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«Гомельский государственный университет
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И. М. БАСОВЕЦ, О. Н. ЧАЛОВА

**ПРОФЕССИОНАЛЬНО ОРИЕНТИРОВАННЫЙ
АНГЛИЙСКИЙ ЯЗЫК
ДЛЯ СТУДЕНТОВ-ЭКОНОМИСТОВ**

**PROFESSIONAL ENGLISH
FOR STUDENTS OF ECONOMICS**

Практическое пособие

для студентов специальностей

1-25 01 07 «Экономика и управление на предприятии»

и 1-25 01 04 «Финансы и кредит»

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Рецензенты:

кандидат педагогических наук И. Н. Пузенко,
кафедра английского языка учреждения образования
«Гомельский государственный университет
имени Франциска Скорины»

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Басовец, И. М.

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Практическое пособие включает тексты экономического профиля на английском языке, а также языковые упражнения и речевые задания к ним. Представленный материал ориентирован, во-первых, на развитие и совершенствование у студентов-экономистов навыков чтения профессионально значимой литературы на английском языке, а во-вторых, на формирование лексических навыков монологической речи в рамках обозначенной профессионально направленной тематики.

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ПРЕДИСЛОВИЕ

Настоящее практическое пособие включает комплекс англоязычных текстов экономической направленности, а также систему упражнений и заданий к ним. Пособие предназначено для студентов, проходящих курс обучения по специальности 1-25 01 07 «Экономика и управление на предприятии» или по специальности 1-25 01 04 «Финансы и кредит» и владеющих английским языком в объеме школьной программы.

Издание состоит из девяти основных разделов. Каждый раздел включает следующие части: 1) дотекстовые вопросы и/или темы для обсуждения, направленные на облегчение восприятия рабочего текста; 2) собственно текст, за которым следует список ключевых слов и выражений, используемых в тексте; 3) послетекстовые упражнения и задания, ориентированные как на проверку понимания содержания текста, так и на закрепление языкового материала.

Данное пособие следует рассматривать исключительно в качестве дополнения к основным учебникам по английскому языку для экономических факультетов, и работа по нему должна проводиться параллельно с работой по этим учебникам.

Представленный в пособии материал может использоваться как для организации аудиторной работы, так и домашней.

UNIT 1. MONEY

Lead in

Ex. 1. Think of the following.

1. What functions of money do you know?
2. How many different kinds of money can you name?
3. Do you try to save money? With what purpose?

Text

Ex. 2. The following text will introduce you to the topic of money. Read the text and be ready to check your understanding.

MONEY AND ITS FUNCTIONS

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.

The Medium of Exchange. Money, the medium of exchange, is used in one-half of almost all exchange. Workers exchange labour services for money. People buy or sell goods in exchange for money. We accept money not to consume it directly but because it can subsequently be used to buy things we do wish to consume. 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. In order to see a film, you must hand over in exchange a good or service that the cinema manager wants. There has to be a double coincidence of wants. You have to find a cinema where the manager wants what you have to offer in exchange.

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. Since time and effort are scarce resources, a barter economy is wasteful. The use of money – any commodity generally accepted in payment for goods, services, and debts – makes the trading process simpler and more efficient.

Other Functions of Money. 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 Europe in Euros; in Belarus in Belarusian roubles. 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. During the rapid German inflation of 1922–23 when prices in marks were changing very quickly, German shopkeepers found it more convenient to use dollars as the unit of account. Prices were quoted in dollars even though payment was made in marks, the German medium of exchange.

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 in 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. When you borrow, the amount to be repaid next year is measured in pounds sterling. Although convenient, this is not an essential function of money. UK citizens can get bank loans specifying in dollars the amount that must be repaid next year. Thus the key feature of money is its use as a medium of exchange. For this, it must act as a store of value as well. And it is usually, though not invariably, convenient to make money the unit of account and standard of deferred payment as well.

Different Kinds of 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. To use a commodity money, society must either cut back on other uses of that commodity or devote scarce resources to producing additional quantities of the commodity. But there are less expensive ways for society to produce money.

A token money is a means of payment whose value or purchasing power as money greatly exceeds its cost of production or value in uses other than as money. A £10 note is worth far more as money than as a 3 x 6 inch piece of high-quality paper. Similarly, the monetary value of most coins exceeds the amount you would get by melting them down and selling off the metals they contain. By collectively agreeing to use token money, society economizes on the scarce resources required to produce money as a medium of exchange. Since the manufacturing costs are tiny, why doesn't everyone make £ 10 notes?

The essential condition for the survival of token money is the restriction of the right to supply it. Private production is illegal. Society enforces the use of token money by making it legal tender. The law says it must be accepted as a means of payment.

In modern economies, token money is supplemented by IOU money. An 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. You can write a cheque to yourself or a third party and the bank is obliged to pay whenever the cheque is presented. Bank deposits are a medium of exchange because they are generally accepted as payment.

Vocabulary notes

Store of value
deferred payment
to swap goods
coincidence of wants
commodity
to quote prices
to keep accounts

to erode purchasing power

to cut back
token money

средство сбережения, накопления
отсрочка платежа
обмениваться товарами
совпадение спроса и предложения
товар
назначать (указывать) цены
вести бухгалтерские книги, вести
учёт доходам и расходам
снижать покупательскую способ-
ность
сокращать
символические деньги, денежные
знаки

Controlled practice

Ex. 3. Answer the following questions.

1. Why do people accept money?
2. How are goods exchanged in a barter economy?
3. Why is trading expensive in a barter economy?
4. What is the unit of account in our country?
5. When did Germany not use its own currency?
6. Why can money be used as a store of value?
7. What does the writer mean by 'standard of deferred account'?
8. Explain in your own words what 'token money' means.
9. When are people unwilling to accept their own currency?
10. What example of IOU money does the writer give?

Word study

Ex. 4. Say what words have the same meaning as the following verbal units.

Put off till later	giving the name or details of
vital	serving to avoid difficulty
worn away	against the law
without value	limitation
always	illegitimate

Ex. 5. Say what words have the opposite meaning to the following verbal units.

Take away	increase
reject	is less than
planned event	separately
be under no compulsion to	very large
in a minor way	lawful

Ex. 6. Explain the following.

Accounts; medium of exchange; legal tender; quoted.

Ex. 7. Say what words correspond to these definitions.

- | | |
|--------------------------------|--|
| 1. Shared by 2 or more people; | 5. to use something; |
| 2. working smoothly and well; | 6. the state of continuing to live |
| 3. rare; | or exist, often in spite of difficulty |
| 4. very small; | or danger. |

Discussion

Ex. 8. Comment on the following.

1. Divide into 2 groups and discuss the advantages and disadvantages of introducing the single currency in all the countries on the globe (or in the continent). Give strong arguments supported by examples to prove your opinion.

2. Discuss the future of the electronic money. Do you agree that it will be the only universal medium of exchange and there will be no banknotes or coins? Will it be convenient to national governments to control all citizens?

UNIT 2. BANKING

Lead in

Ex. 1. Think of the following.

1. What role do banks play in modern societies?
2. How many different kinds of banks do you know?
3. Do you often visit banks? With what purpose?

Text

Ex. 2. The following text will introduce you to the topic of modern banking. Read the text and be ready to check your understanding.

MODERN BANKING

A bank borrows money from the public, crediting them with a deposit. The deposit is a liability of the bank. It is money owed to depositors. In turn the bank lends money to firms, households, or governments wishing to borrow. An institution that specializes in bringing lenders and borrowers together is a financial intermediary.

Banks are not the only financial intermediaries. Insurance companies, pension funds, and building societies also take in money in order to re-lend it. The crucial feature of banks is that some of their liabilities are used as a means of payment, and are therefore part of the money stock. Commercial banks are financial intermediaries with a government licence to make loans and issue deposits, including deposits against which cheques can be written.

We begin by looking at the present-day UK banking system. Although the details vary from country to country, the general principle is much the same everywhere.

In the UK, the commercial banking system comprises about 600 registered banks, the National Girobank operating through post offices, and about a dozen trustee savings banks. Much the most important single group is the London clearing banks. The clearing banks are so named because they have a central clearing house for handling payments by cheque.

A clearing system is a set of arrangements in which debts between banks are settled by adding up all the transactions in a given period and paying only the net amounts needed to balance inter bank accounts.

Suppose you bank with Barclays but visit a supermarket that banks with Lloyds. To pay for your shopping you write a cheque against your deposit at Barclays. The supermarket pays this cheque into its account at Lloyds. In turn, Lloyds presents the cheque to Barclays which will credit Lloyds' account at Barclays and debit your account at Barclays by an equivalent amount. Because you purchased goods from a supermarket using a different bank, a transfer of funds between the two banks is required. Crediting or debiting one bank's account at another bank is the simplest way to achieve this.

However on the same day someone else, call her Joan Groover, is probably writing a cheque on a Lloyd's deposit account to pay for some stereo equipment from a shop banking with Barclays. The stereo shop pays the cheque into its Barclays' account, increasing its deposit. Barclays then pay

the cheque into its account at Lloyds where Ms Groover's account is simultaneously debited. Now the transfer flows from Lloyds to Barclays.

Although in both cases the cheque writer's account is debited and the cheque recipient's account is credited, it does not make sense for the two banks to make two separate inter-bank transactions between themselves. The clearing system calculates the net flows between the member clearing banks and these are the settlements that they make between themselves. Thus the system of clearing cheques represents another way society reduces the costs of making transactions.

Modern banks' cash assets include their cash reserves deposited with the Bank of England. The Bank of England (usually known as the Bank) is the central bank or banker to the commercial banks.

Deposits are chiefly of two kinds: sight deposits and time deposits. Whereas sight deposits can be withdrawn on sight whenever the depositor wishes, a minimum period of notification must be given before time deposits can be withdrawn. Sight deposits are the bank accounts against which we write cheques, thereby running down our deposits without giving the bank any prior warning. Whereas most banks do not pay interest on sight deposits or chequing accounts, they can afford to pay interest on time deposits. Since they have notification of any withdrawals, they have plenty of time to sell off some of their high interest loans in order to have the money to pay out depositors.

Certificates of deposit are an extreme form of time deposit where the bank borrows from the public for a specified time period and knows exactly when the loan must be repaid.

Vocabulary notes

Legal tender
to enforce
bank deposit
gold bullion
goldsmith
vault
to reckon
reserve ratio

законное платёжное средство
принуждать, вводить в действие
банковский вклад
золотой слиток
ювелир, золотых дел мастер
помещение для хранения ценностей
считать, полагать
соотношение резервов к сумме депозитов

interest charges	подлежащие уплате проценты
to go bankrupt	обанкротиться
financial intermediary	финансовый посредник
money stock	денежная масса в обращении
trustee saving bank	доверительный сберегательный банк
clearing bank	клиринговый банк
to bank with	вести дела с тем или иным банком
to debit	дебетовать, вносить в дебет
to credit	кредитовать, записывать в доходную часть
transfer of funds	перевод средств
cash assets	денежные средства
entry	статья (расходов)
liquid assets	ликвидные средства
advances	авансовые суммы
security	обеспечение, гарантия
government bonds	государственные ценные бумаги
to fluctuate	колебаться, меняться
sight deposit	бессрочный вклад, вклад на предъявителя
time deposit	срочный вклад
notification	уведомление
to withdraw a deposit	забрать вклад
to cheque	получать по чеку
to call in	требовать возврата
certificate of deposit	депозитный сертификат
to clarify	прояснять
to impose taxes	облагать налогами, вводить налоги

Controlled practice

Ex. 3. Answer the following questions.

1. What is a financial intermediary?
2. Are bank's liabilities used as a means of payment?
3. Why do banks need a government license?
4. What is a clearing system?

5. What does the clearing system calculate?
6. How does the clearing system reduce the costs of making transactions?
7. What two kinds of deposits are described in the text?
8. What deposits do banks normally pay interest on?
9. Explain in your own words what certificates of deposit mean.
10. Would it be possible not to use banks in modern life?

Word study

Ex. 4. Say what words have the same meaning as the following verbal units.

Account
credit
equal
reach
settlement

reserves
run down
withdraw
remittance
preceding

Ex. 5. Say what words have the opposite meaning to the following verbal units.

Debit
borrow
assets
sight deposit

pay out
recipient's account
prior
commercial bank

Ex. 6. Say what words correspond to these definitions.

1. A special printed form on which one writes an order to a bank to pay a sum of money from one's account;
2. to pay what is owed, a bill, etc.;

3. money charged for borrowing;
4. very great, serious or severe far from moderate.

Ex. 7. Explain the following.

Transaction, notification, to relend, to withdraw on sight.

Discussion

Ex. 8. Comment on the following.

1. Think of the ideal reserve ratio – the ratio of reserves to deposits – which will allow banks to make a profit through their interest charges with little risks involved. What are other services that the bank earns money from?

2. Discuss the future of the banking sector in Belarus and the world. Digitization promises to automate and improve many banking processes, customer demands and expectations are increasing, and technology is fuelling the emergence of significant new competitors. Think of Internet banking and home banking. Will banks disappear in the nearest future or will they change their focus?

UNIT 3. TYPES OF BANKS

Lead in

Ex. 1. Think of the following.

1. Are banks the best place to keep your money? Have you ever used a piggy bank?

2. Do banks have any drawbacks or risks involved?

3. Would you like to work for a bank? Why?

Text

Ex. 2. The following text will introduce you to the topic of types of banks. Read the text and be ready to check your understanding.

TYPES OF BANKS

A central bank has many roles in the economy. It is a bankers' bank and a lender of last resort. A central bank is responsible for monetary creation, for overall monetary policy. The central bank controls interest

rates, market operations and required reserves to influence the monetary base and overall interest rates in the economy.

By influencing the amount of real money in the economy, the central bank can influence aggregate demand, which in turn will influence prices. Thus, the central bank has to balance the need to restrain inflation with the desire to allow economic growth.

Commercial or retail banks are businesses that trade in money. They receive and hold deposits, pay money according to customers' instructions, lend money, offer investment advice, exchange foreign currencies, and so on. They make a profit from the difference (known as a spread or a margin) between the interest rates they pay to lenders or depositors and the interest rates which they charge to borrowers. Banks also create credit. When lending money, bankers have to find a balance between yield and risk, and between liquidity and different maturities.

Investment banks, often called merchant banks in Britain, raise funds on the various financial markets, finance international trade, issue and underwrite securities, deal with takeovers and mergers, and issue government bonds. They also offer stock broking and portfolio management services to reach corporate and individual clients. Investment banks in the USA are similar, but they can only act as intermediaries offering advisory services, and do not offer loans themselves. Investment banks make their profits from the fees and commissions which they charge for their services.

In the USA and in Britain, there are also 'financial supermarkets' – conglomerates combining the services which are offered by banks, stock-brokers, insurance companies, and so on. In some European countries (notably Germany, Austria and Switzerland) there have always been universal banks combining deposit and loan banking with share and bond dealing and investment services.

In most financial centers, there are also branches of lots of foreign banks, largely doing Eurocurrency business. A Eurocurrency is any currency held outside its country of origin (the name "Eurocurrency" is now used for foreign currencies held anywhere in the world: e.g. yen in the US, euros in Japan).

Vocabulary notes

Bankers' bank

банк, обслуживающий другие банки

lender of last resort	кредитор в последней инстанции
monetary creation	эмиссия денег, выпуск денег
monetary policy	кредитно-денежная политика
interest rate	процентная ставка
market operations	рыночные операции/сделки
required reserves	резервные фонды
monetary base	денежная база, база денежной массы
real money	наличные деньги, реальные деньги
aggregate demand	совокупный спрос
to restrain inflation	сдерживать/ограничивать инфляцию
economic growth	рост экономики/экономическое развитие
retail bank	банк, работающий с мелкой клиентурой
to trade in	совершать сделки по продаже и покупке
to receive a deposit	принимать вклад
to lend money	давать займы, предоставлять ссуду/заём
investment advice	инвестиционный совет
to make a profit	получать прибыль
margin	вычет, остаток, разница
lender	кредитор
depositor	вкладчик
to charge to borrowers	записывать на счет заемщика
to create credit	выдавать кредит
yield	доход (в виде процентов на вложенный капитал)
liquidity	ликвидность
maturities	сроки платежа
merchant bank	торговый банк
to raise funds	получать прибыль, зарабатывать деньги
to issue securities	выпускать ценные бумаги
to underwrite securities	гарантировать размещение бумаг
takeovers and mergers	поглощения и слияния (фирм)
to issue government bonds	выпускать правительственные облигации

stock broking
portfolio management
advisory services
to offer loans
fees and commissions
charge for the services
stockbroker
insurance companies
deposit and loan banking
share and bond dealing

перепродажа акций
управление портфелем ценных бумаг
консалтинговые услуги
предоставлять заём/ссуду/кредит
денежный сбор и комиссионные
взимать плату за свои услуги
биржевой брокер
страховые компании
управление вкладами и ссудами
обращение с акциями и облигациями

Controlled practice

Ex. 3. Answer the following questions.

1. What is the role of the central bank?
2. What are the functions of commercial banks?
3. What sort of balance do bankers have to find when lending money?
4. What is a merchant bank in England?
5. What is another name for commercial banks?
6. What is a different name for investment banks?
7. What's the main difference between investment banks in the UK and the USA?
8. What is a financial supermarket?
9. What is a universal bank?
10. What is Eurocurrency?

Word study

Ex. 4. Say what words have the same meaning as the following verbal units.

Bankers' bank
thus
commercial banks
make a profit

spread
fee
takeover
to grant credits

Ex. 5. Say what words have the opposite meaning to the following verbal units.

Inside
to lend

lender
corporate client

Ex. 6. Say what words correspond to these definitions.

1. An amount of money which is charged by a bank for providing a service.

2. Money that you borrow from a bank.

3. A person or an organization that borrows money, especially from a bank.

4. The system of money that country uses.

5. An organization that provides various financial services, for example keeping or lending money.

6. A person or an organization which lends money.

7. The money which you make in business or by selling things.

Ex. 7. Finish the statements.

1. There are 5 principal types of banks:...

2. A central bank is also called...

3. Another term for commercial banks is...

4. Commercial banks have a lot of functions. They...

5. Commercial banks make a profit from...

6. Investment banks are often called...

7. Investment banks in Britain have many roles:...

8. Merchant banks in the USA act as...

9. Investment banks make their profits from...

10. Financial statements in the USA and Britain are conglomerates...

11. Universal banks in some European countries combine...

12. Branches of foreign banks largely do...

Discussion

Ex. 8. Comment on the following.

1. 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?

2. Brain-storming. It is known that the central bank of any country has to balance the need to restrain inflation with the desire to allow economic growth, it has to regulate and monitor national monetary policy and to a great extent defines the investment climate in the country. Divide into 2 groups and develop as many ideas as you can regarding what can be done by the Central Bank of Belarus to improve its economic and investment climate, if it needs to introduce some new regulations or modify the existing norms, etc. Then discuss your ideas together.

UNIT 4. TYPES OF CREDIT

Lead in

Ex. 1. Think of the following.

1. Have you or members of your family ever bought anything on credit? What? Do you think it's a good idea?

2. Have you or your family members ever bought anything in installments? What? Is it a good alternative to a credit?

3. Under which circumstances is it better for a person to get a credit in Belarusian rubles? When is it safer to have a loan in currency?

Text

Ex. 2. The following text will introduce you to the topic of types of credit. Read the text and be ready to check your understanding.

TYPES OF CREDIT

The term “credit” denotes transactions involving the transfer of money or other property on promise of repayment. Thus, the transferor becomes a creditor, and the transferee becomes a debtor.

The principal types of credit are:

- commercial credit, which merchants extend to one another to finance production and distribution of goods;
- investment credit, which is used by business firms to finance the acquisition of plant and equipment;
- bank credit, which consists of the deposits and loans of depository institutions;
- consumer or personal credit, which comprises advances made to individuals to enable them to meet expenses or to purchase, on a deferred-payment basis, goods or service for personal consumption;
- real-estate credit, which includes loans secured by land and buildings;
- public or government credit, which is represented by the bond issues of national governments;
- international credit, which is extended to particular governments by other governments.

The Function of Credit

The principal function of credit is to transfer property from one person (or organization) to another. For example, banks grant loans to individuals who want to start or expand their business. The transfer is temporary. It is made for a price, which is known as interest.

Credit operations are carried out by means of documents which include bills of exchange, money orders, cheques, drafts, and promissory notes.

The depositing of funds in a bank for safekeeping is also a form of credit to the bank, as such funds are used for loan and investment purposes, and the bank is legally bound to repay them as an ordinary debtor.

Issuance of Credit

Creditors sometimes require the debtor's credit standing. Sometimes more tangible security is required, for example the guarantee of a third party or collateral.

Collateral

Collateral is a security that a borrower gives to a creditor to guarantee repayment of a loan. This security may be in the form of a mortgage on buildings, physical property such as consumer goods and business inventories, stocks and bonds, negotiable instruments, bills of lading, or certain intangible properties such as patents and copyrights.

Vocabulary notes

In installments	в рассрочку
transactions	сделки, операции
transfer of money	перевод денег
promise of repayment	платежное обязательство
transferor	передающее лицо
transferee	приобретатель
merchant	предприниматель, торговец
distribution of goods	продажа товара
depository institution	кредитное учреждение
on a deferred-payment basis	на основании отсрочки
consumption	потребление
real-estate credit	ипотечный кредит
secured	гарантированный
bond issues	облигационный заем
national government	центральное правительство
principal	главный
property	собственность
to grant loans	выдавать кредиты
temporary	временный
by means of	посредством, за счет
bill of exchange	вексель, тратта
money orders	денежные переводы
drafts	простые векселя
promissory notes	переводные векселя
funds	деньги, капитал
safekeeping	хранение
to be bound	быть связанным
issuance of credit	выдача кредита
credit standing	кредитоспособность
tangible security	материальное обеспечение
intangible property	нематериальная собственность
a third party	третья сторона, третье лицо
collateral	залог (обеспечение),
security	обеспечение, гарантия
mortgage	ипотечный залог (кредит)
stocks and bonds	акции и облигации

negotiable instruments

оборотные документы / ин-
струменты

bill of lading

накладная

Controlled practice

Ex. 3. Answer the following questions.

1. What do we call credit?
2. What are the types of credit?
3. What are the functions of credit?
4. How are credit operations carried out?
5. What is a credit interest?
6. What are the examples of tangible security required by banks?
7. What is collateral?
8. What examples of intangible property were given in the text?

Word study

Ex. 4. Say what words have the same meaning as the following verbal units.

Loan

consist of

funds

to issue loans

with the help of

role

collateral

funds

Ex. 5. Say what words have the opposite meaning to the following verbal units.

Transferor

debtor

extraordinary

tangible

Ex. 6. Finish the statements.

1. The term “credit” means...

2. Types of credit are as follows:...
 - a) A commercial credit is a credit which merchants...
 - b) An investment credit is a credit which is used...
 - c) A bank credit consists of...
 - d) A consumer credit comprises...
 - e) A real-estate credit is composed of...
 - f) An international credit is extended to...
3. The principal function of credits is to...
4. Credit operations are carried out by means of documents, such as...
5. Credits can be secured by a)..., b)..., and c)...
6. Collateral is...

Discussion

Ex. 7. Comment on the following.

1. How do you understand the following saying: Money and a fool are soon parted. Do you agree with it?
2. Divide into 2 groups. Imagine you are bankers of two competing commercial banks. You are aware that people have deposited a lot of money lately into one of the banks which attracted depositors with high interest rates, and this bank has lent even more money with low interest rates relying on the fact that not every depositor will want their money back at the same time – if they did this bank couldn't pay out and would go bankrupt. Develop the strategy for both banks how to act in this situation.

UNIT 5. MARKETS

Lead in

Ex. 1. Think of the following.

1. How do you understand the notion 'market' on a local and global scale?
2. Is it important only for economists to understand market functioning?
3. What is the relation of markets and prices?

Text

Ex. 2. The following text will introduce you to the topic of markets. Read the text and be ready to check your understanding.

MARKETS

Markets bring together buyers and sellers of goods and services. In some cases, such as a local fruit stall, buyers and sellers meet physically. In other cases, such as the stock market, business can be transacted over the telephone, almost by remote control. We need not go into these details. Instead, we use a general definition of markets.

A market is a shorthand expression for the process by which households' decisions about consumption of alternative goods, firms' decisions about what and how to produce, and workers' decisions about how much and for whom to work are all reconciled by adjustment of prices.

Prices of goods and of resources, such as labour, machinery and land, adjust to ensure that scarce resources are used to produce those goods and services that society demands.

Much of economics is devoted to the study of how markets and prices enable society to solve the problems of what, how, and for whom to produce. Suppose you buy a hamburger for your lunch. What does this have to do with markets and prices? You chose the cafe because it was fast, convenient and cheap. Given your desire to eat, and your limited resources, the low hamburger price told you that this was a good way to satisfy your appetite. You probably prefer steak but that is more expensive. The price of steak is high enough to ensure that society answers the 'for whom' question about lunchtime steaks in favour of someone else.

Now think about the seller's viewpoint. The cafe owner is in the business because, given the price of hamburger meat, the rent and the wages that must be paid, it is still possible to sell hamburgers at a profit. If rents were higher, it might be more profitable to sell hamburgers in a cheaper area or to switch to luxury lunches for rich executives on expense accounts. The student behind the counter is working there because it is a suitable part-time job which pays a bit of money. If the wage were much lower it would hardly be worth working at all. Conversely, the job is unskilled and there are plenty of students looking for such work, so owners of cafes do not have to offer very high wages.

Prices are guiding your decision to buy a hamburger, the owner's decision to sell hamburgers, and the student's decision to take the job. Society is allocating resources – meat, buildings, and labour – into hamburger production through the price system. If nobody liked hamburgers, the owner could not sell enough at a price that covered the cost of running the cafe and society would devote no resources to hamburger production. People's desire to eat hamburgers guides resources into hamburger production. However, if cattle contracted a disease, thereby reducing the economy's ability to produce meat products, competition to purchase more scarce supplies of beef would bid up the price of beef, hamburger producers would be forced to raise prices, and consumers would buy more cheese sandwiches for lunch. Adjustments in prices would encourage society to reallocate resources to reflect the increased scarcity of cattle.

There were several markets involved in your purchase of a hamburger. You and the cafe owner were part of the market for lunches. The student behind the counter was part of the local labour market. The cafe owner was part of the local wholesale meat market and the local market for rented buildings. These descriptions of markets are not very precise. Were you part of the market for lunches, the market for prepared food, or the market for sandwiches to which you would have turned if hamburgers had been more expensive? That is why we have adopted a very general definition of markets which emphasizes that they are arrangements through which prices influence the allocation of scarce resources.

Vocabulary notes

To subsidize bills
to intervene
to pursue interests
share of the output
restriction
transfer payment
to use up capital
capital goods
durable goods
physical assets
fixed assets

финансировать счета
вмешиваться
преследовать интересы
доля выпуска продукции
ограничение
трансфертный платеж
израсходовать капитал
средства производства
товары длительного пользования
основные фонды
основные средства

rental	рендный доход, арендная плата
wear-and-tear	износ
cash outlay	денежные расходы
resale value	ликвидационная цена; стоимость при перепродаже
purchase price	покупная цена
life of goods	срок службы товаров
to reconcile	согласовывать, регулировать, мирить
net worth	стоимость имущества за вычетом обязательств; собственные средства
fruit stall	палатка с фруктами
stock market	фондовая биржа
to transact	вести (дела), заключать (сделки)
shorthand	условное обозначение
adjustment of prices	регулирование цен
scarce resources	редкие (дефицитные) ресурсы
scarcity	нехватка, дефицит
expense account	расходный счет
conversely	наоборот
to allocate	размещать
to contract	заключать договор
to bid up	поднимать цену
wholesale	оптовый

Controlled practice

Ex. 3. Answer the following questions.

1. What example is given where sellers and buyers actually meet?
2. How are households' decisions on what to buy reconciled?
3. Why do prices adjust?
4. What problems do markets and prices solve for society?
5. Why is the cafe owner in business?
6. Why do cafe owners not have to pay high wages?
7. What makes society put resources into hamburger production?
8. What would consumers do if hamburger prices rose?
9. How many markets are you involved in if you buy a hamburger?

10. Does the writer give an exact description of a market? Can you explain in your own words the writer's definition of markets?

Word study

Ex. 4. Say what words have the same meaning as the following verbal units.

At a distance
of the neighbourhood
carried out, done
ask for
make certain that

buy
illness
managing
put up
rareness

Ex. 5. Say what words have the opposite meaning to the following verbal units.

Buyer
retail market
close
specific

abundant
cheap
profit
shorthand

Ex. 6. Say what words correspond to these definitions.

1. To find a way to make two or more ideas, situations, etc. agree with each other when actually they seem to be in opposition;

2. the best and most expensive food and drink, clothes, surroundings, etc.; the regular use and enjoyment of these;

3. to distribute something officially to somebody or something for a specific purpose;

4. to make a legal agreement to have a particular relationship.

Ex. 7. Explain the following.

Rent
profit
expense account

part-time job
labour market
wholesale market

Ex. 8. Using words from the text, complete the following statements.

1. I quite like lamb but really I... beef. 2. He was a very keen student. He... most of his time to his studies. 3. I'm not in... of long and expensive lunches. 4. Please... that your essays reach me on time. 5. A good degree should... you to get a job.

Discussion

Ex. 9. Comment on the following.

1. Share your ideas about the local and global markets in future. Will they change significantly or be much similar to the existing ones?

2. Divide into groups. Imagine you are the managing teams of the competing small companies in coffee business with similar positions in the market. Describe your market segment, clients, potential. Think of the strategy how to win a greater market share, make more profit and win a competitor.

UNIT 6. ACCOUNTING

Lead in

Ex. 1. Think of the following.

1. What is accounting?

2. Are there any accountants among your friends or relatives? From your point of view, what are the main hardships of this career? What is an ideal accountant for you?

3. Who needs financial information?

Text

Ex. 2. The following text will introduce you to the topic of accounting. Read the text and be ready to check your understanding.

ACCOUNTING

Accounting is the process of receiving, processing and communicating financial information. In other words, it is an information system that accumulates records, classifies, summarizes and reports commercial transaction. The aim of this process is to show the financial condition of an enterprise. Companies may use historical financial information to plan new strategies for growing business operations. Developing a growth strategy centered on financial information may give business owners and managers reasonable expectations for future operations. Owners and managers may also use financial information to determine where to make improvements in their businesses.

Bookkeeping is a small part of the system. It deals with recordkeeping.

Accounting information is used by managers, investors and different groups in society, for example tax authorities, labour unions, local governments, financial analysts, etc.

The major branches of accounting are 1) public, 2) private and 3) governmental accounting.

1. Public accounting is the accounting which is done by independent Certified Public accountants (= Br. Chartered Accountants). They audit the books of companies to ensure that their financial statements and records are properly stated.

2. Private accounting is the accounting of the private sector of the economy. It involves the analysis and recording of financial information by accountants who are employees of the business entity.

3. Governmental accounting is the accounting performed for central (federal and state) and local governmental institutions.

Record keeping of organizations is based on a double-entry system.

As you enter information in your books you will always make two entries which exactly balance one another. Each entry has a left side – these are called debits and a right side – these are called credits. For each entry you must enter at least one debit and one credit and the total of the amounts on the right must equal the total on the left. Another “rule” is that debits are positive and credits are negative and if you add them all together the total is “zero”.

All your asset accounts (1000 series) are debit accounts which means they are positive numbers. An asset is a positive number in the system. The liability accounts (2000 series) are called credit accounts and they

are negative numbers but generally when you look at them on the balance sheet you don't show the minus sign.

The 3000 series is sales. Sales are considered a credit account. You sell something and get some cash. Cash is a debit account. Make a sale and you better increase your cash – debit cash. Positive entry.

Vocabulary notes

bookkeeping	бухучет
recordkeeping	ведение учетной документации
tax authorities	налоговые органы
labour union	профсоюз
local governments	местные органы власти
business entity	субъект хозяйствования
entry	бухгалтерская запись, статья
asset accounts	счета актива, кредитовые счета
debit accounts	счета пассива, дебетовые счета
financial condition	финансовое положение

Controlled Practice

Ex. 3. Answer the following questions.

1. What is accounting according to the text?
2. What does bookkeeping deal with?
3. Who is accounting information used by?
4. What is specific about public accounting?
5. What is private accounting?
6. What is the difference between the major types of accounting?
7. What are the two main entries in the balance sheet?
8. Why do bookkeeping entries have to exactly balance one another?

Word Study

Ex. 4. Say what words have the same meaning as the following verbal units.

To demonstrate
enterprise
liability accounts
grounded

autonomous
certified public accountant
equivalent
to check

Ex. 5. Say what words have the opposite meaning to the following verbal units.

Positive
debit
asset accounts
plus sign
to increase

expenses
make a purchase
single-entry bookkeeping
left side
balance

Ex. 6. Say what words correspond to these definitions.

1. A piece, a section of something; some but not all of a thing;

2. an organization of workers, usually in a particular industry, that exists to protect their interests, improve conditions of work;

3. the detailed study or examination of something to understand more about it;

4. a person whose job is to keep and check financial accounts.

Ex. 7. Say whether the statements are true or false.

1. Record keeping of organizations is based on a single-entry system.
2. Entries on the left side are called credits.
3. The total of the amounts on the right side must equal the total on the left side.
4. Debits are negative entries.

Discussion

Ex. 8. Comment on the following.

1. Divide into 2 groups. Imagine you are managers of 2 large building companies in Belarus. You are meeting today to prepare the annual report

to the owners of your companies. Discuss the financial information describing your financial state in the market and determine where to make improvements in your business. Think of a growth strategy and reasonable expectations for the future. Then make a short report to the owners (your lecturer and the rest of your groupmates), stating the figures from your balance sheet, be ready to answer their questions on your company's functioning during the reported yearly period.

UNIT 7. REVENUES, COSTS, AND PROFITS

Lead in

Ex. 1. Think of the following.

1. Is it essential for individuals and businesses to pay bills duly? Who pays bills in your family?
2. Do you or your parents keep record of your family income and costs?
3. Is it easy or difficult for a company (a Belarusian company) to calculate its revenues? Why?

Text

Ex. 2. The following text will introduce you to the topic of revenues, costs and profits. Read the text and be ready to check your understanding.

REVENUES, COSTS, AND PROFITS

A firm's revenue is the amount it earns by selling goods or services in a given period such as a year. The firm's costs are the expenses incurred in producing goods or services during the period. Profits are the excess of revenues over costs. Thus we can write: $profits = revenues - costs$

Although these ideas are simple, in practice the calculation of revenues, costs, and profits for a large business is complicated. Otherwise we would not need so many accountants. We begin with a simple example.

Rent-a-Person is a firm that hires people whom it then rents out to other firms that need temporary workers. Rent-a-Person charges £10 per hour per worker but pays its workers only £7 per hour. During 2016 it rented 100 000 hours of labour. Business expenses, including leasing an office, buying advertising space, and paying telephone bills, came to £200 000. Figure 1 shows the income statement or profit-and-loss account for 2016. Profits or net income before taxes were £100 000. Taxes to central government (corporation tax) plus taxes to local government (rates assessed on some of the property the firm owned) came to £25 000. Rent-a-Person's after-tax profits in 2016 were £75 000. Now we can discuss some of the complications in calculating profits.

**Figure 1. – Rent-a-Person Income Statement
For the year ending 31 December 2016**

Revenue (100 000 hours rented out at £ 10 per hour)		£ 1 000 000
Deduct expenses (costs)	£ 700 000	
Wages paid to people rented out	50 000	
Advertising	50 000	
Office rent	80 000	
Wages for office workers	20 000	
Other office expenses		
	900 000	
		£100 000
Net income (profits) before taxes		25 000
Taxes paid		£75 000
Net income (profits) after taxes		

Outstanding Bills. People do not always pay their bills immediately. At the end of 2016, Rent-a-Person has not been paid for all the workers it hired out during the year. On the other hand, it has not paid its telephone bill for December. From an economic viewpoint, the right definition of revenues and costs relates to the activities carried out during the year whether or not payments have yet been made.

This distinction between economic revenues and costs and actual receipts and payments raises the important concept of cash flow.

A firm's cash flow is the net amount of money actually received during the period. Profitable firms may still have a poor cash flow, for example when customers are slow to pay their bills.

Part of the problem of running a business is that cash flow at the beginning is bound to be slow. Set up costs must be incurred before revenues start to flow in. That is why firms need financial capital to start the business. If the business prospers, revenues will build up and eventually there will be a healthy cash inflow.

Capital and Depreciation. Physical capital is the machinery, equipment, and buildings used in production. Rent-a-Person owns little physical capital. Instead, it rents office space, computers, and desks. In practice, businesses frequently buy physical capital. Economists use 'capital' to denote goods not entirely used up in the production process during the period. Buildings and lorries are capital because they can be used again in the next year. Electricity is not a capital good because it is used up entirely during the period. Economists also use the terms 'durable goods' or 'physical assets' to describe capital goods.

How should the cost of a capital good such as computers be treated in calculating profits and costs? The essential idea is that it is the cost of using rather than buying a piece of capital equipment that should be treated as part of the firm's costs within the year. If Rent-a-person leases all its capital equipment, its costs include merely the rentals paid in leasing capital goods.

Suppose however that Rent-a-Person buys eight computers at the beginning of the year for £1000 each. It should not count £8000 as the cost of computers in calculating costs and profits for that year. Rather, the cost should be calculated as the reduction in the value of the computers over the year. Suppose the wear-and-tear on the computers over the year has reduced their value from £ 1000 to £700 each. The economic cost of the use of eight computers over the year is £2400 ($8 \times £300$). This amount of depreciation is the cost during the year.

Depreciation is the loss in value resulting from the use of machinery during the period. The cost during the period of using a capital good is the depreciation or loss of value of that good, not its purchase price.

The existence of depreciation again leads to a difference between economic profits and cash flow. When a capital good is first purchased there is a large cash outflow, much larger than the depreciation cost of using the good during the first year. Profits may be high but cash flow low.

However, in subsequent years the firm makes no further cash outlay, having already paid (or the capital goods, but must still calculate depreciation as an economic cost since the resale value of goods is reduced still further). Cash flow will now be higher than economic, profit.

The consequence of treating depreciation rather than purchase price as the true economic is thus to spread the initial cost over the life of the capital good, but that is not the reason for undertaking the calculation in this way. Rent-a-Person could always have sold its computers for £5600 after one year, restricting its costs to £2400. The fact that the firm chose to keep them for reuse in the next year indicates that the latter strategy is even more profitable. Hence the true economic cost of using the computers in the first year can be at most £2400.

Vocabulary notes

to incur expenses	производить расходы
excess	избыток, избыточный
complicated	сложный
to lease	сдавать или брать в аренду
income statement	отчет о прибылях и убытках
profit-and-loss account	счет прибылей и убытков
net income	чистый доход (чистая прибыль)
corporation tax	налог на корпорацию
assessed tax rate	ставка по имущественному налогу
after-tax profit	чистая прибыль (после уплаты налогов)
cash outlay	денежные расходы
outstanding bills	неоплаченные счета
distinction	различие
actual receipt	фактические денежные поступления
cash flow	движение денежной наличности
cash inflow	приток капитала
to prosper	процветать
to build up revenues	создавать, накапливать доход
to deduct costs	удерживать затраты
depreciation	износ

Controlled Practice

Ex. 3. Answer the following questions.

1. Why do we need a great many accountants?
2. How much did Rent-a-Person pay in wages in 2016?
3. What was Rent a-Person's pre-tax profit?
4. What is cash flow?
5. Why does a firm need financial capital to start its business?
6. Why is electricity not a capital good?
7. How should you treat the cost of a car in a firm's accounts?
8. What is depreciation?
9. Must you have a good cash flow in order to make a high profit?
10. What is the effect of using depreciation rather than purchase price?

Word Study

Ex. 4. Say what words have the same meaning as the following verbal units.

Make money, do well financially	often
certain	for this reason, from here
brought on oneself	carrying out (a piece of work)
lasting	overall plan
wholly	limiting

Ex. 5. Say what words have the opposite meaning to the following verbal units.

Revenue, income	simple
inflow	lossmaking
preceding	inflow
shortage, lack	permanent

Ex. 6. Say what words correspond to these definitions.

- | | |
|--|---|
| 1. To make a regular payment for the use of something; | 3. to obtain the services of someone in exchange for payment; |
| 2. to pay rent for the use of something over a fixed period of time; | 4. decide or fix the amount of something. |

Ex. 7. Explain the following.

Wear-and-tear
actual receipts

loss of value
purchase price

Discussion

Ex. 8. Comment on the following.

1. Share your ideas of how to increase revenues and reduce costs at your university. Choose the most suitable and effective to make the list of top 3.

2. Imagine you are managers of different departments at the young AXAL Insurance Company and are meeting to decide what percentage of the company's budget should be spent on different items in the coming year. Should you spend more on sales and marketing techniques (vital for new business) or on training claims staff (the heart of the business)? May be you will need to invest into very specific skills, for example into training of how to assess damaged cars. Can you justify spending on English language classes or IT/computerized processes? How vital are public relations and phone manners? Try to come to an agreement.

UNIT 8. EARNINGS

Lead in

Ex. 1. Think of the following.

1. Starting from what age can you earn money in Belarus? In what sectors? Do you think the situation will change in the nearest future?

2. What is better from your point of view: to be a self-employed sole trader or to work for a company? Why?
3. What can a business do with its earnings?

Text

Ex. 2. The following text will introduce you to the topic of earnings. Read the text and be ready to check your understanding.

EARNINGS

Finally, we must consider what the firm does with profits after taxes. It can pay them out to shareholders as dividends, or keep them in the firm as retained earnings. Retained earnings are the part of after-tax profits that is ploughed back into the business rather than paid out to shareholders as dividends.

Retained earnings affect the balance sheet. If they are kept as cash or used to purchase new equipment, they increase the asset side of the balance sheet. Alternatively, they may be used to reduce the firm's liabilities, for example by repaying the bank loan. Either way, the firm's net worth is increased.

Opportunity Cost and Accounting Costs. The income statement and the balance sheet of a company provide a useful guide to how that company is doing. We have already hinted that economists and accountants do not always take the same view of costs and profits. Whereas the accountant is chiefly interested in describing the actual receipts and payments of a company, the economist is chiefly interested in the role of costs and profits as determinants of the firm's supply decision, the allocation of resources to particular activities. Accounting methods can be seriously misleading in two ways.

Economists identify the cost of using a resource not as the payment actually made but as its opportunity cost. Opportunity cost is the amount lost by not using the resource (labour or capital) in its best alternative use. To show that this is the right measure of costs, given the questions economists wish to study, we give two examples.

Any persons working in their own businesses should take into account the cost of their own labour time spent in the business. A self-employed sole trader might draw up an income statement, find that profits were say £20 000 per annum, and conclude that this business was a good thing. But this conclusion neglects the opportunity cost of the individual's labour, the money that could have been earned by working elsewhere. If that individ-

ual could have earned a salary of £25 000 working for someone else, being self-employed is actually losing the person £5000 per annum even though the business is making an accounting profit of £20000. If we wish to understand the incentives that the market provides to guide people towards particular occupations, we must use the economic concept of opportunity cost, not the accounting concept of actual payments. Including the opportunity cost of £25 000 in the income statement would quickly convince the individual that the business was not such a good idea.

The second place where opportunity cost must be counted is with respect to capital. Somebody has put up the money to start the business. In calculating accounting profits, no cost is attached to the use of owned (as opposed to borrowed) financial capital. This financial capital could have been used elsewhere, in an interest-bearing bank account or perhaps to buy shares in a different company. The opportunity cost of that financial capital is included in the economic costs of the business but not its accounting costs. For example, if the owners could have earned a return of 10 per cent elsewhere, the opportunity cost of their funds is 10 per cent times the money they put up. If, after deducting this cost, the business still makes a profit, economists call this 'supernormal profit'. Supernormal profit is the profit over and above the return which the owners could have earned by lending their money elsewhere at the market rate of interest. Supernormal profits provide the true economic indicator of how well the owners are doing by tying up their funds in the business. Supernormal profits, not accounting profits, are the measure that will explain the incentive to shift resources into or out of a business.

Figure 2. Accounting and opportunity costs

ACCOUNTING: INCOME STATEMENT	
Revenues	£80 000
Costs	<u>50 000</u>
Accounting profit	<u>£30 000</u>
OPPORTUNITY COSTS: INCOME STATEMENT	
Revenues	£80 000
Costs:	
Accounting costs	£50 000
Cost of owner's time	25 000
Opportunity cost of financial capital (£30 000) used in firm, at 10%	<u>3 000</u>
	<u>78 000</u>
Economic profit (supernormal)	<u>£2 000</u>

These are the two most important adjustments between accounting and economic notions of costs and profits. In other cases there may be minor differences – for example, since it is hard to calculate the resale value of a second-hand factory, economic and accounting approaches to depreciation may vary slightly. In many cases the two approaches are the same - for example, the wages paid by farmers to students for help in picking crops are not only an accounting cost but an economic cost. Without making these payments, farmers would not have been able to attract temporary student labour resources to the activity of crop picking.

Figure 2 summarizes the two most important adjustments that must be made to accounting costs and profits to get economic measures of costs and profits. Economic costs represent the opportunity costs of resources used in production. Accounting costs include most economic costs but are likely to omit costs of the owner's time and the opportunity cost of financial capital used in the firm. Economic (supernormal) profit deducts the right measure of economic costs from revenues.

Vocabulary notes

Balance sheet	бухгалтерский баланс
assets	активы
liabilities	пассивы
inventories	материально-производственные запасы
mortgage	залог, ипотека
take-over bid	предложение о слиянии фирм
goodwill	репутация
to pay out dividends	выплачивать дивиденды
retained earnings	нераспределенная прибыль
to plough back	капитализировать, финансировать
opportunity costs	скрытые издержки
accounting costs	затраты на ведение бухучета
income statement	отчет о прибылях и убытках
sole trader	торговец
incentive	стимул
to tie up funds	вкладывать средства
to omit costs	не включать затраты
to owe	быть должным

intangible
instantaneous
to accrue

нематериальный; неуловимый
мгновенный, немедленный
прирастать; накапливать

Controlled Practice

Ex. 3. Answer the following questions.

1. What is meant by 'retained profits'?
2. How do retained profits affect the balance sheet?
3. How are the interests of accountants and economists different?
4. In what ways are accounting methods misleading?
5. What is meant by opportunity cost?
6. What is meant by supernormal cost?
7. Why is the business example of a sole trader not such a good idea?
8. In what ways can financial capital be used?
9. What can be an incentive to shift resources into or out of a business?
10. Why is cost attached to the use of borrowed financial capital?

Word Study

Ex. 4. Say what words have the same meaning as the following verbal units.

Net asset value
deceitful
capitalize
redeem
determine

in a year
individual entrepreneur
inference
disregard
in a different place

Ex. 5. Say what words have the opposite meaning to the following verbal units.

Asset side
consider
dissuade
owned

interest-bearing
deducting
exclude
shift into

Ex. 6. Say what words correspond to these definitions.

- | | |
|--|--|
| 1. To suggest something indirectly; | 3. to become less valuable; |
| 2. a thing that encourages somebody to do something; | 4. to connect or link something to something else. |

Ex. 7. Explain the following.

Shareholder
dividends

supernormal profit
resale value

Discussion

Ex. 8. Comment on the following.

1. Share your ideas about the ways of earning money staying at home which is vital for many people ranging from the disabled to housewives. Think of freelancers, remote businesses and on-line sales. What can bring you substantial earnings?

2. Divide into 3 groups. Imagine you are a business start-up. Think of the sphere you can earn money in modern economic conditions. Persuade other groupmates (potential investors) that your project is viable and will let you earn much money in short term. Use figures to sound convincing.

UNIT 9. ECONOMIC SYSTEMS

Lead in

Ex. 1. Think of the following.

1. What economic system is your country characterized by?
2. What are the most common economic systems of today?
3. Do you agree that economic system is the least important factor influencing the life standard in the country?

Text

Ex. 2. The following text will introduce you to the topic of economic systems. Read the text and be ready to check your understanding.

ECONOMIC SYSTEMS

In general there are three kinds of economy. Let us look first at what we call the command economy. This kind of economy is a society where the government takes all the decisions. The government decides production and consumption. In practice, that means that a government office, a planning office, decides three original questions. It decides what will be produced, how it will be produced and also for whom it will be produced. The same planning office then tells households, firms or companies and workers what it has decided. There is a large amount of central planning and direction. The state owns factories, for example, and it also owns land. The state makes the most important decisions about what people should consume. It also decides how goods should be produced, and how much people should work. Planning of this kind is obviously very difficult, very complicated to do. And the result is that there is no society which is completely a command economy.

The second kind of economy is a free market in which governments do not intervene. In a free market individual people, such as yourselves, are free to pursue their own interests. They can become millionaires, for example. The basic idea behind the free market is this: if you, for example, want to become a millionaire, what do you do? Well, let's say you invent a new kind of a car. You want to make money out of it, in your own interests. But when you have that car produced, you are in fact moving the production possibility frontier outwards. You actually make society better off, by creating new jobs and opportunities, even though you become a millionaire in the process. And you do it without any government help or invention.

The third kind of economy is what we call the mixed economy. And this means very much what it says. At one extreme we have the command economy, which doesn't allow individuals to make economic decisions – this is done centrally by the government. At the other extreme we have the free market, where individuals can pursue their own interests without any government restrictions. Between these two extremes lies the

mixed economy. In a mixed economy, the government and the private sector interact in solving economic problems. On the one side, the government controls a share of the output. It does this through taxation, transfer payments and providing services such as the police. But at the same time, though with restrictions, individuals are free to pursue their own interests. Most countries are mixed economies, though of course some are nearer to command economies than others. Others are closer to free market economies.

Vocabulary notes

Production and consumption	производство и потребление
obviously	очевидно
to intervene	вмешиваться
outwards	за пределы
possibility frontier	граница возможностей
to be better off	стать более обеспеченным
extreme	крайность
pursue interests	преследовать интересы
government restrictions	правительственные ограничения

Controlled Practice

Ex. 3. Answer the following questions.

1. What are the major economic forms?
2. What are the differences between controlled and market economies?
3. What is the main function of any economic order?
4. What would happen without a system of distribution?
5. What are the economic goals for a nation?
6. What are the three original questions that the government decides in command economies?
7. What can you do without government help or invention in free market economies?
8. In what way do the government and the private sector interact in solving economic problems in mixed economies?

Word Study

Ex. 4. Say what words have the same meaning as the following verbal units.

Difficult
to interfere
to become richer
command economy
profitable

business circles
direction
limitation
part
desirable

Ex. 5. Say what words have the opposite meaning to the following verbal units.

Command economy
zero unemployment
unchecked competition

private sector
useless
unjust

Ex. 6. Say what words correspond to these definitions.

- | | |
|--|---|
| 1. Having equal rights; | 3. a company providing a service |
| 2. the system of raising money by taxes; | for the public (electricity, water or gas). |

Ex. 7. Insert the necessary preposition.

1. There are many forms of economic order, ranging... the private enterprise system... partially or completely controlled economies.
2. Regardless... their form, economic system is the system that a society uses for allocation and distribution of scarce resources.
3. ...a private enterprise, this function is basically performed... the price mechanism.
4. In case... regulated utilities, there are governmental agencies that determine the rates that may be charged... utility companies.

Discussion

Ex. 8. Comment on the following.

1. Do you agree that market system has proved to be the most effective in terms of national wellbeing with the focus on economic growth, freedom, and quality? Don't you think that command economies are the most secure? Discuss strong and weak sides of the both systems.

2. Divide into 2 groups. Group 1 consists of government officials and group 2 consists of private businessmen. You are meeting today at a round table to find a compromise. Group 1 is initiating the legislative act to increase taxes and restrict some spheres of free competition (make the list of 4 changes), but before doing this, you want to discuss it with business representatives. Group 2 is against such changes and gives reasonable arguments (think them well to be persuasive). Try to come to an agreement.

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**Басовец Ирина Михайловна,
Чалова Оксана Николаевна**

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И. М. БАСОВЕЦ, О. Н. ЧАЛОВА

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