MINISTRY OF EDUCATION AND SCIENCE OF UKRAINE
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ENGLISH FOR INTERNATIONAL ECONOMICS

COURSEBOOK FOR STUDENTS
OF ECONOMIC STUDIES

KYIV – 2014

МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
ЛЬВІВСЬКА КОМЕРЦІЙНА АКАДЕМІЯ

Наталя КОВАЛИК
Наталя ЗАЙШЛА
Леся ТИМОЧКО

АНГЛІЙСЬКА МОВА З ОСНОВ МІЖНАРОДНОЇ ЕКОНОМІКИ

ПІДРУЧНИК

*Затверджено
Міністерством освіти і науки України
як підручник для студентів вищих
навчальних закладів*

«Видавництво
«Центр учбової літератури»
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Пропонований підручник призначений для студентів старших курсів вищих навчальних закладів, що спеціалізуються у галузі економічних наук, а також фахівців, які прагнуть вдосконалити власні навички і вміння перекладу економічної літератури та рівень свого фахового мовлення. Мета підручника – допомогти студентам (та/або фахівцям) не лише вдосконалити навички комунікативної компетенції, а й отримати спеціальні знання з використання іноземної мови (англійської) у своїй професійній діяльності.

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(ЗМІСТ)

ПЕРЕДМОВА

Підручник *English for International Economics. Англійська мова з основ міжнародної економіки* – це комплексне навчально-методичне видання, розроблене для вдосконалення фахового мовлення студентів природничих і гуманітарних спеціальностей, передусім – студентів IV-х курсів напряму підготовки 6.030201 "Міжнародні економічні відносини" вищих навчальних закладів III-го та IV-го рівнів акредитації. Метою підручника є допомогти студентам не лише вдосконалити навички комунікативної компетенції, а й отримати спеціальні знання з використання іноземної мови (англійської) у своїй професійній діяльності.

Пропонований підручник містить систематизований виклад навчального матеріалу дисципліни "Іноземна мова спеціальності (англійська)" та своїм тематичним наповненням відповідає затвердженим навчальній та робочій програмам курсу. Підручник розрахований на студентів, які вже засвоїли загальний курс англійської мови і потребують подальшого вдосконалення знань щодо її спеціального використання на завершальному етапі вивчення.

При укладанні підручника його автори дотримувалися ідеї створення навчально-методичної праці, яка б відображала сучасні підходи викладання іноземної мови фахового спрямування, насамперед – англійської мови сфери міжнародної економіки. Це можливо лише за умови застосування міждисциплінарного підходу у викладанні англійської мови спеціальності майбутнім економістам-міжнародникам. Оскільки формування професійної компетенції – безумовно, прерогатива профілюючих кафедр, у нашому випадку кафедри міжнародних економічних відносин, викладання іноземної мови розглядається як частина загальної проблеми підвищення рівня світоглядної, комунікативної та міжкультурної компетентності майбутніх фахівців.

Сучасна педагогічна наука розглядає поняття міждисциплінарності як найбільш поширений метод реалізації комплексного навчання, в яких загальна тема вивчається більш ніж в одній області змісту, а міжпредметні зв'язки трактуються як ефективний інструмент для задоволення потреб студентів. Причому особлива увага приділяється використанню методичних прийомів для формування умінь, розвитку навичок в межах одразу декількох дисциплін, що дозволяє отримати нові та ґрунтовні знання.

Підручник *English for International Economics. Англійська мова з основ міжнародної економіки*, на думку його авторів, є спробою застосування поняття міждисциплінарності у сучасний навчальний процес, а саме: дисциплін "Історія економічних вчень", "Основи економічних теорій", "Мікроекономіка", "Макроекономіка", "Міжнародні економічні відносини", а також "Міжнародна торгівля" з одного боку та дисципліни "Іноземна мова спеціальності (англійська)" – з іншого.

Підручник побудовано за модульним принципом і складається з чотирьох навчальних модулів:

1. *The Nature & Methods of Economics / Предмет і методи економіки.*
2. *Microeconomics: Measurement & Basic Concepts / Основні поняття мікроекономіки.*
3. *Macroeconomics: Measurement & Basic Concepts / Основні поняття макроекономіки.*
4. *International Economics & Global Business Today / Сучасна міжнародна економіка та бізнес.*

Кожен модуль складається з п'яти послідовно викладених тем. Усі чотири модулі підручника одноструктурні та складаються з таких навчальних блоків: *лексичний*, який містить базовий текст за темою, лексичні та лексико-синтаксичні вправи; *мовний*, завданням якого є удосконалення навичок двостороннього перекладу спеціальної термінології сфери міжнародної економіки, що передбачає знання фонологічних, лексичних та граматичних закономірностей мови як системи; *мовленнєвий*, який має на меті навчити стилістично правильно, послідовно висловлюватися, спираючись на фактуальні та візуальні орієнтири, володіти риторичною компетенцією та культурою вербального спілкування, використовувати наявні в мові експресивно-емоційні засоби та правила мовленнєвого етикету.

Окрім того, кожна тема модуля містить тематичний словник-мінімум, що дає змогу сфокусуватися на основних термінологічних акцентах окремої теми. Система вправ побудована таким чином, що дозволяє накопичувати та застосовувати попередньо вивчений матеріал кожної теми модуля та курсу в цілому. В кінці кожного модуля запропоновано тести для самоперевірки та самоконтролю до яких включено елементи творчих та пошукових завдань.

Разом з тим, до структури підручника входить граматичний довідник (теоретичний структуризований виклад граматичного матеріалу англійської мови); блок інформаційних додатків; термінологічний глосарій; англійсько-український та українсько-англійський словники ключової економічної термінології; список використаної/рекомендованої літератури та лексикографічних джерел. У підручнику свідомо обмежено кількість лексико-граматичних вправ, спрямованих на повторення вивченого матеріалу, і водночас висуваються високі вимоги до рівня володіння студентами англійською мовою фахового спрямування.

З метою часткового полегшення користування підручником та з метою самоперевірки і самокорегування окремих лексичних вправ, навчальне видання укомплектовано ключами-відповідями. Відсутність відповідей до усіх вправ пояснюється системним підбором навчальних завдань, які важко забезпечити однозначними відповідями через можливі варіанти у лексичному та граматичному оформленні висловлювань.

У підручнику використано систему текстових пояснень у формі приміток й коментарів, які не лише доповнюють основний текст, а також дозволяють реципієнтові легше сприйняти й усвідомити інформацію, що надається. Автори свідомо віддали перевагу посторінковій, а не позатекстовій організації текстових пояснень, мотивуючи це тим, що посторінкові пояснення не відволікатимуть уваги читача від сприйняття інформації основного тексту в цілому.

Структура підручника – поділ на чотири навчальні модулі – зумовлена бажанням поетапного розгляду основних, на думку авторів, тем з основ міжнародної економіки та виконання різних видів завдань для вдосконалення навичок мовленнєвої діяльності і поглиблення теоретичних та практичних знань студентів з дисципліни. Кожен з чотирьох запропонованих модулів незалежний і може розглядатися самостійно.

Практично усі навчальні матеріали, які увійшли до підручника *English for International Economics. Англійська мова з основ міжнародної економіки*, пройшли апробацію на заняттях зі студентами різних академічних груп та рівнів факультету Міжнародних економічних відносин Львівської комерційної академії.

Наталя КОВАЛИК
Наталя ЗАЙШЛА
Леся ТИМОЧКО

FOREWORD

Our coursebook *English for International Economics* – is a comprehensive educational and methodical edition developed to improve professional English for students of economic studies. The coursebook goal is not only to help students to improve their communicative competence skills, but also to get specialized knowledge on using English language in their future career.

The authors, concluding this coursebook, followed the idea of creating such an educational and methodical edition that would reflect modern approaches of professional English teaching, especially – English for international economics. It is possible only under condition of interdisciplinary approach application of professional English teaching to future economists on international studies.

The coursebook is concluded on a modular basis and it is divided into four academic modules:

1. *The Nature & Methods of Economics.*
2. *Microeconomics: Measurement & Basic Concepts.*
3. *Macroeconomics: Measurement & Basic Concepts.*
4. *International Economics & Global Business Today.*

Each module is compounded of five consistently stated themes. All four modules of the coursebook are single-structured and consist of the following training blocks: *lexical*, containing a basic subject text, lexical and syntactic exercises; *linguistic*, aiming at improving the skills of bilateral transfer of international economics sphere special terminology that assumes knowledge of language phonological, lexical and grammatical patterns as a system; *speech*, which aims to express ideas stylistically correctly and consistently, relying on factual and visual guidelines, to own rhetorical skills and verbal communication culture, to use available in language expressive and emotional tools and rules of speech etiquette.

The coursebook structure – division into four modules – is determined by the wish for step-by-step consideration of the core, according to the authors' opinions, themes on fundamentals of international economics and completion of different types of assignments to improve language communication skills and deepen students' theoretical and practical knowledge of the course. Each of four modules is independent and can be considered autonomously.

At the same time, the coursebook structure includes Grammar Reference; Informational Appendices Block; Terminological Glossaries; English-Ukrainian and Ukrainian-English Glossaries of Economic Terminology; Reference List (Used/Recommended and Lexicographical Sources).

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MODULE 1

The Nature & Methods of Economics

1

What Economics Is?

2

The Economic Organization of Society

3

Economic Systems

4

Individual Markets: Supply & Demand

The Nature & Methods of Economics

When an artist looks at the world, he sees color. When a musician looks at the world, she hears music. When an economist looks at the world, she sees a symphony of costs and benefits. The economist's world might not be as colorful or as melodic as the others' worlds, but it's more practical. If you want to understand what's going on in the world, you need to know economics. Unemployment is down; inflation is up; interest rates are up; businesses are going bankrupt . . . The list is endless. So, let's say you grant that economics is important. That still means that it's worth studying.

Human wants are unlimited, but the resources necessary to satisfy those wants are limited. Thus, every society is faced with the identical problem, the problem of scarcity. Since there is not enough of everything to go around, everyone – individuals, business firms, and government – needs to make choices from among the things they want. In the process they will try to economize, to get the most from what they have. With this in mind we can define economics as the social science that describes and analyzes choices from among scarce resources to satisfy its wants. The need to choose is imposed on us by our income, wealth and ability to borrow. The food you eat, the home you live in, the clothes you wear, and the way you spend your leisure time are all affected, in part, by economic forces. The study of economics will help you to live a fuller life. Economic forces also affect decisions in the world of business. The more you know about the subject, the better career decisions you will be able to make. The development of modern economics began in the 17th century. Since that time economists have developed methods for studying and explaining how individuals, business and nations use their available economic resources. Large corporations use economists to study the way they do business and to suggest methods for making more efficient use of their employees, equipment, factories, and other resources. Economists have two ways of looking at economics and the economy. One is macro approach, and the other is the micro. *Macroeconomics* is the study of the economy as a whole. *Microeconomics* is the study of individual consumers and the business firm. The resources that go into the creation of goods and services are called the *factors of production*. The factors of production include natural resources, human resources, capital, land and entrepreneurship. Each factor of production has a place in our economic system, and each has a particular function. Our country is rich in natural resources. Economists also use the term *land* when they speak of natural resources as a factor of production. The price paid for the use of land is called *rent*. Rent becomes income to the owner of the land. Economists call the physical and mental effort that people put into the creation of goods and services *labor or human resources*. The price paid for the use of labor is called *wages*. Wages represent income to workers, who own their labor. *Capital* is something created by people to produce other goods and services. A factory, tools and machines are *capital resources*. The term *capital* is often used by business people to refer to money they can use to buy factories, machinery and other similar productive resources. Payment for the use of someone else's money or capital is called *interest*. Closely associated with labor is the concept of entrepreneurship, the managerial or organizational skills used by most firms to produce goods and services. The reward to entrepreneurs for the risks, innovative ideas and efforts that they have put into the business are *profits*, whatever remains after the owners of land, labor and capital have received their payments. In exercising the choices imposed upon individuals, business firms and governments by their unlimited wants and limited resources, every society must come to grips with the fundamental economic questions: In the study of economics, coordination refers to how the three central problems facing any economy are solved.

These central problems are:

1. What, and how much, to produce.
2. How to produce it.
3. For whom to produce it.

To understand an economy you need to learn:

1. Economic reasoning.
2. Economic terminology.
3. Economic insights economists have about issues, and theories that lead to those insights.
4. Information about economic institutions.
5. Information about the economic policy options facing society today.

Module Objectives

- Understand economic concepts and principles.
- Understand economic theory and modeling approaches.
- Apply quantitative methods and computing techniques across a range of problems.
- Understand data, its source and content as well as methods that could be used to analyze it.
- Be able to critically apply economic reasoning to policy issues.
- Be knowledgeable in a number of specialized areas of economics and be well read within these areas.
- Understand that a range of approaches can be used for one economic problem resulting in more than one solution.

Module 1: Units 1-4

Unit 1 *What Economics Is?*

"True individual freedom cannot exist without economic security and independence. People who are hungry and out of a job are the stuff of which dictatorships are made"
Franklin D. Roosevelt[1]

1.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

assumption	economics	macroeconomics
benefit(s)	economy	measure
(in)capacity for	efficiency	microeconomics
coercion	innovativeness	resource(s)
cost(s)	insight	scarcity
demand	issue	surplus

Verbs:

to allocate	to estimate	to interrelate
to affect	to exceed	to measure
to approach	to expand	to preclude
to consider	to expose	to ration
to constitute	to focus	to recover
to consume	to forgo	to refer
to convey	to fulfill	to underestimate
to derive	to gain	to undertake
to determine	to increase	to upscale
to eliminate	to incur	to be wild about

Adjectives & Adverbs:

aggregate	currently	likewise
available	excessive	marginal
bilateral	household	partially
beneficial	incremental	rational
changeable	infectious	relevant
consistent	interrelated	scarce
constantly		

[1] ***Franklin Delano Roosevelt*** (January 30, 1882 – April 12, 1945), also known by his initials, FDR, was the 32nd President of the United States (1933–1945) and a central figure in world events during the mid-20th century, leading the United States during a time of worldwide economic depression and total war. A dominant leader of the Democratic Party and the only American president elected to more than two terms, he built a New Deal Coalition that realigned American politics after 1932, as his domestic policies defined American liberalism for the middle third of the 20th century.

1.2. Read and translate the text into Ukrainian:

WHAT ECONOMICS IS?

Before we define economics, we need to know what constitutes the economy. The economy is the mechanism through which the use of labor, land, structures, vehicles, equipment, and natural resources is organized to satisfy the desires of those who live in a society. The discipline of economics is the study of how human beings coordinate their wants and desires, decision-making mechanisms, social customs, and political realities of the society. In other words, the discipline of economics is concerned with the use of available productive resources in society to satisfy what often are conflicting desires and demands. In answering the main questions, economies generally find that individuals want more than is available. That means that in the economy there is a problem of scarcity – the goods available are too few to satisfy individuals' desires.

Scarcity has two elements – our wants and our means of fulfilling those wants. These can be interrelated since wants are changeable and partially determined by society. The way we fulfill wants can affect those wants. For example, if you work on Wall Street you will probably want upscale and trendy clothes. The degree of scarcity is constantly changing. The quantity of goods, services, and usable resources depends on technology and human action, which underlie production. Individuals' imagination, innovativeness, and willingness to do what needs to be done can greatly increase available goods and resources. Who knows what technologies are in our future – nannites or micro machines that change atoms into whatever we want could conceivably eliminate scarcity of goods we currently consume. But they would not eliminate scarcity entirely since new wants are constantly developing.

In all known economies, coordination has involved coercion – limiting people's wants and increasing the amount of work individuals are willing to do to fulfill those wants. The reality is that many people would rather play than help solve society's problems. So the basic economic problem involves inspiring people to do things that other people want them to do, and not to do things that other people don't want them to do. Thus, an alternative definition of economics is that it is the study of how to get people to do things they're not wild about doing (such as studying) and not to do things they are wild about doing (such as eating all the lobster they like), so that the things some people want to do are consistent with the things other people want to do.

A GUIDE TO ECONOMIC REASONING

People trained in economics think in a certain way. They analyze everything critically; they compare the costs and the benefits of every issue and make decisions based on those costs and benefits. For example, say you're trying to decide whether protecting baby seals is a good policy or not. Economists are trained to put their emotions aside and ask: What are the costs of protecting baby seals, and what are the benefits? Thus, they are open to the argument that the benefits of allowing baby seals to be killed might exceed the costs. To think like an economist is to address almost all issues using a cost/benefit approach. Economic reasoning – how to think like an economist, making decisions on the basis of costs and benefits – is the most important task.

Economic reasoning, once learned, is infectious. If you're susceptible, being exposed to it will change your life. It will influence your analysis of everything, including issues normally considered outside the scope of economics. For example, you will likely use economic reasoning to decide the possibility of getting a date for Saturday night, and who will pay for dinner. You will likely use it to decide whether to read this book, whether to attend class, whom to marry, and what kind of work to go into after you graduate. This is not to say that economic reasoning will provide all the answers. As you will see throughout this book, real-world questions are inevitably complicated, and economic reasoning simply provides a framework within which to approach a question. In the economic way of thinking, every choice has costs and benefits, and decisions are made by comparing them.

MARGINAL COSTS AND MARGINAL BENEFITS

The *relevant costs* and *relevant benefits* to economic reasoning are the expected incremental or additional costs incurred and the expected incremental benefits that result from a decision. Economists use the term *marginal* when referring to additional or incremental. Marginal costs and marginal benefits are key concepts.

A *marginal cost* is the additional cost to you over and above the costs you have already incurred. That means eliminating *sunk costs* – costs that have already been incurred and cannot be recovered – from the relevant costs when making a decision. Consider, for example, attending class. You've already paid your tuition; it is a sunk cost. So the marginal (or additional) cost of going to class does not include tuition.

Similarly with marginal benefit. A *marginal benefit* is the additional benefit above what you've already derived. The marginal benefit of reading this text is the additional knowledge you get from reading it. If you already knew everything in this Unit before you picked up the book, the marginal benefit of reading it now is zero. The marginal benefit is not zero if by reading the text you learn that you are prepared for class; before, you might only have suspected you were prepared.

Comparing marginal (additional) costs with marginal (additional) benefits will often tell you how you should adjust your activities to be as well off as possible. Just follow the economic decision rule: If the marginal benefits of doing something exceed the marginal costs, do it. If the marginal costs of doing something exceed the marginal benefits, don't do it. As an example, let's consider a discussion with a student who says that she is too busy to attend classes. The response is: "Think about the tuition you've spent for this class – it works out to about $30 a lecture". She answers that the book she reads for class is so clear she fully understands everything. She goes on: "I've already paid the tuition and whether I go to class or not, I can't get any of the tuition back, so the tuition is a sunk cost and doesn't enter into my decision. The marginal cost to me is what I could be doing with the hour instead of spending it in class. I value my time at $75 an hour (people who understand everything value their time highly), and even though I've heard that your lectures are super, I estimate that the marginal benefit of your class is only $50. The marginal cost, $75, exceeds the marginal benefit, $50, so I don't attend class". She would be congratulated on her diplomacy and her economic reasoning, but a quiz is given every week, those students who miss a quiz fail the quiz, that those who fail all the quizzes fail the course, and that those who fail the course do not graduate. In short, she is underestimating the marginal benefits of attending the course. Correctly estimated, the marginal benefits of attending the class exceed the marginal costs. So she should attend the class.

OPPORTUNITY COST

Putting economists' cost/benefit rules into practice isn't easy. To do so, you have to be able to choose and measure the costs and benefits correctly. The *opportunity cost* of undertaking an activity is the benefit forgone by undertaking that activity. The benefit forgone is the benefit that you might have gained from choosing the next-best alternative. To obtain the benefit of something, you must give up (forgo) something else – namely, the next-best alternative. All activities that have a next-best alternative have an opportunity cost. The more time you spend on one activity, the less time you have for another.

Examples are endless, but let's consider two that are particularly relevant to you: your choice of courses and your decision about how much to study. Let's say you're a full-time student and at the beginning of the term you had to choose four or five courses to take. Taking one precluded taking some other, and the opportunity cost of taking an economics course may well have been not taking a course on theater. Similarly with studying: you have a limited amount of time to spend studying economics, studying some other subject, sleeping, or partying. The more time you spend on one activity, the less time you have for another. That's opportunity cost.

Notice how neatly the opportunity cost concept takes into account costs and benefits of all other options, and converts these alternative benefits into costs of the decision you're now making.

THE MICROECONOMICS AND MACROECONOMICS

Economic theory is divided into two parts: microeconomic theory and macroeconomic theory. Microeconomic theory considers economic reasoning from the viewpoint of individuals and firms and builds up from there to an analysis of the whole economy. *Microeconomics* is the study of individual choice, and how that choice is influenced by economic forces. Microeconomics studies such things as the pricing policies of firms, households' decisions on what to buy, and how markets allocate resources among alternative ends. *Macroeconomics* is the study of the economy as a whole, which includes inflation, unemployment, business cycles, and growth. A micro approach would analyze a person by looking first at each individual cell and then building up. A macro approach would start with the person and then go on to his or her components – arms, legs, fingernails, feelings, and so on. Put simply, microeconomics analyzes from the parts to the whole; macroeconomics analyzes from the whole to the parts.

Microeconomics and macroeconomics are very much interrelated. Clearly, what happens in the economy as a whole is based on individual decisions, but individual decisions are made within an economy and can be understood only within that context. For example, whether a firm decides to expand production capacity will depend on what the owners expect will happen to the demand for their products. Those expectations are determined by macroeconomic conditions. Likewise, decisions by the federal government to change the welfare program in the mid-1990s had to be made based on how those changes would affect the decisions of millions of individuals. Because microeconomics focuses on the individual and macroeconomics focuses on the whole economy, traditionally microeconomics and macroeconomics are taught separately, even though they are interrelated.

Text Summary

- The three coordination problems any economy must solve are what to produce, how to produce it, and for whom to produce it. In solving these problems economies have found that there is a problem of scarcity. Under certain conditions the market, through its price mechanism, will allocate scarce resources efficiently.
- Economic reasoning structures all questions in a cost/benefit frame: If the marginal benefits of doing something exceed the marginal costs, do it. If the marginal costs exceed the marginal benefits, don't do it.
- Sunk costs are not relevant to the economic decision rule.
- The opportunity cost of undertaking an activity is the benefit you might have gained from choosing the next- best alternative.
- Economics can be divided into microeconomics and macroeconomics. Microeconomics is the study of individual choice and how that choice is influenced by economic forces. Macroeconomics is the study of the economy as a whole, which includes inflation, unemployment, business cycles, and growth.

1.3. Language Practice:

1.3.1. Multiple Choice:

1. Scarcity is the ..... between our desires and the means of satisfying those desires.
a) coercion;
b) imbalance;
c) coordination.

2. In the economic way of thinking, every choice has ..... and benefits, and decisions are made by comparing them.
a) prices;
b) costs;
c) funds.

3. When the goods are ….., those goods must be rationed.
a) scarce;
b) available;
c) excessive.

4. The study of the economy as a whole, which includes inflation, unemployment, business cycles, and growth is .....
a) microeconomics;
b) macroeconomics;
c) economy.

5. If the marginal costs of doing something ….. the marginal benefits, don't do it.
a) affect;
b) eliminate;
c) exceed.

6. When there is a ….., the price goes up.
a) surplus;
b) benefit;
c) shortage.

7. Costs that have already been incurred and cannot be recovered are .....
a) sunk costs;
b) opportunity cost;
c) marginal costs.

1.3.2. Key Terms – Matching:

1.	Economy	a)	– the study of the economy as a whole, which includes inflation, unemployment, business cycles, and growth;
2.	Economics	b)	– is concerned with individual areas of economic activity, such as those within a particular company or relating to a particular market;
3.	Marginal costs	c)	– a market economy, through the price mechanism, will allocate resources efficiently;
4.	Marginal benefits	d)	– the use of available productive resources in society to satisfy what often are conflicting desires and demands;
5.	Opportunity cost	e)	– the loss of other alternatives when one alternative is chosen;
6.	Sunk costs	f)	– the additional cost to you over and above the costs you have already incurred;

7.	Microeconomics	g)	– the additional benefit above what you've already derive;
8.	Macroeconomics	h)	– the mechanism through which the use of labor, land, structures, vehicles, equipment, and natural resources is organized to satisfy the desires of those who live in a society;
9.	Scarcity	i)	– costs that have already been incurred and cannot be recovered;
10.	Invisible hand theory	j)	– the goods available are too few to satisfy individuals' desires.

1.3.3. Please explain the meaning of the following words and word combinations in English:

Efficiency, sound economy, scarce recourses, sunk costs, opportunity cost, invisible hand theory, marginal costs, macroeconomics, microeconomics, costs and benefits, excessive, incur costs, prosperity, shortage, scarcity.

1.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~economic theory~~ efficiency market share self-interest beneficial scarce resources invisible hand theory are charged withdraw capital maximize profits

THE INVISIBLE HAND THEORY

Much of (1) <u>*economic theory*</u> deals with the pricing mechanism and how the market operates to coordinate individuals' decisions. Economists have come to the following insights: when the quantity supplied is greater than the quantity demanded, price has a tendency to fall, when the quantity demanded is greater than the quantity supplied price has a tendency to rise.

Using these generalized insights, economists have developed a theory of markets that leads to the further insight that, under certain conditions, markets are efficient. That is, the market will coordinate individuals' decisions and allocate (2) _____ to their best possible use. So, (3) _____ means achieving a goal as cheaply as possible. Economists call this insight the (4) _____ – a market economy which through the price mechanism will allocate resources efficiently.

This theory states that if each consumer is allowed to choose freely what to buy and each producer is allowed to choose freely what to sell and how to produce it, the market will settle on a product distribution and prices that are (5) _____ to all the individual members of a community, and hence to the community as a whole. The reason for this is that (6) _____ drives actors to beneficial behavior in a case of awareness. Efficient methods of production are adopted to (7) _____. Low prices (8) _____ to maximize revenue through gain in (9) _____ by undercutting competitors. Investors invest in those industries most urgently needed to maximize returns, and (10) _____ from those less efficient in creating value. All these effects take place dynamically and automatically.

1.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the adjective ***scarce***: *1) in short supply, wanting, insufficient, deficient, at a premium, thin on the ground;* *2) rare, few, unusual, uncommon, few and far between, infrequent, seldom met with.*

1.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Економічні явища, макроекономіка, мікроекономіка, об’єкт економічного дослідження, процвітання, нестача природних ресурсів, ефективний розподіл ресурсів, раціонально використовувати ресурси (землю, гроші, устаткування тощо), споживчі блага, підвищення добробуту, фундамент здорової економіки, зменшення державних пільг, рентабельність, зазнавати збитків (втрат), неповернуті витрати, альтернативні витрати, граничні витрати, дефіцитні ресурси, теорія невидимої руки, суб’єкти економіки, виробництво, обмін, стримування, національне господарство, потреби та бажання.

1.4.2. Please translate the following sentences into Ukrainian:

1. Studying economics for the first time, it is necessary to know what economics is all about. Unfortunately, it is not possible to define the subject by a single word. Economics was defined as the study of mankind in the everyday business life. This means that economics deals with production, distribution, exchange and consumption. It answers such questions as: How do we produce all the things we need? How are prices determined?
2. Economics is also concerned with unemployment, inflation, international trade, the interaction of business and labor, and the effects of government spending and taxes. Economics does not stop with the description of economic activity because description alone leaves unanswered many important why and how questions.
3. Economics is a social science like history, geography, politics, psychology and sociology. It is the study of human efforts to satisfy what seems like unlimited and competing wants through the careful use of relatively scarce resources. Economists study what is or tends to be and how it came to be. They do not pretend to say what ought to be in any way. People must make up their own minds about that.
4. Economics like any other social science has its own vocabulary. To understand economics, a review of some key terms is necessary: needs, wants, and demands. A need is a basic requirement for survival. People have basic needs such as food, clothing and shelter. People also have higher level needs, such as communication, love, acceptance, knowledge, hope and accomplishment.
5. A want is a means of expressing a need. Food, for example, is a basic need related to survival. To satisfy this need, a person may want a pizza, hamburger or other favourite food. That is there are any number of foods that will satisfy the basic need for food. The point is that the range of things represented by the term want is much broader than those represented by the term need.
6. Sometimes the difference between a want and a need is clear, at other times, it is not. A basic need is reflected in a want for a particular product. A want cannot be counted in the marketplace until it becomes a demand – the willingness and ability to purchase a desired object. Since an individual has limited resources, only some wants will end up as measurable demands.
7. The study of economics is concerned with economic products – goods and services that are useful, relatively scarce and transferable to others. The important thing is that economic products are scarce in an economic sense. That is one cannot get enough to satisfy individual wants and needs. The fact that economic products command a price shows that they have these characteristics.

8. The terms goods and services are used to describe many things people desire. Consumer goods are intended for final use by individuals to satisfy their wants and needs. Manufactured goods used to produce other goods and services are called capital goods. An example of capital goods would be a computer in a school.
9. The other type of economic product is work that is performed for someone. Services can include haircuts, repairs to home appliances and forms of entertainment like rock performances. They also include the work performed by doctors, lawyers and teachers.
10. Economics is a study of man in the ordinary business of life. It enquires how he gets his income and how he uses it. Thus, it is on the one side, the study of wealth and on the other and more important side, a part of the study of man.

1.4.3. Please translate the following sentences into English:

1. Знання з економіки потрібні кожній людині не менше, ніж знання з хімії чи фізики, географії чи біології. Людина живе у світі економічних явищ, вона купує і продає, отримує доходи і сплачує податки, управляє і виконує управлінські рішення, наймається на роботу і розпочинає свою справу. Зрозуміло, що краще, коли людина чинить ці дії свідомо, раціонально використовуючи власні сили та інші ресурси (землю, гроші, устаткування тощо).
2. Економічна теорія – це спроба пояснити певні явища. З цією метою факти впорядковують, шукають між ними зв'язки, роблять узагальнення. Нехай, наприклад, на підставі фактів зроблено висновок про зниження рівня споживання на 15 %, тоді фахівці шукають зв'язок цього явища з іншими. У цьому випадку це можуть бути: інфляційне зростання цін, збільшення податків або зменшення державних пільг тощо.
3. Об'єктом економічного дослідження, а отже, і предметом економічної науки є економіка. Економіка – це особлива сфера життя суспільства, що охоплює виробництво товарів та послуг, обмін ними і розподіл створених у суспільстві благ та їх споживання.
4. Виробництво в економічному розумінні – це спосіб поєднання виробничих ресурсів: землі, праці, капіталу, будівель, устаткування та обладнання, а також їх узгодженого, цілеспрямованого використання і поєднання різних сфер, галузей та видів виробництва, що ґрунтується на суспільному поділі праці.
5. Обмін – це відносини, завдяки яким товари та послуги рухаються від виробників до споживачів, і цей рух обслуговують гроші, ціни, торгівля. Розподіл – це формування доходів підприємців і робітників, службовців і фермерів, банкірів і землевласників, окремих родин та держави. Споживання – це використання доходів і реалізація корисності (utility) речей.
6. Уявлення про те, що має вивчати економічна наука, змінювалися. З розвитком цивілізації людство дійшло висновку, що найважливішим завданням будь-якого суспільства є найповніше задоволення потреб людини. Економічна наука якраз і вивчає, як саме люди (суспільство), використовуючи наявні ресурси, створюють різноманітні товари та послуги, намагаючись досягти якнайповнішого задоволення потреб.
7. Виробничі ресурси (земля, праця людей, обладнання, устаткування) у кожний конкретний момент часу обмежені за кількістю, а також за виробничими потужностями. Бажання ж людей задовольняти свої потреби якомога повніше необмежені.

8. Економічна наука досліджує, як необхідно організувати виробництво, обмін та розподіл створених товарів і послуг. Критерієм раціональності, тобто правильності організації, економіки є її здатність задовольняти потреби людей за наявних, обмежених виробничих ресурсів.
9. Економіка – складна система, що постійно розвивається, змінюється. Відповідно змінюються і суб'єкти економічних відносин. Так, у період середньовіччя такими суб'єктами були: власник землі і залежний селянин; цеховий майстер і його учень; мандрівний торговець і лихвар; чиновник, що уособлював королівську владу; і громадянин вільного міста тощо.
10. Суб'єктами сучасної економіки є: підприємець-менеджер; робітник, який працює за контрактом; фермер; підприємець-банкір; власники цінних паперів, клієнти банку; підприємство як юридична особа і держава в особі центрального банку; міністерства фінансів, центральних і місцевих органів влади.

1.4.4. Please make an English summary of the following text:

ЩО ТАКЕ ЕКОНОМІКА?

У Стародавній Греції під словом економіка розуміли ведення домашнього господарства, яким керує господар або найнята ним людина. У центрі економічних процесів завжди перебували власники, виробники, посередники. Від їхнього господарювання залежав добробут тисяч громадян.

Минали століття й епохи. Поняття економіка набуло дещо іншого сенсу, але суть його залишалася, змінювались лише масштаби, які воно охоплювало. Тепер, говорячи про економіку, ми маємо на увазі не тільки домашнє, а й суспільне, національне і світове господарство. Незрівнянно складнішими стали процеси виробництва, удосконалились системи посередництва і торгівлі.

Не змінилося одне – у центрі всього, що відбувається, є конкретні люди та їхні потреби, які є рушіями розвитку цивілізацій. Саме потреби в усі віки змушували людей долати величезні відстані у пошуках нових земель і ринків збуту та освоювати незвідані території. Саме потреби були й залишаються головним стимулом розвитку науки і техніки, дають поштовх для розквіту культури та освіти.

Наука і технології досягли надзвичайно високого рівня розвитку, але навіть його недостатньо для задоволення усіх потреб людства. Саме тому надзвичайно великого значення набуває вивчення економіки, знання якої може допомогти досягти того рівня добробуту, якого ми прагнемо.

Економіка, як і кожна наука, має свої закони, правила, принципи, за якими розвивається. Вона розглядає усі сфери людського буття, так чи інакше відображає усі процеси, які відбуваються в суспільстві, від політичних до культурних, тому вивчення її передбачає застосування здобутків практично всіх предметів. Найтісніше економіка пов'язана з такими науками, як математика, право, соціологія, географія, історія, політологія, психологія. Географічні знання дають змогу з'ясувати роль природних умов, сировинних ресурсів, соціальних факторів різних територій у розміщенні виробництва товарів та послуг. Вивчення історії допомагає виявляти закономірності становлення й розвитку господарства і з'ясувати умови формування світової економіки. Знання з політології покликані допомогти у визначенні ролі держави та окремих суспільних груп у функціонуванні економіки.

Дослідження економіки неможливе без знань законодавчих актів, які регулюють суспільні взаємини як усередині країни, так і на міжнародному рівні, тому зв'язки цієї науки з правознавством дуже тісні. Знання психології дають змогу виявити особливості поведінки людини у різних життєвих ситуаціях, з'ясувати мотиви, які змушують її діяти так чи інакше. Економіка широко використовує формули, рівняння, графіки для аналізу та ілюстрації різних процесів і явищ, через це тісно пов'язана з математикою.

1.5. Reading Practice:

1.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: ECONOMIC AND MARKET FORCES

The opportunity cost concept applies to all aspects of life and is fundamental to understanding how society reacts to scarcity. When goods are scarce, those goods must be rationed. That is, a mechanism must be chosen to determine who gets what. Society must deal with the scarcity, thinking about and deciding how to allocate the scarce good.

Let's consider some specific real-world rationing mechanisms. Dormitory rooms are often rationed by lottery, and permission to register in popular classes is often rationed by a first-come, first-registered rule. Food in the United States, however, is generally rationed by price. If price did not ration food, there wouldn't be enough food to go around. All scarce goods or rights must be rationed in some fashion. These rationing mechanisms are examples of economic forces, the necessary reactions to scarcity.

One of the important choices that a society must make is whether to allow these economic forces to operate freely and openly or to try to rein them in. A market force is an economic force that is given relatively free rein by society to work through the market. Market forces ration by changing prices. When there's a shortage, the price goes up. When there's a surplus, the price goes down.

Societies can't choose whether or not to allow economic forces to operate – economic forces are always operating. However, societies may choose whether to allow market forces to predominate. Other forces play a major role in deciding whether to let market forces operate. Economic reality is determined by a contest among these forces.

Let's consider an example in which social forces prevent an economic force from becoming a market force: the problem of getting a date for Saturday night. If a school (or a society) has significantly more people of one gender than the other (let's say more men than women), some men may well find themselves without a date – that is, men will be in excess supply – and will have to find something else to do, say study or go to a movie by themselves. An "excess supply" person could solve the problem by paying someone to go out with him or her, but that would probably change the nature of the date in unacceptable ways. It would be revolting to the person who offered payment and to the person who was offered payment. That unacceptability is an example of the complex social and cultural norms that guides and limits our activities. People don't try to buy dates because the social forces prevent them from doing so.

Social and political forces are active in all parts of your life. Political forces influence many of your everyday actions. You don't practice medicine without a license; you don't sell body parts or certain addictive drugs. These actions are against the law. But many people do sell alcohol; that's not against the law if you have a permit. Social forces also influence us. You don't make profitable loans to your friends (you don't charge your friends interest); you don't charge your children for their food (parents are supposed to feed their children); many sports and media stars don't sell their autographs (some do, but many consider the practice tacky); you don't lower the wage you'll accept in order to get a job away from someone else (you're no scab). The list is long. You cannot understand economics without understanding the limitations that political and social forces place on economic actions.

In summary, what happens in a society can be seen as the reaction to, and interaction of, these three forces: economic forces, political and legal forces, and social and historical forces. Economics has a role to play in sociology, history, and politics, just as sociology, history, and politics have roles to play in economics. So, one can say with certainty: economics is about the real world.

Text 2: ECONOMICS AND PASSION

Recognizing that everything has a cost is reasonable, but it's a reasonableness that many people don't like. It takes some of the passion out of life. It leads you to consider possibilities like these:

- Saving some people's lives with liver transplants might not be worth the additional cost. The money might be better spent on nutritional programs that would save twenty lives for every two lives you might save with transplants.
- Maybe we shouldn't try to eliminate all pollution, because the additional cost of doing so may be too high. To eliminate all pollution might be to forgo too much of some other worthwhile activity.
- Buying a stock that went up twenty percent wasn't necessarily the greatest investment if in doing so you had to forgo some other investment that would have paid you a thirty percent return.
- It might make sense for the automobile industry to save $12 per car by not installing a safety device, even though without the safety device some people will be killed.

You get the idea. This kind of reasonableness is often criticized for being cold- hearted. But, not surprisingly, economists disagree; they argue that their reasoning leads to a better society for the majority of people.

Text 3: THE ECONOMIC PERSPECTIVE

Economists view things from a unique perspective. This *economic perspective,* or economic way of thinking, has several critical and closely interrelated features.

SCARCITY AND CHOICE

From the definition of economics, we can easily see why economists view the world through the lens of scarcity. Scarce economic resources mean limited goods and services. Scarcity restricts options and demands choices. Because we "can't have it all" we must decide what we will have and what we must forgo.

At the core of economics is the idea that "there is no free lunch". You may be treated to lunch, making it "free" from your perspective, but someone bears a cost – ultimately, society. Scarce inputs of land, equipment, farm labor, the labor of cooks and waiters, and managerial talent are required. Because society could have used these resources to produce something else, it sacrifices those other goods and services in making the lunch available. Economists call such sacrifices opportunity costs: To obtain more of one thing, society forgoes the opportunity of getting the next best thing. That sacrifice is the opportunity cost of the choice.

PURPOSEFUL BEHAVIOR

Economics assumes that human behavior reflects "rational self-interest". Individuals look for and pursue opportunities to increase their *utility* – the pleasure, happiness, or satisfaction obtained from consuming a good or service. They allocate their time, energy, and money to maximize their satisfaction. Because they weigh costs and benefits, their economic decisions are "purposeful" or "rational" not "random" or "chaotic".

Consumers are purposeful in deciding what goods and services to buy. Business firms are purposeful in deciding what products to produce and how to produce them. Government entities are purposeful in deciding what public services to provide and how to finance them.

"Purposeful behavior" does not assume that people and institutions are immune from faulty logic and therefore are perfect decision makers. They sometimes make mistakes. Nor does it mean that people's decisions are unaffected by emotion or the decisions of those around them. "Purposeful behavior" simply means that people make decisions with some desired outcome in mind. Rational self-interest is not the same as selfishness. In the economy, increasing one's own wage, rent, interest, or profit normally requires identifying and satisfying somebody else's wants! Also, people make personal sacrifices to others. They contribute time and money to charities because they derive pleasure from doing so. Parents help pay for their children's education for the same reason. These self-interested, but unselfish, acts help maximize the givers' satisfaction as much as any personal purchase of goods or services. Self-interested behavior is simply behavior designed to increase personal satisfaction, however it may be derived.

MARGINAL ANALYSIS: BENEFITS AND COSTS

The economic perspective focuses largely on *marginal analysis* – comparisons of marginal benefits and marginal costs, usually for decision making. To economists, "marginal" means "extra", "additional" or "a change in". Most choices or decisions involve changes in the status quo[2], meaning the existing state of affairs. Should you attend school for another year? Should you study an extra hour for an exam? Should you supersize your fries? Similarly, should a business expand or reduce its output? Should government increase or decrease its funding for a missile defense system? Each option involves marginal benefits and, because of scarce resources, marginal costs. In making choices rationally, the decision maker must compare those two amounts. Example: You and your fiancée are shopping for an engagement ring. Should you buy a 1/2-carat diamond, a 5/8-carat diamond, a 3/4-carat diamond, a 1-carat diamond, or something even larger? The marginal cost of a larger-size diamond is the added expense beyond the cost of the smaller-size diamond. The marginal benefit is the perceived lifetime pleasure (utility) from the larger-size stone. If the marginal benefit of the larger diamond exceeds its marginal cost (and you can afford it), buy the larger stone. But if the marginal cost is more than the marginal benefit, buy the smaller diamond instead, even if you can afford the larger stone! In a world of scarcity, the decision to obtain the marginal benefit associated with some specific option always includes the marginal cost of forgoing something else. The money spent on the larger-size diamond means forgoing some other product. Opportunity costs are present whenever a decision is made.

Text 4*: *THEORIES, PRINCIPLES, AND MODELS

Like the physical and life sciences, as well as other social sciences, economics relies on the scientific method. That procedure consists of several elements:

- The observation of real-world behavior and outcomes.
- Based on those observations, the formulation of a possible explanation of cause and effect (hypothesis).

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[2] ***Status quo*** is a Latin term meaning the existing state of affairs.

- The testing of this explanation by comparing the outcomes of specific events to the outcome predicted by the hypothesis.
- The acceptance, rejection, or modification of the hypothesis, based on these comparisons.
- The continued testing of the hypothesis against the facts. As favorable results accumulate, the hypothesis evolves into a theory. A very well-tested and widely accepted theory is referred to as an economic law or an economic principle – a statement about economic behavior or the economy that enables prediction of the probable effects of certain actions.

Combinations of such laws or principles are incorporated into models, which are simplified representations of how something works, such as a market or segment of the economy.

Economists develop theories of the behavior of individuals (consumers, workers) and institutions (businesses, governments) engaged in the production, exchange, and consumption of goods and services. Theories, principles, and models are "purposeful simplifications". The full scope of economic reality itself is too complex and bewildering to be understood as a whole. In developing theories, principles, and models economists remove the clutter and simplify.

Economic principles and models are highly useful in analyzing economic behavior and understanding how the economy operates. They are the tools for ascertaining cause and effect (or action and outcome) within the economic system. Good theories do a good job of explaining and predicting. They are supported by facts concerning how individuals and institutions actually behave in producing, exchanging, and consuming goods and services.

There are some other things you should know about economic principles:

• ***Generalizations.*** Economic principles are generalizations relating to economic behavior or to the economy itself. Economic principles are expressed as the tendencies of typical or average consumers, workers, or business firms. For example, economists say that consumers buy more of a particular product when its price falls. Economists recognize that some consumers may increase their purchases by a large amount, others by a small amount, and a few not at all. This "price-quantity" principle, however, holds for the typical consumer and for consumers as a group.

• ***Other-Things-Equal Assumption.*** In constructing their theories, economists use the *ceteris paribus*[3] or other-things-equal assumption – the assumption that factors other than those being considered do not change. They assume that all variables except those under immediate consideration are held constant for a particular analysis. For example, consider the relationship between the price of Pepsi and the amount of it purchased. Assume that of all the factors that might influence the amount of Pepsi purchased (for example, the price of Pepsi, the price of Coca-Cola, and consumer incomes and preferences), only the price of Pepsi varies. This is helpful because the economist can then focus on the "price of Pepsi – purchases of Pepsi" relationship without being confused by changes in other variables.

• ***Graphical Expression.*** Many economic models are expressed graphically. Be sure to read the special appendix at the end of this book as a review of graphs (Appendix A).

Text 5*: *FAST-FOOD LINES

The economic perspective is useful in analyzing all sorts of behaviors. Let us consider an everyday example: the behavior of fast-food customers. When customers enter the restaurant,

[3] ***Ceteris paribus*** or ***caeteris paribus*** is a Latin phrase, literally translated as "with other things the same", or "all other things being equal or held constant".

they go to the shortest line, believing that line will minimize their time cost of obtaining food. They are acting purposefully; time is limited, and people prefer using it in some way other than standing in line.

If one fast-food line is temporarily shorter than other lines, some people will move to that line. These movers apparently view the time saving from the shorter line (marginal benefit) as exceeding the cost of moving from their present line (marginal cost). The line switching tends to equalize line lengths. No further movement of customers between lines occurs once all lines are about equal.

Fast-food customers face another cost-benefit decision when a clerk opens a new station at the counter. Should they move to the new station or stay out? Those who shift to the new line decide that the time saving from the move exceeds the extra cost of physically moving. In so deciding, customers must also consider just how quickly they can get to the new station compared with others who may be contemplating the same move. (Those who hesitate in this situation are lost!)

Customers at the fast-food establishment do not have perfect information when they select lines. Thus, not all decisions turn out as expected. For example, you might enter a short line and find someone in front of you is ordering hamburgers and fries for 40 people in the bus parked out back (and the employee is a trainee)! Nevertheless, at the time you made your decision, you thought it was optimal.

Finally, customers must decide what food to order when they arrive at the counter. In making their choices, they again compare marginal costs and marginal benefits in attempting to obtain the greatest personal satisfaction for their expenditure.

Economists believe that what is true for the behavior of customers at fast-food restaurants is true for economic behavior in general. Faced with an array of choices, consumers, workers, and businesses rationally compare marginal costs and marginal benefits in making decisions.

1.6. Internet Practice:

1.6.1. Web Activities:

- Find an employment Web page (an example is **www.occ.com)** and search for available jobs using "economist" as a keyword. List five jobs that economists have and write a one-sentence description of each.
- ***Normative Economics – Republicans versus Democrats*** Visit both the Republicans' **www.rnc.org/www.gop.com** and the Democrats' **www.democrats.org/**Web sites. Identify an economic issue that both parties address, and compare and contrast their views on that issue. Generally speaking, how much of the disagreement is based on normative economics compared to positive economics? Give an example of loaded terminology from each site.
- ***More Labor Resources – What is the evidence for the United States and Japan?*** Go to the Bureau of Labor Statistics' Web site at **www.bls.gov/** and select Get Detailed Statistics. Look for Labor Force Statistics from the CPS and click the Most Requested Statistics icon. Find U.S. civilian employment data for the last 10 years. How many more workers were there at the end of the 10-year period than at the beginning? Next, return to the Detailed Statistics page. Use the Most Requested Statistics icon next to Foreign Labor Statistics (it's under Productivity and Technology) to find total employment growth in Japan over the last 10 years. In which of the two countries did "more labor resources" have the greatest impact in shifting the nation's production possibilities curve outward over the 10-year period?

1.7. Critical Thinking & Discussion Questions:

- At times we all regret decisions. Does this necessarily mean we did not use the economic decision rule when making the decision?
- What is the opportunity cost of buying a $20,000 car?
- Is a good economist always objective? Why?
- List two recent choices you made and explain why you made those choices in terms of marginal benefits and marginal costs.
- For some years, China has had a one-child-per-family policy. For cultural reasons, there are now many more male than female children born in China. How is this likely to affect who pays the cost of dates in China in 15 or 20 years? Explain your response.
- State whether the following are microeconomic or macroeconomic policy issues:

a). Should the U.S. government use a policy of free trade with China to encourage China to advance human rights?
b). Will the fact that more and more doctors are selling their practices to managed care networks increase the efficiency of medical providers?
c). Should the current federal income tax structure be eliminated in favor of a flat tax?
d). Should the federal minimum wage be raised?
e). Should AT&T[4] and MCI[5] both be allowed to build local phone networks?
f). Should commercial banks be required to provide loans in all areas of the territory from which they accept deposits?

Unit 2 *The Economic Organization of Society*

"The inherent vice of capitalism is
the unequal sharing of blessings;
the inherent vice of socialism is
the equal sharing of miseries"
Winston Churchill[6]

2.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

accumulation	guild	merchant
adherent	human abuse(s)	nobility

[4] ***AT&T*** is an American multinational telecommunications corporation in Dallas**,** Texas. AT&T is the largest provider both of mobile telephony and of fixed telephony in the United States, and also provides broadband subscription television services.

[5] ***MCI Inc.*** is a former American telecommunications company now acquired by Verizon Communications.

[6] ***Sir Winston Leonard Spencer-Churchill*** (30 November 1874 – 24 January 1965) was a British politician, best known for his leadership of the United Kingdom during the Second World War. Widely regarded as one of the greatest wartime leaders of the 20th century, he served as Prime Minister twice (1940–45 and 1951–55). A noted statesman and orator, Churchill was also an officer in the British Army, a historian, a writer, and an artist. He is the only British prime minister to have received the Nobel Prize in Literature and was the first person to be made an Honorary Citizen of the United States.

balance:	incentive(s)	patriotism
~ of trade	interference	serf
capitalism	labor union(s)	socialism
citizenry	laissez-faire	subsidy
deed	malnourishment	surplus
excess	manor	upheaval(s)
feudalism	mercantilism	villein

Verbs:

to acquire	to dole out	to linger
to adhere to	to dwarf	to overthrow
to alleviate	to emerge	to prevail
to amass	to encourage	to process
to balk	to entail	to purport
to bypass	to evolve	to regulate
to consolidate	to exclude	to revolt
to cripple	to exploit	to shift
to devise	to extract	to undergo
to disrupt	to legitimize	to unleash

Adjectives & Adverbs:

benevolently	simultaneously	unfairly
briefly	stagnant	*vested:*
eventually	synonymous	~ interest
inherent	unified	viable
predominant		

2.2. Read and translate the text into Ukrainian:

THE ECONOMIC ORGANIZATION OF SOCIETY

To understand why markets developed, it is helpful to look briefly at the history of the economic systems.

FEUDAL SOCIETY: RULE OF TRADITION

Let's go back in time to the year 1000 when Europe had no nation-states as we now know them. The predominant economic system at that time was feudalism. There was no coordinated central government, no unified system of law, no national patriotism, no national defense, although a strong religious institution simply called the Church fulfilled some of these roles. There were few towns; most individuals lived in walled manors or "estates".

Without a central nation-state, the manor served many functions a nation-state would have served had it existed. The lord provided protection, often within a walled area surrounding the manor house or, if the manor was large enough, a castle. He provided administration and decided disputes. He also decided what would be done, how it would be done, and who would get what, but these decisions were limited. In the same way that the land belonged to the lord because that's the way it always had been, what people did and how they did it were determined by what they always had done. Tradition ruled the manor more than the lord did.

FROM FEUDALISM TO MERCANTILISM

Toward the end of the Middle Ages (mid-15th century), markets went from being a sideshow, a fair that spiced up people's lives, to being the main event. Over time, some traders and merchants started to amass fortunes that dwarfed those of the feudal lords. Rich traders settled down; existing towns and cities expanded and new towns were formed. As towns grew and as fortunes shifted from feudal lords to merchants, power in society shifted to the towns. And with that shift came a change in society's political and economic structure.

As these traders became stronger politically and economically, they threw their support behind a king (the strongest lord) in the hope that the king would expand their ability to trade. In doing so, they made the king even stronger. Eventually, the king became so powerful that his will prevailed over the will of the other lords and even over the will of the Church. As the king consolidated his power, nation-states as we know them today evolved. The government became an active influence on economic decision making.

As markets grew, feudalism evolved into mercantilism. The evolution of feudal systems into mercantilism occurred and new variety of possible economic activities developed. It was only natural that individuals began to look to a king to establish a new tradition that would determine who would do what. Individuals in particular occupations organized into groups called guilds, which were similar to strong labor unions today. These guilds, many of which had financed and supported the king, now expected the king and his government to protect their interests.

As new economic activities, such as trading companies, developed, individuals involved in these activities similarly depended on the king for the right to trade and for help in financing and organizing their activities. For example, in 1492, when Christopher Columbus[7] had the wild idea that by sailing west he could get to the East Indies[8] and trade for their riches, he went to Spain's Queen Isabella and King Ferdinand[9] for financial support.

Since many traders had played and continued to play important roles in financing, establishing, and supporting the king, the king was usually happy to protect their interests. The government doled out the rights to undertake a variety of economic activities. By the late 1400s, Western Europe had evolved from a feudal to a mercantilist economy.

The mercantilist period was marked by the increased role of government, which could be classified in two ways: by the way it encouraged growth, and by the way it limited growth. Government legitimized and financed a variety of activities, thus encouraging growth. But government also limited economic activity in order to protect the monopolies of those it favored, thus limiting growth. So mercantilism allowed the market to operate, but it kept the market under its control. The market was not allowed to respond freely to the laws of supply and demand.

FROM MERCANTILISM TO CAPITALISM

Mercantilism provided the source for major growth in Western Europe, but mercantilism also unleashed new tensions within society. Like feudalism, mercantilism limited entry into economic activities. It used a different form of limitation – politics rather than social and cultural tradition – but individuals who were excluded still felt unfairly treated.

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[7] ***Christopher Columbus*** (1451-1506) was an Italian explorer who sailed across the Atlantic Ocean in 1492, hoping to find a route to India (in order to trade for spices). He made a total of four trips to the Caribbean and South America during the years 1492-1504.

[8] ***The Indies or East Indies*** (or *East India*) is a term that has been used to describe the lands of South and South East Asia, occupying all of the present India, Pakistan, Bangladesh, Myanmar, Nepal, Bhutan, Sri Lanka, the Maldives, mostly Indonesia, Thailand, Cambodia, Laos, Vietnam, Brunei, Singapore, the Philippines, East Timor, and Malaysia.

[9] ***Queen Isabella, Isabella I*** (Spanish: *Isabel I*, 22 April 1451 – 26 November 1504), also known as Isabella the Catholic, was queen of Castile and León **(**Crown of Castile**).** She and her husband, Ferdinand II of Aragon, brought stability to the kingdoms that became the basis for the political unification of Spain under their grandson, Holy Roman Emperor Charles V**.**

The most significant source of tension was the different roles played by craft guilds and owners of new businesses, who were called industrialists or capitalists – businesspeople who have acquired large amounts of money and use it to invest in businesses. Craft guild members were artists in their own crafts: pottery, shoemaking, and the like. New business owners destroyed the art of production by devising machines to replace hand production. Machines produced goods cheaper and faster than craftsmen. The result was an increase in supply and a downward pressure on the price, which was set by the government. Craftsmen didn't want to be replaced by machines. They argued that machine-manufactured goods didn't have the same quality as hand-crafted goods, and that the new machines would disrupt the economic and social life of the community.

Industrialists were the outsiders with a vested interest in changing the existing system. They wanted the freedom to conduct business as they saw fit. Because of the enormous cost advantage of manufactured goods over crafted goods, a few industrialists overcame government opposition and succeeded within the mercantilist system. They earned their fortunes and became an independent political power.

Once again the economic power base shifted, and two groups competed with each other for power – this time, the guilds and the industrialists. The government had to decide whether to support the industrialists (who wanted government to loosen its power over the country's economic affairs) or the craftsmen and guilds (who argued for strong government limitations and for maintaining traditional values of workmanship). This struggle raged in the 1700s and 1800s. But during this time, governments themselves were changing. This was the Age of Revolutions, and the kings' powers were being limited by democratic reform movements – revolutions supported and financed in large part by the industrialists.

THE INDUSTRIAL REVOLUTION

The invisible hand worked; capitalism thrived. Beginning about 1750 and continuing through the late 1800s, machine production increased enormously, almost totally replacing hand production. This phenomenon has been given a name, the Industrial Revolution. The economy grew faster than ever before. Society was forever transformed. New inventions changed all aspects of life. James Watt's steam engine[10] (1769) made manufacturing and travel easier. Eli Whitney's cotton gin[11] (1793) changed the way cotton was processed. James Kay's flying shuttle[12] (1733), James Hargreaves' spinning jenny[13] (1765), and Richard Arkwright's power loom[14] (1769), combined with the steam engine, changed the way cloth was processed and the clothes people wore.

The need to mine vast amounts of coal to provide power to run the machines changed the economic and physical landscapes. The repeating rifle changed the nature of warfare. Modern economic institutions replaced guilds. Stock markets, insurance companies, and corporations

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[10] ***James Watt's steam engine*** was the first type of steam engine to make use of steam at a pressure just above atmospheric to drive the piston helped by a partial vacuum.

[11] ***A cotton gin*** is a machine that quickly and easily separates cotton fibers from their seeds, allowing for much greater productivity than manual cotton separation. The first modern mechanical cotton gin was created by American inventor ***Eli Whitney*** in 1793, and patented in 1794.

[12] ***John Kay*** (17 June 1704 – c. 1779) was the inventor of the flying shuttle**,** which was a key contribution to the Industrial Revolution. It allowed a single weaver to weave much wider fabrics, and it could be mechanized, allowing for automatic machine looms.

[13] In 1764, the British carpenter and weaver named ***James Hargreaves*** invented an improved spinning jenny, a hand-powered multiple spinning machine that was the first machine to improve upon the spinning wheel by making it possible to spin more than one ball of yarn or thread.

[14] ***"Cotton King" Richard Arkwright*** was the father of the factory; the "Ford" of his day; and one of the founders of the Industrial Revolution. He developed the key ideas that made possible the mechanization of textile manufacture, one of the most important developments in the Industrial Revolution.

all became important. Trading was no longer financed by government; it was privately financed (although government policies, such as colonial policies giving certain companies monopoly trading rights with country's colonies, helped in that trading). The Industrial Revolution, democracy, and capitalism all arose in the middle and late 1700s. By the 1800s, they were part of the institutional landscape of Western society. Capitalism had arrived.

Capitalism was marked by significant economic growth in the Western world. But it was also marked by human abuses – 18-hour workdays, low wages, children as young as five years old slaving long hours in dirty, dangerous factories and mines – to produce enormous wealth for an elite few. Such conditions and inequalities led to criticism of the capitalist or market economic system.

FROM FEUDALISM TO SOCIALISM

Marx's[15] socialist ideas took root in feudalist Russia, a society that the Industrial Revolution had in large part bypassed. The proletariat did not revolt to establish socialism. Instead, World War I, which the Russians were losing, crippled Russia's feudal economy and government. A small group of socialists overthrew the czar (Russia's king) and took over the government in 1917. They quickly pulled Russia out of the war, and then set out to organize a socialist society and economy.

Russian socialists tried to adhere to Marx's ideas, but they found that Marx had concentrated on how capitalist economies operate, not on how a socialist economy should be run. Thus, Russian socialists faced a huge task with little guidance. Their most immediate problem was how to increase production so that the economy could emerge from feudalism into the modern industrial world. In Marx's analysis, capitalism was a necessary stage in the evolution toward the ideal state for a very practical reason. The capitalists exploit the workers, but in doing so capitalists extract the necessary surplus – an amount of production in excess of what is consumed. That surplus had to be extracted in order to provide the factories and machinery upon which a socialist economic system would be built. But since capitalism did not exist in Russia, a true socialist state could not be established immediately. Instead, the socialists created state socialism – an economic system in which government sees to it that people work for the common good until they can be relied upon to do that on their own.

Socialists saw state socialism as a transition stage to pure socialism. This transition stage still exploited the workers; when Joseph Stalin[16] took power in Russia in the late 1920s, he took the peasants' and small farmers' land and turned it into collective farms. The government then paid farmers low prices for their produce. When farmers balked at the low prices, millions of them were killed.

Simultaneously, Stalin created central planning agencies that directed individuals what to produce and how to produce it, and determined for whom things would be produced. During this period, socialism became synonymous with central economic planning, and Soviet-style socialism became the model of socialism in practice.

[15] ***Karl Heinrich Marx*** (5 May 1818 – 14 March 1883) was a German philosopher, economist, sociologist, historian, journalist, and revolutionary socialist. Marx's work in economics laid the basis for the current understanding of labor and its relation to capital, and has influenced much of subsequent economic thought. He published numerous books during his lifetime, the most notable being *The Communist Manifesto* (1848) and *Das Kapital* (1867–1894).

[16] ***Joseph Stalin*** *or* ***Iosif Vissarionovich Stalin*** (born Ioseb Besarionis dze Jugashvili, 18 December 1878 – 5 March 1953) was the *de facto* leader of the Soviet Union from the mid-1920s until his death in 1953.One of the most powerful and murderous dictators in history, Stalin was the supreme ruler of the Soviet Union for a quarter of a century.

Also during this time, Russia took control of a number of neighboring states and established the Union of Soviet Socialist Republics (USSR)[17], the formal name of the Soviet Union. The Soviet Union also installed Soviet-dominated governments in a number of Eastern European countries. In 1949 most of China, under the rule of Mao Zedong[18], adopted Soviet-style socialist principles.

Since the late 1980s, the Soviet socialist economic and political structure has fallen apart. The Soviet Union as a political state broke up, and its former republics became autonomous. Eastern European countries were released from Soviet control. Why did the Soviet socialist economy fall apart? Because workers lacked incentives to work; production was inefficient; consumer goods were either unavailable or of poor quality; and high Soviet officials were exploiting their positions, keeping the best jobs for themselves and moving themselves up in the waiting lists for consumer goods. In short, the parents of the socialist family (the Communist party) were no longer acting benevolently; they were taking many of the benefits for themselves.

Recent political and economic upheavals in Eastern Europe and Ukraine (as a former Soviet socialist republic) suggest that the kind of socialism these societies tried did not work. However, that failure does not mean that socialist goals are bad; nor does it mean that no type of socialism can ever work. To overthrow socialist-dominated governments it is not necessary to accept capitalism, and many citizens of these countries are looking for an alternative to both systems. Most, however, want to establish market economies.

2.3. Language Practice:

2.3.1. Multiple Choice:

1. The ….. provided protection, often within a walled area surrounding the manor house or, if the manor was large enough, a castle.

a) church;
b) government;
c) lord.

2. The mercantilist period was marked by the increased role of ….., which could be classified in two ways: by the way it encouraged growth, and by the way it limited growth.

a) government;
b) church;
c) lord.

3. New business owners destroyed the art of production by devising machines to ….. hand production.

a) encourage;
b) exchange;
c) replace.

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[17] ***The Union of Soviet Socialist Republics*** abbreviated *to **USSR** or the **Soviet Union*** was a socialist state on the Eurasian continent that existed between 1922 and 1991, governed as a single-party state by the Communist Party with Moscow as its capital. A union of multiple subnational Soviet republics, its government and economy were highly centralized.

[18] ***Mao Zedong*** and commonly referred to as *Chairman Mao* (December 26, 1893 – September 9, 1976), was a Chinese communist revolutionary, politician and socio-political theorist. The founding father of the People's Republic of China from its establishment in 1949, he governed the country as Chairman of the Communist Party of China until his death. In this position he converted China into a single-party socialist state, with industry and business being nationalized under state ownership and socialist reforms implemented in all areas of society.

4. Capitalism was also marked by ..... – 18-hour workdays, low wages, children as young as five years old slaving long hours in dirty, dangerous factories and mines – to produce enormous wealth for an elite few.
a) human rights;
b) human abuses;
c) upheavals.

5. Laissez-faire is …..
a) an economic system based upon private property and the market in which, in principle, individuals decide how, what, and for whom to produce;
b) the economic system that has evolved in most developed countries, including the U.S. Under it, the market system still operates, but the government plays an increasing role in the regulation of markets in order to better provide for the basic welfare of all its citizens;
c) the policy which is based on the idea that governments and the law should not interfere with business, finance, or the conditions of people's working lives.

6. Beginning about 1750 and continuing through the late 1800s, machine production increased enormously, almost totally replacing hand production. This phenomenon has been given a name, the …..
a) Great Depression;
b) Industrial Revolution;
c) capitalism.

7. Why did the Soviet socialist economy fall apart? Because workers lacked ….. to work; production was inefficient; consumer goods were either unavailable or of poor quality.
a) incentives;
b) insights;
c) assumptions.

2.3.2. Key Terms – Matching:

1.	Feudalism	a)	– an economic system based on individuals' good will toward others, not on their own self-interest. In principle, society decides what, how, and for whom to produce;
2.	Mercantilism	b)	– the economic system that has evolved in most developed countries, including the U.S. Under it, the market system still operates, but the government plays an increasing role in the regulation of markets in order to better provide for the basic welfare of all its citizens;
3.	Industrial revolution	c)	– the dominant social system in medieval Europe, in which the nobility held lands from the Crown[19] in exchange for military service, and vassals were in turn tenants of the nobles, while the peasants (villeins or serfs) were obliged to live on their lord's land and give him homage, labor, and a share of the produce, notionally in exchange for military protection;
4.	Capitalism	d)	– the policy which is based on the idea that governments and the law should not interfere with business, finance, or the conditions of people's working lives;

[19] ***The Crown*** is a corporation sole that, in the Commonwealth realms, Crown dependencies and any of its provincial or state sub-divisions, represents the legal embodiment of executive, legislative, or judicial governance. It evolved first in the United Kingdom as a separation of the literal crown and property of the nation state from the person and personal property of the monarch.

5.	Socialism	e)	– the rapid development of industry that occurred in Britain in the late 18th and 19th centuries, brought about by the introduction of machinery. It was characterized by the use of steam power, the growth of factories, and the mass production of manufactured goods;
6.	Laissez-faire	f)	– an economic system based upon private property and the market in which, in principle, individuals decide how, what, and for whom to produce;
7.	Welfare capitalism	g)	– the main economic system used during the sixteenth to eighteenth centuries. The main goal was to increase a nation's wealth by imposing government regulation concerning all of the nation's commercial interests. It was believed that national strength could be maximized by limiting imports via tariffs and maximizing exports.

2.3.3. Please explain the meaning of the following words and word combinations in English:

Feudalism, nobility, mercantilism, industrial revolution, capitalism, socialism, laissez-faire, labor unions, human abuses, guild, patriotism, free trade, welfare capitalism, incentive, adherent.

2.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~*balance of trade*~~	laissez-faire	competition	interference	merchant
alliance	citizenry	gain	free trade	accumulation

MERCANTILISM: MAIN CONCEPTS

Mercantilism is a political and economic system that arose in the 17th and 18th centuries. It purports that a country's economic strength is directly related to the maintenance of a positive (1) *balance of trade*. That is, in order to remain economically and politically viable a country must export more than it imports. Such a phenomenon, according to mercantilist thought, results in a surplus of gold in the practicing country's treasury.

Although not an adherent of mercantilism, noted 18th century Scottish economist Adam Smith (1723–1790) was responsible for coining the term "mercantile system". Mercantilism was in opposition to Smith's concepts of (2) _____. In other words, it went against the precepts of a (3) _____ economy. One of the key assertions of mercantilism is that national wealth will come through the import and (4) _____ of gold or other precious metals such as silver. Smith was highly critical of this theory of wealth and he clearly understood the class bias in the merchant system that supported it. In fact, Smith expressed great concern about colonialism and the monopoly trade routes instituted by the merchant class, which often worked against the economic interests of the (5) _____.

Mercantilism as an economic system is generally held in low regard today. Japan, however, with its structural barriers to foreign (6) _____ and its discouragement of foreign direct investment has been accused of practicing a late 20th century form of mercantilism.

Mercantilism as a historical period has been associated with the rise of a particular form of European capitalism often referred to as (7) _____ capitalism. Mercantilism was also a doctrine advanced by various economic writers of the period, who tended to call for a powerful (8) _____ between merchants and the monarchial system, which was then in decline. The term mercantilism is often used today to describe protectionist trade policies which, when coupled with other government policies, directly or indirectly subsidize particular industries in order to (9) _____ national or regional trade advantage. Japan, as stated above, is a late 20th century example of such policies. Mercantilism has thus come to be associated with nationalistic economic policies and is shunned by free trade advocates who argue for minimal state (10) _____ in the domestic and international marketplace.

2.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the adjective ***predominant****:* *1) absolute, all-powerful, arbitrary, authoritative, capital, chief, controlling, directing, dominant, dominating, effective, governing, holding the reins, imperious;* *2) influential, leading, main, mighty, official, overbearing, overpowering, paramount, preponderant, prevailing, prevalent, primary, prime, principal, prominent, reigning, sovereign, superior, superlative, supervisory, supreme, surpassing, transcendent, weighty.*

2.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Дворянство, феодалізм, узурпація селянських земель, кріпак, меркантилізм, торговельний баланс, промислова революція, профспілки, капіталізм, соціалізм, політика невтручання, гільдії, патріотизм, свобода торгівлі, мотивація, порушення прав людини, накопичення цінних металів, економічні відносини, обсяг торговельних операцій, підтримка активного торговельного балансу, управління господарством, поділ праці, колективні форми організації праці та виробництва, послідовник, субсидія.

2.4.2. Please translate the following sentences into Ukrainian:

1. Economic thought has developed over time in a historical context. It can be argued that economics has always been a philosophy rather than a science. This is clearly evident from Greek, Chinese and Indian economic thought. However, in the latter part of the 19th century mathematics became the dominating force in economics. Neoclassical economics has emphasized the rational behavior of self-interested individuals and largely ignored the fact that humans are in essence part of nature, which the philosopher economists of Ancient Greece recognized.
2. The approach of "mercantilism" assumes the wealth of a nation depends primarily on the possession of precious metals such as gold and silver. This type of system cannot be maintained forever, because the global economy would become stagnant if every country wanted to export and no one wanted to import. After a period of time, many people began to revolt against the idea of mercantilism and stressed the need for free trade. The continued pressure resulted in the implementation of laissez faire economics in the nineteenth century.
3. Before the arrival of the Industrial Revolution, most people resided in small, rural communities where their daily existences revolved around farming. Life for the average person was difficult, as incomes were meager, and malnourishment and disease were common. People produced the bulk of their own food, clothing, furniture and tools. Most manufacturing was done in homes or small, rural shops, using hand tools or simple machines.

4. A number of factors contributed to Britain's role as the birthplace of the Industrial Revolution. For one, it had great deposits of coal and iron ore, which proved essential for industrialization. Additionally, Britain was a politically stable society, as well as the world's leading colonial power, which meant its colonies could serve as a source for raw materials, as well as a marketplace for manufactured goods. As demand for British goods increased, merchants needed more cost-effective methods of production, which led to the rise of mechanization and the factory system.
5. Socialism is a social and economic doctrine that calls for public rather than private ownership or control of property and natural resources. According to the socialist view, individuals do not live or work in isolation but live in cooperation with one another. Furthermore, everything that people produce is in some sense a social product, and everyone who contributes to the production of a good is entitled to a share in it. Society as a whole, therefore, should own or at least control property for the benefit of all its members.
6. Production under socialism would be directly and solely for use. With the natural and technical resources of the world held in common and controlled democratically, the sole object of production would be to meet human needs. This would entail an end to buying, selling and money. Instead, we would take freely what we had communally produced. The old slogan of "from each according to ability, to each according to needs" would apply.
7. Economic system "capitalism" is characterized by the following: private property ownership exists; individuals and companies are allowed to compete for their own economic gain; and free market forces determine the prices of goods and services**.** Such a system is based on the premise of separating the state and business activities. Capitalists believe that markets are efficient and should thus function without interference, and the role of the state is to regulate and protect.
8. The results of analyses will not be the only factor in deciding whether societies move towards or away from laissez-faire economics ("laissez-faire" means "let alone" and is shorthand for leaving things to the invisible hand). Political will, whether the world becomes more peaceful or less, and the practicality of any alternatives will also be factors. Alternative systems tend to require much more intervention and more stringent rules. In the real world, such rules automatically introduce more and more opportunities for mistakes and corruption, which might mean that another system, even if better in principle, would be worse in practice.
9. In a democratic society, there is a strong temptation for "special-interest" groups to form and lobby the government to provide tax-payers' money to the group in the form of subsidies. Politicians find the prospect of buying the loyalty of the group attractive, and the group sees the prospect of getting other people's money for nothing. Clearly, everyone would be better off if no one sought subsidies - by definition; subsidies are only needed for unprofitable activities, that is, activities that other people do not value sufficiently to pay their own money for.
10. An economic system must provide the incentives to do those things that alleviate scarcity – produce more and consume less. The two main economic systems of the past 50 years, capitalism and socialism, answer these immense coordination problems differently.

2.4.3. Please translate the following sentences into English:

1. Термін “економія” виник в епоху античного рабства. Він означав певну систему правил, законів управління домашнім господарством, землеробством. Його використовували ще давні мислителі для аналізу економічних явищ і закономірностей розвитку суспільства. В той період економічні відносини не були складними, а закони про управління господарством передавались із покоління в покоління як досвід ведення господарства.
2. У період середньовіччя переважали феодальні економічні відносини. Вони характеризувалися наявністю двох основних класів – феодалів і селян. Тому економічні вчення представників класу феодалів були спрямовані на узурпацію селянських земель і виправдання феодальної організації господарства. Представники ж селянства обґрунтовували необхідність ліквідації поміщицького землеволодіння та передачі землі селянам.
3. Як наука, тобто як система знань про економічні процеси, економічна теорія виникла набагато пізніше – у XVII–XVIII ст., коли почав зароджуватись капіталізм, економічні відносини стали набагато складнішими, виникла необхідність їх регулювання на рівні держави. Підходи до аналізу економічних процесів визначались об’єктивними економічними умовами, реальними потребами та інтересами економічного буття, і спочатку досить часто змінювалися залежно від змін в економічних процесах, що відбувались.
4. Першим напрямком в економічній теорії історично став меркантилізм. Представники цього напрямку основне місце в економічних процесах відводили торгівлі. Це було зумовлено значним зростанням на початку XVII ст. обсягів торгівельних операцій, посиленням ролі і впливу представників торгового капіталу в економіці країни. Меркантилісти ототожнювали багатство із золотом і грішми, вважали, що держава тим багатша, чим більше грошей вона має, а тому захищали політику держави, спрямовану на підтримку активного торгового балансу.
5. Класична політична економія надала економічній теорії дійсно наукового характеру. По-перше, вона відкрила реальне джерело багатства – процес виробництва. По-друге, економічна наука стала досліджувати господарську діяльність як систему, що охоплює виробництво, розподіл, обмін та споживання благ та послуг. По-третє, ця наука не обмежувалася описуванням економічних явищ і процесів а перейшла до виявлення їхньої сутності та законів розвитку.
6. Працями Адама Сміта (1723–1790) та Давида Рікардо (1772–1823) було започатковано класичну політичну економію. Головні її принципи викладені в книзі Адама Сміта *“Дослідження про природу та причини багатства народів”*. В ній доводиться, що праця є основою багатства незалежно від сфери її застосування. Важливим фактором зростання багатства є поділ праці, бо він підвищує її продуктивність та робить її ефективнішою.
7. Провідною ідеєю вчення Адама Сміта було обґрунтування ринкового механізму саморегулювання капіталістичного виробництва. Сміт розкрив принцип так званої “невидимої руки”, що включає вільні ціни та конкуренцію, і виступав за обмеження втручання держави в економіку, тобто ідею лібералізму. Значну увагу А. Сміт приділив обґрунтуванню розподілу доходів, зокрема принципів оподаткування. За вагомий внесок в економічну теорію А. Сміта називають “батьком ринкової економіки”.

8. Марксизм виник у 40-х рр. XIX ст. Економічне вчення Карла Маркса ґрунтувалося на положенні про те, що продуктивні сили суспільства, які прогресують у своєму розвиткові, набувають дедалі більш суспільного характеру, тобто можуть бути раціонально використані лише за колективних форм організації праці та виробництва.
9. Наприкінці XIX ст. в Україні з'явилися прихильники марксистської політичної економії. Першим серед них був професор Київського університету Михайло Туган-Барановський[20] (1865–1919). Він досліджував проблеми теорії ринків, промислових криз та циклів, розподілу, був засновником однієї з теорій грошей, обґрунтував особливу роль кооперації в капіталістичному суспільстві як зародку нового, досконалого типу соціального устрою.
10. Економічна теорія – творча наука, яка постійно збагачується новими знаннями, предмет її дослідження розширюється й уточнюється. В сучасних умовах гуманізації, інтелектуалізації, соціалізації суспільного життя та глобалізації економічних процесів її предметна сфера еволюціонує в напрямку розширення й ускладнення її проблематики, залучення до наукового дослідження додаткових пластів соціально-економічних відносин, врахування багатомірності їх взаємодії і визначення людини як центру економічної системи.

2.4.4. Please make an English summary of the following text:

ЗАРОДЖЕННЯ І ОСНОВНІ ЕТАПИ РОЗВИТКУ ЕКОНОМІЧНОЇ ТЕОРІЇ

Економічна думка зародилася ще в стародавньому світі. Це була певна сума поглядів на господарські явища, на рушійні сили економічної діяльності людей. Істотного розвитку вона досягла в епоху рабовласництва. Але не кожна економічна думка розвивається у систему поглядів і стає економічним ученням. Ні в рабовласницькому, ні у феодальному суспільстві ще не існувало стрункої системи економічних поглядів на економічні процеси. Вона складається поступово в процесі історичного розвитку суспільства.

Могутнім поштовхом до формування економічної науки стало запровадження в усіх структурах суспільного життя капіталістичних відносин, коли бурхливими темпами почали розвиватися продуктивні сили, стали формуватися ринок, обмін, торгівля. З'явилася потреба в дослідженні усіх цих явищ, вивченні закономірностей функціонування економії в цілому. Врешті-решт постало питання і про джерела багатства націй і народів, груп людей, окремих осіб, засоби їх виміру.

Визначне місце в історії політичної економії зайняло вчення меркантилістів. Воно зародилось у XVI–XVII с у країнах Західної Європи. У меркантилістів об'єктом досліджень був обіг, зокрема багато уваги приділялося зовнішній торгівлі. Саме обіг вважався тією сферою, де створюється багатство. Але вони не створили наукової системи. К. Маркс зазначав, що справжня наука сучасної економічної теорії починається лише з того часу, коли теоретичне дослідження переходить від процесу обігу до виробництва.

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[20] ***Mykhaylo Tukhan-Baranovskyi*** (Ukrainian: Михайло Туган-Барановський) (1865, Kharkiv Governorate – 1919, Odesa) was a Ukrainian politician, statesman, and noted Ukrainian economist. He earned his Ph.D. in Economics in 1899. He is the author of numerous works concerning the value theory, the distribution of a social revenue, history of managerial development, and fundamentals of cooperative managerial activities.

Вищим досягненням буржуазної політичної економії є праці представників англійської класичної школи Адама Сміта (1723–1790) і Давида Рікардо (1772–1823). У них досліджувалися виробництво й обіг, було зроблено спробу розкрити суть товарно-грошових відносин, науково обґрунтувати походження прибутку.

Певний вплив на світовий розвиток економічної думки мали дослідження Карла Маркса (1818–1883). Особливу увагу дослідник звернув на проблеми створення прибутку, або додаткової вартості. К.Маркс довів до рівня наукової теорії ідею класиків політичної економії про двоїстий характер праці, розвинув трудову теорію вартості, обґрунтував прогресивну роль акціонерної власності та розкрив суть абсолютної ренти.

Вчення Маркса мало і серйозні недоліки. Зокрема, він недооцінив роль приватної власності, в тому числі приватної трудової у людському суспільстві, а абсолютизував роль державної власності. К.Маркс необґрунтовано вважав джерелом вартості тільки працю найманих робітників, ігноруючи при цьому працю підприємців. Марксистська теорія переоцінила роль великого виробництва в економіці суспільства. Маркс мало уваги приділив закону попиту і пропозиції. Ця теорія зазнала критики з різних позицій, але мала неабиякий вплив, зокрема, на вдосконалення процесу капіталістичного виробництва.

2.5. Reading Practice:

2.5.1. Please read the following texts and translate them into Ukrainian:

<u>Text 1</u>: PROBLEMS OF A TRADITION-BASED SOCIETY

FEUDALISM

Feudalism developed about the 8th and 9th centuries and lasted until about the 15th century, though in isolated countries such as Russia it continued well into the 19th century, and in all European countries its influence lingered for hundreds of years (as late as about 140 years ago in some parts of Germany). Such a long-lived system must have done some things right, and feudalism did: it solved the what, how, and for whom problems in an acceptable way. Manors "belonged to" the "lord of the manor". (Occasionally the "lord" was a lady, but not often.) We say "belonged to" rather than "were owned by" because most of the empires or federations at that time were not formal nation-states that could organize, administer, and regulate ownership. No documents or deeds gave ownership of the land to an individual. Instead, tradition ruled, and in normal times nobody questioned the lord's right to the land. The land "belonged to" the lord because the land "belonged to" him – that's the way it was.

But a tradition-based society has problems. In a traditional society, because someone's father was a baker, the son must also be a baker, and because a woman was a homemaker, she wouldn't be allowed to be anything but a homemaker. But what if Joe Blacksmith, Jr., the son of Joe Blacksmith, Sr., is a lousy blacksmith and longs to knead dough, while Joe Baker, Jr., would be a superb blacksmith but hates making pastry? It's tough. Tradition dictated who did what. In fact, tradition probably arranged things so that we will never know whether Joe Blacksmith, Jr., would have made a superb baker.

As long as a society doesn't change too much, tradition operates reasonably well, although not especially efficiently, in holding the society together. However, when a society must undergo change, tradition does not work. Change means that the things that were done before no longer need to be done, while new things do need to get done. But if no one has traditionally done these new things, then they don't get done. If the change is important but a society can't figure out some way for the new things to get done, the society falls apart. That's what happened to feudal society. It didn't change when change was required.

The life of individuals living on the land, called serfs, was difficult, and feudalism was designed to benefit the lord. Some individuals in feudal society just couldn't take life on the manor, and they set off on their own. Because there was no organized police force, they were unlikely to be caught and forced to return to the manor. Going hungry, being killed, or both, however, were frequent fates of an escaped serf. One place, to which serfs could safely escape, though, was a town or city – the remains of what in Roman times had been thriving and active cities. These cities, which had been decimated by plagues, plundering bands, and starvation in the preceding centuries, nevertheless remained an escape hatch for runaway serfs because they relied far less on tradition than did manors. City dwellers had to live by their wits; many became merchants who lived predominantly by trading. They were middlemen; they would buy from one group and sell to another.

Trading in towns was an alternative to the traditional feudal order because trading allowed people to have an income independent of the traditional social structure. Markets broke down tradition. Initially merchants traded using barter (exchange of one kind of good for another): silk and spices from the Orient for wheat, flour, and artisan products in Europe. But soon a generalized purchasing power (money) developed as a medium of exchange. Money greatly expanded the possibilities of trading because its use meant that goods no longer needed to be bartered. They could be sold for money, which could then be spent to buy other goods.

In the beginning, land was not traded, but soon the feudal lord who just had to have a silk robe but had no money was saying, "Why not? I'll sell you a small piece of land so I can buy a shipment of silk". Once land became tradable, the traditional base of the feudal society was undermined. Tradition that can be bought and sold is no longer tradition – it's just another commodity.

THE MAGNA CARTA[21]

Nobles divided their land among the lesser nobility, who became their servants or "vassals". Many of these vassals became so powerful that the kings had difficulty controlling them. By 1100, certain barons had castles and courts that rivaled the king's; they could be serious threats if they were not pleased in their dealings with the crown.

In 1215, the English barons formed an alliance that forced King John to sign the Magna Carta. While it gave no rights to ordinary people, the Magna Carta did limit the king's powers of taxation and require trials before punishment. It was the first time that an English monarch came under the control of the law.

PEASANT LIFE

Peasants worked the land and produced the goods that the lord and his manor needed. This exchange was not without hardship for the serfs. They were heavily taxed and were required to relinquish much of what they harvested. The peasants did not even "belong to" themselves, according to medieval law. The lords, in close association with the church, assumed the roles of judges in carrying out the laws of the manor.

ROLE OF WOMEN

It should come as no surprise that women, whether they were nobles or peasants, held a difficult position in society. They were largely confined to household tasks such as cooking, baking bread, sewing, weaving, and spinning. However, they also hunted for food and fought

[21] ***Magna Carta*** (Latin for ***Great Charter***), also called ***Magna Carta Libertatum*** or ***The Great Charter of the Liberties of England***, is a charter originally issued in Latin in the year 1215. Magna Carta was the first document forced onto a King of England by a group of his subjects, the feudal barons, in an attempt to limit his powers by law and protect their privileges

in battles, learning to use weapons to defend their homes and castles. Some medieval women held other occupations. There were women blacksmiths, merchants, and apothecaries. Others were midwives, worked in the fields, or were engaged in creative endeavors such as writing, playing musical instruments, dancing, and painting.

Some women were known as witches, capable of sorcery and healing. Others became nuns and devoted their lives to God and spiritual matters. Famous women of the Middle Ages include the writer Christine de Pisan[22]; the abbess and musician Hildegard of Bingen[23]; and the patron of the arts Eleanor of Aquitaine[24]. A French peasant's daughter, Joan of Arc[25], or St. Joan, heard voices telling her to protect France against the English invasion. She dressed in armor and led her troops to victory in the early fifteenth century. "The Maid of Orleans" as she was known, was later burned as a witch.

THE NEED FOR COORDINATION IN AN ECONOMY

Craftsmen argued that coordination of the economy was necessary, and the government had to be involved. If government wasn't going to coordinate economic activity, who would? To answer that question, a British moral philosopher named Adam Smith developed the concept of the invisible hand, in his famous book *"The Wealth of Nation"(1776)*, and used it to explain how markets could coordinate the economy without the active involvement of government. Smith argued that the market's invisible hand would guide suppliers' actions toward the general good. No government coordination was necessary.

With the help of economists such as Adam Smith, the industrialists' view won out. Government pulled back from its role in guiding the economy and adopted a laissez-faire policy – the economic policy of leaving coordination of individuals' wants to be controlled by the market. (Laissez-faire, a French term, means "Let events take their course; leave things alone".)

MARX'S ANALYSIS

The best-known critic of capitalist system was Karl Marx, a German philosopher, economist, and sociologist who wrote in the 1800s and who developed an analysis of the dynamics of change in economic systems. Marx argued that economic systems are in a constant state of change, and that capitalism would not last. Workers would revolt, and capitalism would be replaced by a socialist economic system.

Marx saw an economy marked by tensions among economic classes. He saw capitalism as an economic system controlled by the capitalist class (businessmen). His class analysis was that capitalist society is divided into capitalist and worker classes. He said constant tension between these economic classes causes changes in the system. The capitalist class made large profits by exploiting the proletariat class – the working class – and extracting what he called surplus value from workers who, according to Marx's labor theory of value, produced all the value inherent in goods. Surplus value was the additional profit, rent, or interest that, according to Marx's normative views, capitalists added to the price of goods. What economic analysis sees as recognizing a need that society has and fulfilling it, Marx saw as exploitation.

Marx argued that this exploitation would increase as production facilities became larger and larger and as competition among capitalists decreased. At some point, he believed,

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[22] ***Christine de Pizan*** (also seen as ***de Pisan***) (1364–1430) was an Italian French late medieval author.

[23] ***Saint Hildegard of Bingen*** (1098–1179) was a German writer, composer and philosopher.

[24] ***Eleanor of Aquitaine*** (1122 or 1124–1204) was one of the wealthiest and most powerful women in western Europe during the High Middle Ages.

[25] ***Joan of Arc*** (1412–1431) is a folk heroine of France and a Roman Catholic saint. She was born a peasant girl in what is now eastern France. Claiming divine guidance, she led the French army to several important victories during the Hundred Years' War. She was burned at the stake for heresy when she was 19 years old.

exploitation would lead to a revolt by the proletariat, who would overthrow their capitalist exploiters.

By the late 1800s, some of what Marx predicted had occurred, although not in the way that he thought it would. Production moved from small to large factories. Corporations developed, and classes became more distinct from one another. Workers were significantly differentiated from owners. Small firms merged and were organized into monopolies and trusts (large combinations of firms).

The trusts developed ways to prevent competition among themselves and ways to limit entry of new competitors into the market. Marx was right in his predictions about these developments, but he was wrong in his prediction about society's response to them.

THE REVOLUTION THAT DID NOT OCCUR

Western society's response to the problems of capitalism was not a revolt by the workers. Instead, governments stepped in to stop the worst abuses of capitalism. The hard edges of capitalism were softened.

Evolution, not revolution, was capitalism's destiny. The democratic state did not act, as Marx argued it would, as a mere representative of the capitalist class. Competing pressure groups developed; workers gained political power that offset the economic power of businesses.

In the late 1930s and the 1940s, workers dominated the political agenda. During this time, capitalist economies developed an economic safety net that included government-funded programs, such as public welfare and unemployment insurance, and established an extensive set of regulations affecting all aspects of the economy. Today, depressions are met with direct government policy. Antitrust laws, regulatory agencies, and social programs of government softened the hard edges of capitalism. Laws were passed prohibiting child labor, mandating a certain minimum wage, and limiting the hours of work. Capitalism became what is sometimes called welfare capitalism.

Due to these developments government is spending now accounts for about a fifth of all spending in the United States, and for more than half in some European countries. Were economists from the late 1800s to return from the grave, Marx would probably say socialism, not capitalism, exists in Western societies? Most modern-day economists wouldn't go that far, but they would agree that US economy today is better described as a welfare capitalist economy than as a capitalist, or even a market, economy. Because of these changes, the U.S. and Western European economies are a far cry from the competitive "capitalist" economy that Karl Marx criticized. Markets operate, but they are constrained by the government.

The concept "capitalism" developed to denote a market system controlled by one group in society, the capitalists. Looking at Western societies today, we see that domination by one group no longer characterizes Western economies. Although in theory capitalists control corporations through their ownership of shares of stock, in practice corporations are controlled in large part by managers. There remains an elite group who control business, but capitalist is not a good term to describe them. Managers, not capitalists, exercise primary control over business, and even their control is limited by laws or the fear of laws being passed by governments.

Governments in turn are controlled by a variety of pressure groups. Sometimes one group is in control; at other times, another. Government policies similarly fluctuate. Sometimes they are pro-worker, sometimes pro-industrialist, sometimes pro-government, and sometimes pro-society.

2.6. Internet Practice:

2.6.1. Web Activities:

- The Social Security system is a program that is significant to the evolution of capitalism in the United States. Go to the Social Security Administration's home page **(www.ssa.gov)** and describe how changes in the Social Security system have moved the USA economy toward welfare capitalism. What proposals are being discussed that will change the nature of Social Security? What does it say about the evolution of capitalism today?
- Using the U.S. International Trade Commission Web site **(www.usitc.gov)** answer the following:
  a. With how many countries does the USA trade?
  b. What are the three largest trading partners?

2.7. Critical Thinking & Discussion Questions:

- What three problems must any economic system solve?
- How does capitalism solve these three problems?
- How does Soviet-style socialism solve these three problems?
- Is capitalism or socialism the better economic system?
- Poland, Bulgaria, and Hungary (all former socialist countries) were in the process of changing to a market economy in the early 1990s.
  a. Go to the library and find the latest information about their transitions.
  b. Explain what has happened in the markets, political structures, and social customs of those countries.
- Joseph Schumpeter[26], a famous Harvard economist of the 1930s, predicted that as firms in capitalist societies grew in size they would innovate less. Can you suggest what his argument might have been?
- Schumpeter's prediction did not come true. Modern capitalist economies have had enormous innovations; Can you provide explanations as to why?

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[26] ***Joseph Alois Schumpeter*** (8 February 1883 – 8 January 1950) was an Austrian American economist and political scientist. He briefly served as Finance Minister of Austria in 1919. One of the most influential economists of the 20th century, Schumpeter popularized the term *creative destruction* in economics.

Unit 3 *Economic Systems*

"The most important single central fact about a free market is that no exchange takes place unless both parties benefit"
Milton Friedman[27]

3.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

abuse	equilibrium price	owner
availability	exchange	ownership
barter	expenditure	profit-and-loss
benefit(s)	*freedom:*	property
business/enterprise	~ of choice	pursuit
capital	~ of enterprise	resource(s)
competition	fringe benefit(s)	return
cost(s)	growth	self-interest
demand	household	stagnation
dictate(s)	incentive	stockholder
diffusion	income/profit/revenue	supply
dividend	loss	unit
efficiency	maintenance	utility
entity	market	value
entrepreneur	output	want(s)

Verbs:

to acquire	to expand	to restrict
to allocate	to exploit	to retain
to bequeath	to distribute	to reduce
to charge	to facilitate	to rig
to compete	to increase/rise	to stymie
to contract	to dispose of	to subsidize
to designate	to implement	to obtain
to ensure	to penalize	to take over

Adjectives & Adverbs:

abundant	(in)efficiently	scarce
command	mixed	state-owned
competitive	pure	(un)productive

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[27] ***Milton Friedman*** (July 31, 1912 – November 16, 2006) was an American economist, statistician, and writer who taught at the University of Chicago for more than three decades. He was a recipient of the 1976 Nobel Memorial Prize in Economic Sciences, and is known for his research on consumption analysis, monetary history and theory, and the complexity of stabilization policy. As a leader of the Chicago school of economics, he profoundly influenced the research agenda of the economics profession. A survey of economists ranked Friedman as the second most popular economist of the twentieth century after John Maynard Keynes, and The Economist described him as "the most influential economist of the second half of the 20th century...possibly of all of it."

3.2. Read and translate the text into Ukrainian:

ECONOMIC SYSTEMS

There is a connection between political ideology and economic systems. In countries where individual goals are given primacy over collective goals, we are more likely to find free market economic systems. In contrast, in countries where collective goals are given preeminence, the state may have taken control over many enterprises, while markets in such countries are likely to be restricted rather than free. We can identify three broad types of economic systems – *a market economy, a command economy, and a mixed economy*.

MARKET ECONOMY. CHARACTERISTICS OF THE MARKET SYSTEM

The market system, as practiced in industrially advanced economies, has several notable characteristics.

Private Property. In a market system, private individuals and firms, not the government, own most of the property resources (land and capital). In fact, it is this extensive private ownership of capital that gives capitalism its name. This right of private property, coupled with the freedom to negotiate binding legal contracts, enables individuals and businesses to obtain, use, and dispose of property resources as they see fit. The right to bequeath – the right of property owners to designate who will receive their property when they die – sustains the institution of private property.

Property rights encourage investment, innovation, exchange, maintenance of property, and economic growth. Why would anyone stock a store, build a factory, or clear land for farming if someone else, or the government itself, could take that property for his or her own benefit?

Property rights also extend to intellectual property through patents, copyrights, and trademarks. Such long-term protection encourages people to write books, music, and computer programs and to invent new products and production processes without fear that others will steal them and the rewards they may bring.

Property rights also facilitate exchange. The title to an automobile or the deed to a cattle ranch assures the buyer that the seller is the legitimate owner. Moreover, property rights encourage owners to maintain or improve their property so as to preserve or increase its value. Finally, property rights enable people to use their time and resources to produce more goods and services, rather than using them to protect and retain the property they have already produced or acquired.

Freedom of Enterprise and Choice. Closely related to private ownership of property is freedom of enterprise and choice. The market system requires that various economic units make certain choices, which are expressed and implemented in the economy's markets: (1) freedom of enterprise ensures that entrepreneurs and private businesses are free to obtain and use economic resources to produce their choice of goods and services and to sell them in their chosen markets; (2) freedom of choice enables owners to employ or dispose of their property and money as they see fit. It also allows workers to enter any line of work for which they are qualified. Finally, it ensures that consumers are free to buy the goods and services that best satisfy their wants.

Self-Interest. In the market system, self-interest is the motivating force of all the various economic units as they express their free choices. Self-interest means that each economic unit tries to do what is best for itself. Entrepreneurs try to maximize profit or minimize loss. Property owners try to get the highest price for the sale or rent of their resources. Workers try to maximize their utility (satisfaction) by finding jobs that offer the best combination of wages, hours, fringe benefits, and working conditions. Consumers try to obtain the products they want at the lowest possible price and apportion their expenditures to maximize their utility.

The pursuit of self-interest is not the same as selfishness. Self-interest involves maximizing some benefit, and it does not preclude helping others. A stockholder may invest to receive maximum corporate dividends and then donate a portion of them to the United Way[28] or give them to grandchildren. A worker may take a second job to help pay college tuition for her or his children. An entrepreneur may make a fortune and donate much of it to a charitable foundation.

Competition. The market system depends on competition among economic units. The basis of this competition is freedom of choice exercised in pursuit of a monetary return. Very broadly defined, competition requires: (1) independently acting sellers and buyers operating in a particular product or resource market; (2) freedom of sellers and buyers to enter or leave markets, on the basis of their economic self-interest.

Competition diffuses economic power within the businesses and households that make up the economy. When there are independently acting sellers and buyers in a market, no one buyer or seller is able to dictate the price of the product.

Consider the supply side of the product market. When a product becomes scarce, its price rises. Similarly, if a single producer can somehow restrict the total output of a product, it can raise the product's price. By controlling market supply, a firm can "rig the market" to its own advantage. But that is not possible in markets where suppliers compete. A firm that raises its price will lose part or all of its business to competitors.

The same reasoning applies to the demand side of the market. Because there are multiple buyers, single buyers cannot manipulate the market to their own advantage by refusing to pay the market price.

Competition also implies that producers can enter or leave an industry; there are no insurmountable barriers to an industry's expanding or contracting. This freedom of an industry to expand or contract provides the economy with the flexibility needed to remain efficient over time. Freedom of entry and exit enables the economy to adjust to changes in consumer tastes, technology, and resource availability.

The diffusion of economic power inherent in competition limits the potential abuse of that power. A producer that charges more than the competitive market price will lose sales to other producers. An employer who pays less than the competitive market wage rate will lose workers to other employers. A firm that fails to exploit new technology will lose profits to firms that do. Competition is the basic regulatory force in the market system.

Markets and Prices. Markets and prices are key characteristics of the market system. They give the system its ability to coordinate millions of daily economic decisions. A *market* is a mechanism that brings buyers (demanders) and sellers (suppliers) into contact. A market system is necessary to convey the decisions made by buyers and sellers of products and resources. The decisions made on each side of the market determine a set of product and resource prices that guide resource owners, entrepreneurs, and consumers as they make and revise their free choices and pursue their self-interest.

Just as competition is the regulatory mechanism of the market system, the market system itself is the organizing mechanism. It serves as an elaborate communication network through which innumerable individual free choices are recorded, summarized, and balanced. Those who respond to market signals and obey market dictates are rewarded with greater profit and

[28] ***The United Way of America***, based in Alexandria, Virginia, USA is a non-profit organization that works with more than 1,200 local United Way offices throughout the country in a coalition of charitable organizations to pool efforts in fundraising and support.

income; those who do not respond to these signals and choose to ignore market dictates are penalized. Through this mechanism society decides what the economy should produce, how production can be organized efficiently, and how the fruits of production are to be distributed among the various units that make up the economy.

COMMAND ECONOMY

In a pure command economy, the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold are all planned by the government. Consistent with the collectivist ideology, the objective of a command economy is for government to allocate resources for "the good of society". In addition, in a pure command economy, all businesses are state owned, the rationale being that the government can then direct them to make investments that are in the best interests of the nation as a whole, rather than in the interests of private individuals. Historically, command economies were found in communist countries where collectivist goals were given priority over individual goals. Since the demise of communism in the late 1980s, the number of command economies has fallen dramatically. Some elements of a command economy were also evident in a number of democratic nations led by socialist-inclined governments. France and India both experimented with extensive government planning and state ownership, although government planning has fallen into disfavor in both countries.

While the objective of a command economy is to mobilize economic resources for the public good, the opposite seems to have occurred. In a command economy, state-owned enterprises have little incentive to control costs and be efficient, because they cannot go out of business. Also, the abolition of private ownership means there is no incentive for individuals to look for better ways to serve consumer needs; hence, dynamism and innovation are absent from command economies. Instead of growing and becoming more prosperous, such economies tend to be characterized by stagnation.

MIXED ECONOMY

Between market economies and command economies can be found mixed economies. In a mixed economy, certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning. India, for example, has a mixed economy. Mixed economies were once very common throughout much of the world, although they are becoming much less so. Not long ago, Great Britain, France, and Sweden were mixed economies, but extensive privatization has reduced state ownership of businesses in all three countries. A similar trend can be observed in India and in many other countries where there was once a large state sector, such as Brazil and Italy.

In mixed economies, governments also tend to take into state ownership troubled firms whose continued operation is thought to be vital to national interests. The French automobile company Renault[29] was state owned until recently. The government took over the company when it ran into serious financial problems. The French government reasoned that the social costs of the unemployment that might result if Renault collapsed were unacceptable, so it nationalized the company to save it from bankruptcy. Renault's competitors weren't thrilled by this move, since they had to compete with a company whose costs were subsidized by the state.

[29] ***Renault S.A.*** is a French multinational vehicle manufacturer established in 1899. The company produces a range of cars and vans, and in the past, trucks, tractors, tanks, buses/coaches and autorail vehicles. In 2011, Renault was the third biggest European automaker by production behind Volkswagen Group and PSA and the ninth biggest automaker by production in the world.

Text Summary

- There are three broad types of economic systems: a market economy, a command economy, and a mixed economy.
- The market system rests on the private ownership of property and on freedom of enterprise and freedom of choice; the market system permits economic entities – businesses, resource suppliers, and consumers – to pursue and further their self-interest; it prevents any single economic entity from dictating the prices of products or resources.
- The coordinating mechanism of the market system is a system of markets and prices.
- In a command economy, prices are set by central planners, productive assets are owned by the state, and private ownership is forbidden.
- A mixed economy has elements of both a market economy and a command economy.

3.3. Language Practice:

3.3.1. Multiple Choice:

1. In a market system .....

a) the goods and services that a country produces, the quantity in which they are produced, and the prices at which they are sold are all planned by the government;

b) private individuals and firms, not the government, own most of the property resources (land and capital);

c) certain sectors of the economy are left to private ownership and free market mechanisms while other sectors have significant state ownership and government planning.

2. ..... ensures that entrepreneurs and private businesses are free to obtain and use economic resources to produce their choice of goods and services and to sell them in their chosen markets.

a) Freedom of enterprise;

b) Freedom of choice;

c) Competition.

3. In the market system, ... is the motivating force of all the various economic units as they express their free choices.

a) profit;

b) self-interest;

c) selfishness.

4. This right of ....., coupled with the freedom to negotiate binding legal contracts, enables individuals and businesses to obtain, use, and dispose of property resources as they see fit.

a) free choice;

b) self interest;

c) private property.

5. The objective of a command economy is for ..... to allocate resources for "the good of society".

a) entrepreneurs;

b) market;

c) government.

6. Competition requires .....

a) freedom of sellers and buyers to enter or leave markets, on the basis of their economic self-interest;

b) to take into state ownership troubled firms;
c) to make investments that are in the best interests of the nation as a whole.
7. ..... are key characteristics of the market system.
a) Economic decisions;
b) Markets and prices;
c) State-owned enterprises.

3.3.2. Key Terms – Matching:

1.	Command system	a)	– the right of private persons and firms to obtain, own, control, employ, dispose of, and bequeath land, capital, and other property;
2.	Competition	b)	– that which each firm, property owner, worker, and consumer believes is best for itself and seeks to obtain;
3.	Market economy	c)	– the freedom of firms to obtain economic resources, to use those resources to produce products of the firm's own choosing, and to sell their products in the markets of their choice;
4.	Economic system	d)	– the presence in the market of independent buyers and sellers competing with one another and the freedom of buyers and sellers to enter and leave the market;
5.	Private property	e)	– an economy in which only the private decisions of consumers, resource suppliers, and firms determine how resources are allocated;
6.	Self interest	f)	– a method of organizing an economy in which property resources are publicly owned and government uses central economic planning to direct and coordinate economic activities;
7.	Freedom of enterprise	g)	– a particular set of institutional arrangements and a coordinating mechanism for solving the economizing problem.

3.3.3. Please explain the meaning of the following words and word combinations in English:

Economic system, market, command economy, mixed economy, market economy, self interest, private property, competition, freedom of enterprise, freedom of choice, private ownership, price, property rights, be state owned, dividend, enterprise.

3.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~market economy~~ competitors demand market entrepreneurs inefficient prices rise ownership privately-owned

MARKET ECONOMY

In a pure (1) *market economy*, all productive activities are (2) _____, as opposed to being owned by the state. The goods and services that a country produces, and the quantity in which they are produced, are not planned by anyone. Rather, production is determined by the interaction of supply and (3) _____ and signaled to producers through the price system. If demand for a product exceeds supply, prices will (4) _____, signaling producers to produce more. If supply exceeds demand, prices will fall signaling producers to produce less. In this system consumers are sovereign.

For a market to work in this manner there must be no restrictions on supply. A restriction on supply occurs when a (5) _____ is monopolized by a single firm. In such circumstances a monopolist might restrict output and let prices rise. This allows the monopolist to take a greater profit margin on each unit it sells. Although this is good for the monopolist, it is bad for the consumer, who has to pay higher (6) _____. It also is probably bad for the welfare of society. Since a monopolist has no (7) _____, it has no incentive to search for ways to lower production costs. Rather, it can simply pass on cost increases to consumers in the form of higher prices. The net result is that the monopolist is likely to become increasingly (8) _____, producing high-priced, low-quality goods, while society suffers as a consequence.

Given the dangers inherent in monopoly, the role of government in a market economy is to encourage vigorous competition between private producers. Governments do this by outlawing monopolies and restrictive business practices designed to monopolize a market. Private (9) _____ also encourages vigorous competition and economic efficiency. Private ownership ensures that (10) _____ have a right to the profits generated by their own efforts. This gives entrepreneurs an incentive to search for better ways of serving consumer needs.

3.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the adjective ***economic****: 1) monetary, financial, fiscal, pecuniary, budgetary, commercial, industrial, mercantile; 2) profitable, viable, productive, remunerative.*

3.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Економічна система, ринкова економіка, приватна власність, права власності, свобода підприємництва, свобода вибору, власна вигода, конкуренція, ринок, ціна, адміністративно-командна система, змішана економіка, попит, пропозиція, розпоряджатися власністю, підприємство, приватна особа, ресурси/запаси, виробництво, обмін, підприємець, прибуток, економічна/господарська одиниця, конкуренти, суспільне благо.

3.4.2. Please translate the following sentences into Ukrainian:

1. An economic system is loosely defined as country's plan for its services, goods produced, and the exact way in which its economic plan is carried out.
2. The study of economic systems includes traditional, market, command, and mixed economies. Tradition economies rely on farming and very simple barter trading. Examples include Neolithic[30] farming villages and the first river civilizations[31]. A market economy is controlled by the forces of supply and demand. Market economies, such as those run by the Western European democracies have allowed these countries to grow large and strong. A command economy is run by a strong centralized government and tends to focus on industrial goods. The Soviet Union and Communist China in the 20th century operated under this economic system. A mixed economy is a combination of market and command. The United States and many nations in the European Union operate under this system today.

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[30] ***The Neolithic Era***, or ***Period***, or ***New Stone age***, was a period in the development of human technology, beginning about 10,200 BC in some parts of the Middle East, and later in other parts of the world and ending between 4,500 and 2,000 BC.

[31] ***A river civilization*** or ***river culture*** is an agricultural nation or civilization at a river**.** River civilizations are civilizations based around rivers. Some common examples are Ancient Egypt (Nile), the fertile crescent (Tigris/Euphrates), Ancient China (Yellow River) and Ancient India (Indus).

3. Communism and socialism are the most well-known examples of a command economy, while capitalism is the most well-known example of a market economy. Most economies of the world are a mixture of these economies. A type of traditional economy is a hunter/gatherer one, which rarely exists today.
4. A command economy is a communist system in which a country's government determines prices of goods and services and factors of production. The government is in control of all of the country's economic decisions.
5. A market economy is an economy in which decisions regarding investment, production and distribution are based on supply and demand, and the prices of goods and services are determined in a free price system. This is contrasted with a planned economy, where investment and production decisions are embodied in a plan of production. Market economies can range from hypothetical laissez-faire[32] and free market variants, to regulated markets and interventionist[33] variants. Most existing market economies include a degree of economic planning or state-directed activity, and are thus classified as mixed economies.
6. The market system – known also as the private-enterprise system or capitalism – is characterized by the private ownership of resources, including capital, and the freedom of individuals to engage in economic activities of their choice to advance their material well-being. Self-interest is the driving force of such an economy, and competition functions as a regulatory or control mechanism.
7. Private property is the employment, control, ownership, ability to dispose of, and bequeath land, capital, and other forms of property by legal persons and privately owned firms. Private property is distinguishable from public property and collective property, which refers to assets owned by a state, community, or government rather than by individuals or a business entity.
8. Competition, the primary mechanism of control in the market economy, promotes a unity of self-interest and social interests; as though directed by an invisible hand, competition harnesses the self-interest motives of businesses and resource suppliers to further the social interest.
9. A mixed economy is an economic system which is a combination of market and command economic systems where market forces control most consumer goods, but government directs industry in need areas.
10. Few nations operate economies that are purely free markets or centrally planned systems, where the government plans and directs all economic activity. Most countries operate mixed economies that blend features of capitalism and socialism. Mixed economies are diverse, with the proportions of capitalist and socialist features differing across nations; but they all retain certain similarities, including a social safety net, a system of government intervention and a mix of private and public ownership of industry.

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[32] ***Laissez-faire*** (or sometimes ***laisser-faire***) is an economic environment in which transactions between private parties are free from government restrictions, tariffs, and subsidies, with only enough regulations to protect property rights. The phrase laissez-faire is French and literally means *let (them) do*, but it broadly implies *let it be*, *let them do as they will*, or *leave it alone*. Scholars generally believe a laissez-faire state or a completely free market has never existed.

[33] ***Economic interventionism*** (sometimes ***state interventionism***) is an economic position favoring interventions in the market in the public interest on behalf of the government. An economic intervention is any action taken by a government or an international institution in a market economy or market-based mixed economy in an effort to impact the economy beyond the basic regulation of fraud and enforcement of contracts and provision of public goods. Economic intervention can be aimed at a variety of political or economic objectives, such as promoting economic growth, increasing employment, raising wages, raising or reducing prices, promoting equality, managing the money supply and interest rates, increasing profits, or addressing market failures.

3.4.3. Please translate the following sentences into English:

1. Економічна система – це сукупність усіх видів економічної діяльності людей у процесі їхньої взаємодії під час виробництва, розподілу, обміну та споживання матеріальних благ, а також регулювання такої діяльності відповідно до мети суспільства.
2. На сучасному етапі одним із найпоширеніших критеріїв класифікації економічних систем є спосіб організації господарської діяльності. Згідно з цим критерієм економічні системи класифікуються за такими ознаками: форма власності на фактори виробництва, спосіб координації та управління економічною діяльністю. За цим підходом розрізняють традиційну, планову і ринкову економічні системи.
3. В економічно слаборозвинених країнах існує традиційна економічна система. Цей тип економічної системи базується на відсталих технологіях, широкому використанні ручної праці, багатоукладності економіки. Багатоукладність (multistructural character/nature) економіки означає існування при цій економічній системі різних форм господарювання.
4. Система вільного або чистого ринку – це така економічна система, в якій держава дуже мало втручається у регулювання економічних процесів, а система ринкового регулювання досягає найбільшого розвитку.
5. Для системи вільного ринку характерні: а) приватна власність на економічні ресурси – капітал, землю, природні ресурси; б) вільне підприємництво; в) особистий інтерес; г) ринковий механізм, який є основним засобом регулювання; ґ) вільна конкуренція; д) мінімальний державний вплив на економіку.
6. Хоча ринкова економіка і багатозначне поняття, головна її ознака – це принцип свободи господарської діяльності.
7. Основний економічний аргумент на користь ринкової системи полягає в тому, що вона сприяє ефективному розподілу ресурсів. Згідно з цією тезою, конкурентна ринкова система направляє ресурси у виробництво тих товарів і послуг, які суспільство найбільше потребує. Вона диктує застосування найбільш ефективних методів комбінування ресурсів для виробництва і сприяє розробці та впровадженню нових, більш ефективних технологій виробництва.
8. Характерними рисами адміністративно-командної системи є суспільна (а в реальності – державна) власність практично на всі економічні ресурси, монополізація і бюрократизація економіки у своєрідних формах, централізоване економічне планування як основа господарського механізму.
9. Уся економічна діяльність у командно-адміністративній економіці регулюється державою.
10. Змішана економіка – це така економічна система, в якій регулювання економічних процесів здійснюється і ринковим механізмом, і державою, в якій існують різні форми власності і господарювання. Практика багатьох розвинутих країн показує, що поєднання ринкового механізму і державного регулювання дає можливість зробити економічну систему досить ефективною.

3.4.4. Please make an English summary of the following text:

ТИПИ ЕКОНОМІЧНИХ СИСТЕМ

Розрізняють такі типи економічних систем: *традиційну, ринкову, командну, змішану.*

1) *Традиційна економічна система* властива слаборозвинутим країнам. Вона характеризується багатоукладністю (multistructural character/multistructural nature/ multiplicity) економіки, збереженням натурально-общинних форм господарювання, відсталою технікою, широким застосуванням ручної праці, нерозвиненою інфраструктурою, найпростішими формами організації праці і виробництва.

2) *Командна економічна система* базується на пануванні державної власності. Панує централізоване планування і розподіл економічних ресурсів. Вона не визнає конкуренції і вільного ціноутворення, їй притаманні висока затратність виробництва, несприйнятливість до науково-технічного прогресу, зрівняльний розподіл результатів виробництва, відсутність матеріальних стимулів до ефективної праці, хронічний дефіцит тощо. Командна економічна система була характерною для псевдосоціалістичних країн.

3) *Ринкова економічна система* характеризується пануванням приватної власності на інвестиційні ресурси, передбачає функціонування великої кількості діючих виробників і покупців товарів, свободу вибору підприємницької діяльності, особисту свободу всіх економічних суб'єктів, однаковий доступ їх до ресурсів, науково-технічних досягнень, інформації. Усі макро- та мікроекономічні процеси регулюються ринковим механізмом на основі вільної конкуренції. Втручання держави в економічні процеси виважене.

4) *Змішана економічна система* характеризується високим рівнем розвитку продуктивних сил і наявністю розвинутої інфраструктури суспільства; різноманітністю форм власності й рівноправним функціонуванням різних господарюючих суб'єктів; поєднанням ринкового механізму з державними методами регулюванням економіки, які органічно переплітаються і доповнюють один одного; орієнтацією на посилення соціальної спрямованості розвитку економіки.

3.5. Reading Practice:

3.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: RELIANCE ON TECHNOLOGY AND CAPITAL GOODS IN THE MARKET SYSTEM

Another characteristic of the market system is the extensive use of capital goods. In the market system, competition, freedom of choice, self-interest, and personal reward provide the opportunity and motivation for technological advance. The monetary rewards for new products or production techniques accrue directly to the innovator. The market system therefore encourages extensive use and rapid development of complex capital goods: tools, machinery, large-scale factories, and facilities for storage, communication, transportation, and marketing.

Advanced technology and capital goods are important because the most direct methods of production are often the least efficient. The only way to avoid that inefficiency is to rely on roundabout production[34]. It would be ridiculous for a farmer to go at production with bare hands. There are huge benefits – in the form of more efficient production and, therefore, more abundant output – to be derived from creating and using such tools of production (capital equipment) as plows, tractors, storage bins, and so on.

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[34] ***Roundaboutness***, or ***roundabout methods of production***, is the process whereby capital goods are produced first and then, with the help of the capital goods, the desired consumer goods are produced.

Text 2: SPECIALIZATION IN THE MARKET ECONOMIES

The extent to which market economies rely on specialization is extraordinary. The majority of consumers produce virtually none of the goods and services they consume, and they consume little or nothing of what they produce. The worker who devotes 8 hours a day to installing windows in Fords may own a Honda[35]. Many farmers sell their milk to the local dairy and then buy margarine at the local grocery store. Society learned long ago that self-sufficiency breeds inefficiency. The jack-of-all-trades[36] may be a very colorful individual but is certainly not an efficient producer.

Human specialization – called the *division of labor* – contributes to a society's output in several ways:

Specialization makes use of differences in ability. Specialization enables individuals to take advantage of existing differences in their abilities and skills. If caveman A is strong and swift and good at tracking animals, and caveman B is weak and slow but patient, their distribution of talents can be most efficiently used if A hunts and B fishes.

Specialization fosters learning by doing. Even if the abilities of A and B are identical, specialization may still be advantageous. By devoting all your time to a single task, you are more likely to develop the skills it requires and to devise improved techniques than you would by working at a number of different tasks. You learn to be a good hunter by going hunting every day.

Specialization saves time. By devoting all your time to a single task, you avoid the loss of time incurred in shitting from one job to another.

For all these reasons, specialization increases the total output society derives from limited resources.

Text 3: USE OF MONEY AND THE MARKET SYSTEM

A rather obvious characteristic of the market system is the extensive use of money. Money performs several functions, but first and foremost it is a medium of exchange. It makes trade easier.

A convenient means of exchanging goods is required for specialization. Exchange can, and sometimes does, occur through *barter* – swapping goods for goods, say, wheat for oranges. But barter poses serious problems for the economy because it requires a coincidence of wants between the buyer and the seller. But if such a coincidence of wants is missing, trade is stymied.

Instead, people use money, which is simply a convenient social invention to facilitate exchanges of goods and services. Historically, people have used cattle, cigarettes, shells, stones, pieces of metal, and many other commodities, with varying degrees of success, as a medium of exchange. But to serve as money, an item needs to pass only one test: It must be generally acceptable to sellers in exchange for their goods and services.

Money is socially defined; whatever society accepts as a medium of exchange is money. Most economies use pieces of paper as money. On a global basis the fact that different nations have different currencies complicates specialization and exchange. However, markets

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[35] ***Ford Motor Company*** (also known as simply ***Ford***) is an American multinational automaker headquartered in Dearborn, Michigan, a suburb of Detroit. It was founded by Henry Ford and incorporated on June 16, 1903. The company sells automobiles and commercial vehicles under the Ford brand and luxury cars under the Lincoln brand. ***Honda Motor Company, Limited*** is a Japanese public multinational corporation primarily known as a manufacturer of automobiles and motorcycles.

[36] **"*Jack of all trades, master of none*"** is a figure of speech used in reference to a person that is competent with many skills but is not necessarily outstanding in any particular one.

in which currencies are bought and sold make it possible for U.S. residents, Japanese, Germans, Britons, and Mexicans, through the swapping of dollars, yen, euros, pounds, and pesos, one for another, to exchange goods and services.

***Text 4**: THE MARKET SYSTEM AT WORK*

We have noted that a market system is characterized by competition, freedom of enterprise, and choice. Consumers are free to buy what they choose; entrepreneurs and firms are free to produce and sell what they choose; and resource suppliers are free to make their property and human resources available in whatever use or occupation they choose. We may wonder why such an economy does not collapse in chaos.

In reality, the millions of decisions made by households and businesses are highly consistent with one another. Firms *do* produce the goods and services that consumers want, and households *do* provide the kinds of labor that businesses want.

To understand the operation of the market system, you must first recognize that every economy must respond to Four Fundamental Questions:

- What goods and services will be produced?
- How will the goods and services be produced?
- Who will get the goods and services?
- How will the system accommodate change?

Let's examine how the market system answers each of these questions and thus addresses the economizing problem.

WHAT WILL BE PRODUCED?

With product and resource prices in place, established through competition in both the product and the resource markets, how will a market system decide on the specific types and quantities of goods to be produced? Because businesses seek profits and avoid losses, the goods and services produced at a continuing profit will be produced and those produced at a continuing loss will not. Profits and losses depend on the difference between the total revenue a firm receives from selling its product and the total cost of producing the product:

$$\textit{Economic profit} = \textit{total revenue} - \textit{total cost}$$

Total revenue (TR) is found by multiplying the product price by the quantity of the product sold. Total cost (TC) is found by multiplying the price of each resource used by the amount employed and summing the results.

In the market system, consumers are sovereign (in command). Consumer sovereignty works through consumer demand, and consumer demand is crucial in determining the types and quantities of goods produced. Consumers spend the income they earn from the sale of their resources on the goods they are most willing and able to buy. Through these "dollar votes" consumers register their wants via the demand side of the product market. If the dollar votes for a certain product are great enough to provide a normal profit, businesses will produce that product. If there is an increase in consumer demand, so that enough dollar votes are cast to provide an economic profit, the industry will expand, as will the output of the product.

The dollar votes of consumers determine not only which industries will continue to exist but also which products will survive or fail.

In short, firms are not really free to produce whatever they wish. Consumers' buying decisions make the production of some products profitable and the production of other products unprofitable, thus restricting the choice of businesses in deciding what to produce. Businesses must match their production choices with consumer choices or else face losses and eventual bankruptcy.

The same holds true for resource suppliers. The demand for resources is a derived demand – derived, that is from the demand for the goods and services that the resources help produce. There is a demand for autoworkers because there is a demand for automobiles. There is no demand for buggy-whip braiders because there is no demand for buggy whips (a buggy whip is a horsewhip once used by a driver of a buggy).

HOW WILL THE GOODS AND SERVICES BE PRODUCED?

The market system steers resources to the industries whose products consumers want – simply because those industries survive, are profitable, and pay for resources. Within each industry, the firms that survive to do the producing also are the ones that are profitable. Because competition weeds out high-cost producers, continued profitability requires that firms produce their output at minimum cost. Achieving least-cost production necessitates, for example, that firms locate their production facilities optimally, considering such factors as resource prices, resource productivity, and transportation costs.

Least-cost production also means that firms must employ the most economically efficient technique of production in producing their output. A technique that requires just a few inputs of resources to produce a specific output may be highly inefficient economically if those resources are valued very highly in the market. Economic efficiency means obtaining a particular output of product with the least input of scarce resources.

A change in either technology or resource prices, however, may cause a firm to shift from the technology it is using.

WHO WILL GET THE GOODS AND SERVICES?

The market system enters the picture in two ways when solving the problem of distributing total output. Generally, any product will be distributed to consumers on the basis of their ability and willingness to pay its existing market price. If the price of some product, say, a pocket calculator, is $15, then buyers who are able and willing to pay that price will get a pocket calculator; those who are not, will not. This is the rationing function of equilibrium prices.

The ability to pay the equilibrium prices for pocket calculators and other products depends on the amount of income that consumers have, along with their preferences for various goods.

HOW WILL THE SYSTEM ACCOMMODATE CHANGE?

Market systems are dynamic: Consumer preferences, technology, and supplies of resources all change. This means that the particular allocation of resources that is now the most efficient for a specific pattern of consumer tastes, range of technological alternatives, and amount of available resources will become obsolete and inefficient as consumer preferences change, new techniques of production are discovered, and resource supplies change over time. Can the market economy adjust to such changes and still use resources efficiently?

Suppose consumer tastes change. For instance, assume that consumers decide they want more fruit juice and less milk than the economy currently provides. Those changes in consumer tastes will be communicated to producers through an increase in demand for fruit and a decline in demand for milk. Fruit prices will rise and milk prices will fall. Now, assuming that firms in both industries were enjoying precisely normal profits before these changes in consumer demand set in, the higher fruit prices will mean economic profit for the fruit industry and the lower milk prices will mean losses for the milk industry. Self-interest will induce new competitors to enter the prosperous fruit industry and will in time force firms to leave the depressed milk industry.

The economic profit that initially follows the increase in demand for fruit will not only induce that industry to expand but will also give it the revenue needed to obtain the resources essential to its growth. Higher fruit prices will permit fruit producers to pay higher prices for resources, thereby increasing resource demand and drawing resources from less urgent alternative employment. The reverse occurs in the milk industry, where resource demand declines and fewer workers and other resources are employed. These adjustments in the economy are appropriate responses to the changes in consumer tastes. This is consumer sovereignty at work.

The market system is a gigantic communications system. Through changes in prices it communicates changes in such basic matters as consumer tastes and elicits appropriate responses from businesses and resource suppliers. By affecting product prices and profits, changes in consumer tastes direct the expansion of some industries and the contraction of others. Those adjustments are conveyed to the resource market as expanding industries demand more resources and contracting industries demand fewer; the resulting changes in resource prices guide resources from the contracting industries to the expanding industries.

This directing or guiding function of prices is a core element of the market system.

The market system provides a strong incentive for technological advance and enables better products and processes to brush aside inferior ones. An entrepreneur or firm that introduces a popular new product will gain revenue and economic profit. Technological advance also includes new and improved methods that reduce production or distribution costs.

Most technological advances require additional capital goods. The market system provides the resources necessary to produce those goods by adjusting the product market and the resource market through increased dollar votes for capital goods. In other words, the market system acknowledges dollar voting for capital goods as well as for consumer goods.

3.6. Internet Practice:

3.6.1. Web Activities:

- ***Diamonds – Interested in Buying One?*** Go to the Internet auction site *eBay* at **www.ebay.com** and select the category Jewelry and Watches and then Loose Gemstones. How many loose diamonds are for sale at the moment? Note the wide array of sizes and prices of the diamonds. In what sense is there competition among the sellers in these markets? How does that competition influence prices? In what sense is there competition among buyers? How does that competition influence prices?
- ***Barter and the IRS***[37]. Bartering occurs when goods or services are exchanged without the exchange of money. For some, barter's popularity is that it enables them to avoid paying taxes to the government. How might such avoidance occur? Does the Internal Revenue Service (IRS), **www.irs.ustreas.gov/**, treat barter as taxable or nontaxable income? (Type "barter" in the site's search tool.) How is the value of a barter transaction determined? What are some IRS barter examples? What does the IRS require of the members of so-called barter exchanges?

3.7. Critical Thinking & Discussion Questions:

- Free market economies stimulate greater economic growth, whereas state-directed economies stifle growth. Discuss.

[37] ***The Internal Revenue Service*** (***IRS***) is the revenue service of the United States federal government**.** The agency is a bureau of the Department of the Treasury, and is under the immediate direction of the Commissioner of Internal Revenue. The IRS is responsible for **c**ollecting taxes and the interpretation and enforcement of the Internal Revenue Code.

- Evaluate and explain the following statements:
  (a) The market system is a profit-and-loss system.
  (b) Competition is the indispensable disciplinarian of the market economy.
- Explain each of the following statements:
  (a) The market system not only accepts self-interest as a fact of human existence; it relies on self-interest to achieve society's economic goals.
  (b) Entrepreneurs and businesses are at the helm of the economy, but their commanders are consumers.
- Why is private property, and the protection of property rights, so critical to the success of the market system?

Unit 4 *Individual Markets: Supply and Demand*

"Supply always comes on the heels of demand"
Robert Collier[38]

4.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

amount	*good(s):*	*quantity:*
auctioneer	complementary ~	~ demanded
axis	substitute ~	~ supplied
Board of Trade	graph	real estate
bond(s)	household	reduction
commodity(ies)	incentive	relationship
consumer	labor market	revenue
cost(s)	*law:*	sale(s)
curve:	~ of demand	schedule
demand ~	~ of supply	shift
supply ~	*market:*	shortage
demand	~ demand	slope
demander	~ equilibrium	Stock Exchange
determinant	~ supply	stock(s)
equilibrium price	market-clearing price	supplier
excess/surplus	output	supply

Verbs:

to affect	to drive up/increase/rise	to measure
to be backed by	to exceed	to purchase
to bargain	to fall/lower	

[38] ***Robert Collier*** (April 19, 1885 in St. Louis, Missouri - 1950) was an American author of self-help, and New Thought metaphysical books in the 20th century. He was the nephew of Peter Fenelon Collier, founder of Collier's Weekly. He was involved in writing, editing, and research for most of his life. His book The Secret of the Ages (1926) sold over 300,000 copies during his life. Collier wrote about the practical psychology of abundance, desire, faith, visualization, confident action, and becoming your best.

***Adjectives & Adverbs*:**

competing	hypothetical	single
consistent	(im)personal	specified
constant	inverse	total
direct	particular	upward (downward)
equal	prevailing	various
graphically	profitable	willing

4.2. Read and translate the text into Ukrainian:

INDIVIDUAL MARKETS: DEMAND AND SUPPLY

MARKETS

A *market* is an institution or mechanism that brings together buyers ("demanders") and sellers ("suppliers") of particular goods, services, or resources. Markets exist in many forms. The corner gas station, e-commerce sites, the local music store, a farmer's roadside stand – all are familiar markets. The New York Stock Exchange[39] and the Chicago Board of Trade[40] are markets where buyers and sellers of stocks and bonds and farm commodities from all over the world communicate with one another to buy and sell. Auctioneers bring together potential buyers and sellers of art, livestock, used farm equipment, and, sometimes, real estate. In labor markets, the quarterback and his agent bargain with the owner of an NFL[41] team.

All situations that link potential buyers with potential sellers are markets. Some markets are local, while others are national or international. Some are highly personal, involving face-to-face contact between demander and supplier; others are impersonal, with buyer and seller never seeing or knowing each other.

DEMAND

Demand is a schedule or a curve that shows the various amounts of a product that consumers are willing and able to purchase at each of a series of possible prices during a specified period of time.[42] Demand shows the quantities of a product that will be purchased at various possible prices, other things equal. Demand can easily be shown in table form. Table 4.1 is a hypothetical demand schedule for a single consumer purchasing bushels of corn.

Table 4.1
An Individual Buyer's Demand for Corn

Price per Bushel	Quantity Demanded per Week
$5	10
4	20
3	35
2	55
1	80

Table 4.1 reveals the relationship between the various prices of corn and the quantity of corn a particular consumer would be willing and able to purchase at each of these prices. We say "willing and able" because willingness alone is not effective in the market. You may be willing to buy a digital camera, but if that willingness is not backed by the necessary dollars, it will not be effective and, therefore, will not be reflected in the market.

[39] ***The New York Stock Exchange (NYSE)***, sometimes known as the *Big Board*, is the world's largest stock exchange by market capitalization of its listed companies at US$16.613 trillion as of May 2013.

[40] ***The Chicago Board of Trade (CBOT)***, established in 1848, is the world's oldest futures and options exchange.

[41] ***The National Football League (NFL)*** is the highest level of professional American football in the United States, and is considered the top professional American football league in the world.

[42] This definition obviously is worded to apply to product markets. To adjust it to apply to resource markets, substitute the word *resource* for *product* and the word *business* for *consumers*.

In Table 4.1, if the price of corn were \$5 per bushel, our consumer would be willing and able to buy 10 bushels per week; if it were \$4, the consumer would be willing and able to buy 20 bushels per week; and so forth.

Table 4.1 does not tell us which of the five possible prices will actually exist in the corn market. That depends on demand and supply. Demand is simply a statement of a buyer's plans, or intentions, with respect to the purchase of a product.

To be meaningful, the quantities demanded at each price must relate to a specific period – a day, a week, a month. Saying "A consumer will buy 10 bushels of corn at \$5 per bushel" is meaningless. Saying "A consumer will buy 10 bushels of corn per week at \$5 per bushel" is meaningful. Unless a specific time period is stated, we do not know whether the demand for a product is large or small.

Law of Demand

A fundamental characteristic of demand is this: All else equal, as price falls, the quantity demanded rises, and as price rises, the quantity demanded falls. In short, there is a negative or inverse relationship between price and quantity demanded. Economists call this inverse relationship the *law of demand*.

The other-things-equal assumption is critical here. Many factors other than the price of the product being considered affect the amount purchased. The quantity of Nikes[43] purchased will depend not only on the price of Nikes but also on the prices of such substitutes as Reeboks, Adidas, and New Balances[44]. The law of demand in this case says that fewer Nikes will be purchased if the price of Nikes rises and if the prices of Reeboks, Adidas, and New Balances all remain constant. In short, if the relative price of Nikes rises, fewer Nikes will be bought. However, if the price of Nikes and the prices of all other competing shoes increase by some amount – say, \$5 – consumers might buy more, less, or the same amount of Nikes.

The Demand Curve

The inverse relationship between price and quantity demanded for any product can be represented on a simple graph, in which, by convention, we measure quantity demanded on the horizontal axis and price on the vertical axis. In Figure 4.1 we have plotted the five price-quantity data points listed in Table 4.1 and connected the points with a smooth curve, labeled *D*. Such a curve is called a *demand curve*. Its downward slope reflects the law of demand – people buy more of a product, service, or resource as its price falls. The relationship between price and quantity demanded is inverse.

Table 4.1 and Figure 4.1 contain exactly the same data and reflect the same relationship between price and quantity demanded. But the graph shows that relationship more simply and clearly than a table or a description in words.

Market Demand

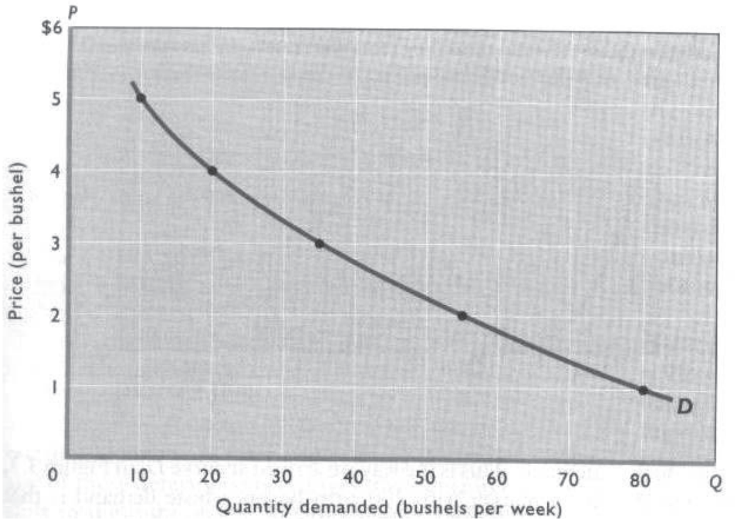
So far, we have concentrated on just one consumer. But competition requires that more than one buyer be present in each market. By adding the quantities demanded by all consumers at each of the various possible prices, we can get from individual demand to *market demand*. If there are just three buyers in the market, as represented in Table 4.2, it is relatively easy to determine the total quantity demanded at each price. Figure 4.2 shows the graphical summing procedure: At each price we add the individual quantities demanded to

[43] ***Nike**, **Inc***. is an American multinational corporation that is engaged in the design, development and worldwide marketing and selling of footwear, apparel, equipment, accessories and services.

[44] ***Reebok International Limited*** is a producer of athletic shoes**,** apparel, and accessories. ***Adidas AG*** is a German multinational corporation that designs and manufactures sports clothing and accessories. ***New Balance Athletic Shoe, Inc. (NBAS)***, best known as simply New Balance, is an American footwear manufacturer.

obtain the total quantity demanded at that price; we then plot the price and the total quantity demanded as one point on the market demand curve.

Figure 4.1.



An Individual Buyer's Demand for Corn

Table 4.2

Market Demand for Corn, Three Buyers

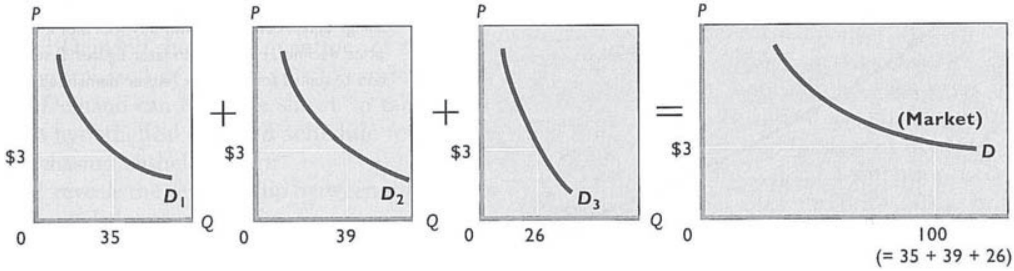
Price per Bushel	First Buyer		Second BBuyer		Third Buyer		Total Quantity Demanded per Week
$5	10	+	12	+	8	=	30
4	20	+	23	+	17	=	60
3	35	+	39	+	26	=	100
2	55	+	60	+	39	=	154
1	80	+	87	+	54	=	221

Competition, of course, ordinarily entails many more than three buyers of a product. To avoid hundreds or thousands or millions of additions, we suppose that all the buyers in a market are willing and able to buy the same amounts at each of the possible prices. Then we just multiply those amounts by the number of buyers to obtain the market demand. This is the way we arrived at curve D_1 in Figure 4.3, for a market with 200 corn buyers whose demand is that shown in Table 4.1. Table 4.3. shows the calculations.

Supply is a schedule or curve showing the amounts of a product that producers are willing and able to make available for sale at each of a series of possible prices during a specific period.[45] Table 4.4 is a hypothetical supply schedule for a single producer of corn. It shows the quantities of corn that will be supplied at various prices, other things equal.

[45] This definition is worded to apply to product markets. To adjust it to apply to resource markets, substitute *resource* for *product* and *owners* for *producers*.

Figure 4.2



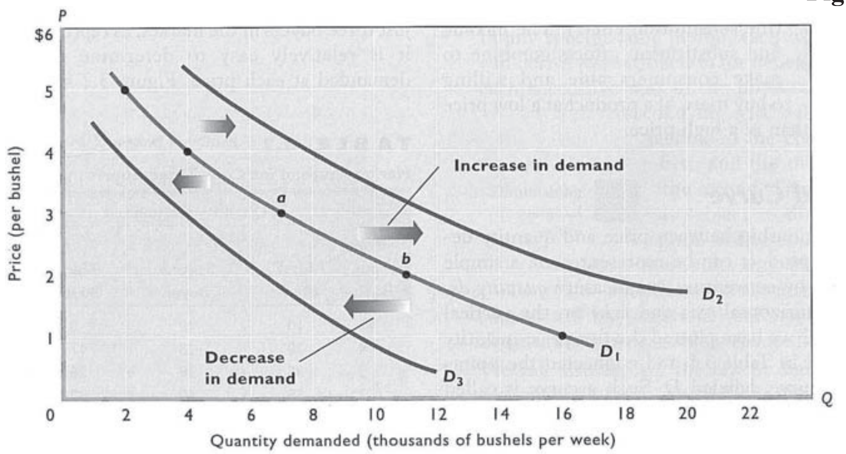
Market Demand for Corn, Three Buyers

Law of Supply

Table 4.4 shows a positive or direct relationship that prevails between price and quantity supplied. As price rises, the quantity supplied rises; as price falls, the quantity supplied falls. This relationship is called the *law of supply*. A supply schedule tells us that firms will produce and offer for sale more of their product at a high price than at a low price. This, again, is basically common sense.

Price is an obstacle from the standpoint of the consumer, who is on the paying end. The higher the price, the less the consumer will buy. But the supplier is on the receiving end of the product's price. To a supplier, price represents revenue, which serves as an incentive to produce and sell a product. The higher the price, the greater this incentive and the greater the quantity supplied.

Figure 4.3.



Changes in the Demand for Corn

SUPPLY

Consider a farmer who can shift resources among alternative products. As price moves up, as shown in Table 4.4, the farmer finds it profitable to take land out of wheat, oats, and soybean production and put it into corn. And the higher corn prices enable the farmer to cover the increased costs associated with more intensive cultivation and the use of more seed, fertilizer, and pesticides. The overall result is more corn.

Table 4.4
An Individual Producer's Supply of Corn

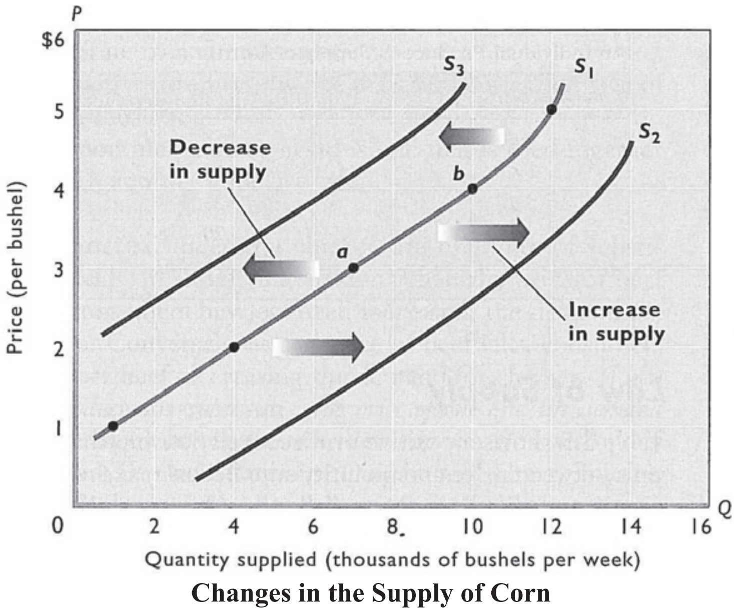
Price per Bushel	Quantity Supplied per Week
$5	60
4	50
3	35
2	20
1	5

Table 4.3
Market Demand for Corn, 200 Buyers

(1) Price per Bushel	(2) Quantity Demanded per Week, Single Buyer	(3) Number of Buyers in the Market	(4) Total Quantity Demanded per Week
$5	10	× 200	= 2,000
4	20	× 200	= 4,000
3	35	× 200	= 7,000
2	55	× 200	= 11,000
1	80	× 200	= 16,000

The Supply Curve. As with demand, it is convenient to represent supply graphically. In Figure 4.4, curve S_1 is a graph of the market supply data given in Table 4.5. Those data assume there are 200 suppliers in the market, each willing and able to supply corn according to Table 4.4. We obtain the market supply curve by horizontally adding the supply curves of the individual producers.

Figure 4.4



Changes in the Supply of Corn

SUPPLY AND DEMAND: MARKET EQUILIBRIUM

We can now bring together supply and demand to see how the buying decisions of households and the selling decisions of businesses interact to determine the price of a product and the quantity actually bought and sold. In Table 4.6, columns 1 and 2 repeat the market supply of corn (from Table 4.5.), and columns 2 and 3 repeat the market demand for corn (Table 4.3.). We assume that this is a competitive market – neither buyers nor sellers can set the price.

Surpluses

We have limited our example to only five possible prices. Of these, which will actually prevail as the market price for corn? We can find an answer through trial and error. For no particular reason, let's start with $5. We see immediately that this cannot be the prevailing market price. At the $5 price, producers are willing to produce and offer for sale 12,000 bushels of corn, but buyers are willing to buy only 2000 bushels. The $5 price encourages farmers to produce lots of corn but discourages most consumers from buying it. The result is a 10,000 bushel surplus or excess supply of corn. This surplus, shown in column 4 of Table 4.6, is the excess of quantity supplied over quantity demanded at $5. Corn farmers would find themselves with 10,000 unsold bushels of output.

Table 4.5
Market Supply of Corn, 200 Producers

(1) Price per Bushel	(2) Quantity Supplied per Week, Single Producer		(3) Number of Sellers in the Market		(4) Total Quantity Supplied per Week
$5	60	×	200	=	12,000
4	50	×	200	=	10,000
3	35	×	200	=	7,000
2	20	×	200	=	4,000
1	5	×	200	=	1,000

Table 4.6
Market Supply of and Demand for Corn

(1) Total Quantity Supplied per Week	(2) Price per Bushel	(3) Total Quantity Demanded per Week	(4) Surplus (+) or Shortage (–)*
12,000	$5	2,000	+ 10,000 ↓
10,000	4	4,000	+ 6,000 ↓
7,000	3	7,000	0
4,000	2	11,000	–7,000↑
1,000	1	16,000	–15,000↑

*Arrows indicate the effect on price

A price of $5, even if it existed temporarily in the corn market, could not persist over a period of time. The very large surplus of corn would prompt competing sellers to lower the price to encourage buyers to take the surplus off their hands.

Shortages

Let's jump now to $1 as the possible market price of corn. Observe in column 4 of Table 4.6 that at this price, quantity demanded exceeds quantity supplied by 15,000 units. The $1 price discourages farmers from devoting resources to corn production and encourages consumers to attempt to buy more than is available. The result is a 15,000 bushel shortage of, or excess demand for corn. The $1 price cannot persist as the market price. Many consumers who want to buy at this price will not get corn. They will express a willingness to pay more than $1 to get some of the available output. Competition among these buyers will drive up the price to something greater than $1.

Equilibrium Price and Quantity

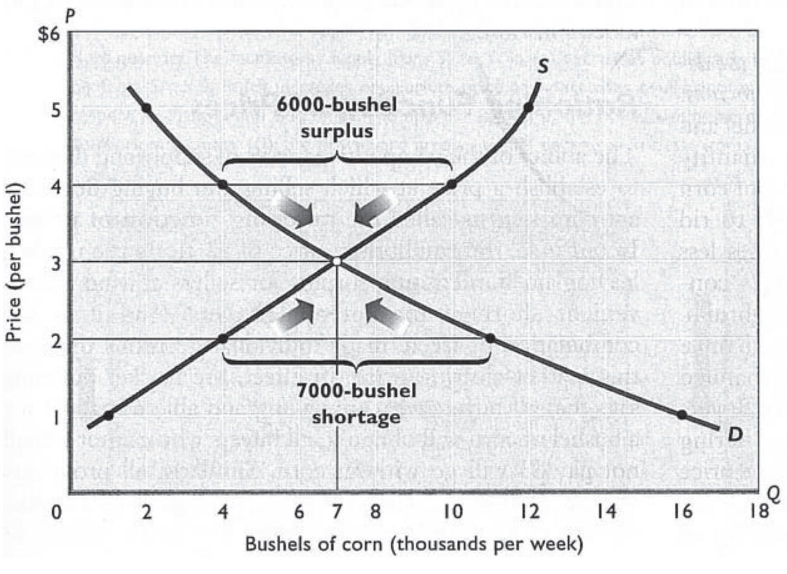
By trial and error we can eliminate every price but $3. At $3, and only at that price, the quantity of corn that farmers are willing to produce and supply is identical with the quantity consumers are willing and able to buy. There is neither a shortage nor a surplus of corn at $3.

With no shortage or surplus, there is no reason for the $3 price of corn to change. Economists call this price the *market-clearing* or *equilibrium price,* "equilibrium" meaning "in balance" or "at rest". At $3, quantity supplied and quantity demanded are in balance at the equilibrium quantity of 7000 bushels. So $3 is the only stable price of corn under the supply and demand conditions shown in Table 4.6.

The price of corn, or of any other product bought and sold in competitive markets, will be established where the supply decisions of producers and the demand decisions of buyers are mutually consistent. Such decisions are consistent only at the equilibrium price (here, $3) and equilibrium quantity (here, 7000 bushels). At any higher price, suppliers want to sell more than consumers want to buy and a surplus results; at any lower price, consumers want to buy more than producers make available for sale and a shortage results. Such discrepancies between the supply and demand intentions of sellers and buyers then prompt price changes that bring the two sets of intentions into accord.

A graphical analysis of supply and demand should yield the same conclusions. Figure 4.5. shows the market supply and demand curves for corn on the same graph. (The horizontal axis now measures both quantity demanded and quantity supplied.)

Figure 4.5



Equilibrium Price and Quantity

Graphically, the intersection of the supply curve and the demand curve for a product indicates the *market equilibrium*. Here, equilibrium price and quantity are $3 per bushel and 7000 bushels. At any above-equilibrium price, quantity supplied exceeds quantity demanded. This surplus of corn causes price reductions by sellers who are eager to rid themselves of their surplus. The falling price causes less corn to be offered and simultaneously encourages consumers to buy more. The market moves to its equilibrium. Any price below the equilibrium price creates a shortage; quantity demanded then exceeds quantity supplied. Buyers try to obtain the product by offering to pay more for it; this drives the price upward toward its equilibrium level. The rising price simultaneously causes producers to increase the quantity supplied and prompts many buyers to leave the market, thus eliminating the shortage. Again the market moves to its equilibrium.

Text Summary

- A market is any institution or arrangement that brings together buyers and sellers of a product, service, or resource.
- Demand is a schedule or curve representing the willingness of buyers in a specific period to purchase a particular product at each of various prices. The law of demand implies that consumers will buy more of a product at a low price than at a high price. So, other things equal, the relationship between price and quantity demanded is negative or inverse and is graphed as a downsloping curve. Market demand curves are found by adding horizontally the demand curves of the many individual consumers in the market
- Supply is a schedule or curve showing the amounts of a product that producers are willing to offer in the market at each possible price during a specific period. The law of supply states that, other things equal, producers will offer more of a product at a high price than at a low price. Thus, the relationship between price and quantity supplied is positive or direct, and supply is graphed as an upsloping curve. The market supply curve is the horizontal summation of the supply curves of the individual producers of the product.
- The equilibrium price and quantity are established at the intersection of the supply and demand curves. The interaction of market demand and market supply adjusts the price to the point at which the quantities demanded and supplied are equal. This is the equilibrium price. The corresponding quantity is the equilibrium quantity.

4.3. Language Practice:

4.3.1. Multiple Choice:

1. Demand is .....

a) a schedule or curve showing the amounts of a product that producers are willing and able to make available for sale at each of a series of possible prices during a specific period;

b) an institution or mechanism that brings together buyers ("demanders") and sellers ("suppliers") of particular goods, services, or resources;

c) a schedule or a curve that shows the various amounts of a product that consumers are willing and able to purchase at each of a series of possible prices during a specified period of time.

2. As price rises, the quantity supplied rises; as price falls, the quantity supplied falls. This relationship is called .....

a) the law of supply;

b) the law of demand;

c) the market-clearing price.

3. Graphically, the intersection of the supply curve and the demand curve for a product indicates .....

a) quantity demanded;
b) the market equilibrium;
c) excess supply.

4. Demand shows .....
a) how the buying decisions of households and the selling decisions of businesses interact to determine the price of a product;
b) the amounts of a product that producers are willing and able to make available for sale at each of a series of possible prices during a specific period;
c) the quantities of a product that will be purchased at various possible prices, other things equal.

5. To a supplier, price represents ….. which serves as an incentive to produce and sell a product.
a) revenue;
b) market;
c) competition.

6. A fundamental characteristic of demand is this: All else equal, as price falls, the ..... rises, and as price rises, the quantity demanded falls.
a) quantity demanded;
b) quantity supplied;
c) equilibrium.

7. Any price below the equilibrium price creates …..; quantity demanded then exceeds quantity supplied.
a) an excess;
b) a shortage;
c) the equilibrium quantity.

4.3.2. Key Terms – Matching:

1.	Law of demand	a)	– a schedule showing the amounts of a good or service that buyers (or a buyer) wish to purchase at various prices during some time period;
2.	Market	b)	– a situation in which the supply of an item is exactly equal to its demand; since there is neither surplus nor shortage in the market, price tends to remain stable in this situation;
3.	Demand	c)	– the market price at which the supply of an item equals the quantity demanded;
4.	Supply	d)	– the law stating that, all else being equal, as the price of a product increases, a lower quantity will be demanded; likewise, as the price of a product decreases, a higher quantity will be demanded;
5.	Market equilibrium	e)	– a fundamental principle of economic theory which states that, all else equal, an increase in price results in an increase in quantity supplied;
6.	Law of supply	f)	– an institution or mechanism that brings together buyers (demanders) and sellers (suppliers) of a particular good or service;
7.	Equilibrium price	g)	– a schedule showing the amounts of a good or service that sellers (or a seller) will offer at various prices during some period.

4.3.3. Please explain the meaning of the following words and word combinations in English:

Market, demand, law of demand, demand curve, supply, supply curve, law of supply, market equilibrium, equilibrium/market-clearing price, equilibrium quantity, shortage of demand, surplus/excess supply of smth., quantity demanded, demander, supplier.

4.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~*quantity*~~ constant factors of production market commodity demand curve equilibrium price price mechanism relationship Supply-and-demand analysis

SUPPLY AND DEMAND

In economics supply and demand is a relationship between the (1) *quantity* that producers wish to sell at various prices and the quantity of a (2) _____ that consumers wish to buy.

The quantity of a commodity demanded can be seen to depend on the price of that commodity, the prices of all other commodities, the incomes of consumers, and their tastes. In economic analysis, the last three factors are often held constant; the analysis then involves examining the (3) _____ between various prices and the maximum quantity that would potentially be purchased at each of these prices. These price-quantity combinations may be plotted on a curve, known as a (4) _____.

The quantity of a commodity that is available in the (5) _____ depends not only on the price obtainable for the commodity but also on the prices of substitutable products, the techniques of production, and the availability and costs of labour and other (6) _____. In analyzing supply in the short run, one usually assumes that all factors but the price are (7) _____ in order to observe the relationship between various prices and the quantity potentially offered by suppliers at each price.

It is the function of a market to equate demand and supply through the (8) _____. If buyers wish to purchase more of a commodity than is available at the prevailing price, they will tend to bid the price up. If they wish to purchase less than is available at the prevailing price, suppliers will bid prices down. Thus, there is a tendency toward an (9) _____, at which the quantity demanded is just equal to the quantity supplied.

(10) _____ may be applied to markets for final goods and services or to markets for labour, capital, and other factors of production as well. It can be applied at the level of the firm, the industry, or the entire economy. At the last level, though, the analysis is of quite a different nature.

4.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the verb and noun ***supply***: *(v) provide, furnish, equip, stock, replenish, give, contribute, afford, yield, grant, bestow, satisfy;* *(n) provision, stock, store, hoard, reserve, quantity, fund.*

4.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Ринок, споживач/покупець, постачальник, товар, ринок праці, попит, купувати/придбати, закон попиту, зворотний/обернений зв’язок, величина/кількість попиту, кількість, постійний/незмінний, горизонтальна вісь, крива попиту, низхідний/спадний, графік/шкала, постачати/забезпечувати, величина/кількість пропозиції, закон пропозиції, дохід, крива пропозиції, прибутковий, домогосподарство, надлишкова пропозиція, недостача/дефіцит/недостатність пропозиції, надлишковий попит, рівноважна ціна/ціна ринкового клірингу, ринкова рівновага, рівноважна кількість.

4.4.2. Please translate the following sentences into Ukrainian:

1. Supply and demand is perhaps one of the most fundamental concepts of economics and it is the backbone of a market economy. Demand refers to how much (quantity) of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price; the relationship between price and quantity demanded is known as the demand relationship.
2. Supply represents how much the market can offer. The quantity supplied refers to the amount of a certain good producers are willing to supply when receiving a certain price. The correlation between price and how much of a good or service is supplied to the market is known as the supply relationship. Price, therefore, is a reflection of supply and demand.
3. The law of demand states that, if all other factors remain equal, the higher the price of a good, the less people will demand that good. In other words, the higher the price, the lower the quantity demanded. The amount of a good that buyers purchase at a higher price is less because as the price of a good goes up, so does the opportunity cost of buying that good. As a result, people will naturally avoid buying a product that will force them to forgo the consumption of something else they value more.
4. Like the law of demand, the law of supply demonstrates the quantities that will be sold at a certain price. But unlike the law of demand, the supply relationship shows an upward slope. This means that the higher the price, the higher the quantity supplied. Producers supply more at a higher price because selling a higher quantity at a higher price increases revenue.
5. When supply and demand are equal (i.e. when the supply function and demand function intersect) the economy is said to be at equilibrium**.** At this point, the allocation of goods is at its most efficient because the amount of goods being supplied is exactly the same as the amount of goods being demanded. Thus, everyone (individuals, firms, or countries) is satisfied with the current economic condition. At the given price, suppliers are selling all the goods that they have produced and consumers are getting all the goods that they are demanding.
6. The market value or price of a good or service is determined by an interaction of both supply and demand. It is determined at the point where quantity of supply equals to quantity of demand, thus a dynamic equilibrium. The law of supply and demand commands the price to be at the equilibrium point. If it is lower than equilibrium price, it will go up by reason of extra demand; on the other hand, if it is higher than equilibrium price, it will go down by reason of less demand.
7. The idea of demand represents the general activities of consumers, while that of supply indicates those of producers. Demand can be illustrated as the quantity of the good or service consumers are both willing and able to buy at a series of distinct prices. Similarly, supply is the quantity of the good or service producers are both willing and able to supply at a series of distinct prices provided by the market.
8. The four basic laws of supply and demand are: (1) If demand increases and supply remains unchanged, a shortage occurs, leading to a higher equilibrium price. (2) If

demand decreases and supply remains unchanged, a surplus occurs, leading to a lower equilibrium price. (3) If demand remains unchanged and supply increases, a surplus occurs, leading to a lower equilibrium price. (4) If demand remains unchanged and supply decreases, a shortage occurs, leading to a higher equilibrium price.

9. Changes in one or more of the determinants of demand (consumer tastes, the number of buyers in the market, the money incomes of consumers, the prices of related goods, and price expectations) shift the market demand curve. A shift to the right is an increase in demand; a shift to the left is a decrease in demand.
10. Changes in one or more of the determinants of supply (resource prices, production techniques, taxes or subsidies, the prices of other goods, price expectations, or the number of sellers in the market) shift the supply curve of a product. A shift to the right is an increase in supply; a shift to the left is a decrease in supply. In contrast, a change in the price of the product being considered causes a change in the quantity supplied, which is shown as a movement from one point to another point on a fixed supply curve.

4.4.3. Please translate the following sentences into English:

1. Ринок розглядається як інститут або механізм, який зводить разом покупців (представників попиту) і продавців (постачальників) окремих товарів і послуг.
2. Ринок характеризують такі основні змінні: попит, пропозиція, ціна. Вони взаємопов'язані і впливають одна на одну, формуючи ринковий механізм саморегулювання. Поведінку покупців описує категорія "попит", поведінку продавців – категорія "пропозиція". Ринкова ціна визначається як результат складної взаємодії продавців і покупців.
3. Попит визначають як кількість продукту, який споживачі готові та спроможні купити за певну ціну з можливих упродовж відповідного часу цін. Пропозиція – це шкала, що показує різні кількості продукту, які виробник бажає і спроможний виробити й запропонувати для продажу на ринку за кожну конкретну ціну з можливих цін упродовж певного часу.
4. Закон попиту і пропозиції – закон, що виражає взаємозалежність між кількістю товарів і послуг, які хоче купити або отримати споживач, і обсягом товарів і послуг, які пропонує виробник. Особливості дії закону попиту і пропозиції залежать передусім від рівня цін: чим вищі ціни, тим менше буде реалізовано товарів та послуг і навпаки. Цю залежність графічно зображають кривою попиту та пропозиції. Ринкова ціна досягає рівноваги, коли ці дві криві перетинаються, а попит і пропозиція зрівнюються.
5. Поняття "попит" характеризує взаємозв'язок між ринковою ціною та кількістю товару, яку споживачі (домогосподарства) бажають купувати за інших однакових умов протягом певного періоду часу. Цей взаємозв'язок називають шкалою (схемою) попиту або кривою попиту. Шкалу попиту подають за допомогою табличного методу, а криву попиту – графічного методу.
6. Пропозиція – це кількість певного товару, яку виробники бажають виготовляти і продавати за кожної ціни протягом певного періоду часу за інших однакових умов. Пропозиція може бути представлена шкалою (схемою) пропозиції, тобто таблицею, яка показує кількість певного товару, що буде пропонуватись за кожного рівня ціни за інших однакових умов у межах деякого часового періоду.
7. Ринкова рівновага – це така ситуація, коли плани покупців і продавців на ринку співпадають, і за даної ціни величина пропозиції дорівнює величині попиту.

Аналіз взаємодії попиту і пропозиції показує, що: а) надлишок товару знижує ціну; б) дефіцит товару підвищує ціну; в) за ціни рівноваги не існує причин для її зміни.

8. Рівноважна ціна – це: а) ціна, при якій попит і пропозиція рівні; б) ціна, при якій немає ні дефіциту, ні надлишку товарів і послуг; в) ціна, яка не виявляє тенденцію до зростання або зниження.
9. Основними факторами, що впливають на попит, є: а) ціни на товари та послуги; б) доходи споживачів; в) ціни на товари-субститути (замінники). Поряд із цим на попит роблять вплив деякі нецінові фактори. До них належать: а) зміна смаків споживачів; б) кількість споживачів; в) очікування споживачів; г) зміна потреб і моди; ґ) реклама.
10. На пропозицію також впливає ряд факторів, які значною мірою визначають обсяг пропозиції. До них належать: а) ціни на ресурси; б) технології виробництва; в) податки і дотації; г) ціни на товари-субститути; ґ) кількість покупців; д) очікування зміни цін. На обсяг пропозиції можуть впливати і деякі інші фактори, наприклад, зміни погоди, кліматичних умов, стихійні лиха.

4.4.4. Please make an English summary of the following text:

ЗАКОН ПОПИТУ ТА ПРОПОЗИЦІЇ

Ринок ефективно функціонує лише тоді, коли він збалансований, тобто, коли на ньому підтримується повна відповідність між попитом і пропозицією. Відсутність такої відповідності негайно відбивається на ході реалізації і виробництва. Досягається така відповідність в результаті дії закону відповідності попиту та пропозиції. Закон попиту та пропозиції – економічний закон ринку.

Як же функціонує цей закон? За умов існування повної відповідності між попитом і пропозицією (ідеальний варіант) закон не діє. Але якщо відповідність порушена, закон діє в напрямку її встановлення. Як? Особливість ринкового механізму полягає в тому, що кожний його елемент тісно пов’язаний з ціною, яка служить основним інструментом впливу на попит і пропозицію. Зокрема, попит знаходиться у зворотній залежності з ціною. Якщо ціни на товари зростають, то попит на них зменшується, тому що високі ціни обмежують купівельні можливості людей. При зниженні цін попит зростає. Товарна пропозиція з ціною пов’язана прямою залежністю. Із зростанням цін пропозиція збільшується, тому що одиниця додатково виробленої та проданої продукції приносить виробникові додатковий прибуток. І навпаки: якщо ціни знижуються, то виробництво продукції стає менш вигідним і скорочується. Відповідно зменшується і пропозиція.

Взаємодія попиту та пропозиції з ціною має і зворотний зв’язок. Коли пропозиція перевищує попит, ціна знижується, що збільшує попит. Якщо ж попит перевищує пропозицію, ціна підвищується, що стимулює зростання пропозиції. У цьому випадку попит і пропозиція через ціну взаємно впливають одне на одного.

4.5. Reading Practice:

4.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: DETERMINANTS OF DEMAND. CHANGE IN DEMAND

In constructing a demand curve economists assume that price is the most important influence on the amount of any product purchased. But economists know that other factors can and do affect purchases. These factors, called *determinants of demand*, are assumed to be constant when a demand curve is drawn. They are the "other things equal" in the relationship between price and quantity demanded. When any of these determinants changes, the demand curve will shift to the right or left. For this reason, determinants of demand are sometimes referred to as demand shifters.

The basic determinants of demand are (1) consumers' tastes (preferences), (2) the number of consumers in the market, (3) consumers' incomes, (4) the prices of related goods, and (5) consumer expectations about future prices and incomes.

CHANGE IN DEMAND

A change in one or more of the determinants of demand will change the demand data (the demand schedule) in Table 4.3 (see above) and therefore the location of the demand curve in Figure 4.3. (see above). A change in the demand schedule or, graphically, a shift in the demand curve is called a *change in demand.*

If consumers desire to buy more corn at each possible price than is reflected in column 4 in Table 4.3, that increase in demand is shown as a shift of the demand curve to the right, say, from D_1 to D_2. Conversely, a decrease in demand occurs when consumers buy less corn at each possible price than is indicated in column 4, Table 4.3. The leftward shift of the demand curve from D_1 to D_3 in Figure 4.3 shows that situation.

Now let's see how changes in each determinant affect demand.

Tastes. A favorable change in consumer tastes (preferences) for a product – change that makes the product more desirable – means that more of it will be demanded at each price. Demand will increase; the demand curve will shift rightward. An unfavorable change in consumer preferences will decrease demand, shifting the demand curve to the left.

New products may affect consumer tastes; for example, the introduction of compact discs greatly decreased the demand for cassette tapes. Consumers' concern over the health hazards of cholesterol and obesity have increased the demand for broccoli, low-calorie beverages, and fresh fruit while decreasing the demand for beef, veal, eggs, and whole milk. Over the past several years, the demand for coffee drinks, bottled water, and sports utility vehicles has greatly increased, driven by a change in tastes. So, too, has the demand for DVDs and digital cameras.

Number of Buyers. An increase in the number of buyers in a market increases demand. A decrease in the number of buyers in a market decreases demand. For example, improvements in communications have given financial markets international range and have thus increased the demand for stocks and bonds. And the baby boom after the Second World War increased demand for diapers, baby lotion, and the services of obstetricians. When the baby boomers reached their twenties in the 1970s, the demand for housing increased. Conversely, the aging of the baby boomers in the 1980s and 1990s was a factor in the relative slump in the demand for housing in those decades. Also, an increase in life expectancy has increased the demand for medical care, retirement communities, and nursing homes. And international trade agreements have reduced foreign trade barriers to American farm commodities, thus increasing the demand for those products.

Income. How changes in income affect demand is a more complex matter. For most products, a rise in income causes an increase in demand. Consumers typically buy more steaks, furniture, and electronic equipment as their incomes increase. Conversely, the demand for such products declines as their incomes fall. Products whose demand varies directly with money income are called superior goods, or normal goods.

Although most products are normal goods, there are some exceptions. As incomes increase beyond some point, the demand for used clothing, retread tires, and third-hand automobiles may decrease, because the higher incomes enable consumers to buy new versions of those products. Rising incomes may also decrease the demand for soy-enhanced hamburger. Similarly, rising incomes may cause the demand for charcoal grills to decline as wealthier consumers switch to gas grills. Goods whose demand varies inversely with money income are called inferior goods.

Prices of Related Goods. A change in the price of a related good may either increase or decrease the demand for a product, depending on whether the related good is a substitute or a complement:

- A substitute good is one that can be used in place of another good.
- A complementary good is one that is used together with another good.

Substitutes. Beef and chicken are examples of substitute goods or, simply, substitutes. When the price of beef rises, consumers buy less beef, increasing the demand for chicken. Conversely, as the price of beef falls, consumers buy more beef, decreasing the demand for chicken. When two products are substitutes, the price of one and the demand for the other move in the same direction. So it is with pairs such as Nikes and Reeboks, Colgate and Crest[46], Toyotas and Hondas, and Coke and Pepsi. So-called substitution in consumption occurs when the price of one good rises relative to the price of a similar good.

Complements. Complementary goods (or, simply, complements) are goods that are used together and are usually demanded together. If the price of gasoline falls and, as a result, you drive your car more often, the extra driving increases your demand for motor oil. Thus, gas and motor oil are jointly demanded; they are complements. So it is with ham and eggs, tuition and textbooks, movies and popcorn. When two products are complements, the price of one good and the demand for the other good move in opposite directions.

Unrelated Goods. The vast majority of goods that are not related to one another are called independent goods. Examples are butter and golf balls, potatoes and automobiles, and bananas and wristwatches. A change in the price of one has little or no effect on the demand for the other.

Expectations. Changes in consumer expectations may shift demand. A newly formed expectation of higher future prices may cause consumers to buy now in order to “beat” the anticipated price rises, thus increasing current demand. For example, when freezing weather destroys much of Florida’s citrus crop, consumers may reason that the price of orange juice will rise. They may stock up on orange juice by purchasing large quantities now. In contrast, a newly formed expectation of falling prices or falling income may decrease current demand for products.

Similarly a change in expectations relating to future product availability may affect current demand. In late December 1999 there was a substantial increase in the demand for gasoline. Reason? Motorists became concerned that the Y2K[47] computer problem might disrupt fuel pumps or credit card systems.

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[46] ***The Colgate-Palmolive Company*** is an American multinational consumer products company focused on the production, distribution and provision of household, health care and personal products, such as soaps, detergents, and oral hygiene products (including toothpaste and toothbrushes). ***Crest*** is a brand of toothpaste made by Procter & Gamble in Germany and in the United States and sold worldwide. In many countries in Europe, such as Germany, Bulgaria, Serbia, Ukraine, Russia, Poland, Hungary, France, Latvia and Romania, it is sold as Blend-A-Med, the name of an established German toothpaste acquired by P&G in 1987.

[47] ***The Year 2000 problem*** (also known as the ***Y2K problem***) was a problem for both digital (computer-related) and non-digital documentation and data storage situations which resulted from the practice of abbreviating a four-digit year to two digits.

Finally, a change in expectations concerning future income may prompt consumers to change their current spending. For example, first-round NFL[48] draft choices may splurge on new luxury cars in anticipation of a lucrative professional football contract. Or workers who become fearful of losing their jobs may reduce their demand for, say, vacation travel.

In summary, an increase in demand – the decision by consumers to buy larger quantities of a product at each possible price – may be caused by:

- A favorable change in consumer tastes.
- An increase in the number of buyers.
- Rising incomes if the product is a normal good.
- Falling incomes if the product is an inferior good.
- An increase in the price of a substitute good.
- A decrease in the price of a complementary good.
- A new consumer expectation that either prices or income will be higher in the future.

You should "reverse" these generalizations to explain a decrease in demand.

Text 2: DETERMINANTS OF SUPPLY. CHANGES IN SUPPLY

In constructing a supply curve, we assume that price is the most significant influence on the quantity supplied of any product. But other factors (the "other things equal") can and do affect supply. The supply curve is drawn on the assumption that these other things are fixed and do not change. If one of them does change, a change in supply will occur, meaning that the entire supply curve will shift.

The basic determinants of supply are (1) resource prices, (2) technology, (3) taxes and subsidies, (4) prices of other goods, (5) price expectations, and (6) the number of sellers in the market. A change in any one or more of these determinants of supply, or supply shifters, will move the supply curve for a product either right or left. A shift to the right, as from S_1 to S_2 (see Figure 4.4. above), signifies an increase in supply: Producers supply larger quantities of the product at each possible price. A shift to the left, as from S_1 to S_3, indicates a decrease in supply: Producers offer less output at each price.

CHANGES IN SUPPLY

Let's consider how changes in each of the determinants affect supply. The key idea is that costs are a major factor underlying supply curves; anything that affects costs (other than changes in output itself) usually shifts the supply curve.

Resource Prices. The prices of the resources used in the production process help determine the costs of production incurred by firms. Higher resource prices raise production costs and, assuming a particular product price, squeeze profits. That reduction in profits reduces the incentive for firms to supply output at each product price. For example, an increase in the prices of iron ore and coke will increase the cost of producing steel and reduce its supply.

In contrast, lower resource prices reduce production costs and increase profits. So when resource prices fall, firms supply greater output at each product price. For example, a decrease in the prices of sand, gravel, and limestone will increase the supply of concrete.

Technology. Improvements in technology (techniques of production) enable firms to produce units of output with fewer resources. Because resources are costly, using fewer of them lowers production costs and increases supply. Example: Technological advances in producing flat-panel computer monitors have greatly reduced their cost. Thus, manufacturers

[48] ***The National Football League (NFL)*** is a professional American football league.

will now offer more such monitors than previously at the various prices; the supply of flat-panel monitors has increased.

Taxes and Subsidies. Businesses treat most taxes as costs. An increase in sales or property taxes will increase production costs and reduce supply. In contrast, subsidies are "taxes in reverse." If the government subsidizes the production of a good, it in effect lowers the producers' costs and increases supply.

Prices of Other Goods. Firms that produce a particular product, say, soccer balls, can sometimes use their plant and equipment to produce alternative goods, say, basketballs and volleyballs. The higher prices of these "other goods" may entice soccer ball producers to switch production to those other goods in order to increase profits. This substitution in production results in a decline in the supply of soccer balls. Alternatively, when the prices of basketballs and volleyballs decline relative to the price of soccer balls, producers of those goods may decide to produce more soccer balls instead, increasing their supply.

Price Expectations. Changes in expectations about the future price of a product may affect the producers current willingness to supply that product. It is difficult, however, to generalize about how a new expectation of higher prices affects the present supply of a product. Farmers anticipating a higher wheat price in the future might withhold some of their current wheat harvest from the market, thereby causing a decrease in the current supply of wheat. In contrast, in many types of manufacturing industries, newly formed expectations that price will increase may induce firms to add another shift of workers or to expand their production facilities, causing current supply to increase.

Number of Sellers. Other things equal, the larger the number of suppliers, the greater the market supply. As more firms enter an industry, the supply curve shifts to the right. Conversely, the smaller the number of firms in the industry, the less the market supply. This means that as firms leave an industry, the supply curve shifts to the left. Example: The United States and Canada have imposed restrictions on haddock fishing to replenish dwindling stocks. As part of that policy, the Federal government has bought the boats of some of the haddock fishers as a way of putting them out of business and decreasing the catch. The result has been a decline in the market supply of haddock.

4.6. Internet Practice:

4.6.1. Web Activities:

- ***Changes in Demand – Baby Diapers and Retirement Villages.*** Other things equal, an increase in the number of buyers for a product or service will increase demand. Baby diapers and retirement villages are two products designed for different population groups. The U.S. Census Bureau website, **www.census.gov/ipc/www/idbpyr.html**, provides population pyramids (graphs that show the distribution of population by age and sex) for countries for the current year, 2025, and 2050. View the population pyramids for Mexico, Japan, and the United States. Which country do you think will have the greatest percentage increase in demand for baby diapers in the year 2050? For retirement villages? Which country do you think will have the neatest absolute increase in demand for baby diapers? For retirement villages?

4.7. Critical Thinking & Discussion Questions:

- Explain the law of demand. What are the determinants of demand? What happens to the demand curve when each of these determinants changes?

- Explain the law of supply. What are the determinants of supply? What happens to the supply curve when each of these determinants changes?
- What effect will each of the following have on the demand for product B?
  (a) Product B becomes more fashionable.
  (b) The price of substitute product C falls.
  (c) Income declines and product B is an inferior good.
  (d) Consumers anticipate that the price of B will be lower in the near future.
  (e) The price of complementary product D falls.
- What effect will each of the following have on the supply of product B?
  (a) A technological advance in the methods of producing product B.
  (b) A decline in the number of firms in industry B.
  (c) An increase in the prices of resources required in the production of B.
  (d) The expectation that the equilibrium price of B will be lower in the future than it is currently.
  (e) A decline in the price of product A, a good whose production requires substantially the same techniques and resources as does the production of B.
  (f) The levying of a specific sales tax on B.
  (g) The granting of a 50-cent-per-unit subsidy for each unit of B produced.

Self-Assessments (Module 1)

1. Key Terms – Matching:

1.	Marginal costs	a)	– the policy which is based on the idea that governments and the law should not interfere with business, finance, or the conditions of people's working lives;
2.	Marginal benefits	b)	– a schedule showing the amounts of a good or service that sellers (or a seller) will offer at various prices during some period;
3.	Opportunity cost	c)	– an economy in which only the private decisions of consumers, resource suppliers, and firms determine how resources are allocated;
4.	Sunk costs	d)	– a situation in which the supply of an item is exactly equal to its demand; since there is neither surplus nor shortage in the market, price tends to remain stable in this situation;
5.	Laissez-faire	e)	– the loss of other alternatives when one alternative is chosen;
6.	Command system	f)	– the additional cost to you over and above the costs you have already incurred;
7.	Supply	g)	– the additional benefit above what you've already derived;
8.	Market equilibrium	h)	– a method of organizing an economy in which property resources are publicly owned and government uses central economic planning to direct and coordinate economic activities;
9.	Market economy	i)	– costs that have already been incurred and cannot be recovered;
10.	Demand	j)	– a schedule showing the amounts of a good or service that buyers (or a buyer) wish to purchase at various prices during some time period.

2. Define the following terms:

Economics – …
Microeconomics – …
Macroeconomics – …
Scarcity – …
Invisible hand theory – …
Mercantilism – …
Demand – …
Supply – …
Market equilibrium – …
Market economy – …
Mixed economy – …

3. Translate the following text into Ukrainian:

SOCIETY'S ECONOMIZING PROBLEM

Society has limited or scarce *economic resources,* meaning all natural, human, and manufactured resources that go into the production of goods and services. This includes the entire set of factory and farm buildings and all the equipment, tools, and machinery used to produce manufactured goods and agricultural products; all transportation and communication facilities; all types of labor; and land and mineral resources.

Economists classify economic resources into four general categories.

Land. Land means much more to the economist than it does to most people. To the economist *land* includes all natural resources ("gifts of nature") used in the production process, such as arable land, forests, mineral and oil deposits, and water resources.

Labor. The resource *labor* consists of the physical and mental talents of individuals used in producing goods and services. The services of a logger, retail clerk, machinist, teacher, professional football player, and nuclear physicist all fall under the general heading "labor".

Capital. For economists, *capital* (or capital goods) includes all manufactured aids used in producing consumer goods and services. Included are all factory, storage, transportation, and distribution facilities, as well as tools and machinery. Economists refer to the purchase of capital goods as *investment.* Capital goods differ from consumer goods because consumer goods satisfy wants directly, whereas capital goods do so indirectly by aiding the production of consumer goods. Note that the term "capital" as used by economists refers not to money but to tools, machinery, and other productive equipment. Because money produces nothing, economists do not include it as an economic resource. Money (or money capital or financial capital) is simply a means for purchasing capital goods.

Entrepreneurial Ability. Finally, there is the special human resource, distinct from labor, called *entrepreneurial ability.* The entrepreneur performs several functions:

- The entrepreneur takes the initiative in combining the resources of land, labor, and capital to produce a good or a service.
- The entrepreneur makes the strategic business decisions that set the course of an enterprise.
- The entrepreneur is an innovator. He or she commercializes new products, new production techniques, or even new forms of business organization.
- The entrepreneur is a risk bearer. The entrepreneur has no guarantee of profit. The reward for the entrepreneur's time, efforts, and abilities may be profits or losses.

4. Make an English summary of the following text:

ПОНЯТТЯ ЕКОНОМІКИ

Економіка або *економічні науки* – це комплекс суспільних наукових дисциплін про господарство, а саме – про організацію та управління матеріальним виробництвом, ефективне використання ресурсів, розподіл, обмін, збут і споживання товарів та послуг.

Економіка як комплекс економічних дисциплін має складну структуру. Її поділяють на національну економіку та економіку управління (економіка і організація управління), і кожна з цих дисциплін одночасно поділяється на мікроекономіку (мала економіка), яка ставить за мету дослідити поведінку фірм, окремих людей, сім'ї, та макроекономіку (велика економіка), яка вивчає країни, великі інтернаціональні об'єднання та світ у цілому. Економічні теорії часто перевіряються емпірично, здебільшого, за допомогою економетрики, яка адаптує методи статистики до економічних даних.

В економічній літературі даються різні визначення поняття економіки як науки. Найбільш відомими з них є:

- економіка – наука про виробничу діяльність та обмін її результатами між людьми;
- економіка вивчає рух економічного життя: тенденції в розвитку цін, виробництва, безробіття тощо. У міру вивчення цих явищ вона допомагає розробити політику, реалізуючи яку уряд може впливати на економічний розвиток;
- економіка – наука вибору. Вона вивчає, як люди вибирають спосіб використання обмежених виробничих ресурсів (землі, праці, обладнання, технічних знань) для виготовлення різних товарів і розподілу їх між різними членами суспільства;
- економіка вивчає, яким чином людина здійснює організацію виробництва і споживання;
- економіка вивчає гроші, капітал, його форми й багатство.

Кожне з цих визначень відображає певний аспект економічних відносин, хоч і не охоплює повністю всієї системи. Водночас усі вони показують, що економіка безпосередньо пов'язана з виробництвом, зі створенням матеріальних і духовних благ та послуг.

5. Write a 100-300 word essay and prepare an oral presentation on any of the topics given below using new vocabulary:

- The first lesson of economics is scarcity: There is never enough of anything to satisfy all those who want it. The first lesson of politics is to disregard the first lesson of economics. – *Thomas Sowell*
- Socialism failed because it couldn't tell the economic truth; capitalism may fail because it couldn't tell the ecological truth. – *Lester Brown*
- Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidise it. – *Ronald Reagan*
- If you put the federal government in charge of the Sahara Desert, in 5 years there'd be a shortage of sand. – *Milton Friedman*
- Teach a parrot the terms "supply and demand" and you've got an economist. – *Thomas Carlyle*
- In a market economy, however, the individual has some possibility of escaping from the power of the state. – *Peter L. Berger*
- Every nation on the Earth that embraces market economics and the free enterprise system is pulling millions of its people out of poverty. The free enterprise system creates prosperity, not denies it. – *Marco Rubio*
- What are the basic characteristics of the market system?

MODULE 2

Microeconomics:

Measurement & Basic Concepts

Microeconomics: Measurement & Basic Concepts

Microeconomics is the branch of economics that analyzes firms, individuals and households' decision-making processes, behaviors and interactions that affect the allocation of limited resources of the society. In short, it examines the behavior of individual economic units.

In particular, microeconomics focuses on patterns of supply and demand and the determination of price and output in individual markets. It concerns itself with individual economic activity and decision-making process that eventually determines the relative prices and the distribution of the economy's output.

With the assumption of rational self-interest, the dynamics of microeconomics lies in the individual and group choices of the society. Choices typically require time, effort and information, which are all scarce and valuable.

Major notions and theories developed in microeconomics include:

- *Surplus*, the theoretical incentive behind all economic activities, or plainly put as human wants.
- *Supply and demand*, the ultimate law that governs microeconomics.
- *Elasticity*, a tool describing how a variable changes upon the shift of another.
- *Utility theory*. Utility is a term used to refer to the satisfaction derived from the consumption of goods and services. Two basic utility concepts, namely total utility and marginal utility are essential for you to understand when using this tool for microeconomic analysis.
- *Consumer theory*. It is a theory based on the concept of utility that examines how economically rational households maximize their satisfaction by spending limited income on goods and services.
- *Production/producer theory* is comprised of major principles of production / cost firms follow to make efficient reallocation of resources to provide to the market in the hope of gaining profit by adding value to the final products.
- *Price theory*. Price is the governing dynamics of all markets and the most important integral factor we care about when looking at markets. Therefore the price theory presents an analytical approach to the operation of markets and the behaviors of sellers and buyers.
- *Cost theory*. Cost is the payments by firms for the factors of production, and the cost theory makes the major part of the firm's behavioral analysis.
- *Market theory and competition* consists of the various forms of market and competition theories.

Module Objectives

- Understand consumer behavior.
- Understand firm behavior.
- Analyze different types of market structures.
- Analyze the behavior of firms in a perfectly competitive market.
- Examine how a market controlled by a single producer – a monopoly – behaves.
- Examine the behavior of labor markets.
- Understand how to apply economic principles to a range of policy questions.

Module 2: Units 5-9

Unit 5 Consumer Demand

"Our personal consumer choices have ecological, social, and spiritual consequences. It is time to re-examine some of our deeply held notions that underlie our lifestyles"
David Suzuki [49]

5.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

ability
amount
bank balance
connoisseur
consumer behavior
consumption
decision
demand:
consumer ~
elastic ~
inelastic~
unitary elastic ~
desire
determinant
discount
essential(s)
exchange
expectation
expenditure
gratification
good(s)
household
income
increment
luxury(ies)
marketplace
necessity(ies)
outcome
pattern
percentage
price elasticity of demand
quantity demanded
recession
response
sale(s)
spending
substitute(s)
unit
utility:
marginal ~
total ~
value
variable
want(s)
willingness

Verbs:

to account for
to acquire
to afford
to alter
to apply
to assume
to charge
to compute
to consume
to fashion
to decline/diminish
to deliver
to demand
to derive
to desire
to determine
to divide
to give away
to increase/raise/rise
to induce
to lower/reduce/subside
to measure
to obtain
to purchase
to reconcile
to reveal
to satisfy
to settle for
to slope
to yield

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[49] ***David Takayoshi Suzuki*** (born March 24, 1936) is a Japanese Canadian academic, science broadcaster and environmental activist. Suzuki earned a Ph.D in zoology from the University of Chicago in 1961, and was a professor in the genetics department at the University of British Columbia from 1963 until his retirement in 2001. Since the mid-1970s, Suzuki has been known for his TV and radio series and books about nature and the environment.

Adjectives & Adverbs:

additional	entire	reduced
annual	equal	relevant
dearly	grudgingly	responsive
diminishing	inverse	willing
downward	namely	

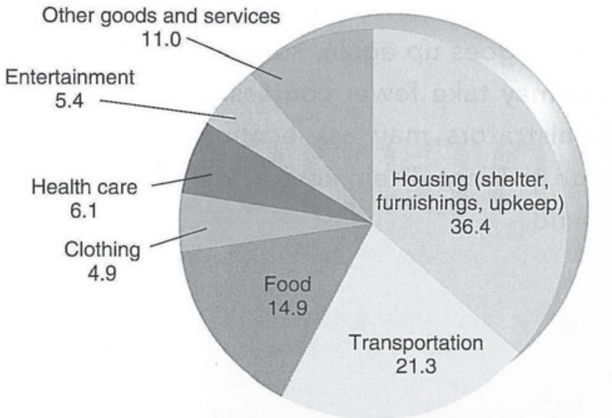
5.2. Read and translate the text into Ukrainian:

CONSUMER DEMAND

PATTERNS OF CONSUMPTION

A good way to start a study of consumer demand is to observe how consumers spend their incomes. Figure 5.1 provides a quick summary. Note that half of all consumer spending in the USA is for food and shelter. Taken together, housing, transportation, and food expenditures account for 70 percent of the typical household budget. Most people regard these items as the "basic essentials". However, there is no rule that says 14.9 cents of every consumer dollar must be spent on food, or that 36.4 percent of one's budget is "needed" for shelter. What Figure 5.1 depicts is how the average consumer has chosen to spend his or her income. We could choose to spend our incomes in other ways.

Figure 5.1



How the Consumer Dollar Is Spent

A closer examination of consumer patterns reveals that we do in fact change our habits on occasion. In the USA in the last 10 years, the annual consumption of red meat has declined from 125 pounds per person to 115 pounds. In the same time, the consumption of chicken has increased from 47 pounds to 70 pounds. The Americans now consume less coffee, whiskey, beer, and eggs, but more wine, asparagus, and ice cream compared to 10 years ago. Cell phones and DVD players are regarded as essentials today, even though no one had these products 25 years ago. What prompted these changes in consumption patterns?

Some changes in consumption are more sudden. In the recession of 1990-91, Americans abruptly stopped buying new cars. Does that mean that cars were no longer essential? When oil prices rose sharply in 2000 people drove their cars less. Does that mean they liked driving less? Or did changes in income and prices alter consumer behavior?

DETERMINANTS OF DEMAND

In seeking explanations for consumer behavior, we have to recognize that economics doesn't have all the answers. But it does offer a unique perspective that sets it apart from other fields of study.

The Economic Explanation. Sociopsychiatric theories tell us why teenagers, men, and women desire certain goods and services. They don't explain which goods will actually be purchased. Desire is only the first step in the consumption process. To acquire goods and services, one must be willing and able to pay for one's wants. Producers won't give you their goods just because you want to satisfy your desires. They want money in exchange for their goods. Hence prices and income are just as relevant to consumption decisions as are more basic desires and preferences.

In explaining consumer behavior, then, economists focus on the demand for goods and services. To say that someone demands a particular good means that he or she is able and willing to buy it at some price(s). In the marketplace, money talks: the willingness and ability to pay are critical. Many people with a strong desire for a Porsche Carrera[50] have neither the ability nor the willingness to actually buy it; they do not demand Porsche Carreras. Similarly, there are many rich people who are willing and able to buy goods they only remotely desire; they demand all kinds of goods and services.

What determines a person's willingness and ability to buy specific goods? Economists have identified four different influences on consumer demand: *tastes, income, expectations, and the prices of other goods*. Note again that desire (tastes) is only one determinant of demand. Other determinants of demand (income, expectations, and other goods) also influence whether a person will be willing and able to buy a certain good at a specific price.

The market demand for a good is simply the sum of all individual consumer demands. Hence the market demand for a specific product is determined by: *tastes* (desire for this and other goods); *income* (of consumers); e*xpectations* (for income, prices, tastes); *other goods* (their availability and price); *the number of consumers in the market.*

THE DEMAND CURVE

Utility Theory. The starting point for an economic analysis of demand is straightforward. Economists accept consumer tastes as the outcome of sociopsychiatric and cultural influences. They don't look beneath the surface to see how those tastes originated. Economists simply note the existence of certain tastes (desires), then look to see how those tastes affect consumption decisions. We assume that the more pleasure a product gives us, the higher the price we would be willing to pay for it. If gobbling buttered popcorn at the movies really pleases you, you're likely to be willing to pay dearly for it. If you have no great taste or desire for popcorn, the theater might have to give it away before you'd eat it.

Total vs. Marginal Utility. Economists use the term *utility* to refer to the expected pleasure, or satisfaction, obtained from goods and services. *Total utility* refers to the amount of satisfaction obtained from your entire consumption of a product. By contrast, *marginal utility* refers to the amount of satisfaction you get from consuming the last (i.e., marginal) unit of a product.

Diminishing Marginal Utility.The concepts of total and marginal utility explain not only why we buy popcorn at the movies but also why we stop eating it at some point. Even people who love popcorn (i.e., derive great total utility from it), and can afford it, don't eat endless quantities of popcorn. Why not? Presumably because the thrill diminishes with each

[50] ***The Porsche Carrera GT*** (Project Code 980) is a mid-engined sports car that was manufactured by Porsche between 2004-2007 in Leipzig, Germany. Sports Car International named the Carrera GT number one on its list of Top Sports Cars of the 2000s, and number eight on Top Sports Cars of All Time list.

mouthful. The first box of popcorn may bring sensual gratification, but the second or third box is likely to bring a stomachache. We express this change in perceptions by noting that the marginal utility of the first box of popcorn is higher than the additional or marginal utility derived from the second box.

The behavior of popcorn connoisseurs is not that unusual. Generally speaking, the amount of additional utility we obtain from a product declines as we continue to consume larger quantities of it. The third slice of pizza is not as desirable as the first, the sixth soda not so satisfying as the fifth, and so forth. Indeed, this phenomenon of diminishing marginal utility is so nearly universal that economists have fashioned a law around it. This *law of diminishing marginal utility* states that each successive unit of a good consumed yields less additional utility.

The law of diminishing marginal utility does not say that we won't like the third box of popcorn, the second pizza, or the sixth soda; it just says we won't like them as much as the ones we've already consumed. Note also that time is important here: if the first pizza was eaten last year, the second pizza, eaten now, may taste just as good. The law of diminishing marginal utility applies to short time periods.

Price and Quantity. Marginal utility is essentially a measure of how much we desire particular goods. But which ones will we buy? Clearly, we don't always buy the products we most desire. Price is often a problem. All too often we have to settle for goods that yield less marginal utility simply because they are available at a lower price. This explains why most people don't drive Porsches. Our desire ("taste") for a Porsche may be great, but its price is even greater. The challenge for most people is to somehow reconcile our tastes with our bank balances.

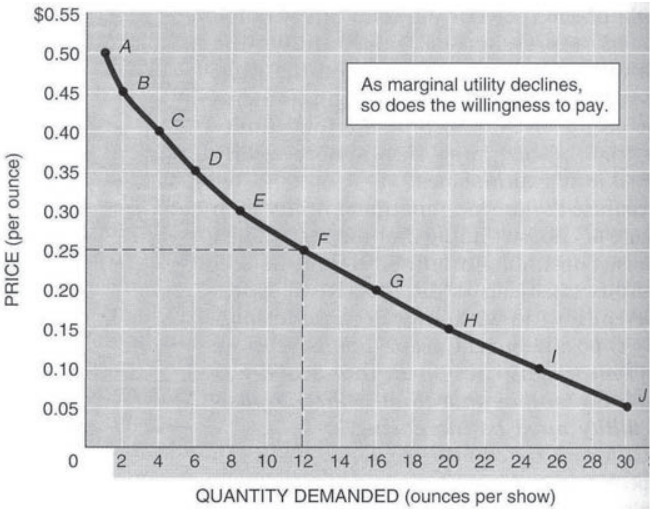
In deciding whether to buy something, our immediate focus is typically on a single variable, namely price. Assume for the moment that a person's tastes, income, and expectations are set in stone and that the prices of other goods are fixed as well. This is the *ceteris paribus*[51] assumption. It doesn't mean that other influences on consumer behavior are unimportant. Rather, the ceteris paribus simply allows us to focus on one variable at a time. In this case, we are focusing on price. What we want to know is how high a price a consumer is willing to pay for another unit of a product.

The concepts of marginal utility and ceteris paribus enable us to answer this question. The more marginal utility a good delivers, the more you're willing to pay for it. But marginal utility diminishes as increasing quantities of a product are consumed. Hence you won't be willing to pay so much for additional quantities of the same good. The moviegoer who is willing to pay 50 cents for that first mouth-watering ounce of buttered popcorn may not be willing to pay so much for a second or third ounce. The same is true for the second pizza, the sixth soda, and so forth. With given income, taste, expectations, and prices of other goods and services, people are willing to buy additional quantities of a good only if its price falls. In other words, as the marginal utility of a good diminishes, so does our willingness to pay.

This inverse relationship between the quantity demanded of a good and its price is referred to as *the law of demand*. Figure 5.2 illustrates this relationship again, for the case of popcorn. Notice that the demand curve slopes downwards: More popcorn is purchased at lower prices.

[51] ***Ceteris paribus*** or ***caeteris paribus*** is a Latin phrase, literally translated as *with other things the same*, or *all other things being equal or held constant*. It is an example of an ablative absolute and is commonly rendered in English as *all other things being equal*.

Figure 5.2



	Price (per ounce)	Quantity Demanded (ounces per show)
A	$0.50	1
B	0.45	2
C	0.40	4
D	0.35	6
E	0.30	9
F	0.25	12
G	0.20	16
H	0.15	20
I	0.10	25
J	0.05	30

A Demand Schedule and Curve

The law of demand and the law of diminishing marginal utility tell us nothing about why we crave popcorn or why our cravings subside. That's the job of psychiatrists, sociologists, and physiologists. The laws of economics simply describe our market behavior.

PRICE ELASTICITY

The theory of demand helps explain consumer behavior. Often, however, much more specific information is desired. Imagine you owned a theater and were actually worried about popcorn sales. Knowing that the demand curve is downward-sloping wouldn't tell you a whole lot about what price to charge. What you'd really want to know is how much popcorn sales would change if you raised or lowered the price.

Airlines want the same kind of hard data. Airlines know that around Christmas they can charge full fares and still fill all their planes. After the holidays, however, people have less of a desire to travel. To fill planes in February, the airlines must offer discount fares. But how far should they lower ticket prices? That depends on how much passenger traffic changes in response to reduced fares.

The central question in all these decisions is the response of quantity demanded to a change in price. The response of consumers to a change in price is measured by *the price elasticity of demand.* Specifically, the price elasticity of demand refers to the percentage change in quantity demanded divided by the percentage change in price – that is

$$Price\ elasticity(E) = \frac{percentage\ change\ in\ quantity\ demanded}{percentage\ change\ in\ price}$$

Suppose we increased the price of popcorn by 20 percent. We know from the law of demand that the quantity of popcorn demanded will fall. But we need to observe market behavior to see how far sales drop. Suppose that unit sales (quantity demanded) fall by 10 percent. We could then compute the price elasticity of demand as

$$E = \frac{\text{percentage change in quantity demanded}}{\text{percentage change in price}} = \frac{+10\%}{-20\%} = -0.5$$

Since price and quantity demanded always move in opposite directions, E is a negative value (−0.5 in this case). For convenience, however, the absolute value of E (without the minus sign) is used. What we learn here is that popcorn sales decline at half (0.5) the rate of price increases. Moviegoers cut back grudgingly on popcorn consumption when popcorn prices rise.

Elastic vs. Inelastic Demand. We characterize the demand for various goods in one of three ways: elastic, inelastic, or unitary elastic. If E is larger than 1, we say demand is elastic: Consumer response is large relative to the change in price.

If E is less than 1, we say demand is inelastic. This is the case with popcorn, where E is only 0.5. If demand is inelastic, consumers aren't very responsive to price changes.

If E is equal to 1, demand is unitary elastic. In this case, the percentage change in quantity demanded is exactly equal to the percentage change in price.

Text Summary

- Our desires for goods and services originate in the structure of personality and social dynamics and are not explained by economic theory. Economic theory focuses on demand – that is, our ability and willingness to buy specific quantities of a good at various prices.
- Utility refers to the satisfaction we get from consumer goods and services. Total utility refers to the amount of satisfaction associated with all consumption of a product. Marginal utility refers to the satisfaction obtained from the last unit of a product.
- The law of diminishing marginal utility says that the more of a product we consume, the smaller the increments of pleasure we get from each additional unit. This is the foundation for the law of demand.
- The price elasticity of demand *(E)* is a numerical measure of consumer response to a change in price (ceteris paribus). It equals the percentage change in quantity demanded divided by the percentage change in price.
- If demand is elastic ($E > 1$), a small change in price induces a large change in quantity demanded. "Elastic" demand indicates that consumer behavior is very responsive to price changes.

5.3. Language Practice:

5.3.1. Multiple Choice:

1. Economists have identified four different influences on consumer demand: .....
a) tastes, income, willingness, and the amount of other goods;
b) tastes, income, expectations, and the prices of other goods;
c) tastes, ability, expectations, and the quantity of other goods.

2. To say that someone demands a particular good means that he or she .....
a) is able and willing to buy it at some price(s);
b) is willing to buy it at some price(s);
c) would like to buy it.

3. Total utility refers to .....
a) the amount of satisfaction you get from consuming the last unit of a product;
b) the amount of satisfaction you get from consuming the first unit of a product;
c) the amount of satisfaction obtained from your entire consumption of a product.

4. The response of consumers to a change in price is measured by .....
a) the price elasticity of supply;
b) the price elasticity of demand;
c) the law of diminishing marginal utility.
5. If *E* is less than 1, we say.....
a) demand is elastic;
b) demand is unitary elastic;
c) demand is inelastic.
6. The law of diminishing marginal utility states that each successive unit of a good consumed yields .....
a) less additional utility;
b) more additional utility;
c) no additional utility.
7. Economists use the term ..... to refer to the expected pleasure, or satisfaction, obtained from goods and services.
a) demand;
b) utility;
c) supply.

5.3.2. Key Terms – Matching:

1.	Demand	a)	– the amount of satisfaction obtained from entire consumption of a product;
2.	Market demand	b)	– the marginal utility of a good declines as more of it is consumed in a given time period;
3.	Utility	c)	– the ability and willingness to buy specific quantities of a good at alternative prices in a given time period, ceteris paribus;
4.	Total utility	d)	– the satisfaction obtained by consuming one additional (marginal) unit of a good or service;
5.	Marginal utility	e)	– the percentage change in quantity demanded divided by the percentage change in price;
6.	Law of diminishing marginal utility	f)	– the total quantities of a good or service people are willing and able to buy at alternative prices in a given time period; the sum of individual demands;
7.	Price elasticity of demand	g)	– the pleasure of satisfaction obtained from a good or service.

5.3.3. Please explain the meaning of the following words and word combinations in English:

Demand, market demand, utility, total utility, marginal utility, law of diminishing marginal utility, price elasticity of demand, pattern of consumption, expenditure, consumer behavior, consumption decisions, elastic demand, inelastic demand, unitary elastic demand, income, determinant of demand.

5.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~substitute goods~~ high-priced necessities elastic available decline price increases luxuries consumers world trade barriers

DETERMINANTS OF PRICE ELASTICITY OF DEMAND

We cannot say just what will determine the price elasticity of demand in each individual situation. However, the following generalizations are often helpful.

Substitutability. Generally, the larger the number of (1) *substitute goods* that are available, the greater the price elasticity of demand. If one competitive seller of carrots or potatoes raises its price, buyers will turn to the readily available perfect substitutes provided by its many rivals. Similarly, we would expect the lowering of (2) _____ to increase the elasticity of demand for most products by making more substitutes available.

The elasticity of demand for a product depends on how narrowly the product is defined. Demand for Reebok[52] sneakers is more (3) _____ than is the overall demand for shoes. Many other brands are readily substitutable for Reebok sneakers, but there are few, if any, good substitutes for shoes.

Proportion of Income. Other things equal, the higher the price of a good relative to consumers' incomes, the greater the price elasticity of demand. A 10 percent increase in the price of low-priced pencils or chewing gum amounts to a few more pennies relative to one's income, and quantity demanded will probably (4) _____ only slightly. Thus, price elasticity for such low-priced items tends to be low. But a 10 percent increase in the price of relatively (5) _____ automobiles or housing means additional expenditures of perhaps $2500 or $15,000, respectively. These (6) _____ are significant fractions of the annual incomes and budgets of most families, and quantities demanded will likely diminish significantly. Price elasticity for such items tends to be high.

Luxuries versus Necessities. In general, the more that a good is considered to be a "luxury" rather than a "necessity" the greater is the price elasticity of demand. Bread and electricity are generally regarded as (7) _____; it is difficult to get along without them. A price increase will not significantly reduce the amount of bread consumed or the amount of lighting and power used in a household. An extreme case: A person does not decline an operation for acute appendicitis because the physician's fee has just gone up.

On the other hand, travel vacations and jewelry are (8) _____, which, by definition, can easily be forgone. If the prices of travel vacations and jewelry rise, a consumer need not buy them and will suffer no great hardship without them.

What about the demand for a common product like salt? It is highly inelastic on three counts: There are few good substitutes (9) _____; salt is a negligible item in the family budget; and it is a "necessity" rather than a luxury.

Time. Generally, product demand is more elastic the longer the time period under consideration. Consumers often need time to adjust to changes in prices. For example, when the price of a product rises, it takes time to find and experiment with other products to see if they are acceptable. The (10) _____ may not immediately reduce their purchases very much when the price of beef rises by 10 percent, but in time they may shift to chicken or fish.

5.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the verb and noun ***demand***: *(v) 1) request, ask for, solicit, claim, insist on, order, exact;* *2) require, need, necessitate, call for, involve;* *3) ask, question, interrogate, inquire, query.* *(n) 1) request, claim, order, requisition, command, direction, charge, bidding, behest;*

[52] ***Reebok International Limited***, a subsidiary of the German company Adidas since 2005, is a producer of athletic shoes, clothing, and accessories.

2) requirement, need, want, necessity;
3) question, query, inquiry, interrogation.

5.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Структура споживання/витрат, споживчий попит, споживач, витрачати доходи, товари та послуги, поведінка споживача, готовність і спроможність платити, ринковий попит, корисність, гранична корисність, загальна корисність/сукупна корисність, закон спадної граничної корисності, цінова еластичність, цінова еластичність попиту/еластичність попиту за ціною, відповідь споживача на зміни ціни, зміни обсягу попиту у відсотках, еластичний попит, нееластичний попит, одиничний еластичний попит, детермінанти ринкового попиту, вимірювати, дохід/прибуток, збільшувати(ся)/зростати/підсилювати(ся), зменшувати(ся) /скорочувати(ся).

5.4.2. Please translate the following sentences into Ukrainian:

1. Consumer demand theory is the branch of economics devoted to the study of consumer behavior, especially as it applies to decisions related to purchasing goods and services through markets. Consumer demand theory is largely centered on the study and analysis of the utility generated from the satisfaction of wants and needs. The key principle of consumer demand theory is the law of diminishing marginal utility, which offers an explanation for the law of demand and the negative slope of the demand curve.
2. Utility is the satisfaction derived from the consumption of a product or a service. It is the ability of an item to fulfill a human want. Marginal utility is the extra satisfaction derived from consuming an additional unit of a product or service. It is an important concept in economic theory, on which the law of diminishing marginal utility is based.
3. We must distinguish carefully between total utility and marginal utility. Total utility is the total amount of satisfaction or pleasure a person derives from consuming some specific quantity – for example, 10 units – of a good or service. Marginal utility is the extra satisfaction a consumer realizes from an additional unit of that product – for example, from the eleventh unit. Alternatively, we can say that marginal utility is the change in total utility that results from the consumption of 1 more unit of a product.
4. Marginal utility is an important economic concept because it determines how much of an item a consumer will buy. It is an abstract measure of happiness or satisfaction derived from a good or a service.
5. Law of diminishing marginal utility is a principle stating that as the quantity of a good consumed increases, eventually each additional unit of the good provides less additional utility – that is, marginal utility decreases. Each subsequent unit of a good is valued less than the previous one. The law of diminishing marginal utility helps to explain the negative slope of the demand curve and the law of demand.
6. The responsiveness (or sensitivity) of consumers to a price change is measured by a product’s price elasticity of demand. For some products – for example, restaurant meals – consumers are highly responsive to price changes. Modest price changes cause very large changes in the quantity purchased. Economists say that the demand for such products is relatively elastic or simply elastic.
7. For other products – for example, salt – consumers pay much less attention to price changes. Substantial price changes cause only small changes in the amount purchased. The demand for such products is relatively inelastic or simply inelastic.

8. The price elasticity of demand coefficient E_d is the ratio of the percentage change in quantity demanded to the percentage change in price. The averages of the prices and quantities are used as references in calculating the percentage changes.
9. When E_d is greater than 1, demand is elastic; when E_d is less than 1, demand is inelastic; when E_d is equal to 1, demand is of unit elasticity.
10. Price elasticity of demand is greater (a) the larger the number of substitutes available; (b) the higher the price of a product relative to one's budget; (c) the greater the extent to which the product is a luxury; and (d) the longer the time period involved.

5.4.3. Please translate the following sentences into English:

1. Структура споживання неоднакова у різних груп домогосподарств. Вона залежить від багатьох факторів, серед яких одним із визначальних є рівень доходу. Структура споживання включає такі групи витрат: на харчування, одяг, житло, транспорт, медицину, освіту та заощадження. Їх співвідношення різне для груп домогосподарств з різним рівнем доходу.
2. Корисність – це задоволення, яке споживач отримує від споживання товарів чи послуг або від будь-якої діяльності. Корисність – поняття виключно індивідуальне: те, що для одного споживача може мати високу корисність, іншим може сприйматися як антиблаго (наприклад, кава, сигарети, алкоголь).
3. Сукупна корисність (total utility) – це загальне задоволення, яке отримує споживач від спожитих ним товарів чи послуг. Сукупна корисність зростає у процесі споживання, але вона зростає все меншими і меншими темпами.
4. Гранична корисність (marginal utility) – це приріст корисності від споживання кожної додаткової одиниці товару чи послуги. Згідно із законом спадної граничної корисності величина граничної корисності має тенденцію зменшуватися із збільшенням кількості товару, що споживається.
5. Більшість сучасних економістів стверджує, що маржинальна корисність має тенденцію до зниження (закон спадної граничної корисності), сутність якого полягає в тому, що кожна додаткова одиниця продукту певного виду приносить споживачу все менше задоволення, а тому її гранична корисність знижується, спричиняючи відповідне зниження рівня ринкових цін на продукцію.
6. Еластичність попиту за ціною – це відношення відсоткової величини попиту на товар до зазначеної процентної зміни його ціни. Рівень цінової еластичності вимірюється за допомогою коефіцієнта E_d, який показує, на скільки відсотків зміниться попит при зміні ціни на 1% і розраховується за формулою:

$$Ed = \frac{\% \, \Delta Qd}{\% \, \Delta P} = \frac{\text{зміна попиту } \%}{\text{зміна ціни } \%}$$

Для виміру сприйнятливості споживачів до зміни цін застосовуються відсоткові, а не абсолютні величини.
7. Попит на товар вважається еластичним, якщо зазначена відсоткова зміна ціни призводить до відносно більшої відсоткової зміни величини попиту. У цьому разі E_d буде більше одиниці ($E_d > 1$).
8. Якщо зазначена відсоткова зміна ціни супроводжується відносно меншими відсотковими змінами величини попиту, то попит вважається нееластичним. У цьому разі E_d є меншим за одиницю ($E_d < 1$).
9. Між еластичним і нееластичним попитом відбувається гранична ситуація, коли відсоткові зміни ціни та відсоткові зміни попиту, які супроводжують

його, рівні між собою. Цей спеціальний випадок називається одиничною еластичністю, оскільки $E_d = 1$.

10. Факторами цінової еластичності попиту є: наявність товарів-замінників: чим більше близьких і досконалих замінників має товар, тим більш еластичним є попит на нього, і навпаки; питома вага товару у видатках споживача: чим більшу частку займає товар у видатках споживача, тим більш еластичним є попит на нього, і навпаки; фактор часу у споживанні: у короткостроковому періоді попит менш еластичний, ніж у довгостроковому, оскільки для зміни смаків, уподобань і структури споживання потрібен час; важливість товару для споживача: попит на товари першої необхідності є нееластичним, на предмети розкоші – еластичним за ціною.

5.4.4. Please make an English summary of the following text:

ЕЛАСТИЧНІСТЬ ПОПИТУ

Криві попиту та пропозиції пояснюють, що буде з обсягами попиту та пропозиції, якщо зміниться ціна. Якщо фірми не збільшують пропозиції, тоді попит зростає, і це зростання збільшить рівноважну ціну. Люди бажають купувати більше товару за тією самою ціною, але фірми не пропонують більше товару, тому щось повинно трапитися. Це "щось" і є зростанням рівноважної ціни. Якщо люди не готові купувати більше товару за зниженою ціною, то збільшення обсягу пропозиції трансформується у зниження цін. Фірми готові запропонувати більше товару. Знову щось трапиться, і це "щось" – ще глибше зниження ціни.

Абсолютні зміни в цінах або обсягу пропозиції не повністю відображають цінові зміни. Якщо збільшення ціни на нові автомобілі на 1000 грн. знизить величину попиту на 100 тис. грн., то ця інформація сама по собі нічого не дасть.

ВИЗНАЧЕННЯ ЕЛАСТИЧНОСТІ ПОПИТУ ЗА ЦІНОЮ

Еластичність попиту за ціною (або цінова еластичність попиту) показує залежність зміни обсягу попиту від зміни ціни. Цінова еластичність попиту – це зміни обсягу попиту, що виражені у відсотках, поділені на зміни ціни, які виражені у відсотках. Цінова еластичність попиту позначається *Ed:*

Формула коефіцієнту цінової еластичності попиту

$Ed = \Delta D \div \Delta P$, де ΔD – зміни у величині попиту (%), ΔP – зміни цін (%).

Згідно із законом попиту, зі збільшенням ціни обсяг попиту знижується. Еластичність попиту, таким чином, є від'ємною. Наприклад, якщо ціна авіаквитків зросла на 10%, то величина попиту може знизитися на 5%. Згідно з формулою, еластичність дорівнює −0,5.

ЕЛАСТИЧНИЙ ТА НЕЕЛАСТИЧНИЙ ПОПИТ

Щоб спростити поняття "еластичність", економісти звичайно не використовують знак "–", а використовують абсолютні значення еластичності. Замість того щоб говорити, що еластичність попиту на авіаквитки дорівнює −0,5, говорять 0,5.

Еластичність попиту може змінюватися від 0 (немає ніякої реакції на зміни цін) до нескінченності, але економісти поділяють еластичність на три категорії:

1) якщо еластичність попиту більша ніж 1, то попит еластичний;

2) якщо еластичність попиту дорівнює 1, то попит має одиничну еластичність;

3) якщо еластичність попиту менша від 1, то попит нееластичний.

5.5. Reading Practice:

5.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: CONSUMER EXPENDITURES IN 2010: LINGERING EFFECTS OF THE GREAT RECESSION

Although the 18-month recession that began in December 2007 had officially ended in June 2009, consumers across the United States continued to feel the effects of this economic downturn throughout 2010. Of the seven major components of spending – food, housing, apparel and services, transportation, healthcare, entertainment, and personal insurance and pensions – five components continued a downward trend from 2009. Expenditures decreased by 3.8 percent for total food (a combination of food consumed at home and food consumed away from home), 2.0 percent for housing, 1.4 percent for apparel and services, 7.0 percent for entertainment, and 1.8 percent for personal insurance and pensions. Only the transportation and healthcare components experienced increases in expenditures from 2009 to 2010, with spending rising by 0.2 percent and 1.0 percent, respectively. The increase in transportation expenditures can be traced largely to a rebound in gasoline and motor oil expenditures.

Following the recession, CUs[53] spent less of their total income, on average. In 2010, consumers spent 77.0 percent of their annual income before taxes. Although the average income before taxes dropped 0.6percent in that time, overall expenditures declined 2.0 percent. This gap shows a continuing lack of consumer confidence brought on by the recession. According to the Nielsen Company[54], consumer confidence remained low in 2010, with the Consumer Confidence Index[55] reaching a low of 81. (Levels of 100 and higher reflect consumer optimism.)

A portion of this pessimism can be attributed to a persisting high unemployment rate and a slumping housing market. According to the Current Population Survey (CPS)[56], the monthly national unemployment rate was above 9.4 percent throughout 2010. The number of long-term unemployed individuals (those who are out of work for more than 26 weeks) also rose, from 4.5 million in 2009 to 6.4 million in 2010. In the housing market, sales of both new and existing homes declined again, while foreclosures were levied on a record 2.9 million U.S. properties.

Text 2: TOTAL VS MARGINAL UTILITY

The *law of diminishing marginal utility* states that each successive unit of a good consumed yields less additional utility. The expectation of diminishing marginal utility is illustrated in Figure 5.3. The graph on the left depicts the total utility obtained from eating popcorn. Notice that total utility continues to rise as we consume the first five boxes (ugh!) of popcorn. But total utility increases by smaller and smaller increments. Each successive step of the total utility curve in Figure 5.3 is a little shorter.

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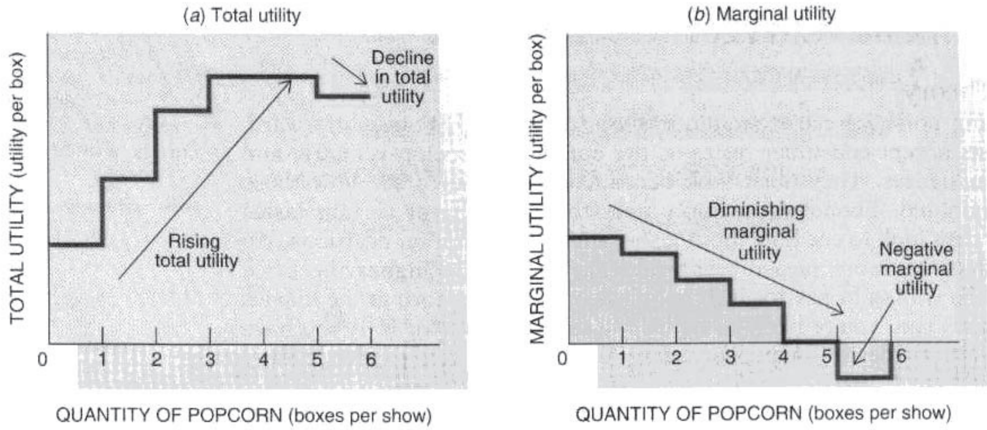
[53] ***CU (consumer unit)*** is defined as all members of a particular household who are related by blood, marriage, adoption, or other legal arrangements.

[54] ***Nielsen Holdings N.V.*** is an American global information and measurement company with headquarters in New York (USA) and Diemen (Netherlands). It enables companies to understand consumers and consumer behavior. Nielsen measures and monitors what consumers watch (programming, advertising) and what consumers buy (categories, brands, products) on a global and local basis.

[55] ***The U.S. Consumer Confidence Index (CCI)*** is an indicator designed to measure consumer confidence, which is defined as the degree of optimism on the state of the economy that consumers are expressing through their activities of savings and spending.

[56] ***The Current Population Survey (CPS)*** is a statistical survey conducted by the United States Census Bureau for the Bureau of Labor Statistics (BLS). The BLS uses the data to provide a monthly report on the Employment Situation. This report provides estimates of the number of employed people and the number of unemployed people in the United States.

Figure 5.3



Total vs Marginal Utility

The height of each step of the total utility curve in Figure 5.3 represents marginal utility – the increments to total utility. The graph on the right in Figure 5.3 illustrates these marginal increments – the height of each step of the total utility curve (left graph). This graph shows more clearly how marginal utility diminishes.

Do not confuse diminishing marginal utility with dislike. Figure 5.3 doesn't imply that the second box of popcorn isn't desirable. It only says that the second box isn't as satisfying as the first. It still tastes good, however. How do we know? Because its marginal utility is positive (right graph), and therefore total utility (left graph) rises when the second box is consumed. So long as marginal utility is positive, total utility must be increasing.

The situation changes abruptly with the sixth box of popcorn. According to Figure 5.3, the good sensations associated with popcorn consumption are completely forgotten by the time the sixth box arrives. Nausea and stomach cramps dominate. Indeed, the sixth box is absolutely distasteful, as reflected in the downturn of total utility and the negative value for marginal utility. We were happier – in possession of more total utility – with only five boxes of popcorn. The sixth box – yielding negative marginal utility – has reduced total satisfaction. This is the kind of sensation you'd also experience if you ate too many hamburgers.

Marginal utility not only explains why we stop eating before we explode but also why we pay so little for drinking water. Water has a high total utility: we would die without it. But its marginal utility is low, so we're not willing to pay much for another glass of it.

Not all goods approach zero (much less negative) marginal utility. Yet the more general principle of diminishing marginal utility is experienced daily. That is to say, additional quantities of a good eventually yield increasingly smaller increments of satisfaction. Total utility continues to rise, but at an ever slower rate as more of a good is consumed. There are exceptions to the law of diminishing marginal utility, but not many. (Can you think of any?)

Text 3: PRICE ELASTICITY AND TOTAL REVENUE

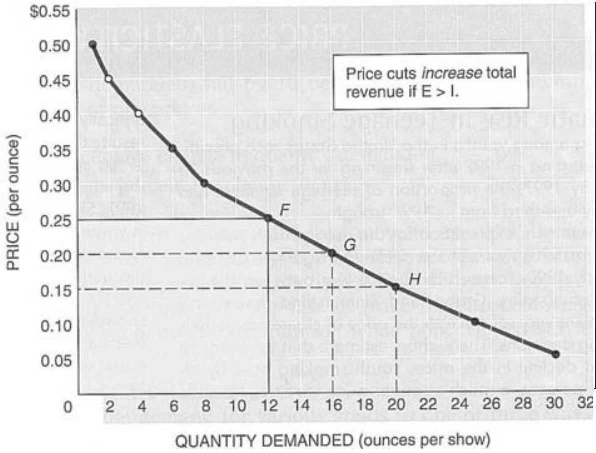
The concept of price elasticity refutes the popular misconception that producers charge the highest price possible. Except in the very rare case of completely inelastic demand ($E = 0$), this notion makes no sense. Indeed, higher prices may actually lower total sales revenue.

The total revenue of a seller is the amount of money received from product sales. It is determined by the quantity of the product sold and the price at which it is sold. Specifically

Total revenue = price × quantity sold

If the price of popcorn is 25 cents per ounce and 12 ounces are sold (point *F* in Figure 5.4), total revenue equals \$3.00 per show. This total revenue is illustrated by the shaded rectangle in Figure 5.4. (Recall that the area of a rectangle is equal to its height, *p*, times its width, *q*.)

Figure 5.4



	Price	×	Quantity Demanded	=	Total Revenue
A	\$0.50		1		\$0.50
B	0.45		2		0.90
C	0.40		4		1.60
D	0.35		6		2.10
E	0.30		8		2.40
F	0.25		12		3.00
G	0.20		16		3.20
H	0.15		20		3.00
I	0.10		25		2.50
J	0.05		30		1.50

Elasticity and Total Revenue

Effect of a Price Cut. Now consider what happens to total revenue when the price of popcorn is reduced. Will total revenue decline along with the price? Maybe not. Remember the law of demand: as price falls, the quantity demanded increases. Hence, total revenue might actually increase when the price of popcorn is reduced. Whether it does or not depends on how much quantity demanded goes up when price goes down. This brings us back to the concept of elasticity.

Suppose we reduce popcorn prices from 25 cents to only 20 cents per ounce. What happens to total revenue? We know from Figure 5.4 that total revenue at point *F* was \$3.00. At the lower price of 20 cents, unit sales increase significantly (to 16 ounces). In fact, they increase so much that total revenue actually increases as well. Total revenue at point *G* (\$3.20) is larger than at point *F* (\$3.00). Because total revenue rose when price fell, demand must be elastic in this price range.

Total revenue can't continue rising as price falls. At the extreme, price would fall to zero and there would be no revenue. So somewhere along the demand curve falling prices will begin to pinch total revenue. In Figure 5.4, this happens when the price of popcorn drops from 20 cents to 15 cents. Unit sales again increase (to 20 ounces) but not enough to compensate for the price decline. As a result, total revenue at point *H* (\$3.00) is less than at point *G* (\$3.20). Total revenue fell in this case because the consumer response to a price reduction was small in comparison to the relative size of the price cut. In other words, demand was price inelastic. Thus we can conclude that

- A price cut reduces total revenue if demand is inelastic ($E < 1$).
- A price cut increases total revenue if demand is elastic ($E > 1$).
- A price cut does not change total revenue if demand is unitary elastic ($E = 1$).

Table 5.1 summarizes these responses as well as responses to price increases. Once we know the price elasticity of demand, we can predict how consumers will respond to changing prices. We can also predict what will happen to total revenue when a seller raises or lowers the price.

Table 5.1

Price Elasticity of Demand and Total Revenue

If Demand Is:	When Price Increases, Total Revenue Will:	When Price Decreases, Total Revenue Will:
Elastic ($E > 1$)	Decrease	Increase
Inelastic ($E < 1$)	Increase	Decrease
Unitary elastic ($E = 1$)	Not change	Not change

<u>Text 4</u>: DETERMINANTS OF ELASTICITY

Table 5.2 indicates the actual price elasticity for a variety of familiar goods and services. These large differences in elasticity are explained by several factors.

Table 5.2

Elasticity Estimates

Type of Elasticity	Estimate
Relatively elastic (E > 1)	
Airline travel, long run	2.4
Fresh fish	2.2
New cars, short run	1.2-1.5
Unitary elastic (E = 1)	
Private education	1.1
Radios and televisions	1.2
Shoes	0.9
Relatively inelastic (E < 1)	
Cigarettes	0.4
Coffee	0.3
Gasoline, short run	0.2
Long-distance telephone calls	0.1

NECESSITIES VS LUXURIES

Some goods are so critical to our everyday life that we regard them as necessities. A hair brush, toothpaste, and perhaps textbooks might fall into this category. Our taste for such goods is so strong that we can't imagine getting along without them. As a result, we don't change our consumption of necessities much when the price increases; demand for necessities is relatively inelastic.

A luxury good, by contrast, is something we'd like to have but aren't likely to buy unless our income jumps or the price declines sharply; vacation travel, new cars are examples. We want them, but we can get by without them. Thus demand for luxury goods is relatively elastic.

AVAILABILITY OF SUBSTITUTES

Our notion of what goods are necessities is also influenced by the availability of substitute goods. The high elasticity of demand for fish recorded in Table 5.2 reflects the fact that consumers can always eat chicken, beef, or pork if fish prices rise. On the other hand, most coffee drinkers cannot imagine any substitute for a cup of coffee. As a consequence, when coffee prices rise, consumers do not reduce their purchases very much at all. Likewise, the low elasticity of demand for gasoline reflects the fact that most cars can't run on alternative fuels. In general, the greater the availability of substitutes, the higher the price elasticity of demand.

PRICE RELATIVE TO INCOME

Another important determinant of elasticity is the price of the good itself. If the price of a product is very high in relation to the consumer's income, then price changes will be important. Airline travel and new cars, for example, are quite expensive, so even a small percentage change in their prices can have a big impact on a consumer's budget (and consumption decisions). The demand for such big ticket items tends to be elastic. By contrast, coffee is so cheap for most people that even a large percentage change in price doesn't affect consumer behavior very much.

Text 5: CAVEAT EMPTOR[57]: THE ROLE OF ADVERTISING

Producers who understand price elasticity have a big advantage in the marketplace. They know how to move consumers up and down an existing market demand curve. But what if producers could get around the ceteris paribus assumption and change consumer demand? That would open up a whole new set of profit opportunities. Remember that the demand curve itself will shift if tastes, incomes, the price/availability of other goods, or expectations change.

Most producers are quick to see the profit opportunity here. If they can change consumer's tastes, they can shift the demand curve and sell more output at higher prices. How will they do this? By advertising. Psychiatrists see us as complex bundles of basic drives, anxieties, and layers of consciousness. They presume that we enter the market with confused senses of guilt, insecurity, and ambition. Economists, on the other hand, regard the consumer as the rational Homo economicus[58], aware of his or her wants and knowledgeable about how to satisfy them. In reality, however, we do not always know what we want or which products will satisfy us. This uncertainty creates a vacuum into which the advertising industry has eagerly stepped.

The efforts of producers to persuade us to buy, buy, buy are as close as the nearest television, radio, magazine, or billboard. American producers now spend over $200 billion per year to change the tastes. This spending works out to over $400 per consumer, the highest per capita advertising rates in the world. Much of this advertising (including product labeling) is intended to provide information about existing products or to bring new products to our attention. A great deal of advertising, however, is also designed to exploit our senses and lack of knowledge. Recognizing that we are guilt-ridden, insecure, and sex-hungry, advertisers offer us pictures and promises of exoneration, recognition, and love: all we have to do is buy the right product.

One of the favorite targets of advertisers is our sense of insecurity. Brand images are developed to give consumers a sense of identity. Use the right perfume and you'll be irresistibly sexy. Wear Brand X jeans and you'll be way cool. Or at least that's what advertiers want you to believe.

Are Wants Created? Advertising cannot be blamed for all of our "foolish" consumption. Even members of the most primitive tribes, uncontaminated by the seductions of advertising, adorned themselves with rings, bracelets, and pendants. Furthermore, advertising has grown to massive proportions only in the last four decades, but consumption spending has been increasing throughout recorded history.

Although advertising cannot be charged with creating our needs, it does encourage specific outlets for satisfying those needs. The objective of all advertising is to alter the choices we make. Just as brand images are used to attract us to particular products, so are

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[57] ***Caveat emptor*** is Latin for *Let the buyer beware*. Generally, *caveat emptor* is the property law principle that controls the sale of real property after the date of closing, but may also apply to sales of other goods.

[58] In economics, ***homo economicus***, or ***economic human***, is the concept in many economic theories of humans as rational and narrowly self-interested actors who have the ability to make judgments toward their subjectively defined ends. Using these rational assessments, homo economicus attempts to maximize utility as a consumer and economic profit as a producer. This theory stands in contrast to the concept of homo reciprocans, which states that human beings are primarily motivated by the desire to be cooperative and to improve their environment.

pictures of hungry, ill-clothed children used to persuade us to give money to charity. In the same way, public-relations gimmicks are employed to sway our votes for public servants.

In the case of consumer products, advertising seeks to increase tastes for particular goods and services and therewith our willingness to pay. A successful advertising campaign is one that shifts the demand curve for a product to the right, inducing consumers to increase their purchases of a product at every price. Advertising may also increase brand loyalty, making the demand curve less elastic, thereby reducing consumer responses to price increases. By influencing our choices in this way, advertising alters the distribution of our consumption expenditures, if not their level.

5.6. Internet Practice:

5.6.1. Web Activities:

- Log on to **www.msnbc.com.** Complete a keyword search using the search words "consumer demand". Find an article that suggests a change in demand. Analyze the article and identify the determinants of demand that are changing. What is the likely implication of this change on the market price?
- Log on to **www.census.gov/population/www/projections/popproj.html** and click on "total resident population". What are the high and low projections for the U.S. population in the year 2025? What is the likely impact on the demand for housing in the United States? Explain.
- Log on to **www.bls.gov/cex/** . Click the overview button then click on "News Release" and then the link for consumer expenditures survey. What has happened to consumer income before taxes in the last two years reported? What has happened to the average expenditures for food purchased away from home as a percentage of income before taxes? What are some possible explanations for this trend? What two categories of expenditures have had the largest percentage increase in the last two reported years?

5.7. Critical Thinking & Discussion Questions:

- Explain the law of demand in terms of diminishing marginal utility.
- What does the demand for education at your college look like? What is on each axis? Is the demand elastic or inelastic? How could you find out?
- How has the Internet affected the elasticity of demand for air travel?
- Identify three goods each for which your demand is (a) elastic or (b) inelastic. What accounts for the differences in elasticity?
- What are the major determinants of price elasticity of demand? Use those determinants and your own reasoning in judging whether demand for each of the following products is probably elastic or inelastic: (a) bottled water; (b) toothpaste; (c) Crest[59] toothpaste; (d) ketchup; (e) diamond bracelets; (f) Microsoft Windows operating system.
- Utility companies routinely ask state commissions for permission to raise utility rates. What does this suggest about the price elasticity of demand? Why is demand so (in)elastic?

[59] ***Crest*** is a brand of toothpaste made by Procter & Gamble in Germany and in the United States and sold worldwide. In many countries in Europe, such as Germany, Bulgaria, Serbia, Ukraine, Russia, Poland, Hungary, Latvia and Romania, it is sold as *Blend-A-Med*, the name of an established German toothpaste acquired by P&G in 1987 (formerly Blendax GmbH, located in Mainz, Germany). In France, Sweden, Belgium, the Netherlands, Brazil, the UK, Ireland, Nigeria and Colombia, P&G markets similar formulations under the *Oral-B* brand.

Unit 6 *Supply Decisions*

"The society based on production is only productive, not creative"
Albert Camus[60]

6.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

amount
capacity
ceiling
congestion
constraint(s):
capacity ~
capital ~
land ~
capital
consumer
cost(s):
accounting ~
average ~
direct ~
economic ~
explicit ~
fixed ~
implicit ~
marginal ~
opportunity ~
total ~
variable ~
~ of production
diminishing returns
efficiency
equipment
facility(ies)
input(s):
factor ~
labor ~
capital ~
investment
labor
land
marginal physical product
output
production:
factor of ~
~ capabilities
~ function
productivity
profit
rate
ratio
resource(s)
return(s)
sales revenue
scarcity
supply
total output
total revenue
unit value

Verbs:

to alleviate
to amount to
to assume
to compute
to constrain
to contribute
to decline/reduce
to diminish
to double
to employ/hire
to equal
to exceed
to gauge
to increase
to incur
to limit
to maximize
to measure
to quote
to own
to peak
to produce/manufacture
to specialize
to vary

Adjectives & Adverbs:

attainable
available
diminishing
fixed
leased
maximum
producible
scarce
short run (long run)
successive
ultimately
varying

[60] ***Albert Camus*** (7 November 1913 – 4 January 1960) was a French-Algeria-born French Nobel Prize winning author, journalist, and philosopher. His views contributed to the rise of the philosophy known as absurdism.

6.2. Read and translate the text into Ukrainian:

SUPPLY DECISIONS

CAPACITY CONSTRAINTS: THE PRODUCTION FUNCTION

No matter how large a business is or who owns it, all businesses confront one central fact: you need resources to produce goods. To produce corn, a farmer needs land, water, seed, equipment, and labor. Even the "production" of educational services (e.g. the economics class) requires the use of labor (your teacher), land (on which the school is built), and some capital (bricks and mortar or electronic classrooms). In short, you need *factors of production* – that is, resources that can be used to produce a good or service.

The factors of production used to produce a good or service provide the basic measure of economic cost. If someone asked you what the cost of your econ (economics) class was, you'd probably quote the tuition you paid for it. But tuition is the price of consuming the course, not the cost of producing it. The cost of producing your economic class is measured by the amounts of land, labor, and capital it requires. These are resource costs of production.

An essential question for production is, How many resources are actually needed to produce a given product? You could use a lot of resources to produce a product or use just a few. What we really want to know is how best to produce. What is the smallest amount of resources needed to produce a specific product? Or we could ask the same question from a different perspective: What is the maximum amount of output attainable from a given quantity of input resources?

These aren't easy questions to answer. But if we knew the technology of the production process and the efficiency of managerial organizations, we could come up with an answer. The answer would tell us the maximum amount of output attainable from a given quantity of resources. These limits to the production of any good are reflected in the *production function*. The production function tells us the maximum amount of good *X* producible from various combinations of factor inputs.

A production function is a technological summary of our ability to produce a particular good. Table 6.1 provides a partial glimpse of one such function. In this case, the desired output is designer jeans, as produced by the mythical Tight Jeans Corporation. The essential inputs in the production of jeans are land, labor (garment workers), and capital (a factory and sewing machines). With these inputs, Tight Jeans can produce and sell fancy jeans to status-conscious consumers.

Table 6.1.

A Production Function

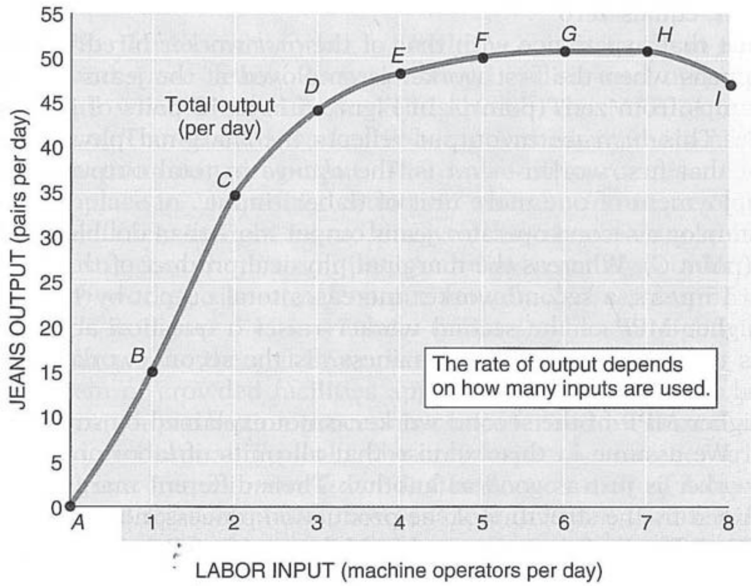
	A	*B*	*C*	*D*	*E*	*F*	*G*	*H*	*I*
Labor input (workers per day)	0	1	2	3	4	5	6	7	8
Output (pairs of jeans per day)	0	15	34	44	48	50	51	51	47

As in all production endeavors, we want to know how many pairs of jeans we can produce with available resources. To make things easy, we shall assume that the factory is already built. We will also assume that only one leased sewing machine is available. Thus, both land and capital inputs are fixed. Under these circumstances, only the quantity of labor can be varied. In this case, the quantity of jeans we can produce depends directly on the amount of labor we employ. The purpose of a production function is to tell us just how much output we can produce with varying amounts of factor inputs. Table 6.1 provides such information for jeans production.

Column *A* of Table 6.1 confirms the obvious: you can't manufacture jeans without any workers. Column *B* shows what happens to jeans output when only one worker is employed. With only one machine and one worker, the jeans start rolling out the front door. Maximum output under these circumstances (row 2, column *B*) is 15 pairs of jeans per day. Now we're in business! The remaining columns of Table 6.1 tell us how many additional jeans we can produce if we hire still more workers, still leasing only one sewing machine. With one machine and two workers, maximum output rises to 34 pairs per day (column *C*). If a third worker is hired, output could increase to 44 pairs.

This information on our production capabilities is illustrated in Figure 6.1. Point *A* illustrates the cold, hard fact that we can't produce any jeans without some labor. Points *B* through *I* show how production increases as additional labor is employed.

Figure 6.1.



Short-Run Production Function

Capacity. Although the production function emphasizes how output increases with more workers, the progression can't go on forever. Labor isn't the only factor of production needed to produce jeans. We also need capital. In this case, we have only a small factory and one sewing machine. If we keep hiring workers, we will quickly run out of space and available equipment. Land and capital constraints place a ceiling on potential output.

Notice in Figure 6.1 how total output peaks at point *G*. We can produce a total of 51 pairs of jeans at that point by employing six workers. If we employed a seventh worker, total output would not increase further. An eighth worker would actually reduce total output by increasing congestion on the factory floor, delaying access to the sewing machine, and just plain getting in the way. Given the size of the factory and the availability of only one sewing machine, no more than six workers can be productively employed. Hence, the capacity production of this factory is 51 pairs of jeans per day.

Marginal Physical Product. The land and capital constraints that limit output have some interesting effects on the productivity of individual workers. Consider that seventh worker at the jeans factory. If he/she were hired, total output would not increase: total output is 51 pairs of jeans when either six or seven workers are employed. Accordingly, that seventh worker contributes nothing to total output.

The contribution of each worker to production is measured by the change in total output that occurs when the worker is employed. The name for this concept is *marginal physical product (MPP)* and is measured as

$$Marginal\ physical\ product\ (MPP) = \frac{change\ in\ total\ output}{change\ in\ input\ quantity}$$

In this case, total output doesn't change when the seventh worker is hired, so his/her MPP equals zero.

Contrast that experience with that of the first worker hired. Notice again what happens when the first worker is employed at the jeans factory: total output jumps from zero (point *A* in Figure 6.1.) to 15 pairs of jeans per day (point *B).* This increase in output reflects the marginal physical product (MPP) of that first worker – that is, the change in total output that results from employment of one more unit of (labor) input.

If we employ a second operator, jeans output more than doubles, to 34 pairs per day (point *C*). Whereas the marginal physical product of the first worker was only 15 pairs, a second worker increases total output by 19 pairs.

The higher MPP of the second worker is not explained by superior talents or effort. Their different marginal products are explained by the structure of the production process, not by their respective abilities. The first garment worker had not only to sew jeans but also to unfold bolts of denim, measure the jeans, sketch out the patterns, and cut them to approximate size. A lot of time was spent going from one task to another. Despite the worker's best efforts, this person simply could not do everything at once.

A second worker alleviates this situation. With two workers, less time is spent running from one task to another. Now there is an opportunity for each worker to specialize a bit. This improved ratio of labor to other factors of production results in the large jump in total output. In other words, a worker's productivity (MPP) depends in part on the amount of other resources in the production process.

Law of Diminishing Returns. Unfortunately, output cannot keep increasing at this rate. Look what happens when a third worker is hired. Total jeans production continues to increase. But the increase from point *C* to point *D* in Figure 6.1 is only 10 pairs per day. Hence the MPP of the third worker (10 pairs) is less than that of the second (19 pairs). Marginal physical product is diminishing.

What accounts for this decline in MPP? The answer again lies in the ratio of labor to other factors of production. A third worker begins to crowd our facilities. We still have only one sewing machine. Two people cannot sew at the same time. As a result, some time is wasted as the operators wait for their turns at the machine. In this sense, we cannot make full use of a third worker. The relative scarcity of other inputs (capital and land) constrains the marginal physical product of labor.

If a seventh worker is hired, the operators get in each other's way, argue, and waste denim. As we observed earlier, total output does not increase at all when a seventh worker is hired. The MPP of the seventh worker is zero. The seventh worker is being wasted, in the sense that he/she contributes nothing to total output. This waste of scarce resources (labor) was commonplace in communist countries, where everyone was guaranteed a job. At Tight Jeans, however, they do not want to hire someone who doesn't contribute to output. And they certainly wouldn't want to hire an eighth worker, since total output actually declines from 51 pairs of jeans (point *H* in Figure 6.1) to 47 pairs (point *I*) when an eighth worker is hired. In other words, the eighth worker has a *negative MPP*.

The problem of crowded facilities applies to most production processes. In the short run, a production process is characterized by a fixed amount of available land and capital. Typically, the only factor that can be varied in the short run is labor. Yet, as more labor is hired, each unit of labor has less capital and land to work with. This is simple division: the available facilities are being shared by more and more workers. At some point, this constraint begins to pinch. When it does, marginal physical product starts to decline. This situation is so common that it is the basis for an economic principle: *the law of diminishing returns.* This law says that the marginal physical product of any factor of production (e.g., labor) will begin to diminish at some point, as more of it is used in a given production setting.

COSTS OF PRODUCTION

A production function tells us how much output a firm could produce with its existing plant and equipment. It doesn't tell us how much the firm will want to produce. The level of desired output depends on prices and costs. A firm might want to produce at capacity if the profit picture were bright enough. On the other hand, a firm might not produce any output if costs always exceeded sales revenue. The most desirable rate of output is the one that maximizes *total profit* – the difference between total revenue and total costs. The production function, then, is just a starting point for supply decisions. To decide how much output to produce with that function, a firm must next examine the dollar costs of production.

Total Cost. The economic cost of producing a good is ultimately gauged by the amount of scarce resources used to produce it. In a market economy, however, we want a more convenient measure of cost. Instead of listing all the input quantities used, we want a single dollar figure. To get that dollar amount, we must identify all the resources used in production, compute their value, then add everything up. The end result will be a dollar figure for the total cost of production.

In the production of jeans, the resources used include land, labor, and capital. Table 6.2. identifies these resources, their unit values, and the total costs associated with their use. The total cost of producing 15 pairs of jeans per day amounts to $245, as shown in Table 6.2.

Table 6.2
The Total Costs of Production

Cost of Producing Jeans (15 pairs per day)

Resource Used	×	*Unit Price*	=	*Total cost*
1 factory		$100 per day		$ 100
1 sewing machine		20 per day		20
1 operator		80 per day		80
1.5 bolts of denim		30 per bolt		45
Total cost				$ 245

Fixed Costs. Total costs will change, of course, as we alter the rate of production. But not all costs increase. In the short run, some costs don't increase at all when output is increased. These are fixed costs, in the sense that they do not vary with the rate of output. The factory lease is an example. Once you lease a factory, you are obligated to pay for it, whether you use it or not. The person who owns the factory wants $100 per day. Even if you produce no jeans, you still have to pay that rent. That is the essence of fixed costs. The leased sewing machine is another fixed cost.

Variable Costs. Labor costs are another story altogether. The amount of labor employed in jeans production can be varied easily. If we decide not to open the factory tomorrow, we can just tell our only worker to take the day off. We will still have to pay rent, but we can cut back on wages. On the other hand, if we want to increase daily output, we can also get additional workers easily and quickly. Labor is regarded as a variable cost in this line of work – that is, a cost that varies with the rate of output.

The denim itself is another variable cost. Denim not used today can be saved for tomorrow. Hence how much we "spend" on denim today is directly related to how many jeans we produce. In this sense, the cost of denim input varies with the rate of jeans output.

Text Summary

- Supply decisions are constrained by the capacity to produce and the costs of using that capacity.
- A production function indicates how much output can be produced from available facilities, using different amounts of variable inputs. Every point on the production function represents efficient production. Capacity output refers to the maximum quantity that can be produced from a given facility.
- Output tends to increase at a diminishing rate when more labor is employed in a given facility. Additional workers crowd existing facilities, leaving each worker with less space and machinery to work with.
- The costs of production include both fixed and variable costs. Fixed costs (e.g. space and equipment leases) are incurred even if no output is produced. Variable costs (e.g., labor and material) are incurred when plant and equipment are put to use.

6.3. Language Practice:

6.3.1. Multiple Choice:

1. The purpose of a production function is .....
a) to tell us how many resources are actually needed to produce a given product;
b) to tell us how the production process is organized;
c) to tell us how much output we can produce with varying amounts of factor inputs.

2. ..... place a ceiling on potential output.
a) Land and capital constraints;
b) Workers' abilities;
c) Trading constraints.

3. The contribution of each worker to production is measured by …..
a) total output that occurs when the worker is employed;
b) the change in total output that occurs when the worker is employed;
c) the change in total output that occurs when the worker is dismissed.

4. ….. constrains the marginal physical product of labor.
a) The worker's talent;
b) The entrepreneur's effort;
c) The relative scarcity of other inputs (capital and land).

5. The marginal physical product of any factor of production (e.g., labor) ….., as more of it is used in a given production setting.
a) will begin to increase at some point;
b) will begin to diminish at some point;
c) will begin to double at some point.

6. The most desirable rate of output is the one that maximizes total profit – .....
a) the change in total output that occurs when the worker is employed;
b) the market value of all resources used to produce a good or service;
c) the difference between total revenue and total costs.

7. ..... do not vary with the rate of output.
a) Fixed costs;
b) Variable costs;
c) Direct costs.

6.3.2. Key Terms – Matching:

1.	Factors of production	a)	– the ability and willingness to sell (produce) specific quantities of a good at alternative prices in a given time period, ceteris paribus;
2.	Production function	b)	– costs of production that do not change when the rate of output is altered, e.g., the cost of basic plant and equipment;
3.	Total cost	c)	– a technological relationship expressing the maximum quantity of a good attainable from different combinations of factor inputs;
4.	Fixed costs	d)	– costs of production that change when the rate of output is altered, e.g., labor and material costs;
5.	Variable costs	e)	– the market value of all resources used to produce a good or service;
6.	Marginal physical product (MPP)	f)	– resource inputs used to produce goods and services, e.g., land, labor, capital, entrepreneurship;
7.	Supply	g)	– the change in total output associated with one additional unit of input.

6.3.3. Please explain the meaning of the following words and word combinations in English:

Supply, fixed costs, variable costs, total cost, factors of production, production function, marginal physical product (MPP), law of diminishing returns, input, output, capital, negative MPP, profit, total revenue, supply decisions.

6.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~economic process~~ returns be obtained hiring smaller increases misapplication of resources law of diminishing returns manpower interfere inputs

WHAT ARE THE ADVANTAGES OF THE LAW OF DIMINISHING RETURNS?

The law of diminishing returns is a generalization of an observation from economics that increasing one input into an (1) *economic process* while holding the other factors constant, will produce smaller and smaller improvements in the output. The advantages of applying the law are that it will help avoid a (2) _____. According to the law of diminishing returns, you may increase an input to obtain an improved result but the (3) _____ will diminish until it is more effective to increase a different input.

Example: Fertilizing. An example of the application of the law and a demonstration of how the law works is found in fertilizing crops or gardens. An initial application of fertilizer, keeping everything else unchanged, results in an increase in plant growth. Further applications result in (4) _____. If too much fertilizer is applied, some plants will die and production actually decreases. The advantage of applying the (5) _____ is that it lets you predict and avoid this result.

Example: Adding Workers. A manufacturing plant wishing to increase production can usually do so by (6) _____ extra workers. If everything else is kept constant, hiring a few extra workers will increase productions a great deal, as the extra workers start performing tasks where the (7) _____ assigned was too low. As more workers are hired, it will not be obvious what they should be doing. Extra, supervisory personnel will be necessary, diminishing the return resulting from the extra workers. Eventually new workers will not be able to work, and will just (8) _____ with each other and the process. Production stops increasing and may even decrease. Applying the law of diminishing returns would indicate that you should stop hiring workers and focus elsewhere.

The law of diminishing returns applies when a process is not well-understood, and the apparently easiest improvement is chosen and carried out to excess. The solution is to examine the process that must be improved, to see where the best result can (9) _____ with the least effort. The inputs in that area must be increased gradually until the return decreases to a point where improvement in another area will give a better result. The (10) _____ in that area must then be increased until the return there diminishes. The advantage of applying the law is that in this way, a continuous improvement can be achieved.

6.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the noun and verb ***cost****:* *(n) 1) price, charge, rate, expense, outlay, expenditure, payment, amount, figure, worth, value;* *2) loss, penalty, sacrifice, damage, detriment, suffering, pain, injury, harm.* *(v) 1) sell for, amount to, set back (inf.);* *2) necessitate, reguire.*

6.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Обмеження/стримуючий фактор, продуктивність/виробничі потужності, ресурси/запаси, трудові ресурси, капітал/фонди, фактори виробництва, економічні затрати, ціна/вартість/витрати, постійні витрати, змінні витрати, сукупні витрати, продукція/випуск/вироблення/виробіток/продуктивність/потужність, затрати (на виробництво)/вкладення/задіювані ресурси/виробничі фактори, виробнича функція, граничний продукт, загальний об'єм виробництва, закон спадної прирісної віддачі/закон спадної дохідності, недостатні ресурси, валовий прибуток, сукупний дохід, дохід від продажу, вартість одиниці продукту, здавати в оренду/брати в оренду.

6.4.2. Please translate the following sentences into Ukrainian:

1. Production function is an equation that expresses the relationship between the quantities of productive factors (such as labour and capital) used and the amount of product obtained. It states the amount of product that can be obtained from every combination of factors, assuming that the most efficient available methods of production are used.
2. Factors of production is an economic term to describe the inputs that are used in the production of goods or services in the attempt to make an economic profit. The factors of production include land, labor, capital and entrepreneurship.

3. In essence, land, labor, capital and entrepreneurship encompass all of the inputs needed to produce a good or service. Land represents all natural resources, such as timber and gold, used in the production of a good. Labor is all of the work that laborers and workers perform at all levels of an organization, except for the entrepreneur. The entrepreneur is the individual who takes an idea and attempts to make an economic profit from it by combining all other factors of production. The entrepreneur also takes on all of the risks and rewards of the business. The capital is all of the tools and machinery used to produce a good or service.
4. In economics, the marginal product or marginal physical product of an input (factor of production) is the extra output that can be produced by using one more unit of the input (for instance, the difference in output when a firm's labor usage is increased from five to six units), assuming that the quantities of no other inputs to production change.
5. The law of diminishing returns describes what happens to output as a fixed plant is used more intensively. As successive units of a variable resource, such as labor are added to a fixed plant, beyond some point the marginal product associated with each additional unit of a resource declines.
6. Because some resources are variable and others are fixed, costs can be classified as variable or fixed in the short run. Fixed costs are independent of the level of output; variable costs vary with output. The total cost of any output is the sum of fixed and variable costs at that output.
7. Fixed costs typically include rents, insurance, depreciation, set-up costs, and normal profit. They are also called overheads.
8. Variable costs are also called direct costs. Examples of typical variable costs include fuel, raw materials, and some labour costs.
9. Average fixed, average variable, and average total costs are fixed, variable, and total costs per unit of output. Average fixed cost declines continuously as output increases because a fixed sum is being spread over a larger and larger number of units of production. Average total cost is the sum of average fixed and average variable costs.
10. Marginal cost is the extra, or additional, cost of producing 1 (one) more unit of output. It is the amount by which total cost and total variable cost change when 1 (one) more or 1 (one) less unit of output is produced.

6.4.3. Please translate the following sentences into English:

1. Фактори виробництва – це ресурси, необхідні для виробництва товарів або послуг. Класичними факторами виробництва є: робоча сила (всі розумові та фізичні здібності людей), земля (природні багатства), капітал (наявні, вироблені засоби виробництва, а також фінансовий капітал). Четвертим фактором вважається підприємливість, яка об'єднує попередні три фактори.
2. Виробнича функція – залежність кінцевого виходу продукції чи її вартості від використання різних факторів виробництва, конкретних видів ресурсів і затрат, подана в математичній формі.
3. Граничний продукт – кожний доданий продукт (приріст виробництва) від застосування додаткової (ще однієї) одиниці певного ресурсу (фактора виробництва), тобто віддача від останньої одиниці ресурсу, залученої у виробництво.
4. Закон спадної віддачі – це один із законів ринкової економіки, який полягає в тому, що з певного моменту послідовне приєднання одиниці змінного ресурсу, наприклад праці, до незмінного фіксованого ресурсу (капіталу або землі) дає

додатковий або граничний продукт, який зменшується в розрахунку на кожну наступну одиницю змінного ресурсу. Так, якщо кількість робітників, які обслуговують устаткування, збільшуватиметься, зростання обсягів виробництва не відбуватиметься в міру того, як більша кількість працівників залучатиметься до виробництва.

5. Витрати виробництва або сукупні витрати (total cost – TC) – це вартість усіх видів ресурсів, що витрачаються для виготовлення певної кількості продукції.
6. Постійні витрати (fixed cost – FC) – це витрати, що не залежать від обсягів виробництва продукції. Вони існують навіть тоді, коли продукція зовсім не виробляється.
7. Змінні витрати (variable cost – VC) – це вартість змінних ресурсів, що використовуються для виробництва заданого обсягу продукції, тому ці витрати залежать від випуску продукції.
8. Основні види постійних витрат: а) відсотки за кредит; б) орендна плата; в) амортизація; г) капітальний ремонт; ґ) податки; д) страхові внески; е) витрати на управління.
9. Основні види змінних витрат: а) витрати на сировину; б) оплата праці; в) витрати на паливно-мастильні матеріали; г) витрати на електроенергію.
10. У мікроекономіці використовуються не тільки показники сукупних витрат, але й середніх: середні постійні витрати (average fixed cost – AFC) – це кількість постійних витрат виробництва (FC), що припадає на одиницю виробленої продукції (Q): AFC = FC/Q; середні змінні витрати (average variable cost – AVC) – це кількість змінних витрат виробництва (VC), що припадає на одиницю виробленої продукції (Q): AVC= VC/Q; середні сукупні витрати (average total cost – ATC) – це кількість сукупних витрат виробництва (TC), що припадає на одиницю виробленої продукції (Q): ATC= TC/Q.

6.4.4. Please make an English summary of the following text:

ВИТРАТИ ВИРОБНИЦТВА, ЇХ СУТЬ ТА ВИДИ

Виробнича діяльність підприємства завжди пов'язана з витратами. Насамперед це затрати на оплату праці найманих працівників, купівлю засобів виробництва, тобто устаткування, машин, обладнання, сировини, матеріалів, на оплату електроенергії та інше. І перш ніж розпочати виробництво тих чи інших товарів, підприємці вивчають попит і ціни на товари, потім розраховують витрати на виробництво товарів та очікувані доходи і на цій основі приймають остаточне рішення про організацію виробництва. Далі розраховують, яку кількість товарів вони зможуть запропонувати на ринку. Кількість товару, яку фірма планує запропонувати на ринку, залежить від цін на ресурси, необхідних для виробництва товарів, та ефективності їх використання, з одного боку, і від ціни, за якою товар буде продаватися на ринку, – з іншого.

Що ж таке економічні витрати виробництва? Розгляньмо їх із позиції фірми. Економічні витрати виробництва – це сукупні затрати на виробництво товару. Іншими словами, економічні витрати – це ті видатки, які фірма повинна зробити для того, щоб придбати ресурси для організації виробництва товарів.

Витрати виробництва поділяються на зовнішні (explicit costs) і внутрішні (implicit costs).

Розрізняють також постійні та змінні витрати. Поділ витрат на постійні і змінні зумовлений тим, що збільшення або зменшення змінних витрат зумовлює зміни загальних витрат і обсягу виробництва продукції. Постійними називаються такі витрати, величина яких не змінюється залежно від зміни обсягу виробництва. До них належать оплата зобов'язань із позик, орендна плата, амортизаційні відрахування, заробітна плата вищого управлінського персоналу тощо. Постійні витрати пов'язані з самим існуванням фірми і тому повинні оплачуватися навіть тоді, коли фірма нічого не виробляє.

Змінними називаються такі витрати, величина яких змінюється залежно від зміни обсягу виробництва товарів. До них належать затрати на сировину, матеріали, паливо, енергію, транспортні послуги і більшість витрат на оплату трудових ресурсів (працівників, задіяних у виробництві).

Постійні й змінні витрати в сумі становлять загальні або валові витрати.

Поділ витрат на постійні і змінні має важливе значення для аналізу діяльності підприємства.

Для виробників продукції важливе значення мають і середні витрати виробництва (average costs), тобто витрати в розрахунку на одиницю продукції. Середні витрати виробництва поділяються на середні постійні, середні змінні та середні загальні.

6.5. Reading Practice:

6.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: WHICH COSTS MATTER?

The different nature of fixed and variable costs raises some intriguing questions about how to measure the cost of producing a pair of jeans. In figuring how much it costs to produce one pair, should we look only at the denim and labor time used to produce that pair? Or should we also take into account the factory rent and lease payments on the sewing machines?

A similar problem arises when you try to figure out whether a restaurant overcharges you for a steak dinner. What did it cost the restaurant to supply the dinner? Should only the meat and the chef's time be counted? Or should the cost include some portion of the rent, the electricity, and the insurance?

The restaurant owner, too, needs to figure out which measure of cost to use. He/She has to decide what price to charge for the steak. He/She wants to earn a profit. Can he/she do so by charging a price just above the cost of meat and wages? Or must he/she charge a price high enough to cover some portion of all his/her fixed costs as well?

To answer these questions, we need two distinct measures of cost, namely, average cost and marginal cost.

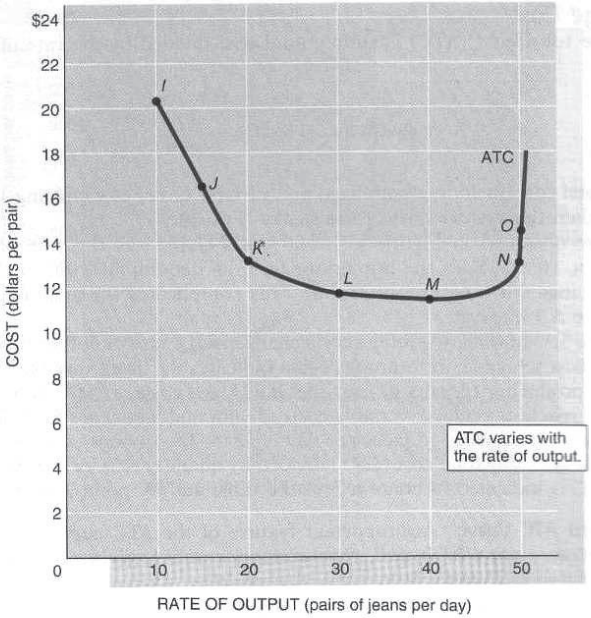
Average Cost. Average total cost (ATC) is simply total cost divided by the rate of output that is

$$Average\ total\ cost(ATC) = \frac{total\ cost}{total\ output}$$

If the total cost (including both fixed and variable costs) of supplying 10 steaks is \$62 then the average cost of the steaks is \$6.20.

Total costs change as the rate of output increases. Hence, both the numerator and the denominator in the ATC formula change with the rate of output.

Figure 6.2



	(1)	(2)		(3)		(4)	(5)
	Rate of Output	**Fixed Costs**	+	**Variable Costs**	=	**Total Cost**	**Average Total Cost**
H	0	$120		$0		$120	–
I	10	120		85		205	$20.50
J	15	120		125		245	16.33
K	20	120		150		270	13.50
L	30	120		240		360	12.00
M	40	120		350		470	11.75
N	50	120		550		670	13.40
O	51	120		633		753	14.76

Average Total Cost

Figure 6.2 shows how average costs change as the rate of output varies. Row *J* of the cost schedule, for example, again indicates the fixed, variable, and total costs of producing 15 pairs of jeans per day. Fixed costs are still $120 (for factory and machine rentals); variable costs (denim and labor) are $125. Thus the total cost of producing 15 pairs per day is $245. The average cost for this rate of output is simply total cost ($245) divided by quantity (15), or $16.33 per day. This ATC is indicated in column 5 of the table and by point *J* on the graph.

An important feature of the ATC curve is its shape. Average costs start high, fall, then rise once again, giving the ATC curve a distinctive *U* shape.

The initial decline in ATC is largely due to fixed costs. At low rates of output, fixed costs are a high proportion of total costs. Quite simply, it's very expensive to lease (or buy) an entire factory to produce only a few pairs of jeans. The entire cost of the factory must be averaged out over a small quantity of output. This results in a high average cost of production. To reduce average costs, we must make fuller use of our leased plant and equipment.

The same problem of cost spreading would affect a restaurant that served only two dinners a day. The total cost of operating a restaurant might easily exceed $500 a day. If only two dinners were served, the average total cost of each meal would exceed $250. That's why restaurants need a high volume of business to keep meal prices low.

As output increases, the fixed costs of production are distributed over an increasing quantity of output. Fixed costs no longer dominate total costs as production increases (compare columns 2 and 3 in Figure 6.2). As a result, average total costs tend to decline.

Average total costs don't fall forever, however. They bottom out at point *M* in Figure 6.2, then start rising. What accounts for this turnaround?

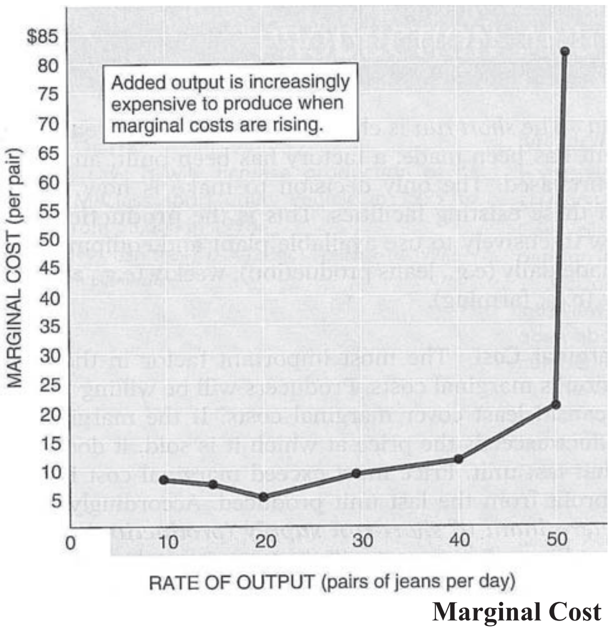
Marginal Cost. The upturn of the ATC curve is caused by rising marginal costs. *Marginal cost* (MC) refers to the change in total costs when one more unit of output is produced. In practice, marginal cost is easy to measure; just observe how much total costs increase when one more unit of output is produced. For larger increases in output, marginal cost can also be approximated by the formula

$$Marginal\ cost = \frac{change\ in\ total\ cost}{change\ in\ total\ output}$$

Using this formula and Figure 6.2 we could confirm how marginal costs rise in jeans production. As jeans production increases from 20 pairs (row *K)* to 30 pairs (row *L)* per day, total costs rise from $270 to $360. Hence, the change in total cost ($90) divided by the change in total output (10) equals $9. This is the marginal cost of jeans in that range of output (20 to 30 pairs).

Figure 6.3 shows how marginal costs change as jeans output increases. As output continues to increase further from 30 to 40 pairs per day, marginal costs rise. Total cost rises from $360 (row *L*) to $470 (row *M),* a change of $110. Dividing this by the change in output (10) reveals that marginal cost is now $11. Marginal costs are rising as output increases.

Figure 6.3.



	Rate of Output	Total Cost	$\frac{\Delta TC}{\Delta q} = MC$
H	0	$120	
I	10	205	$85/10 = $8.5
J	15	245	$40/5 = $8.0
K	20	270	$25/5 = $5.0
L	30	360	$90/10 = $9.0
M	40	470	$110/10 = $11.0
N	50	670	$200/10 = $20.0
O	51	753	$83/1 = $83.0

Marginal Cost

Rising marginal cost implies that each additional unit of output becomes more expensive to produce. Why is this? Why would a third pair of jeans cost more to produce than a second pair did? Why would it cost a restaurant more to serve the twelfth dinner than the eleventh dinner?

The explanation for this puzzle of rising marginal cost lies in the production function. As we observed earlier, output increases at an ever slower pace as capacity is approached. The law of diminishing marginal product tells us that we need an increasing amount of labor to eke out each additional pair of jeans. The same law applies to restaurants. As more dinners are served, the waiters and cooks get pressed for space and equipment. It takes a little longer (and, hence, more wages) to prepare and serve each meal. Hence, the marginal costs of each meal increase as the number of patrons rises.

Text 2: SUPPLY HORIZONS

All the cost calculations can give you a real headache. They can also give you second thoughts about jumping into Tight Jeans, restaurant management, or any other business. There are tough choices to be made. Any firm can produce many different rates of output, each of which entails a distinct level of costs. Someone has to choose which level of output to produce and thus how many goods to supply to the market. That decision has to be based not only on the capacity to produce (the production function) but also on the costs of production (the cost functions). Only those who make the right decisions will succeed in business.

The Short-Run Production Decision. The nature of supply decisions also varies with the relevant time frame. In this regard, we must distinguish *short-run* decisions from *long-run* decisions. The short run is characterized by the existence of fixed costs. A commitment has been made: a factory has been built, an office leased, or machinery purchased. The only decision to make is how much output to produce with these existing facilities. This is the production decision, the choice of how intensively to use available plant and equipment. This choice is typically made daily (e.g., jeans production), weekly (e.g., auto production), or seasonally (e.g., farming).

The most important factor in the short-run production decision is marginal costs. Producers will be willing to supply output only if they can at least cover marginal costs. If the marginal cost of producing a product exceeds the price at which it is sold, it doesn't make sense to produce that last unit. Price must exceed marginal cost for the producer to reap any profit from the last unit produced. Accordingly, marginal cost is a basic determinant of short-run supply (production) decisions.

Look back at Figure 6.3. Suppose Tight Jeans is producing 40 pairs per day and selling them for $18 each. In that case, total revenue is $720 ($18 × 40 pairs) and total cost is $470, yielding a profit of $250 per day.

Now suppose the plant manager is so excited by these profits that he/she increases total output to 50 pairs per day. Will profits increase proportionately? Not according to Figure 6.3. When output increases to 50 pairs, marginal cost rises to $20. Hence it is more expensive to produce those extra 10 pairs (@ $20 each) than they can be sold for ($18). Marginal costs would dictate not supplying the additional jeans. If they are produced, total profits will decline (check this!). Hence marginal costs provide an important clue about the profitability of supplying more output.

Marginal costs may also dictate short-run pricing decisions. Suppose the average total cost of serving a steak dinner is $12, but the marginal cost is only $7. How low a price can the restaurant charge for the dinner? Ideally, it would like to charge at least $12 and cover all of its costs. It could at least cover marginal costs, however, if it charged only $7. At that price the restaurant would be no worse or better off for having served an extra dinner. The additional cost of serving that one meal would be covered.

It must be emphasized that covering marginal cost is a minimal condition for supplying additional output. A restaurant that covers only marginal costs but not average total cost will lose money. It may even go out of business. This is a lesson lots of now-defunct Internet companies learned. They spent millions of dollars building telecommunications networks to produce Internet services. The marginal costs of producing Internet service was low, so they sold their services at low prices. Those low prices didn't bring in enough revenue to cover fixed costs, however, so legions of "dot.com" companies went bankrupt. As they quickly learned, you can get by just covering marginal costs. To stay in the game, however, you've got to cover average total costs as well.

The Long-Run Investment Decision. The long run opens up a whole new range of options. In the long run, we have no lease or purchase commitments. We are free to start all over again, with whatever scale of plant and equipment we desire. There are no fixed costs in the long run. Accordingly, long-run supply decisions are more complicated. If no commitments to production facilities have been made, a producer must decide how large a facility to build, buy, or lease. Hence the size (scale) of plant and equipment becomes an additional option for long-term supply decisions. In a long-run (no fixed costs) situation, a firm can make the investment decision.

Note that the distinction between short- and long-run supply decisions is not based on time. The distinction instead depends on whether commitments have been made. If no leases have been signed, no construction contracts awarded, no acquisitions made, a producer still has a free hand. With no fixed costs, the producer can walk away from the potential business at a moment's notice.

Once fixed costs are incurred, the options narrow. Then the issue becomes one of making the best possible use of the assets (e.g., factory, office space, equipment) that have been acquired. Once fixed costs have been incurred, it's hard to walk away from the business at a moment's notice. The goal then becomes to make as much profit as possible from the investments already made.

<u>Text 3</u>: ECONOMIC VS ACCOUNTING COSTS

The cost concepts we have discussed here are based on real production relationships. The dollar costs we compute reflect underlying resource costs – the land, labor, and capital used in the production process. Not everyone counts this way. On the contrary, accountants and businesspeople often count dollar costs only and ignore any resource use that doesn't result in an explicit dollar cost.

Return to Tight Jeans for a moment to see the difference. When we computed the dollar cost of producing 15 pairs of jeans per day, we noted the following resource inputs:

Inputs	**Cost**
1 factory rent	@ $100
1 machine rent	@ 20
1 machine operator	@ 80
1.5 bolts of denim	@ 45
Total cost	$245

The total value of the resources used in the production of 15 pairs of jeans was thus $245 per day. But this economic cost need not conform to actual dollar costs. Suppose the owners of Tight Jeans decided to sew jeans. Then they would not have to hire a worker or pay $80 per day in wages. Dollar costs would drop to $165 per day. The producers and their accountant would consider this to be a remarkable achievement. They would assert that the costs of producing jeans had fallen.

Economic Cost. An economist would draw no such conclusions. The essential economic question is how many resources are used in production. This has not changed. One unit of labor is still being employed at the factory; now it's simply the owner, not a hired worker. In either case, one unit of labor is not available for the production of other goods and services. Hence society is still incurring an opportunity cost of $245 for jeans, whether the owners of Tight Jeans write checks in that amount or not. The same would be true if Tight Jeans owned its own factory rather than rented it.

The distinction between an economic cost and an accounting cost is essentially one between resource and dollar costs. Dollar cost refers to the explicit dollar outlays made by a producer; it is the lifeblood of accountants. Economic cost, in contrast, refers to the dollar value of all resources used in the production process: it is the lifeblood of economists. The accountant's dollar costs are usually *explicit,* in the sense that someone writes a check. The economist takes into consideration *implicit* costs as well, that is, even those costs for which no direct payment is made. In other words, economists count costs as

Economic cost = explicit costs + implicit costs

As this formula suggests, economic and accounting costs will diverge whenever any factor of production is not paid an explicit wage (or rent, etc.).

Economic Profit. The distinction between economic cost and accounting cost directly affects profit computations. People who supply goods and services want to make a profit from their efforts. But what exactly is "profit"? In economic terms, profit is the difference between total revenues and total economic costs, that is,

Profit = total revenue − total cost

Economists don't rely on accountants to compute profits. Instead, they factor in not just the explicit costs that accountants keep track of, but also the implicit costs that arise when resources are used but not explicitly paid (e.g., an owner's time and capital investment). Suppose total revenue at Tight Jeans was $300 per day. With total costs of $245 per day, profit would be $55 per day. If the owner did her own stitching, accounting costs would drop by $80 and accounting profits would increase by the same amount. Economic profits would not change, however. By keeping track of all costs (implicit and explicit) economists can keep a consistent eye on profits.

6.6. Internet Practice:

6.6.1. Web Activities:

- Log on to **www.msnbc.com/** and do a word search using "production costs". Select an article that discusses a changing cost situation faced by a firm. Discuss what the cost change means for this firm. Focus your discussion on what will happen to the firm's output level and profits.
- ***Corporate Annual Reports – Identify Fixed and Variable Costs***
  Use the Yahoo search engine at **www.yahoo.com/** to locate the home page of a company of your choice. Find and review the company's income statement in its annual report, and classify the nonrevenue items as either fixed or variable costs. Are all costs clearly identifiable as either fixed or variable?

6.7. Critical Thinking & Discussion Questions:

- Is your university currently producing at capacity (i.e., teaching as many students as possible)? What considerations might inhibit full capacity utilization?
- What are the production costs of your economics class? What are the fixed costs? The variable costs? What is the marginal cost of enrolling more students?
- Suppose you set up a lawn-mowing service and recruit friends to help you. Would the law of diminishing returns apply? Explain.
- What are the fixed costs of (a) a pizza shop, (b) an Internet service provider, (c) a corn farm? Which needs the highest sales volume to earn a profit?
- Why might a producer not accept a price below marginal cost?
- What are the fixed input constraints that limit worker productivity in the typical fast-food outlet?

Unit 7 *Market Structure. Perfect Competition*

"Competition is a painful thing,
but it produces great results"
Jerry Flint[61]

7.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

asking price
brand image
brand loyalty
business enterprise
competitor
constraint
consumer taste(s)
deal
decline
degree
demand curve
denominator
discretion
dozen
duopoly
employee
firm demand
impact/effect/outcome

law of demand
market:
~ demand
~ demand curve
~ equilibrium
~ power
~ price
~ share
~ structure
~ volume
marketplace
monopolistic competition
monopoly
oligopoly
outlet
output
perfect/pure competition

power
price setter
price taker
product:
differentiated ~
standardized ~
~ differentiation
~ market
profit maximization
purchase
quantity demanded
rate
sales revenue
standing
substitute good(s)
utility firm
ware(s)

Verbs:

to alter
to charge
to close down
to compose
to confront/contradict
to contend

to distinguish
to dominate
to enter/exit
to expand
to increase/raise/rise
to limit

to maximize
to pursue
to reduce
to set
to supply
to vie

Adjectives & Adverbs:

abruptly
competitive/rival
cut-rate
downward-sloping

entire(ly)
extreme
individual(ly)/single/sole
infinitesimal

powerful/powerless
perfectly competitive
prevailing
virtual(ly)

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[61] ***Jerry Flint*** (June 20, 1931 – August 7, 2010) was a senior automotive editor for *Forbes Magazine*. He also wrote articles for a variety of media. Flint won the Loeb Award for business and financial reporting, in 2003, The Journal of Financial Reporting named him one of 100 most prominent business reporters of the 20th century. Among the honors he was most proud of was being chosen as one of the 40 finalists for NASA's Journalist in Space program. The program was canceled following the explosion that destroyed the shuttle Challenger. Flint also served as President of the International Motor Press Association.

7.2. Read and translate the text into Ukrainian:

MARKET STRUCTURE. PERFECT COMPETITION

The quest for profits is the common denominator of business enterprises. But not all businesses have the same opportunity to pursue profits. Millions of firms are very small and entirely at the mercy of the marketplace. A small decline in the market price of their product often spells financial ruin. Even when such firms make a profit, they must always be on the lookout for new competition, new products, or changes in technology.

Larger firms don't have to work quite so hard to maintain their standing. Huge corporations often have the power to raise prices, to change consumer tastes (through advertising), or even to prevent competitors from taking a slice of the profit pie. Such powerful firms can protect and perpetuate their profits. They are more likely to dominate markets than to be at their mercy.

Business firms aren't always either giants or dwarfs. Those are extremes of market structure that illustrate the range of power a firm might possess. Most real-world firms fall along a spectrum that stretches from the powerless to the powerful. At one end of the spectrum (Figure 7.1) we place *perfectly competitive firms* – firms that have no power over the price of goods they produce. A perfectly competitive firm must take whatever price for its wares the market offers; it is a *price taker.* A market composed entirely of competitive firms – and without anyone dominating the demand side either – is referred to as a *(perfectly) competitive market*. In a perfectly competitive market, no single producer or consumer has any control over the price or quantity of the product.

At the other end of the spectrum of market structures are monopolies. A *monopoly* is a single firm that produces the entire supply of a particular good. Despite repeated legal and technological attacks, Microsoft[62] still has a near monopoly on computer operating systems. That position gives Microsoft the power to set market prices rather than simply respond to them. With nearly 75 percent of the soft drink market between them, Coke and Pepsi[63] are a virtual *duopoly* (two-firm market). Together, they have the power to set prices for their beverages. All firms with such power are *price setters,* not price takers.

Monopolies are the extreme case of market power. In Figure 7.1 they are at the far right end of the spectrum, easily distinguished from the small, competitive firms that reside at the low (left) end of the power spectrum.

Among the 20 million or so business enterprises in the United States, there are relatively few monopolies. Local phone companies, cable TV companies, and utility firms often have a monopoly in specific geographic areas.

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[62] ***Microsoft Corporation*** is an American multinational software corporation headquartered in Redmond, Washington that develops, manufactures, licenses, and supports a wide range of products and services related to computing. The company was founded by Bill Gates and Paul Allen on April 4, 1975. Microsoft is the world's largest software maker measured by revenues. It is also one of the world's most valuable companies.

[63] ***The Coca-Cola Company*** is an American multinational beverage corporation and manufacturer, retailer and marketer of nonalcoholic beverage concentrates and syrups, which is headquartered in Atlanta, Georgia. The company is best known for its flagship product Coca-Cola, invented in 1886 by pharmacist John Stith Pemberton in Columbus, Georgia. ***PepsiCo Inc***. is an American multinational food and beverage corporation headquartered in Purchase, New York, United States, with interests in the manufacturing, marketing and distribution of grain-based snack foods, beverages, and other products. PepsiCo was formed in 1965 with the merger of the Pepsi-Cola Company and Frito-Lay, Inc. PepsiCo has since expanded from its namesake product Pepsi to a broader range of food and beverage brands.

Consider the case of IBM[64]. IBM is a megacorporation with over $60 billion in annual sales revenue and more than 300,000 employees. It is not a monopoly, however. Other firms produce computers that are virtually identical to IBM products. These IBM clones limit IBM's ability to set prices for its own output. In other words, other firms in the same market limit IBM's market power. IBM is not completely powerless, however, it is still large enough to have some direct influence on computer prices and output. Because it has some market power over computer prices, IBM is not a perfectly competitive firm.

Figure 7.1.

Imperfect competition

Perfect competition **Monopolistic competition** **Oligopoly** **Duopoly** **Monopoly**

Economists have created categories to distinguish the degrees of competition in product markets. These various market structures are illustrated in Figure 7.1. At one end of the spectrum is perfect competition, where lots of small firms vie for consumer purchases. At the other extreme is monopoly, where only one firm supplies a particular product.

In between the extremes of monopoly (no competition) and perfect competition lie various forms of imperfect competition, including:

- *Duopoly:* Only two firms supply a particular product.
- *Oligopoly:* A few large firms supply all or most of a particular product.
- *Monopolistic competition:* Many firms supply essentially the same product, but each enjoys significant brand loyalty.

How a firm is classified across this spectrum depends not only on its size, but also on how many other firms produce identical or similar products. IBM, for example, would be classified in the oligopoly category for large business computers. IBM supplies nearly 70 percent of all business computers and confronts only a few rival producers. In the personal computer market, however, IBM has a small market share (under 10 percent) and faces dozens of rivals. In that market IBM would fit into the category of monopolistic competition. Gasoline stations, fast food outlets, and even colleges are other examples of monopolistic competition: many firms are trying to rise above the crowd, to get the consumer's attention (and purchases).

Market structure has important effects on the supply of goods. How much you pay for a product depends partly on how many firms offer it for sale. Your textbook would be even more expensive if other publishers weren't offering substitute goods. AOL[65] wouldn't have reduced its Internet-access prices if a throng of other service providers hadn't offered cut-rate deals. In every one of these cases, the number of firms in the market has had a significant effect on price.

The quality of the product also depends on the degree of competition in the marketplace. Why do e-mail and e-commerce features keep improving so fast? Largely because hundreds of firms are trying to gain a foothold in that marketplace. By contrast, the U.S. Department of Justice contended that the lack of effective competition allowed Microsoft to sell operating systems that were too complex and unwieldy for the typical computer user. With more firms in the market, consumers would have got a better product at a lower price.

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[64] ***The International Business Machines Corporation*** (commonly referred as ***IBM***) is an American multinational technology and consulting corporation, with headquarters in Armonk, New York, United States. IBM manufactures and markets computer hardware and software, and offers infrastructure, hosting and consulting services in areas ranging from mainframe computers to nanotechnology.

[65] ***AOL Inc.*** is a multinational mass media corporation based in New York City that develops, grows, and invests in brands and web sites. The company's business spans digital distribution of content, products, and services, which it offers to consumers, publishers, and advertisers.

PERFECT COMPETITION

It's not easy to visualize a perfectly competitive firm. None of the corporations you could name are likely to fit the model of perfect competition. Perfectly competitive firms are pretty much faceless. They have no brand image, no real market recognition.

No Market Power. The critical factor in perfect competition is the total absence of market power for individual firms. A perfectly competitive firm is one whose output is so small in relation to market volume that its output decisions have no perceptible impact on price. A competitive firm can sell all its output at the prevailing market price. If it tries to charge a higher price, it will not sell anything, because consumers will shop elsewhere. In this sense, a perfectly competitive firm has no *market power* – no ability to control the market price for the good it sells.

At first glance, it might appear that all firms have market power. After all, who is to stop a producer from raising prices? The critical concept here, however, is *market price*; that is, the price at which goods are actually sold. Anyone can change the *asking price* of a good, but actual sales will occur only at the market price.

The same kind of powerlessness is characteristic of a small catfish farmer. Like any producer, the lone catfish farmer can increase or reduce his rate of output. But this production decision will not affect the market price of catfish.

Even a larger farmer who can alter a harvest by as much as 100,000 pounds of fish per year will not influence the market price of catfish. Why not? Because over 600 million pounds of catfish are brought to market every year, and another 100,000 pounds simply isn't going to be noticed. In other words, the output of the lone farmer is so small relative to the market supply that it has no significant effect on the total quantity or price in the market.

One can visualize the difference between competitive firms and firms with market power by considering what would happen to U.S. catfish supplies and prices if one of Farmer Hollingsworth's ponds (am imaginary company) ran out of oxygen and his 100,000 catfish died. Then contrast this with the likely consequences for U.S. auto supplies and prices if the Ford Motor Company were to close down suddenly. The one event would go unnoticed by the public; the impact of the other would be dramatic.

Price Takers. The critical distinction between Ford and Farmer Hollingsworth is not in their motivation but in their ability to alter market outcomes. What makes Farmer Hollingsworth's situation different is the fact that his output decisions do not influence catfish prices. All catfish look alike, so Farmer Hollingsworth's catfish will fetch the same price as everyone else's catfish. Were he to attempt to enlarge his profits by raising his catfish prices above market levels, he would find himself without customers, because consumers would go elsewhere to buy their catfish. To maximize his profits, Farmer Hollingsworth can only strive to run an efficient operation and to make the right supply decisions. He is a *price taker,* taking the market price of catfish as a fact of life and doing the best he can within that constraint.

Ford Motor Company, on the other hand, can behave like a *price setter.* Instead of waiting to find out what the market price is and making appropriate output adjustments, Ford has the discretion to announce prices at the beginning of every model year. Fords are not exactly like Chevrolets or Toyotas[66] in the minds of consumers. Because Fords are *differentiated,* Ford

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[66] ***Chevrolet*** colloquially referred to as ***Chevy*** and formally the Chevrolet Division of General Motors LLC, is a brand of vehicles produced by the American corporation General Motors (GM). ***Toyota Motor Corporation*** is a Japanese automaker headquartered in Toyota, Aichi, Japan. In 2013 the multinational corporation consisted of 333,498 employees worldwide and, as of March 2013, is the thirteenth-largest company in the world by revenue. Toyota was the largest automobile manufacturer in 2012 (by production), and in July of that year, the company reported the production of its 200-millionth vehicle.

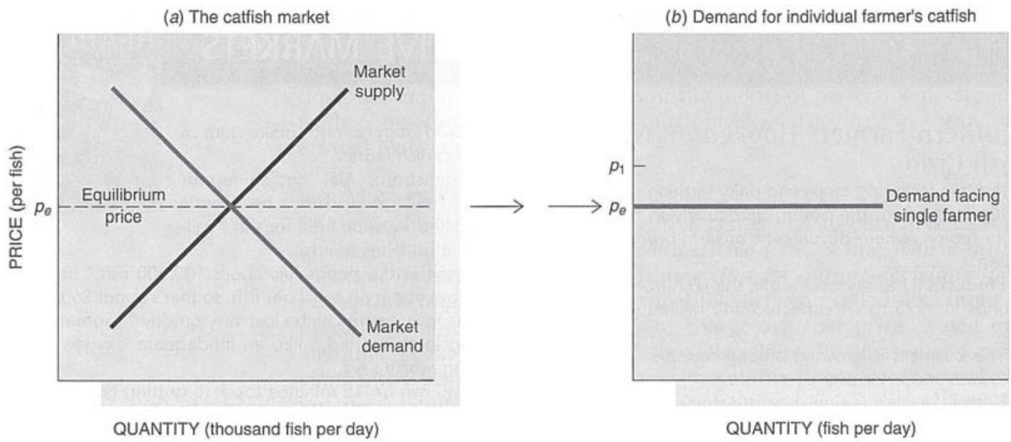
knows that sales will not fall to zero if its car prices are set a little higher than those of other car manufacturers.

Market Demand vs. Firm Demand. To appreciate the unique nature of perfect competition, you must distinguish between the market demand curve and the demand curve confronting a particular firm. Farmer Hollingsworth's small operation does not contradict the law of demand. The quantity of catfish purchased in the supermarket still depends on catfish prices. That is to say, the market demand curve for catfish is downward-sloping, just as the market demand for cars is downward-sloping.

But the demand curve facing Farmer Hollingsworth has a unique shape: it is horizontal. Remember, if he charges a price above the prevailing market, he will lose all his customers. So a higher price results in quantity demanded falling to zero. On the other hand, he can double or triple his output and still sell every fish he produces at the prevailing market price. As a result, the demand curve facing a perfectly competitive firm is horizontal. Farmer Hollingsworth himself faces a horizontal demand curve because his share of the market is so infinitesimal that changes in his output do not disturb the market equilibrium.

Collectively, though, individual farmers do count. If 10,000 small, competitive farmers expand their catfish production at the same time, the market equilibrium will be disturbed. That is to say, a competitive market composed of 10,000 individually powerless producers still sees a lot of action. The power here resides in the collective action of all the producers, however, and not in the individual action of any one. Were catfish production to increase so abruptly, the catfish could be sold only at lower prices, in accordance with the downward-sloping nature of the market demand curve.

Figure 7.2.



Market vs Firm Demand

The distinction between the actions of a single producer and those of the market are illustrated in Figure 7.2. Notice that:

- the market demand curve for a product is always downward-sloping;
- the demand curve facing a perfectly competitive firm is horizontal.

That horizontal demand curve is the distinguishing feature of perfectly competitive firms. If a firm can raise its price without losing all its customers, it is not a perfectly competitive firm.

Text Summary

- Market structure affects the behavior of firms and thus market outcomes.
- Market structures range from perfect competition to monopoly.
- A perfectly competitive firm has no power to alter the market price of the goods it sells.
- The perfectly competitive firm confronts a horizontal demand curve for its own output even though the relevant market demand curve is negatively sloped.

7.3. Language Practice:

7.3.1. Multiple Choice:

1. In a perfectly competitive market, ...
a) no single producer or consumer has any control over the price or quantity of the product;
b) every single producer or consumer has control over the price or quantity of the product;
c) a few large firms have control over the price or quantity of the product.

2. A monopoly is .....
a) a few large firms supplying all or most of a particular product;
b) lots of small firms vie for consumer purchases;
c) a single firm that produces the entire supply of a particular good.

3. A perfectly competitive firm must take whatever price for its wares the market offers; it is a .....
a) price setter;
b) price maker;
c) price taker.

4. Oligopoly is a form of imperfect competition where .....
a) only two firms supply a particular product;
b) a few large firms supply all or most of a particular product;
c) many firms supply essentially the same product, but each enjoys significant brand loyalty.

5. A perfectly competitive firm has no ..... – no ability to control the market price for the good it sells.
a) market power;
b) market potential;
c) market share.

6. The demand curve facing a perfectly competitive firm is .....
a) downward-sloping;
b) horizontal;
c) upward-sloping.

7. A perfectly competitive firm is one .....
a) whose output is large enough in relation to market volume that its output decisions have perceptible impact on price;
b) whose output is small in relation to market volume but its output decisions have perceptible impact on price;
c) whose output is so small in relation to market volume that its output decisions have no perceptible impact on price.

7.3.2. Key Terms – Matching:

1.	Competitive market	a)	– a situation in which a particular market is controlled by a small group of firms;
2.	Market price	b)	– the number and relative size of firms in an industry;
3.	Market power	c)	– a firm without market power, with no ability to alter the market price of the goods it produces;
4.	Competitive firm	d)	– a market in which no buyer or seller has market power;
5.	Market structure	e)	– a firm that produces the entire market supply of a particular good or service;
6.	Oligopoly	f)	– the ability to alter the market price of a good or service;
7.	Monopoly	g)	– the current price at which an asset or service can be bought or sold.

7.3.3. Please explain the meaning of the following words and word combinations in English:

Market structure, competitive market, perfectly competitive firm, monopoly, market power, price taker, price setter, duopoly, oligopoly, monopolistic competition, output, market price, demand curve, market demand curve, market share.

7.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~*market structures*~~ sole seller product nonprice exit enter the industry standardized product differentiate rivals product differentiation

FOUR MARKET MODELS

Economists group industries into four distinct (1) *market structures*: pure competition, pure monopoly, monopolistic competition, and oligopoly. These four market models differ in several respects: the number of firms in the industry, whether those firms produce a standardized product or try to differentiate their products from those of other firms, and how easy or how difficult it is for firms to (2) _____.

Very briefly the four models are as follows:

- Pure competition involves a very large number of firms producing a (3) _____ (that is, a product identical to that of other producers, such as cucumbers). New firms can enter or (4) _____ the industry very easily.
- Pure monopoly is a market structure in which one firm is the (5) _____ of a product or service (for example, a local electric utility). Since the entry of additional firms is blocked, one firm constitutes the entire industry. Because the monopolist produces a unique product, it makes no effort to (6) _____ its product.
- Monopolistic competition is characterized by a relatively large number of sellers producing differentiated products (clothing, furniture, books). There is widespread (7) _____ competition, a selling strategy in which one firm tries to distinguish its product or service from all competing products on the basis of attributes like design and workmanship (an approach called (8) _____). Either entry to or exit from monopolistically competitive industries is quite easy.
- Oligopoly involves only a few sellers of a standardized or differentiated (9) _____; so each firm is affected by the decisions of its (10) _____ and must take those decisions into account in determining its own price and output.

In discussing these four market models, we occasionally distinguish the characteristics *of pure competition* from those of the three other basic market structures, which together we designate as *imperfect competition*.

7.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the noun ***competition****:* *1) contest, tournament, match, championship, race, game, quiz;* *2) rivalry, emulation, one-upmanship (inf.), contention, strife, conflict, opposition.*

7.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Ринкова структура, досконала/чиста конкуренція, монополістична конкуренція, олігополія, досконала/чиста монополія, ділове підприємство, отримувати прибуток, підвищувати ціну, домінувати на ринку, ціноотримувач, конкурентний ринок, установлювати ціну, конкурувати/змагатися, прихильність бренду, постачання/пропозиція, об'єм/обсяг, ринкова ціна, ринковий попит, продукція/випуск/виробіток, переважаюча ціна, виробничі рішення, загальна кількість, диференційований (товар), постачати (продукцію), конкурент, частка ринку, ступінь конкуренції, ринкова влада/позиція на ринку, крива ринкового попиту, величина попиту, рівновага ринку, розширювати виробництво.

7.4.2. Please translate the following sentences into Ukrainian:

1. An industry consists of all firms making similar or identical products. An industry's market structure depends on the number of firms in the industry and how they compete. The four basic market structures are: perfect competition, monopoly, oligopoly, monopolistic competition.
2. Perfect competition happens when numerous small firms compete against each other. Firms in a competitive industry produce the socially optimal output level at the minimum possible cost per unit.
3. A monopoly is a firm that has no competitors in its industry. It reduces output to drive up prices and increase profits. By doing so, it produces less than the socially optimal output level and produces at higher costs than competitive firms.
4. An oligopoly is an industry with only a few firms. If they collude, they reduce output and drive up profits the way a monopoly does. However, because of strong incentives to cheat on collusive agreements, oligopoly firms often end up competing against each other.
5. In monopolistic competition, an industry contains many competing firms, each of which has a similar but at least slightly different product. Restaurants, for example, all serve food but of different types and in different locations. Production costs are above what could be achieved if all the firms sold identical products, but consumers benefit from the variety.
6. Perfect competition (sometimes called pure competition) describes markets such that no participants are large enough to have the market power to set the price of a homogeneous product. Because the conditions for perfect competition are strict, there are few if any perfectly competitive markets. Still, buyers and sellers in some auction-type markets, say for commodities or some financial assets, may approximate the concept. Perfect competition serves as a benchmark against which to measure real-life and imperfectly competitive markets.

7. A basic feature of a purely competitive market is the presence of a large number of independently acting sellers, often offering their products in large national or international markets. Examples: markets for farm commodities, the stock market, and the foreign exchange market.
8. Purely competitive firms produce a standardized (identical or homogeneous) product. As long as the price is the same, consumers will be indifferent about which seller to buy the product from. Buyers view the products of firms B, C, D, and E as perfect substitutes for the product of firm A. Because purely competitive firms sell standardized products, they make no attempt to differentiate their products and do not engage in other forms of non-price competition.
9. In a purely competitive market individual firms exert no significant control over product price. Each firm produces such a small fraction of total output that increasing or decreasing its output will not perceptibly influence total supply or, therefore, product price. In short, the competitive firm is a price taker: It cannot change market price; it can only adjust to it. That means that the individual competitive producer is at the mercy of the market. Asking a price higher than the market price would be futile.
10. New firms can freely enter and existing firms can freely leave purely competitive industries. No significant legal, technological, financial, or other obstacles prohibit new firms from selling their output in any competitive market (free entry and exit).

7.4.3. Please translate the following sentences into English:

1. Структура ринку характеризує умови, в яких відбувається конкуренція. Її визначають за кількістю фірм та покупців на ринку, за наявністю та доступністю інформації, за можливістю змов між продавцями чи покупцями, а також за легкістю входження і виходу з конкретного ринку. На структуру ринку може впливати також держава через ухвалення економічних законів. У свою чергу структура ринку впливає на рівень цін, обсяги виробництва та величину прибутків підприємств.
2. Розрізняють чотири основні ринкові структури: досконала конкуренція, монополістична конкуренція, олігополія, чиста монополія. Іноді в літературі використовується термін "недосконала конкуренція", яким позначають усі ті структури ринку, що відрізняються від досконалої конкуренції.
3. Ринок чистої монополії – це такий тип побудови ринку, на якому продукцію пропонує один продавець. Підприємство-монополіст має задовольнити всіх потенційних покупців конкретного товару в межах даного ринку, і тому це підприємство ототожнюється з галуззю.
4. Олігополія характеризується невеликою кількістю великих фірм, що продають однорідну продукцію численним покупцям. Такі фірми мають можливість погоджувати виробничу та комерційну політику, контролювати ринок і перешкоджати проникненню на нього нових фірм.
5. Ринок монополістичної конкуренції – це тип ринку, на якому відносно більша кількість невеликих фірм (виробників) пропонує схожу (подібну), але не ідентичну продукцію, підкреслюючи її специфічність або унікальність. Практично це така ринкова ситуація, коли договори складаються не за єдиною ринковою ціною, а в широкому діапазоні цін.
6. Досконала або чиста конкуренція – це ринкова ситуація, яка характеризується такими ознаками: велика кількість незначних ринкових агентів (як продавців, так і покупців); випуск однорідного продукту; повне знання ринкових цін і обсягів випуску продукції; висока мобільність ресурсів.

7. За досконалої конкуренції існує так багато виробників, постачальників і продавців, що кожен з них знає, що він сам не може помітно вплинути на ринкову ціну шляхом змін у кількості виробленої продукції. Кожен виробник чи продавець постачає такий незначний обсяг продукції порівняно з її загальною кількістю, що зміни в обсязі виробництва окремого виробника не впливають на ринкову ціну.
8. За досконалої конкуренції продукція однієї фірми не відрізняється від виробленої іншими фірмами. Це важлива умова, яка забезпечує індиферентність покупця щодо продавця, поки залишається однакова ціна.
9. За досконалої конкуренції необхідно, щоб споживачі, фірми-виробники і власники ресурсів мали повне уявлення про відповідні екологічні і технологічні умови. Споживачі повинні мати всю цінову інформацію. Фірми-виробники також повинні володіти доступом до будь-якої цінової чи технологічної інформації. Власники ресурсів повинні знати все про можливість своїх ресурсів.
10. Досконала конкуренція вимагає того, щоб усі ресурси були повністю мобільними. Це означає, що: трудові ресурси можуть вільно і легко переміщуватись з регіону в регіон, із одного виду діяльності в інший; сировинні джерела не змонополізовані; нова фірма може легко увійти і вийти з галузі, бо немає економічних, правових, технологічних, патентних, фінансових бар'єрів для входження фірми у ринок і виходу з нього.

7.4.4. Please make an English summary of the following text:

МОДЕЛЬ РИНКУ ДОСКОНАЛОЇ КОНКУРЕНЦІЇ ТА ЇЇ ХАРАКТЕРИСТИКИ

Досконала конкуренція, або ринок чистої конкуренції, виникає, якщо виконуються такі умови:

1. Велика кількість продавців, які на рівних умовах конкурують між собою. Частка кожного з них на ринку повинна бути настільки мала (< 1%), що будь-які його дії (збільшення чи зменшення обсягу продажу, зміна ціни) ніяк не вплинуть на ринкову ситуацію. Такі умови досить рідкісні. Умовним прикладом ринку досконалої конкуренції можна назвати ринок сільськогосподарської продукції, біржові торги, продаж іноземної валюти в обмінних пунктах.

2. Стандартна продукція. Споживач не розрізняє продукцію різних продавців, йому байдуже, в кого купити певний товар.

3. Неможливість впливу окремого продавця на ринкову ціну. Продавець може продати товар дешевше ринкової ціни, але це ніяк не вплине на загальну ринкову ціну через мізерну частку продавця на ринку. Крім того, це суперечить припущенню про максимізацію вигоди кожним економічним суб'єктом. Продавець може також продавати товар дорожче його ринкової ціни, але в цьому випадку різко зменшиться попит на відповідний товар, адже продукція конкурентів виявиться дешевшою.

4. Відсутність нецінової конкуренції. Оскільки на ринку досконалої конкуренції товари стандартні, то підстав для нецінової конкуренції немає, оскільки вона, як правило, ґрунтується на диференціації товарів.

5. Інформація про ціни, технології та ймовірний прибуток легко доступна, що забезпечує гнучке реагування на зміну ринкових умов.

6. Вільний вступ та вихід із галузі. Не повинно існувати ніяких законодавчих, технологічних, фінансових та інших перешкод, які можуть завадити появі або зникненню підприємств, що виробляють певний товар.

На відміну від ринкового попиту, крива попиту, з якою стикається окремий конкурентний виробник, абсолютно еластична, адже скільки б продукції він не запропонував до продажу, це ніяк не вплине на ринкову ціну.

7.5. Reading Practice:

7.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: THE FIRM'S PRODUCTION DECISION

Because a competitive firm is a price taker, it doesn't have to worry about what price to charge: Everything it produces will be sold at the prevailing market price. It still has an important decision to make, however. The competitive firm must decide how much output to sell at the going price.

Output and Revenues. If a competitive firm produces more output, its sales revenue will definitely increase. *Total revenue* is the price of the good multiplied by the quantity sold:

$$\textit{Total revenue} = \textit{price} \times \textit{quantity}$$

Since a competitive firm can sell all of its output at the market price, total revenue is a simple multiple of that price.

Revenues vs. Profits. If a competitive firm wanted to maximize total revenue, its strategy would be obvious: it would simply produce as much output as possible. But maximizing total revenue isn't the goal. Business firms try to maximize total profits, not total revenue.

Total profit is the difference between total revenues and total costs. Hence a profit-maximizing firm must look not only at revenues but at costs as well. As output increases, total revenues go up, but profits may not. If costs rise too fast, profits may actually decline as output increases. This is a situation to be avoided.

We may embark on the search for maximizing profits with two clues:

- Maximizing output or revenue is not the way to maximize profits.
- Total profits depend on how both revenues and costs increase as output expands.

With these clues, we may narrow the scope of our search for the profit maximizing rate of output.

Text 2: PROFIT MAXIMIZATION

We can advance still further toward the goal of maximum profits by employing a rather primitive but quite practical maxim. This third clue tells us to produce an additional unit of output only if that unit brings in more revenue than it costs. A producer who follows this clue will move steadily closer to maximum profits. We shall explain this clue by looking first at the revenue side of production (what it brings in), then at the cost side (what it costs).

Price. For a perfectly competitive firm, it is easy to determine how much revenue a unit of output will bring in. All we have to look at is price. Since competitive firms are price takers, they must take whatever price the market has put on their products. Thus a catfish farmer can readily determine the value of the fish by looking at the market price of catfish.

Marginal Cost. Once we know what one more unit brings in (its price); all we need to know for profit maximization is the cost of producing an additional unit.

The production process for catfish farming is fairly straightforward. The "factory" in this case is a pond; the rate of production is the number of fish harvested from the pond per hour. A farmer can alter the rate of production at will, up to the breeding capacity of the pond.

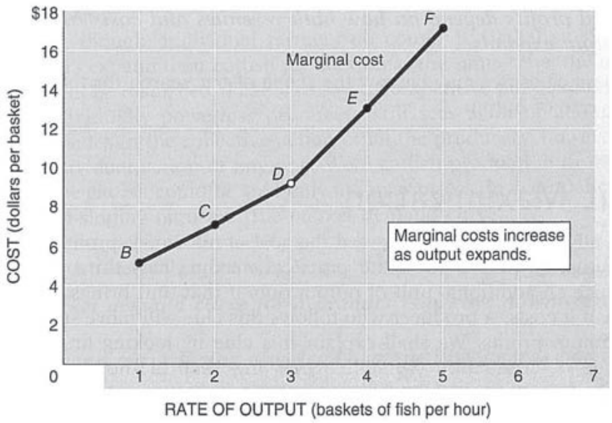
Assume that the fixed cost of the pond is $10 per hour. The fixed costs include the rental value of the pond and the cost of electricity for keeping the pond oxygenated so the fish can breathe. These fixed costs must be paid no matter how many fish the farmer harvests.

To harvest catfish from the pond, the farmer must incur additional costs. Labor is needed to net and sort the fish. The cost of labor is variable, depending on how much output the farmer decides to produce. If no fish are harvested, no variable costs are incurred.

The marginal costs of harvesting refer to the additional costs incurred to harvest one more basket of fish. Generally, marginal costs rise as the rate of production increases. The law of diminishing returns applies to catfish farming as well. As more labor is hired, each worker has less space (pond area) and capital (access to nets, sorting trays) to work with. Accordingly, it takes a little more labor time (marginal cost) to harvest each additional fish.

Figure 7.3 illustrates these marginal costs (MC). The unit of production used here is baskets of fish per hour. Notice how the MC rises as the rate of output increases. At the output rate of 4 baskets per hour (point *E*), marginal cost is $13. Hence the fourth basket increases total costs by $13. The fifth basket is even more expensive, with a marginal cost of $ 17.

Figure 7.3



	Rate of Output (baskets per hour)	Total Cost (per hour)	Marginal Cost (per unit)	Average Total Cost (per unit)
A	0	$ 10	–	–
B	1	15	$ 5	$ 15.00
C	2	22	7	11.00
D	3	31	9	10.33
E	4	44	13	11.00
F	5	61	17	12.20

The Costs of Catfish Production

Profit-Maximizing Rate of Output. We are now in a position to make a production decision. The rule about never producing anything that costs more than it brings in boils down to a comparison of price and marginal cost. We do not want to produce an additional unit of output if its MC exceeds its price. If MC exceeds price, we are spending more to produce that extra unit than we are getting back: total profits will decline if we produce it.

The opposite is true when price exceeds MC. If an extra unit brings in more revenue than it costs to produce, it is adding to total profit. Total profits must increase in this case. Hence a competitive firm wants to expand the rate of production whenever price exceeds MC.

Since we want to expand output when price exceeds MC and contract output if price is less than MC, the profit-maximizing rate of output is easily found. Short-run profits are maximized at the rate of output where price equals marginal cost. The competitive profit-maximization rule is summarized in Table 7.1.

Table 7.1

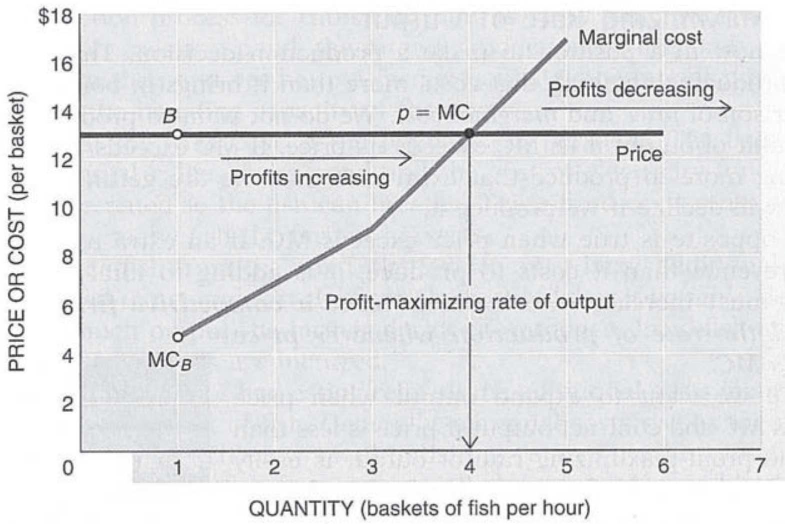
Short-Run Decision Rules for a Competitive Firm

Price Level	*Production Decision*
Price > MC	Increase output rate
Price = MC	Maintain output rate (profits maximized)
Price < MC	Decrease output rate

Figure 7.4 illustrates the application of our profit-maximization rule in the production of

catfish. The prevailing price of catfish is $13 a basket. At this price we can sell all the fish we produce, up to our short-run capacity. The fish cannot be sold at a higher price, because lots of farmers grow fish and sell them for $13. If we try to charge a higher price, consumers will buy their fish from these other producers. Hence the demand curve facing this one firm is horizontal at the price of $13 a basket.

Figure 7.4



	(1) Number of Baskets (per hour)	(2) Price	(3) Total Revenue	(4) Total Cost	(5) Total Profit	(6) Price	(7) Marginal Cost
A	0	–	0	$ 10.00	−$ 10.00	–	–
B	1	$13.00	$13.00	15.00	− 2.00	$ 13.00	$ 5.00
C	2	13.00	26.00	22.00	+ 4.00	13.00	7.00
D	3	13.00	39.00	31.00	+ 8.00	13.00	9.00
E	4	13.00	52.00	44.00	+ 8.00	13.00	13.00
F	5	13.00	65.00	61.00	+ 4.00	13.00	17.00

Maximization of Profits for a Competitive Firm

The costs of harvesting catfish were already examined in Figure 7.3. The key concept illustrated here is marginal cost. The MC curve slopes upward.

Decision when p > MC. Also depicted in Figure 7.4 are the total revenues, costs, and profits of alternative production rates. Study the table first. Notice that the firm loses $10 per hour if it produces no fish (row *A)*. At zero output, total revenue is zero *(p* × *q* = 0). However, the firm must still contend with fixed costs of $ 10 per hour. Total profit – total revenue minus total cost – is therefore minus $10; the firm incurs a loss.

Row *B* of the table shows how this loss is reduced when 1 basket of fish is produced per hour. The production and sale of 1 basket per hour brings in $13 of total revenue (column 3).

The total cost of producing 1 basket per hour is \$15 (column 4). Hence the total loss associated with an output rate of 1 basket per hour is \$2 (column 5). This may not be what we hoped for, but it is certainly better than the \$10 loss incurred at zero output.

The superiority of producing 1 basket per hour rather than none is also evident in columns 6 and 7 of row *B*. The first basket produced fetches a price of \$13. Its marginal cost is only \$5. Hence it brings in more added revenue than it costs to produce. Under these circumstances – whenever price exceeds MC – output should definitely be expanded. That is one of the decision rules summarized in Table 7.1.

The excess of price over MC for the first unit of output is also illustrated by the graph in Figure 7.4. Point *B* (\$13) lies above MC_B (\$5); the difference between these two points measures the contribution that the first basket of fish makes to the total profits of the firm. In this case, that contribution equals \$13 − \$5 = \$8, and production losses are reduced by that amount when the rate of output is increased from zero to 1 basket per hour.

So long as price exceeds MC, further increases in the rate of output are desirable. Notice what happens to profits when the rate of output is increased from 1 to 2 baskets per hour (row *C)*. The price of the second basket is \$13; its MC is \$7. Therefore it adds \$6 to total profits. Instead of losing \$2 per hour, the firm is now making a profit of \$4 per hour.

The firm can make even more profits by expanding the rate of output further. Look what happens when the rate of output reaches 3 baskets per hour (row *D* of the table). The price of the third basket is \$13; its marginal cost is \$9. Therefore the third basket makes a \$4 contribution to profits. By increasing its rate of output to 3 baskets per hour, the firm doubles its total profits.

This firm will never make huge profits. The fourth unit of output has a price of \$13 and a MC of \$13 as well. It does not contribute to total profits, nor does it subtract from them. The fourth unit of output represents the highest rate of output the firm desires. At the rate of output where price equals MC, total profits of the firm are maximized.

Decision when p < MC. Notice what happens if we expand output beyond 4 baskets per hour. The price of the fifth basket is still \$13; its MC is \$17. The fifth basket costs more than it brings in. If we produce that fifth basket, total profit will decline by \$4. The fifth unit of output makes us worse off. This eventuality is evident in the graph of Figure 7.4: at the output rate of 5 baskets per hours, the MC curve lies above the price curve. The lesson here is clear: output should not be increased if MC exceeds price.

Maximum Profit at p = MC. The outcome of the production decision is illustrated in Figure 7.4 by the intersection of the price and MC curves. At this intersection, price equals MC and profits are maximized. If we produced less, we would be giving up potential profits. If we produced more, total profits would also fall. Hence, the point where MC = p is the limit to profit-maximization.

*Total Profit.*To reach the right production decision, we need only compare price and marginal costs. Having found the desired rate of output, however, we may want to take a closer look at the profits we are accumulating. We could, of course, content ourselves with the statistics in the table of Figure 7.4. But a picture would be nice, too, especially if it reflected our success in production. Figure 7.5 provides such a picture.

Figure 7.5 takes advantage of the fact that total profit can be computed in one of two ways:

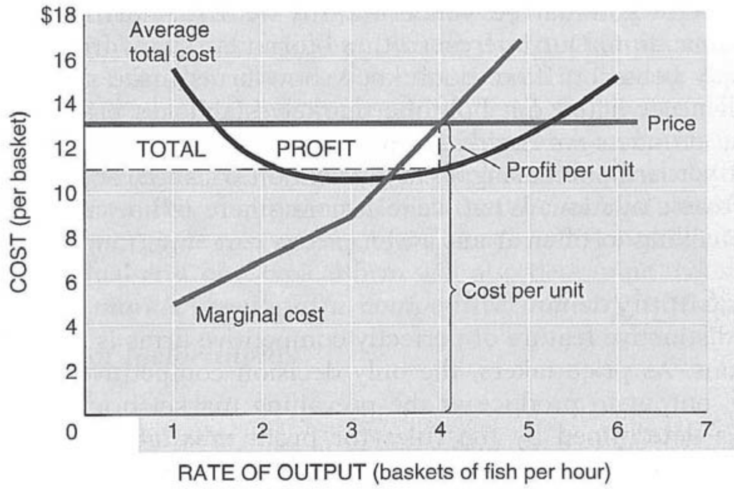
Total profit = total revenue – total cost or as,

Total profit = average profit × quantity sold (profit per unit)

In Figure 7.5 the focus is on the second formula. To use it, we compute profit per unit as price minus average total cost – that is

Profit per unit = p – ATC

Figure 7.5



Illustrating Total Profit

The price of catfish is illustrated in Figure 7.5 by the horizontal price line at $13. The average cost of producing catfish is illustrated by the ATC curve. This curve has a U shape. Therefore, the difference between price and average cost – profit per unit – is illustrated by the vertical distance between the price and ATC curves. At 4 baskets of fish per hour, for example, profit per unit equals $13 − $11 = $2.

To compute total profits, we note that

$$\begin{aligned} \textit{Total profit} &= \textit{profit per unit} \times \textit{quantity} \\ &= (p - ATC) \times q \\ &= (\$13 - \$11) \times 4 \end{aligned}$$

In this case, the total profit would be $8 per hour. Total profits are illustrated in Figure 7.5 by the shaded rectangle. (The area of a rectangle is equal to its height [profit per unit] multiplied by its width [quantity sold].)

Profit per unit is not only used to compute total profits but is often of interest in its own right. Businesspeople like to cite statistics on markups, which are a crude index to per-unit profits. However, the profit-maximizing producer never seeks to maximize per-unit profits. What counts is total profits, not the amount of profit per unit. This is the age-old problem of trying to sell ice cream for $5 a cone. You might be able to maximize profit per unit if you could sell 1 cone for $5, but you would make a lot more money if you sold 100 cones at a per-unit profit of only 50 cents each.

Similarly, the profit-maximizing producer has no particular desire to produce at that rate of output where ATC is at a minimum. Minimum ATC does represent least-cost production. But additional units of output, even though they raise average costs, will increase total profits. This is evident in Figure 7.5: price exceeds MC for some output to the right of minimum ATC (the bottom of the U). Therefore, total profits are increasing as we increase the rate of output beyond the point of minimum average costs. Total profits are maximized only where p = MC.

7.6. Internet Practice:

7.6.1. Web Activities:

- ***You Are a Pure Competitor – What Was Your Revenue Yesterday?*** Suppose that you operate a purely competitive firm that buys and sells foreign currencies. Also suppose that yesterday your business activity consisted of buying 100,000 Swiss francs at the market exchange rate and selling them for a 3 percent commission. Go to the Federal Reserve website at **federalreserve.gov** and select, in order, Economic Research and Data, Data Releases, Exchange Rates and International Data and Foreign Exchange Rates. What was your total revenue in dollars yesterday (be sure to include your commission): Why would your profit for the day be considerably less than this total revenue?

7.7. Critical Thinking & Discussion Questions:

- Briefly state the basic characteristics of pure competition, pure monopoly, monopolistic competition, and oligopoly. Under which of these market classifications does each of the following most accurately fit? (a) a supermarket in your hometown; (b) the steel industry; (c) a wheat farm; (d) the commercial bank in which you or your family has an account; (e) the automobile industry. In each case justify your classification.
- What industries do you regard as being highly competitive?
- Adam Smith in *The Wealth of Nations* asserted that the pursuit of self-interest by competitive firms promoted the interests of society. What did he mean by this?
- Strictly speaking, pure competition has never existed and probably never will. Then why study it?

Unit 8 *Monopoly*

"Before the monopoly should be permitted, there must be reason to believe it will do some good – for society, and not just for monopoly holders".
Lawrence Lessig[67]

8.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

barrier(s) to entry	~ supply	*quantity:*
calculation	monopolist	~ demanded
competition	monopoly	~ sold
consumer	nonprice competition	*rate :*

[67] ***Lawrence "Larry" Lessig*** (born June 3, 1961) is an American academic and political activist. He is a proponent of reduced legal restrictions on copyright, trademark, and radio frequency spectrum, particularly in technology applications, and he has called for state-based activism to promote substantive reform of government with a Second Constitutional Convention.

cost(s):	objective	~ of output
~ average	offsetting	~ of production
~ marginal	output	reduction
~ total	patent	*revenue:*
distinction	pressure	marginal ~ (MR)
divergence	price taker	total ~
entrant	price maker	sale(s)
entry	pricing	sole supplier
fraction	*product:*	substitute
graph	complementary ~	supply
industry	differentiated ~	total market output
intersection	monopolized ~	total profit
law of demand	standardized ~	*unit:*
market:	production decision	~ price
~ demand curve	*profit:*	~ sale(s)
~ power	~ maximization	~ of output
~ price	~ per unit	

***Verbs*:**

to adjust	to equal	to lower/reduce
to affect	to equate	to maintain
to attain	to establish	to maximize
to bring in	to generate/yield	to measure
to calculate	to heed	to multiply
to compute	to hold down	to obliterate
to confront	to incur	to retain
to charge	to increase/rise	to set
to determine	to license	to supply
to double		

***Adjectives & Adverbs*:**

compatible	entire	resultant
competitive	exclusive	single/sole
downward-sloping	profit-maximizing	(un)profitable

8.2. Read and translate the text into Ukrainian:

MONOPOLY

MONOPOLY STRUCTURE

Monopoly = Industry. We now confront an entirely different market structure. Suppose that the entire output of catfish could be produced by a single large producer. Assume that Universal Fish [68]actually has a patent on the oxygenating equipment needed to maintain commercial-sized fish ponds. A patent gives a firm the exclusive right to produce or license a

[68] ***Universal Fish*** is a privately held company that was founded in July of 1982 and quickly became a key supplier of frozen seafood products to major U.S. seafood processors and food service distributors. Over the years Universal Fish has become the supplier to some of the top national restaurant chains as well as national and regional food service distributors.

product. With its patent, Universal Fish can deny other farmers access to oxygenating equipment and thus establish itself as the sole supplier of catfish. Such a firm is a *monopoly* – that is, a single firm that produces the entire market supply of a good.

In view of the fact that a monopoly has no direct competition, you'd hardly expect it to behave like a competitive firm. Competitive firms are always under pressure from other firms in the industry to hold down costs and improve product quality. Competitive firms also have to worry about new entrants into their industry and the resultant downward pressure on prices. A monopolist, however, owns the ballpark and can set the rules of the game. Is a monopoly going to charge the same price for fish as a competitive industry would? Not likely. As we'll see, a monopolist can use its market power to charge higher prices and retain larger profits.

The emergence of a monopoly obliterates the distinction between industry demand and the demand curve facing the firm. A monopolistic firm is the industry. Hence there is only one demand curve to worry about, and that is the market (industry) demand curve. In monopoly situations the demand curve facing the firm is identical to the market demand curve for the product.

Price vs. Marginal Revenue. Although monopolies simplify the geometry of the firm, they complicate the arithmetic of supply decisions. Competitive firms maximize profits by producing at that rate of output where price equals marginal cost. Monopolies do not maximize profits in the same way. They still heed the advice about never producing anything that costs more than it brings in. But as strange as it may seem, what is brought in from an additional sale is not the price in this case.

The contribution to total revenue of an additional unit of output is called *marginal revenue* (MR). To calculate marginal revenue, we compare the total revenues received before and after a one-unit increase in the rate of production; the difference between the two totals equals marginal revenue.

If every unit of output could be sold at the same price, marginal revenue would equal price. But what would the demand curve look like in such a case? It would have to be horizontal, indicating that consumers were prepared to buy everything produced at the existing price. As we have observed, however, a horizontal demand curve only applies for small competitive firms, firms that produce only a tiny fraction of total market output. Only for perfectly competitive firms does price equal marginal revenue.

The situation in monopoly is different. The firm is so big that its output decisions affect market prices. Keep in mind that a monopolist confronts the market demand curve, which is always downward-sloping. As a consequence, a monopolist can sell additional output only if it reduces prices.

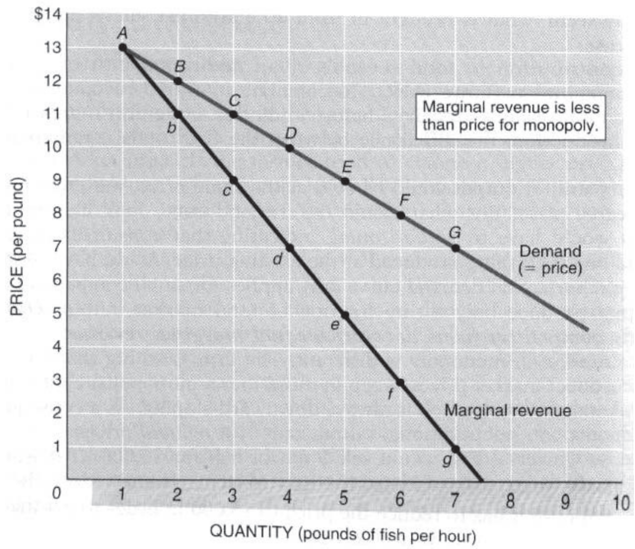
Suppose Universal Fish could sell 1 ton of fish for $6,000. If it wants to sell 2 tons, however, it has to heed the Law of Demand and reduce the price per ton. Suppose it has to reduce the price to $5,000 in order to get the additional sales. In that case, we would observe

Total revenue before price reduction	=	1 ton × $6,000 = $6,000 per ton
Total revenue after price reduction	=	2 tons × $5,000 = $10,000 per ton
Marginal revenue	=	total revenue – total revenue
		@ 2 tons @ 1 ton
		= $10,000 – $6,000 = $4,000

Notice how the quantity demanded in the marketplace increases as the unit price is reduced. Notice, also, however, what happens to total revenue when unit sales increase: Total revenue here increases by $4,000. This change in total revenue represents the marginal revenue of the second ton.

Notice in the calculation that marginal revenue ($4,000) is less than price ($5,000). This will always be the case when the demand curve facing the firm is downward-sloping. To get added sales, price must be reduced. The additional quantity sold is a plus for total revenue, but the reduced price per unit is a negative. The net result of these offsetting effects represents marginal revenue. Since the demand curve facing a monopolist is always downward-sloping, marginal revenue is always less than price for a monopolist, as shown in Figure 8.1.

Figure 8.1



	(1) Quantity	×	(2) Price	=	(3) Total Revenue	(4) Marginal Revenue
A	1		$ 13		$ 13	
B	2		12		24	›--------$11
C	3		11		33	›-------- 9
D	4		10		40	›-------- 7
E	5		9		45	›-------- 5
F	6		8		48	›-------- 3
G	7		7		49	›-------- 1

Price Exceeds Marginal Revenue in Monopoly

Figure 8.1 provides another illustration of the relationship between price and marginal revenue. The demand curve and schedule represent the market demand for catfish and thus the sales opportunities for the Universal Fish monopoly. According to this information, Universal Fish can sell 1 pound of fish per hour at a price of $13. If the company wants to sell a larger quantity of fish, however, it has to reduce its price. According to the market demand curve shown here, the price must be lowered to $12 to sell 2 pounds per hour. This reduction in price is shown by a movement along the demand curve from point *A* to point *B*.

Our primary focus here is on marginal revenue. We want to show what happens to total revenue when unit sales increase by 1 pound per hour. To do this, we must compute the total revenue associated with each rate of output, then observe the changes that occur.

The calculations necessary for computing MR are computed in Figure 8.1. Row *A* of the table indicates that the total revenue resulting from one sale per hour is $13. To increase unit sales, price must be reduced. Row *B* indicates that total revenues rise to only $24 per hour when catfish sales double. The increase in total revenues resulting from the added sale is thus $11. The marginal revenue of the second pound is therefore $11. This is illustrated in the last column of the table and by point *b* on the marginal revenue curve.

Notice that the MR of the second pound of fish ($11) is less than its price ($12). This is because both pounds are being sold for $12 apiece. In effect, the firm is giving up the opportunity to sell only 1 pound per hour at $13 in order to sell a larger quantity at a lower price. In this sense, the firm is sacrificing $1 of potential revenue on the first pound of fish in order to increase total revenue. Marginal revenue measures the change in total revenue that results.

So long as the demand curve is downward-sloping, MR will always be less than price. Compare columns 2 and 4 of the table in Figure 8.1. At each rate of output in excess of one pound, marginal revenue is less than price. This is also evident in the graph: the MR curve lies below the demand (price) curve at every point but the first.

MONOPOLY BEHAVIOR

Like all other producers, a monopolist is in business to maximize total profits. A monopolist does this a bit differently from a competitive firm, however. Recall that a perfectly competitive firm is a price taker. It maximizes profits by adjusting its rate of output to a given market price. A monopolist, by contrast, sets the market price. Hence a monopolist must make a pricing decision that perfectly competitive firms never make.

Profit Maximization. In setting its price, the monopolist, like the perfectly competitive firm, seeks to maximize total profit. To do so, the monopolist first identifies the profit-maximizing rate of output (the production decision), then determines what price is compatible with that much output.

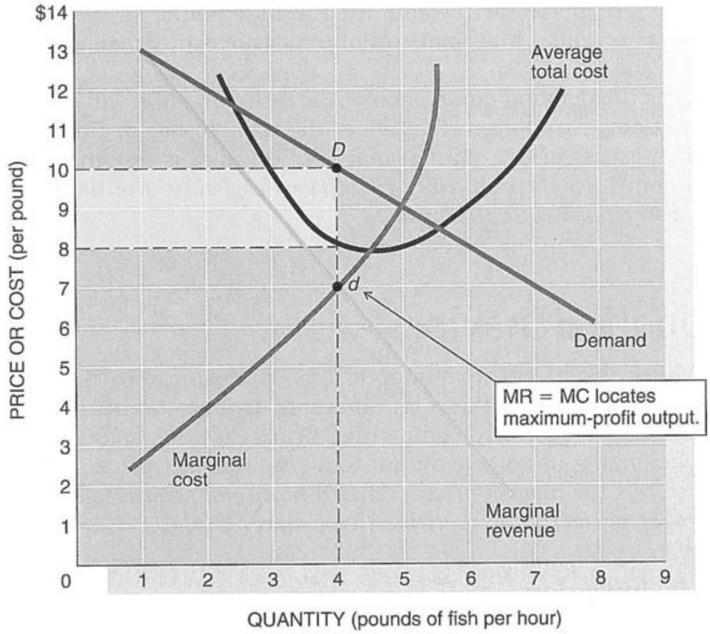
To find the best rate of output, a monopolist will follow the general profit-maximization rule about equating marginal cost (what an additional unit costs to produce) and marginal revenue (how much more revenue an additional unit brings in). Hence a monopolist maximizes profits at the rate of output where MR = MC.

Note that competitive firms actually do the same thing. In their case, MR and price are identical. Hence a competitive firm maximizes profits where MC = MR = *p*. Thus the general profit-maximization rule (MR = MC) applies to all firms; only those firms that are perfectly competitive use the special case of MC = *p* = MR.

The Production Decision. Figure 8.2 shows how a monopolist applies the profit-maximization rule to the production decision. The demand curve represents the market demand for catfish; the marginal revenue curve is derived from it, as shown in Figure 8.1. The marginal cost curve in Figure 8.2 represents the costs incurred by Universal Fish in supplying the market. Universal's objective is to find that one rate of output that maximizes profit.

Competitive firms make the production decision by locating the intersection of marginal cost and price. A monopolist, however, looks for the rate of output at which marginal cost equals marginal revenue. This is illustrated in Figure 8.2 by the intersection of the MR and MC curves (point *d).* Looking down from that intersection, we see that the associated rate of output is 4 pounds per hour. Thus 4 pounds is the profit-maximizing rate of output for this monopoly.

Figure 8.2



Profit Maximization

The Monopoly Price. How much should Universal Fish charge for these 4 pounds of fish? Naturally, the monopolist would like to charge a very high price. But its ability to charge a high price is limited by the demand curve. The demand curve always tells how much consumers are willing to pay for any given quantity. Once we have determined the quantity that is going to be supplied (4 pounds per hour), we can look at the demand curve to determine the price ($10 at point *D)* that consumers will pay for these catfish. That is to say,

• The intersection of the marginal revenue and marginal cost curves (point *d*) establishes the profit-maximizing rate of output.

• The demand curve tells us the highest price consumers are willing to pay for that specific quantity of output (point *D*).

If Universal Fish ignored these principles and tried to charge $13 per pound, consumers would buy only 1 pound, leaving it with 3 unsold pounds of fish. As the monopolist will soon learn, only one price is compatible with the profit-maximizing rate of output. In this case the price is $10. This price is found in Figure 8.2 by moving up from the intersection of MR = MC until reaching the demand curve at point *D*. Point *D* tells us that consumers are able and willing to buy exactly 4 pounds of fish per hour at the price of $10 each. A monopolist that tries to charge more than $10 will not be able to sell all 4 pounds of fish. That could turn out to be a smelly and unprofitable situation.

Monopoly Profits. Also illustrated in Figure 8.2 are the total profits of the Universal Fish monopoly. To compute total profits we can first calculate profit per unit, that is, price minus average total cost. In this case, profit per unit is $2 (price of $10 minus ATC of $8). Multiplying profit per unit by the quantity sold (4) gives us total profits of $8 per hour, as illustrated by the shaded rectangle.

Text Summary

- Market power is the ability to influence the market price of goods and services. The extreme case of market power is monopoly, a situation in which only one firm produces the entire supply of a particular product. A monopolist selects the quantity to be supplied to the market and sets the market price.
- The distinguishing feature of any firm with market power is the fact that the demand curve it faces is downward-sloping. In a monopoly, the demand curve facing the firm and the market demand curve are identical.
- The downward-sloping demand curve facing a monopolist creates a divergence between marginal revenue and price. To sell larger quantities of output, the monopolist must lower product prices. Marginal revenue is the change in total revenue divided by the change in output.
- A monopolist will produce at the rate of output at which marginal revenue equals marginal cost. Because marginal revenue is always less than price for a monopoly, the monopolist will produce less output than will a competitive industry confronting the same market demand and cost opportunities. That reduced rate of output will be sold at higher prices, in accordance with the (downward-sloping) market demand curve.
- A monopoly will attain a higher level of profit than a competitive industry because of its ability to equate industry (i.e., its own) marginal revenues and costs. By contrast, a competitive industry ends up equating marginal costs and price, because its individual firms have no control over the market supply curve.

8.3. Language Practice:

8.3.1. Multiple Choice:

1. A patent gives a firm the exclusive right to .....
a) design and make something for the first time;
b) produce or license a product;
c) make plans or drawings for how something is to be made.

2. A (An) ..... is a single firm that produces the entire market supply of a good.
a) monopoly;
b) duopoly;
c) oligopoly.

3. A monopolist .....
a) sets the market price;
b) takes the market price;
c) supports the market price.

4. A monopolist maximizes profits at the rate of output .....
a) where MR > MC;
b) where MR < MC;
c) where MR = MC.

5. In monopoly situations the demand curve facing the firm is identical to ..... for the product.
a) the market supply curve;
b) the market demand curve;
c) the marginal output curve.

6. The contribution to total revenue of an additional unit of output is called .....
a) marginal utility;

b) marginal productivity;
c) marginal revenue (MR).
7. A monopolist can sell additional output only if .....
a) it reduces prices;
b) it increases prices;
c) it keeps prices up.

8.3.2. Key Terms – Matching:

1.	Market power	a)	– a firm that produces the entire market supply of a particular good or service;
2.	Market demand	b)	– the selection of the short-run rate of output (with existing plant and equipment);
3.	Patent	c)	– the change in total revenue that results from a one-unit increase in quantity sold;
4.	Monopoly	d)	– produce at the rate of output where marginal revenue equals marginal cost;
5.	Marginal revenue (MR)	e)	– government grant of exclusive ownership of an innovation;
6.	Production decision	f)	– the ability to alter the market price of a good or service;
7.	Profit-maximization rule	g)	– the total quantities of a good or service people are willing and able to buy at alternative prices in a given time period; the sum of individual demands.

8.3.3. Please explain the meaning of the following words and word combinations in English:

Market power, market demand, patent, monopoly, marginal revenue (MR), production decision, profit-maximization rule, industry, marginal cost, total revenues, rate of production, output, quantity demanded, price taker, pricing decision.

8.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~monopolized products~~	service	demand curve	standardized	price maker
sole producer	close substitutes	price taker	barriers	entering

CHARACTERISTICS OF PURE MONOPOLY

You deal with monopolies – sole sellers of products and services – more often than you might think. When you see the logo for Microsoft's Windows on your computer, you are dealing with a monopoly (or, at least, a near-monopoly).When you purchase certain prescription drugs, you are buying (1) *monopolized products*. When you make a local telephone call, turn on your lights, or subscribe to cable TV, you may be patronizing a monopoly, depending on your location.

What precisely do we mean by pure monopoly? Pure monopoly exists when a single firm is the (2) _____ of a product for which there are no close substitutes. Here are the main characteristics of pure monopoly:

Single seller. A pure, or absolute, monopoly is an industry in which a single firm is the sole producer of a specific good or the sole supplier of a (3) _____; the firm and the industry are synonymous.

No close substitutes. A pure monopoly's product is unique in that there are no (4) _____. The consumer who chooses not to buy the monopolized product must do without it.

Price maker. The pure monopolist controls the total quantity supplied and thus has considerable control over price; it is a (5) _____. (Unlike the pure competitor that has no such control and therefore is a (6) _____). The pure monopolist confronts the usual downward-sloping product (7) _____. It can change its product price by changing the quantity of the product it supplies. The monopolist use this power whenever it is advantageous to do so.

Blocked entry. A pure monopolist has no immediate competitors because certain barriers keep potential competitors from (8) _____ the industry. Those (9) _____ may be economic, technological, legal, or of some other type. But entry is totally blocked in pure monopoly.

Nonprice competition. The product produced by a pure monopolist may be either (10) _____ (as with natural gas and electricity) or differentiated (as with Windows or Frisbees). Monopolists that have standardized products engage mainly in public relations advertising, whereas those with differentiated products sometimes advertise their products' attributes.

8.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the noun ***monopoly****:* *control, domination, exclusiveness, corner, trust, cartel.*

8.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Монополія, ринкова влада, ринковий попит, патент, граничний дохід, промисловість/галузь промисловості, виробничі рішення, максимізація прибутку, граничні витрати, валовий дохід, величина попиту, єдиний постачальник, продукція/виробіток/продуктивність, економічний суб'єкт, що визначає ціну, одиниця продукції, призначати/вимагати ціну, крива попиту, рівень виробництва, знижувати ціну, ціна одиниці товару, обчислення/підрахунок, продаж/збут, незбіг/зсув, встановлювати ринкову ціну, точка або лінія перетину.

8.4.2. Please translate the following sentences into Ukrainian:

1. A monopoly is a market structure in which there is only one producer/seller for a product. In other words, the single business is the industry. Entry into such a market is restricted due to high costs or other impediments, which may be economic, social or political.
2. A pure monopolist is the sole supplier of a product or service for which there are no close substitutes.
3. A monopoly survives because of entry barriers such as economies of scale, patents and licenses, the ownership of essential resources, and strategic actions to exclude rivals.
4. Barriers to entry may permit a monopolist to acquire economic profit even in the long run. However, (a) the monopolist does not charge "the highest price possible"; (b) the price that yields maximum total profit to the monopolist rarely coincides with the price that yields maximum unit profit; (c) high costs and a weak demand may prevent the monopolist from realizing any profit at all; and (d) the monopolist avoids the inelastic region of its demand curve.
5. The monopolist's demand curve is downsloping, and its marginal-revenue curve lies below its demand curve.
6. The downsloping demand curve means that the monopolist is a price maker.

7. The monopolist will operate in the elastic region of demand since in the inelastic region it can increase total revenue and reduce total cost by reducing output.
8. The monopolist maximizes profit (or minimizes loss) at the output where MR = MC and charges the price that corresponds to that output on its demand curve.
9. The monopolist has no supply curve, since any of several prices can be associated with a specific quantity of output supplied.
10. Assuming identical costs, a monopolist will be less efficient than a purely competitive industry because the monopolist produces less output and charges a higher price.

8.4.3. Please translate the following sentences into English:

1. Ринок чистої монополії – це такий тип побудови ринку, на якому продукцію пропонує один продавець. Підприємство-монополіст має задовольнити всіх потенційних покупців певного товару в межах визначеного ринку, і тому це підприємство ототожнюється з галуззю.
2. Головними ознаками ринку чистої монополії є: відсутність досконалих замінників продукції фірми-монополіста; неможливість входження на ринок інших фірм; велика кількість покупців на ринку; досконала інформованість щодо цін, фізичних ознак товару, інших параметрів ринку.
3. Ключовою ознакою монополії є її поведінка у сфері ціноутворення: фірма в умовах монополії "диктує" ціни.
4. Прикладом монополії може бути Polaroid (миттєве фото) або єдиний гастрономічний магазин у невеликому поселенні. Місцевий телефонний зв'язок і енергопостачання забезпечується монопольно, але ціни, що встановлюються цими продавцями, регулюються державними установами.
5. Бар'єри для входження в галузь в умовах чистої монополії є тими обмеженнями, які ставлять нові фірми в невигідне становище. Прикладами таких обмежень можуть бути: великий обсяг виробництва, який потребує чималих капітальних вкладень; патенти; монопольна власність на дефіцитні ресурси; урядові обмеження на входження в галузь (наприклад, ліцензування на телестанції або водопровід); тарифи на продукцію, що імпортується.
6. Фірма-монополіст максимізує свій прибуток таким чином, щоб граничний виторг дорівнював граничним витратам.
7. Крива попиту монополіста, як і будь-якого продавця, який діє в умовах недосконалої конкуренції, є спадна, оскільки монополіст мусить знижувати ціну, щоб збільшити продаж. Унаслідок цього граничний дохід монополіста менший за ціну (середній виторг) за кожного обсягу продукції, окрім першого.
8. Для ринку з чистою монополією не застосовується поняття кривої пропозиції. Монополіст зрівнює граничний дохід з граничними витратами, але для нього граничний дохід є менший за ціну, тому для чистого монополіста немає єдиної ціни із рівнем виробництва, який максимізує прибуток, отже, немає кривої пропозиції.
9. Бар'єри для вступу до галузі дають монополістові змогу отримати економічні прибутки навіть у довгостроковому періоді. Заслуговує уваги те, що: монополіст не призначає найвищу ціну, яку тільки можна; максимальний сукупний прибуток, якого прагне монополіст, рідко співпадає з максимальним прибутком на одиницю продукції; високі витрати і слабкий попит можуть завадити монополістові отримати будь-який прибуток взагалі, і монополіст намагатиметься уникнути нееластичності попиту.

10. За однакових витрат для чистого монополіста буде вигідніше, ніж для конкурентного продавця, обмежити обсяг виробництва і підвищити ціну. Це обмеження обсягу виробництва зумовлює нераціональне використання ресурсів, про що свідчить той факт, що ціна перевищує граничні витрати на монополізованих ринках.

8.4.4. Please make an English summary of the following text:

ОЗНАКИ РИНКУ ЧИСТОЇ МОНОПОЛІЇ

Ринок чистої монополії є повною протилежністю ринку досконалої конкуренції. Це така ринкова ситуація, при якій виробництво якогось товару зосереджено в розпорядженні одного виробника, який є єдиним постачальником такого товару на ринок. Такий виробник і є монополістом.

Ринок чистої монополії характеризується такими ознаками:

По-перше, на ньому є єдиний продавець, який і формує всю галузь. Ця фірма є одним виробником або єдиним постачальником продукту на ринок. Фірма і галузь у цьому випадку є синонімами.

По-друге, товар на ньому унікальний. Він не має жодних замінників. А це означає, що сам покупець не має альтернативи, бо якщо не купить товар у монополіста, то взагалі залишиться без даного товару, бо ні в кого іншого придбати такий товар він не зможе.

По-третє, цей ринок характеризується наявністю бар'єрів, що перешкоджають входу на ринок іншим фірмам. Це обов'язкова умова існування монополії. Бар'єри можуть бути як природними, так і штучними. Найважливішим природним бар'єром є переваги, пов'язані з ефектом масштабу виробництва (economies of scale). Монополія може створювати великі підприємства, що забезпечують низькі витрати виробництва, і цим усунути з ринку будь-якого конкурента. До того ж, тут діє і принцип високих первісних затрат входу в галузь, що вимагає великих інвестицій, які непосильні для конкурентів. Існують і штучні бар'єри у вигляді патентів, які обмежують право користування певними технічними і технологічними засобами, ліцензії, франчайзинг, тобто виключні права на продаж товару монополії за цінами, які вона визначає. Можуть використовуватись і насильницькі засоби недопущення конкурента на ринок (це характерно для країн перехідної економіки з високим рівнем злочинності).

По-четверте, ринок чистої монополії характеризується неціновою конкуренцією. Одним із найважливіших її знарядь є реклама. Активна реклама дає можливість збільшувати попит на даний продукт і тим самим створює умови для зростання обсягів реалізації.

Нарешті, ознакою ринку чистої монополії є контроль за ціною. Чистий монополіст, який є єдиним виробником чи продавцем товару, істотно впливає на ціну, бо може маніпулювати величиною пропозиції.

8.5. Reading Practice:

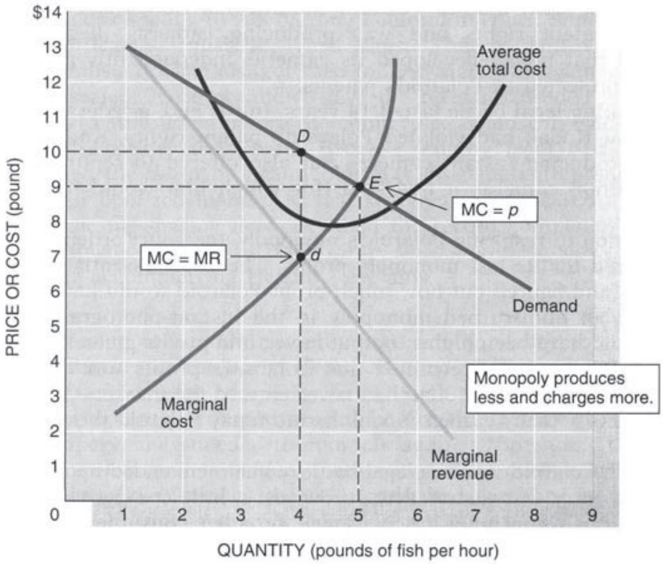
8.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: BARRIERS TO ENTRY

The profits attained by Universal Fish as a result of its monopoly position are not the end of the story. What, then, can we expect to happen in the catfish industry now that Universal Fish has a monopoly position and is enjoying economic profits?

The consequences of monopoly for prices and output can be seen in Figure 8.3. In this case, we must compare monopoly behavior to that of a competitive industry. Remember that a monopoly is a single firm that comprises the entire industry. What we want to depict, then, is how a different market structure (perfect competition) would alter prices and the quantity supplied.

Figure 8.3



Monopoly vs Competitive Outcomes

If a competitive industry were producing at point *D,* it, too, would be generating an economic profit with the costs shown in Figure 8.3. A competitive industry would not stay at that rate of output, however. All the firms in a competitive industry try to maximize profits by equating price and marginal cost. At point *D*, however, price exceeds marginal cost. Hence a competitive industry would quickly move from point *D* (the monopolist's equilibrium) to point *E,* where marginal cost and price are equal. At point *E* (the short-run competitive equilibrium), more fish are supplied, their price is lower, and industry profits are smaller.

Threat of Entry. At point *E*, catfish farming is still profitable, since price ($9) exceeds average cost ($8) at that rate of production. Although total profits at point *E* ($5 per hour) are less than at point *D* ($8 per hour), they are still attractive.

These remaining profits will lure more entrepreneurs into a competitive industry. As more firms enter, the market supply curve will shift to the right, driving prices down further. Output will increase and prices will decline until all economic profit is eliminated and entry ceases (long-run competitive equilibrium).

Will this sequence of events occur in a monopoly? Absolutely not. Remember that Universal Fish is now assumed to have an exclusive patent on oxygenating equipment and can use this patent as an impassable barrier to entry. Consequently, would-be competitors can swarm around Universal's profits until their wings drop off; Universal is not about to let them in on the spoils. Universal Fish has the power to maintain production and price at point *D* in Figure 8.3. In the absence of competition, monopoly outcomes won't budge. We conclude, therefore, that a monopoly attains higher prices and profits by restricting output.

The secret to a monopoly's success lies in its *barriers to entry*[69]. So long as entry barriers exist, a monopoly can control (restrict) the quantity of goods supplied. The barrier to entry in this catfish saga is the patent on oxygenating equipment.

Patent Protection: Polaroid vs Kodak[70]. A patent was also the source of monopoly power in the battle between Polaroid and Eastman Kodak. Edwin Land invented the instant-development camera in 1947 and got a patent on his invention. Over the subsequent 29 years, the company he founded was the sole supplier of instant-photography cameras and racked up billions of dollars in profits. Along the way, the Polaroid Corporation acquired still more patents to protect Dr. Land's original invention and subsequent improvements.

Polaroid's huge profits were too great a prize to ignore. In 1976, the Eastman Kodak Company decided to enter the market with an instant camera of its own. The availability of a second camera quickly depressed camera prices and squeezed Polaroid's profits.

Polaroid cried foul and went to court to challenge Kodak's entry into the instant-photography market. Polaroid claimed that Kodak had infringed on Polaroid's patent rights and was producing cameras illegally. Kodak responded that it had developed its cameras independently and used no processes protected by Polaroid's patents.

The ensuing legal battle lasted 14 years. In the end, a federal judge concluded that Kodak had violated Polaroid's patent rights. Kodak not only stopped producing instant cameras but also offered to repurchase all of the 16 million cameras it had sold (for which film would no longer be available).

In addition to restoring Polaroid's monopoly, the court ordered Kodak to pay Polaroid for its lost monopoly profits. The court essentially looked at Figure 8.3 and figured out how much profit Polaroid would have made had it enjoyed an undisturbed monopoly in the instant-photography market. Prices would have been higher, output lower, and profits greater. Using such reasoning, the judge determined that Polaroid's profits would have been $909.5 million higher if Kodak had never entered the market – twice as high as the profits actually earned. Kodak had to repay Polaroid these lost profits in 1990.

Although Polaroid won the legal battle, consumers ended up losing. What the Kodak entry demonstrated was how just a little competition (a second firm) can push consumer prices down, broaden consumer options, and improve product quality. Once its monopoly was restored, Polaroid didn't have to try as hard to satisfy consumer desires.

Other Entry Barriers. Patents are a highly visible and effective barrier. There are numerous other ways of keeping potential competitors at bay, however.

Legal Harassment. An increasingly effective way of suppressing competition is to sue new entrants. Even if a new competitor hasn't infringed on a monopolist's patents or trademarks, it is still fair game for legal challenges. Recall that Kodak spent 14 years battling

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[69] ***Barriers to entry**:* Obstacles that make it difficult or impossible for would-be producers to enter a particular market, e.g., patents.

[70] ***Polaroid Corporation*** is an American-based international consumer electronics and eyewear company, originally founded in 1937 by Edwin H. Land. It is most famous for its instant film cameras, which reached the market in 1948, and continued to be the company's flagship product line until the February 2008 decision to cease all production in favor of digital photography products. The company's original dominant market was in polarized sunglasses. ***Eastman Kodak Company***, commonly known as Kodak, is an American multinational imaging and photographic equipment, materials and services company headquartered in Rochester, New York**,** United States and incorporated in New Jersey. It was founded by George Eastman in 1888. Kodak is best known for photographic film products. During most of the 20th century Kodak held a dominant position in photographic film, and in 1976 had a 89% market share of photographic film sales in the United States. The company's ubiquity was such that its tagline *Kodak moment* entered the common lexicon to describe a personal event that demanded to be recorded for posterity.

Polaroid in court. Small firms can't afford all that legal skirmishing. When Napster[71], one of the first companies to offer free music downloads, got sued for copyright infringement in 2000, its fate was sealed. It simply didn't have the revenues needed to wage an extended legal battle. Even before the court ruled against it, Napster chose to compromise rather than fight. Because lengthy legal battles are so expensive, even the threat of legal action may dissuade entrepreneurs from entering a monopolized market.

Exclusive Licensing. Nintendo[72] allegedly used another tactic to control the video game market in the early 1990s. Nintendo forbade game creators from writing software for competing firms. Such exclusive licensing made it difficult for potential competitors to acquire the factors of production (game developers) they needed to compete against Nintendo. It was only after the giant electronics company Sony[73] entered the market in 1995 with new technology (PlayStation) that Nintendo had to share its monopoly profits.

Nintendo also kept game prices artificially high by restricting sales competition. In October 2002 the European Commission's[74] antitrust department concluded that Nintendo was prohibiting retailers in low-cost nations from selling Nintendo games in high-cost nations. This practice eliminates potential price competition, keeping Nintendo profits high.

Bundled Products. Another way to thwart competition is to force consumers to purchase complementary products. The U.S. Justice Department repeatedly accused Microsoft Corporation of "bundling" its applications software (e.g., Windows Explorer) with its Windows operating software. With a near monopoly on operating systems, Microsoft can charge a high price for Windows, then give "free" applications software with each system. Such bundling makes it almost impossible for potential competitors in the applications market to sell their products at a profitable price.

Government Franchises. In many cases, a monopoly persists just because the government gave a single firm the exclusive right to produce a particular good in a specific market. The entry barrier here is not a patent on a product but instead an exclusive franchise to sell that product. Local cable and telephone companies are often franchised monopolies. Your campus bookstore might also have exclusive rights to sell textbooks on campus.

<u>Text 2</u>: COMPARATIVE OUTCOMES

Competition vs Monopoly

By way of summary, we may recount the different ways in which perfectly competitive and monopolized markets behave. The likely sequence of events that occurs in each type of market structure is as follows:

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[71] ***Napster*** is a name given to two music-focused online services. It was originally founded as a pioneering peer-to-peer file sharing Internet service that emphasized sharing audio files, typically music, encoded in MP3 format. The original company ran into legal difficulties over copyright infringement, ceased operations and was eventually acquired by Roxio**.** In its second incarnation Napster became an online music store until it was acquired by Rhapsody from Best Buy on 1 December 2011.

[72] ***Nintendo Co., Ltd.*** is a Japanese multinational consumer electronics company headquartered in Kyoto, Japan. Nintendo is the world's largest video game company by revenue.

[73] ***Sony Corporation***, commonly referred to as Sony, is a Japanese multinational conglomerate corporation headquartered in Kōnan Minato, Tokyo, Japan. Its diversified business is primarily focused on the electronics, game, entertainment and financial services sectors. The company is one of the leading manufacturers of electronic products for the consumer and professional markets.

[74] ***The European Commission (EC)*** is the executive body of the European Union responsible for proposing legislation, implementing decisions, upholding the Union's treaties and day-to-day running of the EU.

Competitive Industry	*Monopoly Industry*
• High prices and profits signal consumers' demand for more output.	• High prices and profits signal consumers' demand for more output.
• The high profits attract new suppliers.	• Barriers to entry are erected to exclude potential competition.
• Production and supplies expand.	• Production and supplies are constrained.
• Prices slide down the market demand curve.	• Prices don't move down the market demand curve.
• A new equilibrium is established wherein more of the desired product is produced, its price falls, average costs of production approach their minimum, and economic profits approach zero.	• No new equilibrium is established; average costs are not necessarily at or near a minimum, and economic profits are at a maximum.
• Price equals marginal cost throughout the process.	• Price exceeds marginal cost at all times.
• Throughout the process, there is great pressure to keep ahead of the profit squeeze by reducing costs or improving product quality.	• There is no squeeze on profits and thus no pressure to reduce costs or improve product quality.

Near Monopolies. These comparative sequences aren't always followed exactly. Nor is the monopoly sequence available only to a single firm. In reality, two or more firms may rig the market to replicate monopoly outcomes and profits.

Duopoly. In a duopoly there are two firms rather than only one. They may literally be the only two firms in the market, or two firms may so dominate the market that they can still control price and output, even if other firms are present.

How would you expect duopolists to behave? Will they slug it out, driving prices and profits down to competitive levels? Or will they recognize that less intense competition will preserve industry profits? If they behave like true competitors, they risk losing economic profits. If they lay back, they assure themselves a continuing share of monopoly-like profits.

The two giant auction houses, Sotheby's and Christie's[75], figured out which strategy made more cents. Together the two companies control 90 percent of the $4 billion auction market. Rather than compete for sales by offering lower prices to potential sellers, Sotheby's and Christie's agreed to fix commission prices at a high level. When they got caught in 2000, the two firms agreed to pay a $512 million fine to auction customers.

Oligopoly. In an oligopoly, several firms (rather than one or two) control the market. Here, too, the strategic choice is whether to compete feverishly or live somewhat more comfortably. To the extent that the dominant firms recognize their mutual interest in higher prices and profits, they may avoid the kind of price competition common in perfectly competitive industries. Coca-Cola and Pepsi, for example, much prefer to use clever advertising rather than lower prices to lure customers away from each other. With 75 percent of industry sales between them, Coke and Pepsi realize that price competition is a no-win strategy.

In some instances, an oligopoly may have explicit limits on production and price. The nations that comprise the Organization of Petroleum Exporting Countries (OPEC)[76], for

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[75] ***Sotheby's*** is a multinational corporation, originally English but now owned and headquartered in the United States, that is one of the world's largest auctioneers of fine and decorative art, jewelry, and collectibles. ***Christie's*** is an art business and a fine arts auction house, currently the world's largest.

[76] ***OPEC*** is the Organization of the Petroleum Exporting Countries. Its mission is to secure a return to oil investors and an economic supply of oil to consumers.

example, meet every six months or so to limit output (quantity supplied) and maintain a high price for oil. OPEC operates outside of U.S. borders and is therefore immune from U.S. laws against price fixing.

Monopolistic Competition. Starbucks[77], too, has the power to set prices for its products even though many other firms sell coffee. But it has much less power than Coca-Cola or OPEC, because many firms sell coffee. A market made up of many firms each of which has some distinct brand image is called *monopolistic competition.* Each company has a monopoly on its brand image but still must contend with competing brands. This is still very different from perfect competition, in which no firm has a distinct brand image or price-setting power. As a result, any industry dominated by relatively few firms is likely to behave more like a monopoly than like perfect competition.

WHAT Gets Produced

To the extent that dominating firms behave as we have discussed, they alter the output of goods and services in two specific ways. Competitive industries tend, in the long run, to produce at minimum average total costs. Competitive industries also pursue cost reductions and product improvements relentlessly. These pressures tend to expand our production possibilities. No such forces are at work in the monopoly we have discussed here. Hence there is a basic tendency for monopolies to inhibit economic growth.

Another important feature of competitive markets is their tendency toward marginal cost pricing. Marginal cost pricing is important to consumers because it permits rational choices among alternative goods and services. In particular, it informs consumers of the true opportunity costs of various goods, thereby allowing them to choose the mix of output that delivers the most utility with available resources. In our monopoly example, however, consumers end up getting fewer catfish than they would like, while the economy continues to produce other goods that are less desired. Thus the mix of output shifted away from catfish when Universal took over the industry. The presence of a monopoly therefore alters society's answer to the question of WHAT to produce.

FOR WHOM

Monopoly also changes the answer to the FOR WHOM question. The reduced supply and higher price of catfish imply that some people will have to eat canned tuna instead of breaded catfish. The monopolist's restricted output will also reduce job opportunities, leaving some families with less income. The monopolist will end up with fat profits and thus greater access to all goods and services.

HOW

Finally, monopoly may also alter the HOW response. Competitive firms are likely to seek out new ways of breeding, harvesting, and distributing catfish. A monopoly, however, can continue to make profits from existing equipment and technology. Accordingly, monopolies tend to inhibit technology – how things are produced – by keeping potential competition out of the market.

Any Redeeming Qualities? Despite the strong and general case to be made against monopoly, it is conceivable that monopolies could also benefit society. One of the arguments made for concentrations of market power is that monopolies have greater ability to pursue research and development. Another is that the lure of monopoly power creates a tremendous incentive for invention and innovation. A third argument in defense of monopoly is that large companies can produce goods more efficiently than smaller firms. Finally, it is argued that even monopolies have to worry about potential competition and will behave accordingly.

[77] ***Starbucks Corporation*** is an American global coffee company and coffeehouse chain based in Seattle, Washington. Starbucks is the largest coffeehouse company in the world.

8.6. Internet Practice:

8.6.1. Web Activities:

- Log on to **http://moneycentral.msn.com/investor/home.asp/** and complete a search on the CNBC (Consumer News and Business Channel) website using the keyword "monopoly". Choose a recent article and explain what characteristics exist that make the market being discussed a monopoly.
- Log on to **www.ftc.gov/be/econrpt.htm/** and choose a recent economic report prepared by the FTC (Federal Trade Commission) that discusses a monopoly market. Summarize this report and explain how the FTC is regulating the market.

8.7. Critical Thinking & Discussion Questions:

- If you owned the only bookstore on or near campus, what would you charge for this textbook? How much would you pay students for their used books?
- Why don't competitive industries produce at the rate of output that maximizes industry profits, as a monopolist does?
- Why don't monopolists try to establish the highest price possible, as many people allege? What would happen to sales? To profits?
- What circumstances might cause a monopolist to charge less than the profit-maximizing price?
- What entry barriers exist in (a) the fast-food industry; (b) cable TV; (c) the auto industry; (d) illegal drug trade?

Unit 9 *Labor Market*

"Labour was the first price, the original purchase – money that was paid for all things. It was not by gold or by silver, but by labour, that all wealth of the world was originally purchased"
Adam Smith[78]

9.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

benefit	~ market	profit maximizer
cash	~ supply	pursuit
consequence(s)	~ union	quest
consumption	labor-demand curve	rate of output
derived demand	labor-supply curve	retrenchment
differential	living standard(s)	*revenue:*
diminishing return(s)	major	marginal ~

[78] ***Adam Smith*** (5 June 1723 OS – 17 July 1790) was a Scottish moral philosopher and a pioneer of political economy. One of the key figures of the Scottish Enlightenment, Adam Smith is best known for two classic works: *The Theory of Moral Sentiments* (1759), and *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776). The latter, usually abbreviated as *The Wealth of Nations*, is considered his magnum opus and the first modern work of economics. Smith is cited as the *father of modern economics* and is still among the most influential thinkers in the field of economics today.

dropout
earning(s)
employer
facility(ies)
factor of production
fringe benefit
government intervention
hike
income
influx
insurance
labor:
~ demand
marginal cost
marginal productivity
marginal utility
market value
money payment(s)
opportunity cost
output
pay
paycheck
plight
product:
marginal physical ~ (MPP)
marginal revenue ~ (MRP)
total ~
royalty
salary
total output
tradeoff
urge
wage(s):
~ floor
~ rate
minimum ~
nominal ~
real ~

***Verbs*:**

to abate
to assess
to calculate
to constrain
to contend
to convey
to decline/decrease
to decree
to determine
to earn
to employ/hire
to entail
to forgo
to give up
to grow/increase
to maximize
to measure
to obtain
to purchase
to reinforce
to supply
to toil
to turn down
to value

***Adjectives & Adverbs*:**

decreasing/diminishing
flexible
high-(low) wage
high-paying
inevitable
profit-maximizing
reluctant
scarce
upward (downward) sloping
urgent
valuable
worth

9.2. Read and translate the text into Ukrainian:

LABOR MARKET

LABOR SUPPLY

The following two ads appeared in the campus newspaper of a well-known university:

Will do ANYTHING for money: able-bodied liberal-minded male needs money, will work to get it. Have car. Call Tom 555-0244.

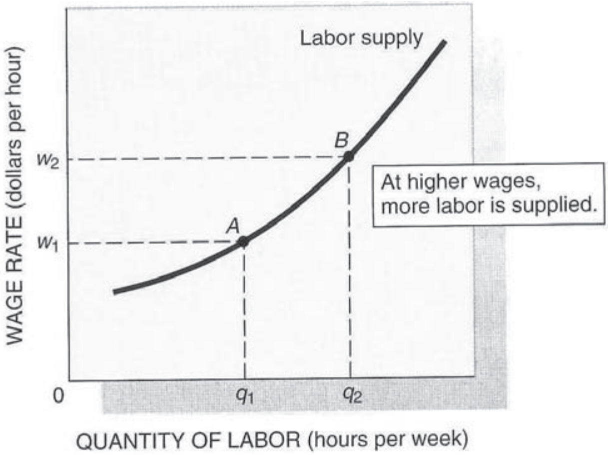
Web Architect: Computer sciences graduate, strong programming skills and software knowledge (e.g., Flash, DreamWeaver). Please call Margaret 555-3247, 9-5.

Although placed by individuals of very different talents, the ads clearly expressed Tom's and Margaret's willingness to work. We don't know how much money they were asking for their respective talents, or whether they ever found jobs, but we can be sure that they were prepared to take a job at some wage rate.

The advertised willingness to work expressed by Tom and Margaret represents a supply of labor. They are offering to sell their time and talents to anyone who is willing to pay the right price.

Our first concern in this unit is to explain these labor-supply decisions. As Figure 9.1 illustrates, we expect the quantity of labor supplied – the number of hours people are willing to work – to increase as wage rates rise.

Figure 9.1



The Supply of Labor

But how do people decide how many hours to supply at any given wage rate? Do people try to maximize their income? If they did, we would all be holding three jobs and sleeping on the commuter bus. Few of us actually live this way. Hence we must have other goals than simply maximizing our incomes.

Income vs Leisure. The most visible benefit obtained from working is a paycheck. In general, the fatter the paycheck – the greater the wage rate offered – the more willing a person is to go to work.

As important as paychecks are, however, people recognize that working entails real sacrifices. Every hour we spend working implies one less hour available for other pursuits. If we go to work, we have less time to watch TV, or simply enjoy a nice day. In other words, there is a real opportunity cost associated with working. Generally, we say that the *opportunity cost* of working is the amount of leisure time that must be given up in the process.

Because both leisure and income are valued, we confront a tradeoff when deciding whether to go to work. Going to work implies more income but less leisure. Staying home has the opposite consequences.

The inevitable tradeoff between labor and leisure explains the shape of individual labor-supply curves. As we work more hours, our leisure time becomes more scarce – and thus more valuable. People who work all week long are reluctant to go to work on Saturday. It's not that they are physically exhausted. It's just that they want some time to enjoy the fruits of their labor. In other words, as the opportunity cost of job time increases, we require correspondingly higher rates of pay. We will supply additional labor – work more hours – only if higher wage rates are offered: this is the message conveyed by the upward-sloping labor-supply curve.

The upward slope of the labor-supply curve is reinforced with the changing value of income. Our primary motive for working is the income a job provides. Those first few dollars are really precious. As you work and earn more, however, you discover that your most urgent needs have been satisfied. You may still want more things, but your consumption desires aren't so urgent. In other words, the marginal utility of income declines as you earn more. Accordingly, the wages offered for more work lose some of their allure. You may not be willing to work more hours unless offered a higher wage rate.

The upward slope of an individual's labor-supply curve is thus a reflection of two phenomena: (1) The increasing opportunity cost of labor. (2) The decreasing marginal utility of income as a person works more hours.

As wages and living standards have risen, the urge for more money has abated. What people want is more leisure time to spend their incomes. As a result, ever higher wages are needed to lure people into working longer hours.

Money isn't necessarily the only thing that motivates people to work, of course. People do turn down higher-paying jobs in favor of lower-wage jobs that they like. Many mothers forgo high-wage "career" jobs in order to have more flexible hours and time at home. Volunteers offer their services just for the sense of contributing to their communities; no paycheck is required. When push comes to shove, however, money almost always makes a difference: people do supply more labor when offered higher wages.

LABOR DEMAND

Regardless of how many people are willing to work, it is up to employers to decide how many people will actually work. Employers must be willing and able to hire workers if people are going to find the jobs they seek. That is to say, there must be a demand for labor. But how do employers decide what to pay or how many people to hire?

Derived Demand. Employers are profit maximizers. In their quest for maximum profits, firms seek the rate of output at which marginal revenue equals marginal cost. Once they have identified the profit-maximizing rate of output, firms enter factor markets to purchase the required amounts of labor, equipment, and other resources. Thus the quantity of resources purchased by a business depends on the firm's expected sales and output. In this sense, we say that the demand for factors of production, including labor, is a *derived demand*; it is derived from the demand for goods and services.

Consider the plight of strawberry pickers. Strawberry farming is a $650 million industry in the USA. Yet the thousands of pickers who toil in the fields earn only $7 an hour. The United Farm Workers[79] union blames greedy growers for the low wages. Unfortunately, employer greed is not the only force at work here. Strawberry growers, like most producers, would love to sell more strawberries at higher prices. If they did, there is a strong possibility that the growers would hire more pickers and even pay them a higher wage rate. But the growers must contend with the market demand for strawberries. If they increase the price of strawberries, the quantity of berries demanded will decline. They'd end up hiring fewer workers. If profits declined, wage rates might suffer as well.

The link between the product market and the labor market also explains why graduates with engineering or computer science degrees are paid so much. Demand for related products is growing so fast that employers are desperate to hire individuals with the necessary skills. By contrast, the wages of philosophy majors suffer from the fact that the search for meaning is no longer a growth industry.

The Wage Rate. The number of strawberry pickers hired by the growers is not completely determined by consumer demand for strawberries. A farmer with tons of strawberries to harvest might still be reluctant to hire many workers at $30 an hour. At $7 per hour, however, the same farmer would hire a lot of help. That is to say, the quantity of labor demanded will

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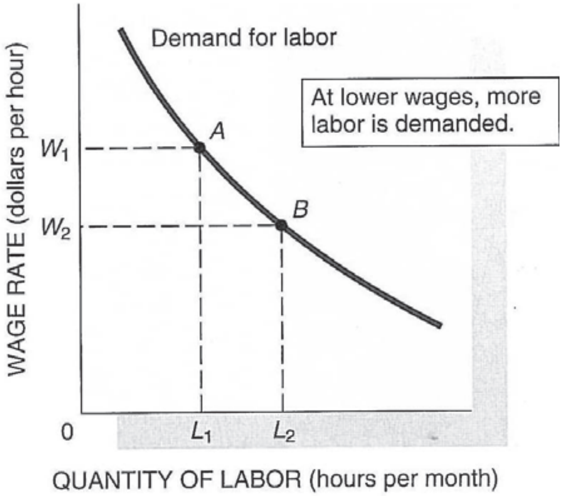
[79] ***The United Farm Workers of America (UFWA)*** is a labor union created from the merging of two groups, the Agricultural Workers Organizing Committee (AWOC) and the National Farm Workers Association (NFWA).

depend on its price (the wage rate). In general, we expect that strawberry growers will be willing to hire more pickers at low wages than at high wages. Hence the demand for labor is not a fixed quantity; instead, there is a varying relationship between quantity demanded and price (wage rate). Like virtually all other demand curves, the labor-demand curve is downward-sloping (see Figure 9.2).

Figure 9.2



The Demand for Labor

Marginal Physical Product. The downward slope of the labor-demand curve reflects the changing productivity of workers as more are hired. Each worker isn't as valuable as the next. On the contrary, each additional worker tends to be less valuable as more workers are hired. In the strawberry fields, a worker's value is measured by the number of boxes he or she can pick in an hour. More generally, we measure a worker's value to the firm by his or her *marginal physical product (MPP)*, that is, the change in total output that occurs when an additional worker is hired. In most situations, marginal physical product declines as more workers are hired.

Suppose for the moment that Marvin, a college dropout with three summers of experience as a canoe instructor, can pick 5 boxes of strawberries per hour. These 5 boxes represent Marvin's marginal physical product (MPP) – in other words, the addition to total output that occurs when the grower hires Marvin. That is

$$Marginal\ physical\ product = \frac{change\ in\ total\ output}{change\ in\ quantity\ of\ labor}$$

Marginal physical product establishes an upper limit to the grower's willingness to pay.

Marginal Revenue Product. Most strawberry pickers don't want to be paid in strawberries, of course. Marvin, like the rest of the pickers, wants to be paid in cash. To find out how much cash he might be paid, all we need to know is what a box of strawberries is worth. This is easy to determine. The market value of a box of strawberries is simply the price at which the grower can sell it. Thus Marvin's contribution to output can be measured in either marginal physical product (5 boxes per hour) or the dollar value of that product.

The dollar value of a worker's contribution to output is called *marginal revenue product (MRP)*. Marginal revenue product is the change in total revenue that occurs when more labor is hired – that is,

$$\textit{Marginal revenue product} = \frac{\textit{change in total revenue}}{\textit{change in quantity of labor}}$$

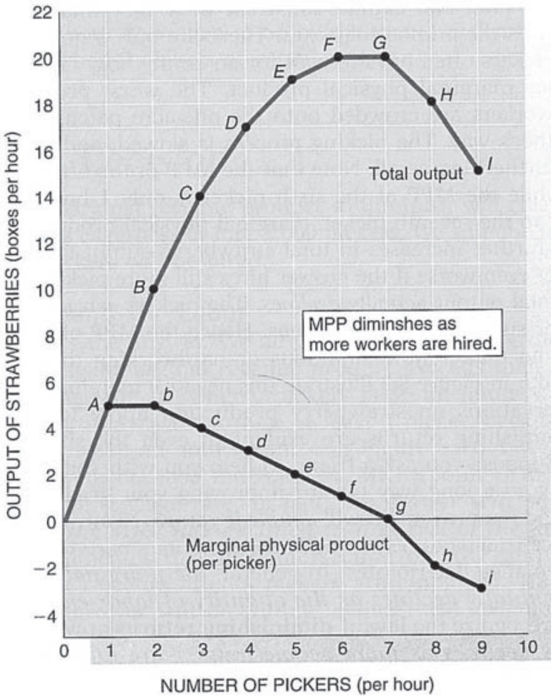
If the grower can sell strawberries for \$2 a box, Marvin's marginal revenue product is 5 boxes per hour × \$2 per box, or \$10 per hour. This is Marvin's value to the grower. Accordingly, the grower can afford to pay Marvin up to \$10 per hour. Thus marginal revenue product sets an upper limit to the wage rate an employer will pay.

But what about a lower limit? Suppose that the pickers aren't organized and that Marvin is desperate for money. Under such circumstances, he might be willing to work – to supply labor – for only \$6 an hour. Should the grower hire Marvin for such a low wage? The profit-maximizing answer is obvious. If Marvin's marginal revenue product is \$10 an hour and his wages are only \$6 an hour, the grower will be eager to hire him. The difference between Marvin's marginal revenue product (\$10) and his wage (\$6) implies additional profits of \$4 an hour.

Diminishing MPP. To assess the wisdom of hiring additional pickers, we again have to consider what happens to total output as more workers are employed. To do so we need to keep track of marginal physical product.

Figure 9.3 shows how strawberry output changes as additional pickers are hired. We start with Marvin, who picks 5 boxes of strawberries per hour. Total output and his marginal physical product are identical, because he is initially the only picker employed. When the grower hires George, Marvin's old college roommate, we observe the total output increases to 10 boxes per hour (point *B* in Figure 9.3). This figure represents another increase of 5 boxes per hour. Accordingly, we may conclude that George's marginal physical product is 5 boxes per hour, the same as Marvin's.

Figure 9.3



	Number of Pickers (per hour)	Total Strawberry Output (boxes per hour)	Marginal Physical Product (boxes per hour)
A	1 (*Marvin*)	5	5
B	2 (*George*)	10	5
C	3	14	4
D	4	17	3
E	5	19	2
F	6	20	1
G	7	20	0
H	8	18	−2
I	9	15	−3

Diminishing Marginal Physical Product

As more workers are hired, total strawberry output continues to increase, but not nearly as fast. Although the later hires work just as hard, the limited availability of land and capital constrain their marginal physical product. One problem is the number of boxes. The worst problem is space. The picking process is slowed, and marginal physical product is further depressed. By the time we get to the seventh picker, marginal physical product actually falls to zero. If 8 pickers are employed, total output actually declines. Points *H* and *h* in Figure 9.3 illustrate this negative marginal physical product.

You may recognize the law of diminishing returns at work here. Marginal productivity declines as more people must share limited facilities. Typically, diminishing returns result from the fact that an increasing number of workers leaves each worker with less land and capital to work with.

Diminishing MRP. As marginal physical product diminishes, so does marginal revenue product (MRP).

The decline in marginal revenue product mirrors the drop in marginal physical product. Recall that a box of strawberries sells for $2. With this price and the output statistics of Figure 9.3, we can readily calculate marginal revenue product, as summarized in Table 9.1. As the growth of output diminishes, so does marginal revenue product. Marvin's marginal revenue product of $ 10 an hour has fallen to $6 by the time 4 pickers are employed and reaches zero when 7 pickers are employed.

Table 9.1

Diminishing Marginal Revenue Product

Number of Pickers (per hour)	Total Strawberry Output (boxes per hour)	×	Price of Strawberries (per box)	=	Total Strawberry Revenue (per hour)	Marginal Revenue Product
0	0		$2		0	
1 (*Marvin*)	5		$2		$10	›----------- $10
2 (*George*)	10		$2		$20	›----------- $10
3	14		$2		$28	›----------- $ 8
4	17		$2		$34	›----------- $ 6
5	19		$2		$38	›----------- $ 4
6	20		$2		$40	›----------- $ 2
7	20		$2		$40	›----------- $ 0
8	18		$2		$36	›----------- $ −4
9	15		$2		$30	›----------- $ −6

Text Summary

- The economic motivation to work arises from the fact that people need income to buy the goods and services they desire. As a consequence, people are willing to work – to supply labor.
- There is an opportunity cost involved in working – namely, the amount of leisure time one sacrifices. People willingly give up additional leisure only if offered higher wages. Hence the labor supply curve is upward sloping.
- A firm's demand for labor reflects labor's marginal revenue product. A profit-maximizing employer will not pay a worker more than the value of what the worker produces.

- The marginal revenue product of labor tends to diminish as additional workers are employed on a particular job (the law of diminishing returns). This decline occurs because additional workers have to share existing land and capital, leaving each worker with less land and capital to work with. The decline in MRP gives labor-demand curves their downward slope.

9.3. Language Practice:

9.3.1. Multiple Choice:

1. The ..... of working is the amount of leisure time that must be given up in the process.
a) added cost;
b) total cost;
c) opportunity cost.
2. As the opportunity cost of job time increases, we …..
a) require correspondingly higher rates of pay;
b) require higher productivity;
c) require higher expenditure.
3. The marginal utility of income .....
a) increases as you earn more;
b) declines as you earn more;
c) remains constant as you earn more.
4. The quantity of resources purchased by a business depends on .....
a) the firm's expected sales and input;
b) the firm's expected consumption;
c) the firm's expected sales and output.
5. Marginal productivity …..
a) declines as more people must share limited facilities;
b) increases as there is less land and capital to work with;
c) increases as more people must share limited facilities.
6. Marginal revenue product is .....
a) the change in total output associated with one additional unit of input;
b) the change in total revenue that occurs when more labor is hired;
c) the most desired goods and services that are forgone in order to obtain something else;
7. Marginal revenue product sets …..
a) an upper limit to the wage rate an employer will pay;
b) an upper limit to the employer's willingness to pay;
c) a lower limit to the wage rate an employer will pay.

9.3.2. Key Terms – Matching:

1.	Labor supply	a)	– the quantities of labor employers are willing and able to hire at alternative wage rates in a given time period, ceteris paribus;
2.	Opportunity cost	b)	– the marginal physical product of a variable input declines as more of it is employed with a given quantity of other (fixed) inputs;
3.	Derived demand	c)	– the change in total output associated with one additional unit of input;

4.	Demand for labor	d)	– the most desired goods and services that are forgone in order to obtain something else;
5.	Marginal revenue product (MRP)	e)	– the willingness and ability to work specific amounts of time at alternative wage rates in a given time period, ceteris paribus;
6.	Marginal physical product (MPP)	f)	– the demand for labor and other factors of production results from (depends on) the demand for final goods and services produced by these factors;
7.	Law of diminishing returns	g)	– the change in total revenue associated with one additional unit of input.

9.3.3. Please explain the meaning of the following words and word combinations in English:

Labor supply, opportunity cost, derived demand, labor demand, marginal physical product (MPP), law of diminishing returns, marginal revenue product (MRP), rate of pay, labor-supply curve, marginal utility of income, living standards, wage rate, total revenue, marginal cost, to hire.

9.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~*blue- and white-collar workers*~~ provide labor nominal wage obtain fringe benefits bonuses money payments prices increased

LABOR, WAGES AND EARNINGS

Economists use the term “labor” broadly to apply to: (1) *blue- and white-collar workers* of all varieties; professional people such as lawyers, physicians, dentists, and teachers; and owners of small businesses, including barbers, plumbers, and a host of retailers who (2) _____ labor as they carry on their own businesses.

Wages are the price that employers pay for labor. Wages not only take the form of direct (3) _____ such as hourly pay, annual salaries, (4) _____, commissions, and royalties but also (5) _____ such as paid vacations, health insurance, and pensions. Unless stated otherwise, we will use the term “wages” to mean all such payments and benefits converted to an hourly basis.That will remind us that the wage rate is the price paid per unit of (6) _____ services, in this case an hour of work. It will also let us distinguish between the wage rate and labor earnings, the latter determined by multiplying the number of hours worked by the hourly wage rate.

We must also distinguish between nominal wages and real wages. A (7) _____ is the amount of money received per hour, day, or year. A real wage is the quantity of goods and services a worker can (8) _____ with nominal wages; real wages reveal the “purchasing power” of nominal wages.

Your real wage depends on your nominal wage and the (9) _____ of the goods and services you purchase. Suppose you receive an 8 percent increase in your nominal wage during a certain year but in that same year the price level increases by 5 percent. Then your real wage has (10) _____ by 3 percent (=8 percent – 5 percent). Unless otherwise indicated, we assume that the overall level of prices remains constant.

9.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the noun and verb ***labor****:* *(n) 1) work, toil, drudgery, industry, effort, exertion, pains;* *2) workers, labourers, employees, work-force;* *3) job, task, chore.* *(v) work, toil, drudge, slave, struggle, strive.*

9.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Ринок праці, пропозиція на ринку праці/наявність робочої сили, граничний продукт, граничний продукт у грошовій формі, попит на робочу силу, ставка заробітної плати, похідний попит/опосередкований попит, альтернативна вартість/ціна можливості, закон спадної віддачі, гранична корисність, життєвий рівень, сукупний дохід, граничні витрати, наймати (на роботу), фактори виробництва, наймач/роботодавець, ринкова вартість, висхідна крива, зарплата, продукція/випуск/виробіток, максимізація прибутку, загальний об'єм виробництва, компроміс/вибір/співвідношення вигоди і втрат, дохід/надходження/прибуток, граничний дохід, товари і послуги, величина попиту, продуктивність/ефективність виробництва, цінність/вартість/ціна, обмежені виробничі потужності, зменшуватись/спадати.

9.4.2. Please translate the following sentences into Ukrainian:

1. Labor market is the nominal market in which workers find paying work**,** employers find willing workers, and wage rates are determined.
2. Labor markets may be local or national (even international) in their scope and are made up of smaller, interacting labor markets for different qualifications, skills, and geographical locations**.** They depend on exchange of information between employers and job seekers about wage rates**,** conditions of employment, level of competition, and job location.
3. The term “labor” encompasses all people who work for pay. The wage rate is the price paid per unit of time for labor. Labor earnings comprise total pay and are found by multiplying the number of hours worked by the hourly wage rate. The nominal wage rate is the amount of money received per unit of time; the real wage rate is the purchasing power of the nominal wage.
4. Labour demand is a derived demand; that is, hiring labour is not desired for its own sake but rather because it aids in producing output, which contributes to an employer's revenue and hence profits.
5. The demand for an additional amount of labour depends on the marginal revenue product (MRP) and the marginal cost (MC) of the worker. The MRP is calculated by multiplying the price of the end product or service by the marginal physical product of the worker. If the MRP is greater than a firm's marginal cost, then the firm will employ the worker since doing so will increase profit. The firm only employs however up to the point where MRP=MC, and not beyond, in economic theory.
6. An individual's supply of labor depends on his or her preferences for two types of “goods”: consumption goods and leisure. Consumption goods include all the goods that can be purchased with the income that an individual earns from working. Leisure is the good that individuals consume when they are not working. By working more

(supplying more labor), an individual reduces his or her consumption of leisure but is able to increase his or her purchases of consumption goods.

7. In choosing between leisure and consumption, the individual faces two constraints. First, the individual is limited to twenty-four hours per day for work or leisure. Second, the individual's income from work is limited by the market wage rate that the individual receives for his or her labor skills. In a perfectly competitive labor market, workers – like firms – are wage-takers; they take the market wage rate that they receive as given.
8. Wage is a basic compensation for paid labour, and the compensation for labour per period of time is referred to as the wage rate.
9. Specific wage rates depend on the structure of the particular labor market. In a competitive labor market the equilibrium wage rate and level of employment are determined at the intersection of the labor supply curve and labor demand curve. For the individual firm, the market wage rate establishes a horizontal labor supply curve, meaning that the wage rate equals the firm's constant marginal resource cost. The firm hires workers to the point where its MRP equals its MRC.
10. Economists disagree about the desirability of the minimum wage as an antipoverty mechanism. While it causes unemployment for some low-income workers, it raises the incomes of those who retain their jobs.

9.4.3. Please translate the following sentences into English:

1. Ринок праці є системою, в якій взаємодіють, з одного боку, роботодавці, які наймають певну кількість працівників для забезпечення своєї потреби у виконанні певного обсягу трудової діяльності, а з іншого – наймані працівники, які пропонують роботодавцям свою здатність виконувати певний обсяг роботи при визначених умовах та певній винагороді. Складовими ринку праці є попит на працю, пропозиція праці та ціна праці.
2. Попит на працю визначається потребами роботодавців у наймі працівників для виробництва товарів та послуг відповідно до попиту на них. Він залежить від ряду факторів. Це передусім продуктивність праці найманих працівників. Чим вона вища, тим за інших рівних умов попит на працю менший. Тому від усіх факторів, що впливають на продуктивність праці, залежить і попит на працю.
3. Попит на працю залежить від багатьох факторів і насамперед від попиту на товари та послуги, тому називається похідним попитом. Роботодавці наймають таку кількість працівників, яка потрібна для виробництва товарів та послуг, що бажають придбати їх споживачі.
4. Другою домінантою ринку праці є пропозиція праці. Вона виражає наміри працездатного населення запропонувати свою здатність до праці за певну винагороду. Кількість тих, хто пропонує свою здатність працювати, передусім залежить від рівня її винагороди: чим остання вища, тим пропозиція праці більша, і навпаки.
5. В масштабі національної економіки пропозиція праці залежить і від інших факторів. До них належать кількість населення країни, частка працездатного населення в його загальній кількості, рівень зайнятості економічно активного населення і безробіття, рівень доходів різних груп населення, ефективність системи соціального захисту, середня кількість годин, відпрацьованих одним працівником протягом року.
6. В умовах ринкової економіки робітники пропонують свою робочу силу за плату, а роботодавці пред'являють попит на неї. На ринку праці в результаті взаємодії попиту на працю та її пропозиції встановлюється ціна праці, тобто заробітна плата.

7. Заробітна плата – це ціна або сума грошей, яку сплачує роботодавець робітнику за використання праці останнього. Заробітна плата (ставка зарплати) має тенденцію до диференціації по країнах, регіонах, різних видах діяльності та індивідах.
8. Загальний (середній) рівень заробітної плати в країні складається в результаті взаємодії загального попиту на працю та її пропозиції. Проте сам розмір заробітної плати не завжди є хорошим вимірником рівня життя в тій чи іншій країні. Важливо розрізняти грошову, або номінальну, і реальну заробітну плату.
9. Номінальна заробітна плата – це сума грошей, одержана за годину, день, тиждень, місяць, рік. Реальна заробітна плата – це кількість товарів і послуг, які можна придбати за номінальну заробітну плату. Іншими словами, реальна заробітна плата відображає купівельну спроможність номінальної зарплати. Саме реальну заробітну плату слід порівнювати для того, щоб робити висновки про рівень життя в різних країнах.
10. Ринок праці є найскладнішим порівняно з іншими ринками. На ньому не лише переплітаються інтереси роботодавців та найманих працівників щодо умов найму робочої сили та її функціонування, а й позначаються всі ті зміни, що відбуваються в економічному та політичному житті суспільства.

9.4.4. Please make an English summary of the following text:

СУТЬ ЗАРОБІТНОЇ ПЛАТИ.

ФАКТОРИ, ЩО ВИЗНАЧАЮТЬ СТАВКУ ЗАРОБІТНОЇ ПЛАТИ

Мільйони людей продають свої трудові послуги. В обмін за це вони одержують заробітну плату. Таким чином, заробітна плата є доходом, одержаним від реалізації фізичної та інтелектуальної здатності створювати блага. Вона є основним доходом більшості населення. Пропозиція трудових послуг є основним джерелом доходів.

Конкретна ставка заробітної плати визначається умовами трудової угоди між робітником і роботодавцем. Але треба відзначити, що на заробітну плату впливають роботодавці, держава, профспілки і союзи підприємців та співвідношення попиту і пропозиції робочої сили.

Попит на працю виходить від роботодавців. Він випливає з об’єктивних умов діяльності підприємства. Підприємці хочуть отримати прибуток, який є різницею між виручкою від реалізації продукції і затратами на її виробництво. Тому вони зацікавлені відібрати здібних робітників. При доборі працівників можуть враховуватись і суб’єктивні фактори, зокрема такі, як відданість, стать, політичні погляди, національність та інші.

Пропозиція праці виходить від людини, яка шукає роботу. Працівник хоче одержати найбільшу вигоду від продажу своєї послуги. Він прагне продати свої трудові здібності найвигідніше. Пропозиція робочої сили може залежати також від неекономічних факторів, наприклад, від віддаленості роботи від місця проживання, сімейних обставин, престижності роботи, екологічних умов і подібного.

На заробітну плату впливають також політика держави та профспілки. Для багатьох людей держава є роботодавцем – наприклад, для вчителів, лікарів, працівників державних установ і багатьох інших. Держава має певний вплив на умови праці і в приватному секторі. Наприклад, на приватний сектор поширюється встановлена державою мінімальна заробітна плата, соціальні відрахування до пенсійного фонду. Держава визначає тривалість робочого дня, тижня, мінімальну тривалість оплачуваної відпустки, порядок звільнення, прийняття на роботу та інше.

Наймані працівники об'єднуються в профспілки для того, щоб колективно впливати на умови найму робочої сили. Основним питанням тут є заробітна плата. Впливати на ставки заробітної плати профспілки можуть шляхом укладання угод між профспілками та роботодавцями. Профспілки можуть також організовувати страйки, протестувати проти закриття підприємств, впливати на обмеження доступу на ринок праці іноземних робітників.

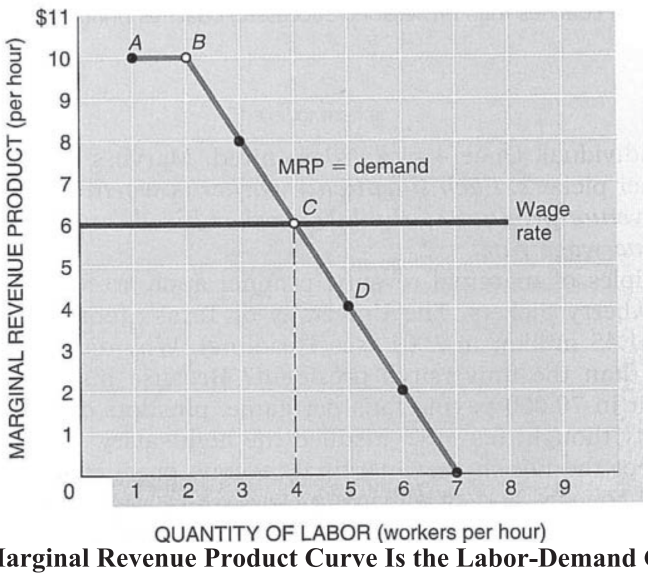
9.5. Reading Practice:

9.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: THE HIRING DECISION

The Firm's Demand for Labor. Figure 9.4 provides the answer how many pickers will be hired to work in the strawberry fields. We already know that the grower is eager to hire pickers whose marginal revenue product exceeds their wage. Suppose the going wage for strawberry pickers is $6 an hour. At that wage, the grower will certainly want to hire at least 1 picker, because the MRP of the first picker is $10 an hour (point *A* in Figure 9.4). A second worker will be hired as well, because that picker's MRP (point *B* in Figure 9.4) also exceeds the going wage rate. In fact, the grower will continue hiring pickers until the MRP has declined to the level of the market wage rate. Figure 9.4 indicates that this intersection of MRP and the market wage rate (point *C*) occurs after 4 pickers are employed. Hence we can conclude that the grower will be willing to hire – will demand – 4 pickers if wages are $6 an hour.

Figure 9.4



The Marginal Revenue Product Curve Is the Labor-Demand Curve

The folly of hiring more than 4 pickers is also apparent in Figure 9.4. The marginal revenue product of the fifth worker is only $4 an hour (point *D*). Hiring a fifth picker will cost more in wages than the picker brings in as revenue. The maximum number of pickers the grower will employ at prevailing wages is 4 (point *C*).

The law of diminishing returns also implies that all of the 4 pickers will be paid the same wage. Once 4 pickers are employed, we cannot say that any single picker is responsible for the observed decline in marginal revenue product. Marginal revenue product diminishes because each worker has less capital and land to work with, not because the last worker hired is less able than the others. Accordingly, the fourth picker cannot be identified as any particular individual. Once 4 pickers are hired, Marvin's MRP is no higher than any other picker's. Each (identical) worker is worth no more than the marginal revenue product of the last worker hired, and all workers are paid the same wage rate.

The principles of marginal revenue product apply to football coaches as well as strawberry pickers. The University of Texas's[80] football coach earned more than $1.45 million in 2001. Why did he get paid nine times more than the university's president? Because his winning football team brought in 70,000 paying fans per game, plus lots of media exposure. The university thought his MRP justified the high salary.

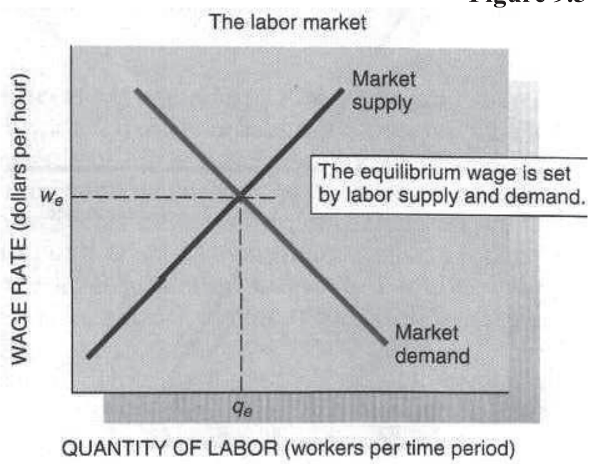
If we accept the notion that marginal revenue product sets the wages of both football coaches and strawberry pickers, must we give up all hope for low-paid workers? Can anything be done to create more jobs or higher wages for pickers? To answer this, we need to see how market demand and supply interact to establish employment and wage levels.

Text 2: MARKET EQUILIBRIUM

The principles that guide the hiring decisions of a single strawberry grower can be extended to the entire labor market. This suggests that the market demand for labor depends on

- The number of employers.
- The marginal revenue product of labor in each firm and industry.

Figure 9.5



Equilibrium Wage

On the supply side of the labor market we have already observed that the market supply of labor depends on

- The number of available workers.
- Each worker's willingness to work at alternative wage rates.

The supply decisions of each worker are in turn a reflection of tastes, income, wealth, expectations, other prices, and taxes.

Equilibrium Wage. Figure 9.5 brings these market forces together. The intersection of the market supply and demand curves establishes the equilibrium wage. In the previous example we assumed that the prevailing wage was $6 an hour. In reality, the market wage will be w_e, as illustrated in Figure 9.5. The equilibrium wage is the only wage at which the quantity of labor supplied equals the quantity of labor demanded. Everyone who is willing and able to work for this wage will find a job.

[80] ***The University of Texas at Austin*** is a state research university and the flagship institution of the The University of Texas System. Founded in 1883, its campus is located in Austin. The institution has the fifth-largest single-campus enrollment in the nation, with over 50,000 undergraduate and graduate students and over 24,000 faculty and staff.

Many people will be unhappy with the equilibrium wage. Employers may grumble that wages are too high. Workers may complain that wages are too low. Nevertheless, the equilibrium wage is the only one that clears the market.

Equilibrium Employment. The intersection of labor supply and demand determines not just the prevailing wage rate but the level of employment as well. In Figure 9.5, this equilibrium level of employment occurs at q_e. That is the only sustainable level of employment in that market, given prevailing supply and demand conditions.

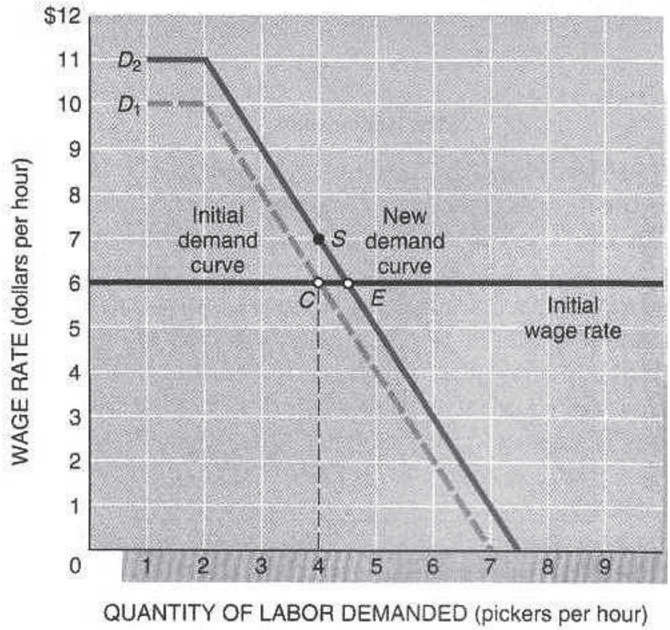
Text 3: CHANGING MARKET OUTCOMES

The equilibrium established in any market is subject to change. If the University of Texas football teams started losing too many games, ticket and ad revenues would fall. Then the coach's salary might shrink. Likewise, if someone discovered that strawberries cure cancer, those strawberry pickers might be in great demand. In this section, we examine how changing market conditions alter wages and employment levels.

Changes in Productivity. The law of diminishing returns is responsible for the tradeoff between wage and employment levels. The downward slope of the labor-demand curve does not mean wage and employment can never rise together, however. If labor productivity (MPP) rises, wages can increase without sacrificing jobs.

Suppose that Marvin and his friends enroll in a local agricultural extension course and learn new methods of strawberry picking. With these new methods, the marginal physical product of each picker increases by 1 box per hour. With the price of strawberries still at $2 a box, this productivity improvement implies an increase in marginal revenue product of $2 per worker. Now farmers will be more eager to hire pickers. This increased demand for pickers is illustrated by the shift of the labor-demand curve in Figure 9.6.

Figure 9.6



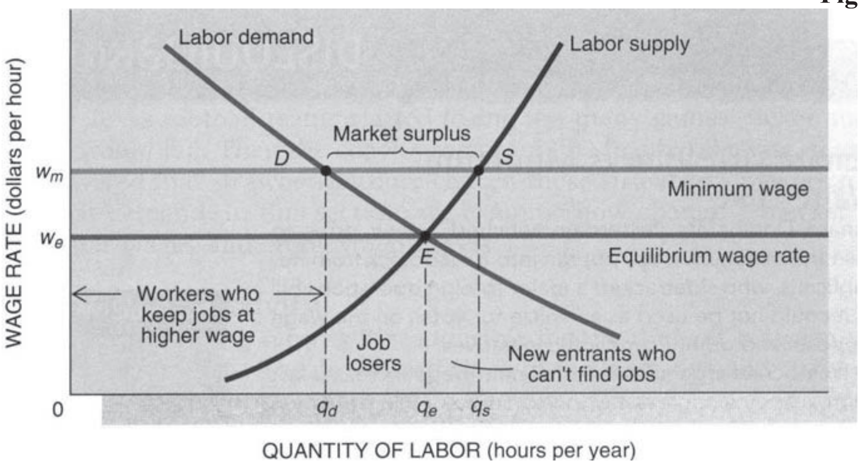
Increased Productivity

Notice how the improvement in productivity has altered the value of strawberry pickers. The MRP of the fourth picker is now $7 an hour (point *S*) rather than $6 (point *C*). Hence the grower can now afford to pay higher wages. Or the grower could employ more pickers than before, moving from point *C* to point *E*. Increased productivity implies that workers can get higher wages without sacrificing jobs or more employment without lowering wages. Historically, increased productivity has been the most important source of rising wages and living standards.

Changes in Price. An increase in the price of strawberries would also help the pickers. Marginal revenue product reflects the interaction of productivity and product prices. If strawberry prices were to double, strawberry pickers would become twice as valuable, even without an increase in physical productivity. Such a change in product prices depends, however, on changes in the market supply and demand for strawberries.

Legal Minimum Wages. Rather than waiting for market forces to raise their wages, the strawberry pickers might seek government intervention. The U.S. government decreed in 1938 that no worker could be paid less than 25 cents per hour. Since then the U.S. Congress has repeatedly raised the legal minimum wage. Figure 9.7 illustrates the consequences of such minimum-wage legislation. In the absence of government intervention, the labor-supply and -demand curves would establish the wage w_e. At that equilibrium q_e, workers would be employed.

Figure 9.7



Minimum-Wage Effects

Demand-Side Effects. When a legislated minimum wage of w_m is set, things change. Suddenly, the quantity of labor demanded declines. In the prior equilibrium employers kept hiring workers until their marginal revenue product fell to w_e. If a minimum wage of w_m must be paid, it no longer makes sense to hire that many workers. So employers back up on the labor demand curve from point *E* to point *D*. At *D,* marginal revenue product is high enough to justify paying the legal minimum wage. As a result of these retrenchments, however, some workers ($q_e - q_d$) lose their jobs.

Supply-Side Effects. Note in Figure 9.7 what happens on the supply side as well. The higher minimum wage attracts more people into the labor-market. The number of workers willing to work jumps from q_e (point *E)* to q_s (point *S*). Everybody wants one of those better-paying jobs.

There aren't enough jobs to go around, however. The number of jobs available at the minimum wage is only q_d; the number of job seekers at that wage is q_s. With more job seekers than jobs, unemployment results. We now have a market surplus (equal to q_s minus q_d). Those workers are unemployed.

Government-imposed wage floors thus have two distinct effects. A minimum wage:

- reduces the quantity of labor demanded;
- increases the quantity of labor supplied;

and thus,

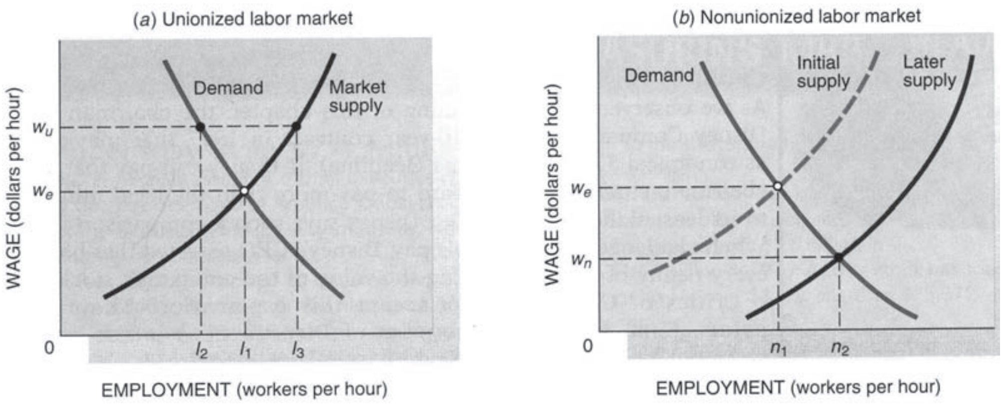
- creates a market surplus.

The market surplus creates inefficiency and frustration, especially for those workers who are ready and willing to work but can't find a job. Not everyone suffers, however. Those workers who keep their jobs (at q_d in Figure 9.7) end up with higher wages than they had before. Accordingly, a legal minimum wage entails a tradeoff: some workers end up better off, while others end up worse off. Those most likely to end up worse off are teenagers and other inexperienced workers whose marginal revenue product is below the legal minimum wage. They will have the hardest time finding jobs when the legal wage floor is raised.

How many potential jobs are lost to minimum-wage hikes depends on how far the legal minimum is raised. The elasticity of labor demand is also important. Democrats argue that labor demand is inelastic, so few jobs will be lost. Republicans argue that labor demand is elastic, so more jobs are lost. The state of the economy is also critical. If the economy is growing rapidly, increases (shifts) in labor demand will help offset job losses resulting from a minimum-wage hike.

Labor Unions. Labor unions are another force that attempts to set aside equilibrium wages. The workers in a particular industry may not be satisfied with the equilibrium wage. They may decide to take collective action to get a higher wage. To do so, they form a labor union and bargain collectively with employers. This is what the United Farm Workers are trying to do in the strawberry fields.

Figure 9.8



The Effect of Unions on Relative Wages

The formation of a labor union does not set aside the principles of supply and demand. The equilibrium wage remains at w_e, the intersection of labor supply and demand curves (see Figure 9.8a). If the union were successful in negotiating a higher wage (w_u in the figure), a labor-market surplus would appear ($l_3 - l_2$ in Figure 9.8a). These jobless workers would compete for the union jobs, putting downward pressure on the union-negotiated wage. Hence to get and maintain an above-equilibrium wage, a union must exclude some workers from the market. Effective forms of exclusion include union membership, required apprenticeship programs, and employment agreements negotiated with employers.

What happens to the excluded workers? In the case of a national minimum wage (Figure 9.7), the surplus workers remain unemployed. A union, however, sets above-equilibrium wages in only one industry or craft. Accordingly, there are lots of other potential jobs for the excluded nonunion workers. Their wages will suffer, however. As workers excluded from the unionized market (Figure 9.8a) stream into the nonunionized market (Figure 9.8b), they shift the nonunionized labor supply to the right. This influx of workers depresses nonunion wages, dropping them from w_e to w_n.

Although the theoretical impact of union exclusionism on relative wages is clear, empirical estimates of that impact are fairly rare. We do know that union wages in general are significantly higher than nonunion wages. But part of this differential is due to the fact that unions are more common in industries that have always been more capital-intensive and have paid relatively high wages. When comparisons are made within particular industries or sectors, the differential narrows considerably.

9.6. Internet Practice:

9.6.1. Web Activities:

- Log on to **www.census.gov/ftp/pub/hhes/www/img/edugraph.html/** and list the three top-paying degrees. Why do these degrees pay so much? In your answer, include a discussion of the opportunity wage (opportunity wage is the highest wage an individual would earn in his or her best alternative job).

9.7. Critical Thinking & Discussion Questions:

- Why are you doing this homework? What are you giving up? What do you expect to gain? If homework performance determined course grades, would you spend more time doing it?
- Suppose George is making $18 an hour installing electronic chips in handheld computers. Would your offer to work for $8 an hour get you the job? Why might a profit-maximizing employer turn down your offer?
- The United Farm Workers wants strawberry pickers to join their union. They hope then to convince consumers to buy only union strawberries. Will such activities raise picker wages? What else might help?
- Explain why marginal physical product would diminish as:
  (a) more secretaries are hired in an office;
  (b) more professors are hired in the economics department;
  (c) more construction workers are hired to build a school.
- Why are professors of computer science paid more than professors of English literature?

Self-Assessments (Module 2)

1. Key Terms – Matching:

1.	Marginal utility	a)	– the ability to alter the market price of a good or service;
2.	Marginal physical product (MPP)	b)	– costs of production that do not change when the rate of output is altered, e.g., the cost of basic plant and equipment;
3.	Law of diminishing returns	c)	– produce at the rate of output where marginal revenue equals marginal cost;
4.	Market power	d)	– the change in total output associated with one additional unit of input;
5.	Derived demand	e)	– the marginal physical product of a variable input declines as more of it is employed with a given quantity of other (fixed) inputs;
6.	Fixed costs	f)	– the amount of satisfaction obtained from entire consumption of a product;
7.	Profit-maximization rule	g)	– a firm without market power, with no ability to alter the market price of the goods it produces;
8.	Marginal revenue (MR)	h)	– the demand for labor and other factors of production results from (depends on) the demand for final goods and services produced by these factors;
9.	Competitive firm	i)	– the change in total revenue that results from a one-unit increase in quantity sold;
10.	Total utility	j)	– the satisfaction obtained by consuming one additional (marginal) unit of a good or service.

2. Define the following terms:

Utility – …
Law of diminishing marginal utility – …
Price Elasticity of Demand – …
Factors of production – …
Variable costs – …
Total cost – …
Oligopoly – …
Monopoly – …
Labor supply – …
Demand for labor – …

3. Translate the following text into Ukrainian:

A PRACTICAL LOOK AT MICROECONOMICS

How do companies decide what price to charge for their sleek new gadgets? Why are some people willing to pay more for a product than others? How do your decisions play into how corporations price their products? The answer to all of these questions and many more is microeconomics.

What Is It? Microeconomics focuses on the role consumers and businesses play in the economy, with specific attention paid to how these two groups make decisions. These decisions include when a consumer purchases a good and for how much, or how a business determines the price it will charge for its product. Microeconomics examines smaller units of the overall economy; it is different than macroeconomics, which focuses primarily on the effects of interest rates, employment, output and exchange rates on governments and economies as a whole. Both microeconomics and macroeconomics examine the effects of actions in terms of supply and demand.

Microeconomics breaks down into the following tenets:

- Individuals make decisions based on the concept of utility. In other words, the decision made by the individual is supposed to increase that individual's happiness or satisfaction. This concept is called rational behavior or rational decision-making.
- Businesses make decisions based on the competition they face in the market. The more competition a business faces, the less leeway it has in terms of pricing.
- Both individuals and consumers take the opportunity cost of their actions into account when making their decisions.

*Conclusion.*We can analyze the economy by examining how the decisions of individuals and firms alter the types of goods that are produced. Ultimately, it is the smallest segment of the market – the consumer – who determines the course of the economy by making choices that best fit the consumer's perception of cost and benefit.

4. Make an English summary of the following text:

ПРЕДМЕТ МІКРОЕКОНОМІКИ, ЇЇ СУБ'ЄКТИ ТА ОБ'ЄКТИ

Мікроекономіка вивчає поведінку і механізм прийняття рішень окремими суб'єктами ринку (домогосподарствами, підприємствами, державними і приватними організаціями), які прагнуть досягнути своєї мети шляхом використання обмежених ресурсів, що мають альтернативне використання. Іншими словами, предметом мікроекономіки є обгрунтування вибору, який роблять окремі економічні одиниці, використовуючи обмежені економічні ресурси з метою досягнення своїх цілей.

Цими економічними одиницями виступають споживачі, працівники, інвестори, землевласники, окремі підприємства, які виконують певну роль в економіці.

Мікроекономічна теорія пояснює, як фірма приймає рішення про ціну на свій продукт та обсяг його виробництва, при якому одержує максимальний прибуток, як обирає оптимальну кількість ресурсів (сировини, праці, капіталу), яка дозволяє випускати бажаний обсяг продукту з мінімальними витратами виробництва та максимальним прибутком; вона досліджує, як домогосподарство здійснює свій оптимальний вибір, витрачаючи свій дохід на певні товари і послуги, і при цьому максимізує своє задоволення; вона досліджує, як працівник приймає рішення про те, де йому працювати і який обсяг робіт виконувати.

Економічний вибір, який роблять окремі суб'єкти ринку, відбувається не у вакуумі. Тому іншим важливим аспектом мікроекономіки є вивчення взаємодії окремих економічних одиниць, яка відбувається в контексті ряду соціальних інститутів, важливішими з яких є ринок та уряд (держава).

Іншим важливим аспектом мікроекономіки є вивчення проблем ефективного використання економічних ресурсів. Використовувати економічні ресурси ефективно означає одержати максимально можливий обсяг корисних товарів і послуг з наявних ресурсів. Це ж можливо при досягненні повної зайнятості і повного обсягу виробництва.

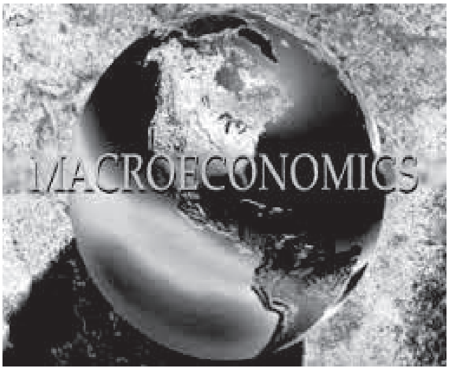
5. Write a 100-300 word essay and prepare an oral presentation on any of the topics given below using new vocabulary:

- What some people mistake for the high cost of living is really the cost of high living. – *Doug Larson*
- There are other ways of finding satisfaction, recipes for human happiness, enjoyment, dignified and meaningful, gratifying life, than increased consumption that increases production. – *Zygmunt Bauman*
- Competition is not only the basis of protection to the consumer, but is the incentive to progress. – *Herbert Hoover*
- The production of too many useful things results in too many useless people. – *Karl Marx*
- Competition is always a good thing. It forces us to do our best. A monopoly renders people complacent and satisfied with mediocrity. – *Nancy Pearcey*
- All wealth is the product of labor. – *John Locke*

MODULE 3

Macroeconomics: Measurement & Basic Concepts

Macroeconomics: Measurement & Basic Concepts



***M**acroeconomics* is the study of the aggregate moods of the economy, with specific focus on problems associated with those moods – the problems of growth, business cycles, unemployment, and inflation. These four problems are the central concern of macroeconomics. The macroeconomic theory is designed to explain how supply and demand forces in the aggregate interact to create these problems.

Macroeconomics is the study of the behavior of the economy as a whole. This is different from microeconomics**,** which concentrates more on individuals and how they make economic decisions. Needless to say, macroeconomy is very complicated and there are many factors that influence it. These factors are analyzed with various economic indicators that tell us about the overall health of the economy. Macroeconomists try to forecast economic conditions to help consumers, firms and governments make better decisions.

Consumers want to know how easy it will be to find work, how much it will cost to buy goods and services in the market, or how much it may cost to borrow money.

Businesses use macroeconomic analysis to determine whether expanding production will be welcomed by the market. Will consumers have enough money to buy the products, or will the products sit on shelves and collect dust?

Governments turn to the macroeconomy when budgeting spending, creating taxes, deciding on interest rates and making policy decisions.

Macroeconomic analysis broadly focuses on three things: *national output* (measured by gross domestic product (GDP), *unemployment* and *inflation**.***

NATIONAL OUTPUT: GDP

Output, the most important concept of macroeconomics, refers to the total amount of goods and services a country produces, commonly known as the *gross domestic product*. Once a series of figures is collected over a period of time, they can be compared, and economists and investors can begin to decipher the business cycles, which are made up of the alternating periods between economic recessions (slumps) and expansions (booms) that have occurred over time.

From there we can begin to look at the reasons why the cycles took place, which could be government policy, consumer behavior or international phenomena, among other things. Of course, these figures can be compared across economies as well. Hence, we can determine which foreign countries are economically strong or weak. Based on what they learn from the past, analysts can then begin to forecast the future state of the economy. It is important to remember that what determines human behavior and ultimately the economy can never be forecasted completely.

UNEMPLOYMENT

The *unemployment rate* tells macroeconomists how many people from the available pool of labor (the labor force) are unable to find work.

Macroeconomists have come to agree that when the economy has witnessed growth from period to period, which is indicated in the GDP growth rate, unemployment levels tend to be low. This is because with rising (real) GDP levels, we know that output is higher, and, hence, more laborers are needed to keep up with the greater levels of production.

INFLATION

The third main factor that macroeconomists look at is the *inflation rate*, or the rate at which prices rise. Inflation is primarily measured in two ways: through the Consumer Price Index (CPI) and the GDP deflator. The CPI gives the current price of a selected basket of goods and services that is updated periodically. The GDP deflator is the ratio of nominal GDP to real GDP. If nominal GDP is higher than real GDP, we can assume that the prices of goods and services have been rising. Both the CPI and GDP deflator tend to move in the same direction and differ by less than 1 percent.

Module Objectives

- List four phases of the business cycle.
- Explain how unemployment is measured.
- State two important costs of inflation.
- Define the terms: *deficit, surplus,* and *debt.*
- Explain why the financial sector is central to almost all macroeconomic debates.
- Explain what money is.
- Enumerate the three functions of money.

Module 3: Units 10-14

Unit 10 *Economic Growth and Business Cycles*

"Everything that is really great
and inspiring is created by the individual
who can labor in freedom"
Albert Einstein[81]

10.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

affordability
ally
bankruptcy
circulation
consumption
contraction
cycle
decline
discrepancy
disparity
endeavor
exhaustion
expansion
expectancy
expenditure
fluctuation
growth
healthcare
incidence
intervention
literacy
mortality
nourishment
output
per capita
poverty
productivity:
~ rate
ratio
recession
sanitation
stalemate
sustainability
trough
unemployment
well-being

Verbs:

to accrue
to afford
to capture
to decipher
to deemphasize
to derive
to determine
to diminish
to disguise
to emerge
to enable
to enlighten
to ensure
to generate
to impact
to maintain
to measure
to monitor
to occur
to offset
to pursue
to reconcile
to reverse
to spur
to strengthen
to trigger
to yield

Adjectives & Adverbs:

abundant
(in)adequate
affordable
aggregate
beneficial
bilateral
brisk:
~ sales
consequently
controversial
deliberate
downward
incompatible
inherently
intangible
mutually
obsolete
qualitative
potential
rapidly
subjective
sustained
substantially
temporary
ultimately
undesirable
vital

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81 ***Albert Einsten*** (*1*879-1955) a German-born American theoretical physicist, founder of the theory of relativity.

10.2. Read and translate the text into Ukrainian:

STIMULATING STRONG ECONOMIC GROWTH AND BUSINESS CYCLES

Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Economists distinguish between short-run economic changes in production and long-run economic growth. Short-run variation in economic growth is termed the *business cycle*. The business cycle is made up of booms and drops in production that occurs over a period of months or years.

In contrast, the topic of economic growth is concerned with the long-run trend in production due to structural causes such as technological growth and factor accumulation. The business cycle moves up and down, creating fluctuations around the long-run trend in economic growth.

But growth has been interrupted by periods of economic instability usually associated with business cycles. Business cycles are alternating rises and declines in the level of economic activity, sometime over several years. Individual cycles (one “up” followed by on “down”) vary substantially in duration and intensity.

PHASES OF THE BUSINESS CYCLE

• At a *peak* business activity has reached a temporary maximum. Here the economy is near or at full employment and the level of real output is at or very close to the economy’s capacity. The price level is likely to rise during this phase.

• A *recession* is a period of decline in total output, income, and employment. This downturn, which lasts six months or more, is marked by the widespread contraction of business activity in many sectors of the economy. Along with declines in real GDP, significant increases in unemployment occur.

• A recession is usually followed by a recovery and *expansion*, a period in which real GDP, income, and employment rise. At some point, the economy again more rapidly than production capacity does, prices of nearly all goods and services will rise. In other words, inflation will occur.

Economic growth is important to the well-being of any national economy, and often requires deliberate actions that help to promote that growth. There are a number of factors that can go into the promotion of strong economic growth within a local, regional, national, or even global economy, and many of these factors are connected with the structure of the business cycle and the efforts to improve the standard of living for consumers. Factors such as competition, the cultivation of new markets in emerging nations, innovations in technology, and investment in foreign concerns can all come together to create strong economic growth.

One of the more common elements that goes into stimulating strong economic growth is healthy competition within the marketplace. Here, the focus is on creating and marketing goods and services that are likely to appeal to consumers, who in turn generate a demand for those products. Manufacturers move to meet that demand with a supply of the products, making sure to balance the need to generate profits off each sale with the necessity of making sure the products are affordable for the targeted consumer groups. The end result is that the economy is stimulated by the brisk sales, more people are put to work making the products, and those employees are able to buy other goods and services thanks to the steady income.

New technology can also do a great deal to stimulate strong economic growth. Innovations with existing products that help to increase the demand or even the creation of new products that capture the attention of the buying public can often reverse a downward trend in an economy by creating more jobs and improving the flow of cash throughout the entire economic system. Under the best of circumstances, the gains made with the new or improved products easily offsets the loss of jobs related to other economic sectors that are now considered obsolete, allowing the economy to move forward rather than regressing.

Investments in new markets can also do a great deal to spur strong economic growth. Choosing to invest in emerging international markets can have a very positive effect, especially in terms of promoting both imports and exports that add to the financial well-being of all the nations involved. By supporting those emerging markets, the potential for creating allies who in turn enter into mutually beneficial trading situations with the investors can help to provide a great deal of economic stimulation that triggers a trickle-down effect for a number of related industries.

Nations tend to monitor what is happening within the economy and take steps to use legislation in a manner that helps to reverse undesirable trends and promote strong economic growth. Often, these efforts do not yield results over night, but can make a huge difference in the state of the economy over a period of a few years. By identifying potential threats to the economy, it is possible to create strategies that impact trade and production, ultimately helping to minimize any negative factors while encouraging other factors that are used in strong economic growth.

There are several different types of economic growth strategies, from actions that encourage development to methods of solving problems that block economic progress. The overall goal of these strategies is usually to effectively raise a nation out of poverty. This can include strategies for both short and long-term improvements.

One of the most important economic growth strategies is to ensure that the population is free to better its circumstances. This can include addressing everything from inadequate healthcare to issues that threaten safety. The common factor among these roadblocks is that they prevent progress.

Economic growth strategies that address dangerous roadblocks can help to ensure the success of future strategies for development. This includes fighting crime, terrorist activity, and any other elements that threaten public safety. As it is often not possible to completely solve a lot of these problems, it may be necessary to devise a strategy to work around them, at least temporarily.

Other important economic growth strategies can be directly connected to the well-being of the population. This includes providing access to adequate healthcare, sanitation, and living quarters. It may also involve developing the skills of citizens with education such as vocational training and literacy programs.

Another important economic growth strategy is the strengthening of existing industries. This activity is typically focused on ventures with the potential for growth due to factors such as a strong work force, readily available resources, and a good cultural fit. By expanding these industries, both the economy and the job market can grow.

Building new industries is another powerful economic growth strategy. By effectively tapping into global needs which can be fulfilled with domestic efforts, a nation can often pull itself out of poverty. It may also be beneficial to create an industry with a service or product that encourages the development of additional complementary ventures.

Changes in governmental structure can also be an effective economic growth strategy. This can include small changes such as creating laws that encourage or ease the function of industry. It can also involve major structural changes which allow the government to operate more efficiently.

One of the most effective economic growth strategies is to give the population of a nation as much access as possible to opportunity. This includes education, healthcare, nourishment, and employment. By detecting the barriers to providing these things to the population and making a plan for eradicating them, the population will be better equipped to lead the economic growth of a nation.

The connection between foreign direct investment and economic growth is based on the benefits which accrue to a host country by virtue of the investment by foreign companies. An analysis of the link between the foreign direct investment and economic growth may be approached from the physical or infrastructural benefits as a result of the relationship. It may also be studied from the angle of the inflow of technology and the inflow of human capital in relation to the benefit to the economy.

A direct link between foreign direct investment and economic growth is the contribution of such investments to the infrastructural development of the host or local country. This type of economic benefit is most apparent in less developed countries than in more industrialized nations. An example of this link between foreign direct investment and economic growth can be seen in an oil company from an industrialized nation that invests directly in a less developed country with an abundance of crude oil. The investment could be in the form of the construction of sophisticated refineries that the host country probably would not have managed on its own. When the refineries are fully functional, they will serve as a means for the extraction and packaging of crude oil for sale on the international market as well as a source of income for the host country.

Another connection between foreign direct investment and economic growth is derived from the benefit that the host country derives from incoming technology. When companies invest in a local economy, they may introduce technology that is more advanced than what obtains in the host country. Such superior technology may indeed be part of the business strategy of the investors who may choose a country with a deficiency in the technology they have as a part of minimizing competition. If this is the case, the host country can use the technology to its own economic benefit.

Improvement of the physical structure of the country in terms of buildings, roads, bridges and railways is essential to supporting economic activity and encouraging GNP growth. The social capital – in terms of houses, schools and hospitals – also is essential to providing the sanitation, health and educational services that are essential to improvements in human capital. An enlightened immigration policy that attracts highly trained personnel from abroad may increase the quality of the country's workforce. Where more skilled people may be brought into the workforce, either by policies to reduce unemployment, immigration or population growth combined with adequate education, GNP growth may be encouraged.

Improvements in the technology in use in a country are a major factor in GNP growth, because such advances may increase productivity, ensuring that more output may be achieved per labor hour. Technology in certain areas, such as mining or oil production, may be absolutely vital for the economy of a resource-rich country. Advances in technology may be reached through research and development or by technology transfer from abroad. The relevant technology may be purchased from foreign companies or licensed in the case of intangible assets. Foreign direct investment in the form of joint ventures or partnerships may create opportunities for technology transfer from foreign companies.

Banking and financial systems must operate efficiently, because they are essential in providing venture capital or loans to businesses. A legal system must be set up to enable people and businesses to enter into and enforce contracts and to protect and prove ownership of assets. In addition to this, the country must ensure political stability to ensure that foreign direct investment continues to come into the country and the population may pursue its business operations without unnecessary interventions from the government. Finally, international relations must be satisfactory and the country must participate in international treaties and organizations. Bilateral investment protection and double taxation treaties should be concluded with the major trading partners to ensure that business risks to investors in trading in the country are reduced to a minimum.

Text Summary

- The typical business cycle goes through four phases: peak, recession, trough, and expansion.
- Factors such as competition, the cultivation of new markets in emerging nations, innovations in technology, and investment in foreign concerns can all come together to create strong economic growth.
- Investments in new markets can also do a great deal to spur strong economic growth.
- Other important economic growth strategies can be directly connected to the well-being of the population and access to opportunity.
- Another important economic growth strategy is the strengthening of existing industries.

10.3. Language Practice:

10.3.1. Multiple Choice:

1. The focus is on creating and marketing goods and services that are likely to appeal to consumers, who in turn generate a ….. for those products.
a) supply;
b) demand;
c) surplus.
2. One of the more common elements that goes into stimulating strong economic growth is healthy ….. within the marketplace.
a) competition;
b) opposition;
c) contest.
3. New ….. can also do a great deal to stimulate strong economic growth.
a) intervention;
b) equipment;
c) technology.
4. Nations tend to monitor what is happening within the economy and take steps to use legislation in a manner that helps to ..... undesirable trends and promote strong economic growth.
a) encourage;
b) reverse;
c) trigger.
5. The overall goal of some strategies is usually to effectively raise a nation out of .....
a) poverty;
b) mortality;
c) literacy.
6. Other important economic growth strategies can be directly connected to the ..... of the population.

a) well-being;
b) decline;
c) riches.

7. Bilateral investment protection and double taxation treaties should be concluded with the major trading partners to ..... that business risks to investors in trading in the country are reduced to a minimum.

a) encourage;
b) promote;
c) ensure.

10.3.2. Key Terms – Matching:

1.	Business cycle	a)	– the market value of all officially recognized final goods and services produced within a country in a given period of time;
2.	Economic growth	b)	– refers to the level of wealth, comfort, material goods and necessities available to a certain socioeconomic class in a certain geographic area;
3.	Gross Domestic Product	c)	– a term that indicates a slowdown in economic activity;
4.	Standard of living	d)	– severe downturn in economic activity;
5.	Cost of living	e)	– the increase in the amount of the goods and services produced by an economy over time;
6.	Output	f)	– the cost of maintaining a certain standard of living;
7.	Life expectancy	g)	– the percentage of the population living below the poverty line;
8.	Poverty rate	h)	– refers to economy-wide fluctuations in production, trade and economic activity in general over several months or years in an economy organized on free-enterprise principles;
9.	Recession	i)	– the amount of goods and services produced by a firm, industry, or country during a specific time period, such as a year;
10.	Depression	j)	– the expected (in the statistical sense) number of years of life remaining at a given age.

10.3.3. Please explain the meaning of the following words and word combinations in English:

Economic growth, business cycles, expansion, recession, class disparity, poverty rate, unemployment rate, life expectancy, productivity, income discrepancy, childhood mortality, bankruptcy of enterprises, decline of standard of living, instability of the banking system, strengthening of inflation.

10.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~grow~~ incentives reconcile generates exhaustion expenditures deemphasized poverty household incomes enhance

THE BENEFITS AND COSTS OF GROWTH

Economic growth (per capita) allows everyone in society, on average, to have more. Thus, it isn't surprising that most governments are generally searching for policies that will allow them to (1) *grow*. Indeed, one reason market economies have been so successful is that they have consistently channeled individual efforts toward production and growth. Individuals feel a sense of accomplishment in making things grow and, if sufficient economic (2) ______ and resources exist, individuals' actions can lead to a continually growing economy.

Politically, growth, or predictions of growth, allows governments to avoid hard distributional questions of who should get what part of our existing output: with growth there is more to go around for everyone. Growing economy (3) _____ jobs, so politicians who want to claim that their policies will create jobs generally predict those policies will create growth.

Growth also enables society to improve the nation's infrastructure, (4) _____ the care of the sick and elderly, provide greater access for the disabled, and provide more police and fire protection. Economic growth may be the only realistic way to reduce (5) _____, since there is little political support for greater redistribution of income. The way to improve the economic position of the poor is to increase (6) _____ through higher productivity and economic growth. Also, a no-growth policy among industrial nations might severely limit growth in poor nations. Foreign investment and development assistance in those nations would fall, keeping the world's poor in poverty longer.

Of course, there are also costs to material growth – pollution, resource (7) _____, and destruction of natural habitat. These costs lead some people to believe that we would be better off in a society that (8) _____ material growth. (That doesn't mean we shouldn't grow emotionally, spiritually, and intellectually; it simply means we should grow out of our material goods fetish.) Many people believe these environmental costs are important, and the result is often an environmental-economic growth stalemate.

To (9) _____ the two goals, some have argued that spending on the environment can create growth and jobs, so the two need not be incompatible. Unfortunately, there's a problem with this argument. It confuses growth and jobs with increased material consumption – what most people are worried about. As more material goods made available by growth are used for pollution control equipment, less is available for the growth of an average individual's personal consumption, since the added material goods created by growth have already been used. What society gets, at best, from these (10) _____ is a better physical environment, not more of everything.

10.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the adjective ***sustained***: *1) constant, continuous, nonstop;* *2) perpetual, prolonged, steady, unremitting.*

10.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Економічне зростання, економічні цикли, етап депресії, етап піднесення, падіння цін, нестабільність на ринках, спад виробництва, зростання безробіття, зниження життєвого рівня, нестабільність банківської системи, посилення інфляції, високі темпи девальвації валюти, зростання дефіциту державного бюджету і державного боргу, класова нерівність, банкрутство підприємств, підвищення рівня життя, зростання зайнятості населення, збільшення обсягів ресурсів, видача кредитів, пропозиція грошей, збільшення виробничого потенціалу економіки, приріст ВНП, збиткові підприємства, соціальний захист населення, зменшення грошової маси.

10.4.2. Please translate the following sentences into Ukrainian:

1. Economic development generally refers to the sustained, concerted actions of policymakers and communities that promote the standard of living and economic health of a specific area. Economic development can also be referred to as the quantitative and qualitative changes in the economy.
2. Such actions can involve multiple areas including development of human capital, critical infrastructure, regional competitiveness, environmental sustainability, social inclusion, health, safety, literacy, and other initiatives. Economic development differs from economic growth. Whereas economic development is a policy intervention endeavor with aims of economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP.
3. Standard of living refers to the level of wealth, comfort, material goods and necessities available to a certain socioeconomic class in a certain geographic area. The standard of living is closely related to quality of life.
4. The standard of living includes factors such as income, quality and availability of employment, class disparity, poverty rate, quality and affordability of housing, hours of work required to purchase necessities, gross domestic product, inflation rate, number of vacation days per year, affordable (or free) access to quality healthcare, quality and availability of education, life expectancy, incidence of disease, cost of goods and services, infrastructure, national economic growth, economic and political stability, political and religious freedom, environmental quality, climate and safety.
5. The idea of a “standard” may be contrasted with the quality of life, which takes into account not only the material standard of living, but also other more intangible aspects that make up human life, such as leisure, safety, cultural resources, social life, physical health, environmental quality issues, etc. More complex means of measuring well-being must be employed to make such judgments, and these are very often political, thus controversial. Even between two nations or societies that have similar material standards of living, quality of life factors may in fact make one of these places more attractive to a given individual or group.
6. However, there can be problems even with just using numerical averages to compare material standards of living, as opposed to, for instance, a Pareto index[82]. Standards of living are perhaps inherently subjective. As an example, countries with a very small, very rich upper class and a very large, very poor lower class may have a high mean level of income, even though the majority of people have a low “standard of living”.
7. In each case, the state capitalist country has a low income discrepancy (and therefore would score high in that regard), but lower per capita incomes than a large majority of their neighboring counterpart. This can be avoided by using the measure of income at various percentiles of the population rather than a highly relative and controversial overall income inequality measure.
8. An aspect of foreign investment is the human capital that comes with such an investment. When a company scouts for international markets to invest in, part of

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[82] In economics ***the Pareto index***, named after the Italian economist and sociologist *Vilfredo Pareto*, is a measure of the breadth of income or wealth distribution.

the business strategy is to acquire excellent human capital to help establish the subsidiary. For instance, if a company decides to open a branch in another country, it will look for some of its best employees with proven track records to manage the place. It will also employ the most competent employees with the best human capital to work in the new branch.

9. The ability of a country to increase its gross national product (GNP) and grow its economy may increase if the quality of human capital is improved by education and health care. A country can aim to increase the quality of its workforce by increasing educational and vocational training opportunities and retraining those who need to take up work in new industries.
10. Improvements in physical infrastructure and the level of technology in use also are contributors to growth. In addition to this, the institutional infrastructure of the country in areas such as law, banking and government institutions is essential to GNP growth.

10.4.3. Please translate the following sentences into English:

1. Ринкова економіка розвивається циклічно. Однак, незважаючи на те, що економічне зростання переривається спадами, переважає зростання. Економічне зростання проявляється в тому, що збільшується виробництво ВНП і національного доходу, зростає зайнятість населення в суспільному виробництві.
2. Економічне зростання – це зміна результатів функціонування економіки. Розрізняють екстенсивне й інтенсивне економічне зростання. Екстенсивний тип зростання здійснюється шляхом збільшення обсягів залучених до процесу виробництва ресурсів. Інтенсивний тип – це такий, який здійснюється шляхом ефективнішого використання ресурсів на основі науково-технічного прогресу та кращих форм організації виробництва.
3. Економічне зростання є важливим народногосподарським завданням. Збільшення ВНП в розрахунку на душу населення забезпечує підвищення рівня життя. Економіка, яка зростає, дає можливість задовольняти нові потреби й вирішувати економічні проблеми як усередині країни, так і на міжнародному рівні. Чим більший приріст ВНП, тим більша частка його може використовуватися для повнішого задоволення наявних потреб або для розробки нових програм, створення кращих умов для здобування освіти, медичного обслуговування, підвищення зарплати, пенсій і так далі.
4. Шляхом видачі кредитів збільшується пропозиція грошей; підприємці схиляються до хибних інвестицій – надміру інвестуючи у виробничі процеси вищого рівня та більшою тривалістю. Згодом, ціни та доходи від початкових факторів зростають, а також зростає споживання, та підприємці усвідомлюють, що інвестиції у підприємства вищого рівня були марними та неприбутковими. Перший етап називається “бумом” (піднесенням, зростанням); другий етап – виявлення збиткових інвестицій – є “кризою” (спадом).
5. Депресія є наступним етапом, протягом якого збиткові підприємства банкрутують, а фактори мають швидко повернутись у виробництво нижчих рівнів. Ліквідація нездорових підприємств, “вільних потужностей” хибно створеного підприємства та незапланований простій оригінальних факторів виробництва мають швидко та масово переключитись на нижчі рівні виробництва – що і становить зміст етапу депресії.
6. Етап депресії приходить після етапу піднесення. Під час піднесення відбувається інфляція, в основному, за рахунок кредитів. Під час кризи, банки

вимушені посилювати вимоги для отримання кредитів, що призводить до зменшення обсягів кредитування. Іншими словами, зменшення обсягів кредитування спричиняє зменшення грошової маси, тобто, викликає дефляцію.

7. Економічна криза – це різке погіршення економічного стану країни, що виявляється в значному спаді виробництва, порушенні виробничих зв'язків, що склалися, банкрутстві підприємств, зростанні безробіття, і у результаті – в зниженні життєвого рівня, добробуту населення.
8. Фінансова криза – це різке погіршення стану фінансового ринку внаслідок реалізації накопичених ризиків під впливом внутрішніх і зовнішніх, економічних та політичних чинників, що спричиняє порушення його функціонування, зниження цінових показників, погіршення ліквідності й якості фінансових інструментів, банкрутство учасників.
9. Основні причини фінансових криз поділяються на внутрішні та зовнішні. До внутрішніх причин світове економічне суспільство відносить: нестабільність банківської системи країн, наростання частки сумнівних кредитів, посилення інфляції, завищений валютний курс, високі темпи девальвації валюти, зростання дефіциту державного бюджету і державного боргу, зростання дефіциту платіжного балансу, доларизація економіки, наростання кількості високо ризикованих цінних паперів, особливо деривативів на фондовому ринку.
10. Австрійська теорія економічних циклів – це теорія, що пояснює економічні цикли, на думку Австрійської школи[83]. Відповідно до теорії, економічні цикли є безпосереднім наслідком неефективних та деструктивних політик центрального банку, які призводять до тривалого заниження відсоткових ставок, що сприяє видачі у надмірних обсягах кредитів, виникненню спекулятивних економічних бульбашок та зменшенню заощаджень.

10.4.4. Please make an English summary of the following text:

ЕКОНОМІЧНЕ ЗРОСТАННЯ ТО ЙОГО ТИПИ

Економічне зростання – це тривале збільшення виробничого потенціалу економіки. Останній пов'язаний із такими виробничими факторами, як праця, капітал, технічні знання, земля, використання яких визначається межею виробничих можливостей. Економічне зростання є, по суті, розширенням межі виробничих можливостей країни, тобто зміцненням економічної могутності країни. Воно означає постійне, стійке розширення масштабів економічної діяльності цієї системи, що виражається у збільшенні розмірів факторів виробництва, що використовуються, і виробленого продукту – товарів та послуг. Оскільки розширення виробничих можливостей означає у тривалому періоді зростання національного продукту, то головним критерієм економічного зростання є збільшення ВВП або національного доходу.

Отже, економічне зростання – це кількісне збільшення і якісне удосконалення національного продукту і факторів його виробництва. Його основними ознаками є приріст виробленого національного продукту, збільшення національного багатства, підвищення добробуту населення, розв'язання соціальних і економічних проблем суспільства.

[83] ***The Austrian School*** is a school of economic thought that is based on the analysis of the purposeful actions of individuals. It originated in late-19th and early-20th century Vienna with the work of Carl Menger, Eugen von Böhm-Bawerk, Friedrich von Wieser, and others. Current day economists working in this tradition are located in many different countries, but their work is referred to as Austrian economics.

Економічне зростання вимірюється двома способами: темпом зростання реального ВВП або національного доходу і приростом їх у розрахунку на душу населення. Застосування того чи іншого способу пов'язане з метою аналізу економічного зростання. Перший спосіб використовується тоді, коли визначають економічну могутність країни, її військово-політичний потенціал. А при порівнянні рівнів життя використовується показник динаміки реального ВВП, або національного доходу на душу населення. Саме цей показник свідчить про справжнє економічне зростання. Обидва показники вимірюються річними темпами у відсотках.

Проблемі економічного зростання у кожній країні надається першочергове значення. Воно само по собі розглядається як важлива мета країни. По-перше, збільшення ВВП у розрахунку на душу населення означає підвищення рівня життя, бо зростання реального продукту веде до збільшення числа товарів та послуг, що є основою матеріального достатку населення країни. Зростаюча економіка має більшу здатність задовольнити нові потреби людей. По-друге, економічне зростання створює сприятливі умови для розв'язання соціальних проблем суспільства, таких як освіта, охорона здоров'я, соціальний захист населення, житло. По-третє, розширення виробничих можливостей створює основу для розв'язання проблеми зайнятості, збільшення кількості робочих місць і удосконалення умов праці. По-четверте, економічне зростання дає змогу розробляти і здійснювати програми охорони навколишнього середовища, створює можливості для розв'язання проблеми обмеженості природних ресурсів. По-п'яте, економічне зростання, збільшуючи економічну могутність, створює базис для зміцнення ролі країни на світовій арені.

10.5. Reading Practice:

10.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: GROWTH AS A GOAL. ECONOMIC GROWTH

Economists define and measure economic growth as either:

• an increase in real GDP occurring over some time period;

• an increase in real GDP per capita occurring over some time period.

Economic growth is measured as a percentage change in the Gross Domestic Product (GDP) or Gross National Product (GNP). These two measures, which are calculated slightly differently, total the amounts paid for the goods and services that a country produced. As an example of measuring economic growth, a country that creates $9,000,000,000 in goods and services in 2010 and then creates $9,090,000,000 in 2011, has a nominal economic growth rate of 1 percent for 2011.

The second definition takes into consideration the size of the population. Real GDP per capita (or per capita output) is found by dividing real GDP by the size of the population. The resulting number is then compared in percentage terms with that of the previous period.

For measuring expansion of military potential or political preeminence, the growth of real GDP is more useful. Unless specified otherwise, growth rates reported in the news and by international agencies use this definition of economic growth. For comparing living standards, however, the second definition is superior. While China's GDP in 2004 was $1,938 billion compared with Denmark's $220 billion, Denmark's real GDP per capita was $40,750 compared with China's meager $1,500. And in some cases growth of real GDP can be misleading. Madagascar's real GDP grew at a rate of 1.7 percent per year from 1990–2004. But over the same period its annual population growth was 2.9 percent, resulting in a decline in real GDP per capita of roughly 1.2 percent per year.

Growth is a widely held economic goal. The expansion of total output relative to population results in rising real wages and incomes and thus higher standards of living. An economy that is experiencing economic growth is better able to meet people's wants and resolve socioeconomic problems. Rising real wages and income provide richer opportunities to individuals and families − a vacation trip, a personal computer, a higher education − without sacrificing other opportunities and pleasures. A growing economy can undertake new programs to alleviate poverty embrace diversity, cultivate the arts, and protect the environment without impairing existing levels of consumption, investment, and public goods production.

In short, growth lessens the burden of scarcity. A growing economy, unlike a static economy, can consume more today while increasing its capacity to produce more in the future. By easing the burden of scarcity − by relaxing society's constraints on production − economic growth enables a nation to attain its economic goals more readily and to undertake new endeavors that require the use of goods and services to be accomplished.

MAIN SOURCES OF GROWTH

Society can increase its real output and income in two fundamental ways: (a) by increasing its inputs of resources, and (b) by increasing the productivity of those inputs. Other things equal, increases in land, labor, capital, and entrepreneurial resources yield additional output. But economic growth also occurs through increases in productivity − measured broadly as real output per unit of input. Productivity rises when the health, training, education, and motivation of workers are improved; when workers have more and better machinery and natural resources with which to work; when production is better organized and managed; and when labor is reallocated from less efficient industries to more efficient industries. About one-third of U.S. growth comes from more inputs. The remaining two-thirds results from improved productivity.

CAUSATION: A FIRST GLANCE

Economists have suggested many theories to explain fluctuations in business activity. Some say that momentous innovations, such as the railroad, the automobile, synthetic fibers, and microchips, have great impact on investment and consumption spending and therefore on output, employment, and the price level. Such major innovations occur irregularly and thus contribute to the variability of economic activity.

Some economists see major changes in productivity as causes of business cycles. When productivity expands, the economy booms; when productivity falls, the economy recedes. Still others view the business cycle as a purely monetary phenomenon. When government creates too much money, they say, an inflationary boom occurs. Too little money triggers a decline in output and employment and, eventually, in the price level.

Most economists, however, believe that the immediate cause of cyclical changes in the levels of real output and employment is changes in the level of total spending. In a market economy, businesses produce goods or services only if they can sell them at a profit. If total spending sinks, many businesses find that producing their current volume of goods and services is no longer profitable. As a consequence, output, employment, and incomes all fall. When the level of spending rises, an increase in production becomes profitable, and output, employment, and incomes will rise accordingly. Once the economy nears full employment, however, further gains in real output become more difficult to achieve. Continued increases in spending may raise the price level as consumers bid forth limited amount of goods available.

We have seen that the long-run growth trend of the U.S. economy is one of expansion.

CYCLICAL IMPACT: DURABLES AND NONDURABLES

Although the business cycle is felt everywhere in the economy, it affects different segments in different ways and to different degrees.

Firms and industries producing capital goods (for example, housing, commercial buildings, heavy equipment, and farm implements) and consumer durables (for example, automobiles, personal computers, refrigerators) are affected most by the business cycle. Within limits, firms can postpone the purchase of capital goods. As the economy recedes, producers frequently delay the purchase of new equipment and the construction of new plants. The business outlook simply does not warrant increases in the stock of capital goods. In good times, capital goods are usually replaced before they depreciate completely. But when recession strikes, firms patch up their old equipment and make do. As a result, investment in capital goods declines sharply. Firms that have excess plant capacity may not even bother to replace all the capital that is depreciating. For them, net investment may be negative. The pattern is much the same for consumer durables such as automobiles and major appliances. When recession occurs and households must trim their budgets, purchases of these goods are often deferred. Families repair their old cars and appliances rather than buy new ones, and the firms producing these products suffer. (Of course, producers of capital goods and consumer durables also benefit most from expansions.) In contrast, service industries and industries that produce nondurable consumer goods are somewhat insulated from the most severe effects of recession. People find it difficult to cut back on needed medical and legal services, for example. And a recession actually helps some service firms, such as pawnbrokers and law firms that specialize in bankruptcies. Nor are the purchases of many nondurable goods such as food and clothing easy to postpone. The quantity and quality of purchases of nondurables will decline, but not so much as will purchases of capital goods and consumer durables.

STANDARD OF LIVING

The demographic-economic paradox is the inverse correlation found between wealth and fertility within and between nations. The higher the degree of education and GDP per capita of a human population, subpopulation or social stratum, the fewer children are born in any industrialized country. In a 1974 UN population conference in Bucharest, Karan Singh, a former minister of population in India, illustrated this trend by stating “Development is the best contraceptive”.

The term “paradox” comes from the notion that greater means would necessitate the production of more offspring as suggested by the influential. Roughly speaking, nations or subpopulations with higher GDP per capita are observed to have fewer children, even though a richer population can support more children. Malthus[84] held that in order to prevent widespread suffering, from famine for example, what he called “moral restraint” (which included abstinence) was required. The demographic-economic paradox suggests that reproductive restraint arises naturally as a consequence of economic progress.

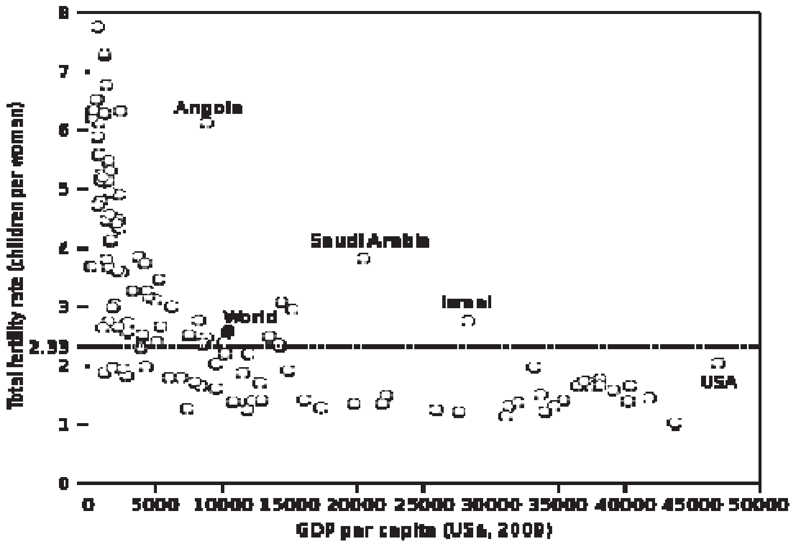
It is hypothesized that the observed trend has come about as a response to increased life expectancy, reduced childhood mortality, improved female literacy and independence, and urbanization that all result from increased GDP per capita, “demographic transition” consistent with the demographic transition model.

Recent developments have indicated that certain fertility floors have developed where the number of countries with total fertility rates of less than 1.3 fell from 21 in 2003 to five in 2008.

[84] ***Thomas Robert Malthus*** (13 February 1766 – 23 December 1834) was an English cleric and scholar, influential in the fields of political economy and demography. Malthus became widely known for his theories about change in population. His *An Essay on the Principle of Population* observed that sooner or later population will be checked by famine and disease, leading to what is known as a Malthusian catastrophe. He wrote in opposition to the popular view in 18th-century Europe that saw society as improving and in principle as perfectible.

Figure 10.1

DEMOGRAPHIC-ECONOMIC PARADOX



Graph of Total Fertility Rate vs GDP per capita of the corresponding country, 2009.

<u>Text 2</u>: ECONOMIC GROWTH IN CHINA

China's economic growth rate in the past 25 years is among the highest recorded for any country during any period of world history.

Propelled by capitalistic reforms, China has experienced nearly nine percent annual growth rates over the past 25 years. Real output has more than quadrupled over that period. In 2004, China's growth rate was 10.1 percent and in 2005 it was 9.8 percent. Expanded output and income have boosted domestic saving and investment, and the growth of capital goods has further increased productivity, output, and income. The rising income, together with inexpensive labor, has attracted more direct foreign investment (a total of $150 billion between 2003 and 2005).

China's real GDP and real income have grown much more rapidly than China's population. Per capita income has increased at a high annual rate of 8 percent since 1980. This is particularly noteworthy because China's population has expanded by 14 million a year (despite a policy which encourages one child per family). Based on exchange rates, China's per capita income is now about $1,390 annually. But because the prices of many basic items in China are still low and are not totally reflected in exchange rates, Chinese per capita purchasing power is estimated to be equivalent to $6,300 of income in the United States.

The growth of per capita income in China has resulted from increased use of capital, improved technology, and shifts of labor away from lower-productivity toward higher-productivity uses. One such shift of employment has been from agriculture toward rural and urban manufacturing. Another shift has been from state-owned enterprises toward private firms. Both shifts have raised the productivity of Chinese workers.

Chinese economic growth had been accompanied by a huge expansion of China's international trade. Chinese exports rose from $5 billion in 1978 to $752 billion in 2005. These exports have provided the foreign currency needed to import consumer goods and capital goods. Imports of capital goods from industrially advanced countries have brought with them highly advanced technology that is embodied in, for example, factory design, industrial machinery, office equipment, and telecommunications systems.

China still faces some significant problems in its transition to the market system, however. At times, investment booms in China have resulted in too much spending relative to production capacity. The result has been some periods of 15 to 25 percent annual rates of inflation. China has successfully confronted the inflation problem by giving its central bank more power so that, when appropriate, the bank can raise interest rates to damp down investment spending. This greater monetary control has reduced inflation significantly. China's inflation rate was a mild 1.2 percent in 2003, 4.1 percent in 2004, and 1.9 percent in 2005.

Nevertheless, the overall financial system in China remains weak and inadequate. Many unprofitable state-owned enterprises owe colossal sums of money on loans made by the Chinese state-owned banks (an estimate is nearly $100 billion). Because most of these loans are not collectible, the government may need to bail out the banks to keep them in operation.

Unemployment is also a problem. Even though the transition from an agriculture-dominated economy to a more urban, industrial economy has been gradual, considerable displacement of labor has occurred. There is substantial unemployment and underemployment in the interior regions of China.

China still has much work to do to integrate its economy fully into the world's system of international finance and trade. As a condition of joining the World Trade Organization in 2001, China agreed to reduce its high tariffs on imports and remove restrictions on foreign ownership. In addition, it agreed to change its poor record of protecting intellectual property rights such as copyrights, trademarks, and patents. Unauthorized copying of products is a major source of trade friction between China and the United States. So, too, is the artificially low international value of China's currency, which has contributed to a $200 billion annual trade surplus with the United States.

China's economic development has been very uneven geographically. Hong Kong is a wealthy capitalist city with per capita income of about $24,000. The standard of living is also relatively high in China's southern provinces and coastal cities, although not nearly as high as it is in Hong Kong. In fact, people living in these special economic zones have been the major beneficiaries of China's rapid growth. In contrast, the majority of people living elsewhere in China have very low incomes. Despite its remarkable recent economic successes, China remains a relatively low income nation. But that status is quickly changing.

Text 3: WOMEN, THE LABOR FORCE, AND ECONOMIC GROWTH

The substantial rise in the number of women working in the paid workforce in the United States has been one of the major labor market trends of the past half-century. In 1965, some 40 percent of women worked full-time or part-time in paid jobs. Today, that number is 59 percent.

Women have greatly increased their productivity in the workplace, mostly by becoming better educated and professionally trained. Rising productivity has increased women's wage rates. Those higher wages have raised the opportunity costs − the forgone wage earnings − of staying at home. Women have therefore substituted employment in the labor market for more expensive traditional home activities. This substitution has been particularly pronounced among married women. (Single women have always had high labor-force participation rates).

Furthermore, changing lifestyles and the widespread availability of birth control have freed up time for greater labor force participation by women. Women not only have fewer children, but those children are spaced closer together in age. Thus women who leave their jobs during their children's early years return to the labor force sooner.

Greater access to jobs by women has also been a significant factor in the rising labor-force participation of women. Service industries − teaching, nursing, and office work, for instance − that traditionally have employed many women have expanded rapidly in the past several decades. Also, the population in general has shifted from farms and rural regions to urban areas, where jobs for women are more abundant and more geographically accessible. An increased availability of part-time jobs has also made it easier for women to combine labor market employment with childrearing and household activities. Also, antidiscrimination laws and enforcement efforts have reduced barriers that previously discouraged or prevented women from taking traditional male jobs such as business managers, lawyers, professors, and physicians. More jobs are open to women today than a half-century ago.

In summary, women in the United States are better educated, more productive, and more efficiently employed than ever before. Their increased presence in the labor force has contributed greatly to U.S. economic growth.

10.6. Internet Practice:

10.6.1. Web Activities:

- ***U.S. Economic Growth − What Are the Latest Rates?*** Go to the Bureau of Economic Analysis Web site, (**www.bea.gov),** and use the data interactivity feature to find National Income and Product Account Table 1.1. What are the quarterly growth rates (annualized) for the U.S. economy for the last six quarters? Is the average of those rates above or below the long-run U.S. annual growth rate of 3.5 percent? Expand the range of years, if necessary, to find the last time real GDP declined in two or more successive quarters. What were those quarters?
- ***What's Up with Productivity?*** Visit the Bureau of Labor Statistics Web site, (**www.bls.gov).** In sequence, select Productivity and Costs, Get Detailed Statistics, and Most Requested Statistics to find quarterly growth rates (annualized) for business output per hour for the last six quarters. Is the average of those rates higher or lower than the 1.4 percent average annual growth rate of productivity during the 1973–1995 period?
- ***Productivity and Technology − Examples of Innovations in Computers and Communications.*** Recent innovations in computers and communications technologies are increasing productivity. Lucent Technologies (formerly Bell Labs[85]) at (**www.lucent.com/minds/discoveries),** provides a timeline of company innovations over the past 80 years. Cite five technological "home runs" (for example, the transistor in 1947) and five technological "singles" (for example, free space optical switching in 1990). Which single innovation do you think has increased productivity the most? List two innovations since 1990. How might they boost productivity?

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[85] ***Bell Laboratories*** (also known as ***Bell Labs*** and formerly known as ***AT&T Bell Laboratories*** and ***Bell Telephone Laboratories***) is the research and development subsidiary of Alcatel-Lucent in Berkeley Heights, New Jersey, United States. It previously was a division of the American Telephone & Telegraph Company (AT&T Corporation)**,** half-owned through its Western Electric manufacturing subsidiary.

10.7. Critical Thinking & Discussion Questions:

- Why is economic growth important? Why could the difference between a 2.5 percent and a 3 percent annual growth rate be of great significance over several decades?
- What are the four phases of the business cycle? How long do business cycles last?
- Why does the business cycle affect output and employment in capital goods industries and consumer durable goods industries more severely than in industries producing consumer nondurables?
- True or false? During the quarter before the start of a recession, the economy is at a peak.
- True or false? If false, explain why:
  (a) technological advance, which to date has played a relatively small role in U.S. economic growth, is destined to play a more important role in the future;
  (b) many public capital goods are complementary to private capital goods;
  (c) immigration has slowed economic growth in the United States.

Unit 11 *What Unemployment Is*?

"It's a recession when your neighbor loses his job;
it's a depression when you lose your own"
Harry S. Truman[86]

11.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

assistance	lag	*revenue:*
capacity of	mismatch	net ~
compensation	*output*:	*unemployment:*
conjuncture	potential ~	structural ~
division	percentage	cyclical ~
entrant	pink slip	frictional ~
hardship(s)	prevalence	(in)voluntary ~
hunger	*rate:*	variability
insurance	target ~	wage(s)
intervention	redundancy	welfare
labor/(employment) exchange		

[86] ***Harry S. Truman*** (May 8, 1884 – December 26, 1972) was the 33rd President of the United States (1945–1953). The final running mate of President Franklin D. Roosevelt in 1944, Truman succeeded to the presidency on April 12, 1945, when Roosevelt died after months of declining health. Under Truman, the U.S. successfully concluded World War II; in the aftermath of the conflict, tensions with the former Soviet Union increased, marking the start of the Cold War.

Verbs:

to accelerate	to distinguish	to recoup
to accompany	to evolve	to reflect
to assign	to exacerbate	to reject
to become redundant	to impose	to relieve
to descend	to induce	to resign
to deserve	to intervene	to be sacked/(dismissed)
to devastate	to lessen	to succumb to
to differ	to multiply	

Adjectives & Adverbs:

achievable	equivalent	obsolete
biased	frictional	rational
commensurate	hardcore	slack
consistent	heterogeneous	structural
cyclical	inherent	sustainable
deficient-demand	initially	variable
employable	involuntary	voluntary

11.2. Read and translate the text into Ukrainian:

UNEMPLOYMENT

Both business cycles and growth are directly related to unemployment in the economy. Unemployment occurs when people are looking for a job and cannot find one. *The unemployment rate* is the percentage of people in the economy who are willing and able to work but who are not working. When an economy is growing and is in an expansion, unemployment is usually falling; when an economy is in a recession, unemployment is usually rising, although often with a lag.

The relationship between the business cycle and unemployment is obvious to most people, but often something seemingly obvious hides important insights, just why are the business cycle and growth related to unemployment? True, aggregate income must fall in a recession, but, logically, unemployment need not result. A different result could be that everyone's income falls. Looking at the problem historically, we see that unemployment has not always been a problem associated with business cycles.

In preindustrial farming societies, unemployment wasn't a problem because preindustrial farmers didn't receive wages – they received net revenue (the income left after all costs had been paid). That means the average amount they netted per hour (the equivalent of a wage) was variable. In good years they had a high income per hour; in bad years they had a low income per hour.

The variability in people's net income per hour meant that when there were in fluctuations in economic activity, people's income rose or fell, but they kept on working. Low income was a problem, but since people didn't become unemployed, cyclical unemployment (unemployment resulting from fluctuations in economic activity) was not a problem.

While cyclical unemployment did not exist in preindustrial society, *structural unemployment* (unemployment caused by economic restructuring making some skills obsolete) did. For example, the demand for scribes in Europe fell after the invention of the printing press in 1438. Some unemployment would likely result; that unemployment would be called structural unemployment. But structural unemployment wasn't much of a problem for government, or at least people did not consider it government's problem. The reason is that those in the family with income would share it with unemployed family members.

UNEMPLOYMENT AS A SOCIAL PROBLEM

The Industrial Revolution changed the nature of work and introduced unemployment as a problem for society. This is because the Industrial Revolution was accompanied by a shift to wage labor and to a division of responsibilities. Some individuals (capitalists) took on ownership of the means of production and hired others to work for them, paying them a wage per hour. This change in the nature of production marked a significant change in the nature of the unemployment problem.

First, it created the possibility of *cyclical unemployment*. With wages set at a certain level, when economic activity fell, workers' income per hour did not fall. Instead, factories would lay off or fire some workers. That isn't what happened on the farm; when a slack period occurred on the farm, the income per hour of all workers fell and few were laid off.

Second, the Industrial Revolution was accompanied by a change in how families dealt with unemployment. Whereas in preindustrial farm economies individuals or families took responsibility for their own slack periods, in a capitalist industrial society factory owners didn't take responsibility for their workers in lack periods. The pink slip (a common name for the notice workers get telling them they are laid off) and the problem of unemployment were born in the Industrial Revolution.

Without wage income, unemployed workers were in a pickle. They couldn't pay their rent, they couldn't eat, and they couldn't put clothes on their backs. What was previously a family problem became a social problem. Not surprisingly, it was at that time – the late 1700s – that economists began paying more attention to the problem of unemployment.

Initially, economists and society still did not view unemployment as a social problem. It was the individual's problem. If people were unemployed, it was their own fault; hunger, or at least the fear of hunger, and people's desire to maintain their lifestyle would drive them to find other jobs relatively quickly. Thus, early capitalism had an unemployment solution: the fear of hunger.

UNEMPLOYMENT AS GOVERNMENT'S PROBLEM

As capitalism evolved, the fear-of-hunger solution to unemployment decreased in importance. The government developed social welfare programs such as unemployment insurance and assistance to the poor. In the Employment Act of 1946, the U.S. government specifically took responsibility for unemployment. The act assigned government the responsibility of creating *full employment*, an economic climate in which just about everyone who wants a job can have one. It was government's responsibility to offset cyclical fluctuations and thereby prevent cyclical unemployment, and to somehow deal with structural unemployment.

Initially government regarded two percent unemployment as a condition of full employment. The two percent was made up of *frictional unemployment* (unemployment caused by new entrants into the job market and people quitting a job just long enough to look for and find another one) and of a few "unemployables", such as alcoholics and drug addicts, along with a certain amount of necessary structural and seasonal unemployment resulting when the structure of the economy changed. Thus, any higher than two percent was considered either unnecessary structural or cyclical unemployment and was now government's responsibility; frictional and necessary structural unemployment were still the individual's problem.

FRICTIONAL UNEMPLOYMENT

By the 1950s, government had given up its view that two percent unemployment was consistent with full employment. It raised its definition of full unemployment to three percent, then to four percent, then to five percent. In the 1970s and early 1980s, government raised it further, to 6.5 percent unemployment. At that point the term *full employment* fell out of favor (it's hard to call 6.5 percent unemployment "full employment"), and the terminology changed. The target rate of unemployment is the lowest sustainable rate of unemployment that policymakers believe is achievable under existing conditions. Since the late 1980s the appropriate target rate of unemployment has been a matter of debate, but most economists place it at somewhere around 5 percent unemployment, even though the economy has been operating at rates closer to 4 percent.

WHY THE TARGET RATE OF UNEMPLOYMENT CHANGED

Why has the target rate of unemployment changed over time? One reason is that, in the 1970s and early 1980s, a low inflation rate, which also was a government goal, seemed to be incompatible with a low unemployment rate.

A second reason is demographics: different age groups have different unemployment rates, and as the population's age structure changes, so does the target rate of unemployment.

A third reason is the economy's changing social and institutional structure. These social and institutional changes affected the nature of the unemployment problem. For example, women's role in the work force has changed significantly in the past 50 years. In the 1950s, the traditional view that "woman's place is in the home" remained strong. Usually only one family member – the man – had a job. If he lost his job, no money came in. In the 1970s to 1990s, more and more women entered the workforce so that today over 70 percent of all married-couple families are two-earner families. In a two-earner family, if one person loses a job, the family doesn't face immediate starvation. The other person's income carries the family over.

Government institutions also changed. As programs like unemployment insurance and public welfare were created to reduce suffering associated with unemployment, people's responses to unemployment changed. People today are quicker about what jobs they take than they were in the 1920s and 1930s. People don't just want any job, they want a fulfilling job with a decent wage. As people have become choosier about jobs, a debate has raged over the extent of government's responsibility for unemployment.

WHOSE RESPONSIBILITY UNEMPLOYMENT IS?

Differing views of individuals' responsibility and society's responsibility affect people's views on whether somebody is actually unemployed. Classical economists take the position that, generally, individuals should be responsible for finding jobs. They emphasize that an individual can always find some job at some wage rate, even if it's only selling apples on the street for 40 cents a piece. Given this view of individual responsibility, unemployment is impossible. If a person isn't working, that's his or her choice; the person simply isn't looking hard enough for a job. For an economist with this view, almost all unemployment is actually frictional unemployment.

Keynesian economists [87]tend to say society owes people jobs commensurate with their training or past job experience. They further argue that the jobs should be close enough to home so people don't have to move. Given this view, frictional unemployment is only a small part of total unemployment. Structural and cyclical unemployment are far more common.

In the 1960s the average rate of unemployment in Europe was considerably below the average rate of unemployment in the United States. In the 1990s that reversed and the average

[87] ***Keynesian economics*** is the view that in the short run, especially during recessions, economic output is strongly influenced by aggregate demand (total spending in the economy). In the Keynesian view, aggregate demand does not necessarily equal the productive capacity of the economy; instead, it is influenced by a host of factors and sometimes behaves erratically, affecting production, employment, and inflation.

unemployment rate in Europe has now significantly exceeded that in the United States. One of the reasons for this reversal is that Europe tried to create high-paying jobs, while it left a variety of taxes and social programs in place that discouraged the creation of low-paying jobs.

The United States, in contrast, actively promoted the creation of jobs of any type. The result has been a large growth of jobs in the United States, many of which are low-paying jobs. An unemployed engineer, had he been in the United States, might well have given up engineering and become a restaurant manager.

HOW UNEMPLOYMENT IS MEASURED?

When there's debate about what the unemployment problem is, it isn't surprising that there's also a debate about how to measure it. When talking about unemployment, economists usually refer to the "unemployment rate" published by the U.S. Department of Labor's Bureau of Labor Statistics. Fluctuations in the official unemployment rate since 1900 appear in Table 11.1. In it you can see that during World War II (1941–45) unemployment fell from the high rates of the 1930s Depression to an extremely low rate, only 1.2 percent. You can also see that while the rate started back up in the 1950s, reaching 4 or 5 percent, it remained low until the 1970s, when the rate began gradually to rise again. After peaking in the early 1980s it began to descend again. In 1990 it was about 5 percent; then in 1991 the economy fell into recession and unemployment rates rose to over 7 percent in 1992. During the expansion that followed the unemployment rate returned to slightly above 4 percent in 2000.

UNEMPLOYMENT AND POTENTIAL OUTPUT

The unemployment rate gives a good indication of how much labor is available to increase production and thus provides a good idea of how fast the economy could grow. Capital is the second major input to production. Thus, the *capacity utilization rate* – the rate at which factories and machines are operating compared to the maximum sustainable rate at which they could be used – indicates how much capital is available for economic growth.

Table 11.1

UNEMPLOYMENT AND CAPACITY UTILIZATION RATES FOR SELECTED COUNTRIES (PERCENTAGES)

		Capacity Utilization			***Unemployment***		***Annual Growth in Real Output***
	1975	1985	2005**	1975	1985	2005	1975-2005
United States	74.6	79.8	80.4	8.5	7.2	4.0	2.9
Japan	81.4	82.5	74.6	1.9	2.6	4.4	2.5
Germany	76.9	79.6	85.1	3.4	8.2	10.0	3.0
United Kingdom	81.9	81.1	81.8	4.6	11.2	5.7	2.2
Canada	83.1	82.5	85.8	6.9	10.5	6.6	2.5
Mexico	85.0	92.0	85.7		*	2.0	1.6
Republic of Korea	86.4	74.6	83.3	*	10.9	4.8	7.7

*Unavailable

**Capacity utilization rates are for most recent year available

Table 11.1 shows the unemployment rates and the capacity utilization rates for selected countries over the previous 30 years. Generally U.S. economists today feel that unemployment rates of about five percent and capacity utilization rates between 80 and 85 percent are about as much as we should expect from the economy. To push the economy beyond that would be like driving your car 90 miles an hour. True, the marks on your speedometer might go up to 130, but 90 is a more realistic top speed. Beyond 120 (assuming that's where your car is red-lined), the engine is likely to blow up (unless you have a Maserati[88]).

Economists translate the target unemployment rate and target capacity utilization rate into the target level of potential output, or simply potential output (or *potential income,* because output creates income). *Potential output* is the output that would, materialize at the target-rate of unemployment and the target rate of capacity utilization. It is the rate of output beyond which the economy would experience accelerating inflation. Potential output grows at the secular long-term trend rate of 2.5 to 3.5 percent per year. When the economy is in a downturn or recession, actual output is below potential output. There is much debate about what the appropriate target rates of unemployment, capacity utilization, and potential output actually are.

To determine what effect changes in the unemployment rate will have on output we use *Okun's rule of thumb*[89], which states that a one percentage point change in the unemployment rate will cause output to change in the opposite direction by two percent. For example, if unemployment rises from five percent to six percent, total output of $9 trillion will fall by two percent, or $180 billion, to $8.8 trillion. In terms of number of workers, a one percent increase in the unemployment rate means about 1.4 million additional people are out of work.

These figures are rough, but they give you a sense of the implications of a change. For example, say unemployment falls 0.2 percentage point, from 4.5 to 4.3 percent. That means about 280,000 more people have jobs and that output will be $36 billion higher than otherwise would have occurred if the increase holds for the entire year.

It was mentioned that "will be $36 billion higher than otherwise would have occurred" rather than simply saying "will increase by $36 billion". That's because generally the economy is growing as a result of increases in productivity or increases in the number of people choosing to work. Changes in either of these can cause output and employment to grow, even if there's no change in the unemployment rate. We must point this out because in the 1980s the number of people choosing to work increased substantially, significantly increasing the labor participation rate. Then, in the mid-1990s, as many large firms structurally adjusted their production methods to increase their productivity, unemployment sometimes rose even as output rose. Thus, when the labor participation rate and productivity change, an increase in unemployment doesn't necessarily mean a decrease in employment or a decrease in output.

Text Summary

- Unemployment occurs when people are looking for a job and cannot find one. The unemployment rate is the percentage of people in the economy who are willing and able to work but who are not working.
- The unemployment rate is measured by dividing the number of unemployed individuals by the number of people in the civilian labor force and multiplying by 100.

[88] ***Maserati*** is an Italian luxury car manufacturer established on December 1, 1914, in Bologna. The company's headquarters are now in Modena, and its emblem is a trident. It has been owned by the Italian car giant Fiat since 1993. Inside the Fiat Group, Maserati was initially associated with Ferrari , but more recently it has become part of the sports car group including Alfa Romeo.

[89] In economics, ***Okun's law*** (named after Arthur Melvin Okun, who proposed the relationship in 1962) is an empirically observed relationship relating unemployment to losses in a country's production. The "gap version" states that for every 1% increase in the unemployment rate, a country's GDP will be roughly an additional 2% lower than its potential GDP. The "difference version" describes the relationship between quarterly changes in unemployment and quarterly changes in real GDP. The stability and usefulness of the law has been disputed.

- Despite problems, the unemployment rate statistic still gives us useful information about changes in the economy.
- Potential output is defined as the output that will be achieved at the target rate of unemployment and the target level of capacity utilization.
- Okun's rule of thumb states that a 1 percentage point change in the unemployment rate will cause output in the economy to change in the opposite direction by two percent.

11.3. Language Practice:

11.3.1. Multiple Choice:

1. Unemployment ..... when people are looking for a job and cannot find one.
a) occurs;
b) increases;
c) decreases.

2. When an economy is in a ....., unemployment is usually rising, although often with a lag.
a) growth;
b) recession;
c) prosperity.

3. In preindustrial farming societies, unemployment wasn't a problem because pre industrial farmers didn't receive ..... – they received net ..... (the income left after all costs had been paid).
a) wages, revenue;
b) salaries, profit;
c) fees, taxes.

4. Cyclical unemployment (unemployment resulting from ..... in economic activity) was not a problem.
a) expansion;
b) interventions;
c) fluctuations.

5. While cyclical unemployment did not exist in preindustrial society, ... unemployment (unemployment caused by economic restructuring making some skills obsolete) did.
a) voluntary;
b) structural;
c) frictional.

6. The ..... (a common name for the notice workers get telling them they are laid off) and the problem of unemployment were born in the Industrial Revolution.
a) pink report;
b) pink slip;
c) pink statement.

7. ..... unemployment is unemployment caused by new entrants into the job market and people quitting a job just long enough to look for and find another one.
a) Cyclical;
b) Structural;
c) Frictional.

11.3.2. Key Terms – Matching:

1.	Unemployment	a)	– when there is not enough aggregate demand in the economy to provide jobs for everyone who wants to work;
2.	Employment	b)	– the time period between jobs when a worker is searching for, or transitioning from one job to another;
3.	Cyclical unemployment	c)	– when a labor market is unable to provide jobs for everyone who wants one because there is a mismatch between the skills of the unemployed workers and the skills needed for the available jobs;
4.	Frictional unemployment	d)	– payments made by the state or other authorized bodies to unemployed people;
5.	Structural unemployment	e)	– the percentage of people in the economy who are willing and able to work but who are not working;
6.	Unemployment rate	f)	– occurs when real wages for a job are set above the market-clearing level, causing the number of job-seekers to exceed the number of vacancies;
7.	Unemployment benefits	g)	– the act of employing or state of being employed; the work or occupation in which a person is employed.

11.3.3. Please explain the meaning of the following words and word combinations in English:

Unemployment, underemployment, unemployed, unemployment rate, unemployment benefits, structural unemployment, cyclical unemployment, frictional unemployment, full employment, voluntary unemployment, minimum wages, job vacancy, labor market, labor (employment) exchange, government interventions.

11.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~occurs~~ aggregate demand imposed voluntary decisions
cyclical nature interventions market mechanisms
structural unemployment recession unemployment rate

UNEMPLOYMENT NATURE

Unemployment (or joblessness) (1) *occurs* when people are without work and actively seeking work. The (2) _____ is a measure of the prevalence of unemployment and it is calculated as a percentage by dividing the number of unemployed individuals by all individuals currently in the labor force. During the periods of (3) _____, an economy usually experiences a relatively high unemployment rate. According to *International Labor Organization* report, "More than 197 million people globally are out of work or 6% of the world's workforce were without a job in 2012".

There remains considerable theoretical debate regarding the causes, consequences and solutions for unemployment. Classical economics, new classical economics, and the Austrian School of economics argue that (4) _____ are reliable means of resolving unemployment. These theories argue against interventions (5) _____ on the labor market from the outside, such as unionization, minimum wage laws, taxes, and other regulations that they claim discourage the hiring of workers.

Keynesian economics emphasizes the (6) _____ of unemployment and recommends government interventions in the economy that will reduce unemployment during recessions. This theory focuses on recurrent shocks that suddenly reduce (7) _____ for goods and services and thus reduce demand for workers. Keynesian models recommend government (8) _____ designed to increase demand for workers; these can include financial stimuli, publicly funded job creation, and expansionist monetary policies.

In addition to these comprehensive theories of unemployment, there are a few categorizations of unemployment that are used to more precisely model the effects of unemployment within the economic system. The main types of unemployment include (9) _____ which focuses on structural problems in the economy and inefficiencies inherent in labor markets including a mismatch between the supply and demand of laborers with necessary skill sets. Discussions of frictional unemployment focus on (10) _____ to work based on each individuals' valuation of their own work and how that compares to current wage rates plus the time and effort required to find a job.

11.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the adjective ***employed****:* *1) active, at work, busy, engaged, hired, in a job, in collar, in harness, in place, inked, laboring, occupied;* *2) on board, on duty, on the job, on the payroll, operating, plugging away, selected, signed.*

11.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Безробіття, соціальне явище, рівень безробіття, фрикційне безробіття, структурне безробіття, циклічне безробіття, повна зайнятість, незайнятість, працездатне населення, перевага пропозиції робочої сили над її попитом, державна служба зайнятості, соціальна допомога безробітним, вимушене тимчасове скорочення, припинення трудових відносин, біржа праці, кон'юнктура ринку, економічно неактивне населення, недостатнє бажання до праці, робоча сила, втручання держави, засоби до існування, підвищення доходів, зниження податків, Міжнародна організація праці, коливання економіки,

11.4.2. Please translate the following sentences into Ukrainian:

1. Economists distinguish between various overlapping types of and theories of unemployment, including cyclical or Keynesian unemployment, frictional unemployment, structural unemployment and classical unemployment. Some additional types of unemployment that are occasionally mentioned are seasonal unemployment, hardcore unemployment, and hidden unemployment.
2. Though there have been several definitions of voluntary and involuntary unemployment in the economics literature, a simple distinction is often applied. Voluntary unemployment is attributed to the individual's decisions, whereas involuntary unemployment exists because of the socio-economic environment (including the market structure, government intervention, and the level of aggregate demand) in which individuals operate.
3. In these terms, much or most of frictional unemployment is voluntary, since it reflects individual search behavior. Voluntary unemployment includes workers who reject low wage jobs whereas involuntary unemployment includes workers fired due to an

economic crisis, industrial decline, company bankruptcy, or organizational restructuring.

4. On the other hand, cyclical unemployment, structural unemployment, and classical unemployment are largely involuntary in nature. However, the existence of structural unemployment may reflect choices made by the unemployed in the past, while classical (natural) unemployment may result from the legislative and economic choices made by labor unions or political parties. So, in practice, the distinction between voluntary and involuntary unemployment is hard to draw.
5. The clearest cases of involuntary unemployment are those where there are fewer job vacancies than unemployed workers even when wages are allowed to adjust, so that even if all vacancies were to be filled, some unemployed workers would still remain. This happens with cyclical unemployment, as macroeconomic forces cause microeconomic unemployment which can boomerang back and exacerbate these macroeconomic forces.
6. Many economists have argued that unemployment increases the more the government intervenes into the economy to try to improve the conditions of those without jobs. For example, minimum wage laws raise the cost of laborers with few skills to above the market equilibrium, resulting in people who wish to work at the going rate but cannot as wage enforced is greater than their value as workers becoming unemployed. Laws restricting layoffs made businesses less likely to hire in the first place, as hiring becomes more risky, leaving many young people unemployed and unable to find work.
7. Cyclical or Keynesian unemployment, also known as deficient-demand unemployment, occurs when there is not enough aggregate demand in the economy to provide jobs for everyone who wants to work. Demand for most goods and services falls, less production is needed and consequently fewer workers are needed, wages are sticky and do not fall to meet the equilibrium level, and mass unemployment results. Its name is derived from the frequent shifts in the business cycle although unemployment can also be persistent as occurred during the Great Depression[90] of the 1930s.
8. With cyclical unemployment, the number of unemployed workers exceeds the number of job vacancies, so that even if full employment were attained and all open jobs were filled, some workers would still remain unemployed. Some associate cyclical unemployment with frictional unemployment because the factors that cause the friction are partially caused by cyclical variables. For example, a surprise decrease in the money supply may shock rational economic factors and suddenly inhibit aggregate demand.
9. Keynesian economists on the other hand see the lack of demand for jobs as potentially resolvable by government intervention. One suggested interventions involves deficit spending to boost employment and demand. Another intervention involves an expansionary monetary policy that increases the supply of money which should reduce interest rates which should lead to an increase in non-governmental spending.
10. According to Karl Marx, unemployment is inherent within the unstable capitalist system and periodic crises of mass unemployment are to be expected. The function of the proletariat within the capitalist system is to provide a “reserve army of labor” that creates downward pressure on wages. This is accomplished by dividing the proletariat into surplus labor (employees) and under-employment (unemployed). This reserve army of labor fight among themselves for scarce jobs at lower and lower wages.

[90] ***The Great Depression*** was a severe worldwide economic depression in the decade preceding World War II**.** The timing of the Great Depression varied across nations, but in most countries it started in 1930 and lasted until the late 1930s or middle 1940s. It was the longest, most widespread, and deepest depression of the 20th century.

11.4.3. Please translate the following sentences into English:

1. Безробіття − це соціальне явище, коли кількість бажаючих отримати роботу є більшою, ніж кількість робочих місць (перевага пропозиції робочої сили над її попитом). Воно (безробіття) відповідає стану незайнятості працездатного населення та має негативні економічні й соціальні наслідки для усього населення регіону, де набуло особливого поширення.
2. Безробітні у визначенні Міжнародної організації праці (МОП) − це особи у віці 15-70 років (зареєстровані та незареєстровані в державній службі зайнятості), які: не мали роботи (прибуткового заняття); активно шукали роботу або намагались організувати власну справу впродовж останніх 4-х тижнів, що передували опитуванню; готові почати роботу впродовж двох найближчих тижнів.
3. Рівень безробіття визначається як відношення чисельності безробітних, які зареєстровані в державній службі зайнятості, до працездатного населення працездатного віку. Значний недолік такої методики розрахунку полягає у заниженні реального числа безробітних, оскільки в країнах, де соціальна допомога безробітним низька або де-факто відсутня, багато осіб не реєструються як безробітні на біржі праці.
4. Циклічне (кон'юнктурне) безробіття виникає внаслідок коливань економіки. У фазі рецесії підприємства звільняють робочих та наймають на роботу в разі економічного підйому. Вважається, що кон'юнктурне безробіття зникає через 2-3 роки.
5. Панельне безробіття (panel unemployment) (у розумінні монетаристів − природне безробіття) − це відсоток безробіття, який неможливо усунути навіть при найкращому розвитку кон'юнктури. Цей вид безробіття виникає внаслідок фрикційного, добровільного та структурного безробіття. Це та група безробітних, які не можуть знайти роботу в зв'язку з кваліфікацією, віком, станом здоров'я, місцем проживання або недостатнім бажанням до праці.
7. Фрикційне безробіття (тимчасове) виникає, коли люди тимчасово не мають роботи в результаті зміни місця праці, професій. Цей вид безробіття виникає в короткостроковому вимірі. Структурне (технологічне) безробіття виникає в результаті зміни структури економіки, викликане науково-технічним прогресом і зміною структури потрібних кадрів.
8. Незважаючи на зростання економіки у світі, рівень безробіття залишається рекордно високим. За даними Міжнародної організації праці на 2005 рік воно охопило до 185,9 млн. осіб, що становило 6,2% від загальної кількості робочої сили, а в 2007 році у світі налічувалося вже 191,8 млн. безробітних (при цьому 2,8 млрд. осіб мають роботу).
9. Економічно неактивне населення (за методикою МОП) − це особи у віці 15 − 70 років, які не можуть бути класифіковані як зайняті або безробітні. До цієї категорії належать: учні, студенти, слухачі, курсанти денної форми навчання; особи, що одержують пенсії за віком або на пільгових умовах; особи, що одержують пенсії за інвалідністю; особи, які зайняті в домашньому господарстві, вихованням дітей та доглядом за хворими; особи, які зневірилися знайти роботу, тобто готові приступити до роботи, але припинили її пошуки, оскільки вичерпали всі можливості для її одержання; інші особи, які не мають необхідності або бажання працювати, та ті, хто шукають роботу, але не готові приступити до неї найближчим часом.

10. Неповна зайнятість або часткове безробіття − це вимушене тимчасове скорочення нормальної або встановленої законодавством тривалості робочого часу, перерва в одержанні заробітку або скорочення його розміру через тимчасове припинення виробництва без припинення трудових відносин з причин економічного, технологічного, структурного характеру.

11.4.4. Please make an English summary of the following text:

БЕЗРОБІТТЯ: СУТЬ, ПРИЧИНИ, ВИДИ

Хоч як бездоганно працювали б ринкові механізми, вони не можуть, проте, забезпечити повної зайнятості навіть за наявності вільних робочих місць. Багато представників різних напрямів економічної думки вважають безробіття центральною проблемою сучасного суспільства. Воно є невід'ємним атрибутом ринкової економіки. Безробіття − це соціально-економічне явище, за якого частина працездатного населення не може знайти роботу, стає відносно надлишковою, поповнюючи резервну армію праці. Безробіття в ринковій економіці − це стан ринку робочої сили за умов, коли пропозиція робочої сили перевищує попит на неї. Безробіття має циклічний характер.

Безробіття уперше виникло у Великобританії на початку XIX ст. Першу спробу пояснити сутність безробіття зробив англійський економіст Томас Мальтус. Він пояснив його надто швидким зростанням населення, яке випереджає збільшення кількості засобів до існування. Причину такого явища він вбачав у вічному біологічному законі, властивому всім живим істотам, розмножуватися швидше, ніж збільшується кількість засобів до існування.

У середині 50-х рр. виникла технологічна теорія безробіття, згідно з якою його причиною є прогрес техніки, технічні зміни у виробництві, особливо раптові. Боротися з безробіттям, на думку її авторів, слід через обмеження технологічного прогресу, його сповільнення.

Найпоширенішою в наш час є кейнсіанська теорія безробіття, згідно з якою його причиною є недостатній сукупний попит на товари. Держава, підвищуючи доходи або знижуючи податки, може збільшити в економіці суспільний попит, що зумовить зростання попиту на робочу силу, а це, в свою чергу, знизить рівень безробіття.

Ще одна концепція безробіття (класичний підхід) не вбачає у безробітті серйозної економічної проблеми, оскільки причиною його вважає надто високу заробітну плату, а в умовах вільного ринку такий стан довго зберігатися не може. Дійовим заходом проти безробіття вважається зниження заробітної плати до рівня економічної рівноваги.

Безробіття зумовлене комплексом причин: структурними змінами в економіці; нерівномірністю розвитку продуктивних сил у народному господарстві, в окремих регіонах; постійним прогресом техніки, особливо його революційної форми Науково-технічної революції; пошуком працівниками нових робочих місць, де вища заробітна плата, змістовніша робота; диспропорційністю розвитку економіки; обмеженістю попиту на товари і послуги тощо.

Зусилля багатьох держав, зокрема і нашої, тривалий час були спрямовані на ліквідацію безробіття, на те, щоб усі працездатні були зайняті у суспільному виробництві. Проте час показав, що таку "повну" зайнятість забезпечити неможливо, бо існує фрикційне та структурне безробіття, які є неминучими.

11.5. Reading Practice:

11.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: UNEMPLOYMENT PROBLEMS

The two key problems resulting from unemployment of resources, especially the unemployment of labor, are personal hardships and lost production. The owners of the unemployed resources suffer personal hardships due to the lack of income. The rest of society also suffers from unemployment due to the lack of available production.

The unemployment of resources, especially labor, is one of the more important macroeconomic issues facing economists and government leaders. The other macroeconomic issue with the same status is inflation. Concerns over unemployment that emerged during the Great Depression of the 1930s was largely responsible for developing the modern study of macroeconomics.

The devastating economic conditions of the 1930s, which at its depth saw one out of four workers unemployed, brought to the forefront the problems of unemployment and induced economists to develop theories to explain the unemployment and to suggest corrective policies. The reason that economists and policy makers have been and continue to be so concerned with unemployment stem from two key problems: personal hardships and lost production.

PERSONAL HARDSHIPS

Unemployment creates personal hardships for the owners of the unemployed resources. When resources do not produce goods, their owners do not earn income. The loss of income results in less consumption and a lower living standard. While this problem applies to any resource, it is most important for labor. The owners of capital, land and entrepreneurship often earn income from more than one resource. Thus, a loss of income from one resource is not a total loss of income. Many workers, however, often earn income only from labor. The loss of income from labor might mean a total loss of income.

Many government programs and policies developed since the Great Depression have been designed explicitly to address personal hardships. One of the most noted programs is unemployment compensation, which is specifically designed to relieve personal hardships by providing workers with a source of income when they are unemployed. While other transfer payments (welfare and Social Security) are primarily designed to address other problems, they also provide a source of income to the unemployed.

The personal hardships suffered by the unemployed are of concern to government leaders for reasons that are both in the common good and somewhat more selfish. In terms of the common good, the unemployed are members of society just like everyone else and deserve the opportunities to enjoy the fruits of a productive economy. An affluent society “should” be able to provide for everyone. In addition, social problems that cause personal hardships to other members of society tend to increase with the personal hardships of the unemployed, including crime, divorce, suicides, etc. Government leaders are also concerned with the personal hardships of the unemployed for more selfish reasons. When the voting public is unhappy, they tend to elect new leaders and toss the old ones out of office. There are few things that voters like less than suffering the personal hardships that come with unemployment. Presidential elections have been decided on a few million votes. A typical business-cycle contraction can add four to five million workers to the ranks of the unemployed, enough votes to change the “employment” status of any incumbent President seeking re-election.

LOST PRODUCTION

Unemployment also causes total production in the economy to decline. If fewer resources are engaged in production, fewer goods and services are produced. As suggested by the circular flow model, the severity of the connection between lost production and unemployment is magnified by the multiplier effect. An initial decline in the income, consumption, and production associated with unemployment triggers further declines in income, consumption, and production. As such, members of society, who might escape the direct immediate personal hardships of unemployment, often succumb to the indirect, multiplicative problems of lost production. Number-crunching economists have estimated that for each 1 percent rise in the unemployment rate, that gross domestic product declines by 3 percent.

Lost production is especially troublesome because it is an opportunity that is lost forever. This lost production delays society's efforts to increase living standards and address the problem of scarcity. That is, when an unemployed worker does not produce output today that output can never be recouped.

***Text 2*: PSYCHOLOGICAL EFFECT OF UNEMPLOYMENT AND UNDEREMPLOYMENT**

The current state of the economy continues to be an enormous stressor for Americans, with 78 percent reporting money as a significant source of stress (APA[91], 2009). Unemployed workers are twice as likely as their employed counterparts to experience psychological problems such as depression, anxiety, psychosomatic symptoms, low subjective well-being and poor self-esteem (Paul & Moser, 2009). Like unemployment, underemployment (e.g., people working part-time because they cannot find full-time employment) is unequally distributed across the U.S. population, with women, younger workers and African Americans reporting higher rates of involuntary part-time employment and low pay, as well as higher proportions of "discouraged" workers who have given up on searching for a job (McKee-Ryan, 2005). Unemployment not only affects those who lose their jobs. Coworkers who are still employed may experience a heavier work load and suffer from anxiety that they too will soon be unemployed (Kivimaki, Vahtera, Elovainio, Pentti, & Virtanen, 2003). Unemployment and underemployment also affect families and communities.

EFFECTS ON FAMILIES

According to the Society for the Psychological Study of Social Issues' Policy Statement "The Psychological Consequences of Unemployment", the stress of unemployment can lead to declines in individual and family well-being (Belle & Bullock, 2011). The burden of unemployment can also affect outcomes for children. The stress and depressive symptoms associated with job loss can negatively affect parenting practices such as increasing punitive and arbitrary punishment (McLoyd, 1998). As a result, children report more distress and depressive symptoms. Depression in children and adolescents is linked to multiple negative outcomes, including academic problems, substance abuse, high-risk sexual behavior, physical health problems, impaired social relationships and increased risk of suicide (Birmaher et al., 1996; Chen & Paterson, 2006; Le, Munoz, Ippen, & Stoddard, 2003; Verona & Javdani, 2011; Stolberg, Clark, & Bongar, 2002).

EFFECTS ON COMMUNITIES

Widespread unemployment in neighborhoods reduces resources, which may result in inadequate and low-quality housing, underfunded schools, restricted access to services and

[91] ***APA (American Psychological Association)*** style is most commonly used to cite sources within the social sciences. The APA states that the guidelines were developed to assist reading comprehension in the social and behavioral sciences, for clarity of communication, and for "word choice that best reduces bias in language".

public transportation, and limited opportunities for employment, making it more difficult for people to return to work (Brisson, Roll, & East, 2009). Unemployed persons also report less neighborhood belonging than their employed counterparts, a finding with implications for neighborhood safety and community well-being (Steward, 2009).

High unemployment and growing income inequalities are key factors in declining social climate (International Labor Office, 2010). The United Nations[92] (2010) claimed that growing social inequality fueled by extended, global unemployment will increase social unrest and tension and a growing sense of unfairness. Increasing inequality in advanced economies is fundamentally linked to growing rates of physical, emotional, social and political disorder (Wilkinson & Pickett, 2010).

UNEMPLOYMENT AND STRESS IN DIFFERENT POPULATIONS

Unemployment does not affect all groups equally. Rates are higher among Latinos/as (13.1%) and African Americans (15.7%) than European Americans (9.5%). Immigrants (Kochhar, 2009) and people with disabilities (Shapiro, 2009) are also especially vulnerable to layoffs as are those without college degrees (Leonhardt, 2009). Unemployed women report poorer mental health and lower life satisfaction than unemployed men (McKee-Ryan, 2005). Women are more likely to report that they have consumed unhealthy foods, or skipped a meal as a result of stress. Women are also more likely to report physical symptoms of stress, including irritability, anger, fatigue and lack of interest or motivation and energy (APA, 2009). In combination with other health disparities, the unequal impact of unemployment on some groups may have devastating effects on already vulnerable communities.

SOLUTIONS AND RECOMMENDATIONS

The negative effects of unemployment can be lessened. Individuals who face unemployment with greater financial resources, as well as those who report lower levels of subjective financial strain, report better mental health and more life satisfaction than those who experience unemployment with fewer economic resources and a greater sense of financial stress (McKee-Ryan, 2005). Social support can also mitigate the negative impacts of unemployment and underemployment (Belle & Bullock, 2011). For example, being married is a protective factor during periods of unemployment and underemployment (Dooley & Prause, 2004; McKee-Ryan, 2005).

APA supports critical and proven programs to prevent unemployment and provide support for those who are unemployed, and urges Congress to:

- Support the National Commission on Employment and Economic Security Act. Sponsored by Representative Alcee Hastings (D-FL), this legislation would establish a national commission to study and address employment and economic insecurity and their effects on mental health. The commission would examine issues of economic and psychological insecurity within our workforce due to employment displacement. Furthermore, the commission would provide recommendations to Congress and the President on how to reduce economic and psychological effects of unemployment.
- Fund job training and reemployment programs that take into account the psychological and emotional needs of workers and help prevent long-term unemployment. For example, the Michigan Prevention Research Center (MPRC), a program funded for 20 years by the National Institute for Mental Health, developed and evaluated the JOBS Program to help

[92] ***The United Nations*** is an intergovernmental organization whose stated aims include promoting and facilitating cooperation in international law, international security, economic development, social progress, human rights, civil rights, civil liberties, political freedoms, democrcay, and the achievement of lasting world peace. The UN was founded in 1945 after World War II to replace the League of Nations, to stop wars between countries, and to provide a platform for dialogue. It contains multiple subsidiary organizations to carry out its missions.

unemployed workers effectively seek reemployment and cope with the multiple challenges and stressors associated with unemployment and job-searching. Currently supported by the Substance Abuse and Mental Health Services Administration, the JOBS Program is a group-based intervention that has the dual goals of promoting reemployment and enhancing the coping capacities of unemployed workers and their families.

Text 3: WHY THE UNEMPLOYMENT RATE IN EUROPE IS SO HIGH?

Several European economies have had exceptionally high unemployment rates recently. For example, based on U.S. measurement concepts, the percentage unemployment rate in 2007 in France was 9.7 percent; in Germany, 9.7 percent; in Spain, 9.6 percent; and in Italy, 7.8 percent. Those numbers compare very unfavorably with the 5.1 percent in the United States that year. Furthermore, the high European unemployment rates do not appear to be cyclical. Even during business cycle peaks, the unemployment rates are roughly twice those in the United States. Unemployment rates are particularly high for European youth. For example, the unemployment rate for 20-to 24-year-olds in France was 20 percent in 2005 (compared to 8.8 percent in the United States).

The causes of high unemployment rates in these countries are complex, but European economists generally point to government policies and union contracts that have increased the business costs of hiring workers and have reduced the individual cost of being unemployed. Examples: High legal minimum wages have discouraged employers from hiring low-skilled workers. Generous welfare benefits and unemployment benefits have encouraged absenteeism[93], led to high job turnover, and weakened incentives for people to take available jobs.

Restrictions on firing of workers have made firms leery of adding workers during expansions. Short work weeks mandated by government or negotiated by unions have limited the ability of employers to spread their recruitment and training costs over a longer number of hours. Paid vacations and holidays of 30 to 40 days per year have boosted the cost of hiring workers. Also, high employer costs of pension and other benefits have discouraged hiring.

Attempts to make labor market more flexible in France, Germany, Italy, and Spain have met with stiff political resistance – including large rallies and protests. The direction of future employment policy is unclear, but economists do not expect the high rates of unemployment in these nations to decline anytime soon.

11.6. Internet Practice:

11.6.1. Web Activities:

- Use the Economic Statistics Briefing Room at the White House's home page (**www.whitehouse.gov/**) and the Philadelphia Federal Reserve Bank's Livingston Survey (**www.phil.frb.org/econ/liv/**) to answer the following questions: What is the current unemployment rate? What do forecasters predict for these variables according to the Livingston Survey? Are these predictions consistent with your predictions?

11.7. Critical Thinking & Discussion Questions:

- During some months the unemployment rate declines, but the number of unemployed rises. How can this happen?

[93] ***Absenteeism*** is a habitual pattern of absence from a duty or obligation. Traditionally, absenteeism has been viewed as an indicator of poor individual performance, as well as a breach of an implicit contract between employee and employer; it was seen as a management problem, and framed in economic or quasi-economic terms. More recent scholarship seeks to understand absenteeism as an indicator of psychological, medical, or social adjustment to work.

- In what way is the very concept of unemployment dependent on the value judgments made by the individual?
- If unemployment fell to 1.2 percent in World War II, why couldn't it be reduced to 1.2 percent today?
- Distinguish between structural unemployment and cyclical unemployment.
- What factors make it difficult to determine the unemployment rate? Why is it difficult to distinguish between frictional, structural, and cyclical unemployment? Why is unemployment an economic problem?

Unit 12 *Inflation*

"Inflation is taxation without legislation" Milton Friedman[94]

12.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

allowance
approximation
assumption
circulation
deflation
depreciation
diffusion
distinction
dominance
equation
equilibrium
expansion
index
inflation:
creeping ~
galloping ~
magnitude
malinvestment
measurement
ratio
securities
transaction
uncertainty
velocity

Verbs:

to anticipate
to beget
to blur
to calculate
to convert
to depreciate
to dilute
to dominate
to eliminate
to equal
to expand
to fluctuate
to guide
to hoard
to indicate
to lament
to lower
to maintain
to measure
to peg
to preserve
to prevent
to quote
to redistribute
to refrain
to relate
to restrain
to shrink
to stabilize
to stem
to summarize
to turn over
to vary

[94] ***Milton Friedman*** (July 31, 1912 – November 16, 2006) was an American economist, statistician, and author who taught at the University of Chicago for more than three decades. He was a recipient of the Nobel Memorial Prize in Economic Sciences and is known for his research on consumption analysis, monetary history and theory, and the complexity of stabilization policy.

Adjectives & Adverbs:

anticipated	loanable	rapid
average	merely	straightforward
constant	moderate	subsequent
continual	monetary	sustained
deflationary	negligible	taxable
dominant	nominal	temporarily
equiproportional	ongoing	triple
fictitious	permanent	unpredictable
floating	predominantly	upward
inflationary	purchasing	variable

12.2. Read and translate the text into Ukrainian:

INFLATION

We now turn to inflation, another aspect of macroeconomic instability. The problems inflation poses are subtler than those posed by unemployment.

Inflation is a rise in the general level of prices. When inflation occurs, each dollar of income will buy fewer goods and services than before. Inflation reduces the "purchasing power" of money. But inflation does not mean that all prices are rising. Even during periods of rapid inflation, some prices may be relatively constant while others are falling. For example, although the United States experienced high rates of inflation in the 1970s and early 1980s, the prices of video recorders, digital watches, and personal computers declined. The magnitude of inflation – the inflation rate – is usually reported as the annualized percentage growth of some broad index of money prices. With U.S. dollar prices rising, a one-dollar bill buys less each year. Inflation thus means an ongoing fall in the overall purchasing power of the monetary unit.

Inflation rates vary from year to year and from currency to currency. From 1800 until World War II the U.S. inflation rate and price level fluctuated; sometimes the price level would rise, and sometimes the price level would fall – there would be deflation. Since World War II the price level has continually risen, which means the inflation rate (the measure of the change in prices over time) has been positive. The rate fluctuates, but the movement of the price level has been consistently upward.

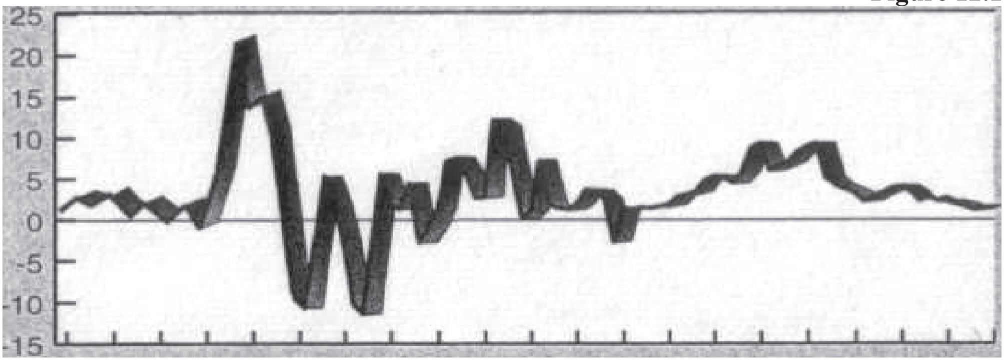
Inflation is a continual rise in the price level. The price level is an index of all prices in the price level in the economy. Even when inflation itself isn't a problem, the fear of inflation guides macroeconomic policy. Fear of inflation prevents governments from expanding the economy and reducing unemployment. It prevents governments from using macroeconomic policies to lower interest rates. It gets some political parties booted out of office. (Democrat Jimmy Carter [95]lost his bid for a second U.S. presidential term in part because of high inflation at the time). It gets others elected. (Republican George Bush[96] won the U.S. presidency in 1988 in part because of low inflation in the late 1980s.)

[95] ***James Earl "Jimmy" Carter, Jr.*** (born October 1, 1924) is an American politician who served as the 39th President of the United States (1977–1981) and was awarded the 2002 Nobel Peace Prize, the only U.S. President to have received the Prize after leaving office. Before he became President, Carter, a Democrat, served as a U.S. Naval officer, was a peanut farmer, served two terms as a Georgia State Senator.

[96] ***George Herbert Walker Bush*** (born June 12, 1924) is an American politician who served as the 41st President of the United States (1989–93). A Republican, he had previously served as the 43rd Vice President of the United States (1981–89), a congressman, an ambassador and Director of Central Intelligence; he is currently the oldest surviving President.

A one-time rise in the price level is not inflation. Unfortunately, it's often hard to tell if a one-time rise in the price level is going to stop, so the distinction blurs in practice, but we must understand the distinction. If the price level goes up 10 percent in a month, but then remains constant, the economy doesn't have an inflation problem. Inflation is an ongoing rise in the price level.

Figure 12.1



Years 1900 05 10 15 20 25 30 35 40 45 50 55 60 65 70 75 80 85 90 95 2000

The USA Inflation since 1900

(Until 1940, rises in the price level were followed by falls in the price level, keeping the price level relatively constant. Since the 1940s, inflation has almost always been positive, which means that the price level has been continually rising).

MEASUREMENT OF INFLATION

Since inflation is a sustained rise in the general price level, we must first determine what the general price level was at a given time by creating a price index, a number that summarizes what happens to a weighted composite of prices of a selection of goods (often called a market basket of goods) over time. The main measure of inflation in the United States is the Consumer Price Index (CPI), compiled by the Bureau of Labor Statistics (BLS).

The rate of inflation for a certain year (say, 2005) is found by comparing, in percentage terms, that year's index with the index in the previous year. For example, the CPI was 195.3 in 2005, up from 188.9 in 2004. So the rate of inflation for 2005 is calculated as follows:

$$\text{Rate of inflation} = \frac{195.3 - 188.9}{188.9} \times 100 \ = 3.4$$

An index converts prices relative to a base year. Price indexes are important. Many people lament the high cost of goods and services today. They complain, for example, that an automobile that costs $15,000 today cost only $3,000 in the "good old days". But that comparison is meaningless, because the price level has changed. Today, the average wage is more than five times what it was when cars cost only $3,000. To relate the two prices, we need a price index. There are a number of different measures of the price level. The most often used are the producer price index, the GDP deflator[97], and the consumer price index. Each has certain advantages and disadvantages.

[97] In economics, ***the GDP deflator*** (implicit price deflator for GDP) is a measure of the level of prices of all new, domestically produced, final goods and services in an economy. GDP stands for gross domestic product, the total value of all final goods and services produced within that economy during a specified period.

CAUSES OF INFLATION

In a nutshell, inflation occurs – that is, the purchasing power of the dollar shrinks – to the extent that the nominal supply of dollars grows faster than the real demand to hold dollars. A standard approach to analyzing the connection between the money supply (M) and the general price level (P) uses an accounting identity called the "equation of exchange": $MV = Py$ where V denotes the income-velocity of money (the number of times per year the average dollar turns over in transactions for final goods and services), and y denotes the economy's real income (as measured, e.g., by real GDP). Because V is defined as Py/M, the ratio of nominal income to money balances, the equation follows. The quantity theory of money (a better name would be "the quantity-of-money theory of the price level") says that a higher or lower level of M does not cause any permanent change in y or desired V – or, in other words, does not permanently affect the real demand to hold money. It follows that, in the long run, a larger M means a proportionally higher P. In less formal terms, putting more dollars in circulation dilutes the purchasing power of each dollar; or: prices rise when there are more dollars chasing the same amount of goods.

Thought experiments can help to illustrate the thinking behind the quantity theory. Consider an economy in which all prices are in equilibrium. Now, imagine doubling the stock of money by magically doubling the numbers on all pieces of currency and all bank account balances. All price tags must be simultaneously doubled to keep relative prices and the purchasing power of each person's (nominally doubled) money balances the same, and thus to keep the economy in equilibrium. Prices must rise in proportion to the quantity of money. For a slightly less magical case, imagine that a Federal Reserve helicopter flies across the country and drops enough currency to double the money supply. If the people who get the new cash want to buy the same basket of goods as the population in general, a doubling of all prices is once again called for.

The real-world process by which the Fed (Federal Reserve System)[98] injects new money – typically by purchasing bonds in the open market with newly created Fed liabilities – differs from these thought experiments. Among other differences, the first-round spending of the new money is on bonds, not on consumer goods in representative proportions. In the second round, the bond sellers' banks, into which the Fed has wired newly created reserves, will themselves buy additional securities (or make additional loans), expanding the banking system's deposits as they do so. The actions of the Fed (and the subsequent actions of the commercial banks) expand the supply of loanable funds and therefore may lower the real interest rate. The commercial banks' borrowers (predominantly business firms) may, at least temporarily, raise the relative prices of the assets they buy (business plant and equipment). Many economists assume that such relative-price effects are negligible, but others (e.g., the Austrian School) assign them a key role in their theories of the business cycle.

For the only result of a real-world monetary expansion to be an exactly equiproportional rise in all prices, the spending diffusion of the new money must not significantly raise some prices ahead of others. This condition is sometimes described by saying that "money is neutral". In the long run, it is reasonable to assume that relative price effects largely wash out, so for understanding decade-long inflation we may abstract from them. To understand how monetary policy can drive a business cycle, however, the assumption of neutrality must be put aside.

[98] ***The Federal Reserve System*** (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. It was created on December 23, 1913, with the enactment of the Federal Reserve Act, largely in response to a series of financial panics, particularly a severe panic in 1907. Over time, the roles and responsibilities of the Federal Reserve System have expanded and its structure has evolved. Events such as the Great Depression were major factors leading to changes in the system.

The equation of exchange can be employed to show how the inflation rate depends on the growth rates of *M, V,* and *y.* The relationship among all four growth rates is given by the "dynamic", or growth-rate, version of the equation, $gM + gV = gP + gy,$
which says: the rate of growth of the quantity of money, plus the rate of growth of the velocity of money, equals the rate of inflation plus the rate of growth of real income. The equation holds exactly for continuously compounded growth rates. For year-over-year rates it is an approximation.

The dynamic equation of exchange indicates that, as a matter of accounting, inflation depends not only on the rate of monetary expansion, but also on the rate of growth and (negatively) on the rate of real income growth. Which of these three factors contributes the most to inflation in practice? The well-known monetary economist Milton Friedman famously proclaimed: "Inflation is always and everywhere a monetary phenomenon". What he meant was that sustained inflation has historically always been due to sustained money supply growth, not to sustained velocity growth or sustained negative growth in real income.

The supporting evidence for Friedman's proposition is straightforward. For virtually any country one examines, even in a bad year real income seldom falls by more than two or three percentage points. Velocity has been known to rise over long periods, but seldom more than one percentage point year after year. When high-inflation and low-inflation countries are compared, differences in money growth are much greater from country to country than differences in either real output growth or velocity. As a result, the rate of monetary expansion is the dominant factor accounting for differences in inflation rates across countries. High-inflation countries are countries with rapid money growth. Likewise, the dominant factor accounting for different inflation rates over decades in the same country (e.g., the lower U.S. inflation rate in the 1990s compared with the 1970s) is different money growth rates. High-inflation decades are decades with rapid money growth. The dominance of money growth in accounting for inflation is especially pronounced in hyperinflation.

The implication for controlling inflation is equally straightforward. Achieving zero inflation merely requires the central bank, which controls the money supply, to refrain from expanding the money supply too rapidly (more specifically, adjusting for velocity growth, expanding the money supply at a rate faster than the economy's real output of goods and services is expanding). The Federal Reserve System could maintain zero inflation ($gP = 0$), on average, by controlling growth in the stock of U.S. dollars (gM) appropriately. Central banks elsewhere in the world (Australia, Canada, the euro zone, New Zealand, Sweden, the United Kingdom) have, in recent years, each announced a target range for the inflation rate, often 1–3 percent, and have been rather successful in keeping the inflation rate within that range.

CONSEQUENCES OF INFLATION

Inflation can do great harm. The harm is greater to the extent that the actual inflation rate differs from the anticipated inflation rate. When transactors correctly anticipate a faster decline in the purchasing power of the dollar (a higher inflation rate), the terms of contracts calling for future payments in dollars are adjusted accordingly. Borrowers and lenders who expect higher inflation agree to a higher nominal interest rate (dollars repaid over dollars lent) so as to preserve the real interest rate (purchasing power repaid over purchasing power lent) between them.

A simple expression for the relation of the nominal interest rate to the expected inflation rate is $(1 + i) = (1 + r) \times (1 + gP^e)$,

where i is the nominal rate, r is the real rate, and gP^e is the expected inflation rate. This equation is sometimes called the Fisher relationship, after the early-twentieth-century monetary economist Irving Fisher[99]. Fisher argued that the equilibrium real rate is independent of the expected inflation rate, so that increases in expected inflation are passed through entirely to the nominal rate.

Although lenders and borrowers do not suffer from a higher inflation rate when the rate is perfectly anticipated, holders of non-interest-bearing forms of money, such as currency, do. Higher anticipated inflation subjects them to the equivalent of a higher tax on their money holdings. Inflation thereby drives transactors into costly strategies for getting by with smaller currency holdings, such as making more trips to the bank to take out smaller amounts each time.

From the point of view of eliminating needless costs of economizing on cash, low inflation is clearly preferable to high inflation. But just how low is the best, or optimal, inflation rate? One proposal for achieving the "optimal result" – indeed the most widely discussed proposition in the pure theory of monetary policy – is that the inflation rate should be sufficiently negative that the nominal rate of interest is zero (on bonds of zero default risk and the shortest maturity). Any higher nominal interest rate means that currency pays a poorer return than bonds. This induces people to economize on holding cash, an action that is optimal from the individual's viewpoint but costly from society's viewpoint. From the Fisher equation it can be seen that achieving a zero nominal interest rate implies an inflation rate approximately equal to the negative of the real rate of interest, which suggests deflation of about 2–3 percent per annum.

In addition to the tax on cash balances, at least one other harm stems from higher inflation even when perfectly anticipated. With higher inflation, published prices become obsolete more quickly, and so price setters must more frequently incur the costs of adjusting nominal prices. Economists sometimes call these "menu costs" because they include reprinting restaurant menus as well as changing price tags on supermarket shelves, revising catalogs, replacing numbers on gas station price signs, and so on.

Where the tax code is not fully indexed, higher inflation increases the distorting effects of taxes. Before the U.S. income tax brackets were indexed, inflation pushed income earners with unchanged real income into brackets where they faced higher marginal income tax rates. This discouraged people from making taxable income. With indexing of federal tax brackets in 1985, this distortion disappeared. However, the capital gains tax is still levied on nominal gains, not on real – that is, inflation-adjusted – gains. The portion of your asset's nominal price rise that merely corresponds to inflation is taxed along with any real profit. The higher the inflation rate, the higher the effective tax rate on your real capital gains, even with an unchanged nominal capital gains tax rate. Higher inflation thus discourages capital formation by discouraging people from accumulating taxable assets.

Text Summary

- Inflation is a rise in the general level of prices.
- The magnitude of inflation – the inflation rate – is usually reported as the annualized percentage growth of some broad index of money prices. With U.S. dollar prices rising, a one-dollar bill buys less each year. Inflation thus means an ongoing fall in the overall purchasing power of the monetary unit.
- The GDP deflator is an index of the price level of aggregate output or the average price of the components in GDP relative to a base year.

[99] ***Irving Fisher*** (February 27, 1867 – April 29, 1947) was an American economist, inventor, and social campaigner. He was one of the earliest American neoclassical economists, though his later work on debt deflation has been embraced by the Post-Keynesian school.

- The consumer price index (CPI) is an index of inflation measuring prices of a fixed basket of consumer, goods, weighted according to each component's share of an average consumer's expenditures.
- Hyperinflation is exceptionally high inflation of, say, 100 percent or more per year.

12.3. Language Practice:

12.3.1. Multiple Choice:

1. Economists use the term "inflation" to denote a (an) ….. rise in the general level of prices quoted in units of money.
a) temporary;
b) ongoing;
c) permanent.
2. In a nutshell, inflation occurs – that is, the purchasing power of the dollar ..... – to the extent that the nominal supply of dollars grows faster than the real demand to hold dollars.
a) shrinks;
b) expands;
c) rises.
3. In less formal terms, putting more dollars in circulation ….. the purchasing power of each dollar; or: prices rise when there are more dollars chasing the same amount of goods.
a) lowers;
b) fosters;
c) dilutes.
4. The first-round spending of the new money is on ....., not on ..... in representative proportions.
a) bonds, consumer goods;
b) consumer goods, bonds;
c) household goods, securities.
5. What Friedman meant was that sustained inflation has historically always been due to sustained money ..... growth, not to sustained velocity growth or sustained negative growth in real income.
a) diffusion;
b) demand;
c) supply.
6. High-inflation countries are countries with ..... money growth.
a) rapid;
b) slow;
c) temporary.
7. Although lenders and borrowers do not suffer from a higher inflation rate when the rate is perfectly ....., holders of non-interest-bearing forms of money, such as currency, do.
a) converted;
b) anticipated;
c) avoided.

12.3.2. Key Terms – Matching:

1.	Inflation	a)	– is a decrease in the general price level of goods and services;
2.	Deflation	b)	– the central banking system of the United States;
3.	Hyperinflation	c)	– the process by which the monetary authority of a country control the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability;
4.	Inflation rate	d)	– monetary system where the standard economic unit of account is based on the fixed weight of gold;
5.	Stagflation	e)	– a collection of products, raw materials and services which comprise the Consumer Price Index (CPI) over a period. The group typically indicates consumer buying behavior across a diverse set of offerings;
6.	Devaluation	f)	– a rise in the general level of prices of goods and services in an economy over a period of time;
7.	Basket of goods	g)	– occurs when a country experiences very high, accelerating, and perceptibly "unstoppable" rates of inflation;
8.	Federal Reserve System	h)	– annualized percentage growth of some broad index of money prices;
9.	Monetary policy	i)	– official lowering of the value of a country's currency within a fixed exchange rate system, by which the monetary authority formally sets a new fixed rate with respect to a foreign reference currency;
10.	Gold standard	j)	– the situation where an inflation rate is high, the economic growth rate slows down, and unemployment remains steadily high.

12.3.3. Please explain the meaning of the following words and word combinations in English:

Inflation, deflation, hyperinflation, devaluation, basket of goods, Federal Reserve System, currency depreciation, exchange rates, inflation rate, stagflation, monetary policy, gold standard, balance of trade, GDP deflator, purchasing power of the currency.

12.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~*inflation*~~ laments pressures wages low costs reduces injustice hyperinflation redistribute

COSTS OF INFLATION

Inflation has costs, but not the costs that noneconomists often associate with it. Specifically, (1) *inflation* doesn't make the nation poorer. True, whenever prices go up somebody (the person paying the higher price) is worse off, but the person to whom the higher price is paid is better off. The two offset each other. So inflation does not make society on average any poorer. Inflation does, however, (2) _____ income from people who cannot or do not raise their prices to people who can and do raise their prices. This often creates feelings of (3) _____ about the economic system. Thus, inflation can have significant distributional or equity effects.

A second cost of inflation is its effect on the information prices convey to people. Consider an individual who (4) _____ the high cost of housing, pointing out that it has doubled in 10 years. But if inflation averaged 7 percent a year over the past 10 years, a doubling of housing prices should be expected. In fact, with 7 percent inflation, on average, all prices double every 10 years. That means the individual's (5) _____ have probably also doubled, so he or she is no better off and no worse off than 10 years ago. The price of housing relative to other goods, which is the relevant price for making decisions, hasn't changed. When there's inflation it's hard for people to know what is and what isn't a relative price. People's minds aren't computers, so inflation (6) _____ the amount of information that prices can convey and causes people to make choices that do not reflect relative prices.

Despite these (7)______, inflation is usually accepted by governments as long as it stays at a (8) _____ rate. What scares economists is inflationary (9) _____ above and beyond expectations of inflation. In that case, expectations of higher inflation can cause inflation to build up and compound itself. A 3 percent inflation becomes a 6 percent inflation, which in turn becomes a 12 percent inflation. Once inflation hits 5 percent or 6 percent, it's definitely no longer a little thing. Inflation of 10 percent or more is significant. While there is no precise definition, we may reasonably say that inflation has become (10) _____ when inflation hits triple digits – 100 percent or more per year.

12.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the adjective ***ongoing***: *1) in progress, continuing, current, growing, developing, advancing, progressing, proceeding, evolving, unfolding, unfinished, extant;* *2) continuous, continued, constant, sustained, endless, persistent, relentless, perpetual, continual, unbroken, never-ending, uninterrupted, interminable, unrelenting, incessant, ceaseless, unremitting, nonstop, unceasing*.

12.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Інфляція, помірна інфляція, галопуюча інфляція, гіперінфляція, дефляція, показник інфляції, зростання загального рівня цін, знецінення національно-грошової одиниці, зниження купівельної спроможності грошей, виробничий потенціал економіки, монетарна теорія, падіння рівня життя населення, зниження ділової активності, непродуктивне інвестування, обмеження пропозиції, інфляція попиту, золотий стандарт, торговий баланс, економічний та соціальний хаос, фінансовий крах, суспільно політичне безладдя, дефлятор ВВП, стаґфляція, продуктивність праці, швидкість обігу грошей.

12.4.2. Please translate the following sentences into Ukrainian:

1. An increase in the general level of prices implies a decrease in the purchasing power of the currency. That is, when the general level of prices rises, each monetary unit buys fewer goods and services. The effect of inflation is not distributed evenly in the economy, and as a consequence there are hidden costs to some and benefits to others from this decrease in the purchasing power of money. For example, with inflation, those segments in society which own physical assets, such as property, stock etc., benefit from the price/value of their holdings going up, while those who seek to acquire them will need to pay more for them.

2. High or unpredictable inflation rates are regarded as harmful to an overall economy. They add inefficiencies in the market, and make it difficult for companies to budget or plan long-term. Inflation can act as a drag on productivity as companies are forced to shift resources away from products and services in order to focus on profit and losses from currency inflation. Uncertainty about the future purchasing power of money discourages investment and saving.
3. With high inflation, purchasing power is redistributed from those on fixed nominal incomes, such as some pensioners whose pensions are not indexed to the price level, towards those with variable incomes whose earnings may better keep pace with the inflation. This redistribution of purchasing power will also occur between international trading partners. Where fixed exchange rates are imposed, higher inflation in one economy than another will cause the first economy's exports to become more expensive and affect the balance of trade.
4. High inflation can prompt employees to demand rapid wage increases, to keep up with consumer prices. In the cost-push theory of inflation, rising wages in turn can help fuel inflation. In the case of collective bargaining, wage growth will be set as a function of inflationary expectations, which will be higher when inflation is high. This can cause a wage spiral. In a sense, inflation begets further inflationary expectations, which beget further inflation.
5. People buy durable and/or non-perishable commodities and other goods as stores of wealth, to avoid the losses expected from the declining purchasing power of money, creating shortages of the hoarded goods. Inflation can lead to massive demonstrations and revolutions. For example, inflation and in particular food inflation is considered as one of the main reasons that caused the 2010–2011 Tunisian revolution[100] and the 2011 Egyptian revolution[101], according to many observers including Robert Zoellick[102], president of the World Bank[103].
6. A change in the supply or demand for a good will normally cause its relative price to change, signaling to buyers and sellers that they should re-allocate resources in response to the new market conditions. But when prices are constantly changing due to inflation, price changes due to genuine relative price signals are difficult to distinguish from price changes due to general inflation, so agents are slow to respond to them. The result is a loss of allocative efficiency.
7. High inflation increases the opportunity cost of holding cash balances and can induce people to hold a greater portion of their assets in interest paying accounts. However, since cash is still needed in order to carry out transactions this means that more "trips to the bank" are necessary in order to make withdrawals, proverbially wearing out the "shoe leather" with each trip.

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[100] ***The Tunisian Revolution*** was an intensive campaign of civil resistance, including a series of street demonstrations taking place in Tunisia. The events began on 18 December 2010 and led to the ousting of longtime President Zine El Abidine Ben Ali in January 2011 eventually, leading to a thorough democratization of the country and to free and democratic elections.

[101] ***The Egyptian Revolution of 2011*** took place following a popular uprising that began on 25 January 2011. It was mainly a campaign of non-violent civil resistance, which featured a series of demonstrations, marches, acts of civil disobedience and labor strikes. Millions of protesters from a variety of socio-economic and religious backgrounds demanded the overthrow of the regime of Egyptian President Hosni Mubarak.

[102] ***Robert Bruce Zoellick*** is an American banker who was the eleventh president of the World Bank, a position he held from July 1, 2007 to June 30, 2012.

[103] ***The World Bank*** is an international financial institution that provides loans to developing countries for capital programs.

8. With high inflation, firms must change their prices often in order to keep up with economy-wide changes. But often changing prices is itself a costly activity whether explicitly, as with the need to print new menus, or implicitly. According to the Austrian Business Cycle Theory[104], inflation sets off the business cycle. Austrian economists hold this to be the most damaging effect of inflation. According to Austrian theory, artificially low interest rates and the associated increase in the money supply lead to reckless, speculative borrowing, resulting in clusters of malinvestments, which eventually have to be liquidated as they become unsustainable.
9. The primary tools for controlling the money supply are the ability to set the discount rate, the rate at which banks can borrow from the central bank, and open market operations, which are the central bank's interventions into the bonds market with the aim of affecting the nominal interest rate. If an economy finds itself in a recession with already low, or even zero, nominal interest rates, then the bank cannot cut these rates further (since negative nominal interest rates are impossible) in order to stimulate the economy – this situation is known as a liquidity trap. A moderate level of inflation tends to ensure that nominal interest rates stay sufficiently above zero so that if the need arises the bank can cut the nominal interest rate.
10. The Nobel[105] laureate Robert Mundell noted that moderate inflation would induce savers to substitute lending for some money holding as a means to finance future spending. That substitution would cause market clearing real interest rates to fall. The lower real rate of interest would induce more borrowing to finance investment. In a similar vein, Nobel laureate James Tobin noted that such inflation would cause businesses to substitute investment in physical capital (plant, equipment, and inventories) for money balances in their asset portfolios. That substitution would mean choosing the making of investments with lower rates of real return. (The rates of return are lower because the investments with higher rates of return were already being made before.) The two related effects are known as the Mundell–Tobin effect[106]. Unless the economy is already overinvesting according to models of economic growth theory, that extra investment resulting from the effect would be seen as positive.

12.4.3. Please translate the following sentences into English:

1. Інфляція – це зростання загального рівня цін у країні впродовж певного періоду часу, що супроводжується знеціненням національно грошової одиниці. Іншими словами, зростають ціни на продукти харчування, одяг, підвищується квартирна плата тощо. При цьому ціни різних товарів можуть зростати неоднаковими темпами.

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[104] ***The Austrian business cycle theory*** (or ***ABCT***) is an economic theory developed by the Austrian School of economics concerning how business cycles occur. The theory views business cycles as the inevitable consequence of excessive growth in bank credit, exacerbated by inherently damaging and ineffective central bank policies, which cause interest rates to remain too low for too long, resulting in excessive credit creation, speculative economic bubbles and lowered savings.

[105] ***The Nobel Prize*** is a set of annual international awards bestowed in a number of categories by Scandinavian committees in recognition of cultural and/or scientific advances. The will of the Swedish philanthropist inventor Alfred Nobel established the prizes in 1895. The prizes in Physics, Chemistry, Physiology or Medicine, Literature, and Peace were first awarded in 1901.

[106] ***The Mundell – Tobin effect*** suggests that nominal interest rates would rise less than one-for-one with inflation because in response to inflation the public would hold less in money balances and more in other assets, which would drive interest rates down. In other words, an increase in the exogenous growth rate of money increases the nominal interest rate and velocity of money, but decreases the real interest rate.

2. Проте не слід думати, що обов’язково підвищуються ціни на всі товари й послуги. У роки помірної інфляції ціни на окремі товари можуть навіть знижуватися. Зростання цін свідчать, що гроші знецінюються – за грошову одиницю можна купити дедалі меншу кількість товарів. Однак не будь-яке зростання цін є показником інфляції. Ціни можуть підвищуватися внаслідок поліпшення якості продукції чи погіршення умов видобутку паливно-сировинних ресурсів. У цьому разі це буде неінфляційне зростання цін.
3. Інфляція попиту простежується тоді, коли сукупний попит зростає швидше за виробничий потенціал економіки, а тому ціни підвищуються, щоб зрівноважити попит і пропозицію. Інакше кажучи, виробничий сектор не може відповісти на цей надлишок попиту збільшенням реального обсягу виробництва, бо всі наявні ресурси уже залучені. Отже, суть інфляції попиту полягає в тому, “що надто багато грошей полює на надто малу кількість товарів”.
4. Помірна інфляція спостерігається тоді, коли ціни зростають повільно – до 10% за рік. За такої інфляції ціни відносно стабільні, люди охоче заощаджують гроші, бо їхня вартість мало знецінюється. Помірну інфляцію, за якої ціни зростають до 5% за рік, називають повзучою.
5. Галопуючою є інфляція, коли ціни зростають на 20, 50, 100 або й більше відсотків за рік. Гроші втрачають свою вартість дуже швидко, тому населення майже не заощаджує їх у вигляді готівки. Вона здебільшого характерна для країн, що розвиваються.
6. Гіперінфляція настає тоді, коли ціни починають зростати на тисячі, десятки тисяч, навіть мільйони відсотків за рік. Усі прагнуть запастися речами і позбутися грошей. Виникає “інфляційний психоз”, що посилює тиск на ціни. Оскільки вартість життя зростає, наймані працівники вимагають вищої номінальної заробітної плати, що спричиняє нове підвищення цін. Гіперінфляція означає економічний і соціальний хаос, фінансовий крах та суспільно політичне безладдя.
7. Економісти поділяють інфляцію, з одного боку, на передбачену й непередбачену, а з іншого – на збалансовану і незбалансовану. Передбачена – це інфляція, яку учасники ринкового процесу очікували і захистилися від її згубних впливів. Непередбачена інфляція є несподіваною для економічних суб’єктів. Збалансованою є інфляція, в процесі якої відносні ціни не змінюються. І навпаки, незбалансована інфляція супроводжується зміною відносин цін товарів, послуг та ресурсів, тобто ціни на товари змінюються неоднаковими темпами.
8. Інфляція знецінює заощадження. Для тих, хто зберігає гроші в готівковій формі або в банку чи вкладає їх в облігації, кожне підвищення цін зменшує купівельну спроможність грошей. Банки захистять клієнтів від втрат, пов’язаних з інфляцією, лише в тому разі, коли встановлений ними процент по вкладах перевищуватиме рівень інфляції.
9. Інфляція зменшує зацікавленість у продуктивній праці. Під час інфляції втрачається сенс кращої роботи, бо додаткові доходи поглинаються зростаючими цінами.
10. Інфляція гальмує технічний прогрес. Це відбувається тому, що підприємцеві вигідніше купувати дешеву робочу силу, ніж дорожчі і технічно досконаліші засоби виробництва. Нестабільні ціни змушують підприємців відмовлятися від інвестицій у нові технології.

12.4.4. Please make an English summary of the following text:

ПРИЧИНИ ВИНИКНЕННЯ ІНФЛЯЦІЇ

Найефективнішим індикатором “здоров’я” економіки країни є її фінансовий стан. Адже фінансова система забезпечує не лише взаємозв’язки в економіці, вона є одним з найвпливовіших важелів макроекономічного регулювання, інструментом, за допомогою якого уряди мають змогу регулювати економічний розвиток. Саме тому діяльність виконавчої влади кожної країни спрямована на забезпечення стабільності фінансово-кредитної системи та фінансового стану в цілому. Запорукою цього, серед іншого, має бути стан “керованості” інфляційними процесами. Необхідність у цьому викликана тим, що інфляція призводить до важких соціально-економічних наслідків: за умов інфляції втрачається ефективність дії та відбувається деформація інструментів макроекономічного регулювання.

Основними негативними наслідками інфляції є падіння рівня життя населення. Найбільше страждають групи населення з фіксованим доходом – наприклад, особи, що отримують заробітну плату або ж соціальну допомогу від держави. Відбувається також погіршення очікувань щодо макроекономічної ситуації в майбутньому, що призводить, зокрема, до зниження ділової активності (через інвестиційну складову).

“Інфляція – це податок, що може вводитися без прийняття закону”, – зазначив засновник монетаризму Мілтон Фрідман**.** Зростання цін призводить до зменшення реальної вартості грошей (наприклад, зростання цін на 10% має такий самий ефект, як і додатковий податок при купівлі певного товару). У той же час уряд здобуває вигоду від інфляції, оскільки відбувається збільшення доходів внаслідок зростання номінальних значень вартості товарів (бази оподаткування).

Отже, враховуючи сказане вище, основними причинами виникнення інфляції є:

- Надмірне збільшення пропозиції грошей (класичний приклад – монетизація дефіциту державного бюджету (причина гіперінфляції в Україні в 90-х роках XX-го сторіччя).
- Обмеження пропозиції (інфляція пропозиції), що зазвичай викликає зростання цін на сировинні товари, а також на товари з вищим ступенем обробки через вторинні ефекти.
- Надлишковий споживчий попит в економіці (інфляція попиту), причиною якого можуть бути надто м’які кредитні умови тощо.
- Інфляція в інших країнах за суттєвих обсягів імпорту (імпортована інфляція), підвищення цін на імпортні товари.
- Девальвація національної валюти (збільшує ціну імпортованих товарів, погіршує економічні очікування).
- Зростання очікувань щодо зростання цін у майбутньому.

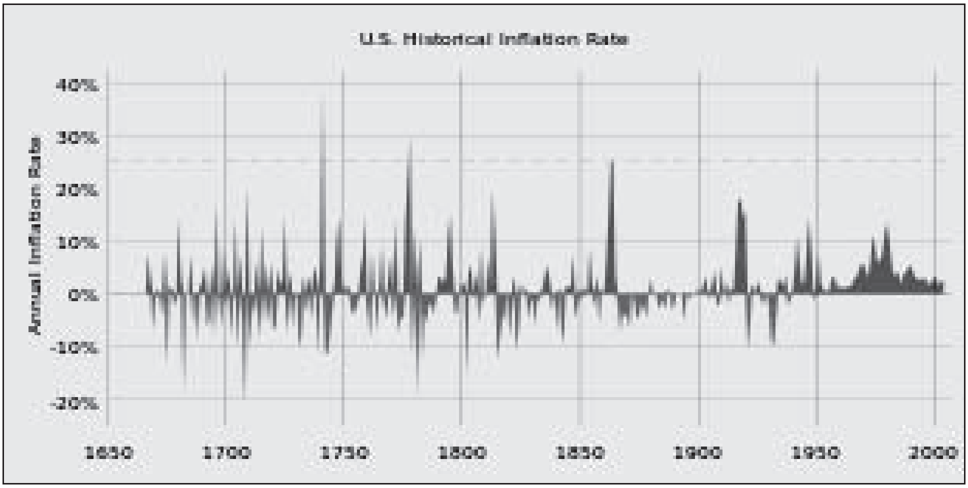
12.5. Reading Practice:

12.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: THE HISTORY OF INFLATION EVOLUTION

Increases in the quantity of money or in the overall money supply (or debasement of the means of exchange) have occurred in many different societies throughout history, changing with different forms of money used. For instance, when gold was used as currency, the government could collect gold coins, melt them down, mix them with other metals such as silver, copper or lead, and reissue them at the same nominal value. By diluting the gold with other metals, the government could issue more coins without also needing to increase the amount of gold used to make them. When the cost of each coin is lowered in this way, the government profits from an increase in seignior age. This practice would increase the money supply but at the same time the relative value of each coin would be lowered. As the relative value of the coins becomes lower, consumers would need to give more coins in exchange for the same goods and services as before. These goods and services would experience a price increase as the value of each coin is reduced.

Figure 12.2



Annual inflation rates in the United States from 1650 to 2000.

With a fiat currency, Song Dynasty[107] in China introduced the practice of printing money during the 11th century and, according to Daniel Headrick, "paper money allowed governments to spend far more than they received in taxes in wartime, and the Song were often at war, such deficit spending caused runaway inflation". This inflation made paper money undesirable, and in 1020, desperate officials were forced to perfume the money to encourage its use. The problem of paper money inflation continued after the Song Dynasty. Peter Bernholz writes that "from then on, nearly every Chinese dynasty up to the Ming began by issuing some stable and convertible paper money and ended with pronounced inflation caused by circulating ever increasing amounts of paper notes to finance budget deficits".

During the Mongol Yuan Dynasty[108], the government spent a great deal of money fighting costly wars, and reacted by printing more, leading to inflation. The problem of inflation became so severe that the people stopped using paper money, which they saw as "worthless paper". Fearing the inflation that plagued the Yuan dynasty, the Ming Dynasty[109] initially

[107] ***The Song*** was a ruling dynasty in China between 960 and 1279; it succeeded the Five Dynasties and Ten Kingdoms period, and was followed by the Yuan Dynasty. It was the first government in world history to nationally issue banknotes or true paper money, and the first Chinese government to establish a permanent standing navy.

[108] ***The Yuan Dynasty*** was the empire established by Kublai Khan, leader of the Mongolian Borjigin clan, after he conquered Southern Song dynasties in China. His realm – the Great Yuan – was by this point isolated from the other khanates and controlled only most of present-day China and its surrounding areas including modern Mongolia.

[109] ***The Ming Dynasty***, also Empire of the Great Ming, was the ruling dynasty of China for 276 years (1368–1644) following the collapse of the Mongol-led Yuan Dynasty. The Ming, described by some as "one of the greatest eras of orderly government and social stability in human history".

rejected the use of paper money, using only copper coins. The dynasty did not issue paper currency until 1375.

Historically, infusions of gold or silver into an economy also led to inflation. From the second half of the 15th century to the first half of the 17th, Western Europe experienced a major inflationary cycle referred to as the "price revolution", with prices on average rising perhaps sixfold over 150 years. This was largely caused by the sudden influx of gold and silver from the New World[110] into Habsburg Spain[111]. The silver spread throughout a previously cash-starved Europe and caused widespread inflation. Demographic factors also contributed to upward pressure on prices, with European population growth after depopulation caused by the Black Death pandemic[112].

By the nineteenth century, economists categorized three separate factors that cause a rise or fall in the price of goods: a change in the value or production costs of the good, a change in the price of money which then was usually a fluctuation in the commodity price of the metallic content in the currency, and currency depreciation resulting from an increased supply of currency relative to the quantity of redeemable metal backing the currency. Following the proliferation of private banknote currency printed during the American Civil War, the term "inflation" started to appear as a direct reference to the currency depreciation that occurred as the quantity of redeemable banknotes outstripped the quantity of metal available for their redemption. At that time, the term inflation referred to the devaluation of the currency, and not to a rise in the price of goods.

This relationship between the over-supply of banknotes and a resulting depreciation in their value was noted by earlier classical economists such as David Hume[113] and David Ricardo[114], who would go on to examine and debate what effect a currency devaluation (later termed monetary inflation) has on the price of goods (later termed price inflation, and eventually just inflation).

The adoption of fiat currency by many countries, from the 18th century onwards, made much larger variations in the supply of money possible. Since then, huge increases in the supply of paper money have taken place in a number of countries, producing hyperinflations – episodes of extreme inflation rates much higher than those observed in earlier periods of commodity money. The hyperinflation in the Weimar Republic of Germany [115] is a notable example.

CLIPPING COINS

Some interesting early episodes of demand-pull inflation occurred in Europe during the ninth to the fifteenth centuries under feudalism. In that economic system lords (or princes) ruled individual fiefdoms and their vassals (or peasants) worked the fields. The peasants

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[110] ***The New World*** is one of the names used for the Western Hemisphere, specifically the Americas, certain Atlantic and Pacific oceanic islands to which the closest continental shelf is that of the Americas (such as Bermuda), and sometimes Oceania (Australasia).

[111] ***Habsburg Spain*** refers to the history of Spain over the 16th and 17th centuries (1506–1700), when Spain was ruled by the major branch of the Habsburg dynasty (also associated to its role in the history of Central Europe).

[112] ***Black Death,*** pandemic that ravaged Europe between 1347 and 1351, taking a proportionately greater toll of life than any other known epidemic or war up to that time. The Black Death is widely believed to have been the result of plague.

[113] ***David Hume*** (7 May 1711 – 25 August 1776) was a Scottish philosopher, historian, economist, and essayist known especially for his philosophical empiricism and scepticism.

[114] ***David Ricardo*** (18 April 1772 – 11 September 1823) was a British political economist. He was often credited with systematizing economics, and was one of the most influential of the classical economists, along with Thomas Malthus**,** Adam Smith, and John Stuart Mill. He was also a member of Parliament, businessman, financier and speculator, who amassed a considerable personal fortune.

[115] ***The hyperinflation in the Weimar Republic*** was a three-year period of hyperinflation in Germany (the Weimar Republic) between June 1921 and January 1924.

initially paid parts of their harvest as taxes to the princes. Later, when the princes began issuing "coins of the realm", peasants began paying their taxes with gold coins.

Some princes soon discovered a way to transfer purchasing power from their vassals to themselves without explicitly increasing taxes. As coins came into the treasury, princes clipped off parts of the gold coins, making them slightly smaller. From the clippings they minted new coins and used them to buy more goods for themselves.

This practice of clipping coins was a subtle form of taxation. The quantity of goods being produced in the fiefdom remained the same, but the number of gold coins increased. With "too much money chasing too few goods", inflation occurred. Each gold coin earned by the peasants therefore had less purchasing power than previously because prices were higher. The increase of the money supply shifted purchasing power away from the peasants and toward the princes just as surely as if the princes had increased taxation of the peasants.

In more recent eras some dictators have simply printed money to buy more goods for themselves, their relatives, and their key loyalists. These dictators, too, have levied hidden taxes on their population by creating inflation. The moral of the story is quite simple: A society that values price-level stability should not entrust the control of its money supply to people who benefit from inflation.

Text 2: RELATED DEFINITIONS

The term "inflation" originally referred to increases in the amount of money in circulation, and some economists still use the word in this way. However, most economists today use the term "inflation" to refer to a rise in the price level. An increase in the money supply may be called monetary inflation, to distinguish it from rising prices, which may also for clarity be called "price inflation". Economists generally agree that in the long run, inflation is caused by increases in the money supply.

Other economic concepts related to inflation include: deflation – a fall in the general price level; disinflation – a decrease in the rate of inflation; hyperinflation – an out-of-control inflationary spiral; stagflation – a combination of inflation, slow economic growth and high unemployment; and reflation – an attempt to raise the general level of prices to counteract deflationary pressures.

Since there are many possible measures of the price level, there are many possible measures of price inflation. Most frequently, the term "inflation" refers to a rise in a broad price index representing the overall price level for goods and services in the economy. The Consumer Price Index (CPI), the Personal Consumption Expenditures Price Index (PCEPI) and the GDP deflator are some examples of broad price indices. However, "inflation" may also be used to describe a rising price level within a narrower set of assets, goods or services within the economy, such as commodities (including food, fuel, metals), tangible assets (such as real estate), financial assets (such as stocks, bonds), services (such as entertainment and health care), or labor. The Reuters-CRB Index (CCI), the Producer Price Index, and Employment Cost Index (ECI) are examples of narrow price indices used to measure price inflation in particular sectors of the economy. Core inflation is a measure of inflation for a subset of consumer prices that excludes food and energy prices, which rise and fall more than other prices in the short term. The Federal Reserve Board pays particular attention to the core inflation rate to get a better estimate of long-term future inflation trends overall.

Text 3: CONTROLLING INFLATION

A variety of methods and policies have been used to control inflation.

STIMULATING ECONOMIC GROWTH

If economic growth matches the growth of the money supply, inflation should not occur when all else is equal. A large variety of factors can affect the rate of both. For example, investment in market production, infrastructure, education, and preventative health care can all grow an economy in greater amounts than the investment spending.

MONETARY POLICY

Today the primary tool for controlling inflation is monetary policy. Most central banks are tasked with keeping their inter-bank lending rates at low levels, normally to a target rate around two percent to three percent per annum, and within a targeted low inflation range, somewhere from about two percent to six percent per annum. A low positive inflation is usually targeted, as deflationary conditions are seen as dangerous for the health of the economy.

There are a number of methods that have been suggested to control inflation. Central banks such as the U.S. Federal Reserve can affect inflation to a significant extent through setting interest rates and through other operations. High interest rates and slow growth of the money supply are the traditional ways through which central banks fight or prevent inflation, though they have different approaches. For instance, some follow a symmetrical inflation target while others only control inflation when it rises above a target, whether express or implied.

Monetarists emphasize keeping the growth rate of money steady, and using monetary policy to control inflation (increasing interest rates, slowing the rise in the money supply). Keynesians emphasize reducing aggregate demand during economic expansions and increasing demand during recessions to keep inflation stable. Control of aggregate demand can be achieved using both monetary policy and fiscal policy (increased taxation or reduced government spending to reduce demand).

FIXED EXCHANGE RATES

Under a fixed exchange rate currency regime, a country's currency is tied in value to another single currency or to a basket of other currencies (or sometimes to another measure of value, such as gold). A fixed exchange rate is usually used to stabilize the value of a currency, vis-a-vis the currency it is pegged to. It can also be used as a means to control inflation. However, as the value of the reference currency rises and falls, so does the currency pegged to it. This essentially means that the inflation rate in the fixed exchange rate country is determined by the inflation rate of the country the currency is pegged to. In addition, a fixed exchange rate prevents a government from using domestic monetary policy in order to achieve macroeconomic stability.

Under the Bretton Woods agreement[116], most countries around the world had currencies that were fixed to the US dollar. This limited inflation in those countries, but also exposed them to the danger of speculative attacks. After the Bretton Woods agreement broke down in the early 1970s, countries gradually turned to floating exchange rates. However, in the later part of the 20th century, some countries reverted to a fixed exchange rate as part of an attempt to control inflation. This policy of using a fixed exchange rate to control inflation was used in many countries in South America in the later part of the 20th century (e.g. Argentina (1991–2002), Bolivia, Brazil, and Chile).

GOLD STANDARD

Under a gold standard, paper notes are convertible into pre-set, fixed quantities of gold. The gold standard is a monetary system in which a region's common media of exchange are

[116] ***The Bretton Woods System*** of monetary management established the rules for commercial and financial relations among the world's major industrial states in the mid-20th century. The Bretton Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent nation-states.

paper notes that are normally freely convertible into pre-set, fixed quantities of gold. The standard specifies how the gold backing would be implemented, including the amount of specie per currency unit. The currency itself has no innate value, but is accepted by traders because it can be redeemed for the equivalent specie. A U.S. silver certificate, for example, could be redeemed for an actual piece of silver.

The gold standard was partially abandoned via the international adoption of the Bretton Woods System. Under this system all other major currencies were tied at fixed rates to the dollar, which itself was tied to gold at the rate of $35 per ounce. The Bretton Woods system broke down in 1971, causing most countries to switch to fiat money – money backed only by the laws of the country.

According to some economists, economies based on the gold standard rarely experience inflation above two percent annually. However, historically, the U.S. saw inflation over two percent several times and a higher peak of inflation under the gold standard when compared to inflation after the gold standard. Under a gold standard, the long term rate of inflation (or deflation) would be determined by the growth rate of the supply of gold relative to total output. Critics argue that this will cause arbitrary fluctuations in the inflation rate, and that monetary policy would essentially be determined by gold mining.

WAGE AND PRICE CONTROLS

Another method attempted in the past have been wage and price controls ("incomes policies"). Wage and price controls have been successful in wartime environments in combination with rationing. However, their use in other contexts is far more mixed. Notable failures of their use include the 1972 imposition of wage and price controls by Richard Nixon[117]. More successful examples include the Prices and Incomes Accord[118] in Australia and the Wassenaar Agreement[119] in the Netherlands.

In general, wage and price controls are regarded as a temporary and exceptional measure, only effective when coupled with policies designed to reduce the underlying causes of inflation during the wage and price control regime, for example, winning the war being fought. They often have perverse effects, due to the distorted signals they send to the market. Artificially low prices often cause rationing and shortages and discourage future investment, resulting in yet further shortages. The usual economic analysis is that any product or service that is under-priced is overconsumed. For example, if the official price of bread is too low, there will be too little bread at official prices, and too little investment in bread making by the market to satisfy future needs, thereby exacerbating the problem in the long term.

Temporary controls may complement a recession as a way to fight inflation: the controls make the recession more efficient as a way to fight inflation (reducing the need to increase unemployment), while the recession prevents the kinds of distortions that controls cause when

[117] ***Richard Milhous Nixon*** (January 9, 1913 – April 22, 1994) was the 37th President of the United States, serving from 1969 to 1974, when he became the only president to resign the office. Nixon had previously served as a Republican U.S. Representative and Senator from California and as the 36th Vice President of the United States from 1953 to 1961.

[118] ***The Prices and Incomes Accord*** was an agreement between the Australian Council of Trade Unions and the Australian Labor Party government of Prime Minister Bob Hawke and Treasurer (later Prime Minister) Paul Keating in 1983. Employers were not party to the Accord. Unions agreed to restrict wage demands and the government pledged to minimise inflation. The government was also to act on the social wage. At its broadest this concept included increased spending on education as well as welfare. This was seen as a method to reduce inflation without reducing the living standards of Australians.

[119] ***The Wassenaar Agreement*** (not to be confused with the Wassenaar Arrangement) was an agreement reached in 1982 between employers'organisations and labor unions in the Netherlands to restrain wage growth in return for the adoption of policies to combat unemployment and inflation, such as reductions in working hours and the expansion of part-time employment. The agreement has been credited with ending the wage-price spiral of the 1970s, greatly reducing unemployment and producing strong growth in output and employment.

demand is high. However, in general the advice of economists is not to impose price controls but to liberalize prices by assuming that the economy will adjust and abandon unprofitable economic activity. The lower activity will place fewer demands on whatever commodities were driving inflation, whether labor or resources, and inflation will fall with total economic output. This often produces a severe recession, as productive capacity is reallocated and is thus often very unpopular with the people whose livelihoods are destroyed.

COST-OF-LIVING ALLOWANCE

The real purchasing-power of fixed payments is eroded by inflation unless they are inflation-adjusted to keep their real values constant. In many countries, employment contracts, pension benefits, and government entitlements (such as social security) are tied to a cost-of-living index, typically to the consumer price index. A cost-of-living allowance (COLA) adjusts salaries based on changes in a cost-of-living index. Salaries are typically adjusted annually in low inflation economies. During hyperinflation they are adjusted more often They may also be tied to a cost-of-living index that varies by geographic location if the employee moves.

Annual escalation clauses in employment contracts can specify retroactive or future percentage increases in worker pay which are not tied to any index. These negotiated increases in pay are colloquially referred to as cost-of-living adjustments ("COLAs") or cost-of-living increases.

12.6. Internet Practice:

12.6.1. Web Activities:

- Use the Economic Statistics Briefing Room at the White House's home page (**www.whitehouse.gov/**) and the Philadelphia Federal Reserve Bank's Livingston Survey (**www.phil.frb.org/econ/liv/)** to answer the following questions: What is the current inflation rate? What do forecasters predict for these variables according to the Livingston Survey? Are these predictions consistent with your predictions?
- Visit the Bureau of Labor Statistics Web Site, **(www.bls.gov/ news.release/cpi.toc.htm),** and select Consumer Price Index Summary. What month (and year) is summarized? What was the CPI-U for the month? What was the rate of inflation (change in the CPI-U) for the month? How does that rate of inflation compare with the rate for the previous month? Which two categories of goods or services had the greatest price increases for the month? Which two had the lowest price increases (or greatest price decreases) for the month?

12.7. Critical Thinking & Discussion Questions:

- Inflation, on average, makes people neither richer nor poorer. Therefore it has no cost. True or false? Explain.
- Would you expect that inflation would generally be associated with low unemployment? Why?
- True or false? Inflation makes everyone in an economy worse off because everyone is paying higher prices.
- Explain how hyperinflation might lead to a severe decline in total output. Evaluate as accurately as you can how each of the following individuals would be affected by unanticipated inflation of 10 percent per year:

a) a pensioned railroad worker;

b) a department-store clerk;

c) a unionized automobile assembly-line worker;
d) a heavily indebted farmer;
e) a retired business executive whose current income comes entirely from interest on government bonds;
f) the owner of an independent small-town department store.

Unit 13 *Surpluses, Deficits, and Debt*

"Any government, like any family,
can for a year spend a little more than it earns.
But you and I know that
a continuance of that habit means the poorhouse"
Franklin D. Roosevelt

13.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

ambiguity
asset(s)
bond(s)
burden
debt:
~ burden
external ~
internal ~
(un)secured ~
deficit:
budget ~
nominal ~
passive ~
real ~
structural ~
trade ~

earning(s)
equity
equivalent
excess
expenditure(s)
Gross Domestic Product (GDP)
increment(s)
inflow
interest:
~ rate
installment(s)
ledger
loan

obligation
outflow
policy:
fiscal ~
potential
recourse
revenue
security(-ies)
shortage
shortfall
surplus:
trade ~
threshold
vendor

Verbs:

to accumulate
to adjust
to compensate
to comprise
to denominate
to deviate
to devote
to differentiate

to distinguish
to eliminate
to exceed
to exclude
to finance
to incur
to issue
to levy

to moderate
to owe
to repay
to separate
to subtract
to take into account
to wipe out

***Adjectives & Adverbs*:**

accumulated	expansionary	potentially
consolidated	inevitably	recklessly
costless	persistent	(in)tangible

13.2. Read and translate the text into Ukrainian:

POLITICS, SURPLUSES, DEFICITS, AND DEBT

The definitions of surplus, deficit, and debt are simple, but this simplicity hides important aspects that will help you understand current debates about deficits and debt. Thus, it's necessary to look carefully at some ambiguities in the definitions. A surplus is an excess of revenues over payments. A deficit is a shortfall of revenues under payment; both are flow concepts. If your income (revenue) is $20,000 per year and your expenditures (payments) are $30,000 per year, you are running a deficit. This definition tells us that a government budget deficit occurs when government expenditures exceed government revenues. Government debt and individual debt differ in three major ways: (a) government is ongoing and never needs to repay its debt, (b) government can pay off its debt by printing money, and (c) most of government debt is internal – owed to its own citizens. Deficits, surpluses, and debt should be viewed relative to GDP because this ratio better measures the government's ability to handle the deficit and pay off the debt. Compared to many countries, the United States has a low debt-to-GDP ratio.

FINANCING THE DEFICIT

Just like private individuals, the government must pay for the goods and services it buys. This means that whenever the government runs a deficit, it has to finance that deficit. It does so by selling bonds – promises to pay back the money in the future – to private individuals and to the central bank. There's a whole division of the U.S. Treasury devoted to managing the government's borrowing needs.

The United States is fortunate to have people who want to buy its bonds. Some countries, such as Russia, have few people who want to buy their bonds (lend them money) and therefore have trouble financing their deficits. However, countries have an option that individuals don't have. Their central banks can loan them the money (buy their bonds). Since the central banks IOUs[120] are money, the loans can be made simply by printing money; in principle, therefore, the central bank has a potentially unlimited source of funds. But, as we shall see, printing too much money can lead to serious inflation problems, which have negative effects on the economy. So, whenever possible, governments try not to use the "print money" option to finance their deficits.

NOMINAL AND REAL SURPLUSES AND DEFICITS

Another ambiguity important in understanding the budget deficit and surplus picture is the real/nominal ambiguity. A *nominal deficit* is the deficit determined by looking at the difference between expenditures and receipts. It's what most people think of when they think of the budget deficit; it's the value that is generally reported. The *real deficit* is the nominal deficit adjusted for inflation. To understand this distinction it is important to recognize that

[120] ***An IOU*** (abbreviated from the phrase ***"I owe you")*** is usually an informal document acknowledging debt. An IOU differs from a promissory note in that an IOU is not a negotiable instrument and does not specify repayment terms such as the time of repayment. IOUs usually specify the debtor, the amount owed, and sometimes the creditor. IOUs may be signed or carry distinguishing marks or designs to ensure authenticity. In some cases, IOUs may be redeemable for a specific product or service rather than a quantity of currency.

inflation wipes out debt (accumulated deficits less accumulated surpluses). How much does it wipe out? Consider an example: If a country has a $2 trillion debt and inflation is 4 percent per year, the real value of all assets denominated in dollars is declining by 4 percent each year. If you had $100 and there's 4 percent inflation in a year, that $100 will be worth 4 percent less at the end of the year – the equivalent of $96 without inflation. By the same reasoning, when there's 4 percent inflation, the value of the debt is declining 4 percent each year. Four percent of $2 trillion is $80 billion, so with an outstanding debt of $2 trillion, 4 percent inflation will eliminate $80 billion of the debt each year.

The larger the debt and the larger the inflation, the more debt will be eliminated by inflation. For example, with 10 percent inflation and a $2 trillion debt, $200 billion of the debt will be eliminated by inflation each year. With 4 percent inflation and a $4 trillion debt, $160 billion of the debt would be eliminated. If inflation is wiping out debt, and the deficit is equal to the increases in debt from one year to the next, inflation also affects the deficit. Economists take this into account by differentiating nominal deficits from real deficits.

We can calculate the real deficit by subtracting the decrease in the value of the government's total outstanding debts due to inflation. Specifically:

Real deficit = Nominal deficit – (Inflation × Total debt)

Let's consider an example. Say that the nominal deficit is $80 billion, inflation is 6 percent; and total debt is $3 trillion. Substituting into the formula gives us a real surplus of $100 billion ($80 billion – 0.06 × $3 trillion) = $80 billion – $180 billion – $100 billion). (This follows because a surplus is a negative deficit and hence is written here as a negative number.) This insight into debt is directly relevant to the budget situation in the United States. For example, back in 1990 the nominal U.S. deficit was about $221 billion, while the real deficit was about one-third of that – $79 billion; in the late 1990s the U.S. government surplus was about $120 billion; there was 2 percent inflation and a total debt of about $5.7 trillion. That means the real surplus was even larger – $230 billion.

The lowering of the real deficit by inflation is not costless to the government. Persistent inflation becomes built into expectations and causes higher interest rates. When inflationary expectations were low, as they were in the 1950s, the U.S. government paid 3 or 4 percent on its bonds. In 1990, when inflationary expectations were high, the government paid 8 or 9 percent interest, which is about 5 percent more than it paid in the 1950s. With its $3.2 trillion debt, this meant that the United States was paying about $160 billion more in interest than it would have had to pay if no inflation had been expected and the nominal interest rate had been 3 rather than 8 percent. That reduced the amount it could spend on current services by $160 billion. In other words, $160 billion of the 1990 nominal U.S. deficit existed because of the rise in interest payments necessary to compensate bondholders for the expected inflation. As inflationary expectations and nominal interest rates fell through the 1990s, the difference between the real and nominal deficit (surplus) decreased, but the fear that inflation would reignite left bondholders requiring a small inflation premium, meaning interest rates paid by government were higher than they otherwise would have been.

STRUCTURAL AND PASSIVE SURPLUSES AND DEFICITS

Another important distinction to be made when discussing deficits and surpluses is between a structural deficit and a passive deficit. The discussion of fiscal policy emphasized the effect of the deficit on total income. But in thinking about such policies, it is important to remember that many government revenues and expenditures depend on the level of income in the economy. For example, say that the multiplier is 2 and the government is running expansionary policy. Say that that policy increases government spending by $100 (increasing the budget deficit by $100), which causes income to rise by $200. If the tax rate is 20 percent, tax revenues will increase by $40 and the net effect of the policy will be to increase the budget deficit by $60, not $100.

To differentiate between a budget deficit being used as a policy instrument to affect the economy and a budget deficit that is the result of income deviating from its potential, economists ask the question "Would the economy have a budget deficit or surplus if it were at its potential level of income?" If it would, that portion of the budget deficit or surplus is said to be a structural deficit or surplus – the part of a budget deficit or surplus that would exist even if the economy were at its potential level of income. In contrast, if an economy is operating below its potential, the actual deficit will be larger than the structural deficit. In such an economy, that part of the total budget deficit or surplus is a passive deficit or surplus – the part of the deficit or surplus that exists because the economy is operating below or above its potential level of output. The passive deficit is also known as the cyclical deficit. When an economy is operating above its potential, it has a passive surplus. Economists believe that an economy can eliminate a passive budget deficit through growth in income, whereas it can't grow out of a structural deficit. Because the economy can't grow out of them, structural budget deficits are of more concern to policymakers than are passive budget deficits.

Let's give the example, say potential income is $7 trillion and actual income is $6.8 trillion, a shortfall of $200 billion. The actual budget deficit is $250 billion and the marginal tax rate is 25 percent. If the economy were at its potential income, tax revenue would be $50 billion higher and the deficit would be $200 billion. That $200 billion is the structural deficit. The $50 billion (25 percent multiplied by the $200 million shortfall) is the passive portion of the deficit.

In reality there is significant debate about what an economy's potential income level is, and hence there is disagreement about what percentage of a deficit is structural and what percentage is passive. Nonetheless, the distinction is often used and is important to remember.

THE DEFINITION OF DEBT AND ASSETS

Debt is accumulated deficits minus accumulated surpluses. Whereas deficits and surpluses are flow measures (they are defined for a period of time), debt is a stock measure (it is defined at a point in time). For example, say you've spent $30,000 a year for 10 years and have had annual income of $20,000 for 10 years. So you've had a deficit of $10,000 per year – a flow. At the end of 10 years, you will have accumulated a debt of $100,000 (10 × $10,000 = $100,000) – a stock. (Spending more than you have in income means that you need to borrow the extra $10,000 per year from someone, so in later years much of your expenditure will be for interest on your previous debt.) If a country has been running more surpluses than deficits, the accumulated surpluses minus accumulated deficits are counted as part of its assets.

DEBT MANAGEMENT

The U.S. government, through its Treasury Department, must continually refinance the bonds that are coming due by selling new bonds, as well as sell new bonds when running a deficit. This makes for a very active market in U.S. government bonds, and the interest rate paid on government bonds is a closely watched statistic in the economy. If the government runs a surplus, it can either retire some of its previously issued bonds by buying them back, or simply not replace the previously issued bonds when they come due. In the early 2000s, the U.S. Treasury did both.

Debt is also a summary measure of a country's financial situation. As a summary measure, debt has even more problems than deficit. Unlike a deficit, which is the difference between outflows and inflows, and hence provides both sides of the ledger, debt by itself is only half of a picture. The other half of the picture is assets. For a country, assets include its skilled workforce, its natural resources, its factories, its housing stock, and its holdings of foreign assets. For a government, assets include not only the buildings and land it owns but also, and more importantly, a portion of the assets of the people in the country, since government gets a portion of all earnings of those assets in tax revenue.

To get an idea of why the addition of assets is necessary to complete the debt picture, consider two governments: one has debt of $3 trillion and assets of $50 trillion; the other has only $1 trillion in debt but only $1 trillion in assets. Which is in a better position? The government with the $3 trillion debt is, because its debt is significantly exceeded by its assets. The example's point is simple: To judge a country's debt, we must view its debt in relation to all its assets.

This need to judge debt relative to assets adds an important caveat to the long-run position that government budget deficits are bad. When the government runs a deficit, it might be spending on projects that increase its assets. If the assets are valued at more than their costs, then the deficit is making the society better off. Government investment can be as productive as private investment or even more productive.

To distinguish between expenditures that are building up assets and those that are not, many businesses have separate capital and expenditures budgets. When they run deficits in their capital account, we do not say that they are spending recklessly; we say that they are investing in the future, and generally we applaud that investment. We say they are running a deficit only in reference to their expenditures budget. While the U.S. government budget separates out investment from noninvestment expenditures, it does not have a separate capital account; it reports a consolidated budget, so it does not take into account the asset accumulation or the depreciation of its assets in determining its deficit.

Why doesn't government have a separate capital budget? Because with government expenditures it is extraordinarily difficult to determine what an investment is. Business's investments will earn income that allows the business to pay off those investments. Most government goods earn no income; they are supplied free to individuals and are paid for by taxes. Impossible-to-answer questions arise such as: Are expenditures on new teachers an investment in better knowledge? Or: Are expenditures on a poverty program an investment in a better social environment? There are no unambiguous answers to these and similar questions; government accountants believe it is best to avoid such questions altogether.

Text Summary

- A deficit is a shortfall of revenues over payments. A surplus is the excess of revenues over payments. Debt is accumulated deficits minus accumulated surpluses.
- Deficits and surpluses are summary measures of a budget. Whether a budget is a problem depends on the budgeting procedures that measure it.
- A real deficit is a nominal deficit adjusted for the effect of inflation:
  Real deficit = Nominal deficit – (Inflation × Debt)
- A structural deficit or surplus is that part of a budget deficit or surplus that would exist even if the economy were at its potential level of income. A passive deficit or surplus is that part of the deficit or surplus that exists because the economy is below or above potential:
  Structural deficit = Actual deficit – Passive deficit
- A country's debt must be judged in relation to its assets.

13.3. Language Practice:

13.3.1. Multiple Choice:

1. If your income (revenue) is $20,000 per year and your expenditures (payments) are $30,000 per year, you are running a .....
a) shortage;
b) surplus;
c) deficit.
2. The larger the debt and the larger the inflation, the more debt will be ..... by inflation.
a) eliminated;
b) multiplied;
c) increased.
3. Unlike a deficit, which is the difference between outflows and inflows, and hence provides both sides of the ....., debt by itself is only half of a picture.
a) report;
b) ledger;
c) bank statement.
4. This means that whenever the government runs a deficit, it has to finance that deficit. It does so by selling ..... – promises to pay back the money in the future – to private individuals and to the central bank.
a) securities;
b) shares;
c) bonds.
5. Deficits, surpluses, and debt should be viewed relative to ..... because this ratio better measures the government's ability to handle the deficit and pay off the debt.
a) VAT;
b) WTO;
c) GDP.
6. The lowering of the real deficit by inflation is not costless to the government. Persistent inflation becomes built into expectations and causes higher .....
a) interest rates;
b) fluctuations;
c) expenditures.
7. ..... is accumulated deficits minus accumulated surpluses.
a) Deficit;
b) Debt;
c) Surplus.

13.3.2. Key Terms – Matching:

1.	Debt	a)	– is a disparity between the amount demanded for a product or service and the amount supplied in a market;
2.	Deficit	b)	– market value of all officially recognized final goods and services produced within a country in a given period of time as per capita is often considered an indicator of a country's standard of living;
3.	Shortage	c)	– is the principal book or computer file for recording and totaling monetary transactions by account, with debits and credits in separate columns and a beginning balance and ending balance for each account;

4.	Surplus	d)	– anything tangible or intangible that is capable of being owned or controlled to produce value and that is held to have positive economic value;
5.	Gross domestic product (GDP)	e)	– an obligation owed by one party (the debtor) to a second party, the creditor; usually this refers to assets granted by the creditor to the debtor;
6.	Assets	f)	– a shortfall of revenues over payments;
7.	Ledger	g)	– is when there is an excess supply of a product.

13.3.3. Please explain the meaning of the following words and word combinations in English:

Debt, deficit, shortage, surplus, GDP, assets, (in)tangible assets, ledger, bonds, securities, debt burden, external debt, internal debt, to repay a debt, interest rate.

13.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~burden~~ meet its financial obligations funds tax increase expenditures levy interest return go bankrupt finance the debt holders of the maturing bonds

THE PUBLIC DEBT

Many economists conclude that the primary (1) *burden* of the debt is the annual interest charge accruing on the bonds sold to (2) _____. In 2005 interest on the total public debt was $184 billion, which is now the fourth-largest item in the Federal budget (behind income security, national defense, and health).

The large U.S. public debt does not threaten to bankrupt the Federal government, leaving it unable to (3) _____. The public debt is easily refinanced. As portions of the debt come due on maturing Treasury bills, notes, and bonds each month, the government does not cut (4) _____ or raise taxes to provide the (5) ____ required. Rather, it refinances the debt by selling new bonds and using the proceeds to pay (6) _____. The new bonds are in strong demand, because lenders can obtain a relatively good (7) _____ with no risk of default by the Federal government.

The Federal government has the constitutional authority to (8) _____ and collect taxes. A (9) _____ is a government option for gaining sufficient revenue to pay interest and principal on the public debt. Financially distressed private households and corporations cannot extract themselves from their financial difficulties by taxing the public. If their incomes or sales revenues fall short of their expenses, they can indeed (10) _____. But the Federal government does have the option to impose new taxes or increase existing tax rates if necessary to finance its debt.

13.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the adjective ***tangible***: *actual, appreciable, corporeal, definite, discernible, evident, palpable, perceptible, physical, plain, real, recognizable, sensible, solid, substantial, tactile, touchable.*

13.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Борг, державний борг, заборгованість, дебіторська заборгованість, кредиторська заборгованість, фінансові зобов'язання, дефіцит, надлишок, ВВП, активи, облігації, оборотні фонди, основні фонди, витрати, погасити борг, випущені боргові зобов'язання, перевищення попиту над пропозицією, внутрішньодержавні запозичення, розбіжність між попитом та пропозицією, покриття бюджетного дефіциту, отримання державних позик, емісія грошей, капіталовкладення, сукупна ринкова вартість, кінцеві товари.

13.4.2. Please translate the following sentences into Ukrainian:

1. The primary measure of the economy's performance is its annual total output of goods and services or, as it is called its aggregate output. Aggregate output is labeled gross domestic product (GDP): the total market value of all final goods and services produced in a given year. GDP includes all goods and services produced by either citizen supplied or foreign-supplied resources employed within the country. The U.S. GDP includes the market value of Fords produced by an American-owned factory in Michigan and the market value of Hondas produced by a Japanese-owned factory in Ohio.
2. Intermediate goods, nonproduction transactions, and secondhand sales are purposely excluded in calculating GDP. GDP may be calculated by summing total expenditures on all final output or by summing the income derived from the production of that output.
3. A debt is an obligation owed by one party (the debtor) to a second party, the creditor; usually this refers to assets granted by the creditor to the debtor, but the term can also be used metaphorically to cover moral obligations and other interactions not based on economic value. A debt is created when a creditor agrees to lend a sum of assets to a debtor.
4. Debt is usually granted with expected repayment; in modern society, in most cases, this includes repayment of the original sum, plus interest. In finance, debt is a means of using anticipated income and future purchasing power in the present before it has actually been earned. Some companies and corporations use debt as a part of their overall corporate finance strategy.
5. Before a debt can be made, both the debtor and the creditor must agree on the manner in which the debt will be repaid, known as the standard of deferred payment. This payment is usually denominated as a sum of money in units of currency, but can sometimes be denominated in terms of goods or services. Payment can be made in increments over a period of time, or all at once at the end of the loan agreement.
6. A company uses various kinds of debt to finance its operations. The various types of debt can generally be categorized into: (1) secured and unsecured debt, (2) private and public debt, (3) syndicated and bilateral debt, and (4) other types of debt that display one or more of the characteristics noted above. A debt obligation is considered secured, if creditors have recourse to the assets of the company on a proprietary basis or otherwise ahead of general claims against the company. Unsecured debt comprises financial obligations, where creditors do not have recourse to the assets of the borrower to satisfy their claims.

7. A bond is a debt security issued by certain institutions such as companies and governments. A bond entitles the holder to repayment of the principal sum, plus interest. Bonds are issued to investors in a marketplace when an institution wishes to borrow money. Bonds have a fixed lifetime, usually a number of years; with long-term bonds, lasting over 30 years, being less common. At the end of the bond's life the money should be repaid in full. Interest may be added to the end payment, or can be paid in regular installments (known as coupons) during the life of the bond. Bonds may be traded in the bond markets, and are widely used as relatively safe investments in comparison to equity.
8. Income deficit is the difference between a single person or family's income and its poverty threshold or poverty line, when the former is exceeded by the latter. Data on the income deficits of various members of a population allow for the construction of one type of measurement of income inequality in that population. Individuals or families that fall below the line are considered to be in poverty whereas families that fall above are not. The income deficit is one of two measures that are used to determine a person or family's income distance from the poverty threshold, the other being a ratio rather than a difference.
9. Following John Maynard Keynes, many economists recommend deficit spending to moderate or end a recession, especially a severe one. When the economy has high unemployment, an increase in government purchases creates a market for business output, creating income and encouraging increases in consumer spending, which creates further increases in the demand for business output. (This is the multiplier effect). This raises the real gross domestic product (GDP) and the employment of labor, and if all else is constant, lowers the unemployment rate. (The connection between demand for GDP and unemployment is called Okun's Law).
10. The commercial balance or net exports (sometimes symbolized as NX), is the difference between the monetary value of exports and imports of output in an economy over a certain period, measured in the currency of that economy. It is the relationship between a nation's imports and exports. A positive balance is known as a trade surplus if it consists of exporting more than is imported; a negative balance is referred to as a trade deficit or, informally, a trade gap. The balance of trade is sometimes divided into a goods and a services balance.

13.4.3. Please translate the following sentences into English:

1. Борг − це щось, що необхідно повернути. Здебільшого поняття боргу застосовується щодо грошей або інших активів, взятих у позику, або послуг, наданих у кредит, але може також вживатися в моральному плані, наприклад, як борг дітей перед батьками, що їх виховали. Заборгованість − це сума фінансових зобов'язань, грошових боргів, що підлягає погашенню, поверненню в певний термін. Якщо до цього терміну заборгованість не погашена, то вона стає простроченою.
2. Дебіторська заборгованість − це сума боргів, що належать підприємству, фірмі, компанії з боку інших підприємств, фірм, а також громадян, що є їх боржниками, дебіторами. Кредиторська заборгованість − це грошові засоби, тимчасово залучені підприємством, фірмою, що підлягають поверненню юридичним або фізичним особам, у яких вони запозичені і яким вони не виплачені. Кредиторську заборгованість складають в основному нездійснені платежі постачальникам за відвантажені товари, неоплачені податки,

неоплачена нарахована заробітна платня, невнесені страхові внески, неоплачені борги.

3. Державний борг в Україні − це загальна сума заборгованості, яка складається з усіх випущених і непогашених боргових зобов'язань, включаючи боргові зобов'язання держави, що вступають в дію в результаті виданих гарантій за кредитами, або зобов'язань, що виникають на підставі законодавства або договору.
4. Державний борг США (національний борг, федеральний борг) − це гроші, які федеральний уряд Сполучених Штатів Америки винен своїм кредиторам. До державного боргу США не зараховуються борги окремих штатів, корпорацій, або фізичних осіб, і гроші, що належать отримувачам соціальної допомоги у майбутньому. Якщо враховувати внутрішньодержавні запозичення, розмір боргу зростає до позначки в приблизно 9 трильйонів доларів США. Якщо додати витрати на медичне, соціальне страхування, розмір боргу істотно збільшується і досягає позначки у 59.1 трильйонів.
5. Дефіцит в економіці − це перевищення попиту над пропозицією. Дефіцит свідчить про розбіжність між попитом та пропозицією та відсутність урівноважуючої ціни. На макроекономічному рівні дефіцит товарів та послуг характеризує певний стан кон'юнктури ринку, коли платоспроможний попит перевищує пропозицію при фіксованому рівні ціни. На мікроекономічному рівні, рівні ринків, їх сегментів, окремих гравців (суб'єктів господарської діяльності) дефіцит може носити штучний та локальний характер.
6. Дефіцит бюджету − це перевищення видаткової частини державного бюджету над дохідною. Є однією з основних причин інфляції, спричиняється економічною нестабільністю, скороченням надходжень до бюджету, зростанням видатків з бюджету. Покриття бюджетного дефіциту може здійснюватися шляхом отримання державних позик та емісією грошей.
7. Дефіцит бюджету − це явище майже постійне в економіці кожної держави. Для населення наявність дефіциту має опосередковане значення, але воно бере участь у поверненні залучених для покриття дефіциту коштів шляхом сплати податків. Профіцит бюджету − це перевищення доходів бюджету над його видатками. Законодавством передбачено, що профіцит затверджується з метою погашення основної суми боргу.
8. Причини виникнення дефіциту: спад виробництва; зниження ефективності функціонування окремих галузей; несвоєчасне проведення структурних змін в економіці або її технічного переоснащення; великі воєнні витрати; інші фактори, що впливають на соціально-економічне становище країни.
9. Надлишок споживача − це додаткова економія, яку отримують ті споживачі, які могли б купувати товар дорожче, але купують за ринковою ціною. Надлишок виробника – це додатковий дохід, який отримують ті виробники, які готові були продавати товар дешевше, але продають його за ринковою ціною.
10. Активи − це усе, чим володіє підприємство (готівка, дебіторська заборгованість, обладнання та майно підприємства). Існує три види активів: 1) оборотні фонди – це готівка та кошти, запаси, які можуть бути досить швидко трансформовані в готівку (як правило, протягом року); 2) основні фонди з довгим терміном служби, що використовуються підприємством при виробництві товарів і послуг (наприклад, будівлі, споруди, земля, обладнання); 3) інші активи, які включають такі нематеріальні активи, як патенти і торгові знаки (що не мають натурально-речової форми, але цінні для підприємства), капіталовкладення в інші компанії або довготермінові цінні папери.

13.4.4. Please make an English summary of the following text:

ВАЛОВИЙ ВНУТРІШНІЙ ПРОДУКТ (ВВП)

Макроекономіка вивчає економічну систему держави. Кожна держава по-різному регулює економічні процеси своєї країни. Але в будь-якому випадку для того, щоб ефективно керувати економікою своєї країни, уряду необхідно мати повну картину стану економіки на даний момент та цілі, до яких уряд збирається привести економічну систему протягом певного часу. Для того щоб мати таку картину та реальнодосяжні цілі уряду, необхідно мати певні показники, які характеризували б стан економіки на даний момент. Основним показником, який оцінює результати діяльності економічної системи країни, є валовий внутрішній продукт (ВВП). Досліджуючи цей показник у динаміці, державні органи визначають напрями своєї економічної політики. ВВП − це сукупна ринкова вартість усього обсягу виробництва кінцевих товарів та послуг в економіці за один рік. Під кінцевими товарами та послугами розуміють товари та послуги, які купуються для кінцевого споживання. Наприклад, до кінцевих товарів можна віднести одяг, продукти харчування, різні комунальні послуги (енергоспоживання, водопровід, газопостачання). До ВВП не відносять виробництво проміжних товарів та послуг, які використовуються в процесі виробництва (сировина, матеріали, паливо, рекламні послуги тощо). ВВП вимірюється тільки в грошовій формі. Тому щоб правильно розрахувати сукупний обсяг виробництва, необхідно, щоб усі товари та послуги, вироблені в цьому році, враховувалися тільки один раз.

Валовий внутрішній продукт показує обсяг виробництва в цінах, які існували на час, коли цей обсяг був вироблений. Такий сукупний обсяг виробництва товарів та послуг називається номінальним ВВП. Однак номінальний ВВП не ілюструє реального становища ВВП, оскільки він виражає лише ціни того періоду часу, в якому він був розроблений. Зміни в обсязі ВВП могли відбутися за рахунок збільшення цін (інфляція), економічного зростання країни тощо. Отже, для того щоб оцінити реальну картину економічної ситуації, необхідно скоригувати номінальний ВВП. Номінальний ВВП можна скоригувати з урахуванням інфляції (збільшення цін на товари та послуги) або дефляції (зниження цін на товари та послуги). Такий скоригований показник і є реальним ВВП. Реальний ВВП розраховують за допомогою індексу споживчих цін:

$$\text{Індекс споживчих цін} = \frac{\text{Ціна споживчого кошика даного року}}{\text{Ціна споживчого кошика базового року}} \times 100\%$$

13.5. Reading Practice:

13.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: DIFFERENCE BETWEEN INDIVIDUAL AND GOVERNMENT DEBT

All debt is not the same. In particular, government debt is different from an individual's debt. There are three reasons for this.

First, government is ongoing. Government never has to pay back its debt. An individual's life span is limited; when a person dies, there's inevitably an accounting of assets and debt to determine whether anything is left to go to heirs. Before any part of a person's estate is passed on, all debts must be paid. The government, however, doesn't ever have to settle its accounts.

Second, government has an option that individuals don't have for paying off a debt. Specifically, it can pay off a debt by creating money. As long as people accept a country's currency, a country can always exchange money (non-interest-bearing debt) for bonds (interest-bearing debt).

Third, 78 percent of government debt is internal debt (government debt owed to other governmental agencies or to its own citizens). Paying interest on the internal debt involves a redistribution among citizens of the country, but it does not involve a net reduction in income of the average citizen. For example, say that a country has \$3 trillion in internal debt. Say also that the government pays \$150 billion in interest on its debt each year. That means the government must collect \$150 billion in taxes, so people are \$150 billion poorer; but it pays out \$150 billion in interest to them, so on average, people in the country are neither richer nor poorer because of the debt. External debt (government debt owed to individuals in foreign countries*)* is more like an individual's debt. Paying interest on external debt involves a net reduction in domestic income. U.S. taxpayers will be poorer; foreign holders of U.S. bonds will be richer.

Most of the decrease in the debt-to-GDP ratio in U.S. history occurred through growth in GDP. There are two ways in which growth in GDP can occur – through inflation (a rise in nominal but not real GDP) or through real growth. Both ways reduce the problem of the debt. As we discussed above, inflation wipes out the value of existing debt; when there is inflation, there can be large nominal budget deficits but a small real deficit.

When an economy experiences real growth, the ability of the government to incur debt is increased; the economy becomes richer and, being richer, can handle more debt. Real growth in the United States has averaged about 2.5 to 3.5 percent per year, which means that U.S. debt can grow at a rate of 2.5 to 3.5 percent without increasing the debt/GDP ratio. But for debt to grow, government must run a deficit, so a constant debt/GDP ratio in a growing economy is consistent with a continual deficit.

How much of a deficit are we talking about? U.S. federal government debt in 2005 was about \$5.7 trillion and GDP was about \$9 trillion, so the government debt/GDP ratio was about 63 percent. A real growth rate of 2.5 percent means that real GDP is growing at about \$225 billion per year. That means that government can run a deficit of \$142 billion a year without increasing the debt/GDP ratio. Of course, for those who believe that the total U.S. government debt is already too large relative to GDP, this argument (that the debt/GDP ratio is remaining constant) is unsatisfying. They'd prefer the debt/GDP ratio to fall.

INTEREST RATES AND DEBT BURDEN

Considering debt relative to GDP is still not quite sufficient to give an accurate picture of the debt burden. How much of a burden a given amount of debt imposes depends on the interest rate that must be paid on that debt. The annual debt service is the interest rate on debt times the total debt.

In 2005 the U.S. government paid out approximately \$230 billion in interest. A larger debt would require even higher interest payments. The interest payment is government revenue that can't be spent on defense or welfare; it's a payment for past expenditures. Ultimately, the interest payments are the burden of the debt. That's what people mean when they say a deficit is burdening future generations.

Over the past 60 years, the interest rate has fluctuated considerably; when it has risen, the debt service has increased; when it has fallen, debt service has decreased.

The United States can afford its current debt in the sense that it can afford to pay the interest on that debt. In fact, it could afford a much higher debt/GDP ratio, since U.S. government bonds are still considered one of the safest assets in the world. No one is worried about the U.S. governments defaulting; that's why we stated above that the U.S. debt can be increased by trillions of dollars without problems.

Text 2: THE LEADING INDICATORS

One of several tools policymakers use to forecast the future direction of real GDP is a monthly index of 10 variables that in the past have provided advance notice of changes in GDP.

The Conference Board's index[121] of leading indicators has historically reached a peak or a trough in advance of corresponding turns in the business cycle. Thus changes in this composite index of 10 economic variables provide a clue to the future direction of the economy. Such advance warning helps policymakers formulate appropriate macroeconomic policy.

Here is how each of the ten components of the index would change if it were predicting a decline in real GDP. The opposite changes would forecast a rise in real GDP.

1. *Average workweek.* Decreases in the length of the average workweek of production workers in manufacturing foretell declines in future manufacturing output and possible declines in real GDP.
2. *Initial claims for unemployment insurance.* Higher first-time claims for unemployment insurance are associated with falling employment and subsequently sagging real GDP.
3. *New orders for consumer goods.* Decreases in the number of orders received by manufacturers for consumer goods portend reduced future production – a decline in real GDP.
4. *Vendor performance.* Somewhat ironically, better on-time delivery by sellers of inputs indicates slackening business demand for final output and potentially falling real GDP.
5. *New orders for capital goods.* A drop in orders for capital equipment and other investment goods implies reduced future spending by businesses and thus reduced aggregate demand and lower real GDP.
6. *Building permits for houses.* Decreases in the number of building permits issued for new homes imply future declines in investment and therefore the possibility that real GDP will fall.
7. *Stock prices.* Declines in stock prices often are reflections of expected declines in corporate sales and profits. Also, lower stock prices diminish consumer wealth, leading to possible cutbacks in consumer spending. Lower stock prices also make it less attractive for firms to issue new shares of stock as a way of raising funds for investment. Thus, declines in stock prices can mean declines in future aggregate demand and real GDP.
8. *Money supply.* Decreases in the nation's money supply are associated with falling real GDP.
9. *Interest-rate spread.* Increases in short-term nominal interest rates typically reflect monetary policies designed to slow the economy. Such policies have much less effect on long-term interest rates, which usually are higher than short-term rates. So a smaller difference between short-term interest rates and long-term interest rates suggests restrictive monetary policies and potentially a future decline in GDP.
10. *Consumer expectations.* Less favorable consumer attitudes about future economic conditions, measured by an index of consumer expectations, foreshadow lower consumption spending and potential future declines in GDP.

None of these factors alone consistently predicts the future course of the economy. It is not unusual in any month, for example, for one or two of the indicators to be decreasing while

[121] ***The Conference Board Leading Economic Index*** is an American economic leading indicator intended to forecast future economic activity. It is calculated by ***the Conference Board***, a non-governmental organization, which determines the value of the index from the values of ten key variables. These variables have historically turned downward before a recession and upward before an expansion.

the other indicators are increasing. Rather, changes in the composite of the 10 components are what in the past have provided advance notice of a change in the direction of GDP. The rule of thumb is that three successive monthly declines or increases in the index indicate the economy will soon turn in that same direction.

Although the composite index has correctly signaled business fluctuations on numerous occasions, it has not been infallible. At times the index has provided false warnings of recessions that never happened. In other instances, recessions have so closely followed the downturn in the index that policymakers have not had sufficient time to make use of the "early" warning. Moreover, changing structural features of the economy have, on occasion, rendered the existing index obsolete and necessitated its revision.

Given these caveats, the index of leading indicators can best be thought of as a useful but not totally reliable signaling device that authorities must employ with considerable caution in formulating macroeconomic policy.

13.6. Internet Practice:

13.6.1. Web Activities:

- The U.S. Department of Treasury maintains a learning vault at **(www.ustreas.gov/opc).** Go to this site and click on frequently asked questions about the budget and debt to answer the following questions: What was the year the United States first had a debt? Since that year has the U.S. always had a debt? What is the current gross national debt? Has it risen or fallen from the previous year? How does the Treasury finance deficit spending? Why doesn't it just print money to pay for its expenditures?
- Go to the Congressional Budget Office Web site, **(www.cbo.gov)**, and select Historical Budget Data. Find the historical data for the actual budget deficit or surplus (total). Update column 2 of text Table 11. 1. Next, find the historical data for the standardized (full-employment) budget deficit or surplus as a percentage of potential GDP. Update column 3 of Table 11. 1. Is fiscal policy more expansionary or less expansionary than it was in 2010?

13.7. Critical Thinking & Discussion Questions:

- "Budget deficits should be avoided, even if the economy is below potential, because they reduce saving and lead to lower growth". Does this policy directive follow from the short-run or the long-run framework? Explain your answer.
- What are the two ways government can finance a budget deficit?
- List three ways in which individual debt differs from government debt.
- If all of the government's debt were internal, would financing that debt make the nation poorer?
- How can a government that isn't running a deficit still get itself into financial trouble?

Unit 14 *Money, Banking, and Monetary Policy*

"The test of our progress is not whether we add more to the abundance of those who have much; it is whether we provide enough for those who have too little"
Franklin D. Roosevelt [122]

14.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

acceptability
account:
checkable ~
checking ~
interest-bearing ~
savings ~
aggregate
barter
circulation
coins
complication
credibility
currency
deposit
expenditure(s)
flow
income
liquidity
maturity
medium
money:
fiat ~
token ~
penalty
range
receipt
swap
tax(es)
tender:
legal ~
thrift
transaction
unit
utility
value:
face ~
intrinsic ~
(un)willingness

Verbs:

to calculate
to convert
to decree
to designate
to determine
to enhance
to entail
to gauge
to insure
to intermediate
to mandate
to redeem
to reimburse
to transfer
to withdraw

Adjectives & Adverbs:

arbitrarily
constant
convenient
divisible
exchangeable
fungible
instantly
(il)legal
(il)liquid
mandatory
monetary
prior
reasonably
sizable
spendable
usable
(in)valid
verifiable

[122] ***Franklin Delano Roosevelt*** (January 30, 1882 – April 12, 1945), also known by his initials, FDR, was the 32nd President of the United States (1933–1945) and a central figure in world events during the mid-20th century, leading the United States during a time of worldwide economic depression and total war. A dominant leader of the Democratic Party and the only American president elected to more than two terms, he built a New Deal Coalition that realigned American politics after 1932, as his domestic policies defined American liberalism for the middle third of the 20th century.

14.2. Read and translate the text into Ukrainian:

MONEY, BANKING, AND MONETARY POLICY

What is money? Money is any object or record that is generally accepted as payment for goods and services and repayment of debts in a given socio-economic context or country. Any kind of object or secure verifiable record that fulfills these functions can be considered money. There is an old saying that "money is what money does". In a general sense, anything that performs the functions of money is money. Here are those functions:

Medium of exchange. First and foremost, money is a medium of exchange that is usable for buying and selling goods and services. Money, however, is readily acceptable as payment. Money is a social invention with which resource suppliers and producers can be paid and that can be used to buy any of the full range of items available in the marketplace. As a medium of exchange, money allows society to escape the complications of barter. And because it provides a convenient way of exchanging goods, money enables society to gain the advantages of geographic and human specialization.

Unit of account. Money is also a unit of account. Society uses monetary units – dollars, in the United States – as a yardstick for measuring the relative worth of a wide variety of goods, services, and resources. Just as we measure distance in miles or kilometers, we gauge the value of goods in dollars. With money as an acceptable unit of account, the price of each item need be stated only in terms of the monetary unit. We need not state the price of cows in terms of corn, crayons, and cranberries. Money aids rational decision making by enabling buyers and sellers to easily compare the prices of various goods, services, and resources. It also permits us to define debt obligations, determine taxes owed, and calculate the nation's GDP.

To function as a "unit of account", whatever is being used as money must be:

- Divisible into smaller units without loss of value; precious metals can be coined from bars, or melted down into bars again.
- Fungible: that is, one unit or piece must be perceived as equivalent to any other, which is why diamonds, works of art or real estate are not suitable as money.
- A specific weight, or measure, or size to be verifiably countable. For instance, coins are often milled with rigid edge, so that any removal of material from the coin (lowering its commodity value) will be easy to detect.

Store of value. Money also serves as a store of value that enables people to transfer purchasing power from the present to the future. People normally do not spend all their incomes on the day they receive them. In order to buy things later, they store some of their wealth as money. The money you place in a safe or a checking account will still be available to you a few weeks or months from now. Money is often the preferred store of value for short periods because it is the most liquid (spendable) of all assets. People can obtain their money nearly instantly and can immediately use it to buy goods or take advantage of financial investment opportunities. When inflation is nonexistent or mild, holding money is a relatively risk-free way to store your wealth for later use.

CURRENCY: COINS + PAPER MONEY

From copper pennies to gold-colored dollars, coins are the "small change" of our money supply. All coins in circulation in the United States are token money. This means that the intrinsic value, or the value of the metal contained in the coin itself, is less than the face value of the coin. This is to prevent people from melting down the coins for sale as a "commodity", in this case, the metal. If 50-cent pieces each contained 75 cents' worth of silver metal, it would be profitable to melt them and sell the metal. The 50-cent pieces would disappear from circulation.

Most of the nation's currency is paper money. This "folding currency" consists of Federal Reserve Notes, issued by the Federal Reserve System (the U.S. central bank) with the authorization of Congress. Every bill carries the phrase "Federal Reserve Note" on its face.

VALUE OF MONEY

So why are currency and checkable deposits money, whereas, say, Monopoly (the game) money is not? What gives a $20 bill or a $100 checking account entry its value? The answer to these questions has the following parts: *acceptability and legal tender.*

Acceptability. Currency and checkable deposits are money because people accept them as money. By virtue of long-standing business practice, currency and checkable deposits perform the basic function of money: they are acceptable as a medium of exchange. People accept paper money in exchange because we are confident it will be exchangeable for real goods, services, and resources when we spend it.

Legal Tender. The confidence in the acceptability of paper money is strengthened because government has designated currency as legal tender. Specifically, each bill contains the statement "This note is legal tender for all debts, public and private". That means paper money is a valid and legal means of payment of debt. (But private firms and government are not mandated to accept cash. It is not illegal for them to specify payment in noncash forms such as checks, cashier's checks, money orders, or credit cards).

The general acceptance of paper currency in exchange is more important than the government's decree that money is legal tender, however. The government has never decreed checks to be legal tender, and yet they serve as such in many of the economy's exchanges of goods, services, and resources. But it is true that government agencies – the Federal Deposit Insurance Corporation (FDIC)[123] and the National Credit Union Administration (NCUA)[124] – insure individual deposits of up to $100,000 at commercial banks and thrifts. That fact enhances our willingness to use checkable deposits as a medium of exchange.

RELATIVE SCARCITY

The value of money, like the economic value of anything else, depends on its supply and demand. Money derives its value from its scarcity relative to its utility (its want-satisfying power). The utility of money lies in its capacity to be exchanged for goods and services, now or in the future. The economy's demand for money thus depends on the total dollar volume of transactions in any period plus the amount of money individuals and businesses want to hold for future transactions. With a reasonably constant demand for money, the supply of money will determine the domestic value or "purchasing power" of the monetary unit (dollar, yen, peso, or whatever).

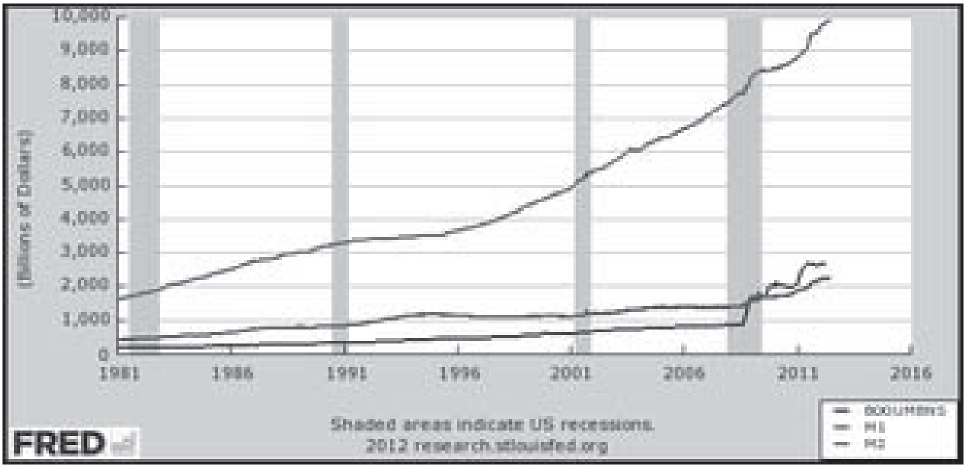
In economics, money is a broad term that refers to any financial instrument that can fulfill the functions of money. These financial instruments together are collectively referred to as the money supply of an economy. In other words, the money supply is the amount of financial instruments within a specific economy available for purchasing goods or services. Since the money supply consists of various financial instruments (usually currency, demand deposits and various other types of deposits), the amount of money in an economy is measured by adding together these financial instruments creating a monetary aggregate.

[123] ***The Federal Deposit Insurance Corporation (FDIC)*** is a United States government corporation operating as an independent agency which examines and supervises certain financial institutions for safety and soundness, performs certain consumer-protection functions, and manages banks in receiverships (failed banks).

[124] ***The National Credit Union Administration (NCUA)*** is the independent federal agency created by the U.S. Congress to regulate, charter, and supervise federal credit unions.

Figure 14.1

MONEY SUPPLY



Money Base, M1 and M2 in the US from 1981 to 2012

Modern monetary theory distinguishes among different ways to measure the money supply, reflected in different types of monetary aggregates, using a categorization system that focuses on the liquidity of the financial instrument used as money. The most commonly used monetary aggregates (or types of money) are conventionally designated *M1*, *M2* and *M3*. These are successively larger aggregate categories: *M1* is currency (coins and bills) plus demand deposits (such as checking accounts); *M2* is *M1* plus savings accounts and time deposits under $100,000; and *M3* is *M2* plus larger time deposits and similar institutional accounts. *M1* includes only the most liquid financial instruments, and *M3* relatively illiquid instruments.

Another measure of money, M0, is also used; unlike the other measures, it does not represent actual purchasing power by firms and households in the economy. M0 is base money, or the amount of money actually issued by the central bank of a country. It is measured as currency plus deposits of banks and other institutions at the central bank. M0 is also the only money that can satisfy the reserve requirements of commercial banks.

MARKET LIQUIDITY

Market liquidity describes how easily an item can be traded for another item, or into the common currency within an economy. Money is the most liquid asset because it is universally recognized and accepted as the common currency. In this way, money gives consumers the freedom to trade goods and services easily without having to barter.

Liquid financial instruments are easily tradable and have low transaction costs. There should be no (or minimal) spread between the prices to buy and sell the instrument being used as money.

MONEY AS DEBT

The major components of the money supply – paper money and checkable deposits – are debts, or promises to pay. In the United States, paper money is the circulating the debts of commercial banks and thrift institutions.

Paper currency and checkable deposits have no intrinsic value. A $5 bill is just an inscribed piece of paper. A checkable deposit is merely a bookkeeping entry. And coins have less intrinsic value than their face value. Nor will government redeem the paper money you hold for anything tangible, such as gold. In effect, the government has chosen to "manage" the nation's money supply. Its monetary authorities attempt to provide the amount of money needed for the particular volume of business activity that will promote full employment, price level stability, and economic growth.

Nearly all today's economists agree that managing the money supply is more sensible than linking it to gold or to some other commodity whose supply might change arbitrarily and capriciously. A large increase in the nation's gold stock as the result of a new gold discovery might increase the money supply too rapidly and thereby trigger rapid inflation. Or a long-lasting decline in gold production might reduce the money supply to the point where recession and unemployment resulted.

In short, people cannot convert paper money into a fixed amount of gold or any other precious commodity. Money is exchangeable only for paper money. If you ask the government to redeem $5 of your paper money, it will swap one paper $5 bill for another bearing a different serial number. That is all you can get. Similarly, checkable deposits can be redeemed not for gold but only for paper money, which, as we have just seen, the government will not redeem for anything tangible.

MONETARY POLICY

When gold and silver are used as money, the money supply can grow only if the supply of these metals is increased by mining. This rate of increase will accelerate during periods of gold rushes and discoveries, such as when Columbus discovered the New World and brought back gold and silver to Spain, or when gold was discovered in California in 1848. This causes inflation, as the value of gold goes down. However, if the rate of gold mining cannot keep up with the growth of the economy, gold becomes relatively more valuable, and prices (denominated in gold) will drop, causing deflation. Deflation was the more typical situation for over a century when gold and paper money backed by gold were used as money in the 18th and 19th centuries.

Modern day monetary systems are based on fiat money and are no longer tied to the value of gold. The control of the amount of money in the economy is known as monetary policy. Monetary policy is the process by which a government, central bank, or monetary authority manages the money supply to achieve specific goals. Usually the goal of monetary policy is to accommodate economic growth in an environment of stable prices. For example, it is clearly stated in the Federal Reserve Act that the Board of Governors and the Federal Open Market Committee should seek "to promote effectively the goals of maximum employment, stable prices, and moderate long-term interest rates".

A failed monetary policy can have significant detrimental effects on an economy and the society that depends on it. These include hyperinflation, stagflation, recession, high unemployment, shortages of imported goods, inability to export goods, and even total monetary collapse and the adoption of a much less efficient barter economy. This happened in Ukraine, for instance, after the fall of the Soviet Union.

Governments and central banks have taken both regulatory and free market approaches to monetary policy. Some of the tools used to control the money supply include:

- changing the interest rate at which the central bank loans money to (or borrows money from) the commercial banks;
- currency purchases or sales;
- increasing or lowering government borrowing;
- increasing or lowering government spending;
- manipulation of exchange rates;

- raising or lowering bank reserve requirements;
- regulation or prohibition of private currencies;
- taxation or tax breaks on imports or exports of capital into a country.

In the US, the Federal Reserve is responsible for controlling the money supply, while in the Euro area the respective institution is the European Central Bank. Other central banks with significant impact on global finances are the Bank of Japan, People's Bank of China and the Bank of England.

For many years much of monetary policy was influenced by an economic theory known as monetarism. Monetarism is an economic theory which argues that management of the money supply should be the primary means of regulating economic activity. The stability of the demand for money prior to the 1980s was a key finding of Milton Friedman and Anna Schwartz supported by the work of David Laidler, and many others. The nature of the demand for money changed during the 1980s owing to technical, institutional, and legal factors and the influence of monetarism has since decreased. However, since the emergence of new dynamic models (such as New Keynesian DSGE[125] models), some authors show that money has a role on the economy and business cycles depending on the households' risk aversion level.

Text Summary

- First and foremost, money is a medium of exchange that is usable for buying and selling goods and services.
- Money is also a unit of account. Money aids rational decision making by enabling buyers and sellers to easily compare the prices of various goods, services, and resources. It also permits us to define debt obligations, determine taxes owed, and calculate the nation's GDP.
- The confidence in the acceptability of paper money is strengthened because government has designated currency as legal tender. Specifically, each bill contains the statement "This note is legal tender for all debts, public and private". That means paper money is a valid and legal means of payment of debt.
- With a reasonably constant demand for money, the supply of money will determine the domestic value or "purchasing power" of the monetary unit (dollar, yen, peso, or whatever).
- Market liquidity describes how easily an item can be traded for another item, or into the common currency within an economy. Money is the most liquid asset because it is universally recognized and accepted as the common currency.

14.3. Language Practice:

14.3.1. Multiple Choice:

1. When money is used to ..... the exchange of goods and services, it is performing a function as a medium of exchange.

a) insure;
b) intermediate;
c) decree.

[125] ***Dynamic stochastic general equilibrium*** modeling (abbreviated ***DSGE*** or sometimes ***SDGE*** or ***DGE***) is a branch of applied general equilibrium theory that is influential in contemporary macroeconomics. The DSGE methodology attempts to explain aggregate economic phenomena, such as economic growth, business cycles, and the effects of monetary and fiscal policy, on the basis of macroeconomic models derived from microeconomic principles.

2. ..... is one unit or piece which must be perceived as equivalent to any other, which is why diamonds, works of art or real estate are not suitable as money.
a) Fungible;
b) Available;
c) Equal.

3. Token money means that the ..... value, or the value of the metal contained in the coin itself, is less than the face value of the coin.
a) scarce;
b) intrinsic;
c) natural.

4. Market ..... describes how easily an item can be traded for another item, or into the common currency within an economy.
a) liquidity;
b) assets;
c) capacity.

5. The government will not ..... the paper money you hold for anything tangible, such as gold.
a) reimburse;
b) purchase;
c) redeem.

6. The most commonly used monetary ..... (or types of money) are conventionally designated *M1*, *M2* and *M3*.
a) means;
b) tools;
c) aggregates.

7. Monetarism is an economic theory which argues that management of the money ..... should be the primary means of regulating economic activity.
a) surplus;
b) demand;
c) supply.

14.3.2. Key Terms – Matching:

1.	Checkable deposit	a)	– a system of exchange by which goods or services are directly exchanged for other goods or services without using a medium of exchange, such as money;
2.	Fiat money	b)	– the value of a coin, stamp or paper money, as printed on the coin, stamp or bill itself by the minting authority;
3.	Token money	c)	– money that derives its value from government regulation or law;
4.	Legal tender	d)	– most modern coins used in circulation as are paper notes;
5.	Money supply	e)	– is an asset's ability to be sold without causing a significant movement in the price and with minimum loss of value;
6.	Barter	f)	– a medium of payment allowed by law or recognized by a legal system to be valid for meeting a financial obligation;
7.	Face value	g)	– a checking account deposit maintained by a bank, savings and loan association, credit union, or mutual savings bank. These accounts, also termed transactions deposits, let customers transfer funds easily and quickly to another person, which makes them ideally suited for use as money;

8.	Intrinsic value	h)	– is the process by which the authority of a country controls the supply of money, often targeting a rate of interest for the purpose of promoting economic growth and stability;
9.	Market liquidity	i)	– the total amount of monetary assets available in an economy at a specific time;
10.	Monetary policy	j)	– refers to the actual value of a company or stock determined through fundamental analysis without reference to its market value.

14.3.3. Please explain the meaning of the following words and word combinations in English:

Checkable deposit, medium of exchange, unit of account, store of value, acceptability, legal tender, money supply, intrinsic value, face value, token money, fiat money, monetary policy, market liquidity, barter, monetary policy.

14.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~*responsibilities*~~ authority stable interest rates confirmed depository institutions entitles maintaining monetary policy general public

FEDERAL RESERVE SYSTEM

The Federal Reserve System (also known as the Federal Reserve, and informally as the Fed) is the central banking system of the United States. It was created on December 23, 1913, with the enactment of the Federal Reserve Act, largely in response to a series of financial panics, particularly a severe panic in 1907. Over time, the roles and (1) *responsibilities* of the Federal Reserve System have expanded and its structure has evolved. Events such as the Great Depression were major factors leading to changes in the system.

The US Congress[126] established three key objectives for (2) _____ in the Federal Reserve Act: maximum employment, (3) _____ prices, and moderate long-term (4) _____. Its duties have expanded over the years, and today, according to official Federal Reserve documentation, include conducting the nation's monetary policy, supervising and regulating banking institutions, (5) _____ the stability of the financial system and providing financial services to (6) _____, the U.S. government, and foreign official institutions. The Fed also conducts research into the economy and releases numerous publications, such as the Beige Book[127].

The Federal Reserve System has both private and public components, and was designed to serve the interests of both the (7) _____ and private bankers. The result is a structure that is considered unique among central banks.

The (8) _____ of the Federal Reserve System is derived from statutes enacted by the U.S. Congress and the System is subject to congressional oversight. The members of the Board of Governors, including its chairman and vice-chairman, are chosen by the President and

[126] ***The United States Congress*** is the bicameral legislature of the federal government of the United States consisting of two houses: the House of Representatives and the Senate. Congress meets in the Capitol in Washington, D.C.

[127] ***The Beige Book***, more formally called the Summary of Commentary on Current Economic Conditions, is a report published by the United States Federal Reserve Board eight times a year.

(9) ______ by the Senate[128]. The government also exercises some control over the Federal Reserve by appointing and setting the salaries of the system's highest-level employees. Nationally chartered commercial banks are required to hold stock in the Federal Reserve Bank of their region; this (10) _____ them to elect some of the members of the board of the regional Federal Reserve Bank.

14.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the adjective ***valid**:* *1) binding, sound, effectual, logical, reasoned, sound, well-grounded;* *2) legal, legitimate, validated.*

14.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Міра вартості, засіб обігу, засіб нагромадження, засіб збереження вартості, засіб платежу, погашення боргових зобов'язань, номінальна вартість, купівельна спроможність грошей, грошовий агрегат, платіжний засіб, залишок на поточному рахунку, нерозмінні паперові гроші, розмінна монета, регламентація грошового обігу, прийнятність, грошова маса, цінність, грошовий знак, грошово-кредитна політика, ліквідність ринку, бартер, товарні гроші, міжбанківські розрахунки, золотовалютні резерви, емісія національної валюти.

14.4.2. Please translate the following sentences into Ukrainian:

1. Monetary policy, to a great extent, is the management of expectations. Monetary policy rests on the relationship between the rates of interest in an economy, that is, the price at which money can be borrowed, and the total supply of money. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment.
2. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks which are tied to a central bank, the monetary authority has the ability to alter the money supply and thus influence the interest rate (to achieve policy goals). The beginning of monetary policy as such comes from the late 19th century, where it was used to maintain the gold standard.
3. A policy is referred to as contractionary if it reduces the size of the money supply or increases it only slowly, or if it raises the interest rate. An expansionary policy increases the size of the money supply more rapidly, or decreases the interest rate. Furthermore, monetary policies are described as follows: accommodative, if the interest rate set by the central monetary authority is intended to create economic growth; neutral, if it is intended neither to create growth nor combat inflation; or tight if intended to reduce inflation.
4. There are several monetary policy tools available to achieve these ends: increasing interest rates by fiat; reducing the monetary base; and increasing reserve requirements. All have the effect of contracting the money supply; and, if reversed, expand the money supply. Since the 1970s, monetary policy has generally been formed separately from fiscal policy.

[128] ***The United States Senate*** is a legislative chamber in the bicameral legislature of the United States of America, and together with the U.S. House of Representatives makes up the U.S. Congress.

5. Within almost all modern nations, special institutions (such as the Federal Reserve System in the United States, the Bank of England, the European Central Bank, the People's Bank of China, and the Bank of Japan) exist which have the task of executing the monetary policy and often independently of the executive. In general, these institutions are called central banks and often have other responsibilities such as supervising the smooth operation of the financial system.
6. The primary tool of monetary policy is open market operations. This entails managing the quantity of money in circulation through the buying and selling of various financial instruments, such as treasury bills, company bonds, or foreign currencies. All of these purchases or sales result in more or less base currency entering or leaving market circulation.
7. Usually, the short term goal of open market operations is to achieve a specific short term interest rate target. In other instances, monetary policy might instead entail the targeting of a specific exchange rate relative to some foreign currency or else relative to gold.
8. To achieve the low level of inflation, policymakers must have credible announcements; that is, private agents must believe that these announcements will reflect actual future policy. If an announcement about low-level inflation targets is made but not believed by private agents, wage-setting will anticipate high-level inflation and so wages will be higher and inflation will rise. A high wage will increase a consumer's demand (demand pull inflation) and a firm's costs (cost push inflation), so inflation rises. Hence, if a policymaker's announcements regarding monetary policy are not credible, policy will not have the desired effect.
9. While a central bank might have a favorable reputation due to good performance in conducting monetary policy, the same central bank might not have chosen any particular form of commitment (such as targeting a certain range for inflation). Reputation plays a crucial role in determining how much markets would believe the announcement of a particular commitment to a policy goal but both concepts should not be assimilated.
10. Despite the frequent discussion of credibility as it relates to monetary policy, the exact meaning of credibility is rarely defined. Such lack of clarity can serve to lead policy away from what is believed to be the most beneficial. For example, capability to serve the public interest is one definition of credibility often associated with central banks. The reliability with which a central bank keeps its promises is also a common definition.

14.4.3. Please translate the following sentences into English:

1. Гроші – це особливий товар (універсальний), який є загальною еквівалентною формою вартості інших товарів. Гроші виконують функції міри вартості та засобу обігу. Крім того, вони є засобами нагромадження та платежу. З утворенням світового ринку, деякі національні гроші виконують функції світових.
2. Міра вартості – це функція, в якій гроші забезпечують вираження і вимірювання вартості товарів, надаючи їй форму ціни. Для забезпечення виконання грошима функції міри вартості держава у законодавчому порядку впроваджує масштаб цін та встановлює певну грошову одиницю розрахунків – національну валюту.
3. Засіб обігу – це функція, в якій гроші є посередником в обміні товарів і забезпечують їх обіг. Засіб нагромадження – це функція, що пов'язана із здатністю грошей бути засобом збереження вартості, представником абстрактної форми багатства. Сутність цієї функції полягає в тому, що гроші виходять зі сфери обігу й перетворюються на скарб.

4. Засіб платежу – це функція, в якій гроші обслуговують погашення різноманітних боргових зобов'язань між суб'єктами економічних відносин, що виникають у процесі розширеного відтворення. Світові гроші – це функція, в якій гроші обслуговують рух вартості в міжнародному економічному обороті і забезпечують реалізацію взаємовідносин між країнами.
5. За критерієм матеріально-речового змісту розрізняють дві групи носіїв грошових властивостей: повноцінні (товарні та металеві) і неповноцінні (паперові та кредитні). Повноцінні – це гроші, номінальна вартість яких відповідає вартості благородного металу, що міститься в них. До повноцінних відносять товарні та металеві гроші. Неповноцінні гроші – це гроші, які не мають власної субстанціональної вартості. До них належать паперові, кредитні гроші та білонна монета.
6. Товарні гроші – це різновид грошей, які є товаром (наприклад худоба, зерно, мушлі, хутро тощо). Тобто, це ті предмети, які можна безпосередньо використовувати як еквівалент вартості інших товарів. Купівельна спроможність товарних грошей ґрунтується на вартості, властивій конкретному товару, який виступає в ролі грошей. Металеві гроші спочатку з'явилися як шматки металу різної форми та ваги, з часом вони трансформувалися у форму монет.
7. Паперові гроші – це гроші, що не мають самостійної вартості, або ця вартість неспівставна з номіналом. Вони випускаються державою для покриття своїх (бюджетних) витрат і наділяються нею (державою) примусовим курсом, визнаються законним платіжним засобом на всій території.
8. Грошові агрегати – це різновид грошей та грошових засобів, які відрізняються один від одного своєю ліквідністю, тобто можливістю швидкого перетворення в готівку. Грошові агрегати – це зобов'язання депозитних корпорацій перед іншими секторами економіки, окрім сектора загального державного управління та інших депозитних корпорацій. Залежно від зниження ступеня ліквідності фінансові активи групують у різні грошові агрегати *М0*, *М1*, *М2* та *М3*.
9. Відповідно до методологічних правил НБУ виділяють грошові агрегати різного складу:
   - *М0* включає готівкові кошти в обігу поза депозитними корпораціями;
   - *М1* – це грошовий агрегат *М0* та переказні депозити в національній валюті;
   - *М2* – це грошовий агрегат *М1* та переказні депозити в іноземній валюті й інші депозити;
   - *М3* (грошова маса) – це грошовий агрегат *М2* та цінні папери, окрім акцій.
10. Вартість грошей, як засобу обігу, визначається їх купівельною спроможністю. Купівельна спроможність не обов'язково повинна бути обумовлена реальною вартістю, наприклад, вартістю золота, з якого гроші виготовлені або на яке вони легко і гарантовано можуть бути обмінені (золотий запас). Вона (купівельна спроможність) визначається довірою до емітента власників грошових коштів.

14.4.4. Please make an English summary of the following text:

НАЦІОНАЛЬНИЙ БАНК УКРАЇНИ

Національний банк України (НБУ) є особливим центральним органом державного управління, його емісійним центром, що проводить єдину державну політику в галузі грошового обігу, кредитування, зміцнення грошової одиниці України – гривні.

Національний банк організовує міжбанківські розрахунки, координує діяльність банківської системи в цілому, визначає курс грошової одиниці відносно валют інших країн. Національний банк визначає вид грошових знаків, їхній номінал, відмінні ознаки і систему захисту. Національний банк України зберігає резервні фонди грошових знаків, дорогоцінні метали та золотовалютні запаси, накопичує золотовалютні резерви і здійснює операції з ними та банківськими металами. Національний банк України встановлює порядок визначення облікової ставки та інших відсоткових ставок за своїми операціями, дає дозвіл на створення комерційних банків шляхом їхньої реєстрації та видає ліцензії на виконання банківських операцій, встановлює банкам та іншим фінансово-кредитним установам нормативи обов'язкового резервування коштів.

Національний банк виконує такі функції:

- визначає та проводить грошово-кредитну політику;
- монопольно здійснює емісію національної валюти України та організує її обіг;
- виступає кредитором останньої інстанції для банків й організує систему рефінансування;
- встановлює правила проведення банківських операцій, бухгалтерського обліку і звітності, захисту інформації, коштів та майна;
- визначає напрями розвитку сучасних електронних банківських технологій, створює, координує та контролює створення електронних платіжних засобів, платіжних систем, автоматизації банківської діяльності та засобів захисту банківської інформації;
- здійснює банківське регулювання та нагляд;
- представляє інтереси України в центральних банках інших держав, міжнародних банках та інших кредитних установах, де співробітництво здійснюється на рівні центральних банків;
- здійснює, відповідно до визначених спеціальним законом повноважень, валютне регулювання, визначає порядок здійснення операцій в іноземній валюті, організовує і здійснює валютний контроль за банками та іншими фінансовими установами, які отримали ліцензію Національного банку на здійснення валютних операцій;
- забезпечує накопичення і зберігання золото-валютних резервів та здійснення операцій з ними та банківськими металами;
- аналізує стан грошово-кредитних, фінансових, цінових та валютних відносин;
- реалізує державну політику з питань захисту державних секретів у системі Національного банку.

14.5. Reading Practice:

14.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: THE BANK OF ENGLAND

The Bank of England, formally the Governor and Company of the Bank of England, is the central bank of the United Kingdom and the model on which most modern central banks have been based. Established in 1694, it is the second oldest central bank in the world, after the Sveriges Riksbank[129], and the world's 8th oldest bank. It was established to act as the English

[129] ***Sveriges Riksbank***, or simply ***Riksbanken***, is the central bank of Sweden. It is the world's oldest central bank and the world's 4th oldest bank still in operation. It is sometimes called the ***Swedish National Bank*** or the ***Bank of Sweden*** (not to be confused with Swedbank, a retail bank).

Government's banker, and to this day it still acts as the banker for HM Government[130]. The Bank was privately owned and operated from its foundation in 1694. It was nationalized in 1946.

In 1998, it became an independent public organization, wholly owned by the Treasury Solicitor on behalf of the Government, with independence in setting monetary policy.

The Bank is one of eight banks authorized to issue banknotes in the United Kingdom, but has a monopoly on the issue of banknotes in England and Wales and regulates the issue of banknotes by commercial banks in Scotland and Northern Ireland.

The Bank's Monetary Policy Committee has devolved responsibility for managing the monetary policy of the country. The Treasury has reserve powers to give orders to the committee "if they are required in the public interest and by extreme economic circumstances" but such orders must be endorsed by Parliament within 28 days. The Bank's Financial Policy Committee held its first meeting in June 2011 as a macro prudential regulator to oversee regulation of the UK's financial sector.

The Bank's headquarters has been located in London's main financial district, the City of London, on Threadneedle Street, since 1734. It is sometimes known by the metonym *The Old Lady of Threadneedle Street* or simply *The Old Lady*, a name taken from the legend of Sarah Whitehead[131], whose ghost is said to haunt the bank's garden. The busy road junction outside is known as Bank junction.

The current Governor of the Bank of England is Sir Mervyn King, who took over on 30 June 2003 from Sir Edward George. King will be succeeded by Canadian Mark Carney, who is the current Governor of the Bank of Canada. Carney will serve an initial five year term, rather than the typical eight, and will seek UK citizenship. He is also notable for being the first non-Briton to hold the post.

FUNCTIONS OF THE BANK

The Bank of England performs all the functions of a central bank. The most important of these is supposed to be maintaining price stability and supporting the economic policies of the British Government, thus promoting economic growth. There are two main areas which are tackled by the Bank to ensure it carries out these functions efficiently.

Monetary stability. Stable prices and confidence in the currency are the two main criteria for monetary stability. Stable prices are maintained by making sure price increases meet the Government's inflation target. The Bank aims to meet this target by adjusting the base interest rate, which is decided by the Monetary Policy Committee, and through its communications strategy, such as publishing yield curves.

Financial stability. Maintaining financial stability involves protecting against threats to the whole financial system. Threats are detected by the Bank's surveillance and market intelligence functions. The threats are then dealt with through financial and other operations, both at home and abroad. In exceptional circumstances, the Bank may act as the lender of last resort by extending credit when no other institution will.

<u>Text 2</u>: THE HISTORY OF MONEY

The use of barter-like methods may date back to at least 100,000 years ago, though there is no evidence of a society or economy that relied primarily on barter. Instead, non-monetary

[130] ***Her Majesty's Government*** of the United Kingdom contains a number of Cabinet ministers who are usually called secretaries of state when they are in charge of Government departments called ministerial departments. These members of the Cabinet are supported by civil servants in ministerial departments.

[131] ***Sarah Whitehead***, also known as ***The Black Nun***, is the name of the woman whose ghost is said to haunt the Bank of England**.**

societies operated largely along the principles of gift economics and debt. When barter did in fact occur, it was usually between either complete strangers or potential enemies.

Many cultures around the world eventually developed the use of commodity money. The shekel was originally a unit of weight, and referred to a specific weight of barley, which was used as currency. The first usage of the term came from Mesopotamia circa 3000 BC. Societies in the Americas, Asia, Africa and Australia used shell money – often, the shells of the money cowry (*Cypraea moneta L.* or *C. annulus L.*). According to Herodotus[132], the Lydians were the first people to introduce the use of gold and silver coins. It is thought by modern scholars that these first stamped coins were minted around 650–600 BC.

The system of commodity money eventually evolved into a system of representative money. This occurred because gold and silver merchants or banks would issue receipts to their depositors – redeemable for the commodity money deposited. Eventually, these receipts became generally accepted as a means of payment and were used as money. Paper money or banknotes were first used in China during the Song Dynasty[133]. These banknotes, known as "jiaozi", evolved from promissory notes that had been used since the 7th century. However, they did not displace commodity money, and were used alongside coins. In the 13th century, paper money became known in Europe through the accounts of travelers, such as Marco Polo[134] and William of Rubruck[135]. Marco Polo's account of paper money during the Yuan Dynasty is the subject of a chapter of his book, *"The Travels of Marco Polo"*, titled *"How the Great Kaan Causeth the Bark of Trees, Made Into Something Like Paper, to Pass for Money All Over his Country"*. Banknotes were first issued in Europe by Stockholms Banco[136] in 1661, and were again also used alongside coins. The gold standard, a monetary system where the medium of exchange are paper notes that are convertible into pre-set, fixed quantities of gold, replaced the use of gold coins as currency in the 17th-19th centuries in Europe. These gold standard notes were made legal tender, and redemption into gold coins was discouraged. By the beginning of the 20th century almost all countries had adopted the gold standard, backing their legal tender notes with fixed amounts of gold.

After World War II, at the Bretton Woods Conference, most countries adopted fiat currencies that were fixed to the US dollar. The US dollar was in turn fixed to gold. In 1971 the US government suspended the convertibility of the US dollar to gold. After this many countries de-pegged their currencies from the US dollar, and most of the world's currencies became unbacked by anything except the governments' fiat of legal tender and the ability to convert the money into goods via payment.

Text 3: THE BANK PANICS OF 1930 TO 1933

A series of bank panics in the early 1930s resulted in a multiple contraction of the money supply.

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[132] ***Herodotus*** was an ancient Greek historian who was born in Halicarnassus, Caria (modern day Bodrum, Turkey) and lived in the fifth century BC (c. 484–425 BC).

[133] ***The Song Dynasty*** was a ruling dynasty in China between 960 and 1279; it succeeded the Five Dynasties and Ten Kingdoms Period, and was followed by the Yuan Dynasty. It was the first government in world history to nationally issue banknotes or true paper money, and the first Chinese government to establish a permanent standing navy. This dynasty also saw the first known use of gunpowder, as well as first discernment of true north using a compass.

[134] ***Marco Polo*** *(*1254–1324) was a Venetian merchant traveler whose travels are recorded in *Livres des merveilles du monde*, a book which did much to introduce Europeans to Central Asia and China.

[135] ***William of Rubruck*** (1220–1293) was a Flemish Franciscan missionary and explorer. His account is one of the masterpieces of medieval geographical literature comparable to that of Marco Polo.

[136] ***Stockholms Banco*** (also known as the Bank of Palmstruch or Palmstruch Bank) in Sweden was the first European bank to print banknotes.

In the early months of the Great Depression, before there was deposit insurance, several financially weak banks went out of business. As word spread that customers of those banks had lost their deposits, a general concern arose that something similar could happen at other banks. Depositors became frightened that their banks did not, in fact, still have all the money they had deposited. And, of course, in a fractional reserve banking system, that is the reality. Acting on their fears, people en masse tried to withdraw currency – that is, to "cash out" their accounts – from their banks. They wanted to get their money before it was all gone. Economists liken this sort of collective response to "herd" or "flock" behavior. The sudden "run on the banks" caused many previously financially sound banks to declare bankruptcy. More than 9,000 banks failed within 3 years.

The massive conversion of checkable deposits to currency during 1930 to 1933 reduced the nation's money supply. This might seem strange, since a check written for "cash" reduces checkable-deposit money and increases currency in the hands of the public by the same amount. So how does the money supply decline? Our discussion of the money-creation process provides the answer, but now the story becomes one of money destruction.

Suppose that people collectively cash out $10 billion from their checking accounts. As an immediate result, checkable deposit money declines by $10 billion, while currency held by the public increases by $10 billion. But here is the catch: assuming a reserve ratio of 20 percent, the $10 billion of currency in the banks had been supporting $50 billion of deposit money, the $10 billion of deposits plus $40 billion created through loans. The $10 billion withdrawal of currency forces banks to reduce loans (and thus checkable-deposit money) by $40 billion to continue to meet their reserve requirement. In short, a $40 billion destruction of deposit money occurs. This is the scenario that occurred in the early years of the 1930s.

Accompanying this multiple contraction of checkable deposits was the banks' "scramble for liquidity" to try to meet further withdrawals of currency. To obtain more currency, they sold many of their holdings of government securities to the public. You know that a bank's sale of government securities to the public, like a reduction in loans, reduces the money supply. People write checks for the securities, reducing their checkable deposits, and the bank uses the currency it obtains to meet the ongoing bank run. In short, the loss of reserves from the banking system, in conjunction with the scramble for security, reduced the amount of checkable-deposit money by far more than the increase in currency in the hands of the public. Thus, the money supply collapsed.

In 1933, President Franklin Roosevelt ended the bank panics by declaring a "national bank holiday" which closed all national banks for one week and resulted in the federally insured deposit program. Meanwhile, the nation's money supply had plummeted by 25 percent, the largest such drop in U.S. history. This decline in the money supply contributed to the nation's deepest and longest depression.

Today, a multiple contraction of the money supply of the 1930–1933 magnitude is unthinkable. FDIC[137] insurance has kept individual bank failures from becoming general panics. Also, while the Fed stood idly by during the bank panics of 1930 to 1933, today it would take immediate and dramatic actions to maintain the banking system's reserves and the nation's money supply.

[137] ***The Federal Deposit Insurance Corporation (FDIC)*** is a United States government corporation operating as an independent agency created by the Banking Act of 1933. As of January 2013, it provides deposit insurance guaranteeing the safety of a depositor's accounts in member banks up to $250,000 for each deposit ownership category in each insured bank.

14.6. Internet Practice:

14.6.1. Web Activities:

- ***Who are the Members of the Federal Reserve Board?*** The Federal Reserve Board Web site, (**www. federalreserve.gov/BIOS/),** provides a detailed biography of the seven members of the Board of Governors. What is the composition of the Board with regard to age, gender, education, previous employment, and ethnic background? Which Board members are near the ends of their terms?
- Visit the Web site of the Federal Reserve Bank of Atlanta, (**www.frbatlanta.org/publica/brochure/fundfac/money.htm),** to answer the following questions: What are the denominations of Federal Reserve Notes now being printed? What was the largest-denomination Federal Reserve Note ever printed and circulated, and when was it last printed? What are some tips for spotting counterfeit currency? When was the last silver dollar minted? What have been the largest and smallest U.S. coin denominations since the Coinage Act of 1792?

14.7. Critical Thinking & Discussion Questions:

- What are the three basic functions of money? Describe how rapid inflation can undermine money's ability to perform each of the three functions.
- What are the components of the *M* 1 money supply? What is the largest component? Which of the components of *M* 1 is legal tender? Why is the face value of a coin greater than its intrinsic value? What near-monies are included in the *M* 2 money supply?
- What "backs" the money supply in the United States? What determines the value (domestic purchasing power) of money? How does the purchasing power of money relate to the price level? Who in the United States is responsible for maintaining money's purchasing power?
- What is meant when economists say that the Federal Reserve Banks are central banks, quasi-public banks, and bankers' banks? What are the seven basic functions?
- What are the major categories of firms that make up the U.S. financial services industry? Did the bank and thrift share of the financial services market rise, fall, or stay the same between 1990 and 2010? Are there more or fewer bank firms today than a decade ago? Why are the lines between the categories of financial firms becoming more blurred than in the past?

Self-Assessments (Module 3)

1. Key Terms – Matching:

1.	Business cycle	a)	– the amount of goods and services produced by a firm, industry, or country during a specific time period, such as a year;
2.	Unemployment rate	b)	– a term that indicates a slowdown in economic activity;
3.	Output	c)	– official lowering of the value of a country's currency within a fixed exchange rate system, by which the monetary authority formally sets a new fixed rate with respect to a foreign reference currency;

4.	Devaluation	d)	– is a disparity between the amount demanded for a product or service and the amount supplied in a market;
5.	Face value	e)	– refers to the actual value of a company or stock determined through fundamental analysis without reference to its market value;
6.	Shortage	f)	– the value of a coin, stamp or paper money, as printed on the coin, stamp or bill itself by the minting authority;
7.	Intrinsic value	g)	– payments made by the state or other authorized bodies to unemployed people;
8.	Unemployment benefits	h)	– refers to economy-wide fluctuations in production, trade and economic activity in general over several months or years in an economy organized on free-enterprise principles;
9.	Deflation	i)	– is a decrease in the general price level of goods and services;
10.	Recession	j)	– the percentage of people in the economy who are willing and able to work but who are not working.

2. Define the following terms:

Economic growth – …
Unemployment – …
Inflation – …
Currency depreciation – …
Debt – …
Deficit – …
Surplus – …
GDP – …
Legal tender – …
Monetary policy – …

3. Translate the following text into Ukrainian:

SAY'S LAW, THE GREAT DEPRESSION, AND KEYNES

The aggregate expenditure theory emerged as critique of classical economics and as a response to the Great Depression.

Until the Great Depression of the 1930s, many prominent economists, including David Ricardo (1772–1823) and John Stuart Mill (1806–1873), believed that the market system would ensure full employment of an economy's resources. These so-called classical economists acknowledged that now and then abnormal circumstances such as wars, political upheavals, droughts, speculative crises, and gold rushes would occur, deflecting the economy from full-employment status. But when such deviations occurred, the economy would automatically adjust and soon return to full-employment output. For example, a slump in output and employment would result in lower prices, wages, and interest rates, which in turn would increase consumer spending, employment, and investment spending. Any excess supply of goods and workers would soon be eliminated.

Classical macroeconomists denied that the level of spending in an economy could be too low to bring about the purchase of the entire full-employment output. They based their denial of inadequate spending in part on *Say's law*[138], attributed to French economist J. B. Say[139] (1767–1832). This law is the disarmingly simple idea that the very act of producing goods generates income equal to the value of the goods produced. The production of any output automatically provides the income needed to buy that output. More succinctly stated supply creates its own demand.

Say's law can best be understood in terms of a barter economy. A woodworker, for example, produces or supplies furniture as a means of buying or demanding the food and clothing produced by other workers. The woodworker's supply of furniture is the income that he will "spend" to satisfy his demand for other goods. The goods he buys (demands) will have a total value exactly equal to the goods he produces (supplies). And so it is for other producers and for the entire economy. Demand must be the same as supply!

Assuming that the composition of output is in accord with consumer preferences, all markets would be cleared of their outputs. Say's law guarantees there will be sufficient spending to purchase it all. The Great Depression of the 1930s called into question the theory that supply creates its own demand (Say's law). In theUnited States, real GDP declined by 40 percent and the unemployment rate rocketed to nearly 25 percent. Other nations experienced similar impacts. And cyclical unemployment lingered for a decade. In 1936 British economist John Maynard Keynes (1883–1946) explained why cyclical unemployment could occur in a market economy. In his *General Theory of Employment, Interest, and Money,* Keynes attacked the foundations of classical theory and developed the ideas underlying the aggregate expenditures model. Keynes disputed Say's law, pointing out that not all income need to be spent in the same period that it is produced.

Investment spending, in particular, is volatile, said Keynes. A substantial decline in investment will lead to insufficient total spending. Unsold goods will accumulate in producers' warehouses, and producers will respond by reducing their output and discharging workers. A recession or depression will result, and widespread cyclical unemployment will occur. Moreover, said Keynes, recessions or depressions are not likely to correct themselves. In contrast to the more laissez-faire view of the classical economists, Keynes argued that government should play an active role in stabilizing the economy.

4. Make an English summary of the following text:

ОСНОВНІ МАКРОЕКОНОМІЧНІ ПОКАЗНИКИ

Економічна діяльність будь-якого суспільства здійснюється такими суб'єктами, як домогосподарства, підприємства (фірми) та держава. У процесі такої діяльності між усіма її суб'єктами формується розгалужена система взаємозв'язків, що надають їй цілісного, системного характеру. Це і зумовлює, з одного боку, сукупну результативність цієї системи, що перевищує сумарний результат її складових частин, а з іншого – закономірності, що регулюють її діяльність. Макроекономіка і є тією складовою економічної теорії, що вивчає такі закономірності. Цей розділ економічної

[138] ***Say's law***, or the ***law of market***, is an economic principle of classical economics named after the French businessman and economist ***Jean-Baptiste Say*** (1767–1832), who stated that "products are paid for with products" and "a glut can take place only when there are too many means of production applied to one kind of product and not enough to another". In Say's view, a rational businessman will never hoard money; he will promptly spend any money he gets "for the value of money is also perishable".

[139] ***Jean-Baptiste Say*** (5 January 1767 – 15 November 1832) was a French economist and businessman. He had classically liberal views and argued in favor of competition, free trade, and lifting restraints on business. He is best known due to Say's Law, which is named after him and at times credited to him, but while he discussed and popularized it, he did not originate it.

науки досліджує економіку як ціле, а також такі її складові, як домогосподарства, бізнес, державний сектор, та використовує при цьому узагальнені (сумарні) показники.

Макроекономіка дає можливість вивчити не лише взаємодію елементів економічної системи, а й роль економічних факторів у її розвитку. Ця галузь економіки допомагає віднайти відповіді на такі питання: чому одна країна багатша за іншу? Як можна подолати інфляцію? Якими є причини безробіття? Якою є економічна політика держави? Які є методи впливу грошового обігу і кредитної системи на економіку? По суті, це вчення про загальний рівень національного обсягу виробництва, зайнятості, безробіття, інфляції, стан платіжного балансу країни.

Макроекономіка тісно пов'язана з мікроекономікою. Вивчення макроекономічних процесів неможливе без знання законів попиту і пропозиції, формування витрат виробництва і цін на товари та економічні ресурси. Подібно до того, як неможливо розкрити закономірності функціонування живого організму без знання законів клітини, без розуміння законів мікроекономіки не можна виявити закономірності функціонування макроекономіки.

Макроекономічний аналіз започаткував один із класиків-фізіократів Франсуа Кене у своїй праці *"Економічні таблиці"*. Це була перша спроба здійснення аналізу суспільного відтворення. Великий внесок у цей процес зробив Карл Маркс, здійснивши дослідження відтворення суспільного капіталу. Французький економіст Леон Вальрас заклав основи загальної теорії рівноваги, на основі якої сформувалася макроекономіка.

У сучасному своєму вигляді поняття макроекономіки було сформульоване Джоном Кейнсом в його праці *"Загальна теорія зайнятості, процента і грошей"*. Він переконливо показав, що досягти стійкого зростання виробництва в масштабі всієї країни і забезпечити повну зайнятість неможливо без участі держави у сфері економіки. Цим зумовлюється потреба з'ясування тих закономірностей, що регулюють розвиток усієї економіки.

Вивчення макроекономіки в сучасних умовах має важливе значення, оскільки дозволяє науково обґрунтувати ту економічну політику, яку здійснює держава. Уряд будь-якої країни, регулюючи економічну діяльність суспільства, повинен володіти інструментами макроекономіки та вибирати з альтернативних варіантів розвитку економіки найефективніші.

5. Write a 100-300 word essay and prepare an oral presentation on any of the topics given below using new vocabulary:

- The first panacea for a mismanaged nation is inflation of the currency; the second is war. Both bring a temporary prosperity; both bring a permanent ruin. But both are the refuge of political and economic opportunists. – *Ernest Hemingway*
- A man willing to work, and unable to find work, is perhaps the saddest sight that fortune's inequality exhibits under this sun. – *Thomas Carlyle*
- The hardest work in the world is being out of work. – *Whitney Young, Jr.*
- In God we trust; all others must pay cash. – *American Saying*
- Another way to solve the traffic problems of this country is to pass a law that only paid-for cars be allowed to use the highways. – *Will Roger*
- Before borrowing money from a friend, decide which you need most. – *American Proverb*
- The hardest thing to understand in the world is the income tax. – *Albert Einstein*
- The lack of money is the root of all evil. – *Mark Twain*

MODULE 4

International Economics & Global Business Today

15

What Globalization Is?

16

Country Differences (in Economic Development)

17

International Trade Theory

18

Regional Economic Integration

19

Ukraine's World Economic Integration

A fundamental shift is occurring in the world economy. We are moving away from a world in which national economies were relatively self-contained entities, isolated from each other by barriers to cross-border trade and investment; by distance, time zones, and language; and by national differences in government regulation, culture, and business systems. And we are moving toward a world in which barriers to cross-border trade and investment are tumbling; perceived distance is shrinking due to advances in transportation and telecommunications technology; material culture is starting to look similar the world over; and national economies are merging into an interdependent global economic system. The process by which this is occurring is commonly referred to as *globalization*.

In this interdependent global economy, for example, an American might drive to work in a car designed in Germany that was assembled in Mexico by DaimlerChrysler (Daimler AG)[140] from components made in the United States and Japan that were fabricated from Korean steel and Malaysian rubber. He/She may have filled the car with gasoline at a service station owned by a British multinational company that changed its name from British Petroleum to BP to hide its national origins. The gasoline could have been made from oil pumped out of a well off the coast of Africa by a French oil company that transported it to the United States in a ship owned by a Greek shipping line etc.

This is the world we live in. It is a world where the volume of goods, services, and investment crossing national borders expanded faster than world output every year during the first decade of the 21st century. It is a world where more than $1.2 billion in foreign exchange transactions are made every day. It is a world in which international institutions such as the World Trade Organization and gatherings of leaders from the world's most powerful economies have called for even lower barriers to cross-border trade and investment. It is a world where the symbols of material and popular culture are increasingly global. It is a world in which products are made from inputs that come from all over the world. It is a world in which an economic crisis in Asia can cause a recession in the United States. It is also a world in which a vigorous and vocal minority is protesting against globalization, which they blame for a list of ills, from unemployment in developed nations to environmental degradation and the Americanization of popular culture.

For businesses, this is in many ways the best of times. Globalization has increased the opportunities for a firm to expand its revenues by selling around the world and reduce its costs by producing in nations where key inputs are cheap. Since the collapse of communism

[140] ***Daimler AG*** (formerly ***DaimlerChrysler***) is a German multinational automotive corporation. Daimler AG is headquartered in Stuttgart, Baden-Württemberg, Germany. By unit sales, it is the thirteenth-largest car manufacturer and second-largest truck manufacturer in the world. In addition to automobiles, Daimler manufactures buses and provides financial services through its Daimler Financial Services arm. As of 2013, Daimler owns or has shares in a number of car, bus and truck marques including *Mercedes-Benz, Mercedes-AMG, Smart, Freightliner, Western Star, Thomas Built Buses, Setra, BharatBenz, Mitsubishi Fuso*, as well as shares in *Denza, KAMAZ, Beijing Automotive Group, Tesla Motors, and Renault-Nissan Alliance.* At the end of 2012, the company closed the Maybach marque.

at the end of the 1980s, the pendulum of public policy in nation after nation has swung toward the free market end of the economic spectrum. Regulatory and administrative barriers to doing business in foreign nations have come down, while those nations have often transformed their economies, privatizing state-owned enterprises, deregulating markets, increasing competition, and welcoming investment by foreign businesses. This has allowed businesses both large and small, from both advanced nations and developing nations, to expand internationally.

Module Objectives

- Understand what is meant by the term globalization.
- Be familiar with the main causes of globalization.
- Understand why many economists believe that unrestricted (free) trade between nations will raise the economic welfare of all countries that participate in a free trade system.
- Understand how the economic systems of countries differ.
- Understand why nations trade with each other.
- Be aware of the different theories that explain trade flows between nations.
- Appreciate all the possible different levels of economic integration.
- Understand the economic and political arguments for and against international economic integration.
- Pros and cons of Ukraine’s world economic integration.

Module 4: Units 15-19

Unit 15 *What Globalization Is*?

"Globalization is not something we can hold off or turn off . . . it is the economic equivalent of a force of nature – like wind or water"
Bill Clinton[141]

15.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

benefit	~ of production homogeneity	recession
congestion	impediment	revenue
costs	input	rivalry
deregulation	interest rate	scope
dispersal/dispersion	legal entity	sister institution
diversity	legal regulation	slowdown
eurobond(s)	loan	successor
facilitator	merger	supplier
financial asset(s)	outsourcing	treasury bill(s)
financial future(s)	prevalence	treaty
globalization:	rationale	turmoil
~ of market(s)		yield

Verbs:

to accomplish	to engage	to reduce
to adhere	to enshrine	to shrink
to blame	to eradicate	to transcend
to converge	to exemplify	to tumble
to decline	to foster	to usurp

Adjectives & Adverbs:

annual	enormous	substantial
(ir)relevant	high-profile	vibrant
cash-strapped	overall	vigorous
controversial	shrinking	vocal
embedded	sister	

[141] ***William Jefferson "Bill" Clinton*** (born *William Jefferson Blythe III*; August 19, 1946) is an American politician who served as the 42nd President of the United States from 1993 to 2001. Inaugurated at age 46, he was the third-youngest president. He took office at the end of the Cold War, and was the first president of the baby boomer generation. Clinton has been described as a New Democrat. Many of his policies have been attributed to a centrist Third Way philosophy of governance.

15.2. Read and translate the text into Ukrainian:

WHAT GLOBALIZATION IS?

Globalization refers to the shift toward a more integrated and interdependent world economy. Globalization has several different facets, including *the globalization of markets* and *the globalization of production*.

THE GLOBALIZATION OF MARKETS

The globalization of markets refers to the merging of historically distinct and separate national markets into one huge global marketplace. Falling barriers to cross-border trade have made it easier to sell internationally. It has been argued for some time that the tastes and preferences of consumers in different nations are beginning to converge on some global norm, thereby helping to create a global market. Consumer products such as Citigroup[142] credit cards, Coca-Cola soft drinks, Sony PlayStation, and McDonald's hamburgers are frequently held up as prototypical examples of this trend. Firms such as Citigroup, Coca-Cola, McDonald's, and Sony are more than just benefactors of this trend; they are also facilitators of it. By offering a standardized product worldwide, they help to create a global market.

A company does not have to be the size of these multinational giants to facilitate, and benefit from the globalization of markets. In the United States, more than 200,000 small businesses with fewer than 100 employees registered foreign sales in 2010. Typical of these is Hytech, a New York-based manufacturer of solar panels that generates 40 percent of its $3 million in annual sales from exports to five countries, or B&S Aircraft Alloys[143], another New York company whose exports account for 40 percent of its $8 million annual revenues.

Despite the global prevalence of Citigroup credit cards and McDonald's hamburgers, it is important not to push too far the view that national markets are giving way to the global market. Very significant differences still exist between national markets along many relevant dimensions, including consumer tastes and preferences, distribution channels, culturally embedded value systems, business systems, and legal regulations. These differences frequently require that marketing strategies, product features, and operating practices be customized to best match conditions in a country. For example, automobile companies will promote different car models depending on a range of factors such as local fuel costs, income levels, traffic congestion, and cultural values. Similarly, global retailers may still need to vary their product mix from country to country depending on local tastes and preferences.

Most global markets currently are not markets for consumer products – where national differences in tastes and preferences are still often important enough to act as a brake on globalization – but markets for industrial goods and materials that serve a universal need the world over. These include the markets for commodities such as aluminum, oil, and wheat; the markets for industrial products such as microprocessors, DRAMs (computer memory chips), and commercial jet aircraft; the markets for computer software; and the markets for financial

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[142] ***Citigroup Inc.*** or ***Citi*** is an American multinational financial services corporation headquartered in Manhattan, New York City. *Citigroup* was formed from one of the world's largest mergers in history by combining the banking giant *Citicorp* and financial conglomerate *Travelers Group* in October 1998 (announced on April 7, 1998). The year 2012 marked Citi's 200th anniversary. It is currently the third largest bank holding company in the United States by assets. Its largest shareholders include funds from the Middle East and Singapore.

[143] ***B & S Aircraft Alloys Incorporated*** has been a highly recognized supplier of Titanium, Nickel, Aluminum, Stainless and other high temperature metals including Exotic and commercial alloys primarily used by the aircraft and aerospace industries as well as the petro-chemical, steam turbine, and electro-mechanical fields.

assets from U.S. Treasury bills to eurobonds and futures on the Nikkei index[144] or the Mexican peso[145].

In many global markets, the same firms frequently confront each other as competitors in nation after nation. Coca-Cola's rivalry with Pepsi is a global one, as are the rivalries between Ford and Toyota, Boeing and Airbus, Caterpillar and Komatsu, and Nintendo and Sega. If one firm moves into a nation that is not currently served by its rivals, those rivals are sure to follow to prevent their competitor from gaining an advantage. Retailers such as Wal-Mart, Carrefour, and Tesco are starting to engage in a global rivalry. As firms follow each other around the world, they bring with them many of the assets that served them well in other national markets – including their products, operating strategies, marketing strategies, and brand names – creating some homogeneity across markets. Thus, greater uniformity replaces diversity. Due to such developments, in an increasing number of industries it is no longer meaningful to talk about "the German market", "the American market", "the Brazilian market", or "the Japanese market"; for many firms there is only the global market.

THE GLOBALIZATION OF PRODUCTION

The globalization of production refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production (such as labor, energy, land, and capital). By doing this, companies hope to lower their overall cost structure and/or improve the quality or functionality of their product offering, thereby allowing them to compete more effectively. Consider the Boeing Company's latest commercial jet airliner, the 777. Eight Japanese suppliers make parts for the fuselage, doors, and wings; a supplier in Singapore makes the doors for the nose landing gear; three suppliers in Italy manufacture wing flaps; and so on. Part of Boeing's rationale for outsourcing so much production to foreign suppliers is that these suppliers are the best in the world at performing their particular activity. A global web of suppliers yields a better final product, which enhances the chances of Boeing winning a greater share of total orders for aircraft than its global rival, Airbus SAS (Airbus Industrie)[146]. Boeing also outsources some production to foreign countries to increase the chance that it will win significant orders from airlines based in that country.

The global dispersal of productive activities is not limited to giants such as Boeing. Many much smaller firms are also getting into the act. Consider Swan Optical, a U.S.- based manufacturer and distributor of eyewear. With annual sales revenues of $20 million to $30 million, Swan is hardly a giant, yet Swan manufactures its eyewear in low-cost factories in

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[144] ***The Nikkei 225*** more commonly called the ***Nikkei***, the ***Nikkei index***, or the ***Nikkei Stock Average*** is a stock market index for the *Tokyo Stock Exchange* (TSE). It has been calculated daily by the *Nihon Keizai Shimbun* (*Nikkei*) newspaper since 1950. It is a price-weighted index (the unit is yen), and the components are reviewed once a year. Currently, the Nikkei is the most widely quoted average of Japanese equities, similar to the Dow Jones Industrial Average. In fact, it was known as the "Nikkei Dow Jones Stock Average" from 1975 to 1985. *The Nikkei 225* began to be calculated on September 7, 1950, retroactively calculated back to May 16, 1949. Since January 2010 the index is updated every 15 seconds during trading sessions.

[145] ***The peso*** (sign: **$**; code: ***MXN***) is the currency of Mexico. Modern peso and dollar currencies have a common origin in the 15th–19th century Spanish dollar, most continuing to use its sign, "$". The Mexican peso is the 8th most traded currency in the world, the third most traded in the Americas (after the US Dollar and Canadian Dollar), and the most traded currency in Latin America. The current ISO 4217 code for the peso is *MXN*; prior to the 1993 revaluation, the code *MXP* was used. The peso is subdivided into *100 centavos*, represented by "¢". As of January 27, 2014 the peso's exchange rate was $18.3763 per euro and $13.4408 per U.S. dollar.

[146] Airbus SAS is an aircraft manufacturing division of Airbus Group (formerly EADS). Based in Blagnac, France, a suburb of Toulouse, and with significant activity across Europe, the company produces approximately half of the world's jet airliners. Airbus began as a consortium of aerospace manufacturers, Airbus Industrie. Consolidation of European defence and aerospace companies in 1999 and 2000 allowed the establishment of a simplified joint-stock company in 2001, owned by EADS (80 %) and BAE Systems (20 %). After a protracted sales process BAE sold its shareholding to EADS on 13 October 2006.

Hong Kong and China that it jointly owns with a Hong Kong-based partner. Swan also has a minority stake in eyewear design houses in Japan, France, and Italy. The company has dispersed its manufacturing and design processes to different locations around the world to take advantage of favorable skill bases and cost structures. Foreign investments in Hong Kong and then China have helped Swan lower its cost structure, while investments in Japan, France, and Italy have helped it produce designer eyewear for which it can charge a premium price. By dispersing its manufacturing and design activities, Swan established a competitive advantage for itself in the global marketplace for eyewear, just as Boeing has tried to do by dispersing some of its activities to other countries.

Robert Reich, the former secretary of labor in the Clinton administration, has argued that as a consequence of the trend exemplified by Boeing and Swan Optical, in many industries it is becoming irrelevant to talk about American products, Japanese products, German products, or Korean products. Increasingly, according to Reich, the outsourcing of productive activities to different suppliers results in the creation of products that are global in nature; that is, “global products”. But as with the globalization of markets, one must be careful not to push the globalization of production too far. As we will see, substantial impediments still make it difficult for firms to achieve the optimal dispersion of their productive activities to locations around the globe. These impediments include formal and informal barriers to trade between countries, barriers to foreign direct investment, transportation costs, and issues associated with economic and political risk.

Nevertheless, we are traveling down the road toward a future characterized by the increased globalization of markets and production. Modern firms are important actors in this drama, by their very actions fostering increased globalization. These firms, however, are merely responding in an efficient manner to changing conditions in their operating environment – as they should.

THE EMERGENCE OF GLOBAL INSTITUTIONS

As markets globalize and an increasing proportion of business activity transcends national borders, institutions need to help manage, regulate, and police the global marketplace, and to promote the establishment of multinational treaties to govern the global business system. During the past 60 years, a number of important global institutions have been created to help perform these functions. These institutions include *the General Agreement on Tariffs and Trade (GATT)*[147] and its successor, *the World Trade Organization (WTO)*; *the International Monetary Fund (IMF)* and its sister institution, *the World Bank*; and *the United Nations (UN)*. All these institutions were created by voluntary agreement between individual nation-states, and their functions are enshrined in international treaties.

The World Trade Organization (like the GATT before it) is primarily responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states. As of January 1, 2013, 159 nations were members of the WTO, including all significant trading nations, which gives the WTO enormous scope and influence. The WTO is also responsible for facilitating the establishment of additional multinational agreements between WTO member states. Over its entire history, and that of the GATT before it, the WTO has promoted the lowering of barriers to cross-

[147] ***The General Agreement on Tariffs and Trade*** (***GATT***) was a multilateral agreement regulating international trade. According to its preamble, its purpose was the “substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis”. It was negotiated during the UN Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). GATT was signed in 1948 and lasted until 1993, when it was replaced by the World Trade Organization in 1995.

border trade and investment. In doing so, the WTO has been the instrument of its member states, which have sought to create a more open global business system unencumbered by barriers to trade and investment between countries. Without an institution such as the WTO, it is unlikely that globalization would have proceeded as far as it has. However, critics charge that the WTO is usurping the national sovereignty of individual nation-states.

The International Monetary Fund and *the World Bank* were both created in 1944 by 44 nations that met at Bretton Woods, New Hampshire. The task of the IMF was to maintain order in the international monetary system, and that of the World Bank was to promote economic development. In the nearly 70 years since their creation, both institutions have emerged as significant players in the global economy. The World Bank is the less controversial of the two sister institutions. It has focused on making low interest rate loans to cash-strapped governments in poor nations that wish to undertake significant infrastructure investments (such as building dams or road systems).

The IMF is often seen as the lender of last resort to nation-states whose economies are in turmoil and currencies are losing value against those of other nations. Repeatedly during the last decade, for example, the IMF has lent money to the governments of troubled states including Argentina, Indonesia, Mexico, Russia, South Korea, Thailand, Turkey, and Ukraine to name a few of the more high-profile cases. The IMF loans come with strings attached; in return for loans, the IMF requires nation-states to adopt specific policies aimed at returning their troubled economies to stability and growth. These "strings" have generated the most debate; some critics charge that the IMF's policy recommendations are often inappropriate, while others maintain that, like the WTO, by telling national governments what economic policies they must adopt, the IMF is usurping their sovereignty.

The United Nations was established October 24, 1945, by 51 countries committed to preserving peace through international cooperation and collective security. Today nearly every nation in the world belongs to the United Nations; membership now totals 193 states (and 2 observer states). When states become members of the United Nations, they agree to accept the obligations of the UN Charter[148], an international treaty that sets out basic principles of international relations. According to the charter, the UN has four purposes: (1) to maintain international peace and security; (2) to develop friendly relations among nations; (3) to cooperate in solving international problems and in promoting respect for human rights, and (4) to be a center for harmonizing the actions of nations. Although the UN is perhaps best known for its peacekeeping role, one of the UN's central mandates is the promotion of higher standards of living, full employment, and conditions of economic and social progress and development – all issues that are central to the creation of a vibrant global economy. As much as 70 percent of the work of the UN system is devoted to accomplishing this mandate. To do so, the UN works closely with other international institutions such as *the World Bank*. Guiding the work is the belief that eradicating poverty and improving the well-being of people everywhere are necessary steps in creating conditions for lasting world peace.

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[148] ***The Charter of the United Nations*** is the foundational treaty of the international organization called the United Nations. It was signed at the San Francisco War Memorial and Performing Arts Center in San Francisco, United States, on 26 June 1945, by 50 of the 51 original member countries (Poland, the other original member, which was not represented at the conference, signed it two months later). It entered into force on 24 October 1945, after being ratified by the five permanent members of the Security Council – the Republic of China (later replaced by the People's Republic of China), France, the Union of Soviet Socialist Republics (later replaced by the Russian Federation), the United Kingdom, and the United States – and a majority of the other signatories.

Text Summary

- Over the past two decades, we have witnessed the globalization of markets and production.
- The globalization of markets implies that national markets are merging into one huge marketplace. However, it is important not to push this view too far.
- Most global markets currently are not markets for consumer products – where national differences in tastes and preferences are still often important enough to act as a brake on globalization – but markets for industrial goods and materials that serve a universal need the world over.
- The globalization of production implies that firms are basing individual productive activities at the optimal world locations for the particular activities. As a consequence, it is increasingly irrelevant to talk about American products, Japanese products, or German products, since these are being replaced by "global" products.
- Two factors seem to underlie the trend toward globalization: (1) declining trade barriers and (2) changes in communication, information, and transportation technologies.
- As a consequence of the globalization of production and markets, in the last decade world trade has grown faster than world output, foreign direct investment has surged, imports have penetrated more deeply into the world's industrial nations, and competitive pressures have increased in industry after industry.

15.3. Language Practice:

15.3.1. Multiple Choice:

1. ..... is the process by which businesses or other organizations develop international influence or start operating on an international scale.
a) Deregulation;
b) Globalization;
c) Liberalization.

2. Globalization has two main facets, including .....
a) the globalization of markets and the globalization of workforce;
b) the globalization of production and the globalization of workforce;
c) the globalization of markets and the globalization of production.

3. ..... means moving away from an economic system in which national markets are distinct entities, isolated by trade barriers and barriers of distance, time, and culture, and toward a system in which national markets are merging into one huge global marketplace.
a) The globalization of production;
b) The globalization of workforce;
c) The globalization of markets.

4. ..... refers to the sourcing of goods and services from locations around the globe to take advantage of national differences in the cost and quality of factors of production.
a) The globalization of markets;
b) The globalization of production;
c) The globalization of workforce.

5. The World Trade Organization .....
a) is an international organization whose stated aims are facilitating cooperation in international law, international security, economic development, social progress, human rights, and achievement of world peace;
b) is an international organization responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by WTO member states;
c) is an international organization which aims to promote international trade and monetary cooperation and the stabilization of exchange rates.

6. ..... is an international organization established in 1945 which aims to promote international trade and monetary cooperation and the stabilization of exchange rates.
a) The International Monetary Fund;
b) The United Nations;
c) The World Trade Organization.

7. The United Nations .....
a) is an international organization whose stated aims are facilitating cooperation in international law, international security, economic development, social progress, human rights, and achievement of world peace;
b) is an international organization which aims to promote international trade and monetary cooperation and the stabilization of exchange rates;
c) is an international organization responsible for policing the world trading system and making sure nation-states adhere to the rules laid down in trade treaties signed by its member states.

15.3.2. Key Terms – Matching:

1.	Financial futures	a)	– the process enabling financial and investment markets to operate internationally, largely as a result of deregulation and improved communications;
2.	Globalization	b)	– the amount charged for a loan, usually expressed as a percentage of the sum borrowed;
3.	Legal regulation	c)	– the income accruing from taxation to a government during a specified period of time, usually a year;
4.	Treasury bill	d)	– the property and claims against debtors that a business enterprise may apply to discharge its liabilities. They may be fixed, current, liquid, or intangible and are shown balanced against liabilities;
5.	Interest rate	e)	– a governmental or ministerial order having the force of law;
6.	Financial assets	f)	– securities in a stock-exchange index, currency exchange rate, or interest rate enabling banks, building societies, brokers, and speculators to hedge their involvement in these markets;
7.	Annual revenue	g)	– a short-term noninterest-bearing obligation issued by the Treasury, payable to bearer and maturing usually in three months, within which it is tradable on a discount basis on the open market.

15.3.3. Please explain the meaning of the following words and word combinations in English:

Globalization, globalization of markets, globalization of production, economic slowdown, annual revenue, legal regulations, financial assets, treasury bills, eurobonds, financial futures, retailing, interest rate, turmoil, legal entity, economic welfare.

15.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~services~~ economic system barriers globalization global industries international businesses market-oriented planned economy economic policies privatization

THE GLOBAL ECONOMY OF THE 21ST CENTURY

The last quarter century has seen rapid changes in the global economy. Barriers to the free flow of goods, (1) *services*, and capital have been coming down. The volume of cross-border trade and investment has been growing more rapidly than global output, indicating that national economies are becoming more closely integrated into a single, interdependent, global (2) _____. As their economies advance, more nations are joining the ranks of the developed world. A generation ago, South Korea and Taiwan were viewed as second-tier developing nations. Now they boast large economies, and their firms are major players in many (3) _____ from shipbuilding and steel to electronics and chemicals. The move toward a global economy has been further strengthened by the widespread adoption of liberal (4) _____ by countries that for two generations or more were firmly opposed to them. Thus, following the normative prescriptions of liberal economic ideology, in country after country we are seeing (5) _____ of state-owned businesses, widespread deregulation, markets being opened to more competition, and increased commitment to removing (6) _____ to cross-border trade and investment. This suggests that over the next few decades, countries such as the Czech Republic, Poland, Brazil, China, and South Africa may build powerful (7) _____ economies. In short, current trends indicate the world is moving rapidly toward an economic system that is more favorable for the practice of international business.

On the other hand, it is always hazardous to take established trends and use them to predict the future. The world may be moving toward a more economic system, but (8) _____ is not inevitable. Countries may pull back from the recent commitment to liberal economic ideology if their experiences do not match their expectations. There are signs, for example, of a retreat from liberal economic ideology in Russia. Russia has experienced considerable economic pain as it tries to shift from a centrally (9) _____ to a market economy. If Russia's hesitation were to become more permanent and widespread, the liberal vision of a more prosperous global economy based on free market principles might not come to pass as quickly as many hope. Clearly, this would be a tougher world for (10) _____ to compete in.

15.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the adjective ***global****:* *1) worldwide, international, world, intercontinental, universal;* *2) comprehensive, overall, general, all-inclusive, all-encompassing, universal, broad.*

15.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Короткостроковий скарбничий/казначейський вексель, витрати, злиття/поглинання, угода/договір, досягати, сукупний (дохід), скорочувати, витрати (на виробництво), глобалізація ринків збуту, переваги, юридична особа, дисперсія/поширення, сприяти, спірний, знижувати, щорічний, постачальник, єврооблігації, фінансові активи, закупівля із зовнішніх джерел, сфера діяльності, відсоткова ставка, дотримуватися, суттєвий, наймати на роботу, правове регулювання, термінові фінансові контракти, глобалізація процесу виробництва, уповільнення/спад, перевищувати, резонансний, (не)доречний, прибутковість/дохід, споріднена установа, звинувачувати, відміна державного регулювання.

15.4.2. Please translate the following sentences into Ukrainian:

1. Globalization is an inevitable phenomenon in human history that's been bringing the world closer through the exchange of goods and products, information, knowledge and culture. But over the last few decades, the pace of this global integration has become much faster and more dramatic because of unprecedented advancements in technology, communications, science, transport and industry.
2. Covering a wide range of distinct political, economic, and cultural trends, the term "globalization" has quickly become one of the most fashionable buzzwords of contemporary political and academic debate.
3. In popular discourse, "globalization" often functions as little more than a synonym for one or more of the following phenomena: the pursuit of classical liberal (or "free market") policies in the world economy ("economic liberalization"); the growing dominance of western (or even American) forms of political, economic, and cultural life ("westernization" or "Americanization"); the proliferation of new information technologies (the "Internet Revolution") as well as the notion that humanity stands at the threshold of realizing one single unified community in which major sources of social conflict have vanished ("global integration").
4. In 2000, the International Monetary Fund (IMF) identified four basic aspects of globalization: (1) trade and transactions; (2) capital and investment movements; (3) migration and movement of people and (4) dissemination of knowledge. Further, environmental challenges such as climate change, cross-boundary water and air pollution, and over-fishing of the ocean are linked with globalization.
5. Two macrofactors seem to underlie the trend toward greater globalization. The first is the decline in barriers to the free flow of goods, services, and capital that has occurred since the end of World War II. The second factor is technological change, particularly the dramatic developments in recent years in communication, information processing, and transportation technologies.
6. During the 1920s and 30s, many nations erected formidable barriers to international trade and foreign direct investment. International trade occurs when a firm exports goods or services to consumers in another country. Foreign direct investment occurs when a firm invests resources in business activities outside its home country. Many of the barriers to international trade took the form of high tariffs on imports of manufactured goods.
7. Some economists have described globalization as a fast train for which countries need to "build a platform" to get on. This platform is about creating a foundation to make sure the country functions well. It includes property rights and rule of law, basic education and health, and reliable infrastructure (such as ports, roads, and customs administration).
8. When people criticize the effects of globalization, they generally refer to economic integration. Economic integration occurs when countries lower barriers such as import tariffs and open their economies up to investment and trade with the rest of the world. These critics complain that inequalities in the current global trading system hurt developing countries at the expense of developed countries.

9. Even supporters of globalization agree that the benefits of globalization are not without risks – such as those arising from volatile capital movements. The IMF works to help economies manage or reduce these risks, through economic analysis and policy advice and through technical assistance in areas such as macroeconomic policy, financial sector sustainability, and the exchange-rate system.
10. International organizations, such as the World Bank, bilateral aid agencies and nongovernmental organizations, work with developing countries to establish this foundation to help them prepare for global integration.

15.4.3. Please translate the following sentences into English:

1. Найсуттєвішою рисою сучасного етапу розвитку світового господарства є глобалізація, яку характеризує усебічне поглиблення взаємозалежності окремих країн і регіонів світу.
2. У сучасному значенні термін "глобалізація" виник у середині 80-х років XX століття. Появу цього терміна пов'язують з ім'ям американського дослідника Теодора Левітта, який у статті "Глобалізація ринків", опублікованій у журналі "Гарвард бізнес рев'ю" у 1983 році, позначив ним феномен злиття ринків окремих продуктів, які виробляються великими багатонаціональними корпораціями.
3. Теоретичні та практичні засади сучасної моделі глобалізації почали активно розвиватися з початку 80-х років минулого століття. Саме тоді у західній економічній думці відбувся поворот до неоліберального варіанту виходу з економічної депресії.
4. Глобалізація – це складний комплекс транскордонних взаємодій між фізичними особами, підприємствами, інститутами та ринками, який проявляється в розширенні потоків товарів, технологій та фінансових коштів, а також у неухильному зростанні та посиленні впливу міжнародних інститутів громадянського суспільства, у глобальній діяльності транснаціональних корпорацій, у суттєвому розширенні масштабів транскордонних комунікаційних та інформаційних обмінів.
5. Процес глобалізації складається з трьох взаємопов'язаних компонентів: міжнародного розподілу праці, міжнародного виробництва і політичних відносин.
6. Міжнародний розподіл праці – це розмежування певних видів діяльності між окремими країнами, що передбачає взаємовигідний обмін факторами і результатами виробництва.
7. Міжнародне виробництво – це виробництво товарів і послуг за участю іноземного підприємницького капіталу у формі прямих і портфельних інвестицій (direct and portfolio investments), на основі міжнародної спеціалізації та кооперування виробництва, спільної інвестиційної діяльності й спільного підприємництва.
8. Політичні відносини – це відносини між людьми щодо виникнення, розвитку, функціонування, модернізації і трансформацій державної та політичної влади. Сутністю політичних відносин є питання про політичну владу, а також використання її в інтересах кожної із соціальних груп, держави та суспільства в цілому.
9. Динамізм та інтенсивність людської діяльності нині породжують нові проблеми, які набули статусу глобальних. Глобальні проблеми мають загальносвітовий характер, а також вимагають ефективних, невідкладних та колективних зусиль усіх держав у їх розв'язанні.

10. Виокремлюють три групи глобальних проблем. До першої належать проблеми, що виникають у взаємовідносинах між різними державами та окремими народами. Друга група охоплює сучасні проблеми народонаселення, а третя – проблеми, що виникають у результаті взаємодії людини і природи.

15.4.4. Please make an English summary of the following text:

МІЖНАРОДНІ ВАЛЮТНО-ФІНАНСОВІ ВІДНОСИНИ

Функціонування світового господарстві неможливе без налагодження валютних відносин між країнами. У світі є чимало міжнародних організацій для регулювання цих відносин між країнами. Однак, визначальним для будь-якої держави у сучасних умовах є її членство у таких організаціях, як *Міжнародний валютний фонд* (*the International Monetary Fund – IMF)* і *Міжнародний банк реконструкції та розвитку (the International Bank for Reconstruction and Development – IBRD).*

Міжнародний валютний фонд (МВФ) – спеціалізована установа ООН, створена на Міжнародній валютно-фінансовій конференції у Бреттон-Вудсі у 1944 році. Нині членами фонду є 188 держав. Основними завданнями Фонду є регулювання міжнародних валютно-фінансових відносин, а також надання країнам- членам МВФ валютних коштів для фінансування дефіцитів платіжних балансів.

Регулювання міжнародних валютно-фінансових відносин здійснюють через контроль МВФ за дотриманням країнами основних принципів валютно-фінансового співробітництва. Подібний контроль передбачає щорічні консультації країн-членів МВФ, у ході яких їм дають відповідні рекомендації. Країни-члени МВФ можуть, як зазначалося, звертатися до Фонду для отримання короткострокової фінансової допомоги для коригування дефіциту платіжного балансу. З цією метою утворений загальний міжнародний фонд валют, що складається з фінансових ресурсів, які вносяться у МВФ усіма його членами. Величина членського внеску у МВФ дорівнює квоті країни. Найбільшу квоту мають США.

Міжнародний банк реконструкції та розвитку (МБРР), який часто називають *Світовим банком*, був також заснований на конференції у Бреттон-Вудсі. Перші позики Світового банку надавалися країнам "третього світу" для здійснення фінансових капіталовкладень у будівництво доріг, електростанцій, шкіл, зрошувальних систем тощо. Нині Світовий банк надає позики для здійснення структурних змін в економіках країн, що розвиваються. Світовий банк надає також технічну допомогу, експертні поради у проведенні національної економічної політики тощо. Нині Світовий банк нараховує 188 країн-учасниць. Позики надаються на термін 15–20 років під низькі процентні ставки. Одним із джерел коштів для надання позик є внески країн-членів установи. Однак, більшість своїх фінансових ресурсів Світовий банк отримує в результаті проведення операцій на світових фінансових ринках.

15.5. Reading Practice:

15.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: THE GLOBALIZATION DEBATE

Is the shift toward a more integrated and interdependent global economy a good thing? Many influential economists, politicians, and business leaders seem to think so. They argue that falling barriers to international trade and investment are the twin engines driving the global economy toward greater prosperity. They say increased international trade and cross-border investment will result in lower prices for goods and services. They believe that globalization stimulates economic growth, raises the incomes of consumers, and helps to create jobs in all countries that participate in the global trading system. There are good theoretical reasons for believing that declining barriers to international trade and investment do stimulate economic growth, create jobs, and raise income levels. Despite the existence of a compelling body of theory and evidence, globalization has its critics. Some of these critics have become increasingly vocal and active, taking to the streets to demonstrate their opposition to globalization. Here we look at the rising tide of protests against globalization and briefly review the main themes of the debate concerning the merits of globalization.

ANTIGLOBALIZATION PROTESTS

Street demonstrations against globalization date to December 1999, when more than 40,000 protesters blocked the streets of Seattle in an attempt to shut down a World Trade Organization meeting being held in the city. The demonstrators were protesting against a wide range of issues, including job losses in industries under attack from foreign competitors, downward pressure on the wage rates of unskilled workers, environmental degradation, and the cultural imperialism of global media and multinational enterprises, which was seen as being dominated by what some protesters called the "culturally impoverished" interests and values of the United States. All these ills, the demonstrators claimed, could be laid at the feet of globalization. The WTO was meeting to try to launch a new round of talks to cut barriers to cross-border trade and investment. As such, it was seen as a promoter of globalization and a legitimate target for the antiglobalization protesters. The protests turned violent, transforming the normally placid streets of Seattle into a running battle between "anarchists" and Seattle's bemused and poorly prepared police department. Pictures of brick-throwing protesters and armored police wielding their batons were duly recorded by the global media, which then circulated the images around the world. Meanwhile, the World Trade Organization meeting failed to reach agreement, and although the protests outside the meeting halls had little to do with that failure, the impression took hold that the demonstrators had derailed the meetings.

Emboldened by the experience in Seattle, antiglobalization protesters have turned up at almost every major meeting of a global institution. In February 2000, they demonstrated at the World Economic Forum meetings in Davos, Switzerland, and vented their frustrations against global capitalism by trashing that hated symbol of U.S. imperialism, a McDonald's restaurant. In April 2000, demonstrators disrupted talks being held at the World Bank and International Monetary Fund, and in September 2000, 12,000 demonstrated at the annual meeting of the World Bank and IMF in Prague. In April 2001, demonstrations and police firing tear gas and water cannons overshadowed the "Summit of the Americas" meeting in Quebec City, Canada. In June 2001, 40,000 protesters marched against globalization at the European Union summit in Göteborg, Sweden. The march was peaceful until a core of masked anarchists wielding cobblestones created bloody mayhem. In July 2001, antiglobalization protests in Genoa, Italy, where the heads of the eight largest economies were meeting (the so-called *G8* meetings), turned violent, and in the now familiar ritual of running battles between protesters and police, a protester was killed, giving the antiglobalization movement its first martyr. Smaller scale protests have occurred in several countries, such as France, where antiglobalization protesters destroyed a McDonald's restaurant in August 1999 to protest the impoverishment of French culture by American imperialism.

While violent protests may give the antiglobalization effort a bad name, the scale of the demonstrations shows that support for the cause goes beyond a core of anarchists. Large sections of the population in many countries believe that globalization harms living standards and the environment. Both theory and evidence suggest that many of these fears are exaggerated, but this may not be communicated clearly. Both politicians and businesspeople need to do more to counter these fears. Many protests against globalization are tapping into a general sense of loss at the passing of a world in which barriers of time and distance, and vast differences in economic institutions, political institutions, and the level of development of different nations, produced a world rich in the diversity of human cultures. This world is now passing into history. However, while the rich citizens of the developed world may have the luxury of mourning the fact that they can now see McDonald's restaurants and Starbucks coffeehouses on their vacations to exotic locations such as Thailand, fewer complaints are heard from the citizens of those countries, who welcome the higher living standards that progress brings.

GLOBALIZATION, JOBS, AND INCOME

One concern frequendy voiced by opponents of globalization is that falling barriers to international trade destroy manufacturing jobs in wealthy advanced economies such as the United States and the United Kingdom. The critics argue that falling trade barriers allow firms to move their manufacturing activities to countries where wage rates are much lower. David Bartlett and John Steele, two journalists for the Philadelphia Inquirer who have gained notoriety for their attacks on free trade, cite the case of Harwood Industries, a U.S. clothing manufacturer that closed its U.S. operations, where it paid workers $9 per hour, and shifted manufacturing to Honduras, where textile workers receive 48 cents per hour. Because of moves such as this, argue Bartlett and Steele, the wage rates of poorer Americans have fallen significantly over the last quarter of a century.

Supporters of globalization reply that critics such as Bartlett and Steele miss the essential point about free trade – the benefits outweigh the costs. They argue that free trade will result in countries specializing in the production of those goods and services that they can produce most efficiently, while importing goods that they cannot produce as efficiently. When a country embraces free trade, there is always some dislocation – lost textile jobs at Harwood Industries, for example – but the whole economy is better off as a result. According to this view, it makes little sense for the United States to produce textiles at home when they can be produced at a lower cost in Honduras or China (which, unlike Honduras, is a major source of U.S. textile imports). Importing textiles from China leads to lower prices for clothes in the United States, which enables consumers to spend more of their money on other items. At the same time, the increased income generated in China from textile exports increases income levels in that country, which helps the Chinese to purchase more products produced in the United States, such as Boeing jets, Intel-based computers, Microsoft software, and Motorola cellular telephones. In this manner, supporters of globalization argue that free trade benefits all countries that adhere to a free trade regime.

Supporters of globalization do concede that the wage rate enjoyed by unskilled workers in many advanced economies may have declined in recent years. For example, data for the Organization for Economic Cooperation and Development suggest that since 1980 the lowest 10 percent of American workers have seen a drop in their real wages (adjusted for inflation) of about 20 percent, while the top 10 percent have enjoyed a real pay increase of around 10 percent. In the same vein, a Federal Reserve study found that in the seven years preceding 1996, the earnings of the best paid 10 percent of U.S. workers rose in real terms by 0.6 percent annually while the earnings of the 10 percent at the bottom of the heap fell by 8 percent. In some areas, the fall was much greater. Similar trends can be seen in many other countries.

However, while globalization critics argue that the decline in unskilled wage rates is due to the migration of low-wage manufacturing jobs offshore and a corresponding reduction in demand for unskilled workers, supporters of globalization see a more complex picture. They maintain that the declining real wage rates of unskilled workers owes far more to a technology-induced shift within advanced economies away from jobs where the only qualification was a willingness to turn up for work every day and toward jobs that require significant education and skills. They point out that many advanced economies report a shortage of highly skilled workers and an excess supply of unskilled workers. Thus, growing income inequality is a result of the wages for skilled workers being bid up by the labor market, and the wages for unskilled workers being discounted. If one agrees with this logic, a solution to the problem of declining incomes is to be found not in limiting free frade and globalization, but in increasing society's investment in education to reduce the supply of unskilled workers. Some research also suggests that the evidence of growing income inequality may be suspect.

GLOBALIZATION, LABOR POLICIES, AND THE ENVIRONMENT

A second source of concern is that free trade encourages firms from advanced nations to move manufacturing facilities to less developed countries that lack adequate regulations to protect labor and the environment from abuse by the unscrupulous. Globalization critics often argue that adhering to labor and environmental regulations significantly increases the costs of manufacturing enterprises and puts them at a competitive disadvantage in the global marketplace vis-à-vis firms based in developing nations that do not have to comply with such regulations. Firms deal with this cost disadvantage, the theory goes, by moving their production facilities to nations that do not have such burdensome regulations or that fail to enforce the regulations they have.

If this is the case, one might expect free trade to lead to an increase in pollution and result in firms from advanced nations exploiting the labor of less developed nations. This argument was used repeatedly by those who opposed the 1994 formation of the North American Free Trade Agreement (NAFTA) between Canada, Mexico, and the United States. They painted a picture of U.S. manufacturing firms moving to Mexico in droves so that they would be free to pollute the environment, employ child labor, and ignore workplace safety and health issues, all in the name of higher profits.

Supporters of free trade and greater globalization express doubts about this scenario. They argue that tougher environmental regulations and stricter labor standards go hand in hand with economic progress. In general, as countries get richer, they enact tougher environmental and labor regulations. Because free trade enables developing countries to increase their economic growth rates and become richer, this should lead to tougher environmental and labor laws. In this view, the critics of free trade have got it backward – free trade does not lead to more pollution and labor exploitation, it leads to less. By creating wealth and incentives for enterprises to produce technological innovations, the free market system and free trade could make it easier for the world to cope with problems of pollution and population growth. Indeed, while pollution levels are rising in the world's poorer countries, they have been falling in developed nations.

GLOBALIZATION AND NATIONAL SOVEREIGNTY

Another concern voiced by critics of globalization is diat today's increasingly interdependent global economy shifts economic power away from national governments and toward supranational organizations such as the World Trade Organization, the European Union, and the United Nations. As perceived by critics, unelected bureaucrats now impose policies on the democratically elected governments of nation-states, thereby undermining the sovereignty of those states and limiting the nation-state's ability to control its own destiny.

The World Trade Organization is a favorite target of those who attack the headlong rush toward a global economy. As noted earlier, the WTO was founded in 1994 to police the world trading system established by the General Agreement on Tariffs and Trade. The WTO arbitrates trade disputes between the 159 states that are signatories to the GATT. The arbitration panel can issue a ruling instructing a member state to change trade policies that violate GATT regulations. If the violator refuses to comply with the ruling, the WTO allows other states to impose appropriate trade sanctions on the transgressor. As a result, according to one prominent critic, U.S. environmentalist and consumer rights advocate Ralph Nader:

[...] Under the new system, many decisions that affect billions of people are no longer made by local or national governments but instead, if challenged by any WTO member nation, would be deferred to a group of unelected bureaucrats sitting behind closed doors in Geneva (which is where the headquarters of the WTO are located). The bureaucrats can decide where or not people in Califomia can prevent the destruction of the last virgin forests or determine if carcinogenic pesticides can be banned from their foods; or whether European countries have the right to ban dangerous biotech hormones in meat ... At risk is the very basis of democracy and accountable decision making [...]

In contrast to Nader's rhetoric, many economists and politicians maintain that the power of supranational organizations such as the WTO is limited to that which nation- states collectively agree to grant. They argue that bodies such as the United Nations and the WTO exist to serve the collective interests of member states, not to subvert those interests. Supporters of supranational organizations point out that the power of these bodies rests largely on their ability to persuade member states to follow a certain action. If these bodies fail to serve the collective interests of member states, those states will withdraw their support and the supranational organization will quickly collapse. In this view, real power still resides with individual nation-states, not supranational organizations.

15.6. Internet Practice:

15.6.1. Web Activities:

- While English is often referred to as the global language of business, companies are beginning to question this notion. Today, as businesses increasingly rely on the Internet for sales and customer service a new attitude toward language is emerging. Companies are realizing that doing international business requires juggling multiple languages. A local language infrastructure chances the United Parcel Service (UPS)[149] website, supporting the company's belief that meeting the customer's needs in the customer's language is critical to success. In fact after translating its Asian websites, the company saw a 225 percent increase in usage of the site. Consider the Internet's role in the globalization of business. Discuss how the Internet may not only be bringing people closer through its instant communication mechanism, but also be driving people apart as companies create websites designed for specific groups. Then, go to **www.ups.com**. Examine the home site and click on several of the international sites. Consider the costs of developing websites for individual countries or groups of individuals. Then consider the translation challenges facing companies as they

[149] ***United Parcel Service of America, Inc.***, typically referred to as ***UPS***, is an American global package delivery company headquartered in Sandy Springs, Georgia, United States in Greater Atlanta. It delivers more than 15 million packages a day to more than 6.1 million customers in more than 220 countries and territories around the world. UPS is well known for its brown trucks, internally known as package cars (hence the company nickname *"Brown"*). UPS also operates its own airline based in Louisville, Kentucky.

consolidate information from their various international websites and deal with issues such as the use of local slang.

- The benefits of globalization are frequently touted by numerous parties. Companies are excited about the opportunities for greater profits presented by both the globalization of markets and the globalization of production. Consumers enjoy lower prices and a wider product line as a result of globalization. Governments recognize that globalization has brought increased levels of development in the forms of jobs and investment. However, some countries complain that globalization is not necessarily all good – that all countries are not sharing equally its advantages. According to several countries attending the recent U.N. World Summit for Sustainable Development, globalization means that the rich countries get richer, while the poor countries get poorer. Go to the UN website (**www.un.org**) and explore the perspectives of both rich and poor countries toward globalization. Consider issues related to the impact of globalization on jobs, wages, the environment, working conditions, and national sovereignty. Some poorer countries contend that richer nations, including the United States, are making little effort to spread the wealth brought about by globalization. Do you agree with this allegation? Should companies help poorer nations realize the benefits of globalization? If so, how?

15.7. Critical Thinking & Discussion Questions:

- Describe the shifts in the world economy over the past 30 years. What are the implications of these shifts for international businesses based in Great Britain? North America? Hong Kong?
- The study of international business is fine if you are going to work in a large multinational enterprise, but it has no relevance for individuals who are going to work in small firms. Evaluate this statement.
- How have changes in technology contributed to the globalization of markets and production? Would the globalization of production and markets have been possible without these technological changes?
- Ultimately, the study of international business is no different from the study of domestic business. Thus, there is no point in having a separate course on international business. Evaluate this statement.
- If current trends continue, China may be the world's largest economy by 2050. Discuss the possible implications for such a development for: (a) the world trading system; (b) the world monetary system; (c) the business strategy of today's European and U.S.-based global corporations.

Unit 16 *Country Differences (in Economic Development)*

"One day there will be no borders,
no boundaries, no flags and no countries
and the only passport will be the heart"
Carlos Santana[150]

16.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

adjustment
assertion
cost of living
deprivation
enrol(l)ment
foothold
GDP (*Gross Domestic Product*)
GNP (*Gross National Product*)
growth rate(s)
HDI (*Human Development Index*)
impediment
implication
legal system
literacy rate
long-run benefit
lucrative market
market-based trade
measure
NDP (*Net Domestic Product*)
NNP (*Net National Product*)
PPP (*Purchasing Power Parity*)
profound impact
purchasing power
revenue
survey
trade-off
tyranny
yardstick

Verbs:

to adjust
to assess
to be scaled (from ... to ...)
to expand
to exceed
to overcome
to reduce
to shrink

Adjectives & Adverbs:

annually
by virtue of smth
hence
irrespective of smth
per capita
roughly
static
subsequent
substantially
tertiary
woeful(ly)

[150] ***Carlos Augusto Alves Santana*** (born July 20, 1947) is a Mexican and American musician who became famous in the late 1960s and early 1970s with his band, Santana, which pioneered a fusion of rock and Latin American music. The band's sound featured his melodic, blues-based guitar lines set against Latin and African rhythms featuring percussion instruments such as timbales and congas not generally heard in rock music. Santana continued to work in these forms over the following decades. He experienced a resurgence of popularity and critical acclaim in the late 1990s. In 2003 Rolling Stone magazine listed Santana at number 20 on their list of the 100 Greatest Guitarists of All Time. He has won 10 Grammy Awards and three Latin Grammy Awards.

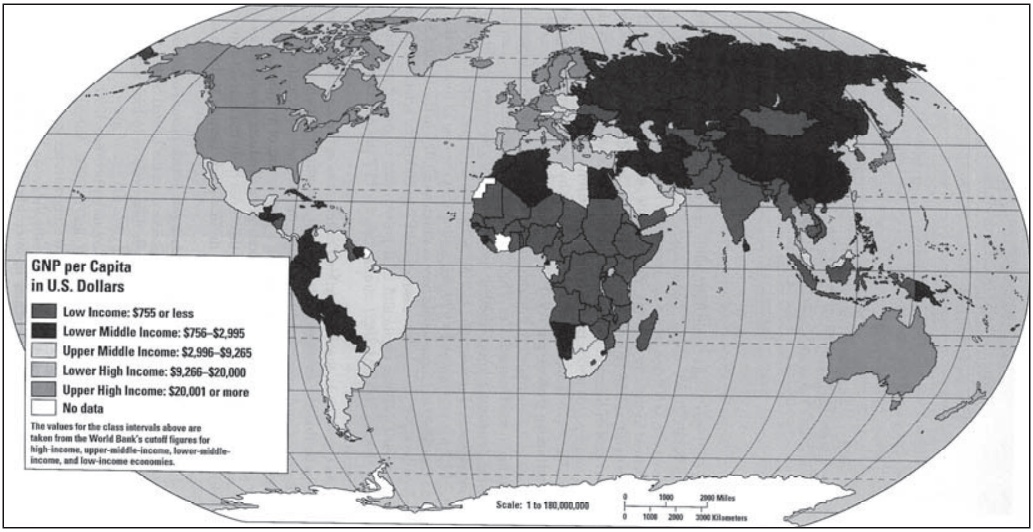
16.2. Read and translate the text into Ukrainian:

DIFFERENCES IN ECONOMIC DEVELOPMENT

The political, economic, and legal systems of a country can have a profound impact on the level of economic development and hence on the attractiveness of a country as a possible market and/or production location for a firm. Here we look at how countries differ in their level of development.

Different countries have dramatically different levels of economic development. One common measure of economic development is a country's gross national product per head of population. GNP (*Gross National Product*) [151] is often regarded as a yardstick for the economic activity of a country; it measures the total value of the goods and services produced annually. Map 16.1 summarizes the GNP per capita of the world's nations in 2010. As can be seen, countries such as Japan, Sweden, Switzerland, and the United States are among the richest on this measure, while the large countries of China and India are among the poorest. Japan, for example, had a 2010 GNP per head of $34,210, whereas China achieved only $840 and India, $400. One of the world's poorest countries, Mozambique, had a GNP per head of only $210, while one of the world's richest, Switzerland, came in at $38,120.

Map 16.1



However, GNP per capita figures can be misleading because they don't consider differences in the cost of living. For example, although the 2010 GNP per capita of Switzerland, at $38,140, exceeded that of the United States, which was $34,100, the higher cost of living in Switzerland meant that American citizens could actually afford more goods and services than Swiss citizens. To account for differences in the cost of living, one can adjust GNP per capita by purchasing power. Referred to as a purchasing power parity (PPP) adjustment, it allows for a more direct comparison of living standards in different countries. The base for the adjustment is the cost of living in the United States. The PPP (*Purchasing*

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[151] ***GNP (Gross National Product)*** – the market value of all the final goods and srevices produced by a national economy; the total value of all final goods and services produced annually by a nation.

Power Parity) [152] for different countries is then adjusted up (or down) depending upon whether the cost of living is lower (or higher) than in the United States. For example, in 2010 while the GNP per capita for China was $840, the PPP per capita was $3,920, suggesting that the cost of living was lower in China and that $840 in China would buy as much as $3,920 in the United States. Table 16.1 gives the GNP per capita measured at PPP in 2010 for a selection of countries, along with their GNP per capita and their growth rate in gross domestic product (GDP) from 2000 to 2010.

Table 16.1

COUNTRY	GNP PER CAPITA	PPP PER CAPITA	GDP GROWTH RATE, (%) 2000-2010
Brazil	$3,570	$7,300	2.9%
China	$840	$3,920	10.1
Germany	$25,720	$24,920	1.5
India	$450	$2,830	6.0
Japan	$35,620	$27,080	1.3
Nigeria	$260	$800	2.4
Poland	$4,190	$9,000	4.6
Switzerland	$38,140	$30,450	0.8
Ukraine	$1,660	$8,010	-4.8
United Kingdom	$24,530	$23,550	2.5
United States	$34,100	$34,100	3.5

Table 16.1 suggests that the average Indian citizen can afford to consume only 7 percent of the goods and services consumed by the average U.S. citizen. Given this, one might conclude that, despite having a population of one billion, India is unlikely to be a very lucrative market for the consumer products produced by many Western international businesses. However, this is not quite the correct conclusion to draw, because India has a fairly wealthy middle class, despite its large number of very poor people.

Unfortunately, the GNP and PPP data give a static picture of development. They tell us, for example, that China is much poorer than the United States, but they do not tell us if China is closing the gap. To assess this, we have to look at the economic growth rates achieved by countries. Table 16.1 gives the rate of growth in gross domestic product (GDP) achieved by a number of countries between 2000 and 2010. Although countries such as China and India are currently very poor, their international businesses might want to get a foothold in these markets now. Even though their current contributions to an international firm's revenues might be small, their future contributions could be much larger.

BROADER CONCEPTIONS OF DEVELOPMENT: AMARTYA SEN

The Nobel prize-winning economist Amartya Sen[153] has argued that development should be assessed less by material output measures such as GNP per capita and more by the

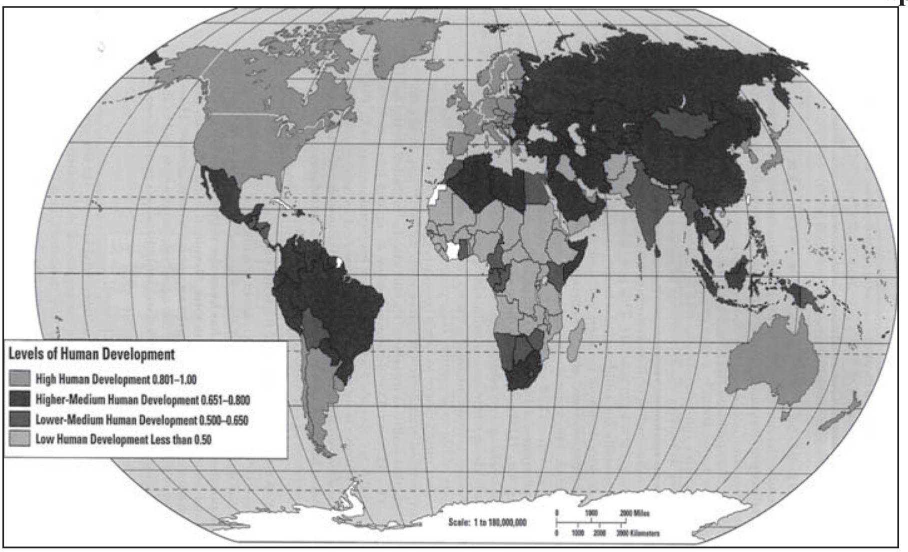
[152] ***PPP (Purchasing Power Parity)*** – an adjustment in gross domestic product per capita to reflect differences in the cost of living; a rate of exchange between two currencies that gives them equal purchasing powers in their own economies.

[153] ***Amartya Kumar Sen****, CH* (*Companion of Honour* (a British title) – born 3 November 1933) – is an Indian philosopher and economist who was awarded the 1998 Nobel Memorial Prize in Economic Sciences for his contributions to welfare economics and social choice theory, and for his interest in the problems of society's poorest members. Sen is best known for his work on the causes of famine, which led to the development of practical solutions for preventing or limiting the effects of real or perceived shortages of food. He helped to create the United Nations Human Development Index. In 2012, he became the first non-U.S. citizen recipient of the National Humanities Medal.

capabilities and opportunities that people enjoy. According to Sen, development should be seen as a process of expanding the real freedoms that people experience. Hence, development requires the removal of major impediments to freedom: poverty as well as tyranny, poor economic opportunities as well as systematic social deprivation, neglect of public facilities as well as the intolerance of repressive states. In Sen's view, development is not just an economic process, but it is a political one too, and to succeed requires the "democratization" of political communities to give citizens a voice in the important decisions made for the community. This perspective leads Sen to emphasize basic health care, especially for children, and basic education, especially for women. Not only are these factors desirable for their instrumental value in helping to achieve higher income levels, but they are also beneficial in their own right. People cannot develop their capabilities if they are chronically ill or woefully ignorant.

Sen's influential thesis has been picked up by the United Nations, which has developed the HDI (*Human Development Index*)[154] to measure the quality of human life in different nations. The HDI is based on three measures: life expectancy at birth (which is a function of health care), educational attainment (which is measured by a combination of the adult literacy rate and enrollment in primary, secondary, and tertiary education), and whether average incomes, based on PPP estimates, are sufficient to meet the basic needs of life in a country (adequate food, shelter, and health care). As such, the HDI comes much closer to Sen's conception of how development should be measured than narrow economic measures such as GNP per capita – although Sen's thesis suggests that political freedoms should also be included in the index, and they are not. The Human Development Index is scaled from 0 to 1. Countries scoring less than 0.5 are classified as having low human development (the quality of life is poor), those scoring from 0.5 to 0.8 are classified as having medium human development, while those countries that score above 0.8 are classified as having high human development. Map 16.2 summarizes the Human Development Index scores for 2000, the most recent year for which data are available.

Map 16.2



[154] ***HDI (Human Development Index)*** – an attempt by the UN to assess the impact of a number of factors on the quality of human life in a country.

GEOGRAPHY, EDUCATION, AND ECONOMIC DEVELOPMENT

While a country's political and economic system is probably the big locomotive driving its rate of economic development, other factors are also important. One that has received attention recently is geography. But the belief that geography can influence economic policy, and hence economic growth rates, goes back to Adam Smith[155]. The influential Harvard University economist Jeffrey Sachs[156] argues

[...] that throughout history, coastal states, with their long engagements in intemational trade, have been more supportive of market institutions than landlocked states, which have tended to organize themselves as hierarchical (and often military) societies. Mountainous states, as a result of physical isolation, have often neglected market-based trade. Temperate climes have generally supported higher densities of population and thus a more extensive division of labor than tropical regions [...]

Sachs's point is that by virtue of favorable geography, certain societies were more likely to engage in trade than others and were thus more likely to be open to and to develop market-based economic systems, which in turn would promote faster economic growth. He also argues that, irrespective of the economic and political institutions a country adopts, adverse geographical conditions, such as the high rate of disease, poor soils, and hostile climate that afflict many tropical countries, can have a negative impact on development. Together with colleagues at Harvard's Institute for Intemational Development, Sachs tested for the impact of geography on a country's economic growth rate between 1965 and 1990. He found that landlocked countries grew more slowly than coastal economies and that being entirely landlocked reduced a country's growth rate by roughly 0.7 percent per year. He also found that tropical countries grew 1.3 percent more slowly each year than countries in the temperate zone.

Education emerges as another important determinant of economic development (a point that Amartya Sen emphasizes). The general assertion is that nations that invest more in education will have higher growth rates because an educated population is a more productive population. Some rather striking anecdotal evidence suggests this is true. In 1980, Pakistanis and South Koreans were on equal footing economically. However, just 30 percent of Pakistani children were enrolled in primary schools, while 94 percent of South Koreans were. By the 2000s, South Korea's GNP per person was three times that of Pakistan's. A survey of 14 statistical studies that looked at the relationship between a country's investment in education and its subsequent growth rates concluded investment in education had a positive and statistically significant impact on a country's rate of economic growth. Similarly, the work by Sachs discussed above suggests that investments in education help explain why some countries in Southeast Asia, such as Indonesia, Malaysia, and Singapore, have been able to overcome the disadvantages associated with their tropical geography and grow far more rapidly than tropical nations in Africa and Latin America.

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[155] ***Adam Smith*** (5 June 1723 *OS* (16 June 1723 *NS*) – 17 July 1790) was a Scottish moral philosopher and a pioneer of political economy. One of the key figures of the Scottish Enlightenment, Adam Smith is best known for two classic works: *The Theory of Moral Sentiments (1759), and An Inquiry into the Nature and Causes of the Wealth of Nations (1776)*. The latter, usually abbreviated as *The Wealth of Nations*, is considered his magnum opus and the first modern work of economics. Smith is cited as the "father of modern economics" and is still among the most influential thinkers in the field of economics today.

[156] ***Jeffrey David Sachs*** (born November 5, 1954) is an American economist and Director of The Earth Institute at Columbia University. One of the youngest economics professors in the history of Harvard University, Sachs became known for his role as an adviser to Eastern European and developing country governments during the transition from communism to a market system or during periods of economic crisis. Subsequently he has been known for his work on the challenges of economic development, environmental sustainability, poverty alleviation, debt cancellation, and globalization.

Text Summary

- The rate of economic progress in a country seems to depend on the extent to which that country has a well-functioning market economy in which property rights are protected.
- The attractiveness of a country as a market and/or investment site depends on balancing the likely long-run benefits of doing business in that country against the likely costs and risks.
- The benefits of doing business in a country are a function of the size of the market (population), its present wealth (purchasing power), and its future growth prospects. By investing early in countries that are currently poor but are nevertheless growing rapidly, firms can gain first-mover advantages that may pay back substantial dividends in the future.
- The risks of doing business in a country tend to be greater in countries that are: politically unstable; subject to economic mismanagement, and lacking a legal system to provide adequate safeguards in the case of contract or property rights violations.

16.3. Language Practice:

16.3.1. Multiple Choice:

1. The political, economic, and legal systems of a country can have a profound impact on the level of economic development and hence on the attractiveness of a country as a ..... and/or production location for a firm.
a) possible raw materials source;
b) possible long-term investment;
c) possible market.

2. According to Sen, ... should be seen as a process of expanding the real freedoms that people experience.
a) growth;
b) accumulation;
c) development.

3. Development requires the removal of major impediments to freedom: ..... .
a) poverty, lack of education, poor economic opportunities;
b) poverty, poor economic opportunities, neglect of public facilities;
c) poverty, poor economic opportunities, political instability.

4. The HDI is based on three main measures: ..... .
a) life expectancy at birth, educational attainment, and average incomes;
b) life expectancy at birth, cultural attainment, and average incomes;
c) life expectancy at birth, educational attainment, and purchasing power.

5. Coastal states, with their long engagements in intemational trade, have been more supportive of market institutions than landlocked states, which have tended to organize themselves as ..... .
a) democratic societies;
b) hierarchical (and rarely military) societies;
c) hierarchical (and often military) societies.

6. Mountainous states, as a result of ....., have often neglected market-based trade.
a) political isolation;
b) economic isolation;
c) physical isolation.

7. Together with colleagues at Harvard's Institute for Intemational Development, Sachs tested for the impact of ..... on a country's economic growth rate between 1965 and 1990.

a) politics;
b) geography;
c) historical and cultural heritage.

16.3.2. Key Terms – Matching:

1.	GNP (*Gross National Product*)	a)	– an adjustment in gross domestic product per capita to reflect differences in the cost of living; a rate of exchange between two currencies that gives them equal purchasing powers in their own economies;
2.	per capita	b)	– an attempt by the UN to assess the impact of a number of factors on the quality of human life in a country;
3.	PPP (*Purchasing Power Parity*)	c)	– system of rules that regulate behavior and the processes by which the laws of a country are enforced and through which redress of grievances is obtained;
4.	HDI (*Human Development Index*)	d)	– the income accruing from taxation to a government during a specified period of time, usually a year;
5.	Revenue	e)	– the amount of change over a period in some of the financial characteristics of a company, such as sales revenue or profit;
6.	Growth rate	f)	– the market value of all the final goods and srevices produced by a national economy; the total value of all final goods and services produced annually by a nation;
7.	Legal system	g)	– for each person ("by heads").

16.3.3. Please explain the meaning of the following words, word combinations and abbreviations in English:

Economic development, purchasing power, GNP (*Gross National Product*), living standards, PPP (*Purchasing Power Parity*), lucrative market, per capita, economic growth, HDI (*Human Development Index*), tyranny, social deprivation, revenue, legal system, growth rate, long-run benefits, landlocked/coastal countries, NDP (*Net Domestic Product*).

16.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~growth~~	living standards	black economy	employment
Human Development Index	natural resources	Governments	
goods and services	meeting the needs	national output	

ECONOMIC DEVELOPMENT VS. ECONOMIC GROWTH

Economic (1) *growth* is a narrower concept than economic development. It is an increase in a country's real level of (2) _____ which can be caused by an increase in the quality of resources (by education etc.), increase in the quantity of resources and improvements in technology or in another way an increase in the value of (3) _____ produced by every sector of the economy. Economic growth can be measured by an increase in a country's GDP (*Gross Domestic Product*).

Economic development is a normative concept i.e. it applies in the context of people's sense of morality (right and wrong, good and bad). The definition of economic development given by Michael Todaro[157] is an increase in (4) _____, improvement in self-esteem needs and freedom from oppression as well as a greater choice. The most accurate method of measuring development is the (5) _____ which takes into account the literacy rates and life expectancy which affect productivity and could lead to economic growth. It also leads to the creation of more opportunities in the sectors of education, healthcare, (6) _____ and the conservation of the environment. It implies an increase in the per capita income of every citizen.

Economic growth does not take into account the size of the informal economy. The informal economy is also known as the (7) _____ which is unrecorded economic activity. Development alleviates people from low standards of living into proper employment with suitable shelter. Economic growth does not take into account the depletion of (8) _____ which might lead to pollution, congestion and disease. Development however is concerned with sustainability which means (9) _____ of the present without compromising future needs. These environmental effects are becoming more of a problem for (10) _____ now that the pressure has increased on them due to global warming.

Economic growth is a necessary but not sufficient condition of economic development.

16.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the noun ***growth****: enlargement, increase in size, expansion, extension, swelling, multiplication, mushrooming, snowballing, rise, escalation, build-up, development.*

16.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

ВНП (валовий національний продукт), регулювати, купівельна спроможність, паритет купівельної спроможності, критерій, економічне зростання, чистий національний продукт, подолати, на душу населення, привабливий/прибутковий ринок, індекс розвитку людського потенціалу, перевищувати, статичний/нерухомий, кінцевий прибуток, жалюгідний, позбавлення (права, свобод), приблизно, важкі/складні наслідки, валовий внутрішній продукт, правова система, незалежно від чогось, перешкода, завдяки (комусь/чомусь), скорочувати (ся).

16.4.2. Please translate the following sentences into Ukrainian:

1. In economics, the study of economic development was borne out of an extension to traditional economics that focused entirely on national product, or the aggregate output of goods and services. Economic development was concerned in the expansion of people's entitlements and their corresponding capabilities, morbidity, nourishment, literacy, education, and other socio-economic indicators.

[157] ***Michael P. Todaro*** is an American economist and a pioneer in the field of development economics. He was Professor of Economics at New York University for eighteen years and Senior Associate at the Population Council for thirty years. Professor Todaro lived and taught in Africa for six years. He appears in *Who's Who in Economics and Economists of the Twentieth Century*. He is also the author of eight books and more than fifty professional articles. He is the co-author of the widely used textbook, *Economic Development*, 11th Edition, published in 2011.

2. "Economic development" is a term that economists, politicians, and others have used frequently in the 20th century. The concept, however, has been in existence in the West for centuries. "Modernization", "Westernization", and especially "Industrialization" are other terms people have used when discussing economic development. Economic development has a direct relationship with the environment.
3. Economic development generally refers to the sustained, concerted actions of policymakers and communities that promote the standard of living and economic health of a specific area. Economic development can also be referred to as the quantitative and qualitative changes in the economy.
4. In its broadest sense, policies of economic development encompass three major areas: (1) governments undertaking to meet broad economic objectives such as price stability, high employment, and sustainable growth (such efforts include monetary and fiscal policies, regulation of financial institutions, trade, and tax policies); (2) programs that provide infrastructure and services such as highways, parks, affordable housing, crime prevention, and K–12 education[158]; (3) job creation and retention through specific efforts in business finance, marketing, neighborhood development, workforce development, small business development, business retention and expansion, technology transfer, and real estate development.
5. Economic development differs from economic growth. Whereas economic development is a policy intervention endeavour with aims of economic and social well-being of people, economic growth is a phenomenon of market productivity and rise in GDP.
6. Economic growth is the increase in the amount of the goods and services produced by an economy over time. It is conventionally measured as the percent rate of increase in real gross domestic product, or real GDP. Growth is usually calculated in real terms – i.e., inflation-adjusted terms – to eliminate the distorting effect of inflation on the price of goods produced. In economics, "economic growth" or "economic growth theory" typically refers to growth of potential output, i.e., production at "full employment".
7. Economic development typically involves improvements in a variety of indicators such as literacy rates, life expectancy, and poverty rates. GDP does not take into account other aspects such as leisure time, environmental quality, freedom, or social justice; alternative measures of economic well-being have been proposed.
8. There are three broad types of economic systems: a market economy, a command economy, and a mixed economy. In a market economy, prices are free of controls and private ownership is predominant. In a command economy, prices are set by central planners, productive assets are owned by the state, and private ownership is forbidden. A mixed economy has elements of both a market economy and a command economy.
9. Many countries are now in a state of transition. There is a marked shift away from totalitarian governments and command or mixed economic systems and toward democratic political institutions and free market economic systems.
10. Economic development has been associated with a sustained increase in real per capita GDP over fairly long periods of time. Such growth rates have been associated

[158] ***K–12*** (pronounced "*k twelve*", "*k through twelve*", or "*k to twelve*") is a designation for the sum of primary and secondary education. It is used in the United States, Canada, Turkey, the Philippines, and Australia. *P–12* is also occasionally used in Australia. The expression is a shortening of kindergarten (K) for 4- to 6-year-olds through twelfth grade (12) for 18- to 19-year-olds, the first and last grades of free education in these countries, respectively.

with the phenomenon of structural transformation both among the (European) "leaders" and the late-comers among the developing countries. Due to globalization growth and development in the developing countries are interrelated to trends on international financial markets. The last financial crisis had a huge effect on economies in those countries.

16.4.3. Please translate the following sentences into English:

1. У загальновживаному значенні під "розвитком" розуміється процес удосконалення тих чи інших елементів суспільних відносин або матеріально-речових складових суспільства, чи соціально-економічних та матеріальних систем у цілому. У такому значенні "розвиток" часто ототожнюється з прогресом. Історична практика засвідчує, що односпрямованого прогресу, лінійного розвитку в економіці не існує. Зміни відбуваються циклічно, хвилеподібно за схемою: прогрес – стагнація – регрес.
2. Економічний розвиток країни відноситься до найважливіших понять макроекономічної науки. У навчальній літературі нерідко використовують термін "соціально-економічний розвиток", підкреслюючи тим самим тісний зв'язок між рівнем економічного розвитку і вирішенням соціальних проблем країни.
3. Соціально-економічний розвиток – це складний суперечливий процес, у якому взаємодіють позитивні і негативні фактори, а періоди прогресу змінюються періодами регресу. Політичні і військові потрясіння, соціальні конфлікти, екологічні катастрофи можуть призупинити розвиток економіки будь-якої країни, відкинути її на кілька десятиліть назад.
4. Економічне зростання – це найважливіша макроекономічна категорія, яка є показником не лише абсолютного збільшення обсягів суспільного виробництва, але і здатності економічної системи задовольняти зростаючі потреби, підвищувати якість життя.
5. Економічне зростання – це просте збільшення реального ВВП нації (країни) в одному періоді порівняно з іншим. Воно показує зростаючі можливості країни в реалізації своїх виробничих можливостей. Таким чином, економічне зростання є вужчим поняттям, ніж економічний розвиток. Але очевидно, що повноцінний економічний розвиток практично неможливий без економічного зростання.
6. Проблема економічного зростання є найважливішою проблемою економічної теорії XX-XXI ст. І хоча поняття економічного зростання сягає до праць економістів XVIII-XIX ст. (Жана-Батіста Сея, Йо́гана Ге́нріха фон Тю́нена та ін.), лише наприкінці 30-х років XX ст. вивчення цієї проблеми стало окремим напрямком економічної теорії.
7. Засновниками теорії зростання вважаються американський економіст Євсей Домар (Євсей Давидович Домашевицькі) і англієць Рой Форбс Харрод, які відстоювали неокейнсіанські позиції (neo-keynesian positions).
8. В економічній літературі суть економічного зростання визначається по-різному. З одного боку, воно визначається як збільшення загального обсягу валового національного продукту за певний період або як збільшення чистого національного продукту на душу населення, а з іншого – як ситуація, за якої разом із зростанням населення відбувається аналогічне за темпами зростання національного доходу.

9. Деякі економісти ототожнюють економічне зростання з розвитком економіки загалом (зростання продуктивних сил, суспільного продукту, добробуту населення тощо). Однак більшість вчених під економічним зростанням розуміють такий економічний розвиток, коли протягом певного періоду кількісно і якісно зростає суспільне виробництво, яке перебуває в постійному русі, в динаміці.
10. Найважливішими проблемами теорії економічного зростання є: пошук джерел зростання; забезпечення довготривалої сталості; темпи оновлення та структура національного господарства; економічні наслідки технічного прогресу, а також підходи до вимірів факторів та результатів.

16.4.4. Please make an English summary of the following text:

СУТЬ І ЗАСТОСУВАННЯ КАТЕГОРІЙ "ЕКОНОМІЧНИЙ РОЗВИТОК" ТА "ЕКОНОМІЧНЕ ЗРОСТАННЯ"

Категорії "економічне зростання" і "економічний розвиток" знаходяться у контексті змісту загальних понять "зростання" і "розвиток". Для з'ясування їх суті необхідно звернутися до спеціалізованої літератури. Так, у "Новому тлумачному словнику української мови" наводиться таке визначення зростання: "... кількісне збільшення; досягнення вищого рівня розвитку …", майже подібне визначення дають автори "Великого економічного словника": "… зростання – це збільшення в кількості, розмірах; існування в процесі розвитку…". Таким чином, зростання – це категорія кількісна, яка інтегрує зовнішній бік розвитку в свідомості суб'єкта. Натомість, розвиток – це слово, що позначає "... процес росту, розвій, розмах, розквіт, процвітання; рух, хід, поступ …". Достатньо широке тлумачення поняття "розвиток" міститься у "Великому економічному словнику": "... процес закономірних змін, перехід з одного стану в інший більш досконалий; перехід від старого якісного стану до нового, від простого до складного, від нижчого до вищого…". Але найбільш ґрунтовне, абстрактне пояснення суті розвитку подається українськими філософами у "Філософському енциклопедичному словнику":

"… розвиток – це незворотна, спрямована, закономірна зміна матеріальних та ідеальних об'єктів; один із загальних видів зв'язку". При цьому розрізняється декілька трактувань цієї категорії: як збільшення або зменшення; як перехід можливості в дійсність (як розуміння руху взагалі) та як виникнення нового. Отже, розвиток – це складне за своєю природою поняття. Воно одночасно означає спрямований, незворотній рух об'єкта, зміну його якісного стану, зв'язок – перехід між станами, а також передумову зростання. Останнє знаходить прояв у кількісному аспекті "збільшення–зменшення". Таким чином, досліджувані поняття за своєю суттю є родинними, оскільки "зростання" є похідним від "розвитку". Випереджаючи заперечення про порушення закону діалектики "переходу кількості в якість", зазначимо, що встановлення пріоритету за категорією "розвиток" засноване на філософській концепції про онтологічну єдність світу, відповідно до якої джерелом всього існуючого є абсолютна якість, яка в процесі власного становлення перетворюється і урізноманітнюється в безкінечній кількості – ідей, форм, явищ тощо. Аналогічно, поняття "розвиток" за своїм змістом є більш якісним, ніж "зростання", отже саме воно є первинним у цій парі.

16.5. Reading Practice:

16.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: THE NATURE OF ECONOMIC TRANSFORMATION

The shift toward a market-based economic system often entails a number of steps: *deregulation, privatization, and creation of a legal system to safeguard property rights*.

DEREGULATION

Deregulation involves removing legal restrictions to the free play of markets, the establishment of private enterprises, and the manner in which private enterprises operate. Before the collapse of communism, the governments in most command economies exercised tight control over prices and output, setting both through detailed state planning. They also prohibited private enterprises from operating in most sectors of the economy, severely restricted direct investment by foreign enterprises, and limited intemational trade. Deregulation in these cases involved removing price controls, thereby allowing prices to be set by the interplay between demand and supply; abolishing laws regulating the establishment and operation of private enterprises; and relaxing or removing restrictions on direct investment by foreign enterprises and international trade.

In mixed economies, the role of the state was more limited, but here too, in certain sectors the state set prices, owned businesses, limited private enterprise, restricted investment by foreigners, and restricted international trade. For these countries, deregulation has involved the same kind of initiatives that we have seen in former command economies, although the transformation has been easier because there was always a vibrant private sector in these countries. India is a good example of a mixed economy that is currently deregulating large areas of its economy. Deregulation has involved reforming the industrial licensing system that made it difficult to establish private enterprises and opening areas that were once closed to the private sector (including electricity generation, parts of the oil industry, steelmaking, air transport, and some areas of the telecommunications industry). It has also involved the removal of limits on foreign ownership of Indian assets and the lowering of barriers to international trade.

PRIVATIZATION

Hand in hand with deregulation has come a sharp increase in privatization. *Privatization* transfers the ownership of state property into the hands of private individuals, frequently by the sale of state assets through an auction. Privatization is seen as a way to unlock gains in economic efficiency by giving new private owners a powerful incentive – the reward of greater profits – to search for increases in productivity, to enter new markets, and to exit losing ones.

The privatization movement started in Great Britain in the early 1980s when then Prime Minister Margaret Thatcher started to sell state-owned assets such as the British telephone company, British Telecom (BT). In a pattern that has been repeated around the world, this sale was linked with the deregulation of the British telecommunications industry. By allowing other firms to compete head to head with BT, deregulation ensured that privatization did not simply replace a state-owned monopoly with a private monopoly. In Africa, for example, Mozambique and Zambia are leading the way with very ambitious privatization plans. Zambia put more than 145 state-owned companies up for sale, while Mozambique has already sold scores of enterprises, ranging from tea plantations to a chocolate factory. The most dramatic privatization programs, however, have occurred in the economies of the former Soviet Union and its Eastern European satellite states. In the Czech Republic, three-quarters of all state-owned enterprises were privatized between 1989 and 1996, helping to push the share of gross domestic product accounted for by the private sector up from 11 percent in 1989 to 60 percent in 1995. In Ukraine, where the private sector had been almost completely repressed before 1989, 50 percent of GDP was in private hands by 1995, again much as a result of privatization. In Poland, the private sector accounted for 59 percent of GDP in 1995, up from 20 percent in 1989. However, Poland also illustrates how far some of these countries still have to travel. Despite an aggressive privatization program, Poland still had 4,000 state-owned enterprises that dominate the heavy industry, mining, and transportation sectors.

As privatization has proceeded around the world, it has become increasingly clear that simply selling state-owned assets to private investors is not enough to guarantee economic growth. Studies of privatization in central Europe have shown that the process often fails to deliver predicted benefits if the newly privatized firms continue to receive subsidies from the state and if they are protected from foreign competition by barriers to international trade and foreign direct investment. In such cases, the newly privatized firms are sheltered from competition and continue acting like state monopolies. When these circumstances prevail, the newly privatized entities often have little incentive to restructure their operations to become more efficient. For privatization to work, it must also be accompanied by a more general deregulation and opening of the economy. Thus, when Brazil decided to privatize the state-owned telephone monopoly, Telebras Brazil, the government also split the company into four independent units that were to compete with each other and removed barriers to foreign direct investment in telecommunications services. This action ensured that the newly privatized entities would face significant competition and thus would have to improve their operating efficiency to survive.

The ownership structure of newly privatized firms also is important. Many former command economies, for example, lack the legal regulations regarding corporate governance that are found in advanced Western economies. In advanced market economies, boards of directors are appointed by shareholders to make sure managers consider the interests of shareholders when making decisions and try to manage the firm in a manner that is consistent with maximizing the wealth of shareholders. However, some former Communist states lack laws requiring corporations to establish effective boards. In such cases, managers with a small ownership stake can often gain control over the newly privatized entity and run it for their own benefit, while ignoring the interests of other shareholders. Sometimes these managers are the same Communist bureaucrats who ran the enterprise before privatization. Because they have been schooled in the old ways of doing things, they often hesitate to take drastic action to increase the efficiency of the enterprise. Instead, they continue to run the firm as a private fiefdom, seeking to extract whatever economic value they can for their own betterment (in the form of perks that are not reported) while doing little to increase the economic efficiency of the enterprise so that shareholders benefit. Such developments seem less likely to occur, however, if a foreign investor takes a stake in the newly privatized entity. The foreign investor, who usually is a major provider of capital, is often able to use control over a critical resource (money) to push through needed change.

LEGAL SYSTEMS

Laws protecting private property rights and providing mechanisms for contract enforcement are required for a well-functioning market economy. Without a legal system that protects property rights, and without the machinery to enforce that system, the incentive to engage in economic activity can be reduced substantially by private and public entities, including organized crime, that expropriate the profits generated by the efforts of private-sector entrepreneurs. As noted earlier, this has become a problem in many former Communist states. When communism collapsed, many of these countries lacked the legal structure required to protect property rights, all property having been held by the state. Although many states have made big strides toward instituting the required system, it will be many more years before the legal system is functioning as smoothly as it does in the West. For example, in most Eastern European nations, the tide to urban and agricultural property is often uncertain because of incomplete and inaccurate records, multiple pledges on the same property, and unsettled claims resulting from demands for restitution from owners in the pre-Communist era. Also, while most countries have improved their commercial codes, institutional weaknesses still undermine contract enforcement. Court capacity is often inadequate, and procedures for resolving contract disputes out of court are often inadequate or poorly developed.

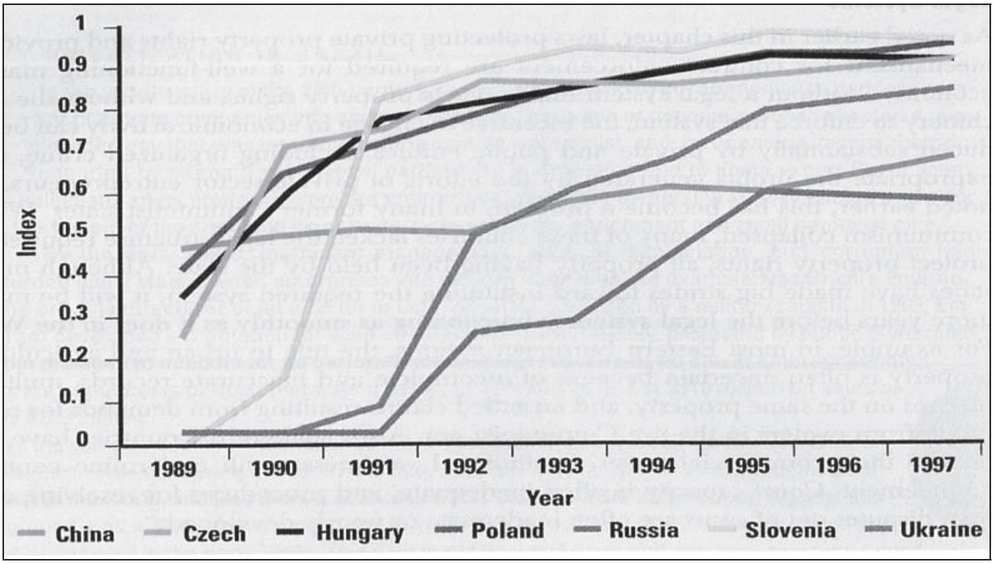
THE ROCKY ROAD

In practice, the road that must be traveled to reach a market-based economic system has often been rocky. This has been particularly true for the states of Eastern Europe in the post-Communist era. In this region, the move toward greater political and economic freedom has sometimes been accompanied by economic and political chaos. Most Eastern European states began to liberalize their economies in the heady days of the early 1990s. They dismantled decades of price controls, allowed widespread private ownership of businesses, and permitted much greater competition. Most also planned to sell state-owned enterprises to private investors. However, given the vast number of such enterprises and how inefficient many were, making them unappealing to private investors, most privatization efforts moved forward slowly. In this new environment, many inefficient state-owned enterprises found that they could not survive without a guaranteed market. The newly democratic governments often continued to support these money-losing enterprises to stave off massive unemployment. The resulting subsidies to state-owned enterprises led to ballooning budget deficits that were typically financed by printing money. Printing money, along with the lack of price controls, often led to hyperinflation. In 1993, the inflation rate was 21 percent in Hungary, 38 percent in Poland, 841 percent in Russia, and a staggering 10,000 percent in Ukraine. Since then, however, many governments have instituted tight monetary policies and reduced their inflation rates.

Another consequence of the shift toward a market economy was collapsing output as inefficient state-owned enterprises failed to find buyers for their goods. Real gross domestic product fell dramatically in many post-Communist states between 1990 and 1994. However, the corner has been turned in several countries. Poland, the Czech Republic, and Hungary now all boast growing economies and relatively low inflation. But some countries, such as Ukraine and Russia, still find themselves grappling with major economic problems.

A study by the World Bank suggests that the post-Communist states that have been most successful at transforming their economies were those that followed an economic policy best described as "shock therapy". In these countries – which include the Czech Republic, Hungary and Poland – prices and trade were liberated quickly, inflation was held in check by tight monetary policy, and the privatization of state-owned industries was implemented rapidly. Among the 26 economies of Eastern Europe and the former Soviet Union, the World Bank found a strong positive correlation between the imposition of such shock therapy and subsequent economic growth. Speedy reformers suffered smaller falls in output and returned to growth more quickly than those such as Ukraine and Russia that moved more slowly.

Figure 16.1



Despite variations within the group, in general, the transformation of former command economies has progressed significantly. Figure 16.1 shows the degree to which economic liberalization has proceeded for a group of transition economies between 1989, when the process began for many, and 1997. The liberalization index used in Figure 16.1 is based on three separate indicators: the extent of domestic market liberalization; foreign trade liberalization, and enterprise privatization and banking reforms. The boundaries of the index are from 0 to 1, with 1 signifying the conditions found in advanced market economies such as the United States. As can be seen, the transition from a command economy to a functioning market economy was close to completion by 1997 for several countries. The index for the Czech Republic and Hungary was 0.93 at this point, that for Poland and Slovenia was 0.89, and for Russia it was 0.83. In contrast, the index for China and Ukraine was only 0.66 and 0.65, respectively, indicating that both countries still had a significant way to go. Other data show that for Hungary, Poland, and the Czech Republic, private-sector output as a percentage of GDP rose from 10 percent in 1987, to between 60 and 70 percent by 1997, a figure that is comparable to that found in some Western democracies. Several studies have shown that countries such as Poland and the Czech Republic, which undertook a very rapid economic transformation, have on average outperformed laggards such as Ukraine. Rapid transformation may cause considerable dislocation for a number of years, but in the long run it seems to yield the greatest gains.

16.6. Internet Practice:

16.6.1. Web Activities:

- Say "Nike", and most people will think of athletic shoes and gear emblazoned with the signature swoosh – most people that is except for Chinese government officials who are once again creating headaches for companies trying to conduct business in China. This time, the headaches come in a new form of pain – under the guise of protection from counterfeit products. China released its new trademark law, which on the surface sounds good. According to the law, which took effect in September 2002, all companies, local and foreign, will be treated equally when they apply to get protection from the country's product pirates. Under Chinese law, counterfeiters will be prosecuted for pirating "well-known" trademarks. The only problem is that China considers names such as Hongtashan and Haier well known, while IBM, Sony, and Nike are not. In fact, Chinese officials do not consider a single foreign trademark to be well known. The World Trade Organization (WTO), which accepted China as a member, expressly prohibits product piracy.

Go to the WTO website (**www.wto.org**) and examine its policy on intellectual property protection. In your opinion, does China's newtrademark law violate the WTO policy? How should companies such as Nike respond to the new law? If China affords no real protection to foreign trademarks, companies from around the globe stand to lose significant sums of money. Should governments become involved in this situation?

16.7. Critical Thinking & Discussion Questions:

- Free market economies stimulate greater economic growth, whereas state-directed economies stifle growth! Discuss.
- A democratic political system is an essential condition for sustained economic progress. Discuss.
- What is the relationship between corruption in a country (i.e., bribe taking by government officials) and economic growth? Is corruption always bad?
- The Nobel Prize-winning economist Amartya Sen argues that the concept of development should be broadened to include more than just economic development. What other factors does Sen think should be included in an assessment of development? How might adoption of Sen's views influence government policy? Do you think Sen is correct that development is about more than just economic development? Explain.
- You are the CEO of a worldwide known, successful company that has to choose between making a \$100 million investment in Ukraine or the Czech Republic. Both investments promise the same long-run return, so your choice is driven by risk considerations. Assess the various risks of doing business in each of these nations. Which investment would you favor and why?

Unit 17 *International Trade Theory*

"The only way that we can reduce our financial dependence on the inflow of funds from the rest of the world is to reduce our trade deficit"
Martin Feldstein[159]

17.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

abundance
antidumping petition
appeal
balance-of-trade
deterioration
domestic demand
domestic rivalry
endowment(s)
entrepreneurship
export/import
exporter/importer
incentive
laissez-faire stance
mercantilism
output
quota(s)
tariff(s)
trade:
bricks-and-mortar ~
free ~
theory:
life-cycle ~
~ of absolute advantage
~ of comparative advantage
~ of national competitive advantage
surplus

Verbs:

to challenge
to diminish
to mature
to obviate
to rest on/upon smth.
to tend to smth.
to underlie

Adjectives & Adverbs:

abundant
beneficial
cost-saving
cutting-edge
empirical
low-cost
self-defeating
sophisticated
(un)fair
(un)restricted
worthwhile

17.2. Read and translate the text into Ukrainian:

AN OVERVIEW OF TRADE THEORY

We open this unit with a discussion of mercantilism (see also Unit 2). Propagated in the 16th and 17th centuries, mercantilism advocated that countries should simultaneously encourage exports and discourage imports. Although mercantilism is an old and largely

[159] ***Martin Stuart "Marty" Feldstein*** (born November 25, 1939) is an American economist. He is currently the George F. Baker Professor of Economics at Harvard University, and the president emeritus of the National Bureau of Economic Research (NBER). He served as President and Chief Executive Officer of the NBER from 1978 through 2008. From 1982 to 1984, Feldstein served as chairman of the Council of Economic Advisers and as chief economic advisor to President Ronald Reagan (where his deficit hawk views clashed with Reagan administration economic policies). He has also been a member of the Washington-based financial advisory body of the Group of Thirty since 2003.

discredited doctrine, its echoes remain in modern political debate and in the trade policies of many countries. Next we will look at *Adam Smith's theory of absolute advantage*. Proposed in 1776, Smith's theory was the first to explain why unrestricted free trade is beneficial to a country. *Free trade* refers to a situation where a government does not attempt to influence through quotas or duties what its citizens can buy from another country, or what they can produce and sell to another country. Smith argued that the invisible hand of the market mechanism, rather than government policy, should determine what a country imports and what it exports. His arguments imply that such a laissez-faire stance toward trade was in the best interests of a country. Building on Smith's work are two additional theories that we shall review. One is *the theory of comparative advantage*, advanced by the 19th century English economist David Ricardo[160]. This theory is the intellectual basis of the modern argument for unrestricted free trade. In the 20th century, Ricardo's work was refined by two Swedish economists, Eli Heckscher[161] and Bertil Ohlin[162], whose theory is known as the Heckscher-Ohlin theory.

THE BENEFITS OF TRADE

The great strength of the theories of Smith, Ricardo, and Heckscher-Ohlin is that they identify with precision the specific benefits of international trade. Common sense suggests that some international trade is beneficial. For example, nobody would suggest that Iceland should grow its own oranges. Iceland can benefit from trade by exchanging some of the products it can produce at a low cost (fish) for some products it cannot produce at all (oranges). Thus, by engaging in international trade, Icelanders are able to add oranges to their diet of fish.

The theories of Smith, Ricardo, and Heckscher-Ohlin go beyond this common sense notion, however, to show why it is beneficial for a country to engage in international trade even for products it is able to produce for itself. This is a difficult concept for people to grasp. For example, many people in the United States believe that American consumers should buy products produced in the United States by American companies whenever possible to help save American jobs from foreign competition. Such thinking apparently influenced a 1997

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[160] ***David Ricardo*** (18 April 1772 – 11 September 1823) was a British political economist. He was often credited with systematizing economics, and was one of the most influential of the classical economists, along with *Thomas Malthus*, *Adam Smith*, and *John Stuart Mill*. He was also a member of Parliament, businessman, financier and speculator, who amassed a considerable personal fortune.

[161] ***Eli Filip Heckscher*** (24 November 1879, Stockholm – 23 December 1952, Stockholm) was a Swedish political economist and economic historian. According to a bibliography published in 1950, Heckscher published 1148 books and articles, among which may be mentioned his study of *Mercantilism*, translated into several languages, and a monumental *Economic history of Sweden* in several volumes. Heckscher is best known for a model explaining patterns in international trade (*Heckscher-Ohlin model*) that he developed with *Bertil Ohlin* at the Stockholm School of Economics.

[162] ***Bertil Gotthard Ohlin*** (23 April 1899 – 3 August 1979) was a Swedish economist and politician. He was a professor of economics at the Stockholm School of Economics from 1929 to 1965. He was also leader of the People's Party, a social-liberal party. Ohlin's name lives on in one of the standard mathematical model of international free trade, *the Heckscher-Ohlin model*, which he developed together with *Eli Heckscher*.

decision by the International Trade Commission[163] to protect the Louisiana crawfish industry from inexpensive Chinese imports.

The same kind of nationalistic sentiments can be observed in many other countries. However, the theories of Smith, Ricardo, and Heckscher-Ohlin tell us that a country's economy may gain if its citizens buy certain products from other nations that could be produced at home. The gains arise because international trade allows a country to specialize in the manufacture and export of products that can be produced most efficiently in that country, while importing products that can be produced more efficiently in other countries. So it may make sense for the United States to specialize in the production and export of commercial jet aircraft, since the efficient production of commercial jet aircraft requires resources that are abundant in the United States, such as a highly skilled labor force and cutting-edge technological know-how. On the other hand, it may make sense for the United States to import textiles from India since the efficient production of textiles requires a relatively cheap labor force and cheap labor is not abundant in the United States.

This economic argument is often difficult for segments of a country's population to accept. With their future threatened by imports, American textile companies and their employees have tried to persuade the U.S. government to limit the importation of textiles by demanding quotas and tariffs. Similarly, with their future threatened by imports, the Louisiana crawfish industry persuaded the government to limit imports of crawfish from China. Although such import controls may benefit particular groups, such as American textile businesses and their employees or Louisiana crawfish farmers, the theories of Smith, Ricardo, and Heckscher-Ohlin suggest that the economy as a whole is hurt by this action. Limits on imports are often in the interests of domestic producers, but not domestic consumers.

THE PATTERN OF INTERNATIONAL TRADE

The theories of Smith, Ricardo, and Heckscher-Ohlin also help to explain the pattern of international trade that we observe in the world economy. Some aspects of the pattern are easy to understand. Climate and natural-resource endowments explain why Ghana exports cocoa, Brazil exports coffee, Saudi Arabia exports oil, and China exports crawfish. But much of the observed pattern of international trade is more difficult to explain. For example, why does Japan export automobiles, consumer electronics, and machine tools? Why does Switzerland export chemicals, watches, and jewelry? David Ricardo's theory of comparative advantage offers an explanation in terms of international differences in labor productivity. The more sophisticated Heckscher-Ohlin theory emphasizes the interplay between the proportions in which the factors of production (such as land, labor, and capital) are available in different countries and the proportions in which they are needed for producing particular goods. This explanation rests on the assumption that countries have varying endowments of the factors of production. Tests of this theory, however, suggest it is a less powerful explanation of real-world trade patterns than once thought.

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[163] ***The United States International Trade Commission (ITC)*** is an independent, quasijudicial Federal agency with broad investigative responsibilities on matters of trade. The agency investigates the effects of dumped and subsidized imports on domestic industries and conducts global safeguard investigations. The Commission also adjudicates cases involving imports that allegedly infringe intellectual property rights.

One early response to the failure of the Heckscher-Ohlin theory to explain the observed pattern of international trade was *the product life-cycle theory*. Proposed by Raymond Vernon[164], this theory suggests that early in their life cycle, most new products are produced in and exported from the country in which they were developed. As a new product becomes widely accepted internationally, however, production starts in other countries. As a result, the theory suggests, the product may ultimately be exported back to the country of its original innovation.

In a similar vein, during the 1980s, economists such as Paul Krugman[165] of the Massachusetts Institute of Technology developed what has come to be known as *the new trade theory*. New trade theory stresses that in some cases countries specialize in the production and export of particular products not because of underlying differences in factor endowments, but because in certain industries the world market can support only a limited number of firms. In such industries, firms that enter the market first build a competitive advantage that is difficult to challenge. Thus, the observed pattern of trade between nations may be due in part to the ability of firms within a given nation to capture first-mover advantages. The United States dominates in the export of commercial jet aircraft because American firms such as Boeing were first movers in the world market. Boeing built a competitive advantage that has subsequently been difficult for firms from countries with equally favorable factor endowments to challenge.

In a work related to the new trade theory, Michael Porter[166]of the Harvard Business School developed a theory, referred to as *the theory of national competitive advantage*, that attempts to explain why particular nations achieve international success in certain industries (Figure 17.1). Like the new trade theorists, in addition to factor endowments, Porter points out the importance of country factors such as domestic demand and domestic rivalry in explaining a nation's dominance in the production and export of particular products.

TRADE THEORY AND GOVERNMENT POLICY

Although all these theories agree that international trade is beneficial to a country, they lack agreement in their recommendations for government policy. Mercantilism makes a case for government involvement in promoting exports and limiting imports. The theories of Smith, Ricardo, and Heckscher-Ohlin form part of the case for unrestricted free trade. The argument for unrestricted free trade is that both import controls and export incentives (such as subsidies) are self-defeating and result in wasted resources. Both the new trade theory and Porter's theory of national competitive advantage can be interpreted as justifying some limited government intervention to support the development of certain export-oriented industries.

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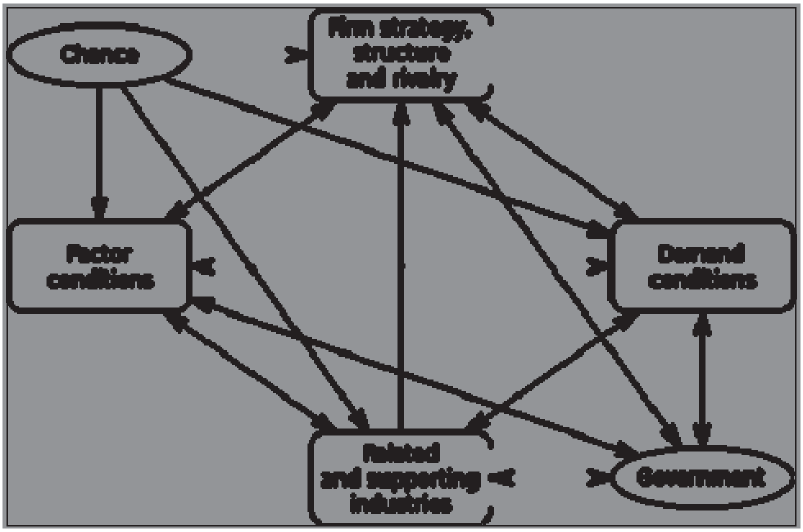
[164] ***Raymond Vernon*** (1913–1999) was an American economist, the Clarence Dillon Professor of International Affairs Emeritus at the Kennedy School of Government. Vernon was a member of the Marshall Plan team and a central player in the development of the International Monetary Fund (IMF) and of the General Agreement on Tariffs and Trade (GATT). He was the author of numerous books and articles, among them, *Big Business and the State: Changing Relations in Western Europe* (1974); *Storm Over the Multinationals: The Real Issues* (1977); *Two Hungry Giants: The United States and Japan in the Quest for Oil and Ores* (1983); *Beyond Globalism: Remaking American Foreign Economic Policy* (1989).

[165] ***Paul Robin Krugman*** (born February 28, 1953) is an American economist, Professor of Economics and International Affairs at the Woodrow Wilson School of Public and International Affairs at Princeton University, Centenary Professor at the London School of Economics, and an op-ed (**op**(posite) + **ed**(itorial)) columnist for The New York Times. In 2008, Krugman won the Nobel Memorial Prize in Economic Sciences for his contributions to New Trade Theory and New Economic Geography.

[166] ***Michael Eugene Porter*** (born May 23, 1947) is the Bishop William Lawrence University Professor at Harvard Business School. He is a leading authority on company strategy and the competitiveness of nations and regions. Michael Porter's work is recognized in many governments, corporations and academic circles globally. He chairs Harvard Business School's program dedicated for newly appointed CEOs of very large corporations.

Figure 17.1

PORTER'S NATIONAL COMPETITIVE ADVANTAGE THEORY



Text Summary

- Mercantilists argued that it was in a country's best interests to run a balance-of-trade surplus. They viewed trade as a zero-sum game, in which one country's gains cause losses for other countries.
- The theory of absolute advantage suggests that countries differ in their ability to produce goods efficiently.
- The theory of comparative advantage suggests that it makes sense for a country to specialize in producing those goods that it can produce most efficiently, while buying goods that it can produce relatively less efficiently from other countries – even if that means buying goods from other countries that it could produce more efficiently itself.
- The new trade theory argues that in those industries where substantial economies of scale imply that the world market will profitably support only a few firms, countries may predominate in the export of certain products simply because they had a firm that was a first mover in that industry.
- Theories of international trade are important to an individual business firm primarily because they can help the firm decide where to locate its various production activities.

17.3. Language Practice:

17.3.1. Multiple Choice:

1. The theory of ..... suggests that a country should specialize in producing goods in areas where it has an absolute advantage and import goods in areas where other countries have absolute advantages.

a) absolute advantage;

b) comparative advantage;

c) national competitive advantage.

2. The theory of comparative advantage suggests that unrestricted free trade brings about increased world production; that is, that trade is a ..... .

a) zero-sum game;
b) negative-sum game;
c) positive-sum game.

3. The theory of comparative advantage also suggests that opening a country to free trade stimulates ..... , which creates dynamic gains from trade.

a) economic independence;
b) economic stability;
c) economic growth.

4. The Heckscher-Ohlin theory predicts that countries ..... those goods that make intensive use of locally abundant factors and ..... goods that make intensive use of factors that are locally scarce.

a) will export ..... will import;
b) will export ..... won't import;
c) will import ..... will export.

5. The product life-cycle theory suggests that trade patterns are influenced by where a new product ..... .

a) is produced;
b) is introduced;
c) is in a great demand.

6. Porter's theory of ..... suggests that the pattern of trade is influenced by four attributes of a nation: factor endowments; domestic demand conditions; relating and supporting industries; and firm strategy, structure, and rivalry.

a) comparative advantage;
b) national competitive advantage;
c) absolute advantage.

7. Mercantilism makes a case for government involvement in ..... .

a) promoting exports and imports;
b) promoting imports and limiting exports;
c) promoting exports and limiting imports.

17.3.2. Key Terms – Matching:

1.	Free trade	a)	– the theory prevalent in Europe during the 17th and 18th centuries asserting that the wealth of a nation depends on its possession of precious metals and therefore that the government of a nation must maximize the foreign trade surplus, and foster national commercial interests, a merchant marine, the establishment of colonies, etc;
2.	Heckscher-Ohlin theory	b)	– the theory that trade occurs when one country (individual, company, or region) has an absolute advantage in the production of a product when it is more efficient than any other country at producing it;
3.	Mercantilism (mercantile system)	c)	– the absence of barriers to the free flow of goods and services between countries;
4.	The theory of absolute advantage (by Adam Smith)	d)	– the theory that attempts to explain why particular nations achieve international success in certain industries;

5.	The theory of comparative advantage (by David Ricardo)	e)	– the optimal location in the world to produce a product changes as the market for the product matures;
6.	Product life-cycle theory (by Raymond Vernon)	f)	– the theory that counties will export those goods that make intensive use of locally abundant factors of production and import goods that make intensive use of locally scarce factors of production;
7.	The theory of national competitive advantage (by Michael Porter)	g)	– the theory that countries should specialize in the production of goods and services they can produce most efficiently.

17.3.3. Please explain the meaning of the following words and word combinations in English:

Free trade, mercantilism (mercantile system), the theory of national competitive advantage (by Michael Porter), the theory of comparative advantage (by David Ricardo), product life-cycle theory (by Raymond Vernon), Heckscher-Ohlin theory, the theory of absolute advantage (by Adam Smith), economic growth, laissez-faire stance, bricks-and-mortar trade.

17.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~*mercantilism*~~	deterioration	to sell	balance-of-trade surplus	increase
government intervention	outflow	to export	tariffs and quotas	currency

MERCANTILISM

The first theory of international trade emerged in England in the mid-16th century. Referred to as (1) *mercantilism*, its principal assertion was that gold and silver were the mainstays of national wealth and essential to vigorous commerce. At that time, gold and silver were the (2) _____ of trade between countries; a country could earn gold and silver by exporting goods. Importing goods from other countries would result in an outflow of gold and silver to those countries. The main tenet of mercantilism was that it was in a country's best interests to maintain a trade surplus, (3) _____ more than it imported. By doing so, a country would accumulate gold and silver and, consequently, (4) _____ its national wealth and prestige. As the English mercantilist writer Thomas Mun[167] put it in 1630:

[…] the ordinary means therefore to increase our wealth and treasure is by foreign trade, wherein we must ever observe this rule: (5) _____ *more to strangers yearly than we consume of theirs in value […]*

Consistent with this belief, the mercantilist doctrine advocated (6) _____ to achieve a surplus in the balance of trade. The mercantilists saw no virtue in a large volume of trade per se. Rather, they recommended policies to maximize exports and minimize imports. To achieve this, imports were limited by (7) _____, while exports were subsidized.

The classical economist David Hume[168] pointed out an inherent inconsistency in the mercantilist doctrine in 1752. According to Hume, if England had a (8) _____ with France (it

[167] ***Thomas Mun*** (17 June 1571 – 21 July 1641) was an English writer on economics who has been called the last of the early mercantilists. He was among the first to recognize the exportation of service, or invisible items, as valuable trade, and made early statements strongly in support of capitalism.

[168] ***David Hume*** (26 April 1711 – 25 August 1776) was a Scottish philosopher, historian, economist, and essayist known especially for his philosophical empiricism and scepticism. He was one of the most important figures in the history of Western philosophy and the Scottish Enlightenment. Hume is often grouped with *John Locke*, *George Berkeley*, and a handful of others as a British Empiricist.

exported more than it imported) the resulting inflow of gold and silver would swell the domestic money supply and generate inflation in England. In France, however, the (9) _____ of gold and silver would have the opposite effect. France's money supply would contract, and its prices would fall. This change in relative prices between France and England would encourage the French to buy fewer English goods (because they were becoming more expensive) and the English to buy more French goods (because they were becoming cheaper). The result would be a (10) _____ in the English balance of trade and an improvement in France's trade balance, until the English surplus was eliminated.

17.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the noun and verb ***trade***: *(n) dealing, buying and selling, commerce, traffic, business; occupation, work, craft, job, career, profession,business, line(of work), metier;* *(v) deal, do business, bargain, negotiate, traffic, buy and sell; operate, run, do business, deal; swap, exchange, barter, part-exchange.*

17.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Теорія абсолютних переваг, підлягати оплаті, емпіричний/практичний, теорія відносних/порівняльних переваг, піддавати сумніву, який неспроможний на позитивний результат, теорія міжнародної конкуренції, принцип невтручання держави в економіку, вільна торгівля, нечесний/несправедливий, економний/ощадний, частка/квота, надлишковий, теорія факторних переваг (Хешера-Оліна), звернення/апеляція, вигідний, теорія життєвого циклу, стимул/заохочення, підлягати оплаті, внутрішній попит, (нічим) не обмежений, внутрішня конкуренція, мито/тариф, сучасний, експортер/імпортер, обсяг виробництва, ґрунтуватися/спиратися (на щось/когось), стимул/заохочення, погіршення/зменшення, торговельний баланс.

17.4.2. Please translate the following sentences into Ukrainian:

1. International trade is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product (GDP). While international trade has been present throughout much of history, it's economic, social, and political importance has been on the rise in recent centuries.
2. The history of international trade chronicles notable events that have affected the trade between various countries. In the era before the rise of the nation state, the term "international trade" cannot be literally applied, but simply means trade over long distances; the sort of movement in goods which would represent international trade in the modern world.
3. Industrialization, advanced transportation, globalization, multinational corporations, and outsourcing are all having a major impact on the international trade system. Increasing international trade is crucial to the continuance of globalization. Without international trade, nations would be limited to the goods and services produced within their own borders.
4. International trade is, in principle, not different from domestic trade as the motivation and the behavior of parties involved in a trade do not change fundamentally regardless of whether trade is across a border or not. The main difference is that international trade is typically more costly than domestic trade. The reason is that a

border typically imposes additional costs such as tariffs, time costs due to border delays and costs associated with country differences such as language, the legal system or culture.

5. Another difference between domestic and international trade is that factors of production such as capital and labor are typically more mobile within a country than across countries. Thus international trade is mostly restricted to trade in goods and services, and only to a lesser extent to trade in capital, labor or other factors of production. Trade in goods and services can serve as a substitute for trade in factors of production.
6. In international trade, the importation and exportation of goods are limited by import quotas and mandates from the customs authority. The importing and exporting jurisdictions may impose a tariff (tax) on the goods. In addition, the importation and exportation of goods are subject to trade agreements between the importing and exporting jurisdictions.
7. An import is a good brought into a jurisdiction, especially across a national border, from an external source. The purchaser of the exotic good is called an importer. An import in the receiving country is an export from the sending country. Importation and exportation are the defining financial transactions of international trade.
8. The term "export" derives from the conceptual meaning as to ship the goods and services out of the port of a country. The seller of such goods and services is referred to as an "exporter" who is based in the country of export whereas the overseas based buyer is referred to as an "importer". In international trade, "exports" refers to selling goods and services produced in the home country to other markets.
9. Instead of importing a factor of production, a country can import goods that make intensive use of that factor of production and thus embody it. An example is the import of labor-intensive goods by the United States from China. Instead of importing Chinese labor, the United States imports goods that were produced with Chinese labor. One report in 2012 suggested that international trade was increased when a country hosted a network of immigrants, but the trade effect was weakened when the immigrants became assimilated into their new country.
10. International trade law includes the appropriate rules and customs for handling trade between countries. However, it is also used in legal writings as trade between private sectors, which is not right. This branch of law is now an independent field of study as most governments have become part of the world trade, as members of the World Trade Organization (WTO). Since the transaction between private sectors of different countries is an important part of the WTO activities, this latter branch of law is now a very important part of the academic works and is under study in many universities across the world.

17.4.3. Please translate the following sentences into English:

1. Однією з найдавніших і найважливіших форм реалізації міжнародного поділу праці і світогосподарських процесів є міжнародна торгівля. У рамках міжнародного поділу праці відбувається регулярний обмін товарами та послугами між різними країнами, що здійснюється через особливу форму міжнародних економічних відносин, якою є міжнародна торгівля.
2. Міжнародна торгівля є найважливішою формою реалізації принципу порівняльних переваг, виступає іншою стороною міжнародної спеціалізації. Вона дозволяє всім країнам розширити можливості виробництва і споживання, посилювати конкуренцію і таким чином впливати на економічне зростання.

3. Міжнародна торгівля зародилася в стародавні часи, однак на кожному етапі розвитку людства мала свої особливості. Після Другої світової війни у міжнародній торгівлі з’явилися певні особливості. По-перше, суттєво розширився обсяг міжнародної торгівлі; по-друге, міжнародна торгівля характеризується сталою тенденцією підвищення цін на світовому ринку; по-третє, характерною рисою міжнародної торгівлі є зростання ролі розвинутих країн; по-четверте, міжнародна торгівля характеризується поглибленням так званого нееквівалентного обміну, особливо у відносинах “північ – південь”; по-п’яте, характерною рисою розвитку міжнародної торгівлі в сучасних умовах є зростання експорту і імпорту послуг (так званий невидимий експорт).
4. Міжнародна торгівля складається з експорту та імпорту товарів і послуг. Експорт означає, що товари та послуги, вироблені в одній країні, реалізуються поза її межами. Як правило, вивозяться товари, внутрішні ціни яких нижчі, ніж ціни на світовому ринку.
5. Розрізняють видимий і невидимий експорт. До першого належить вивезення товарів, а до невидимого експорту – надання послуг, створених у даній країні, споживачам з інших країн. Імпорт – це товари та послуги, вироблені поза межами даної країни, але ввезені і спожиті у ній. Імпортують, як правило, товари, ціни яких на світовому ринку нижчі за ціни внутрішнього ринку.
6. Основними кількісними показниками міжнародної торгівлі є обсяги світового експорту, імпорту і товарообороту. Розрізняють декілька видів міжнародної торгівлі. Залежно від об’єктів виділяють торгівлю товарами і послугами. За способом взаємодії суб’єктів розрізняють традиційну і зустрічну торгівлю та торгівлю спеціалізованою продукцією. Звичайну, дискримінаційну і преференційну види торгівлі виділяють за специфікою регулювання.
7. Міжнародна торгівля здійснюється двома основними напрямами: без посередників (напряму) і через посередників. При торгівлі без посередників немає комісійних витрат на послуги посередників, що скорочує трансакційні витрати і прискорює торгівлю. Але для здійснення такої торгівлі необхідні ґрунтовні знання партнера, висока кваліфікація та досвід. Торгівля через посередників простіша для її суб’єктів, але вимагає більше трансакційних витрат. Тут головну роль відіграють міжнародні біржі, ярмарки, виставки й аукціони.
8. Важливим елементом міжнародної торгівлі є світова ціна, або ціна світового ринку. Світова ціна – це грошове вираження інтернаціональної вартості товару відповідної якості. Її рівень визначається низкою факторів: рівнем затрат на виготовлення одиниці продукції, ступенем конкурентоздатності товарів на світовому ринку, мірою і характером впливу держави на зовнішньоекономічну діяльність, коливанням валютних курсів тощо.
9. Характерною ознакою світових цін є їхня множинність на однорідний товар. Це зумовлено, по-перше, відмінністю торговельної політики держав на світовому ринку; по-друге, державною та міждержавною валютною політикою, по-третє, кон’юнктурою світових ринків, по-четверте, відмінностями в методології розрахунку цін. Ціна може значно відрізнятися залежно від місця і часу продажу, умов угоди, виду платежу і валюти.
10. Регулювання міжнародної торгівлі здійснюється як на національному, так і на міжнародному рівнях. Зараз нараховується близько 300 міжнародних торговельно-економічних організацій, що впливають на міжнародну торгівлю.

Провідною серед них є Світова організація торгівлі (СОТ), попередницею якої була Генеральна асоціація з тарифів і торгівлі (ҐАТТ). Остання діє з 1947 р., і головне в її діяльності – це узгодження позицій різних країн, спрямованих на усунення митних бар'єрів у міжнародній торгівлі, розробка і застосування правил, що виключають дискримінацію, введення режимів найбільшого сприяння.

17.4.4. Please make an English summary of the following text:

МІЖНАРОДНА ТОРГІВЛЯ ТА ЇЇ ЕКОНОМІЧНІ ОСНОВИ

Швидке зростання міжнародного товарообороту і поглиблення спеціалізації роблять закономірним питання про економічні вигоди зовнішньої торгівлі. Чому Україна імпортує нафту та експортує цукор? Чому США імпортують каву та експортують зерно? Чому Японія експортує промислові товари, а імпортує лише сировину? І найголовніше – програють чи виграють країни від того, що відкривають кордони для міжнародної торгівлі?

Ключ до відповіді на ці запитання дає теорія міжнародної торгівлі, основи якої було сформульовано приблизно 200 років тому двома видатними британськими економістами – *Адамом Смітом* і *Давідом Рікардо*. Адам Сміт у своїй класичній праці "*Дослідження про природу й причини багатства народів*" (1776 р.) сформулював теорію абсолютної переваги. Полемізуючи з меркантилістами, він показав, що країни зацікавлені в розвитку міжнародної торгівлі, оскільки мають вигоду незалежно від того, експортерами чи імпортерами вони є. Спеціалізація двох країн відповідно до абсолютної переваги та купівля ними товарів, які всередині кожної країни виробляються з нижчою ефективністю, дає їм змогу досягати вищих рівнів споживання цих товарів.

Абсолютна перевага країни у виробництві певного продукту означає, що ця країна здатна виробляти більшу кількість одиниць цього продукту з певного обсягу ресурсів за наявного рівня технології порівняно з конкурентами.

Давід Рікардо в роботі "*Початки політичної економії*" (1817 р.) довів, що принцип абсолютної переваги є лише окремим випадком загального правила, і обґрунтував теорію порівняльної переваги. Теорія порівняльної переваги пояснює, чому країни спеціалізуються на виробництві певних товарів.

Спеціалізація, що ґрунтується на принципі порівняльної переваги, сприяє ефективнішому розподілові світових ресурсів, унаслідок чого за однакових сукупних витрат цих ресурсів та технологій світовий обсяг виробництва збільшується. Використання певної кількості обмежених ресурсів для отримання найбільшого світового обсягу продукції потребує, щоб кожний товар виробляла та країна, яка має найнижчу внутрішню альтернативну вартість його виробництва або порівняльну перевагу. Протекціонізм – бар'єри на шляху до вільної торгівлі – зменшує або зводить нанівець вигоди від спеціалізації. Якщо країни не можуть вільно торгувати, вони змушені перекидати ресурси з ефективного виробництва (з низькими витратами) в неефективне з метою задоволення своїх різноманітних потреб.

17.5. Reading Practice:

17.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: HECKSCHER-OHLIN THEORY

Ricardo's theory stresses that comparative advantage arises from differences in productivity. Thus, whether Ghana is more efficient than South Korea in the production of cocoa depends on how productively it uses its resources. Ricardo stressed labor productivity and argued that differences in labor productivity between nations underlie the notion of comparative advantage. Swedish economists *Eli Heckscher* (in 1919) and *Bertil Ohlin* (in 1933) put forward a different explanation of comparative advantage. They argued that comparative advantage arises from differences in national factor endowments. By factor endowments they meant the extent to which a country is endowed with such resources as land, labor, and capital. Nations have varying factor endowments, and different factor endowments explain differences in factor costs. The more abundant a factor, the lower its cost. The Heckscher-Ohlin theory predicts that countries will export those goods that make intensive use of factors that are locally abundant, while importing goods that make intensive use of factors that are locally scarce. Thus, the Heckscher-Ohlin theory attempts to explain the pattern of international trade that we observe in the world economy. Like Ricardo's theory, the Heckscher-Ohlin theory argues that free trade is beneficial. Unlike Ricardo's theory, however, the Heckscher-Ohlin theory argues that the pattern of international trade is determined by differences in factor endowments, rather than differences in productivity.

The Heckscher-Ohlin theory also has commonsense appeal. For example, the United States has long been a substantial exporter of agricultural goods, reflecting in part its unusual abundance of arable land. In contrast, China excels in the export of goods produced in labor-intensive manufacturing industries, such as textiles and footwear. This reflects China's relative abundance of low-cost labor. The United States, which lacks abundant low-cost labor, has been a primary importer of these goods. Note that it is relative, not absolute, endowments that are important; a country may have larger absolute amounts of land and labor than another country, but be relatively abundant in one of them.

Text 2: THE LEONTIEF PARADOX

The Heckscher-Ohlin theory has been one of the most influential theoretical ideas in international economics. Most economists prefer the Heckscher-Ohlin theory to Ricardo's theory because it makes fewer simplifying assumptions. Because of its influence, the theory has been subjected to many empirical tests. Beginning with a famous study published in 1953 by *Wassily Leontief* (winner of the Nobel Prize in economics in 1973), many of these tests have raised questions about the validity of the Heckscher-Ohlin theory. Using the Heckscher-Ohlin theory, Leontief postulated that since the United States was relatively abundant in capital compared to other nations, the United States would be an exporter of capital-intensive goods and an importer of labor-intensive goods. To his surprise, however, he found that U.S. exports were less capital intensive than U.S. imports. Since this result was at variance with the predictions of the theory, it has become known as *the Leontief paradox*.

No one is quite sure why we observe the Leontief paradox. One possible explanation is that the United States has a special advantage in producing new products or goods made with innovative technologies. Such products may be less capital intensive than products whose technology has had time to mature and become suitable for mass production. Thus, the United States may be exporting goods that heavily use skilled labor and innovative entrepreneurship, such as computer software, while importing heavy manufacturing products that use large amounts of capital. Some more recent empirical studies tend to confirm this. Further tests of the Heckscher-Ohlin theory using data for many countries tend to confirm the existence of the Leontief paradox.

This leaves economists with a difficult dilemma. They prefer Heckscher-Ohlin on theoretical grounds, but it is a relatively poor predictor of real-world international trade patterns. On the other hand, the theory they regard as being too limited, Ricardo's theory of comparative advantage, predicts trade patterns with greater accuracy. The best solution to this dilemma may be to return to the Ricardian idea that trade patterns are largely driven by international differences in productivity. Thus, one might argue that the United States exports commercial aircraft and imports automobiles not because its factor endowments are especially suited to aircraft manufacture and not suited to automobile manufacture, but because the United States is more efficient at producing aircraft than automobiles. A key assumption in the Heckscher-Ohlin theory is that technologies are the same across countries. This may not be the case, and differences in technology may lead to differences in productivity, which in turn, drives international trade patterns. Thus, Japan's success in exporting automobiles at the end of XXth century was based not just on the relative abundance of capital, but also on its development of innovative manufacturing technology that enabled it to achieve higher productivity levels in automobile production than other countries that also had abundant capital.

<u>Text 3</u>: THE PRODUCT LIFE-CYCLE THEORY

Raymond Vernon proposed *the product life-cycle theory* in the mid-1960s. Vernon's theory was based on the observation that for most of the 20th century a very large proportion of the world's new products had been developed by U.S. firms and sold first in the U.S. market (e.g., mass-produced automobiles, televisions, instant cameras, photocopiers, personal computers, and semiconductor chips). To explain this, Vernon argued that the wealth and size of the U.S. market gave U.S. firms a strong incentive to develop new consumer products. In addition, the high cost of U.S. labor gave U.S. firms an incentive to develop cost-saving process innovations.

Just because a new product is developed by a U.S. firm and first sold in the U.S. market, it does not follow that the product must be produced in the United States. It could be produced abroad at some low-cost location and then exported back into the United States. However, Vernon argued that most new products were initially produced in America. Apparently, pioneering firms believed it was better to keep production facilities close to the market and to the firm's center of decision making, given the uncertainty and risks inherent in introducing new products. Also, the demand for most new products tends to be based on nonprice factors. Consequendy, firms can charge relatively high prices for new products, which obviate the need to look for low-cost production sites in other countries.

Vernon went on to argue that early in the life cycle of a typical new product, while demand is starting to grow rapidly in the United States, demand in other advanced countries is limited to high-income groups. The limited initial demand in other advanced countries does not make it worthwhile for firms in those countries to start producing the new product, but it does necessitate some exports from the United States to those countries.

Over time, demand for the new product starts to grow in other advanced countries (e.g. Great Britain, France, Germany, and Japan). As it does, it becomes worthwhile for foreign companies to begin producing for their home markets. In addition, U.S. firms might set up production facilities in those advanced countries where demand is growing. Consequently, production within other advanced countries begins to limit the potential for exports from the United States.

As the market in the United States and other advanced nations matures, the product becomes more standardized, and price becomes the main competitive weapon. As this occurs, cost considerations start to play a greater role in the competitive process. Producers based in advanced countries where labor costs are lower than in the United States (e.g., Italy, Spain) might now be able to export to the United States.

If cost pressures become intense, the process might not stop there. The cycle by which the United States lost its advantage to other advanced countries might be repeated once more, as developing countries (e.g. Thailand) begin to acquire a production advantage over advanced countries. Thus, the locus of global production initially switches from the United States to other advanced nations and then from those nations to developing countries.

The consequence of these trends for the pattern of world trade is that over time the United States switches from being an exporter of the product to an importer of the product as production becomes concentrated in lower-cost foreign locations.

Text 4: THE NEW TRADE THEORY

The new trade theory began to emerge in the 1970s when a number of economists were arguing that increasing returns to specialization might exist in some industries. Economies of scale represent one particularly important source of increasing returns. Economies of scale are unit cost reductions associated with a large scale of output. If international trade results in a country specializing in the production of a certain good, and if there are economies of scale in producing that good, then as output of that good expands, unit costs will fall. In such a case, there will be increasing returns to specialization, not diminishing returns! Put differently, as a country produces more of the good, due to the realization of economies of scale, productivity will increase and the unit costs of producing the good will fall.

New trade theory also argues that if the output required to realize significant scale economies represents a substantial proportion of total world demand for that product, the world market may be able to support only a limited number of firms producing that product. Those firms that enter the world market first may gain an advantage that may be difficult for other firms to match. Thus, a country may dominate in the export of a particular product where scale economies are important, and where the volume of output required to gain scale economies represents a significant proportion of world output, because it is home to a firm that was an early mover in this industry.

17.6. Internet Practice:

17.6.1. Web Activities:

- In Europe, customers are flocking to the Internet – some 12.7 million new users in one year alone. American and European companies are eagerly pursuing growth opportunities, setting off a new wave of cross-border trade. Understanding cross-border trade – why it occurs, and why it follows the patterns it does – is important to our understanding of international business. Several economists, notably Adam Smith and David Ricardo, have theorized that efficiency is increased as a result of specialization by countries and free trade. Hecksher and Ohlin explored the role of labor and capital stock in determining trading patterns between nations. More recently Porter has suggested that industry success is dependent on factor conditions, demand conditions, the presence of related and supporting industries, and firm strategy, structure, and rivalry. While these theories have proved to be powerful tools in increasing our understanding of trade, they were developed to explain “bricks-and-mortar trade”. Today, however, international trade occurs not only in the traditional sense, but also electronically. Amazon.com for example, takes in more than 34 percent of its revenues from its non-U.S. domains, while American job-finding site Monster.com saw a 61% increase in traffic in Europe in one year. Similarly, Europe’s largest discount-carrier, easyJet Airline Co., saw a tremendous increase in traffic.

Go to **http://glreach.com/eng/ed/art/eur.ecommerce.php3 and www.nua.ie/surveys/index.cgi?f=VS&artJd= 905358296&rel=true** and explore the surge in e-commerce in Europe. Then, consider each of the trade theories presented in the text and their value in an interconnected world. How well, if at all, do the existing theories explain international e-commerce? Can policy makers and companies depend on the theories to guide global e-commerce decision making in the same way they utilize the theories for traditional trade issues? Comment on the future oftrade in this new environment.

17.7. Critical Thinking & Discussion Questions:

- Mercantilism is a bankrupt theory that has no place in the modern world. Discuss.
- Unions in developed nations often oppose imports from low-wage countries and advocate trade barriers to protect jobs from what they often characterize as “unfair” import competition. Is such competition “unfair”? Do you think this argument is in the best interests of (a) the unions, (b) the people they represent, and/or (c) the country as a whole?
- What are the potential costs of adopting a free trade regime? Do you think governments should do anything to reduce these costs? What exactly?
- The world’s poorest countries are at a competitive disadvantage in every sector of their economies. They have nothing to export. They have no capital; their land is of poor quality; they often have too many people given available work opportunities; and they are poorly educated. Free trade cannot possibly be in the interests of such nations! Discuss.
- In general, policies designed to limit competition from low-cost foreign competitors do not help a country to achieve greater economic growth. Discuss this statement.

Unit 18 *Regional Economic Integration*

"We hope to see a Europe where men of every country will think as much of being a European as of belonging to their native land, and that without losing any of their love and loyalty of their birthplace"
Winston Churchill [169] (09/05/1948)

18.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

abolition (partial/full)
amendment
appeal court
Asia-Pacific Economic Cooperation (*APEC*)
bilateral treaty
challenge
compliance
devastation
enlargement
European Free Trade Association (*EFTA*)
failure
Free Trade Area of the Americas (*FTAA*)
General Agreement on Tariffs and Trade (*GATT*)
hemispherewide
immigration/emigration
impediment
insurance
judge
law
legislation
logjam
mergers and acquisitions
North American Free Trade Agreement (*NAFTA*)
obligation
prejudice
proliferation
rationale
restriction (non-tariff)
signatory agreement
South Asian Free Trade Area (*SAFTA*)
successor
tax rate
veto power
World Trade Organization (*WTO*)

Verbs:

to acced
to decline
to diminish
to distort
to entail
to enlarge
to implement
to impose
to launch
to necessitate
to notify
to offset
to oversee
to pursue
to restrict
to seek (sought)
to supersede
to tackle

Adjectives & Adverbs:

accountable to smb
cross-border (flow)
enduring
external
fiscal
intragroup (shipment)
pan-Pacific
unanimous (agreement)
under the auspices of smb
worrisome

[169] ***Sir Winston Leonard Spencer-Churchill*** (30 November 1874 – 24 January 1965) was a British politician who was Prime Minister of the United Kingdom from 1940 to 1945 (that is, for most of the Second World War) and again from 1951 to 1955. Widely regarded as one of the greatest wartime leaders of the 20th century, Churchill was also an officer in the British Army, a historian, a writer, and an artist. He is the only British Prime Minister to have received the Nobel Prize in Literature, and was also the first person to be made an honorary citizen of the United States.

18.2. Read and translate the text into Ukrainian:

REGIONAL ECONOMIC INTEGRATION

One notable trend in the global economy in recent years has been the accelerated movement toward regional economic integration. By *regional economic integration*, we mean agreements among countries in a geographic region to reduce, and ultimately remove, tariff and nontariff barriers to the free flow of goods, services, and factors of production between each other. The last few years have witnessed an unprecedented proliferation of regional trade arrangements. *World Trade Organization* members are required to notify the WTO[170] of any regional trade agreements in which they participate. By 2013, nearly all of the WTO's 159 members had notified the organization of participation in one or more regional trade agreements. From 1947 to 1994, there were 124 notifications to the GATT[171] of regional trade agreements. Since the creation of the WTO in 1995, more than 200 additional arrangements covering trade in goods or services have been created. Not all regional trade agreements reached in the past half century are still in force. Most of the discontinued agreements, however, have been superseded by redesigned agreements among the same signatories. Out of the more than 300 agreements or enlargements so far notified to the GATT and the WTO, some 150 are deemed to be currently in force.

Consistent with the predictions of international trade theory, particularly the theory of comparative advantage (see Unit 17), the belief has been that agreements designed to promote freer trade within regions will produce gains from trade for all member countries. *The General Agreement on Tariffs and Trade* and its successor, the *World Trade Organization*, also seek to reduce trade barriers. With more than 159 member states, the WTO has a worldwide perspective. By entering into regional agreements, groups of countries aim to reduce trade barriers more rapidly than can be achieved under the auspices of the WTO.

Nowhere has the movement toward regional economic integration been more successful than in Europe. On January 1, 2013, the *European Union*[172] effectively became a single market with 509 million consumers. But the EU is not stopping there. The member states of the EU have launched a single currency, they are moving toward a closer political union, and they are discussing enlarging the EU from the current 28 countries to ultimately include approximately another 10 Eastem European states.

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[170] ***The World Trade Organization (WTO)*** is an organization that intends to supervise and liberalize international trade. The organization officially commenced on 1 January 1995 under the Marrakech Agreement, replacing the General Agreement on Tariffs and Trade (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements, which are signed by representatives of member governments and ratified by their parliaments. Most of the issues that the WTO focuses on derive from previous trade negotiations, especially from the Uruguay Round (1986–1994).

[171] ***The General Agreement on Tariffs and Trade (GATT)*** was a multilateral agreement regulating international trade. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis". It was negotiated during the United Nations Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). GATT was signed in 1947 and lasted until 1994, when it was replaced by the World Trade Organization in 1995. The original GATT text (GATT 1947) is still in effect under the WTO framework, subject to the modifications of GATT 1994.

[172] ***The European Union (EU)*** is an economic and political union of **28** member states that are located primarily in Europe. The EU operates through a system of supranational independent institutions and intergovernmental negotiated decisions by the member states. Institutions of the EU include the European Commission, the Council of the European Union, the European Council, the Court of Justice of the European Union, the European Central Bank, the Court of Auditors, and the European Parliament. The European Parliament is elected every five years by EU citizens. The EU's de facto capital is Brussels.

Similar moves toward regional integration are being pursued elsewhere in the world. Canada, Mexico, and the United States have implemented the *North American Free Trade Agreement (NAFTA)*[173]. This promises to ultimately remove all barriers to the free flow of goods and services between the three countries. Argentina, Brazil, Paraguay, and Uruguay have implemented a 1991 agreement to start reducing barriers to trade between themselves. Known as *Mercosur*[174], this free trade area is viewed by some as the first step in a move toward creation of a *South American Free Trade Area (SAFTA)*[175]. There is also talk of establishing a hemispherewide *Free Trade Agreement of the Americas (FTAA)*[176]. Negotiations between 34 countries in the Americas to establish the FTAA began in 2001 and concluded in 2005. Along similar lines, 21 Pacific Rim countries, including the NAFTA member states, Japan, and China, have been discussing a possible pan-Pacific free trade area under the auspices of the *Asia-Pacific Economic Cooperation forum (APEC)*[177]. There are also active attempts at regional economic integration in Central America, the Andean region of South America, Southeast Asia, and parts of Africa.

A move toward greater regional economic integration can potentially deliver important benefits to consumers and present firms with new challenges. In the European insurance industry, creation of a single EU insurance market opened formerly protected national markets to increased competition, which should result in lower prices for insurance products. This will benefit consumers, who will have more money to spend on other goods and services. As for insurance companies, the increase in competition and greater price pressure that has followed the creation of a single market has forced them to look for cost savings from economies of scale. They have also sought to increase their presence in different nations. The

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[173]***The North American Free Trade Agreement (NAFTA)*** is an agreement signed by Canada, Mexico, and the United States, creating a trilateral trade bloc in North America. The agreement came into force on January 1, 1994. It superseded the Canada–United States Free Trade Agreement between the U.S. and Canada. In terms of combined purchasing power parity GDP of its members, as of 2007 the trade bloc is the largest in the world and second largest by nominal GDP comparison. NAFTA has two supplements: *the North American Agreement on Environmental Cooperation (NAAEC) and the North American Agreement on Labor Cooperation (NAALC)*.

[174]***Mercosur or Mercosul*** (*English: Southern Common Market*) is an economic and political agreement among *Argentina, Brazil, Paraguay, Uruguay, and Venezuela; with Bolivia* becoming an accessing member on 7 December 2012 to be ratified by the Member State's legislatures. Its purpose is to promote free trade and the fluid movement of goods, people, and currency. The official languages are Spanish, Portuguese and Guaraní. It has been updated, amended, and changed many times since. It is now a full customs union. Mercosur and the Andean Community of Nations are customs unions that are components of a continuing process of South American integration connected to the Union of South American Nations.

[175] ***The South Asian Free Trade Area (SAFTA)*** is an agreement reached on 6 January 2004 at the 12th SAARC summit in Islamabad, Pakistan. It created a free trade area of 1.6 billion people in *Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka* (as of 2011, the combined population is 1.8 billion people). The seven foreign ministers of the region signed a framework agreement on SAFTA to reduce customs duties of all traded goods to zero by the year 2016.The SAFTA agreement came into force on 1 January 2006 and is operational following the ratification of the agreement by the seven governments.

[176]***The Free Trade Area of the Americas (FTAA)*** was a proposed agreement to eliminate or reduce the trade barriers among all countries in the Americas but Cuba. In the last round of negotiations, trade ministers from **34** countries met in Miami, United States, in November 2003 to discuss the proposal. The proposed agreement was an extension of the North American Free Trade Agreement (NAFTA) between *Canada, Mexico and the United States*. Opposing the proposal were *Cuba, Venezuela, Bolivia, Ecuador, Dominica, Nicaragua and Honduras (all of which entered the Bolivarian Alternative for the Americas in response), and Argentina, Chile and Brazil.*

[177] ***Asia-Pacific Economic Cooperation (APEC)*** is a forum for **21** *Pacific Rim countries* (formally Member Economies) that seeks to promote free trade and economic cooperation throughout the Asia-Pacific region. It was established in 1989 in response to the growing interdependence of Asia-Pacific economies and the advent of regional trade blocs in other parts of the world; to fears that highly industrialized Japan (a member of G8) would come to dominate economic activity in the Asia-Pacific region; and to establish new markets for agricultural products and raw materials beyond Europe (where demand had been declining). APEC works to raise living standards and education levels through sustainable economic growth and to foster a sense of community and an appreciation of shared interests among Asia-Pacific countries.

mergers occurring in the European insurance industry are seen as a way of achieving both these goals. The promise of a single market has yet to be fully attained due to the lingering persistence of regulatory differences between member states of the EU. The European Commission is tackling this issue.

The rapid spread of regional trade agreements raises the fear among some of a world in which regional trade blocs compete against each other. In this scenario of the future, free trade will exist within each bloc, but each bloc will protect its market from outside competition with high tariffs. The specter of the EU and NAFTA turning into "economic fortresses" that shut out foreign producers with high tariff barriers is worrisome to those who believe in unrestricted free trade. If such a scenario were to materialize, the resulting decline in trade between blocs could more than offset the gains from free trade within blocs.

With these issues in mind, the main objective of this Unit is: to review progress toward regional economic integration around the world. Before tackling this objective, however, we first need to examine the levels of integration that are theoretically possible.

LEVELS OF ECONOMIC INTEGRATION

Several levels of economic integration are possible in theory (see Figure 18.1). From least integrated to most integrated, they are: *a free trade area; a customs union; a common market; an economic union;* and, finally, *a full political union*.

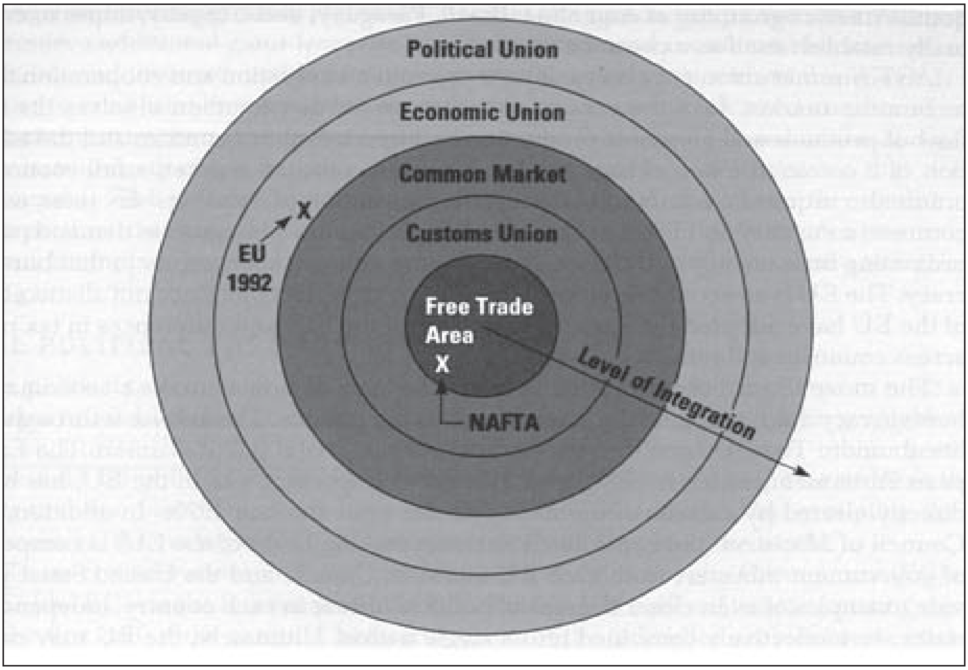
In *a free trade area*, all barriers to the trade of goods and services among member countries are removed. In the theoretically ideal free trade area, no discriminatory tariffs, quotas, subsidies, or administiative impediments are allowed to distort trade between members. Each country, however, is allowed to determine its own trade policies with regard to nonmembers. Thus, for example, the tariffs placed on the products of nonmember countries may vary from member to member. Free trade agreements are the most popular form of regional economic integration, accounting for almost 90 percent of regional agreements.

The most enduring free trade area in the world is the *European Free Trade Association (EFTA)*[178]. Established in January 1960, EFTA currently joins four countries –Norway, Iceland, Liechtenstein, and Switzerland – down from seven in 1995 (three EFTA members, Austria, Finland, and Sweden, joined the EU on January 1, 1996). EFTA was founded by those Western European countries that initially decided not to be part of the European Community (the forerunner of the EU). Its original members included Austria, Great Britain, Denmark, Finland, and Sweden, all of which are now members of the EU. The emphasis of EFTA has been on free trade in industrial goods. Agriculture was left out of the arrangement, each member being allowed to determine its own level of support. Members are also free to determine the level of protection applied to goods coming from outside EFTA. Other free trade areas include the North American Free Trade Agreement (NAFTA).

[178] ***European Free Trade Association (EFTA)*** is a free trade organisation between four European countries that operates in parallel with – and is linked to – the European Union (EU). The EFTA was established on 3 May 1960 as a trade bloc-alternative for European states who were either unable or unwilling to join the then-European Economic Community (EEC) which has now become the EU. The Stockholm Convention, establishing the EFTA, was signed on 4 January 1960 in the Swedish capital by seven countries (known as the "outer seven"). Today's EFTA members are Liechtenstein, Iceland, Norway and Switzerland, of which the latter two were founding members. The initial Stockholm Convention was superseded by the Vaduz Convention, which enabled greater liberalisation of trade among the member states.

Figure 18.1

LEVELS OF ECONOMIC INTEGRATION



The customs union is one step further along the road to full economic and political integration. A customs union eliminates trade barriers between member countries and adopts a common external trade policy. Establishment of a common external trade policy necessitates significant administrative machinery to oversee trade relations with nonmembers. Most countries that enter into a customs union desire even greater economic integration down the road. The EU began as a customs union and has moved beyond this stage. Other customs unions around the world include the current version of the *Andean Pact*[179] (between Bolivia, Colombia, Ecuador, and Peru). The Andean Pact established free trade between member countries and imposes a common tariff, of 5 to 20 percent, on products imported from outside.

Like a customs union, the theoretically ideal *common market* has no barriers to trade between member countries and a common external trade policy. Unlike a customs union, a common market also allows factors of production to move freely between members. Labor and capital are free to move because there are no restrictions on immigration, emigration, or cross-border flows of capital between member countries. Establishing a common market demands a significant degree of harmony and cooperation on fiscal, monetary, and employment policies. Achieving this degree of cooperation has proven very difficult. For years the European Union functioned as a common market, although it has now moved beyond this stage. Mercosur, the South America grouping of Argentina, Brazil, Paraguay, and Uruguay, hopes to eventually establish itself as a common market.

[179] ***The Andean Community*** is a customs union comprising the South American countries of Bolivia, Colombia, Ecuador, and Peru. The trade bloc was called the ***Andean Pact*** until 1996 and came into existence with the signing of the Cartagena Agreement in 1969. Its headquarters are located in Lima, Peru.

An economic union entails even closer economic integration and cooperation than a common market. Like the common market, an economic union involves the free flow of products and factors of production between member countries and the adoption of a common external trade policy. Unlike a common market, a full economic union also requires a common currency, harmonization of members' tax rates, and a common monetary and fiscal policy. Such a high degree of integration demands a coordinating bureaucracy and the sacrifice of some national sovereignty to that bureaucracy. The EU is an economic union, although an imperfect one since not all members of the EU have adopted the euro, the currency of the EU, and differences in tax rates across countries still remain.

The move toward economic union raises the issue of how to make a coordinating bureaucracy accountable to the citizens of member nations. The answer is through *political union*. The EU is on the road toward at least partial political union. The European Parliament, which is playing an ever more important role in the EU, has been directly elected by citizens of the EU countries since the late 1970s. In addition, the Council of Ministers (the controlling, decision-making body of the EU) is composed of government ministers from each EU member. Canada and the United States provide examples of even closer degrees of political union; in each country, independent states were effectively combined into a single nation. Ultimately, the EU may move toward a similar federal structure.

Text Summary

- A number of levels of economic integration are possible in theory. In order of increasing integration, they include a free trade area, a customs union, a common market, an economic union, and full political union.
- In a free trade area, barriers to trade between member countries are removed, but each country determines its own external trade policy. In a customs union, internal barriers to trade are removed and a common external trade policy is adopted. A common market is similar to a customs union, except that a common market also allows factors of production to move freely between countries. An economic union involves even closer integration, including the establishment of a common currency and the harmonization of tax rates. A political union is the logical culmination of attempts to achieve ever-closer economic integration.
- Regional economic integration is an attempt to achieve economic gains from the free flow oftrade and investment between neighboring countries.
- Integration is not easily achieved or sustained. Although integration brings benefits to the majority, it is never without costs for the minority. Concerns over national sovereignty often slow or stop integration attempts.
- Regional integration will not increase economic welfare if the trade creation effects in the free trade area are outweighed by the trade diversion effects.
- The lowering of barriers to trade and investment between countries within a trade group will probably be followed by increased price competition.

18.3. Language Practice:

18.3.1. Multiple Choice:

1. The General Agreement on Tariffs and Trade and its successor, ... , seek to reduce trade barriers.

a) the European Free Trade Association;
b) the World Trade Organization;
c) the Asia-Pacific Economic Cooperation.

2. By entering into regional agreements, groups of countries aim ..... trade barriers more rapidly than can be achieved under the auspices of the WTO.
a) to increase;
b) to reduce;
c) to zeroize.

3. The customs union eliminates trade barriers between member countries and adopts a common ..... .
a) trade policy;
b) internal trade policy;
c) external trade policy.

4. ..... requires a common currency, harmonization of members' tax rates, and a common monetary and fiscal policy.
a) A common market;
b) A political union;
c) An economic union.

5. The theoretically ideal common market ..... between member countries and a common external trade policy.
a) has some regional barriers to trade;
b) has no barriers to trade;
c) has some internal barriers to trade.

6. ..... helps to make a coordinating bureaucracy accountable to the citizens of member nations.
a) A political union;
b) A customs union;
c) An economic union.

7. Integration brings ..... to the majority, it is never without ..... for the minority.
a) benefits ..... costs;
b) costs ..... benefits;
c) benefits ..... benefits.

18.3.2. Key Terms – Matching:

1.	Regional economic integration	a)	– is an organization that intends to supervise and liberalize international trade. The organization deals with regulation of trade between participating countries; provides a framework for negotiating and formalizing trade agreements;
2.	World Trade Organization (*WTO*)	b)	– is an economic and political agreement among Argentina, Brazil, Paraguay, Uruguay, Venezuela and Bolivia;
3.	General Agreement on Tariffs and Trade (*GATT*)	c)	– is a free trade organisation between four European countries that operates in parallel with – and is linked to – the European Union (EU);
4.	North American Free Trade Agreement (*NAFTA*)	d)	– the agreements among countries in a geographic region to reduce, and ultimately remove, tariff and nontariff barriers to the free flow of goods, services, and factors of production between each other;
5.	Mercosur	e)	– was a proposed agreement to eliminate or reduce the trade barriers among all countries in the Americas but Cuba. The proposed agreement was an extension of the North American Free Trade Agreement (NAFTA) between Canada, Mexico and the United States;

6.	Free Trade Area of the Americas (*FTAA*)	f)	– is an agreement signed by Canada, Mexico, and the United States, creating a trilateral trade bloc in North America;
7.	European Free Trade Association (*EFTA*)	g)	– was a multilateral agreement regulating international trade. According to its preamble, its purpose was the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis".

18.3.3. Please explain the meaning of the following words, word combinations and abbreviations in English:

Regional economic integration, World Trade Organization (*WTO*), economic union, General Agreement on Tariffs and Trade (*GATT*), free trade area, North American Free Trade Agreement (*NAFTA*), customs union, Mercosur, common market, Free Trade Area of the Americas (*FTAA*), economic union, European Free Trade Association (*EFTA*), political union, external trade policy, veto power, bilateral treaty, mergers and acquisitions.

18.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~*political arguments*~~	policy	costs	currency	free trade
sovereignty	monetary	net benefits	deal	liberalization

IMPEDIMENTS TO INTEGRATION

Despite the strong economic and (1) *political arguments* for integration, it has never been easy to achieve or sustain for two main reasons. First, although economic integration benefits the majority, it has its (2) _____. While a nation as a whole may benefit significantly from a regional free trade agreement, certain groups may lose. Moving to a (3) _____ regime involves some painful adjustments. For example, because of the 1994 establishment of NAFTA, some Canadian and U.S. workers in such industries as textiles, which employ low-cost, low-skilled labor, lost their jobs as Canadian and U.S. firms moved production to Mexico. The promise of significant (4) _____ to the Canadian and U.S. economies as a whole is little comfort to those who lose as a result of NAFTA. It is understandable then, that such groups have been at the forefront of opposition to NAFTA and will continue to oppose any widening of the agreement.

A second impediment to integration arises from concerns over national (5) _____. For example, Mexico's concerns about maintaining control of its oil interests resulted in an agreement with Canada and the United States to exempt the Mexican oil industry from any (6) _____ of foreign investment regulations achieved under NAFTA. Concerns about national sovereignty arise because close economic integration demands that countries give up some degree of control over such key policy issues as (7) _____ policy, fiscal policy (e.g., tax policy), and trade policy. This has been a major stumbling block in the EU. To achieve full economic union, the EU introduced a common (8) _____ to be controlled by a central EU bank. Although most member states have signed on to such a (9) _____, Great Britain remains an important holdout. A politically important segment of public opinion in that country opposes a common currency on the grounds that it would require relinquishing control of the country's monetary (10) _____ to the EU, which many British perceive as a bureaucracy run by foreigners. In 1992, the British won the right to opt out of any single currency agreement, and as of 2002, the British government had yet to reverse its decision.

18.4. Translation Practice:

NOTE: Please pay attention to the synonymic row of the adjective ***integral***:
1) *essential, fundamental, component, basic, intrinsic, inherent,vital, necessary;*
2) *built-in, inbuilt, integrated, inboard, fitted;*
3) *unified, integrated, comprehensive,holistic, joined-up, all-embracing.*

18.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Генеральна угода з тарифів і торгівлі, оподатковувати, злиття і поглинання, двостороння угода, Європейська асоціація вільної торгівлі, угода підтримана одноголосно, скасування (повне/часткове), Азійсько-Тихоокеанське економічне співробітництво, прагнути, стабільний, податкова ставка, право/закон, Американська зона вільної торгівлі, за сприянням когось, відшкодовувати, Всесвітня торговельна організація, спадкоємець, добиватися, пантихоокеанська зона вільної торгівлі, адміністративні перешкоди, спричиняти/викликати, переселення до іншої країни, зовнішньоторговельна політика, зменшувати/послаблювати, економічна причина, внутрішньокорпоративний, Південноазійська зона вільної торгівлі, законодавча діяльність, безвихідь/глухий кут, бездіяльність, перекручувати (факти), право вето (заборона), апеляційний суд, фінансовий (фіскальний), договірне зобов'язання.

18.4.2. Please translate the following sentences into Ukrainian:

1. Economic integration is the unification of economic policies between different states through the partial or full abolition of tariff and non-tariff restrictions on trade taking place among them prior to their integration. This is meant in turn to lead to lower prices for distributors and consumers with the goal of increasing the combined economic productivity of the states.
2. In economics, the word "integration" was first employed in industrial organisation to refer to combinations of business firms through economic agreements, cartels, concerns, trusts, and mergers – horizontal integration referring to combinations of competitors, vertical integration to combinations of suppliers with customers. In the current sense of combining separate economies into larger economic regions, the use of the word integration can be traced to the 1930s and 1940s. Fritz Machlup[180] credits Eli Heckscher[181], Herbert Gaedicke and Gert von Eyern as the first users of the term "economic integration" in its current sense. According to Machlup, such usage first appears in the 1935 English translation of Hecksher's 1931 book *Merkantilismen* (*Mercantilism* in English).
3. The framework of the theory of economic integration was laid out by Jacob Viner[182] (1950) who defined the trade creation and trade diversion effects, the terms

[180] ***Fritz Machlup*** (1900 –1983) was an Austrian-American economist. He was notable for being one of the first economists to examine knowledge as an economic resource.

[181] ***Eli Filip Heckscher*** (1879, Stockholm –1952, Stockholm) was a Swedish political economist and economic historian. He is best known for a model explaining patterns in international trade (Heckscher-Ohlin model) that he developed with Bertil Ohlin at the Stockholm School of Economics.

[182] ***Jacob Viner*** (1892–1970) was a Canadian economist and is considered with Frank Knight and Henry Simons to be one of the "inspiring" mentors of the early Chicago School of Economics in the 1930s: he was one of the leading figures of the Chicago faculty.

introduced for the change of interregional flow of goods caused by changes in customs tariffs due to the creation of an economic union. He considered trade flows between two states prior and after their unification, and compared them with the rest of the world.

4. The basics of the theory of economic integration were summarized by the Hungarian economist Béla Balassa[183] in the 1960s. As economic integration increases, the barriers of trade between markets diminish. Balassa believed that supranational common markets, with their free movement of economic factors across national borders, naturally generate demand for further integration, not only economically (via monetary unions) but also politically – and, thus, that economic communities naturally evolve into political unions over time.
5. The dynamic part of international economic integration theory, such as the dynamics of trade creation and trade diversion effects, the Pareto efficiency[184] of factors (labor, capital) and value added, mathematically was introduced by Ravshanbek Dalimov. This provided an interdisciplinary approach to the previously static theory of international economic integration, showing what effects take place due to economic integration, as well as enabling the results of the non-linear sciences to be applied to the dynamics of international economic integration.
6. There are economic and well as political reasons why nations pursue economic integration. The economic rationale for the increase of trade between member-states of economic unions that it is meant to lead to higher productivity. This is one of the reasons for the global scale development of economic integration, a phenomenon now realized in continental economic blocks such as ASEAN[185], NAFTA, the European Union, and the Eurasian Economic Community[186]; and proposed for intercontinental economic blocks, such as the Comprehensive Economic Partnership for East Asia[187] and the Transatlantic Free Trade Area[188].
7. The degree of economic integration can be categorized into seven stages: preferential trading area; free trade area and monetary union; customs union and common market;

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[183] ***Béla Alexander Balassa*** (6 April 1928 – 10 May 1991) was a Hungarian economist and professor at Johns Hopkins University and a consultant for the World Bank. Balassa is best known for his work on the relationship between purchasing power parity and cross-country productivity differences (the Balassa-Samuelson effect). He is also known for his work on revealed comparative advantage.

[184] ***Pareto efficiency**, or **Pareto optimality***, is a state of allocation of resources in which it is impossible to make any one individual better off without making at least one individual worse off. The term is named after Vilfredo Pareto (1848–1923), an Italian economist who used the concept in his studies of economic efficiency and income distribution. The concept has applications in academic fields such as engineering.

[185] ***The Association of Southeast Asian Nations*** is a geo-political and economic organisation of ten countries located in Southeast Asia, which was formed on 8 August 1967 by Indonesia, Malaysia, the Philippines, Singapore and Thailand. Since then, membership has expanded to include Brunei, Burma (Myanmar), Cambodia, Laos, and Vietnam. Its aims include accelerating economic growth, social progress, cultural development among its members, protection of regional peace and stability, and opportunities for member countries to discuss differences peacefully.

[186] ***The Eurasian Economic Community*** (*EAEC or EurAsEC*) originated from the Commonwealth of Independent States (CIS) Customs Union of Belarus, Kazakhstan and Russia on 29 March 1996. The Treaty on the establishment of the Eurasian Economic Community was signed on 10 October 2000, in Kazakhstan's capital Astana by Presidents Alexander Lukashenko of Belarus, Nursultan Nazarbayev of Kazakhstan, Askar Akayev of Kyrgyzstan, Vladimir Putin of Russia, and Emomali Rakhmonov of Tajikistan. On 7 October 2005 it was decided between the member states that Uzbekistan would join. Freedom of movement without visa requirements has been implemented among the members. A Common Economic Space for the community was launched on 1 January 2010.

[187] ***The Comprehensive Economic Partnership for East Asia*** (***CEPEA***) is a Japanese led proposal for trade co-operation, free trade agreement, among the 16 present member countries of the East Asia Summit.

[188] ***The Transatlantic Free Trade Area*** (***TAFTA***) or ***Transatlantic Trade and Investment Partnership*** (*TTIP*) is a proposed free trade area between the United States and the European Union. It was considered in the 1990s and again in 2007. In 2013, "United States-European Union High Level Working Group on Jobs and Growth" recommended the start of negotiations on the Transatlantic Trade and Investment Partnership.

economic union, customs and monetary union; economic and monetary union; fiscal union; complete economic integration.

8. A “free trade area” (FTA) is formed when at least two states partially or fully abolish custom tariffs on their inner border. To exclude regional exploitation of zero tariffs within the FTA there is a rule of certificate of origin for the goods originating from the territory of a member state of an FTA.
9. A “customs union” introduces unified tariffs on the exterior borders of the union (CET[189], common external tariffs). A “monetary union” introduces a shared currency. A “common market” adds to a FTA the free movement of services, capital and labor.
10. An “economic union” combines customs union with a common market. A “fiscal union” introduces a shared fiscal and budgetary policy. In order to be successful the more advanced integration steps are typically accompanied by unification of economic policies (tax, social welfare benefits, etc.), reductions in the rest of the trade barriers, introduction of supranational bodies, and gradual moves towards the final stage, a “political union”.

18.4.3. Please translate the following sentences into English:

1. Сучасний розвиток світового господарства характеризується процесами інтеґрації, тобто господарського та політичного зближення країн, об’єднання їхніх зусиль для розв’язання економічних, соціальних, політичних та інших проблем.
2. Міжнародна економічна інтеґрація проявляється на мікро- та макрорівнях. Мікроінтеґрація передбачає взаємодію окремих фірм певних країн на основі поглиблення міжнародного поділу праці та посилення коопераційних зв’язків між ними.
3. На макрорівні міжнародна економічна інтеґрація проявляється у формуванні об’єднань держав та узгодженні їхніх національних політик. Це явище в економічній літературі отримало назву реґіональної економічної інтеґрації, або економічного реґіоналізму.
4. Синтезовану, узагальнену концепцію регіональної інтеґрації розробив американський (угорський) економіст Бела Балаша (Béla Balassa). В її основі – відмінність між інтеґрацією як процесом і як кінцевим результатом.
5. Реґіональна економічна інтеґрація передбачає укладання інтеґраційних угод між державами певного реґіону з метою створення спільного економічного простору. Першим представником реґіональної економічної інтеґрації було Європейське Співтовариство, яке функціонує нині у формі економічного і валютного союзу та іменується Європейським Союзом.
6. У своєму розвитку реґіональна економічна інтеґрація проходить кілька етапів. Найпростішою її формою є зона вільної торгівлі, що передбачає усунення обмежень у взаємній торгівлі країн-учасниць інтеґраційного процесу з одночасним збереженням власної системи квот і тарифів та торгівлю з іншими країнами.

[189] ***The Central European Time*** (***CET***), used in most parts of the European Union, is a standard time which is one hour ahead of *Coordinated Universal Time (**UTC**)*. The time offset from UTC can be written as +01:00. The same standard time, UTC+01:00, is also known as *Middle European Time (MET)* and under other names like *Romance Standard Time*.

7. Вищою формою реґіональної економічної інтеґрації є митний союз. Створюючи митний союз, країни-члени інтеґраційної спільноти не лише скасовують обмеження на власну торгівлю, а й проводять спільну зовнішньоторговельну політику щодо решти країн світу.
8. Найрозвинутішою формою економічної інтеґрації є економічний союз, що передбачає створення наднаціональних органів, відповідальних за координацію та гармонізацію економічної, у тому числі й зовнішньоекономічної, політики держав-членів союзу.
9. Виділяють три основні шляхи розвитку реґіональної економічної інтеґрації: 1) формування міждержавних об'єднань на основі тривалої співпраці та еволюції господарських зв'язків між країнами певного реґіону; 2) укладання інтеґраційних угод на рівні державних органів, коли з певних політичних чи соціально-економічних міркувань утворюється інтеґраційна спільнота між країнами; 3) приєднання окремих країн до діяльності вже діючих інтеґраційних спільнот.
10. Для створення інтеґраційної спільноти між країнами окремого реґіону необхідні певні політико-правові, економічні, соціально-культурні та інфраструктурні передумови.

18.4.4. Please make an English summary of the following text:

ПРОВІДНІ МІЖНАРОДНІ ЕКОНОМІЧНІ ОБ'ЄДНАННЯ

Характерною особливістю сучасного світового господарства є посилення процесів реґіоналізації. Нині дедалі більше країн шукають об'єднання, шляхів розв'язання глобальних і реґіональних проблем, які виходять за межі національних. Власне подібні прагнення призвели до утворення, розширення та зміцнення інтеґраційних об'єднань у міжнародній економіці.

Прикладом найвищої форми інтеґраційних процесів у світі та найбільшою інтеґраційною спільнотою в Європі є Європейський Союз (ЄС). Це інтеґраційна спільнота пройшла тривалий і складний шлях розвитку від митного до економічного, а відтак і валютного союзу.

ЄС нині об'єднує 28 країн Західної Європи: Ірландію, Велику Британію, Францію, Німеччину, Італію, Іспанію, Португалію, Фінляндію, Швецію, Угорщину, Чехію, Словаччину, Данію, Грецію, Австрію, Голландію, Люксембург, Польщу, Литву, Латвію, Естонію, Мальту, Словенію, Кіпр, Румунію, Болгарію, Хорватію (дані станом на 2013 рік). Нині в межах цього об'єднання створено єдиний внутрішній ринок, знято бар'єри на шляху переміщення товарів, послуг, капіталів, робочої сили, а також з 1 липня 2002 р. запроваджено єдину валюту – євро. Данія, Швеція і Велика Британія з певних політичних та економічних міркувань поки що утримуються від переходу до єдиної державної валюти, залишивши за собою право приєднатися до валютного союзу згодом.

Нині ЄС – це одне з найбільших у світі економічних спільнот з населенням понад 500 млн. осіб. На його частку припадає 31% світового ВНП та 21% світової торгівлі. У скарбницях ЄС зосереджено 34% світових валютних резервів.

Особливістю ЄС є делегування країнами-членами повноважень у виборі та проведенні економічної політики до наднаціональних органів. З поглибленням економічної інтеґрації відбувається і політичне зближення країн-членів ЄС.

Нині ЄС проводить політику розширення, передовсім, за рахунок приєднання країн Центрально-Східної Європи. Водночас Україна поки що не входить до групи потенційних претендентів до вступу в ЄС, оскільки за багатьма показниками не відповідає критеріям європейської спільноти.

18.5. Reading Practice:

18.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: REGIONAL ECONOMIC INTEGRATION IN EUROPE

Europe has two trade blocs – *the European Union and the European Free Trade Association*. Of the two, the EU is by far the more significant, not just in terms of membership (the EU has 28 members, and EFTA has only 4), but also in terms of economic and political influence in the world economy. Many now see the EU as an emerging economic and political superpower of the same order as the United States and Japan. Accordingly, we will concentrate our attention on the EU.

EVOLUTION OF EUROPEAN UNION

The EU is the product of two political factors: (1) the devastation of two world wars on Western Europe and the desire for a lasting peace, and (2) the European nations' desire to hold their own on the world's political and economic stage. In addition, many Europeans were aware of the potential economic benefits of closer economic integration of the countries.

The original forerunner of the EU, *the European Coal and Steel Community*, was formed in 1951 by Belgium, France, West Germany, Italy, Luxembourg, and the Netherlands. Its objective was to remove barriers to intragroup shipments of coal, iron, steel, and scrap metal. With the signing of the Treaty of Rome[190] in 1957, the European Community was established. The name changed again in 1994 when the European Community became the European Union following the ratification of the Maastricht Treaty[191].

The Treaty of Rome provided for the creation of a common market. Article 3 of the treaty laid down the key objectives of the new community, calling for the elimination of internal trade barriers and the creation of a common external tariff and requiring member states to abolish obstacles to the free movement of factors of production among the members. To facilitate the free movement of goods, services, and factors of production, the treaty provided for any necessary harmonization of the member states' laws. Furthermore, the treaty committed the EC to establish common policies in agriculture and transportation.

The community grew in 1973, when Great Britain, Ireland, and Denmark joined. These three were followed in 1981 by Greece, in 1986 by Spain and Portugal, and in 1995 by Austria, Finland, and Sweden bringing the total membership to 15 (East Germany became part of the EC after the reunification of Germany in 1990). In 2002, euro banknotes and coins replaced national currencies in 12 of the member states. Since then, the eurozone has increased to encompass 17 countries. In 2004, the EU saw its biggest enlargement to date

[190] ***The Treaty of Rome***, officially the Treaty establishing the European Economic Community (TEEC), is an international agreement that led to the founding of the European Economic Community (EEC) on 1 January 1958. It was signed on 25 March 1957 by Belgium, France, Italy, Luxembourg, the Netherlands and West Germany. The word Economic was deleted from the treaty's name by the Maastricht Treaty in 1993, and the treaty was repackaged as the Treaty on the functioning of the European Union on the entry into force of the Treaty of Lisbon in 2009.

[191] ***The Maastricht Treaty*** (formally, the *Treaty on European Union or TEU*) was signed on 7 February 1992 by the members of the European Community in Maastricht, Netherlands. On 9–10 December 1991, the same city hosted the European Council which drafted the treaty. Upon its entry into force on 1 November 1993 during the Delors Commission, it created the European Union and led to the creation of the single European currency, the euro. The Maastricht Treaty has been amended by the treaties of Amsterdam, Nice and Lisbon.

when Cyprus, the Czech Republic, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Slovakia, and Slovenia joined the Union. On 1 January 2007, Romania and Bulgaria became EU members. In the same year Slovenia adopted the euro, followed in 2008 by Cyprus and Malta, by Slovakia in 2009, and by Estonia in 2011. In June 2009, the 2009 Parliament elections were held leading to a renewal of Barroso's Commission Presidency, and in July 2009 Iceland formally applied for EU membership. The European Union received the 2012 Nobel Peace Prize for having "contributed to the advancement of peace and reconciliation, democracy, and human rights in Europe". On 1 July 2013, Croatia became the 28th EU member. To the present day there are 28 member states of the EU (see Map 18.1).

Map 18.1

Before being allowed to join the EU, a state must fulfill economic and political conditions generally known as the Copenhagen criteria, defined at the 1993 Copenhagen European Council. These require a stable democracy that respects human rights and the rule of law; a functioning market economy capable of competition within the EU; and the acceptance of the obligations of membership, including EU law. Evaluation of a country's fulfilment of the criteria is the responsibility of the European Council.

No member state has ever left the Union, although Greenland (an autonomous province of Denmark) withdrew in 1985. The Lisbon Treaty now provides a clause dealing with how a member leaves the EU.

There are five candidate countries: Iceland, Macedonia, Montenegro, Serbia, and Turkey. However, on 13 June 2013, Iceland's Foreign Minister Gunnar Bragi Sveinsson informed the European Commission that the newly elected government intended to "put negotiations on hold".

Albania has submitted an application. Bosnia and Herzegovina is officially recognised as a potential candidate. Kosovo is also listed as a potential candidate, however since their independence is not recognised by Serbia, nor five of the 28 EU member states, the European Commission refers only to "*Kosovo**", with an asterisked footnote containing the text agreed to by the Belgrade-Pristina negotiations.

Four countries forming the EFTA (that are not EU members) have partly committed to the EU's economy and regulations: Iceland (a candidate country for EU membership), Liechtenstein and Norway, which are a part of the single market through the European Economic Area, and Switzerland, which has similar ties through bilateral treaties. The relationships of the European microstates, Andorra, Monaco, San Marino, and the Vatican include the use of the euro and other areas of co-operation.

POLITICAL STRUCTURE OF THE EUROPEAN UNION

The economic policies of the EU are formulated and implemented by a complex and still-evolving political structure. The five main institutions in this structure are: *the European Council, the Council of Ministers, the European Commission, the European Parliament, and the Court of Justice.*

The European Council is composed of the heads of state of the EU's member nations and the president of the European Commission. Each head of state is normally accompanied by a foreign minister to these meetings. The European Council meets at least twice a year and often resolves major policy issues and sets policy directions.

The European Commission is responsible for proposing EU legislation, implementing it, and monitoring compliance with EU laws by member states. Headquartered in Brussels, Belgium, the commission has more than 20,000 European civil servants. It is run by a group of 28 commissioners appointed by each member country for four-year renewable terms. Most countries appoint only one commissioner. One of the 28 is the Commission President (currently José Manuel Durão Barroso) proposed by the European Council and elected by the European Parliament. A president and six vice presidents are chosen for two-year renewable terms.

The commission has a monopoly in proposing European Union legislation. The commission starts the legislative ball rolling by making a proposal, which goes to the Council of Ministers and then to the European Parliament. The Council of Ministers cannot legislate without a commission proposal in front of it. The commission is also responsible for implementing aspects of EU law, although in practice much of this must be delegated to member states. Another responsibility of the commission is to monitor member states to make sure they are complying with EU laws. In this policing role, the commission will normally ask a state to comply with any EU laws that are being broken. If this persuasion is not sufficient, the commission can refer a case to the Court of Justice.

The European Commission's role in competition policy has become increasingly important to business in recent years. Since 1990 when the office was formally assigned a role in competition policy, the EU's competition commissioner has been steadily gaining influence as the chief regulator of competition policy in the 28 member nations of the EU. As with antitrust authorities in the United States, which include the Federal Trade Commission and the Department of Justice, the role of the competition commissioner is to ensure that no one enterprise uses its market power to drive out competitors and monopolize markets. The commissioner also reviews proposed mergers and acquisitions to make sure they do not create a dominant enterprise with substantial market power.

The Council of Ministers represents the interests of member states. It is clearly the ultimate controlling authority within the EU since draft legislation from the commission can become EU law only if the council agrees. The council is composed of one representative from the government of each member state. The membership, however, varies depending on the topic being discussed. When agricultural issues are being discussed, the agriculture ministers from each state attend council meetings; when transportation is being discussed transportation ministers attend, and so on. Before 1993, all council issues had to be decided by unanimous agreement between member states. This often led to marathon council sessions and a failure to make progress or reach agreement on proposals submitted from the commission. In an attempt to clear the resulting logjams, the Single European Act[192] formalized the use of majority voting rules on issues “which have as their object the establishment and functioning of a single market”. Most other issues, however, such as tax regulations and immigration policy, still require unanimity among council members if they are to become law.

The European Parliament, which now has 766 members, is directly elected by the populations of the member states. The parliament, which meets in Strasbourg, France, is primarily a consultative rather than legislative body. It debates legislation proposed by the commission and forwarded to it by the council. It can propose amendments to that legislation, which the commission and ultimately the council are not obliged to take up but often will. The power of the parliament recendy has been increasing, although not by as much as parliamentarians would like. The European Parliament now has the right to vote on the appointment of commissioners and has veto power over some laws (such as the EU budget and single-market legislation). One major debate now being waged in Europe is whether the council or the parliament should ultimately be the most powerful body in the EU. There is concern in Europe over the democratic accountability of the EU bureaucracy. Some think the answer to this apparent democratic deficit lies in increasing the power of the parliament, while others think that true democratic legitimacy lies with elected governments, acting through the Council of Ministers.

The Court of Justice, which is comprised of one judge from each country – currently 28 – is the supreme appeals court for EU law. Like commissioners, the judges are required to act as independent officials, rather than as representatives of national interests. The commission or a member country can bring other members to the court for failing to meet treaty obligations. Similarly, member countries, companies, or institutions can bring the commission or council to the court for failure to act according to an EU treaty.

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[192] ***The Single European Act*** (***SEA***) was the first major revision of the 1957 Treaty of Rome. The Act set the European Community an objective of establishing a Single market by 31 December 1992, and codified European Political Cooperation, the forerunner of the European Union’s Common Foreign and Security Policy. It was signed at Luxembourg on 17 February 1986, and at The Hague on 28 February 1986. It came into effect on 1 July 1987, under the Delors Commission.

18.6. Internet Practice:

18.6.1. Web Activities:

- Credit cards are hot in Europe. European Union consumers are expected to use their credit cards to spend some $250 billion in 2010 – up 20 percent from the previous year. Traditionally, Europeans have preferred debit cards, but the introduction of the euro combined with the growth of online shopping has given the credit card industry a considerable boost. Interestingly however, credit card companies such as American Express and Barclay's[193] are finding that selling people on their cards is not as easy as might be expected. Despite the fact that the countries are moving toward further economic integration, there is not necessarily a movement toward cultural and legal integration. Most credit card companies are finding that while some harmonization of consumer expectations and tastes may occur, and that while certainly operating within the multicountry marketplace is facilitated as a result of its move toward an economic union, it is still necessary to treat each country as an individual market. Barclay card, for example, has found that going to cafes to drum up business works well in Spain, but in France people prefer to be approached via mass mailings.
  Browser American Express's European websites (https://www.americanexpress.com/) and also those of Barclaycard's (http://www.barclaycard.com/). Click on the individual sites and examine the differences in each site. Discuss the notion of an integrated culture, or lack thereof, within the EU. Do you think that over time, cultural differences will blur the market becomes more interwined? Then consider the discussion in your text regarding the EU and the implications for business of the introduction of the euro. Discuss how the euro has facilitated increased credit card usage in the EU, and also the role of the Internet in promoting growth in the industry. In your opinion, would the credit card industry be experiencing its current growth spurt without the euro? Without the Internet?

18.7. Critical Thinking & Discussion Questions:

- What are the economic and political arguments for regional economic integration? Given these arguments, why don't we see more integration in the world economy?
- What effect is creation of a single market and a single currency within the EU likely to have on competition within the EU? Why?
- Do you think it is correct for the European Commission to restrict mergers between non-European companies that do business in Europe? Give examples.
- How should a U.S. firm that currently exports only to Western Europe respond to the creation of a single market?
- How should a firm with self-sufficient production facilities in several EU countries respond to the creation of a single market? What are the constraints on its ability to respond in a manner that minimizes production costs?

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[193] ***American Express Company***, also known as ***AmEx***, is an American multinational financial services corporation headquartered in Three World Financial Center, Manhattan, New York City, New York, United States. Founded in 1850, it is one of the 30 components of the Dow Jones Industrial Average. The company is best known for its credit card, charge card, and traveler's cheque businesses. Amex cards account for approximately 24% of the total dollar volume of credit card transactions in the US. ***Barclays plc*** is a British multinational banking and financial services company headquartered in London, United Kingdom. It is a universal bank with operations in retail, wholesale and investment banking, as well as wealth management, mortgage lending and credit cards. It has operations in over 50 countries and territories and has around 50 million customers. As of 31 December 2011 Barclays had total assets of US$2.42 trillion, the seventh-largest of any bank worldwide.

Unit 19 *Ukraine's World Economic Integration*

"Ukraine has never been so close
to the EU as it is now"
Alexander Kwaśniewski[194]
(21/09/2013,
10th Yalta Annual Meeting)

19.1. While analysing the Unit and reading the Text please pay attention to the following words and word-combinations (only to their meanings in the field of Economics) and write down their Ukrainian equivalents:

Nouns:

added value
acquis
audit
biodiversity
convergence
endeavour
illegal drug trafficking
implementation
incentive
justice
liberalization
man-made disaster(s)
money laundering
multilateral policy
procurement (public)
rapprochement
readmission agreement
reciprocity
regulation(s)
synergy
threat(s)
trade turnover
transparency
visa facilitation

Verbs:

to align
to constitute (legal basis)
to deem
to diversify
to enhance
to enter into force
to envisage
to facilitate
to launch
to mitigate
to re-enforce
to safeguard
to strive
to substitute

Adjectives & Adverbs:

advantageous
bilateral
constant
consular mission
inter alia
mutually
permanent
reciprocal
sustainable
transperent (tender)
tripartite
vigorous
vulnerable

194 ***Aleksander Kwaśniewski*** (born 15 November 1954) is a Polish politician and journalist. He served as the President of Poland from 1995 to 2005. Kwaśniewski was democratically elected president in 1995, defeating the incumbent, *Lech Wałęsa*. He was re-elected to a second and final term as president in 2000 in a decisive first-round victory. His term ended on 23 December 2005, when he handed over power to his elected successor, conservative *Lech Kaczyński*. In 2008 A. Kwaśniewski became Chairman of the European Council on Tolerance and Reconciliation, a not-for-profit organization established to monitor tolerance in Europe, prepare practical recommendations to governments and international organisations on improving interreligious and interethnic relations on the continent. The organization is co-chaired by European Jewish Fund President *Viatcheslav Moshe Kantor*. Since June 2012 *Kwaśniewski* and *Pat Cox* lead a European Parliament monitoring mission in Ukraine.

19.2. Read and translate the text into Ukrainian:

UKRAINE'S WORLD ECONOMIC INTEGRATION

European integration is a key priority in the foreign policy of Ukraine that integrates the whole complex of efforts both inside the country and beyond its borders. EU accession has been considered in Ukraine as a driving force for internal political and economic reforms aimed at achievement of *Copenhagen criteria*[195]. At the same time European integration means rapprochement with the EU foreign and security policy, convergence of positions on international and regional issues.

Ukraine has been actively participating in creation of Euro-Atlantic zone of stability and security. Protection of Ukraine's security interests is in the core of its course for Euro-Atlantic integration and NATO accession.

A particular attention has been always attached to development of friendly relations with all the neighbouring states. Ukraine strives to use all potential of its strategic partnership with the USA, Russia and Poland.

Ukraine conducts active multilateral policy in the framework of global and regional organizations. At present Ukraine is a member of 80 international organizations and financial institutions. Besides *the UN*, *the Council of Europe*[196], *OSCE*[197], *BSEC*[198] and other international organisations, active cooperation with Georgia, Azerbaijan and Moldova in the framework of *Organisation for democracy and economic development GUAM*[199] is of particular importance for the country.

EU-UKRAINE RELATIONS

Relations between Ukraine and the European Union were established in December 1991, when the EU officially recognized the independence of Ukraine. *The Partnership and Cooperation Agreement between Ukraine and the EU (PCA)* signed on June 14, 1994 (entered into force on March 1, 1998) constitutes the legal basis of the EU-Ukraine relations and establishes cooperation on a wide range of political, trade, economic and humanitarian issues. The main objective of the PCA was to develop close relations by means of permanent dialogue on political issues, to provide an appropriate framework for political dialogue, to promote trade and investment between the parties, to provide a basis for mutually advantageous economic, social, financial, civil, scientific, technological and cultural co-operation and to support Ukrainian efforts to consolidate its democracy, to develop its economy and complete the transition to a market economy.

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[195] ***The Copenhagen criteria*** are the rules that define whether a country is eligible to join the European Union. The criteria require that a state has the institutions to preserve democratic governance and human rights, has a functioning market economy, and accepts the obligations and intent of the EU.

[196] ***The Council of Europe*** is an international organisation promoting co-operation between all countries of Europe in the areas of legal standards, human rights, democratic development, the rule of law and cultural co-operation. It was founded in 1949, has 47 member states with some 800 million citizens, and is an entirely separate body from the European Union (EU), which has 28 member states. Unlike the EU, the Council of Europe cannot make binding laws.

[197] ***The Organization for Security and Co-operation in Europe (OSCE)*** is the world's largest security-oriented intergovernmental organization. Its mandate includes issues such as arms control and the promotion of human rights, freedom of the press and fair elections.

[198] On 25 June 1992, the Heads of State and Government of eleven countries signed in Istanbul the Summit Declaration and the Bosporus Statement giving birth to ***the Black Sea Economic Cooperation (BSEC)***. It came into existence as a model of multilateral political and economic initiative aimed at fostering interaction and harmony among the Member States, as well as to ensure peace, stability and prosperity encouraging friendly and good-neighbourly relations in the Black Sea region.

[199] ***The GUAM Organization for Democracy and Economic Development*** (***GUAM***) is a regional organization of four post-Soviet states: **G**eorgia, **U**kraine, **A**zerbaijan, and **M**oldova.

Since the PCA entered into force the EU-Ukraine dialogue is carried out through annual meetings of the EU-Ukraine Summit with the participation of the President of Ukraine; Cooperation Council with the participation of the Prime-Minister of Ukraine; Cooperation Committee and subcommittees; Parliamentary Cooperation Committee; regular Ukraine-EU Troika meetings[200]; permanent expert consultations. The EU and Ukraine annually hold more than hundred different official meetings and consultations at the high and expert levels.

In 2007 Ukraine and the EU launched the process of negotiations on a *New Enhanced Agreement (NEA)* which will substitute the PCA and serve as the main bilateral legal document for the next decade. It is deemed that the NEA will be concluded as an *Association Agreement* and contain a chapter on establishment of *Free Trade Area* between Ukraine and the EU.

At the Paris Summit in September 2008 an agreement was reached to start negotiations on an EU-Ukraine Association Agreement, which is to be the successor agreement to the PCA. Several negotiating Rounds have since been organised, alternately in Brussels and Kyiv (see: *4th Joint Progress Report on Negotiations on the Association Agreement*). In November 2009, the Cooperation Council adopted the *EU-Ukraine Association Agenda* which was subsequently updated in 2011. This Agenda replaces the *former Action Plan*, and will prepare for and facilitate the entry into force of the new Agreement. In view of the current level of the EU-Ukraine relations, the EU-Ukraine Cooperation Council endorsed the *updated version of the EU-Ukraine Association Agenda* on June, 24th, 2013.

At the 15th Ukraine-EU Summit of 19 December 2011, the EU and Ukraine leaders noted that a common understanding on the text of the *Association Agreement* was reached. On 10 December 2012, the EU Foreign Affairs Council adopted Council conclusions on Ukraine which affirmed the EU's commitment to signing the Agreement (inc. DCFTA) as soon as there is determined action and tangible progress by Ukraine on the benchmarks contained in the Conclusions.

On 15 May 2013, the EU Commission adopted, without prejudice to a future political decision on possible signature, the proposals for Council Decisions on the signing and provisional application as well as the conclusion of the EU-Ukraine Association Agreement was transmitted to the Council for further processing. With this important decision, the EU took a necessary preparatory step in order to be technically ready for the possible signing of the *Association Agreement (inc. DCFTA)* at the nearest *Eastern Partnership Summit*.

In a specific statement, the EU Commission also took the view that the signing of the Agreement remains conditional on determined action and tangible progress by Ukrainian authorities on all of the benchmarks set out by the 10 December 2012 Council Conclusions. Therefore, the Commission, together with the *European External Action Service* (*EEAS*)[201], will continue to monitor Ukraine's progress.

The Association Agreement will significantly deepen Ukraine's political association and economic integration with the EU. As Ukraine became a member of the World Trade Organisation (WTO) in May 2008, negotiations on the establishment of a *Deep and*

[200] ***Troika*** (meaning *three of a kind* or *threesome*) is a committee consisting of three members. The word "troika" is the Russian collective noun for groups of three things.

[201] ***The European External Action Service (EEAS*** or ***EAS)*** is a European Union (EU) department that was established following the entry into force of the Treaty of Lisbon on 1 December 2009. It was formally launched on 1 December 2010 and serves as a foreign ministry and diplomatic corps for the EU, implementing the EU's Common Foreign and Security Policy and other areas of the EU's external representation. The EEAS is under the authority of the High Representative for Foreign Affairs and Security Policy (HR), a post also created by the Treaty of Lisbon, whom it assists.

Comprehensive Free Trade Area – DCFTA (Appendix E) could be launched, as an integral part of the Association Agreement.

EU-UKRAINE TRADE AND ECONOMIC RELATIONS

Trade and economic relations between Ukraine and the European Union are gaining momentum and becoming increasingly dynamic and robust.

The EU has negotiated a *Deep and Comprehensive Free Trade Agreement* (DCFTA). The negotiations were launched in 2008 and they have now been concluded.

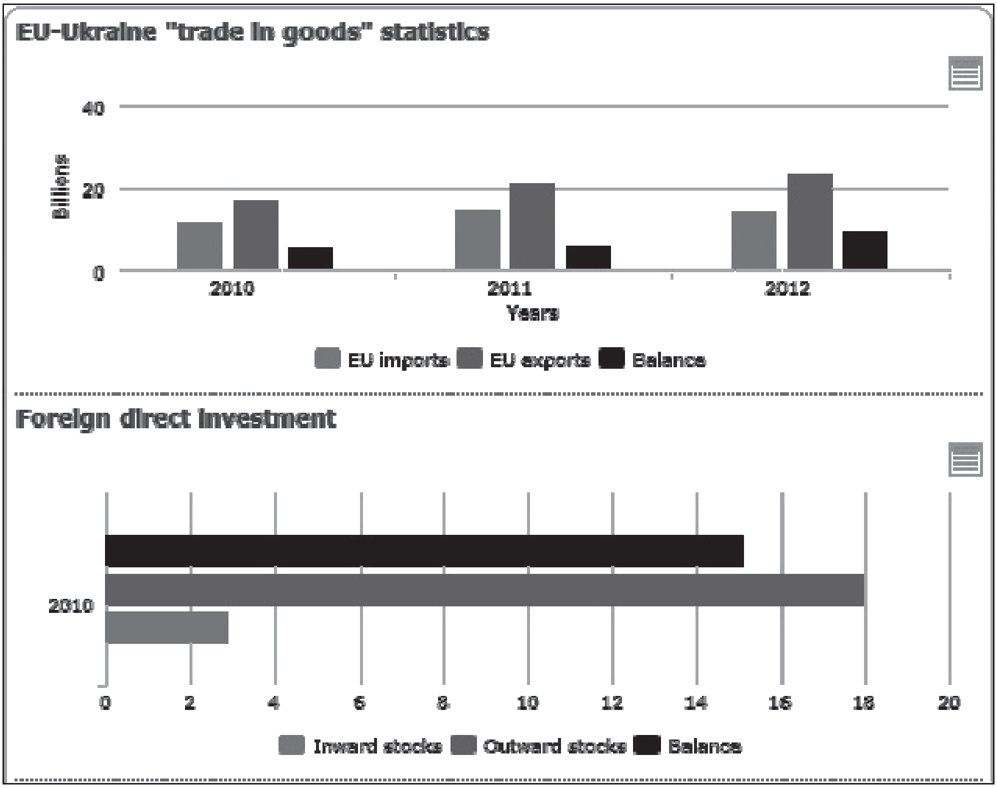
The DCFTA will be part of a future Association Agreement, which will replace the present Partnership and Cooperation Agreement between the EU and Ukraine (which dates from 1998). The initialing of the EU-Ukraine Association Agreement took place in Brussels in March 2012, except for the DCFTA which was initialed on 19th July 2012.

Since the entire Agreement has now been initialed, the next step will be the signature of the Agreement by the Council when the conditions are met.

Trade picture

- The EU is among Ukraine's most important commercial partner and accounts for about one third of its external trade.
- Ukraine's primary exports to the EU are iron, steel, mining products, agricultural products, and machinery.
- EU exports to Ukraine are dominated by machinery and transport equipment, chemicals, and manufactured goods.

Table 19.1



The EU believes that closer economic integration – in the overall context of a political association – can be a key factor in economic growth for Ukraine.

Following Ukraine's WTO membership in 2008, the EU and Ukraine immediately launched negotiations for an agreement on a deep and comprehensive free trade area.

The future Free Trade Agreement between the EU and Ukraine will cover all trade-related areas (including services, intellectual property rights, customs, public procurement, energy-related issues, competition, et cetera) and also tackling the so-called "beyond the border" obstacles through deep regulatory approximation with the trade-related EU acquis.

The free trade area between the EU and Ukraine is designed to deepen Ukraine's access to the European market and to encourage further European investment in Ukraine.

Ukraine and the GSP

- Ukrainian exports to the EU are to a very large extent liberalised thanks to the *Generalised Scheme of Preferences (GSP)* granted by the EU to Ukraine since 1993.
- In 2010, Ukraine's use of the Generalised Scheme of Preferences reached a high level of 72.2% of the eligible products.
- Ukraine ranks 12th, among the most effective users of the EU's Generalized System of Preferences.
- Preferential imports to the EU from Ukraine include machinery and mechanical appliances, plants, oils, base metals, chemicals and textiles.

EU–Ukraine trade and economic relations are landmarked with a number of dialogues. Such dialogues are progressing the most in agriculture and veterinary medicine. Within the dialogues there are regular high-level meetings between Ukrainian and European authorities, meetings and reciprocal visits of representatives of European and Ukrainian private and public sectors. The dialogues aim at strengthening cooperation between Ukraine and the EU, making it as much pragmatic and beneficial as possible for both sides. It would eventually promote Ukraine's integration in the European common market.

ENERGY COOPERATION BETWEEN UKRAINE AND THE EU

Re-enforced co-operation between the EU and Ukraine in the field of energy – with the common objective of bringing the respective energy markets closer together – is a key element of the increasingly close relationship as expressed in the *EU–Ukraine Action Plan* agreed in February 2005. The Action Plan was endorsed by the EU–Ukraine Cooperation Council under the Partnership and Cooperation Agreement.

The Memorandum of Understanding (MoU) on co-operation in the field of energy between the EU and Ukraine was signed on December 1, 2005 within the context of implementation of the EU-Ukraine Action Plan. The MoU establishes a joint strategy towards the progressive integration of the Ukrainian energy market with that of the EU and consists of road maps covering nuclear safety; the integration of electricity and gas markets; security of energy supplies and the transit of hydrocarbons; and the coal sector. The MoU also envisaged a fifth roadmap which has now been developed for increasing co-operation in energy efficiency and the promotion of renewable energies.

In 2007 the EU and Ukraine launched the process of negotiations on a new Enhanced agreement with the purpose, inter alia, to intensify their energy cooperation and to lay down the solid foundation in the areas of energy security, competitiveness and sustainability. Both parties have already agreed that the energy co-operation in the years to come should be based on a comprehensive partnership and guided by the principles of mutual interest, reciprocity, transparency and predictability consistent with the market economy, *the Energy Charter Treaty*, *the Memorandum of Understanding* on cooperation in the field of energy and other multilateral and related bilateral agreements.

To this end Ukraine aligns itself with the new EU energy strategy with the aim to develop competitive, transparent and non-discriminatory energy market in convergence with European Community rules and standards through regulatory reforms. Ukraine will promote cooperation with the EU on energy efficiency and energy savings, including through the establishment of energy efficiency policies and legal and regulatory frameworks. Ukraine will develop the energy sector further in a sustainable manner bringing its efficiency to higher standards being compatible with the EU goals and targets designed to reduce and stabilise global climate change effects.

An important part of the enhanced EU–Ukraine energy cooperation is and will be aimed at ensuring progress towards an attractive and stable investment climate by addressing institutional, legal, fiscal and other conditions, and encouraging mutual investments. To this end Ukraine should promote its efficient co-operation with the *EIB*[202], *EBRD*[203] and other international financial organisations and EU instruments to support the energy cooperation between the parties.

EU–UKRAINE JUSTICE COOPERATION

The EU–Ukraine cooperation in the sphere of justice, freedom and security, in particular on the issues of granting asylum, border management, fight against money laundering and illegal drug trafficking is consistently strengthening. The separate Action Plan on Ukraine–EU relations in this field adopted in March 2008 as well as the Score-board on its implementation contain 99 aims and 224 common endeavours.

In the context of the EU enlargement Ukraine strives to prevent the creation of a new dividing lines in Europe and advocates non-discriminatory approach to the regime of movement of its citizens across the territory of the EU Member States. The work in this direction in particular includes: (1) full and effective implementation of the European Community–Ukraine visa facilitation and readmission agreements; (2) liberalization of visa regime for citizens of Ukraine – border areas inhabitants and – as a next step – visa-free regime for all categories of Ukrainians travelling to the EU Member-States.

Today Ukraine sees its main task in consolidation of the European values and standards in political, economy and social spheres, regarding it as a pledge of its public stability and sustainable development.

Text Summary

- European integration is a key priority in the foreign policy of Ukraine. Relations between Ukraine and the European Union were established in December 1991, when the EU officially recognized the independence of Ukraine.
- At present Ukraine is a member of 80 international organizations and financial institutions.
- Trade and economic relations between Ukraine and the European Union are gaining momentum and becoming increasingly dynamic and robust.

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[202] ***The European Investment Bank*** (***EIB***) is the European Union's nonprofit long-term lending institution established in 1958 under the Treaty of Rome. As a "policy-driven bank" whose shareholders are the member states of the EU, the EIB uses its financing operations to bring about "European integration and social cohesion". It should not be confused with *the European Central Bank*.

[203] ***The European Bank for Reconstruction and Development*** (***EBRD***) is a multilateral development bank, using investment as a tool to help build market economies. Initially focused on the countries of the former Eastern Bloc it expanded to support development in the democracies of 30 countries from central Europe to central Asia. Besides Europe, member countries of the EBRD are from all 5 continents (North America, Africa, Asia and Australia), with the biggest shareholder being the United States, so the name is somewhat of a misnomer. Headquartered in London, the EBRD is owned by 64 countries and two EU institutions.

- Re-enforced co-operation between the EU and Ukraine in the field of energy, with the common objective of bringing the respective energy markets closer together, is a key element of the increasingly close relationship as expressed in the EU–Ukraine Action Plan.
- The EU–Ukraine cooperation in the sphere of justice, freedom and security, in particular on the issues of granting asylum, border management, fight against money laundering and illegal drug trafficking is consistently strengthening.

19.3. Language Practice:

19.3.1. Multiple Choice:

1. EU accession has been considered in Ukraine as a driving force for ..... aimed at achievement of Copenhagen criteria.
a) external political and economic reforms;
b) internal political and economic reforms;
c) reciprocal/ mutual political and economic reforms.

2. Ukraine conducts active multilateral policy in the framework of global and regional organizations. At present Ukraine is a member of ..... international organizations and financial institutions.
a) 80;
b) 30;
c) 20.

3. The Partnership and Cooperation Agreement between Ukraine and the EU (PCA) constitutes the ..... of the EU-Ukraine relations.
a) political basis;
b) humanitarian basis;
c) legal basis.

4. In 2007 Ukraine and the EU launched the process of negotiations on a New Enhanced Agreement (NEA) which will substitute the PCA and serve as the main ..... for the next decade.
a) bilateral legal document;
b) multilateral legal document;
c) unilateral legal document.

5. The EU has provided support for ..... the methods of the Ukrainian gas-transporting system.
a) long-term leasing;
b) reforming;
c) selling.

6. EU–Ukraine trade and economic relations are landmarked with a number of ..... .
a) delayings;
b) misunderstandings;
c) dialogues.

7. The Memorandum of Understanding (MoU) establishes a joint strategy towards the progressive integration of the ..... with that of the EU.
a) Ukrainian military market;
b) Ukrainian energy market;
c) Ukrainian agricultural market.

19.3.2. Key Terms – Matching:

1.	Integration	a)	– an independent examination of, and the subsequent expression of opinion on, the financial statements of an organization. This involves the auditor in collecting evidence by means of compliance tests (tests of control) and substantive tests (tests of detail);
2.	Rapprochement	b)	– a tendency for two or more economies to become more similar. This may be, for example, in respect of per capita incomes, real growth rates, inflation rates, interest rates, methods of economic organization, or social policies;
3.	Liberalization	c)	– is an increase in friendliness between two countries, groups, or people, especially after a period of unfriendliness;
4.	Audit	d)	– a negotiated and typically legally binding arrangement between parties as to a course of action; a formal decision about future action which is made by two or more countries, groups, or people;
5.	Memorandum	e)	– the combination of different economic activities under unified control. This may involve vertical integration that is, either backward integration, where a business is combined with one supplying its inputs, or forward integration, where a business is combined with one using its outputs. It may also involve horizontal integration, where a business is combined with another which may use the same suppliers or sell in the same markets;
6.	Agreement	f)	– is a written report that is prepared for a person or committee in order to provide them with information about a particular matter;
7.	Convergence	g)	– programme of changes in the direction of moving towards a free-market economy. This normally includes the reduction of direct controls on both internal and international transactions, and a shift towards relying on the price mechanism to co-ordinate economic activities.

19.3.3. Please explain the meaning of the following words, word combinations and abbreviations in English:

Rapprochement, convergence, Copenhagen criteria, OSCE, BSEC, GUAM, PCA, trade turnover, liberalization, privatization procedure, MoU, audit, agreement, memorandum, EIB, EBRD, money laundering, illegal drug trafficking, convergence, visa facilitation, transparency, public procurement, man-made disasters.

19.3.4. Please complete the following text with the basic economic concepts using the following words and phrases. Use the term once. Translate the text into Ukrainian:

~~*détente phase*~~ economic Decalogue managing
implementation conflict prevention multilateral forum
institutionalization security agreement

ORGANIZATION FOR SECURITY AND CO-OPERATION IN EUROPE

The Organization for Security and Co-operation in Europe (*OSCE*) traces its origins to the (1) *détente phase* of the early 1970s, when the Conference on Security and Co-operation in Europe (CSCE) was created to serve as a (2) _____ for dialogue and negotiation between East and West. Meeting over two years in Helsinki and Geneva, the CSCE reached (3) _____ on the Helsinki Final Act, which was signed on 1 August 1975. This document contained a number of key commitments on polito-military, (4) _____ and environmental and human rights issues that became central to the so-called "Helsinki process". It also established ten fundamental principles (the "(5) _____") governing the behaviour of States towards their citizens, as well as towards each other.

Until 1990, the CSCE functioned mainly as a series of meetings and conferences that built on and extended the participating States' commitments, while periodically reviewing their (6) _____. However, with the end of the Cold War, the Paris Summit of November 1990 set the CSCE on a new course. In the Charter of Paris for a New Europe, the CSCE was called upon to play its part in (7) _____ the historic change taking place in Europe and responding to the new challenges of the post-Cold War period, which led to its acquiring permanent institutions and operational capabilities.

As part of this (8) _____ process, the name was changed from the CSCE to the OSCE by a decision of the Budapest Summit of Heads of State or Government in December 1994.

With 57 States from Europe, Central Asia and North America, the OSCE is the world's largest regional (9) _____ organization. It offers a forum for political negotiations and decision-making in the fields of early warning, (10) _____, crisis management and post-conflict rehabilitation, and puts the political will of its participating States into practice through its unique network of field missions.

19.4. Translation Practice:

NOTE:	Please pay attention to the synonymic row of the noun ***agreement***: 1) *accord, concurrence, consensus, assent, acceptance, consent, asquiescence;* 2) *contract, treaty, pact, accord, settlement, understanding, bargain;* 3) *correspondence, consistency, compatibility, accord, similarity, resemblance, likeness.*

19.4.1. Please give the English variants of the following Ukrainian words and word-combinations:

Відновлення дружніх відносин (між державами), торговельний оборот, допомагати/сприяти, двостороння угода, посилювати, додана вартість, справедливість, збільшувати/посилювати, "прозорий"/чесний тендер, гласність/відкритість, аудит/ревізія, поступове зближення різних економічних систем, взаємна користь/зиск, розроблене законодавство (нормативно-правова база ЄС на момент вступу нової країни-члена), незаконна торгівля наркотиками, встановлювати, спрощення візового режиму, "відмивання грошей", державна закупівля, взаємно/обопільно, захищати/ґарантувати, антропогенні катастрофи, набирати чинності.

19.4.2. Please translate the following sentences into Ukrainian:

1. Ukraine has made a great progress in adapting its economy from the Soviet model to a XXIst century economy in the globalized market. The reforms carried out in Ukraine will benefit not only the country and its people, but the entire region and the European Union. Ukraine's strategic position between Europe and the growing markets of the Middle East and Asia mean that the reforms taking place will have a global impact.
2. The political dialogue between the EU and Ukraine started in 1994 when the Partnership and Cooperation Agreement (PCA) was signed. That document was

focused on economic and social issues as well as on the necessity of improving public government and guaranteeing free press and civil rights.

3. The Partnership and Cooperation Agreement (PCA) of 1994 entered into force in 1998 and expired in 2008. None of the top level meetings brought any major changes to a reserved EU approach. Leaders focused chiefly on economic transition and human rights records as well as on issues connected to the Chernobyl nuclear power plant and its containment.
4. Ukraine is one of six post-Soviet nations to be invited to cooperate with the EU within the new multilateral framework that the Eastern partnership is expected to establish. However, Kyiv pointed out that it remains pessimistic about the "added value" of this initiative. Indeed, Ukraine and the EU have already started the negotiations on new, enhanced political and free-trade agreements (Association and Free-Trade Agreements).
5. An Association Agreement (AA) between Ukraine and the EU was negotiated from 2009 to 2011, and should replace the existing PCA. The AA aims for political association and economic integration, includes a "deep and comprehensive free trade area", and runs parallel to the negotiations for a visa-free regime. It does not contain a membership perspective for Ukraine, though it recalls it as "a European country with European identity" and says that "the EU acknowledged the European aspirations of Ukraine".
6. The World Bank recently approved a new Country Partnership Strategy (CPS) for Ukraine for 2012–2016, focusing on improving the business environment for domestic and foreign investors, improving physical infrastructure to reduce the cost of doing business, and creating an appropriate policy framework and attracting private investment in agriculture. The World Bank has also increased the volume of loan disbursement for Ukraine from 8 to 18 percent.
7. Ukraine is promoting its energy independence and ensuring greater energy security through: playing an important role as an energy corridor between the Caspian Basin and Europe, without Russian influence; reducing Ukraine's dependence on supplies of Russian natural gas; Ukraine's membership of the Energy Community treaty, an EU-backed cooperation agreement; the separation ("unbundling") of the transit and transportation branch of NaftoGaz, the state oil and gas company, from its resource exploitation division, as required by EU law.
8. Ukraine is undertaking a wide range of reforms in all sectors of the economy. Key measures include: (1) pension reforms, undertaken in 2011, which are a condition of support from the international financial institutions; (2) amendments to the budget to enable financing of municipal utility companies – this enabled the launch of the so-called Eastern European Energy Efficiency and Environmental Partnership – a multi-donor €90m fund for co-financing projects with international financial institutions and providing technical assistance; (3) cancellation of grain export quotas and reversal of a proposal for the monopolisation of grain exports; (4) the implementation of a motor fuel excise tax, which is important for the financing of roads etc.
9. In 2012 the EU exported to Ukraine goods worth €26.16 bn (30.9% of all Ukraine's imports), with Ukrainian exports to the EU worth €17.08 bn (24.8% of all the exports from Ukraine). Ukraine exports to the EU include iron, steel, mining products, agricultural products and machinery; imports from the EU include transport equipment and chemicals. The main trading partners of Ukraine in 2012 were Germany (18.6%), Poland (12.7%), Italy (9.7%), the UK (6.2%) and Hungary (5.6%).

10 In the first half of 2013 foreign direct investment (FDI) from the EU to Ukraine amounted to $42.82 bln (or 72.4% of all FDI). Most of the FDI came from Cyprus (32.4%), Germany (11.1%), the Netherlands (9.7%), Russia (6.9%), Austria (5.8%), Great Britain (4.9%), Virgin islands (4.4%), France (3.3%) , Switzerland (2.1%) and Italy (2%). In the same time, FDI from Ukraine in the first half of 2013 amounted to $6.54 billion (92.5% – to the EU, 6% – to the CIS countries[204] and 1.5% – to the rest of the world).

19.4.3. Please translate the following sentences into English:

1. Територіальне розташування України, її розміри, чисельність населення, природні ресурси в поєднанні з потужним потенціалом у науковій, економічній та інших сферах суспільного життя надають Україні можливість вступити до ЄС за умови певного рівня ринкових трансформацій. У той же час гармонійне включення України до системи глобальних світогосподарських зв’язків дозволить підвищити ефективність і конкурентоспроможність національної економіки та рівень добробуту громадян.
2. Формально Україна як член ООН входить до держав світового співтовариства. Вона визнає й виконує статут ООН та міжнародне право, які регулюють міждержавні, політичні, дипломатичні, соціальні, культурні та економічні міжнародні відносини. Отже, Україна певною мірою співпрацює з країнами світу. Проте реально переваги міжнародних економічних відносин країна може використовувати лише тоді, коли її економіка буде інтеґрована у світове господарство, тобто буде складовою частиною цього господарства.
3. Потенційними можливостями інтеґрації України у світове господарство вважають: вигідне географічне розташування; багаті поклади корисних копалин; наявність кваліфікованих кадрів; родючих сільськогосподарських земель; торговельних транспортних шляхів з відповідною інфраструктурою тощо.
4. Перешкодами щодо інтеґрації України у світове господарство вважають: успадкована монополізація державою зовнішньої торгівлі; підприємства не мають достатнього досвіду роботи на світовому ринку; їхня (підприємств) технічна оснащеність, витрати виробництва, якість продукції не відповідають світовому рівню; одностороння орієнтація господарства на важку індустрію тощо.
5. Нівелювання (усунення) негативів при формуванні відкритості вітчизняної економіки вимагає її структурної перебудови, націленої на реалізацію національних конкурентних переваг, зокрема таких, як: виробництво недорогоцінних металів і виробів з них; хімічна і пов’язані з нею галузі промисловості та транспортні послуги, особливо послуги трубопровідного транспорту.
6. Одним з основних завдань зовнішньоекономічної діяльності України є входження у глобальні та реґіональні валютно-фінансові й торговельно-економічні організації. Україна вже на початку свого незалежного існування стала членом Міжнародного валютного фонду, Світового банку, Європейського банку реконструкції та розвитку, Світової організації торгівлі (СОТ) тощо.
7. Можна виокремити п’ять основних етапів процесу вступу до Європейського Союзу: 1) консультативний етап – триває перед поданням країною заяви про вступ; 2) оцінювальний етап – триває між поданням країною заяви про вступ та

[204] ***The Commonwealth of Independent States*** (***CIS***) is a regional organization whose participating countries are former Soviet Republics, formed during the breakup of the Soviet Union.

початком переговорів про вступ; 3) переговорний етап – триває від початку і до завершення переговорів про вступ; 4) ратифікаційний етап – триває між підписанням угоди про вступ та її ратифікацією; 5) імплементаційний етап – започатковується після виконання усіх ратифікаційних процедур та набуття угодою чинності. Лише після цього країна стає повноправним членом Європейського Союзу.

8. Умови вступу до ЄС були визначені на засіданні Європейської Ради у Копенгагені, що проводилось 21–22 червня 1993 року: "Асоційовані держави Центральної та Східної Європи, які висловили таке прагнення, можуть стати членами Європейського Союзу. Вступ відбудеться, як тільки асоційована держава зможе взяти на себе обов'язки членства, задовольнивши необхідні політичні та економічні вимоги". Ці вимоги отримали назву Копенгагенських критеріїв.
9. Перспективи наближення будь-якої держави до ЄС, у тому числі й України, визначаються: по-перше, політичним та економічним станом держави, що бажає інтеґруватися; по-друге, наслідками чергового розширення для держав-членів ЄС; по-третє, масштабом пристосувань, які має здійснити ЄС для, як мінімум, збереження ефективності процесу прийняття рішень.
10. Інтеґрація економіки України в світове господарство не є самоціллю. Вона повинна забезпечити зростання ефективності національної господарської системи в результаті найбільш вигідного використання ресурсів, які є відносно надлишковими в країні, з одного боку, а з іншого, шляхом насичення національної економіки ресурсами, яких є обмаль, але без яких вона функціонувати не може.

19.4.4. Please make an English summary of the following text:

СПІВРОБІТНИЦТВО УКРАЇНИ ЗІ СВІТОВОЮ ОРГАНІЗАЦІЄЮ ТОРГІВЛІ

Україна набула членства у СОТ, реалізуючи прагнення створити економіку, яка, завдяки використанню експортного потенціалу, могла б успішно інтеґруватись у європейські та світові економічні відносини.

Багатосторонню міжнародну торговельну систему, у центрі якої знаходиться СОТ, у широкому розумінні можна визначити як сукупність міжнародних правил, яких мають дотримуватися країни в торговельних відносинах між собою. Правила ці спрямовані на всебічне сприяння відкритій і ліберальній торгівлі. СОТ служить як форумом для переговорів, так і арбітром у врегулюванні торговельних суперечок між країнами-членами.

За понад 65 років існування система ҐАТТ/СОТ довела свою ефективність і досягла значного прогресу в лібералізації міжнародної торгівлі шляхом низки міжнародних переговорів, відомих за назвою "раунди багатосторонніх торговельних переговорів". Передостанній восьмий, або Уругвайський раунд переговорів, завершився в 1994 році підписанням Марракеської угоди (Marrakech Agreement) про заснування СОТ. Нині триває дев'ятий, так званий "раунд розвитку".

СОТ сьогодні − це 159 країн світу, понад 97% обсягу світової торгівлі, понад 90% світового ВВП і понад 85% населення світу. 25 держав мають у СОТ статус спостерігача і знаходяться на різних етапах процесу вступу.

Процес приєднання України до системи ҐАТТ/СОТ почався 30 листопада 1993 року, коли до Секретаріату ҐАТТ було направлено офіційну заяву Уряду України про намір країни приєднатися до ҐАТТ.

5 лютого 2008 року на засіданні Генеральної Ради СОТ було підписано Протокол про вступ України до СОТ. Відповідно до типової процедури приєднання до СОТ після засідання Генеральної Ради Протокол про вступ України до СОТ з додатками підлягав ратифікації Верховною Радою України.

10 квітня 2008 року Верховна Рада України прийняла Закон України "Про ратифікацію Протоколу про вступ України до Світової організації торгівлі". Таке рішення підтримали 411 народних депутатів.

16 квітня 2008 року МЗС України офіційно нотою повідомив Генерального директора СОТ стосовно завершення внутрішньодержавних процедур набуття членства в СОТ. Таким чином, через 30 днів, 16 травня 2008 року Україна набула членства у Світовій організації торгівлі.

Членство у СОТ означає для України:

- інтеґрацію до міжнародної ринкової економіки, створення правових засад для стабільного і передбачуваного ведення бізнесу і міжнародної торгівлі;
- доступ до міжнародного механізму врегулювання торговельних суперечок;
- створення сприятливого клімату для іноземних інвестицій;
- більш широкий вибір товарів і послуг;
- отримання Україною статусу повноправного учасника міжнародної торгівлі, що збільшить її можливості брати участь у реґіональних союзах й об'єднаннях.

19.5. Reading Practice:

19.5.1. Please read the following texts and translate them into Ukrainian:

Text 1: EU–UKRAINE RELATIONS: EUROPEAN NEIGHBOURHOOD POLICY

Through its *European Neighbourhood Policy (ENP)*, the EU works with its southern and eastern neighbours to achieve the closest possible political association and the greatest possible degree of economic integration. This goal builds on common interests and on values – democracy, the rule of law, respect for human rights, and social cohesion.

Partner countries agree with the EU *an ENP action plan* demonstrating their commitment to democracy, human rights, rule of law, good governance, market economy principles and sustainable development. The EU supports the achievement of these objectives:

- *financial support* – grants worth €12 bn were given to ENP-related projects from 2007 to 2013;
- *economic integration* and access to EU markets – in 2011 trade between the EU and its ENP partners totalled €230bn;

- *easier travel to the EU* – 3.2 m Schengen visas were issued to citizens, and in particular to students from ENP countries in 2012;
- *technical and policy support.*

The EU also supports the civil society which plays an important role in bringing about deep and sustainable democracy in partner countries.

JOINT INITIATIVE

The ENP is a jointly owned initiative and its implementation requires action on both sides, by the neighbours and by the EU. Although much was achieved so far much also remains to be done if the ENP's goals are to be achieved. The ENP benefits from greater coherence thanks to the creation of the *European External Action Service* which supports the High Representative of the Union for Foreign Affairs and Security Policy and Vice-President of the European Commission *Baroness Catherine Ashton*[205] and the involvement of the Commissioner specifically dealing with the Enlargement and European Neighbourhood Policy, *Štefan Füle*[206].

WHAT IS THE EUROPEAN NEIGHBOURHOOD POLICY?

The European Neighbourhood Policy (ENP) was developed in 2004, with the objective of avoiding the emergence of new dividing lines between the enlarged EU and our neighbours and instead strengthening the prosperity, stability and security of all. It is based on the values of democracy, rule of law and respect of human rights.

This ENP framework is proposed to the 16 of EU's closest neighbours – *Algeria, Armenia, Azerbaijan, Belarus, Egypt, Georgia, Israel, Jordan, Lebanon, Libya, Moldova, Morocco, Palestine, Syria, Tunisia and Ukraine* (*Algeria* is currently negotiating an ENP action plan; *Belarus, Libya* and *Syria* remain outside most of the structures of ENP).

The ENP is chiefly a bilateral policy between the EU and each partner country. It is further enriched and complemented by regional and multilateral co-operation initiatives: *the Eastern Partnership* (launched in Prague in May 2009), *the Euro-Mediterranean Partnership* (the Euro-Mediterranean Partnership, formerly known as the Barcelona Process, re-launched in Paris in July 2008), and *the Black Sea Synergy* (launched in Kyiv in February 2008).

Within the ENP the EU offers its neighbours a privileged relationship, building upon a mutual commitment to common values (democracy and human rights, rule of law, good governance, market economy principles and sustainable development). The level of ambition of the relationship depends on the extent to which these values are shared. The ENP includes political association and deeper economic integration, increased mobility and more people-to-people contacts.

The ENP also offers to its partners a very concrete set of opportunities through its sector policies. These cover a broad range of issues, reaching from employment and social policy, trade, industrial and competition policy to agriculture and rural development, climate change and environment. They include energy security, transport, research and innovation, as well as support to health, education, culture and youth.

In 2010–2011, the EU reviewed the ENP and put a strong focus on the promotion of deep and sustainable democracy, accompanied by inclusive economic development. Deep and sustainable democracy includes in particular free and fair elections, freedom of expression, of

[205] ***Catherine Ashton, Baroness Ashton of Upholland, PC*** (*Privy Council*) – born 20 March 1956 – is a British Labour politician who in 2009 became the High Representative of the Union for Foreign Affairs and Security Policy for the European Union. Under the Treaty of Lisbon, this post is combined with the post of Vice-President of the European Commission.

[206] ***Štefan Füle*** (born 24 May 1962 in Sokolov) is a Czech diplomat, since 2009 European Commissioner for Enlargement and European Neighbourhood Policy in the second Barroso Commission.

assembly and of association, judicial independence, fight against corruption and democratic control over the armed forces. The EU also stressed the role of civil society bringing about deep and sustainable democracy. The EU unveiled “more-for-more” principle, under which the EU will develop stronger partnerships with those neighbours that make more progress towards democratic reform.

The ENP remains distinct from the process of enlargement although it does not prejudge, for European neighbours, how their relationship with the EU may develop in future, in accordance with Treaty provisions.

EASTERN PARTNERSHIP

What happens in the countries in Eastern Europe and the Southern Caucasus affects the European Union. Successive EU enlargements have brought these countries closer to the EU and their security, stability and prosperity increasingly impact on the EU’s. The potential these countries offer for diversifying the EU’s energy supplies is one example. All these countries, to varying degrees, are carrying out political, social and economic reforms, and have stated their wish to come closer to the EU.

The European Commission put forward concrete ideas for enhancing the relationship with: Armenia, Azerbaijan, Belarus, Georgia, Moldova and Ukraine. This would imply new association agreements including deep and comprehensive free trade agreements with those countries willing and able to enter into a deeper engagement and gradual integration in the EU economy. It would also allow for easier travel to the EU through gradual visa liberalisation, accompanied by measures to tackle illegal immigration.

The Partnership will also promote democracy and good governance, strengthen energy security, promote sector reform and environment protection, encourage people to people contacts, support economic and social development and offer additional funding for projects to reduce socio-economic imbalances and increase stability.

EURO-MEDITERRANEAN PARTNERSHIP (EUROMED)

The Union for the Mediterranean promotes economic integration and democratic reform across 16 neighbours to the EU’s south in North Africa and the Middle East.

Formerly known as the Barcelona Process, cooperation agreements were re-launched in 2008 as *the Union for the Mediterranean (UfM)* .

The re-launch was an opportunity to render relations both more concrete and more visible with the initiation of new regional and sub-regional projects with real relevance for those living in the region. Projects address areas such as economy, environment, energy, health, migration and culture.

Along with the 28 EU member states, 16 Southern Mediterranean, African and Middle Eastern countries are members of the UfM: Albania, Algeria, Bosnia and Herzegovina, Croatia, Egypt, Israel, Jordan, Lebanon, Mauritania, Monaco, Montenegro, Morocco, the Palestinian Authority, Syria, Tunisia and Turkey.

Currently meetings are co-presided over by one Mediterranean and one EU country. As of September 2010, the UfM also has a functional secretariat, based in Barcelona, a Secretary General and six deputy secretary generals.

Following the entry into force of the Lisbon Treaty, governance from the EU side will be rearranged once the EEAS has been established.

The UfM has a number of key initiatives on its agenda:

- the de-pollution of the Mediterranean Sea, including coastal and protected marine areas;
- the establishment of maritime and land highways that connect ports and improve rail connections so as to facilitate movement of people and goods;

- a joint civil protection programme on prevention, preparation and response to natural and man-made disasters;
- a Mediterranean solar energy plan that explores opportunities for developing alternative energy sources in the region;
- a Euro-Mediterranean University, inaugurated in Slovenia in June 2008;
- the Mediterranean Business Development Initiative, which supports small businesses operating in the region by first assessing their needs and then providing technical assistance and access to finance.

BLACK SEA SYNERGY

The EU supports regional development in South-East Europe with its Black Sea Synergy. By encouraging cooperation between the countries surrounding the Black Sea, the synergy offers a forum for tackling common problems while encouraging political and economic reform.

A conference between EU and Black Sea Foreign Affairs Ministers in Kyiv (Ukraine) in 2008 led to a joint statement initiating the Synergy, which the EU regards as a means to increase cooperation among the countries surrounding the Black Sea. Closer regional ties will:

- stimulate democratic and economic reforms;
- support stability and promote development;
- facilitate practical projects in areas of common concern;
- open up opportunities and challenges through coordinated action in a regional framework;
- encourage the peaceful resolution of conflicts in the region.

Specific Black Sea Synergy sector partnerships will address transport, energy and the environment. Additional initiatives may follow on higher education, public health and the fight against organised crime. Activities are already underway in the fields of civil society, research and information society.

The EU has also established a new cross-border cooperation programme for local authorities in the Black Sea area and that also provides support to civil society organisations.

A report on the first year of implementation of the Black Sea Synergy highlighted the practical utility and potential of this new approach to EU regional policy.

The Black Sea Environmental Partnership was launched in March 2010. Further measures are now needed on biodiversity conservation as well as integrated coastal zone and river basin management. Other priorities include tackling pollution and promoting environmental integration, monitoring, research and eco-innovation.

MORE-FOR-MORE PRINCIPLE

At the last review of its European Neighbourhood Policy in 2010–2011, the EU introduced the “more-for-more” principle: the EU will develop stronger partnerships and offer greater incentives to countries that make more progress towards democratic reform – free and fair elections, freedom of expression, of assembly and of association, judicial independence, fight against corruption and democratic control over the armed forces.

DIFFERENTIATION

While the underlying principles and objectives of the ENP apply to all partners, the EU’s relationship with each one of its partners is unique, and the instruments of the ENP are tailored to serve each of those relationships. The ENP provides the EU with a toolbox of instruments that allows it to adapt and differentiate its policy, in line with the different developments, ambitions and needs of its partners.

19.6. Internet Practice:

19.6.1. Web Activities:

- ***Debate on the Future of Europe.*** You have an opportunity to take part in the debate on the future of Europe. This debate is about you, about your rights and about your future. The European Commission is now coming to a town near you. High level European personalities will listen to your views. This is your chance to tell them what kind of Europe you want to live in and what you expect from the European Union of tomorrow. As the debate about the future of Europe gathers pace, the European Commission is reaching out to citizens by visiting towns across Europe and asking them directly for their views. Go to **http://ec.europa.eu/debate-future-europe/index_en.htm** and participate in *the upcoming debate or dialogue*, choosing a citizens' dialogue near your country on the Map. Look through the list of *the ongoing debates*. Choose the most interesting from the EU–Ukraine economic integration point of view. Prove your choice.
- *European Year of Citizens 2013.* The European Year of Citizens 2013 is dedicated to the rights that come with EU citizenship. Over the course of the year, the European Union will encourage dialogue between all levels of government, civil society and business at events and conferences around Europe – for the purpose of building a vision of what the EU should look like in 2020. What are the dialogues about? This dialogue is one of series the Commission is holding in cities in every EU country, giving ordinary people an opportunity to speak directly to EU politicians about their rights, the kind of Europe they want to live in, and expectations for the European Union. The debates are part of the 2013 European Year of Citizens: an entire year dedicated to your rights as a European citizen. Go to **http://europa.eu/citizens-2013/en/home** and then to **http://europa.eu/citizens-2013/en/events**. Browse through the list of *Events of the month* and choose the most interesting. Make comments to prove your choice.
- *EU–Ukraine Trade Relations.* EU trade policy sets the direction for trade and investment in and out of the EU. The Directorate-General for Trade in the European Commission helps to develop and implement EU trade and investment policy. The EU is firmly committed to the promotion of open and fair trade with all its trading partners. The EU has specific trade policies in place for all its partners and abides by the global rules on international trade set out by the World Trade Organisation. The EU believes that closer economic integration – in the overall context of a political association – can be a key factor in economic growth for Ukraine. Visit the homepage of *the European Commission* (**http://ec.europa.eu/index_en.htm**), click the links in the following way: *Trade →Policy →Countries and regions.* Select *Ukraine* under the country's alphabetic index. Then analyse the EU-Ukraine Trade Relations on the **http://ec.europa.eu/trade/policy/countries-and-regions/countries/ukraine/** web-page. Make an overview of the key elements and statistics of the EU-Ukraine Trade Policy. Look through the *Related links & Related documents.* Prepare a brief report under the tittle "*EU–Ukraine Bilateral Trade: Economic Review*".

19.7. Critical Thinking & Discussion Questions:

- We want Europe and Ukraine be together. Europe wants to see Ukraine as a true partner who is able to contribute to the development and security of the region, the country, which could become a model for other states in the region ... – *Dalia Grybauskaite, Lithuanian President*

- Let me stress that the Association Agreement will not be at the expense of Ukraine's relations with Russia or other neighbours. And we strongly believe that it would bring benefit to all ... – *Štefan Füle, European Commissioner for Enlargement and European Neighbourhood Policy*
- Over the last week we have heard catastrophic predictions that the Association Agreement will bring Ukraine to collapse, default ... If I happened to analyze the cause of these dramatic forecasts, I would say that they come from people who fear that the Association Agreement can be successful ... – *Jan Tombinski, EU Ambassador to Ukraine*
- The state is a little more than 20 years old. But for such a short history, for a country whose life is associated with crises both economic and political, which has not yet determined its geopolitical orientation, which is regionally differentiated, the degree of patriotism is really quite high ... – *Prof. Yevhen Holovakha, Ph.D, Deputy Director of the Institute of Sociology*
- European integration remains a key foreign policy priority for Ukraine, that is why the government's reform activity is conducted in close cooperation with our partners in the European Union. Only this way we can approach European standards in the shortest possible time. It is about the improvement of the justice system, combating corruption and the reform of law enforcement agencies, electoral law, and improvement of the investment and business climate in Ukraine ... – *Ihor Prasolov, Minister of Economic Development and Trade of Ukraine (2012–2013)*

Self-Assessments (Module 4)

1. Key Terms – Matching:

1.	International trade	a)	– an economy in which government intervention is kept to a minimum and market forces are allowed to rule. The term, attributed to the French merchant J. Gourlay (1712-1759), is best translated as "let people do as they think best";
2.	Interest rate	b)	– is the market value of all officially recognized final goods and services produced within a country in a given period of time;
3.	Audit	c)	– equals the gross domestic product (GDP) minus depreciation on a country's capital goods. It accounts for capital that has been consumed over the year in the form of housing, vehicle, or machinery deterioration;
4.	Laissez-faire economy	d)	– the amount charged for a loan, usually expressed as a percentage of the sum borrowed;
5.	Purchasing power parity (PPP)	e)	– is an international organization that was initiated in 1944 at the Bretton Woods Conference and formally created in 1945 by 29 member countries. Its main goal was to assist in the reconstruction of the world's international payment system post-World War II;
6.	Human development index (HDI)	f)	– an adjustment in gross domestic product per capita to reflect differences in the cost of living;

7.	Gross domestic product (GDP)	g)	– the theorems that state that countries will export those goods that make intensive use of locally abundant factors of production and import goods that make intensive use of locally scarce factors of production;
8.	Net domestic product (NDP)	h)	– is the exchange of capital, goods, and services across international borders or territories. In most countries, such trade represents a significant share of gross domestic product;
9.	Heckler-Ohlin theory	i)	– an attempt by the United Nations to assess the impact of a number of factors on the quality of human life in a country;
10.	International Monetary Fund (IMF)	j)	– an independent examination of, and the subsequent expression of opinion on, the financial statements of an organization. This involves the auditor in collecting evidence by means of compliance tests (tests of control) and substantive tests (tests of detail).

2. Define the following terms:

Agreement – …
Free trade – …
Globalization – …
GNP (*Gross National Product*) – …
Integration – …
Liberalization – …
Mercantilism (mercantile system) – …
Rapprochement – …
Revenue – …
World Trade Organization (*WTO*) – …

3. Translate the following text into Ukrainian:

EUROPE 2020 (IN A NUTSHELL)

*"Europe 2020 is the EU's growth strategy for the coming decade.
In a changing world, we want the EU to become a smart, sustainable and inclusive economy.
These three mutually reinforcing priorities should help the EU and the Member States deliver high levels of employment, productivity and social cohesion.
Concretely, the Union has set five ambitious objectives – on employment, innovation, education, social inclusion and climate/energy – to be reached by 2020. Each Member State has adopted its own national targets in each of these areas. Concrete actions at EU and national levels underpin the strategy"*

*(José Manuel Barroso,
President of the European Commission)*

Europe 2020 is the European Union's ten-year growth strategy. It is about more than just overcoming the crisis which continues to afflict many of our economies. It is about addressing the shortcomings of our growth model and creating the conditions for a different type of growth that is smarter, more sustainable and more inclusive.

To render this more tangible, five key targets have been set for the EU to achieve by the end of the decade. These cover employment; education; research and innovation; social inclusion and poverty reduction; and climate/energy.

The strategy also includes seven “flagship initiatives” providing a framework through which the EU and national authorities mutually reinforce their efforts in areas supporting the Europe 2020 priorities such as innovation, the digital economy, employment, youth, industrial policy, poverty, and resource efficiency.

Europe 2020 will only be a success if it is the subject of a determined and focused effort at both the EU and national levels. At the EU level key decisions are being taken to complete the single market in services, energy and digital products, and to invest in essential cross-border links. At national level many obstacles to competition and job creation must be removed. But only if these efforts are combined and coordinated will they have the desired impact on growth and jobs.

That is why the delivery of Europe 2020 relies heavily on the new governance structures and processes that the EU has been putting in place since 2010. At the heart of these is the European Semester, a yearly cycle of economic policy coordination involving EU level policy guidance by the European Commission and Council, reform commitments by the Member States and country-specific recommendations prepared by the Commission and endorsed at the highest level by national leaders in the European Council. These recommendations should then be taken on board in the Member States’ policies and budgets.

PRIORITIES

The European Union is working hard to move decisively beyond the crisis and create the conditions for a more competitive economy with higher employment.

The Europe 2020 strategy is about delivering growth that is: smart, through more effective investments in education, research and innovation; sustainable, thanks to a decisive move towards a low-carbon economy; and inclusive, with a strong emphasis on job creation and poverty reduction. The strategy is focused on five ambitious goals in the areas of employment, innovation, education, poverty reduction and climate/energy.

To ensure that the Europe 2020 strategy delivers, a strong and effective system of economic governance has been set up to coordinate policy actions between the EU and national levels.

EUROPE 2020 TARGETS

There are five targets for the EU in 2020:

1. Employment (75% of the 20-64 year-olds to be employed).

2. R&D[207] (3% of the EU’s GDP to be invested in R&D).

3. Climate change and energy sustainability (greenhouse gas emissions 20% (or even 30%, if the conditions are right) lower than 1990; 20% of energy from renewables; 20% increase in energy efficiency).

4. Education (reducing the rates of early school leaving below 10%; at least 40% of 30-34–year-olds completing third level education).

5. Fighting poverty and social exclusion (at least 20 million fewer people in or at risk of poverty and social exclusion).

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[207] ***The Research and Development*** (***R&D***), also called *research and technical development* or *research and technological development* (*RTD* in Europe) is a specific group of activities within a business. The activities that are classified as R&D differ from company to company, but there are two primary models. In one model, the primary function of an R&D group is to develop new products; in the other model, the primary function of an R&D group is to discover and create new knowledge about scientific and technological topics for the purpose of uncovering and enabling development of valuable new products, processes, and services. Under both models, R&D differs from the vast majority of a company’s activities which are intended to yield nearly immediate profit or immediate improvements in operations and involve little uncertainty as to the return on investment (ROI). The first model of R&D is generally staffed by engineers while the second model may be staffed with industrial scientists. R&D activities are carried out by corporate (businesses) or governmental entities.

4. Make an English summary of the following text:

КОРОТКА ІСТОРІЯ СТВОРЕННЯ ЄС (КЛЮЧОВІ ПОДІЇ)

Європейський Союз утворився в результаті послідовного розвитку процесу інтеґрації країн Західної Європи, яка пройшла у своєму розвитку декілька етапів.

9 травня 1950 року вважається початком європейської інтеграції. Саме тоді міністр закордонних справ Франції *Робе́р Шума́н* запропонував створити спільний ринок вугільної і сталеливарної продукції Франції, ФРН та інших західноєвропейських країн (пропозиція увійшла в історію під назвою "план Шумана"). Однією з головних цілей плану було примирення Франції та Німеччини й недопущення між ними війни у майбутньому. Найважливішим засобом досягнення цієї мети мав стати механізм управління та наднаціонального контролю за виробництвом і торгівлею стратегічною для військових потреб продукцією – вугіллям та сталлю. Контроль мав здійснюватись "вищим органом" (прообразом Європейської Комісії).

У квітні 1951 року "план Шумана" було реалізовано через підписання Паризького договору про створення *Європейського співтовариства вугілля і сталі (ЄСВС).* До складу ЄСВС увійшли шість країн: Бельгія, Італія, Люксембург, Нідерланди, Німеччина та Франція ("європейська шістка", яка пізніше стала "локомотивом" європейської інтеграції). Договір про ЄСВС набув чинності 23 липня 1952 року. А у травні 1952 року країни "європейської шістки" підписують Договір про заснування *Європейського оборонного співтовариства (ЄОС)*.

У лютому 1992 року у м. Маастрихт (*Maastricht)* було підписано *Договір про Європейський Союз* (саме поняття "Європейський Союз" з'явилось ще під час Паризької конференції 1972 року). Договір набув чинності 1 листопада 1993 року. Він визначив так звані "три колони" Європейського Союзу:

- *"перша колона"* – це Європейські співтовариства: ЄСВС, "ЄврАтом" та Європейське Співтовариство (замість старої назви "Європейське Економічне Співтовариство"). Причому Європейське Співтовариство є серцевиною та каркасом процесу інтеґрації і за своїми властивостями є "наднаціональним феноменом";
- *"друга колона"* – це спільна зовнішня політика та політика безпеки;
- *"третя колона"* – це співробітництво у сферах юстиції та внутрішніх справ.

В економічному сенсі прийняття Маастрихтського договору (*Maastricht Treaty*) означало курс на завершення формування єдиного внутрішнього ринку (четвертий рівень економічної інтеграції) та перехід до реалізації ідеї економічного та валютного союзу (п'ятий – найвищий рівень економічної інтеграції).

1 січня 2002 року до готівкого обігу була введена єдина грошова одиниця ЄС – *євро (€)*, що стало етапом переходу до формування економічного та валютного союзу ЄС – найвищого етапу інтеграції. Зараз євро офіційна валюта 17 із 28 держав Європейського Союзу. Велика Британія та Данія вирішили поки що відмовитись від введення євро на своїй території, а Швеція не змогла виконати необхідних критеріїв введення євро, встановлених Маастрихтським договором.

17-18 червня 2004 року на Самміті ЄС у Брюсселі було схвалено текст *Конституції Європейського Союзу*. 29 жовтня 2004 року глави держав та урядів 25 держав-членів ЄС та держав-кандидатів (Румунія, Болгарія та Туреччина) підписали текст "Угоди про Конституцію Європи" (*Treaty Establishing a Constitution for Europe*) у Римі. Конституція ЄС складається з чотирьох розділів, в яких відображено головні цілі, завдання та функції ЄС, організаційна структура та процедура прийняття рішень, права і обов'язки всіх європейських органів управління, а також напрямки діяльності організації.

Відповідно до своїх положень, Угода набуває чинності у встановлений термін після ратифікації всіма державами-членами ЄС. Процедура ратифікації Угоди про Конституцію залежить від положень національної конституції кожної з країн-членів.

5. Write a 100-300 word essay and prepare an oral presentation on any of the topics given below using new vocabulary:

- The Federated Republic of Europe – the United States of Europe – that is what must be. National autonomy no longer suffices. Economic evolution demands the abolition of national frontiers. If Europe is to remain split into national groups, then Imperialism will recommence its work. Only a Federated Republic of Europe can give peace to the world. *– Leon Trotsky 30/10/1917*
- We believe in a free Europe, not a standardised Europe. Diminish that variety within the member states, and you impoverish the whole Community. We insist that the institutions of the European Community are managed so that they increase the liberty of the individual throughout the continent. These institutions must not be permitted to dwindle into bureaucracy. Whenever they fail to enlarge freedom the institutions should be criticised and the balance restored. *– Margaret Thatcher 07/1979*
- My first guiding principle is this: willing and active co-operation between independent sovereign states. Europe will be stronger precisely because it has France as France, Spain as Spain, Britain as Britain, each with its own customs, traditions and identity. It would be folly to try to fit them into some sort of identikit European personality. *–Margaret Thatcher 09/1988*
- The future will belong to the Germans … when we build the House of Europe. In the next two years, we will make the process of European integration irreversible. This is a really big battle but it is worth the fight. *– Helmut Kohl 10/1996*
- Countries engage in international trade for two basic reasons, each of which contributes to their gain from trade. First, countries trade because they are different from each other. Nations, like individuals, can benefit from their differences by reaching an arrangement in which each does the things it does relatively well. Second, countries trade to achieve economies of scale in production. That is, if each country produces only a limited range of goods, it can produce each of these goods at a larger scale and hence more efficiently than if it tried to produce everything. In the real world, patterns of international trade reflect the interaction of both these motives. *– Paul Krugman*

ANSWER KEYS

(ВІДПОВІДІ)

Language practice:

Module 1:
Unit 1:
1.3.1: 1– b; 2 – b; 3 – a; 4 –b; 5 – c; 6 – c; 7 –a.
1.3.2: 1– h; 2 – d; 3 – f; 4 – g; 5 – e; 6 – i; 7 – b;8 – a ; 9 – j; 10 – c.
1.3.4: (1) economic theory; (2) scarce resources; (3) efficiency; (4) invisible hand theory; (5) beneficial; (6) self-interest; (7) maximize profits; (8) are charged; (9) market share; (10) withdraw capital.
Unit 2:
2.3.1: 1 – c; 2 – a; 3 – c; 4 – b; 5 – c; 6 – b; 7 – a.
2.3.2: 1 – c; 2 – g; 3 – e; 4 – f; 5 – a; 6 – d; 7 – b.
2.3.4: (1) balance of trade; (2) free trade; (3) laissez-faire; (4) accumulation; (5) citizenry; (6) competition; (7) merchant; (8) alliance; (9) gain; (10) interference.
Unit 3:
3.3.1: 1– b; 2 – a; 3 – b; 4 – c; 5 – c; 6 – a; 7 – b.
3.3.2: 1– f; 2 – d; 3 – e; 4 – g; 5 – a; 6 – b; 7 – c.
3.3.4: (1) market economy; (2) privately-owned; (3) demand; (4) rise; (5) market; (6) prices; (7) competitors; (8) inefficient; (9) ownership; (10) entrepreneurs.
Unit 4:
4.3.1: 1– c; 2 – a; 3 – b; 4 – c; 5 – a; 6 – a; 7 – b.
4.3.2: 1– d; 2 – f; 3 – a; 4 – g; 5 – b; 6 – e; 7 – c.
4.3.4: (1) quantity; (2) commodity; (3) relationship; (4) demand curve; (5) market; (6) factors of production; (7) constant; (8) price mechanism; (9) equilibrium price; (10) Supply-and-demand analysis.
Self-Assessments (Module 1)
1: 1– f; 2 – g; 3 – e; 4 – i; 5 – a; 6 – h;7 – b; 8 – d; 9 – c; 10 – j.

Module 2:
Unit 5:
5.3.1: 1– b; 2 – a; 3 – c; 4 – b; 5 – c; 6 – a; 7 – b.
5.3.2: 1– c; 2 – f; 3 – g; 4 – a; 5 – d; 6 – b; 7 – e.
5.3.4: (1) substitute goods; (2) world trade barriers; (3) elastic; (4) decline; (5) high-priced; (6) price increases; (7) necessities; (8) luxuries; (9) available; (10) consumers.
Unit 6:
6.3.1: 1– c; 2 – a; 3 – b; 4 – c; 5 – b; 6 – c; 7 – a.
6.3.2: 1– f; 2 – c; 3 – e; 4 – b; 5 – d; 6 – g; 7 – a
6.3.4: (1) economic process; (2) misapplication of resources; (3) returns; (4) smaller increases; (5) law of diminishing returns; (6) hiring; (7) manpower; (8) interfere; (9) be obtained; (10) inputs.
Unit 7:
7.3.1: 1– a; 2 – c; 3 – c; 4 – b; 5 – a; 6 – b; 7 – c.
7.3.2: 1– d; 2 – g; 3 – f; 4 – c; 5 – b; 6 – a; 7 – e.
7.3.4: (1) market structures; (2) enter the industry; (3) standardized product; (4) exit; (5) sole seller; (6) differentiate; (7) nonprice ; (8) product differentiation; (9) product; (10) rivals.

Unit 8:

8.3.1: 1– b; 2 – a; 3 – a; 4 – c; 5 – b; 6 – c; 7 – a.
8.3.2: 1– f; 2 – g; 3 – e; 4 – a; 5 – c; 6 – b; 7 – d.
8.3.4: (1) monopolized products; (2) sole producer; (3) service; (4) close substitutes; (5) price maker; (6) price taker; (7) demand curve; (8) entering; (9) barriers; (10) standardized.

Unit 9:

9.3.1: 1– c; 2 – a; 3 – b; 4 – c; 5 – a; 6 – b; 7 – a.
9.3.2: 1– e; 2 – d; 3 – f; 4 – a; 5 – g; 6 – c; 7 – b.
9.3.4: (1) blue- and white-collar workers; (2) provide; (3) money payments; (4) bonuses; (5) fringe benefits; (6) labor; (7) nominal wage; (8) obtain; (9) prices; (10) increased.

Self-Assessments (Module 2)

1: 1– j; 2 – d; 3 – e; 4 – a; 5 – h; 6 – b;7 – c; 8 – i; 9 – g; 10 – f.

Module 3:

Unit 10:

10.3.1: 1– b; 2 – a; 3 – c; 4 – b; 5 – a; 6 – a; 7 – c.
10.3.2: 1– h; 2 – e; 3 – a; 4 – b; 5 – f; 6 – i; 7 – j; 8 – g; 9 – c; 10 – d.
10.3.4: (1) grow; (2) incentives; (3) generates; (4) enhance; (5) poverty; (6) household incomes; (7) exhaustion; (8) deemphasized; (9) reconcile; (10) expenditures.

Unit 11:

11.3.1: 1– a; 2 – b; 3 – a; 4 – c; 5 – b; 6 – b; 7 – c.
11.3.2: 1– a; 2 – g; 3 – f; 4 – b; 5 – c; 6 – e; 7 – d.
11.3.4: (1) occurs; (2) unemployment rate; (3) recession; (4) market mechanisms; (5) imposed; (6) cyclical nature; (7) aggregate demand; (8) interventions; (9) structural; (10) voluntary decisions.

Unit 12:

12.3.1: 1– b; 2 – a; 3 – c; 4 – a; 5 – c; 6 – a; 7 – b.
12.3.2: 1– f; 2 – i; 3 – g; 4 – h; 5 – j; 6 – a; 7 – e; 8 – b; 9 – c; 10 – d.
12.3.4: (1) poorer; (2) redistribute; (3) injustice; (4) laments; (5) wages; (6) reduces; (7) costs; (8) low; (9) pressures; (10) hyperinflation.

Unit 13:

13.3.1: 1– c; 2 – a; 3 – b; 4 – c; 5 – c; 6 – a; 7 – b.
13.3.2: 1– e; 2 – f; 3 – a; 4 – g; 5 – b; 6 – d; 7 – c.
13.3.4: (1) burden; (2) finance the debt; (3) meet its financial obligations; (4) expenditures; (5) funds; (6) holders of maturing bonds; (7) interest return; (8) levy; (9) tax increase; (10) go bankrupt.

Unit 14:

14.3.1: 1– b; 2 – a; 3 – b; 4 – a; 5 – c; 6 – c; 7 – c.
14.3.2: 1– g; 2 – c; 3 – d; 4 – f; 5 – i; 6 – a; 7 – b; 8 – j; 9 – e; 10 – h.
14.3.4: (1) responsibilities; (2) monetary policy; (3) stable; (4) interest rates; (5) maintaining; (6) depository institutions; (7) general public; (8) authority; (9) confirmed; (10) entitles.

Self-Assessments (Module 3):

2: 1– h; 2 – j; 3 – a; 4 – i; 5 – f; 6 – d; 7 – e; 8 – g; 9 – c; 10 – b.

Module 4:

Unit 15:

15.3.1: 1– b; 2 – c; 3 – c; 4 – b; 5 – b; 6 – a; 7 – a.

15.3.2: 1– f; 2 – a; 3 – e; 4 – g; 5 – b; 6 – d; 7 – c.
15.3.4: (1) services; (2) economic system; (3) global industries; (4) economic policies; (5) privatization; (6) barriers; (7) market-oriented; (8) globalization; (9) planned economy; (10) international businesses.

Unit 16:

16.3.1: 1– c; 2 – c; 3 – b; 4 – a; 5 – c; 6 – c; 7 – b.
16.3.2: 1– f; 2 – g; 3 – a; 4 – b; 5 – d; 6 – e; 7 – c.
16.3.4: (1) growth; (2) national output; (3) goods & services; (4) living standards; (5) HDI; (6) employment; (7) black economy; (8) natural resources; (9) meeting the needs; (10) Governments.

Unit 17:

17.3.1: 1– a; 2 – c; 3 – c; 4 – a; 5 – b; 6 – b; 7 – c.
17.3.2: 1– c; 2 – f; 3 – a; 4 – b; 5 – g; 6 – e; 7 – d.
17.3.4: (1) mercantilism; (2) currency; (3) to export; (4) increase; (5) to sell; (6) government intervention; (7) tariffs & quotas; (8) balance-of-trade surplus; (9) outflow; (10) deterioration.

Unit 18:

18.3.1: 1– b; 2 – b; 3 – c; 4 – c; 5 – b; 6 – a; 7 – a.
18.3.2: 1– d; 2 – a; 3 – g; 4 – f; 5 – b; 6 – e; 7 – c.
18.3.4: (1) political arguments; (2) costs; (3) free trade; (4) net benefits; (5) sovereignty; (6) liberalization; (7) monetary; (8) currency; (9) deal; (10) policy.

Unit 19:

19.3.1: 1– b; 2 – a; 3 – c; 4 – a; 5 – b; 6 – c; 7 – b.
19.3.2: 1– e; 2 – c; 3 – g; 4 – a; 5 – f; 6 – d; 7 – b.
19.3.4: (1) détente phase; (2) multilateral forum; (3) agreement; (4) economic; (5) Decalogue; (6) implementation; (7) managing; (8) institutionalization; (9) security; (10) conflict prevention.

Self-Assessments (Module 4):

1: 1– h; 2 – d; 3 – j; 4 – a; 5 – f; 6 – i; 7 – b; 8 – c; 9 – g; 10 – e.

GRAMMAR REFERENCE

(Граматичний довідник)

THE NOUN (ІМЕННИК)

1.1.Theoretic(al) Principles:

1) REGULAR AND IRREGULAR PLURAL NOUNS	
(a) Disk – disks	The plural of most nouns is formed by adding final ***–s***
(b) Bus – buses	Final ***–es*** is added to nouns that end in ***–sh, -ch, -s,*** and ***–x***.
(c) Company – companies Proxy – proxies	The plural of words that end in a consonant **+ *-y*** is spelled ***–ies.***
(d) Man-men goose – geese Woman – women tooth – teeth Child – children mouse – mice Ox – oxen louse – lice Foot – feet	The nouns in (d) have irregular plural forms that do not end in ***–s.***
(e) Echo – echoes	Some nouns that end in ***–o*** add ***–es*** to form the plural.
(f) Zoo – zoos photo – photos Video – videos memo – memos	Some nouns that end in ***–o*** add only ***–s*** to form the plural.
(g) Zero – zeroes/zeros	Some nouns that end in ***–o*** add either ***–es*** or ***–s*** to form the plural.
(h) Half – halves Shelf – shelves	Some nouns that end in ***–f*** or ***–fe*** are changed to ***–ves*** to form the plural.
(i) Belief – beliefs	Some nouns that end in ***–f*** simply add ***–s*** to form the plural.
(j) One deer – two deer One fish – two fish One sheep – two sheep	Some nouns have the same singular and plural form: e.g., *One deer is … Two deer are …*
(k) criterion – criteria (l) nucleus – nuclei (m) formula – formulae/formulas (n) index – indices/indexes (o) basis – bases (p) datum – data	Some nouns that English has borrowed from other languages have foreign plurals.
2) POSSESIVE NOUNS	
SINGULAR NOUN *POSSESIVE FORM* (a) the girl the girl's (b) Tom Tom's (c) my friend my friend's (d) a lady a lady's (e)Thomas Thomas's/Thomas'	To show possession an apostrophe ***(')*** and ***–s*** to a singular noun: *The **girl's** DVD is on the table.* If a singular noun ends in ***–s***, there are two possible forms : *1.* Add an apostrophe ***(')*** and ***–s***: ***Thomas's*** *laptop.* **2.** Add only apostrophe ***(')***: ***Thomas'*** *laptop.*
PLURAL NOUN *POSSESIVE FORM* (f) the girls the girls' (g) their wives their wives' (h) the ladies the ladies' (i) the men the men's (j) my children my children's	Add only apostrophe ***(')*** to a plural noun that end in ***–s***: *The **girls'** DVDs are on the table.* Add an apostrophe ***(')*** and ***–s*** to plural nouns do not end in ***–s***: *The **mens'** DVDs are on the table.*

3) COUNTABLE AND UNCOUNTABLE NOUN	
COUNTABLE A countable nouns can be singular ***(disk)*** or plural ***(disks).*** We can use numbers with countable nouns. So we can say “one disk”, “two disks”.	***UNCOUNTABLE*** An uncountable noun has only one form ***(rice)***. We cannot use numbers with countable nouns. We cannot say “one rice”, “two rices” etc.
You can use a/an with singular countable nouns: ***a CD-R*** ***a printer*** ***a keyboard*** You cannot use singular countable nouns alone (without ***a/the/my*** etc.): e.g. I want ***a computer***. (not I want computer) You can use plural countable nouns alone: e.g. They can connect her ***site*** to other dance sites.	You cannot normally use a/an with uncountable nouns. We do not say “a sand”, “a music”, “a rice”. But you can often use ***a…of***. For example: ***a bowl/a packet/a grin of rice*** You can use uncountable nouns alone (without the/my/some etc.): e.g. There is ***blood*** on your table. Can you hear ***music***?
You can use ***some*** and ***any*** with plural countable nouns: e.g. Data line linking ***any client*** to server. We use ***many*** and ***few*** with plural countable nouns: e.g. Network modem allowing ***many clients*** to access the Internet simultaneously.	You can use some and any with uncountable nouns: e.g. We listened to ***some music***. Did you buy ***any apple juice***? We use much and little with uncountable nouns: e.g. I have ***a little work*** to do.
Many nouns can be used as countable and uncountable nouns, usually with a difference in meaning. Compare: Did you hear ***a noise*** just now? (= a specific noise)	I cannot work here. There’s too much ***noise***. (not too many noises).
But you can say ***a coffee*** (= a cup of coffee), ***two coffees*** (= two cups) etc.: e.g. ***Two*** coffees and ***an orange juice***, please.	Coffee/tea/juice/beer etc. (drinks) are normally uncountable: I don’t like ***coffee*** very much.
The following nouns are usually countable and used only in plural: ***scissors, trousers, spectacles, scales, tongs, breeches, pants, pajamas, binoculars, glasses, pliers, shears, goods, contents, clothes, proceeds, wages, riches, arms, damages, earrings, greens, grounds, outskirts, pains, wares, particulars, savings, spirit, stairs, valuables etc.*** **Countable nouns can be singular or plural:** a disc a programmer discs some programmers Before singular countable nouns you can use ***a/an***: e.g. Do you need ***a system bus***? You can use ***some*** with plural countable nouns. We use ***some*** in two ways: 1) ***Some*** = a number of / a few / a pair of: e.g. I’ve seen ***some good keyboard*** recently. (not I’ve seen keyboard recently) 2) ***Some*** = some but not all: e.g. ***Some students*** learn the algorithm very quickly.	The following nouns are usually uncountable and used only in singular: ***sugar, silver, peace, love, friendship, bread, beer, cloth, coffee, tea, cream, dust, gin, oil, paper, glass, gold, ice, jam, sand, soap, stone, water, wine, wood, advice, information, progress, knowledge, beauty, courage, death, experience, fear, help, hope, horror, mercy, pity, relief, suspicion, work, money, hair, fruit etc.*** You cannot use a/an with these nouns. These nouns are not usually plural (so we don’t say “breads”, “furnitures” etc.) **News** is uncountable, not plural: The ***news was*** very depressing. (*not* The news were)

THE ARTICLE (АРТИКЛЬ)

2.1.Theoretic(al) Principles:

1) THE INDEFINITE ARTICLE *A/AN*	
The form **a** is used before a word beginning with a consonant, or vowel with a consonant sound:	A video, a soundcard, a hard drive
The form **an** is used before words beginning with a vowel **(a, e, i, o, u)** or words with a mute **h** or individual letters spoken with a vowel sound:	An accelerator, an encoder, an intelligent till, an outbox An hour An L-plate, an MP, an “x”
We use the indefinite article a/an:	
a. With singular countable nouns, when we talk about them in general:	He wants to buy ***a*** monitor.
b. With the verbs to be and to have:	This is ***a*** folder icon.
c. Before an adjective when it is followed by the noun:	They will have ***a*** marked impact on the way we worked with personal computers.
d. With the numerals a million, a hundred, a thousand, a dozen:	That factory produced ***a*** thousand chips.
e. After words such, rather, quite, what, not:	It is rather ***a*** Web address.
f. When we mean one cup or glass of any drink:	Kate ordered ***a*** tea. (a cup of tea)
g. Before Mr., Mrs., Miss when we refer to an unknown person:	*Mr. Ebbot* sent you this e-mail. (we don’t know who is this *Mr. Ebbot*)
h. With the words a lot of, a few, a little, a bit, a great deal of:	However, there are ***a few*** free ISPs who only charge local or national rates for their telephone helplines.
i. When we characterize the object:	Newsgroups are huge discussion forums on the Internet that are an amazingly rich resource of information and ***a*** brilliant way to communicate with other Internet users.
j. After the expression there is:	There is ***a*** combination of hardware and software to protect networks from unauthorized users.
k. To show a price in relation to weight, distance in relation to speed and frequency:	Monitor access 24 hours ***a*** day.

2) THE DEFINITE ARTICLE *THE*	
The* is used before*:	***The* is omitted before*:***
a. The is used with singular and plural nouns, countable and uncountable ones, to talk about something specific, or when the noun is mentioned for a second time: e.g. I have ***a*** disk. ***The*** disk is DVD-R.	***a. We normally omit “the” before the words last and next when we talk about a period of time immediately before or after the moment of speaking:*** e.g. He graduated ***last*** year. e.g. I went to work on Monday but ***the next*** day I stayed at home.
b. The is used with the words ***beach***, ***cinema***, ***country(side)***, ***ground***, ***jungle***, ***radio***, ***sea***, ***seaside***, ***theatre***, ***world etc***.: e.g. He likes going to ***the*** theatre. ***We usually say “television” without “the.”***	***b. Proper nouns.*** *e.g.* ***Kate*** *has a Higher National Certificate in Computing.*

e.g. We often watch television. **But** Turn on ***the*** television (set).

c. nouns which are unique:

the Earth, the Eiffel Tower

d. Names of ***cinemas*** (the Rex), ***hotels*** (the Sheraton, theatres (Apollo), ***museums*** (the Prado), ***newspapers/magazines*** (the Guardian, ***but***: Newsweek), ***ships*** (the Marie Celeste), ***institutions*** (the LCA), ***galleries*** (the Tate Gallery).

e. Names of rivers (the Seine), ***seas*** (the Black Sea), ***groups of islands/states*** (the Bahamas, the USA), ***mountain ranges*** (the Alps), ***deserts*** (the Sahara desert), ***oceans*** (the Atlantic), ***canals*** (the Suez Canal) ***and names or nouns with "of"*** (the Tower of London, the Statue of Liberty).

Note: the equator, the North/South Pole, the north of England, the South/ North/West/ East

f. Musical instruments, dances

The piano, the tango

g. Names of families (the Browns), ***nationalities ending in –sh, -ch or –ese*** (the English, the Dutch). ***Other plural nationalities are used with or without the*** (the Italians etc).

h. Titles *(the Queen, the Prince)****. "The" is omitted before titles with proper names*** *(Queen Victoria)****.***

i. Adjectives used as plural nouns *(the poor, the rich, the young, the blind etc.)* ***and the superlative degree of adjectives/adverbs*** *(the worst).*

e.g. She is ***the*** *cleverest programmer in her classroom.*

j. the words station, shop, cinema, pub, library, city, village etc.

e.g. He went to ***the station****.*

k. morning, afternoon, evening, night.

I'll be at home in ***the evening.***

l. Historical references/events. *The Renaissance, the Middle Age, the First World War (****but:*** *World War II).*

m. Only, last, first *(used as adjectives).*

e.g.They were ***the last*** *persons to come.*

c. names of sports, games, activities, days, months, holidays, colours, drinks, meals and languages (not followed by the word "language").

e.g. She plays ***squash*** *well. She likes* ***red.*** *We speak* ***English****. But:* ***the English language*** *is spoken all over the world.*

d. names of countries *(Italy)****, cities*** *(Rome)****, streets*** *(Oxford Street)****, but*** *the High Street, squares (Trafalgar Square)****, bridges (****Tower Bridge* ***but:*** *the Golden Gate Bridge, the Severn Bridge)****, parks*** *(Hyde Park)****, stations*** *(Victoria Station)****, individual mountains*** *(Everest)****, islands*** *(Cyprus)****, lakes*** *(Lake Michigan)****, continents*** *(Europe)****, but:*** *the Argentine, the Netherlands, the Hague, the Vatican.*

e. possessive adjectives.

e.g. This isn't your printer.

f. two-word names whose first word is the name of a person or place. *Kennedy Airport, Westminster Abbey* ***but:*** *the White house, (because the first word "White" is not the name of a person or place.)*

g. pubs, restaurants, shops, banks and hotels which have the name of their founder and end in –s or –'s. *Harrods, Lloyds Bank, Emma's pub* ***but:*** *the White Horse (pub) (because "White" is not a name).*

h. bed, church, college, court, hospital, prison, school, university, when we refer to the purpose for which they exist.

e.g. Tom was sent to prison. (He is a prisoner.) but: His mother went to ***the prison*** *to see him last week. (She went to the prison as a visitor.)*

Work (place of work) never takes "the".

e.g. She's at ***work .***

i. The words home, father/mother when we talk about our own home/parents.

e.g. ***Mother*** *is at* ***home.****.*

j. means of transport: by bus/by car/by train/by plane etc. but: in the car, on the bus/train etc.

e.g. She travelled ***by plane****.* ***But:*** *She left* ***on the 6 o'clock plane*** *yesterday.*

k. illness.

e.g. He's got malaria. But we say: ***flue/the flue, measles/the measles, mumps/the mumps.***

THE ADJECTIVE (ПРИКМЕТНИК)

3.1. Theoretic(al) Principles:

Adjectives (*adj.*) describes the person, thing etc. which a noun refers to. We use adj. to say what a person etc. is like or seems like. For example, adj. can give us information about: *quality, size, age, temperature, shape, colour, origin.* • Formation of adj.: adj. formed with suffixes: -able - ible -ful - (i)an -ic - ish -ive -ly -ant - ous	**e.g.**visible, eatable, useful, famous
• Adj. formed with prefixes: Un- im- In- dis- Il- ir-	**e.g.** unformatted, intrinsic, illegible, impractical, irresponsible.
• Adj. like the following are used after **the** never after ***a/an***, to represent a group as a whole:	**e.g.** the aged, the blind, the dead, the guilty, the innocent, the middle-aged, the old, the poor, the unemployed, the young.
• Adjectival participles ending in **"-ed"** and **"-ing"**. Common pairs:	**e.g.** alarmed/alarming, moved/moving.
1) THE COMPARISON OF ADJECTIVES:	
• The comparative and superlative degrees are formed in two ways:	
1. By means of the ending ***–er*** and ***–est*** (synthetic forms)	**e.g.** large – larg***er*** – ***the*** larg***est***
2. By means of the words ***more*** and ***the most*** (analytical forms)	**e.g.** important – ***more*** important – ***the most*** important
• The following adj. have synthetic forms of the degrees of comparison:	
1. All one-syllable adj.	**e.g.** cheap – cheap***er***
2. Adj. of two syllables ending in ***–y, -er, -le, -ow*** and those having the stress on the second syllable	**e.g.** lucky – luck***ier***
3. We use ***more*** … for longer words (2 syllables or more)	**e.g.** expensive – ***more*** expensive
4. We use ***more*** … for adverbs that ends in ***–ly***	**e.g.** slowly – ***more*** slowly
• ***The following spelling rules should be observed:***	
1. If the adj. ends in ***–e***, it is dropped before the endings ***–er, -est***	**e.g.** large – larg***er*** – ***the*** larg***est***
2. If the adj. ends in one consonant preceded by a short vowel, the final consonant is doubled before ***–er, -est***	***e.g.*** big – big***ger*** – the big***gest***

3. If the adj. ends in ***–y*** preceded by a consonant, the ***–y*** is changed into ***i*** before the endings ***–er*** and ***–est***	***e.g.*** dry – dr***ier*** – the dr***iest***
2) A few adjectives have irregular comparative forms:	
good – better – the best *bad – worse – the worst* *old- older – the oldest* *elder – the eldest* *many/much – more – the most*	*little – less – the least* *far – farther – the farthest* *far – further – the furthest* *late – later – the latest* *late – latter – the last*
• We also use ***as…as***, ***twice as…as*** in positive sentences and in questions: • We say ***the same as***: • We use ***not so …as***, ***less …than***: • ***Better and better/more and more*** etc. – we repeat comparatives to say that sth. changes continuously:	***e.g.*** The computer is ***twice as*** expensive ***as*** it was a few years ago. ***e.g.*** Laura got ***the same*** chip ***as*** me. ***e.g.*** He is ***not so*** good programmer ***as*** he was three years ago. ***e.g.*** These days ***more and more*** people are learning the computer.

THE ADVERB (ПРИСЛІВНИК)

4.1. Theoretic(al) Principles:

a) With e-mail I can communicate ***effectively***.	1. Adverbs modify verbs. Often they answer the question “How?” Adverbs are often formed by adding ***–ly*** to an adjective.
b) She read the book ***quickly***.	2. We use adverbs to modify verbs, adjectives, other adverbs and sometimes whole sentences. Their common use is to describe how someone does something (called “*adverbs of manner*”).
c) Let’s go ***tomorrow*** to the Internet cafe. (adverb of time) d) I’ll wait ***here***. (adverb of place)	3. Adverbs can also describe *where* or *when* something happens (adverbs of place and time), *how often* (adverbs of frequency: *tomorrow, today, yesterday, soon, never, usually, never, always, yet*), or *how much* or *how strongly* (adverbs of degree).
e) It was ***easily the best*** modem I’ve ever had.	4. We can use *by far, frankly, easily*, etc. to modify a superlative.
f) ***To tell the truth***, I like to download something from the net. (comment adverb)	5. There are other types of adverb, for example *“linking adverbs”* such as also and *“comment adverbs”* such as sadly.
g) You can legally download some music ***tomorrow afternoon***. (noun phrase)	6. When a phrase acts as an adverb, we call it an *“adverbial phrase”*.
h) *probable* – ***probably*** *suitable* - ***suitably***	7. Adjectives ending in ***–le*** form adverbs by changing ***–le*** to ***–ly***.

i) *easy* – ***easily*** *noisy* - ***noisily***	8. Adjectives ending in ***–y*** form adverbs by changing ***–y*** to ***–ily***.
j) *automatic* – ***automatically*** *tragic* – ***tragically***	9. Adjectives ending in ***–ic*** form adverbs by adding ***–ally.***
k) *day* – ***daily*** *week* – ***weekly*** l) ***in a silly manner*** ***in a lonely fashion***	10. Some adverbs which end in ***–ly*** come from nouns: 11. We cannot add ***–ly*** to adjectives which end in ***–ly***. We use ***in a …way/manner/fashion.***
m) download ***fast*** a ***fast*** downloader	12. Some adverbs have the same form as adjectives.
n) a ***friendly*** programmer	13. Some words ending in –ly are not adverbs but adjectives.
o) He was ***publicly*** humiliated.	14. The adverb from ***public*** is ***publicly***.
p) full – ***fully***	15. With ***full*** we simply add ***–y***.
q) true – ***truly***	16. With ***true*** we change ***–e*** to ***–ly***.
r) Did I do ***well*** in the test?	17. The adverb from ***good*** is ***well***.

THE PRONOUN (ЗАЙМЕННИК)

5.1. Theoretic(al) Principles:

1) PERSONAL PRONOUNS				
	SUBJECT PRONOUN	OBJECT PRONOUN	POSSESSIVE PRONOUN	POSSESSIVE ADJECTIVE
SINGULAR	***I*** ***You*** ***She, he, it***	***Me*** ***You*** ***Her, him, it***	***Mine*** ***Yours*** ***Hers, his, its***	***Mine*** keyboard ***Yours*** keyboard ***Her, his, its*** keyboard
PLURAL	***We*** ***You*** ***They***	***Us*** ***You*** ***Them***	***Ours*** ***Yours*** ***Theirs***	***Our*** keyboard ***Your*** keyboard ***Their*** keyboard

a) I had a ***computer***. ***It*** was good. b) I had some ***computers***. ***They*** were good.	A pronoun is used in place of a noun. The noun it refers to is called the "antecedent." In (a): the pronoun ***it*** refers to the antecedent noun ***computer***. A singular pronoun is used to refer to a singular noun, as in (a). A plural pronoun is used to refer to a plural noun, as in (b).
c) ***I*** like to play the computers games. Do ***you*** like to play the computers games?	Sometimes the antecedent noun is understood, not explicitly stated. In (c): ***I*** refers to the speaker, and ***you*** refers to the person the speaker is talking to.
d) Storage devices are used to store data and programs. ***They*** usually consist of storage media and disk or tape drive.	Subject pronouns are used as subjects of sentences, as ***they*** in (d).

e) John works in my office. I know ***him*** well. f) I talk to ***him*** every day.	Object pronouns are used as the objects of verbs, as in (e), or as the objects of prepositions, as in (f).
g) That CD-RW is ***hers***. ***Yours*** is over there. h) INCORRECT: That CD-RW is *her's*. *Your's* is over there.	Possessive pronouns are not followed immediately by a noun; they stand alone, as in (g). In (h): possessive pronouns do NOT take apostrophes.
i) ***Her*** CD-RW is here. ***Your*** CD-RW is over there.	Possessive adjectives are followed immediately by a noun; they do not stand alone.
j) An early British type of personal computer suited to games because of ***its*** excellent graphics facilities. k) INCORRECT: An early British type of personal computer suited to games because of *it's* excellent graphics facilities. l) ***It's*** MP3 player. m) This information is not very important. ***It's*** *been* downloaded since 1934.	Compare: ***Its*** has no APOSTROPHE when it is used as a possessive, as in (j). ***It's*** has an apostrophe when it is used as a contraction of ***it is***, as in (l), or ***it has*** when ***has*** is a part of the present perfect tense, as in (m).
2) PERSONAL PRONOUNS: AGREEMENT WITH GENERIC NOUNS AND INDEFINITE PRONOUNS	
a) A student wrote a new algorithm. ***He*** was writing it the whole day yesterday. ***b) A student*** wrote a new algorithm. ***She*** was writing it the whole day yesterday.	In (a) and (b): the pronouns refer to particular individuals whose gender is known. The nouns are not generic.
c) A student had to replace ***his*** hard disk. ***d) A student*** had to replace ***his/her*** hard disk. ***A student*** had to replace ***his or her*** hard disk.	A generic noun doesn't refer to any person or thing in particular; rather, it represents a whole group. In (c) : ***A student*** is a generic noun; it refers to *anyone who is a student*. With a generic noun, a singular masculine pronoun has been used traditionally, but many English speakers now use both masculine and feminine pronouns to refer to a singular generic noun, as in (d). The use of both masculine and feminine pronouns can create awkward-sounding sentences.
e) Students had to replace ***their*** hard disks.	Problems with choosing masculine and/or feminine pronouns can often be avoided by using a plural rather than a singular generic noun, as in (e).
3) INDEFINITE PRONOUNS	
Everyone *someone* *anyone* *no one* *Everybody* *somebody* *anybody* *nobody* *Everything* *something* *anything* *nothing*	
f) ***Somebody*** left ***his*** laptop. g) ***Everyone*** has ***his or her*** own computers. h) Informal ***Somebody*** left ***their*** laptop. ***Everyone*** has ***their*** own computers.	A singular pronoun is used in formal English to refer to an indefinite pronoun, as in (f) and (g). in everyday informal English, a plural personal pronoun is often used to refer to an indefinite pronoun, as in (h).

4) PERSONAL PRONOUNS: AGREEMENT WITH COLLECTIVE NOUNS	
EXAMPLES OF COLLECTIVE NOUNS audience couple family public multimedia crowd government staff committee faculty group team	
a) ***Multimedia*** greatly enhances the interaction between user and machine. ***It*** can make information more interesting and appealing to people.	When a collective noun refers to a single impersonal unit, a singular gender-neutral pronoun (**it, its**) is used, as in (a).
b) ***My family*** is loving and supportive. ***They*** are always ready to help me.	When a collective noun refers to a collection of various individuals, a plural pronoun (**they, them, their**) is used, as in (b).

5) REFLEXIVE PRONOUN	
SINGULAR **myself** **yourself** **herself, himself, itself, oneself**	PLURAL **ourselves** **yourselves** **themselves**
a) The virus was in the computer. I saw ***it***. b) ***I*** saw ***myself*** in the mirror. ***I*** looked at ***myself*** for a long time. c) *INCORRECT:* I saw *me* in the mirror.	Compare (a) and (b): Usually an object pronoun is used as the object of a verb or preposition, as ***it*** in (a). A reflexive pronoun is used as the object of a verb or preposition when the subject of the sentence the object are the same person, as in (b). ***I*** and ***myself*** are the same person.
Did someone fax the report to Mr. Lee? Yes. Are you sure? d) – Yes. I ***myself*** faxed the report to him. e) – ***I*** faxed the report to him ***myself***.	Reflexive pronouns are also used for emphasis. In (d): the speaker would say "I myself" strongly, with emphasis. The emphatic reflexive pronoun can immediately follow a noun or pronoun, as in (d), or come at the end of the clause, as in (e).
f) Anna lives ***by herself***.	The expression ***by*** + *a reflexive pronoun* means "alone."

6) USING YOU, ONE, AND THEY AS IMPERSONAL PRONOUNS	
a) ***One*** should always be aware of the effects of different applications programs. b) ***One*** needn't learn how to program in HTML before designing webpages. c) ***You*** should always be aware of the effects of different applications programs. d) ***You*** needn't learn how to program in HTML before designing webpages.	In (a) and (b): ***One*** means "any person, people in general." In (c) and (d): ***You*** means "any person, people in general." ***One*** is much more formal than ***you***. Impersonal ***you***, rather than ***one***, is used more frequently in everyday English.
e) ***One*** can download single tracks creating ***one's*** own compilation. f) ***One*** can download single tracks creating ***his*** own compilation. g) ***One*** can download single tracks creating ***his or her*** own compilation.	Notice the pronouns that may be used in the same sentence to refer back to ***one***: (e) is typically in British usage and formal American usage. (f) is principally American usage. (g) is stylistically awkward.

h) - That's not something the college gave you. ***They*** didn't say, erm, " Here are a useful set of Web addresses." i) - How did ***they*** create their site? ***They*** created the site pretty easily using Netscape Composer…	***They*** is used as an impersonal pronoun in spoken or very informal English to mean "some people or somebody." ***They*** has no stated antecedent. The antecedent is implied. In (h): ***They*** = the people worked in college.

7) FORMS OF OTHER

	ADJECTIVE	***PRONOUN***	
Singular Plural	***another*** *barcode* (is) ***other*** *barcodes* (are)	***another*** (is) ***others*** (are)	Forms of ***other*** are used as either adjectives or pronouns. Notice: A final ***–s*** is used only for a plural pronoun (***others***).
Singular Plural	***the other*** *barcode* (is) ***the other*** *barcodes* (are)	***the other*** (is) ***the others*** (are)	

a) The printers in the Internet class come from many countries. One of the printers is from Mexico. ***Another printer is*** from Canada. ***Other printers are*** from China. ***Others are*** from Japan.	The meaning of ***another***: *one more in addition to one(s) already mentioned.* The meaning of ***other/others*** (without the): *several more in addition to the one(s) already mentioned.*
b) I have three cameras. Two are mine. ***The other camera*** *is* yours. c) I have three cameras. One is mine. ***The other cameras*** *are* yours.	The meaning of ***the other(s)***: *all that remains from a given number; the rest of a specific group.*
d) I will be here for ***another three years***. e) I need ***another 5$.*** f) We drove ***another ten miles.***	***Another*** is used as an adjective with expressions of time, money, and distance, even if these expressions contain plural nouns. ***Another*** means "an additional" in these expressions.

8) COMMON EXPRESSIONS WITH OTHER

a) We send ***each other*** the e-mail every week. We send ***one another*** the e-mail every week.	***Each other*** and ***one another*** indicate a reciprocal relationship. In (a): I send the e-mail to him every week, and he sends the e-mail to me every week.
b) I play computer's games ***every other*** day.	***Every other*** can give the idea of "alternate." In (b): Do not play computer's games every hour.
c) - Have you found information on the Internet recently? - Yes. I found it just ***the other*** day.	***The other*** is used in time expressions such as *the other day*, *the other morning, the other week,* etc., to refer to the recent past. In (c): ***the other day*** means "a few days ago, not long ago."
d) The applications program communicates with the operating system and the operating system communicates with the computer hardware, ***one after the other***. e) They followed the instructions ***one after another.*** f) No one knows the address to my home page ***other than*** John. g) No one knows the address to my home page ***except*** *(for)* John.	In (d): ***one after the other*** expresses the idea that separate actions occur very close in time. In (e): ***one after another*** has the same meaning as ***one after the other.*** In (f): ***other than*** is usually used after a negativ mean "except." (g) has the same meaning.
h) He is a huge fan. ***In other words***, movies are his favourite hobby.	In (h): ***in other words*** is used to explain, usually in simpler or clearer terms, the meaning of the preceding sentence(s).

THE VERB TENSES (ГРАМАТИЧНІ ЧАСОВІ ФОРМИ ДІЄСЛОВА)

ACTIVE VOICE (АКТИВНИЙ СТАН ДІЄСЛОВА)

6.1. Theoretic(al) Principles:

When we use an active verb, we say what the subject does: It's a big company. **It employs** two hundred people.			
Present Simple **1) permanent situations or states** She **owns** a large shop. **2) repeated / habitual actions (especially with frequency adverbs: often, usually etc)** I usually **get** up at 7.30. **3) permanent truths or laws of nature** Money **doesn't buy** happiness. Water **freezes** at 0° C. **4) timetables/programmes (future meaning)** The plane leaves at 6.05. **5)reviews/sports commentaries/ dramatic narrative** Mery Streep **acts** brilliantly in this film.	**Present Cont.** **1)temporary situations** They **are staying** at the Park Hotel at present. **2) actions happening at or around the moment of speaking** She **is looking** for a better job. **3) repeated actions with "always" expressing annoyance or criticism** She **is** always **interrupting** me! **4)fixed arrangements in the near future** The Browns **are visiting** us tonight (It's all arranged.) **5) changing or developing situations** His English **is getting** better.	**Present Perfect** **1)recently completed actions** She **has tidied** her room. (She has finished tidying her room. You can see it is tidy now. – evidence in the present) **2) actions which happened at an unstated past time and are connected with the present** He **has lost** his keys. (He is still looking for them.) **3)personal experiences/ changes which have happened** I **have lost** 10 kilos. **4) emphasis on number** She **has called** on two clients since 12 o'clock.	**Present Perf. Cont.** **1) actions started in the past and continuing up to the present** He **has been writing** a letter for two hours. (He started two hours ago and he's still writing it. **2) past actions of certain duration having visible results or effects in the present** She **has been crying**. (Her eyes are red.) **3)actions expressing anger, irritation, annoyance, explanation or criticism** Who **has been using** my toothbrush? (annoyance) **4) emphasis on duration (usually with for, since or how long)** She **has been calling** on clients since this morning.
		Note: *live, feel* and *work* can be used either in the Present Perfect or the Present Perfect Continuous with no difference in meaning. I'**ve been living**/I'**ve lived** in Rome for a year.	
Questions: **Do**: I, we, you, they **Does**: he, she, it **Do** I, we, you, they visit a court each day? **Does** he, she, it visit a court each day?	**Questions:** **Am**: I **Is**: he, she, it **Are**: we, you, they **Is** he, she, it **reading** a Constitution? **Are** we, you, they **reading** a Constitution?	**Questions:** **Have**: I, we, you, they **Has**: he, she, it **Have** I, we, you, they **done** it already? **Has** he, she, it **lived** in Lviv?	**Questions:** **Have** I, we, you, they **been working**? **Has** he, she, it **been working**?

Time expressions:			
Every day/week/month/year, usually, often, always, rarely, never, sometimes, in the morning/evening/after noon/ at night, on Mondays etc.	***Now, at the moment, at present, nowadays, today, tonight, still etc.***	***Just, ever, never, already, yet, how long, so far, recently, since, for, today, this week/month etc.***	***How long, since.***
Past Simple **1) past actions which happened one after the other** She **sealed** the letter, **put** a stamp on it and **posted** it **2) past habit or state** He **used to** go/went to school on loot. **3) complete action or event which happened at a stated past time** She **called** an hour ago. (When? An hour ago.) **4) action which happened at a definite past time although the time is not mentioned. This action is not connected with the present.** Shakespeare **wrote** a lot of plays.	**Past Continuous** **1) action in the middle of happening at a stated past time** He **was playing** tennis at 4.30 yesterday. **2) past action in progress interrupted by another past action. The longer action is in the Past Continuous, the shorter action is fn the Past Simple.** While I **was getting** dressed the bell rang. **3) two or more simultaneous past actions** While I **was sunbathing**, Tim was swimming. **or background description to events in a story** She **was flying** to Paris.	**Past Perfect** **1) past action which occurred before another action or before a stated past time** He **had left** by the time I got there. **2) complete past action which had visible results In the past** She was sad because she **had failed** the test. **3) the Past Perfect is the past equivalent of the Present Perfect** (He can't find his watch He has lost it.) He couldn't find his watch. He **had lost** it.	**Past Perfect Continuous** **1)action continuing over a period up to a specific time in the past** She **had been working** as a clerk for 10 years before she resigned. **2) past action of certain duration which had visible results in the past** They were wet because they **had been walking** in the rain. **3)the Past Perfect Continuous is the past equivalent of the Present Perfect Continuous** (She is going to the doctor. Her leg has been aching for two days.) She went to the doctor. Her leg **had been aching** for two days.

PASSIVE VOICE (ПАСИВНИЙ СТАН ДІЄСЛОВА)

7.1. Theoretic(al) Principles:

1) Passive Voice	
Study these sentences: 1. The court of arbitration can adopt a decision about its competence. 2. The information is stored on a smart card. **In 1 the verb is active and in 2 it is passive. Why is this so? What difference does it make? In 1 the agent responsible for the action is included – *the court*. In 2 the agent is not included although we know what it is – the *a smart card*.**	**The Passive Voice is used:** **1. when the agent (the person who does the action) is unknown, unimportant or obvious from the context.** Java **was developed** in 1995. **2. to make statements more polite or formal.** My new computer **has been broken**. (It's more polite than saying "You've broken my new computer".)

	3. when the action is more important than the agent – as in news reports, formal notices, instructions, processes, headlines, advertisements etc. Java **was designed** to create Internet applications. **4. to put emphasis on the agent.** Java **was invented** by Sun Microsystems.

2) The Passive is formed by using the appropriate tense of the verb *to be + past participle*

	Active Voice	Passive Voice
Present Simple	The prosecutors and lawyers **represent** the parties in a criminal case.	The parties in a criminal case **are represented** by the prosecutors and lawyers.
Present Continuous	The prosecutors and lawyers **are representing** the parties in a criminal case.	The parties in a criminal case **are being represented** by the prosecutors and lawyers.
Past Simple	The prosecutors and lawyers **represented** the parties in a criminal case.	The parties in a criminal case **were represented** by the prosecutors and lawyers.
Past Continuous	The prosecutors and lawyers **were representing** the parties in a criminal case.	The parties in a criminal case **were being represented** by the prosecutors and lawyers.
Future Simple	The prosecutors and lawyers **will represent** the parties in a criminal case.	The parties in a criminal case **will be represented** by the prosecutors and lawyers.
Present Perfect	The prosecutors and lawyers **have represented** the parties in a criminal case.	The parties in a criminal case **have been represented** by the prosecutors and lawyers.
Past Perfect	The prosecutors and lawyers **had represented** the parties in a criminal case.	The parties in a criminal case **had been represented** by the prosecutors and lawyers.
Future Perfect	The prosecutors and lawyers **will have represented** the parties in a criminal case.	The parties in a criminal case **will have been represented** by the prosecutors and lawyers.
Present Infinitive	The prosecutors and lawyers are **to represent** the parties in a criminal case.	The parties in a criminal case are **to be represented** by the prosecutors and lawyers.
Perfect Infinitive	The prosecutors and lawyers ought **to have represented** the parties in a criminal case.	The parties in a criminal case ought **to have been represented** by the prosecutors and lawyers.
Gerund	**Representing** the parties in a criminal case is done by the prosecutors and lawyers	They need the parties in a criminal case **being represented**.
Perfect Gerund	**Having representing** the parties in a criminal case…	The parties in a criminal case, **having been represented,**
Modals +be + p.p.	The prosecutors and lawyers **must represent** the parties in a criminal case.	The parties in a criminal case **must be represented** by the prosecutors and lawyers.

MODAL VERBS (МОДАЛЬНІ ДІЄСЛОВА)

8.1. Theoretic(al) Principles:

1) MODAL VERBS

The modal verbs are: **can, could, may, might, must, ought to, will, would, shall, should, have to, need**. They take no **-s** in the third person singular except for **have to** and **need**. They come before the subject in questions and take "not" after them in negations. Except for **ought to** and **have to**, modal verbs are followed by an **infinitive without to.**
eg. Sorry, I **can't** come. I **have to** meet Pam.

Modal verbs are used to express: ability, possibility, probability, logical assumptions, permission, requests, offers, suggestions, advice, criticism, obligation, prohibition or necessity.

AUXILIARY	USES	PRESENT/FUTURE	PAST
may	(1) polite request (only with I or we)	***May*** I ***borrow*** your Constitution?	
	(2)formal permission	You ***may leave*** the court.	
	(3) less than 50% certainty	– Where's John? He ***may be*** at the prison.	He ***may have been*** at the prison.
might	(1) less than 50% certainty	– Where's John? He ***might be*** at the prison.	He ***might have been*** at the prison.
	(2) polite request (rare)	***Might*** I ***borrow*** your Constitution?	
should	(1) advisability	I ***should study*** tonight.	I ***should have studied*** last night, but I didn't.
	(2) 90% certainty (expectation)	She ***should do*** well on the test. (future only, not present)	She ***should have done*** well on the test.
ought to	(1) advisability	I ***ought to study*** tonight.	I ***ought to have studied*** last night, but I didn't.
	(2) 90% certainty (expectation)	She ***ought to do*** well on the test. (future only, not present)	She ***ought to have done*** well on the test.
had better	(1) advisability with threat of bad result	You ***had better be*** on time, or we will leave without you.	
be supposed to	(1) expectation	Class is ***supposed to begin*** at 10:00.	
	2) unfulfilled expectation		Class ***was supposed to begin*** at 10:00, but it didn't begin until 10:15.
must	(1) strong necessity	I ***must go*** to class today.	(I ***had to go*** to class yesterday.)
	(2) prohibition (negative)	You ***must not open*** that door.	
	(3) 95% certainty	Mary isn't in class. She ***must be*** sick. (present only)	Mary ***must have been sick*** yesterday.
have to	(1) necessity	I ***have to go*** to class today.	I ***had to go*** to class yesterday.
	(2) lack of necessity (negative)	I don't ***have to go*** to class today.	I ***didn't have to go to*** class yesterday.
have got to	(1) necessity	I ***have got to go*** to class today.	I ***had to go to*** class yesterday.

Will	(1) 100% certainty	He ***will be*** here at 6:00.	
	(2) willingness	– The phone's ringing. ***I'll get*** it.	
	(3) polite request	***Will*** you please ***pass*** the salt?	
be going to	(1) 100% certainty (prediction)	He ***is going to be*** here at 6:00. (future only)	
	(2) definite plan (intention)	I***'m going to read*** this article. *(future only)*	
	(3) unfulfilled intention		I ***was going to read*** this article, but I didn't have time.
can	(1) ability/possibility	I ***can run*** fast.	I ***could run*** fast when I was a child, but now I can't.
	(2) informal permission	You ***can use*** my car tomorrow.	
	(3) informal polite request	***Can*** I ***borrow*** your Constitution?	
	(4) impossibility (negative only)	That ***can't be*** true!	That ***can't have been*** true!
could	(1) past ability		I ***could run*** fast when I was a child.
	(2) polite request	***Could*** you ***help*** me?	
	(3) suggestion (affirmative only)	– I need help in match. You ***could talk*** to your teacher.	You ***could have talked*** to your teacher.
	(4) less than 50% certainty	– Where's John? He ***could be*** at home.	He ***could have been*** at home.
	(5) impossibility (negative only)	That ***couldn't be*** true!	That ***couldn't have been*** true.
be able to	(1) ability	I ***am able to help*** you. I ***will be able to help*** you.	I ***was able to help*** him.
would	(1) polite request	***Would*** you please ***pass*** the salt? Would you mind if I left early?	
	(2) preference	I ***would rather go*** to the park than stay home.	I ***would rather have gone*** to the park.
	(3) repeated action in the past		When I was a child, I ***would visit*** my grandparents every weekend.
	(4) polite for "want" (with like)	I ***would like*** an apple, please.	
	(5) unfulfilled wish		I ***would have liked*** a cookie, but there were none in the house.
used to	(1) repeated action in the past		I ***used to visit*** my grandparents every weekend.
	(2) past situation that no longer exists		I ***used to live*** in Spain. Now I live in Korea.
shall	(1) polite question to make a suggestion	***Shall*** I ***open*** the window?	
	(2) future with "I" or "we" as subject	I ***shall arrive*** at nine. (**will** = more common)	
need	(1) obligation, necessity	He ***needn't go*** there. He can ring her up.	

CONDITIONAL SENTENCES (УМОВНІ РЕЧЕННЯ)

9.1. Theoretic(al) Principles:

	If-clause	Main clause	Use
Type 1 real present	If + any present form (Present Simple, Present Continuous or Present Perfect)	Future/imperative can/may/might/must/should + bare infinitive Present Simple (for general truths)	real – likely to happen in the present or future
	If he **leaves** early, he'**ll be** on time for the meeting. If you**'re** tired, **go** to bed! If you **have finished** your work, we **can go** for a walk. If you **heat** water, it **boils**.		
Type2 unreal present	If + Past Simple or Past Continuous	would/could/might + bare infinitive	unreal-unlikely to happen in the present or future; also used to give advice
	If I **saw** a ghost, I **would run** away. (not likely to happen) If I **were** you, I **wouldn't go** out with him. (advice)		
Type3 unreal past	If + Past Perfect or Past Perfect Continuous	would/could/might + have+ past participle	unreal situation in the past; also used to express regrets and criticism
	If I **had locked** the car, it **wouldn't have been** stolen, (regret: It's a pity I didn't lock it.) If he **had behaved** well, the police **wouldn't have punished** him. (criticism)		
When the if-clause is before the main clause, we separate the two clauses with a comma. e.g. **If** you **come** early, we **can go** for a walk. **But:** We **can go** for a walk **if** you **come** early.			
We do not normally use **will, would** or **should** in an if-clause. If I **understand** the question, I **will answer** it. (**not:** If I will understand the question, I will ...) However, we can use **will/would** in Type 1 Conditionals to make a request or to express insistence or annoyance, and **should** when we are less sure about a possibility, (slight possibility) If you **will have** a passport, you **can enter** the country. If you **would have** a passport, you **could enter** the country. If you will continue to go out every night, you'll fail your exams, (insistence: if you insist on going out) If I meet her, I'll ask her. (I may meet her.) If I should meet her, I'll ask her. (I may meet her, but I doubt it.)			
After if, we can use **were** instead of **was** in all persons. e.g. If **I were** you, I **would try** harder.			
Unless means **if not.** **Unless** she **studies**, she **won't pass** her test. (If she doesn't study, she won't pass her test.)			
As long as, providing/provided that, can be used instead of **if**. **As long as** he's on the time, we won't be late for the meeting. (If he's on the time, we won't be late for the meeting.)			

2) Mixed Conditional

All types of conditionals can be mixed. Any tense combination is possible if the context permits it.

	If-clause	Main clause	
Type 2	If nobody **phoned** him,	he **won't come** to the meeting.	**Type 1**
Type 2	If he **knew** her,	he **would have spoken** to her.	**Type 3**
Type 3	If he **had found** a job,	he **wouldn't be searching** for one now.	**Type 2**

Wishes

	Form	Use
I wish (if only) (regret about the present**)**	+ Past Simple	regret about a present situation which we want to be different
I wish I **were/was** more patient. (It's a pity I'm not patient enough.)		
I wish (if only) (wish/ regret about the present)	+ subject + could + bare inf.	wish or regret in the present concerning lack of ability

I wish I **could work** as an employee. (But I can't)		
I wish (if only) (impossible wish for a future change)	+ subject + would + bare Inf. (a) "wish" and "would" should have different subjects. (b) wish + inanimate subject + would is used to express the speaker's lack of hope or disappointment.)	wish for a future change unlikely to happen or wish to express dissatisfaction; polite request implying dissatisfaction or lack of hope
I wish he **would study** for his exams. (But I don't think he will. – wish for a future change unlikely to happen) I wish Jane **would go** to academy. (Jane has refused to do so and I'm unhappy about it. – dissatisfaction)		
I wish (if only) happened (regret about the past)	+ Past Perfect	regret that something or didn't happen in the past
I wish I **had gone** to prison last night (But I didn't. – It' a pity I didn't go.)		
In wishes, **we go one tense back. This means that we use Past Simple in the present and Past Perfect in the past.** I'm poor. I wish I **were** rich, **(present)** / I **lost** my watch yesterday. I wish I **hadn't lost** it. **(past)** **After** I wish **we can use** were **instead of** was **in all persons**. I wish I **was/were** more careful. If only **means the same as** I wish **but it is more dramatic.** If only I **were** more careful.		

QUOTED SPEECH VS REPORTED SPEECH (ПРЯМА ТА НЕПРЯМА МОВА)

10.1. Theoretic(al) Principles:

Quoted/Direct speech is the exact words someone said. We use quotation marks in Direct speech.	"**I'll** be a lawyer," she said.
Reported/Indirect speech is the exact meaning of what someone said but not the exact words. We do not use quotation marks in Reported speech.	She said **she would** be a lawyer.
We can use **say** and **tell** both in Direct and Indirect speech. **Tell** is always followed by a personal object (told me). **Say** is used with or without a personal object. When it is used with a personal object **say** is always followed by to (said to me).	
Direct speech	**Indirect speech**
She said, "**I** can't drive." She said to the police "**I can't** drive." She told the police, "**I** can't drive."	She said (that) **she couldn't drive**. She said to the police (that) **she couldn't drive.** She told the police (that) **she couldn't drive.**
Expressions with *say*: say good morning/evening etc, say something, say one's prayers, say a few words, say so etc. **Expressions with *tell*:** tell the truth, tell a lie, tell sb. the time, tell sb. one's name, tell a story, tell a secret, tell sb. the way, tell one from another etc.	
We can report: a) statements; b) questions; c) commands, requests, suggestions.	
Indirect Statements	
1. To report statements we use a reporting verb **(say, tell, explain etc)** followed by a that-clause. In spoken English **that** can be omitted.	
He said, "I **feel** guilty."	He said **(that)** he **felt** guilty.
2. Pronouns and possessive adjectives change according to the context.	
He said, "**I'll** lend you **my** passport."	He said **he** would lend me **his** passport.

3. Time words and tenses can change as follows depending on the time reference:	
Direct speech:	**Indirect speech:**
tonight, today, this week/month/year now now that yesterday,last night/week/month/year tomorrow, next week/month/year two days/months/years etc ago	that night, that day, that week/month/year then, at that time, at once, immediately since the day before, the previous night/week/month/year the following day/ the day after, the following/ next week / month/year two days/months/years etc before
4. When the reporting verb is in the past, the verb tenses change as follows:	
Direct speech:	**Indirect speech:**
Present Simple "The judge **pronounces** a sentence," she said. **Present Continuous** "The judge **is pronouncing** a sentence," she said. **Present Perfect** "The judge **has** just **pronounced** a sentence," she said. **Past Simple** "The judge **pronounced** a sentence an hour ago," she said. **Future** "The judge **will pronounce** a sentence in an hour," she said. **Present Perfect Continuous** "The judge **has been pronouncing** a sentence since morning," she said. "The judge **can/may pronounce** a sentence," she said. "The judge **must pronounce** a sentence,"she said. "The judge **has to pronounce** a sentence," she said.	**Past Simple/Present Simple** She said the judge **pronounced/pronounces** a sentence. **Past Continuous** She said the judge **was pronouncing** a sentence. **Past Perfect** She said the judge **had** just **pronounced** a sentence. **Past Perfect** She said the judge **had pronounced** a sentence an hour before. **Conditional** She said the judge **would pronounce** a sentence in an hour. **Past Perfect Continuous** She said the judge **had been pronouncing** a sentence since morning. She said the judge **could/might pronounce** a sentence. "The judge **had to pronounce** a sentence," she said. "The judge **had to pronounce** a sentence," she said.
5. Should, ought to, and **might** do not change to a past form.	
"I should go." **"I ought to go."** **"I might go."** **"**You **had better** phone your lawyer**"**	She said she **should go.** She said she **ought to go.** She said she **might go.** She said I **had better** phone my lawyer.
6. If the direct verb is already in the Past Simple, in Indirect speech it can change into the Past Perfect or remain the same.	
"I ***was*** late for work," she said.	She said she ***was/had been*** late for work.
7. If the direct verb is in the Past Perfect, it remains the same in Indirect speech.	
"I ***had*** already ***written*** to him," he said.	He said he ***had*** already ***written*** to him.
Past Continuous usually remains the same in Indirect speech.	
"I **was reading** while my parents **were watching** TV," she said.	She said she **was reading** while her parents **were watching** TV.
8. Certain words change as follows depending on the context.	
this/these here come (in his court) He said, "I'll be ***here*** again on Monday."	*that/those there go* (outside the court) He said he'd be ***there*** again on Monday.
9. There are no changes in the verb tenses in Indirect speech when the direct sentence expresses a general truth, is Conditional Type 2 or Type 3 or a wish.	
"The earth ***is*** a planet," he said. "If you ***studied*** more, ***you'd pass*** your test," he said. "I wish I ***were*** rich," he said.	He said the earth ***is*** a planet. (general truth) He said that if I ***studied*** more, ***I'd pass*** my test. He said he wished he ***were*** rich.
10. When the introductory verb is in the Present, Future or Present Perfect, there are no changes in the verb tenses.	
"Nina ***can*** read," she says.	She ***says*** that Nina ***can*** read.

11. The verb tenses can change or remain the same in Indirect speech when a sentence expresses something which is up to date or still true. However, the verb tenses usually change when something is not true or out of date.	
"I ***like*** ice-cream," he said. "I ***am*** rich," he said.	He said he ***likes/liked*** ice-cream, (still true) He said he ***was*** rich, (but we know he isn't; not true).
12. In reported speech, an imperative sentence is changed to an infinitive. Tell is used instead of say as the reporting verb.	
"**Go** to prison".	She **told** me **to go** to prison.

Reported questions In **Reported questions** we use affirmative word order and the question mark is omitted. To report a question we use: a) **ask + wh-word** (who, what etc) when the direct question begins with such a word, b) **ask + if / whether** when the direct question begins with an auxiliary verb (do, has, can etc). Pronouns, possessive adjectives, tenses, time expressions etc change as in statements.	
He said, "Where did he stay?" He said, "Did you have a nice time?"	He **asked where** he had stayed. He **asked if/whether** I had had a nice time.

Indirect questions are different from **Reported questions**. We use Indirect questions when we ask for information, whereas we use Reported questions to report someone else's questions. Indirect questions are introduced with **Could you tell me ...?**, **Do you know...?**, **I wonder…**,**I want to know...** etc. and their verb is in the affirmative. There are no changes in the verb tenses as in Reported questions. If the Indirect question starts with **I wonder ...** or **I want to know …**, then the question mark is omitted.

Direct questions	Reported questions	Indirect questions
He asked me, "How old is he?" He asked me, "Where has he gone?"	He asked me **how old he was**. He asked me **where he had gone**.	Do you know **how old he is**? I wonder **where he has gone**.

Reported Commands/Requests/Suggestions To report commands, requests, suggestions etc we use a reporting verb (advise, ask, suggest, beg, offer, order, tell etc) followed by a **to-infinitive**, a **not to-infinitive** or an **-ing form** according to the construction of the introductory verb.	
He said to me, "Come with me." He said to me, "Don't lie to me." He said, "Let's go out."	He told me **to go** with him. He told me **not to lie** to him. He suggested **going** out.

NON-FINITE FORMS OF THE VERB: INFINITIVE, GERUND, PARTICIPLE (НЕОСОБОВІ ФОРМИ ДІЄСЛОВА: ІНФІНІТИВ, ГЕРУНДІЙ, ДІЄПРИКМЕТНИК)

11.1. Theoretic(al) Principles:

1) Active Voice

Compare:

a) Form

	Infinitive	Participle	Gerund
Indefinite	to write	—	reading
Present	—	reading	—
Perfect	to have written	having read	having read
Continuous	to be writing	—	—
Perfect Continuous	to have been writing	—	—

2) Passive Voice

Compare:

	Infinitive	**Participle**	**Gerund**
Indefinite	to be written		being read
Present		being asked	
Perfect	to have been written	having been asked	having been read
Continuous	—	—	—
Perfect Continuous	—	—	—
Past	—	asked	—

Infinitive denotes:	**Participle denotes:**	**Gerund denotes:**
1. Indefinite (simultaneous action) e.g. I *was* glad *to see* him.	1. Participle I (or Present Participle) *(simultaneous action)* e.g. He *sat smiling*.	1. Indefinite (simultaneous action) e.g. They *are* interested in *collecting stamps*. e.g. The house *wants repairing*.
2. Continuous (simultaneous action in its progress) e.g. It *was* pleasant *to be driving* a car.	—	—
3. Perfect (prior action) e.g. I *am/was* happy *to have spent* my holidays in Paris.	3. Participle II (or Past Participle) (in most cases — prior action) e.g. I *bought* a book *printed* in my town.	3. Perfect (prior action) e.g. I *am* proud of *having been* his pupil. **Remember!** after *to thank, to forget, to remember, to excuse, to apoligize, on* and *after*. **Indefinite** Gerund is usually used for prior action. e.g. *Thank* you for *helping* me.
4. Perfect Continuous (prior action that lasted for a certain period of time) e.g. It *was* fanny *to have been playing* hide and seek.	—	—

3) Complexes

Objective	**Subjective**	**Absolute**	**Gerundial**
noun/object pronoun + Infinitive/ Participle	noun/subject pronoun + Verb (Passive) + Infinitive/ Participle	noun/subject pronoun + Participle	noun (possessive case)/possessive pronoun + Gerund or object pro- noun + Gerund
1. Infinitive e.g. I saw *him cross* the street.	1. Infinitive e.g. He was heard *to play* the guitar.	—	—
2. Participial a) e.g. I saw *him crossing* the street.	2. Participial e.g. He *was* heard *playing* the guitar.	2. Participial e.g. *Her face smiling*, she entered the room.	—
—	—	—	3. Gerundial a) e.g. They told us of *Ann's/her staying* there. b) e.g. I don't like *him going* there.

4) Functions

Compare:

Function	Participle	Gerund
1. adverbial modifier	1. e.g. Entering the room, she said hello.	On entering the room, she said hello. (In this function Gerund is used with prepositions.)
2. attribute	2. e.g. The boy standing at the window dances very well.	2. e.g. I have a good habit of giving presents.
3. predicative	3. e.g. The window is broken.	3. e.g. His hobby is collecting stamps.
4. object	—	4. e.g. He likes swimming.
5. subject	—	5. Seeing is believing.

5) Remember!

to enjoy – насолоджуватися
to be tired of – втомитися
to be interested in – цікавитися
to be used to – звикнути
to feel like – мати настрій (щось робити)
to dream of – мріяти
to congratulate on – вітати
to prevent from – перешкоджати

+ Gerund

e.g. I don't feel like going to the theatre. – У мене немає настрою/бажання йти до театру

TYPES OF QUESTIONS (ТИПИ ЗАПИТАНЬ)

12.1. Theoretic(al) Principles:

1) FORMS OF YES/NO AND INFORMATION QUESTIONS

A yes/no question = a question that may be answered by ***yes*** or ***no.***
A: Did she add a sound track?
B: Yes, she did. Or No, she didn't.

An information question = a question that asks for information by using a question word.
A: What did she add?
B: A sound track.

Question word order = (question word) + auxiliary verb + subject + main verb
The same subject-verb order is used in both yes/no and information questions.

Question Word	Auxiliary Verb	Subject	Main Verb	Rest of the sentence	Comments
Where	Does Do Did	the scanner the scanners the scanner(s)	send	the pulses?	If the verb is in the simple present, use ***does*** (with he, she, it) or ***do*** (with I, you, we, they) in the question. If the verb is simple past, use ***did***. Notice: the main verb in the question is in its simple form; there is no final ***-s*** or ***-ed.***
Where	is has can will	the scanner	sending sent send be sending	the pulses?	If the verb has an auxiliary (a helping verb), the same auxiliary is used in the question. There is no change in the form of the main verb. If the verb has more than one auxiliary, only the first precedes the subject.

<table>
<tr><td>Who</td><td>can</td><td></td><td>sends
send</td><td>the pulses?</td><td>If the question word is the subject, usual question word order is not used; does, do, and did are not used. The verb is in the same form in a question as it is in a statement.
Statement: The scanner sends.
Question: Who sends?</td></tr>
<tr><td>Where</td><td>is
was</td><td>the scanner</td><td></td><td>the pulses?</td><td>Main verb be in the simple present (am, is, are) and simple past (was, were) precedes the subject. It has the same position as a helping verb.</td></tr>
<tr><td colspan="6">2) QUESTION WORDS</td></tr>
<tr><td></td><td colspan="2">QUESTION</td><td colspan="2">ANSWER</td><td></td></tr>
<tr><td>When</td><td colspan="2">When are clusters used in data mining?
When would be clusters used?</td><td colspan="2">Yesterday.

Next Monday.</td><td>When is used to ask questions about time.</td></tr>
<tr><td>Where</td><td colspan="2">Where are e-mail messages stored in an SMTP system?</td><td colspan="2">In HTML.</td><td>Where is used to ask questions about place.</td></tr>
<tr><td>Why</td><td colspan="2">Why are some viruses designed to be loaded into memory?</td><td colspan="2">To detect program files.</td><td>Why is used to ask questions about reason.</td></tr>
<tr><td>How</td><td colspan="2">How many versions of Windows 9X were developed?
How often do you use the computer?</td><td colspan="2">One version.

Every day.</td><td>How generally asks about manner.
How is used with much and many.
How is also used with adjectives and adverbs.
How long asks about length of time.
How often asks about frequency.
How far asks about distance.</td></tr>
<tr><td>Who</td><td colspan="2">Who are the best users of application software?

Who wants the smallest chip?</td><td colspan="2">Businesses.

I do.</td><td>Who is used as the subject of a question. It refers to people.
Who is usually followed by a singular verb even if the speaker is asking about more than one person.</td></tr>
<tr><td>Whom</td><td colspan="2">Whom are you sending the message?</td><td colspan="2">My relatives.</td><td>Whom is used as the object of a verb or preposition. In everyday spoken English, whom is rarely used; who is used instead. Whom is used only in formal questions. Note: whom, not who, is used if preceded by a preposition.</td></tr>
<tr><td>Whose</td><td colspan="2">Whose key is this?</td><td colspan="2">It’s mine.</td><td>Whose asks questions about possession.</td></tr>
<tr><td>What</td><td colspan="2">What are smart cards used for?

What do you need?
What kind of discs do you want?

What did you do last night?

What does your laptop like?</td><td colspan="2">For storing vital information.

A monitor.
CD-R.

I played computer games.

It is small.</td><td>What is used as the subject of a question. It refers to things.
What is also used as an object.
What kind of asks about the particular variety or type of something.
What + a form of do is used to ask questions about activities.
What may accompany a noun.
What + be like asks for a general description of qualities.
What + look like asks for a physical description.</td></tr>
</table>

Which	*A solid green-blue and a solid green-red are common background colours.* ***Which*** background colour is most common?	A solid green-blue one.	***Which*** is used instead of ***what*** when a question concerns choosing from a definite, known quantity or group.

3) SHORTENED YES/NO QUESTIONS

1. ***Playing*** the computer game? = ***Are you playing*** the computer game? 2. ***Finish*** your work? = ***Did you finish*** your work? 3. ***Want*** you to penetrate computer system? = ***Do you want*** to penetrate computer system?	Sometimes in spoken English, the auxiliary and the subject ***you*** are dropped from a yes/no question.

4) NEGATIVE QUESTION

a) Doesn't she work as a hacker? ***b) Does she not work*** as a hacker?(very formal)	In a yes/no question in which the verb is negative, usually a contraction (e.g., does + not = doesn't) is used, as in (a). Example (b) is very formal and is usually not used in everyday speech. Negative question are used to indicate the speaker's idea (i.e., what s/he believes is or is not true) or attitude (e.g., surprise, shock, annoyance, anger).
c) Bob returns to his dorm room after his nine o'clock class. Matt, his roommate, is there. Bob is surprised. Bob says, "What are you doing here? ***Aren't you supposed to develop a program for calculating the stresses in a mechanical device?***" **d)** Alice says, "It's the information of a website designer. ***Doesn't he want to enable it on his website?*** "	In (c): Bob believes that Matt is supposed to be in a class now. *Expected answer:* **Yes.** In (d): Alice believes that a website designer's information will be on his website. *Expected answer:* **Yes.**
e) The teacher is talking to Jim about the test he failed. The teacher is surprised that Jim failed the test because he usually does very well. The teacher says: "What happened? ***Didn't you study the principles of programming?"***	In (e): The teacher believes that Jim didn't study. *Expected answer:* **No.**

5) TAG QUESTIONS

a) A video controller ***can*** process 3D images, ***can't*** it? b) Large company ***can't*** process payroll data, ***can*** it?	A tag question is a question added at the end of a sentence. Speakers use tag questions chiefly to make sure their information is correct or to seek agreements.

AFFIRMATIVE SENTENCE + NEGATIVE TAG → AFFIRMATIVE ANSWER EXPECTED

The processor ***is*** successful in finding the data in the cache, isn't it? Yes, it is.

You ***downloaded*** the images, didn't you? Yes, I did.

NEGATIVE SENTENCE + AFFIRMATIVE TAG → NEGATIVE ANSWER EXPECTED

The most important program in the operating system ***isn't*** the application program, is it? No, it isn't.

She ***doesn't*** delete files, does she? No, she doesn't.

a) This/that is your personal computer, isn't ***it***? ***These/those*** are yours, aren't ***they***? ***b) There is*** a word-processing program, ***isn't there***? ***c) Everyone*** knew how to insert graphics into a document, ***didn't they***? ***d) Nothing is*** wrong, ***is it***? ***e) I am*** supposed to use a database, ***am I not***? ***I am*** supposed to use a database, ***aren't I***?	The tag pronoun for ***this/that = it.*** The tag pronoun for ***these/those = they.*** In sentences with ***there + be, there*** is used in the tag. Personal pronouns are used to refer to identify pronouns. ***They*** is usually used in a tag to refer to ***everyone, everybody, someone, somebody, no one, nobody***. Sentences with negative words take affirmative tag. In (…): ***am I not***? is formal English. In (…): ***aren't I***? is common in spoken English.

WORDBUILDING (СЛОВОТВІР)

13.1. Theoretic(al) Principles:

1) We normally use suffixes to change a word to a different part of speech:
employ (verb) + ***er*** **=** ***employer*** (noun).
Sometimes a suffix produces a change in meaning: **neighbour + hood = neighbourhood**

1) verb + ***er***	*forms a noun that describes sb's occupation, or what sb does*	employ – employer, shop – shopper, teach – teacher, work – worker, write – writer
2) verb + or	*forms a noun that describes sb's occupation, or what sb does*	act – actor, invest – investor, invigilate – invigilator, operator, sail – sailor, supervise – supervisor
3) verb + ***er***	*forms a noun that describes what sth does*	cook – cooker, dry hair – hair dryer, grate – grater open (tins) – tin-opener, sharpen (pencils) – pencil-sharpener, wash dishes – dishwasher, wipe a windscreen – windscreen wiper
4) verb/noun + ***ee***	*forms a noun that describes what sb does, or who sb is*	employ – employee, pay – payee, refuge – refugee
5) verb/noun + ***ing***	*forms a noun that describes an example or act*	draw – drawing, build – building
6) noun + ***eer***	*forms a noun that says what activity sb does*	engineer, mountaineer
7) noun/verb/ adjective + ***ist***	*forms a noun that expresses sb's belief or occupation*	anarchist, artist, Buddhist, journalist, physicist, pianist, typist, violinist
8) adjective + ***ity***	*forms an abstract noun*	equal – equality, flexible – flexibility
9) adjective + ***ness***	*forms an abstract noun*	good – goodness, great – greatness, happy – happiness, sad – sadness
10) noun + ***hood***	*forms an abstract noun*	brother – brotherhood, mother – motherhood, neighbour – neighbourhood
11) noun + ***ship***	*forms an abstract noun*	champion – championship, friend –friendship
12) verb + ***ance, ence***	*forms an abstract noun*	admit – admittance, emerge – emergence
13) verb + ***ment***	*forms an abstract noun*	achieve – achievement, employ – employment, enjoy – enjoyment, excite – excitement
14) verb + ***(a)tion***	*forms an abstract noun*	form – formation, alter – alteration, complicate – complication, educate – education, occupy – occupation, qualify – qualification, invent – invention, oppose – opposition, pollute – pollution, produce –production, cohere – cohesion, omit – omission, profess – profession, revise – revision

2) We use prefixes to change meaning. They rarely change the part of speech. (Most suffixes change the part of speech.)
*• Many prefixes give a word a meaning which is the opposite or negative of the original. For example, we can use the prefixes **-dis** or **-un**:*
*dis + appear = **dis**appear*
*un + tie = **un**tie*

PREFIX	MEANING/ USE	EXAMPLE
anti + **adjective**	opposite	anti-clockwise
anti + ***noun***		anti-climax
anti + ***noun***	against	anti-theft device
anti + ***adjective***		anti-European
co + ***noun***	together	co-worker
co + ***verb***		cohabit
dis + ***verb***	negative/	dislike
	opposite	disembark
il + ***adjective***	opposite	illegal
itn + ***adjective***	opposite	impossible
in + ***adjective***	opposite	indirect
inter + ***adjective***	between	intercontinental
ir + ***adjective***	opposite	irregular
mis + ***verb***	wrongly/	mistook
	badly	mishandle
over + ***verb***	too much	overdo
		overwork
out + ***verb***	more	outnumber
post + ***noun/ verb***	after	postgraduate
pre + ***noun/verb***	before	pre-arrangement
pro + ***noun***	in favour of	pro-Unions
pro + ***adjective***		pro-European
sub + ***adjective***	below	substandard
super + ***noun/ adjective***	greater than	superhuman
trans + ***noun / verb /adjective***	across	transplant
		transcontinental
tin + **verb/**	negative/	unlock
adjective	opposite	unhappy
under + ***verb***	not enough	undercook
	too little	undercharge

3) Many prefixes give a word a meaning which is the negative of the original. Examples are ***dis-, in-, un-****. Other prefixes change meaning in different ways,*
for example: ***multi + ethnic = multiethnic*** *(= made up of many different ethnic groups)*

PREFIX	MEANING/ USE	EXAMPLE
de + *verb/noun*	*opposite*	decentralise
de + *verb*	*remove*	debone
de + *verb*	*reduce*	devalue
ex + *noun*	*previous*	ex-husband
macro- *noun*	*large*	macroeconomics
micro + noun	*very small*	microelectronics
mini + *noun*	*small*	mini hi-fi
mono + *noun*	*one*	monolingual
multi + *noun/ adjective*	*many*	multipurpose
semi + *noun/ adjective*	*half*	semicircle
semi + *adjective*	*partly*	semiliterate
sub + *noun*	*under*	subterranean
sub + *noun*	*less/lower*	Subcommittee

VERB ending	+ **SUFFIX** = noun	**EXAMPLE**
-ss	+ ion	confession depression discussion impression possession profession
-nt	+ ion	invention
-de	+ sion	collision conclusion decision exclusion explosion intrusion provision seclusion
-se	+ sion	confusion immersion repulsion revision
-it	+ sion	admission omission permission (**but**: limit – limitation, visit – visitation)
-ere	+ sion	cohesion
-ert	+ sion	diversion inversion
-nd	+ sion	expansion extension
-ate, -ute, -ce	+ tion	collocation complication decoration deflation delegation education excavation federation graduation operation pollution production
-se, -ite, -ote	+ ation	accusation invitation privatisation quotation
-ge, -ve, -ire	+ ation	admiration allegation expiration starvation
-t	+ ation	adaptation flotation
-er	+ ation	alteration
-rm	+ ation	formation
-py	+ ation	occupation
-ue	+ ation	valuation
ir	+ ication	classification identification qualification
-ish	+ ition	abolition demolition
-ose	+ ition	exposition imposition opposition
-eat	+ ition	repetition
-dd	+ ition	addition

*Some nouns ending in -****ion*** *do not have a first part that exists separately,*
for example: **incursion, jubilation, nutrition, tradition** etc.
*Some nouns ending in -****ion*** *are from adjectives,*
for example: **precision (from precise), profusion (from profuse)** etc.

APPENDICES

A

The Language of Graphs

B

History of Exchange Rate Systems

C

General Agreement on Tariffs & Trade (Extract)

D

North American Free Trade Agreement (Extract)

E

EU–Ukraine Association Agreement: Guide to a Deep & Comprehensive Free Trade Area (Overview)

F

Glossary of Some Common Economic Terms & Definitions

G

Colloquial Glossary

H

English-Ukrainian Glossary of Economic Terminology

I

Ukrainian-English Glossary of Economic Terminology

Appendix A

The Language of Graphs

A picture is worth 1,000 words. Economists, being efficient, like to present ideas in *graphs*, pictures of points in a coordinate system in which points denote relationships between numbers. But a graph is worth 1,000 words only if the person looking at the graph knows the graphical language: *Graphish*, we'll call it. (It's a bit like English.) Graphish is usually written on graph paper. If the person doesn't know Graphish, the picture isn't worth any words and Graphish can be babble.

TWO WAYS TO USE GRAPHS

In this coursebook graphs use in two ways:

1. To present an economic model or theory visually; to show how two variables interrelate.
2. To present real-world data visually. To do this, bar charts, line charts, and pie charts are used.

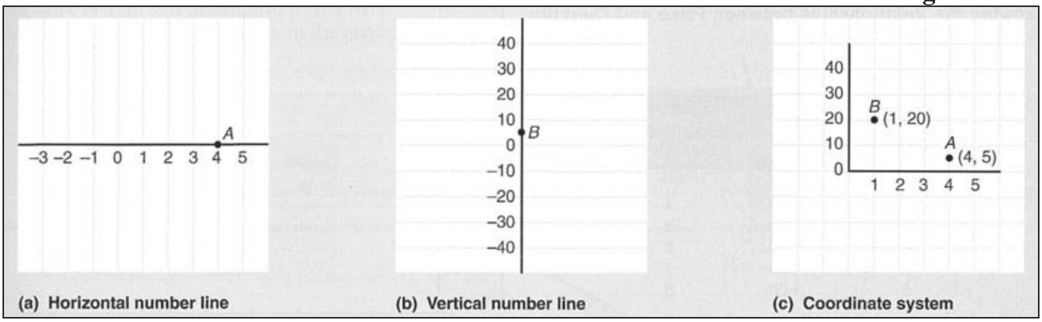
Actually, these two ways of using graphs are related. They are both ways of presenting visually the relationship between two things.

Graphs are built around a number line, or axis, like the one in Figure A.1 (a). The numbers are generally placed in order, equal distances from one another. That number

Figure A.1 (a, b, and c) *Horizontal and Vertical Number Lines and a Coordinate System*

line allows us to represent a number at an appropriate point on the line. For example, point A represents the number 4.

Figure A.1



Horizontal and Vertical Number Lines & a Coordinate System

The number line in Figure A.1 (a) is drawn horizontally, but it doesn't have to be; it can also be drawn vertically, as in Figure A.1 (b).

How we divide our axes, or number lines, into intervals, is up to us. In Figure A.1 (a), 1 called each interval 1; in Figure A.1 (b), I called each interval 10. Point A appears after 4 intervals of 1 (starting at 0 and reading from left to right), so it represents 4. Figure A.1 (b), where each interval represents 10, to represent 5,1 place point B halfway in the interval between 0 and 10.

So far, so good. Graphish developed when a vertical and a horizontal number line were combined, as in Figure A.1 (c). When the horizontal and vertical number lines are put together, they're called axes. (Each line is an axis. *Axes* is the plural of *axis*.) It is a *coordinate system* – a two-dimensional space in which one point represents two numbers. For example, point A in Figure A.1 (c) represents the numbers (4, 5) – 4 on the horizontal number line and

5 on the vertical number line. Point B represents the numbers (1, 20). (By convention, the horizontal numbers are written first.)

Being able to represent two numbers with one point is neat because it allows the relationships between two numbers to be presented visually instead of having to be expressed verbally, which is often cumbersome. For example, say the cost of producing 6 units of something is $4 per unit and the cost of producing 10 units is $3 per unit. By putting both these points on a graph, we can visually see that producing 10 costs less per unit than does producing 6.

Another way to use graphs to present real-world data visually is to use the horizontal line to represent time. Say that we let each horizontal interval equal a year, and each vertical interval equal $100 in income. By graphing your income each year, you can obtain a visual representation of how your income has changed over time.

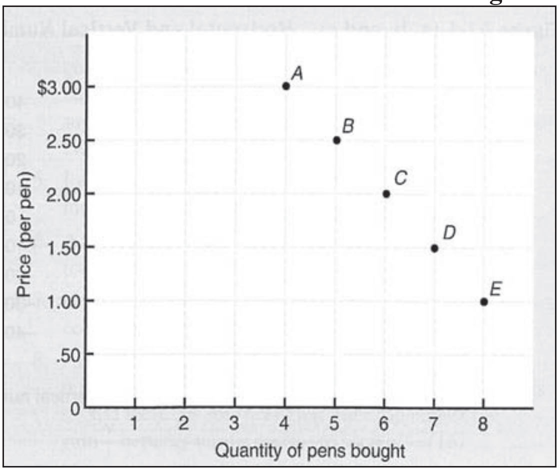
USING GRAPHS IN ECONOMIC MODELING

Consider Figure A. 2 (a), which lists the number of pens bought per day (column 2) at various prices (column 1).

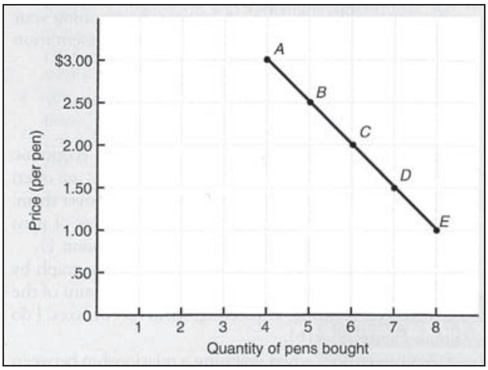
Figure A.2

	Price per pen	***Quantity of pens bought per day***
A	$3.00	4
B	2.50	5
C	2.00	6
D	1.50	7
E	1.00	8

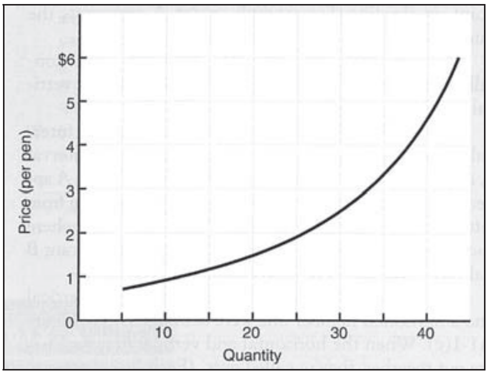
(a) Price quantity table



(b) From a table to a graph (1)



(c) From a table to a graph (2)



(d) Nonlinear curve

A Table and Graphs Showing the Relationships between Price and Quality

We can present the table's information in a graph by combining the pairs of numbers in the two columns of the table and representing, or plotting, them on two axes. We do that in Figure A.2 (b).

By convention, when graphing a relationship between price and quantity, economists place price on the vertical axis and quantity on the horizontal axis.

We can now connect the points, producing a line like the one in Figure A.2 (c). With this line, we interpolate the numbers between the points (which makes for a nice visual presentation). That is, we make the interpolation assumption – the assumption that the relationship between variables is the same between points as it is at the points. The interpolation assumption allows us to think of a line as a collection of points and therefore to connect the points into a line.

Even though the line in Figure A.2 (c) is straight, economists call any such line drawn on a graph a curve. Because it's straight the curve in A.2 (c) is called a linear curve – a curve that is draivn as a straight line. Notice that this curve starts high on the left-hand side and goes down to the right. Economists say that any curve that looks like that is downward-sloping. They also say that a downward-sloping curve represents an inverse relationship – a relationship between two variables in which when one goes up, the other goes down. In this example, the line demonstrates an inverse relationship between price and quantity – that is, when the price of pens goes up, the quantity bought goes down.

Figure A. 2 (d) presents a *nonlinear curve* – a curve that is drawn as a curved line. This curve, which really is curved, starts low on the left-hand side and goes up to the right. Economists say any curve that goes up to the right is upward-sloping. An upward-sloping curve represents a *direct relationship* – a relationship in which when one variable goes up, the other goes up too. The direct relationship I'm talking about here is the one between the two variables (what's measured on the horizontal and vertical lines). *Downward-sloping and upward-sloping* are terms you need to memorize if you want to read, write, and speak Graphish, keeping graphically in your mind the image of the relationships they represent.

SLOPE

One can, of course, be far more explicit about how much the curve is sloping upward or downward by defining it in terms of slope – the change in the value on the vertical axis divided by the change in the value on the horizontal axis. Sometimes the slope is presented as "rise over run":

$$\text{Slope} \quad = \frac{\text{Rise}}{\text{Run}} = \frac{\text{Change in value on vertical axis}}{\text{Change in value on horizontal axis}}$$

SLOPES OF LINEAR CURVES

In Figure A. 3, 1 present five linear curves and measure their slope. Let's go through an example to show how we can measure slope. To do so, we must pick two points. Let's use points A (6, 8) and B (7, 4) on curve a. Looking at these points, we see that as we move from 6 to 7 on the horizontal axis, we move from 8 to 4 on the vertical axis. So when the number on the vertical axis falls by 4, the number on the horizontal axis increases by 1. That means the slope is – 4 divided by 1, or – 4.

Notice that the inverse relationships represented by the two downward-sloping curves, a and b, have negative slopes, and that the direct relationships represented by the two upward-sloping curves, c and d, have positive slopes. Notice also that the flatter the curve, the smaller the numerical value of the slope; and the more vertical, or steeper, the curve, the larger the numerical value of the slope. There are two extreme cases:

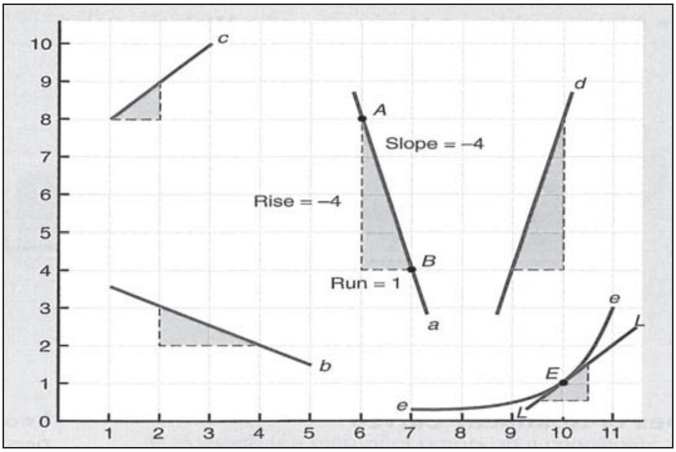
1. When the curve is horizontal (flat), the slope is zero.

2. When the curve is vertical (straight up and down), the slope is infinite (larger than large).

The slope of a curve is determined by rise over run. The slope of curve a is shown in the graph. The rest are shown below:

Figure A.3

	Rise	÷ **Run**	**= Slope**
b	-1	+2	-5
c	1	1	1
d	4	1	4
e	1	1	1



Slopes of Curves

Knowing the term shpe and how it's measured lets us describe verbally the pictures we see visually. For example, if 1 say a curve has a slope of zero, you should picture in your mind a flat line; if I say "a curve with a slope of minus one," you should picture a falling line that makes a 45° angle with the horizontal and vertical axes. (It's the hypotenuse of an isosceles right triangle with the axes as the other two sides.)

SLOPES OF NONLINEAR CURVES

The preceding examples were of linear (straight) curves. With nonlinear curves – the ones that really do curve – the slope of the curve is constantly changing. As a result, we must talk about the slope of the curve at a particular point, rather than the slope of the whole curve. How can a point have a slope? Well, it can't really, but it can almost, and if that's good enough for mathematicians, it's good enough for us.

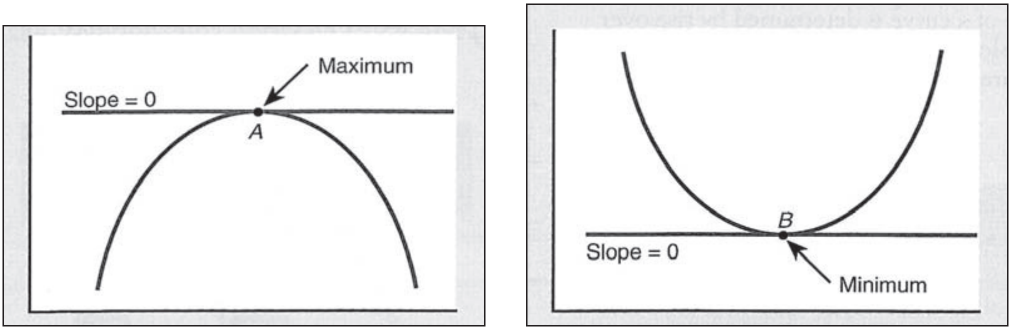
Defining the slope of a nonlinear curve is a bit more difficult. The slope at a given point on a nonlinear curve is determined by the slope of a linear (or straight) line that's tangent to that curve. (A line that's tangent to a curve is a line that just touches the curve, and touches it only at one point in the immediate vicinity of the given point.) In Figure A. 3, the line LL is tangent to the curve ee at point E. The slope of that line, and hence the slope of the curve at the one point where the line touches the curve, is +1.

MAXIMUM AND MINIMUM POINTS

Two points on a nonlinear curve deserve special mention. These points are the ones for which the slope of the curve is zero. 1 demonstrate those in Figure A. 4 (a) and (b). At point A, we're at the top of the curve so it's at a maximum point; at point B, we're at the bottom of the curve so it's at a minimum point. These maximum and minimum points are often referred to by economists, and it's important to realize that the value of the slope of the curve at each of these points is zero.

There are, of course, many other types of curves, and much more can be said about the curves I've talked about. I won't do so because, for purposes of this course, we won't need to get into those refinements. I've presented as much Graphish as you need to know for this book.

Figure A.4



(a) Maximum point (b) Minimum point

A Maximum & a Minimum Point

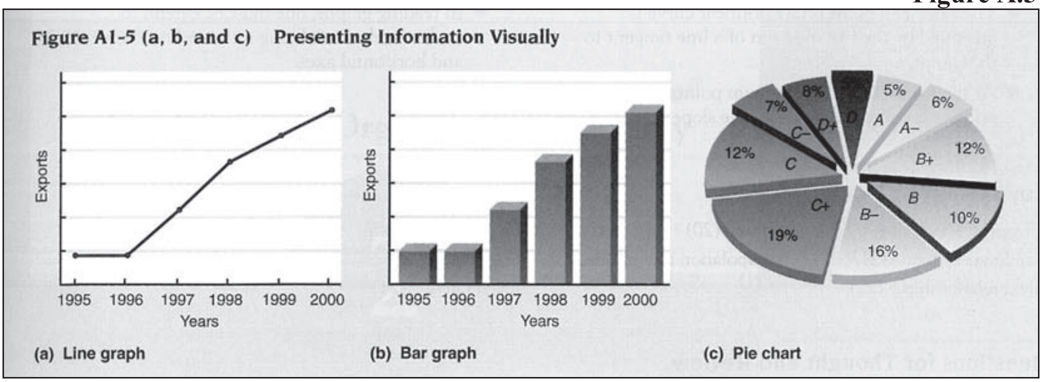
PRESENTING REAL-WORD DATA IN GRAPHS

The previous discussion treated the Graphish terms that economists use in presenting models which focus on hypothetical relationships. Economists also use graphs in presenting actual economic data. Say, for example, that you want to show how exports have changed over time. Then you would place years on the horizontal axis (by convention) and exports on the vertical axis, as in Figure A.5 (a) and (b). Having done so, you have a couple of choices: you can draw a line graph – a graph where the data are connected by a continuous line; or you can make a bar graph – a graph where the area under each point is filled in to look like a bar. Figure A.5 (a) shows a line graph and Figure A.5 (b) shows a bar graph.

Another type of graph is a pie chart – a circle divided into "pie pieces," where the undivided pie represents the total amount and the pie pieces reflect the percentage of the whole pie that the various components make up. This type of graph is useful in visually presenting how a total amount is divided. Figure A.5 (c) shows a pie chart, which happens to represent the division of grades on a test 1 gave. Notice that 5 percent of the students got As.

There are other types of graphs, but they're all variations on line and bar graphs and pie charts. Once you understand these three basic types of graphs, you shouldn't have any trouble understanding the other types.

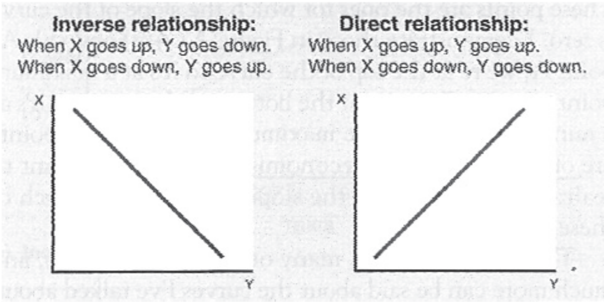
Figure A.5



Presenting Information Visually

INTERPRETING GRAPHS ABOUT THE REAL WORLD

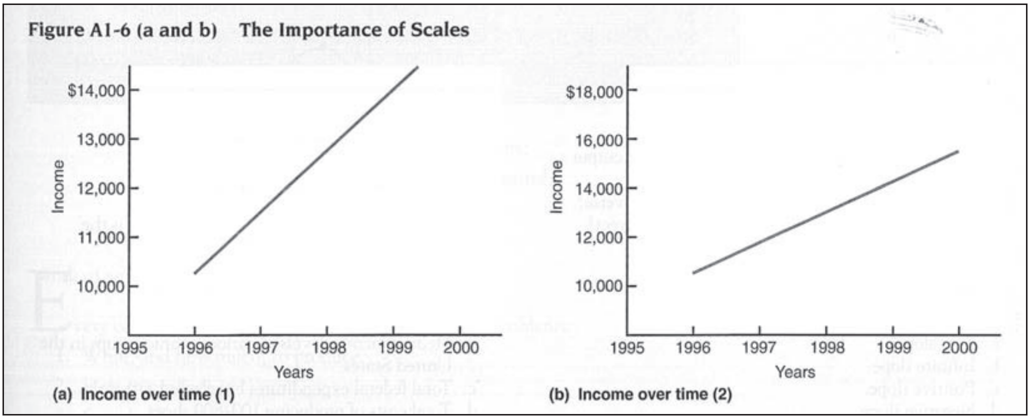
Understanding Graphish is important because, if you don't, you can easily misinterpret the meaning of graphs. For example, consider the two graphs in Figure A.6 (a) and (b). Which graph demonstrates the larger rise in income? If you said (a), you're wrong. The intervals in the vertical axes differ, and if you look carefully you'll see that the curves in both graphs represent the same combination of points. So when considering graphs, always make sure you understand the markings on the axes. Only then can you interpret the graph.



Let's now review what we've covered.

- A graph is a picture of points on a coordinate system in which the points denote relationships between numbers.
- A downward-sloping line represents an inverse relationship or a negative slope.
- An upward-sloping line represents a direct relationship or a positive slope.
- Slope is measured by rise over run, or a change of y (the number measured on the vertical axis) over a change in x (the number measured on the horizontal axis).
- The slope of a point on a nonlinear curve is measured by the rise over run of a line tangent to that point.
- At the maximum and minimum points of a nonlinear curve, the value of the slope is zero.
- In reading graphs, one must be careful to understand what's being measured on the vertical and horizontal axes.

Figure A.6



Appendix B
History of Exchange Rate Systems

A good way to give you an idea of how the various exchange rate systems work is to present a brief history of international exchange rate systems.

THE GOLD STANDARD: A FIXED EXCHANGE RATE SYSTEM

Governments played a major role in determining exchange rates until the 1930s. Beginning with the Paris Conference of 1867 and lasting until 1933 (except for the period around World War 1), most of the world economies had a system of relatively fixed exchange rates under what was called *a gold standard* – a system affixed exchange rates in which the value of currencies was fixed relative to the value of gold and gold was used as the primary reserve asset.

Under a gold standard, the amount of money a country issued had to be directly tied to gold, either because gold coin served as the currency in a country (as it did in the United States before 1914) or because countries were required by law to have a certain percentage of gold backing their currencies. Gold served as currency or backed all currencies. Each country participating in a gold standard agreed to fix the price of its currency relative to gold. That meant a country would agree to pay a specified amount of gold on demand to anyone who wanted to exchange that country's currency for gold. To do so, each country had to maintain a stockpile of gold. When a country fixed the price of its currency relative to gold, it fixed its currency's price in relation to other currencies as a result of the process of arbitrage.

Under the gold standard, a country made up the difference between the quantity supplied and the quantity demanded of its currency by buying or selling gold to hold the price of its currency fixed in terms of gold. How much a country would need to buy and sell depended on its balance of payments deficit or surplus. If the country ran a surplus in the balance of payments, it was required to sell its currency – that is, buy gold – to stop the value of its currency from rising. If a country ran a deficit, it was required to buy its currency – that is, sell gold – to stop the value of its currency from falling.

The gold standard enabled governments to prevent short-run instability of the exchange rate. If there was a speculative run on its currency, the government would buy its currency with gold, thereby preventing the exchange rate from falling.

But for the gold standard to work, there had to be a method of long-run adjustment; otherwise countries would have run out of gold and would no longer have been able to fulfill their obligations under the gold standard. The *gold specie flow mechanism* was the long-run adjustment mechanism that maintained the gold standard. Here's how it worked: Since gold served as official reserves to a country's currency, a balance of payments deficit (and hence a downward pressure on the exchange rate) would result in a flow of gold out of the country and hence a decrease in the country's money supply. That decrease in the money supply would contract the economy, decreasing imports, lowering the country's price level, and increasing the interest rate, all of which would work toward eliminating the balance of payments deficit.

Similarly a country with a balance of payments surplus would experience an inflow of gold. That flow would increase the country's money supply, increasing income (and hence imports), increasing the price level (making imports cheaper and exports more expensive), and lowering the interest rate (increasing capital outflows). These would work toward eliminating the balance of payments surplus.

Thus, the gold standard determined a country's monetary policy and forced it to adjust any international balance of payments disequilibrium. Adjustments to a balance of payments deficit were often politically unpopular; they led to recessions, which, because the money supply was directly tied to gold, the government couldn't try to offset with expansionary monetary policy.

The gold specie flow mechanism was called into play in the United States in late 1931 when the Federal Reserve, in response to a shrinking U.S. gold supply, decreased the amount of money in the U.S. economy, deepening the depression that had begun in 1929. The government's domestic goals and responsibilities conflicted with its international goals and responsibilities.

That conflict led to partial abandonment of the gold standard in 1933. At that time the United States made it illegal for individual U.S. citizens to own gold. Except for gold used for ornamental and certain medical and industrial purposes, all privately owned gold had to be sold to the government. Dollar bills were no longer backed by gold in the sense that U.S. citizens could exchange dollars for a prespecified amount of gold. Instead dollar bills were backed by silver, which meant that any U.S. citizen could change dollars for a prespecified amount of silver. In the late 1960s that changed also. Since that time, for U.S. residents, dollars have been backed only by trust in the soundness of the U.S. economy.

Gold continued to serve, at least partially, as international backing for U.S. currency. That is, other countries could still exchange dollars for gold. However in 1971, in response to another conflict between international and domestic goals, the United States totally cut off the relationship between dollars and gold. After that a dollar could be redeemed only for another dollar, whether it was a U.S. citizen or a foreign government who wanted to redeem the dollar.

THE BRETTON WOODS SYSTEM: A FIXED EXCHANGE RATE SYSTEM

As World War II was coming to an end, the United States and its allies met to establish a new international economic order. After much wrangling they agreed upon a system called *the Bretton Woods system*, an agreement about fixed exchange rates that governed international financial relationships from the period after the end of World War II until 1971. It was named after the resort in New Hampshire where the meeting that set up the system was held.

The Bretton Woods system established *the International Monetary Fund (IMF)* to oversee the international economic order. The IMF was empowered to arrange short-term loans between countries. The Bretton Woods system also established the World Bank, which was empowered to make longer-term loans to developing countries. Today the World Bank and IMF continue their central roles in international financial affairs.

The Bretton Woods system was based on mutual agreements about what countries would do when experiencing balance of payments surpluses or deficits. It was essentially a fixed exchange rate system. For example, under the Bretton Woods system, the exchange rate of the dollar for the British pound was set at slightly over $4 to the pound.

The Bretton Woods system was not based on a gold standard. When countries experienced a balance of payments surplus or deficit, they did not necessarily buy or sell gold to stabilize the price of their currency. Instead they bought and sold other currencies. To ensure that participating countries would have sufficient reserves, they established a stabilization fund from which a country could obtain a short-term loan. It was hoped that this stabilization fund would be sufficient to handle all short-run adjustments that did not reflect fundamental imbalances.

In those cases where a misalignment of exchange rate was determined to be fundamental, the countries involved agreed that they would adjust their exchange rates. The IMF was empowered to oversee an orderly adjustment. It could authorize a country to make a one-time adjustment of up to 10 percent without obtaining formal approval from the IMF's board of directors. After a country had used its one-time adjustment, formal approval was necessary for any change greater than 1 percent.

The Bretton Woods system reflected the underlying political and economic realities of the post-World War II period in which it was set up. European economies were devastated; the U.S. economy was strong. To rebuild, Europe was going to have to import U.S. equipment and borrow large amounts from the United States. There was serious concern over how high the value of the dollar would rise and how low the value of European currencies would fall in a free market exchange. The establishment of fixed exchange rates set limits on currencies' relative movements; the exchange rates that were chosen helped provide for the rebuilding of Europe.

In addition, the Bretton Woods system provided mechanisms for long-term loans from the United States to Europe that could help sustain those fixed exchange rates. TTie loans also eliminated the possibility of competitive depreciation of currencies, in which each country tries to stimulate its exports by lowering the relative value of its currency.

One difficulty with the Bretton Woods system was a shortage of official reserves and international liquidity. To offset that shortage, the IMF was empowered to create a type of international money called *Special Drawing Rights* (*SDRs*). But SDRs never became established as an international currency and the U.S. dollar kept serving as official reserves for individuals and countries. To get the dollars to foreigners, the United States had to run a deficit in its current account. Since countries could exchange the dollar for gold at a fixed price, the use of dollars as a reserve currency meant that, under the Bretton Woods system, the world was on a gold standard once removed.

The number of dollars held by foreigners grew enormously in the 1960s. By the early 1970s, those dollars far exceeded in value the amount of gold the United States had. Most countries accepted this situation; even though they could legally demand gold for their dollars, they did not. But Charles de Gaulle, the nationalistic president of France, wasn't pleased with the U.S. domination of international affairs at that time. He believed France deserved a much more prominent position. He demanded gold for the dollars held by the French central bank, knowing that the United States didn't have enough gold to meet his demand. As a result of his and other countries' demands, on August 15, 1971, the United States ended its policy of exchanging gold for dollars at $35 per ounce. With that change, the Bretton Woods system was dead.

THE PRESENT U.S. SYSTEM: A PARTIALLY FLEXIBLE EXCHANGE RATE SYSTEM

International monetary affairs were much in the news in the early 1970s as countries groped for a new exchange rate system. The makeshift system finally agreed on involved partially flexible exchange rates. Most Western countries' exchange rates are allowed to fluctuate, although at various times governments buy or sell their own currencies to affect the exchange rate.

Under the present partially flexible exchange rates system, countries must continually decide when a balance of payments surplus or deficit is a temporary phenomenon and when it is a signal of a fundamental imbalance. If they believe the situation is temporary, they enter into the foreign exchange market to hold their exchange rate at what they believe is an appropriate level. If, however, they believe that the balance of payments imbalance is a fundamental one, they let the exchange rate rise or fall.

While most Western countries' exchange rates are partially flexible, certain countries have agreed to fixed exchange rates of their currencies in relation to rates of a group of certain other currencies. For example, a group of European Union countries adopted irreversible fixed exchange rates among their currencies, by electing to have one currency – *the euro* – beginning in 2002. Other currencies are fixed relative to the dollar.

Deciding what is, and what is not, a fundamental imbalance is complicated, and such decisions are considered at numerous international conferences held under the auspices of the IMF or governments. Often the various countries meet and agree, formally or informally, on acceptable ranges of exchange rates. Thus, while the present system is one of partially flexible exchange rates, the range of flexibility is limited.

Appendix C

General Agreement on Tariffs & Trade (Extract)

The ***General Agreement on Tariffs and Trade*** *(GATT), which was signed in 1947, is a multilateral agreement regulating trade among 153 countries. According to its preamble, the purpose of the GATT is the "substantial reduction of tariffs and other trade barriers and the elimination of preferences, on a reciprocal and mutually advantageous basis."*

The GATT functioned ***de facto*** *as an organization, conducting eight rounds of talks addressing various trade issues and resolving international trade disputes. The Uruguay Round, which was completed on December 15, 1993 after seven years of negotiations, resulted in an agreement among 117 countries (including the U.S.) to reduce trade barriers and to create more comprehensive and enforceable world trade rules. The agreement coming out of this round, the Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, was signed in April 1994. The Uruguay Round agreement was approved and implemented by the U.S. Congress in December 1994, and went into effect on January 1, 1995.*

General Agreement on Tariffs and Trade (1994)

1. The General Agreement on Tariffs and Trade 1994 ("GATT 1994") shall consist of:

(a) the provisions in the General Agreement on Tariffs and Trade, dated 30 October 1947, annexed to the Final Act Adopted at the Conclusion of the Second Session of the Preparatory Committee of the United Nations Conference on Trade and Employment (excluding the Protocol of Provisional Application), as rectified, amended or modified by the terms of legal instruments which have entered into force before the date of entry into force of the WTO Agreement;

(b) the provisions of the legal instruments set forth below that have entered into force under the GATT 1947 before the date of entry into force of the WTO Agreement:

(i) protocols and certifications relating to tariff concessions;

(ii) protocols of accession (excluding the provisions (*a*) concerning provisional application and withdrawal of provisional application and (*b*) providing that Part II of GATT 1947 shall be applied provisionally to the fullest extent not inconsistent with legislation existing on the date of the Protocol);

(iii) decisions on waivers granted under Article XXV of GATT 1947 and still in force on the date of entry into force of the WTO Agreement[208];

(iv) other decisions of the CONTRACTING PARTIES to GATT 1947;

(c) the Understandings set forth below:

(i) Understanding on the Interpretation of Article II:1(b) of the General Agreement on Tariffs and Trade 1994;

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[208] The waivers covered by this provision are listed in footnote 7 on pages 11 and 12 in Part II of document MTN/FA of 15 December 1993 and in MTN/FA/Corr.6 of 21 March 1994. The Ministerial Conference shall establish at its first session a revised list of waivers covered by this provision that adds any waivers granted under GATT 1947 after 15 December 1993 and before the date of entry into force of the WTO Agreement, and deletes the waivers which will have expired by that time.

(ii) Understanding on the Interpretation of Article XVII of the General Agreement on Tariffs and Trade 1994;
(iii) Understanding on Balance-of-Payments Provisions of the General Agreement on Tariffs and Trade 1994;
(iv) Understanding on the Interpretation of Article XXIV of the General Agreement on Tariffs and Trade 1994;
(v) Understanding in Respect of Waivers of Obligations under the General Agreement on Tariffs and Trade 1994;
(vi) Understanding on the Interpretation of Article XXVIII of the General Agreement on Tariffs and Trade 1994; and
(d) the Marrakesh Protocol to GATT 1994.
2. *Explanatory Notes*
(a) The references to "contracting party" in the provisions of GATT 1994 shall be deemed to read "Member". The references to "less-developed contracting party" and "developed contracting party" shall be deemed to read "developing country Member" and "developed country Member". The references to "Executive Secretary" shall be deemed to read "Director-General of the WTO".
(b) The references to the CONTRACTING PARTIES acting jointly in Articles XV:1, XV:2, XV:8, XXXVIII and the Notes *Ad* Article XII and XVIII; and in the provisions on special exchange agreements in Articles XV:2, XV:3, XV:6, XV:7 and XV:9 of GATT 1994 shall be deemed to be references to the WTO. The other functions that the provisions of GATT 1994 assign to the CONTRACTING PARTIES acting jointly shall be allocated by the Ministerial Conference.
(c) (i) The text of GATT 1994 shall be authentic in English, French and Spanish.
(ii) The text of GATT 1994 in the French language shall be subject to the rectifications of terms indicated in Annex A to document MTN.TNC/41.
(iii) The authentic text of GATT 1994 in the Spanish language shall be the text in Volume IV of the Basic Instruments and Selected Documents series, subject to the rectifications of terms indicated in Annex B to document MTN.TNC/41.
3. (a) The provisions of Part II of GATT 1994 shall not apply to measures taken by a Member under specific mandatory legislation, enacted by that Member before it became a contracting party to GATT 1947, that prohibits the use, sale or lease of foreign-built or foreign-reconstructed vessels in commercial applications between points in national waters or the waters of an exclusive economic zone. This exemption applies to: (*a*) the continuation or prompt renewal of a non-conforming provision of such legislation; and (*b*) the amendment to a non-conforming provision of such legislation to the extent that the amendment does not decrease the conformity of the provision with Part II of GATT 1947. This exemption is limited to measures taken under legislation described above that is notified and specified prior to the date of entry into force of the WTO Agreement. If such legislation is subsequently modified to decrease its conformity with Part II of GATT 1994, it will no longer qualify for coverage under this paragraph.
(b) The Ministerial Conference shall review this exemption not later than five years after the date of entry into force of the WTO Agreement and thereafter every two years for as long as the exemption is in force for the purpose of examining whether the conditions which created the need for the exemption still prevail.
(c) A Member whose measures are covered by this exemption shall annually submit a detailed statistical notification consisting of a five-year moving average of actual and expected

deliveries of relevant vessels as well as additional information on the use, sale, lease or repair of relevant vessels covered by this exemption.
(d) A Member that considers that this exemption operates in such a manner as to justify a reciprocal and proportionate limitation on the use, sale, lease or repair of vessels constructed in the territory of the Member invoking the exemption shall be free to introduce such a limitation subject to prior notification to the Ministerial Conference.
(e) This exemption is without prejudice to solutions concerning specific aspects of the legislation covered by this exemption negotiated in sectoral agreements or in other fora.

Preface

The General Agreement on Tariffs and Trade came into force on 1 January 1948. This booklet contains the complete text of the General Agreement together with all amendments which have become effective since its entry into force. The text is identical to that published, since 1969, as Volume IV in the series Basic Instruments and Selected Documents. A guide to the legal sources of the provisions of the Agreement is provided in an appendix. An Analytical Index, containing notes on the drafting, interpretation and application of the articles of the Agreement has been prepared and published by the secretariat. A second publication, complementary to this one, contains the text of the agreements reached as a result of the Tokyo Round of Multilateral Trade Negotiations (1973-1979).

The General Agreement is applied “provisionally” by all contracting parties. The original contracting parties, and also those former territories of Belgium, France, the Netherlands and the United Kingdom which, after attaining independence, acceded to the General Agreement under Article XXVI:5(c), apply the GATT under the Protocol of Provisional Application, the text of which is reproduced in this volume. Chile applies the General Agreement under a Special Protocol of September 1948. The contracting parties which have acceded since 1948 apply the General Agreement under their respective Protocols of Accession.

For the convenience of the reader, asterisks mark the portions of the text which should be read in conjunction with notes and supplementary provisions in Annex I to the Agreement. In accordance with Article XXXIV, Annexes A to I are an integral part of the Agreement. The Schedules of tariff concessions annexed to the General Agreement (not here reproduced) are also, in accordance with Article II:7, an integral part of the Agreement.

By the Decision of 23 March 1965, the CONTRACTING PARTIES changed the title of the head of the GATT secretariat from “Executive Secretary” to “Director-General”. However, in the absence of an amendment to the General Agreement to take account of this change, the title “Executive Secretary” has been retained in the text of Articles XVIII:12(e), XXIII:2 and XXVI:4, 5 and 6. The Decision of 23 March 1965 provides that the duties and powers conferred upon the Executive Secretary by the General Agreement “shall be exercised by the person holding the position of Director-General, who shall, for this purpose, also hold the position of Executive Secretary”.

GENERAL AGREEMENT ON TARIFSS AND TRADE

The Governments of the COMMONWEALTH OF AUSTRALIA, the KINGDOM OF BELGIUM, the UNITED STATES OF BRAZIL, BURMA, CANADA, CEYLON, the REPUBLIC OF CHILE, the REPUBLIC OF CHINA, the REPUBLIC OF CUBA, the CZECHOSLOVAK REPUBLIC, the FRENCH REPUBLIC, INDIA, LEBANON, the GRAND-DUCHY OF LUXEMBURG, the KINGDOM OF THE NETHERLANDS, NEW ZEALAND, the KINGDOM OF NORWAY, PAKISTAN, SOUTHERN RHODESIA, SYRIA, the UNION OF SOUTH AFRICA, the UNITED KINGDOM OF GREAT BRITAIN AND NORTHERN IRELAND, and the UNITED STATES OF AMERICA:

Recognizing that their relations in the field of trade and economic endeavour should be conducted with a view to raising standards of living, ensuring full employment and a large and steadily growing volume of real income and effective demand, developing the full use of the resources of the world and expanding the production and exchange of goods,

Being desirous of contributing to these objectives by entering into reciprocal and mutually advantageous arrangements directed to the substantial reduction of tariffs and other barriers to trade and to the elimination of discriminatory treatment in international commerce,

Have through their Representatives agreed as follows:

PART I

Article I General Most-Favoured-Nation Treatment

1. With respect to customs duties and charges of any kind imposed on or in connection with importation or exportation or imposed on the international transfer of payments for imports or exports, and with respect to the method of levying such duties and charges, and with respect to all rules and formalities in connection with importation and exportation, and with respect to all matters referred to in paragraphs 2 and 4 of Article III,* any advantage, favour, privilege or immunity granted by any contracting party to any product originating in or destined for any other country shall be accorded immediately and unconditionally to the like product originating in or destined for the territories of all other contracting parties.

2. The provisions of paragraph 1 of this Article shall not require the elimination of any preferences in respect of import duties or charges which do not exceed the levels provided for in paragraph 4 of this Article and which fall within the following descriptions:

a. Preferences in force exclusively between two or more of the territories listed in Annex A, subject to the conditions set forth therein;

b. Preferences in force exclusively between two or more territories which on July 1, 1939, were connected by common sovereignty or relations of protection or suzerainty and which are listed in Annexes B, C and D, subject to the conditions set forth therein;

c. Preferences in force exclusively between the United States of America and the Republic of Cuba;

d. Preferences in force exclusively between neighbouring countries listed in Annexes E and F.

2. The provisions of paragraph 1 shall not apply to preferences between the countries formerly a part of the Ottoman Empire and detached from it on July 24, l923, provided such preferences are approved under paragraph 5[1] of Article XXV, which shall be applied in this respect in the light of paragraph 1 of Article XXIX.

3. The margin of preference* on any product in respect of which a preference is permitted under paragraph 2 of this Article but is not specifically set forth as a maximum margin of preference in the appropriate Schedule annexed to this Agreement shall not exceed:

a. in respect of duties or charges on any product described in such Schedule, the difference between the most-favoured-nation and preferential rates provided for therein; if no preferential rate is provided for, the preferential rate shall for the purposes of this paragraph be taken to be that in force on April 10, l947, and, if no most-favoured-nation rate is provided for, the margin shall not exceed the difference between the most-favoured-nation and preferential rates existing on April 10, 1947;

b. in respect of duties or charges on any product not described in the appropriate Schedule, the difference between the most-favoured-nation and preferential rates existing on April 10, 1947. In the case of the contracting parties named in Annex G, the date of April 10, 1947, referred to in sub-paragraph (a) and (b) of this paragraph shall be replaced by the respective dates set forth in that Annex [...]

Article II Schedules of Concessions

1. a. Each contracting party shall accord to the commerce of the other contracting parties treatment no less favourable than that provided for in the appropriate Part of the appropriate Schedule annexed to this Agreement.

b. The products described in Part I of the Schedule relating to any contracting party, which are the products of territories of other contracting parties, shall, on their importation into the territory to which the Schedule relates, and subject to the terms, conditions or qualifications set forth in that Schedule, be exempt from ordinary customs duties in excess of those set forth and provided therein. Such products shall also be exempt from all other duties or charges of any kind imposed on or in connection with the importation in excess of those imposed on the date of this Agreement or those directly and mandatorily required to be imposed thereafter by legislation in force in the importing territory on that date.

c.The products described in Part II of the Schedule relating to any contracting party which are the products of territories entitled under Article I to receive preferential treatment upon importation into the territory to which the Schedule relates shall, on their importation into such territory, and subject to the terms, conditions or qualifications set forth in that Schedule, be exempt from ordinary customs duties in excess of those set forth and provided for in Part II of that Schedule. Such products shall also be exempt from all other duties or charges of any kind imposed on or in connection with importation in excess of those imposed on the date of this Agreement or those directly or mandatorily required to be imposed thereafter by legislation in force in the importing territory on that date. Nothing in this Article shall prevent any contracting party from maintaining its requirements existing on the date of this Agreement as to the eligibility of goods for entry at preferential rates of duty.

4. Nothing in this Article shall prevent any contracting party from imposing at any time on the importation of any product:

c. a charge equivalent to an internal tax imposed consistently with the provisions of paragraph 2 of Article III* in respect of the like domestic product or in respect of an article from which the imported product has been manufactured or produced in whole or in part;

d. any anti-dumping or countervailing duty applied consistently with the provisions of Article VI;

e. fees or other charges commensurate with the cost of services rendered.

4. No contracting party shall alter its method of determining dutiable value or of converting currencies so as to impair the value of any of the concessions provided for in the appropriate Schedule annexed to this Agreement.

5. If any contracting party establishes, maintains or authorizes, formally or in effect, a monopoly of the importation of any product described in the appropriate Schedule annexed to this Agreement, such monopoly shall not, except as provided for in that Schedule or as otherwise agreed between the parties which initially negotiated the concession, operate so as to afford protection on the average in excess of the amount of protection provided for in that Schedule. The provisions of this paragraph shall not limit the use by contracting parties of any form of assistance to domestic producers permitted by other provisions of this Agreement.

6. If any contracting party considers that a product is not receiving from another contracting party the treatment which the first contracting party believes to have been contemplated by a concession provided for in the appropriate Schedule annexed to this Agreement, it shall bring the matter directly to the attention of the other contracting party. If the latter agrees that the treatment contemplated was that claimed by the first contracting party, but declares that such treatment cannot be accorded because a court or other proper authority has ruled to the effect that the product involved cannot be classified under the tariff laws of such contracting party

so as to permit the treatment contemplated in this Agreement, the two contracting parties, together with any other contracting parties substantially interested, shall enter promptly into further negotiations with a view to a compensatory adjustment of the matter.

7. a. The specific duties and charges included in the Schedules relating to contracting parties members of the International Monetary Fund, and margins of preference in specific duties and charges maintained by such contracting parties, are expressed in the appropriate currency at the par value accepted or provisionally recognized by the Fund at the date of this Agreement. Accordingly, in case this par value is reduced consistently with the Articles of Agreement of the International Monetary Fund by more than twenty per centum, such specific duties and charges and margins of preference may be adjusted to take account of such reduction; provided that the CONTRACTING PARTIES (i.e., the contracting parties acting jointly as provided for in Article XXV) concur that such adjustments will not impair the value of the concessions provided for in the appropriate Schedule or elsewhere in this Agreement, due account being taken of all factors which may influence the need for, or urgency of, such adjustments.

b. Similar provisions shall apply to any contracting party not a member of the Fund, as from the date on which such contracting party becomes a member of the Fund or enters into a special exchange agreement in pursuance of Article XV.

8. The Schedules annexed to this Agreement are hereby made an integral part of Part I of this Agreement [...]

PART II

Article III National Treatment on Internal Taxation and Regulation

1. The contracting parties recognize that internal taxes and other internal charges, and laws, regulations and requirements affecting the internal sale, offering for sale, purchase, transportation, distribution or use of products, and internal quantitative regulations requiring the mixture, processing or use of products in specified amounts or proportions, should not be applied to imported or domestic products so as to afford protection to domestic production.

2. The products of the territory of any contracting party imported into the territory of any other contracting party shall not be subject, directly or indirectly, to internal taxes or other internal charges of any kind in excess of those applied, directly or indirectly, to like domestic products. Moreover, no contracting party shall otherwise apply internal taxes or other internal charges to imported or domestic products in a manner contrary to the principles set forth in paragraph 1.

3. With respect to any existing internal tax which is inconsistent with the provisions of paragraph 2, but which is specifically authorized under a trade agreement, in force on April 10, l947, in which the import duty on the taxed product is bound against increase, the contracting party imposing the tax shall be free to postpone the application of the provisions of paragraph 2 to such tax until such time as it can obtain release from the obligations of such trade agreement in order to permit the increase of such duty to the extent necessary to compensate for the elimination of the protective element of the tax.

4. The products of the territory of any contracting party imported into the territory of any other contracting party shall be accorded treatment no less favourable than that accorded to like products of national origin in respect of all laws, regulations and requirements affecting their internal sale, offering for sale, purchase, transportation, distribution or use. The provisions of this paragraph shall not prevent the application of differential internal transportation charges which are based exclusively on the economic operation of the means of transport and not on the nationality of the product.

5. No contracting party shall establish or maintain any internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions which requires, directly or indirectly, that any specified amount or proportion of any product which is the subject of the regulation must be supplied from domestic sources. Moreover, no contracting party shall otherwise apply internal quantitative regulations in a manner contrary to the principles set forth in paragraph 1.
6. The provisions of paragraph 5 shall not apply to any internal quantitative regulation in force in the territory of any contracting party on July 1, 1939, April 10, 1947, or March 24, l948, at the option of that contracting party; Provided that any such regulation which is contrary to the provisions of paragraph 5 shall not be modified to the detriment of imports and shall be treated as a customs duty for the purpose of negotiation.
7. No internal quantitative regulation relating to the mixture, processing or use of products in specified amounts or proportions shall be applied in such a manner as to allocate any such amount or proportion among external sources of supply [...].

Article V Freedom of Transit
1. Goods (including baggage), and also vessels and other means of transport, shall be deemed to be in transit across the territory of a contracting party when the passage across such territory, with or without trans-shipment, warehousing, breaking bulk, or change in the mode of transport, is only a portion of a complete journey beginning and terminating beyond the frontier of the contracting party across whose territory the traffic passes. Traffic of this nature is termed in this article “traffic in transit”.
2. There shall be freedom of transit through the territory of each contracting party, via the routes most convenient for international transit, for traffic in transit to or from the territory of other contracting parties. No distinction shall be made which is based on the flag of vessels, the place of origin, departure, entry, exit or destination, or on any circumstances relating to the ownership of goods, of vessels or of other means of transport.
3. Any contracting party may require that traffic in transit through its territory be entered at the proper custom house, but, except in cases of failure to comply with applicable customs laws and regulations, such traffic coming from or going to the territory of other contracting parties shall not be subject to any unnecessary delays or restrictions and shall be exempt from customs duties and from all transit duties or other charges imposed in respect of transit, except charges for transportation or those commensurate with administrative expenses entailed by transit or with the cost of services rendered.
4. All charges and regulations imposed by contracting parties on traffic in transit to or from the territories of other contracting parties shall be reasonable, having regard to the conditions of the traffic.
5. With respect to all charges, regulations and formalities in connection with transit, each contracting party shall accord to traffic in transit to or from the territory of any other contracting party treatment no less favourable than the treatment accorded to traffic in transit to or from any third country.*
6. Each contracting party shall accord to products which have been in transit through the territory of any other contracting party treatment no less favourable than that which would have been accorded to such products had they been transported from their place of origin to their destination without going through the territory of such other contracting party. Any contracting party shall, however, be free to maintain its requirements of direct consignment existing on the date of this Agreement, in respect of any goods in regard to which such direct consignment is a requisite condition of eligibility for entry of the goods at preferential rates of

duty or has relation to the contracting party's prescribed method of valuation for duty purposes.

7. The provisions of this Article shall not apply to the operation of aircraft in transit, but shall apply to air transit of goods (including baggage) [...].

Article VI Anti-dumping and Countervailing Duties

1. The contracting parties recognize that dumping, by which products of one country are introduced into the commerce of another country at less than the normal value of the products, is to be condemned if it causes or threatens material injury to an established industry in the territory of a contracting party or materially retards the establishment of a domestic industry. For the purposes of this Article, a product is to be considered as being introduced into the commerce of an importing country at less than its normal value, if the price of the product exported from one country to another

a. is less than the comparable price, in the ordinary course of trade, for the like product when destined for consumption in the exporting country, or,

b. in the absence of such domestic price, is less than either

i. the highest comparable price for the like product for export to any third country in the ordinary course of trade, or

ii. the cost of production of the product in the country of origin plus a reasonable addition for selling cost and profit.

Due allowance shall be made in each case for differences in conditions and terms of sale, for differences in taxation, and for other differences affecting price comparability.

2. In order to offset or prevent dumping, a contracting party may levy on any dumped product an anti-dumping duty not greater in amount than the margin of dumping in respect of such product. For the purposes of this Article, the margin of dumping is the price difference determined in accordance with the provisions of paragraph 1.

3. No countervailing duty shall be levied on any product of the territory of any contracting party imported into the territory of another contracting party in excess of an amount equal to the estimated bounty or subsidy determined to have been granted, directly or indirectly, on the manufacture, production or export of such product in the country of origin or exportation, including any special subsidy to the transportation of a particular product. The term "countervailing duty" shall be understood to mean a special duty levied for the purpose of offsetting any bounty or subsidy bestowed, directly, or indirectly, upon the manufacture, production or export of any merchandise.

4. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to anti-dumping or countervailing duty by reason of the exemption of such product from duties or taxes borne by the like product when destined for consumption in the country of origin or exportation, or by reason of the refund of such duties or taxes.

5. No product of the territory of any contracting party imported into the territory of any other contracting party shall be subject to both anti-dumping and countervailing duties to compensate for the same situation of dumping or export subsidization.

6. a. No contracting party shall levy any anti-dumping or countervailing duty on the importation of any product of the territory of another contracting party unless it determines that the effect of the dumping or subsidization, as the case may be, is such as to cause or threaten material injury to an established domestic industry, or is such as to retard materially the establishment of a domestic industry.

b. The CONTRACTING PARTIES may waive the requirement of sub-paragraph (a) of this paragraph so as to permit a contracting party to levy an anti-dumping or countervailing duty on the importation of any product for the purpose of offsetting dumping or subsidization which causes or threatens material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party. The CONTRACTING PARTIES shall waive the requirements of sub-paragraph (a) of this paragraph, so as to permit the levying of a countervailing duty, in cases in which they find that a subsidy is causing or threatening material injury to an industry in the territory of another contracting party exporting the product concerned to the territory of the importing contracting party.

c. In exceptional circumstances, however, where delay might cause damage which would be difficult to repair, a contracting party may levy a countervailing duty for the purpose referred to in sub-paragraph (b) of this paragraph without the prior approval of the CONTRACTING PARTIES; Provided that such action shall be reported immediately to the CONTRACTING PARTIES and that the countervailing duty shall be withdrawn promptly if the CONTRACTING PARTIES disapprove.

7. A system for the stabilization of the domestic price or of the return to domestic producers of a primary commodity, independently of the movements of export prices, which results at times in the sale of the commodity for export at a price lower than the comparable price charged for the like commodity to buyers in the domestic market, shall be presumed not to result in material injury within the meaning of paragraph 6 if it is determined by consultation among the contracting parties substantially interested in the commodity concerned that:

a. the system has also resulted in the sale of the commodity for export at a price higher than the comparable price charged for the like commodity to buyers in the domestic market, and

b. the system is so operated, either because of the effective regulation of production, or otherwise, as not to stimulate exports unduly or otherwise seriously prejudice the interests of other contracting parties[...]

Article VII Valuation for Customs Purposes

1. The contracting parties recognize the validity of the general principles of valuation set forth in the following paragraphs of this Article, and they undertake to give effect to such principles, in respect of all products subject to duties or other charges or restrictions on importation and exportation based upon or regulated in any manner by value. Moreover, they shall, upon a request by another contracting party review the operation of any of their laws or regulations relating to value for customs purposes in the light of these principles. The CONTRACTING PARTIES may request from contracting parties reports on steps taken by them in pursuance of the provisions of this Article.

2. The value for customs purposes of imported merchandise should be based on the actual value of the imported merchandise on which duty is assessed, or of like merchandise, and should not be based on the value of merchandise of national origin or on arbitrary or fictitious values.

a. "Actual value" should be the price at which, at a time and place determined by the legislation of the country of importation, such or like merchandise is sold or offered for sale in the ordinary course of trade under fully competitive conditions. To the extent to which the price of such or like merchandise is governed by the quantity in a particular transaction, the price to be considered should uniformly be related to either (i) comparable quantities, or (ii) quantities not less favourable to importers than those in which the greater volume of the merchandise is sold in the trade between the countries of exportation and importation.

b. When the actual value is not ascertainable in accordance with sub-paragraph (b) of this paragraph, the value for customs purposes should be based on the nearest ascertainable equivalent of such value.
3. The value for customs purposes of any imported product should not include the amount of any internal tax, applicable within the country of origin or export, from which the imported product has been exempted or has been or will be relieved by means of refund.
4. a. Except as otherwise provided for in this paragraph, where it is necessary for the purposes of paragraph 2 of this Article for a contracting party to convert into its own currency a price expressed in the currency of another country, the conversion rate of exchange to be used shall be based, for each currency involved, on the par value as established pursuant to the Articles of Agreement of the International Monetary Fund or on the rate of exchange recognized by the Fund, or on the par value established in accordance with a special exchange agreement entered into pursuant to Article XV of this Agreement.
b. Where no such established par value and no such recognized rate of exchange exist, the conversion rate shall reflect effectively the current value of such currency in commercial transactions.
c. The CONTRACTING PARTIES, in agreement with the International Monetary Fund, shall formulate rules governing the conversion by contracting parties of any foreign currency in respect of which multiple rates of exchange are maintained consistently with the Articles of Agreement of the International Monetary Fund. Any contracting party may apply such rules in respect of such foreign currencies for the purposes of paragraph 2 of this Article as an alternative to the use of par values. Until such rules are adopted by the CONTRACTING PARTIES, any contracting party may employ, in respect of any such foreign currency, rules of conversion for the purposes of paragraph 2 of this Article which are designed to reflect effectively the value of such foreign currency in commercial transactions.
d. Nothing in this paragraph shall be construed to require any contracting party to alter the method of converting currencies for customs purposes which is applicable in its territory on the date of this Agreement, if such alteration would have the effect of increasing generally the amounts of duty payable.
5. The bases and methods for determining the value of products subject to duties or other charges or restrictions based upon or regulated in any manner by value should be stable and should be given sufficient publicity to enable traders to estimate, with a reasonable degree of certainty, the value for customs purposes[...].

Article VIII Fees and Formalities connected with Importation and Exportation
1. a. All fees and charges of whatever character (other than import and export duties and other than taxes within the purview of Article III) imposed by contracting parties on or in connection with importation or exportation shall be limited in amount to the approximate cost of services rendered and shall not represent an indirect protection to domestic products or a taxation of imports or exports for fiscal purposes.
b. The contracting parties recognize the need for reducing the number and diversity of fees and charges referred to in sub-paragraph (a).
c. The contracting parties also recognize the need for minimizing the incidence and complexity of import and export formalities and for decreasing and simplifying import and export documentation requirements.
2. A contracting party shall, upon request by another contracting party or by the CONTRACTING PARTIES, review the operation of its laws and regulations in the light of the provisions of this Article.

3. No contracting party shall impose substantial penalties for minor breaches of customs regulations or procedural requirements. In particular, no penalty in respect of any omission or mistake in customs documentation which is easily rectifiable and obviously made without fraudulent intent or gross negligence shall be greater than necessary to serve merely as a warning.

4. The provisions of this Article shall extend to fees, charges, formalities and requirements imposed by governmental authorities in connection with importation and exportation, including those relating to:

a. consular transactions, such as consular invoices and certificates;
b. quantitative restrictions;
c. licensing;
d. exchange control;
e. statistical services;
f. documents, documentation and certification;
g. analysis and inspection; and
h. quarantine, sanitation and fumigation [...].

Appendix D

North American Free Trade Agreement (Extract)

On January 1, 1994, the North American Free Trade Agreement between the United States, Canada, and Mexico (NAFTA) entered into force. All remaining duties and quantitative restrictions were eliminated, as scheduled, on January 1, 2008. NAFTA created the world's largest free trade area, which now links 450 million people producing $17 trillion worth of goods and services. Trade between the United States and its NAFTA partners has soared since the agreement entered into force.

PREAMBLE

The Government of Canada, the Government of the United Mexican States and the Government of the United States of America, resolved to:

STRENGTHEN the special bonds of friendship and cooperation among their nations;
CONTRIBUTE to the harmonious development and expansion of world trade and provide a catalyst to broader international cooperation;
CREATE an expanded and secure market for the goods and services produced in their territories;
REDUCE distortions to trade;
ESTABLISH clear and mutually advantageous rules governing their trade;
ENSURE a predictable commercial framework for business planning and investment;
BUILD on their respective rights and obligations under the General Agreement on Tariffs and Trade and other multilateral and bilateral instruments of cooperation;
ENHANCE the competitiveness of their firms in global markets;
FOSTER creativity and innovation, and promote trade in goods and services that are the subject of intellectual property rights;
CREATE new employment opportunities and improve working conditions and living standards in their respective territories;
UNDERTAKE each of the preceding in a manner consistent with environmental protection and conservation;
PRESERVE their flexibility to safeguard the public welfare;
PROMOTE sustainable development;
STRENGTHEN the development and enforcement of environmental laws and regulations; and
PROTECT, enhance and enforce basic workers' rights […].

PART ONE: GENERAL PART

Chapter One: Objectives

Article 101: Establishment of the Free Trade Area

The Parties to this Agreement, consistent with Article XXIV of the *General Agreement on Tariffs and Trade*, hereby establish a free trade area.

Article 102: Objectives

1. The objectives of this Agreement, as elaborated more specifically through its principles and rules, including national treatment, most-favored-nation treatment and transparency, are to:

a) eliminate barriers to trade in, and facilitate the cross-border movement of, goods and services between the territories of the Parties;

b) promote conditions of fair competition in the free trade area;

c) increase substantially investment opportunities in the territories of the Parties;

d) provide adequate and effective protection and enforcement of intellectual property rights in each Party's territory;

e) create effective procedures for the implementation and application of this Agreement, for its joint administration and for the resolution of disputes; and

f) establish a framework for further trilateral, regional and multilateral cooperation to expand and enhance the benefits of this Agreement.

2. The Parties shall interpret and apply the provisions of this Agreement in the light of its objectives set out in paragraph 1 and in accordance with applicable rules of international law.

Article 103: Relation to Other Agreements

1. The Parties affirm their existing rights and obligations with respect to each other under the *General Agreement on Tariffs and Trade* and other agreements to which such Parties are party.

2. In the event of any inconsistency between this Agreement and such other agreements, this Agreement shall prevail to the extent of the inconsistency, except as otherwise provided in this Agreement.

Article 104: Relation to Environmental and Conservation Agreements

1. In the event of any inconsistency between this Agreement and the specific trade obligations set out in:

a) the *Convention on International Trade in Endangered Species of Wild Fauna and Flora*, done at Washington, March 3, 1973, as amended June 22, 1979 ;

b) the *Montreal Protocol on Substances that Deplete the Ozone Layer* , done at Montreal, September 16, 1987, as amended June 29, 1990 ;

c) the *Basel Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal* , done at Basel, March 22, 1989, on its entry into force for Canada, Mexico and the United States, or

d) the agreements set out in Annex 104.1

such obligations shall prevail to the extent of the inconsistency, provided that where a Party has a choice among equally effective and reasonably available means of complying with such obligations, the Party chooses the alternative that is the least inconsistent with the other provisions of this Agreement.

2. The Parties may agree in writing to modify Annex 104.1 to include any amendment to an agreement referred to in paragraph 1, and any other environmental or conservation agreement.

Article 105: Extent of Obligations

The Parties shall ensure that all necessary measures are taken in order to give effect to the provisions of this Agreement, including their observance, except as otherwise provided in this Agreement, by state and provincial governments.

Annex 104.1

Bilateral and Other Environmental and Conservation Agreements

1. *The Agreement Between the Government of Canada and the Government of the United States of America Concerning the Transboundary Movement of Hazardous Waste*, signed at Ottawa, October 28, 1986.

2. The Agreement Between the United States of America and the United Mexican States on Cooperation for the Protection and Improvement of the Environment in the Border Area, signed at La Paz, Baja California Sur, August 14, 1983 […].

PART TWO: TRADE IN GOODS

Chapter Three: National Treatment and Market Access for Goods

Article 300: Scope and Coverage

This Chapter applies to trade in goods of a Party, including:

a) goods covered by Annex 300-A (Trade and Investment in the Automotive Sector),

b) goods covered by Annex 300-B (Textile and Apparel Goods), and

c) goods covered by another Chapter in this Part, except as provided in such Annex or Chapter.

Section A - National Treatment

Article 301: National Treatment

1. Each Party shall accord national treatment to the goods of another Party in accordance with Article III of the *General Agreement on Tariffs and Trade* (GATT), including its interpretative notes, and to this end Article III of the GATT and its interpretative notes, or any equivalent provision of a successor agreement to which all Parties are party, are incorporated into and made part of this Agreement.

2. The provisions of paragraph 1 regarding national treatment shall mean, with respect to a state or province, treatment no less favorable than the most favorable treatment accorded by such state or province to any like, directly competitive or substitutable goods, as the case may be, of the Party of which it forms a part.

3. Paragraphs 1 and 2 do not apply to the measures set out in Annex 301.3.

Section B - Tariffs

Article 302: Tariff Elimination

1. Except as otherwise provided in this Agreement, no Party may increase any existing customs duty, or adopt any customs duty, on an originating good.

2. Except as otherwise provided in this Agreement, each Party shall progressively eliminate its customs duties on originating goods in accordance with its Schedule to Annex 302.2.

3. On the request of any Party, the Parties shall consult to consider accelerating the elimination of customs duties set out in their Schedules. An agreement between two or more Parties to accelerate the elimination of a customs duty on a good shall supersede any duty rate or staging category determined pursuant to their Schedules for such good when approved by each such Party in accordance with its applicable legal procedures.

4. Each Party may adopt or maintain import measures to allocate in-quota imports made pursuant to a tariff rate quota set out in Annex 302.2, provided that such measures do not have trade restrictive effects on imports additional to those caused by the imposition of the tariff rate quota.

5. On written request of any Party, a Party applying or intending to apply measures pursuant to paragraph 4 shall consult to review the administration of those measures.

Article 303: Restriction on Drawback and Duty Deferral Programs

1. Except as otherwise provided in this Article, no Party may refund the amount of customs duties paid, or waive or reduce the amount of customs duties owed, on a good imported into its territory, on condition that the good is:

a) subsequently exported to the territory of another Party ;

b) used as a material in the production of another good that is subsequently exported to the territory of another Party, or

c) substituted by an identical or similar good used as a material in the production of another good that is subsequently exported to the territory of another Party, in an amount that exceeds the lesser of the total amount of customs duties paid or owed on the good on importation into its territory and the total amount of customs duties paid to another Party on the good that has been subsequently exported to the territory of that other Party.
2. No Party may, on condition of export, refund, waive or reduce:
a) an antidumping or countervailing duty that is applied pursuant to a Party's domestic law and that is not applied inconsistently with Chapter Nineteen (Review and Dispute Settlement in Antidumping and Countervailing Duty Matters);
b) a premium offered or collected on an imported good arising out of any tendering system in respect of the administration of quantitative import restrictions, tariff rate quotas or tariff preference levels;
c) a fee applied pursuant to section 22 of the U.S. Agricultural Adjustment Act, subject to Chapter Seven (Agriculture and Sanitary and Phytosanitary Measures); or
d) customs duties paid or owed on a good imported into its territory and substituted by an identical or similar good that is subsequently exported to the territory of another Party.
3. Where a good is imported into the territory of a Party pursuant to a duty deferral program and is subsequently exported to the territory of another Party, or is used as a material in the production of another good that is subsequently exported to the territory of another Party, or is substituted by an identical or similar good used as a material in the production of another good that is subsequently exported to the territory of another Party, the Party from whose territory the good is exported:
a) shall assess the customs duties as if the exported good had been withdrawn for domestic consumption; and
b) may waive or reduce such customs duties to the extent permitted under paragraph 1.
4. In determining the amount of customs duties that may be refunded, waived or reduced pursuant to paragraph 1 on a good imported into its territory, each Party shall require presentation of satisfactory evidence of the amount of customs duties paid to another Party on the good that has been subsequently exported to the territory of that other Party.
5. Where satisfactory evidence of the customs duties paid to the Party to which a good is subsequently exported under a duty deferral program described in paragraph 3 is not presented within 60 days after the date of exportation, the Party from whose territory the good was exported:
a) shall collect customs duties as if the exported good had been withdrawn for domestic consumption; and
b) may refund such customs duties to the extent permitted under paragraph 1 on the timely presentation of such evidence under its laws and regulations.
6. This Article does not apply to:
a) a good entered under bond for transportation and exportation to the territory of another Party;
b) a good exported to the territory of another Party in the same condition as when imported into the territory of the Party from which the good was exported (processes such as testing, cleaning, repacking or inspecting the good, or preserving it in its same condition, shall not be considered to change a good's condition). Except as provided in Annex 703.2, Section A, paragraph 12, where such a good has been commingled with fungible goods and exported in the same condition, its origin for purposes of this subparagraph, may be determined on the basis of the inventory methods provided for in the Uniform Regulations established under Article 511 (Uniform Regulations);

c) a good imported into the territory of a Party that is deemed to be exported from its territory, or used as a material in the production of another good that is deemed to be exported to the territory of another Party, or is substituted by an identical or similar good used as a material in the production of another good that is deemed to be exported to the territory of another Party, by reason of

(i) delivery to a duty-free shop,

(ii) delivery for ship's stores or supplies for ships or aircraft, or

(iii) delivery for use in joint undertakings of two or more of the Parties and that will subsequently become the property of the Party into whose territory the good was deemed to be imported;

d) a refund of customs duties by a Party on a particular good imported into its territory and subsequently exported to the territory of another Party, where that refund is granted by reason of the failure of such good to conform to sample or specification, or by reason of the shipment of such good without the consent of the consignee;

e) an originating good that is imported into the territory of a Party and is subsequently exported to the territory of another Party, or used as a material in the production of another good that is subsequently exported to the territory of another Party, or is substituted by an identical or similar good used as a material in the production of another good that is subsequently exported to the territory of another Party; or

f) a good set out in Annex 303.6.

7. Except for paragraph 2(d), this Article shall apply as of the date set out in each Party's Section of Annex 303.7.

8. Notwithstanding any other provision of this Article and except as specifically provided in Annex 303.8, no Party may refund the amount of customs duties paid, or waive or reduce the amount of customs duties owed, on a non-originating good provided for in item 8540.11.aa (color cathode-ray television picture tubes, including video monitor tubes, with a diagonal exceeding 14 inches) or 8540.11.cc (color cathoderay television picture tubes for high definition television, with a diagonal exceeding 14 inches) that is imported into the Party's territory and subsequently exported to the territory of another Party, or is used as a material in the production of another good that is subsequently exported to the territory of another Party, or is substituted by an identical or similar good used as a material in the production of another good that is subsequently exported to the territory of another Party.

9. For purposes of this Article:

customs duties are the customs duties that would be applicable to a good entered for consumption in the customs territory of a Party if the good were not exported to the territory of another party;

identical or similar goods means "identical or similar goods" as defined in Article 415 (Rules of Origin Definitions);

material means "material" as defined in Article 415;

used means "used" as defined in Article 415.

10. For purposes of the Article:

Where a good referred to by a tariff item number in this Article is described in parentheses following the tariff item number, the description is provided for purposes of reference only.

Article 304: Waiver of Customs Duties

1. Except as set out in Annex 304.1, no Party may adopt any new waiver of customs duties, or expand with respect to existing recipients or extend to any new recipient the application of an existing waiver of customs duties, where the waiver is conditioned, explicitly or implicitly, on the fulfillment of a performance requirement.

2. Except as set out in Annex 304.2, no Party may, explicitly or implicitly, condition on the fulfillment of a performance requirement the continuation of any existing waiver of customs duties.
3. If a waiver or a combination of waivers of customs duties granted by a Party with respect to goods for commercial use by a designated person can be shown by another Party to have an adverse impact on the commercial interests of a person of that Party, or of a person owned or controlled by a person of that Party that is located in the territory of the Party granting the waiver, or on the other Party's economy, the Party granting the waiver shall either cease to grant it or make it generally available to any importer.
4. This Article shall not apply to measures subject to Article 303.

Article 305: Temporary Admission of Goods

1. Each Party shall grant duty-free temporary admission for:
a) professional equipment necessary for carrying out the business activity, trade or profession of a business person who qualifies for temporary entry pursuant to Chapter Sixteen (Temporary Entry for Business Persons) ;
b) equipment for the press or for sound or television broadcasting and cinematographic equipment;
c) goods imported for sports purposes and goods intended for display or demonstration, and
d) commercial samples and advertising films,
imported from the territory of another Party, regardless of their origin and regardless of whether like, directly competitive or substitutable goods are available in the territory of the Party.
2. Except as otherwise provided in this Agreement, no Party may condition the duty-free temporary admission of a good referred to in paragraph 1(a), (b) or (c), other than to require that such good:
a) be imported by a national or resident of another Party who seeks temporary entry;
b) be used solely by or under the personal supervision of such person in the exercise of the business activity, trade or profession of that person;
c) not be sold or leased while in its territory;
d) be accompanied by a bond in an amount no greater than 110 percent of the charges that would otherwise be owed on entry or final importation, or by another form of security, releasable on exportation of the good, except that a bond for customs duties shall not be required for an originating good;
e) be capable of identification when exported;
f) be exported on the departure of that person or within such other period of time as is reasonably related to the purpose of the temporary admission; and
g) be imported in no greater quantity than is reasonable for its intended use.
3. Except as otherwise provided in this Agreement, no Party may condition the duty-free temporary admission of a good referred to in paragraph 1(d), other than to require that such good:
a) be imported solely for the solicitation of orders for goods, or services provided from the territory, of another Party or non-Party;
b) not be sold, leased or put to any use other than exhibition or demonstration while in its territory;
c) be capable of identification when exported;
d) be exported within such period as is reasonably related to the purpose of the temporary admission; and
e) be imported in no greater quantity than is reasonable for its intended use.

4. A Party may impose the customs duty and any other charge on a good temporarily admitted duty-free under paragraph 1 that would be owed on entry or final importation of such good if any condition that the Party imposes under paragraph 2 or 3 has not been fulfilled.
5. Subject to Chapters Eleven (Investment) and Twelve (Cross Border Trade in Services):
a) each Party shall allow a vehicle or container used in international traffic that enters its territory from the territory of another Party to exit its territory on any route that is reasonably related to the economic and prompt departure of such vehicle or container;
b) no Party may require any bond or impose any penalty or charge solely by reason of any difference between the port of entry and the port of departure of a vehicle or container;
c) no Party may condition the release of any obligation, including any bond, that it imposes in respect of the entry of a vehicle or container into its territory on its exit through any particular port of departure; and
d) no Party may require that the vehicle or carrier bringing a container from the territory of another Party into its territory be the same vehicle or carrier that takes such container to the territory of another Party.
6. For purposes of paragraph 5, "vehicle" means "a truck, a truck tractor, tractor, trailer unit or trailer, a locomotive, or a railway car or other railroad equipment".

Article 306: Duty-Free Entry of Certain Commercial Samples and Printed Advertising Materials

Each Party shall grant duty-free entry to commercial samples of negligible value, and to printed advertising materials, imported from the territory of another Party, regardless of their origin, but may require that:
a) such samples be imported solely for the solicitation of orders for goods, or services provided from the territory, of another Party or non-Party; or
b) such advertising materials be imported in packets that each contain no more than one copy of each such material and that neither such materials nor packets form part of a larger consignment.

Article 307: Goods Re-Entered after Repair or Alteration

1. Except as set out in Annex 307.1, no Party may apply a customs duty to a good, regardless of its origin, that re enters its territory after that good has been exported from its territory to the territory of another Party for repair or alteration, regardless of whether such repair or alteration could be performed in its territory.
2. Notwithstanding Article 303, no Party may apply a customs duty to a good, regardless of its origin, imported temporarily from the territory of another Party for repair or alteration.
3. Annex 307.3 applies to the Parties specified in that Annex respecting the repair and rebuilding of vessels.

Article 308: MostFavoredNation Rates of Duty on Certain Goods

1. Annex 308.1 applies to certain automatic data processing goods and their parts.
2. Annex 308.2 applies to certain color television tubes.
3. Each Party shall accord mostfavorednation duty-free treatment to any local area network apparatus imported into its territory, and shall consult in accordance with Annex 308.3 […]

Appendix E

EU-Ukraine Association Agreement: Guide to a Deep & Comprehensive Free Trade Area (Overview)

The Deep and Comprehensive Free Trade Area (DCFTA) is part of the Association Agreement (AA) between the EU and the Republic of Ukraine, one of EU's the most ambitious bilateral agreements yet. The DCFTA will offer Ukraine a framework for modernising its trade relations and for economic development by the opening of markets via the progressive removal of customs tariffs and quotas, and by an extensive harmonisation of laws, norms and regulations in various trade-related sectors, creating the conditions for aligning key sectors of the Ukrainian economy to EU standards. The DCFTA consists of 15 Chapters, 14 annexes and 3 protocols. This document gives an overview of the key elements.

CHAPTER 1 MARKET ACCESS FOR GOODS

Chapter one aims to remove customs duties on imports and exports. The vast majority of customs duties on goods will be removed as soon as the Agreement enters into force. Overall, Ukraine and the EU will eliminate respectively 99.1% and 98.1% of duties in trade value.

For industrial goods, the calendar for liberalisation foresees the immediate removal of existing tariffs on most products, with exceptions for a few for which a transition period exists, in particular for the automotive sector in the case of Ukraine.

For agricultural goods, ambitious concessions have been made taking into account specific sensitivities. Thus, duty-free tariff rate quotas been granted to the Ukraine for cereals, pork, beef, poultry and a handful of additional products, while for others the progressive elimination by the EU of the custom duties will occur over a longer transition period (generally 10 years). This means that for particularly sensitive sectors, the DCFTA gives producers more time to adapt to a more competitive environment while offering consumers a wider choice of products at lower prices.

As regards non-tariff barriers (NTB) on trade in goods, the Agreement incorporates fundamental WTO rules on NTBs, such as national treatment, prohibition of import and export restrictions, disciplines on state trading etc. Export duties will be prohibited from day one, with some temporary exceptions for Ukraine on a few agricultural and metal products.

FOCUS ON THE ELIMINATION OF CUSTOMS DUTIES

The FTA will create opportunities for trade by lowering tariffs on imports. Ukrainian exporters will save €487m annually due to reduced EU import duties. Ukraine will remove around €391m in duties on imports from the EU, with longer transition periods than the EU for certain goods.

Agriculture

Ukrainian agriculture will benefit most from cuts in duties: €330m for agricultural products, and €53m for processed agricultural products. New market opportunities in the EU and higher production standards will spur investment, stimulate the modernisation of agriculture and improve labour conditions.

Industrial

Both sides will fully liberalise trade in industrial products, with Ukraine reducing duties on machinery and appliances by €75.2m. There are some exceptions for cars, but Ukraine will still cut duties on vehicles by €117.3m.

The textiles sector will be fully liberalised from day one with Ukraine and the EU cutting duties worth €8.7m and €24.4m respectively. Special conditions will apply for five years to second-hand clothing.

Reduced EU tariffs on chemicals will cut duties paid by Ukrainian exporters by €26.8m, while Ukraine will cut duties by €64.3m.

CHAPTER 2 TRADE REMEDIES

This chapter covers traditional trade defence instruments (anti-dumping, anti-subsidy and global safeguard). WTO rights and obligations will be applied to ensure fair treatment, for example, anti-dumping duties will be capped to the level of dumping or subsidy. A public interest test may be carried out before imposing any measures. The DCFTA will increase the transparency of investigations and Parties will set up a mechanism for cooperating on trade remedies.

An agreement on cars will allow Ukraine to apply a well-defined safeguard measure for 15 years on cars imported from the EU. In the reference period 2002–2010, Ukraine imported on average 41.000 cars a year from the EU, 12.9% of the Ukrainian market.

CHAPTER 3 TECHNICAL BARRIERS TO TRADE

This chapter aims to reduce obstacles to trade arising from *Technical Barriers to Trade (TBT)*: technical regulations, standards, conformity assessment procedures and similar requirements.

The parties reiterate their commitments under the World Trade Organisation Agreement on TBTs and agree to cooperate on TBT issues to simplify and avoid unnecessary divergence of technical requirements.

Ukraine will progressively adapt its technical regulations and standards to those of the EU. Future negotiation of an *Agreement on Conformity Assessment and Acceptance of Industrial Products (ACAA)* will provide that in specific sectors covered by it trade between the Parties will take place under the same conditions as between EU Member States.

Provisions on labelling seek to keep it to a minimum to make it non-discriminatory.

Harmonisation and/or mutual recognition of technical standards should cut existing non-tariff barriers in the agri-food sector by half and 35% in other sectors compared to 2004.

CHAPTER 4 SANITARY AND PHYTOSANITARY (SPS) MEASURES

This chapter aims to facilitate trade in SPS related goods including animals, animal products, plants and plant products, whilst safeguarding the Parties' level of protection. The Parties will seek a common understanding on animal welfare standards taking into account developments in the *World Organisation for Animal Health (OIE)*. They will align legislation and conclude a veterinary and phytosanitary chapter.

The process covers:

- Commitment to respect the principles of the WTO/SPS Agreement;
- Ukrainian commitment to align its SPS and animal welfare legislation to the EU's;
- Setting up a rapid consultation mechanism to solve trade irritants in SPS related goods;
- Setting up a rapid alert and early warning system for veterinary and phyto-sanitary emergencies. Under certain conditions, the relevant EU systems for early warning could also be opened to Ukraine's participation.

The SPS Chapter will be implemented by a new Subcommittee on SPS measures which will monitor progress, provide recommendations, develop procedures, and provide a forum addressing problems.

The SPS chapter will deal with verification procedures, listing of establishments, levels of checks, and settlement of trade problems. It covers all trade-related animal and plant health, food safety and animal welfare measures.

CHAPTER 5 CUSTOMS AND TRADE FACILITATION

This chapter seeks to enhance co-operation in customs and customs-related matters and to simplify customs requirements and formalities, while at the same time preventing fraud.

Building on current cooperation on customs matters, the Protocol on mutual administrative assistance in customs matters provides a stronger legal framework for efforts to ensure the correct application of customs legislation and the fight against infringement. Both sides will supply each other with all relevant information needed to conduct investigations, including the possibility for officials of the one Party to participate in administrative enquiries in the territory of the other Party.

The DCFTA contains a provision for temporary withdrawal of preferences as a safeguard in the event of insufficient cooperation.

CHAPTER 6 ESTABLISHMENT, TRADE IN SERVICES AND ELECTRONIC COMMERCE

This chapter aims at integrating Ukraine as much as possible into the EU market. Unlike classical FTAs, it provides for both the freedom of establishment in services and non-services sectors, subject to limited reservations, and the expansion of the internal market for a set of key services sectors once Ukraine effectively implements the *EU-acquis.*

The agreement provides for a right of establishment (as opposed to commercial presence) in services and non-services sectors. This right is subject to a number of reservations identified in a negative list. This approach is unprecedented for the EU and guarantees automatic coverage for new services and further liberalisation not listed as exceptions. Provisions for domestic regulation, postal and courier services, financial services and telecommunication services will improve transparency and legal certainty for EU investments in Ukraine. The focus here is on “behind the border” issues.

The DCFTA is complemented by a process of legislative approximation in financial services, telecommunications services, postal and courier services, and international maritime services. The Ukraine is committed to take over the existing and future EU-acquis in those sectors and, when it has done so, Ukrainian firms will be granted access to the EU internal market for the sectors concerned: this is an unprecedented level of integration. The approximation process will also mean that EU investors in those sectors will find the same regulatory environment in Ukraine as in the EU.

CHAPTER 7 CURRENT PAYMENTS AND MOVEMENT OF CAPITAL

Provisions on free movement of capital will include standard safeguards with a possibility to apply measures to ensure the stability of the financial system.

CHAPTER 8 PUBLIC PROCUREMENT

Ukraine will, over several years, adopt current and future EU legislation on public procurement. With the exception of defence procurement, Ukrainian suppliers and service providers will have full access to EU public procurement markets, and EU suppliers and service providers will have the same to the Ukrainian procurement market. The chapter is an unprecedented example of the integration of a Non-EEA-Member into the EU Single Market.

CHAPTER 9 INTELLECTUAL PROPERTY

This chapter includes provisions on particular copyright, designs (including unregistered ones), patents and *geographical indications (GIs)* which complement and up-date the TRIPS Agreement. The chapter has a strong section on enforcement of IPRs based on the EU’s internal rules.

All agricultural GIs, not only those relating to wines and spirits, will have the same high level of protection. The protection will be immediate for most EU GIs, but some names long-used by Ukrainian producers will be phased-out over different periods of time:

- 10 years for Champagne, Cognac, Madeira, Porto, Jerez /Xeres/ Sherry, Calvados, Grappa, Anis Portugues, Armagnac, Marsala, Malaga and Tokaj;
- 7 years for Parmigiano Reggiano, Roquefort and Feta.

There will be updates and regular consultations to add new products to the list of protected GIs.

CHAPTER 10 COMPETITION

Here, the Parties prohibit and sanction certain practices and transactions which could distort competition and trade. Anti-competitive practices such as cartels, abuse of a dominant position and anti-competitive mergers will be subject to effective enforcement action.

The Parties agree to maintain effective competition laws and an appropriately equipped competition authority. Both Parties agree to respect procedural fairness and firms' rights of defence. Ukraine will align its competition law and enforcement practice to that of the EU *acquis* in a number of fields. Competition law will apply to state-controlled enterprises. This ensures that companies of both Parties have equal access to each other markets and there is no discrimination by monopolies. Provisions set out the main principles for consultations and cooperation between the Parties.

The Parties agree to remedy or remove distortions of competition caused by subsidies where these affect trade, and to subject these commitments to the dispute settlement mechanism. Ukraine commits itself to adopting a system of control of state aids similar to that in the EU, including an independent authority. It will prohibit certain types of particularly distortive subsidies. Both Parties will report annually the total amount, types and the sectoral distribution of subsidies and will provide further information on subsidies or schemes on request. The rules on subsidies apply to all areas liberalised in the DCFTA except agriculture and fisheries.

CHAPTER 11 TRADE-RELATED ENERGY

This is the first FTA to include specific provisions on trade related energy issues. The chapter takes into account that Ukraine is already a member of the Energy Community Treaty (EnCT), which imposes an obligation to implement the most relevant EU energy *acquis* on electricity and gas. The chapter covers electricity, crude oil and natural gas (in gaseous state or as LNG), its provisions being subject to dispute settlement procedure.

The four pillars of the trade-related energy chapter are:

- Rules on pricing of energy goods. The Parties commit themselves to let market prices prevail on the domestic gas and electricity markets and not to regulate prices for industry. Neither Party will impose prices for exporting energy products which are higher than domestic prices (prohibition of dual pricing).
- Transport and transit of energy goods. The chapter reiterates obligations laid down in Article V GATT and Article 7 of the Energy Charter Treaty. Interrupting transit or taking energy goods from transit that are destined for the other party is prohibited. An Expedited (fast track) Dispute Settlement procedure will allow for quick intervention if these rules are breached. An Early Warning Mechanism lays down standards for diplomatic consultations in the event of a security of supply problem.
- Parties commit themselves to setting up a legally distinct and functionally independent regulator to ensure competition and an efficient functioning of the gas and electricity markets.

- Rules on non-discriminatory access to the exploration and production of hydrocarbons (gas and oil). Once an area has been made available for exploration and production, nondiscriminatory access and licensing should be provided to entities from both Parties.

CHAPTER 12 TRANSPARENCY

The Chapter sets out:

- Commitments allowing interested parties to comment on proposed regulations.
- The establishment of enquiry or contact points to respond to questions arising from the application of regulations.
- Due process requirements regarding administrative proceedings, including the review or appeal of administrative actions in areas covered by the FTA.

CHAPTER 13 TRADE AND SUSTAINABLE DEVELOPMENT

Key elements of the Trade and Sustainable Development Chapter include:

- Shared commitment to the core labour standards of the International Labour Organisation (ILO) and the ILO Decent Work Agenda.
- Commitment to implement all multilateral environment agreements to which the EU and Ukraine are party, and to promote sustainable management of forestry and fisheries.
- Confirmation of the Parties' right to regulate, while aiming at a high level of environmental and labour protection, and a commitment to refrain from waiving or derogating from such standards in a manner that affects trade or investment between the parties.
- Strong monitoring mechanisms, building on public scrutiny through civil society involvement. Each side will designate and convene a new or existing civil society Advisory Group, including independent organisations representing sustainable development interests. The two Advisory Groups will meet annually in an open civil society forum to discuss the implementation of the sustainable development aspects of the chapter.

CHAPTER 14 DISPUTE SETTLEMENT

The Dispute Settlement mechanism is based on the model of the WTO Dispute Settlement Understanding, but with faster procedures. Consultation is followed, if unsuccessful, by referral to an arbitration panel composed of three experts chosen by the parties, or selected by lot from an agreed list. The panel can receive *amicus curiae* submissions (contributions from stakeholders, such as the business community or the public at large, who are not a party to the case). Its ruling, delivered within 120 days, is binding, the party in breach having a reasonable period to bring itself into compliance. If it does not, the complainant is entitled to impose proportionate sanctions. Time-limits of the arbitration procedure are reduced in urgent cases, with further reductions for urgent energy disputes.

CHAPTER 15 MEDIATION MECHANISM

A mediation mechanism allows Parties to tackle adverse effects on trade in goods. The aim is not to review a measure's legality, but to find a quick and effective solution to market access problems.

The Parties will be assisted by a mediator they have jointly chosen or selected by lot from an agreed list. The mediator can advise and propose a non-binding solution within 60 days. Mediation does not preclude recourse to dispute settlement.

Protocol I – Rules of origin

Rules of origin define the "economic nationality" of products needed to determine the duties applicable to them when traded. In the DCFTA, the rules are based on the usual criteria.

Protocol II – Mutual administrative assistance in customs matters

It sets out a legal framework for cooperation between the Parties' competent authorities in tackling customs irregularities and fraud.

Protocol III – Protocol on a Framework Agreement between the European Union and Ukraine on the General Principles for the Participation of Ukraine in Union Programmes

It sets out core principles for Ukraine's financial contribution and participation in monitoring current and future EU programmes.

The Institutional Framework

The ad hoc institutional context for future EU-Ukraine relations will include the EU–Ukraine Summit, an Association Council – with the power of taking binding decisions – responsible for meetings at ministerial level, and a supporting Association Committee which will meet at least once a year. A Parliamentary Association Committee will bring together members of the European Parliament and the members of the Ukrainian Parliament and will be able to make recommendations to the Association Council. A Civil Society Platform will consist of members of the European Economic and Social Committee and the representatives of Ukrainian civil society.

Appendix F

Glossary of Some Common Economic Terms & Definitions

A

Ability-to-pay principle. Individuals who are most able to bear the burden of the tax should pay the tax.
Acquisition. A merger in which a company buys another company and the purchaser has the right of direct control over the resulting operation.
Adaptive expectations. Expectations based in some way on the past. Adverse selection problem. Problem that occurs when buyers and sellers have different amounts of information about the good for sale.
Aggregate demand (AD) curve. Curve that shows how a change in the price level will change aggregate expenditures on all goods and services in an economy.
Aggregate demand management. Government's attempt to control the aggregate level of spending in the economy.
Aggregate expenditures (AE). Consumption (spending by consumers), investment (spending by business), spending by government, and net foreign spending on U.S. goods (the difference between U.S. exports and U.S. imports).
Aggregate expenditures (AE) curve. The graphical representation of the expenditures function. Aggregate production (AP). The total amount of goods and services produced in every industry in an economy.
Aggregate supply (AS) curve. Curve that specifies how a shift in the aggregate demand curve affects the price level and real output.
Annuity rule. The present value of any annuity is the annual income it yields divided by the interest rate.
Antitrust policy. The government policy toward the competitive process.
Approximate real-world money multiplier. One divided by the sum of the percentage of deposits banks hold in reserve (r) and the ratio of money people hold in currency (c) to the money they hold as deposits (l/(r + c)).
Art of economics. The application of the knowledge learned in the achievement of the goals one has determined in normative economics.
Asset management. How a bank handles its loans and other assets.
Austrian economist. Economist who believes in the liberty of all individuals first and social goals second.
Automatic stabilizer. Any government program or policy that will counteract the business cycle without any new government action.
Autonomous expenditures. Expenditures that are independent of income.
Average fixed cost. Fixed cost divided by quantity produced. Average product. Output per worker.
Average total cost. Total cost divided by the quantity produced. Average variable cost. Variable cost divided by quantity produced.

B

Balance of merchandise trade. The difference between the value of goods exported and the value of goods imported.
Balance of payments. A country's record of all transactions between its residents and the residents of all foreign nations.
Balance of trade. The difference between the value of the goods and services a country imports and the value of the goods and services it exports.
Bank. A financial institution whose primary function is holding money for, and lending money to, individuals and firms.
Bar graph. Graph where the area under each point is filled in to look like a bar.
Barrier to entry. A social, political, or economic impediment that prevents firms from entering the market.
Benefit principle. Individuals who receive the benefit of a good or service should pay the tax necessary to supply that good.
Bilateral monopoly. Market with only a single seller and a single buyer.
Bond. A promise to pay a certain amount plus interest in the future.
Bretton Woods system. An agreement about fixed exchange rates that governed international financial relationships from the period after the end of World War II until 1971.
Budget Enforcement Act of 1990. A law that puts caps on certain aspects of federal spending, and established a "pay-as-you-go" test for new spending or tax cuts.
Business. Private producing unit in our society.
B**usiness cycle.** The upward or downward movement of economic activity, or real GDP, that occurs around the growth trend.

C

Capital account. The part of the balance of payments account in which all long-term flows of payments are listed.
Capital markets. Markets in which financial assets having a maturity of more than one year are bought and sold.
Capitalism. An economic system based on private property and the market in which, in principle, individuals decide how, what, and for whom to produce.
Capitalists. Businesspeople who have acquired large amounts of money and use it to invest in business.
Cartel. A combination of firms that acts as if it were a single firm.
Cartel model of oligopoly. A model that assumes that oligopolies act as if they were monopolists that have assigned output quotas to individual member firms of the oligopoly so that total output is consistent with joint profit maximization.
Cash flow accounting system. An accounting system entering expenses and revenues only when cash is received or paid out.
Central bank. A type of bankers' bank.
Certificate of deposit (CD). A piece of paper certifying that you have a sum of money in a savings account in the bank for a specified period of time.
Classical growth model. A model of growth that focuses on the role of capital accumulation in the growth process.
Classicals. Macroeconomists who generally favor laissez-faire or non- activist policies.

Clayton Antitrust Act. A U.S. law that outlawed four specific monopolistic practices: price discrimination, tie-in contracts, interlocking directorships, and buying stock in a competitor's company in order to reduce competition.
Closed shop. Firm where unions control the hiring.
Commercial paper. Short-term promissory note that a certain amount of money plus interest will be paid back on demand.
Comparable worth laws. Laws mandating comparable pay for comparable work.
Comparative advantage. The ability to be better suited to the production of one good than to the production of another good.
Complements. Goods that are used in conjunction with other goods.
Concentration ratio. The percentage of the total industry that the top firms of the industry have.
Conglomerate merger. The merging of two relatively unrelated businesses.
Constant returns to scale. Situation when long-run average total costs do not change with an increase in output. Also: Output will rise by the same proportionate increase as all inputs.
Consumer price index (CPI). Measure of prices of a fixed 'basket' of consumer goods, weighted according to each component's share of an average consumer's expenditure.
Consumer sovereignty. Principle that the consumer's wishes rule what's produced.
Consumer surplus. The value the consumer gets from buying a product less its price. Also: The difference between what consumers would have been willing to pay and what they actually pay.
Contestable market model. A model of oligopoly in which barriers to entry and barriers to exit, not the structure of the market, determine a firm's price and output decisions.
Contractionary fiscal policy. Increase taxes or decrease government spending.
Contractionary monetary policy. Monetary policy that tends to raise interest rates and lower income.
Contractual intermediary. Financial institution that holds and stores individuals' financial assets.
Coordinate system. Two-dimensional space in which one point represents two numbers.
Corporate takeover. A firm or a group of individuals issues a tender offer for another company (that is, offers to buy up the stock of a company) to gain control and to install its own managers.
Corporation. Business that is treated as a person, legally owned by its stockholders. Its stockholders are not liable for the actions of the corporate "person."
Cost minimization condition. Situation where the ratio of marginal product to the price of an input is equal for all inputs.
Cost/benefit approach. Assigning costs and benefits, and making decisions on the basis of the relevant costs and benefits.
Countercyclical fiscal policy. Fiscal policy in which the government offsets any change in aggregate expenditures that would create a business cycle.
Cross-price elasticity of demand. The percentage change in demand divided by the percentage change in the price of another good.
Crowding out. The offsetting of a change in government expenditures by a change in private expenditures in the opposite direction.
Currency stabilization. Buying and selling of a currency by the government to offset temporary fluctuations in supply and demand for currencies.
Currency support. Buying of a currency by a government to maintain its value at above its long-run equilibrium value.

Current account. The part of the balance of payments account in which all short-term flows of payments are listed.
Cyclical unemployment. Unemployment resulting from fluctuations in economic activity.

D

Deadweight loss. The loss of consumer and producer surplus from a tax.
Deacquisition. One company's sale of parts of either another company it has bought, or parts of itself.
Debt. Accumulated deficits minus accumulated surpluses.
Debt service. The interest rate on debt times the total debt.
Decision tree. A visual description of sequential choices.
Decreasing returns to scale. Output rises by a smaller proportionate increase than all inputs.
Deficit. A shortfall of revenues under payments.
Demand. Schedule of quantities of a good that will be bought per unit of time at various prices, other things constant.
Demand curve. Graphic representation of the relationship between price and quantity demanded.
Demerit goods or activities. Goods or activities the government deems bad for people even though they choose to use the goods or engage in the activities.
Depository institution. A financial institution whose primary financial liability is deposits in checking or savings accounts.
Depreciation. A decrease in the value of a currency or a decrease in an asset's value. **Depression**. A large recession.
Derived demand. The demand for factors of production by firms, which depends upon consumers' demands.
Derived demand curve for labor. Curve that shows the maximum amount of labor, measured in labor hours, that a firm will hire.
Diminishing marginal productivity. Increasing one input, keeping all others constant, will lead to smaller and smaller gains in output.
Direct regulation. The amount of a good people are allowed.to use is directly limited by the government.
Direct relationship. Relationship in which when one variable goes up, the other goes up too.
Discount rate. The rate of interest the Fed charges for loans it makes to banks.
Diseconomies of scale. Situation when the long-run average total cost increases as output increases.
Disintermediation. The process of lending directly and not going through a financial intermediary.
Disposable personal income. Personal income minus personal income taxes and payroll taxes.
Diversification. Spreading the risks by holding many different types of financial assets.
Division of labor. The splitting up of a task to allow for specialization of production.
Downsizing. A reduction in the workforce.
Duopoly. An oligopoly with only two firms.
Dynamic efficiency. A market's ability to promote cost-reducing or product-enhancing technological change.

E

Economic decision rule. If the marginal benefits of doing something exceed the marginal costs, do it. If the marginal costs of doing something exceed the marginal benefits, don't do it.
Economic efficiency. Achieving a goal at the lowest possible cost.
Economic forces. The necessary reactions to scarcity.
Economic model. Framework that places the generalized insights of the theory in a more specific contextual setting.
Economic policy. An action (or inaction) taken by government, to influence economic events.
Economic principle. Commonly held economic insight stated as a law or general assumption.
Economic profit. Explicit and implicit revenue minus explicit and implicit cost.
Economically efficient. Method that produces a given level of output at the lowest possible cost.
Economics. The study of how human beings coordinate their wants and desires, given the decision making mechanisms, social customs, and political realities of the society.
Economies of scale. Situation when long-run average total costs decrease as output increases. Also: Situation in which costs per unit of output fall as output increases.
Economies of scope. Situation when the costs of producing products are interdependent so that it's less costly for a firm to produce one good when it's already producing another.
Efficiency. Achieving a goal as cheaply as possible (using as few inputs as possible).
Efficiency wages. Wages paid above-the-going-market wage to keep workers happy and productive.
Efficient. Achieving a goal at the lowest cost in total resources without consideration as to who pays those costs.
Effluent fees. Charges imposed by government on the level of pollution created.
Elastic. The percentage change in quantity is greater than the percentage change in price ($E > 1$).
Embargo. A total restriction on the import or export of a good.
Employment rate. Number of people who are working as a percentage of the labor force.
Entrepreneur. An individual who sees an opportunity to sell an item at a price higher than the average cost of producing it.
Entrepreneurship. The ability to organize and get something done. Also: Labor services that involve high degrees of organizational skills, concern, oversight responsibility, and creativity.
Equilibrium. A concept in which opposing dynamic forces cancel each other out.
Equilibrium price. The price toward which the invisible hand drives the market.
Equilibrium quantity. The amount bought and sold at the equilibrium price.
European Union (EU). An economic and political union of European countries that is both an economic free trade area and a loose political organization.
Excess demand. Quantity demanded is greater than quantity Supplied.
Excess reserves. Reserves held by banks in excess of what banks are required to hold.
Excess supply. Quantity supplied is greater than quantity demanded.
Exchange rate. The rate at which one country's currency can be traded for another country's currency.
Exchange rate policy. A policy of deliberately affecting a country's exchange rate in order to affect its trade balance.
Excise tax. A tax that is levied on a specific good.
Expansion. Upturn that lasts for at least two consecutive quarters of a year.
Expansionary fiscal policy. Decrease taxes or increase government spending.

Expansionary monetary policy. Monetary policy that tends to reduce interest rates and raise income.
Expected inflation. Inflation people expect to occur.
Expenditures function. A representation of the relationship between expenditures (which include both induced and autonomous expenditures) and income as a mathematical function.
Export-led growth policies. Policies designed to stimulate U.S. exports and increase aggregate expenditures on U.S. goods, and hence to have a multiplied effect on U.S. income.
Exports. The value of goods sold abroad.
External debt. Government debt owed to individuals in foreign countries.
Externality. An effect of a decision on a third party not taken into account by the decision maker.
Extrapolative expectations. Expectations that a trend will continue.

F

Fallacy of composition. The false assumption that what is true for a part will also be true for the whole.
Fed funds. Loans of excess reserves banks make to one another.
Federal funds market. The market in which banks lend and borrow reserves.
Federal funds rate. The interest rate banks charge one another for Fed funds.
Federal Open Market Committee (FOMC). The Fed's chief policymaking body.
Federal Reserve Bank (the Fed). The U.S. central bank whose liabilities (Federal Reserve notes) serve as cash in the United States.
Federal Trade Commission Act. U.S. law that made it illegal for firms to use "unfair methods of competition" and to engage in "unfair or deceptive acts or practices".
Feudalism. Economic system in which traditions rule.
Final output. Goods and services purchased for final use.
Financial assets. Assets such as stocks or bonds, whose benefit to the owner depends on the issuer of the asset meeting certain obligations.
Financial institution. A business whose primary activity is buying, selling, or holding financial assets.
Financial liabilities. Liabilities incurred by the issuer of a financial asset to stand behind the issued asset.
Financial market. Market where financial assets and financial liabilities are bought and sold.
Fine tuning. Fiscal policy designed to keep the economy always at its target or potential level of income.
Firm. An economic institution that transforms factors of production into consumer goods.
Fiscal policy. The deliberate change in either government spending or taxes to stimulate or slow down the economy.
Fixed costs. Costs that are spent and cannot be changed in the period of time under consideration.
Fixed exchange rate. The exchange rate is set and government is committed to buying and selling its currency at a fixed rate.
Flexible exchange rate. The exchange rate is set by market forces (supply and demand for a country's currency).
Foreign exchange market. Market in which one currency can be exchanged for another.
Free market in money. Policy that would leave people free to use any money they want, and would significantly reduce banking regulation.

Free rider. Person who participates in something for free because others have paid for it.
Free rider problem. Individuals' unwillingness to share in the cost of a public good.
Free trade. A policy of allowing unrestricted trade among countries.
Free trade association. Group of countries that have reduced or eliminated trade barriers among themselves, and, as a group, puts up common barriers against all other countries' goods.
Frictional unemployment. Unemployment caused by new entrants into the job market and people quitting a job just long enough to look for and find another one.
Fundamental analysis. A consideration of the fundamental forces that determine the supply of and demand for currencies.

G

Game theory. The application of economic principles to interdependent situations.
GDP deflator. Index of the price level of aggregate output, or the average price of the components in total output (or GDP) relative to a base year.
General Agreement on Tariffs and Trade (GATT). Until recently, a regular international conference to reduce trade barriers. It has been replaced by the World Trade Organization (WTO).
General rule of political economy. When small groups are helped by a government action and large groups are hurt by that same action, the small group tends to lobby far more effectively than the large group. Thus, policies tend to reflect the small group's interest, not the interest of the large group.
Global corporations. Corporations with substantial operations on both the production and sales sides in more than one country.
Gold specie flow mechanism. The long-run adjustment mechanism that maintained the gold standard.
Gold standard. System of fixed exchange rates in which the value of currencies was fixed relative to the value of gold and gold was used as the primary reserve asset.
Good/bad paradox. Phenomenon of doing poorly because you're doing well.
Government expenditures. Government payments for goods and services and investment in equipment and structures.
Government failures. Situations where the government intervenes and makes things worse.
Grandfather in. To pass a law affecting a specific group but providing that those in the group before the law was passed are not subject to the law.
Graph. Picture of points in a coordinate system in which points denote relationships between numbers.
Gross domestic product (GDP). The total market value of all final goods and services produced in an economy in a one-year period.
Gross national product (GNP). Aggregate final output of citizens and businesses of an economy in a one-year period.
Gross private investment. Business spending on equipment, structures, and inventories and household spending on new owner-occupied housing.
Group of Five. Group that meets to promote negotiations and coordinate economic relations among countries. The Five are Japan, Germany, Britain, France, and the United States.
Group of Seven. Group that meets to promote negotiations and coordinate economic relations among countries. The Seven are Japan, Germany, Britain, France, Canada, Italy, and the United States.

Growth. An increase in the amount of goods and services an economy produces.

H

Herfindahl index. An index of market concentration calculated by adding the squared value of the individual market shares of all firms in the industry.
Heterodox economist. Economist who doesn't accept the basic underlying model used by a majority of economists as the most useful model for analyzing the economy.
Horizontal merger. The combining of two companies in the same industry.
Hostile takeover. A merger in which the firm being taken over doesn't want to be taken over.
Households. Groups of individuals living together and making joint decisions.
Human capital. The skills that are embodied in workers through experience, education, and on-the-job training, or, more simply, people's knowledge.
Hyperinflation. Inflation that hits triple digits – 100 percent or more per year.

I

Implicit collusion. Multiple firms make the same pricing decisions even though they have not explicitly consulted with one another.
Imports. The value of goods purchased abroad.
Incentive effect. How much a person will change his or her hours worked in response to a change in the wage rate.
Incentive-compatible contract. The incentives of each of the two parties to the contract are made to correspond as closely as possible.
Income. Payments received plus or minus changes in value in one's assets in a specified time period.
Income constraint. A curve that shows us the various combinations of goods an individual can buy with a given income.
Income elasticity of demand. The percentage change in demand divided by the percentage change in income.
Incomes policy. A policy that places direct pressure on individuals to hold down their nominal wages and prices.
Increasing returns to scale. Output rises by a greater proportionate increase than all inputs.
Indicative planning. Macroeconomic policy in which the government sets up an overall plan for various industries and selectively directs credit to certain industries.
Inefficient. Achieving a goal in a more costly manner than necessary.
Indifference curve. A curve that shows combinations of goods among which an individual is indifferent. Indivisible setup cost. The cost of an indivisible input for which a certain minimum amount of production must be undertaken before the input becomes economically feasible to use.
Induced expenditures. Expenditures that change as income changes.
Industrial policy. Formal policy that government takes toward business.
Industrial Revolution. A time when technology and machines rapidly modernized industrial production and mass-produced goods replaced handmade goods.
Inefficiency. Getting less output from inputs which, if devoted to some other activity, would produce more output.
Inefficient. Achieving a goal in a more costly manner than necessary.
Inelastic. The percentage change in quantity is less than the percentage change in price ($E < 1$).

Infant industry argument. With initial protection, an industry will be able to become competitive.
Inferior goods. Goods whose consumption decreases when income increases.
Inflation. A continual rise in the price level.
Inflation tax. An implicit tax on the holders of cash and the holders of any obligations specified in nominal terms.
Inflationary gap. A difference between equilibrium income and potential income when equilibrium income exceeds potential income. Also: Aggregate expenditures above potential output that exist at the current price level.
Input. What you put into a production process to achieve an output.
Insider/outsider model. An institutionalist story of inflation where insiders bid up wages and outsiders are unemployed.
Institutionalist economist. Economist who argues that any economic analysis must involve specific considerations of institutions.
Interest rate. The price paid for use of a financial asset.
Interest rate effect. The effect that a lower price level has on investment expenditures through the effect that a change in the price level has on interest rates.
Intermediate products. Products used as input in the production of some other product.
Internal debt. Government debt owed to other governmental agencies or to its own citizens.
International effect. As the price level falls (assuming the exchange rate does not change) net exports will rise.
International Monetary Fund (IMF). A multinational, international financial institution concerned primarily with monetary issues.
Interpolation assumption. Assumption that the relationship between variables is the same between points as it is at the points.
Inverse relationship. A relationship between two variables in which when one goes up the other goes down.
Invisible hand. The price mechanism, the rise and fall of prices that guides our actions in a market.
Invisible hand theory. A market economy, through the price mechanism, will allocate resources efficiently.
Isocost line. A line that represents alternative combinations of factors of production that have the same costs.
Isoquant curve. A curve that represents combinations of factors of production that result in equal amounts of output.
Isoquant map. A set of isoquant curves that show technically efficient combinations of inputs that can produce different levels of output.

J

Judgment by performance. To judge the competitiveness of markets by the behavior (performance) of firms in that market.
Judgment by structure. To judge the competitiveness of markets by the structure of the industry.

K

Keynesians. Macroeconomists who generally favor activist government policy.

L

L. The broadest measure of money.
Labor force. Those people in an economy who are willing and able to work.
Labor force participation rate. Measurement of the labor force as a percentage of the total population at least 16 years old.
Labor market. Factor market in which individuals supply labor services for wages to other individuals and to firms that need (demand) labor services.
Labor productivity. The average output per worker.
Laissez-faire. Economic policy of leaving individuals' wants to be controlled by the market.
Land bank program. Program in which government supports prices by giving farmers economic incentives to reduce supply.
Law of demand. Quantity demanded rises as price falls, other things constant. Also can be stated as: Quantity demanded falls and price rises, other things constant.
Law of diminishing marginal productivity. As more and more of a variable input is added to an existing fixed input, eventually the additional output one gets from that additional input is going to fall.
Law of diminishing marginal rate of substitution. As you get more and more of a good, if some of that good is taken away, then the marginal addition of another good you need to keep you on your indifference curve gets less and less.
Law of supply. Quantity supplied rises as price rises. Also can be stated as: Quantity supplied falls as price falls.
Lazy monopolist. Firm that does not push for efficiency, but merely enjoys the position it is already in.
Learning by doing. As we do something, we learn what works and what doesn't, and over time we become more proficient at it. Also: To improve the methods of production through experience.
Liability management. How a bank attracts deposits and what it pays for them.
Libertarian. Economist who believes in liberty of individuals first and in other social goals second.
Limited liability. The liability of a stockholder (owner) in a corporation; it is limited to the amount the stockholder has invested in the company.
Line graph. Graph where the data are connected by a continuous line.
Linear curve. A curve that is drawn as a straight line.
Liquidity. Ability to turn an asset into cash quickly.
Long-run decision. Decision in which a firm chooses among all possible production techniques.
Long-run Phillips curve. A vertical curve at the unemployment rate consistent with potential output. (It shows the trade-off [or complete lack thereof when expectations of inflation equal actual inflation.)
Lorenz curve. A geometric representation of the share distribution of income among families in a given country at a given time.
Luxuries. Goods that have an income elasticity greater than 1.

M

Ml. Currency in the hands of the public, checking account balances, and traveler's checks.
M2. Ml plus savings deposits, small-denomination time deposits, and money market mutual fund shares, along with some esoteric financial instruments.

Macroeconomic externality. Externality that affects the levels of unemployment, inflation, or growth in the economy as a whole.
Macroeconomics. The study of the economy as a whole, which includes inflation, unemployment, business cycles, and growth.
Mainstream economist. Economist who accepts the basic underlying model used by a majority of economists as the most useful model for analyzing the economy.
Marginal benefit. Additional benefit above what you've already derived.
Marginal cost. Additional cost to you over and above the costs you have already incurred. Also: Increase (decrease) in total cost from increasing (or decreasing) the level of output by one unit. Also: The change in total cost associated with a change in quantity.
Marginal factor cost. The additional cost to a firm of hiring another worker.
Marginal physical product (MPP). The additional units of output that hiring an additional worker will bring about.
Marginal product. The additional output that will be forthcoming from an additional worker, other inputs constant.
Marginal propensity to consume (*mps*). The ratio of a change in consumption, ΔC, to a change in income, ΔY.
Marginal propensity to save (*mps*). The percentage of income flow that is withdrawn from the income/expenditures flow of the economy in each round.
Marginal rate of substitution. The rate at which one good must be added when the other is taken away to keep the individual indifferent between the two combinations.
Marginal revenue. The change in total revenue associated with a change in quantity.
Marginal revenue product (MRP). The marginal revenue a firm expects to earn from selling an additional worker's output.
Marginal social benefit. The marginal private benefit of consuming a good plus the benefits of the positive externalities resulting from consuming that good.
Marginal social cost. The marginal private costs of production plus the cost of the negative externalities associated with that production.
Marginal utility. The satisfaction one gets from consuming one additional unit of a product above and beyond what one has consumed up to that point.
Market demand curve. The horizontal sum of all individual demand curves.
Market failures. Situations where the market does not lead to a desired result. Also: Situation in which the invisible hand pushes in such a way that individual decisions do not lead to socially desirable outcomes.
Market force. Economic force that is given relatively free rein by society to work through the market.
Market incentive plan. A plan requiring market participants to certify that they have reduced total consumption – not necessarily their own individual consumption – by a specified amount.
Market structure. The physical characteristics of the market within which firms interact.
Market supply curve. Horizontal sum of all individual supply curves. Also: Horizontal sum of all the firms' marginal cost curves, taking account of any changes in input prices that might occur.
Marxian (radical) model. A model that focuses on equitable distribution of power, rights, and income among social classes.
Medicare. A multibillion-dollar medical insurance system.
Mercantilism. Economic system in which government determines the what, how, and for whom decision by doling out the rights to undertake certain economic activities.

Merger. The act of combining two firms.
Merit goods or activities. Goods and activities that government believes are good for you, even though you may not choose to consume the goods or engage in the activities.
Microeconomics. The study of individual choice, and how that choice is influenced by economic forces.
Minimum efficient level of production. The amount of production that spreads setup costs out sufficiently for a firm to undertake production profitably.
Minimum wage law. Law specifying the lowest wage a firm can legally pay an employee.
Monetary base. Vault cash, deposits at the Fed, plus currency in circulation.
Monetary policy. A policy of influencing the economy through changes in the banking system's reserve that influence the money supply and credit available in the economy.
Monetary regime. A predetermined statement of policy that will be followed in various situations.
Money. A highly liquid financial asset that's generally accepted in exchange for other goods, it is used as a reference in valuing other goods, and can be stored as wealth.
Money markets. Markets in which financial assets having a maturity of less than one year are bought and sold.
Monitoring costs. Costs incurred by the organizer of production in seeing to it that the employees do what they're supposed to do.
Monitoring problem. The need to oversee employees to ensure that their actions are in the best interest of the firm.
Monopolistic competition. A market structure in which there are many firms selling differentiated products; there are few barriers to entry.
Monopoly. A market structure in which one firm makes up the entire market.
Monopoly power. Ability of individuals or firms currently in business to prevent other individuals or firms from entering the same kind of business.
Monopsony. Market in which a single firm is the only buyer.
Mortgage. A special name for a secured loan on real estate.
Most-favored nation. A country that will be charged as low a tariff on its exports as any other country.
Movement along a demand curve. The graphic representation of the effect of a change in price on the quantity demanded.
Movement along a supply curve. The graphic representation of the effect of a change in price on the quantity supplied.
Multiplier. An equation that tells us how much income will change in response to a change in autonomous expenditures.
Multiplier effect. The amplification of initial changes in expenditure.
Multiplier equation. An equation that tells us that income equals the multiplier times autonomous expenditures.

N

National income (NI). The total income earned by citizens and businesses of a country.
National income accounting. A set of rules and definitions for measuring economic activity in the aggregate economy – that is, in the economy as a whole.
Natural monopoly. An industry in which a single firm can produce at a lower cost than can two or more firms.
Necessity. A good that has an income elasticity less than 1.

Negative externality. The effect of a decision on a third party that is not taken into account by the decision maker is detrimental to others.
Net domestic product (NDP). The sum of consumption expenditures, government expenditures, net foreign expenditures, and investment less depreciation.
Net exports. Exports minus imports.
Net foreign factor income. Income from foreign domestic factor sources minus foreign factor income earned domestically.
Net private investment. Gross private domestic investment minus depreciation.
Network externality. Phenomenon that greater use of a product increases the benefit of that product to everyone.
New growth theory. Theory that emphasizes the role of technology rather than capital in the growth process.
NIMBY. Not In My Back Yard. A mindset of approving a project but not wanting it to be nearby.
Nominal deficit. The deficit determined by looking at the difference between expenditures and receipts.
Nominal GDP. GDP calculated at existing prices.
Nominal interest rates. The rates you actually see and pay.
Nominal output. Output as measured at current prices.
Nonlinear curve. A curve that is drawn as a curved line.
Nonrecourse loan program. Program in which government "buys" goods in the form of collateral on defaulting loans.
Nontariff barriers. Indirect regulatory restrictions on exports and imports.
Normal goods. Goods whose consumption increases with an increase in income.
Normal profit. The amount the owners of business would have received in the next-best alternative.
Normative economics. The study of what the goals of the economy should be.
North American Free Trade Agreement (NAFTA). A U.S.-Canada-Mexico free trade zone that is phasing in reductions in tariffs.
North American Industry Classification System (NAICS). An industry classification that categorizes firms by type of economic activity and groups firms with like production processes.

O

Official reserves. Government holdings of foreign currencies.
Official transactions account. The part of the balance of payments account that records the amount of its own currency or foreign currencies that a nation buys or sells.
Okun's rule of thumb (sometimes called **Okun's Law**). A one- percentage-point change in the unemployment rate will cause income to change in the opposite direction by 2 percent.
Oligopoly. A market structure in which there are only a few firms; there are often significant barriers to entry.
Open market operations. The Fed's buying and selling of government securities.
Opportunity cost. The benefit forgone by undertaking a particular activity.
Optimal policy. Policy in which the marginal cost of undertaking the policy equals the marginal benefit of that policy.
Output. A result of a productive activity.
Outsourcing. A firm shifting production from its own plant to other firms, either in the United States or abroad, where wages are lower.

P

Pareto optimal policy. Policy that benefits some people and hurts no one.
Partially flexible exchange rate. The government sometimes buys and sells currencies to influence the price directly, and at other times the government simply accepts the exchange rate determined by supply and demand forces.
Partnership. Business with two or more owners.
Passive deficit or surplus. The part of the deficit or surplus that exists because the economy is operating below or above its potential level of output.
Pay-as-you-go system. Payments to current beneficiaries are funded through current payroll taxes.
Patent. A legal right to be the sole supplier of a good. (Note: A patent is good for only a limited time.)
Per capita growth. Producing more goods and services per person.
Per capita real output. Real GDP divided by the total population.
Perfectly competitive. Describes a market in which economic forces operate unimpeded.
Perfectly elastic. Quantity responds enormously to changes in price (F = infinity).
Perfectly inelastic. Quantity does not respond at all to changes in price (E = 0).
Permanent income hypothesis. Expenditures are determined by permanent or lifetime income.
Personal consumption expenditures. Payments by households for goods and services.
Personal income (PI). National income plus net transfer payments from government minus amounts attributed but not received.
Pie chart. A circle divided into “pie pieces”, where the individual pie represents the total amount and the pie pieces reflect the percentage of the whole pie that the various components make up.
Positive economics. The study of what is, and how the economy works.
Positive externality. The effect of a decision not taken into account by the decision maker is beneficial to others.
Post-Keynesian macroeconomist. Economist who believes that uncertainty is a central issue in macroeconomics.
Potential output. Output that would materialize at the target rate of unemployment and the target rate of capacity utilization.
Potential output curve. Curve that shows the amount of goods and services an economy can produce when both labor and capital are fully employed.
Poverty threshold. The income below which a family is considered to live in poverty.
Present value. A method of translating a flow of future income or saving into its current worth.
Price ceiling. A government- imposed limit on how high a price can be charged.
Price discriminate. To charge different prices to different individuals or groups of individuals.
Price elasticity of demand. The percentage change in quantity demanded divided by the percentage change in price.
Price elasticity of supply. The percentage change in quantity divided by the percentage change in price.
Price floor. A government-imposed limit on how low a price can be charged.
Price index. A number that summarizes what happens to a weighted composite of goods (often called a market basket of goods) over time.

Price stabilization program. Program designed to eliminate short-run fluctuations in prices, while allowing prices to follow their long- run trend line.
Price support program. Program designed to maintain prices at higher levels than the market prices.
Price taker. Firm or individual who takes the market price determined by market supply and demand as given.
Primary financial market. Market in which newly issued financial assets are sold.
Principle of absolute advantage. A country that can produce a good at a lower cost than another country is said to have an absolute advantage in the production of that good. When two countries have absolute advantages in different goods, there are gains of trade to be had.
Principle of comparative advantage. As long as the relative opportunity costs of producing goods (what must be given up in one good in order to get another good) differ among countries, then there are potential gains from trade, even if one country has an absolute advantage in everything.
Principle of diminishing marginal utility. As you consume more of a good, after some point the marginal utility received from each additional unit of a good decreases with each additional unit consumed.
Principle of increasing marginal opportunity cost. In order to get more of something, one must give up ever-increasing quantities of something else.
Principle of rational choice. Spend your money on those goods that give you the most marginal utility (MU) for your money.
Prisoner's dilemma. Well-known game that demonstrates the difficulty of cooperative behavior in certain circumstances.
Private good. A good that, when consumed by one individual, cannot be consumed by other individuals.
Private property rights. Control a private individual or a firm has over an asset or a right.
Producer Price Index (PPI). A measure of the prices of important raw materials, such as steel.
Producer surplus. Price the producer sells a product for less the cost of producing it.
Production. The transformation of the factors of production – land, labor, and capital – into goods.
Production function. The relationship between the inputs (factors of production) and outputs.
Production possibility curve. A curve measuring the maximum combination of outputs that can be obtained from a given number of inputs.
Production possibility table. Table that lists a choice's opportunity costs by summarizing what alternative outputs you can achieve with your inputs.
Production table. A table showing the output resulting from various combinations of factors of production or inputs.
Productive efficiency. Achieving as much output as possible from a given amount of inputs or resources.
Productivity. Output per unit of input.
Profit. A return on entrepreneurial activity and risk taking. Alternatively, what's left over from total revenues after all the appropriate costs have been subtracted. Also: Total revenue minus total cost. Profit-maximizing condition. MR = MC = P.
Progressive tax. Tax whose rates increase as a person's income increases.
Proletariat. The working class.

Proportional tax. Tax whose rates are constant at all income levels, no matter what a taxpayer's total annual income is.
Public assistance. Means-tested social programs targeted to the poor and providing financial, nutritional, medical, and housing assistance.
Public choice economists. Economists who integrate an economic analysis of politics with their analysis of the economy.
Public choice (conservative) model. A model that focuses on economic incentives as applied to politicians.
Public good. A good that if supplied to one person must be supplied to all and whose consumption by one individual does not prevent its consumption by another individual.
Purchasing power parity (PPP). A method of calculating exchange rates that attempts to value currencies at rates such that each currency will buy an equal basket of goods.

Q

Quantity demanded. A specific amount that will be demanded per unit of time at a specific price, other things constant.
Quantity supplied. A specific amount that will be supplied at a specific price.
Quantity theory of money. The price level varies in response to changes in the quantity of money.
Quantity-adjusting markets. Markets in which firms respond to changes in demand primarily by modifying their output instead of changing their prices.
Quota. Limitation on how much of a good can be shipped into a country.

R

Radical economist. Economist who believes substantial equality-preferring institutional changes should be implemented to our economic system.
Rational. What individuals do is in their own best interest.
Rational expectations. Expectations that the economists' model predicts, which is that rational people base their decisions on the best information available, given the cost of that information.
Rational expectations model. All decisions are based upon the expected equilibrium in the economy.
Real deficit. The nominal deficit adjusted for inflation.
Real GDR. Nominal GDP adjusted for inflation.
Real gross domestic product (real GDP). The market value of final goods and services produced in an economy, stated in the prices of a given year. Also: Nominal GDP adjusted for inflation.
Real interest rates. Nominal interest rates adjusted for expected inflation.
Real output. The total amount of goods and services produced, adjusted for price-level changes.
Real-business-cycle theory. A theory that views fluctuations in the economy as reflecting real phenomena – simultaneous shifts in supply and demand, not simply supply responses to demand shifts.
Recession. A decline in real output that persists for more than two consecutive quarters of a year.
Recessionary gap. The amount by which equilibrium output is below potential output.
Regressive tax. Tax whose rates decrease as income rises.

Regulatory trade restrictions. Government-imposed procedural rules that limit imports.
Rent control. A price ceiling on rents, set by government.
Rent-seeking activities. Activities designed to transfer surplus from one group to another.
Reserve ratio. The ratio of reserves to total deposits.
Reserve requirement. The percentage the Federal Reserve System sets as the minimum amount of reserves a bank must have.
Reserves. Currency and deposits a bank keeps on hand or at the Fed or central bank, enough to manage the normal cash inflows and outflows.
Reverse engineering. The process of a firm buying other firms' products, disassembling them, figuring out what's special about them, and then copying them within the limits of the law.
Rosy scenario policy. Government policy of making optimistic predictions and never making gloomy predictions.
Rule of 72. The number of years it takes for a certain amount to double in value is equal to 72 divided by its annual rate of increase.

S

Say's law. Supply creates its own demand.
Scarcity. The goods available are too few to satisfy individuals' desires.
Secondary financial market. Market in which previously issued financial assets can be bought and sold.
Share distribution of income. The relative division of total income among income groups.
Sherman Antitrust Act. A U.S. law designed to regulate the competitive process.
Shift in demand. The effect of anything other than price on demand.
Shift in supply. The graphic representation of the effect of a change in other than price on supply.
Short-run decision. Decision in which the firm is constrained in regard to what production decisions it can make.
Short-run Phillips curve. A downward-sloping curve showing the relationship between inflation and unemployment when expectations of inflation are constant.
Shutdown point. Point at which the firm will be better off if it temporarily shuts down than it will if it stays in business.
Simple money multiplier. The measure of the amount of money ultimately created per dollar deposited in the banking system, when people hold no currency.
Sin tax. A tax that discourages activities society believes are harmful (sinful).
Slope. The change in the value on the vertical axis divided by the change in the value on the horizontal axis.
Social capital. The habitual way of doing things that guides people in how they approach production.
Social Security. A social insurance program that provides financial benefits to the elderly and disabled and to their eligible dependents and/or survivors.
Socialism. Economic system based on individuals' goodwill toward others, not on their own self-interest, and in which, in principle, society decides what, how, and for whom to produce.
Socioeconomic distribution of income. The allocation of income among relevant socioeconomic groupings.
Sole proprietorship. Business that has only one owner.
Soviet-style socialism. Economic system that uses administrative control or central planning to solve the coordination problems: what, how, and for whom.

Special Drawing Rights (SDRs). A type of international money.
Specialization. The concentration of individuals in certain aspects of production.
Stagflation. Combination of high and accelerating inflation and high unemployment.
State socialism. Economic system in which government sees to it that people work for the common good until they can be relied upon to do that on their own.
Stock. Certificates of ownership in a company.
Strategic bargaining. Demanding a larger share of the gains from trade than you can reasonably expect.
Strategic decision making. Taking explicit account of a rival's expected response to a decision you are making.
Strategic pricing. Firms set their price based on the expected reactions of other firms.
Strategic trade policies. Threatening to implement tariffs to bring about a reduction in tariffs or some other concession from the other country.
Structural deficit (or surplus). The part of a budget deficit (or surplus) that would exist even if the economy were at its potential level of income.
Structural unemployment. Unemployment caused by economic restructuring making some skills obsolete.
Substitute. A good that can be used in place of another.
Sunk costs. Costs that have already been incurred and cannot be recovered.
Supplemental Security Income. A federal program that pays benefits based on need to the elderly, blind, and disabled.
Supply. A schedule of quantities a seller is willing to sell per unit of time at various prices, other things constant. Put another way, a schedule of quantities of goods that will be offered to the market at various prices, other things constant.
Supply curve. Graphical representation of the relationship between price and quantity supplied.
Surplus. An excess of revenue over payments.

T

Takeover. The purchase of one firm by a shell firm that then takes direct control of all the purchased firm's operations.
Target rate of unemployment. Lowest sustainable rate of unemployment that policymakers believe is achievable under existing conditions.
Tariff. Tax on imports.
Tax incentive program. A program of using a tax to create incentives for individuals to structure their activities in a way that is consistent with the desired ends.
Tax-based income policies. Policies in which the government tries to directly affect the nominal wage-and price-setting institutions.
Taylor rule. For every percentage point inflation is above (below) the Fed's inflation target, the Fed funds rate will rise (fall) by 1.5 percentage points; for every percentage point the economy's total output is above (below) its potential output, the Fed funds rate will rise (fall) by half a percentage point.
Team spirit. The feelings of friendship and being part of a team that bring out people's best efforts.
Technical efficiency. As few inputs as possible are used to produce a given output.
Technological change. An increase in the range of production techniques that provides new ways of producing goods.

Technological development. The discovery of new or improved products or methods of production.
Technological lock-in. The use of a technology makes the adoption of subsequent technology difficult.
Technology. The way we make goods.
Total cost. Explicit payments to the factors of production plus the opportunity cost of the factors provided by the owners of the firm.
Total revenue. The amount a firm receives for selling its product or service plus any increase in the value of the assets owned by the firm.
Total utility. The total satisfaction one gets from consuming a product.
Trade adjustment assistance programs. Programs designed to compensate losers for reductions in trade restrictions.
Trade deficit. An excess of imports over exports.
Trade surplus. An excess of exports over imports.

U

Unemployment compensation. Short-term financial assistance, regardless of need, to eligible individuals who are temporarily out of work.
Unemployment rate. Total percentage of people in the economy who are willing and able to work but who are not working.
Unexpected inflation. Inflation that surprises people.
Union shop. Firm in which all workers must join the union.
Unit elastic. The percentage change in quantity is equal to the percentage change in price (E = 1).
Utility. The pleasure or satisfaction that one expects to get from consuming a good or service.
Utility-maximizing rule. Utility is maximized when the ratios of the marginal utility to price of two goods are equal.

V

Value added. The increase in value that a firm contributes to a product or service.
Value of marginal product (VMP). An additional worker's marginal physical product multiplied by the price at which the firm could sell that additional product.
Variable costs. Costs that change as output changes.
Velocity of money. The number of times per year, on average, a dollar goes around to generate a dollar's worth of income.
Vertical merger. A combination of two companies that are involved in different phases of producing a product.
Voluntary restraint agreements. Agreements in which countries voluntarily restrict their exports.

W

Wage outsourcing. A firm shifting production from its own plant to other firms, either in the United States or abroad, where wages are lower.
Wealth. The value of the things individuals own less the value of what they owe.
Wealth accounts. A balance sheet of an economy's stock of assets and liabilities.
Wealth effect. A fall in the price level will make the holders of money and of other financial assets richer, so they buy more.

Welfare capitalism. An economic system in which the market is allowed to operate but in which government plays dual roles in determining distribution and making the what, how, and for whom decisions.
Welfare loss triangle. A geometric representation of the welfare cost in terms of misallocated resources that are caused by a deviation from a supply/demand equilibrium.
World Bank. A multinational, international financial institution that works with developing countries to secure low-interest loans.
World Trade Organization (WTO). An organization whose functions are generally the same as GATT's were – to promote free and fair trade among countries. Also: Organization committed to getting countries to agree not to impose new tariffs or other trade restrictions except under certain limited conditions.

X-Z

X-inefficiency. Firms operating far less efficiently than they could technically.

Appendix G
Colloquial Glossary

A

Ads *(noun)*. Short for “advertisements”.
Ain’t *(verb)*. An ungrammatical form of “isn’t”, sometimes used to emphasize a point although the speaker knows that “isn’t” is the correct form.
All the rage *(descriptive phrase)*. Extremely popular, but the popularity is likely to be transitory.
Andy Warhol *(proper name)*. American artist who flourished in the period 1960-1980. He was immensely popular and successful with art critics and the intelligentsia but, above all, he gained worldwide recognition in the same way and of the same quality as movie stars and sports athletes do. His renown has continued even after his death.
Armada *(proper noun)*. Historic term for the Spanish navy. Now obsolete.
Automatic pilot *(noun)*. To be on automatic pilot is to be acting without thinking.

B

Baby boom *(noun)*. Any period when more than the statistically predicted number of babies is born. Originally referred to a specific group: those born in the years 1945–1964.
Baby boomers *(descriptive phrase)*. Americans born in the years 1945 through 1964. An enormous and influential group of people whose large number is attributed to the “boom” in babies that occurred when military personnel, many of whom had been away from home for four or five years, were discharged from military service after the end of World War II.
Back to the drawing board *(descriptive phrase)*. To start all over again after having your plan or project turn out to be useless.
Backfire *(verb)*. To injure a person or entity who intended to inflict injury.
Bailed out *(descriptive phrase)*. To be rescued. It has other colloquial meanings as well, but they do not appear in this book.
Balloon *(verb)*. To expand enormously and suddenly.
Bear market *(noun)*. Stock market dominated by people who are not buying (i.e., are hibernating). Opposite of a bull market, where people are charging ahead vigorously to buy.
Bedlam *(noun)*. Chaotic and apparently disorganized activity. Today the word is not capitalized. A few hundred years ago in England the noun meant the Hospital of St. Mary’s of Bethlehem, an insane asylum. The hospital was not in Bethlehem; it was in London. “Bedlam” was the way “Bethlehem” was pronounced by the English.
Beluga caviar *(noun)*. Best, most expensive, caviar.
Benchmark *(noun)*. A point of reference from which measurement of any sort may be made.
Better mousetrap *(noun)*. Comes from the proverb, “Invent a better mousetrap and the world will beat a path to your door.”
Bidding (or bid) *(verb sometimes used as a noun)*. Has two different meanings. (1) Making an offer, or a series of offers, to compete with others who are making offers. Also the offer itself. (2) Ordering or asking a person to take a specified action.
Big bucks *(noun)*. Really, really large sum of money.
Big Mac *(proper noun)*. Brand name of a kind of hamburger sold at McDonald’s restaurants.
Blow it *(verb; past tense: blew it)*. To do a poor job, to miss an opportunity, to perform unsatisfactorily.
Blowout *(noun)*. Serious release of pent-up emotions or of control over one’s actions.

Boost *(verb and noun)*. To give a sudden impetus, or boost, to something or someone.
Botched up *(adjective)*. Operated badly; spoiled.
Bottleneck *(noun)*. Situation in which no action can be taken because a large number of people or actions is confronted by a very small opening or opportunity.
Brainteaser *(noun)*. Question or puzzle that intrigues the brain, thus "teasing" it to answer the question or solve the puzzle.
Bring home *(verb)*. To emphasize or convince.
Broke *(adjective)*. (1) To "go broke" or to "be broke" is to become insolvent, to lose all one's money and assets. (2) Usually not as bad as to have gone broke – just to be (hopefully) temporarily out of money or short of funds.
Buffalo *(adjective, as used in this book)*. "Buffalo chicken wings" are a variety of tempting food developed in, and hence associated with, the city of Buffalo. (Not all chicken wings are Buffalo chicken wings.)
Bus person *(noun)*. Has no relation to transportation. It's a term for the person who clears the tables in a restaurant.

C

CEO *(noun)*. Abbreviation of "chief executive officer".
Call *(verb)*. In sports refereeing, one meaning of "to call" is for the referee to announce his or her decision on a specific point.
Calvin Coolidge *(proper name)*. President of the United States 1923-1928.
Carriage maker *(noun)*. Person or firm that makes carriages, a type of horse-drawn conveyance almost never seen any more except in films. Members of the British royal family ride in carriages on important ceremonial occasions, such as weddings.
Cellophane *(noun)*. A transparent wrapping material. It differs from plastic wrap in that it is made of cellulose, not plastic.
Center stage *(noun)*. A dominant position.
Central Park West *(proper noun)*. A fashionable and expensive street in New York City.
Charade *(noun)*. A pretense, usually designed to convince someone that you are doing something that you are definitely not doing.
Chit *(noun)*. Type of IOU (literally, "*I owe you*") or coupon with a designated value that can be turned in toward the purchase or acquisition of some item.
Chump change *(noun)*. Insignificant amount of money earned by or paid to a person who is not alert enough to realize that more money could rather easily be earned.
Clear-cut *(adjective)*. Precisely defined.
Clip coupons *(verb)*. To cut coupons out of newspapers and magazines. The coupons give you a discount on the price of the item when you present the item and the coupon at the cashier's counter in a store. Sometimes you are directed to buy the item and then send the coupon and an identifying code from the item's package to the manufacturer, who will mail you the discount.
Clout *(noun)*. Influence or power.
Coffer *(noun)*. A box or trunk used to hold valuable items; hence, "coffers" has come to mean a vault or other safe storage place to hold money or other valuable items.
Coined *(verb)*. "Invented" or "originated".
Coldhearted *(adjective)*. Without any sympathy; aloof; inhuman.
Come up short *(descriptive phrase)*. To be deficient.
Co-opted *(adjective)*. Overwhelmed.

Cornrows *(noun).* Hair style in which hair is braided in shallow, narrow rows over the entire head.
Corvette *(noun).* A type of expensive sports car.
Couch *(verb).* To construct and present an argument.
Crack *(noun).* A strong form of cocaine.
C**ry over spilt milk** *(verb).* To indulge in useless complaint or regret. Note that there is a departure from standard English spelling in this phrase, which uses the spelling "spilt" instead of "spilled". Either is correct, but "spilt" is seldom used. (Another such variation is the rare "spelt" for usual "spelled".)
Cut and dried *(descriptive phrase).* Simple, obvious, and settled.

D

Deadbeat *(noun).* Lazy person who has no ambition, no money, and no prospects.
Deadweight *(noun).* Literally, the unrelieved weight of any inert mass (think of carrying a sack of bricks); hence, any oppressive burden.
Decent *(adjective).* One of its specialized meanings is "of high quality".
Doodle *(noun and verb).* Idle scribbles, usually nonrepresentational and usually made while actively thinking about something else, such as during a phone conversation or sitting in a class.
Down pat *(descriptive phrase).* To have something down pat is to know it precisely, accurately, and without needing to think about it.
Drop in the bucket *(noun).* Insignificant quantity compared to the total amount available.
Dyed-in-the-wool *(adjective).* Irretrievably convinced of the value of a particular course of action or of the truth of an opinion. Literally, wool that is dyed after it is shorn from the sheep but before it is spun into thread.

E

'em *(pronoun).* Careless way of pronouncing "them". Written out, it reproduces the sound the speaker is making.
Energizer bunny *(noun).* Character in a television commercial for Energizer batteries. Just as the batteries are alleged to do, the Energizer bunny keeps going and going.
Esperanto *(noun).* An artificial language invented in the 1880s, intended to be "universal". It is based on words from the principal European languages, and the theory was that all speakers of these European languages would effortlessly understand Esperanto. It never had a big following and today is almost unknown.
Establishment *(noun and adjective).* As a noun, the prevailing theory or practice. As an adjective, something that is used by people whose views prevail over other people's views.

F

Fake *(verb).* To fake is to pretend or deceive; to try to make people believe that you know what you're doing or talking about when you don't know or aren't sure.
Fire *(noun).* To discharge an employee permanently. It's different from "laying off" an employee, an action taken when a temporary situation makes the employee superfluous but the employer expects to take the employee back when the temporary situation is over.
Fix *(verb).* To prepare, as in "fixing a meal". This is only one of the multiplicity of meanings of this verb.

Fleeting *(adverb).* This word's usage is elegant and correct, but rare. It means transitory or short-lived.
Flop *(noun).* A dismal failure.
Follow suit *(verb).* To do the same thing you see others do. Comes from card games where if a card of a certain suit is played, the other players must play a card of that suit, if they have one.
Follow the flag *(verb).* To be committed to doing business only with firms that produce in your own country or in your "colonies" – that is, territories that belong to your country.
Follow the leader *(noun).* Name of a children's game. Metaphorically, it means to do what others are doing, usually without giving it much thought.
Forest for the trees *(descriptive phrase).* To be so focused on details that you don't see the overall situation.
Free lunch *(descriptive phrase).* Something you get without paying for it in any way. Usually applied negatively: There is no "free lunch".
Funky *(adjective).* Eccentric in style or manner.

G

G.L Joe *(noun).* A toy in the form of a boy (as "Barbie" is a girl). Original meaning was "government issue" – i.e., an item, such as a uniform, issued by the U.S. government to a member of the U.S. armed forces, and, by extension, the person to whom the item was issued.
GM *(noun).* The General Motors automobile company.
Gadget *(noun).* Generic term for any small, often novel, mechanical or electronic device or contrivance, usually designed for a specific purpose. For instance, the small wheel with serrated rim and an attached handle used to divide a pizza pie into slices is a gadget. Gee (expletive). Emphatic expression signaling surprise or enthusiasm.
Get across *(verb).* To convince.
Get you down *(descriptive phrase).* Make you depressed about something or make you dismiss something altogether. (Do not confuse with "get it down", which means to understand fully).
Glitch *(noun).* Trivial difficulty.
Go-cart *(noun).* A small engine- powered vehicle that is used for racing and recreation.
Gold mine *(noun).* Metaphorically, any activity that results in making you a lot of money.
Goldilocks *(fictional character).* In a children's story, Goldilocks is a beautiful little girl with blonde curls who emerges unharmed from an encounter with three bears because she is so good and charming.
Good and ready *(descriptive phrase).* Really, really ready.
Good cop/bad cop *(noun).* Alternating mood shifts. It comes from the alleged practice of having two police officers interview a suspect – one officer is kind and coaxing while the other is mean and nasty. This is supposed to make the suspect feel that the nice cop is a safe person to confide in.
Good offices *(descriptive phrase).* An expression common in 18th century England, meaning "services".
Gooey *(adjective).* Sticky or slimy.
Goofed *(verb).* Past tense of the verb to goof, meaning to make a careless mistake.
Got it made *(descriptive phrase).* To succeed.
Grind *(noun).* Slang for necessary intense effort that may be painful but will likely benefit your understanding.
Groucho Marx *(proper name).* A famous U.S. comedian (1885-1977).

Gung-ho *(adjective)*. Full of energy and eager to take action.
Guns and butter *(descriptive phrase)*. Metaphor describing the dilemma whether to devote resources to war or to peace.

H

Haggling *(noun)*. Bargaining, usually in a petty and confrontational manner.
Handout *(noun)*. Unearned offering (as distinct from a gift); charity.
Handy *(adjective)*. Convenient.
Hard liquor *(noun)*. Alcoholic beverages with a high content of pure alcohol. Beer and wine are not "hard liquor" but most other alcoholic drinks are.
Hard up *(adjective)*. Seriously worried.
Hassle *(noun)*. Unreasonable obstacle. As a verb, "to hassle" means to place unreasonable obstacles or arguments in the way of someone.
Hawking *(adjective)*. Selling aggressively and widely.
Heat *(noun)*. Anger, blame, outrage, and pressure to change.
Hefty *(adjective)*. Large; substantial.
Hero sandwich *(noun)*. A type of very large sandwich.
Highfalutin *(adjective)*. American slang term, meaning pretentious, self-important, supercilious.
Hog bellies *(noun)*. Commercial term for the part of a pig that becomes bacon and pork chops. (Also called "**pork bellies**".)
Holds its own *(descriptive phrase)*. Refuses to give up, even in the face of adversity or opposition.
Home free *(descriptive phrase)*. Safe and successful.
Hot air *(descriptive phrase)*. An empty promise. Also, bragging.
Hot dog *(noun)*. A type of sausage.
Hot potatoes *(noun)*. Slang term for anything that everyone wants to avoid confronting.
How come *(expression)*. Why? That is, "How has it come about that... ?"

I

lOU *(noun)*. A nickname applied to a formal acknowledgment of a debt, such as a U.S. Treasury bond. Also an informal but written acknowledgment of a debt. Pronounce the letters and you will hear "I owe you".
"**In**" *(preposition sometimes used as an adjective)*. Placed within quotation marks to show it is used with a special meaning. Here it is used as an adjective, to indicate: "fashionable or popular, usually just for a short period". Compare, in this glossary, "all the rage".
Incidentals *(noun)*. Blanket term covering the world of small items a person uses on a daily basis as the need happens to arise – that is, needed per incident occurring. Examples are aspirin, combs, and picture postcards.
Iron Curtain *(noun)*. Imaginary but daunting line between Western Europe and adjacent communist countries. After the political abandonment of Communism in these countries, the Curtain no longer exists.
It'll *(contraction)*. "It will".

J

Jolt *(noun)*. A sudden blow.

Junk food *(noun).* Food that tastes good but has little nutritional value and lots of calories. It is sometimes cheap, sometimes expensive, and it's quick and easy to buy and eat.
Just say no *(admonition).* Flatly refuse. This phrase became common in the 1970s after Nancy Reagan, the wife of the then-president of the United States, popularized it in a campaign against the use of addictive drugs.

K

Ketchup *(noun).* Spicy, thick tomato sauce used on, among other foods, hot dogs.
Kick in *(verb).* To activate; to start or begin. (Can also mean "to contribute to".)
Kickback *(noun).* A firm's giving part of the price it has received for its product or service back to the firm or individual who authorized the purchase of that product or service. In effect it is a type of bribe or blackmail demanded or expected by a purchaser's agent.
Klutz *(noun).* Awkward, incompetent person.
Knockoff *(noun).* A cheap imitation.

L

Laetrile *(noun).* Substance derived from peach pits, thought by some people to be a cure for cancer.
Late Victorian *(adjective or noun).* Embodying some concept typical of the late period of Queen Victoria. Also, a person from that period or who acts like someone from that period. (Queen Victoria was queen of England from 1837 to 1901.)
Lay off *(verb).* To discharge a worker temporarily.
Lead banker *(noun).* Primary or principal bank or banker in a joint undertaking.
Leads *(noun).* Persons or institutions that you think will be interested in whatever you have to sell. Also the information you have that makes you think someone or something is worth pursuing.
Left the nest *(descriptive phrase).* To have left one's parental home, usually because one has grown up and become self-sufficient.
Levi's (noun). Popular brand of jeans.
Like Greek to you *(descriptive phrase).* Incomprehensible (because in the United States, classical Greek is considered to be a language that almost no one learns).
Lion's share *(noun).* By far the best part of a bargain.
Lobby *(verb and noun).* To lobby is to attempt by organized effort to influence legislation. As a noun, a lobby is an organized group formed to influence legislation. A lobbyist is a member of a lobby.
Lord Tennyson *(proper name).* Alfred Tennyson, 19th century English poet who wrote a poem, Ulysses, about the nobility of effort ("To strive, to seek, to find and not to yield").
Lousy (adjective). Incompetent or distasteful.

M

MBA *(noun).* An academic degree: Master of Business Administration.
Make it *(verb).* To succeed in doing something; for instance, "make it to the bank" means to get to the bank before it closes.
Mall *(noun).* Short for "shopping mall". A variety of stores grouped on one piece of land, with ample parking for all the mall's shoppers and often with many amenities such as covered walkways, playgrounds for children, fountains, etc.
MasterCard *(proper noun).* Brand name of a widely issued credit card.

Mazuma *(noun).* U.S. slang term for money. It was used in the first half of the 20th century but is now rare, to say the least.
Medicaid *(proper noun).* Health insurance program for low-income people. It is administered jointly by the U.S. government and the individual states.
Medicare *(proper noun).* U.S. government health insurance program for people who are disabled or age 65 and over. There is no means test.
Messed up *(adjective).* Damaged or badly managed.
Mind your own business *(admonition).* Don't meddle in other people's affairs; don't ask intrusive questions.
Mind your Ps and Qs *(expression).* Pay close attention to distinctions. It comes from the similarity of the small printed letters "p" and "q" where the only visual distinction is the location of the down stroke. Also, the letters are right next to each other in our alphabet.
Mob *(noun).* Organized criminal activity. Also, the group to which organized criminals belong.
Moot *(adjective).* Irrelevant because the issue in question has already been decided. **Mousetrap** *(noun).* Producing a better mousetrap is part of the saying, "Make a better mousetrap and the world will beat a path to your door". Metaphorically, producing a better mousetrap stands for doing anything better than it has previously been done.

N

NA *(abbreviation).* "Not available".
NASDAQ (also sometimes spelled "**Nasdaq**") *(noun).* Stock market operated by the National Association of Securities Dealers. The "AQ" stands for "Automated Quotations".
NATO *(noun).* North American Treaty Organization. Western alliance for joint economic and military cooperation. It includes the United States, Canada, and several European nations. Nature of the beast (descriptive phrase). Character of whatever you are describing (need not have anything to do with a "beast").
Nicholas Apert *(proper name).* Nineteenth-century French experimenter who discovered how to preserve food by canning or bottling it.
Nirvana *(noun).* This word is adopted from Buddhism. Its religious meaning is complicated, but it is used colloquially to mean salvation, paradise, harmony, perfection. **No way** *(exclamation).* Emphatic expression denoting refusal, denial, or extreme disapproval.
Not to worry *(admonition; also, when hyphenated, used as an adjective).* Don't worry; or, it's nothing to worry about.
Nudge *(noun and verb).* A little push *(noun);* to give a little push *(verb).*

O

Off the books *(descriptive phrase).* Not officially recorded (and hence it's an untaxed transaction).
Off-the-cuff *(adjective).* A quick, unthinking answer for which the speaker has no valid authority (comes from the alleged practice of writing an abbreviated answer on the cuff of your shirt, to be glanced at during an examination).
Oliver Wendell Holmes *(proper name).* A justice of the U.S. Supreme Court, famous for his wit, his wisdom, his literary ability, his advocacy of civil rights, and his long life (1841-1935). On her (his) own (descriptive phrase). By herself (himself); without any help.
On their toes *(descriptive phrase).* Alert; ready for any eventuality.

Op-ed *(adjective).* Describes an article that appears on the "op-ed" page of a newspaper, which is a page devoted to **OP**inion and **ED**itorials.

P

Ps and Qs. See under «Mind.» Park Avenue *(noun).* Expensive and fashionable street in New York City.
Pass the buck *(descriptive phrase).* Evade responsibility by forcing someone else to make the relevant decision.
Peanuts *(noun).* Slang for a small amount, usually money but sometimes anything with a small value.
Pecking order. Hierarchy.
Peer pressure *(descriptive phrase).* Push to do what everyone else in your particular group is doing.
Penny-pincher *(noun).* Person who is unusually careful with money, sometimes to the point of being stingy.
Perks *(noun).* Short for "perquisites".
Philharmonic *(adjective).* A philharmonic orchestra is an orchestra that specializes in classical music. Sometimes used as a noun, as in "I heard the Philharmonic".
Phoenix from the ashes *(descriptive phrase).* Metaphor for coming to life after having been thought to be dead. In ancient Greek mythology, the phoenix was a bird said to (really) rise from the ashes after a fire. (Phoenix, Arizona, was so named because of the hot climate that prevails there.)
Pick up steam *(verb).* As steam pressure increases, the speed of a steam engine increases. When this happens, we say the engine has "picked up steam".
Pickle *(noun).* Dilemma.
Picky *(adjective).* Indulging in fine distinctions when making a decision.
Pie *(noun).* Metaphor for the total amount of a specific item that exists.
Piece of cake *(descriptive phrase).* Simple; easy to achieve without much effort or thought.
Pitt, (Sir) William *(historical figure).* Chief financial officer and prime minister of Britain in the 1780s. He is usually designated "the younger" to distinguish him from his father, who was also a high British government official.
Poorhouse *(noun).* Public institution where impoverished individuals were housed. These institutions were purposely dreary and unpleasant. They no longer officially exist, but they have a modem manifestation: shelters for the homeless.
Pop-Tart *(noun).* Brand name of a type of junk food. It's a sweet filling enclosed in pastry that you pop into the toaster and when the pastry is hot, it pops out of the toaster.
Populist *(noun and adjective).* As a noun, this means a member of a political party that purports to represent the rank and file of the people. As an adjective, it means a political party, a group, or an individual that purports to represent rank and file opinion.
Pound *(noun).* Unit of British currency.
Practice makes perfect *(expression).* The grammar of this phrase is illogical but the meaning is clear.
Premium tires all round *(descriptive phrase).* Premium tires are tires of superior quality. When all the tires on your vehicle are premium tires, you have them "all round".
Presto! *(exclamation).* Immediately.
Proxy *(noun).* A stockholder can give a "proxy" to the firm. It is an authorization that permits the firm's officials to vote for the proposition that the stockholder directs them to vote for. By extension, proxy means a substitute.

Pub *(noun).* Short for “public house”, a commercial establishment where alcoholic drinks are served, usually with refreshments and occasionally with light meals.

Q

Queen Elizabeth *(proper noun).* Here the author means Queen Elizabeth the first (reigned in England from 1558 to 1603).
Quote *(noun).* Seller’s statement of what he or she will charge for a good or service.

R

R&D *(noun).* Research and Development.
Rainy day *(noun).* Period when you (hopefully) temporarily have an income shortage.
Rainy day fund *(descriptive phrase).* Money set aside when you are doing well financially – i.e., in a financially sunny period – to use in case you have a period when you are doing less well financially – i.e., when you run into a financially rainy period.
Raise your eyebrows *(verb).* To express surprise, usually by a facial expression rather than vocally.
Red flag *(noun).* A red flag warns you to be very alert to a danger or perceived danger. (Ships in port that are loading fuel or ammunition raise a red flag to signal danger.)
Red-handed *(adjective).* Indisputably guilty. Comes from being found at a murder or injury scene with the blood of the victim on one’s hands.
Red-lined *(adjective).* On a motor vehicle’s tachometer, a red line that warns at what speed an engine’s capacity is being strained.
Right on! *(exclamation).* Expression of vigorous, often revolutionary, approval and encouragement.
Ring up *(verb).* Before the introduction of computer-type machines that record each payment a retail customer makes – say at the supermarket or a restaurant – a “cash register” was used. When you pressed the keys representing the amount offered by the customer, a drawer sprang open and a bell rang.
Ritzy *(adjective).* Very expensive, fashionable, and ostentatious. Comes from the entrepreneur Caesar Ritz, a Swiss developer of expensive hotels, active in the first quarter of the 20th century.
Robin Hood *(proper name).* Semi-fictional English adventurer of the 12th or 13th century. He “stole from the rich and gave to the poor”.
Rolodex file *(noun).* Manual – as opposed to electronic – device for organizing names, addresses, phone numbers, and e-numbers.
Rule of thumb *(descriptive phrase).* An estimate that is quick and easy to make and is reliable enough for rough calculations. Comes from using the space from the tip of your thumb to the thumb’s first joint to represent an inch.

S

Sacred cow *(noun).* An institution or practice that social and/or political forces dictate is absolutely protected from change of any kind.
Saks *(proper name).* A mid-size department store that sells expensive, fashionable items. There are very few stores in the Saks chain, and Saks stores are considered exclusive. **Savvy** *(adjective).* Slang term meaning very knowledgeable. Adaptation of the French verb, “savoir”, meaning “to know”.

Scab *(noun)*. Person who takes a job, or continues in a job, even though workers at that firm are on strike.

Scraps *(noun)*. Little pieces of leftover food. Also little pieces of anything that is left over: for example, steel that is salvaged from a wrecked car.

Sears Catalog *(proper noun)*. Sears, Roebuck, and Co. is a large chain of stores that sells a wide variety of goods. Before shopping malls, interstate highways, and the Internet, Sears used to have a huge mailing list to which it sent enormous catalogs. A person receiving such a catalog would have information about, and access to, thousands of items, many of which the person might not have known existed before the catalog provided the prospect.

Set up shop *(verb)*. To go into business.

Shell out *(verb)*. To pay money, often somewhat more than you want to pay for the item in question.

Shivering in their sandals *(descriptive phrase)*. Adaptation of standard English idiom, "shivering in their shoes", which means being afraid.

Show up *(verb)*. To put in an appearance, to arrive.

Shorthand *(noun)*. Any of several systems of abbreviated writing or writing that substitutes symbols for words and phrases. Shorthand was widely used in business until the introduction of mechanical and electronic devices for transmitting the human voice gradually made shorthand obsolete. Today it means to summarize very briefly or to substitute a short word or phrase for a long description.

Shy away (*verb)*. To decisively refrain from something. (Comes from the world of horses, who are said to "shy at" things that startle them.)

Silk stockings *(noun)*. Silk stockings for women denoted luxury and extravagance, almost like caviar or pearls. With the development of nylon in 1940, silk stockings for anyone, let alone the queens or factory girls mentioned in this book, joined the dinosaurs in oblivion.

Sixpence (noun). A British coin that is no longer in use. It represented six British pennies and its U.S. equivalent in the 2000s would be about a nickel.

Skin of one's teeth *(descriptive phrase)*. To succeed, but just barely. A micro measure less and one would not have succeeded.

Skyrocket *(verb)*. To rise suddenly and rapidly. As a noun, it means the type of fireworks that shoot into the sky and explode suddenly in a shower of brilliant sparks.

Slow as molasses *(descriptive phrase)*. Very slow. Molasses is a thick, sweet syrup made from sugar cane (known as "treacle" in the United Kingdom) that pours with agonizing slowness from its container.

Sm**all potatoes** *(noun)*. An expression meaning insignificant or trivial.

Smoke screen *(noun)*. Metaphorically, anything used intentionally to hide one's true intentions.

Smoking gun *(noun)*. This term has come to stand for any indisputable evidence of guilt or misdeeds.

Snitch *(verb)*. To engage in petty theft. (This verb has another meaning, which is to betray a person by divulging a secret about that person. If you do that, you are not only snitching, you are a snitch.)

Snowball *(verb)*. To increase rapidly, like a ball of wet snow that grows and grows when it is rolled rapidly in more wet snow.

Soft drink *(noun)*. Nonalcoholic beverage.

Sourpuss *(noun)*. Dour; sulky; humorless. Derives from "sour", which is self-explanatory, and "puss", a slang word for "face".

Spending a penny *(descriptive phrase)*. Spending any money at all. Do not confuse with usage in England, where the phrase means to go to the bathroom.

Squash *(verb).* To crush or ruin.
Squirrel away *(verb).* To hide or conceal in a handy but secret place (as a squirrel stores nuts).
Star Trek *(proper name).* Famous U.S. TV series about life in outer space.
Steady *(noun).* A person to whom you are romantically committed and with whom you spend a lot of time, especially in social activities.
Sticky *(adjective).* Resistant to change, as if glued on.
Strongarm *(adjective).* Repressive and violent.
Super Bowl (noun). Important football game played annually that attracts million of viewers (most of them see the game on TV).
Sucker *(noun).* A gullible person.

T

Tables were turned *(descriptive phrase).* The advantage of one side over the other reverses so that now the winner is the loser and the loser is the winner.
Tacky *(adjective).* In very poor taste.
Take the heat *(verb).* To accept all criticism of one's action or inaction, whether or not one is actually the person that should be blamed.
Take title *(verb).* Legal term meaning to acquire ownership.
Tea control *(noun).* A method of resolving differences by informal but powerful social mechanisms, such as inviting your opponents to tea and settling matters while passing teacups and plates of cake around.
Temp *(noun).* Worker whose job is temporary and who accepts the job with that understanding.
Time-and-a-half *(noun).* In labor law, 150 percent of the normal hourly wage.
Tombstone ad *(noun).* Newspaper advertisement announcing the completion of a stock or bond offering.
Ton *(noun).* A ton weighs 2,000 pounds and an English ton (often spelled "tonne") weighs 2,240 pounds. In this book the term is used most frequently to mean simply "a large quantity".
Tough *(adjective).* Very difficult.
Trendy *(adjective).* A phenomenon that is slightly ahead of traditional ways and indicates a trend. Something trendy may turn into something traditional, or it may fade away without ever becoming mainstream.
Truck *(verb).* To exchange one thing for another. This was Adam Smith's definition in 1776 and it is still one of the meanings of the verb.
Turf *(noun).* Territory, especially the figurative territory of a firm.
Turn of the century *(expression).* The few years at the end of an expiring century and the beginning of a new century. For example: 1998-2002.
Turn up one's nose *(verb).* To reject.
Twinkies *(noun).* Brand name of an inexpensive small cake.

U

Under-the-counter *(adjective).* Secret or concealed by an unscrupulous person. Also see "under the table" below.
Un**der the table** *(descriptive phrase).* To accept money surreptitiously in order to avoid paying taxes on it or to conceal the income for other reasons. Also, to proffer such money to avoid having it known that you are making a particular deal.

Union Jack *(noun)*. Nickname for the British flag.
Up in arms *(adjective)*. Furious and loudly protesting. Comes from the use of “arms” to stand for “firearms”.

V

Vanity license plate (descriptive phrase). One-of-a-kind motor vehicle license plate issued to your individual specification. It might have your name, your profession, or any individual set of letters and numbers you choose that will fit on the plate.
Village watchman *(descriptive phrase)*. Before modern communication technology, in small communities local news was gathered and reported by an official, the village watchman or town crier, who walked around collecting facts and gossip.

W-X

Wadget *(noun)*. Term used by economists to stand for any manufactured good except goods designated as widgets, which see.
Wal-Mart *(proper name)*. A very large store that sells thousands of inexpensive items. There are hundreds of Wal-Marts in the United States and the company is beginning to expand into foreign markets.
Wampum *(noun)*. String of beads made of polished shells, formerly used by North American Indians as money.
Whatever *(noun)*. Designates an unspecified generic item or action when the speaker wants to let you know that it doesn’t matter whether you know the exact item or place.
Wheaties *(proper noun)*. Name of a brand of dry breakfast cereal.
White knight *(noun)*. A company that comes to the rescue of another company. The term comes from the game of chess – some chess sets have white pieces and black pieces – and from the children’s book, Alice Through the Looking Glass, where the story is structured as a game of chess and a chess piece, the white knight, tries to rescue Alice.
Whiz *(noun)*. An expert.
Whopper *(proper noun)*. Brand name of a kind of hamburger sold at Burger King restaurants.
Widget *(noun)*. The opposite of a wadget, which see.
Wild about *(descriptive phrase)*. Extremely enthusiastic about undertaking a particular action or admiring a particular object or person.
Wind up *(descriptive phrase)*. To discover that you have reached a particular conclusion or destination.
With-it (adjective). Current in one’s knowledge.
Wodget *(noun)*. A made-up term for a produced good. Variation of “widget”, which see.
Working off the books *(descriptive phrase)*. Being paid wages or fees that are not reported to the tax or other authorities by either the payer or the payee.
Wound up *(past tense of verb* “*wind up*”*)*. To have found oneself in a particular situation after having taken particular actions.
Writing on the wall *(descriptive phrase)*. To see the writing on the wall is to realize that a situation is inevitably going to end badly. It comes from the Biblical story that Nebuchadnezzar, king of Babylon, saw a fatal prediction written on a wall.

Y-Z

You bet! *(exclamation)*. Expression meaning “It certainly is” or “Absolutely”!

Appendix H

English-Ukrainian Glossary of Economic Terminology

A

abate	*понижувати, робити скидку*
abatement	*скидка, зниження*
price abatement	*зниження цін*
tax abatement	*податкова скидка*
make abatement	*робити скидку*
account	*1. рахунок, запис на рахунок* *2. звіт (фінансовий)* *3. (pl) звітність* *4. (pl) бухгалтерські рахунки* *5. (pl) ділові книги*
accumulation account	*рахунок накопичення*
annual account	*1. річний розрахунок* *2. річний звіт*
assets account	*рахунок активів*
balance account	*балансовий рахунок*
bank account	*рахунок в банку, банківський рахунок*
bills account	*рахунок векселів*
budget account	*1. бюджетний рахунок* *2. банківський рахунок, за яким клієнт оплачує відносно великі суми*
capital account	*1. рахунок капіталу, рахунок основних засобів* *2. рахунок руху капіталів*
closing account	*1. зведений облік* *2. (pl) річна звітність компанії*
cost account	*рахунок витрат*
cumulative account	*кумулятивний рахунок*
current account	*поточний рахунок в банку, контокоррент*
expense account	*рахунок витрат; рахунок підзвітних сум*
fixed assets account	*рахунок основного капіталу*
income account	*рахунок доходів*
income statement account	*рахунок прибутків і збитків*
inventory account	*рахунок товарно-матеріальних запасів*
investments account	*рахунок капіталовкладень*
liabilities account	*рахунок зобов`язань*
loss and gains account	*рахунок прибутків і збитків*
manufacturing account	*рахунок виробничих витрат*
margin account	*маржинальний рахунок (рахунок клієнта у брокера, за яким можна складати договори з маржею)*
operating accounts	*поточні рахунки*
profit-and-loss account	*рахунок прибутків і збитків*
sales account	*звіт про продаж товарів*
stock account	*рахунок цінних паперів*

surplus account	*рахунок прибутків*
accounts payable	*рахунки до оплати*
accounts receivable	*рахунки до отримання*
accountant	*кваліфікований бухгалтер*
chief accountant	*головний бухгалтер*
management accountant	*головний бухгалтер-аналітик*
accounting	*1. облік; бухгалтерський облік* *2. ведення рахунків* *3. офіціальна звітність*
bank accounting	*банківська бухгалтерія (звітність)*
business accounting	*бухгалтерський облік комерційних операцій*
cost accounting	*1. виробничий облік* *2. форма обліку виробничих витрат*
economic accounting	*господарський облік*
financial accounting	*фінансова звітність, бухгалтерський облік підприємства*
income accounting	*1. облік доходів* *2. визначення доходів*
inventory accounting	*облік запасів товарно-матеріальних цінностей*
management accounting	*управлінський облік*
accrued	*нарахований, накопичений, нагромаджений*
accumulated	*накопичений, нагромаджений, нарахований*
accumulation	*накопичення*
acquire	*купляти, придбати*
advertisement	*оголошення, реклама*
aggravation	*погіршення, ускладнення*
allocation	*1. призначення, асигнування* *2. виділення, відчислення* *3. розподілення (суми, кредитів), розміщення капіталу* *4. класифікація*
income allocation	*розподіл доходів*
resources allocation	*розподіл ресурсів*
allocation of capital	*розміщення капіталу*
allocation of costs	*розподіл видатків*
amount	*складати (суму), дорівнювати*
assessment	*1. оцінка* *2. оподаткування* *3. розмір податку*
assets	*активи; засоби; капітал; фонди; власність; майно*
available assets	*вільні активи, ліквідні активи*
balance sheet assets	*балансова вартість активів*
capital assets	*основний капітал, неліквідні активи*
circulating assets	*оборотні активи*
convertible assets	*конвертовані цінності*
corporate assets	*власні цінності акціонерного товариства*
current assets	*поточні активи, оборотний капітал, оборотні засоби*
financial assets	*фінансові активи*
fixed assets	*основний капітал, основні засоби*
intangible assets	*нематеріальні активи*

operating assets	*оперативні активи*
real assets	*реальні активи, нерухоме майно*
reserve assets	*резервні активи*
short-term assets	*короткострокові активи*
short-term liquid assets	*короткотермінові ліквідні активи*
tangible assets	*матеріальні активи*
total assets	*сума балансу*
assets of a company	*активи компанії*
assets of an enterprise	*засоби підприємства*
assets and liabilities	*актив і пасив балансу*
assets receivable	*засоби, які підлягають отриманню*
auditor	*бухгалтер-ревізор, аудитор*
external auditor	*зовнішній аудитор*
independent auditor	*зовнішній ревізор*
internal auditor	*внутрішній ревізор*

B

back (up)	*1. підтримувати, підкріплювати* *2. фінансувати, субсидувати*
balance	*1. баланс, сальдо, залишок* *2. рівновага*
beginning balance	*залишок на початок періоду*
capital and credit balance	*баланси руху капіталів і кредитів*
capital flow balance	*баланс руху капіталів*
cash balance	*касова готівка, залишок каси*
closing balance	*кінцеве сальдо*
ending balance	*залишок на кінець періоду*
trial balance	*попередній баланс, перевірений баланс*
bankruptcy	*банкрутство, неплатоспроможність*
bargain	*торгуватися, домовлятися, вести переговори*
benefit	*користь, пожиток*
bond	*1. боргове зобов'язання, боргова розписка* *2. застава, гарантія, бонд* *3. облігація*
classified bonds	*боргові зобов'язання, випущені різними серіями*
collateral bond	*облігація, забезпечена іншими цінними паперами*
collateral trust bond	*облігація, забезпечена цінними паперами інших компаній*
consolidated bond	*консолідований цінний папір*
convertible bond	*конвертована валюта, яку можна замінити на акцію*
corporate bond	*промислова облігація*
coupon bond	*купонна облігація, облігація на пред'явника*
debenture bond	*1. облігація без спеціального забезпечення* *2. митний сертифікат для зворотнього одержання імпортного мита*
government bond	*державна облігація*
guaranteed bond	*облігація, що гарантована у відношеннях виплати основного боргу або відсотків*

income bonds — *прибуткові облігації, облігація з фіксованим відсотком, які випускаються страховими компаніями; облігації, за якими відсотки виплачуються тільки при наявності прибутку у компанії*
industrial bond — *облігація промислової компанії*
mortgage bond — *облігація, забезпечена нерухомістю*
secured bond — *забезпечена облігація*
treasury bonds — *довгострокові казначейські зобов'язання*
yankee bonds — *облігації, які випускаються в США закордонним емітентом і реєструються в комісії з цінних паперів і бірж*
zero coupon bond — *безкупонна облігація, облігація з нульовим купоном*
to issue bonds — *випускати облігації*
to pay off bonds — *погашати облігації*
to redeem bonds — *погашати облігації*
to retire bonds — *вилучати облігації з обігу*
to secure bond s — *забезпечувати облігації*
bondholder — *власник облігацій*
bonus — *бонус, премія, нагородження, надбавка, додатковий дивіденд*
bookkeeper — *рахівник, бухгалтер*
bookkeeping — *бухгалтерія, бухгалтерський звіт, рахівництво*
borrow — *позичати*
broker — *брокер, маклер, агент, посередник*
budget — *бюджет, фінансовий кошторис*
capital budget — *1. кошторис інвестицій в основний капітал*
2. бюджет капіталовкладень
cash budget — *готівковий бюджет*
master budget — *головний бюджет*
national budget — *національний бюджет*
operating budget — *поточний бюджет*
business — *1. справа, робота, бізнес*
2. торгівля, комерційна діяльність
3. компанія, підприємство
4. угода
bankrupt business — *збанкрутіле підприємство*
branch business — *відділ фірми*
joint business — *спільне підприємство*

C

calculation — *підрахування, розрахунок*
capacity — *виробнича потужність*
capital — *капітал*
capital consumption — *використання капіталу*
capital dimension — *капіталоємкість*
capital equipment — *основне обладнання*
current capital — *оборотний капітал, оборотні кошти*

equity capital	*основний капітал, активи тривалого користування*
live / circulating capital	*оборотний капітал*
initial capital	*первісний капітал*
productive capital	*виробничий капітал*
charges	*нараховування; нарахування; збір; витрати; плата*
additional charges	*додаткові витрати*
direct charges	*прямі витрати*
claim	*претензія, заявка*
commitment	*зобов'язання*
commodity	*1. сировина, товар*
	2. продукт
convertibility	*оборотність*
consumption	*споживання*
co-owner	*співвласник*
copyright	*авторське право*
cost (s)	*1. вартість, собівартість; ціна*
	2. затрати, витрати
cost accounting	*калькуляція*
cost analysis	*аналіз витрат*
costing	*калькуляція собівартості*
credit	*кредит*
currency	*валюта*
curve	*крива*
supply curve	*крива попиту*
demand curve	*крива пропозиції*

D

data (*sing.* datum)	*дані*
debt(s)	*борг; заборгованість; зобов'язання*
national debt	*державний борг*
debtor	*дебітор, боржник*
decrease	*зниження, зменшення*
deduction	*вирахування; утримання*
deficiency	*недостача*
deficit	*дефіцит*
federal deficit	*федеральний дефіцит*
demand	*попит*
deposit	*вклад у банку, депозит; класти на рахунок, депонувати*
depreciation	*знецінення, зниження вартості*
depression	*депресія, застій*
discount	*знижка, дисконт*
dividend	*1. дивіденд*
	2. доля, частина
draft	*1. тратта*
	2. проект

E

earnings	*1. дохід, прибуток*
	2. заробіток
economics	*1. економіка, народне господарство*
	2. економічна наука
business economics	*економічний аналіз*
consumer economics	*економіка споживача*
farm economics	*економіка сільського господарства*
industrial economics	*економіка промисловості*
Keynesian economics	*кейнсіанська економічна теорія*
planned economics	*планова економіка*
economist	*економіст*
senior economist	*старший економіст*
economy	*1. господарство*
	2. економія, заощадливість
	3. заощадження
advanced economy	*розвинута економіка*
barter economy	*бартерна економіка*
black economy	*тіньова економіка*
command economy	*командна економіка*
commodity economy	*товарна економіка*
capitalist economy	*капіталістична економіка*
developed economy	*розвинута економіка*
developing economy	*економіка, що розвивається*
domestic economy	*внутрішня економіка*
free-enterprise economy	*економіка вільного підприємництва*
industrial economy	*промислова економіка*
mixed economy	*змішана економіка*
national economy	*національна економіка*
planned economy	*планова економіка*
shadow economy	*тіньова економіка*
stable economy	*стійка економіка*
stagnant economy	*застійна економіка*
unstable economy	*нестійка економіка*
efficiency	*ефективність; продуктивність*
eliminate	*вилучати, усувати*
employee	*службовець, особа найманої праці, робітник*
employer	*роботодавець*
employment	*1. робота (за наймом)*
	2. заняття, професія
entity	*1. економічна одиниця*
	2. самостійна компанія
entrepreneur	*підприємець*
entry	*запис, проводка*
equation	*1. вирівнювання*
	2. рівняння
	3. збалансованість

accounting equation	*1. бухгалтерська збалансованість*
	2. балансове рівняння
equilibrium point	*точка рівноваги*
equipment(capital)	*обладнання (основне)*
equity	*1. звичайна акція*
	2. акціонерний капітал; доля в капіталі підприємства
	3. різниця між сумарними активами та пасивами
owner's equity	*власний акціонерний капітал*
estimate(s)	*1. оцінка*
	2. кошторис
estimation	*розрахунок, оцінка*
exchange	*1. обмін, товарообмін*
	2. біржа
	3. іноземна валюта, курс (іноземної валюти)
commodity exchange	*товарна біржа*
employment exchange	*біржа праці, центр зайнятості*
foreign exchange	*іноземна валюта*
mercantile exchange	*товарний обмін*
stock exchange	*фондова біржа*
expense(s)	*витрати; видатки; затрпти*
accrued expenses	*накопичені витрати*
operating expenses	*експлуатаційні витрати, поточні витрати*
production expenses	*витрати виробництва*
shipping expenses	*витрати на перевезення*
travelling expenses	*витрати відрядження, дорожні витрати*

F

facilities	*1. зручності*
	2. грошові засоби, кредит
	3. обладнання
failure	*невдача; банкрутство; несправність; невиконання*
factor of production	*фактор виробництва*
fee	*плата за послуги, гонорар*
fiscal	*фіскальний, фінансовий*
franchise	*1. пільга, привілеї*
	2. франшиза
franchiser	*1. особа чи компанія, що має привілеї*
	2. компанія, що має патент на яку-небудь діяльність
fund	*1. запас, резерв, фонд*
	2. фонди, грошові запаси
	3. державні цінні папери
mutual fund	*взаємний фонд*
pension fund	*пенсійний фонд*
reserve fund	*резервний фонд, резервний капітал*
sinking fund	*фонд погашення, викупний фонд*
futures	*угоди на термін, ф'ючерсні угоди*

G

gains	*прибуток, доходи, приріст*
goods	*матеріальні блага, товари; вантаж*
gross margin	*валовий прибуток*
growth	*ріст, розвиток*

H

handle	*1. управляти, керувати*
	2. обробляти
hedging	*геджування*
holding company	*холдингова компанія*

I

immovables	*нерухоме майно*
incomings	*надходження*
increase	*приріст, збільшення*
increase (by)	*збільшуватись (на), зростати*
cost increase	*зростання вартості*
pay increase	*зростання зарплати*
tax increase	*зростання податків*
index (*pl.* indices)	*індекс*
consumer price index	*індекс споживчих цін*
producer price index	*індекс цін виробників*
inflation	*інфляція*
cost-push inflation	*інфляція, стимульована зростанням витрат*
demand-pull inflation	*інфляція, викликана зростанням попиту*
insolvency	*неплатоспроможність*
insurance	*1. страхування*
	2. страховий поліс
interest	*відсоток, відсотковий дохід; пай*
accrued interest	*процентний дохід, який ще не виплачений*
accrued interest payable	*рахунок накопичених відсотків до оплати*
accrued interest receivable	*рахунок накопичених відсотків до отримання*
accumulated interest	*ставка відсотка*
current interest	*поточний відсоток*
earned interest	*отримані відсотки*
fixed interest	*фіксована відсоткова ставка*
gross interest	*загальний відсоток на капітал*
net interest	*чистий відсотковий дохід*
paid interest	*виплачений відсоток*
intermediary	*посередник*
inventory	*список, каталог, інвентаризаційний опис*
	2. товарно-матеріальні запаси
	3. інвентаризація
investments	*інвестиції, капіталовкладення*
invoice	*рахунок-фактура*

issue	*випуск, емісія*
item	*1. стаття, пункт*
	2. виріб

K

know-how	*технологія виробництва*

L

labour	*робоча сила, робота*
ledger	*бухгалтерська книга, головна книга*
liability	*1. зобов'язання*
	2. борг, заборгованість, грошове зобов'язання
	3. відповідальність, повинність
	4. (бухг.) пасив
accrued liabilities	*зобов'язання, що накопичилось; нараховані зобов'язання*
current liabiliies	*поточні зобов'язання*
deferred liabilities	*відстрочені з обов'язання.*
financial liabilities	*фінансова відповідальність*
liquidity	*ліквідність*
loan	*позика, кредит, позичка*
bank loan	*банківський кредит, банківська позика*
broker's loan	*брокерська позичка*
business loan	*позика, що надається діловим підприємствам*
call loan	*кредит до вимоги*
commercial loan	*комерційний кредит, позика*
customer's loan	*споживчий кредит*
demand loan	*позика, (-чка) до запитання*
discount loan	*позика із заздалегідь виплаченими відсотками*
fixed loan	*довгострокова позика, (-чка)*
industrial loan	*промисловий кредит*
interest bearing loan	*процентна позика (-чка), кредит*
interest – free loan	*безвідсоткова позика, кредит*
inventory loan	*позика, кредит забезпечений товарними запасами*
long loan	*довгострокова позика (-чка), довгостроковий кредит*
overdue loan	*прострочена позика, прострочений кредит*
personal loan	*позика, кредит приватній особі*
purpose loan	*цільовий кредит*
shot loan	*короткострокова позика (-чка), кредит*
loan at interest	*позика, кредит під відсотки*
loan on goods	*позика, кредит під заставу товарів*
loan on mortgage	*позика, кредит під заставу*
allow a loan	*надавати позику, кредит*
apply for a loan	*звертатися за позикою чи кредитом*
disburse a loan	*погашати позику, кредит*
get a loan	*отримувати позику, кредит*
liquidate a loan	*погашати позику, кредит*
issue a loan	*випускати позику*

negotiate a loan	*складати договір про позику чи кредит*
pay a loan	*погашати позику*
redeem a loan	*погашати позику, кредит*
repay a loan	*погашати позику*
sink a loan	*погашати позику*
loss (es)	*збитки, витрати*
loss natural	*природні збитки*
lot	*1. партія*
	2. лот
round lot	*повний лот (100 акцій)*

M

machinery	*машини; обладнання*
macroeconomics	*макроекономіка*
maintenance	*утримання, експлуатаційні витрати*
management	*управління, керівництво, адміністрація*
manufacture	*виробництво, обробка, продукція*
margin	*1. допустима межа*
	2. прибуток
	3. маржа, різниця, залишок
market	*1. ринок, торгівля*
	2. біржа
	3. торгівля
marketing	*1. торгівля, збут*
	2. маркетинг
medium	*засіб, спосіб, посередник*
merchant	*торговець, купець*
merge	*зливатися, з'єднуватися*
microeconomics	*мікроекономіка*
mortgage	*застава, іпотека*

N

needs	*потреба*
note	*1. запис*
	2. накладна
	3. розписка (боргова); простий вексель
	4. банківський білет

O

operate	*1. працювати*
	2. експлуатувати
	3. управляти
outlay	*1. витрати, видатки*
	2. капіталовкладення
output	*1. випуск, продукція*
	2. продуктивність

owner's equity	*власний капітал*
ownership	*власність; володіння*

P

par value	*номінальна вартість*
partnership	*1. участь* *2. товариство, компанія*
limited partnership	*товариство з обмеженою відповідальністю*
pass	*заносити (на рахунок), робити бухгалтерський запис*
payable	*підлягає сплаті, до платежу*
penalty	*штраф*
policy	*політика*
fiscal policy	*фіскальна політика*
monetary policy	*валютна політика*
portfolio	*портфель*
premises and facilities	*приміщення і обладнання*
prepayment	*попередня оплата*
price	*ціна*
principal	*1. голова* *2. комітент* *3. основна сума, капітал*
product	*продукт, продукція, виріб*
gross national product (GNP)	*валовий національний продукт*
net national product (NNP)	*чистий національний продукт*
production	*виробництво*
productivity	*виробництво, продуктивність, продукція*
profit	*прибуток, дохід*
property	*1. майно* *2. власність* *3. властивість*
purchase	*покупка, закупівля*
purchaser	*покупець*
purchasing power	*купівельна спроможність*

Q

qualification	*кваліфікація, умова. ценз*
qualified	*компетентний*
qualitative	*якісний*
quality	*якість, сорт*
quality guarantee	*гарантія якості*
quantity	*кількість, розмір, величина*
quarterly	*квартальний*
quota	*доля, частина, квота*
quotation	*1. котування, курс* *2. пропозиція*
quote	*встановлювати ціну*

R

rate	*1. ставка*
	2. курс, ціна
	3. відсоток, доля
exchange rate	*курс обміну, валютний курс*
interest rate	*відсоткрова ставка*
ratio	*коефіцієнт, співвідношення*
reallocation	*перерозподіл*
receipt	*1. отримання;*
	2. розписка про отримання; квитанція;
	3. грошові надходження; виручка; дохід
cash receipt	*касові надходження*
delivery receipt	*розписка про отримання товару*
receivables	*дебіторська заборгованість*
recession	*спад*
record	*1. запис*
	2. протокол
	3. реєстрація, облік
	4. документація,облікові документи
accounting records	*бухгалтерські рахунки*
annual record	*річний звіт*
cost records	*облік цінних паперів; документи, які фіксують різні види витрат*
daily record	*добова відомість*
sales record	*торгівельний облік*
stock record	*облік товарних запасів*
redemption of debts	*погашення заборгованості*
reimbursement of cost	*відшкодування витрат*
rental (s)	*орендна плата, доходи від оренди*
repair	*ремонт*
report	*звіт, доповідь*
reserve	*резерв, запас*
retail	*роздрібний*
retained earnings	*нерозподілений прибуток*
retention	*утримання, нерозподілений прибуток*
return (s)	*1. оборот*
	2. дохід, прибуток, надходження
revaluation	*переоцінка*
revenue	*дохід*

S

salary	*оклад*
sale	*продаж, реалізація, збут, торгівля*
securities	*цінні папери*
sell-financing	*самофінансування*
sell-off	*розпродаж*
settlement	*оплата, розрахунок, погашення*

share	*1. доля, частина, пай*
	2. (брит.) акція
shareholder	*пайовик, акціонер*
sheet	*лист, відомість, список*
accounting balance sheet	*бухгалтерський баланс*
balance sheet	*балансовий звіт*
budgetary sheet	*бюджетний баланс*
cumulative balance sheet	*зведений баланс*
pay sheet	*платіжна відомість*
shipment	*1. вантаж, партія*
	2. (від)завантаження
shortage	*нестача*
slip	*лист, бланк; реєстраційна картка*
deposit slip	*бланк для внесення депозиту*
order slip	*бланк замовлення*
paying slip	*платіжна розписка*
sales slip	*касовий чек*
wage slip	*платіжна відомість*
sole proprietorship	*одноособова власність*
spending	*видатки, розхід*
stagflation	*стагфляція*
stagnation	*застій, стагнація*
statement	*1. заява, твердження*
	2. звіт
	3. відомість, смета, рахунок
account statement	*виписка з банківського лицьового рахунку*
accounts receivable statement	*виписка рахунків дебіторів*
budget statement	*проект бюджету*
cash statement	*звіт про стан готівки*
income statement	*1. звіт про прибутки і збитки*
	2. звіт про прибутки
financial statements	*фінансовий звіт за певний період*
profit and loss statement	*звіт про прибутки і збитки*
stock	*1. запас, резерв, фонд*
	2. асортимент (товару)
	3. власність, інвентар
	4. сировина
	5. капітал, акціонерний капітал
	6. акція
	7. цінні папери, облігації
accumulated stock	*накопичені запаси*
capital stock	*акціонерний капітал*
common stock	*звичайна акція*
cumulative stocks	*кумулятивні акції*
cumulative preferred stocks	*кумулятивні привілейовані акції*
debenture stock	*цінний папір без спеціального забезпечення*

equity stocks	*звичайна акція*
municipal stocks	*муніципальні облігації*
par value stock	*акція з номіналом*
penny stocks	*дрібні акції*
preference stocks	*привілейовані акції*
treasury stocks	*казначейські цінні папери; власні акції компанії*
unsecured stocks	*незабезпечені облігації*
stockholder	*акціонер, пайовик*
supply	*1. пропозиція*
	2. постачання, запаси, ресурси
surplus	*надлишок, активне сальдо*
earned surplus	*нерозділений прибуток*
system	*система, спосіб, метод*
accounting system	*система обліку*
Federal Reserve System	*Федеральна резервна система*
free market system	*система вільного ринку*
systemize	*систематизувати*

T

table	*таблиця*
take-over	*поглинання (компанії)*
tax	*1. податок,збір*
	2. (амер.) розмір рахунку
accrued tax	*накопичений борг по сплаті податків*
capital tax	*податок на капітал*
corporate tax	*податок на прибутки корпорацій*
deferred tax	*відстрочені податки*
direct tax	*прямий податок*
export tax	*експортне мито*
import tax	*імпортне мито*
income tax	*податок на дохід*
income tax on individuals	*податок на дохід з фізичних осіб*
national tax	*загальнодержавний податок*
payroll tax	*податок на заробітну плату*
profits tax	*податок на прибуток*
real estate tax	*податок на нерухомість*
receipts tax	*податок з обороту*
sales tax	*(амер.) податок з обороту, податок з продажу*
securities tax	*податок на цінні папери*
stockholder's tax	*податок на дохід по акціях*
trade tax	*промисловий податок*
transaction tax	*податок з обороту*
value-added- tax (VAT)	*податок на додану вартість*
term	*термін*
total	*підсумок, сума*
trade	*1. торгівля*
	2. заняття, професія

trademark *товарний знак*
transfer
1. *перенесення, переміщення*
2. *трансферт, документ про передачу*

treasury *державна скарбниця, казна*
treatment *обробка, режим*
turnover *оборот, оборотність*
asset turnover *оборотність активів*
goods turnover *товарооборот (-обіг)*
inventory turnover *оборотність товарних запасів*
stock turnover *оборотність товарних запасів; оборот акцій*

U

ultimate *кінцевий, останній*
understate *занижувати*
unit *одиниця; ціле; організаційна одиниця*
accountability unit *одиниця обліку*
unwarranted *негарантований*
use
1. *використання, застосування*
2. *вигода, користь*

dual use *подвійне використання*
utilities *плата за комунальні послуги, комунальні служби*
utilization *використання, застосування*
utilization of cash *використання готівки*

V

value
1. *цінність*
2. *вартість*
3. *ціна*

variable *змінна величина, параметр*

W

warrant *довіреність, гарантія, варрант, купон*
wholesale *оптовий, гуртовий*
withdraw
1. *брати назад, анулювати*
2. *знімати з рахунку*

Appendix I

Ukrainian–English Glossary of Economic Terminology

A

абандон	*abandonment*
1) відмова від нерухомості у зв’язку з її неприбутковістю, непродуктивністю, заборгованістю за нього; 2) відмова спадкоємців від майна на користь кредиторів.	
аваль	*aval*
(порука, співпідпис на векселі; вексельне гарантування, за яким особа, що його здійснює, бере на себе відповідальність перед власником векселя за виконання зобов’язань щодо оплати цього векселя)	
аванс	*advance / prepayment*
(грошова сума або майнова цінність, що видається в рахунок майбутніх платежів)	
агент	*agent*
1) фізична або юридична особа, котра виконує функції довіреної особи, посередника, уповноваженого здійснювати певні дії від імені іншої особи (принципала) за дорученням і в інтересах цієї особи; 2) гуртовий торговець, який представляє інтереси продавця чи покупця на відносно постійній основі та виконує певні функції без права власності на товар.	
агент торговий	*commercial agent / dealer*
агентство/агенція	*agency*
агентство рекламне	*advertising agency*
акредитив	*letter of credit*
1) грошовий документ, за яким однакредитна установа (банк) згідно з заявою клієнта доручає іншій здійснити за рахунок спеціально заброньованих для цього коштів оплату товарно-транспортних документів за відвантажені товари чи надані послуги або виплатити пред’явникові А. певну суму грошей; 2) іменний цінний папір, що підтверджує право особи, на ім’я якої його виписано, отримати в банку вказану в А. суму.	
актив	*assets*
1) частина бухгалтерського балансу (ліва сторона), яка відображає на певну дату всі належні підприємству активи (матеріальні цінності, кошти, боргові вимоги); 2) майнові права (майно), що належать фізичній або юридичній особі; 3) перевищення грошових надходжень держави, одержуваних із-за кордону (наприклад, від експорту товарів, робіт чи послуг), над її закордонними виплатами.	

акціонер — *shareholder / stockholder*
(учасник акціонерного товариства, який є власником певної кількості акцій)

акція — *share / stock*
(цінний папір без визначеного часу обігу, що засвідчує часткову участь його власника у статутному фонді акціонерного товариства, підтверджує членство в акціонерному товаристві та право на участь в управлінні ним, дає власникові право на одержання частини прибутку у вигляді дивіденду, а також на участь у розподілі майна в разі ліквідації акціонерного товариства)

акція без номінальної вартості — *share without par value / no par value stock*
(акція, що на час випуску не забезпечена відповідними активами і в якій не зазначено її номінальної вартості)

акція засновницька — *founder shares / promoter stocks*
(вид акцій, що поширюються серед засновників акціонерної компанії і дають їм певні переваги, зокрема додаткові голоси на зборах акціонерів, право першочергової купівлі акцій подальших випусків)

акція конвертована (конвертовна) — *convertible stock*
(привілейована акція, власник якої має право за певних умов обміняти її на прості (звичайні) акції)

акція кумулятивна — *cumulative share / stock*
(привілейована акція, що дає право її власникові отримати в майбутньому проценти, нагромаджені за ті роки, коли компанія не могла їх виплатити через фінансові проблеми)

акція некумулятивна — *noncumulative share / stock*
(привілейована акція з фіксованим доходом, за якою не виплачені вчасно дивіденди не нагромаджуються)

акція привілейована — *preference share / stock, preferred shares*
(привілейовані акції дають власникові переважне право на одержання дивідендів, а також на пріоритетну участь у розподілі майна акціонерного товариства в разі його ліквідації)

амортизація — *amortization / depreciation*
1) систематичний розподіл вартості, яка амортизується, чи необоротних активів упродовж терміну їх корисного використання (експлуатації);
2) елемент витрат, до якого включають суму нарахованої амортизації основних засобів та нематеріальних активів;
3) визнання боргового зобов’язання недійсним унаслідок його втрати або викрадення.

аналіз — *analysis*

анкета — *questionnaire / list / set of questions*

асортимент товарів — *commodity assortment / range of goods*

асоціація — *association*

аудит (перевірка офіційної бухгалтерської звітності, обліку, первинних документів та іншої інформації щодо фінансово-господарської діяльності суб'єктів господарювання з метою визначення достовірності їх звітності, обліку, його повноти і відповідності чинному законодавству)	*audit*
аудитор	*auditor*

Б

база економічна (технічна)	*economic (technical) base*
баланс (спосіб групування цифрових показників, що характеризують певне явище (зокрема наявність і використання матеріальних, трудових, фінансових ресурсів), через зіставлення або протиставлення окремих його сторін)	*balance*
баланс бухгалтерський (основна форма бухгалтерської звітності підприємства, що показує в грошовій формі його активи, зобов'язання і власний капітал)	*balance sheet*
баланс грошових доходів і витрат населення	*balance of cash incomes and expenditures of the population*
баланс доходів і витрат підприємства	*balance of incomes and expenditures of the enterprise*
баланс платіжний (система показників, які характеризують співвідношення між сумою фактичних грошових надходжень із-за кордону та сумою платежів іншим державам за певний період (рік, квартал, місяць) або на певну дату)	*balance of payments / foreign balance*
баланс попиту і пропозиції (баланс, який характеризує обсяги, структуру й співвідношення попиту певних видів товарів)	*balance of demand and supply*
банк	*bank*
банк акціонерний (банк, статутний капітал якого формується внаслідок емісії та продажу акцій)	*joint-stock bank / incorporated bank*
банкрут	*bankrupt*
банкрутство (неспроможність боржника (підприємства, банку, іншої організації чи окремої особи) платити за своїми борговими зобов'язаннями та виконувати зобов'язання перед бюджетом)	*bankruptcy*
бартер (прямий безгрошовий обмін товарами чи послугами, породжений товарно-грошовим дефіцитом усередині країни та валютним дефіцитом в міжнародних угодах)	*barter*
безробіття	*unemployment*

бізнес	*business*
бізнес малий	*small business*
бізнесмен	*businessman*
білет банківський/банкнота (кредитні знаки грошей, що їх випускають емісійні банки для заміни металевих грошей як засіб обігу й платежу)	*banknote*
біржа (установа та організаційна форма гуртової (зокрема міжнародної) торгівлі масовими товарами (товарна Б.) або центр систематичних операцій щодо купівлі-продажу цінних паперів (фондова Б.), золота і валюти (валютна Б.), а також робочої сили (Б. праці).	*exchange*
біржа термінова	*futures exchange / terminal market*
біржа товарна	*commodity exchange*
біржа фондова	*stock exchange*
бонд 1) облігація з фінансовим прибутком, за якою її емітент зобов'язується сплатити власникові зазначену суму коштів у певний, наперед визначений момент у майбутньому або регулярно оплачувати річні (піврічні) проценти; 2) гарантія, застава.	*bond*
бони тільки множина 1) короткотермінові боргові зобов'язання у формі цінних паперів (кредитних документів), за якими їх власник може отримати певну суму грошей чи інші цінності; 2) паперові грошові знаки малого капіталу, що тимчасово випускаються в обіг для забезпечення потреби в розмінних грошах.; 3) вилучені з обігу паперові гроші, що стали предметом колекціонування.	*bonds*
боргбезнадійний (борг, про який відомо, що його не буде повернено, тому його зараховують до збитків)	*bad debts*
брокер (офіційний посередник в укладанні угод між зацікавленими сторонами на біржі)	*broker*
бум біржовий (різке тимчасове підвищення цін на товари чи курсу цінних паперів)	*stock-market boom*
бухгалтерія	*book-keeping / accountancy*
бухгалтерія подвійна	*double-entry book-keeping*
бюджет	*budget*

В

валюта	*currency*
валюта вільно конвертована (валюта, що вільно й необмежено обмінюється на інші чужоземні валюти)	*convertible / hard currency*
валюта тверда (валюта, стійка щодо власного номіналу, а також курсів інших валют. Забезпечена золотом чи іншими цінностями (коштовностями, товарами)	*hard currency*
вантаж	*load / cargo / freight*
вартість (виражена в грошах цінність будь-чого або величина витрат на будь-що. В. є тією реальною базою, що робить гроші і товар економічно тотожними поняттями. Товар обмінюється на гроші, а гроші на інший товар завдяки тому, що ці ринкові категорії мають спільну основу - В.)	*cost / value*
вартість додаткова (частина вартості товару, що виступає як чистий прибуток від господарської діяльності; В.д. є одним із джерел утворення національного доходу; величина створюваної на підприємстві В.д. залежить від технічного рівня виробництва, а в масштабі держави – від ефективності економіки загалом)	*surplus value*
вексель (цінний папір, що засвідчує безумовне грошове зобов'язання боржника (векселедавця) сплатити у певний термін зазначену суму грошей власникові векселя (векселетримачеві).	*bill (of exchange) /paper / note*
виробник	*producer / manufacturer*
виробництво товарне	*commodity production*
витрати	*expenditure / expenses*
витратиграничні	*marginal cost*
відкуп (викуп раніше проданого ф'ючерсного контракту з метою припинення зобов'язань за ним)	*redemption*
відносини економічні міжнародні	*international economic relations*
відносини ринкові	*market relations*
відносини товарно-грошові	*commodity-money relations / trade connections*
відсоток	*interest / per cent*
вклад	*deposit*

Г

галузь	*branch / field*
геджування (форма страхування вартості товару або прибутку,	*hedging*

валютного ризику при здійсненні ф'ючерсних угод у банківській, страховій, біржовій та комерційній практиці шляхом укладання протилежної угоди)

гроші	*money*

Ґ

ґарантія	*guarantee / warranty*
ґросбух (головна книга в бухгалтерії)	*ledger*

Д

дебентура 1) свідоцтво митниці на повернення мита у разі вивезення за кордон товарів, увезених раніше зі сплатою мита; 2) незабезпечений довготерміновий кредит; 3) боргове зобов'язання (вексель, корпоративна облігація тощо), видане без конкретного забезпечення під загальний розвиток емітента (позичальника) і довіру до його кредитоспроможності.	*debenture*
дебет (ліва сторона бухгалтерських рахунків, що служить для відображення господарських операцій методом подвійного запису)	*debit*
дебітор 1) юридична або фізична особа, що має документально зафіксовану в бухгалтерських відомостях фінансову заборгованість певному підприємству, організації чи установі; 2) у міжнародних відносинах – країна, що має від'ємний платіжний баланс.	*debtor*
демпінг (продаж товарів на ринках інших країн за цінами, нижчими від витрат виробництва (собівартості цих товарів), з метою отримання конкурентних переваг в експорті на той чи інший ринок)	*dumping*
депозит (гроші або цінні папери, віддані на зберігання до банку чи інших фінансово-кредитних установ)	*deposit*
депресія (стан економіки, який характеризується застійними явищами, низьким рівнем заробітної плати, падінням виробництва, посиленням безробіття)	*depression*
дефіцит (нестача певного ресурсу, зокрема споживчого, в мікроекономіці; перевищення витрат над доходами в	*deficit / deficiency / shortage*

макроекономіці, зокрема валютна, фінансова чи товарно-грошова незбалансованість (нестача грошових чи матеріальних цінностей порівняно з потребою в них)

дефіцит бюджетний *budget deficit*

дефляція *deflation*

(вилучення з обігу частини грошової маси з метою запобігання її росту і придушення темпів інфляції)

диверсифікація *diversification*

1) розширення сфер діяльності підприємства, номенклатури (асортименту) його товарів і послуг, а також використовуваних ним фінансових інструментів з метою мінімізації рівня господарських ризиків;

2) один із напрямів інвестиційної політики підприємства, який полягає в інвестуванні коштів у різні види цінних паперів для мінімізації портфельного інвестиційного ризику, збільшення дохідності, ліквідності та нарощення капіталу.

дивіденд *dividend*

1) частина чистого прибутку акціонерного товариства, котра щорічно розподіляється серед акціонерів відповідно до частки їх участі у власному капіталі товариства;

2) доходи, отримувані суб’єктом оподаткування згідно з корпоративними правами у вигляді частини прибутку юридичної особи, включаючи доходи, нараховані як проценти на акції чи на внески до статутних фондів (за винятком доходів, отриманих від інших видів цінних паперів, від їх продажу, а також доходів від операцій з борговими зобов’язаннями та вимогами).

дилер *dealer*

1) фізична або юридична особа, що здійснює перепродаж товарів, а також цінних паперів і валют. Головною особливістю операцій Д. є те, що він провадить їх від свого імені та власним коштом.

2) учасник бізнесу, агент дилерської мережі фірми-виробника чи посередника, яка закуповує продукцію гуртом, а продає вроздріб або меншими партіями на регіональних ринках як дистриб’ютор.

дисконт *discount*

1) облік векселів: купівля векселів у векселетримачів до закінчення терміну їх оплати;

2) знижка, процент, який стягують банки під час обліку векселів; обліковий процент;

3) у валютних угодах – знижка з курсу валюти у строкових готівкових операціях;

4) різниця між номінальною вартістю цінних паперів та їх біржовим курсом, якщо останній є нижчим за вартість;

5) різниця між цінами на один і той же товар із різними термінами постачання;
6) різниця між форвардним і поточним курсами валюти;
7) відхилення від офіційного курсу валюти в бік зменшення.

дистриб'ютор — *distributor*
доручення(посвідчення) — *letter of authority / warrant*
дослідження маркетингове — *marketing research*
дослідження товарного ринку — *market research*
дохід — *income*

1) збільшення економічних вигід протягом звітного періоду у формі набуття або зростання активів чи зменшення зобов'язань, що забезпечує зростання капіталу і не є внесками учасників (акціонерів);
2) гроші або матеріальні цінності, одержані від виробничої, комерційної, посередницької чи іншої діяльності (виторг);
3) сума будь-яких коштів, вартість матеріального та нематеріального майна, інших активів, зокрема цінних паперів чи деривативів, одержаних платником податку у власність, нарахованих на його користь або набутих незаконним шляхом протягом відповідного податкового звітного періоду.

дохід валовий — *gross income*
дохід національний — *national income*

Е

економіка — *economy / economics*
економіка дефіцитна — *deficit economy / shortage economy*
економіка ринкова — *market economy*
експорт — *export*
(продаж товарів чужоземним суб'єктам господарювання та вивезення товарів через митний кордон держави)
емісія — *emission / issue*
(випуск банкнотів, паперових грошей та цінних паперів державними установами та акціонерними товариствами)
емітент — *emitter*
(установа або підприємство, що випускає в обіг цінні папери, банкноти або паперові гроші, тобто здійснює емісію)
Єєвродолари — *Eurodollars*
(тимчасово вільні кошти в американських доларах, що розміщуються організаціями чи приватними особами за межами США, головним чином у банках західноєвропейських країн, їх використовують для надання кредитів у безготівковій формі)

З

забезпеченість кредитом	*credit security / security for credit*
заборгованість дебіторська; рахунки дебіторів (сума заборгованостей підприємству (організації) від юридичнихабо фізичних осіб (дебіторів) на певну дату; виникає внаслідок господарських стосунків між ними)	*accounts receivable*
заборгованість за відсотками (сума процентів, нарахованих на суму заборгованості з основного боргу і не сплачених на певну дату)	*interest debt*
заборгованість зовнішня	*foreign debt / external debt*
заборгованість кредиторська (тимчасово залучені підприємством (організацією) кошти, які підлягають сплаті відповідним юридичним або фізичним особам (кредиторам)	*trade liabilities*
задоволення попиту	*satisfaction of demand*
законодавство антидемпінгове (система національних нормативних актів, метою яких є припинення імпорту товарів за зниженими цінами через уведення антидемпінгового мита)	*antidumping legislation*
закон попиту (закон, згідно з яким зростання цін на товари призводить до зниження попиту на них за інших рівних умов)	*law of demand*
закон пропозиції (закон, згідно з яким зростання цін на товари призводить до збільшення пропозиції цих товарів за інших рівних умов)	*law of supply*
замовлення	*order*
запас матеріально-виробничий	*inventories / inventory holdings*
засоби ліквідні (кошти, цінні папери, матеріальні цінності, інші активи, які можуть бути швидко реалізовані без відчутної втрати їхньої поточної (балансової) вартості і використані для сплати боргових зобов’язань)	*means of liquidity / liquid assets*
застава	*security / pledge*
збитки	*loss / damage*
збір адміністративний	*administration dues*
збут	*sale*
знак товарний (знак або символ чи їх поєднання, які ідентифікують продукцію та послуги виробника (продавця);може бути виражений словом, літерою, групою слів або літер, символом, малюнком, кольором тощо)	*trademark / trade name*
знецінення грошей (зниження купівельної спроможності грошей щодо	*devaluation / depreciation of money*

товарів і послуг на внутрішньому ринку (внутрішнє знецінення) чи зниження їх валютного курсу (зовнішнє знецінення).

зниження цін	*reduction of prices / price cut*
знижка цінова	*price discounts*
зобов'язання	*obligations / liabilities / pledges*

I

імпорт (ввезення із-за кордону товарів, послуг, технологій, капіталу, цінних паперів для їх реалізації чи застосування на внутрішньому ринку)	*import*
інвестиція (грошові, майнові, інтелектуальні цінності, що вкладають в об'єкти підприємницької та інших видів діяльності з метою отримання прибутку або досягнення соціального ефекту; капітальні вкладення в розвиток виробництва чи невиробничу сферу)	*investment*
інвестор	*investor*
індекс вартості життя; бюджетний індекс (бюджетний індекс-показник, що характеризує зміну цін на товари і тарифів (цін) на послуги, якими користується населення, стосовно фіксованого набору товарів і послуг, що входять до споживчого набору окремих категорій населення (споживчого кошика)	*consumer price index / cost of living index*
індекс ДоуДжонса (узагальнювальний показник рівня ділової активності та ринкової кон'юнктури у США)	*DowJones index*
індекс рівня життя (індекс, що характеризує зміну рівня реальних доходів населення, його окремих груп; І.р.ж. визначають з урахуванням зміни як грошових доходів населення, так і цін споживчих товарів та послуг для населення)	*standard of living indexes*
індекс цін (показник, що характеризує динаміку зміни середнього рівня цін у часі або в територіально-регіональному аспекті)	*price index*
індексація (встановлення зв'язку, пропорційної залежності між змінами величин будь-яких показників)	*indexation*
інфляція (переповнення каналів грошового обігу масою надлишкових паперових грошей, що викликає знецінювання їх, зростання цін на предмети першої потреби, зниження валютного курсу, падіння реальної заробітної плати)	*inflation*

К

капітал акціонерний (основний капітал акціонерного товариства; величина його визначається статутом товариства і формується за рахунок емісії акцій)	*joint stock / share capital*
капітал банківський (сукупність грошових капіталів (власних і залучених коштів), якими оперує банк)	*banking capital*
капітал обіговий (капітал, інвестований в оборотні (поточні) активи підприємства)	*current capital*
капітал позиковий (капітал, утворений за рахунок отримання кредитів, випуску та продажу облігацій, отримання коштів з інших видів грошових зобов`язань)	*loan capital*
капітал статутний (сплачена та зареєстрована початкова сума капіталу підприємства, визначена його статутом, формується за рахунок внесків засновників та випуску акцій)	*authorized / nominal capital*
клієнтура	*clientele / customers*
книга бухгалтерська	*account book / ledger*
комплекс маркетингу	*marketing complex*
конкурентоспроможність	*competitiveness / competitive power*
конкуренція	*competition*
коносамент (поширений у зовнішній торгівлі документ, що містить умови договору морського перевезення вантажу)	*bill of lading*
контракт	*contract / agreement*
контракт купівлі-продажу	*contract of sale / purchase contract*
концепція маркетингу	*marketing concept*
кон'юнктура економічна (стан економіки, рівень економічної активності, що характеризуються рухом цін, процентних ставок, валютного курсу, заробітної плати, дивідендів, а також динамікою виробництва і споживання)	*economic conjuncture*
кон'юнктура ринкова (економічна ситуація, що складається на ринку, що характеризується рівнями попиту та пропозиції, ринковою активністю, цінами, обсягами продажів)	*market conjuncture*
кооператив	*cooperative*
котування (встановлення (розцінювання) курсів чужоземних валют, цінних паперів на підставі валютного паритету або цін товарів на біржах чи неорганізованих ринках)	*quotation*

кошторис (основний плановий документ для фінансування бюджетних установ, обчислення витрат на виробництво продукції, виконання робіт, надання послуг тощо)	*estimate*
кредит	*credit*
кредитоспроможність 1) наявність передумов для отримання кредиту, спроможність повернути його в повному обсязі й у певний термін; 2) комплекс передумов, що визначають спроможність країни вчасно та в повному обсязі виконувати платежі з обслуговування державного боргу і його погашення.	*solvency / credit standing*
кредитування короткострокове	*short-term crediting*
крива збуту	*curve of sale*
криза кредитно-грошова	*monetary crisis / monetary and credit crisis*
курс	*rate / course*
курс цінних паперів (курсова ціна, за якою продаються і купуються цінні папери на фондовій біржі)	*security price / rate of securities*

Л

лізинг (довготермінова оренда машин, обладнання, споруд виробничого призначення; є способом фінансування інвестицій і активізації збуту)	*leasing*
лізинг фінансовий	*financial leasing*
ліквідність 1)спроможність підприємств, банків своєчасно виконувати свої кредитно-фінансові зобов'язання, передусім сплачувати борги; 2)легкість реалізації, продажу, перетворення матеріальних цінностей у гроші без втрати їхньої поточної вартості в умовах кон'юнктури, що склалася на ринку.	*liquidity*
ліквідність банку	*bank liquidity*
ліквідність фірми	*firm liquidity*
ліміт	*limit / line*
ліцензія	*license*
лот (стандартна за кількістю і якістю партія товару, що пропонується для продажу на біржі чи аукціоні)	*lot*

М

майно капітальне	*capital assets*
маклер (окрема особа чи фірма, що здійснює посередницьку діяльність на фондових, товарних і валютних біржах та	*broker*

отримує винагороду в розмірі певного процента із суми укладених угод)

маклер біржовий — *stock broker*

макросередовище — *macroenvironment*
(економічне, природне, соціально-культурне, політичне середовище, в умовах якого функціонує фірма)

маржа — *margin*
1) різниця між біржовою ціною товару і найбільшим розміром можливої позички під цей товар;
2) різниця між ціною, визначеною в біржовому бюлетені, та ціною покупця.

марка; марка товарна — *mark / trademark / brand / brand name*
(знак або символ чи їх поєднання, які ідентифікують продукцію та послуги виробника (продавця);може бути виражена словом, літерою, групою слів або літер, символом, малюнком, кольором тощо; М.т., захищена юридично, є торговим знаком)

маркетинг — *marketing*

маса грошова — *money supply*
(весь обсяг випущених грошових знаків, що знаходяться у населення, підприємств, організацій, у банках)

менеджер — *manager*

менеджмент — *management*

механізм ринковий — *market mechanism*

мито — *customs duty / dues*
1) державний грошовий збір (непрямий податок), що його справляють з юридичних і фізичних осіб у разі здійснення між ними або між ними та державою певних дій (перелік їх визначає законодавство);
2) обов'язковий грошовий внесок, що його справляють митні органи держави з юридичних осіб і громадян під час перетину митного кордону.

мито біржове — *exchange duty*

мікросередовище — *microenvironment*

мінімум прожитковий — *living wage / cost of living*

місткість ринку — *market capacity / market volume*
(можливий обсяг реалізації товарів на ринку, що визначається платоспроможним попитом. її обчислюють здебільшого за один рік у фізичному та вартісному вираженні)

модель економічної динаміки — *models of economic dynamics*

модернізація виробництва — *modernization of production / manufacture*

монополія — *monopoly*

Н

неліквід (зайві, непотрібні підприємству товарно-матеріальні цінності, а також готові вироби, які не вдалося реалізувати)	*illiquid funds / assets*
неплатоспроможність (втрата фірмою або державою здатності вчасно і повністю виконувати свої фінансові зобов\`язання, обумовлена їх валютно-фінансовим становищем, відсутністю вільних коштів, дефіцитністю бюджету і платіжного балансу)	*insolvency*
номенклатура	*nomenclature / classification*
номінал 1) вартість, вказана на цінних паперах, паперових грошах, монетах (номінальна вартість); 2) ціна товару, вказана в прейскуранті або на самому товарі (номінальна ціна).	*nominal cost / nominal (face) value*
норма відсоткова	*interest rate*
норма прибутку (виражене у відсотках відношення прибутку, одержаного за певний період часу (звичайно за рік), до вкладеного капіталу, що забезпечив його одержання)	*profit rate*
ноу-хау (наукові знання та практичний досвід технічного, виробничого, адміністративного, фінансового, комерційного чи іншого характеру, що становлять комерційну цінність, можуть мати реальне застосування в діяльності підприємства чи в професійній практиці окремих фахівців і які не захищені охоронними документами (патентами) та не опубліковані повністю або частково)	*know-how*

О

об'єднання	*association*
обіг	*circulation*
обіг валовий	*gross turnover*
обіг грошовий	*money turnover*
обіг зовнішньо-торговельний	*foreign trade turnover*
обіг капіталу	*circulation of capital*
облігація (цінний папір, що засвідчує внесення його власником певних коштів і підтверджує зобов'язання емітента відшкодувати власникові номінальну вартість цього цінного папера в передбачений у ньому термін із виплатою фіксованого процента (якщо інше не передбачено умовами випуску)	*bond / debenture / obligation*
облік бухгалтерський (упорядкована система збирання, реєстрації та узагальнення інформації про майно, зобов'язання підприємства	*accounting / book-keeping*

та їх рух методами суцільного, неперервного і документального обліку всіх господарських операцій)

облік бюджетний	*budgetary accounting*
облік кредитних операцій	*accounting of credit transactions*
обмін асортиментний	*assortment exchange*
овердрафт (особлива форма надання короткострокового кредиту клієнту банку у випадку, коли величина платежу перевищує залишок коштів на рахунку клієнта)	*overdraft*
одиниця грошова	*monetary unit*
одиниця товарна	*commodity unit / commodity piece*
окупність валютна	*currency recoupment*
операція	*transaction / deal / bargain / operation*
операція банківська	*banking operations / transactions*
операція бартерна	*barter*
операція біржова (угоди купівлі-продажу, здійснювані на біржі (угоди з біржовими товарами, з контрактами на поставку біржових товарів, із валютними та фондовими цінностями)	*stock exchange transactions*
операція форвардна (господарська операція суб'єкта підприємницької діяльності, що передбачає придбання (продаж) форвардної угоди, тобто зобов'язання придбати (продати) продукцію, цінні папери чи валютні цінності у певний час в майбутньому за ціною реалізації, зафіксованою на час укладання (придбання) форвардної угоди)	*forward operations*
операція ф'ючерсна (строкова біржова угода щодо купівлі-продажу валюти, золота, сировинних товарів за фіксованою в момент укладання угоди ціною, але з виконанням операції через певний час (до 2-3 років)	*futures / futures business*
операція-спот (різновид реальної біржової угоди щодо купівлі-продажу наявного товару з негайною оплатою та постачанням)	*spot transaction / spot deal*
оподаткування прогресивне (метод оподаткування, за якого податкові ставки збільшуються зі зростанням об'єкта оподаткування (доходу) платника податку)	*graduated income taxation / progressive taxation*
організація маркетингу	*marketing management*
оренда	*lease / rent*
охорона прав споживачів	*consumers' rights protection*
оцінка конкурентоспроможності товару	*valuation of goods competitiveness*

П

папір цінний — *securities*
(грошові документи, що засвідчують право власності чи відносини позики, визначають взаємини між особою, яка їх випустила, та їх власником і передбачають, як правило, виплату доходу у вигляді дивідендів або процентів, а також можливість передавати грошові та інші права, що випливають із цих документів, іншим особам)

папір цінний гарантований — *guarantee securities*
(акції та облігації приватних підприємств, виплату дивідендів за якими гарантує уряд чи центральний банк)

партнерство — *partnership*

пасив — *liabilities*
1) частина бухгалтерського балансу, яка показує джерела формування засобів підприємства, банку тощо (статутний фонд, спеціальні фонди, прибуток, кредити, кредиторська заборгованість) та їх приналежність (власні, прирівняні до власних, позичені);
2) сукупність боргів і зобов’язань підприємства;
3) перевищення закордонних витрат держави (у т. ч. на імпорт товарів) над надходженнями коштів із-за кордону (у т. ч. за експорт);
4) дефіцит платіжного балансу.

патент — *patent*
1) документ, свідоцтво, що видається винахідникові. Засвідчує його авторство та виключне право на використання винаходу;
2) документ, що містить дозвіл на якесь ремесло чи промисел за умови дотримання зафіксованих у П. положень та внесення податкових платежів.

переказ банківський — *bank transfer / bank remittance*
(спосіб перерахування грошей юридичними або фізичними особами один одному через кредитні установи чи підприємства зв’язку;здійснюється на підставі платіжного доручення шляхом перерахування грошей з банківського рахунку платника на рахунок одержувача (переказ банківський), а також безпосереднім внесенням готівки переказовідправником для вручення грошей переказоодержувачеві)

переказ вкладів — *deposit transfer*
(операції, виконувані установами банків на доручення вкладників, щодо переведення їх вкладів до інших установ банків чи зарахування на рахунки інших одержувачів)

підприємець — *entrepreneur*

підприємництво — *enterprise / enterprising / business*

підприємництво державне	*state business*
підприємництво ризикове	*risk business*
підприємництво спільне	*joint enterprising*
підприємство	*enterprise*
підприємство акціонерне	*joint-stock company / stock society*
підприємство мале	*small enterprise*
підприємство орендне	*leasing company*
підприємство спільне	*joint venture / joint enterprise*
підряд (угода між замовником і підрядником на виконання будівельних і монтажних робіт; основний правовий документ, що регламентує взаємини договірних сторін і поряд із чинним законодавством визначає їх економічну відповідальність за невиконання чи неналежне виконання взятих зобов'язань)	*contract*
підрядник	*contractor*
пільга	*privilege / concession*
планування	*planning*
платоспроможність (здатність держави, юридичної або фізичної особи вчасно і повністю сплачувати за своїми зобов'язаннями, які випливають із торговельних, кредитних чи інших операцій грошового характеру)	*solvency*
повернення податків	*tax refund / tax reimbursement*
повідомлення платіжне	*notice to pay / payment advice*
погашення (сплачування)	*payment / repayment liquidation,*
податок	*tax*
податок з обігу	*turnover tax*
податок з продажу	*sales tax*
податок корпораційний	*corporation tax*
податок на прибуток	*income tax*
податок натуральний	*tax in kind*
податок непрямий	*indirect / hidden tax*
податок прямий	*direct tax*
поділ праці	*division of labour*
позика	*loan*
позичка	*loan / advance*
покупець звичайний	*consumer / buyer*
політика валютна	*currency policy*
політика грошово-кредитна	*monetary policy*
попит (забезпечена коштами покупців частина їх потреби в товарах і платних послугах (бажання, за яке є змога заплатити)	*demand*

попит споживчий	*consumer demand*
портфель цінних паперів	*security portfolio / investment portfolio*
посередник	*middleman / mediator*
послуги	*services*
поставка комплексна	*complete delivery*
постачальник	*supplier*
право авторське	*copyright*
право міжнародне	*international law*
предмети споживання	*consumer items*
презентація	*bill presentation / presentation*
претензії	*claims*
прибуток	*profit / return*
прибуток балансовий	*balance profit*
прибуток валовий	*gross profit / gross margin*
прибуток торговельний	*trading profit*
прибуток чистий	*net profit*
приватизація	*privatization*
приріст або збитки капіталу	*capital increase or decrease*
прогнозування	*forecasting / prediction / prognostication*
продаж/купівля облігацій	*sale / buying of bonds*
продукт	*product*
продукт національний валовий(ВНП)	*gross national product (GNP) / gross domestic product*
продукт суспільний валовий (ВСП)	*gross social product*
продукція	*product / produce*
продукція валова (вартісне вираження загального обсягу виготовленої за певний період продукції (товарів, робіт, послуг); включає елементи продукції, які не є товаром (незавершене виробництво)	*gross production / gross output*

Р

рада біржова (орган управління біржею, який обирається загальними зборами її членів на певний термін і здійснює свої функції в межах компетенції, визначеної статутом біржі)	*exchange council*
рахунок	*account / bill*
рахунок активний	*real accounts / debit accounts*
рахунок банківський	*bank account*
рахунок поточний	*current account*
реалізовність	*marketability*
ревізія	*revision / audit*

резерв валютний	*external reserve / currency holdings*
реклама	*advertisement / advertising*
рекламодавець	*advertiser*
ремісія (платіжний документ (чек, переказний) дляміжнародних розрахунків в іноземній валюті, щокупується боржником у своїй країні за національнувалюту і пересилається іноземному кредитору для погашення заборгованості)	*remission*
ремітент (особа, на ім'я якого первинний держатель переводить свій вексель, виписує переказний вексель (тратту)	*remitter*
рента	*rent*
рентабельність (виражений у відсотках відносний показник прибутковості, який характеризує ефективність витрат підприємства загалом або ефективність виробництва окремих видів продукції)	*profitability*
ризик	*risk*
ризик банківський	*bank risks*
ризик відсотковий	*interest risk*
ризик кредитний	*credit risk*
ринок	*market*
ринок аукціонний	*auction market*
ринок валютний	*exchange market*
ринок виробника	*producer market*
ринок вільний	*free market*
ринок зовнішній	*external market*
ринок капіталів	*capital / financial market*
ринок обліковий	*discount market*
ринок позикового капіталу	*loan capital market*
ринок світовий	*world market*
ринок третій (продаж та купівля в позабіржовому обороті цінних паперів, допущених на біржу)	*third market*
ринок ф'ючерсний (ринок певного товару, на якому торгують не реальним товаром, а ф'ючерсами)	*futures market*
ринок цінних паперів	*securities market*
ринок чистої конкуренції	*market of pure competition*
рівень життя	*living standard*
розподіл	*distribution*

С

сальдо 1) різниця між грошовими надходженнями та витратами за певний період часу;	*balance*

2) у бухгалтерії С. – залишок на рахунку бухгалтерського обліку.;
3) у міжнародних торгових і платіжних розрахунках С. – різниця між вартістю експорту й імпорту країни чи між її закордонними платежами та надходженнями за певний час;
4) у біржових операціях – заборгованість клієнта брокерській фірмі або навпаки.

самооплатність *self-repayment*
(принцип господарювання, стан фінансів підприємства, при якомуйого витрати повністю покриваються власними доходами)

самофінансування *self-finance / self-financing*

санація *sanation*
(оздоровлення фінансового стану підприємства через систему фінансово-економічних, виробничо-технічних, організаційних та соціальних заходів для запобігання його банкрутству чи підвищення конкурентоспроможності)

санкції економічні *economic sanctions*

санкція *sanction*
(складова правової норми, статті закону, договору, що конкретизує правові наслідки їх порушення. Може мати економічний, адміністративний чи судовий характер)

свідоцтво авторське *certificate of authorship*

сегментація ринку *market segmentation*
(поділ ринку на окремі частини (сегменти) за ознакою виду товару, територіального розташування, типу найбільш представлених на даній частині ринку покупців, за соціальними ознаками)

сервіс *service*

сертифікат *certificate*

сертифікат акціонерний *share certificate / stock certificate*

сировина *raw materials / primaries*

скарбниця державна *treasury*

служба аудиторська *audit service*

собівартість продукції *product / production cost*

спекуляція *speculation / profiteering*
1) вид торгівлі, розрахований на швидке та легке збагачення: закупівля товарів і перепродаж їх за вищими цінами з метою наживи;
2) біржова угода щодо купівлі-продажу певних цінностей, яку здійснюють з метою отримання курсової різниці.

специфікація *specification*
(перелік пропонованих до продажу або поставки товарів, в якому вказані їх кількість, сорт, марка, якісні характеристики, а в необхідних випадках – і ціни)

споживання *consumption*
споживач *consumer*
спонсор *sponsor*
спот *spot*
(ринок, на якому ведеться торгівля реальним товаром з негайною поставкою)
спроможність грошей купівельна *purchasing capacity of money / buying power*
ставка податкова *tax rate / rate of taxation*
стагнація *stagnation*
(застій в економіці, виробництві, соціальній сфері, стан тривалої суспільно-економічної депресії, що виявляється у сповільненні чи припиненні економічного зростання й інвестиційних процесів, появі незавантажених виробничих потужностей, загальному згортанні виробництва)
стагфляція *stagflation*
(стан економіки окремо взятої країни чи групи країн, що характеризується загальним застоєм та розвитком інфляційних процесів;
одночасний вияв стагнації та глибокої інфляції)
стан на ринку *market situation*
статут *regulations / charter / statute*
стокброкер *stockbroker*
(особа, котра за дорученням клієнтів купує чи продає паї статутного капіталу підприємств або акції на фондовій біржі; С. отримує винагороду у формі комісійних)
стратегія ринкова *marker strategy*
страхування *insurance*

T

товар *goods / commodity*
товариство акціонерне *joint-stok company / stock society*
товариство з обмеженою відповідальністю *limited liability society*
товариство змішане *mixed company*
товарообіг *commodity circulation / trade turnover*
торги *tender / bidding / auction*
торгівля *trade / commerce*
торгівля біржова *exchange business*
торгівля внутрішня *internal / home / domestic trade*
торгівля гуртова (оптова) *wholesale trade*
торгівля зовнішня *foreign / external trade*
торгівля міжнародна *world trade / interational trade / world commerce*

торгівля роздрібна	*retail trade / retailment*
трансакція 1) банківська операція щодо переведення коштів з одного рахунку на інший, зокрема й за кордон; 2) угода, договір, що супроводжується взаємними поступками, знижками ціни; 3) перехід цінного папера від однієї особи до іншої; угода, згідно з якою здійснюється такий перехід.	*transaction*
трансферт 1) переказ іноземної валюти або передача золота з однієї країни в іншу; 2) передавання іменних цінних паперів (акцій) однією особою у власність іншої відповідним написом або заявою. Інша назва - трансфер.	*transfer*
траст-компанія (компанія, що виконує довірчі (посередницькі) функції для фізичних та юридичних осіб)	*trust company*

У

угода(договір)	*agreement / contract*
угода(згода)	*agreement*
умови контрактні	*contract terms*
управління продукцією	*product management*
учасник ринку	*market participant*

Ф

фінанси державні	*finance*
фінансування бюджетне	*budgetary financing*
фінансування дефіцитне	*deficient financing / deficit financing*
фірма	*firm*
фірма брокерська	*broker's firm*
фірма промислова	*industrial firm*
фірма торговельна	*trade companies*
фонд	*fund*
фонд амортизаційний	*amortization fund / depreciation fund*
фонд валютний міжнародний (МВФ)	*International Monetary Fund (IMF)*
фонд пайовий	*share fund*
фонд статутний	*authorized / registered fund*
фонди	*stocks / securities*
фонди ринкові	*marker funds*
франшиза 1) умова страхового договору, яка передбачає звільнення страховика від відшкодування збитків, що не перевищують певної суми;	*franchise*

2) ліцензія великої та відомої фірми дрібному підприємцеві на продаж продукції чи надання послуг під її маркою (товарним знаком);
3) підприємство, утворене на умовах франчайзингового договору.

фрахт — *freight*
1) плата за перевезення вантажів водним шляхом або за використання суден протягом певного часу. Встановлюється за згодою сторін для кожної конкретної угоди у вигляді фрахтової ставки;
2) Іноді під Ф. розуміють сам вантаж.

Ц

цикл продукту життєвий — *product life cycle*
(час перебування товару на ринку)

ціна — *price / cost / charge*
ціна біржова — *exchange price / quotation*
ціна виробництва — *production price*
ціна гуртова — *wholesale price*
ціна роздрібна — *retail / consumer price*
ціна споживча — *consumer cost*

Ч

чек — *check / cheque*

Ш

штраф — *penalty / fine*

Я

ярмарок — *fair*

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