems in data collection.

Personal income is the income that households and noncorporate businesses receive. Unlike national income, it excludes retained earnings, which is income that corporations have earned but have not paid out to their owners. It also subtracts corporate income taxes and contributions for social insurance (mostly Social Security taxes). In addition, personal income includes the interest income that households receive from their holdings of government debt and the income that households receive from government transfer programs, such as welfare and Social Security.

Disposable personal income is the income that households and noncorporate businesses have left after satisfying all their obligations to the government. It equals personal income minus personal taxes and certain nontax payments (such as traffic tickets).

Although the various measures of income differ in detail, they almost always tell the same story about economic conditions. When GDP is growing rapidly, these other measures of income are usually growing rapidly. And when GDP is falling, these other measures are usually falling as well. For monitoring fluctuations in the overall economy, it does not matter much which measure of income we use.

WRITING

Exercise:11. Using the information obtained from the previous text make its outline in writing.

You may use the following cliché: the text deals with …; it draws our attention to … ; of special interest is the argument that … .it is noted that … .The author concludes by saying that … .

Exercise:12. Scan the text.

The meaning of "government purchases" also requires a bit of clarification. When the government pays the salary of an Army general, that salary is part of government purchases. But what happens when the government pays a Social Security benefit to one of the elderly? Such government spending is called a transfer payment because it is not made in exchange for a currently produced good or service. From a macroeconomic standpoint, transfer payments are like a tax rebate. Like taxes, transfer payments alter household income, but they do not reflect the economy's production. Because GDP is intended to measure income from (and expenditure on) the production of goods and services, transfer payments are not counted as part of government purchases.

Exercise:13. Find meaning of given passage into English.

GDP is the annual aggregate market value of the products of material production and services, regardless of the nationality of enterprises located on the territory of a given country. In contrast, GNP is the total market value of the total volume of products and services for the year, regardless of the location of national enterprises (in their own country or abroad). The value of GDP can be determined by three methods.

Firstly, by summing up the DS for all sectors of the national economy (GDP by production or industry).

Secondly, the method of measuring GDP by expenditure.

Thirdly, the method of measuring GDP by income, including wages of employees, profits of firms and corporations, etc.

GLOSSARY-VOCABULARY

adjust n – to bring to a more satisfactory state

adjustable adj – to achieve mental and behavioral balance between one's own needs and the demands of others

adjustment n – the act or process of adjusting

seasonal ~ –relating to, or varying in occurrence according to the season

deflator n – to release air or gas from дефлятор

depreciation n – to lower in honor or esteem

domestic adj – living near or about human habitations

ensure v – to make sure, certain, or safe

estimate v – to judge tentatively or approximately the value, worth, or significance of

expenditure n – the act or process of expending

to undertake ~ – to take upon oneself **:** set about **:** ATTEMPT

gross domestic product – the gross national product excluding the value of net income earned abroad

gross national product – the total value of the goods and services produced by the residents of a nation during a specified period (such as a year)

income n – a gain or recurrent benefit usually measured in money that derives from capital or labor

personal ~ – the current income received by persons from all sources excluding transfers among persons —used especially in national income accounting

national ~ – the aggregate of earnings from a nation's current production including compensation of employees, interest, rental income, and profits of business after taxes

disposable personal ~ – income that is left after paying taxes and for things that are essential, such as food and housing

intermediate adj – being or occurring at the middle place, stage, or degree or between extremes

intervene v – to interfere with the outcome or course especially of a condition or process

inventory n – the quantity of goods or materials on hand **:** STOCK

measure v – the dimensions, capacity, or amount of something ascertained by measuring

output n – mineral, agricultural, or industrial production; the act, process, or an instance of producing

revenue n – the total income produced by a given source

spending n – to use up or pay out **:** EXPEND

government / **nongovernment** ~ – government / nongovernment expenditures

transaction n –dealing

transfer n – to cause to pass from one to another **:** TRANSMIT

~ payments – money (such as welfare payments) that is received by individuals and that is neither compensation for goods or services currently supplied nor income from investments

make a ~ – to make a transfer

pay by ~ –уплатить посредством перевода

value n – the monetary worth of something **:** MARKET PRICE

market ~ – the price at which something can be sold **:** the price that buyers are willing to pay for something

well-being n – the state of being happy, healthy, or prosperous**:** WELFARE

standard of ~ – standard of the state of being happy, healthy, or prosperous

GLOSSARY

❖ ·**Depreciation** is the wear and tear on the economy's stock of equipment and structures

❖ ·**Disposable personal income** is the income that households and noncorporate businesses have left after satisfying all their obligations to the government.

❖ ·**GDP deflator** a measure of the price level calculated as the ratio of nominal GDP to peal GDP times 100.

❖ ·**Gross domestic product (GDP)** the market value of all final goods and services produced within a country in a given period of time.

❖ ·**Gross national product (GNP)** is the total income earned by a nation's permanent residents (called nationals)

❖ ·**Consumption** spending by households on goods and services, with the exception of purchases of new housing.

❖ ·**Government purchases** spending on goods and services by local, state, and federal governments.

❖ ·**National income** is the total income earned by a nation's residents in the production of goods and services

❖ ·**Net exports** spending on domestically produced goods by foreigners (exports) minus spending on foreign goods by domestic residents (imports).

- ·**Net national product (NNP)** is the total income of a nation's residents (GNP) minus losses from depreciation
- ·**Nominal GDP** the production of goods and services valued at current prices.
- ·**Personal income** is the income that households and noncorporate businesses receive
- ·**Real GDP** the production of goods and services valued at constant prices.

UNIT 3 LESSON 2

INFLATION

DISCOVERING CONNECTIONS

1. How does inflation affect people's income and wealth? Why should inflation cause concern?
2. Suppose you borrow $100 from a bank at 5 percent interest for one year and the inflation rate that year is 10 percent. Was this loan advantageous to you or to the bank?
3. Who do you think loses from inflation? Who wins from inflation?
4. How will you explain this statement: "If everyone expects inflation to occur, it will."

READING

Exercise:1. As you read the text, focus on the terms in italics.

MEANING AND MEASUREMENT OF INFLATION

Inflation is a situation in which a decline in the purchasing power of money results in a rise of the general price level. Its opposite is deflation. Prices in some markets (e.g. pocket calculators) can fall even in times of inflation, and prices in some markets (e.g. medical care) rise even in times of deflation. But it is not the change in individual prices that determines the extent to which an economy is experiencing inflation or deflation. It is the upward or downward movement in the average prices of all goods and services combined that determines the extent of inflation or deflation. In other words, inflation is an increase in the overall average level of prices and not an increase in the price of any specific product. An extreme form of inflation is known as hyperinflation.

Hyperinflation is an extremely rapid rise in the general price level. There is no consensus on when a particular rate of inflation becomes "hyper." The boundary between inflation and deflation is price stability. Price stability occurs when the average level of prices is moving neither up nor down. The average level of prices is called the price level and is measured by a price index. ***A price index*** measures the average level of prices in one period as a percentage of their average level in an earlier period called the base period.

The inflation rate and the price level. The inflation rate is the percentage change in the price level. The most widely reported measure of inflation is the consumer price index (CPI) which measures changes in the average prices of consumer goods and services. The CPI is sometimes called the cost-of-living index. It includes only consumer goods and services in order to deter-mine how rising prices affect the income of consumers. Unlike the GDP chain price index, the CPI does not consider items purchased by businesses, and government.

As the price level rises during inflation, the same sum of money (a dollar, a ruble) buys fewer goods and services than before. Hence, inflation reduces the money real purchasing power. As the price level falls during deflation, a dollar (a ruble) buys more goods and services than before. Hence, deflation increases the money real purchasing power.

Because money is used as a unit of account and as a medium of exchange in most economies, changes in the purchasing power of money generally have several (sometimes adverse) consequences.

Inflation hurts people living on fixed money incomes and people who have saved fixed amounts of money for specific purposes such as financing their children's education or their own retirement. Inflation hurts people who have loaned out money at a rate of interest that did not include an allowance for an increase in the average price level. So lenders are without protection against a decline in the purchasing power of the loan when it is repaid.

The adverse effects of inflation depend on the extent to which inflation is correctly anticipated and the extent to which it is unanticipated. If inflation is correctly anticipated, contracts can be negotiated to include “inflation premiums”.

Such premiums are designed to protect lenders and other recipients of future money payments from declines in the purchasing power of the money to be repaid to them. Lenders, for example, will insist on higher interest rates if they anticipate inflation; and the greater the inflation they anticipate, the higher the rate of interest they will ask. Borrowers who agree to the lender's terms presumably share similar anticipations of inflation. However, it is often difficult to correctly anticipate a future rate of inflation.

Inflation is a phenomenon experienced in all countries. But inflation rates vary from one country to another. When inflation rates differ by a lot and over a prolonged period of time, the result is a change in the foreign exchange value of money.

VOCABULARY FOCUS

Exercise:2. Study the meaning of the following easily confused words and do the exercises that follow.

Successive/successful

successive – izchil;

successful – muvaffaqiyatli.

Fill in the blanks with the proper word.

1. The inflation can be curbed only by a number of... reforms.
2. His ... career was due to his tremendous efforts and aptitude.
3. The sales were profitable only because of the ... marketing campaign.
4. The measures lead to … changes.

Exercise:3. Find the words or expressions in the text which mean the following.

1. to rise;
2. to lend;
3. to cause something to happen;
4. to make something smaller in size, quantity and price;
5. to have a bad effect on something, to cause distress;
6. to see what is going to happen;
7. to change, especially according to some factor;
8. to confer with another person to reach agreement.

<u>Words for references:</u> to move upward; to negotiate; to vary; lo loan out; to hurt; to result; to anticipate; to reduce.

Exercise:4. Complete the sentences with the words given bellow.

1. An … form of inflation is known as hyperinflation.
2. The … between inflation and deflation is price stability.
3. The … level of prices is called the price level and is measured by a price index.
4. A common price index is called the … Price Index, or simply CPI.
5. Inflation reduces the money real … power.
6. If inflation is correctly anticipated, contracts can be negotiated to include "inflation … ".
7. It is often difficult to correctly anticipate a future … of inflation.

Words for references: boundary, consumer, extreme, average, purchasing, premiums, rate.

Exercise: 5. Match the Russian word-combinations in A with their English equivalents in B.

A	B
1) narxlar barqarorligi	a) a general price level
2) yuqoriga va pastga harakat qilish	b) a price stability
3) iste'mol narxlari indeksi	c) a price index
4) haqiqiy xaridor pul qobiliyati	d) a consumer price index

5) inflyatsiya ustuni e) inflation premiums

6) sotib olishni kamaytirish qobiliyat f) a decline in the purchasing power

7) inflyatsiya kutish g) the upward and downward movement

8) umumiy narx darajasi h) money real purchasing power

9) narx indeksi i) to anticipate inflation

10) salbiy ta'sir j) adverse effect

Exercise: 6. Match the words in A with their definitions in B.

A

1) inflation	8) boundary
2) deflation	9) premium
3) disinflation	10) borrower
4) hyperinflation	11) lender
5) exchange	12) consequence
6) level	13) allowance
7) price	14) base year

B

a) usual or normal position

b) the amount of money etc. asked or given for something

c) amount of something, especially money allowed or given regularly

d) reaction or an instance of giving one thing or person of the same type or of equal value in return for another

e) a person taking or receiving (something) with the understanding that he will return it

f) person making a loan

g) a logical result or conclusion

h) a rise in prices and wages caused by an increase in the money supply and demand for goods and resulting in a fall in the value of money

i) a reward or prize, an amount paid in addition to the regular change

j) a limit or a border

k) a situation in which very large and rapid price rises occur

l) a reduction in the rate of inflation.

m) the reduction of the amount of money being used in a country, in order to lower prices or keep them steady

n) a year chosen as a reference point

COMPREHENSION

Exercise: 7. Chose the correct answer.

1. Inflation is:

a. an increase in the general price level.

b. not a concern during war.

c. a result of high unemployment.

d. an increase in the relative price level.

2. Inflation is measured by an increase in:

a. homes, autos and basic resources.

b. prices of all products in the economy.

c. the consumer price index

d. none of the above.

3. The consumer price index (CPI):

a. adjusts for changes in product quality.

b. includes separate market baskets of goods and services for both base and current years.

c. includes only goods and services bought by the typical consumer.

d. uses current year quantities of goods and services.

4. Deflation is a (an)

a. increase in most prices.

b. decrease in the general price level.

c. situation that has never occurred in U.S. history.

d decrease in the inflation rate.

Exercise:8. Say whether the following is true or false.

1. Inflation occurs when there is an increase in the purchasing power of money.
2. Unlike the GDP deflator, the CPI does not consider goods and services purchased by business and government.
3. Disinflation and deflation mean a decrease in the average price level.
4. A consumer price index of 110 for a given year indicates that prices in that year are 10 per cent higher than prices in the base year.
5. People with fixed income tend to fare best in an inflationary period.

Exercise:9. Use the text to answer the questions:

1. Do prices in the times of inflation rise in all markets equally?
2. What is the boundary between inflation and deflation?
3. What is the price level and what is it measured by?
4. How do they define the inflation rate?
5. What do they call the situation when the money real purchasing power increases?
6. What category of people is most heavily hurt by inflation?
7. What measures can be taken to protect lenders from inflation?
8. Consider this statement: "When the price of a good or service rises, the inflation rate rises". Do you agree or disagree? Explain.

Exercise:10. While reading the text pay attention to the difference between demand-pull inflation and cost-push inflation.

DEMAND-PULL AND COST-PUSH INFLATION

Inflation can occur for several reasons, and economists usually distinguish between two basic types of inflation, depending on whether it originates from the buyers' or the sellers' side of the market.

Perhaps the most familiar type of inflation is called ***demand-pull inflation***, which is a rise in the general price level resulting from an excess of total spending (demand). Demand-pull inflation occurs when aggregate demand in the economy increases faster than the economy's productive capacity. If demand exceeds aggregate supply, the average prices of goods and services are pulled up by the "excess" demand. Demand-pull inflation is often expressed as "too much money chasing too few goods." When sellers are unable to supply all the goods and services buyers demand, sellers respond by raising prices. In short, the general price level in the economy is "pulled up" by the pressure from buyers' total expenditures. This type of inflation is usually associated with conditions of full employment. If there are unemployed resources available, an increase in demand can be met by bringing these resources into employment. Supply will increase and the increase in demand will have little or no effect on the general price level. If the total demand for goods and services continues to increase, a full employment situation will eventually be reached and no further increases in output is possible (e.g. in the short run). Once the nation's resources are fully employed, an increase in demand must lead to an upward movement of prices. A situation of excess demand may arise when a country is trying to achieve an export surplus, in order, perhaps, to pay off some overseas debts. Exports are inflationary because they generate income at home but reduce home supplies. Demand inflation may develop when, with full employment, a country tries to increase its rate of economic growth. Another possible cause of inflation under conditions of full employment is an expansion of government spending financed by borrowing from the banking system.

Cost-push inflation is an increase in the general price level resulting from an increase in the cost of production. Most sellers try to push these higher costs on into higher prices even if there is no change in aggregate demand in the economy. One source of cost-push inflation is supply shocks, such as widespread and severe crop failures, the sharp increases in the price of oil instituted by a cartel, etc. The effect of a supply shock is to raise the level of input prices above the level that firms had expected. Another possible source of cost-push inflation is the momentum of inflationary expectations generated by previous demand-pull inflation. The influence of expectations on both demand-pull and cost-push inflation is also an important consideration.

Exercise:11. Match the following collocations with their equivalents. Use them in the sentences of your own.

A	B
1) talabdan yuqori bo'lgan inflyatsiya (talab inflyatsiyasi)	9) umumiy narx darajasi
	10) ortiqcha talab
2) nflyatsiya, ortib borayotgan xarajatlar (xarajatlar inflyatsiyasi)	a) an excess of total spending (demand)
3) jami xarajatlarning ortiqcha (talab)	b) total expenditures
4) inflyatsiya talablari	c) the general price level
5) narxlar oshishi	d) excess demand
6) jami xarajatlar	e) an expansion of government spending
7) zarba takliflar	
8) hukumat xarajatlarini kengaytirish	f) supply shocks
g) a rise in prices	i) cost-push inflation
h) demand-pull inflation	j) inflationary expectations

Exercise:12. Choose the correct answer.

1. Demand-pull inflation is caused by:

a. monopoly power;

b. energy cost increases;

c. tax increases;

d. full employment.

2. Demand-pull inflation occurs:

a. when ‘too much money is chasing too many goods’;

b. during a recession;

c. rising production costs;

d. none of the above.

3. Cost-push inflation is due to:

a. excess total spending;

b. too much money chasing too few goods;

c. resource cost increases;

d. the economy operating at full employment.

Exercise:13. Say whether the following is true or false.

1.Demand-pull inflation occurs when aggregate demand in the economy increases faster than the economy's productive capacity.

2.Demand-pull inflationary pressure increases as the economy approaches full employment.

3.Cost-push inflation is caused by too much money chasing for few goods.

4.Expectations do not have any influence on demand-pull and cost-push inflation.

Exercise:14. Expand the sentences.

1. The text deals with … .
2. Demand-pull inflation is associated … .
3. Cost-push inflation occurs when … .
4. The possible sources of cost-push inflation are … .
5. Supply shocks are caused by … .

Exercise:15. Find meaning of given passage into your native language.

Inflation is a situation in which there is a drop in the purchasing power of money, resulting in an increase in the overall price level. Inflation is measured based on relative measurements over a period of time of the corresponding price index, usually the consumer goods price index or the GDP deflator. Inflation caused by excess demand over supply occurs due to too high aggregate demand.

Hyperinflation is exceptionally high inflation, when prices rise so fast that money largely loses its function as a medium of circulation.

Galloping inflation is inflation at which prices begin to
double, triple annually.

GLOSSARY-VOCABULARY

boost v – to push or shove up from below

borrow v – to borrow (money) with the intention of returning the same plus interest

borrower n – a person who receives with the implied or expressed intention of returning the same or an equivalent

borrowing n – something borrowed

capacity n – the quantity of electricity that a battery can deliver under specified conditions

productive ~ – having the quality or power of producing especially in abundance

consumer n – one that consumes

~ **price index** (CPI) – an index measuring the change in the cost of typical wage-earner purchases of goods and services expressed as a percentage of the cost of these same goods and services in some base period

— called also *cost-of-living index*

credit n – **:** an amount or sum placed at a person's disposal by a bank

creditors n – one to whom a debt is owed *especially***:** a person to whom money or goods are due

curve n – bent or formed into a curve

cutback n – something cut back

debt n – something owed

bad ~ – loans that will not be repaid

debtors n – **:** one who owes a debt

disinflation n – a reversal of inflationary pressures

hyperinflation n – extreme or excessive inflation

inflation n – a continuing rise in the general price level usually attributed to an increase in the volume of money and credit relative to available goods and services

cost-push ~ – an increase or upward trend in production costs (such as wages) that tends to result in increased consumer prices irrespective of the level of demand

demand-pull ~ – an increase or upward trend in spendable money that tends to result in increased competition for available goods and services and a corresponding increase in consumer prices

lend v – to give for temporary use on condition that the same or its equivalent be returned

lender n – a person gives for temporary use on condition that the same or its equivalent be returned

~ **of last resort** – an institution, usually a country's central bank, that offers loans to banks or other eligible institutions that are experiencing financial difficulty or are considered highly risky or near collapse.

loan n –something lent usually for the borrower's temporary use

loan v –LEND

~ out – To allow someone to borrow or make use of something temporarily.

multiplier n – one that multiplies

recipient n – one that receives

surplus n – more than the amount that is needed

GLOSSARY

- ·**GDP chain price index** is a measure that compares changes in the prices of all final goods during a given year to the prices of those goods in a base year.
- ·**The consumer price index** (CPI) is the most widely known price-level index It measures the cost of purchasing a market basket of goods and services by a typical household during a lime period relative to the cost of the same bundle during a base year.
- ·**Inflation** is a situation in which a decline in the purchasing power of money results in a rise of the general price level.
- ·**Cost-push inflation** is an increase in the general price level resulting from an increase in the cost of production.
- ·**Demand-pull inflation** is caused by pressure on prices originating from the buyers' side of the market. In contrast, cost-push inflation is caused by pressure on prices originating from the sellers' Side- of the market.
- ·**Deflation** is a decrease in the general level of prices. During the early years of the Great Depression, there was deflation, and the CPI declined at about a double-digit rate.

- ·**Disinflation** is a reduction in the inflation rate. Between 1980 and 1986, there was disinflation. This does not mean that prices were falling, but only that the inflation rate fell.
- ·**Hyperinflation** is an extremely rapid rise in the general price level.
- ·**Nominal income** is income measured in actual money amounts. Measuring your purchasing power requires converting nominal income into real income, which is nominal income adjusted for inflation
- ·**Nominal interest** rate is the annual percentage amount of money that is earned on a sum loaned or disposed in a bank.
- ·**The real interest rate** is the nominal interest rate adjusted for inflation. If real interest rates are negative, lenders incur losses.

UNIT 3.

LESSON 3

ECONOMIC BUSINESS CYCLES AND UNEMPLOYMENT

DISCOVERING CONNECTIONS

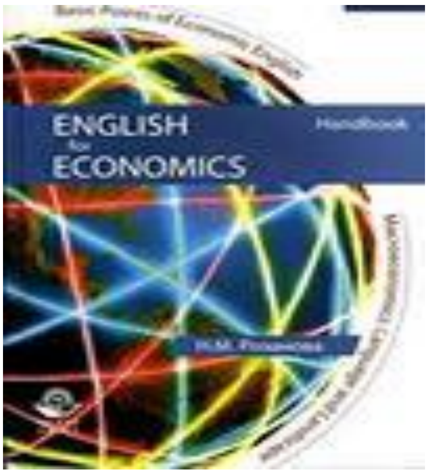
1. Are there any jobs in your country which are in constant demand?
2. In which economic sectors have jobs disappeared / have been created?
3. What is the most difficult job you can imagine? And the most pleasant?
4. If you could choose any job in the world, what would it be? Why?
5. Are you optimistic or pessimistic about your own future? Do you expect the qualification you are currently studying for to get you a permanent job?
6. Do you see any areas in which a large number of jobs might realistically be created?
7. In your opinion, when there is high unemployment during a recession, should the government intervene in the economy to create jobs?

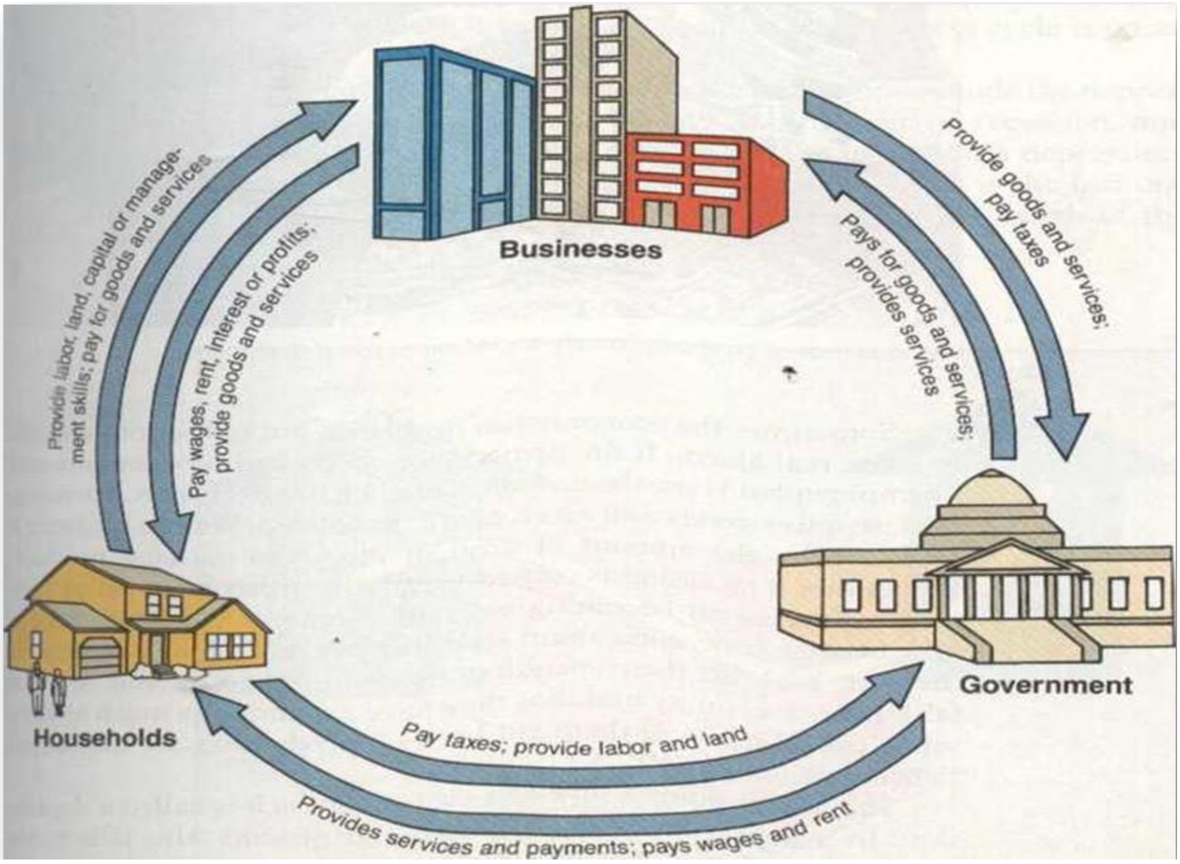
Exercise:1. As you read the text, focus on various theories of business cycle.

ECONOMIC BUSINESS CYCLES

The business cycle or trade cycle is a permanent feature of market economies: gross domestic product (GDP) fluctuates as booms and recessions succeed each other. During a boom, an economy (or at least parts of it) expands to the point where it is working at full capacity, so that production, employment, prices, profits, investment and interest rates all tend to rise. During a recession, the demand for goods and services declines and the economy begins to work at below its potential. Investment, output, employment, profits, commodity and share prices, and interest rates generally fall. A serious, long-lasting recession is called a depression or a slump. The highest point on the business cycle is called a peak, which is followed by a downturn or downswing or a period of contraction. The lowest point on the business cycle is called a trough, which is followed by a recovery or an upturn or upswing or a period of expansion. Economists sometimes describe contraction as 'negative growth'.

There are various theories as to the cause of the business cycle. Internal (or endogenous) theories consider it to be self-generating, regular, and indefinitely repeating. A peak is reached when (or just before) people begin to consume less, for whatever reason. As far back as the mid-nineteenth century, it was suggested that the business cycle results from people infecting one another with optimistic or pessimistic expectations. When economic times are good or when people feel good about the future, they spend, and run up debts. If interest rates rise too high, a lot of people find themselves paying more than they anticipated on their mortgage or rent, and so have to consume less. If people are worried about the possibility of losing their jobs in the near future they tend to save more. A country's output, investment, unemployment, balance of payments, and so on, all depend on millions of decisions by consumers and industrialists on whether to spend, borrow or save.





Investment is closely linked to consumption, and only takes place when demand and output are growing. Consequently, as soon as demand stops growing at the same rate, even at a very high level, investment will drop, probably leading to a downturn. Another theory is that sooner or later during every period of economic growth –when demand is strong, and prices can easily be put up, and profits are increasing employees will begin to demand higher wages or salaries. As a result, employers will either reduce investment, or start to lay off workers, and a downswing will begin.

External (or exogenous) theories, on the contrary, look for causes outside economic activity: scientific advances, natural disasters, elections or political shocks, demographic changes, and so on. Joseph Schumpeter believed that the business cycle is caused by major technological inventions (the steam engine, railways, automobiles, electricity, microchips, and so on), which lead to periods of 'creative destruction'. He suggested that there was a 56-year Kondratieff cycle, named after a Russian economist. A simpler theory is that, where there is no independent central bank, the business cycle is caused by governments beginning their periods of office with a couple of years of austerity Programmes followed by tax cuts and monetary expansion in the two years before the next election.

VOCABULARY FOCUS

Exercise:2. Match the Russian words and word combinations in column A with their English equivalents in column B.

A	B
to'liq quvvat bilan ishlash	boom
to'lov balansi / balans	to work at full capacity
qarzga kirish	peak
salbiy o'sish	balance of payments
iqtisodiy o'sish	tax cut
tepalik, tsiklning eng yuqori nuqtasi	recession
tsiklning pastki nuqtasi	negative growth
iqtisodiy inqiroz	trough
soliq imtiyozlari	to work at below potential
quyi(past) salohiyatda ishlash imkoniyatlari	to run up debts

Exercise:3. Express in one word.

Beliefs about what will happen in the future.

1. Money borrowed in order to buy a house or flat (GB) or apartment (US).
2. Money paid for the use of a house or flat owned by somebody else.
3. The amount of something produced by a company, a country, and so on.
4. Spending on new machines, factories, and so on.
5. Owners or managers of manufacturing companies.
6. Spending on goods and services.
7. To dismiss employees.
8. Concerning the number of births, deaths, population movements, and so on
9. An absence of luxury and comfort.

<u>Words for reference:</u> mortgage, investment, lay off, expectations, rent, demographic, consumption, austerity, industrialist, output.

Exercise:4. Complete the sentences using the words given below.

1. Recurrent rises and falls in real GDP over a period of years is called the __________ .

2. A (an) ___________ is officially defined as two consecutive quarters of real GDP decline.

3. ____ is measured by the annual percentage change in real GDP in a nation.

4. The ________ is the difference between full-employment or potential real GDP and actual real GDP.

5. The phase of the business cycle during which real GDP reaches its maximum after rising during a recovery is called a ________ .

6. A ________ is a phase of the business cycle during which real GDP reaches its minimum after falling during a recession.

7. An upturn in the business cycle during which real GDP rises is called a ___.

Words for reference: recovery; peak; trough; economic growth; GDP gap; business cycle; recession.

COMPREHENSION

Exercise: 5. Match up the following half sentences:

A B

A	B
1) Companies may have to reduce investment or the size of the work force	7) Internal theories of the business cycle
2) Companies only invest	8) People can demand higher pay
3) During a period of economic growth	9) People tend to spend less
4) External theories of the business cycle	a) consumers borrow a lot of money.
5) Governments often stimulate the economy	b) if labour costs increase too much.
6) Increases in interest rates	c) if their company's sales are increasing.
	d) include psychological factors.
	e) include technological and population changes.

f) prior to general elections.

g) result in higher rents and mortgages.

h) when they are afraid of becoming unemployed.

i) while consumption is increasing

Exercise: 6. Choose the right answer.

1. The _______ phase of the business cycle follows a recession.

a. recovery;

b. recession;

c. peak;

d. trough.

2. The GDP gap is the difference between:

a. frictional unemployment and actual real GDP;

b. unemployment rate and real GDP deflator;

c. full-employment real GDP and actual real GDP;

d. full-employment real GDP and real GGDP deflator.

3. A recession is a business contraction lasting at least:

a. one years;

b. six months;

c. three months;

d. one month.

4. When is the GDP gap largest?

a. During peak periods in the business cycle;

b. During trough periods in the business cycle;

c. When unemployment rates are relatively low;

d. When cyclical unemployment is close to zero.

Exercise:7. Answer the questions on the text.

1. What is a business cycle?

2. Which of the various theories of the business cycle mentioned in the text do you find the most convincing?

3. What is the current economic situation in your country? Why?

4. Are most of the people you know currently optimistic or pessimistic about the future? Would you say that they are saving money for bad times ahead, or spending and borrowing without worrying too much about the future? Either way, can you see anything coming that might cause them to change their behaviour?

Exercise:8. Skim the text to define unemployment, its negative and positive sides.

UNEMPLOYMENT

Unemployment is the number of adult workers who are not employed and are seeking jobs. To be classified as unemployed, a person must be able and willing to work, be actively seeking work, and be without a job. Everyone who fits this description is unemployed. The labour force is the total number of employed and unemployed workers. The unemployment rate is unemployment expressed as a percentage of the labour force.

Try to imagine a world in which there is no unemployment. The world that we've just considered would clearly not be a nice place in which to live and work. Workers and jobs would be badly mismatched, productivity would probably not be very high, and there would be a good deal of unhappiness and lack of job satisfaction. The world that we live in differs from this fictional world in many respects, and we'll focus on two of them.

First, in the real world, people don't usually take the first job that comes their way. Instead, they spend time searching out what they believe will be the best job available for them.

Second, the real world is dynamic and ever-changing. Production and consumption change as new technologies are developed and exploited. The rapid expansion of jobs in the high-tech computer-oriented sectors and the loss of jobs in traditional sectors such as automobiles and steel making have resulted in a large rate of labour turnover, which has resulted in workers moving not only from one sector of the economy to another but from one region of the country to another.

Unemployment has negative sides. The most obvious cost of unemployment is the loss of output and the loss of income. How big this cost is depends on the natural rate of unemployment. Besides prolonged unemployment seriously lowers the value of a person's human capital, i.e. the value of a person's education and acquired skills. When unemployment is prolonged, human capital depreciates or deteriorates –skills lose their value.

A rise in the unemployment rate also causes an increase in the amount of crime. When people cannot earn an income from legitimate work, they sometimes turn to crime. A high crime rate is also one of the costs of high unemployment. A final cost that is difficult to quantify is the loss of self-esteem that is human dignity, which afflicts people.

Exercise:9. To check your comprehension do the tasks that follow.

TYPES OF UNEMPLOYMENT

The unemployment rate is determined by three different types of unemployment: frictional, structural, and cyclical. Understanding these conceptual categories of unemployment aids in understanding and formulating policies to ease the burden of unemployment. In fact, each type of unemployment requires a different policy prescription to reduce it. For some unemployed workers, the absence of a job is only temporary. At any given time, some people with marketable skills are fired, and others voluntarily quit jobs to accept or look for new ones. And there are always young people who leave school and search for their first job. Workers in industries, such as construction, experiencing short periods of unemployment between projects and temporary layoffs are common. Other workers are seasonally unemployed.

For example, ski resort workers will be employed in the winter but not in the summer, and certain crops are harvested "in season." Because jobs requiring their skills are available once the unemployed and the job vacancies are matched, such workers are considered "between jobs." This type of unemployment is called **frictional unemployment**, and it is not of great concern. The fact that job market information is imperfect influences frictional unemployment in the economy. Because it takes time to search for the information required to match employer and employees, some workers will always be frictionally unemployed. Frictional unemployment is therefore a normal condition in an economic system permitting freedom of job choice. Improved methods of distributing job information through job listings on the Internet can help unemployed workers find jobs more quickly and reduce frictional unemployment.

Unlike frictional unemployment, structural unemployment is not a short-term situation. Instead, it is long-term, or possibly permanent unemployment resulting from the non-existence of jobs for unemployed workers.

Structural unemployment is unemployment caused by a mismatch of the skills of workers out of work and the skills required for existing job opportunities. Note that changing jobs and lack of job information are not problems for frictionally unemployed workers. While frictionally unemployed workers have marketable skills, structurally unemployed workers require additional education or retraining. Changes in the structure of the economy create the following three causes of structural unemployment.

First, workers might face joblessness because they lack the education or the job-related skills to perform available jobs. This type of structural unemployment particularly affects teenagers and minority groups, but other groups of workers can be affected as well.

Cyclical unemployment is directly attributable to the lack of jobs caused by the business cycle. Cyclical unemployment is unemployment caused by the lack of jobs during a recession. When real GDP falls, companies close, jobs disappear, and workers scramble for fewer available jobs. Similar to the game of musical chairs,there are not enough chairs (jobs) for the number of players (workers) in the game.

Full employment is the situation in which an economy operates at an unemployment rate equal to the sum of the frictional and structural unemployment rates. Full employment therefore is the rate of unemployment that exists without cyclical unemployment.

Exercise:10. Choose the right answer according to the text and your background knowledge. Explain your choice.

1. The number of people officially unemployed is not the same as the number of people who can't find a job because:

a. people who have jobs continue to look for better ones;

b. the armed forces is included;

c. discouraged workers are not counted;

d. none of the above;

e. all of the above.

2. Frictional unemployment refers to:

a. unemployment related to three ups and downs of the business cycle;

b. workers who are between jobs;

c. people who spend relatively long periods out of work;

d. people who are out work and have no job skills.

3. A mismatch of the skills of unemployed workers and the skills required for existing jobs is defined as:

a. involuntary unemployment;

b. cyclical unemployment;

c. structural unemployment;

d. frictional unemployment.

4. Unemployment caused by a recession is called:

a. structural unemployment;

b. frictional unemployment;

c. involuntary unemployment;

d. cyclical unemployment.

5. Full employment occurs when the rate of unemployment consist of:

a. seasonal plus structural plus frictional unemployment;

b. cyclical plus frictional unemployment;

c. structural, frictional, and cyclical unemployment;

d. none of the above.

TRANSLATION

Exercise:11. Give the meaning of passage into English.

Ishsizlik har qanday jamiyat oldida turgan jiddiy muammolardan biridir. Har qanday hodisa kabi, uni aniq baholash mumkin emas. Bir tomondan, u odamlarga vaqt va munosib ish topish imkoniyatini beradi. Boshqa tomondan, ishsizlarning holati odamlarni noqonuniy daromadlarni qidirishga olib keladi. Ishsizlikning oqibatlari juda ta'sirli. Birinchidan, bu daromad yetishmasligi. Ikkinchidan, bu erishilgan professional bilim va insoniy qadr-qimmatni yo'qotishdir. Shubhasiz, yuqori haq to'lanadigan ish topishdan hafsalasi pir bo'lgan kishi shubhali takliflarga rozi. Bundan tashqari, ishsizlik odamlarni jinoyat sodir etishga majbur qiladi. Agar ishsizlik uzoq bo'lsa, u nafaqat ishsizlar uchun, balki uning oilasi uchun ham jiddiy ijtimoiy va psixologik muammolarni keltirib chiqaradi.

NOTES:

1. to head –to move or go in a certain direction;
2. opening –place or position that is vacant;
3. to get in –to submit;
4. to check out –to prove true.

VOCABULARY

boom n – **:** to increase greatly in size or number

business cycles – a cycle of economic activity usually consisting of recession, recovery, growth, and decline

depreciate v – to lower the price or estimated value of

depression n – a period of low general economic activity marked especially by rising levels of unemployment

deteriorate v – to make inferior in quality or value

employment n – the state of being employed

full ~ – Full employment is an economic situation in which all available labor resources are being used in the most efficient way possible.

expansion n– the act or process of expanding

gap n – a separation in space

deflationary ~ – a deficit in total disposable income relative to the current value of goods produced that is sufficient to cause a decline in prices and a lowering of production

hinder v – to make slow or difficult the progress of

inputs n – **:** an amount put in

lay off v – **:** the act of laying off an employee or a workforce

obsolete adj – no longer in use or no longer useful

output n – something produced:

peak n – being at or reaching the maximum

recession n (syn. contraction, downturn) – the act or action of receding

recovery n (syn. upturn, expansion) – the act, process, or an instance of recovering

seek v – to go in search of **:** look for

shortage n (syn. deficit) – LACK, DEFICIT

switch v – an act of switching:

temporary adj – lasting for a limited time

trough n – the low point in a business cycle

turnover n – the amount received in sales for a stated period

unemployment n **--** the state of being unemployed

cyclical ~ – Cyclical unemployment is the component of overall unemployment that results directly from cycles of economic upturn and downturn.

frictional ~ – Frictional unemployment is the result of voluntary employment transitions within an economy.

structural ~ – Structural unemployment is a longer-lasting form of unemployment caused by fundamental shifts in an economy

GLOSSARY

❖ ·**Business cycle** –alternating periods of economic growth and contraction, which can be measured by changes in real GDP.

- ·**Cyclical unemployment** –unemployment caused by the lack of jobs during a recession.
- ·**Economic growth** –an expansion in national output measured by the annual percentage increase in a nation's real GDP.
- ·**Frictional unemployment** –unemployment caused by the normal search time required by workers with marketable skills who are changing jobs, initially entering the labour force, re-entering the labour force, or seasonally unemployed.
- ·**Full employment** –the situation in which an economy operates at an unemployment rate equal to the sum of the frictional and structural unemployment rates.
- ·**Peak** –the phase of the business cycle in which real GDP reaches its maximum after rising during a recovery.
- ·**Recession** –a downturn in the business cycle during which real GDP declines.
- ·**Recovery** –an upturn in the business cycle during which real GDP rises; also called an expansion.
- ·**Structural unemployment** –unemployment caused by a mismatch of the skills required for existing job opportunities.
- ·**Trough** –the phase of the business cycle in which real GDP reaches its minimum after falling during a recession.

UNIT 3. LESSON 4.

BANKING

DISCOVERING CONNECTIONS

1. Have you ever been to the bank? What did you go there for?

2. What different kinds of services do banks offer to the public?

3. How would you comment the saying "A banker is a man who lends you umbrella when the weather is fair, and takes it away from you when it rains"? Do you agree with it?

READING

THE WORLD OF BANKING AND COMMERCIAL BANKS

BANKS ACT LIKE 'MONEY PUMPS'

To put it simply, banks are in business to look after money that one group of people do not want to spend. They then lend that money to another group who do not have enough of their own money to spend. By offering suitable interest rates or other incentives, the banks can attract de-posits of money. This money safely in the banks is temporarily with-drawn from circulation. The banks then help to pump or 'inject' that money back into circulation by lending it to those who want extra money to spend.

The basic idea of banking is that a bank attracts deposits of money at one rate of interest and then lends the money at a higher rate of interest. The aim is to do this profitably.

The complicated world of banking

It is difficult to build up a full picture of the whole banking system because it is so complicated. However, if we concentrate on the idea that banks encourage people to leave their savings with them and then lend the money out again to other people, we can build up a very simple picture of the banking system. You will notice that an extra type of financial institution called a discount house is included in this diagram. Discount houses are different from any of the other banks because they never attempt to attract money from the general public. The money used for lending comes from the commercial banks.

The Bank of England and the National Savings Bank do not aim to make a profit from the process of borrowing money and lending it. As government banks, any money they can attract is in effect lent to the government to spend or to save as it wishes.

In this unit, we will examine more closely the work of the three main banks. In addition, we will look at the work of an issuing house (merchant bank) which has a very special job to do in helping to keep money circulating around the economy.

Exercise:1. Read the text once without a dictionary. If you find a word the meaning of which you cannot guess, underline it and write your definition or translation in the margin (at side of the text). Then look up the word in the dictionary, check your guess and read the text again. Translate the text.

Exercise:2. Answer the following questions:

a) Where about is one of the major banking centers of the world located?

b) What is at the head of banking?

c) Explain the meaning of the title: "Banks act like money pumps"

d) What is the basic idea of banking?

e) Why do banks encourage people to leave their savings with them?

f) What is the difference between discount houses and any other banks?

Exercise:3. Say whether the following statements are true or false according to the information given in the above mentioned text:

1) One of the major banking centers of the world is situated in New York in Lombard Street.

2) There are no head offices of many different types of banks and financial institutions in Thread needle Street in New York

3) The job of the banks is to provide a whole range of financial services to government.

4) Looking after the banks and lending money is not important job for banking.

5) The banks cannot attract large deposits of money.

6) The money is safely in the banks.

7) The money is temporarily withdrawn from circulation.

Exercise:4. Answer the questions.

a) Explain the basic idea of banking: a bank attracts different deposits of money.

b) Give the explanation of the meaning of the word: a discount house.

c) Find non-finite forms of the verbs in the text (Participles, Gerunds and Infinitives).

d) Explain the difference among Participles, Gerunds and Infinitives.

TRANSLATION

Exercise:5. Read and try retell given passage.

THE COMMERCIAL BANKS

The commercial banks (sometimes referred to as joint stock banks) are the banks you see in the high streets of almost every town in the country. The biggest and the most well-known (called the 'big four') are Lloyds, Midland, Barclays and National Westminster banks. These banks have a history which goes back to the mid-eighteenth century, when the banking system consisted of a large number of small banks looking after money, making loans and even issuing their own banknotes. Today, banks like Lloyds are large multinational companies with their shares being bought and sold daily on the stock exchange. The amount of money they lend runs into millions of pounds. In addition to lending money, all the commercial banks have developed a very wide range of services for their customers. The banks make a charge for most of these services, so they earn an in-come from lending money profitably and from providing other services. Out of this income must come the expenses of running the bank and its nationwide chain of branches. This reminds us that commercial banks are in business to make a profit for their shareholders, which means that their income must exceed their expenses. The jobs that a commercial bank will undertake for its customers are called its 'functions'. There are two functions: the traditional *banking functions* and the *professional or special services*.

BANKING FUNCTIONS

Operating current accounts

An important job for a commercial bank is to make sure that money is transferred swiftly and correctly from one current account to another. The bank's job operating current accounts is vital to the functions of the whole economy. This involves keeping a careful record of the payments a customer makes and the money received. A customer is given full written details of these transactions in a statement of account. Statements are normally issued every month, but they can be provided every day if necessary.

Transfers of money from one current account to another usually take place as a result of the instructions contained in a cheque. But this is not always the case banks can provide a service which transfers money from one current account to another, automatically. This system of standing orders enables the banks to make regular payments out of a current account to pay for such regular and fixed amount payments as rent, life assurance premiums and subscriptions to clubs. For example a subscription to the AA (Automobile Association) could be paid annually by standing order. Although this system has been useful, it is now being replaced in many cases by the system known as direct debit. This is very similar to a standing order, but it enables a person to make regular payments of a varying amount. This system has proved to be particularly useful in times of high inflation when, for example, club subscriptions, rent and premiums have all been rising.

Exercise:6. Answer the questions:

a) What are the biggest and the most well-known commercial banks do you know?

b) What have all the commercial banks done in addition to lending money?

c) How do the banks earn an income?

d) How are the jobs undertaken for the customers of a commercial bank called?

e) What are the names of these jobs and how many are they?

f) What is an important job for a commercial bank?

g) What do current accounts mean?

k) How do you understand the sentence the banks make a charge for most of these services?

i) Commercial banks are in business to make a profit for their share-holders. Prove it.

Exercise:7. Agree or disagree:

1.There are three jobs that a commercial bank undertakes for its customers.

2.A commercial bank does not always make sure that money is transferred swiftly and correctly from one current account to another.

3.A customer is given details of the transaction in a short form once a week.

4.Transfers of money from one current account to another usually take place as a result of the instructions contained in a cheque.

5.The system of standing orders although being useful is now being replaced by the system known as direct debit.

Exercise:8. Give the explanation of the meanings of the words and word combinations:

operating current accounts vital, to make loans, to lend money, a wide range of services, profitably, to run the bank, functions, to make sure, standing order, direct debit.

Exercise:9. Read and translate the text, copy out the new words.

LOOKING AFTER SAVINGS

A bank looks after a person's savings in a deposit account. Money saved in a deposit account earns interest. The bank usually requires a person to tell it in advance when he or she wants to withdraw the money, and normally expects people to keep money in a deposit account for a reasonable length of time. However, banks do not mind if a customer suddenly wants to withdraw his or her savings immediately. But you should remember that the bank will probably reduce the interest it pays - as a sort of penalty!

Distributing banknotes and coins

Most people do not realize that banks do the job of distributing banknotes and coins around the country. The need for this job is particularly apparent during the summer period. At this time of year, holidaymakers from the big cities go to the coast with their pockets bulging with notes and coins to spend. Eventually, this cash finds its way into the tills of shops, pubs and hotels and is then banked. The local banks find that they have too much for their immediate needs, so they load it into security vans and take it back to the cities. There it is ready to be reissued to the next train load of holidaymakers.

Lending

Commercial banks have another important function: they lend money to private individuals and to firms. A bank manager might refer to this as lending to the private and the corporate sector. For short-term loans, the banks may arrange for its customers to have an overdraft on their current account. For big businesses an overdraft could be for several millions of pounds for private individuals it might be for only a few pounds. With an overdraft the customer can write cheques for more than is in his or her current account - up to a limit of course! The advantage of having a loan in the form of an overdraft is that the bank will charge interest on the actual sum overdrawn on a day-to-day basis. In the case of an ordinary loan, the bank will charge interest on the full amount of the money, regardless of whether it is spent or not. This is why borrowing money can work out cheaper if it is arranged as an overdraft.

Bank Base Rates

Look in at any of the local commercial banks and you will see that there are a number of interest rate notices around. The most important one is called the bank's base rate. It is a guide to the interest rates that particular bank is offering if you save money with them or if you borrow. The interest rate offered to savers is usually a little below the base rate. The rate of interest on any overdrafts or loans will always be above the base rate, but how much above will depend on what the bank manager considers the risk to be.

Exercise:10. Give the synonyms and antonyms of the new words and expressions, their derivatives, if possible.

Exercise:11. Translate the following sentences:

1. Agar kimdir soliq uchun juda ko'p pul to'layotganidan xavotirda bo'lsa, ular soliq bank inspektsiyasidan yordam so'rashlari mumkin.
2. Bank mijozlarga vasiyat yozish va mijozning o'limidan so'ng vasiyat shartlarini belgilashga yordam beradigan departamentga ega.
3. Katta firmalar uchun banklarning aksariyati alohida maslahat xizmatini tashkil qiladi.

4. Tijorat banklari yana bir muhim vazifani bajaradilar: ular xususiy shaxslar va firmalarga qarz berishadi.

5. Omonatchilarga taklif qilingan foiz stavkasi odatda bazadan bir oz past bo'ladi.

Exercise:12. Insert a verb from the box into each blank:

save, look, offered, will see, borrow, depend, will, considers, will be, is offering

______________________ in at any of the local commercial banks and you_____________ that there___________ a number of interest rate notices around. The most important one is called the bank‘s rate. It _____________a guide to the interest rates that particular bank ________ if you __________ money with them or if you _____________. The interest rate _____________ to savers ____________ usually a little below the base rate. The rate of interest on any overdrafts or loans _____________ always ___________ above the base rate but how much above ______________ on what the bank manager _____________ the risk to be.

Exercise:13. Write down the English equivalents for the following.

Oxirgi kreditor tanqidiy vaziyatda; zaxira stavkasi; inflyatsiyani to'xtatish; iqtisodiy o'sishni ta'minlash; iqtisodiy o'sish va sotish narxi o'rtasidagi farq; to'lov muddati; qarzlarni to'lash; belgilangan foizli qimmatli qog'ozlar bo'yicha daromad; sotib olish; birlashish; hisob foiz stavkasi; mulk; kreditni ta'minlash, garov; kafolat berish, kafolat berish; kredit qobiliyati, to'lov qobiliyati (3 variant); evro valyutasi; savdo tanqisligi.

Exercise:14. Are the following sentences true or false? Say why.

True False

a. If the banks lends money to a company, the banks is one
of the company’s debtors.

b. If you borrow money from the bank at a variable rate of interest,
you might have to pay back more than you think you will.

c. Creditors prefer low interest rates. . .

d. Debtors prefer high interest rates. . .

Exercise:15. While reading the text focus on the information describing the procedures of the Fed and other financial institutions of the USA, put down a plan choosing key words to each point of the plan.

BANKING IN THE USA

At the centre of the U.S. banking system is the Federal Reserve System (FRS or "the Fed", as it is usually called) which was established in 1913. It consists of 12 regional banks and has its task in controlling the national banking system.

The Federal Reserve serves as a "banker's bank" and the typical bank customer never enters the door of a Federal Reserve district bank or one of its branch banks.

The organization's main task is to set and implement monetary policy, which is a set of rules for handling the economy and the money supply. Following are brief descriptions of some of the principal functions of the Federal Reserve.

The Fed (1) **regulates the money supply** by four basic tools. It can set the discount rate and change the reserve requirements, that is the sum of money (called reserves) equal to a certain percentage of deposits that a bank must keep on hand.

Another tool the Fed uses is its power to buy and sell government bonds on the open market. These are known as open-market operations.

The last tool employed by the Fed involves selective credit controls, or the setting of credit terms on various kinds of loans.

Another function performed by the Fed includes (2) **clearing checks**.

Banks can use the Federal Reserve's check-clearing service to clear checks drawn on banks outside their Federal Reserve districts.

One more important task of the Fed is (3) **maintaining and circulating** currency. Note that the FRS does not print currency –it maintains and circulates money. The Federal Reserve must be ready to ship extra money from its large vaults by armored trucks.

The Fed also (4) **supervises the activities** of member banks abroad and regulates certain aspects of international finance.

Apart from that, the Fed (5) **protects consumers** by receiving and trying to resolve consumer complaints against banks. There are certain regulations, for example, that prohibit discrimination based on race, colour, religion, or national origin in the extension of credit.

In addition, the (6) Fed **maintains the federal government checking accounts and gold.** The U.S. Treasury has the Fed handle its checking account. From this account, the federal government pays for such expenses as federal employees' salaries, social security, tax funds, veterans' benefits, defence, and highways. Gold, stored in the Fed belongs mainly to foreign governments and is one of the largest accumulations of this precious metal in the world.

Commercial banks accept deposits and use these funds to make loans.

There are two types of commercial banks: national banks and state banks. National banks are chartered by the federal government, and state banks are chartered by state government. These banks are prime sources of capital for business and also provide loans as well as checking and saving accounts for consumers. Both savings banks and savings and loan associations perform many of the same functions as commercial banks (e.g., checking and savings accounts, loans) but use the majority of their assets for financing home mortgages.

Credit unions are member-owned corporations that offer checking and savings accounts, credit cards, and consumer loans. Most of the 16.326 credit unions in this country serve employee groups.

Other financial institutions include finance companies (which provide short-term loans), large brokerage houses, insurance companies, pension funds, and investment banks (which help corporations raise capital). Most financial institutions operate on the principle of attracting deposits and then lending some of this money to other customers.

Exercise:16. Read and translate the text.

UZBEKISTAN FINANCIAL SYSTEM

BANK

1) Overview

Below sketches existing rural financial markets in Uzbekistan. Financial services are intermediated by financial institutions, which include banks, microfinance non-government organizations (MF-NGOs), credit unions (CUs), and government and private non-bank financial institutions (NBFIs). Banks and CUs mobilize deposits from individuals and legal entities.

State-owned and controlled banks and NBFIs dominate the rural financial system in terms of both resources and clients and are also the main conduits for government directed credit programs. In addition, international donor agencies provide resources to rural financial markets through microfinance institutions(MFIs) and domestic banks. Self-financing and informal financing are the two other sources of finance for individuals and legal entities.

❖ There are three major institutions that are involved in regulating and supervising financial institutions. The Central Bank of Uzbekistan (CBU) supervises and regulates banks and credit unions; the Ministry of Labor and Social Protection, microfinance institutions; and Ministry of Finance, other financial institutions such as leasing and insurance companies.

2) Banking law

❖ The banking system in Uzbekistan remains closely controlled by the state through a complex set of regulatory actions, decrees, proclamations and practices. The Banking Law defines banking operations, sets limits on the equity participation of every shareholder (i.e., not more than 35 percent of chartered capital), allows banks to determine their interest rates for loans and commission fees for services, and bans anti-competitive behavior by banks. Banks are conceived to be universal banks, which can undertake not only commercial banking functions but also investment and leasing functions as well. However, they are not allowed to engage directly in production, trade and insurance activities. Article 8 of the Banking Law guarantees secrecy of operations, accounts and deposits of clients, except under certain circumstances, such as when clients are being investigated for criminal offenses. However, the same article provides that banks, upon the request of tax authorities, must present necessary information about operations of their clients for control and correctness of tax payments.

❖ Banks are exhorted to adopt international accounting standards (IAS). So far, the CBU has issued 14 prudential measures that comply with IAS. The latest information indicates that 20 banks have been audited by international accounting firms. The capital adequacy ratio has been set at 10 percent and is determined according to BIS methodology.

❖ The minimum capital requirements for newly opened banks are as follows: commercial banks established in Tashkent City – equivalent to US$2.5 million; commercial banks established in other regions – equivalent to US$1.25 million; and commercial banks established with foreign capital – equivalent to US$5 million. operate in the country, but only in the form of joint ventures with local investors. There is no ceiling on foreign equity participation in a joint venture bank so long as it is less than 100 percent.

3) Type of banks

❖ Presently, banks can be classified into five groups: state banks – 100 percent owned by the state with an original charter before the passage of the CBU Law; state joint stock banks – the state has controlling shares; joint stock banks – owned by private and state-owned enterprises with the former as controlling shareholders; private banks – 100 percent owned by the private sector; and joint venture banks – jointly owned by foreign banks and local partners.

As of March 2004, there were 33 banks in the country, consisting of two state banks, three state joint stock banks, 11 joint stock banks, 12 private banks and four joint venture banks. Together they have 806 branches and about 700 mini banks, which seem to be fairly well distributed across the 14 administrative regions.

❖ Until the mid-1990s, the Uzbekistan banking system was made up of highly specialized, state-owned banks. For instance, Pakhta Bank catered to cotton producers; Galla Bank to wheat producers; Asaka Bank to the car industry; and Tadbirkor Bank to entrepreneurs. Although these banks are no longer directed to serve only one specific sector, their portfolios still consist mainly of accounts with the sectors that they were originally catering to.

4) Asset

❖ As of the first quarter of 2004, the total assets of the banking system amounted to UZS4,358.6 billion (US$4.4 billion), which is equivalent to 45 percent of 2003 GDP. The Uzbekistan banking system is highly concentrated. The four largest banks, namely, NBU (state bank), Asaka (state joint stock bank), PSB (joint stock bank) and Pakhta (joint stock bank), account for 92 percent of the total assets, 94 percent of total loans and 86 percent of total deposits of the banking system. NBU alone accounted for 62 percent of the banking system's total assets, 70 percent of total loans and 53 percent of total deposits. It also controlled almost 70 percent of foreign trade business operations, effectively serving as the financial gate between Uzbekistan and the rest of the world. Asaka, the second largest bank in the country, had assets, loan portfolio and deposits comprising about 8 percent, 7 percent and 7 percent of the banking system's total assets, loans and deposits, respectively. Pakhta bank had 6 percent of the total assets, 3.5 percent of the total loans, and 14 percent of the total deposits of the banking system.

Exercise:17. Find in the text answers to the following questions:

1. What is the head of the U.S. banking system and when was it established?
2. What is the Fed's most powerful body and how many members does it consist of?
3. What is the main task of the FRS?
4. What four basic tools does the Fed use to regulate the money supply and expand economy? Which of them is the most powerful for controlling the money supply?
5. What are other functions performed by the Fed?
6. What different forms of financial institutions are there in the U.S.? How are they characterized?

Exercise:18. Read the dialogue and do the tasks that follow.

Student: I'd like to know who really owns the bank?

Banker: The stockholders own it. In the beginning, they put up the necessary capital and were granted a charter from the government.

Student: Am I right to say that all the members of the board of directors are stockholders?

Banker: Oh, yes. They are chosen by the other stockholders to operate the bank.

Student: And the board hires the president and the vice-president to manage it?

Banker: That's right. Along with the cashier, the tellers and the clerical workers.

Student: I guess most of your work has to do with checking and savings accounts and making loans.

Banker: Yes. But we invest money too. Planning the bank's investment is also very important.

Student: I wonder if you divide all the profits among the stockholders.

Banker: Not all of them. The stockholders receive regular dividends. But some of our earnings are held in reserve accounts.

Student: I suppose that would be necessary.

Banker: Here is a copy of our last published statement. You see, the reserves are shown here as surplus and undivided profits.

VOCABULARY

account n – a record of debit and credit entries to cover transactions involving a particular item or a particular person or concern

current(Br)/checking(Am) ~ – A checking account is a deposit account held at a financial institution that allows withdrawals and deposits.

deposit(Br)/time(Am) ~ – to place especially for safekeeping or as a pledge

overdrawn ~ having an overdrawn account

bankruptcy n – the quality or state of being bankrupt

blue chip n – a stock issue of high investment quality that usually pertains to a substantial well-established company and enjoys public confidence in its worth and stability

bond n – an obligation made binding by a forfeit of money

borrowing n – something borrowed

broke adj – **:** PENNILESS

to go ~ – **:** to spend or lose all of one's money

cancel v,n – to decide not to conduct or perform (something planned or expected) usually without expectation of conducting or performing it at a later time

cater v – **:** to supply what is required or desired

charge v, n – to fix or ask as fee or payment

cheque (GB)/check(US) n – a written order directing a bank to pay money as instructed

to clear a ~/syn. to stop a ~ – pay the invoice

circulation n – orderly movement through a circuit

collateral n – property (such as securities) pledged by a borrower to protect the interests of the lender

credit n – **:** an amount or sum placed at a person's disposal by a bank

to be in~ syn.to be in the black – be creditworthy

extension of ~ – **Extension of Credit** means, as to any Lender, the making of a Loan by such Lender, any conversion of a Loan from one Type to another Type, any extension of any Loan or the issuance, extension or renewal of, or participation in, a Letter of Credit or Swingline Loan by such Lender.

currency n – paper money in circulation

custody n – immediate charge and control (as over a ward or a suspect) exercised by a person or an authority

in safe ~ –**the service provided by**

a bank or similar organization for keeping customers' documents or

other valuable objects safe

deposit v – **:** to place especially for safekeeping or as a pledge

deposit n – the state of being deposited

demand(BrE)/checking(AmE)~ – an act of demanding or asking especially with authority

savings(Br)/time(Am) ~ – the act or an instance of economizing

depositor n – **someone who deposits money**

deregulation n – the act or process of removing restrictions and regulations

insurance n – coverage by contract whereby one party undertakes to indemnify or guarantee another against loss by a specified contingency or peril

intermediary n – **:** MEDIATOR, GO-BETWEEN

lend v – to give for temporary use on condition that the same or its equivalent be returned

loan n – money lent at interest

maturity n – payment and repayment period

merger n – the act or process of merging

mortgage n – **:** the state of the property so mortgaged

overdraft n – **:** an act of overdrawing at a bank **:** the state of being overdrawn

offset v – **:** to serve as a counterbalance for **:** COMPENSATE

paid-in-capital – Paid-in capital is the amount of capital "paid in" by investors during common or preferred stock issuances, including the par value of the shares plus amounts in excess of par value.

pledge v – a bailment of a chattel as security for a debt or other obligation without involving transfer of title

portfolio n – the securities held by an investor**:** the commercial paper held by a financial house (such as a bank)

price n – the amount of money given or set as consideration for the sale of a specified thing

futures ~ – **:** the price of a stock or commodity on a futures contract — contrasted with *spot price*

spot ~ **:** the price of spot goods —contrasted with *future price*

rate n – a quantity, amount, or degree of something measured per unit of something else

base/discount ~ – a proportionate deduction from a debt account usually made for cash or prompt payment

interest ~ – interest rate

required reserve (ratio) – reserves prescribed by law

reserve requirements – Reserve requirements are the amount of cash that banks must have, in their vaults or at the closest Federal Reserve bank, in line with deposits made by their customers.

quote v – to state (the current price or bid-offer spread) for a commodity, stock, or bond

savings n – the act or an instance of economizing

share n – **:** a portion belonging to, due to, or contributed by an individual or group

shift v – to exchange for or replace by another

spread n (syn. margin) – the difference between the estimated purchase and sale prices

short notice – **:** immediately after one has been told about something

standing order – an instruction or prescribed procedure in force permanently or until changed or canceled

statement n – something stated

takeover n – **:** to assume control or possession of or responsibility for

trustee n – a natural or legal person to whom property is legally committed to be administered for the benefit of a beneficiary (such as a person or a charitable organization)

value n – the monetary worth of something

face/nominal ~– equal to the annual rate of simple interest that would obtain if interest were not compounded when in fact it is compounded and paid for periods of less than a year

valuables n pl – having monetary value

underwrite v – **:** to write under or at the end of something else

withdraw v – to take back or away

yield n – to produce as return from an expenditure or investment**:** furnish as profit or interest

GLOSSARY

- ·**Discount rate** –The interest rate a central bank charges on loans of reserves to banks.
- ·**Exchange rate** –The number of units of one nation's currency that equals one unit of another nation's currency.
- ·**Federal Reserve System** –he twelve central banks in the USA that service banks and other financial institutions within each of the Federal Reserve districts, popularly called the Fed.
- ·**Nominal interest rate** –the annual percentage amount of money that is earned on a sum loaned or deposited in a bank.
- ·**Open market operations** –the buying and selling of government securities by a central bank.
- ·**Required reserve ratio** –the percentage of deposits that a central bank requires a bank to hold in vault cash or on deposit with it.
- ·**Required reserves** –the minimum balance that a central bank requires a bank to hold in vault cash or on deposit with it.

UNIT 3
LESSON 5

MONEY AND MONETARY POLICY

DISCOVERING CONNECTIONS

1.What do you know from the history of money?

2.Can you give any examples of things that were used as money in the previous societies?

3. Do you see any advantages of a barter system?

4. What functions does money serve in modern societies?

5. What body is responsible for monetary policy in the country?

READING

Exercise:1. As you read the text, focus on the types and functions of money.

MONEY AND ITS FUNCTIONS

Historically, many commodities, ranging from precious metals to cigarettes, have been used as money. In prisoner-of-war camps, cigarettes served as money. In the nineteenth century money was mainly gold and silver coins. These are examples of commodity money, ordinary goods with industrial uses (gold) and consumption uses (cigarettes) which also serve as a medium of exchange. In most modern societies, however, commodities are rarely used as money because they are expensive. Instead, they use fiat money, that is mainly paper currency issued by governments and deposits in checking accounts that are accepted as a means of payments for goods and services. Fiat money is sometimes called token money. By collectively agreeing to use fiat money, society economizes on the scarce resources required to produce money as a medium of exchange. The essential condition for the survival of fiat money is the restriction of the right to supply it. Private production is illegal.

Society enforces the use of fiat money by making it legal tender. The law says it must be accepted as a means of payment.

In modern economies, fiat money is supplemented by IOU (I owe you) money. IOU money is a medium of exchange based on the debt of a private firm or individual. A bank deposit is IOU money because it is a debt of the bank. When you have a bank deposit the bank owes you money. Bank deposits are a medium of exchange because they are generally accepted as payment.

Although the crucial feature of money is its acceptance as the means of payment or medium of exchange, money has three other functions. It serves as a unit of account, as a store of value, and as a standard of deferred payment. We discuss each of the four functions of money in turn. Money, the medium of exchange, is used in one-half of almost all exchanges.

Workers exchange labour services for money. People buy or sell goods in exchange for money. Money is the medium through which people exchange goods and services.

To see that society benefits from a medium of exchange, imagine a barter economy. A barter economy has no medium of exchange. Goods are traded directly or swapped for other goods. In a barter economy, the seller and the buyer each must want something the other has to offer. Each person is simultaneously a seller and a buyer. There has to be a double coincidence of wants.

Trading is very expensive in a barter economy. People must spend a lot of time and effort finding others with whom they can make mutually satisfactory swaps. The use of money –any commodity generally accepted in payment for goods, services, and debts - makes the trading process simpler and more efficient.

The unit of account is the unit in which prices are quoted and accounts are kept. In Britain prices are quoted in pounds sterling; in America in dollars. It is usually convenient to use the units in which the medium of exchange is measured as the unit of account as well. However, there are exceptions.

Money is a store of value because it can be used to make purchases in the future. To be accepted in exchange, money has to be a store of value. Nobody would accept money as payment for goods supplied today if the money was going to be worthless when they tried to buy goods with it tomorrow. But money is neither the only nor necessarily the best store of value. Houses, stamp collections, and interest-bearing bank accounts all serve as stores of value. Since money pays no interest and its real purchasing power is eroded by inflation, there are almost certainly better ways to store value. Finally, money serves as a standard of deferred payment or a unit of account over time.

VOCABULARY FOCUS

Exercise: 2. Match the words from A with their synonyms from B.

A	**B**
1) illegal	a) to postpone
2) restriction	b) limitation

3) crucial	c) against law
4) to consume	d) rare
5) to benefit	e) to profit
6) wasteful	f) barter
7) exchange	g) to use up
8) to defer	h) vital
9) scarce	i) costly

Exercise: 3. The text contains a number of common verb-noun partnerships (e.g. to store money, to make purchases...). Match up the verbs and nouns below to make common collocations.

A	B
1) consume	a) prices
2) exchange	b) interest
3) quote	c) money
4) keep	d) goods and services
5) bear	e) payment
6) deferred	f) accounts
7) serve	g) as a store of value

Exercise: 4. Match the Russian word-combinations with their English equivalents.

A	B
1) hisoblash birligi	a) to be eroded by inflation
2) o'zaro tasodifiy ehtiyojlar	b) a unit of account
3) jamg'arish vositasi	c) a medium of exchange
4) muomala qilish vositasi	d) a store of value
5) kechiktirilgan to'lov birligi	e) to swap for other goods
6) boshqa tovarlarga almashtirish	f) a standard of deferred payment
7) inflyatsiya natijada kamaytirish darajasi	g) a double coincidence of wants
8) o'zaro manfaatli almashinuv	h) legal tender

9) qonuniy to'lov vositasi i) a mutually satisfactory swap

COMPREHENSION

Exercise: 5. Complete the sentences.

1. Commodity money is…

2. Fiat money is …

3. In modem economies, fiat money is supplemented by …

4. Money is the medium through which…

5. The unit of account is the unit in which…

6. Money is a store of value because…

7. A standard of deferred payment or a unit of account…

8. In a barter economy, the seller and the buyer each must want something…

Exercise: 6. Choose the correct answer:

1. A direct exchange of fish for corn is an example of:

a. storing value.

b. a modern exchange method.

c. barter.

d. a non- coincidence of wants.

2. Which of the following is a store of value?

a. Money market mutual fund share.

b. Repurchase agreement.

c. All of the above are a store of value.

d. None of the above are a store of value.

3. Anything can be money if it acts as a:

a. unit of account.

b. store of value.

c. medium of exchange.

d. all of the above.

Exercise:3. Say whether the following is true or false.

1. Money eliminates the need for barter.

2. Any item can successfully serve as money.

3. Money is said to be liquid because it is immediately available to spend for goods.

Exercise: 4. Answer the questions.

1. What example of commodity money is given in the text?
2. What is fiat money?
3. What is fiat money supplemented by in modern economies?
4. In what way does society enforce the use of fiat money?
5. Why can a bank deposit serve as an example of IOU money?
6. How are goods exchanged in a barter economy?
7. Why is trading expensive in a barter economy?
8. What else can be used instead of money as a store of value?
9. What are the four functions of money? What do they imply?

Exercise:5. Read the text and think of a proper title for it.

Monetary policy is a central government policy with respect to the quantity of money in the economy, the rate of interest and the exchange rate. Let us consider the demand and supply for money. Why do people hold (demand) currency and checkable deposits (M1), rather than putting their money to work in stocks, bonds, real estate, or other nonmoney forms of wealth? John Maynard Keynes, in his 1936 work entitled.

The General Theory of Employment, *Interest*, *and Money*, gave three important motives for doing so: transactions demand, precautionary demand, and speculative demand.

The *transactions demand for money* is the stock of money people hold to pay everyday predictable expenses. The desire to have "walking around money" to make quick and easy purchases is the principal reason for holding money. Without enough cash, the public must suffer forgone interest.

People have a second motive to hold money, called *the precautionary demand for money*. The precautionary demand for money is the stock of money held to pay unpredictable expenses. This is the "mattress money" people hold to guard against those proverbial rainy days.

The third motive for holding money is *the speculative demand*. The speculative demand for money is the stock of money held to take advantage of expected future changes in the price of bonds, stocks, or other non-money financial assets. It is the so called “betting money. As the interest rate falls, the opportunity cost of holding money falls, and people increase their speculative balances.

Money supply comes in many forms, including currency, demand deposits, time deposits, and plastic money. The narrowest commonly used measure of money M1 consists of currency (bills, coins, money orders and travelers checks) and current accounts (AmE -checking accounts).A broader measure M2 includes M1 plus saving accounts.

When the money supply *increases*, people have more money to spend, and demand for goods and services increases. As demand increases, businesses hire additional workers to increase output. This is an economic growth scenario. But, if output does not keep pace with demand, prices increase. When prices rise continuously, inflation results. This tends to cause problems for people whose incomes do not increase at a rate consistent with inflation.

Exercise:6. Match the Russian word combinations in with their English equivalents.

A	B
1) bitimlar uchun pul talab	a) forgone interest
2) kutilmagan xarajatlar uchun pul talab	b) cash receipts from sales
3) pul uchun spekulyativ talab	c) transactions demand for money
4) rejalashtirilgan xarajatlar	d) to keep pace with smth
5) yo'qotilgan foizlar	e) withdrawal penalties
6) sarmoyani jalb qilish natijada zarar yetkazilishi	f) to increase at a rate consistent with inflation
7) sotishdan olingan pul tushumlari	g) the speculative demand
8) daromad keltiruvchi moliyaviy aktivlar	h) interest-bearing financial assets
9) qo’shimcha xarajatlar pul saqlash	i) ceteris paribus
10) boshqa qolgan narsalarga teng	j) predictable expenses

11) pul bozoridagi investitsiya fondlari — k) time deposits

12) inflyatsiya darajasiga mos darajada oshirish — l) the opportunity cost of holding money

13) biror narsa uchun ugurish — m) the precautionary demand

14) muddatli depozitlar — n) money market mutual funds

Exercise:7. Match the kind of demand for money in A with the stock of money people hold B and the definitions that follow.

A	B
1) The transactions demand for money	a) “betting money”
2) The precautionary demand for money	b) “walking around money”
3) The speculative demand for money	c) “mattress money”

1. The stock of money people hold to pay unpredictable expenses.

2. The stock of money people hold to take advantage of expected future changes in the price of bonds, stocks, or other non-money financial assets.

3.The stock of money people hold to pay everyday predictable expenses.

Exercise:8. Choose the correct answer.

1. The stock of money people hold to pay everyday predictable expenses is the:

a. transactions demand for holding money.

b. precautionary demand for holding money.

c. speculative demand for holding money.

d. store of value demand for holding money.

2. The stock of money people hold to take advantage of expected future changes in the price of bonds, stocks, or other nonmoney financial assets is the:

a. unit-of-account motive for holding money.

b. precautionary motive for holding money.

c. speculative motive for holding money.

d. transactions motive for holding money.

3. Which of the following statements is true?

a. The speculative demand for money at possible interest rates gives the demand for money curve its upward slope.

b. There is an inverse relationship between the quantity of money demanded and the interest rate.

c. According to the quantity theory of money, any change in the money supply will have no effect on the price level.

d. All of the above.

Exercise:9. Discuss the following questions with your partner.

1. Why do people hold (demand) currency and checkable deposits (M1), rather than putting their money to work in stocks, bonds, real estate, or other nonmoney forms of wealth?
2. What's the main reason for having 'walking around money'?
3. What are the consequences of lacking cash?
4. What is the precautionary demand for money based on?
5. What do precautionary balances help to avoid?
6. What is the speculative demand for money held for?
7. Why do people prefer to invest in stocks and bonds when the interest rate is high?
8. What happens to the opportunity cost of holding money when the interest rate falls?
9. What does a demand for money curve represent?
10. What does the money supply of the U.S. consist of?
11. What measures can be taken to regulate the money supply?
12. What may happen if output does not keep pace with demand?

UNIT 3 LESSON 6

Exercise:1. Read the text and compare the macroeconomic theories of different schools of economic thought. Explain the difference between the Keynesian and the monetarist views on how an increase in the money supply causes inflation. Note the similarity between the classical and the monetarist schools.

CLASSICAL ECONOMICS

The dominant school of economic thought before the Great Depression was classical economics. The basic theory of the classical economists, introduced by Adam Smith in *The Wealth of Nations*, was that a market-directed economy will automatically correct itself to full employment. Consequently, there is no need for fiscal policy designed to restore full employment. A key assumption of classical theory is that, given time to adjust, prices and wages will decrease to ensure the economy operates at full employment. A decrease in the aggregate demand curve causes a temporary surplus, which, in turn, causes businesses to cut prices and, in turn, causes more goods to be purchased because of the real balances effect. As a result, wages adjust downward, and employment rises. Classical economists therefore view the economy as operating in the long run along a vertical aggregate supply curve originating at the full-employment real GDP.

KEYNESIAN ECONOMICS

The Great Depression challenged the classical prescription to wait until markets adjust and full employment is automatically restored. As the unemployment rate rose to 24.9 percent in 1933, people asked how long it takes for the market mechanism to adjust. John Maynard Keynes responded with this famous saying, "In the long run we are all dead." Keynes and his book. The General Theory, attacked classical theory and in the process revolutionized macroeconomic thought. Using fiscal policy to affect aggregate demand is a cornerstone of Keynesian economics. While Keynesians believe monetary policy is often not very powerful, especially during a downturn, they perceive fiscal policy as their "top banana." However, Keynesians recognize that one of the potential problems of fiscal policy is the crowding-out

effect. Financing a federal deficit by borrowing competes with private borrowers for funds. Given a fixed money supply, the extra demand from the federal government to finance its deficit causes the interest rate to rise. As a result, businesses cut back on investment spending and offset the expected increase in aggregate demand. The Keynesian view, however, is that the investment demand curve is not very sensitive to changes in the interest rate and therefore only a relatively small amount of investment spending will be crowded out. Thus, the decline in investment only slightly counteracts or offsets an increase in aggregate demand created by a deficit.

Conclusion: Keynesians *view the shape of the investment demand curves as rather steep or vertical, so the crowding-out effect is insignificant.*

MONETARISM

Monetarists are iconoclasts because they attack the belief in the ability of either the Fed or the federal government to stabilize the economy. They argue that fiscal policy is an essentially useless tool, having little or no impact on output or employment because of a total crowding-out effect. Suppose the money supply remains fixed and the federal government borrows to finance its deficit. The intended goal is to increase aggregate demand and restore full employment. According to the monetarists, financing the deficit will drive up the interest rate and crowd out a substantial, not a small, amount of investment spending. The reason is that the monetarists view the investment demand curve as sensitive to changes in the interest rate, and therefore, greater amounts of investment spending will be crowded out. As a result, the net effect is no increase in aggregate demand and no reduction in unemployment.

Conclusion: *Monetarists view the shape of the investment demand curve as less steep or more flat, so the crowding-out effect is significant.*

Although the monetarists do not trust the Federal Reserve to use discretionary monetary policy, they are quick to point out that only money is important. Changes in the money supply, the basic lever of monetary policy, have a powerful impact. Instead of ineffectual government deficit spending to cure unemployment, an increase in the money supply would definitely stimulate the economy based on the quantity theory of money. In short, changes in the money supply directly result in changes in real GDP.

NOTES:

1. top bananan slang – asosiy, eng muhim omil;

2. crowding-out effect – ko'chirishning ta'siri;

3. iconoclast n – xurofot bilan kurashuvchi.

Exercise:2. Choose the correct answer.

1. The quantity theory of money of the Classical economists says that a change in the money supply will produce:

a) proportional change in the price level.

b) wide variation in the velocity of money.

c) less than proportional change in the price level.

d) greater than proportional change in the price level.

2. According to Keynesians, an increase in the money supply will:

a) decrease the interest rate, and increase investment, aggregate demand, prices, real GDP, and employment.

b) decrease the interest rate, and decrease investment, aggregate demand, prices, real GDP, and employment.

c) increase the interest rate, and decrease investment, aggregate demand, prices, real GDP, and employment.

d) only increases prices.

3. Which of the following is true?

a) Keynesians advocate increasing the money supply during economic recessions but decreasing the money supply during economic expansions.

b) Monetarists advocate increasing the money supply by a constant rate year after year.

c) Keynesians argue that the crowding-out effect is rather insignificant.

d) Monetarists argue that the crowding-out effect is rather large.

e) All of the above.

4. How is modern monetarism different from Keynesianism?

a) Monetarists believe that inflation is caused by excessive growth in the money supply, based on the equation of exchange, while Keynesians believe that inflation is caused by excessive growth in aggregate demand.

b) Monetarists believe that the velocity of money is predictable, while Keynesians believe it is unstable.

c) Monetarists believe that wages and prices are flexible, while Keynesians do not.

d) Monetarists believe that crowding-out negates any positive impact of fiscal policy, while Keynesians see a clear impact of fiscal policy on aggregate demand.

e) All of the above.

WRITING

Exercise:3. Read the text again and write its summary using the following questions as a plan:

1. What are the main instruments of monetary policy?
2. In what way does the rise in interest rate influence the lending provided by commercial banks?
3. What happens in the situation when the level of reserves in commercial banks increases?
4. Comment on the situation when the central bank sells bills or government bonds.
5. Why does central bank require the commercial banks to hold a percentage of their deposits as reserves?
6. What happens if the central bank increases/decreases the required reserve ratio?
7. What is monetary base?
8. How has the amount of cash changed in last decades? Why do we still need cash?

Exercise:4. Read and try to retell the meaning of the given text.

INSTRUMENTS OF MONETARY POLICY

The main instrument used by a central bank to achieve its goals is the interest rate –also known as the discount rate or base rate. This is the rate at which the central bank is ready to lend to commercial banks. Let us look at how a rise in the discount rate affects the banking system and the financial markets.

A rise in the discount rate makes it more costly for commercial banks to borrow from the central bank. As we have just discussed, banks may wish to borrow if they feel that their level of reserves is too low. If the cost of borrowing from the central bank goes up, commercial banks are less inclined to borrow from it. Since borrowing from the central bank is also a source of bank reserves, an increase in the interest rate and subsequent reduction in borrowing from the central bank puts the commercial banks in a situation where they have less reserves than they planned to hold. In response, they will reduce their lending by increasing the rates they charge to households and firms. In practice, commercial banks react very quickly to increases in the discount rate.

Another instrument of monetary policy is open market operations, which involve the purchase or sale of government securities by the central bank. When the central bank buys treasury bills or government bonds from a commercial bank, it makes payment simply by increasing the amount of reserves in the account of the commercial bank. Thus, the central bank uses its monopoly power over money creation. As the level of reserves increases, the commercial banks realize that they have more reserves than they need for prudent operation. Therefore, they extend their lending to households and firms by lowering their interest rates. In contrast, when the central bank sells treasury bills or government bonds, the commercial bank will make the payment for the securities from the reserves it deposited at the commercial bank. After the transaction has been completed, the level of reserves will be lower than before, and hence the commercial banks will raise their interest rate to cut their credit to households and firms. In both cases, the change in the reserves translates into a change in the credit provided to firms and households.

Finally, the central bank also requires the commercial banks to hold a percentage of their deposits as reserves. These are called required reserves, and the percentage is known as the required reserve ratio. These reserves are meant to ensure some minimum level of prudence, even if not all commercial banks want to operate as prudently as they should. If the central bank increases the reserve ratio, then the actual reserves of the banks will fall short of the required ratio. Thus the banks will have to raise their interest rate to cut back on loans, and deposit the money freed up as reserves at the central bank. The opposite happens if the central bank decreases the required reserve ratio. Suddenly banks have more reserves than they want to hold, so they will lend the money instead of holding it at the central bank. So if the required reserve ratio increases, the commercial banks lending to households and firms falls.

The opposite happens when the required reserve ratio decreases. It is important to point out that required reserve ratios are very stable –central banks do not like to change them too often.

Our discussion indicates that the level of cash deposits and commercial banks' reserves held at the central bank plays an important role in transmitting the central bank's monetary policy to the banking sector and the financial markets. The cash in circulation and the reserves of private banks together are called the monetary base. As we have already said, the central bank has a monopoly over money creation, more precisely, over monetary base creation. The power of a central bank rests on its ability to control the monetary base.

You may wonder, however, why the monopoly to create the monetary base makes the Bank of England or other central banks so important for the economy? After all, financial markets had become very complex and large by the beginning of the twenty-first century. If most transactions are carried out with credit cards, cheques and bank transfers, why would the ability to create cash or reserves matter?

First, we should recall that cash is still used in a large number of transactions. Although its scope and use have diminished over the last 30 years, it does not seem that cash is going to disappear in the near future. *Second,* even if a transaction does not involve the use of cash or reserves directly, it typically requires that someone somewhere holds a monetary base. For example, paying by cheque assumes a bank account with deposits, and the bank is required to hold a fraction of these deposits as reserves. Similarly, credit card bills must also be settled using cash or bank deposits. In the latter case, the bank has to hold the corresponding required reserves. In some sense, we can say that the whole financial system rests on the monetary base –and this makes the central bank a powerful institution. The amount by which a change in the monetary base is multiplied to determine the resulting change in the money supply is called the *money multiplier*.

TRANSLATION

Exercise:5. Try to give meaning of the passage with a dictionary.

The essence of money is most fully manifested in their functions. Money performs the following functions: a measure of value, a means of circulation, a means of accumulation and formation of treasures, a means of payment, world money. The first is the cost measure function. It is in money that the value of any product is determined (its price is determined). It is worth noting that gold performs this function perfectly. The function of money as a means of circulation determines the normal flow of the exchange of goods. Money becomes an intermediary in any act of commodity exchange, making this process less difficult for commodity producers. The function of money as a means of accumulation also seems quite obvious. The accumulation of money in the form of gold is actually the accumulation of value in the most liquid form. The function of money as a means of payment is interesting. It is important here that the process of selling and paying for goods is torn in time. Some time passes between the act of buying a product and its payment. Obviously, such a delay can take place only if the seller of this product receives payment guarantees from the buyer at a certain time. And finally, the function of world money. Here we actually assert that the commodity- money - is a universal equivalent that transcends national borders, turning into a global phenomenon, acting in international commodity exchange as a measure of value, as a means of circulation, and as a means of payment.

LISTENING

CENTRAL BANKING

Gabriel Mangano is an economics research student, specializing in monetary policy. You will hear him outlining the functions of a central bank, and discussing whether it should be independent from the government, and run by bankers, or under the control of the government.

Exercise: 6. Match the central bank and the country?

–the Bank of England	Germany
–the Federal Reserve Board (USA)	Belarus
–the Bundesbank (Germany)	China
–the Japanese central bank	the United Kingdom
–the Chinese central bank	the USA
–the National Bank	Japan

Exercise:7. Make sure that you understand the following words and word combinations.

to implement monetary policy

interest rate ceilings and floors

a fluctuation of interest rate

upswing /downswing of the exchange rate

a bank run = a run on the bank

A. Listen to Part One of the interview about the functions of a central bank, and fill in the gaps.

The first one is actually to implement monetary policy. There are roughly three ways to do it. First (1a)……………, which means limiting, upwards or downwards, the fluctuations of the interest rate.

The second way to implement monetary policy is simply (1 b)…………… coins, banknotes.

The third one, which is a bit more modern, is those (1 c)…………… ,

which are simply buying and selling government bonds to and from commercial banks.

So that was the first main task of a central bank. The second one is (2) …………… I would say. [...]

The third main task, yes, (3) ……………, I would say —make sure that the commercial banks have enough liquidities, for instance, to avoid any bank run. [...]

The fourth main task of the central bank would be to (4)………………………, in case, actually, one of these commercial banks goes bankrupt and the investors, the people putting money in the bank, have to get back their money.

B. Read the six sentences below, which also summarize central banking functions, but slightly differently, and match them up with the six expressions you have written in A.

a) controlling the amount of banknotes in circulation;

b) establishing maximum and minimum lending rates, thereby controlling the credit system;

c) ensuring that banks have a sufficient liquidity ratio to allow customers to withdraw their deposits when they want;

d) intervening on foreign exchange markets, buying or selling large amounts of the national currency, to prevent major fluctuations;

e) lending money to a commercial bank in danger of going bankrupt;

f) selling government bonds to commercial banks or buying them back, in order to alter the amount of credit the banks can offer (and thereby alter the money supply).

SPEAKING

Exercise: 8. Match the words in A with their definitions in B.

1) consumption	a) The state of being legally acceptable
2) precision	b) An amount used
3) coherence	c) A period of economic decline in a country
4) correlation	d) Accuracy
5) recession	e) The action of becoming or making smth. greater in size, number, or importance
6) expansion	f) A mutual relationship

7) validity g) Sth. (of ideas, thoughts, speech etc.) logical or consistent

8) vulnerable h) A tendency to behave in a certain way

9) propensity i) Exposed to being attacked or harmed

B. Discuss the following issues.

1. What are the functions of money?
2. What is the difference between commodity and fiat money?
3. What are the basic motives for the transactions demand, precautionary demand, and speculative demand?
4. What does the money supply of the U.S. consist of? What happens when the money supply increases?
5. What are the basic instruments of monetary policy?
6. Do you think central banks should be controlled or independent from the state? How does it work in your country?
7. What is the present day base interest rate in your country?

VOCABULARY

bill n – invoice; bill; banknote

utility ~ a service provided by a public utility

treasury ~ – **:** a place in which stores of wealth are kept

cost n (syn. expenses, expenditures) – the amount or equivalent paid or charged for something

historical ~ – the purchase price paid for the assets during their initial acquisition or construction

replacement ~ – the action or process of replacing **:** the state of being replaced

exchange n – the act of giving or taking one thing in return for another

medium of ~ – something commonly accepted in exchange for goods and services and recognized as representing a standard of value

forgone interest – lost interest

fee n – a sum paid or charged for a service

monetary adj – of or relating to money or to the mechanisms by which it is supplied to and circulates in the economy

~ **base**– The monetary base (or M0) is the total amount of a currency that is either in general circulation in the hands of the public or in the form of commercial bank deposits held in the central bank's reserves.

~ **policy**– Monetary policy, the demand side of economic policy, refers to the actions undertaken by a nation's central bank to control money supply and achieve macroeconomic goals that promote sustainable economic growth.

money n – something generally accepted as a medium of exchange, a measure of value, or a means of payment:

precautionary demand for ~ – demand for highly liquid financial assets — domestic money or foreign currency — arising from preparedness for emergency expenditures.

speculative demand for ~ – demand for highly liquid financial assets — domestic money or foreign currency — that is not dictated by real transactions such as trade or consumption expenditure.

transactions demand for ~ – determinants of the demand for money, the others being asset demand and precautionary demand.

~ **multiplier** – In economics, a multiplier broadly refers to an economic factor that, when increased or changed, causes increases or changes in many other related economic variables.

fiat/token ~ – done or given as a token especially in partial fulfillment of an obligation or engagement

IOU (I owe you) ~ – a paper that has on it the letters IOU, a stated sum, and a signature and that is given as an acknowledgment of debt

securities n– an instrument of investment in the form of a document (such as a stock certificate or bond) providing evidence of its ownership

government ~ – the body of persons that constitutes the governing authority of a political unit or organization

tender n– an unconditional offer of money or service in satisfaction of a debt or obligation made to save a penalty or forfeiture for nonpayment or nonperformance

legal ~ – money that is legally valid for the payment of debts and that must be accepted for that purpose when offered

velocity n – quickness of motion**:**

withdrawal penalties – A withdrawal penalty refers to any penalty incurred by an individual for early withdrawal from an account that is either locked in for a stated period, as in a time deposit at a financial institution, or where such withdrawals are subject to penalties by law, such as from an individual retirement account.

GLOSSARY

- **Medium of exchange** is the most important function of money. This means that money is widely accepted in payment for goods and services.
- **Unit of account** is another important function of money. Money is used to measure relative values by serving as a common yardstick for valuing goods and services.
- **Store of value** is the ability of money to hold its value over time. Money is said to be highly liquid, which means it is readily usable in exchange.
- **The demand for money** in the Keynesian view consists of three reasons why people hold money: (1) Transactions demand is money held to pay for everyday predictable expenses. (2) Precautionary demand is money held to pay unpredictable expenses. (3) Speculative demand is money held to take advantage of price changes in nonmoney assets.
- **An excess quantity** of money demanded causes households and businesses to increase their money balances by selling bonds. This causes the price of bonds to fall, thus driving up the interest rate.
- **An excess quantity of money** supplied causes households and businesses to reduce their money balances by purchasing bonds. The effect is to cause the price of bonds to rise, and, thereby, the rate of interest falls.

- **Monetarism** is the simpler view that changes in monetary policy directly change aggregate demand and thereby prices, real GDP, and employment. Thus, monetarists focus on the money supply, rather than on the rate of interest.
- **Monetary base** is the stock of an economy's most liquid financial assets.

UNIT 3 LESSON 7

FISCAL POLICY

The only good budget is a balanced budget.

Adam Smith of Glasgow (1776)

DISCOVERING CONNECTIONS

In the early 1980s, under President Ronald Reagan, the federal government reduced personal income tax rates by 25 percent. The goal was to expand aggregate demand and boost national output and employment in order to end the recession of 1980-1981. During the 1996 presidential campaign, one of President Bill Clinton's programs was supposed to stimulate economic growth by boosting government spending on long-term investment. This investment program included highways, bridges, fiber-optic communications networks, and education. Examples of what are both Reagan's tax cut and Clinton's investment spending programs? Is it one of the issues that touch everyone's life? Does an increase in government spending or a tax cut of equal amount provide the greater stimulus to economic growth? Can Congress fight a recession without taking any action? Why did Ronald Reagan think the federal government could increase tax revenues by cutting taxes?

READING

Exercise:1. Scan the text and find definitions of the following terms: fiscal policy, deficit, surplus. Read the text and do the tasks that follow.

FISCAL POLICY

Policy aimed at changing the level of either government spending or taxes to stimulate or slow down the economy is known as fiscal policy. It was invented by the British economist John Maynard Keynes in the 1930s. Keynes believed that increased demand for goods and services should be met by expanded production. However, after a nation's economy reaches full capacity, production cannot expand. If the demand for goods and services increases, prices continue to rise and inflation occurs. In such cases, Keynes recommended a tax increase, which would reduce the demand for goods and services and relieve the pressure on prices.

Keynes maintained that governments should use fiscal policy (tax and spending programs) to stabilize the economy. He said the overall level of economic activity depends on effective demand –that is, total spending by individuals, businesses, and government.

According to Keynes, major depressions, such as the Great Depression of the 1930's, occur as a result of a drop in effective demand. He argued that in periods of depression the government should increase its spending, cut taxes, or do both to stimulate the economy. These steps would result in a government budget deficit (shortage). But Keynes said the actions could lead to higher levels of investment and nongovernment spending and to full employment. To understand how fiscal policy works, we need to understand three basic concepts.

First, the deficit. When government spending is greater than tax revenue, we have a federal budget deficit. The government is paying out more than it's taking in. How does it make up the difference? It borrows. Deficits have been much more common than surpluses. This is not to say that deficits are always bad. Indeed, during recessions, they are just what the economic doctor ordered.

Second, budget surpluses are the exact opposite of deficits. They are prescribed to fight inflation. When the budget is in a surplus position, tax revenue is greater than government spending.

Finally, we have a balanced budget when government expenditures are equal to tax revenue.

Thus, fiscal policy is the manipulation of the government budget deficit or surplus to influence the level of aggregate income (or GDP) in the economy. If aggregate income is too low (actual income is below target income), the appropriate fiscal policy is expansionary fiscal policy: increase the deficit, or reduce a surplus, which means the government spends more or takes in less. If aggregate income is too high (actual income is above target income), the appropriate fiscal policy is contractionary fiscal policy: reduce the deficit, or increase a surplus, which means the government takes in more in taxes or spends less.

Expansionary and contractionary fiscal policies are two basic types of discretionary fiscal policy.

Exhibit 1 lists these types of fiscal policy and the corresponding ways in which the government can pursue each of these options.

Exhibit 1

Discretionary fiscal policy

Expansionary fiscal policy	**Contractionary fiscal policy**
Increase government spending	Decrease government spending
Decrease taxes	Increase taxes
Increase government spending and taxes equally	Decrease government spending and taxes equally

The fundamental purpose of fiscal policy is to eliminate unemployment or inflation. When recession exists, an expansionary fiscal policy is in order. This entails increased government spending or lower taxes, or a combination of the two. In other words, if the budget is balanced at the outset, fiscal policy should move in the direction of a government budget deficit during a recession or depression.

Conversely when demand-pull inflation stalks the land, a restrictive or contractionary fiscal policy is appropriate. A contractionary policy is composed of decreased government spending, or higher taxes, or a combination of these two policies. Fiscal policy should move toward a surplus in the government's budget when the economy is faced with the problem of controlling inflation.

VOCABULARY FOCUS

Exercise:2. Which preposition? Complete each sentence with a suitable preposition.

1. Companies invest ….. new equipment that will increase production.
2. The government can use its spending and taxing programs to reduce the demand ….. goods and services.
3. A tax increase reduces the demand ….. goods and services and relieves the pressure ….. prices.
4. The overall level of economic activity depends ….. effective demand –that is, total spending by individuals, businesses, and government.
5. The government takes ….. more ….. taxes or spends less.
6. The economy is faced ….. the problem ….. controlling inflation.

Exercise:3. Match the following Russian common collocations with their English equivalents:

A	**B**
1) soliq yig'ish	a) fiscal policy
2) ixtiyoriy fiskal siyosat	b) aggregate demand
3) jami talab	c) take in taxes
4) fiskal siyosat	d) discretionary fiscal policy

5) iqtisodiyotni barqarorlashtirish	e) to reduce the demand for goods and services
6) iste'mol talabi	f) to depend on effective demand
7) ishsizlik va inflyatsiyani bartaraf etish	g) to stabilize the economy
8) tovarlar va xizmatlar uchun talabni kamaytirish	h) government spending
9) rag'batlantiruvchi moliyaviy siyosat	i) consumer spendings
10) federal byudjet tanqisligi	j) consumer demand
11) to'lov muvozanat qobiliyatiga bog'liq	k) expansionary fiscal policy
12) davlat xarajatlari	l) to eliminate unemployment or inflation
13) iste'mol xarajatlari	m) income tax
14) daromad solig'i	n) federal budget deficit

Exercise:4. Choose the words with opposite meaning from two columns and arrange them in pairs.

A	**B**
1) cut	a) collective
2) exogenous	b) contraction
3) expansion	c) demand
4) flexible	d) endogenous
5) individual	e) increase
6) nominal	f) poverty
7) private	g) public
8) save	h) real
9) supply	i) rigid
10) wealth	j) spend

Exercise:5. Make the following words negative by using one of the following prefixes: de- dis- im- in- un-

1) … accelerating	3) …prove
2) … intended	4) …natural

5) …stabilize

6) …effective

7) …desirable

8) … stable

9) … efficiency

10) …perfect

11) …predictable

12) …voluntary

COMPREHENSION

Exercise:6. Complete the sentences.

1. Sometimes the economy zooms … .
2. But there have also been periods … .
3. Until the 1930's, the government …
4. Policy aimed at … .
5. Keynes maintained that governments … .
6. If aggregate income is too low … .
7. If aggregate income is too high … .
8. Expansionary and concretionary fiscal policies are … .
9. The fundamental purpose of fiscal policy … .
10. A contractionary policy is composed of … .
11. Monetarists question whether … .

Exercise:7. Comment on the following issues.

1. What periods of business activity are mentioned in the text?
2. What happens to an economy during a boom?
3. How can the government influence the demand for goods and services?
4. Who invented fiscal policy? What kind of policy is it?
5. How do contractionary and expansionary fiscal policies differ?
6. What did economists blame Keynesian policies for?

VOCABULARY

budget n – a statement of the financial position of an administration (as of a nation) for a definite period of time based on estimates of expenditures during the period and proposals for financing them

contractionary fiscal policy – Contractionary policy is a monetary measure referring either to a reduction in government spending—particularly deficit spending—or a reduction in the rate of monetary expansion by a central bank.

discretionary fiscal policy – Discretionary fiscal policy is a change in government spending or taxes. Its purpose is to expand or shrink the economy as needed.

downturn n (syn. decline)– a downward turn especially toward a decline in business and economic activity

downward-sloping line – descending sloping line

effective demand – **effective demand** (**ED**) in a market is the demand for a product or service which occurs when purchasers are constrained in a different market. **eliminate** v –устранять, исключать, уничтожать, ликвидировать

expansionary fiscal policy– Expansionary, or loose policy is a form of macroeconomic policy that seeks to encourage economic growth.

laissez faire – a doctrine opposing governmental interference in economic affairs beyond the minimum necessary for the maintenance of peace and property rights

long-term investment – A long-term investment is an account on the asset side of a company's balance sheet that represents the company's investments, including stocks, bonds, real estate, and cash

maintain v (syn back up, uphold) – to keep in an existing state (as of repair, efficiency, or validity) **:** preserve from failure or decline

moderate v – avoiding extremes of behavior or expression **:** observing reasonable limits

offset a recession – neutralize; balance the decline

propensity n – an often intense natural inclination or preference

~ **to consume** –In economics, the marginal propensity to consume (MPC) is defined as the proportion of an aggregate raise in pay that a consumer spends on the consumption of goods and services, as opposed to saving it

~ **to save** –proportion of an aggregate raise in income that a consumer saves rather than spends on the consumption of goods and services.

shortage n – LACK, DEFICIT

soar v – to rise or increase dramatically (as in position, value, or price)

GLOSSARY

- **Actual budget** records the actual dollar expenditures, revenues, and deficits in a given period.
- **Automatic stabilizers** are federal expenditures and tax revenues that automatically change levels in order to stabilize an economic expansion or contraction; sometimes referred to as nondiscretionary fiscal policy.
- **Balance budget** is a budget when revenues and expenditures are equal during a given period.
- **Budget deficit** is a budget in which government expenditures exceed government revenues in a given time period.
- **Budget surplus** is a budget in which government revenues exceed government expenditures in a given time period.
- **Discretionary fiscal policy** is the deliberate use of changes in government spending or taxes to alter aggregate demand and stabilize the economy.
- **Fiscal policy** is the use of government spending and taxes to influence the nation's output, employment, and price level.
- **Government debt** (sometimes called public debt) consists of the total or accumulated borrowings by the government; it is the total dollar value of government bonds owned by the public (households, banks, businesses, foreigners, and other non-federal entities).
- **Spending multiplier** is the change in aggregate demand (total spending) resulting from an initial change in any component of aggregate demand, including consumption, investment, government spending, and net export.
- **Tax multiplier** is the change in aggregate demand (total spending) resulting from an initial change in taxes.

UNIT 3

LESSON 8

Exercise:1. Scan, try to give meaning of the text. Look at the title of the text and say what problems might be discussed in the text.

OTHER ISSUES IN FISCAL POLICY

There are three other aspects of fiscal policy: automatic stabilizing influence of fiscal policy, the multiplier effect, and the propensity to spend or save. *First*, fiscal policy exerts an ***automatic stabilizing effect*** on the economy, even when the government makes no explicit changes in its tax or spending plans.

When the economy contracts, tax receipts automatically decrease (because incomes decrease). The effect is magnified by progressive taxation, (when the sys-tem is applying higher tax rates to higher incomes). Workers who are laid off automatically fall into a lower tax bracket. Their lower taxes will partially offset the effect of their lost income. Similarly, when incomes rise, particularly during inflation, bracket creep pushes people into higher tax brackets. The higher taxes they pay take money out of their pockets –money they can no longer use to bid prices up even higher.

Government spending also acts as an automatic stabilizer, especially during downturns. The government tends to maintain its general level of spending during recession, which insures a solid baseline level of demand from government in C+I+G (Consumers, Investment, Government) formula. Also, programs of unemployment insurance and public assistance help to ease the burden of tough times on households.

Second, ***the multiplier*** will boost the effect of an increase or reduction in taxes or spending. For instance, an extra dollar government spending will flow through the economy and, by being repeatedly respent, will magnify the stimulus provided by that dollar. Likewise, a dollar or reduced spending will take a dollar out of the economy, and the multiplier applies to that as well.

Finally, like the multiplier, the ***propensities to spend and to save*** are at work. If the government reduces taxes to stimulate consumption, but households save money rather than to spend it, consumption will not rise, nor will investment. If people save the money, they are “sitting on their wallets” and consumption remains low. Is consumption is low, businesses won’t invest.

This has been a problem in the application of fiscal stimulus in Japan, where people tend to save increases in income.

NOTE:

1.bracket creep –переход в группу населения с доходами, подле-жащими обложению налогами по более высоким ставкам

Exercise:2. Based on your understanding of the text, are the following TRUE or FALSE?

1. Fiscal policy exerts an automatic stabilizing effect on the economy, even when the government makes no explicit changes in its tax or spending plans.
2. When the economy contracts, tax receipts automatically increase.
3. Workers who are laid off automatically fall into a higher tax bracket.
4. The multiplier will boost the effect of an increase or reduction in taxes or spending.
5. If the government reduces taxes to stimulate consumption, but households save money rather than to spend it, consumption will not rise, nor will investment.
6. If people save the money, they are “sitting on their wallets” and consumption increases.

Exercise:3. Based on your understanding of the text, are the following TRUE or FALSE?

1. Automatic stabilizers are federal expenditures and tax revenues. They automatically change levels in order to stabilize an economic expansion or contraction.
2. When the economy expands government spending for unemployment

compensation, welfare, and other transfer payments increases.

3. During an expansion, jobs are created, unemployment falls, and workers earn less income and therefore pay less taxes.

4. Changes in federal spending and taxes moderate changes in aggregate demand.

Exercise:4. Find information in the text to answer the following questions.

1. What are automatic stabilizers?

2. How does the multiplier work?

3. How can you account for the term propensity to consume or to save?

Exercise:5. Here are the opinions of two well-known North American economists about the role of the government or the state. Read the texts and describe Galbraith's and the Friedman's views on the role of the government. Which opinion do you find more reasonable?

THE ROLE OF GOVERNMENT

The first is an extract from a talk by J.K. Galbraith.

The good society accepts the basic market system and its managers, but there are some things the market system does not do either well or badly. In the good society these are the responsibility of the state.

Some areas of state action are evident. In no country does the market system provide good low-cost housing. This is a matter of prime importance and must everywhere be a public responsibility. Few things are more visibly at odds1 with the good society than badly housed or homeless people. Health care is also a public responsibility in all civilized lands. No one can be assigned to illness or death because of poverty. Here Britain can proudly point to its leadership.

The state has many other essential functions. It must also be borne in mind that many of these –parks and recreational facilities, police, libraries, the arts, others – are more needed by the underclass than by the affluent. Those who attack the services of the state are usually those who can afford to provide similar services for themselves.

In the good society, there must also be attention to a range of activities that are beyond the time horizons of the market economy. This is true in the sciences, not excluding medical research. The market system invests for relatively short-run return. To support science is pre-eminently the responsibility of the state.

Some of the truly important industrial achievements of recent generations – the great improvements in agricultural productivity, modern air transport, advanced electronics –have depended heavily on such public investment. Necessary also –a matter we are beginning reluctantly to recognize –is investment and regulation in the longer-run interest of the environment. The good society protects and improves life in its planetary dimension.

Exercise:6. Here is an extract from Milton and Rose Friedman's book <u>"Free to Choose".</u>

Though the United States has not adopted central economic planning, we have gone very far in the past 50 years in expanding the role of government in the economy. That intervention has been costly in economic terms. The limitations imposed on our economic freedom threaten to bring two centuries of economic progress to an end. Intervention has also been costly in political terms. It has greatly limited our human freedom.

An essential part of economic freedom is freedom to choose how to use our income: how much to spend on ourselves and on what items; how much to save and in what form; how much to give away and to whom. Currently, more than 40% of our income is disposed of on our behalf by government at federal, state and local levels combined.

As consumers, we are not even free to choose how to spend that part of our income that is left after taxes. We are not free to buy cyclamates or laetrile, and soon, perhaps, saccharin. Our physician is not free to prescribe many drugs for us that he may regard as the most effective for our ailments, even though the drugs may be widely available abroad. We are not free to buy an automobile without seat belts.

Another essential part of economic freedom is freedom to use the resources we possess in accordance with our own values –freedom to enter any occupation, engage in any business enterprise, buy from or sell to anyone else, so long as we do so on a strictly voluntary basis and do not resort to force in order to coerce others.

Today you are not free to offer your services as a lawyer, a physician, a dentist, a plumber, a barber, a mortician, or engage in a host of other occupations, without first getting a permit or license from a government official.

You are not free to work overtime at terms mutually agreeable to you and your employer, unless the terms conform to rules and regulations laid down by a government official.

You are not free to set up a bank, go into the taxicab business, or the business of selling electricity or a telephone service, or running a railroad, bus line, or airline, without first receiving permission from a government official.

Freedom cannot be absolute. We do live in an interdependent society. Some restrictions on our freedom are necessary to avoid other, still worse, restrictions. However, we have gone far beyond that point. The urgent need today is to eliminate restrictions, not add to them.

WRITING

Exercise:7. Read the text below and write an abstract using the following cliché: The text is headlined; the main idea of the text is; the aim of the text is to provide the reader with some data on …; the text is divided into … parts ; the first part deals with …; the second part tells of…; the third part touches upon …; in conclusion the text reads…; I found the text interesting/ important/ boring/ of no value; it is easy/hard to understand.

TRANSITION AND THE CHANGING ROLE OF GOVERNMENT

Over the past decade many centrally planned economies have set out to transform themselves into market economies. To be successful, They need to develop the necessary institutions and ensure a proper role for government.

While much has been written about the economic changes that must take place for centrally planned countries to become market economies, less has been written about how the economic role of the state must change. In “shock therapy”, advocated by some economists at the start of the transition, the main ingredients for success were assumed to be price liberalization, macroeconomic stabilization, and privatization. Little was said about the role of the government in the new environment.

A complete transformation of the economy, the institutions and economic process requires, in addition, that profitability be the guiding criterion for most investment decisions; activities deemed socially desirable be financed by the government and the government effectively perform its core functions in the economy while withdrawing from, or drastically reducing its role in, many secondary activities.

To function well, market economies need governments that can established and enforce the “rules the game”, promote widely shored social objectives, raise revenues to finance public sector activities, spend the revenues productively, enforce contracts and protect property, and produce public goods. The guiding principle in a market economy should be that everything is permitted unless expressly forbidden.

Once a country has made the transition to a market economy, the role of government is dramatically different. It operates not through direct controls but mostly through the tax system, the budget, and a few essential regulations. The tax system must be totally reformed to make inefficient and equitable, and capable of raising reasonable revenues. Tax administration that had been used to dealing with relatively few, friendly enterprises had to deal with hundreds of thousands, or even millions, of unfriendly taxpayers. Expenditure policies must be brought in live with the reduced public resources. The new regulation will play a role in setting the rules of the game, regulating private pensions, and enforcing competition. Most permits, authorizations, and other mechanisms that are known to promote bribery must be eliminated, because they lead to the corruption that is widespread in many transition countries.

Governments will be asked to play a more positive role in income redistribution. Policy makers should work hard to harmonize the concept of the role of the state that seems to prevail in many of legislatures with one that is feasible, given the existing macroeconomic conditions and level of institutional and economic development.

TRANSLATION

Exercise:8. Scan then give meaning of written passage.

BUDGETS AND FISCAL POLICY

Budgets are systems used by governments and organizations to indicate planned expenditures and revenues for a given year. Budgets are in surplus or deficit depending on whether the government has revenues greater or less than its expenditures.

Fiscal policy refers to taxation and expenditure policies. In this connection, the modern economy is blessed with important "built-in stabilizers". Requiring no discretionary action, tax receipts change automatically when income changes, reducing the multiplier and offsetting part of any disturbance. The same stabilizing effect is produced by unemployment compensation and other welfare transfers that grow automatically as income falls.

Automatic stabilizers never fully offset the instabilities of an economy. They reduce the multiplier, but do not make it zero. Scope is left for discretionary programs. Discretionary policies include public works, jobs programs, and various tax programs. Public works involve such long time lags in getting under way as to make their use for combating short recessions impractical. Discretionary variations in tax rates offer greater short-run flexibility but suffer from severe political complications in the United States. Most macroeconomists believe that monetary policy is more useful than fiscal policy for combating the short-term fluctuations of the business cycle.

When people began to drop the notion that the government's budget had to be balanced in every year or month, they first thought it would be balance over the business cycle –with boom-time surpluses matching depression deficits. Today, we realize that only by coincidence would the surplus in prosperous years just balance deficits in recession year.

To get a better measure of changes in discretionary fiscal policy, economists supplement knowledge of the budget by separating the actual budget into its structural and cyclical components. The structural budget calculates how much the government would collect and spend if the economy were operating at potential output. The cyclical budget accounts for the impact of the business cycle on tax revenues, expenditures, and the deficit. To assess the impact of usual policy on the economy, we should pay close attention to the structural deficit: changes in the cyclical deficit are a result of changes in the economy rather than a cause of changes in the economy.

Exercise:9. Translate into English.

Proponents of the supply-side economy concept also recognize that lower tax rates do not necessarily have to lead to a reduction in tax revenues. In fact, it can be expected that a reduction in tax rates will ensure an increase in tax revenues due to a significant increase in national output and income. This expanded tax base will ensure the growth of tax revenues even at lower rates. Thus, while from the point of view of traditional Keynesian approaches, a reduction in tax rates will cause a reduction in tax revenues and increase the budget deficit, the assumption economics approach assumes that a reduction in tax rates can be organized in such a way that it will ensure an increase in tax revenues and a reduction in deficits.

Exercise:10. Answer the questions.

1. How is personal taxation structured in your country?
2. Is the trend in the load of personal taxation upwards or downwards?

Exercise:11. Answer the following questions.

1. How are the two parts of Geoff's presentation structured?
2. What does Geoff suggest the majority think of British tax?
3. What new legislation has recently been introduced?
4. What do you think the government uses national insurance contributions for?

SPEAKING

Exercise:12. Speak on:

–pros and cons of the Keynesian theory;

–ways of promoting economic stability;

–discretionary and non-discretionary fiscal policies;

–possible complications in connection with fiscal policy.

pros and cons –(idioms). (pro is a professional.) The pros and cons of something are its advantages and disadvantages, which you consider carefully so that you can make a sensible decision.

At length the lady of the caravan shook off her fit of meditation, summoning the driver to come under the window at which she was seated, held a long conversation with him in a low tone of voice as if she were asking his advice on an important matter, and discussing the pros and cons of some very weighty matter. (Ch. Dickens, 'The Old Curiosity Shop', part I, ch. XXVII) —

Lekin bu erda Vanning xodimi o'z fikrini silkitib, haydovchining derazasiga qo'ng'iroq qilib, uzoq vaqt davomida past ovozli suhbatni boshlagan, ehtimol uning maslahatini so'rab, har tomondan juda muhim savolni muhokama qilgan.

He would weight the pros and cons of an issue until his aides were in despair, then make up his mind and never waver again. (F. Knebel and Ch. Bailey, 'Seven Days in May', 'Monday') — Uning yordamchilari umidsizlikka tushib, u uzoq vaqt davomida barcha ijobiy va salbiy tomonlarni tortdi, ammo qaror qabul qilib, hech qachon undan voz kechmadi.

UNIT 4

LESSON 1

THE MICROECONOMY

DEMAND AND SUPPLY

DISCOVERING CONNECTIONS

Have you ever heard the quip "Teach a parrot to say "Demand and supply" and you have an economist!"? Do you know that there is a strong element of truth in it. Can you guess why? Why does the price of hotel rooms in the Caribbean plummet when the weather turns warm in New England every summer? Why does the price of gasoline in the United States rise when a war breaks out in the Middle East? What do these events have in common? Do you know that, in fact, they all show the workings of supply and demand. So if you want to know how any event or policy will affect the economy, you must think first about how it will affect supply and demand.

READING

Exercise:1. As you read the text, pay special attention to the definitions of terms in italics.

SUPPLY AND DEMAND

The terms *supply and demand* refer to the behaviour of people as they interact with one another in markets.

A *market* is defined as an institution or mechanism which brings together buyers – "demanders' and sellers – "suppliers".

Demand is the amount of the good that buyers are willing and able to purchase. What factors determine the demand for any good? They are as following:

Price. The quantity demanded falls as the price rises and rises as the price falls, so the quantity is negatively related to the price. The relationship between price and quantity demanded is true for most goods in the economy and, in fact, is so pervasive that economists call it the law of demand: *other things equal (ceteris paribus in Latin), when the price of a good rises, the quantity demanded of the good falls.*

Income. A lower income means that you have less to spend in total so you would have to spend less on some –and probably most –goods. If the demand for a good falls when income falls, the good is called a *normal good.*

Prices of Related Goods. Suppose that the price of frozen yogurt falls. The law of demand says that you will buy more frozen yogurt. At the same time you will probably buy less ice-cream. Ice-cream and frozen yogurt are substitutes, that is pairs of goods that are used in place of each other.

When a fall in one price of one good raises the demand for another good, the two goods are called ***complements.*** Complements are often pairs of goods that are used together, such as gasoline and automobiles, computers and software.

Tastes. The most determinant of your demand is your tastes. If you like ice-cream, you buy more of it.

Expectations. Your expectations about the future may affect your demand for a good or service today too.

We now turn to *supply* that is the amount that sellers are willing and able to sell. What determines the quantity an individual supplies? These are: Price Because the quantity supplied rises as the price rises and falls as the price falls, we say that the quantity supplied is positively related to the price of the good. This relationship between price and quantity supplied is called the law of ***supply: Other things equal, when the price of a good rises, the quantity supplied of the good also rises.***

Input Prices. The supply of a good is negatively related to the price of the inputs used to make the good.

Technology. By reducing firms' costs, the advance in technology raises the supply of a good.

Expectations. The amount of goods you supply today may depend on your expectations of the future. For example, if you expect the price of goods to rise in the future, you will put some of your current production into storage and supply less to the market today.

VOCABULARY FOCUS

Exercise:2. Study the meaning of the following words.

1. To affect means 'to influence': The tax increases have affected us all.
2. An effect is a result or consequence of an event: The political crisis has already had an effect on the Stock Market.
3. The word 'effect' can have two other meanings: We tried exporting tea to China but with little effect (impact). In effect(in fact) the two systems are identical.
4. There is also a verb 'to effect', which is fairly formal: Production was stopped until repairs were effected (made).

Exercise:3. Choose the right word in italics:

1. Do you think a rise in interest rates will affect/ effect consumer spending?

2. Cultural attitudes can affect/effect the success or failure of a merger with an overseas firm.

3. The bad publicity has had an adverse affect/effect on our reputation.

Exercise:4. Match the following common collocations with their Russian equivalents:

A	B
1) katta talabga ega bo'lish	a) enormous / great demand (for)
2) talabni yaratish	b) to be in good /great demand
3) talabni oshirib	c) consumer market
4) mahsulot turlari	d) to create/make demand
5) iste'mol bozori	e) to exceed/outgo demand
6) kishi boshiga daromad/aholi jon boshiga	f) to meet/ satisfy demand
7) talab va taklif	g) demand and supply
8) katta talab	h) range of goods
9) soliq solinadigan daromad	i) taxable income
10) talabni qondirish	j) per capita income

Exercise:5. Match the following common collocations with their Russian equivalents:

A	B
1) xarajatlar qiymati	a) to be in (short /low) supply
2) deftsit kamyob bo'lishi	b) to exhaust supply
3) asosiy yetkazib beruvchi	c) leading / major supplier
4) yetkazib beruvchining majburiyatlarini bajarmaslik	d) a supplier default
5) sanoat ishlab chiqarish hajmi	e) current inputs
6) kundalik ishlab chiqarish	f) cost of inputs
7) zaxirani iste'mol qilish	g) industrial output
8) joriy xarajatlar	h) daily output

Exercise:6. Express in one word:

1. something that is sold for money;
2. the desire of customers for goods or services which they wish to buy or use;
3. pairs of goods that are used together;
4. an idea or a principle relating to something abstract;
5. pairs of goods that are used in place of each other;
6. to interact (with something);
7. the price to be paid or amount of money needed for something;
8. that which is put in;
9. the amount of something that a person or thing produces;
10. to give somebody that is needed or useful/ to provide somebody with something;
11. to establish a connection between, e.g. ideas, events or situations; to think or associate something with something else.

<u>Words for reference:</u> compliments, concept, demand, goods, substitutes, to act or have an effect on each other, to relate, output, input, to supply, costs.

Exercise:7. Choose the words with similar meaning from two columns and arrange them in pairs.

A	B
1) concept (n)	a) rise (v)
2) interaction (n)	b) idea (n)
3) loan (n)	c) expenses (n)
4) supply(v)	d) cooperation (n)
5) increase (v)	e) credit (n)
6) purchase (v)	f) buy (v)
7) transaction (n)	g) bargain, deal (n)
8) affect(v)	h) commodity (n)
9) demand (n)	i) request (n)
10) good (n)	j) influence (n)
11) costs (n)	k) offer (v)

Exercise:8. Complete the sentences using the words given below.

1. The government increased prices on several basic … .

2. Computers and software, gasoline and automobiles are … .

3. … for these services is outgoing supply.

4. The … of demand and supply may be explained in the context of a market for specific goods.

5. The new model comes in an exciting … of colors.

6. We made a small charge for parking to cover the … of hiring the hall.

7. Supply, the quantity of a product that suppliers will provide, is the seller's side of a … transaction.

8. Manufacturing … has increased by 8% in two years.

9. They discussed the … of additional resources into the scheme.

Words for reference: input, range, output, concepts, demand, goods/commodities, market, compliments, cost.

COMPREHENSION

Exercise:9. Complete the sentences.

1. A market is defined as an institution or mechanism which … .

2. Demand is the amount of the good that buyers… .

3. The law of demand says that … .

4. Ceteris paribus is … .

5. The good is called an inferior good if … .

6. The good is called a normal good if … .

7. Substitutes are … .

8. Complements are … .

9. The factors which affect the amount of the good that buyers are willing and able to purchase are … .

10. The factors which affect the amount of the good that sellers are willing and able to sell are … .

11. The law of supply is … .

Exercise:10. Answer the questions on the text.

1. What is a market?
2. What is demand? What does the law of demand say?
3. What factors affect the amount of the good that buyers are willing and able to purchase?
4. What's the difference between a normal good and an inferior good?
5. How can you define compliments and substitutes?
6. What is supply? What does the law of supply say?
7. What factors affect the amount of the good that sellers are willing and able to sell?

UNIT 4

LESSON 2

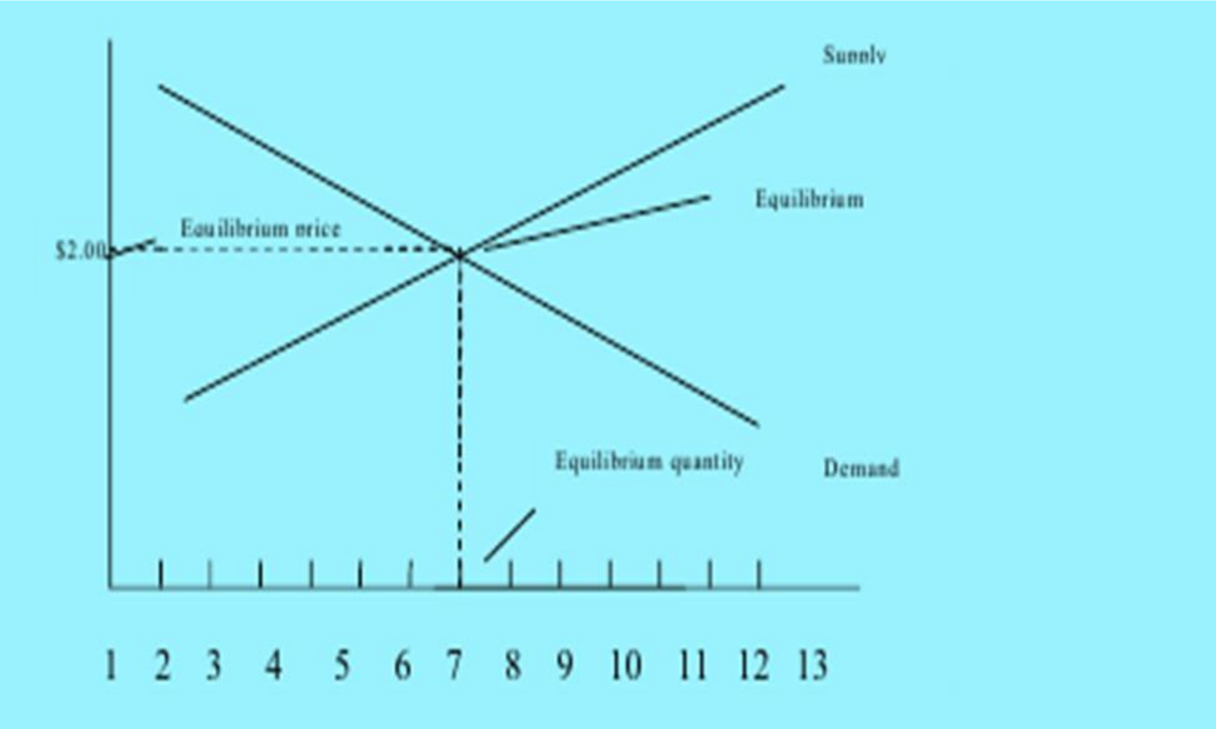
Exercise:1. As you read the text, pay special attention how the activities of buyers and sellers automatically push the market price forward the equilibrium price.

EQUILIBRIUM: MR. DEMAND MEET MR. SUPPLY

The beauty of the market is that the competing motivations of consumers and producers interact to arrive at a price and quantity for a product that determined by impersonal market forces. Having analyzed supply and demand separately, we now combine them to see how they determine the quantity of a good sold in a market and its price. To focus our thinking, let's keep in mind a particular good –ice cream.

EQUILIBRIUM

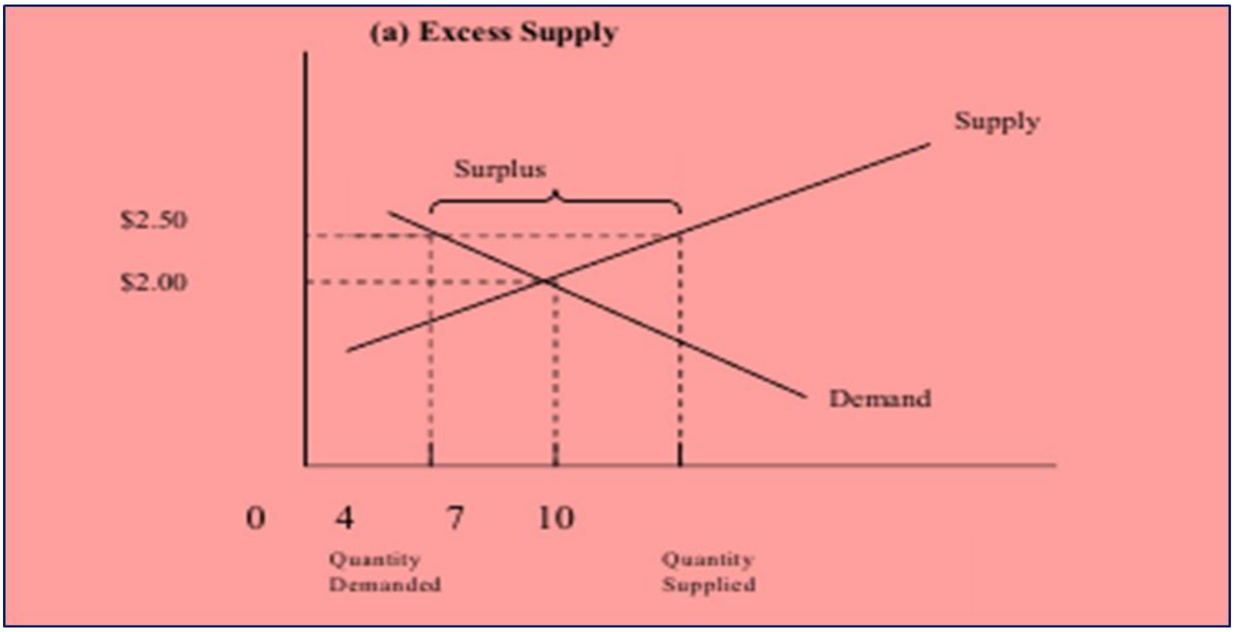
The graph below shows the market supply curve and market demand curve together. Notice that there is one point at which the supply and demand curves intersect; this point is called the market's equilibrium. The price at which these two curves cross is called the equilibrium price, and the quantity is called the equilibrium quantity. Here the equilibrium price is $2.00 per cone, and the equilibrium quantity is 7 ice-cream cones.



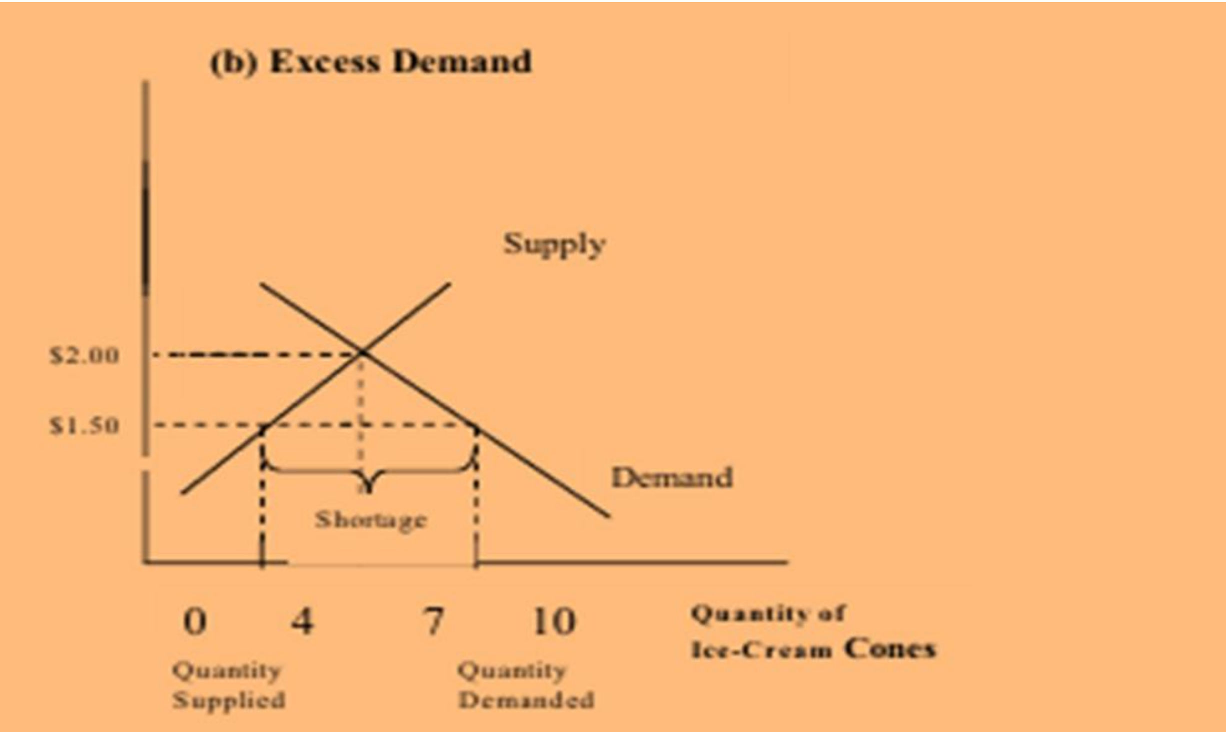
The dictionary defines the word 'equilibrium' as a situation in which various forces are in balance –and this also describes a market's equilibrium. At the equilibrium price, the quantity of the good that buyers are willing and able to buy exactly balances the quantity that sellers are willing and able to sell.

The equilibrium price is sometimes called the *market-clearing price* because, at this price, everyone in the market has been satisfied: buyers have bought all they want to buy, and sellers have sold all they want to sell. The actions of buyers and sellers naturally move markets toward the equilibrium of supply and demand. To see why, consider what happens when the market price is not equal to the equilibrium price.

Suppose first that the market price is above the equilibrium price, as in
panel (a).



At a price of $2.50 per cone, the quantity of the good supplied (10 cones) exceeds the quantity demanded (4 cones). There is a surplus of the good: suppliers are unable to sell all they want at the going price. When there is a surplus in the ice-cream market, for instance, sellers of ice cream find their freezers increasingly full of ice cream they would like to sell but cannot. They respond to the surplus by cutting their prices. Prices continue to fall until the market reaches the equilibrium. Suppose now that the market price is below the equilibrium price, as in panel (b).



In this case, the price is $1.50 per cone, and the quantity of the good demanded exceeds the quantity supplied. There is ***a shortage*** of the good: Demanders are unable to buy all they want at the going price. When a shortage occurs in the ice-cream market, for instance, buyers have to wait in long lines for a chance to buy one of the few cones that are available. With too many buyers chasing too few goods, sellers can respond to the shortage by raising their prices without losing sales. As prices rise, the market once again moves toward the equilibrium.

Thus, the activities of the many buyers and sellers automatically push the market price toward the equilibrium price. Once the market reaches its equilibrium, all buyers and sellers are satisfied, and there is no upward or downward pressure on the price. How quickly equilibrium is reached varies from market to market, depending on how quickly prices adjust. In most free markets, however, surpluses and shortages are only temporary because prices eventually move toward their equilibrium levels. Indeed, this phenomenon is so pervasive that it is sometimes called the law of supply and demand: The price of any good adjusts to bring the supply and demand for that good into balance.

Exercise:2. Find words or phrases in the text which have the same meaning as the following:

1. A situation in which opposing forces, influences, etc. are balanced and under control;
2. equilibrium price;
3. a line that bends round;
4. an amount that remains after one has used all one needs;
5. a lack of something needed;
6. an amount of money for which something may be bought or sold;
7. moving, leading or pointing to a higher place, point or level;
8. moving, leading or pointing to what is lower or less important;
9. to become or to make somebody/ something suited to new conditions; to adapt oneself/ something.

Exercise:3. Based on your understanding of the text, are the following TRUE or FALSE?

1. At the equilibrium price, the quantity of the good that buyers are willing and able to buy exactly balances the quantity that sellers are willing and able to sell.
2. There is no explanation why the equilibrium price is also called the market-clearing price.
3. Suppliers respond to the surplus by increasing their prices.
4. Sellers respond to the shortage by decreasing their prices without losing sales.
5. The price of any good adjusts to bring the supply and demand for that good into balance.

Exercise:4. Find in the text information to answer the questions on the text.

1. What is called the market's equilibrium?
2. What is the equilibrium price?
3. Why is the equilibrium price also called the market-clearing price?
4. Do the actions of buyers and sellers naturally move markets towards the equilibrium of supply and demand? How do suppliers and buyers respond to the market surplus and shortage of goods? Can we say that the actions of buyers and sellers naturally move markets towards the equilibrium of supply and demand?
5. What does the law of supply and demand say?

Exercise:5. As you read the text, find out what the term "elasticity" is.

ELASTICITY

Consumers are more sensitive to some price changes than to others. You may not want to buy a car if its price goes up 10 percent. But if the price of salt goes up 10%, you will pay extra amount rather than go without salt. The degree to which changes in price cause changes in quantity demanded is called *elasticity of demand.* The number of cars demanded changes greatly as car prices change; so the demand for cars is highly *elastic.* The demand for salt is more *inelastic*: people buy nearly the same amount even though the price of salt changes. There are two basic reasons for elasticity of demand. The first concerns the *relationship between income and the cost of the product.* A car, for example, may easily cost 50% of your annual income. Salt probably costs less than 50% of your annual income. The smaller the proportion of your income

that a product costs, the more inelastic is its demand. Demand tends to be more elastic if the good is a luxury rather than a necessity. The second reason why demand is elastic concerns *whether or not substitute product is available.*

Elasticity, a measure of how much buyers and sellers respond to changes in market conditions, allows to analyze supply and demand with greater precision.

Economists use the term *'elasticity'* to describe the responsiveness of one variable (demand) to another variable (price). The degree to which changes in price cause changes in quantity demanded is called the price elasticity of demand. The price elasticity of demand (ED) can be determined as follows:

$$ED = \frac{\text{Change in quantity demanded (\%)}}{\text{Change in price (\%)}}$$

This is defined as the percentage change in quantity demanded, divided by the percentage change in price.

This value varies between zero and infinity. Three ranges are identified:

—elastic, very responsive to price changes - greater than 1;

—unit elasticity;

—inelastic, not very responsive to price changes - less than 1.

Exercise:6. Based on your understanding of the text, are the following TRUE or FALSE? Explain why.

1. The concept of elasticity looks at how much one factor changes as a result of some other factor changing.

2. Elasticity, a measure of how much buyers respond to changes in market conditions, allows to analyze demand with greater precision.

3. The smaller the proportion of your income that a product costs, the more elastic is its demand.

4. Elasticity is a planning tool for managers.

Exercise:7. Answer the questions on the text.

1. What term do economists use to describe the responsiveness of one variable demand) to another variable (price)?
2. What is called the price elasticity of demand?
3. What are two basic reasons for elasticity of demand?
4. What is the equation of the price elasticity of demand (ED)?

WRITING

Exercise:8. Write an essay on the concept of elasticity as a measure of how much buyers and sellers respond to changes in market conditions. Illustrate it with the examples of your own.

TRANSLATION

Exercise:9. Translate from English into native.

Besides price elasticity of demand the following types of elasticity are particularly useful in a business context:

Income elasticity of demand –the impact a change in income has on the quantity demanded.

Advertising elasticity of demand –the impact a change in the amount spent on advertising has on the quantity demanded.

Cross elasticity of demand –the impact a change in price of one product has on the quantity demanded of a second product.

Elasticity is a planning tool for managers. It allows firms to ask 'what if' questions about their products, prices, advertising levels and so on. What will happen to our sales if we increase price by 10 p, or if we increase our advertising costs by 5%?

Exercise:10. Translate passage into English.

Bozor mexanizmining asosiy elementlari-talab, taklif, narx va raqobat. Talab-bu ehtiyojning ifodasi. Talab miqdori yoki tovarlar soni tovarlar yoki xizmatlar narxi, iste'molchilarning daromadlari, xaridorlarning ta'mi, ushbu mahsulot xaridorlarining umumiy soni va boshqalar kabi omillar bilan belgilanadi.

Talabning miqdorini belgilovchi eng muhim omillardan biri, mahsulot yoki xizmat narxi. Buning uchun maksimal narx qabul qiluvchilar hozirgi vaqtda mahsulot birligini sotib olishga tayyor, talab narxi bor. Narx va talab miqdori o'rtasida teskari aloqa mavjud. Taklif-bu mahsulot yoki xizmatlarning miqdori muayyan davrda bozorda sotish uchun taklif qilingan vaqt. Taklifning miqdori birinchi navbatda narxga bog'liq. Tovarlarning narxi qanchalik baland bo'lsa, uni ishlab chiqarish qanchalik foydali bo'ladi.

VOCABULARY

complement n – **:** something that fills up, completes, or makes better or perfect

concept n – **:** something conceived in the mind **:** THOUGHT, NOTION

demand (for) n – an act of demanding or asking especially with authority

demand v – willingness and ability to purchase a commodity or service

equate (to sth) v – **:** to make equal **:** EQUALIZE

equation n – **:** the act or process of equating

elasticity n – the quality or state of being elastic

price ~ – A good's **price elasticity** of demand is a measure of how sensitive the quantity demanded of it is to its **price**.

unit ~ – unit elasticity of demand

elastic adj – capable of recovering size and shape after deformation

equilibrium n – a state of intellectual or emotional balance

extent n – the range over which something extends

inferior good – a commodity the consumption of which decreases as its price declines or as the income of consumers rises because of the increased income available to buy preferred though more expensive commodities **interact (with)** v

interaction (among, between; with) n – mutual or reciprocal action or influence

infinity n – **:** the quality of being infinite

luxury good – **luxury good** (or **upmarket good**) is a good for which demand increases more than proportionally as income rises, so that expenditures on the good become a greater proportion of overall spending.

necessity good – **necessity good** or a **necessary good** is a type of normal good.

normal good – **normal good** is a type of a good which experiences an increase in demand due to an increase in income.

related good – related product

supply n – **:** the quantity or amount (as of a commodity) needed or available

supplement n – **:** something that completes or makes an addition

supplier n – **a company, person, etc. that provides things that people want or need, especially over a long period of time**

transaction n – an exchange or transfer of goods, services, or funds

GLOSSARY

- **The law of demand states** there is an inverse relationship between the price and the quantity demanded, ceteris paribus.
- **Quantity demanded** is the amount of a good that buyers are willing and able to purchase.
- **A change in quantity demanded is a movement along a stationary demand** curve caused by a change in price. When any of the nonprice determinants of demand changes, the demand curve responds by shifting.
- **Nonprice determinants of demand are as follows:**

  The number of buyers;

  Tastes and preferences;

  Income (normal and inferior goods);

  Expectations of future price and income changes;

  Prices of related goods (substitutes and complements).
- **The law of supply states** there is a direct relationship between the price and the quantity supplied, ceteris paribus. The market supply curve is the horizontal summation of individual supply curves.
- **A change in quantity supplied** is a movement along a stationary supply curve caused by a change in price. When any of the nonprice determinants of supply changes, the supply curve responds by shifting.
- **A surplus or shortage** exists at any price where the quantity demanded and the quantity supplied are not equal. When the price of a good is greater than the

equilibrium price, there is an excess quantity supplied, or surplus. When the price is less than the equilibrium price, there is an excess quantity demanded, or shortage.

- ❖ **Normal good** is a good for which, other things equal, an increase in income leads to an increase in demand.
- ❖ **Inferior good** is a good for which, other things equal, an increase in income leads to a decrease in demand.
- ❖ **Substitutes** are two goods for which an increase in the price of one leads to an increase in the demand of the other
- ❖ **Complements** are two goods for which an increase in the price of one leads to a decrease in the demand of the other.
- ❖ **Quantity supplied** is the amount of a good that sellers are willing and able to sell.
- ❖ **Nonprice determinants of supply are as follows:**

  The number of sellers; Technology; Resource prices; Taxes and subsidies; Expectations of future price changes; Prices of other goods.
- ❖ ·**Law of supply and demand** is the claim that the price of any good adjusts to bring the supply and demand for that good into balance.
- ❖ ·**Equilibrium** is the unique price and quantity established at the intersection of the supply and demand curves. Only at equilibrium does quantity demanded equal quantity supplied. **Elasticity** is a measure of how much buyers and sellers respond to changes in market conditions.

UNIT 4

LESSON 3

MARKET STRUCTURE

DISCOVERING CONNECTIONS

Think of some durable consumer goods that your family possesses –perhaps a car, a television, a stereo, a camera, a personal computer, a cooker, a fridge, a hair dryer, and so on. Think of your casual clothes, especially jeans and sports shoes. Think of toys you had as a child. Think of the brands of food and drink you habitually consume, including breakfast cereals, chocolate, tea and instant coffee. Think of the products you use to wash yourself and your clothes.

In each case, do you know whether the company that makes them is one of the following?

–*the market leader* (with the biggest market share);

–*the market challenger* (the second-biggest company in the industry);

–one of many smaller *market followers*.

If you buy or have bought products that are not produced by the market leader or a well-known market challenger, what is the reason?

–chance;

–price;

–because the product has a unique selling proposition that appeals to you;

–because you need something special.

READING

Exercise:1. Before reading, take a few minutes to preview the text. Briefly answer the following questions.

1. How many parts are there in the reading?
2. Identify the headings. What do they tell you about the topic of this reading?
3. What do you already know about the topic?

MARKET STRUCTURES

Market structure is determined primarily by (1) the number of firms selling in the market; (2) the extent to which the products of different firms in the market are the same or different; (3) the ease with which firms can enter into or exit from the market. Based on these three criteria, economists usually group market structures into four basic categories: (1) pure competition; (2) monopoly; (3) oligopoly; and (4) monopolistic competition. Let us examine each of these market structures.

Pure Competition

The main characteristics of the pure competition are:

1. Many sellers: There are many sellers, and each firm is so small relative to the entire market that its actions will have no effect on the price of its product. Instead, it must accept the going market price, established by the forces of supply and demand.

2. Standardized product: The products of the various firms in the market are so nearly identical that buyers do not prefer the product of any one firm over that of any other firm.

3.Easy entry and exit: There are no significant financial, legal, technological, or other barriers to prevent new firms from entering the market or to prevent existing firms from leaving the market. Firms are free to enter and leave the market at will.

4. No artificial restrictions: There are no wage and price controls, minimum wage laws, labour unions, or other artificial restrictions on the free movement of prices and wages up and down.

Pure competition has its limitations. Although it works well in an industry such as agriculture, it is not practical for all markets and all industries. Nevertheless, since competition is the controlling mechanism of a market economy, a high degree of competition is usually desirable in most markets.

Monopoly

Monopoly is the extreme opposite of pure competition and has the following characteristics: (1) the market consists of a single seller; (2) the seller sells a product for which there are no close substitutes; (3) there are barriers to entry that prevent competitors from entering the market; and (4) the seller can control the price of his or her product.

Monopoly disadvantages include the following: (1) a monopolist
charges a higher price and produces less output than a perfectly competitive firm, (2) resource allocation is inefficient because the monopolist produces less than if

competition existed, (3) monopoly produces higher long-run profits than if competition existed, and (4) monopoly transfers income from consumers to producers to a greater degree than under competition.

Oligopoly

Although few industries are controlled by a single firm, main industries in the United States are dominated by a few giant firms. Such a market structure is known as oligopoly, and it is the market structure under which most large corporations operate. Oligopoly has the following characteristics: (1) a few sellers; (2) substantial barriers to entry; (3) standardized or differentiated products; and (4) substantial nonprice competition.

Nonprice competition includes advertising, packaging, product development, better quality, and better service. Under imperfect competition, firms may compete using nonprice competition, rather than price competition.

Monopolistic Competition

Monopolistic competition is a market structure that is characterized by (1) many sellers; (2) differentiated products; (3) nonprice competition; (4) relatively easy entry and exit. It has similarities to both pure competition and oligopoly.

Monopolistic competition is similar to pure competition in the sense that there are many sellers and no strong barriers to entry. Firms can enter and leave markets on a regular basis and, indeed, do so. The amount of money required to go into business is relatively small, and there are few government regulations restricting those wishing to enter a market. In addition, each seller controls such a small share of the market that each believes that his or her actions will bring no reactions from competitors. Unlike pure competition, however, monopolistic competition is characterized by product differentiation and nonprice competition. The latter involves efforts to persuade consumers to buy a particular product for reasons other than price. In fact, product differentiation and nonprice competition are the most important characteristics that distinguish monopolistic competition from pure competition. Firms operating in markets characterized by monopolistic competition do extensive advertising in an effort to convince consumers that their products are better than those of their competitors. Often there is little or no actual difference in the products, but advertising campaigns lead at least some consumers to believe otherwise. Most retail stores in medium-to-large-sized cities fall into the category of monopolistic competition. They advertise heavily and try to convince consumers that their products and services are superior to those of their competitors. A store may emphasize such things as convenient location, ample parking space, courteous service, and a large selection of merchandise.

VOCABULARY FOCUS

Exercise:2. Read the international words and guess their meaning.

Criteria, monopoly, oligopoly, limitation, economy, substitute, permanent, service.

Exercise:3. Memorize the following singular and plural forms:

datum –data	criterion –criteria
basis –bases	crisis –crises
thesis –theses	phenomenon –phenomena
memorandum –memoranda	

Exercise:4. From two columns choose the words with similar meaning and arrange them in pairs.

A	B
1) to produce	a) customer
2) wage	b) to manufacture
3) limitation	c) salary
4) to persuade	d) to convince
5) pure	e) clean
6) competition	f) restriction
7) substantial	g) rivalry
8) advertising	h) considerable
9) share	i) publicity
10) premium	j) portion
11) to consume	k) reward

12) buyer	l) to use up
13) artificial	m) fake

Exercise:5. From two columns choose the words with opposite meaning and arrange them in pairs.

A	B
1) standardized	a) entry
2) insignificant	b) substantial
3) exit	c) differentiated
4) vigorous	d) weak
5) to expand	e) to narrow
6) combined	f) pure

Exercise: 6. Match English and Uzbek equivalents.

A	B
1) a free movement of prices	a) sun'iy cheklovlarning yetishmasligi
2) a differentiated product	b) erkin narx harakati
3) monopolistic competition	c) potentsial raqib
4) pure competition	d) standart mahsulot
5) market structure	e) bozor tuzilishi
6) substantial barriers to entry	f) sof raqobat
7) a standardized product	g) monopolistik raqobat
8) a potential competitor	h) tabaqalashtirilgan mahsulot
9) no artificial restrictions	i) kirish uchun muhim to'siqlar
10) nonprice competition	j) narxsiz raqobat holda
11) no close substitutes	k) yaqin almashinuvchilarning yo'qligi
12) relatively easy entry and exit	l) nisbatan oson kirish va chiqish

COMPREHENSION

Exercise:7. Match the words with their definitions.

1) *Oligopoly* --- a) A market structure characterized by a few sellers, standardized or differentiated products and substantial nonprice competition.

2) *Pure competition*-- b) A market structure characterized by a single seller, a product for which there are no close substitutes, and strong barriers to entry that prevent potential competitors from entering into the market.

3) *Monopoly* --c) A market structure characterized by many sellers, standardized products, easy entry and exit, and no artificial restrictions on the free movement of prices and wages up and down.

4) *Monopolistic competition*--d) A market structure characterized by many sellers, differentiated products, nonprice competition, and relatively easy entry and exit.

Exercise:8. Fill in the missing words from the text.

1. Although few ….. are controlled by a single firm, main ….. in the United States are dominated by a few giant firms.
2. Such a ….. is known as oligopoly, and it is …… under which most large corporations operate.
3. ……usually define oligopoly as few enough firms so that there is mutual interdependence among the firms.
4. Nonprice ……involves efforts to persuade consumers to buy a particular product for reasons other than price.
5. Monopolistic competition is similar to pure competition in the sense that there are … and no strong barriers to entry.
6. Unlike …, however, monopolistic competition is characterized by product differentiation and nonprice competition.

Exercise:9. Expand the sentences.

1. Market structure is determined primarily by… .
2. Economists usually group market structures into four basic categories: … .
3. The main characteristics of the pure competition are … .
4. Monopoly is the extreme opposite of pure competition and has the following characteristics: …. .
5. Oligopoly has the following characteristics: …. .

6. Monopolistic competition is a market structure that is characterized by … .

Exercise:10. Answer the following questions, using the text.

1. What are the four characteristics of pure competition? Does pure competition exist?
2. What problems would exist in a purely competitive economy?
3. Describe four characteristics of monopoly.
4. Identify four characteristics of oligopoly. What is meant by “mutual interdependence”? Describe nonprice competition.
5. What are the four characteristics of monopolistic competition? In what ways is monopolistic competition similar to oligopoly? In what ways is it similar to pure competition?

Exercise:11. Do you know?

DECREE

THE PRESIDENT OF THE REPUBLIC OF UZBEKISTAN

On October 27, 2020, Presidential Decree No. UP-6096 "On Measures for Accelerated Reform of Enterprises with State Participation and Privatization of State Assets" was adopted. According to the decree a number of SOEs are subject to transformation. Among them 32 large SOEs and business associations and 39 enterprises with the participation of the state. The reform content includes introduction of corporate governance and financial audit; at 62 state assets, targeted pre-privatization preparation programs will be implemented; in 479 enterprises, state blocks of shares (stakes) are fully sold through public auctions; and15 state-owned real estate objects will be sold to the private sector. Since 2017 there has been a sharp increase in the scale of privatization: from 178 objects in 2016 to 842 in 2019.

The presidential decree notes that the delay in the transition to market mechanisms of some industries and large enterprises, in which the state's share remains, prevents the establishment of production of new types of competitive products, the introduction of advanced technologies, an increase in labor productivity, the creation of new jobs with the active attraction of private capital.

The new document defines specific steps to implement the targeted program reforming state-owned enterprises, strengthening the position of the private sector in the Uzbek market, and as a result, is aimed at attracting a wide range of interested investors, from among domestic and foreign entrepreneurs.

UNIT 4

LESSON 4

Exercise:1. Scan the text and find definitions of the following terms: cost-plus pricing, competitive pricing, value pricing. Give their Russian equivalents.

THREE PRICING STRATEGIES

There are three basic pricing strategies: cost-plus pricing, competitive pricing, and value pricing. In *cost-plus pricing*, you look at the cost of what you sell-that is, the total marginal cost–then add on the profit you need to make. That's your price. Cost-plus means "cost plus profit."

This method of pricing is straightforward and ensures that you will make money on what you sell. Unfortunately, it does not ensure that you will sell it. The success of this pricing strategy depends on targeting a "reasonable" profit and controlling your costs. It also depends on not being underpriced by a competitor.

A *competitive pricing* strategy aims to price the product at the lowest price among all recognized competitors. Low prices are one way to compete effectively, and sometimes competitive pricing is essential. For instance, in an industry selling a *commodity*, the outfit with the lowest price will usually succeed. That's because when the products themselves are not differentiated, price becomes the differentiating factor.

Competitive pricing is not just for commodities. In retail, for example, portable CD players are not a commodity, but once a customer has decided she wants to buy one, price will play a big role in which type she buys. So competitive pricing is common in retailing. In fact, some retailers offer to beat any other advertised price.

In general, the success of a competitive pricing strategy depends on achieving high volume and low cost –preferably the lowest in the industry –so you can maintain the lowest price and still make a profit. Success also depends on avoiding a destructive price war.

A *value pricing* strategy is the alternative to basing your prices on your costs or your competitors' prices. Instead, you base your prices on the value you deliver to customers. In this strategy, you deliver as much value as possible to your customers –and charge them for it. With this strategy, you charge a high price and justify it by delivering high value.

Value pricing is common in high technology and luxury items, such as clothing, restaurants, and automobiles.

In practice, a business considers all three pricing strategies. You have to consider you costs, or your profits will suffer. You have to consider your competitor's prices, even if you're not competing on price. You must consider the value you deliver because no matter what you sell, customers want value for their money.

Exercise:2. According to the text

1. A cost plus profit pricing is

a. a straightforward method;

b. a method that ensures that you will make money on what you sell;

c. a method that includes total marginal cost and profit you need to make;

d. all of the above.

2. A competitive pricing strategy aims

a. to beat any other advertised price;

b. to price the product at the lowest price among all recognized competitors;

c. to compete effectively;

d. all of the above.

3. A value pricing stratagem suggests that you should base your prices on

a. your costs and expenses;

b. your competitor's prices;

c. the value you deliver to customers.

Exercise:3. Speak on the following issues:

1. Advantages and disadvantages of cost-plus, competitive and value pricing.
2. You own a business. What type of pricing would you prefer? Why?

Exercise:4. As you read the text, write a short heading for each paragraph.

MARKET LEADERS, CHALLENGERS AND FOLLOWERS

In most markets there is a definite market leader: the firm with the largest market share. This is often the first company to have entered the field, or at least the first to have succeeded in it. The market leader is frequently able to lead other firms in the introduction of new products, in price changes, in the level or intensity of promotions, and so on.

Market leaders usually want to increase their market share even further, or at least to protect their current market share. One way to do this is to try to find ways to increase the size of the entire market. Contrary to a common belief, wholly dominating a market, or having a monopoly, is seldom an advantage: competitors expand markets and find new uses and users for products, which enriches everyone in the field, but the market leader more than its competitors. A market can also be expanded by stimulating more usage: for example, many households no longer have only one radio or cassette player, but perhaps one in each room, one in the car, plus a Walkman or two.

In many markets, there is often also a distinct market challenger, with the second-largest market share. In the car hire business, the challenger actually advertises this fact: for many years Avis used the slogan "We're number two. We try harder.” Market challengers can either attempt to attack the leader, or to increase their market share by attacking various market followers.

The majority of companies in any industry are merely market followers which present no threat to the leader. Many market followers concentrate on market segmentation: finding a profitable niche in the market that is not satisfied by other goods or services, and that offers growth potential or gives the company a differential advantage because of its specific competencies.

A market follower which does not establish its own niche is in a vulnerable position: if its product does not have a “unique selling proposition” there is no reason for anyone to buy it. In fact, in most established industries, there is only room for two or three major companies: think of soft drinks, soap and washing powders, jeans, sports shoes, and so on. Although small companies are generally flexible, and can quickly respond to market conditions, their narrow range of customers causes problematic fluctuations in turnover and profit. Furthermore, they are vulnerable in a recession when, largely for psychological reasons, distributors, retailers and customers all prefer to buy from big, well-known suppliers.

Exercise:5. Find words in the text which mean the following.

1) a company's sales expressed as a percentage of the total market;

2) short-term tactics designed to stimulate stronger sales of a product;

3) the situation in which there is only one seller of a product;

4) companies offering similar goods or services to the same set of customers;

5) a short and easily memorized phrase used in advertising;

6) the division of a market into submarkets according to the needs or buying habits of different groups of potential customers;

7) a small and specific market segment;

8) a factor which makes you superior to competitors in a certain respect;

9) a business's total sales revenue;

10) a period during which an economy is working below its potential.

Exercise:6. Which of the following three paragraphs most accurately summarizes the text, and what is wrong with the others?

First summary:

In most markets there is a definite market leader, with the largest market share, which frequently helps other firms to introduce new products. In many cases, there is also a market challenger, which wants to replace the leader, and various market followers, which seek out particular niches that do not interest the leader. Other followers merely imitate the products of larger companies, but this is a dangerous strategy during recessions.

Second summary:

In most markets there is a leader that strongly influences other firms in the introduction of new products, price changes, promotions, and so on. There is frequently also a market challenger, with the second-largest market share, which can attempt to increase its market share by attacking either the leader or some market followers. Market followers concentrate on profitable niche products that are in some way differentiated from the products of larger companies.

Third summary:

The first company in a particular market nearly always becomes the market leader, a position it will try to keep by regularly attacking distinct market challengers and followers. Most followers can either concentrate on small market segments or niches, or follow the safer strategy of imitating the leader's products.

Exercise:7. Find and give meaning from English.

MARKET

No matter how independent we may be in spirit, virtually none of us is self-sufficient. Our mutual interdependence for goods and services is a fact of life. We rely on others to satisfy our most basic needs. There is an incredibly complex division of labour and specialization in economic activities. Specialized firms and agencies make particular goods and services available to: consumers, investors and governments.

Workers specialize in particular trades and occupations and this makes economic interdependence inevitable. The most common way we obtain goods and services is to buy them from others who specialize in producing them. To make such purchases, buyers seek out sellers in markets.

A market is an arrangement through which buyers and sellers meet or communicate for the purpose of trading goods or services. Markets are a way in which buyers and sellers can conduct transactions resulting in mutual net gains that otherwise wouldn't be possible. Many market transactions are conducted without buyers and sellers actually meeting at a particular location. For example, you can browse through catalogues or magazine advertisements to see what various sellers are offering. If you find something you like, you can order it by mail or telephone, without face-to-face contact with the seller. You can also hire an intermediary to carry out a transaction for you.

The purpose of a market is to make information available on the goods and services sellers are willing to sell and buyers want to purchase. This exchange of information is the basis for determining prices which in turn influence the actual amount of goods and services exchanged. Prices are a major determinant of the choices we make as both buyers and sellers. Market prices play a vital role in coping with the problem of scarcity because they ration available amounts of goods and services.

To analyze the way markets operate, we first must understand the concept of supply and demand. Supply and demand analysis explains how prices are established in markets through competition among buyers and sellers and how those prices affect quantities traded.

Exercise:8. Translate into English.

1. Yaponiya mahsulotlari yuqori sifatli obro'ga ega.
2. Mahalliy ishlab chiqaruvchilarning asosiy g'amxo'rligi-mahsulot sifatini oshirish.
3. Ishlab chiqaruvchi mahsulotni mamlakatning istalgan qismiga yetkazib berishni kafolatlaydi.

4. Mahsulotning tashqi ko'rinishi uning raqobatbardoshligi uchun katta ahamiyatga ega.

5. Bozorni o'rganish biznesda muvaffaqiyat qozonish uchun juda muhimdir.

6. Yangi biznesni boshlash uchun tovarlar va xizmatlar bozorini diqqat bilan o'rganish kerak.

7. Ko'pgina xaridorlar mahsulot sifatini ishonchliligi va chidamliligi uchun baholaydilar.

Exercise:9. Answer the following questions.

1. When Kate Barker talks about the level of companies' investments, does she mean:

a) their financial reserves (deposited in a bank, or invested in treasury bonds, shares in other companies, and so on) or

b) the money they spend on their plant (i.e. factories, and the machines and equipment inside them)?

2. When she talks about the level of companies' stocks, does she mean:

a) their inventories of unsold goods, or

b) the current price of their shares at the stock exchange?

3. According to Kate Barker, what do companies tend to do:

a) when demand is very strong, and

b) when demand weakens a little?

4. According to the standard theory, when will companies begin to invest again after a downturn, and why?

5. What was the external or exogenous shock that caused the downturns in both the early 1970s and the early 1980s?

6. What were the two factors which led many European business people to invest too much in the late 1980s?

7. What was the exogenous shock that caused the downturn in the early 1990s?

SPEAKING

Exercise:10. Dwell on the following issues:

1. What are the four basic categories of market structure?
2. What are examples of each basic category of market structure in the American economy?
3. What is monopoly characterized by?
4. What are characteristics of oligopoly?
5. What is monopolistic competition characterized by?
6. Speak about market leaders, challengers and followers.

Exercise:11. Discussion Points:

1.Which firm is likely to be a price maker, a monopolist or a firm in perfect competition? Why?

2.How might firms in monopolistic competition compete with each other?

3.Why might oligopolists use promotion rather than price changes as the main form of competition?

4. Apart from those mentioned in the text, can you think of two more examples of:

(a) monopolistically competitive industries;

(b) oligopolistic industries?

Exercise 12. Read the passage and and try to retell the meaning of the given text about the economy of our state.

The economy of Uzbekistan

The economy of Uzbekistan has reached record growth rates while raging the ongoing pandemic in the world. According to the State Statistics Committee of the

Republic of Uzbekistan, the gross domestic product for the first six months of this year increased by 6.2%. For comparison: over the same period last year, due to the pandemic and lockdowns, the economy grew by only 1.1%, and in the first three months of 2021 - 3%, wrote Ruslan Abaturov in independent news platform named “Eureporter”, Centre for Economic Research and Reforms.
At the same time, it should be noted that Uzbekistan’s main trade partners’ economy is stabilizing at the end of the six months and returning to the growth trajectory. Thus, Kazakhstan's GDP increased by 2.2%, against the decline for the same period last year by 1.8%. The Kyrgyz economy is gradually decreasing, in January-June, the rate of decline slowed to 1.7% against 5.6% in the first half of 2020. China maintains dynamic growth this year, where a 12.7% increase in GDP is recorded in the first half year. In Russia, GDP grew by 3.7% during January-May. In Uzbekistan, inflation in the consumer sector continues to slow, despite serious price hikes for certain commodities such as carrots and vegetable oil. According to the results of six months, prices increased by 4.4% while in 2020 over the same period - by 4.6%. By May 2021, prices decreased by 0.2% due to seasonality. The largest increase in prices is noted for food products - by 5.7% (in the first half of 2020 - 6.2%). The rise in prices for non-food products is also slowing down - 3% against 3.6% in January-June 2020.

The inflow of investment in the first quarter of this year has shown positive dynamics. Investment in fixed assets rose by 5.9% against a decline of almost 10% in the same period last year. Investments from the budget decreased by 8.5%. Investments and loans attracted under the guarantee of the government decreased by more than 36%, and their share in the total volume of investments fell to 8.9%. The inflow of investments from non-centralized sources has noticeably increased - by 14.9%. Investments at the expense of the population and own funds of enterprises increased insignificantly - by 4.4% and 4.7%, respectively. A significant inflow of investments is due to the growth of attracted loans from commercial banks, foreign direct investment and credit funds from abroad.

The positive dynamics of production is noted in all sectors of the economy. The main drivers are industry and the service sector.

The industrial sector in January-June demonstrates high growth rates - 8.5% against a decline of 0.3% over the same period last year. The mining industry grew by 7.5% (a decline of 18% in January-June 2020), the manufacturing industry - by 8.6% (4.9%), electricity, gas and air conditioning - by 12.1% (8.4%). The production of consumer goods increased by 7.7% against the growth of 1.2% in the same period last year, with the outstripping dynamics in the production of food products.

The service sector, such as tourism, catering and accommodation, demonstrates impressive dynamics - an increase of 18.3% in the first half of the year versus an increase of 2.6% in January-June 2020. The transport sector is actively recovering after last year's decline: freight turnover increased by 14.1%, passenger turnover by 4.1%. Retail trade in the period under review increased by 9%.

A slowdown in relative to last year is noted in agriculture to 1.8% versus 2.8%, which is due to difficult weather conditions this year and lack of water. The growth rates of the construction sector also slowed down to 0.1% against 7.1% in the first half of 2020.

Foreign trade also managed to overcome the recession. In the first half of this year, sales grew 13.6% to $18 billion. In the same period last year, there was a significant decline of 18%. During the period under review, exports grew by 12% to $7.1bn and imports by 14.4% to $11bn. In the second quarter, Uzbekistan sold gold abroad against the background of positive price conditions on the world market. However, it should be noted that in the first six months the volume of exports without gold increased by 36.4% and reached $5.7bn.

In the structure of exports, the volume of food supplies to foreign countries increased by 6.3%, chemicals by 18.6%, industrial products by 74.4% (mainly textiles, non-ferrous metals), machinery and transport equipment doubled.

At the same time, there is an increase in imports of food products by 46.2%, industrial products by 29.1% (mainly metallurgical products), chemical products by 17%. Imports of machinery and equipment with the largest volume increased by 1.4%.

Thus, according to the results of the half-year, the economy of Uzbekistan is actively overcoming the consequences of the crisis and reaching the dynamics ahead of the pre-crisis indicators.

VOCABULARY

acquisition n – the act of acquiring something

challenger n – **:** to dispute especially as being unjust, invalid, or outmoded **:** IMPUGN

competition n – the act or process of competing **:** RIVALRY:

monopolistic ~ – competition that is used among sellers whose products are similar but not identical and that takes the form of product differentiation and advertising with less emphasis upon price

nonprice ~ – **Non-price competition** is a marketing strategy "in which one firm tries to distinguish its product or service from competing products on the basis of attributes like design and workmanship"

pure ~ – **perfect competition**

facilities n – facilities, equipment

follower n – one in the service of another

growth n – a stage in the process of growing

household n – **:** of or relating to a household **:** DOMESTIC

increase v – to become progressively greater (

limited adj – **:** confined within limits **:** RESTRICTED

market n – **:** a geographic area of demand for commodities or services

monopoly n – exclusive ownership through legal privilege, command of supply, or concerted action

oligopoly n – a market situation in which each of a few producers affects but does not control the market

price n – the amount of money given or set as consideration for the sale of a specified thing

premium ~ – a sum over and above a regular price paid chiefly as an inducement or incentive

pricing n – **Pricing** is the process whereby a business sets the **price** at which it will sell its products and services, and may be part of the business's marketing plan.

competitive ~ – Competitive pricing is the process of selecting strategic price points to best take advantage of a product or service based market relative to competition.

cost-plus ~ – **Cost-plus pricing** is a pricing strategy in which the selling price, of goods and services, is determined by adding a specific fixed markup percentage to a singular product's unit cost.

value ~ – **produce** v – **:** to offer to view or notice

product n – **:** something produced

differentiated ~ – In economics and marketing, **product differentiation** (or simply **differentiation**) is the process of distinguishing a **product** or service from others, to make it more attractive to a particular target market.

standardized ~

A product that conforms to specifications resulting from the same or equivalent tec hnical requirements.

production n – **:** something produced **:** PRODUCT

reduce v – **:** to diminish in size, amount, extent, or number

reduction n – **:** the act or process of reducing **:** the state of being reduced

restriction n – **:** something that restricts:

artificial ~ – artificial limitation

standardized adj – brought into conformity with a standard **:** done or produced in a standard, consistent way

stipulate v – **:** to specify as a condition or requirement (as of an agreement or offer)

substantial adj – **:** considerable in quantity **:** significantly great

~ **barrier** – a significant barrier

substitute n – **:** to put or use in the place of another

close ~ – **:** being near in time, space, effect, or degree

sufficient adj – **:** enough to meet the needs of a situation or a proposed end

GLOSSARY

❖ ·**Monopoly** is a single seller facing the entire industry demand curve. The monopolist sells a unique product, and extremely high barriers to entry protect it from competition.

❖ ·**Barriers to entry** that prevent new firms from entering an industry are (1)ownership of an essential resource, (2) legal barriers, and (3) economies of scale. Government franchises, licenses, patents, and copyrights are the most obvious legal barriers to entry.

❖ ·**Monopolistic competition** is a market structure characterized by (1) many small sellers, (2) a differentiated product, and (3) easy market entry and exit. Given these characteristics, firms in monopolistic competition have a negligible effect on the market price.

❖ ·**Oligopoly** is a market structure characterized by (1) few sellers, (2) a homogeneous or a differentiated product, and (3) difficult market entry.

❖ ·**Oligopolies** are mutually interdependent because an action by one firm may cause a reaction from other firms.

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