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# **АНГЛИЙСКИЙ ДЛЯ ЭКОНОМИСТОВ**

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Данное учебное пособие предназначено для студентов экономических специальностей и рассчитано на лиц, обладающих знанием нормативной грамматики английского языка и имеющих словарный запас в 2000 лексических единиц.

Пособие состоит из 8 разделов, охватывающих широкий круг тем по экономике и бизнесу: Экономика, Организация, Бизнес, Менеджмент, Маркетинг, Реклама, Деньги, Банки, Финансы, Бухучет, Аудит. Все тексты взяты из оригинальных английских и американских источников. Разделы (равно как и тексты) могут прорабатываться в представленной последовательности или выборочно – в зависимости от целей, задач и уровня подготовки группы.

## ПРЕДИСЛОВИЕ

Данное пособие предназначено для студентов экономических специальностей вузов, а также для широкого круга лиц, использующих английский язык в своей практической деятельности в сфере экономики и бизнеса. Пособие рассчитано на лиц, обладающих знанием нормативной грамматики английского языка и имеющих словарный запас в 2000-2500 лексических единиц.

По своей структуре пособие представляет собой серию разделов, организованных по тематическому принципу. Тематика и характер учебных материалов, представленных в учебнике, обеспечивают формирование у студентов профессионального словаря, а также навыков чтения и говорения в рамках профессиональной тематики. Каждый раздел (Unit) – это самостоятельный комплекс, имеющий унифицированную структуру и состоящий из следующих частей: YOUR VOCABULARY, LET'S READ AND TALK, SPEAK AND WRITE.

YOUR VOCABULARY включает в себя языковые упражнения, основной целью которых является выработка лексических навыков, обеспечивающих готовность студента к включению в последующую деятельность, а также подготовка к работе с текстами, поскольку все отработываемые лексические единицы взяты из текстов раздела LET'S READ AND TALK. Кроме того, часть упражнений (на подстановку предлогов, пропущенных слов, раскрытие скобок) представляют собой законченные тексты и являются полноценным источником информации, которая может быть использована при обсуждении темы.

Тексты для чтения предназначены прежде всего для формирования речевых навыков по заданной теме. Вначале это происходит на базе содержания текстов, а затем переносится на обсуждение темы в целом. Тексты подобраны из аутентичных источников и представляют собой отрывки из научной и научно-популярной литературы. Предлагаемые тексты могут использоваться для обучения различным видам чтения.

Вопросы и задания, предлагаемые в SPEAK AND WRITE, носят репродуктивный и продуктивный характер. Выполнение заданий требует от студентов концентрации внимания на адекватности употребления лексических и грамматических средств, логичности и четкости изложения. Формирование речевых навыков происходит в условно заданных речевых ситуациях. Наряду с вопросно-ответными заданиями, требующими расширенного ответа или выражения мнения, предлагаются задания проблемного характера, интеллектуально насыщенные, развивающие умение творчески мыслить. От студента требуется не только точное знание того или иного вопроса, но и умение увязать в канву ответа свой личный опыт и наблюдения. Поскольку большая

часть заданий может выполняться как устно, так и письменно, автор сочла возможным включить в Appendix рекомендации по написанию эссе.

Автор не предлагает строгих методических рекомендаций по использованию данного пособия, поскольку кроме специальных вузов оно может быть применимо в самых разных условиях учебного процесса и преподаватель сам может определить конкретные методические приемы в зависимости от уровня подготовки студентов, целей обучения и количества часов, отводимых на работу с тем или иным разделом. Разделы могут изучаться в предлагаемой последовательности или выборочно. Это же касается и выполнения заданий в рамках раздела: их выбор определяется практическими задачами и конкретными условиями каждого учебного заведения. Определенная избыточность лексических упражнений, текстового материала продиктована желанием обеспечить большую вариативность и мобильность в адаптации к нуждам каждой конкретной аудитории. В полном объеме пособие ориентировано на студентов, занимающихся по углубленной программе.

*The master-economist must possess a rare combination of gifts. He must be a mathematician, historian, statesman, philosopher – in some degree. He must understand symbols and speak in words. He must contemplate the particular in terms of the general, and touch abstract and concrete in the same flight of thought.*

*He must study the present in light of the past for the purpose of the future.*

*No part of man's nature or his institutions must lie entirely outside his regard. He must be purposeful and disinterested in a simultaneous mood; as aloof and incorruptible as an artist, yet sometimes as near the earth as a politician.*

**J.M. Keynes**

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*We are beginning our work. And I'd like to start with the text devoted to a WORD. Whatever you do in your life, wherever you work be careful about and sensitive to the WORD. It's your main tool.*

## L.V.

“Your boss has a bigger vocabulary than you have.

That's one good reason why he's your boss.

This discovery has been made in the word laboratories of the world. Not by theoretical English professors, but by practical, hard-headed scientists who have been searching for the secret of success.

After a host of experiments and years of testing they have found out:

- That if your vocabulary is limited your chances of success are limited.
- That one of the easiest and quickest ways to get ahead is by consciously building up your knowledge of words.
- That the vocabulary of the average person almost stops growing by the middle twenties.
- That from then on it is necessary to have an intelligent plan if progress is to be made. No hit-or-miss methods will do.

It has long since been satisfactorily established that a high executive does not have a large vocabulary merely because of those opportunities of his positions. That would be putting the cart before the horse. Quite the reverse is true. His skill in words was a tremendous help in getting him his job.

It has been discovered that the one and only common characteristic of outstandingly successful people is an extensive knowledge of the exact meaning of English words.

**Vocabulary is one indication of intelligence.** Learning power measurably sharpens when vocabulary increases. Here is the proof.

Two classes in a high school were selected for an experiment. The ages and background of the members of both groups were the same, and each group represented a similar cross section of community. One, the control class, took the normal courses. The other class had an additional, special, and rigorous vocabulary training. At the end of the period the grades of the students in the vocabulary class surpassed the grades of the members of the control group, not only in English, but in every other subject, including mathematical and sciences.

*Words are the tools of thinking.* It naturally follows, then, that the more words you have at your command, the clearer and accurate your thinking will be.

*Words are medium of exchange,* the coin with which you do business with all those around you. With words you relate people, communicate your feelings and thoughts to them, persuade them, control them. In short, through words you shape your own destiny, **for your words are your personality;** your vocabulary is you.

How do words treat you? Are you comfortable with them? Do they easily come to you? When you write and speak, do your words paint the sort of picture of you that will do you the most good in the highly competitive world? Does your language usually present a true reflection of your mind, your emotions, and your personality? Or does it

sometimes betray and blur your thoughts? Do people occasionally misunderstand you? Or can you compel them to listen, react, obey?

*From now on we want you to look at words intently, to be inordinately curious about them and to examine them syllable and syllable, letter by letter. They are your tools of understanding and self-expression. Collect them. Keep them in condition. Learn how to handle them. Develop a fastidious, but not a fussy, choice. Work always toward good taste in their use. Train your ear for their harmonies.*

We urge you not to take words for granted just because they have been part of your daily speech since childhood. You must examine them.

Words are not dead things. They are fairly wriggling with life. They are exciting and mysterious tokens of our thoughts, and like human beings, they are born, come to maturity, grow old and die, and sometimes they are even reborn in a new age. A word, from its birth to its death, is a process, not a static thing.

Words, like living trees, have roots, branches, and leaves. If the roots are the origin of words and the branches are the word families that stem out of them, the leaves of this language tree would be the words themselves and their meaning.

Like everyone else, you want certain things from life. No matter what those benefits are, or what particular way you have chosen to go about getting them, you know that your first and most effective means will be the words you use.

In short, the satisfaction and the success you get out of life depend very greatly on the skill with which you communicate your needs, your desires, your opinions to others. Words are explosive. Phrases are packed with TNT. A single word can destroy a friendship, can start or end a mortal battle, can land a large order. The right words in the mouth of clerks have quadrupled the sales of a department store. The wrong words used by a campaign orator have lost an election. Words have changed the direction of history. Words can also change the direction of your life. “



**LEARNING HAPPENS TO BE A DIFFICULT PROCESS:****NO PAIN, NO GAIN.****U N I T 1****ECONOMY***When an artist looks at the world, he sees colour.**When a musician looks at the world, he hears music .**When an economist looks at the world,  
he hears a symphony of costs and benefits.*

D. Colander

**Your vocabulary****Economy**

- a system according to which the money, industry, and trade of a country or region are organized.
- a country's economy is the wealth that it gets from business and industry.
- careful spending or the use of things in order to save money.
- large-size packages of goods which are cheaper than the normal sized packages on sale.

**Economic**

- concerned with economics and with the organization of the money, industry, and trade of a country, region, or social group.
- relating to services, businesses, etc. that produce a profit.

**Economical**

- something that is economical does not require a lot of money to operate.
- using the minimum amount of time, effort, language, etc. that is necessary.

**Economics**

- the study of the production of wealth and the consumption of goods and services in a society, and the organization of its money, industry, and trade.

**Economist**

- an expert or student of economics.

**Economize**

- save money by spending it very carefully and not buying expensive things.

**Economic Institution**

- a physical or mental structure that significantly influences economic decisions

**Economic policy**

- an action (or inaction) taken, usually by government, to influence economic events.

**Economic model**

- simplified representation of reality.

**Positive Economics**

- the study of what is, and how the economy works.

**Normative Economics**

- the study of how the economy should be, from society's standpoint.

**Ex. 1.** *To show that you understand the words given above, choose the best word to complete the following sentences. Add noun, verb or adverb endings if necessary.*

1. Home ... is a subject studied at school and college in which students are taught how to run a house well and efficiently.
2. New England's ... is still largely based on manufacturing.
3. All Western ... are competing against each other.
4. These businesses contribute hundreds of millions of pounds to the ... of the country.
5. I switched off the lights as an ... measure.
6. If you make ..., you take action in order to save money, by not spending it on unnecessary things.
7. You'll have to travel ... class.
8. Buy our new ... packs of 100.
9. If you are really going to buy a car, we'll have to ... on other things.
10. In his works he explains the ideas of the great English ... J.M. Keynes.
11. She thought of herself as an ... wife.
12. This system was extremely ... because it ran on half-price electricity.
13. What has gone wrong with the ... system during the last ten years?
14. The book is very ... written, but very warm.
15. ... is the oldest of social sciences.

**Ex.2.** *Look at the following derivatives. Use your knowledge of English and logical reasoning to explain the meaning of each word below.*

**system, systematic, systematically, systematize, systemic**

*Use these words in the following sentences.*

1. The police made a .... search of the building.
2. You need some ... in your work if you want to succeed.
3. I wish they'd organize themselves more ... .
4. ... insecticides spread all through a plant and kill any insects that feed on it.
5. This method helps ... the information received.

**Ex.3.** *Add appropriate words where there are blanks in the sentences below and you'll get the definitions of the words in bold. Some words can be used in their different meanings.*

**imply, convey, standpoint, overall, range, scarce, free, available, utility, rate, output, environment, artifact, discretion**

- 1.The ... is the total set of outside forces surrounding and shaping the behaviour of the organization and its members.
- 2.To ... information, ideas, feelings, etc. means to cause them to be known or understood by someone.
- 3.Someone or something that is ... is not restricted, controlled by rules, customs, or other people.
- 4.An ... is an object that is made by a person.
- 5.The ... of something is the total area or extent within which it can operate effectively, and beyond which it is no longer effective.
- 6.If something is ..., there is not very much of it, and there may be enough for those who want or need it.
- 7.If something is ..., you can have it or use it without paying for it.
- 8.If you ... people or things, you arrange them in a line or in lines.
- 9.If you ... that something is the case, you suggest that it is the case without actually saying so.
- 10.The ... at which something happens is the speed at which it happens over a period of time.
- 11.The ... of something is how useful and practical it is.
- 12.... is used to describe a situation in general, including everything but not considering the details.
- 13.The ... of taxation is the level of it.
- 14.If something is ..., you are able to use it or obtain it.
- 15.A ... is an important service such as water, electricity, or gas provided for everyone.
- 16.If you ... something highly, you consider that it is important.
- 17Someone who is ... is not busy and is therefore free for you to talk to.
- 18.A ... is a particular way of looking at or thinking about an event, situation, or idea.
- 19Someone's ... is the amount of something that they make or produce.
- 20.... is the quality of behaving in a quiet and controlled way without drawing attention to yourself or giving away personal or private information.

**Ex.4.** Give synonyms to the following words. Be ready to give your own examples to show the difference in their meanings.

Affect, effect, aggregate, change, demand, allocate, borrow, income, seek, require, fair, refer to, scarcity, ultimate, restrict.

**Ex.5.** Give the opposite meaning to each word. Make up your own sentence with each word.

Push, appear, diverse, lend, facilitate, available, output, fair, increase, completely, complicate.

**Ex.6.** Consult the dictionary and find the root words to the following:

Help, participate, contribute, allocate, mean, equitable, prevent, assemble, perform, imply, consider, scarce, benefit, value, societal, vary, certainly, compete.

**Ex.7.** Make the following words negative.

Regard, responsible, desirable, respective, checked, doubt, certainty.

**Ex. 8.** Read the following definitions. Can you guess the word they all refer to?

1. A company or a business.

2. Something new, difficult, or important that you do or try to do.
3. A system of business, especially one in a particular country.
4. The ability to think of new and effective things to do, together with an eagerness to do them.

(You can find the word in text 1, paragraph 1.)

*Now check your understanding. Insert the missing words. Translate the sentences into Russian.*

1. He said he had doubts about the whole ... .
2. This has done much to damage national ... .
3. They are known to be the men of ..., energy, and ambition.
4. I admire their ... in trying to start up a new business.
5. This company is one of the largest ... of this kind.

**Ex.9.** *Study the following words and word-combinations. What are their Russian equivalents?*

**to aim at, to arrange (for), game plan, to go ahead, a means to an end, on purpose, to set up, to tackle, to take action (on), to take steps, to take the initiative.**

*Translate the following sentences into Russian.*

1. Our products are aimed at working mothers.
2. Let's arrange for a meeting now. How about Friday, nine o'clock, your office?
3. OK, so we have arranged for finance and now we can go ahead with marketing.
4. The game plan for this morning's meeting is to finish ordinary business in the first half hour, then take time out for coffee, so that, in the second half, we can zero in on the all-important question of new product development.
5. We use special offers in order to attract bigger orders – in other words, as a means to an end.
6. We have to reduce our overhead expenses. This will lead to job losses in some departments – an unpleasant fact, I'm afraid, but the end justifies the means.
7. Although everyone has to be at the meeting on time, the chairman will be a few minutes late, as usual, He does this on purpose, just to let everyone know who's who in charge.
8. The company was set up ten years ago.
9. The government is doing all it can do to tackle the problems of housing and unemployment.
10. We need to take firm action, now, on the reduction in our market share – before matters get worse.
11. In the course of the next day or so, we shall be taking steps to put our plans into action.
12. For this job, we're looking for someone with a go-ahead attitude, a self-starter, someone who's prepared to take and maintain the initiative.

**Ex.10.** *Look at the following Latin words. They may be helpful in your work with the texts on Economics and Business.*

e.g.	exempli gratia	for example
i.e.	id est	that is

etc.	et cetera	and so on
viz.	vide licet	namely
c	circa	about, around (time)
v	vide	see
et al	et ali	and others
per se		in itself
qua		as
vice versa		the reverse
ad hoc		for this particular purpose
vs	versus	opposed
via		1. through 2. with the help of
per capita		per head
ceteris paribus		other things equal
ad valorem		according to value

**Ex.11.** *What do the following words have in common and what do they differ in?*

Matter, problem, dilemma, trouble, alternative, predicament, difficulty.

**Ex.12.** *Translate into Russian in written form.*

In 1776, the Scottish professor of philosophy, Adam Smith, published *The Wealth of Nations*. In this book, the first systematic study of capitalism, Smith described his principle of the “**invisible hand**”. This principle states that each person, pursuing his or her self-interest without interference by government, will be led, as if by an invisible hand, to achieve the best good for society.

Self-interest drives people to action, but alone it is not enough. People must understand the effects of their decision and their economic well-being. They must think rationally if they are to make the right decisions.

Because of this, economists long ago introduced the concept of **economic man**. This notion holds that each person is motivated by economic forces. In other words, each person will always attempt to obtain the greatest amount of satisfaction for the least amount of sacrifice or cost. This satisfaction may take the form of greater profits for a businessperson, higher wages or more leisure time for a worker, and greater pleasure from goods purchased for a consumer.

Of course, these assumptions are not entirely realistic. People may be motivated by forces other than self-interest. Nevertheless, the idea of economic man does deserve as a reasonable approximation of the prevailing pattern of economic behaviour in a capitalistic society. And in economics, as in other social sciences, reasonable approximations are often the best that can be made.

### ***LET'S READ AND TALK***

1. What is meant by the word «system»? How do you understand it?
2. What systems do you know? Give your examples.
3. To what systems do you belong?

## TEXT 1

**WHAT IS SYSTEM?**

Everybody is familiar with the word system and uses it in everyday language. We speak of heating systems, communication systems, economic systems, and transportation systems. We talk of cultural and social systems. The word system is used because it conveys the idea that these things are made up of parts and that the parts somehow interact with each other for some purpose or reason. **A system is an organized or complex whole – an assemblage or combination of things or parts performing as a complex or unitary whole.**

This definition implies several ideas. First is the concept of *interdependency*. If a change occurs in one part or set of parts, it affects all other parts of the system. This affect on each part may be direct or indirect.

A second implication of the definition of a system is the concept of *wholism*. This means that the system should be considered as a functioning whole. Changes in parts of the system and in the functioning of elements of the system should be considered from the standpoint of the system's overall performance.

A third concept implied by the definition is *synergism*. This refers to the interactive effect of the parts of the system working together. The actual interaction of the parts creates an effect which is greater than the effect of the parts acting separately.

*We've started our work with this small text about a system because we want you to bear in mind and apply the systematic approach to everything you see, hear, read or discuss, for everything in this world belongs to this or that system. While reading the texts pay attention to the economic and business terms. They'll become the basis of your professional vocabulary.*

## TEXT 2

**HISTORY OF ECONOMICS**

In the 1500s there were few universities. Those that existed taught religion, Latin, Greek, philosophy, history, and mathematics. No economics. Then came the Enlightenment (about 1700) in which reasoning replaced God as the explanation of why things were the way they were. Pre-Enlightenment thinkers would answer the question, "Why am I poor?" with, "Because God wills it." Enlightenment scholars looked for a different explanation. "Because of the nature of land ownership" is one answer they found.

Such reasoned explanations required more knowledge of the way things were, and the amount of information expanded so rapidly that it had to be divided or categorized for an individual to have hope of knowing a subject. Soon philosophy was subdivided into science and philosophy. In the 1700s, the sciences were split into natural sciences and social sciences. The amount of knowledge kept increasing, and in the late 1800s and early 1900s social science itself split into subdivisions: economics, political science, history, geography, sociology, anthropology, and psychology. Many of the insights about how the economic system worked were codified in Adam Smith's *The*

*Wealth of Nations*, written in 1776. Notice that this is before economics as a subdiscipline developed, and Adam Smith could also be classified as an anthropologist, a sociologist, a political scientist, and a social philosopher.

Throughout the 18<sup>th</sup> and 19<sup>th</sup> centuries economists such as Adam Smith, Thomas Malthus, John Stuart Mill, David Ricardo, and Karl Marx were more than economists; they were social philosophers who covered all aspects of social science. These writers were subsequently called Classical economists. Alfred Marshall continued in that classical tradition, and his book, *Principles of Economics*, published in the late 1800s, was written with the other social sciences in evidence. But Marshall also changed the question economists ask; he focused on the questions that could be asked in a graphical supply-demand framework. In doing so he began what is called *neo-classical economics*.

For a while economics got lost in itself, and economists learned little else. Marshall's analysis was downplayed, and the work of more formal economists of the 1800s (such as Leon Walras, Francis Edgeworth, and Antoine Cournot) was seen as the basis of the science of economics. Economic analysis that focuses only on formal interrelationships is called Walrasian economics.....

1. The text you've read gives a very brief view of the history of Economics. What other names (schools, theories) can you give to continue the story?

### TEXT 3

*Read the text. Define the main idea of each paragraph.*

#### THE ECONOMIC SYSTEM

There are many forms of economic order, ranging from the mixed private enterprise system to partially or completely controlled economies. Regardless of their form, however, **economic system is the system that a society uses for allocation and distribution of scarce resources**. Private enterprise means that decisions about what and how much to produce are left to the discretion of owners and managers. In controlled economies such decisions are the responsibility of some governmental agency. There is, of course, no economy today that is completely free of governmental influence, nor is this condition necessarily undesirable. There are many beneficial services and protections available from government. The question then is a matter of degree. Irrespective of the form of economic order, it performs certain valuable functions in the life of organizations of all types.

Among the functions of the economic order the most important one is to provide some means of **resource allocation**. In a private enterprise this function is basically performed by the price mechanism. This simply means that **demand for** and **supply of** goods and services interact to set their market price. In the case of regulated utilities, there are governmental agencies such as public service commissions that determine the rates that may be charged by utility companies. These rates are set at the level that will allow a fair return on investments made by the companies. This form of regulated monopoly is considered, on balance, preferable to unchecked competition. This is true because of efficiency reasons. In taking actions in the area of employment, government

is attempting to control the economy in such a fashion as to help the business community operate at the level of production that will yield full employment.

Without a **system of distribution** economy simply could not exist. A major part of this distribution system is credit. Economy flourishes on credit or extended methods of payment. Such a system literally affects every link in the distribution chain from the supplier of raw materials to the ultimate consumer. Without this vital financing function being performed, the economy would doubtless be forced to a lower order of production.

Economic goals for a nation include **price stability, full employment, economic growth, and equitable distribution of income**. Price stability contributes to the efficient allocation of resources and facilitates long-term planning. Full employment means that jobs are available for those seeking work. Higher standards of living require increased output per person (economic growth per capita). An equitable distribution of income means that the fruits of the economy are divided in a way that seems fair to the majority of the people. With the long-run trend toward a more sophisticated, highly integrated economic system, it is becoming increasingly important for an individual decision maker to be aware of the macroeconomic environment.

1. What is a system?
2. What are three main concepts of a system? What do they imply?
3. What is an economic system?
4. What functions does economic order perform?
5. What do economic goals for a nation usually include?

#### TEXT 4

*Read the text. Make up the plan and retell the text using your plan.*

### PROLOGUE TO ECONOMICS

There is almost universal agreement that economies are becoming more complex every year and that an understanding of how an economy works is more important than ever before. For someone who is just beginning to study economics, the task indeed appears to be a difficult one. **Economics is the study of the way in which mankind organizes itself to solve the basic problem of scarcity**. All societies have more wants than resources, so that a system must be devised to allocate these resources between competing ends. In a very real sense, the complexity of the economy makes it difficult to decide exactly where to start. Simultaneously, production is taking place, goods and services are being allocated, and a great number of market participants are being motivated by a diverse set of goals. In addition, there is the complex financial system in which individuals, firms, and governments borrow and lend funds.

Economics is divided into two major branches: macroeconomics and microeconomics. **Macroeconomics is the study of behavior of the economy as a whole with emphasis on the factors that determine growth and fluctuations in output, employment, and the level of prices**. Macroeconomics studies broad economic events that are largely beyond the control of individual decision makers and yet affect nearly all firms, households, and other institutions in the economy. Specialists in macroeconomics are particularly interested in understanding those factors that determine



**inflation, unemployment, and growth** in the production of goods and services. Such an understanding is necessary in order to develop policies that encourage production and employment while controlling inflation.

The other major branch of economics is microeconomics. **Microeconomics is the study of behavior of individual units within the economy.** The division of economics has resulted from the growing complexity and sophistication of economic research.

These two approaches and the topics they include are in fact interdependent. Individuals and firms make their decisions in the context of the economic environment, which has an impact on the constraints the decision makers face as well as their expectations about the future. At the same time, when taken as a whole, their decisions determine the condition of the overall economy. A good understanding of economic events and an ability to forecast them require knowledge of both individual decision making and the way in which individuals react to changes in the economic environment.

1. Economies are becoming more complex every year. Why?
2. What is the main division of economics?
3. What is macroeconomics «responsible for»?
4. What does microeconomics deal with?

## TEXT 5

1. In what context can we use the word environment?
2. What elements of the environment can you mention?
3. Which ones are of the most importance?

*Read the text. Be ready to define the key-sentence(s) of each paragraph. Explain your choice.*

## MACRO ENVIRONMENT

**Macro environment** is the network of systems composed of culture, political and economic forces, technology, skill mixes, and consumer groups; a source of opportunities and constraints for the organization. Once the organization has built its product or defined its service, it must distribute it to consumer client groups who have wants and needs that they attempt to satisfy through the consumption of such products and services.

Every organization exists within an extensive and complex environmental network. Organizational environment refers to all groups, norms, and conditions with which an organization must deal. It includes such things as the political, cultural, economic, religious, educational, and like systems that affect an organization and which in turn are affected by it. Table 1 provides a summary of environmental subcomponents.

Table 1.

Major Component	Subcomponent
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<b>Culture</b>	<b>Societal values, norms, beliefs, artifacts, and accepted behavior patterns, institutions</b>
<b>Political System</b>	<b>National, state, and local laws, regulations and ordinances, governmental services, political parties and processes</b>
<b>Economic System</b>	<b>Resource availability and means of allocation, market structure, price mechanisms, economic regulations</b>
<b>Technology</b>	<b>Techniques and science of production and distribution, machinery/automation, flows and processing, state of industrial development</b>
<b>Skill Mix</b>	<b>Labor availability by skill and geographic area, mobility, training and development, unionization</b>
<b>Customer/Client Groups</b>	<b>Buying power, expectations (time, price, quality, quantity, price), need, wants, perceptions</b>

**Culture**, composed of values, norms, artifacts, and accepted behavior patterns, affects the way the organization is formed and how it operates once in existence. Indeed, one must recognize that all of the decisions made in an organization are culture bound; i.e., they are a reflection of all these components of culture. Societal norms are those standards that mold behavior, attitudes, and values of those members who constitute a society. They come from laws, customs, religious teachings, and common practice. They are standards because members take them into account in their decisions and behavior. Dress, speech, what is considered to be in good taste, and the general understanding of what is right and wrong are all affected by societal norms. At the same time, almost every institution in a society is capable of transfusing some of its values, norms, and behavior patterns into its environment. Organizations can hardly afford to ignore such a vital ingredient in its macro environment.

**Political forces** are classified as the form and role of government in a society. The source of law and other regulations that restrict or at least affect the organization, the political system also is the source of a rich variety of services for the organization. These services range from fire and police protection to the provision of recreational areas. When one thinks of the governmental sector, one might be likely to think of its negative connotation and red tape. Although there is an element of restriction originating from the political sector, it is by no means dominant. Even though the presence of the political system has served to complicate management's job, it has also made it easier at the same time. By knowing that all similar organizations must observe the same rules and regulations, managers can experience an element of certainty in their activity. They know that they have a source of protection and redress when violations do occur.

The political system is coupled with the **economic system**. The type of economy a society has can range from private enterprise to planned economy. Whatever its form, the economic system is concerned with the allocation of scarce resources and the provision of some form of distribution. It is, in practice, quite difficult to separate the political and economic systems from each other.

The macro environment is also the source of *technology*—the machines, techniques, and methods required for production and distribution. To be able to compete successfully, organizations must have access to modern technology. It is simply not feasible for an organization to compete unless an adequate level of technology is available to it. It can be safely stated that organization success is measured by the ability of the organization to adjust to and to employ technological innovations. Among their responsibilities, managers today must count the obligation to maintain a spirit of creativity and ingenuity among members so that continued progress on the technological front can be made. The ever-growing shortages of resources of all types are but one indication of the seriousness of this obligation.

*Skill mix* in the labor force is likewise an important facet of an organization's macro environment. All organizations depend to some extent on a supply of labor that possesses the skill and ability to perform the work necessary to attain objectives. Consequently, labor market conditions and skill mixes are crucial to success.

*The consumers* are the ultimate arbiters of the organization's success, for it is they who make the critical choices to consume or not to consume an organization's output. Without the income (in whatever form) that results from this consumption, the organization is doomed to a relatively short life. This means that managers must be more aware of and sensitive to the total environmental complex of their organization in order to develop and implement plans for successfully coping with it. Otherwise, there is little chance for success, for no longer will yesterday's methods based on a placid environment serve in today's turbulent outside world.

1. What is macro environment?
2. Why is macro environment a source of constraints and opportunities for an organization?
3. What is «the most influential element» of the environment?
4. What element can people influence?

## TEXT 6

*Read the following text. Define its main topic. Divide the text into logical parts. Give the title to the text and to each part. Explain the meanings of the words and phrases which have been highlighted.*

The study of economics would be incomplete without an understanding of the nation's role in the world economy. The study of the world economy is known as "international economics". **International economics** embraces two broad areas of interest: **international trade** and **international finance**. World trade has been gaining increasing significance among nations. Why do nations trade? The answer is that nations have different quantities and qualities of economic resources and different ways of combining them. As a result, each country can produce certain goods more efficiently, or at relatively lower costs, than others. This idea can be stated somewhat differently. Imagine a world consisting of only two countries, each producing the same goods. Under such circumstances, the alternative or **opportunity cost** to each country of producing more of one good is the amount of the second good that must be sacrificed. In view of this, which of the two goods should the countries produce? The answer is that

each should **specialize**. When two parties engage, the sacrifice that each makes to obtain something from the other is called the “terms of trade”. For example, in order to buy a book, you might have had to give up five visits to the movies. Your terms of trade, therefore, are 5 movies = 1 book. The **terms of trade** for a given transaction equal the number of units of goods that must be given up for one unit of goods received by each party to the transaction. Or in other words, terms of trade are defined as the ratio of the prices of its export commodity to the price of its import commodity. Despite the fact that trade is of great importance for each nation, all countries impose restrictions of one form or another to protect some of their domestic industries. The restrictions may be of several types: **tariffs, import quotas, nontariff barriers**. Tariffs are **customs duties** or taxes imposed by a government on the importation of a good. Tariffs may be (1) specific, in the form of a tax per unit of the commodity, or (2) **ad valorem**, based on the value of the commodity. Import quotas are laws that limit the number of units of a commodity that may be imported during a specified period. Nontariff barriers are any laws or regulations, other than tariffs, that nations impose in order to restrict imports. For instance, to “protect the health and safety” of their citizens, many countries establish higher standards of quality for various kinds of imported goods than for similar goods produced domestically.

**Ex.13.** *Insert the missing words given below.*

**Consumption, take account of, manager, state, environment, include, capital, macroeconomics, economy**

In a simplistic ... in which individuals or families produce primarily for their own ..., economy-wide phenomena are of little importance. On the other hand, the complex financial ... and production process that characterizes an advanced economy in the 1980s requires individual decision makers ... both the current economic environment and forecasts of the economic environment. Decisions that require an understanding of the overall functioning of the economy ... business decisions such as whether firm should sell bonds or stock to raise new ... and individual decisions such as whether to change jobs or purchase a new home. Whether a person «wears the hat» of an entrepreneur, a business ..., or a head of a household, it is important to be aware of the ... of the economy as a whole. Specific factors that determine the advisability of these and other decisions are studied as part of ... .

**Ex.14.** *Add an appropriate preposition to each of the following sentences where indicated.*

1. This refers ... the interactive effect of the parts of the system working together.
2. They decorated the house regardless ... cost.
3. Economic forms range ... the mixed private enterprise ... completely controlled economies.
4. Everyone, irrespective ...means or occupation, shall have an equal opportunity.
5. This function is basically performed ... the price mechanism.
6. This simply means that demand ... and supply ... goods and services interact.
7. Gradual change is preferable ...sudden, large-scale change.
8. Such a system affects ... every link in the distribution chain.

- 9.They have to satisfy their wants and needs ... the consumption of such products and services.
- 10.It has also made it easier ...the same time.
- 11.The political system is coupled ... the economic system.
- 12.Organization must have access .. modern technology.
- 13.All organizations depend ... supply of labour force.
- 14.The economic system is concerned ... the allocation of scarce resources.
15. We must try to cope ... our problems.
- 16.The entrance door gives access ... the living room.

**Ex.15.** *Open the brackets.*

### **The Price System**

Who (to tell) workers where (to work) or what occupation to choose? Who (to declare) how many cars should (to produce) and how many homes should (to built)? Who (to specify) the predominant style of women's dresses or men's suits?

The greater the degree of competition the more these matters (to decide) impersonally and automatically by the **price system** or the market system. This may (to view) as a system of rewards and penalties. Rewards (to include) profits for firms and people who (to succeed). Penalties (to include) losses, or probably bankruptcy, for those who (to fail). The price system (to be) fundamental to the traditional concept of market economy.

The price system basically (to operate) on the principle that everything that (to exchange) – every good, every service, and every resource – (to have) its price. In a free market with many buyers and sellers, the prices of these things (to reflect) the quantities that sellers (to make) available and the quantities that buyers (to wish) (to purchase).

Thus, if buyers (to want) (to purchase) more of a certain good than suppliers (to have) available, its price (to rise). This (to encourage) suppliers (to produce) and (to sell) more of it. On the other hand, if buyers (to want) (to purchase) less of a certain good than suppliers (to prepare) (to sell), its price (to fall). This (to encourage) buyers (to purchase) more of it.

This interaction between sellers and buyers in a competitive market, and the resulting changes in prices, (to be) what most people (to refer) to by the familiar phrase "supply and demand".

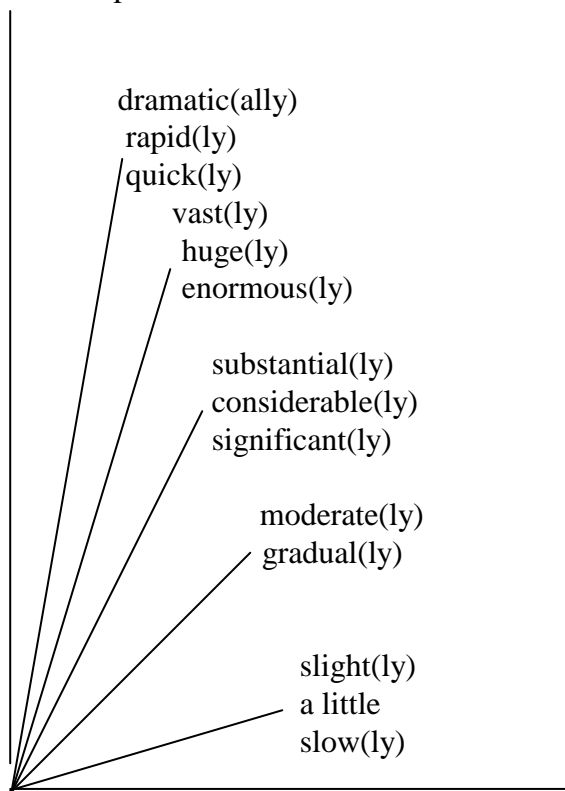
1. *Read the text once again and answer the following question: "What role does the price system play in the market economy?"*

**Ex.16.** *Study the following words and word combinations. They are used when you are to describe different trends of economic development. Consult a good dictionary and put down all their derivatives. Make your own sentences using these words. You can do it in the form of a question to your partner.*

increase, raise, put up, step up, extend, expand, rise, grow, soar, boom;  
decrease, drop, put down, cut, reduce, fall, go down, decline, collapse, slump; remain stable, hold, maintain, stay constant.

to stand at

to reach a peak of



**Ex. 17.** *A picture is worth 1000 words. Economists, being efficient, like to present ideas in graphs, which are a type of picture. But graph is worth 1000 words only if a person looking at it knows the graphical language (graphish). Study the following information to be able to read any graph. Find the Russian equivalents for the highlighted words.*

Graphs are used in two ways: 1. to present an economic model or theory which focus on hypothetical relationships; 2. to present real-world data visually. 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** (axes, pl). Axes are called vertical and horizontal. We can plot the information on two axes. When we connect two points we have a line. Even if the line is straight, economists call any such line drawn on a graph **a curve**. A curve can be **a linear curve, a downward-sloping curve, an upward-sloping curve, a nonlinear curve**.

Economists use the following graphs in presenting actual economic data:

**Line graph**

**Bar graph**

**Flow chart**

**Pie chart**

**Ex.18.** Give the English equivalents to the following.

Приобретает все возрастающее значение; альтернативные издержки; при таких условиях; который должен быть принесен в жертву; постарается быть самодостаточным; тарифы; квоты на импорт; условия торговли; нетарифные барьеры; навязывать ограничения; защитить отечественную промышленность; таможенные пошлины; налог на единицу товара; в определенный период; установить более высокий стандарт качества на товары.

**Ex.19.** Translate the following sentences into English.

1. Это следует рассматривать с точки зрения действия всей системы. 2. Одна из ее функций – эффективное размещение ресурсов. 3. Рыночная цена – результат взаимодействия спроса и предложения на товары и услуги. 4. Экономика не может существовать без системы распределения. 5. Все решения – это отражение всех компонентов культуры. 6. Когда мы говорим о государственном секторе, мы подразумеваем бюрократический аппарат. 7. Если происходит нарушение закона, они знают, что у них есть защита. 8. Чтобы успешно конкурировать, организация должна иметь доступ к современным технологиям. 9. Все организации зависят от предложения рабочей силы. 10. Руководитель должно четко реагировать на все изменения в деловой среде. 11. В конечном итоге, успех организации определяют потребители.

**Ex. 20.** Let's review the core concepts of economics. Translate the following into Russian.

1. **Economics** is the study of how people, individually and collectively, allocate their limited resources to try to satisfy their unlimited wants.
2. **Scarcity** occurs because human wants exceed the production possible with our limited time and resources.
3. A **good** is any item or service that satisfies a human want and, in so doing, adds to human happiness.
4. **Production** entails using technology to apply energy to materials in ways that make the materials more valuable, or that otherwise help satisfy human wants.
5. **Labour** resources are the physical and mental talents that people can make available for production.
6. **Opportunity cost** is the value of the best alternative surrendered when a choice is made.
7. **Absolute prices** are prices in terms of some monetary unit.
8. **Relative prices** are the prices of goods or resources in terms of each other, and are computed by dividing their absolute prices by one another.
9. **Economic efficiency** is achieved when we produce the combination of outputs with the highest attainable total value, given our limited resources.
10. **Inputs** are resources used in the production process, such as labour and raw or semifinished materials.
11. **Outputs** are transformed materials; the results of production.
12. **Demand** is the quantity of a specific good that people are willing and able to buy during a specific period, given the choices available.

13. **Supply** refers to the quantity of a specific good that sellers will provide under alternative conditions during a given period.
14. **Market equilibrium** occurs at the price-quantity combination where the quantities demanded and supplied are equal.
15. A **surplus** is the excess of the quantity supplied over quantity demanded when the price is above equilibrium.
16. **Gross Domestic Product (GDP)** is the total market value of goods and services produced within a country during some period, usually one year.
17. **Gross National Product (GNP)** is the value of all output produced by resources owned by the citizens of a country.
18. **Economic growth** is a positive quantitative change in an economic system; occurs when a society acquires greater productive capacity that can be used for consumption or investment.
19. **Capital** is all physical improvements made to natural resources that facilitate production, including buildings and all machinery and equipment.
20. **Wealth** is the value of the assets owned by an individual or a group of individuals.

### ***SPEAK AND WRITE***

1. Why is it important to view organizations open systems interacting with their environment?
2. Do you know any closed systems? Give some examples.
3. Give your own examples of the environmental influence on a business / on an individual.
4. Prepare a short report on the biography of a famous economist.
5. What would happen to standards of living in your country if all foreign trade were prohibited? How significant do you think this would be? In what areas would this impact be the strongest?
6. Does everything have a price? Are there some things you would not do regardless of price? (Remember: prices and money are not synonyms; prices may be nonmonetary.)
7. Summarize the information of the Unit to be ready to speak on Economics. The first step to be done is to write the plan of your future report.
8. Choose any question (problem, topic) relating to Economics and prepare a 5-7 minute report. Refer to different additional sources to make your report instructive, interesting and informative.

## **UNIT 2**

### **BUSINESS ORGANIZATION**

*The world is a chain, one links another.*

### **Your vocabulary**

#### **Business**

- work relating to the production, buying, and selling of goods and services;
- an organization which produces and sells goods, or which provides a service;



- important matters that you have to discuss or deal with.

**Businessman, Businesswoman**

- a person engaged in trade or commerce.

**Business cycle**

- process by which investment, output, and employment in an economy tend to fluctuate up and down in a regular pattern causing boom and depression, with recession and recovery as intermediate stages.

**Organization**

- a large group of people that has particular aims.

**Organizer**

- the person who makes all the arrangements for something and makes sure that happens as planned.

**Ex. 1.** Study the following words and word combinations and translate the sentences given below into Russian. Consult a good dictionary if necessary.

**mean business, none of one's business, go out of business, businesslike, be busy with, have no business to do, be in business, like nobody's business, mind one's own business**

1. Mother has *busied* herself with our affairs for too long.
2. When traveling *on business* I take my tiny travel kit.
3. Let's get down to business.
4. She *had no business* to publish his letters to her.
5. 50% of these stores *were not in business* five years ago.
6. They are working away *like nobody's business*.
7. Umbrella sellers *went out of business*.
8. Stop teaching me! It's *none of your business*.
9. Listen to me! I *mean business*!
10. The visit to Copenhagen was brisk and *businesslike*.

**Ex 2.** The words given below are the synonyms to the word **organization**. In what do they differ? Give your own definition to each of them.

*Institution, council, body, entity, fund, trust, party, club, society, association, league, federation, union.*

**Ex.3.** Match the words listed below with the dictionary definitions which follow.

**accountability, effort, pattern, requirement, accomplish, existence, consumer, foster, affect, establish, benefit, involve**

1. Create or set it up in a way that is intended to be permanent.
2. Help its development or growth by encouraging people to do or think about it.
3. Something that you must do or possess in order to be allowed to do some other thing.
4. The state of being real, alive, or actual.
5. Energy in the form of thought, action, time, or money that people use in their work.
6. It influences someone or something or causes them to change in some way.
7. Succeed in doing or finishing something.

8. Being responsible for and prepared to justify one's actions.
9. A good result of something.
10. A person who buys things or uses services.
11. A particular, recognizable way in which something is done or organized.
12. To include somebody or something as a necessary part or use them in some way.

**Ex.4.** *Make the following words negative. Use prefixes -un, -in, -mis, -dis, -ir, and so forth.*

Human, existence, enable, realized, regard, responsible, careful, systematic, effective, mature, aware, understand, loyal, formal, direct, continuous.

**Ex.5.** *Give the opposites to the following words. Use each of them in your own sentence.*

Flexible, voluntary, to share, to adhere to, enjoy, confidential, consensus, versus.

**Ex.6.** *Be sure you know the meaning of the words given below. Give their derivatives.*

Existence, accomplishment, benefit, authority, obligation, responsibility, extend, consider, favour, perception, value, equal, assume, conscious.

**Ex.7.** *Give the synonyms to the following words. Make up your own sentences to show the shades in their meaning.*

To handle, to accomplish, goal, benefit, coerce, to achieve, to purchase, output, affect, to establish, to enhance, power.

**Ex.8.** *Translate into Russian. Pay attention to the economic and business terms.*

1. Business is the production, buying, and selling of goods and services.
2. A business, company, or firm is an organization that sells goods or services.
3. A business is also may be referred to as an enterprise to emphasize its adventurous, risk-taking qualities, and business in general may be referred to as free enterprise and private enterprise.
4. Large companies are referred to as corporations, especially in the US.
5. Large companies operating in many countries are multinationals.
6. An entrepreneur is usually someone who builds up a company from nothing: a start-up company.
7. The people legally responsible for a company are its board or board of directors.
8. When a private company is bought by the state and brought into the public sector, it is nationalized.
9. When the state returns a company to the private sector in a sell-off, it is privatized.
10. A holding or holding company is one that holds stakes in one or more subsidiaries.
11. A holding company's relationship to its subsidiaries is that of parent company.

*What words and word combinations from ex. 8. do you consider to be economic and business terms? Explain what they mean.*

**Ex.9.** *Translate the following text in written form.*

### **The Interdependence of Society and Organizations**

Modern societies have been called *organizational*. Unlike so-called primitive societies, modern ones produce most of their goods and services through special-

purpose organizations that are, in the main, neither familial nor tribal. Some of the organizations of a modern society are meant to earn a profit and some are "not-for-profit."

The organizational mode of conducting society's affairs means that virtually everyone in modern societies depends mightily upon how well organizations function. We look to them for goods and services of adequate quantity, quality, and a low enough price. We look to them for jobs to earn the money to buy what we need. We depend upon them for decent and healthful environments on and off the job.

In turn, organizations depend upon the contributed talent and effort of people who work in them. Every organization must obtain these contributions and other resources and convert them into some outputs that yield sufficient rewards to keep the organization alive and functioning. In a word, the relationship of society and organizations is one of interdependence. But what kind of interdependence?

Managerialism (the ideological principle on which the economic, social and political order of advanced industrialized societies is actually based) proclaims that the society is made up of organizations, corporations, associations, and so forth – not individuals. Social decisions are a consequence of the interactions of the managers of the social units – not the will of the people, the demands of consumers, or the needs of workers.

1. Do you share the point of view of the author of the text?

### ***LET'S READ AND TALK***

1. Why do people try to «organize» themselves?
2. What formal and informal organizations do you know?
3. "Informal groups develop in order to meet a variety of individual needs which are not met by the formal organization." Do you share this opinion?

### **TEXT 1**

*Read the text. Define the main idea of each paragraph. What are the key sentence(s) of each paragraph?*

### **ORGANIZATION**

Early in human existence people learned that their individual efforts often fell short of success. They found that they were unable to accomplish many tasks that require more than individual effort. The result was that only limited goals could be attained. Therefore the necessity of group activity was discovered relatively early in human existence.

Group activity could be aimed at some higher, more complex set of goals and could thus bring greater benefits to all concerned. This quality of group activity must be counted as one of the chief requirements for success. Cooperation is a prime element of a group of people who want to achieve more than they can acting individually. A system

of group relationships built upon and fostering cooperation, then, is basically the meaning of an organization.

This system of cooperation consists of several parts: the human element, the physical element, the work element, and the coordination element. All of these elements, taken collectively, can be thought of as an organization. Today, this system of cooperation is much more complex than it was in the first attempts at organization.

Thus, ***organization is an open, dynamic, purposeful social system of cooperation designed to enhance individual effort aimed at goal accomplishment; consists of the human element, the physical element, the work element, and the coordination element; transforms resources into outputs for users.***

It is important to examine the various parts or components of organization theory in order to outline its broad scope. These components are: *goals, work, power and authority, delegation, structure.*

It was stated earlier that organizations were established to enable an individual to accomplish more in a group than he could as an individual. In other words, organizations are devices for pooling talent and ability into an effective whole that can accomplish some desired objective. Every organization is initially built to accomplish some goal. ***The goal or purpose*** is an unrealized state or condition that the members do not possess but which they deem desirable. It is imperative that organizational goals be clearly defined and communicated to all organization members who are to be affected by them. Goals are the starting point for the design and maintenance of the organization itself. At the same time, these goals must meet a need that society has defined as important. Thus, consumer needs play a crucial role in organization.

Once the goal of an organization is established, it is time for the members to decide on the type of work activity that will be necessary to accomplish these goals. Basically, any organization must perform two fundamental types of work: primary and secondary. ***The primary work*** (it also commonly referred to as line work) consists of production and distribution of goods and services that will satisfy consumer needs. ***The secondary work*** (it is often termed staff work) consists of all those activities that support and extend the operations of primary work. For example, in a manufacturing firm, the secondary work would include accounting, personnel and quality control.

No theory of organizations would be complete without a treatment of the roles that power and authority play in organizational activity. These two components of theory help explain the network of relationships that tie the other components of an organization together into some logical pattern.

***Power*** is the ability to influence others successfully. It comes from any single or combination of possible sources. For example, one can have power over others because of one's intelligence, skill, or money. Regardless of its source, power enables its holder to exercise one's will over others. Thus, in order to understand the total workings of an organization, one must have an appreciation of the role that power plays in these workings.

***Authority*** can be defined as power that has been given official recognition by the organization. Once an organization legally authorizes an individual to act on its behalf, that person is said to possess authority. Every member of the organization has some amount of authority to take action necessary to carry out his responsibility. The concern

of the theorist is to understand how authority comes to be officially recognized by the organization and what considerations should be made regarding its use.

Organizations that enjoy any measure of success find it necessary to increase their membership and to assign duties to these additional members. The process that is used to add members to the organization will result in the necessity to divide the work of the organization into sub-units or groups. Each of these groups will be under the direction of a manager or managers. In order for these managers to perform their managerial duties properly, they must be granted appropriate responsibility and authority. The means for making these assignments is termed delegation. In general, **delegation** may be defined as the process of transferring an obligation (responsibility) and an accompanying right (authority) from a superior to a subordinate position in the organization. It is this basic process that enables an organization to grow. Without delegation, an organization simply cannot exist and prosper.

The patterns of work divisions and their hierarchical arrangements constitute the basic components of structure. **Structure**, then, is the hierarchical pattern of authority, responsibility, and accountability relationships designed to provide coordination of the work of the organization. It is basically a managerial tool that aids in guiding the organization towards its goals and can be considered the skeleton of the organizational body. The idea of hierarchy of authority, the division of organization by function, the differentiation of responsibility of the line (doers) and the staff (the advisors) are all inventions of the church and military leaders who were faced with the need to manage large aggregations of human, technical, and material resources. Organizations create an officially sanctioned structure known as the *formal organization* or *de jure* organization. This structure is often depicted by a chart as that seen in Fig. 1.

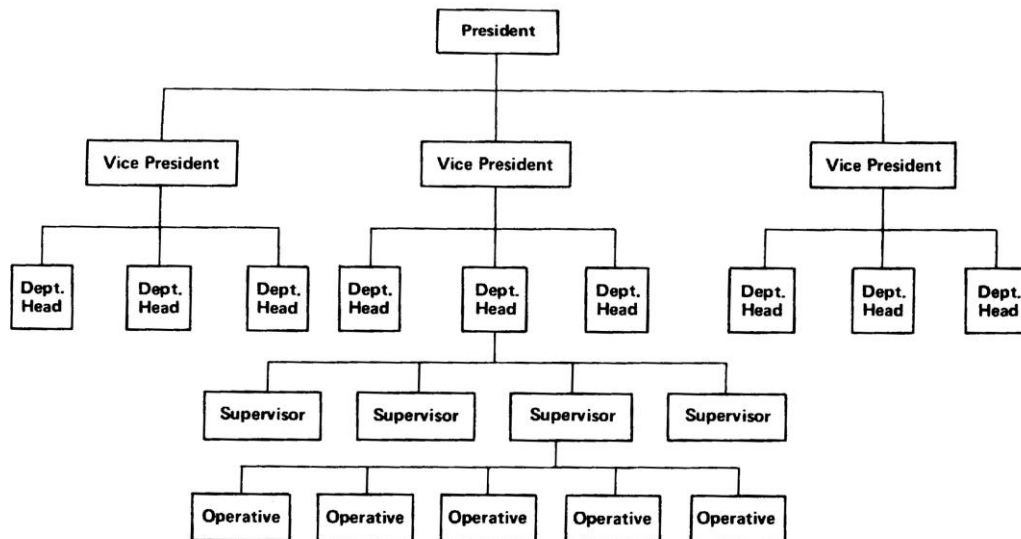


Figure 8.1 A Formal Organization Chart

A formal organization is only half the story, for superimposed on these relationships is a whole series of *informal or de facto* relationships that are not sanctioned by the organization. These include informal work groupings of employees, informal leaders, informal channels of communication and informal power and status differentials. Usually the structure of an organization is rather permanent and stable but in some cases a temporary, ad hoc, organization may be created. The organization exists to reach a certain goal or set of goals and disbands once the goal is achieved.

1. What did people find early in human existence?
2. What is the meaning of the organization?
3. What is an organization?
4. What are the components of organization theory?
5. What role do power and authority play in building every organization?
6. What is the starting point for the design of an organization?
7. What is delegation and why is it necessary in today's organization?
8. Which is more important: formal or informal structure?
9. Can you give any example of an ad hoc organization?

## TEXT 2

*Read the text and be ready to answer what theory you would follow as a manager. Give your reasons.*

### PEOPLE IN ORGANIZATION

If there is any one characteristic of people which is universally valid and important, it is that they differ. To say that all persons are created equal is a statement of human rights under the law. It communicates nothing at all about human nature. As a matter of fact, people differ greatly in intelligence, aptitudes, physical strength, manual dexterity, knowledge, skill, interests, personality traits, motivation, and many other attributes which potentially influence behavior and productivity.

We are rational—but only to a point. We plan, set goals, think, reason, and live by creeds and values. But we also become frustrated and behave in ways that can be perceived as rational only by someone who understands all our deeply embedded, sometimes conflicting needs, aspirations, and perceptions. In many situations our motivation is unconscious so that not even we understand our own actions.

The fact that one's environment strongly influences behavior is indisputable. A number of prominent psychologists have assumed that human freedom is an illusion. Human choices are thought to be totally determined. This, of course, is an assumption. Many people do not subjectively perceive themselves in this way. It is significant that behavior and expectations are strongly influenced by what a person believes to be true. Individuals feel responsible for their actions. Also, people consciously believe that their choices are real, regardless of any awareness of philosophical arguments to the contrary. Organizations cannot function optimally without these pragmatic assumptions.

There are, of course, innumerable statements which one might make about human nature, but they would not all have a direct influence on how people should be dealt within the work environment. The late Douglas McGregor did an excellent job of conceptualizing some of the assumptions about human nature which are relevant to organizational behavior. He labeled these, *Theory X*, the classical or traditional view, and *Theory Y*, a progressive view upon which he believed a new model for human relations in organizations could be developed.

**Theory X.** This theory holds that the average person inherently dislikes work, is innately lazy, irresponsible, self-centered, and security oriented, and consequently is indifferent to the needs of the organization. Because of these characteristics, the average person must be threatened, coerced, and controlled. In fact, most people prefer to be directed and controlled. They seek security above all, prefer to avoid responsibility, and

both want and need external control in the work situation. Because people are basically cunning and immature, management should experience little difficulty in using a highly directive and manipulative style of supervision.

**Theory Y.** Experience has shown that Theory X assumptions result in a great deal of difficulty for management although they remain popular with some managers. McGregor's Theory Y makes the opposite assumptions. People do not inherently dislike work and are not inherently lazy. Rather they have learned to dislike work, to be lazy, and to be irresponsible because of the nature of their work and supervision. They have a high capacity for developing an intrinsic interest in their work, for committing themselves to organizational objectives, and for working productively with a minimum of external controls.

Two points should be made with reference to these theories. First, the Theory X characteristics are said to be inherent or innate. To be such, they would necessarily apply to everyone, which is obviously absurd. On the other hand, under Theory Y, people are said to have the potential or capacity for the responsible behavior and attitudes described. If anyone possesses these qualities, and a great many people do, then everyone has the potential for them. Second, McGregor speaks of assumptions about the average person, and one must ask, «Average on what dimensions?» Are we talking about intelligence? education? experience? Average is a statistical concept. The average person is nonexistent, hypothetical construct. When we make assumptions about the average person, at best we are referring to most people, and in doing so must recognize that there are exceptions.

### TEXT 3

*Here is one more text about people in organization. Read it and say whether you can take the information seriously.*

When might you need to give blood for a personality test? The answer to that question may puzzle you more than the question itself: when you apply for a job. What's more, your blood group could seriously influence your career prospects. Some people believe your blood group hides no secrets. It reveals the "real you" – a person who gets things done, a good salesman, a creative person or a problem-solver – that is why you could be asked to state your blood group when completing a job application form. This growing trend was first used in Japan and now management consultant firms in other parts of the world have joined in. Someone, somewhere has spent some time working out statistics regarding who's who in the blood group system. The owners of certain group tend to be particularly good or bad at certain tasks. In fact, one major Japanese firm is so well informed about blood groups that the company is quite specific about its needs: "We must have 30 per cent of blood group A and 15 per cent of AB, 25 per cent of blood group O, and 30 per cent of blood group B among echelons of our management personnel". Apparently, if you belong to blood group O you get things done and sell the goods. Blood group A are thinkers, while blood group B are highly creative. And if you got problems, ask the Abs to solve them.

## TEXT 4

What is meant by «organizational climate»? Why is it important? What part does an organization's culture play in the daily lives of its members?

*Read the text and be ready to discuss each point of cultural values. Can you add any more?*

### ORGANIZATIONAL CLIMATE

Although the concept of organizational climate is somewhat nebulous, it is valuable in understanding several aspects of organizational behavior. **Organizational climate is the overall favourability of member attitudes and perceptions with reference to specific activities and features of an organization.**

Organizations tend to have their specific culture: a peculiar mix of values, attitudes, norms, habits, traditions, behaviors and rituals. Some organizations are well aware of their culture and regard it as a powerful strategic tool, used to orient all units and individuals toward common goals, mobilize employee initiative, ensure loyalty, and facilitate communication. They aim at creating a culture of their own and making sure that all employees understand it and adhere to it. The specific cultural values of an organization may concern, for example:

- the organization's mission and image ( high technologies, innovative spirit, superior quality);
- seniority and authority (respect for seniority; seniority as a criterion of authority);
- the treatment of people ( concern for people and their needs, equitable treatment or favouritism, privileges, respect for individual rights, training and developing opportunities, how people are motivated);
- the importance of different management positions and functions (authority of personnel department; importance of different vice-presidents' positions; respective role and authority of research and development);
- work organization and discipline (voluntary versus imposed discipline; punctuality; use of time clocks; flexibility in changing roles at work; use of new forms of work organization);
- decision making process (who decides; who has to be consulted; individual or collective decision making; need to reach consensus);
- circulation and sharing of information (employees amply or poorly informed; information readily shared or not);
- communication pattern (preference for oral or written communication; rigidity or flexibility in using established channels, use of meetings; who is invited to what meeting; established behaviour in the conduct of meeting);
- ways of handling the conflicts (desire to avoid conflict; preference for informal or formal ways; involvement of higher management);
- performance evaluation (confidential or public; by whom carried out; how results are used);
- socialization patterns (who socializes with whom during and after work; facilities such as separate dining rooms or reserved clubs);
- management and leadership style (paternalism; authoritative, consultative or participative style; flexibility and adaptability);



- identification with the organization (manager and staff adherence to company objectives and policies; enjoying working with organization).

#### TEXT 5

*Read the text and be ready to define: 1. what a business entity is and 2. three main types and forms of business organizations.*

### TYPES AND FORMS OF BUSINESS ORGANIZATION

A business organization is frequently referred to as a business entity. **A business entity is any business organization that exists as an economic unit.** Business entities can be grouped according to the type of business activity they perform.

1. *Service companies* perform services for a fee. This group includes companies such as accounting firms, law firms, repair shops, and many others.
2. *Merchandising companies* purchase goods that are ready for sale and sell them to customers. They include such companies as auto dealerships, clothing stores, and supermarkets.
3. *Manufacturing companies* buy materials, convert them into products, and then sell the products to the companies or to the final customer. Examples are steel mills, auto manufacturers, and so on.

The business entity concept applies to all forms of businesses – single proprietorship, a partnership, and a corporation.

A *single (sole) proprietorship* is business owned by an individual and often managed by that same individual. Single proprietors include physicians, lawyers, electricians, and other people who are ‘in business for themselves’. In a single proprietorship, the owner is responsible for all debts of the business. Operating as a proprietorship is the easiest way to get started in a business activity. Other than the possibility of needing a local license, there are not any prerequisites to beginning operations.

A *partnership* is a business owned by two or more persons associated as partners. Partnerships are created by an agreement. Included in the agreement are such terms as the initial investment of each partner, the duties of each partner, the means of dividing profits or losses between the partners each year, and the settlement to be made upon the death or withdrawal of a partner. Accountants, attorneys, and other professionals frequently operate their firms as partnerships.

A *corporation* is a business owned by a few persons or by thousands of persons. The owners of the corporation are called shareholders or stockholders. They buy shares of stock. If the corporation fails, the owners lose only the amount they paid for their stock. The personal assets of the owner are protected from the creditors of the corporation. The stockholders do not directly manage the corporation; they elect a board of directors to represent their interests. The board of directors select the president and vice president, who manage the corporation for the stockholders.

#### TEXT 6

## WHY ARE COMPANIES REFERRED TO AS LTD., INC., GMBH, OR S.A.?

An individual, like Henry Ford, might want to begin a small enterprise and personally retain total responsibility and liability, but once it starts to grow, a partnership or a "company"—such as Ford Motor Company—would need to be formed. The key factor in owning any company is the guarantee called *limited liability*: the owners of a company never have to pay more than they have invested in the company. Their liabilities are limited. When a company goes bankrupt, the owners can never be required to pay its unpaid bills.

The worst that can happen to investors in a limited liability company is losing their initial investment if the company fails. By limiting the downside risk for shareholders, companies are able to attract *equity investors* and raise large amounts of funds called *equity capital* through sales of shares rather than by borrowing money at potentially high interest rates.

The names of companies around the world reflect this guarantee of limited liability. The abbreviations "GmbH" in Germany, "Inc." in the United States, or "Ltd." in most other English-speaking countries indicate that the firm is a limited liability company and investors have nothing more to lose than the money invested in their shares. The "S.A." in French- and Spanish-speaking countries also refers to limited liability by defining shareholders as "anonymous." Since the identity of shareholders can be kept secret, the creditors of a bankrupt company have no right to pursue them for the company's unpaid debts.

Many countries make a clear distinction between public and private companies, with separate designations, such as AG and GmbH in Germany, or Plc and Ltd. in Britain. Generally, "public" companies are those large enough to have their shares traded on stock exchanges, while smaller unquoted companies are said to be "private," even though their shares can be held by the public at large. In some countries, a large company is said to be privately owned if its shares are not available to the general public. In the United States, where little distinction is made between public and private companies, most companies simply bear the title "Incorporated."

1. What do the names of companies around the world reflect?

### TEXT 7

#### JOB SPECIFICATION

An interesting feature of the labour markets is that many organizations do not specify the type of person they require instead they will give the details of a job in a job specification. The Department of Employment has given the following definitions of a job description and job specification:

**Job description:** a broad statement of the purpose, scope, duties and responsibilities of a particular job.

**Job specification:** a detailed statement of the physical and mental activities involved in the job. The specification is usually expressed in terms of behaviour: what the worker

does, what knowledge he uses in doing it, the judgments he makes and the factors he takes into account when making them.

The great variety of job specifications which exists in business illustrates the range of specification in occupation. The five categories given below do not cover this wide range, but can become a guide to the role of manpower in organization.

1. *Unskilled*. Many jobs do not require any training or previous experience, for example manual labour or assembly work. These occupations are often highly repetitive and boring, as well as being poorly paid.

2. *Mechanical or motor skills*. There are some tasks in business which are performed by machines which require an operator. The more complicated the machine, then generally the more the operator must be.

3. *Intelligence and knowledge*. Occupations which require a high level of motor skill sometimes also demand a high level of intelligence and aptitude. But there are jobs which do not need mechanical skills but make demand on people's knowledge.

4. *Administrative or managerial skills*. The ability to organize other people is a rare skill. It not only requires knowledge and understanding of the functions within an organization, but also the ability to motivate people. In addition managers must be able to organize nonhuman resources using techniques of forecasting, planning, coordinating and controlling. These are techniques which require judgment as well as knowledge.

5. *Decision-making skills and initiative*. Decision-making is an everyday occurrence for everyone. We decide what to eat, what to wear, where to go, and so on. Similarly, decisions are part of an organization's everyday activities. The higher one goes up the hierarchy, the more necessary is the skill of decision. The risks which all organizations face mean that that organizations have to be run by people who have the ability to diagnose and assess the risk, and the capacity to decide on the correct strategy. Business is constantly changing and organizations require people with enterprise and initiative in order to survive.

1. Give your own examples of a trade or profession illustrating each category of the job specification.

## TEXT 8

### ENTREPRENEURS

**Entrepreneur is a person who organizes and manages a business.** This is a French word that has been accepted into the English language. Its popularity probably has something to do with its grand sound which befits anyone who has the initiative to create and run a business.

Entrepreneurs are a mystery to some people, especially those who are only comfortable with a nine-to-five existence and assured weekly paychecks and fringe benefits. The entrepreneur is a business person who prefers to take calculated risks in order to be his or her own boss.

Sometimes the entrepreneur is regarded as a business person who takes risks. This is not so. An entrepreneur is a business person who minimizes risks. He or she does this by advance planning, research, and meticulous consideration of all factors that could affect and possibly endanger her or his enterprise. When the entrepreneur forgets

to do advance investigation and preparation, then he or she is a gambler at best, and a failure statistic at worst.

Speaking about entrepreneurship, Professor K. Vesper of the University of Washington says that “ Businesses continue to be launched by people who didn’t make it the first time around. A driving force in entrepreneurship... is addictiveness. Once people have a taste of freedom in a business of their own, they like it. They don’t want to go back to working for someone else.”

While the percentage of growth for men entering into business independence could be measured in the teens, women’s increase in a single decade was 69 percent. There is no mystery here. Women go into business for the same reason men do – to make money and to be their own bosses. The rise in female entrepreneurship is reminiscent of what the early-20<sup>th</sup>-century immigrants did – and the more recent waves of immigrants from different parts of the world. Entrepreneurship is regarded to be the first track to success. Rather than to take low-wage, big-industry job, people opt to use their wits and energy to climb the ladder of independence the entrepreneurial way.

The American magazine *Venture* attempted to dissect entrepreneurs and to see what makes them tick. They conducted a survey to which 2,740 readers responded. Here is what they had in common:

1) Typically they were firstborn children who had a positive relationship with their father. (2) They held jobs before they were 15 and started their first businesses by the time they reached 20. (3) They borrowed money to launch their enterprises and made themselves personally liable. (4) Most of them are college graduates, consider themselves demanding of others, and start work early in the day (82 percent start work before 9 A.M.). (5) Twenty percent described themselves as successful; another 53 percent claimed moderate success; 27 percent reported the expectation of success.

While these entrepreneurs are intrepid adventurers on the business sea, they still seek the approval of others—often after they have launched an action. Respondent Richard M. Ask, president of the 2000-member National Association of Entrepreneurs, wrote, "I go out and do what I damn well please, and then I look around for approval to reinforce the action."

How old are the people who start new businesses? The majority are 30 to 34, with the biggest segment (70 percent) between 25 and 44.

Age of Entrepreneur

Under 20 years	1
20 to 24	8
25-29	17
30-34	21
35-39	18
40-44	15
45-49	9
50-59	10
60 and over	1

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With what do entrepreneurs start up new businesses? How much money do they invest? Most businesses require between \$20,000 and \$50,000 in cash. The vast majority of business start-ups (87 percent) are in the range of a few thousand dollars to \$100,000.

Start-Up Capital	%
Under \$5,000	17
\$5,000-\$10,000	14
\$10,000-\$20,000	16
\$20,000-\$50,000	25
\$50,000-\$100,000	15
\$100,000-\$250,000	8
\$250,000-\$500,000	2
Over \$500,000	1

Which businesses are the most popular? There is no doubt that retailing is number one. Nearly half of all new business start-ups are retail shops. Here is the line-up:

Type of Business	%
Retailing	46
Service	19
Construction	8
Manufacturing	8
Finance	5
Professional	5
Wholesale	4
Transportation	2
Agriculture	2
Others	1

1. Do you belong to the people who are comfortable with a nine-to-five existence? Are there many people of this type among your friends, relatives, colleagues?
2. "Calculated risk"—what is it?
3. Give your variant of an entrepreneur profile (age, traits of character, business, backgrounds, etc.)

## TEXT 9

### THE FIELD OF INTERNATIONAL BUSINESS

International business includes all business transactions that involve two or more countries. Such business relationships may be private or governmental. In the case of private firms the transactions are for profit. Government-sponsored activities in international business may or may not have a profit orientation.

There are three major motivations for private firms to pursue international business. These are to expand sales, to acquire resources, and to diversify sources of sales and supplies.

**Sales expansion.** Sales are limited by the number of people interested in a firm's products and services and by customers' capacity to make purchases. Since the number of people and the degree of their purchasing power is higher for the world as a whole than for a single country firms may increase their sales potentials by defining markets in international terms.

Ordinarily higher sales mean higher profits. If, for example, each sales unit has the same mark-up, more volume translates to more profits. Lucas film, for example, receives a percentage of the sales made by companies marketing *Star Wars* merchandise; thus Lucas film's revenues increase with each additional toy that Parker Kenner sells in the United Kingdom. In fact, profits per unit of sales may increase as sales increase. *Star Wars* cost approximately \$10 million to produce; as more people see the film, the average production cost per viewer decreases.

International sales are thus a major motive for firms' expansion into international business. A United Nations study indicated that among the largest industrial firms in the world, about 40 percent of their sales come from outside their home markets.

**Resource acquisition.** Manufacturers and distributors seek out products and services as well as components and finished goods produced in foreign countries. Sometimes this is to reduce their costs: for example, Lucas film used studios in the United Kingdom in the filming of *Star Wars* and Kenner manufactures its Laser Pistol in Hong Kong. The potential effects on profits are obvious. The profit margin may be increased, or cost savings may be passed on to consumers, thereby permitting more people to buy the products.

**Diversification.** Companies usually prefer to avoid wild swings in their sales and profits; so they seek out foreign markets and procurement as a means to this end. Lucas film has been able to smooth its yearlong sales somewhat because the summer vacation period (the main season for children's film attendance) varies between the northern and southern hemispheres. It has also been able to make large television contracts during different years for different countries. Many other firms take advantage of the fact that the timing of business cycles differs among countries. Thus while sales decrease in one country that is experiencing a recession, they increase in another that is undergoing recovery. Finally by depending on supplies of the same product or component from different countries, a company may be able to avoid the full impact of price swings or shortages in any one country that might be brought about, for example, by a strike.

1. How would you define the concept 'international business'?
2. What are the main motives for a firm to join international business?

## TEXT 10

*Read the text and be ready to speak about the main types of international business. Explain the meanings of the words and word combinations which have been highlighted.*

### TYPES OF INTERNATIONAL BUSINESS

**Merchandise exports** are goods sent out of a country whereas **merchandise imports** are goods brought in. Since these are tangible goods that visibly leave and enter countries, they are sometimes referred to as visible exports and imports. The terms *exports* or *imports* are used frequently yet in reality the reference is only to the merchandise exports or imports.

Exporting and importing of goods are the major sources of international revenue and expenditure for most countries. Among companies engaged in some form of international business, more are involved in importing and exporting than in any other type of transaction.

Importing and/or exporting is usually but not always, the first type of foreign operations in which a firm gets involved. This is because at an early stage of international involvement these operations usually take the least commitment and least risk of a firm's resources. Exporting or importing are not typically abandoned when firms adopt other international business forms. Although this may sometimes occur, exporting and importing usually continue, either by business with other markets or to complement the new types of business activities.

**Service exports and imports** refer to international earnings other than those from goods sent to another country. Receipt of these earnings is considered a service export, whereas payment is considered a service import. Services are also referred to as invisibles. International business comprises many different types of services.

**Travel, tourism, and transportation.** Earnings from transportation and from foreign travel can be an important source of revenue for international airlines, shipping companies, reservations agencies, and hotels. On a national level, such countries as

Greece and Norway depend heavily on revenue collected from carrying foreign cargo on their ships. The Bahamas earns much more from foreign tourists than it earns from exporting merchandise.

**Performance of activities abroad.** Fees are payments for the performance of certain activities abroad, such services as banking, insurance, rentals (e.g., the *Star Wars* film), engineering, and management. Engineering services are often handled through turn-key operations, contracts for the construction of operating facilities that are transferred to the owner when the facilities are ready to begin operations. Fees for management services are often the result of management contracts, arrangements through which one firm provides management personnel to perform general or specialized management functions for another firm.

**Use of assets from abroad.** Royalties are the payment for use of assets from abroad, such as for trademarks, patents, copyrights, or other expertise under contracts known as licensing agreements. Royalties are also paid for franchising, a way of doing business in which one party (the franchisor) sells an independent party (the franchisee) the use of a trademark that is an essential asset for the franchisee's business. In addition, the franchisor assists on a continuing basis in the operation of the business, such as by providing components, managerial services, or technology.

Firms often move to foreign licensing or franchising after successfully building exports to a market. This move usually involves a greater international commitment than in the early stages of exporting. The greater involvement occurs because the firm commonly has to send technicians to the foreign country to assist the licensee or franchisee in establishing and adapting its production facilities for the new product.

**Direct investments.** Direct investment takes place when control follows the investment. This can amount to a small percentage of the equity of the company being acquired, perhaps even as little as 10 percent. The ownership of a controlling interest in a foreign operation is the highest type of commitment to foreign operations in the given country. Direct investment operations may be set up in order to gain access to certain resources or access to a market for the firm's product.

When two or more organizations share in the ownership of a direct investment, the operation is known as a **joint venture**. In a special type of joint venture, a **mixed venture**, a government is in partnership with a private company.

The **multinational enterprise**, or MNE, has a worldwide approach to foreign markets and production and an integrated global philosophy encompassing both



domestic and overseas operations. The term **multinational corporation**, or MNC, is also quite common in the literature of international business. Another term sometimes used interchangeably with MNE, especially by the United Nations, is **transnational corporation**, or TNC.

**Ex.10.** *Translate the following into English.*

Индивидуальные усилия; не достигают успеха; достичь цели; неспособные выполнить; относительно рано; первичный элемент; в своей первой попытке; отвечать потребностям; деятельность, которая поддерживает; сеть отношений; способствовать сотрудничеству; официальное признание; от своего имени; обладать властью; выполнять обязанности; официально признан; необходимость разделить работу; обозначается термином; процесс передачи обязательств; от выше стоящего к подчиненному; не может существовать и процветать; иерархическая организация; составляют основные компоненты; управленческий инструмент; разделение по функциям; которые сталкивались с необходимостью; большие скопления ресурсов.

**Ex.11.** *Add an appropriate preposition to each of the following sentences where indicated.*

### **Organizational controls**

An organization can best achieve its objectives when its members require a minimum ... supervision because they are competent and goal-oriented. Nevertheless, even ... optimal conditions of individual commitment and self-control, organizations need formal controls. The control function of organizations consists ... the following:

*1. Establishing standards ... which all aspects of organizational life are evaluated.*

Most organizations have formal standards relating ... spending, production, sales, product quality, safety, inventory, personnel selection, acceptable employee behavior, and so forth.

*2. Establishing feedback system by which actual performance is compared ... predetermined standards.*

These are best exemplified ... management reports which show, often ... a daily basis, expected and actual performance.

*3. Taking appropriate action to ensure that substandard performance is improved and that standards will be met ... the future.*

It is common practice to refer ... the standards and feedback systems as controls although it should be obvious that they serve a control function only if managerial action is involved. They are not a substitute ... supervision, but they minimize requirements for personal supervision.

Read the text once again and answer the following question: What are the control functions of organization?

**Ex.12.** *Read the text. Fill in the gaps with the missing words given below.*

**Monitor, interrelate, integral, report, exaggerate, law, impact, flow of cash, resources, customers, stock, range, information, activity, prerequisite, process, subject, nervous.**

### **Communication in organization**

Effective communication is a ... for the achievement of organizational objectives. The importance of communication problems has at times been ... —there are, after all, other types of problems—but the ... of poor communication can be enormous.

The ... of communication is illusive because it is intertwined with so many other subjects. Effective communication is, for example, an ... part of effective leadership, decision making, motivation, the management organizational conflict, etc.

*Communication in organization is here defined as the process by which ... is transmitted from one person to another.*

Money is the lifeblood of an organization: if organizations do not receive a ... they go out of business. Information plays a similar role. The flow of facts, figures and words through an organization's administration is its ... system.

The nature and flow of information determines how «sensitive» an organization to its ..., employees, changes in the market, and so on. The purpose in ... information is to plan, record, control and report the activities of the organization.

*Planning.* Managers need information to be able to plan how an organization's ... are to be used. This can be a complex process since each department's plan must ... with the other departments.

*Recording.* Firms are obliged to keep financial information under the ... .

*Controlling.* There are many activities in business where immediate or «real time» information is necessary so that the ... can be controlled directly. These activities include ... control, quality control, and budgetary control.

*Reporting.* Many different kinds of ... exist in business. They ... from weekly sales reports to financial reports at an Annual General Meeting. Every function within an organization is constantly ... and reported on.

Read the text once again and summarize it in 5-7 sentences.

**Ex. 13.** *Open the brackets.*

### **Economic Individualism – Laissez-Faire**

In the late seventeenth century, Louis XIV (to reign) as King of France. His finance minister, Jean Baptiste Colbert, (to ask) a manufacturer by the name of Legendre how the government might (to help) business. Legendre's reply (to be) "laissez nous faire" (leave us alone). The expression (to become) a watchword and motto of market economy.

Today we (to interpret) **laissez-faire** (to mean) that absence of government intervention (to lead) to economic individualism and economic freedom. Under laissez-faire conditions, people's economic activities (to be) their own private affairs. As consumers, they (to be) free (to spend) their incomes as they (to choose). As producers,

they (to be) free (to purchase) the economic resources they (to desire) and (to use) these resources as they (to wish).

In reality, economic freedom (to be subject) almost always to restraints imposed by society for the protection and general welfare of its citizens. Prohibitions against force and fraud (to be) examples. Can you (to give) some others? Can you (to explain) why such restraints (to be) necessary?

Read the text once again and answer the questions at the end of the text.

**Ex.14. Insert the missing words given below. Don't forget about Grammar.**

**organization, to adopt, carefully, change, input, condition, service, decision making, harmony, turbulent, adapt, output.**

In order to be successful the organization must ... with the environment because it supplies the organization with ... (in the form of resources, information, and so forth) that are necessary for the determination of the kinds of the products and ... to be produced. It also receives the ... (product and services) produced by the organization. To maintain this ... with the environment, the organization must ... define and maintain a boundary system capable of gathering the necessary inputs for effective ... .. and ... and for distributing organizational outputs.

Today's organization exists in a ... environment characterized by what has been termed as discontinuous ... .If it is to survive and prosper, the organization must be capable of adjusting all of its component parts to ... for this change. Additionally, it must ... a philosophy and strategy to support the process of adaptation and change.

**Ex.15. Make up the sentences. Put them down into notebooks. The beginning of each sentence is given to you.**

**When negotiations fail**, impartial, third, are, often, however, parties, brought, to help, the dispute, settle, in. **This may be**, arbitration, or, mediation, the form, conciliation, in, of. **Conciliation**, try, their, means, a third, disagreement, together, will, party, that, to bring, to work out, on their own, management, and, labour. **Mediation**, it, setting, for, suggestions, make, and, the dispute, of, who, listen to, will, both, sides, by, party, requires, the third, involvement, greater. **The suggestions**, will, management, or, on, either, labour, binding, not, however, be. **Under arbitration**, binding, and, a third, hand down, that, is, party, final, listen to, will, both, (an arbitrator), a decision, sides, and.

**Ex. 16. Give the English equivalents to the following.**

Неспособны выполнить задания, которые требуют не только индивидуальных усилий; групповая деятельность может быть направлена на более высокие, более сложные цели; все эти элементы, взятые вместе, рассматриваются как организация; организации были созданы для того, чтобы помочь индивиду достичь больше; цели должны отвечать потребностям, которые общество определило как важные; организации могут быть сгруппированы по типу деловой активности; партнерство создается по соглашению; владельцы корпораций называются акционерами; эффективная коммуникация – предпосылка успеха в бизнесе; информация помогает быть чувствительными к покупателям, служащим, изменениям на рынке; каждая организация стремится иметь собственный, особенный климат; культурные ценности – это мощный стратегический

инструмент; среднестатистический работник имеет высокий потенциал развития; прежде всего работник ищет безопасности и избегает ответственности.

**Ex 17.** *Render the following text into English.*

### СЕМЬ ЗАПОВЕДЕЙ БИЗНЕСМЕНА

Давать обещания и не выполнять их стало у нас просто нормой жизни. В этой связи полезно вспомнить 1912 год, когда российскими предпринимателями было выработано семь основных принципов ведения дел:

Первый принцип – «Уважай власть». Власть – необходимое условие для эффективного ведения дел. Во всем должен быть порядок. В связи с этим проявляй уважение к блюстителям порядка в узаконенных эшелонах власти.

Второй принцип – «Будь честен и правдив». Это – фундамент предпринимательства, предпосылка здоровой прибыли и нормальных отношений в делах. Российский предприниматель должен быть безупречным носителем добродетелей, честности и правдивости.

Третий принцип – «Уважай право частной собственности». Свободное предпринимательство – основа благополучия государства. Российский предприниматель обязан в поте лица своего трудиться на благо свой Отчизны. Такое рвение можно проявить только при опоре на частную собственность.

Четвертый принцип – «Люби и уважай человека». Любовь и уважение к человеку труда со стороны предпринимателя порождает ответную любовь и уважение. В таких условиях возникает гармония интересов, что создает атмосферу для развития у людей самых разнообразных способностей, побуждает их проявлять себя во всем блеске.

Пятый принцип – «Будь верен своему слову». Успех в деле во многом зависит от того, в какой степени окружающие доверяют тебе.

Шестой принцип – «Живи по средствам». Не зарывайся. Выбирай дело по плечу. Всегда оценивай свои возможности. Действуй сообразно своим средствам.

Седьмой принцип – «Будь целеустремленным». Всегда имей перед собой ясную цель. Предпринимателю такая цель нужна как воздух. Не отвлекайся на другие цели. Служение двум господам противоестественно. В стремлении заветной достичь цели не переходи грани дозволенного. Никакая цель не может затмить моральные ценности.

**Ex.18.** *Translate the text in written form.*

Business is the exchange of goods and services, and money, on an arm's length (objective) basis, that results in mutual benefit or profit for both parties involved. An individual engages in business because he or she believes that the rewards, or possible future benefits, of business are greater than risks, or possible future sacrifices, of business.

Business activities are events that involve making and carrying out the operating, investing, and financing decisions that deal with business assets or obligations.

In a profit-seeking business, there are three types of business activities that correspond to the three types of business decisions. Operating activities are the profit-making activities of the enterprise. They include those business activities that generate revenues, such as selling merchandise for cash or on credit or providing services for a fee. They also include activities that result in increased expenses, such as purchasing goods for manufacture or resale, paying wages, or combining goods and labour to manufacture products.

Investing activities include the purchase and a sale of long-term assets in addition to other major items used in a business' operations.

Financing activities are activities that involve obtaining the cash or using other non-cash means to pay for investments in long-term assets, and to repay money borrowed from creditors, and to provide a return to owners.

### ***SPEAK AND WRITE***

1. Why are there so many organizations in today's society?
2. Why is it important for managers to be knowledgeable about the macro environment?
3. How will tomorrow's organizations be different from those today?
4. Do all organizations need structure? Give your reasons.
5. Define the terms authority and tell how it is related to formal and informal organizations.
6. Explain how responsibility, authority, and accountability should be related to each other in the ideal organization.
7. Take an organization with which you are familiar and see if you can explain the way it works (principles, goals, structure, objectives, climate, and so forth).
8. List each organization you belong to. Do they have any impact on your life? List and discuss each impact.
9. One successful sales company had a unique organization layout. At the top of the chart was the most important person in the whole operation – the customer. This labeled «customer» was linked with lines to boxes of functions dealing directly with the customer – sales person, technical service, order clerk, credit clerk, etc. Try to draw your own organization chart, starting with the customer.
10. Enumerate all the factors you would consider in creating a culture of your own business.
11. Because of its broad global environment, a number of disciplines (geography, history, law, economics, political science, anthropology) are useful to help explain the conduct of international business. Prove it with your own examples.
12. Do you agree with the adage: “You can't get rich working for someone else”?
13. What should be regulated by government and what should be left to the private sector (education, health care, housing, social security, defense, public transport, sale of alcohol, tobacco, press, broadcasting, entertainment)? Why? Give your reasons.
14. Summarize the information of the Unit to be ready to speak on the topic “Organization”. The first step to be done is to write the plan of your future report.
15. Choose any question (problem, topic) relating to Organization and make a 7-10 minute report in class. Refer to different additional sources to make your report instructive, interesting and informative.

## **UNIT 3**

## MANAGEMENT

*If the leader is good, the followers will be good.*

### Your vocabulary

#### Management

- the control and organizing of a business or other organization;
- those staff within the firm who exert control over its activities on behalf of owners.

#### Top management

includes the chief executive of an organization, his or her deputy or deputies, the board of directors and the managers in charge of the divisions or departments of the organization.

#### Middle management

consists of the managers to whom top management delegates the day-to-day running of the organization.

#### Managing director

- company director responsible for the day-to-day running of a company. Second in the hierarchy only to the chairman, if there is one; the managing director is the company's chief executive.

#### Manager

- a person controlling or administering a business or part of a business.

**Ex. 1.** *Do you know the meaning of the following derivatives? Show it with the help of your own sentences.*

*to manage; manageable; management; manager; manageress; managerial.*

Translate the following sentences. Pay attention to the words in italics.

1. The reserved the right to make *managerial* decision.
2. What you need is advice from your bank *manager*.
3. I wish you could *manage* the time to come and to talk to us.
4. Private banks are being nationalized, and are to be *managed* with workers' participation.
5. They are part of my *management* team.
6. The baby can be greatly influenced by the parents' *management*.
7. She has been working as the *manageress* of a bookshop.
8. It is perfectly *manageable* task to tackle systematically.

**Ex. 2.** *Write down a synonym for each of the words on the left. Choose the one on the right. In what do they differ?*

Choice	affect
objective	present
current	own
predict	target
happen	process
handle	option
influence	give
posses	obtain

grant  
get

foresee  
occur

**Ex. 3.** *The following words can be classified into 5 groups. What are they? Show the difference in their meaning with the help of your own sentences.*

*Choice, have, solve, dilemma, own, profit, posses, variant, cope with, to process, option, tackle, problem, handle, return, predicament, gain, alternative.*

**Ex. 4.** *Match the definitions with the words given below.*

**fee, executive, insure, skill, capacity, profile, applicant, charisma, ensure, guideline, superior.**

1. Ability to do something well.
2. Short biographical or character sketch.
3. Payment made for professional advice or services.
4. Person or body with managerial or administrative responsibility.
5. Make certain.
6. Secure compensation in the event of loss or damage by advance regular payments.
7. In a higher position; of higher rank.
8. Principle directing action.
9. Power to certain, receive, experience, or produce.
10. The ability to attract, influence, and inspire people by your personal qualities.
11. Someone who formally asks to be given something, such as a job or a place at a college or university.

**Ex. 5.** *Give the Russian equivalents to the following.*

Involved in management; production oriented; impose regulations, ever-more-complex environment; encompasses both science and art; business executives; code of conduct; develop the body of knowledge; with respect to the second criterion; the issue is much less clear-out; is consistent with their interest; self-interest or concern for others; decision-making machinery; cross-cultural skills; consulting fee; character attributes; compare against the places set earlier; authority.

**Ex. 6.** *Translate the following text into Russian in written form.*

People working for a company are referred as its workforce, employees, staff, or personnel and are on its payroll.

In some context, especially more conservative ones, employees and workforce refer to those working on the shopfloor of a factory actually making things. Similarly, staff is sometimes used to refer only to managers and office-based workers. This traditional division is also found in the expressions white-collar and blue-collar.

Another traditional division is that between management and labor.

Personnel departments are usually involved in finding new staff and recruiting them, hiring them, or taking them on, in a process of recruitment. Someone recruited is a recruit, or in American English only, a hire.

They are also involved when people are made to leave the organization, or fired. These responsibilities are referred to, relatively informally, as hiring and firing. If you leave the job voluntarily, you quit.

Middle-managers are now most often mentioned in the context of re-engineering, delaying, downsizing, or rightsizing: all these expressions describe the recent trend for companies to reduce the numbers of people they employ, often by getting rid of layers of managers from the middle of hierarchy.

An organization that has undergone this process is lean and its hierarchy is flat.

*Read the text once again and in turn explain, in your own words, the meaning of the following terms:*

1. workforce, employee, staff, personnel, a recruit, a hire, layer, labour.
2. white-collar, blue-collar.
3. to recruit, to employ, to hire.
4. to fire, to quit, to get rid of.

*Do you know any other synonyms to the words given above?*

### **LET'S READ AND TALK**

#### TEXT 1

#### **ART OR SCIENCE?**

**Management is the art and science of making appropriate choices.** To one degree or another, we are all involved in managing and are constantly *making decisions* concerning how to spend or use our resources.

Like most things in our modern, changing world, the function of management is becoming more complex. The role of the manager today is much different from what it was one hundred years, fifty years or even twenty-five years ago. At the turn of the century, for example, the business manager's objective was to keep his company running and to make a profit. Most firms were *production oriented*. Few constraints affected management's decisions. Governmental agencies imposed little regulations on business. The modern manager must now consider the environment in which the organisation operates and be prepared to adopt a wider perspective. That is, the manager must have a good understanding of management principles, an appreciation of the current issues and broader objectives of the total economic political, social, and ecological system in which we live, and he must possess the ability to analyze complex problems.

The modern manager must be sensitive, and responsive to the environment - that is he should recognize and be able to evaluate the needs of the total context in which his business functions, and he should act in accord with his understanding.

Modern management must possess the ability to interact in an ever-more-complex environment and to make decisions that will allocate scarce resources effectively. A



major part of the manager's job will be to predict what the environment needs and what changes will occur in the future.

Organizations exist to combine human efforts in order to achieve certain goals. Management is the process by which these human efforts are combined with each other and with material resources. Management encompasses both science and art. In designing and constructing plans and products, management must draw on technology and physical science, of course, and, the behavioral sciences also can contribute to management. However much you hear about "scientific management" or "management science", in handling people and managing organizations it is necessary to draw on intuition and subjective judgment. The science portion of management is expanding, more and more decisions can be analyzed and programmed, particularly with mathematics. But although the artistic side of management may be declining in its proportion of the whole process it will remain central and critical portion of your future jobs. In short:

- Knowledge (science) without skill (art) is useless, or dangerous;
- Skill (art) without knowledge (science) means stagnancy and inability to pass on learning;

Like the physician, the manager is a practitioner. As the doctor draws on basic sciences of chemistry, biology, and physiology, the business executive draws on the sciences of mathematics, psychology, and sociology.

1. The function of management is becoming more complex. Why?
2. What must management possess nowadays?
3. Management encompasses both science and art. In what can we see it?

## TEXT 2

### PRINCIPLES OF THE MANAGEMENT

Different scholars offer different sets of principles of management. The most famous are the following fourteen. But the main principle should be read as follows: "there is nothing rigid or absolute in management affairs, it is all a question of proportion." Accordingly if you view the following list of these principles as a set of important topics and sometimes applicable guidelines for managers, you will be keeping close to the spirit in which they were originally suggested.

1. *Division of work.* Within limits, reduction in the number of tasks a worker performs or the number of responsibilities a manager has can increase skill and performance.
2. *Authority.* Authority is the right to give orders and enforce them with reward or penalty. Responsibility is accountability for results. The two should be balanced, neither exceeding nor being less than the other.
3. *Discipline.* Discipline is the condition of compliance and commitment that results from the network of stated or implied understandings between employees and managers.

Discipline is mostly a result of the ability of leadership. It depends upon good supervisors at all levels making and keeping clear and fair agreements concerning work.

4. *Unity of command.* Each employee should receive orders from one superior only.

5. *Unity of direction.* One manager and one plan for each group of activities having the same objective is necessary to coordinate, unify, and focus action.

6. *Subordination of individual interests to general interest.* Ignorance, ambition, selfishness, laziness, weakness, and all human passion tend to cause self-serving instead of organization-serving behavior on the job. Managers need to find ways to reconcile these interests by setting a good example and supervising firmly and fairly.

7. *Remuneration of personnel.* Various methods of payment may be suitable, but amounts should reflect economic conditions and be administered to reward well-directed effort.

8. *Centralization.* Like other organisms, organizations need direction and coordination from a central nervous system. But how much centralization or decentralization is appropriate depends upon the situation. The degree of centralization that makes best use of the abilities of employees is the goal.

9. *Scalar chain* (line of authority). The scalar chain is the chain of command ranging from the top executive to the lowest ranks. Adhering to the chain of command helps implement unity of direction, but sometimes the chain is too long, and better communications and better decisions can result from two or more department heads solving problems directly rather than referring them up the chain until a common superior is reached.

10. *Order.* Both equipment and people must be well chosen, well placed, and well organized for a smooth-running organization.

11. *Equity.* Kindliness and justice will encourage employees to work well and be loyal.

12. *Stability of tenure of personnel.* Changes in employee assignments will be necessary, but if they occur too frequently they can damage morale and efficiency.

13. *Initiative.* Thinking through a plan and carrying it out successfully can be deeply satisfying. Managers should set aside personal vanity and encourage employees to do this as much as possible.

14. *Esprit de corps.* Build teamwork.

1. Dwell on the importance of each principle in the work of a manager. Try to exemplify your answer.

### T E X T 3

## SCIENTIFIC MANAGEMENT

No one has had more influence on managers in the 20<sup>th</sup> century than Frederick W. Taylor, an American engineer. He set a pattern for industrial work which many others have followed, and although his approach to management has been criticized, his ideas are still of practical importance.

Taylor founded the school of Scientific Management just before the 1914-18 war. He argued that work should be studied and analyzed systematically. The operations required to perform a particular job could be identified, then arranged in a logical sequence. After this was done, a worker's productivity would increase, and so would his/her wages. The new method was scientific. The way of doing a job would no longer be determined by guesswork and rule-of-thumb practices. If the worker followed the prescribed approach, his/her output would increase.

Taylor's solutions to the problems were based on his own experience. When he was with Bethlehem Steel, Taylor criticized management and workers. He conducted many experiments to find out how to improve their productivity. He felt that managers used not the right methods and the workers did not put much effort into their job. They were always 'soldiering' – taking it easy. He wanted both groups to adopt a new approach to their work. The new way was as follows:

1. Each operation of a job was studied and analyzed;
2. Using the information, management worked out the time and method for each job, and the type of equipment to be used;
3. Work was organized so that the worker's only responsibility was to do the job in the prescribed manner;
4. Men with the right physical skills were selected and trained for the job.

The weakness of his approach was that it focused on the system of work rather than on the worker. With this system a worker becomes a tool in the hands of management. Another criticism is that it leads to de-skilling – reducing the skills of workers. And with educational standards rising among factory workers, dissatisfaction is likely to increase. Finally, some people think that it is wrong to separate doing from planning. A worker will be more productive if he/she is engaged in such activities as planning, decision-making, controlling and organizing.

1. Give some information about F.W Taylor and his contribution to management.
2. Speak for and against his principles.

#### T E X T 4

### MANAGEMENT BY OBJECTIVES

Management by objectives (MBO) is a system which was first described by Peter Drucker in 1954. Since then, MBO has attracted enormous interest from the business world, and its principles have been applied in many of the world's largest companies.

P. Drucker emphasized that an organization and its staff must have clear goals. Each individual must understand the goals of the enterprise he/she works for, and must make contribution to them. It is also vital that the individual knows what his/her manager expects of her. An individual must know what sort of results he/she is expected to achieve.

If an organization uses MBO approach, it must pay careful attention to planning. A special feature of MBO is that the subordinate participates with the manager in developing objectives.

Various kinds of MBO systems are used in organizations. Here is an example of how a programme might work in a company. The programme consists of several stages. First, the subordinate's job is defined. Next, his/her current performance is evaluated. Then, new objectives are developed by the subordinates and their managers. Finally, the

programme is put into action. Later, there are periodic reviews of the person's performance, and his/her progress is checked.

The subordinates and the manager discuss the objectives and make plans for achieving them. The manager may help in some way, perhaps by providing more training for the subordinate or buying more modern machines. From time to time, the subordinate and the manager meet to discuss progress. It is vital that the manager receives feedback from the subordinate on performance and achievements.

There are many benefits of MBO. The system helps the subordinates to see clearly their role in the organization. They have a say in how their job is performed, and what goals should be. Workers feel more responsible and motivated. MBO is a good technique for assessing an individual's performance. People are judged on results, rather than on the personal feelings and prejudices of the managers.

The main limitations of the system are that it is time-consuming and may create a lot of paperwork. In practice, MBO programmes are often fully supported by managements. This could be because managers are not always skilled at interviewing and giving guidance.

1. Who is the 'father' of MBO?
2. What are the principles of the system?
3. How does the programme work?
4. What are the benefits and limitations of the system?

#### TEXT 5

*Read the text. What is the main idea of the text? Divide it into logical parts. Define the key-sentence of each part.*

No school, professor or book can make you a manager. Only you can do this, and you can become a manager only by managing. Of course, you can learn the skills that are extremely helpful, particularly in such clearly defined areas as accounting, statistics, law, and finance. But this will not make you a manager. Experience is the only teacher. Experience is, however, is not the uniformly effective teacher. An old aphorism criticizes the person who has worked for 20 years but has only reexperienced the first year 20 times. Learning is not automatic. What schools can do, and what books can do is to provide you with some insights and intellectual tools to be applied against your experience. Most of you are practical people; certainly most managers are. You are concerned about doing things than about thinking about them. You are more concerned with action than with contemplation. Most business students and managers are uneasy about theory. It is abstract and difficult, too unrelated to real problems, it seems, 'too academic' and just 'too theoretical'. But theory is very important because you and all men and women of action are also theorists. No matter how pragmatic you consider yourself, no matter how rooted in reality a manager views himself, you and he operate on theories. You all possess your own theories about motivation, authority, objectives and change. You will need them – and you will have them whether you know it or not. You will be a better manager if you are aware of your assumptions and you examine them periodically and modify them when necessary. Nothing is as practical as a good theory. A great deal of management theory and practice must be described as 'common

sense'. For the objectives of management may be defined as the formulation of priorities and plans.

## TEXT 6 MANAGEMENT AS A PROFESSION

The criteria necessary for professional status include three major components:

- An acceptable *level of competence* in a specified field of knowledge.
- The placing of *the interests of society before personal interests* in carrying out functions of the profession.
- *A code of conduct* as behavior imposed upon members and usually enforced internally.

If we examine the field of management in light of these characteristics, what shall we find out?

There is no question that management as a discipline has developed a body of knowledge, which is becoming more and more sophisticated part of the curriculum in many academic institutions. Research in the field, particularly in the quantitative and behavioral areas, shows promise of making even more significant advances in the future. More and more academic institutions offering business programs are devoting their primary attention to graduate education in the area of management, with a particular emphasis on both theoretical and practical research. A growing number of business schools are making efforts to integrate faculty more closely with members of the business community so as to apply research findings to actual business problems.

With respect to the second criterion of professionalism, that of placing the interest of society before personal interest in the conduct of activities the issue is much less clear-cut. Businessmen in general recognize that the role of management does include the responsibility of devoting business resources to the common interests of society. One difficulty facing the manager, however is determining what is meant by the "interest of society". Many corporations fear to allocate significant resources to social and ecological programs because stockholders would complain that such allocation is not consistent with their own financial interests. Corporations that fail to allocate stockholder resources for social and ecological programs receive criticism from political and civic groups accusing them of being interested only in profits. But we should admit that corporate management is indeed becoming more involved in the problems of society, whether because of self-interest or concern for others.

It is in the third criterion of professionalism that the case for management is perhaps the weakest. Let's consider an example taken from the Harvard Business Review. Executives were presented with the following hypothetical situation: "The minister of a foreign nation where extraordinary payments are common in order to

lubricate decision making machinery asks you as Marketing Director for a \$ 200,000 consulting fee. In return he promises special assistance in obtaining a \$ 1million contract which would produce a \$ 5 million profit for your company. What would you do?" 36 per cent of these executives said fiat they would pay the fee, feeling it to be ethical in the moral climate of the country; 22 per cent said they would pay the fee but felt it was unethical though necessary to insure the sale; and 42 per cent said they would refuse to pay the fee. This simple example shows that each person in business looks to hip or her own personal code of ethics to determine acceptable behavior in a given situation. There is a wide variety of behavior results, since individuals view a given situation in different ways, as their personal values and principles dictate. We recognize that each member of our society must answer ultimately to his or her own conscience. But it remains for the field of management to develop a position that is consistent with the professional, ethical status of its members.

1. What components do the criteria necessary for professional status include?
2. Why do business schools try to integrate academic education with members of the business community?
3. Why is the issue of 'placing interests of society before personal interests' less clear-out?
4. Why is 'a code of conduct' the weakest point?

## TEXT 7

### KNOWING YOURSELF

There have been many studies during the past few years that have attempted to identify the characteristics of successful entrepreneurs. On such study compared many of the lists already developed. Those characteristics common to all or most of the lists indicated that an entrepreneur tends to have the following characteristics:

- High level of physical energy
- Ability to set clear goals and plans to reach goals
- Strong positive attitudes
- High levels of moral strength
- Willingness to take chances
- Industrious – need to be always working at something
- Takes the initiative in starting work
- High level of reasoning ability
- Able to make decisions

- Willing to lead others
- Organized
- Positive attitude towards others
- Uses time effectively
- Willing and eager to learn
- Desire to satisfy the needs of others
- Able to change and adapt to changing environment
- Able to seek and find information needed to achieve their goals
- Avoids procrastination
- Have a determined persistence
- Informed about latest trends and needs
- Willing to take responsibility
- Knows how to manage money
- Able to motivate others
- Always looking for opportunities
- Willing to recognize and reward contributions of others
- Restless eager to do something new
- Learns from failure and moves on.

Obviously not all entrepreneurs are alike, but based on a variety of studies most of the successful ones have the above characteristics.

1. What characteristics do you find absolutely necessary for every manager?
2. Which of them are inborn and which ones can be acquired?
3. What are of primary importance?
4. Do you possess them?

## TEXT 8 'INTERNATIONAL' MANAGERS

*Executives* and *managers* who can operate effectively across cultures and national borders are invaluable players in the global business arena. As the world grows ever smaller, improved *cross-cultural* skills and an international perspective are critical executive qualities. As more and more companies expand abroad, competition for top talent to run new international operations will steadily intensify.

The 2010s will test the capacities of multinational corporations to react rapidly to global changes in human resources as in all other areas of the company.

Global selection systems enable a company to find the best person anywhere in the world for a given position. The system measures applicants according to a group of 12 character attributes. These twelve categories are: motivations, expectations, open-mindedness, respect for other beliefs, trust in people, tolerance, personal control, flexibility, patience, social adaptability, initiative, risk-taking, sense of humour, interpersonal interest, spouse communication.

Beyond superior technical and managerial skills, an effective international executive displays a combination of desirable personal qualities. These include adaptability, independence, leadership – even charisma.

What part can management education play in developing the international manager? A good deal. Management education can provide training in the so-called “hard” skills such as international marketing and finance and in the so-called “soft” skills such as international relationships. We can easily define certain “hard” skill and knowledge areas that the international manager will need and which are very susceptible to formal education and training approaches. These include an understanding of the global economy and foreign business systems, international marketing, international financial management, political risk analysis and the ability to analyze and develop sophisticated global strategies.

We can also point to some “soft” skill areas such as communication, leadership, motivation, decision-making, team-building and negotiation where research indicates that national cultural differences can have important effects. (The international manager is said to spend over half of his or her time in negotiation.) International managers need at least to be aware of some of the issues involved. They need, furthermore, not only to be aware of how foreign cultures affect organizational behaviour and management style, but also to understand how their own culture affects their own style.

1. Use your knowledge and logical reasoning to express your point of view why the 12 categories mentioned in the text are so important for an international manager.
2. What is meant by ‘soft’ and ‘hard’ skills?
3. Technical and managerial skills and personal qualities – do they help each other? In what way?
4. Explain the meaning of the word charisma. Give your examples of charismatic persons.
5. In what way can education contribute to ‘creating’ an internationally mobile and internationally thinking manager?

## TEXT 9

### RECRUITING

Managers perform various functions, but one of the most important and least understood aspects of their job is proper utilization of people. Research reveals that worker performance is closely related to motivation; thus keeping employee motivated is an essential component of good management. In a business context, motivation refers to the stimulus that directs the behavior of workers toward the company goals. In order to achieve company goals, managers must be aware of workers’ needs.

Recruiting good people is a difficult task. It is *time-consuming* and *costly*. But a well-chosen labor force will be more productive than a poorly-chosen one. Do a good job of selecting and recruiting employee and they will stay with you. People who work a territory for years build up goodwill for the company; they become well-acquainted with the customers’ needs and are able to give advice rooted in experience. Customers place a lot of confidence in such people. A poorly-selected labor force means a high staff turnover. There are two main reasons for having to recruit: expansion and replacement. But in any case you need to prepare a "*man profile*". Some of the points that might be included in the man profile are:



age range	qualifications
experience	single or married
skills	personal characteristics
education level	physical abilities
foreign languages	appearance

These should be listed in terms of what is acceptable and what is preferable, as in Table 1.

Table 1. Man profile for sales person

	General	Preferred
Age	26-45	Under 30
Experience	Minimum	1 to 2 years
Skills	---	Ability to read blueprints
Education	Minimum	First degree
Foreign languages	---	French
Qualification	Minimum	Member of Institute of Sales
Single/married	---	Married with children
Appearance	Neat/tidy	M: clean-shaven, clean nails, non-smoker, short hair; F: neat, good-hands, slim, non-smoker, short hair;
Physical characteristics	---	Well-spoken, well-mannered, pleasant and articulate

Sometimes a list of characteristics and guidelines is created. The list may include the following points:

1. Appearance
2. Handshake
3. Courtesy
4. Friendliness
5. Poise
6. Speech
7. Self-control
8. Handwriting
9. Ambition
10. Curiosity
11. Enthusiasm
12. Numeracy
13. Flexibility
14. Health (smoker?)
15. Knowledge
16. Originality
17. Persuasiveness
18. Mental alertness
19. Interest in job
20. Self-starter

There are many sources of recruitment. The following are among them: educational establishments, employee agencies, trade associations, job centers, advertising.

1. Prepare a man profile for 2-3 different professions or trades. Add the list of characteristics including at least 7-10 points. Don't show the notes to your classmates. Let them guess what profession (trade) you are speaking about.

## EMPLOYEE MOTIVATION

A manager who has an understanding of what the employee wants from work will have a better chance of having more satisfied and productive employees. Studies of employee motivation points out that people work for many different reasons. The reason or reasons a person behaves a certain way is called a **motive**. Employee **motivation** is the reason an employee works a certain way on the job. There are many explanations of what motivates employees. One theory was developed by A. Maslow. **Maslow's hierarchy of needs** theory explains that an individual has many different levels of needs.

### SELF-ACTUALIZING

Realizing of individual potential, creative talents, personal future fulfillment

### ESTEEM

Self-respect, respect of others, recognition, achievement

### SOCIAL

Friendship, affection, acceptance

### SAFETY

Security, protection from physical harm, freedom from fear of deprivation

### PSYCHOLOGICAL

Food, water, air, rest, sex, shelter (from cold, storm)

This theory suggests that when one level of needs is satisfied, the next level has the greatest influence on a person's behaviour.

Frederik Herzberg developed another **theory of job satisfaction**. It suggests that job satisfaction and job dissatisfaction come from two different sets of factors. One set he referred to as 'motivating' factors, and the other set he called 'hygiene' factors. The motivating factors (recognition, achievement, responsibility, opportunity for advancement, and the job itself) relate to internal satisfaction and influence employees to improve their performance. The set of hygiene factors (salary, company policies, working conditions, and relationships with other employees) are separate from the job itself. He suggests that hygiene factors must be present in order to prevent job dissatisfaction, but it is that motivating factors that influence employees to maximize their performance on the job.

These theories show that employee performance is a complex topic to understand. Developing a work environment where the employee meets the needs of the business and the business meets the needs of the employee is what the most successful managers work at.

1. Are there other needs which you would add to the hierarchy? Where? Why?
2. Which of the following would motivate you to work harder (higher salary, good team, job security, holidays, opportunities to travel, good working conditions, interesting, creative work, promotion opportunities, threat of redundancy, fringe benefits, hard working boss...) Choose your top five and rank them in order of priority.

3. Scripture maintains that man does not live by bread alone, but the need hierarchy suggests that man lives by bread alone when there is no bread. What does it mean?

*The following two texts are devoted to the problem solving. Read both texts and prepare a summary- recommendation (or instruction) on "How to solve a problem".*

### TEXT 11 CASE ANALYSIS

If you have some problems the first steps to do are to analyze the reports and the cases. Your general approach to case analysis and reports should be as follows:

1. *Define the problem.* The problem is always a blocked managerial objective. What objective (profit, growth, cost control, etc.) is being undermined in the situation?

2. *Analyze the causes.* What factors are causing the problem of blocked achievement of objectives (inadequate communication, poor motivation, indefinite plans, sloppy controls, interpersonal conflicts, fear of change). This should not be the search for villains, however, because individuals are seldom the sole or fundamental cause of problems.

3. *Develop alternatives.* Evaluate the alternatives. What action might be taken to remove the causes and solve the problem? Remember that these alternatives should deal with causes, not symptoms of the problem.

4. *Evaluate alternatives.* Evaluate the alternatives according to appropriate criteria:

- How well does the alternative meet management's objective?
- How much time and organizational resources are required?
- What are the costs?
- Does the alternative conform to personal and organizational values for equitable and responsible behaviour?
- What is the probability of the success?

5. *Select Alternatives (or combination)* What are the weak points of the alternative?

6. *Recommend a Detailed Plan of Implementation.* Who should do what? When? How?

Three more points should be taken into account. *Past history.* In many cases it is often useful to look at historical data in order to gain some indication of future conditions. *Expert opinion.* It is often possible and useful to obtain opinions from individuals considered to be knowledgeable. *Manager's own judgment.* In many cases a manager will simply have some 'gut feeling' about possible future conditions. And an analysis of a cross section of opinions may provide you with a good decision.

### TEXT 12 PROBLEM SOLVING

Problems can be located in only two places – in the work situation and in people. Problems in the work situation can be further subdivided into those located in plant, machinery and equipment, and problems located in procedures, methods and ways of working. Problems with people can be subdivided into those located in individuals and those in groups.

Problem		
	work situation	people
plant machinery, groups equipment	procedures,  methods, ways of working	individuals

Locating the source of a problem is not a simple task because different people see the same problem caused by different reasons. Nevertheless, your first task in a problem-solving meeting is to agree on the source of the problem.

When the source of the problem has been located, a decision has to be made. Decisions are of two types: quality decisions, and acceptance decisions. Quality decisions are those which may be regarded as good decisions and will solve the problem. However, the word "good" is open to argument here. Decisions can only be judged retrospectively. You cannot say "This is a good decision", only, "That was a good decision". For this reason the word "quality", rather than good, is used to describe a decision which, when implemented will be efficient. Acceptance decisions are those which will be accepted by the people involved in the problem.

The majority of decisions tend to fall in the middle, where quality and acceptance are of equal importance. Who takes the decision then? The majority of problems are being solved during meetings. Here are seven sections to guide you in the conduct of such meetings.

1. *Understand the language.* Problems cannot be solved if the language is not thoroughly understood. And not simply the language of the country, but the language of the particular subject, trade, industry.
2. *Get the facts.* The difficulty in getting all the facts is that, often, we do not know how many facts there are. When we meet to solve problems, we are considering symptoms.
3. *Locate the cause of the problem.* If opinions in the meetings are strongly divided as to the cause, then you must develop possible courses of action for each.
4. *State in objective terms.* This is stating the problem without subjective opinion, without adjectives that indicate what someone thinks, about the statement. Where possible, the problem should be stated in quantitative rather than qualitative terms.
5. *Consider possible solutions.* Possible solutions are not probable solutions; they are possible. Make sure that all possible solutions are recorded for consideration.
6. *Screen solutions.* When a meeting makes a lot of progress, ideas flow, much discussion takes place, and solutions are sometimes tabled more in enthusiasm than in cold, logical deliberation. Screen the possible solutions. Be very careful of solutions that have been transferred from other situations. This is not a good basis for accepting the solution. What happened in another place, in another time, is unlikely to be the same in the current climate.
7. *Select decisions.* Some solutions are incompatible and therefore mutually exclusive. Some solutions can be combined. Determine the cost of all solutions; establish how

practical they are; how many can be combined; the likely outcome of implementing them; the degree of acceptability by those who have to carry them.

3. Define your own problem (your neighbour's, your friend's, your relative's) and try to find the solution to it using your own recommendation (instruction). Refer to additional literature if necessary.

## TEXT 13

### MEETINGS

Meeting is an essential part of manager's work. They are held for three main reasons: 1) to carry out training, 2) to transmit information, 3) to solve a problem.

Read the following recommendations and try to follow them in your life.

*Before you call the meeting:*

- Decide if the meeting is the best method of achieving the objective;
- Put the objective in writing;
- Collect all the information necessary;
- Select specific items for discussion;
- Anticipate difficulties, awkward members and prepare documents and courses of action to overcome the difficulties expected;
- Prepare the agendas with no more than 5 objectives.

*During the meeting:*

- state the purpose of the meeting
- outline the objectives it is hoped to achieve
- do not impose your views on the group
- direct discussion toward the objectives
- develop participation by contrasting different viewpoints
- watch the clock and note reaction of members who appear to be losing interest
- where opinion is divided a vote is to be taken.

*After the meeting:*

- the secretary of the meeting prepares "minutes"
- minutes must be an accurate account of the substance of the meeting. No opinions, no discussions, no irrelevant talk. They should be brief
- minutes should follow the agenda of the meeting.

Tips for better meeting.

1. Hold them early in the day and don't allow phone calls to interrupt the proceedings.
2. Pay particular attention to meeting; chairs should not be plastic-covered but fabric-covered and firm.
3. If you know you are going to have a difficult person at the meeting, sit that person on your right or left. If this person is allowed to sit opposite you, the meeting will often be split into two.

4. Get everyone to contribute to the discussion but don't put people on the spot by asking, "What do you think, Jane?"
5. Place your watch on the table in front of you so that people can see you are going to run to time; start on time; finish when you say you will.
6. Avoid letting people know what you think before they have made their views known.

1. You often take part in different meetings. What are their main drawbacks? Are they held in accordance with the recommendations given in the text? What points are most often violated?

**Ex.7.** *On the left is a list of some of the idioms used at the meeting. Look at the expressions on the right and try to find the expression which is closest in meaning to the idiom.*

- |                         |  |
|-------------------------|--|
| a. in future            | 1. decide                              |
| b. it's a matter of     | 2. in the way described                |
| c. make our minds up    | 3. always after today                  |
| d. so far               | 4. to find the explanation or cause    |
| e. in reality           | 5. some time soon                      |
| f. above all            | 6. it depends on                       |
| g. get to the bottom of | 7. earlier than originally planned     |
| h. in the near future   | 8. one way of achieving some objective |
| i. in that respect      | 9. until now                           |
| j. a means to an end    | 10. during                             |
| k. in the course of     | 11. this is the most important thing   |
| l. ahead of schedule    | 12. this is truth, not imagination     |

**Ex. 8.** *Think of the verbs that are most commonly used with.*

Choice, decision, goals, advance, attention, effort, criticism, objective, step.

**Ex. 9.** *Think of the nouns that are most commonly used with:*

Keep, run, impose, allocate, analyze, apply, face, lubricate, outline, grant, perform.

**Ex. 10.** *What prepositions should be used below? Make up your own sentences.*

1. competition ... top talent
2. capacity to react ... global changes
3. respect ... other beliefs
4. ... one degree or another
5. ... the turn of the century
6. must be responsible ... the environment
7. behavioral sciences can contribute ... management
8. the work deals ... routine
9. real success stems ...
10. a person responsible ...
11. a position that is consistent ...
12. concern ... people
13. insure ... the damage

14. is concerned ...
15. engaged ...
16. is available ...

**Ex. 11.** *Fill in the blanks.*

**Boundless, adequate, talk, vigorous, amalgam, succeed, sustained, employee, dimensions, knowledge, operations, sheep, lion, beaver, tortoise.**

### **Knowledge vs implementation**

We can consider company's ... in terms of their knowing what to do, and their doing it. Of the two ... , the more important is implementation, i.e. it isn't what you know, it is what you do about what you know. Many people with limited knowledge ... because they do a lot about what they know; they make every little bit of ... they possess work for them. If you have ... energy and work hard, you will be successful simply because you are doing something – even if your knowledge is limited. A company that possesses ... knowledge but does little about it can be linked to someone who is "all ... and no do". Real success stems from an ... of the two. Knowledge is combined with ... and ... action to implement decision. There are four main types of an ... :

- ... Energetic and possessing high knowledge.
- ... Energetic but possessing low knowledge.
- ... Lethargic but possessing high knowledge.
- ... Lethargic and possessing low knowledge.

*What type do you belong to?*

**Ex. 12.** *Join the halves.*

1. A major part of the manager's job will be
  2. The modern manager must now consider the environment in which
  3. One difficulty facing the manager, however is determining
  4. Each person in business looks to his or her personal
  5. Managers outline the steps to be taken
  6. At the turn of the century the manager's objective
  7. The authority you grant must be adequate to accomplish the task
  8. The degree of centralization that makes best
  9. The quality of management's decision will be
  10. But it remains for the field of management to develop a position that is
  11. The science portion of management is expanding, more and more
- a) decisions can be analyzed and programmed.
  - b) what is meant by the "interest of society".
  - c) consistent with the professional, ethical status of its members.
  - d) in moving organization toward the objectives.
  - e) to predict what the environment needs and what changes will occur in the future.
  - f) was to keep his company running and to make a profit.
  - g) you have delegated, but must not exceed your own authority.
  - h) code of ethics to determine acceptable behavior.

- i) a reflection of the quality of the information it receives.
- j) the organization operates and be prepared to adopt a wider perspective.
- k) a use of the abilities of employees is the goal.

**Ex. 13.** *Translate the following sentences. Pay attention to the words in bold.*

1. A compensation package for an executive leaving a company is also known as a **golden goodbye, golden handshake, or golden parachute**.
2. Compensation for someone leaving a company may be referred to as a **compensation payment, compensation payoff, or compensation payout**.
3. These payments may form part of a **severance package**.
4. Severance payments can be the subject of complex negotiations when an executive leaves, or is **ousted**: forced to leave.
5. When executives are ousted, people may talk about companies giving them the **golden boot**.
6. When talking about executive pay, **compensation** can refer, confusingly, to two different things: what top executives get for running a company and what they get on leaving a company.
7. Apart from salary, an executive's **compensation package** can include **bonuses** (extra payments, sometimes, but not always, related to the firm's performance) and **benefits** and **perks** (ranging from **share options**, the right to buy the company's shares at an advantageous price, to a chauffeur-driven car).
8. **Remuneration** is also used to talk about executives' salary and benefits.
9. Middle managers are those in the hierarchy between senior management and **front-line managers** or **line managers**, the people managing employees.
10. Organizations say that they are eliminating **middle levels** of their hierarchies so as to empower ordinary workers and employees.
11. The process **of empowerment** is designed to give them the authority to make decisions that were previously taken by middle managers.
12. When people lose their jobs, they are **dismissed** or **made redundant**.
13. **Outplacement** is when a company helps people it is making redundant find new jobs in other organizations.
14. **Headhunters** are specialist consultants who search for high-level, often board-level, executives and try to persuade them to leave their current job in order to go to work in another company. Managers found in this way are **headhunted** in a process **of headhunting**.
15. Executives may be persuaded to move to a company by the promise of a **golden hello**: a large sum of money or some other financial enticement offered by the company they move to.

**Ex. 14.** *Translate the following into English.*

**Management hierarchy** – классификация служащих предприятия в соответствии с их полномочиями и статусом.

**Span of control** – норма управляемости – число людей, находящихся в непосредственном подчинении руководителя.



**Chain of command** – система властных взаимоотношений, отражающая направленность поступления приказов и указаний в организации.

**Job enlargement** – постановка рабочему широких задач, выполнение которых требует выполнения нескольких видов работ, для повышения его заинтересованности и снятия монотонности.

**Line organization** – организационная структура, в которой все единицы связаны с верхним и более глухим эшелоном четкой системной подчиненности.

**Matrix organization** – форма организации, при которой какая-либо задача выполняется людьми, набранными из различных функциональных подразделений и которые находятся в подчинении как руководителя оперативной группы, так и их непосредственного начальника.

**Unity of command** – принцип, в соответствии с которым каждый работник должен иметь одного начальника.

**Job description** – краткое изложение обязанностей и ответственности, связанных с определенным видом работ.

**Job specification** – комплекс кратких положений о необходимых знаниях, квалификации работника, выполняющего определенный вид работ.

**Ex. 15.** *Translate the definitions into English. Match them with the words given below.*

**Delegation, fringe benefits, mediation, termination, authority, layoff, efficiency, recruitment, retirement, staffing, responsibility.**

1. Достижение поставленных целей с наименьшими издержками.
2. Отбор и обучение людей, обладающих способностями, для пополнения структуры организации.
3. Власть для действий, необходимых для осуществления решений или разрешения проблем.
4. Передача части какой-либо работы подчиненным.
5. Обязанность принимать решения или разрешать проблемы.
6. Выплаты, которые рабочий получает независимо от заработной платы.
7. Временное расторжение договора с работником, сделанное организацией с обещанием возобновления договора в будущем.
8. Помощь третьей стороны, не связанной официальными обязательствами, в разрешении конфликта.
9. Процесс привлечения кандидатов, которые могли бы выполнять необходимую работу.
10. Добровольное расторжение договора работником.
11. Расторжение организацией договора с работником без обещания принять его на работу.

**Ex. 16.** *Give the English equivalents to the following.*

Квалификационные требования; должностная инструкция; делегирование; полномочия; дополнительные выплаты; норма управляемости; матричная

организация; расширение поля деятельности; обогащение труда; система подчиненности; менеджеры высшего звена; среднее звено управления; эффективность; результативность (рентабельность); вербовка (набор); отставка; увольнение; единоначалие.

**Ex.17.** *Define the right form and place for each of the following verbs.*

**Be, oversee, carry out, ensure, base, compare, require, receive, take, keep, study, decide, deal, call, attempt**

### **The work of management**

In *planning*, managers outline the steps ... in moving the organization toward the objectives. These plans ... both long and short term in nature.

In *organizing*, managers ... how best to put together the organizations' human and other resources in such a way as ... most effectively established plans. In *directing*, managers ... day-to-day activities and ... the organization functioning smoothly. In effect, directing is the part of the managers' work that ... largely with the routine.

In *carrying out the control* function, managers take those steps necessary ... that each part of the organization is following the plan that was outlined for it at the planning stage. To do this, managers ... the accounting and other reports coming to them and ... these reports against the plans set earlier. The accounting and other reports coming to management ... feedback. Feedback is a key to the effective management of any organization.

In *decision making*, managers ... to make rational choices among alternatives. Decision making is an inseparable part of the other functions already discussed. Planning, organizing and directing, and controlling all ... the decisions to be made. All decisions ... on information. The quality of management's decisions will be a reflection of the quality of the accounting and other information that it ... .

**Ex.18.** *What is **responsibility** and what is **authority**?*

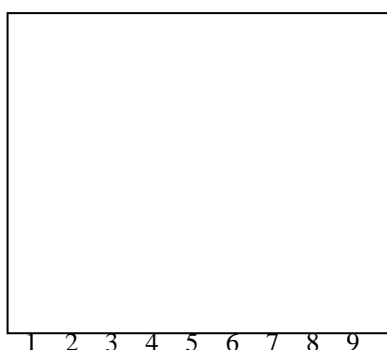
To be a successful manager you must know your ... and ... . ... is the obligation to carry out a task. It is the actual work that is delegated to a person. ... is the right to act in the name of a superior in an organization. Sometimes we read that a person must have ... equal to the .... This confuses different concepts: ... is an obligation, ... is a right or power. They are two different things. If you hold a person responsible for carrying out certain tasks you must ensure that he or she has the means to do those tasks. The ... you grant must be adequate to accomplish the task you have delegated, but must not exceed your own ....

**Ex.19.** *Translate the following text into Russian in written form.*

### **Managerial grid**

The Managerial Grid, which has been developed by Drs Blake and Morton, concentrates specifically on managerial behaviour. The grid is based on the traditional dichotomy of concern for people and concern for production or results. The horizontal scale from 1 to 9 shows degrees of concern for results, while the vertical scale shows degrees of concern for people, also from 1 to 9.

Five basic styles of management can now be identified on the grid: 9.1. Management (Scientific Management); 1.9. Management (Country Club Management); 1.1. Management (Impoverished); 9.9. Management (Team Management); 5.5. Management (Middle of the Road).



These research findings have led to a change of thinking among many theorists who have suggested that managers can be both hard and soft, simultaneously task oriented and people concerned.

On the managerial grid, a 1.1 manager is a nothing -- he is abdicative; a 1.9 is a country club type, concerned only with people and morale, not with performance; a 9.1 is a task-dominated slave driver and autocrat. The desired paragon is the 9.9 manager who is greatly concerned with both people and task.

The managerial grid is a promising concept, and training programs have been instituted to encourage managers to move toward the 7.7, 8.6 and 9.9 positions. Nonetheless, it is by no means established that most effective managers are at 9.9 (this is extremely doubtful) or that it would be desirable for all managers to move in this direction.

### ***SPEAK AND WRITE***

1. When choosing candidates for any particular job, the Americans say, "What can this person do?"; the French say, "What qualification has she/he got?"; the British say, "What kind of background has this person got?" Which question would you ask when you are to choose an applicant? Why?

2. Suppose you have been appointed Dean of your department. Design a curriculum that would prepare students for their role in management. Specify your objectives and the means to be used.
3. A study in one of the largest American corporations indicates that the two criteria “quality of college attended” and “a rank in class” were the best predictors of future managerial success in that firm. If you were a recruiter for a large company, would you utilize these criteria? Why or why not?
4. What is, from your point of view, the general relation between age and job satisfaction?
5. How many different ways of finding a job can think of? Which one is the most reliable?
6. A recruiter of a big company said that they didn’t want anybody who “enjoyed exercising power”. Can you explain why?
7. What kind of a company would you like to work for: state-owned, private limited company, multinational corporation, etc. Why? Give your reasons.
8. What is the most group-oriented phase of life? Discuss why.
9. What are the qualities of an effective team player? What qualities could you contribute to a team?
10. Some people compare a small company to a family. In your view, is this analogy valid and useful? What are the benefits and risks of viewing a company as a family?
11. Examine the relationship between your needs and the rewards and satisfactions of any job you have held.
12. Interview four people on why they work and which of their needs are satisfied or frustrated. Summarize and comment on their responses.
13. “Poorly considered solution will be costly in dollars, happiness, or both” Your comments and examples.
14. What can be the reasons for business failure? Ground your point of view.
15. Comment on the following: “Excellence costs, ... but in the long run mediocrity costs far more.”
16. The human being is a continual problem-solver, decision-maker, and innovator. Analyze your previous week (day, month, year) and describe the situations when you had to be ‘a decision-maker’, ‘a problem-solver’ and ‘an innovator’.
17. Mothers and fathers often have different ways of managing their families. How would you describe the management style of your parents? Teachers?
18. Which management styles have you experienced? Which do you prefer?
19. Make the list of the best qualities of a manager and rank them in order of importance. Then make the five worst.
20. “Shadow business doesn’t yield sunny life”. Do you share this point of view?
21. Summarize the information of the Unit to be ready to speak on Management. The first step to be done is to write the plan of your future report.
22. Choose any question (problem, topic) relating to Management and make 10-12 minute report in class. Refer to different additional sources to make your report instructive, interesting and informative.

## UNIT 4

### MARKETING

*May both seller and buyer see the benefit*

## Your vocabulary

### Market

- a place where goods and services are bought and sold.

### Black market

- the system by which people illegally buy and sell goods, or foreign currency.

### Buyer's market

- when there are more goods for sale than there are people wanting to buy them.

### Seller's market

- a market characterized by excess demand in which buyers consequently experience difficulty in buying.

### Marketable

- able or fit to be sold.

### Marketing

- the part of business which is concerned with the way in which a product is sold.

**Ex.1.** *Translate the sentences given below. Pay attention to the words in italics.*

1. Chesterham is a small *market* town with a population of 2000.
2. Access to new foreign *markets* was assured.
3. This device *was* first *marketed* by a Japanese firm.
4. They have never had to operate in a *market* economy.
5. It's a *seller's market* at the moment.
6. A talking watch will shortly *be on the market*.
7. Many labour-saving devices have come *onto the market*.
8. You'll never get a picture as good as this one *on the open market*.
9. Exxon might well *be in the market* to buy up a competitor too.
10. They *took* the mineral water *off the market* while tests were being made.

**Ex.2.** *Marketing can be defined as an art of **buying** and **selling**. Let's have a look at the following group of words. Do you know each of them? Into what two groups can they be subdivided?*

**Purchase, sell, splash out on, buy up, pick up, sell off, buy in bulk, flog, snap up, stock up, be a sell out, buy in, buy wholesale, sell up, be selling like hot cakes, outsell, bestseller.**

*And now use them in the sentences below.*

1. It's best to ... when house prices are high.
2. The bakery usually ... its cakes ... at half price just before closing time.
3. Why don't we ... and move to Canada? Property is really cheap there.
4. Don't let him try and ... you his car – he's had endless trouble with it.
5. By the end of the 1980s portable computer systems were ... larger systems by 30%.
6. The new book, which reveals intimate details about Princess Diana's private life is ... in New York.
7. Jane Fonda's new diet book is sure to be a ... in America.
8. Madonna's European tour ... a total ...
9. Foreign investors are not permitted to ... land.
10. If I were you, I'd ... that dress before someone sees it.
11. That picture? Oh, I ... it ... on the market last week.

12. We ... .. a bottle of champagne to celebrate her promotion.
13. The supermarkets are full of people ... .. for the New Year's holiday.
14. We always ... .. It is so much more economical.
15. Mark ... the earrings ... and then ... them in the market.
16. People had to ... .. candles during the electricity strike.
17. In the last five years development agencies have ... .. almost all the land in the area.

**Ex. 3.** *This exercise is a kind of an addition to the previous one. What is common in them?*

*Match the words given below with their definitions.*

**Consumer, buyer, customer, client, clientele, purchaser.**

1. A person who buys something (a formal word).
2. The people, especially rich people, who regularly use a shop or restaurant or the services of a professional person.
3. Someone who buys goods from a particular shop, restaurant, or company.
4. Someone who is buying something expensive such as a house, company, or painting, usually from another person.
5. Someone who pays for services or advice from a professional person or organization.
6. A person who buys and uses goods and services.

**Ex. 4.** *To show that you know the words from ex. 3 fill them into spaces.*

1. Madam Vickor caters for a very select ... .
2. Ford has launched a big new sales campaign in an effort to bring in new ... .
3. We couldn't find a ... for our house, so we weren't able to move after all.
4. The firm is one of our oldest ... – we don't want to lose them.
5. We may have to pass increase in the price of raw materials on the ... .

**Ex. 5.** *Open the brackets.*

Key marketing decisions (to be) made within limits (to set) by the organization. The strategic management process (to involve) the steps (to take) at an organization's corporate and divisional levels (to develop) long-run master approaches for survival and growth. In contrast, the strategic marketing process (to involve) the steps (to take) at the product and market levels (to allocate) marketing resources to viable marketing positions and programs.

Focusing the Business with the **three Cs** business theorists (to point out) that three Cs—**customers, competitors**, and the **company** itself— (to interrelate) (to establish) the basic character of an organization's business. An organization's business (mission) (to be) a statement about the type of customer it (to wish) (to serve), the specific needs of these customers, and the means or technology by which it (to serve) these needs. This definition (to affect) the company's growth prospects by establishing guidelines for selecting opportunities in light of customer needs, competitors' actions, the organization's resources, and changes in environmental factors.

*Read the text once again and explain, in your own words, what stands behind the three Cs.*

**Ex. 6.** *Translate into Russian in written form.*

### Production Life Cycle

Products, like people, have been viewed as having a **life cycle**. The products life cycle concept describes the stages a new product goes through in the marketplace: introduction, growth, maturity and decline.

The **introduction** stage of the product life cycle occurs when the product first enters the market, sales grow slowly, and profit is little.

The second stage of the product life cycle, **growth**, is characterized by rapid increases in sales, and it is in the stage that competitor appear.

The third stage, **maturity**, characterized by a leveling off of total industry sales revenue. Also, marginal competitors begin to leave the market. Most consumers who would buy the product are either repeat purchases of the item or have tried and abandoned it.

The **decline** stage is the beginning of the end and occurs when sales and profits are steadily dropping. Frequently a product enters this stage not because of any wrong strategy of the company but because of environmental changes.

*Can you give any example illustrating four stages of product life?*

**Ex. 7.** *Study the following words and word-combinations. Make your own sentences using each of them. Translate the sentences into Russian.*

pay, payment, pay off, pay one's respect, pay through the nose, payable, pay-claim, payee, prepayment, payment by the results, payment in advance, payment in due course, payment in kind, payment on account, payment terms, payola, payroll tax, pay-as-you-earn (PAYE)

### LET'S READ AN TALK

#### TEXT 1

### EVOLUTION OF MARKETIG

The evolution of marketing is the evolution of the *exchange process*. Unless two or more individuals or organizations have something to exchange, there is no need for marketing. The desire to exchange occurs only when someone produces more than he/she can consume (*a surplus*). This surplus is exchanged for surplus someone else produced. Possibly the first *marketing transaction* took place when one cave-dweller, who enjoyed making arrows but did not like to hunt, persuaded a fellow cave-dweller, who liked to hunt but did not enjoy making arrows, to accept some arrows in exchange for some animal skins and meat. Since that primitive time, marketing has become very sophisticated indeed.

The Egyptians, Phoenicians, Greeks, and Romans all had well-developed trade systems. The Old Testament contains many references to such marketing topics as *money, wealth, credit, products, international trade, government regulation, middlemen, taxation, poverty, welfare, pricing, trade fairs, and business ethics.*

During the Middle Ages trade declined. However, it picked up again during the Age of Discovery (roughly 1400-1760 A.D.) as merchants sought to extend their reach over much of the world. As you no doubt recall, Columbus made his first voyage to America in an effort to find a more direct trade route to Asia and the Far East.

In the late 1700s the Industrial Revolution began, and as it continued, marketing grew in importance. This latter-day development can be divided into three periods—*the production era, the sales era, and the marketing era.*

1. Why is marketing considered to be the evolution of the exchange process?
2. What do you know about the marketing topics mentioned in paragraph 2 of the text?
3. Explain in what the production era differs from the sales era and the marketing era.

## TEXT 2

*Read the text. What is it about? Give the title to the text. Defend your variant.*

Marketing is closely related to economics, the social science concerned with the production, distribution, and consumption of useful goods and services. In traditional economic thought economic activity creates *utilities* of form, place, time, and possession. To *marketers* the form created is the product; place and time refer to having the product available where and when it is needed; and possession relates to ownership or transfer of title. Marketing is a part of the broad field of economics and helps to create these four all-important utilities.

Marketing is also related to other social sciences. It draws freely from sociology, the scientific analysis of social institutions as a functioning whole and as they relate to the rest of society. Marketing studies people in a social context, as members of different groups. Advertisers, for example, aim their appeals at particular market segments, such as the youth market, the urban market, the black market, or the farm market. Sociology helps us understand the differences not only between our society and those of other nations but also between various subcultures within our own country.



Psychology is the study of the mental, attitudinal, motivational, or behavioral characteristics of an individual or a group of individuals. Marketing practitioners find knowledge of psychology helpful in formulating advertising and sales campaigns. How do people think? What motivates them to buy? How can we change their buying habits? What price will have the strongest appeal? Psychological research has become a major tool of marketing analysts.

1. How does the study of marketing relate to economics? Sociology? Psychology?

### TEXT 3 WHAT IS MARKETING?

It is impossible to speak about **marketing** without understanding what “needs and wants” mean. So let’s begin with the definition of needs and wants. A **need** occurs when a person feels physiologically deprived of basic necessities like food, clothing, and shelter. A **want** is a felt need that is shaped by a person’s knowledge, culture, and personality. So if you feel hungry, you have developed a basic need and desire to eat something. Let’s say you then want to eat an apple or a candy bar because, based on your past experience and personality, you have these will satisfy your hunger need. Effective marketing, in the form of creating an awareness of good product at convenient locations, can clearly shape a person’s wants.

The American Marketing Association, representing marketing professionals in the United States and Canada, states that "**marketing is the process of planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.**" Many people incorrectly believe that marketing is the same thing as advertising or personal selling. This definition shows marketing to be a far broader activity. Further, this definition stresses the importance of beneficial exchanges that satisfy the objectives of both those who buy and those who sell ideas, goods, and services—whether they be individuals or organizations.

To serve both buyers and sellers, marketing seeks (1) to discover the needs and wants of *prospective customers* and (2) to satisfy them. These prospective customers include both individuals buying for themselves and their households and organizations that buy for their own use (such as manufacturers) or for *resale* (such as wholesalers and retailers). The key to achieving these two objectives is the idea of exchange, which is the trade of things of value between buyer and seller so that each is better off after the trade.

For marketing to occur, at least four factors are required: (1) two or more parties (individuals or organizations) with unsatisfied needs, (2) desire and ability on their part to be satisfied, (3) a way for the parties to communicate, and (4) something to exchange.

1. Differentiate between needs and wants.
2. What is marketing?
3. Is marketing the same as advertising or personal selling?

4. What factors are required for marketing to occur?

#### TEXT 4

### FINDING THE RIGHT MARKET

It only makes sense that, before you go after new customers or bring a product or service to market, you should make sure the product or service *has* a market. Likewise, you should know who has a desire and need for your product or service. This means digging up all the information you can – about present and potential customers, about the competition, and about the image people have of your company, product, or service. This brings us to three highly important words in marketing – demographics, psychographics, and geographics.

Demographics provides the most frequently used information. It includes data about age, sex, occupation, income, race, religion, family size, level of education, and nationality.

Psychographics gets personal. It gives psychological characteristics. It zeroes in on the behaviour that reveals people's personal values, self-concepts, interests, opinions, and lifestyles. It tells, for instance, why people buy certain products over those of the competition, how often they make such purchases, and whether they are impulse buyers or planned purchasers.

Geographics is particularly useful for direct-mail programs. With geographics, a target market is defined by its location – a neighbourhood, city, or state, or sometimes according to population density (urban, suburban, or rural market, for example).

1. In your own words, explain the importance of psychographics, demographics, and geographics for a marketer. Give some examples.

#### TEXT 5

### THE NATURE OF LIFESTYLE

Lifestyle is defined as *how one lives*. One's lifestyle is a function of inherent individual characteristics that have been shaped and formed through social interaction as one moves through the life cycle. Thus, lifestyle is influenced by such factors as culture, values, demographics, subculture, social class, reference groups, family, and individual characteristics such as motives, emotions, and personality. Individuals and households both have lifestyles. While household lifestyles are in part determined by the individual lifestyles of the household members, the reverse is also true.

Our desired lifestyle influences our needs and attitudes and thus our purchase and use behaviour. It determines many of our consumption decisions which, in turn, reinforce or alter our lifestyle. Thus, marketers view lifestyle as central to the consumption process. Lifestyle analysis can be used by marketers with respect to specific areas of consumers' lives, such as outdoor recreation. This is a common, very applied approach. A second approach is to capture the general lifestyle patterns of a population.

Attempts to develop quantitative measures of lifestyle are initially referred to as psychographics. In fact, psychographics and lifestyle are frequently used

interchangeably. Now psychographics or lifestyle studies typically include the following:

- *Attitudes*: evaluative statements about other people, places, ideas, products, etc.
- *Values*: widely held beliefs about what is acceptable and/or desirable.
- *Activities and interests*: nonoccupational behaviours to which consumers devote their effort, such as hobbies, sports, public service, and church.
- *Media patterns*: which specific media the consumer utilize.
- *Usage rates*: measurements of consumption within a specified product category. Often consumers are categorized as heavy, medium, light, or nonusers.

Consumers can be categorized also according to their self-orientation and resources. Marketers differentiate three primary self-orientations:

- *Principle-oriented* – these individuals are guided in their choices by their beliefs and principles rather than by feelings, events, or desire for approval.
- *Status-oriented* – these individuals are heavily influenced by the actions, approval, and opinions of others.
- *Action-oriented* – these individuals desire social or physical activity, variety, and risk-taking.

The second dimension, termed resources, reflects the ability of individuals to pursue their dominant self-orientation. It refers to the full range of psychological, physical, demographic, and material means on which consumer can draw. Resources generally increase from adolescence through middle age and then remain relatively stable until they begin to decline with older age.

1. What is lifestyle?
2. Why is the knowledge of consumers' lifestyle so important for marketers?
3. What factors determine and influence lifestyle?
4. What is psychographics?
5. In what way can the consumers be categorized?

## TEXT 6

*Read the text. Define the key sentence(s) of each paragraph.*

### CONSUMERS ARE SO DIFFERENT

Consumer's self-orientation determine the types of goals and behaviours that individuals will pursue. Marketers differentiate the following groups of consumers.

**Actualizers** are successful, sophisticated, active, "take-charge" people with high self-esteem and abundant resources. They are interested in growth and seek to develop, explore, and express themselves in a variety of ways – sometimes guided by principle, and sometimes by a desire to have an effect, to make a change. Image is important to Actualizers, not as evidence of status or power, but as an expression of their taste, independence, and character.

**Fulfilleds** are mature, satisfied, comfortable, reflective people who value order, knowledge, and responsibility. Most are well educated, and in (or recently retired from) professional occupations. They are well-informed about world and national events and are alert to opportunities to broaden their knowledge. Content with their careers, families, and station in life, their leisure activities tend to center around the home.

Fulfilleds have a moderate respect for the status quo institutions of authority and social decorum, but are open-minded about new ideas and social change. Fulfilleds tend to base their decisions on strongly held principles and consequently appear calm and self-assured. Fulfilleds are conservative, practical consumers; they look for functionality, value, and durability in the products they buy.

**Believers** are conservative, conventional people with concrete beliefs based on traditional, established codes: family, church, community, and nation. Many Believers express moral codes that are deeply rooted and literally interpreted. They follow established routines, organized in large part around their homes, families, and social or religious organizations to which they belong. As consumers, they are conservative and predictable, favoring native products and established brands.

**Achievers** are successful career- and work-oriented people who like to, and generally do, feel in control of their lives. They value consensus, predictability, and stability over risk, intimacy, and self-discovery. They are deeply committed to work and family. Work provides them with a sense of duty, material rewards, and prestige. Their social lives reflect this focus and are structured around family, church, and career. Achievers live conventional lives, are politically conservative, and respect authority and the status quo. Image is important to them; they favor established, prestige products and services that demonstrate success to their peers.

**Strivers** seek motivation, self-definition, and approval from the world around them. They are striving to find a secure place in life. Unsure of themselves and low on economic, social, and psychological resources, Strivers are concerned about the opinion and approval of others. Money defines success for Strivers, who don't have enough of it and often feel that life has given them a raw deal. Strivers are easily bored and impulsive. Many of them seek to be stylish. They emulate those who own more impressive possessions, but what they wish to obtain is generally beyond their reach.

**Experiencers** are young, vital, enthusiastic, impulsive, and rebellious. They seek variety and excitement, savoring the new, the offbeat, and the risky. Still in the process of formulating life values and patterns of behavior, they quickly become enthusiastic about new possibilities but are equally quick to cool. At this stage of their lives, they are politically uncommitted, uninformed, and highly ambivalent about what they believe. Experiencers combine an abstract disdain for conformity with an outsider's awe of others' wealth, prestige, and power. Their energy finds an outlet in exercise, sports, outdoor recreation, and social activities. Experiencers are avid consumers and spend much of their income on clothing, fast food, music, movies, and video.

**Makers** are practical people who have constructive skills and value self-sufficiency. They live within a traditional context of family, practical work, and physical recreation and have little interest in what lies outside that context. Makers experience the world by working on it – building a house, raising children, fixing a car, or canning vegetables – and have sufficient skill, income, and energy to carry out their projects successfully. Makers are politically conservative, suspicious of new ideas, respectful of government intrusion on individual rights. They are unimpressed by material possessions other than those with a practical or functional purpose (e.g., tools, pick-up trucks, or fishing equipment).

**Strugglers'** lives are constricted. Chronically poor, ill-educated, low-skilled, without strong social bonds, elderly and concerned about their health, they are often resigned and passive. Because they are limited by the need to meet the urgent needs of the present moment, they do not show a strong self-orientation. Their chief concerns are

for security and safety. Strugglers are cautious consumers. They represent a very modest market for most products and services, but are loyal to favorite brands.

1. If to take the population of the country, how many people belong to each group?
2. To what group do you (your parents, friends, relatives) belong?

## TEXT 7

### SATISFYING CONSUMER NEEDS

Marketing doesn't stop with the ideas obtained from discovering consumer needs. Since the organization obviously can't satisfy all consumer needs, it must concentrate its efforts on certain needs of a specific group of potential consumers. This is **the target market**, one or more specific groups of potential consumers toward which an organization directs its marketing program.

There are many possible ways to satisfy the needs of **target customers**. A product can have many different features and quality levels. Service levels can be adjusted. The package can be of various sizes, colours, or materials. The brand name and warranty can be changed. Various advertising media – newspapers, magazines, radio, television, billboards – may be used. A company's own sales force or other sales specialists can be used. Different prices can be charged. Price discounts may be given, and so on. With so many possible variables, is there any way to organize all these decisions and simplify the selection of marketing mixes? The answer is yes.

Having selected the target market, the firm must take steps to satisfy the consumer's needs. Someone in the organization's marketing department, often the marketing manager, must take action and develop a complete marketing program to reach consumers by pulling a combination of four levels, often called the **four Ps**.

- **Product:** a good, service, or idea to satisfy the consumer's needs.
- **Price:** what is exchanged for the product.
- **Promotion:** a means of communication between the seller and buyer.
- **Place:** a means of getting the product into the consumer's hands.

The four Ps are the elements of the marketing mix. These are the marketing manager's controllable factors, the marketing actions of product, price, promotion, and place that he or she can take to solve a marketing problem. The marketing mix elements are called *controllable factors* because they are under the control of the marketing department in an organization.

Two more questions are to be answered in this text. The first one is: What is marketed? Goods, services, and ideas are marketed. Goods are physical objects, such as toothpaste, cameras, or computers that satisfy consumer needs. Services are intangible items such as airline trips, financial advice, or telephone calls. The second is: Who buys and uses what is marketed? Both individuals and organizations buy and use goods and services that are marketed. Ultimate consumers are the people -- whether 80 years or 8 months old -- who use the goods and services purchased for a household. A household may consist of one person or ten. Organizational buyers are units such as manufacturers, retailers, or government agencies that buy goods and services for their own use or for resale.

1. Write a short summary of the text in Russian (10-12 sentences). Exchange the summaries with your partner and translate them into English.

## TEXT 8

### THE UNIQUENESS OF SERVICE

Services are intangible items such as airline trips, financial advice, or telephone calls that an organization provides to consumers. To obtain these services, consumers exchange for money or something else of value, such as their own time.

There are four unique elements to services: **intangibility**, **inconsistency**, **inseparability**, and **inventory**. These four elements are referred to as **the four I's** of services.

*Intangibility.* Services are intangible; that is, they can't be held, touched, or seen before the purchase decision. In contrast, before purchasing a traditional product, a consumer can touch a box of laundry detergent, kick the tire of an automobile, or sample a new breakfast cereal. A major marketing need for services is to make them tangible or show the benefits of using the service.

*Inconsistency.* Marketing services are challenging because the quality of a service is often inconsistent. Since services depend on the people who provide them, their quality varies with each person's capabilities and day-to-day job performance. Inconsistency is much more of a problem in services than it is with tangible goods. Tangible products can be good or bad in terms of quality, but with modern production lines the quality will at least be consistent.

*Inseparability.* A third difference between services and goods, related to problems of consistency, is inseparability. In most cases the consumer cannot (and does not) separate the service from the deliverer of the service or the setting in which the service occurs. For example, to receive an education, a person may attend a university. The quality of the education may be high, but if the student finds counseling services poor, or sees little opportunity for extracurricular activity, he or she may not be satisfied with the educational experience.

*Inventory.* This element requires the provision of service along with any needed equipment. If a physician is paid to see patients but no one schedules an appointment, the fixed cost of the idle physician's salary is a high inventory carrying cost. In some service businesses, however, the provider of the service is on commission or is a part-time employee. Inventory carrying costs can be significantly lower or nonexistent because the idle production capacity can be cut back by reducing hours or having no salary to pay because of the commission compensation system.

1. Speak on each of the unique elements of services. Try to find some examples from your consumer experience.

## TEXT 9

### BRANDING

A brand is a name given by a business to one or more of its products. Branding gives products an identity that distinguishes them from similar products produced by rival firms. It helps to generate brand loyalty, encouraging customers to regularly purchase particular products. The demand for a product with strong brand loyalty tends to become less price sensitive, meaning that price can be increased without losing much demand. Selecting a brand name is therefore a very important part of a firm's marketing strategy.

Organizations can use a number of different approaches to branding:

- **Individual or multiple branding**, where business use a range of brand names for a variety of products. For example? Procter & Gamble relies on this branding policy for its range of fragrances, including Hugo Boss? Old Spice and Giorgio Beverley Hills. Such branding allows the firm to develop brands for particular market segments.
- **Corporate or overall family branding**, where all the firm's products are branded with the same name. Virgin, Kraft, Heinz, Microsoft and Ford employ this approach. This type of branding means that the promotion of one item will promote other products within the family. It can increase consumer confidence in the entire range? So increasing sales and profits.
- **A mixture of corporate and individual branding**, where products are given individual brand names but the corporate brand name is also prominent, e.g. Nestle and Walls.

A brand name should be snappy, easy to remember, unique and convey appropriate images or values. In addition, popular brands are often supported by advertising catch phrases, such as "A Mars a day helps you work, rest and play".

Most organizations employ specialist identity and naming consultants to handle this creative process. The name is the first and greatest expression of the brand. It is vital you get it right and we carry out extensive consumer research. For a food launch we might ask for a description of the product, and get people to be wishful and tell us what they would like it to do for them. Once we have a shortlist we then go through the linguistic, cultural and legal trademark checking stages.

The process of coming up with names for new products is complex, but it is complicated further by the need for Internet-workable names. Companies using the Internet, either to sell their products or simply to provide information on themselves, must decide whether their site is aimed at existing customers, they will know the brand and will search the Web primarily to attract consumers who may be unaware that their service exists, then a generic name is better – for example, applesandpears.com rather than bloggs-grocers.com.

A major problem for organizations that trade globally is finding names that translate appropriately. One way to avoid language and translation difficulties is to invent a completely new word, such as Toyota's Avensis. But there are problems even here. For example, firms must be careful which letters they use. The sounds for R and L, for instance, can be confusing and difficult for Asian customers to pronounce, which might deter them from asking a particular product. Studies by Interbrand Group, which has offices in 22 countries, also warns against using the number 8 when launching a food product in China, because it has connotations with death.

The fact that many cultures read from right to left can also cause difficulties with names and packaging. Interbrand's director of naming recalls the story of washing powder that used three cartoon images on its packaging – the first illustrating a dirty

shirt, the second the shirt going to the washing machine, and the third a clean shirt. When the packaging was launched in China it was read the other way around.

1. What is brand?
2. What are the approaches to branding?
3. How is brand created?
4. What requirements should a brand name meet?

## TEXT 10

### INTERNATIONAL MARKETING

Stated simply, **international marketing is marketing across national boundaries**. Since the end of World War II, improved travel, communications, and technology have fostered a tenfold increase in trade among nations.

A company choosing to enter international markets can achieve many benefits, but can also encounter many difficulties.

The main reason for companies to do international marketing is to exploit a better business opportunity in terms of increased sales and profits. Either firms are limited in their home country or their opportunities are great in the foreign countries.

Many companies find themselves with little room for growth in their domestic market. Competition may increase and leave a smaller portion of the pie to enjoy, or demand may shift to a newer, better product. The economic environment in the home country may be undesirable because of higher taxes or a recession. It would seem logical to turn to other markets in any of these cases. So foreign markets may offer an opportunity for growth. A product that is mature and facing dwindling sales at home may be new and exciting in other countries.

Among the conditions that influence the success of international marketing are economic, political, legal and cultural ones.

**Economic conditions.** There are several important rules to international marketing in light of a country's economic conditions: the product must fit the needs of the country's consumers and the product must be sold where there is the income to buy it and effective means of distributing, using, and servicing it. Five aspects of these considerations are (1) the country's stage of economic development, (2) multinational trade groups, (3) the country's economic infrastructure, (4) consumer income, and (5) currency exchange rates.

There are over 200 countries in the world today, each of which is at a slightly different point in terms of its stage of economic development. However, they can be classified into two major groupings that will help the international marketer better understand their needs:

- *Developed* countries have somewhat mixed economies. Private enterprise dominates, although they have substantial public sectors as well.
- *Developing* countries are in the process of moving from an agricultural to an industrial economy. There are two subgroups within the developing category: (1) those that have already made the move and (2) those that remain locked in the preindustrial economy.

**Political and legal conditions.** The difficulties in assessing the political and legal condition of a country lie not only in identifying the current condition but also in estimating exactly how long that condition will last. Some transnational companies use



analyses ranging from computer projections to intuition and forecasts to assess a country's condition. The dimensions being evaluated include the government attitude toward foreign marketers, the stability and financial policies of the country, and government bureaucracy.

Some countries invite foreign investment through offering investment incentives, helping in site location, and providing other services. Hungary is currently offering a five-year "tax holiday"—a period during which no corporate taxes will be assessed—to encourage foreign firms to develop manufacturing capabilities there. In addition, a country or group of countries can establish equitable standards to enable foreign products to compete fairly in their domestic markets. The European Union has a huge staff in Brussels, Belgium, developing directives to establish such standards for products marketed in the EU after 1992.

Millions of dollars have been lost in the Middle East as a result of war and changes in governments. When instability is suspected, companies do everything they can to protect themselves against losses. Companies will limit their trade to exporting products into the country, minimizing investments in new plants in the foreign economy. Currency will be converted as soon as possible.

Even friendly countries can change their policies toward international marketing. Quotas can be revised or set, currency can be blocked, *duties* can be imposed, and in extreme cases companies can be expropriated.

1. What are the benefits of international marketing?
2. What difficulties can a company encounter when entering international marketing?
3. What are some of important rules to international marketing?
4. What is the main difficulty in assessing the political and legal condition of a country?
5. What dimensions are taken into account when evaluating political and legal condition?

## TEXT 11

### CULTURAL ENVIRONMENT

**Culture is the total of a society's beliefs, art forms, morals, laws, and customs.** It dictates the manner in which we consume, the priority of our wants and needs, and how those wants and needs should be satisfied. Because cultures can vary greatly from nation to nation, international marketers must adjust their marketing controllable variables to each particular culture. Specifically, they must consider differences in language, color connotations, and mores. Let's consider each of them.

**Language.** There are thousands of languages and dialects in the world. Marketers, especially in promotional messages, must understand and properly use the language of the host country. To do otherwise invites true marketing blunders. For example, in Spanish the Chevrolet brand name "Nova" means "It does not go." In

Cantonese the name "Philip Morris" sounds like the phrase meaning "No luck." In Japan, General Motors' phrase "Body by Fisher" translates to "Corpse by Fisher."

Language becomes a particular concern in countries that speak numerous languages. In India, for example, there are 203 dialects. Even in countries that use the same language as the international marketer, communication problems can exist. Even though Great Britain and the United States both speak the same language, cultural differences exist. English homemakers hope furniture wax "will not trade off" and shoppers buy "tins" (rather than "cans") of grocery products. Such minor differences can make promotional messages sound foolish rather than persuasive.

**Colors.** Color is a large, though often subliminal part of a marketing effort. Colors in advertisements, on packages, and the product itself may communicate different impressions to different cultures. For example, blue is considered a warm color in Holland and a cold color in Sweden. White is for funerals and red is popular in China and Korea. Red, however, is not popular in Africa. Purple is associated with death in Brazil and in many Spanish-speaking countries. Yellow flowers are a sign of infidelity in France, but one of death in Mexico.

**Mores. Mores are the customs and values of a culture.** A nation's values reflect the religious or moral beliefs of its people. Understanding and working with these aspects of a society are also factors in successful international marketing. For example:

- A door-to-door salesman would find selling in Italy impossible, because it is improper for a man to call on a woman if she home alone.
- McDonald's and other hamburger restaurants would not have a chance in India, where the cow is considered sacred.
- The British don't believe marketing is quite respectable, a factor contributing to their loss of markets in which they had the technological lead.

German exporters such as BMW probably are the most sophisticated in understanding the values of the customers of the nation's to which they sell products. Germany (not Japan) has passed the United States as the world's largest exporter through a strategy that stresses high-quality products sold to specific market segments by a strong network of dealers.

Every nation has some unique behavior patterns. These may largely influence marketing strategies. The English and Japanese drive on the left side of the road. Thus, cars marketed in England and Japan must have the steering wheel on the right side. Other examples of cultural mores include the fact that the average Frenchman uses almost twice as many beauty aids as his female counterpart. Pepsodent toothpaste was unsuccessful in Southeast Asia because it promised white teeth in a culture in which black or yellow teeth are symbols of prestige. Maxwell House advertised itself as the "Great American Coffee" in West Germany, where the general populace has little respect for American coffee.

1. What other examples of cultural differences can you provide?
2. What are the mores in your country?

## TEXT 12

### ALTERNATIVES FOR INTERNATIONAL OPERATIONS

Once a company has decided to enter the international marketplace, it must select a means of entry. The option chosen depends on its willingness and ability to commit financial, physical, and managerial resources. Host countries not only seek the benefits of additional products available for sale but are often even more interested in the number of good jobs available for local workers. Let's consider the alternatives for international operations.

**Exporting** is producing goods in one country and selling them in another country. This entry option allows a company to make the least number of changes in terms of its product, its organization, and even its corporate goals. Host countries usually do not like this practice, because it provides less local employment than under alternative means of entry.

**Indirect exporting** is when a firm sells its domestically produced goods in a foreign country through an intermediary. It involves the least amount of commitment and risk, but will probably return the least profit. The kind of exporting is ideal for the company that has no overseas contacts but wants to market abroad. The intermediary is often a broker or agent that has the international marketing know-how and the resources necessary for the effort to succeed.

**Direct exporting** is when a firm sells its domestically produced goods in a foreign country without intermediaries. Most companies become involved in direct exporting when they believe their volume of sales will be sufficiently large and easy to obtain that they do not require intermediaries. For example, the exporter may be approached by foreign buyers that are willing to contract for a large volume of purchases. Direct exporting involves more risk than indirect exporting for the company, but also opens the door to increased profits.

Under **licensing** a company offers the right to a trademark, patent, trade secret, or other similarly valued items of intellectual property, in return for a loyalty or a fee. In international marketing the advantages to the company granting the license are low risk

and a capital-free entry into a foreign country. The licensee gains information that allows it to start with a competitive advantage, and the foreign country gains employment by having the product manufactured locally.

When a foreign company and local firm invest together to create a local business, it is called a *joint venture*. These two companies share ownership, control, and profits of the new company. The advantages of this option are twofold. First, one company may not have the necessary financial, physical, or managerial resources to enter a foreign market alone. The disadvantages arise when two companies disagree about policies or courses of action for their joint venture.

The biggest commitment a company can make when entering the international market is *direct ownership*, which entails a domestic firm actually investing in and owning a foreign subsidiary or division. The advantages to direct ownership include cost savings, better understanding of local market conditions, and fewer local restrictions. Firms entering foreign markets using direct ownership believe that those advantages outweigh the financial commitments and risks involved.

1. What does the option of a means of entry to the international market depend on?
2. What is exporting?
3. What is licensing?
4. What is joint venture?

## TEXT 13

### DESIGNING AN INTERNATIONAL MARKETING PROGRAM

An international marketer goes through the same steps in designing a marketing program as domestic marketer. However, the international marketer must decide whether to use a global or customized approach. Careful marketing research must be done to help the international marketer decide whether to modify or maintain domestic product, price, place, and promotion strategies.

We start with the **product**. The following options can be considered here.

- *Extension*: Selling the same product in other countries is an extension strategy. It works well for products like Coca-Cola, Wrigley's gum, General Motors cars, and Levi's jeans.

- *Adaptation*: Changing a product in some way to make it more appropriate for a country's climate or preferences is an adaptation strategy. For example Exxon sells different gasoline blends based on each country's climate.

- *Invention*: Designing a product to serve the unmet needs of a foreign nation is an invention strategy. This is probably the strategy with the most potential, since there are so many unmet needs, yet it is actually the least used.

**Price**. Most foreign countries use a cost-plus pricing strategy. For international firms this can mean their products are priced higher than the local goods. Why? International products must include not only the cost of production and selling, but also tariffs, transportation and storage costs, and higher payments to intermediaries.

*Dumping* is when a firm sells a product in a foreign country below its domestic price. This is most often done to build a share of the market by pricing at a competitive level. Another reason is that the products being sold may be surplus or cannot be sold

domestically, and are therefore already a burden to the company. The firm may be glad to sell them at almost any price.

Some U.S. pharmaceutical firms have sold penicillin, for example, at a lower price in foreign countries than at home. They justify this by saying that R&D costs are not included in foreign prices. Japan has been accused of following a dumping strategy for some of its products in the United States. Its response is that the volume sold here allows economies of scale, the savings of which are passed on to U.S. consumers.

An unusual pricing dimension of international marketing is *countertrade*, using *barter* rather than money in making international sales. Although countertrade accounts for only about 10 percent of the world trade, it is growing in importance. An unpleasant aspect of pricing is *bribery*, the practice of giving or promising something of value in return for a corrupt act. This is a common practice in many countries to reduce red tape and make sales. Although in many countries bribery is an accepted business practice in some international sales, it is officially illegal in all countries.

**Place.** An international marketer must establish a channel of distribution to meet the goals it has set. The first step involves the seller; its headquarters is the starting point and is responsible for the successful distribution to the ultimate consumer.

The next step is the channel between the two nations, moving the product from the domestic market to the foreign market. Intermediaries that can handle this responsibility include resident buyers in the foreign country, independent merchant wholesalers who buy and sell the product or agents who bring buyers and sellers together. Once the product is in the foreign nation, that country's distribution channels take over. Foreign channels can be very long or surprisingly short, depending on the product line.

1. Give your own examples of product extension, adaptation, and invention.
2. Describe some international marketing price policies.
3. What steps does product placement involve?
4. Three Ps have been mentioned in the text. Using your knowledge from previous texts describe the way the fourth P works in International Marketing.

**Ex. 8.** *Explain, in your own words, the following terms.*

needs, wants, prospective customer, wholesaler, retailer, things of value, resale, buying decision, basic necessities, ultimate consumer, target market, controllable factors, tangible items, intangible items, inventory, idle production capacity.

**Ex.9.** *Think of the verbs that are mostly used with following nouns.*

exchange, needs, wants, services, goods, decision, product, benefit, commission, increase, price.

**Ex.10.** *Think of the nouns that are commonly used with the following verbs.*

satisfy, exchange, achieve, occur, create, shape, discover, concentrate, market, obtain, charge.

**Ex. 11.** *Logically organize the following sentences to make up the text. The first sentence is given to you.*

1. *A basic decision in marketing products is branding.*

2. Some brand names can be spoken, such as a Big Mac hamburger.
3. The Campbell Soup Company is the trade name of that firm.
4. In branding an organization uses a name, phrase, design, symbols, or combination of these.
5. A trademark identifies that a firm has legally registered its brand name or trade name
6. Other brand names cannot be spoken, such as the rainbow-coloured apple (the **logotype** or **logo**) that Apple Computer puts on its machines and in its ads.
7. A brand name is any word, “device” (design, sound, shape, or colour), or combinations of these used to distinguish a seller’s goods or services.
8. A trade name is a commercial, legal name under which a company does business.
9. It helps to identify its products and distinguish them from those of competitors.
10. So the firm has an exclusive use, thereby preventing others from using it.

*What title would you give to the text?*

**Ex. 12.** *Fill in the gaps with the missing words.*

**Category, research, marketer, services, process, utility, exchange, profit, information, cycle, concept, marketing, advertising, goods, advertiser, extension, effectiveness**

Marketing is the ... companies use to make a ... by satisfying their customers' needs for products. A more complicated ... at the core of marketing is the perceived equal-value ..., which implies three phases in the marketing-exchange ... : finding out who customers are and what they want; interpreting this ... for management in order to shape products; and devising strategies to inform customers about the product's ... and to make it available to them. Advertising is concerned with the third step in the ... process. It is one of several tools that ... can use to inform, persuade, and remind groups of customers, or markets, about their ... and ... . Its ... depends on the communication skill of the ... person. It is also effective only to the extent that other marketing activities, such as market ..., are correctly implemented.

There are three ... of participants in the marketing process: customers, markets, and marketers. To reach customers and markets, ... use the marketing communication process, which is an ... of the human communication process.

**Ex. 13.** *Join the halves.*

A.

1. In the past, each of the countries of the European Union
2. These differences made it difficult and expensive
3. Now, these countries are abandoning old political
4. It helps to reduce taxes and other barriers
5. This unification has eliminated over 300
6. Trucks loaded with products spill
7. The increased efficiency is reducing costs and

8. These changes make Europe that largest unified market
9. By the year 2010 the EU may expand to include at
10. These changes have dramatically altered opportunities available to marketing
11. The international competition fostered by the unification of Europe has also provided

B

1. across the European continent and Britain.
2. creating millions of new jobs.
3. impetus for the US, Mexico, and Canada to develop more cooperative trade agreements.
4. managers both in Europe and in other parts of the world.
5. had its own trade rules and regulations.
6. to move products from one country to the others.
7. squabbles and nationalistic prejudices in favour of cooperative efforts.
8. separate barriers to inter- European trade.
9. commonly applied at national boundaries.
10. least 25 countries and 450 million people.
11. in the world, and more changes are coming.

*Read the sentences once again. Do you see that you have written the text? What is it about? What title would you offer?*

**Ex.14.** *Make up the sentences. Put them down into your notebook. The beginning of each sentence is given to you.*

**Marketing**, practices, inappropriate, sometimes, actions, that, produce consumers, find. **If**, become, upset, actions, enough, specific, with, consumers, sufficiently, they, action, demand, will, regulatory, local, at, or, level, federal, the, state. **A social**, sellers, movement, with, of, the, that, purpose, to, of, relative, enhancing, buyers, the, of, power, consumerism, termed, is.

**Such**, products, movements, or, generally, boycotts, produce, firms, some, of. **A common**, activities, objective, marketing, of, the, is, consumerism, regulation, of. **The current**, 1960s, began, consumerism, early, the, in. **The consumerism**, group, is, a, movement, political, well-organized, not. **Rather**, consumers, refers, state-of-mind, more, many, a, to, in.

**Ex. 15.** *Give Russian equivalents to the following.*

Encounter difficulties; to do international marketing; exploit a better business opportunity; with little room for growth; demand may shift to a newer product; to return to other markets; the dimensions being evaluated; offer investment incentives; to compete fairly in the domestic markets; protect themselves against; duties are imposed; quotas are revised; a means of entry; the option chosen; domestically produced goods; do not require intermediaries; contract for a large volume of purchases; under licensing;

the right to a trademark; in return for a loyalty or a fee; capital-free entry; the product manufactured locally; the advantages are twofold; dumping prices; bribery; reduce red tape.

**Ex.16.** *Render the following into English.*

1. Marketing – процесс выяснения и удовлетворения потребностей.
2. Buyer's behaviour – процесс принятия покупателем решения о том, какой продукт покупать и у кого. Процесс состоит из пяти последовательных этапов: осознание проблемы, поиск информации, оценка информации, решение о покупке, оценка после покупки.
3. Market segmentation – процесс разделения рынка на субрынки, каждый из которых образован группой потребителей в чем-то похожих друг на друга, например, уровнем образования, возрастом.
4. Marketing mix – маркетинговый комплекс, состоящий из продукта, системы его распространения, рекламы и цены, который фирма использует для обслуживания потребителей на его целевом рынке.
5. Target market – особая группа потребителей, чьи потребности собирается удовлетворять предприятие.
6. Branding – использование дизайна, символа, имени или их комплекса для идентификации продукта, что дает производителю ряд преимуществ.
7. Consumer goods – товары, покупаемые для непосредственного удовлетворения потребностей покупателя.
8. Distribution channel – цепь фирм, которые участвуют в покупке и продаже товаров по мере их продвижения от производителя к пользователю.
9. Durable goods – товары, срок потребления которых превышает один год.
10. Positioning – процесс подгонки имиджа товара потребностям его целевого рынка.
11. Product life cycle – период, в течение которого продукт последовательно проходит через стадии зарождения, роста, зрелости и упадка.
12. Publicity – общественное мнение о компании или ее продукте.
13. Trademark – символ или наименование сорта, которые защищены законодательно.

**Ex. 17.** *Give the English equivalents to the following.*

Нет необходимости в маркетинге; больше, чем он потребляет; ссылки на такие темы, как деньги, кредит, богатство; эра производства; эра продаж; эра маркетинга; излишки обмениваются на; удовлетворять потребности; конечный потребитель; покупать для собственного пользования; нечто, имеющее ценность; незанятые производственные мощности; возросшие продажи и прибыли; из-за высоких налогов; отношение правительства к зарубежным рынкам; прямой экспорт; принимающая страна.

**Ex.18.** *Translate into English.*

1. Маркетинг тесно связан с такими социальными науками, как экономика, социология, психология.
2. Маркетинг изучает людей в социальном контексте.
3. Маркетинг – это система научных и практических взглядов, направленных на изучение и управление рыночными отношениями.
4. Цель маркетинга – определить нужды и потребности своих будущих потребителей.
5. Четыре



основных управляемых фактора маркетинга – это товары, цена, размещение и продвижение. 6. Потребитель не может отделить услугу от ее поставщика. 7. Внешние рынки могут предоставить больше возможностей для роста компании. 8. Одна из сложностей – это оценка политических и правовых условий в стране. 9. Каждая страна Европейского Союза имела свои торговые правила и положения. 10. Объединение устранило свыше 300 отдельных торговых барьеров. 11. Международный маркетинг – это маркетинг товаров и услуг за пределами страны, где находится организация. 12. Специалисты по международному маркетингу должны учитывать культурную среду каждого рынка.

### ***SPEAK AND WRITE***

1. “Marketing concept is a consumer-oriented, integral, profit-oriented philosophy of business”. Explain, in your own words, this statement and its implications.
2. “Marketing managers can either view social change as a threat and be hurt, or they can view it as an opportunity and benefit.” Which part of the statement do you support? Why?
3. What is the role of cultural factors in domestic marketing? Give your examples.
4. Explain, in your own words, what each element of the four Ps involves.
5. Will the elimination of trade barriers between countries in Europe eliminate the need to consider submarkets of European consumers? Why and why not?
6. Four Ps, three Cs, four Is. What do they stand for?
7. What do you remember about the Maslow’s hierarchy of needs? (refer to the Unit Management ). Explain once again what is meant by the hierarchy of needs and provide some examples of any product or service that satisfy each of the levels of the hierarchy.
8. What options of entering into the international market do you know? What are advantages and disadvantages of each of them?
9. “In a free competitive economy, the consumer is king.” What does it mean?
10. Compare your need structure with your perception of each of your parent’s.
11. “The producer, not the consumer is king. After all, the producer is the one who advertises. Therefore, the producer is the one who creates wants and thereby influences what consumers will purchase.” True or false? Explain.
12. Comment on the following: “The last stage of fitting the product to the market is fitting the market to the product”.
13. Think of a company that you buy products from regularly. What does it do to keep you as a customer?
14. Summarize the information of the Unit to be ready to speak on Marketing. The first step to be done is to write the plan of your future report.
15. Choose any question (problem, topic) relating to Marketing and make a 10 minute report in class. Refer to different additional sources to make your report interesting, instructive and informative.

## **UNIT 5**

### **ADVERTISING**

*The success of any business depends upon its ability to attract customers willing and able to make monetary exchanges for products and services.*

*To do this, a business must find, understand, and communicate with potential customers where they live, work, and play.*

## **Your vocabulary**

### **Advertising**

- communication intended both to inform and persuade.

### **Ad**

- an informal word meaning an advertisement

### **Advert**

- the same as **ad**

### **Advertisement**

- an announcement in mass media about a product, event, job vacancy, etc.

### **Advertiser**

- a person or company that pays for a product or service to be advertised

### **Adman**

- a person whose profession is advertising

### **Commercial**

- an advertisement on television or radio

### **Advertising campaign**

- a planned series of advertisement intended to advertise a product or service

**Ex. 1.** Study the following synonyms to the word **advertise**. What are their Russian equivalents?

**Promote** -- to make sure that people know about a new product or service by arranging special events.

**Hype up** – an informal word meaning to try to make people think that something is much better than it really is.

**Plug (give smth a plug)** – informal word meaning to try to make people interested in your product or service, for example by mentioning it in a TV or radio conversation when you are supposed to be talking about something else.

**Push** – an informal word meaning to advertise a new product very heavily, with a lot of advertisements.

*Translate the following sentences. Pay attention to the words in italics.*

1. You must have seen those computer games – they have been heavily *advertised* on TV and all the Sunday papers.

2. *To promote* their new brand of shampoo, they are selling it at half price for a month.

3. In order *to market* a product well you need to be aware of public demand.

4. Like most Hollywood movies it *was so hyped up* that when I saw it I felt rather disappointed.

5. The author used the opportunity of appearing on TV *to give* his latest book *a plug*.

6. Revlon is really *pushing* its new range of beauty creams.

7. At this time of year, the papers are full of *advertisement* for skiing holidays.

8. BMW is running an *aggressive campaign* to publicize its 2001 models.

**Ex. 2.** *Can you think of the synonyms to the following words? Consult a good dictionary, if necessary. In what do these synonyms differ? Exemplify your understanding with your own sentences.*

Merchant, goods, launch, edifice, sponsor, announcement, commerce, commercials, eye-catching, proponent, face-to-face, consumer, customarily, channel.

**Ex. 3.** *How many antonyms to the following words can you put down? Compare your list with that of your partner. Ask each other questions using the words from your lists of antonyms.*

Primitive, hire, announce, accuse of, build, develop, promote, proponent, spiritual.

**Ex. 4.** *Like any other sphere of business, advertising means tough competition first of all. The following words will help you in the situation when you are to describe this toughness.*

**Compete, vie, be in competition with, fight, contest, pit oneself against, competitor, rival, battle, straight fight, rivalry, competition, competitive, cut-throat, dog-eat-dog, rat race.**

*Now try to define the right sentence for the words above. Change their forms if necessary. Some words can be used twice.*

1. This computer firm is strong enough ... on equal terms at home and abroad.
2. Advanced technology and low wage costs are helping the Taiwanese firms ... internationally.
3. His restaurant is now so good that it ... some of the best in London.
4. If you want the job, you'll have ... for it.
5. The two major tabloid newspapers ... with each other for the best stories.
6. In a desperate bid to dominate the market, they had ... the giants of the computer industry.
7. The leadership election will be ... by four candidates.
8. ... for these jobs is very tough – we have over 200 applicants for just six posts.
9. These acting awards are ... in an atmosphere of intense rivalry.
10. In such a fiercely ... environment, it's inevitable that some companies will go out of business.
11. Their company was our main ... for that share of the market.
12. There is ... competition between drug companies these days.
13. There was a long ... for control of the publishing company.
14. Advertising is a ... business.
15. The stress of the ... is a major cause of health problems.
16. With only two candidates left, it will be a ... between them for the post.

17. This information is secret, which could be of great value to our ... .

**Ex.5.** Read the text. One and the same word has been omitted. What is this word?

... has been called mass or nonpersonal selling. ... is used to inform, persuade, and remind customers about particular products and services. And in some cases—like mail order— ... even closes the sale.

Some products lend themselves to ... more than others. Typically, certain factors are particularly important for ... success, such as:

- High primary demand trend for the product.
- Chance for significant product differentiation.
- High relative importance to the consumer of a product's hidden qualities (as opposed to external qualities).
- The opportunity to use strong emotional appeals.

Where these conditions exist, as in the cosmetics industry, large ... expenditures are favored, and the ratio of ... to sales dollars is often quite high. For completely undifferentiated products, such as sugar, salt and other raw materials or commodities, the importance of ... is usually minimal, and price is usually the primary influence.

The answer is ..... ! Look through the text once again and answer one more question: “Why are these very factors particularly important for success?”

**Ex. 6.** Open the brackets.

It's difficult (to sell) anything when the whole world (to seem) your *potential market*. That is where segmentation (to come) into the picture.

**The marketing concept** (to hold) that any organization (to exist) (to gratify) the needs and desires of those consumers it (to be) best in the position (to serve). Segmentation (to involve) selecting those groups of consumers who would probably (to be) most receptive to the market item in question. **Market segmentation** (to) the key to all advertising decisions. Advertisers (to use) market segmentation (to determine) **positioning strategy, media strategy, and creative strategy.**

How the **elusive consumer** scientifically (to pinpoint)? Methods of consumer targeting (to include) an exploration of sociocultural influences on consumer behavior. Advertisers may (to examine) the influence of groups, social class, and familial ties on consumers. Advertisers (to be concerned) also with individual influences on consumer behavior. They (to be interested in) the psychological concepts of learning, perception, motivation, personality, and attitudes and attitude change.

Still another way (to study) a target market (to be) through an examination of the decision process. This process (to begin) with **need recognition** and (to go) on to search, brand comprehension and evaluation. Choice (to be) the outcome.

Of course, not all **advertisers** (to have) the financial resources (to conduct) their own detailed research programs. They can (to carry out) **small-scale surveys** by mail, over the phone, or by direct interview. The library, too, can (to be) a valuable source of consumer behavior data, as can professional research outfits equipped (to cope with) problems that (to be) beyond the abilities of the low-budget advertiser.

Read the text once again and explain the meanings of the words and phrases which have been highlighted.

**Ex.7.** Study the following word-combinations. What are their Russian equivalents?

all or nothing, back against the wall, to cope with, to cut one's losses, in the last resort, a long shot, make or break, on the blink, to save the situation, a snap decision, to save the day, to save (or lose) face, the tip of the iceberg, without fail.

*Translate the sentences into Russian.*

1. This company has an all-or nothing policy with its smaller suppliers.
2. The new product was so successful that production was barely able to cope with demand.
3. This product has almost outlived its lifespan – we should cut losses and take it off the market at once.
4. We have failed, but our back's not against the wall yet. We have to think over our plan again.
5. If the advertising manager's poor performance continues, then in the last resort the company will have to remove him and replace him with someone else.
6. The research and development department have come up with a new idea. They say it's a long shot, but worth trying. We have to decide whether it's worth risking the money.
7. Be very careful how you treat the chairman's wife, she has a great influence over her husband. In effect, she can make or break a young executive like you.
8. No, I didn't get the message; our lines of communication must be on the blink.
9. So, you want us to help your company out of its difficulties by lending you money, but you're not prepared to give us a stake. Putting it differently, you expect us to save the day for you and get nothing in return.
10. Declining product quality and poor after-sale service, have resulted in the company losing a good deal of face with its customers.
11. The risks involved in this project have been clear from the outset – we simply cannot make snap decisions, everything has to be calculated.
12. The recent financial scandal on the stock market stands to be just the tip of the iceberg.
13. We can accept your offer, on condition that you can guarantee even-day delivery without fail.

**Ex. 8.** Translate into Russian in written form.

Advertising is defined as the nonpersonal communication of information usually paid for and usually persuasive in nature, about products, services, or ideas by identified sponsors through various media.

Advertising may be classified by *target audience* (consumer, industrial), by geography (local, international), by medium (radio, newspaper, television), or by its function or purpose (product advertising, noncommercial advertising, action advertising).

Advertising began in ancient times when most people could not read or write. As manufacturing and communication technologies developed, so did advertising. Printing was the first major technology to affect it, and cable television and computers are the most recent. Since World War II, advertisers have attempted to differentiate products through positioning strategies and other techniques.

As a *marketing tool*, advertising serves several functions:

- To identify and differentiate products.
- To communicate information about the product.
- To induce the trial of new products by new users and to suggest repurchasing by existing users.
- To stimulate a product's distribution.
- To increase product use.
- To build brand preference and loyalty.
- To lower the overall cost of sales.

### ***LET'S READ AND TALK***

#### T E X T 1

*Before we start reading, let's recollect some historic events and names. What do you know about the Babylonians, the Barbarians, the Dark Age, the Roman Empire?*

### **ADVERTISING IN EARLY WESTERN HISTORY**

As long as there have been concepts or goods for popular consumption, some form of advertising has existed to make them known. Primitive selling was face-to-face affair, but by 3000 B.C. Babylonian merchants were hiring barkers to shout out their goods to passers-by, and hanging signs over their doorways to represent what they sold. The Babylonians really *launched advertising*. Some prepared "institutional" *advertising campaigns* for their kings—stenciling the bricks used to build temples with letters announcing the name of the temple and the king who built it. This practice was followed by at least one Egyptian king, who has been accused of plastering his name over every worthwhile edifice in sight, whether built by him or not.

Written advertising as we recognize it today did not appear until the Romans began spreading literacy around the known world. In Roman times, announcements on town walls spread messages such as this one uncovered in the ruins of Pompeii:

*The Troop of Gladiators of the Aedil will fight on the 31st of May. There will be fights with wild animals and an Awning to keep off the sun.*

When the Barbarian hordes overran the Roman Empire in the fifth century, the Western world was plunged into the Dark Ages—a period when not just advertising but commerce in general was lost. Eventually, law and order returned, and not long after, so did advertising. Merchants hired town criers to interject "commercials" for their goods amid the news of wars and executions. And, in England, inn owners and tavern-keepers raised sign-making to a fine art, vying with one another to create the most eye-catching graphics.

By the end of the fifteenth century, tack-up want ads were regularly produced by scribes to be hung in public places. These were followed by "shopbills," artfully decorated business cards for tradespeople. Then, in 1625, two Englishmen printed the first "newsbook" that contained an ad—*The Weekly News*. A flurry of newsbooks, all with advertising, followed.

In America, early advertising efforts appeared when colonial merchants carried on the European tradition of symbolic tavern signs, like the early sign of the Crowing Cock known to Dutch settlers of Manhattan. (There is, in fact, still a Crowing Cock tavern sign hanging in midtown Manhattan.) Vehicles for print advertising also developed early: journalists ran off the first printing job on the Cambridge Press in Boston (still operating as The Harvard University Press), and in 1728 Benjamin Franklin established the *Philadelphia Gazette*, a newspaper that became a favorite of advertisers for plain writing and elegant typography. As commerce and newspapers grew up in America, so did advertising. By 1784, the Pennsylvania weekly called the *Packet and General Advertiser* had become semi-weekly, then daily, featuring an entire front page of advertising for dry goods, foods, wines, and other popular items.

1. What can you say about the Babylonians' contribution to advertising?
2. When did the written advertising appear?
3. In what forms did ads exist in the 15-17 centuries in England?
4. What is the history of the American advertising development?
5. What do you think the "tack-up want ads" can mean?

## TEXT 2

### ADVERTISING

**Advertising is the nonpersonal communication of information, usually paid for and usually persuasive in nature, about products (goods and services) or ideas by identified sponsors through various media.**

Let's take this definition apart and analyze its components. Advertising is directed to groups of people, rather than to individuals, and is therefore *nonpersonal*. The groups, for example, might be teenagers who enjoy rock music or older adults who attend cultural events. In either case, advertising to these groups is not personal or face-to-face communication.

Direct-mail advertising often attempts to personalize the message by inserting the receiver's name one or more times in the letter. But direct mail is still nonpersonal; a computer inserted the name. And the signature on the direct-mail advertisement is produced electronically.

Most advertising *is paid for* by sponsors. General Motors, Kmart, Coca-Cola, and the local supermarket pay money to the media to carry the advertisements we read, hear, and see. But some ads are not paid for by their sponsors. The American Red Cross, United Way, and the American Cancer Society are only three of hundreds of

organizations whose messages are customarily presented by the media at no charge as a public service.

Most advertising is intended to *be persuasive*—to win converts to a good, service, or idea. A company usually sponsors advertising to convince people its product will benefit them. Some ads, though, such as legal announcements, are intended merely to inform, not to persuade.

In addition to promoting tangible **goods** such as suits, soap, and soft drinks, advertising also helps sell the intangible **services** of bankers, beauticians, and bike repair shops. And increasingly, advertising is used to sell a wide variety of **ideas**—economic, political, religious, and social. It's important to note here that, for the sake of simplicity, in this text the term **product** refers to both goods and services.

For a message to be considered an advertisement, the sponsor must be *identified*. This seems obvious: Naturally, the sponsor usually wants to be identified—or else why pay to advertise? But a distinguishing characteristic between advertising and *public relations* is that certain public relations activities *like publicity* are normally not openly sponsored.

Advertising reaches us through various channels of communication referred to as the **media**. In addition to the traditional mass media—radio, television, newspapers, magazines, and billboards—advertising also uses direct mail, shopping carts, and videocassettes.

1. Sum up the text in 10 sentences and present your summary in class.

### TEXT 3

#### DOES ADVERTISING MAKE US TOO MATERIALISTIC?

Some critics claim advertising adversely affects our value system by suggesting that the means to a happier life is in the acquisition of more material things instead of spiritual or intellectual enlightenment. Advertising, they say, encourages people to buy more automobiles, more clothing, and more appliances than they need—all with the promise of greater status, greater social acceptance, and greater sex appeal. For example, critics point out that millions of Americans own 20 or more pairs of shoes, several TV sets, and often more than one vehicle. But these critics fail to realize that they often tend to force their own values on others.

Frankly, we all have needs and desires beyond the basics of food, clothing, and shelter. One benefit of a free society is that we can choose the degree to which we wish to indulge our desires, needs, and fantasies. Some people prefer a simple life without an elegant house, fancy cars, and trips abroad. Others enjoy the material pleasures of a modern, technological society. There are advertising sponsors at both ends of that spectrum. Food companies offer natural products as well as convenience packaged goods. Shoe companies offer simple sandals as well as formal footwear.



Proponents of advertising also point out that material comfort or security is necessary before a person can devote time to higher cultural and spiritual values. Therefore, the stress on material things doesn't rule out spiritual and cultural values. In fact, it may create a greater opportunity for attaining such values, since the satisfaction of a person's higher desires is more likely when that person's lower, more basic desires have been met.<sup>2</sup> Proponents also point out that, through its support of the media, advertising has brought literature, opera, drama, and symphonies to millions who otherwise might never have experienced them.

An off-heard criticism is that advertising forces people to buy things they don't need by playing on their emotions. Some critics believe advertising's persuasive techniques are so powerful that consumers are helpless to defend themselves. Those who accuse advertising of manipulating consumers – assuming that people can't resist advertising's hypnotic messages – have little respect for their decision-making abilities or common sense. Another aspect of the manipulation argument is that advertising creates artificial needs.

*Read the title of the text once again. What is your answer to this question?*

#### TEXT 4

*Have you ever thought about 'children and advertising'? Is it a problem? What is your attitude to this problem?*

### COMMERCIALS AIMED AT KIDS

Many people argue whether young children (under 10-12) should be the targets of advertising appeals at all, and whether some products (like sugary cereals) present sufficient health hazards to kids that they should also be banished from the airwaves. Some people argue that basically, any advertising to a 6-year-old is unfair and deceptive because the child is too young to understand it. Little children don't have the natural defenses some adults have. And when it comes to television advertising, they really don't understand the selling intention of the advertiser.

Where children are concerned, we must be absolutely sure that no dangerous or misleading impressions are left with our youngest consumers. Children are not qualified to decide for themselves whether they need vitamins, and probably can't tell the difference between an ad message and program content where one of their favorite superheroes was involved.

The advertising industry's argument is, basically, that parents themselves should be the ones responsible for what their kids see and what they don't. Another interesting point is that pressure groups like Action for Children's Television (USA), which call for more restrictions on kids' advertising, are made up of upper-middle-class parents who may not like those commercials because they induce their kids to want toys and foods associated with lower-middle-class consumption patterns. The same techniques of persuasion are lauded when they appear on Sesame Street (which borrows heavily from kid commercial techniques) because the program is seen as educational, thus more desirable by those parents.

## TEXT 5

*Read the text. What is it about? What is your variant of the title? How many parts does the text consist of? What is each part about? Define the key sentence of each paragraph.*

The advertising business is composed of two main groups—advertisers and agencies. The **advertisers** (or *clients*) are the companies that advertise themselves and their products. Advertisers range in size from small independent stores to huge multinational firms and in type from small industrial concerns to large service organizations. Assisting them are the **advertising agencies** that plan, create, and prepare advertising campaigns and materials for the advertisers. In addition to these two groups are the **media**, which sell time (in electronic media) and space (in print media) to carry the advertiser's message to the target audience. And finally, there is another group known as the **suppliers**. These include the photographers, illustrators, printers, typesetters, video production houses, and many others who assist both advertisers and agencies in the preparation of advertising materials. Many of us think of advertising people as the copywriters and art directors who work for the advertising agencies. But in reality, the people who work for the clients are also very much involved in the advertising business. In fact, the majority of people in advertising are employed by the advertisers. Virtually every company has an advertising department of some size, even if it is just one person who shares the advertising responsibility with other job functions. The importance of the company's advertising people varies, depending on several factors: the size of the company, the type of industry in which it operates, the size of the advertising program, the role of advertising in the company's marketing mix, and most of all, the involvement of the firm's top management in the advertising function. Company presidents and other top executives, who are naturally quite interested in how their company or product is portrayed, are often directly involved in advertising decisions. Sales and marketing personnel frequently provide input to the creative process, assist in choosing the advertising agency, and help evaluate proposed advertising programs. Large companies may have a separate advertising department employing from one to several hundred people and headed by an advertising manager who reports to a marketing director or marketing services manager. These departments often resemble advertising agencies in structure and function. Creative people—artists, writers, and photographers—are employed by the advertising departments of large companies and by independent advertising agencies to produce the ads. Their work is coordinated by someone who takes responsibility for the entire campaign or product—perhaps a creative director or a product manager. Product engineers and designers often make recommendations about product features or provide information about competitive products. Similarly, administrative people in accounting or purchasing frequently consider the impact of advertising programs on the company's financial status or help determine appropriate budgets for the next campaign.

## TEXT 6

### WHAT DOES IT TAKE TO BECOME AN AD MANAGER?

Most advertising professionals enjoy the work they do, because the excitement of developing strategies for competing in a tough marketplace, the challenge of creating breakthrough communications, and the satisfaction of seeing the final ad in print or on television offer great reward indeed. And the gratification of being involved in a glamorous end of the business world can be combined with high earnings, too – often enough, while the advertising practitioner is still quite young. Since personal talent and ability are so crucial for the business of advertising, the rigid seniority system found in the industries is uncommon.

The ad manager's various roles call for a person with a high degree of advertising expertise and professionalism. Some qualities that tend to make successful ad managers are sales ability, enough sophistication to view a proposed campaign and make a skilled appraisal of its likelihood of success, sound planning and managerial skills, quantitative ability, a keen understanding of all marketing functions, and a personal flair for diplomacy. Some traits usually associated with less successful advertising managers are personal insecurity, reflected in arbitrary martinet-type decision making or even worse, a willingness to change direction with every corporate whim; and a need to claim all the credit for advertising successes (though a lot of other people helped, and everyone knows it) and blame the "dumb agency" for every problem. In other words, an effective ad manager must be able to determine what kind of advertising will work for the company and know where to take a stand on it.

The survey was made to find out, among other things, what professionals really thought it takes to be successful in advertising and what advice they would give to young people seeking an advertising career. There is a prevalent feeling that the future lies not with the marketing/communications expert, well versed in all aspects of this very varied field. But the most important attributes for a successful ad man are initiative and aptitude for planning campaign strategy ... and writing courses are the best subject you can take.

1. What other qualities, knowledge, skills are necessary for an ad manager to be a success? Defend your point of view.

## TEXT 7

### CONSUMER BEHAVIOUR FROM THE ADVERTISING PERSPECTIVE

Because their job is to match people and products, advertisers are keenly interested in *consumer buying behaviour*. The objectives of consumer advertising are to motivate, modify, or reinforce consumer attitudes, perceptions, beliefs, and behaviour. This requires the effective blending of the behavioral sciences (anthropology, sociology,

psychology) with the communicating arts (writing, drama, graphics, photography). The behavioral characteristics of large groups of people give directional force to advertising aimed at those groups. Thus, advertising uses trends in *mass-consumer behaviour* to create fashion or habit in specific consumer behaviour.

Social scientists have developed many sophisticated theories of consumer behaviour. They have given the marketing community a wealth of data and a variety of theoretical models to explain the sequence of behaviours involved in making a purchase decision. For our purposes, we shall look at this information from the viewpoint of the advertiser.

The primary mission of advertising is to reach prospective customers to influence their *awareness, attitudes, and buying behaviour*. To do this, an advertiser must make the marketing communication process work at its highest level of efficiency.

The moment a medium delivers an *ad message* to the consumer, his mental computer runs a rapid evaluation program called the **consumer decision-making process**. This involves a series of subprocesses that are affected by a variety of influences.

First, three **personal processes** govern the way the consumer discerns raw data (*stimuli*) and translates them into feelings, thoughts, beliefs, and actions. These include the perception, the learning, and the motivation processes. These processes determine how consumers see the world around them, how they learn information and habits, and how they actualize their personal needs and motives.

Second, an advertiser needs to understand how the consumer's mental processes and behaviour are affected by two sets of influences. **Interpersonal influences** on consumer behaviour include the consumer's *family, society, and culture*. **Nonpersonal influences**—factors often outside the consumer's control—include such things as time, place, and environment. All of these further affect the personal processes (perception, learning, motivation) mentioned above.

After dealing with all these processes and influences, the consumer faces the pivotal decision, to buy or not to buy? But taking that final step typically requires yet another process, the **evaluation of selection alternatives**—where brands, sizes, styles, and colours are chosen. And even if the purchase is made, the consumer's **postpurchase evaluation** will have a dramatic impact on all his subsequent purchases.

Like the marketing communication process, the decision-making process is circular in nature. The advertiser who understands this process can develop messages that are more capable of reaching and being understood by consumers.

1. Explain, in your own words, why advertising people must understand the complexity of human behaviour.
2. What three processes is consumer behaviour governed by?
3. Explain your understanding of perception, learning and motivation.

## TEXT 8

### PUBLIC RELATIONS

**Public relations (PR)** is a term that is widely misunderstood and misused to describe anything from selling to hosting, when in fact it is a very specific communications process. Every company, organization, association, and government body deals with groups of people affected by what that organization does or says. They might be employees, customers, stockholders, competitors, suppliers, or just the general population of consumers. Each of these groups may be referred to as one of the organization's publics. The process of public relations manages the organization's relationships with these publics.

Companies and organizations know they must consider the public impact of their actions and decisions because of the powerful effect of public opinion. This is especially true in times of crisis, emergency, or disaster. But it is just as true for major policy decisions concerning changes in business management, pricing policies, labor negotiations, introduction of new products, or changes in distribution methods. Each of these decisions affects different groups in different ways. Conversely, effective administrators can use the power of these groups' opinions to bring about positive changes.

In short, the purpose of everything labeled *public relations* is to influence **public opinion toward building goodwill and a positive reputation for the organization**. In one instance, the PR effort might be to rally public support; in another, to obtain public understanding or neutrality; or in still another, simply to respond to inquiries. Well-executed public relations is a long-term activity that molds good relationships between an organization and its publics.

Many firms use public relations activities such as publicity (*news releases*, media advertisements, feature stories) and special events (open houses, factory tours, *VIP parties*, grand openings) as supplements to advertising to inform various audiences about the company and its products and to help build corporate credibility and image.

**Advertising is generally described as openly sponsored and paid for media communications between sellers and buyers.** Certainly, like public relations, the purpose of advertising is to affect public opinion. However, this is normally accomplished through the open attempt to sell the company's products or services.

Public relations activities, like product advertising, may involve media communications, but these communications are not normally openly sponsored or paid for. Usually they take the form of news articles, editorial interviews, or feature stories. One means of relaying a public relations message, though, is through corporate advertising.

Public relations is less precise than advertising. Advertising can be strictly controlled so that its reach and impact can be charted in advance, but public relations communications are not so easily quantifiable: "PR's results depend more on the experience, ingenuity, and tenacity of the people engaged in its *day-to-day execution*."

Although PR communications may be less controlled than advertising, such communications often have greater credibility.

1. Differentiate between PR and advertising. Give your own examples of both.

**Ex.9.** Read the following passage attentively. Fill in the gaps with the words **publicity, advertising or public relations**.

The terms ... and ... are often thought of as being synonymous. Or even worse, ... is often called “free ... .” The simplest explanation for the difference between the two is this: with ... , you’re saying good things about yourself in media space you’ve paid for, whereas with ... , someone else is saying those good things about you in space that can’t be bought at any price.

You might have hard time finding ... pros who call themselves marketers. Most will firmly declare, “We are communicators and ... people, not marketers.” If they’d only think about it for a minute, they would realize that communications and ... together (with ... being the most visible part of ...) make up one of the biggest components of marketing. ... and ... practitioners need to recognize that they are part – a very large part – of the marketing process. And they are capable of substantially increasing marketing returns by increasing the value of the ... attained. But they can only do this if their client’s message is as fully integrated throughout ... efforts as it is throughout all of the client’s ..., direct marketing, and promotion operations.

Also confusing is when ... professionals give ... the alias of ‘...’ and vice versa. ... is the information activity of ... . But ... plays a part in ..., promotion, and all forms of communication. ... is a great deal more than ... . It is employee relations, community relations, sponsorships, the tone of an ad or a direct-mail letter, the attitude portrayed by a business, and the way a company’s people greet the public in person and on the phone.

**Ex.10.** The key-words of the following text are the derivatives to the word **advertise**. Use them to fill in the gaps.

Usually we speak only about the ... of commercial organizations. But nonprofit organizations also ... . The government, charities, trade associations, and religious groups, for example, use the same kinds of creative and media strategies as their counterparts in the for-profit sector to convey messages to the public. But unlike commercial ..., whose goal is to create awareness, image, or brand loyalty on the part of consumers, noncommercial organizations use ... to affect consumer opinions, perceptions, or behavior—with no profit motive. While commercial ... is used to stimulate sales, **noncommercial** ... is used to stimulate donations, to persuade people to vote one way or another, or to bring attention to social causes.

If a specific commercial objective for a new shampoo is to change people's **buying habits**, the analogous noncommercial objective for an energy conservation program might be to change people's **activity habits**, such as turning off the lights. The latter is an example of **demarketing**, which means the ... is actually trying to get consumers to buy less of a product or service.

*Read the text once again. Summarize its content in 3-4 sentences. Explain, in your own words, the meaning of the words in bold.*

**Ex.11.** *Make up the sentences. Put them down into your note-books. The first word of each sentence is given to you.*

1. **N.W. Ayer**, in 1877, to offer, the nation's, ad, agency, oldest, established, clients, 'full service', was. 2. '**Full service**', using, artists, and, to create, preparing, an advertising, writers, plan, the ads, means, producing, them, and, staff, writers, placing. 3. **So the "agent"**, the way, had, from, the publication, of, as, space, shifted, all, the interests, salesman, the needs, to serving, the advertiser, of, serving. 4. **And publications**, more, just, now, included, than, newspapers. 5. **A young**, named, had, the foresight, that, should, advertising, man, advertising, to realize, J.Walter Thompson, literary, sell, magazines, space. 6. **By the turn**, *Ladies Home Journal*, general, he, of, compilation, the century, *Harper's*, women's, and, magazines, had, *Cosmopolitan*, an exclusive, "List of Thirty", developed, including, and. 7. **This move**, brought, industry, media, truly, Thompson's part, national, into, the advertising, on.

*Read the text that you have just written down. What is it about?*

**Ex. 12.** *Insert the appropriate words.*

**Action, static, value, top, preceding, aware, percentage, creating, product, advertising, pyramid, unawareness, objective, coupon, comprehension, desire, conviction, information, company, additional.**

### **The Advertising Pyramid: A Guide to Setting Objectives**

A simple way to understand the tasks ... can perform is to think of advertising as building the ... . Before a new ... is introduced, prospective customers live in a desert of ... totally oblivious to the product's existence. The first ... of any advertising, therefore, must be to lay the foundation of the pyramid by ... an awareness block—to acquaint some portion of those unaware people with the ..., good, service, or brand.

The next task, or level of the pyramid, is to develop the ... block—to communicate enough information so that some ... of that foundation group is not only ... of the product but also recognizes its purpose and perhaps some of its features.

Next, advertising needs to communicate enough ... about the product and its features to persuade a certain number of people to believe its ... . This is called the ... block. Of those who become convinced, some can be moved to the next block of people who actually ... the product. And finally, after all the ... steps have been accomplished, a certain percentage of those who desire the product will reach the ... of the pyramid, the ... block. These people may request ... information, send in a ..., go to a store to see the good, or even purchase it.

At this point, it's important to understand that our pyramid is not ... .

**Ex. 13.** *Logically organize the following sentences to make up the text. The first sentence is given to you.*

1. **Advertising is a natural outgrowth of the marketing plan.**

2. Or they may be expressed in terms of generating inquiries, coupon response, or attitude change.
3. The advertising (or creative) strategy is determined by the advertiser's use of the creative mix.
4. The target audience includes the specific groups of people the advertising will address.
5. The advertising plan is prepared in much the same way as the marketing plan.
6. The product concept refers to the bundle of product-related values the advertiser presents to the customer.
7. It includes a section on analysis, advertising objectives, and strategy.
8. The communications media are the vehicles used to transmit the advertiser's message.
9. Advertising objectives may be expressed in terms of moving prospective customers up through the advertising pyramid (awareness, comprehension, conviction, desire, action).
10. The creative mix is composed of the target audience, product concept, communications media, and advertising message.
11. One way for small companies to accomplish the marketing and advertising planning task is to work from the bottom up – taking an ingenious tactic and building a strategy around it.

**Ex. 14.** *Render the following definitions into English.*

1. Advertising -- доставка платных, стимулирующих сбыт сообщений большому для создания рекламы и количеству потенциальных покупателей с помощью средств связи, таких как телевидение, радио, журналы, афиши.
2. Advertising agencies – фирмы, которые быть наняты покупки рекламных средств.
3. Advertising media – любые способы донесения рекламных сообщений до населения.
4. Agent – посредник, сводящий вместе продавцов и покупателей и не вступающий в имущественные права по отношению к продаваемым товарам и услугам.
5. Commercial puffery – утверждение, сделанное в рекламе, которое невозможно доказать, но тем не менее не вводящее в заблуждение потребителя. Например, использование в рекламе утверждений такого рода, как «Вы никогда не забудете!» с юридической и научной точки зрения неверно, но, с другой стороны, каждому понятно, что имеется в виду.
6. Communication methods – одна из трех составных частей, отражающих стимулирование сбыта, призванная ответить на вопрос: как нужно сказать, чтобы привлечь внимание потребителя к покупке продукта. В стратегии стимулирования сбыта существует несколько методов связи с покупателем, основными из которых являются следующие: реклама, личная продажа, стимулирование продаж, связь с общественностью.
7. Coupon – жетон, дающий право на покупку товара со скидкой с цены, указанной в прейскуранте.
8. Direct action advertising – реклама, ставящая своей целью совершить продажу. Такой вид рекламы привлекает потребителя совершить покупку, предлагая скидку или дополнительные услуги.
9. Institutional advertising -- реклама, которая направлена на создание имиджа самого предприятия, а не продукта, который оно производит.



10. Public service advertising – реклама, которая ставит своей целью изменение поведения потребителей в лучшую сторону, например, отказ от курения.

11. Comparative advertising – реклама, которая упоминает конкурирующие марки. Так обычно поступают, когда пытаются связать продукт с определенным имиджем или образом жизни.

**Ex. 15.** Give the English equivalents to the following.

Рекламная компания; рекламная кампания; этой практике последовали другие; привлекающие взгляд объявления; журнал выходит два раза в неделю; реклама оплачена; стремятся быть убедительными; через различные каналы связи; приобретение материальных вещей вместо духовного и интеллектуального просвещения; техника убеждения; которые в противном случае никогда бы не испытали этого; принятие решения о покупке; способный быть понятым потребителем.

**Ex. 16.** Translate into English.

1. Они утверждают, что реклама отрицательно влияет на нашу систему ценностей.
2. Люди покупают больше, чем им нужно.
3. Странники рекламы утверждают, что материальный комфорт и безопасность лежат в основе дальнейшей деятельности человека.
4. Противники рекламы говорят, что реклама заставляет людей покупать вещи, которые им не нужны, играя на эмоциях.
5. Паблик рилейшнз менее контролируема, чем реклама, и вызывает большее доверие.
6. Вы должны уметь определить, какой именно вид рекламы будет работать на рекламу.
7. Он – явный сторонник строгой дисциплины.
8. Его желание меняет политику в угоду любой прихоти руководства компании – худшее из его качеств.

**Ex.17.** Render into English.

*«Реклама на ТВ уже всех достала, и у меня есть подозрение, что она просто вредна для здоровья. Скажите, прав ли я?»*

Вы абсолютно правы. Более того, реклама не только вредна для здоровья: она – вредна. Результаты исследований, опубликованные в российской прессе, буквально шокировали читателей. Оказывается, даже три часа, проведенные телевизора, значительно снижают объем оперативной памяти у человека, замедляют скорость мышления. И особенно ярко это проявляется во время передач, перенасыщенных рекламными заставками.

Психологи настаивают на том, что регулярное поглощение рекламной отравы вызывает у людей отчетливые изменения сознания. Особенно сильное воздействие телевизионная реклама оказывает на детей.

Во многих странах существует закон, ограничивающий рекламу на телевизионных каналах до 20 минут в день. У нас же рекламные вставки на ТВ отнимают неизмеримо больше времени. И хотя всем понятно, что этот рекламный

дурдом построен благодаря нынешней экономической реальности, надо отдавать себе отчет, что последствия рекламного беспредела могут оказаться печальными.

Как можно ослабить негативное воздействие телепередач? Воспользуйтесь некоторыми советами психологов.

- Исследования показали, что во время программы новостей действия рекламы ослабляется. В эти минуты человек более критически воспринимает поступающую информацию. Зато рекламные ролики, встроенные в художественные фильмы (особенно в «мыльные оперы»), проникают в мозг «как по маслу».

- На голодный желудок человек воспринимает окружающее более критично, чем после сытного обеда.

- Не спите перед включенным телевизором. В это время информация продолжает поступать в мозг, намертво отпечатываясь в подсознании.

- При показе рекламы постарайтесь переключить свое внимание на другую информацию: просмотрите газету, побеседуйте с близкими либо вообще отключите на это время звук.

### ***SPEAK AND WRITE***

1. Is the advertising's responsibility to lead or to reflect the society? Why?
2. Which consumer behaviour process presents the greatest problem to advertisers? Why?
3. How does advertising affect your behaviour as a consumer?
4. Name as many goals of advertising as you can and give examples of how they can be achieved.
5. List several criticisms of advertising. Are they justified? How could you answer them?
6. Explain the role advertising has played in your own socialization process.
7. Your boss says to you: "We don't need to use an advertising agency. They cost too much and we can do that stuff ourselves anyway." What arguments can you develop to support the use of an agency?
8. 'To be successful a product or service must appeal to everybody or at least to the majority of people'. Give your pros and cons.
9. Does advertising manipulate us into buying things we don't need?
10. Cut out (or copy) two recent advertisements: one from a magazine and one from a newspaper. In each case, indicate which needs the ads are appealing to.
11. Give two examples of recent purchases where the specific purchase situation influenced your purchase decision. Briefly explain how your decision was affected.
12. Give an example of recent purchase in which you used extensive problem solving. What sources of information did you use in making the decision?
13. Advertising, publicity, public relations. Differentiate. Give your own examples.
14. Compare PR in business and politics.
15. Can television commercials cause unhealthy levels of family conflicts? Give your reasons.
16. Does advertising influence children's values? In what way?
17. Summarize the information of the Unit to be ready to speak on Advertising. Begin your work with writing of the plan.

18. Choose any question (problem, topic) you are interested in and make a 7-10 minute report in class. Refer to different additional sources to make your report interesting, instructive and informative.

## UNIT 6

### MONEY and BANKING

#### MONEY

*To have money is a good thing;  
to have a say over the money is even better.*

#### YOUR VOCABULARY

##### Money

– is the coins or banknotes that you use when you buy something, or when you pay for a service.

##### Monetary

– means relating to money, especially the total amount of money in a country.

##### Monetarism

– is the control of country's economy by regulating the total amount of money that is available and in use at any one time.

##### Monetarist

– means relating to monetarism.

**Ex. 1.** *Study the following words and word-combinations. What are their Russian equivalents?*

**money, make money, to be in the money, get one's money's worth, to have money to burn, blood money, danger money, hush money, pocket money, money for old rope, raise money.**

Translate the sentences below. Pay attention to the words in bold.

1. Many oil-rich countries **have money to burn**.
2. I always insist on **getting my money's worth**.
3. She seems **to be in the money**.
4. He **made good money** when he worked.
5. He deserves to get **danger money** for that risky job.
6. Do you have any **money** on you?
7. When he was ten, his **pocket money** was 5 \$ a week.
8. It was just **money for old rope**.
9. Take it away! This **blood money** of yours!

**Ex. 2.** *There are many words in English with a "money component" in their meanings. Translate them into Russian. Use these words in your own sentences.*

**cash, dosh, dough, the wherewithal, a fortune, a tidy sum, change, currency, means, assets, finances, resources, savings, income, benefit, alimony, fund, kitty, bribe, kickback, backhander, allowance, pension, earnings, capital.**

**Ex. 3.** Give the derivatives of:

value	vary	Agree
accept	consume	check
measure	convert	nominate

Ask your neighbour as many questions using these words and their derivatives as you can.

**Ex. 4.** Translate the following text into Russian in written form.

### **Money Is a Spectrum of Assets**

*Currency* and *checkable deposits* are readily convertible into one another. Together, they constitute money in the narrow sense.

In a broader sense, some other assets are also “money”. But they are often called **near-moneys**. Their values are known in the terms of money, and they can be easily converted into money, if this is desired.

The concept of near-moneys is important. For one thing, people who possess near moneys may feel wealthier than other people of the same income level who do not. Hence, people who hold near moneys are likely to have higher propensity to consume.

Money is more than just *paper currency* and *coins*. Money is a spectrum of assets. It ranges from currency and checkable deposits through various types of time deposits to financial claims against businesses and US Treasury.

### **LET'S READ AND TALK**

*Read the text. Then explain the meanings of the words and phrases which have been highlighted.*

### TEXT 1

#### **MONEY**

Money is used for buying or selling goods, for measuring value and for storing wealth. Almost every society now has a **money economy** based on coins and paper notes of one kind or another. However, this has not always been true. In primitive societies a **system of barter** was used. Barter was a system of direct exchange of goods. Somebody could exchange a sheep, for example, for anything in the market place that they considered to be of equal value. Barter, however, was a very unsatisfactory system because people's precise needs seldom coincided. People needed a more practical system of exchange, and various money systems developed based on goods which the members of a society recognized as having value. Cattle, grain, teeth, shells, feather, salt, tobacco have been used. Precious metals gradually took over because, when made

into coins, they were **portable, durable, recognizable** and **divisible** into larger and smaller units of value.

A coin is a piece of metal, usually disc-shaped, which bears lettering, designs or numbers showing its value. Until the eighteenth and nineteenth centuries coins were given monetary worth based on the exact amount of metal contained in them, but most modern coins are based on **face value**, the value that governments choose to give them, irrespective of the actual metal content. Coins have been made of gold (Au), silver (Ag), copper (Cu), aluminium (Al), nickel (Ni), plastic and in China even from pressed leaves. Gold proves to be the most popular. Since civilization began gold has been regarded as a symbol of power and wealth. In many societies gold was seen as a magic substance which could protect people against illness or evil spirits. Mankind never seems to have enough gold and the search for it has driven men mad. The need to search for gold has been compared to a disease, and is called '**gold fever**'.

An incredible variety of items have served as money at various times and places, but all can be classified as either **commodity money** or **fiat money**. Commodity money is valuable apart from what it will buy. Gold, for example, is useful in jewelry or dentistry, even when it is not used for money. But some money is useless except when treated as money. Certain pieces of paper of which you would probably like (e.g. 100 dollar bills) are example of fiat money. Use of fiat money is ultimately based on faith – faith in its purchasing power, in its general acceptability, and in the stability of the government that issues it.

Most governments now issue paper money in the form of **notes**, which are really 'promises to pay'. Paper money is obviously easier to handle and much more convenient in the modern world. **Cheques, bankers' cards, and credit cards** are being used increasingly and it is possible to imagine a world where 'money' in the form of coins and paper currency will no longer be used.

## TEXT 2

### THE FUNCTIONS OF MONEY

Money serves as (1) a medium of exchange, (2) a unit of account, and (3) a store of value. We examine each of these functions, beginning with medium of exchange.

A **medium of exchange**, or a transactions medium, is anything generally acceptable as a means of payment in the exchange of goods and services, in repaying debts, and in the exchange of assets, such as shares of common stock.

The second function of money is to serve as a unit of account. A **unit of account** is a yardstick for measuring prices and values and a benchmark for comparing them. In principle, any commodity can serve as a unit of account. Having chosen the good, we can express the price of each of the rest of the goods in units of that good. Historically, societies designated a single item to serve as the unit of account, say, a kilogram of wheat. In this way, each good could be priced at so many kilograms of wheat per unit. In modern times, paper money is the unit of account. For example, the dollar is the unit of account in the United States. Knowing that a pound of peaches costs two dollars and a

pound of apples costs one dollar enables us to compare their value. Thus, money becomes a *standard of value*.

Normally, the same item serves as the unit of account and the medium of exchange: the dollar in the United States; the yen in Japan; the mark in Germany. In abnormal times, however, societies divorce the two functions of money, often unofficially. For example, although the ruble is the unit of account in Russia, some Russians use foreign currencies, such as the dollar and the mark, as the unofficial medium of exchange. Many Russians, without access to foreign currencies, resort to barter. Invariably, the reason for the divorce of the medium of exchange from the unit of account is a deterioration of the currency as a store of value, which takes us to the third function of money.

**A store of value** is a reservoir of future *purchasing power*. Money is both a temporary and a permanent store of purchasing power. The function of money as a temporary store of purchasing power is an outgrowth of its function as a medium of exchange. If an item is to serve as a medium of exchange, people must hold that item to carry out their transactions. For example, consider an individual who earns \$700 a week but plans to spend \$560 on goods and services and save \$140 every week. Usually this individual will not spend the entire \$560 on payday. Instead, he may spend \$90 on payday and hold \$470 in the form of money to be spent over the course of the week. This \$470 held in money is a temporary store of purchasing power.

People, however, hold more money than they need to carry out their transactions. Why? The answer is that money can also serve as a permanent store of purchasing power. Individuals who save forgo present consumption to have higher future consumption. The wealth of individuals is their accumulated savings. Money is one form in which individuals may keep their wealth; stocks, bonds, and real estate are other forms. Of course, when wealth is held in money, in the future it will not need to be exchanged to buy goods and services. The ability of money to serve as a store of value depends on its capacity to retain its purchasing power.

1. Illustrate your understanding of three functions of money with your own examples.

### TEXT 3

#### CURRENT MEASURES OF MONEY

Today the standard measures of money in all developed countries include the volume of currency and the volume of deposits at a point in time. Usually there are narrow and broad measures, distinguished by the type of deposits included in the definition of money. In the United States, the central bank tracks and reports on three measures of money, M1, M2, and M3.

The narrowest measure of money, **M1**, consists of currency, *traveler's checks*, *non-interest-bearing checking accounts (called demand deposits)*, and *interest-bearing checking accounts (called other checkable deposits)*. All the components of M1 are funds that are generally acceptable immediately for transactions and are naturally referred to by the Fed as transactions balances. They are pure media of exchange; in other words, M1 consists of perfectly liquid assets. The term liquidity refers to the ease and convenience with which an asset can be converted to a medium of exchange. Currency and checking accounts do not need to be converted to anything else to be used as a medium of exchange. They are already the medium of exchange.

A broader measure of money is **M2**, which consists of M1 plus *savings deposits*, small-denomination *time deposits*, (private) money market mutual funds (MMMFs), money market deposit accounts, and two smaller items used primarily by businesses: overnight repurchase agreements and overnight Eurodollars. All the non-M1 components of M2, called nontransactions balances, can be used for payments but usually with some delay. Certainly that is the case with savings and time deposits. Funds in other accounts, such as the money market deposit accounts and money market mutual funds, can be transferred by check, but there are limits on either the number or the size of checks that can be written against these accounts. Typically very few checks are written on these accounts, and the checks that are written are for major payments. Thus, the broader measure emphasizes the store-of-wealth (value) function more than the medium-of-exchange function.

Finally, **M3** equals M2 plus balances of less-liquid accounts that are even less likely to be used for payments. These balances are large-denomination time deposits and institutional money market mutual funds as well as term Eurodollars and term repurchase agreements.

1. Explain what M1, M2 and M3 mean.

#### TEXT 4

### THE WORLD'S MAJOR CURRENCIES

The currencies of the world's major economies have names and backgrounds that are as diverse as the countries themselves.

The dollar, used in many countries including the USA, Canada, Australia, gets its name from a silver coin minted during the Middle Ages in a small valley, or "Thal", in Bohemia called Joachimsthal. Just as a sausage from Frankfurt came to be called a frankfurter, the coins from Joachimsthal were called "Joachimsthaler" or simply "Thaler," and came to be called "dollar" in English.

The *pound*, used in Britain, Egypt, and Lebanon among others, refers to the weight used in determining the value of coins, based on precious metals such as gold or sterling. The *penny* has the same origin as the word *pawn*, found in terms such as *pawn shop*, and originally meant "to pledge." A penny, like any currency, is a "pledge" of value. In Italy and Turkey, the currency is called *lira*. The word is based on the Latin *libra*, meaning "pound," and once again refers to the weight of the original coins.

In Spanish, the word meaning "weight," *peso*, is used to describe the coins that were based on a certain weight of gold or silver. Originally, there were gold coins called *peso de oro* and silver ones called *peso de plata*. In Spain, the currency is called *peseta*, meaning "small peso." The word *peso* is used to describe the currency in many Spanish-speaking countries in Latin America.

In Denmark, Norway, and Sweden, the word for crown—*kroner* in Denmark and Norway, *krona* in Sweden—is used to describe the currency that was originally minted by the king and queen, with royal crowns stamped on the earlier coins. Today, the crown has been replaced by other symbols, but the name remains.

The *franc*, used in France, Switzerland, Belgium, and other countries and territories, is based on the early coins used in France that bore the Latin inscription *franconium rex*, meaning "king of the Franks." The coin, as well as the country, took its name from one of the original tribes that settled in the area, the Franks.

The German *mark* and Finnish *markka* derive their names from the small marks that were cut into coins to indicate their precious metal content. The German mark, *deutsche mark* in German, is often called by its shortened name, D-mark.

The *riyal*, in Saudi Arabia and Qatar, and the *rial* in Iran, are based on the Spanish word *real*—which, in turn, was derived from the Latin *regal(is)*—referring to earlier "royal" coins. The *dinar*, used in Iraq and Kuwait among others, derives its name from "denarius," a Roman coin that was worth "ten bronze asses," an item of considerable value in days of old. In India, Pakistan, and other countries of the subcontinent, the currency is called *rupee* (in Indonesia, *rupiah*), based on the Sanskrit word *rupya*, meaning "coined silver."

The ancient Chinese *wordyiam* meant "round," or "small round thing." The name of the Japanese currency, the *yen*, and the name of the Chinese currency, the *yuan*, both derived from the old Chinese word, refer to the round shape of the original coins.

1. What other names and backgrounds of the national currencies do you know?
2. What are the backgrounds of the national currency in your country?

**Ex. 5.** *What is the English for?*

- a) деньги – мера стоимости; деньги – наиболее ликвидный из всех активов; наличные денежные средства; чековые депозиты; сберегательные счета; мелкие срочные депозиты; взаимные фонды денежного рынка; обратит в наличность; индивидуальные счета взаимных фондов денежного рынка; крупные срочные депозиты; чековый депозит; бессрочный вклад; средство сбережения.
- b) 1. Деньги служат средством обращения. 2. Деньги используются для купли-продажи товаров и услуг. 3. Деньги помогают избежать неудобств бартерного



обмена. 4. Мы оцениваем стоимость товара в денежном выражении. 5. Деньги используются для выполнения любого финансового обязательства. 6. Деньги – это все, что выполняет функцию денег. 7. Это позволяет покупателям и продавцам сравнивать стоимость различных товаров и ресурсов. 8. Долговые обязательства также измеряются в денежном выражении. 9. Деньги являются удобной формой хранения богатства. 10. Текущие счета (чековые депозиты) представляют собой обязательства коммерческих банков и сберегательных учреждений. 11. При необходимости люди могут обратить свои чековые вклады в бумажные и металлические деньги.

**Ex. 6.** *Join the parts to make up a sentence.*

- |    |  |
|----|--|
| A) | A medium of exchange                     |
| B) | we can express the price of each of      |
| C) | in the future it will not to be          |
| D) | distinguished by the type of deposits    |
| E) | can be converted to a medium of exchange |
| F) | The reason for the divorce of            |
| G) | the store-of-wealth function more than   |
- 
- |    |   |
|----|---|
| 1. | There are narrow and broad measures                                   |
| 2. | to buy goods and services   |
| 3. | the medium of exchange from the unit of account is a deterioration of |
| 4. | Having chosen the good  |
| 5. | is anything generally acceptable as a                                 |
| 6. | The term liquidity  |
| 7. | the medium-of-exchange function.                                      |
- 
- |    |  |
|----|--|
| a) | the currency as a store of value.                      |
| b) | included in the definition of money.                   |
| c) | means of payment in the exchange of good and services. |
| d) | When wealth is held in money,                          |
| e) | refers to the ease and convenience with which an asset |
| f) | The broader measure emphasizes                         |
| g) | the rest of the goods in units of that good.           |

## BANKING

*A banker is a man who lends you umbrella  
when the weather is fair, and takes it away  
from you when it rains.*

### **Banks**

- financial institutions that offer the widest range of financial services – especially credit, savings, and payment services – and perform the widest range of financial functions of any business firm in the economy.

### **Affiliated bank**

- bank whose stock has been acquired by a bank holding company.

### **Bankers' banks**

- groups of banks that are given a legal permit to create regional service firms in order to facilitate the delivery of certain customer services, such as rapid transfer and investment of customer funds and the execution of orders to buy or sell securities.

### **Bank holding company**

- a corporation chartered for the purpose of holding the stock (equity shares) of one or more banks.

### **Correspondent banking**

- a system of formal and informal relationships among large and small banks established to facilitate the exchange of certain services, such as clearing checks.

### **Nonbank banks**

- financial service firms that either offer checking account services or grant commercial loans but not both of these services.

### **Unit banks**

- banks that offer the full range of their services from one office, though a small number of services (such as taking deposits or cashing checks) may be offered from limited – service facilities (such as drive-in windows and automated teller machines).

**Ex.1.** *Translate the following sentences. Pay attention to the italicized words.*

1. Don't *bank on* going abroad this summer, we may not have enough money.
2. The morning began fine, but now clouds are *banking up*.
3. I have always bank with the *Royal Bank*.
4. They have an access to huge *banks* of public data or library information.
5. The only way out is to ask your *bank* for a loan.
6. I am not sure if I should buy this suit. – Come on! It won't *break the bank*.
7. Mr. Smith had *bankrolled* them when they had nothing.

**Ex. 2.** *Match the term with its definition.*

**Discount house, deposit, loan, charter, lend, borrow, denomination, claim, installment, repository.**

1. A place where you keep objects of a particular type.
2. A sum of money lent for an agreed period of time and at an agreed rate of interest.
3. Demand or request for a thing considered one's due.
4. A document granting rights, issued by a legislature.
5. Any of several usually equal payments for something.
6. Money left with an organization for safe keeping or to earn interest.
7. Class of measurement of money.
8. Company or bank on the discount market that specializes in discounting bills of exchange.
9. Acquire temporarily, promising or intending to return.
10. Allow the use of money at interest.

**Ex. 3.** Study the following words and word combinations. Make your own sentences, using each of them. Translate the sentences into Russian.

Risk; riskless; risky; desirable risk-return features; risk-taker; low-risk securities; risk-exposure; riskiness; insurable risk; at risk; put at risk; run a risk; take a risk; risk capital; calculated risk; risk on.

**Ex. 4.** Differentiate between:

*Risk - hazard - jeopardy - peril.*

*Give your own sentences to show you understand the difference.*

**Ex. 5.** Think of the nouns that are most commonly used with the following adjectives:

Current, surplus, ongoing, efficient, competitive, negligible, profitable, trustworthy.

**Ex. 6.** Think of the nouns that are most commonly used with the following verbs.

Issue, sell, perform, save, cover, accumulate, flow, afford, meet, recover, incur, claim.

**Ex. 7.** Think of the verbs and adjectives that are most commonly used with the following nouns.

Fund, income, service, flow, deposit, borrower, claim, loan, fee.

**Ex. 8.** Make up your own sentences with any ten word-combinations from ex. 5, 6, 7.

### **LET'S READ AND TALK**

#### **TEXT 1**

*Read the text. In each paragraph, define the sentences that can be omitted without damaging much the content of the text.*

### **THE EMERGENCE OF MODERN BANKING**

**Banks** are among the most important financial institutions in the economy and are essential businesses in thousands of local towns and cities. They are the principal source of credit (*loanable funds*) for households (individuals and families) and for most local units of government (school districts, cities, etc.). Nationwide and worldwide, banks grant more installment loans to consumers than any other financial institution and, in most years, they are among the leading buyers of *bonds* and *notes* issued by states and local governments to finance public facilities. The deposits held by banks are the principal money medium for global transactions and the principal channel for government economic policy to stabilize the economy.

When did the first banks appear? *Linguistics* (the science of language) and *etymology* (the study of the origins of words) suggest an interesting story about

banking's origins. Both the Old French word *banque* and the Italian word *banca* were used centuries ago to mean a "moneychanger's table." This describes quite well what historians, looking at the civilizations of Greece and Rome more than 2,000 years ago, have observed concerning the first bankers. They were money-changing institutions, situated usually at a table or in a small shop in the commercial district, aiding travelers who came to town by exchanging foreign coins for local money or discounting commercial notes for a fee.

The first bankers were goldsmiths. Several centuries ago, money consisted primarily of gold coins. Wealthy people found the amounts of gold they accumulated quite heavy. An even bigger drawback is that thieves love gold; stolen gold pieces (or modern coins for that matter) are rarely identifiable. Looking around for safe places to store their wealth, people in medieval Europe thought of goldsmiths. Goldsmiths made jewelry, gold statues, and other precious goods. Most also had some excess space in their heavily guarded vaults.

Most goldsmiths were willing to store valuables for a small fee and issued **receipts** for the gold deposited with them. Buyers found it convenient to exchange these receipts instead of physically getting the gold, and sellers were happy to take the receipts because they knew they could **redeem** them for gold whenever they wished. This was the beginning of checking accounts – the receipts issued by the goldsmiths were primitive **demand deposits**.

The first bankers probably used also their own capital to fund their activities, but it wasn't long before the idea of attracting deposits and **securing temporary loans** from wealthy customers became an important source of bank funding. Loans were then made to merchants, shippers, and landowners at **rates of interest** as low as 6 percent **per annum** to as high as 48 percent a month for the riskiest ventures! Most of the early banks of any size were Greek in origin. The Romans generally tolerated banking practices, but were hesitant to set up banks of their own.

The banking industry gradually spread outward from the classical civilizations of Greece and Rome into northern and western Europe. Banking encountered religious opposition during the Middle Ages, primarily because loans made to the poor often carried very high interest rates. However, as the Middle Ages drew to a close and the Renaissance began in Europe, the bulk of bank loans and deposits involved relatively wealthy customers, which helped to reduce religious opposition to banking practices.

The development of new overland trade routes and improvements in navigation in the 15th, 16th, and 17th centuries gradually shifted the center of world commerce from the Mediterranean region to northern and western Europe, where banking became a leading industry. During this period were planted the seeds of the industrial revolution, which demanded a well-developed financial system. In particular, the construction and acquisition of steam-driven machinery and mass production methods required a corresponding expansion in global trade to absorb industrial output, requiring new methods for making payments and credit available. Banks that could deliver on these needs grew rapidly, led by such institutions as the Medici Bank in Italy and the Hochstetter Bank in Germany.

When colonies were established in North and South America, Old World banking practices were transferred to the New World. At first the colonists dealt primarily with established banks in the countries from which they had come. As the 19th century began, however, state governments in the United States began chartering banking companies. Many of these were simply extensions of other commercial enterprises in which banking services were largely secondary to, for example, sales of food, housing utensils, and farm equipment. The development of large, professionally managed banking firms was centered in a few leading commercial centers, especially in New York. The federal government became a major force in US banking during the Civil War. The Office of the Comptroller of the Currency (OCC) was established in 1864, created by Congress to charter national banks. This divided bank regulatory system, with both the federal government and the states playing key roles in the control and supervision of banking activity, has persisted to the present day and is a truly unique American invention.

1. What is the etymology of the word ‘bank’?
2. When and where did the first bank appear?
3. Can you say what idea became an important source of bank funding?
4. What can you say about the banking industry in the Middle Ages? In the time of the Renaissance?
5. Speak on the development of the banking system in the USA.

## TEXT 2

*Read the text. Define the questions discussed in the text. In each paragraph, find the sentences supporting the main idea of the text. What paragraph contains the most important information?*

### THE ROLE OF BANKS IN THEORY

Banks are financial intermediaries, similar to credit unions, savings and loan associations, and other institutions selling financial services. The term *financial intermediary* simply means a business that interacts with two types of *individuals or institutions* in the economy: (1) *deficit-spending individuals or institutions* whose current expenditures for consumption and investment exceed their current receipts of income and who, therefore, need to raise funds externally by negotiating loans with and issuing securities to other units; and (2) *surplus-spending individuals or institutions*, whose current receipts of income exceed their current expenditures on goods and services so they have surplus funds to save and invest. Banks perform the indispensable task of intermediating between these two groups, offering convenient financial services to surplus-spending individuals and institutions in order to raise funds and then loaning those funds to deficit-spending individuals and institutions.

There is an ongoing debate in the theory of finance and economics about why banks exist. What essential services do banks provide that other businesses and individuals couldn't provide for themselves?

This may at first appear to be an easy question, but it has proven to be extremely difficult to answer. Why? Because research evidence has accumulated over many years

showing that our financial system and financial markets are extremely efficient. Funds and information flow readily to both lenders and borrowers, and the prices of loans and securities seem to be determined in highly competitive markets. In a perfectly efficient financial system, in which pertinent information is readily available to all at negligible cost, in which the cost of carrying out financial transactions is negligible, and all loans and securities are available in denominations anyone can afford, why are banks needed at all?

Most current theories explain the existence of banks by pointing to imperfections in our financial system. For example, all loans and securities are *not* perfectly divisible into small denominations that everyone can afford. To take one well-known example, U.S. Treasury bills—probably the most popular short-term marketable security in the world—have a minimum denomination of \$10,000, which is clearly beyond the reach of most small savers. Banks provide a valuable service in dividing up such instruments into smaller securities, in the form of deposits, that are readily affordable for millions of people. In this instance a less-than-perfect financial system creates a role for banks in serving small savers and depositors.

Another contribution banks make is their willingness to accept risky loans from borrowers, while issuing low-risk securities to their depositors. In effect, banks engage in risky borrowing and lending activity across the financial markets by taking on risky financial claims from borrowers, while simultaneously issuing almost riskless claims to depositors.

Banks also satisfy the strong need of many customers for *liquidity*. Financial instruments are liquid if they can be sold quickly in a ready market with little risk of loss to the seller. Many households and businesses, for example, demand large precautionary balances of liquid funds to cover expected future cash needs and to meet emergencies. Banks satisfy this need by offering high liquidity in the deposits they sell.

Still another reason banks have grown and prospered is their superior ability to evaluate information. Pertinent data on financial investments is both limited and costly. Some borrowers and lenders know more than others, and some individuals and institutions possess inside information that allows them to choose exceptionally profitable investments while avoiding the poorest ones. Banks have the expertise and experience to evaluate financial instruments and choose those with the most desirable risk-return features.

Moreover, the ability of banks to gather and analyze financial information has given rise to another view of why banks exist in modern society—the delegated monitoring theory. Most borrowers and depositors prefer to keep their financial records confidential, shielded especially from competitors and neighbors. Banks are able to attract borrowing customers, this theory suggests, because they pledge confidentiality. Even a bank's own depositors are not privileged to review the financial reports of its borrowing customers. Instead, the depositors hire a bank as delegated monitor to analyze the financial condition of prospective borrowers and to monitor those customers who do receive loans in order to ensure that the depositors will recover their funds. In return for bank monitoring services, depositors pay a fee that is probably less than the cost they would have incurred if they monitored the borrowers themselves.

By making a large volume of loans, banks as delegated monitors can diversify and reduce their risk exposure, resulting in increased deposit safety. Moreover, when a

borrowing customer has received the bank's stamp of approval, it is easier and less costly for that customer to raise funds elsewhere. In addition, when a bank uses some of its owners' money as well as deposits to fund a loan, this signals the financial marketplace that the borrower is trustworthy and has a reasonable chance to be successful and repay its loans.

1. What does the term 'financial intermediary' mean?
2. Explain the meaning of the following terms 'deficit-spending individuals' and 'surplus-spending individuals'.
3. What task do banks perform?
4. Why do banks exist?

### TEXT 3

*Read the text. Divide it into logical parts. Defend your division. Give the title to the text.*

Why are most banks so closely regulated? A number of reasons for this heavy burden of government supervision have been offered over the years, some of them centuries old. First, banks are among the leading repositories of the public's savings— especially the savings of individuals and families. Many savers lack the financial expertise and depth of information to correctly evaluate the riskiness of a bank. Therefore, regulatory agencies are charged with the responsibility of gathering all the information needed to assess the financial condition of banks in order to protect the public against loss. Cameras and guards patrol bank lobbies to reduce the risk of loss due to theft. Periodic bank examinations and audits are aimed at limiting losses from embezzlement, fraud, or mismanagement. Government agencies stand ready to loan funds to banks faced with unexpected shortfalls of spendable reserves. While most of the public's savings are placed in relatively short-term highly liquid deposits with ready access, banks also hold large amounts of long-term savings for retirement in pension programs and Individual Retirement Accounts (IRAs). The loss of these funds due to bank failure or bank crime would be catastrophic in many cases. Regulation acts as a safeguard against such losses by providing deposit insurance and by periodically examining bank policies and practices in order to promote sound management of the public's funds, while minimizing the volume of claims made against the government's deposit insurance fund. On the other side of the coin, however, although safeguarding the public's savings may justify having a deposit insurance system (preferably, one in which banks creating greater risk for their depositors and for the deposit insurance fund pay higher insurance fees), it is not sufficient by itself to justify the entire basket of modern banking regulations. Banks are also closely watched because of their power to create money in the form of readily spendable deposits by making loans and investments (extending credit). Moreover, changes in the volume of money creation appear to be closely correlated with economic conditions, especially the creation of jobs and the presence or absence of inflation. However, merely because banks create money which impacts the vitality of the economy, this is not necessarily a valid excuse for regulating banks. As long as central

banks can control money supply growth through their policies and operating procedures, the volume of money individual banks create should be of no great concern to the regulatory authorities or to the public. Banks are also regulated because they provide individuals and institutions with loans which support consumption and investment spending. Regulatory authorities argue that the public has a keen interest in an adequate supply of loans flowing from the banking system. Moreover, discrimination in the granting of credit would represent a significant obstacle to personal well-being and an improved standard of living. This is especially important if access to credit is denied because of age, sex, race, national origin, residential neighborhood, or similar factors. Perhaps, however, discrimination in providing services to the public could be significantly reduced or eliminated simply by promoting more competition among banks and other providers of financial services, such as by vigorous enforcement of the antitrust laws, rather than through regulation.

1. Why are regulatory agencies charged with the responsibility of gathering the information needed to assess the financial condition of banks?
2. What are periodic bank examinations and audits aimed at?
3. What is regulation aimed at?
4. What are other reasons of bank regulation?

#### TEXT 4

### **WHAT IS A CENTRAL BANK?**

Just as a prudent driver keeps an eye on the road and a hand on the wheel, every country's central bank watches economic data carefully and adjusts the money supply in an effort to keep the economy headed in the right direction.

Instead of taking deposits and making loans as normal banks do, a central bank controls the economy by increasing or decreasing the country's supply of money. Cranking up the printing presses is not the only way for a central bank to increase the economy's supply of money. In fact, in most modern economies printed notes and coins are only a small percentage—often less than 10 percent—of the money supply. Central banks usually print only enough currency to satisfy the everyday needs of businesses and consumers.

Since most "money" is actually nothing more than a savings or checking account at a local bank, the most effective way for a central bank to control the economy is to increase or decrease bank lending and bank deposits. When banks have money to lend to their customers, the economy grows. When the banks are forced to cut back lending, the economy slows.

Once a customer deposits money in a local bank, it becomes available for further lending. A hundred dollars deposited at a bank in London, for example, doesn't lie idle for long. After setting aside a small amount of each deposit as a "reserve," the bank can lend out the remainder, further increasing the money supply—without any new currency being printed. When these loans are redeposited in banks, more money becomes available for new loans, increasing the money supply even more. A bank's supply of money for lending is limited only by



its deposits and its *reserve requirements*, which are determined by the central bank.

Central banks often use these reserve requirements to control the money supply. When a bank is required to keep a certain amount of its funds on reserve with the central bank—10 percent of deposits for example—it is unable to lend these funds back to customers. When a central bank decides to increase the money supply, it can reduce this reserve requirement, allowing banks to use more of their funds to lend to businesses and consumers. This increases the money supply quickly because of a multiplier effect: as the new loans enter the economy, deposits increase—and banks have even more money to lend, which generates further deposits providing more money for further loans.

Another way of controlling the money supply is to raise or lower interest rates. When a central bank decides that the economy is growing too slowly—or not growing at all—it can reduce the interest rate it charges on the loans to the country's banks. When banks are allowed to get cheaper money at the central bank, they can make cheaper loans to businesses and consumers, providing an important stimulus to economic growth. Alternatively, if the economy shows signs of growing too quickly, a central bank can increase the interest rate on its loans to banks, putting the brakes on economic growth.

Perhaps the most dramatic way of increasing or decreasing the money supply is through *open market operations*, where a central bank buys or sells large amounts of securities, such as government treasury bonds, in the open market. By buying a large block of bonds, from a bank or a securities house for example, the central bank pumps money into the economy because it uses funds that previously were not part of the money supply. The money used to buy the bonds then becomes available for banks to lend out to consumers and businesses.

A central bank, unlike other players in the economy, does not have to secure funding from any other source. It can simply print more money or use its virtually unlimited credit with banks in the system. Once a central bank's payment enters the economy, it becomes part of the money supply, providing fuel for businesses and consumers to increase their economic activities. Likewise, when a central bank sells bonds in the open market, the payments from banks and securities houses disappear into the black hole of the central bank's vault, completely removed from the economy at large.

An error in judgment at the central bank has grave consequences for everyone in the economy. If a central bank allows the economy to expand too rapidly by keeping too much money in circulation, it may cause inflation. If it slows down the economy by removing too much money from circulation, an economic recession could result, bringing unemployment and reduced production. A central bank serves as a watchdog to supervise the banking system, in most cases acting independently of its government to provide a stabilizing influence on the country's economy.

The activities and responsibilities of central banks vary widely from country to country. For example, Britain's Bank of England is responsible for printing the money as well as supervising the banking system and coordinating monetary policy. In the United States, the duties of a central bank are divided among different agencies: the U.S. Treasury borrows the government's money through Treasury bond and note issues, while the Federal Reserve Board is put in

charge of monetary policy and oversees the printing of money at the Bureau of Printing and Engraving.

The French central bank, the Banque de France, prints and issues the money, but the French treasury makes the decisions regarding monetary policy and bank supervision. In Germany, the central bank, called the Bundesbank, is noted for its active policy of strict monetary control, limiting money supply growth in order to control inflation at all costs.

The Bank of Japan, like many of the world's central banks, acts as banker to the government. This activity is a major source of revenue for the bank since fees are charged for issuing the government's checks

1. What are the main functions of a central bank?
2. In what way can a central bank control the economy?
3. How can central banks control the money supply?
4. Do the activities and responsibilities of central banks vary from country to country?  
Give your examples.
5. What is the BIS?
6. What does the BIS provide?

## TEXT 5

### **ORGANIZATIONAL STRUCTURE OF THE FEDERAL RESERVE SYSTEM**

No discussion of banks and their regulators would be complete without a discussion of the policy decisions and activities of **the Federal Reserve System (the Fed)** – the central bank of the United States. All central banks around the world perform similar functions. The central bank of a country: (a) controls the volume of money in circulation, (b) performs the government's banking functions, (c) regulates banks and other financial institutions, and (d) serves as a "banker's bank" – holding deposits from commercial banks and making deposits from commercial banks and making loans to them as needed.

The Federal Reserve's primary job is to carry out monetary policy, which involves making sure that the banking and financial system functions smoothly and that the supply of money and credit from that system contributes to the nation's economic goals. By controlling the growth of money and credit (including the loans and security investments made by banks), the Fed tries to ensure that the economy grows at an adequate rate, unemployment is kept as low as possible, inflation is held down, and the value of the dollar in international markets is protected. The Fed is relatively free to pursue these goals because it does not depend on Congress or the President for funding. Instead, the Fed raises its own funds from sales of its services and from securities trading, and it passes along most of its earnings (after making small additions to capital) to the US Treasury.

To carry out these important objectives, the Fed has evolved into a large and complex *quasi-governmental* bureaucracy with many divisions and responsibilities. The

center of authority and decision making within the Federal Reserve System is the Board of Governors in Washington, D.C. By law, this governing body must contain no more than seven persons, each selected by the president of the United States and confirmed by the U.S. Senate for a term not exceeding 14 years. The Board chairman and vice-chairman are appointed by the president from among the seven Board members, each for four-year terms. The Board regulates and supervises the activities of the 12 district Reserve banks and their branch offices. It also regulates all bank holding companies, all foreign banks with offices in the United States, and the overseas operations of American banks. It sets *reserve requirements* on deposits held by banks and other depository institutions, approves all changes in the discount rates posted by the 12 Reserve banks, and takes the lead within the System in determining open market policy to affect interest rates and the growth of money and bank credit.

The Federal Reserve Board members make up a majority of the voting members of the Federal Open Market Committee (FOMC). The other voting members are 5 of the 12 Federal Reserve bank presidents, who each serve one year in filling the five official voting seats on the FOMC (except for the president of the New York Federal Reserve Bank, who is a permanent voting member). While the FOMC's specific task is to set policies that guide the conduct of open market operations—the buying and selling of securities by the Federal Reserve banks—this body actually looks at the whole range of Fed policies and actions to influence the economy and banking system.

The Federal Reserve System is divided into 12 districts, with a Reserve bank chartered in each district to supervise and serve member banks. Among the key services offered by the Federal Reserve banks to depository institutions in their district are (1) *wire transfers* of funds between banks and other depository institutions; (2) *safekeeping* of securities owned by banks and their customers; (3) issuing new securities from the U.S. Treasury and selected other federal agencies, redeeming maturing securities of these governmental units, and making interest payments to holders of these securities as they come due; (4) making short-term loans to banks and other depository institutions through the "Discount Window" in each Federal Reserve bank; (5) maintaining and dispensing supplies of currency and coin; (6) *clearing and collecting checks* and other cash items moving between cities; and (7) providing information and special research studies to keep bankers and the public informed about regulatory changes and other developments affecting the welfare of their institutions.

All *banks chartered* by the Comptroller of the Currency (national banks) and those few state banks willing to conform to the Fed's supervision and regulation are designated *member banks*. Member institutions must purchase stock (up to a maximum of 6 percent of their paid-in capital and surplus) in the district Reserve bank and submit to comprehensive examinations by Fed staff of their lending policies, capital, services, and operations. There are few unique privileges stemming from being a member of the Federal Reserve System because Fed services are also available on the same terms to other depository institutions keeping reserve deposits at the Fed. Many bankers believe, however, that belonging to the System carries prestige and the aura of added safety, which helps member banks attract and hold large deposits from corporations and wealthy individuals.

1. Sum up the text in 10-12 sentences and present your summary in class.

## TEXT 6

### INTERNATIONAL BANKING

Banks have been heavily involved in selling their services across national borders from the industry's very beginning. The first banks were located principally in global trading centers around the Mediterranean Sea, including Athens, Cairo, Jerusalem, and Rome, aiding merchants in financing shipments of raw materials and goods for sale and exchanging one nation's currency and coin for that of another to assist travelers as well as local merchants.

Nowadays international bankers face unprecedented challenges in both raising and allocating funds. E. Gerald Corrigan, president of the Federal Reserve Bank of New York, perhaps has best captured the essence of today's global bank management problems: "Financial markets and institutions are caught up in an unprecedented wave of change and innovation which makes it very difficult to distinguish ends from means, causes from effects, and actions from reactions".

As the bankers themselves admit, international bank fund-raising increasingly is being affected by three forces:

1. Financial markets are broadening rapidly into worldwide institutions, and many of these markets (such as the markets for Eurocurrency deposits, commercial paper, foreign exchange, and government securities) are becoming 24-hour markets linking Europe, North America, the Far East, and the Middle East in a chain of continuous trading. Not far behind are the stock and *futures markets*, with overseas exchanges expanding to accommodate *multiple listings* of companies and financial instruments (as evidenced, for example, by the recent expansion of the Tokyo Stock Exchange and LIFFE and SIMEX in London and Singapore). Moreover, the developing nations, confronted with huge capital needs and the decline of these traditional funding sources, are seeking to tap the surplus liquidity of industrialized countries and *recycle* global savings.

2. Old kinds of debt and borrowing methods are being transformed into new kinds of financial instruments and new *fund-raising techniques*. Among the most notable developments here are securitized loans, currency options and dual-currency bonds, and global mutual funds. In recent years, international banks have found it increasingly difficult to bring in *low-cost deposits* and must reach farther a field for funds, encouraging financial innovation but also bringing international banks into competitive conflict over sources of funds with thousands of other financial institutions. At the same time, scores of desirable loan customers have found innovative ways to raise their own funds (such as through direct sales of short-term notes to investors) without the banker's help.

3. The barriers between securities dealers and international banks are falling in many countries, aided by London's "Big Bang" and *deregulation* in leading countries. This erosion of traditional roles is making it harder for the public to see real differences between financial institutions. While banks were the first to internationalize their operations, securities dealers have followed in the 1970s and 1980s, capturing many former customers that traded almost exclusively with international banks.

Many international banks and other financial firms see their future success closely linked to their ability to establish a firm beachhead in all major global markets and to offer a complete line of financial services, centered around securities trading and underwriting, investment planning and saving, credit insurance, and risk management. This is particularly important in fund-raising by international banks because of the necessity in today's intensely competitive environment for each bank to find the cheapest funds sources, whenever they may be found, around the globe.

1. Where were the first banks located?
2. What forces is international bank fund-raising being affected by?
3. What do many international banks see their future success in?

#### TEXT 7

### THE REGULATION OF INTERNATIONAL BANKING

International banking activities are closely monitored and regulated by both home and host countries all over the globe. However, there is a strong trend toward deregulation of banking and the related fields of securities brokerage and securities underwriting. Moreover, an increasing number of nations have recently recognized the necessity of coordinating their regulatory activities so that, eventually, all banks serving the international financial markets will operate under similar rules.

International banking activities are regulated for many of the same reasons that shape the character of domestic banking regulations. There is an almost universal concern for protecting the safety of depositor funds, which usually translates into laws and regulations restricting bank risk exposure and rules specifying minimum amounts of owners' equity capital to serve as a cushion against operating losses. Regulations frequently limit nonbanking business activities (such as underwriting corporate securities, underwriting or brokering insurance, etc.) also to avoid excessive risk taking. Then, too, to the extent that international banks can create money through their lending and deposit-creating activities, international banking activity is regulated to promote stable growth in money and credit in order to avoid threats to each nation's economic health.

However, international banking regulations are unique to the field itself—that is, they don't apply to most domestic banking activity. For example, *foreign exchange controls* protect a nation against loss of its foreign currency reserves, which might damage its prospects for repaying international loans and purchasing goods and services from abroad (e.g., petroleum, food, machinery, etc.). Another instance would be rules

that *restrict the outflow of scarce capital funds* that some governments see as vitally necessary for the health of their domestic economy and as a key element in strengthening their balance of payments position with the rest of the world. There is also a strong desire in many parts of the world to *protect domestic financial institutions and financial markets from foreign competition*. Many countries prefer to avoid international entanglements and excessive dependence on other countries for vital fuels, raw materials, food, and other goods and services. This isolationist philosophy often leads to outright prohibition of outside entry into full-service banking and may also restrict the international operations of domestic banks.

1. Define and put down the key words of each paragraph of the text. Retell the text using the key words.

## TEXT 8

### BRETTON WOODS

As World War II came to an end, an international monetary conference was held in July 1944 at the Mount Washington Hotel in Bretton Woods, New Hampshire. More than seven hundred people from 44 countries came to this small mountain resort to construct a workable international monetary system. As is typically the case with such conferences, the plan had been drafted by a few experts and largely accepted beforehand by the principal nations. In this case, England and the United States were the most important participants, and the primary architects were the English economist John Maynard Keynes and an Assistant Secretary of the U.S. Treasury, Harry D. White.

The **Bretton Woods agreement** attempted to restore fixed exchange rates without the domestic disruption caused by the classic gold standard. The participating nations agreed to make whatever currency transactions were necessary to keep exchange rates within 1 percent of the initial fixing. In exceptional circumstances, a nation would be permitted a one-time devaluation of up to 10 percent.

A central reserve fund, the **International Monetary Fund** (IMF), was established to lend money to nations that needed to purchase their currency in order to support its value. Instead of the deflationary shock inflicted by the pure gold standard, these loans would give a nation time to take gradual steps to strengthen its currency; an escalation of the fees on these loans was intended to discourage procrastination. The central reserve fund — \$6.8 billion in gold, U.S. dollars, and other strong currencies — was financed by contributions from the members, principally the United States and Britain. The IMF was given a home in Washington, D.C., and a staff to administer the reserve fund and to advise and prod nations with weak currencies.

Under the original rules of the Fund, a member nation could borrow no more than 25 percent of its quota in any one year, up to a total of 125 percent of its quota over a five-year period. The nation could borrow the first 25 percent of its quota, the **gold tranche**, almost automatically, without any restrictions or conditions. For further

borrowings (in subsequent years), the **credit tranche**, the Fund charged higher and higher interest rate and imposed more and more supervision and conditions to ensure that the deficit nation was taking appropriate measures to eliminate the deficit. If the Fund's holding of a nation's currency fell below 75 percent of its quota, the nation could borrow the difference from the Fund without having to repay its loan. This was called **super gold tranche**.

Like a doctor called in at the last minute, the IMF is often asked to resuscitate ailing economies. This 'structural adjustment' process is a crucial first step before receiving development assistance from other sources. Acceptance of the IMF plan is usually seen as a sign that a nation is prepared to seriously address its economic illnesses, paving the way for long-term funding from the World bank and other sources.

The economic medicine prescribed by the IMF is often painful. For example, it often calls for debtor governments to reduce subsidies to failing state industries and insists on strict anti-inflationary measures such as increasing the prices of basic goods and services. During the difficult restructuring processes, the IMF often provides temporary 'standby' loans to keep the country afloat until more long-term funding can be arranged.

Borrowing from the Fund was restricted to cover temporary balance-of-payments deficits and to be repaid within three to five years so as not to tie up the Fund's resources in long-term loans. Long-run development assistance was to be provided by the **International Bank for Reconstruction and Development (IBRD or World Bank)** and its affiliates, the **International Development Association** (established in 1960 to make loans at subsidized rates to the poorer developing nations) and the **International Finance Corporation** (established in 1956 to stimulate private investments in developing nations from indigenous and foreign sources).

The major role of the World Bank is to provide a helping hand to countries in need. Its first activity was to channel funds from the USA and other nations into rebuilding Europe after World War II. The World Bank now provides most of its loans to countries in the Third World, and receives a significant portion of its funding from the now wealthy nations it was initially designed to assist.

Like the regional development banks, the World bank receives its funds from its rich member countries, which in turn provide it with the credit to borrow cheaply on the world's capital markets. This allows the World Bank to provide these funds at extremely favorable rates to needy countries.

In 1970, the IMF expanded its reserve base even further by creating "paper gold," **Special Drawing Rights (SDRs)**, which are credited to members and can be used within the IMF to purchase hard currency. The SDR was initially valued at one U.S. dollar. Since 1974, the SDR's value relative to the dollar has been determined by a weighted average of the exchange rates of 16 countries relative to the dollar. The value of the SDR rose to \$1.30 in 1980 (as the dollar weakened), fell to \$0.96 in 1985 (as the dollar strengthened), and then rose to \$1.38 in 1988.

These SDRs have enlarged the IMF's pool of funds that can be lent to governments. They are also a tentative first step toward an international money, with the IMF as the international central bank. It has been proposed that the IMF raise funds by selling SDR-denominated securities and that SDRs be used by central banks as a multicurrency reserve. Although SDRs are not now traded privately, in 1980 Chemical Bank pioneered international securities with values indexed to SDRs. These are intended to reduce exchange-rate risks for international banks and businesses.

1. Write a short summary of the text in Russian. Exchange the texts with your partner and translate them into English.

## TEXT 9

### HOW DOES A SWISS BANK ACCOUNT WORK?

Switzerland is one of the few countries in the world that guarantees, by law, the secrecy of its bank accounts. As long as the client of a Swiss bank has not done anything that is considered illegal in Switzerland, the bank will not reveal the client's identity to anyone.

During World War II, for example, many families from war-torn Germany, Italy, and France were able to keep their savings secure by putting them in Swiss banks. Many Europeans still consider having a bank account in Zurich, Basel, Lugano, or Geneva to be a sign of financial security.

Opening a legal, numbered Swiss bank account is still relatively easy to do, usually involving nothing more than going to Switzerland, filling out a few forms, and making a deposit. Swiss bankers are known to be dependable, trustworthy, and, above all, discreet. These qualities have made Switzerland one of the world's banking centers. But they have also made Switzerland a center for money laundering.

Swiss bank accounts are useful for money-laundering schemes because once money passes through a respectable Swiss bank, it is accepted anywhere in the world. When several Swiss banks were found to be facilitating the activities of international drug traffickers in the 1980s, the Swiss authorities finally decided to break open several secret accounts that were linked to illegal activities abroad.

Most people holding Swiss bank accounts, however, do not use them to launder illegally earned money. They merely want their legally earned funds to be safe and free from government control and taxes at home. Swiss bankers do not reveal the accounts of clients accused of avoiding taxes in their home country, since tax evasion is not considered to be "illegal" in Switzerland: it is only a civil, not a criminal offense.

Foreigners—as long as they break no Swiss laws—can keep their money in Swiss bank accounts without fear. This guarantee of secrecy can be used by many unscrupulous people for a wide variety of shady international activities. In the case of the Iran-contra scandals during the 1980s, for example, the secret deals between America's CIA and the Iranian arms merchants were paid for in part with money deposited by CIA agents at banks in Switzerland.

Philippine dictator Ferdinand Marcos had also deposited large sums of illegally acquired funds in Swiss banks during the 1970s and 1980s. When he was



deposed, the Philippine government called for the return of these funds, which was agreed to by the Swiss authorities. After several abuses of Swiss banking secrecy, the Swiss authorities announced that they would be ready to open any accounts revealed to be linked to illegal international activity.

1. Why are Swiss banks so popular in the world?
2. What are Swiss bankers known to be?
3. What did the Swiss authorities decide to do in the 1980s?

## TEXT 10

### CAREER OPPORTUNITIES IN BANKING

In this unit we have focused on the great importance of banks in the functioning of the economy and on their many services and roles in dealing with the public. But banks are more than just financial service providers; they are also a source of jobs and satisfying professional careers for millions of people. What opportunities are there for careers in banking? If you already have a job in the industry, what opportunities exist for moving up the career ladder into even more challenging positions? To answer these questions, the principal employment options in banking today are described below.

*Loan Officers.* Most bank managers begin their careers accepting and analyzing loan applications submitted by business and household customers. Bank loan officers make initial contacts with potential new customers and assist them in filling out loan requests and in developing a service relationship with the bank.

*Credit Analysis.* The credit analyst backstops the work of the loan officer by preparing detailed written assessments of each loan applicant's financial position and capacity to manage money and advises the bank's management on the advisability of granting any particular loan. Credit analysts and loan officers need professional training in accounting, financial statement analysis, and business finance.

*Loan Workout Specialists.* With the rising numbers of business failures in recent years many loans to businesses and consumers have gone bad, requiring the services of skilled professionals to identify the causes of each problem loan situation and find solutions that maximize the chances for recovering the bank's funds. This is the job of the loan workout specialist, who must have a strong background in accounting, financial statement analysis, business law, and economics, as well as good negotiating skills.

*Managers of Bank Operations.* Managers in the operations division of a bank are responsible for processing checks and clearing other cash items on behalf of their customers, for maintaining and improving the bank's computer facilities and electronic network, for the activities of tellers, for handling customer problems with their checking accounts and other bank services, for security systems to protect the bank's property from criminal activity, and sometimes for the operation of the bank's personnel (human-resources) department. Managers in the bank operations division need sound training in the principles of business and financial management and in computers and management information systems, and they must have the ability to interact with large groups of people.

*Branch Managers.* When banks operate large branch systems, many of these functions are supervised by the manager of each branch office. Branch managers lead each branch's effort to attract new accounts, calling on business firms and households in their local area. They also approve many requests (especially larger loans) and resolve customer complaints. Branch managers must know how to manage and motivate employees and how to represent the bank well in the local community.

*Systems Analysts.* These highly trained computer specialists work with officers and staff in all departments of a bank, translating their production and information needs into programming language. The systems analyst provides a vital link between bankers and computer programmers in making the computer an effective problem-solving tool for management. Systems analysts need in-depth training in computer programming and mathematics as well as courses emphasizing business problem solving.

*Auditing and Control Personnel.* Keeping abreast of the inflow of revenues and outflow of expenses from a bank and tracking changes in the bank's financial position are the responsibilities of auditors and accountants. These are some of the most important tasks within the bank because they help guard against losses from criminal activity and waste and aid management in pinpointing ways to improve bank efficiency. Jobs as important as these require considerable training in the principles of financial accounting and auditing.

*Financial Analysts.* These quantitatively skilled professionals often work in a bank's auditing and planning departments. Financial analysts are "number crunchers," who analyze the performance of the bank, its various departments, and its employees. They look for activities that need improvement and identify areas of superior performance within the firm.

*Trust Department Specialists.* Specialists in a bank's trust department provide a wide variety of customer services to businesses, consumers, and nonprofit institutions. They aid companies in managing their employee retirement programs, issuing securities, maintaining business records, and investing business funds. Consumers also receive help in managing their property and in building an estate for retirement or other purposes. Men and women employed in bank trust departments usually possess a wide range of backgrounds—they know commercial and property law, real estate finance and appraisal techniques, securities investment strategies, financial statement analysis, and marketing techniques.

*Personal Banking Services Specialists.* Personal bankers are typically responsible for helping individuals and families identify and use the bank's services. This often means taking loan applications, marketing consumer deposits, and advising individuals and families on which of the bank's services meet their particular needs. Personal bankers must have excellent interpersonal skills and an in-depth knowledge of the bank's menu of services.

*Tellers.* One bank employee that nearly every customer sees and talks with is the teller—the individual who occupies a fixed station or location within a bank office or drive-in window, receiving deposits and dispensing cash and information. Bank tellers must sort and file deposit receipts and withdrawal slips, verify customer signatures, check account balances, and balance their own cash position at least once each day. Because of their pivotal role in communicating with customers, bank tellers must be friendly with customers, accurate with all of their transactions, and knowledgeable about

the other departments of the bank and the services they sell. Most banks hire as tellers people with high school, community college, or four-year university degrees. Part-time tellers are added during periods of peak demand.

*Security Analysts and Traders.* Security analysts and traders are usually found in a bank's bond department and in its trust department. All banks have a pressing need for individuals skilled in evaluating the businesses and governments issuing securities that the bank might buy and in assessing economic and financial market conditions. Such courses as principles of economics, money and banking, money and capital markets, and investment analysis are usually the best fields of study for a person interested in being a bank security analyst or security trader.

*Long-Range Planning and Business Acquisition Specialists.* Banks must plan for the long term if they are to survive and effectively meet their competition. Bank planners usually prepare a variety of projected budgets and forecasts, showing what the bank's financial and market position will be under a variety of assumptions about the future. College courses in economics, money and banking, accounting and auditing, business finance and capital budgeting, and financial institutions are particularly good preparation for building a career in this field.

*Marketing Personnel.* With banks facing greater competition today, they have an urgent need to develop new services and to more aggressively sell existing services—tasks that usually fall primarily on a bank's marketing department. This important function requires an understanding of the problems involved in producing and selling services and familiarity with service advertising techniques and cost accounting. College level course work in economics, services marketing, statistics, and business management are especially helpful in this field.

*Human Resource Managers.* A bank's performance in serving the public and in earning adequate returns for its stockholders depends, more than anything else, on the talent, training, and dedication of its management and staff. The job of human resource, or personnel, managers is to find and hire people with superior education and skill and to train them to fill the roles needed by the bank. Most major banks operate intensive management training programs, lasting from 6 months to as long as 18 months, which typically are managed and directed by the human resources division of the bank. In addition, human resource managers keep records on employee performance and counsel employees on ways to improve their performance and opportunity for promotion.

*International Finance and Business Development Specialists.* The market for banking services is becoming global in scale. Business customers frequently need loans, credit guarantees, help with floating new security issues, and analyses of business conditions in foreign markets supplied by their banks. Men and women interested in this exciting banking field will require college level training in business finance, marketing, corporate accounting, and international trade.

*Foreign Exchange Traders.* A handful of the largest banks buy and sell foreign currencies on behalf of their own account and for their customers who are traveling or trading abroad. Foreign exchange traders within a bank search the market for the best prices on pounds, francs, yen, and other currencies and try to profit from currency-trading operations. They must also be able to negotiate with other currency traders and with the bank's customers. They often travel extensively, and they must be able to learn quickly and make decisions rapidly while under great pressure.

*Investment Banking Specialists.* Banks are becoming increasingly involved in assisting their business customers with the issue of bonds, notes, and stock to raise new capital, and they frequently render advice on financial market opportunities and on business mergers and acquisitions. This is the dynamic, fast-paced field of investment banking—one of the highest paid and most challenging areas in the financial marketplace. Investment banking personnel must have intensive training in accounting, economics, money and banking, strategic planning, investments, international finance, and a number of related areas.

*Bank Examiners and Regulators.* Because banks are among the most heavily regulated of all business firms, there is an ongoing need for men and women to supervise and examine bank financial statements and operating policies and to prepare and enforce banking regulations. Bank regulatory agencies such as the FDIC hire bank examiners and other regulatory personnel from time to time, often by visiting college campuses or as a result of phone calls and letters from applicants. Because they must supervise banks—their financial condition and compliance with regulations—examiners and regulators must have knowledge of accounting principles, business management methods, economics, and banking laws and regulations.

1. What career opportunity in banking would you prefer? Why? What background would you need for it?

**Ex. 9.** Fill in the gaps with the words given below.

**Pursue, credit, property, customer, payment, government, bank, principal, investment, marketplace, responsive, savings, competitive, debt, security**

While many people believe that ... play only a narrow role in the economy—taking deposits and making loans—the modern bank has had to adopt new roles in order to remain ... and ... to public needs. Banking's ... roles today are as follows:

The intermediation role	Transforming .. received primarily from households credit (loans) for business firms and others to make . new buildings, equipment, and other capital goods.
The payments role	Carrying out ... for goods and services on behalf of the (such as by issuing and clearing checks, wiring fi dispensing currency and coin, etc.).
The guarantor role	Standing behind their customers to pay off custome when those customers are unable to pay (such as by iss letters of credit to support international trade and to customer issues of commercial paper), which makes it easier and cheaper for a bank's customers to obtain elsewhere in the financial ... .
The agency role	Acting on behalf of customers to manage and protect the or issue and redeem a customer's ... (usually prov through the bank's trust department).
The policy role	Serving as a conduit for ... policy in attempting to reg the growth of the economy and ... social goals.

**Ex.10.** *Insert prepositions.*

### **How and Why Banks Create Money When They Make Loans**

All modern banks *create money* ... one form or another. Exactly how does this occur?

First, we must remind ourselves what *money* is. Money is simply a *medium* ... *exchange*—an object that is readily accepted ... sellers in payment ... the goods and services they offer. In most industrialized economies *checks* are still the principal means of paying ... goods and services. In the United States, for example, checks account ... more than four-fifths of the dollar value ... all payments made annually ... the economy.

When and how do banks create checkbook forms of money? It happens ... two ways. First, when a customer is granted a loan, he or she will sign a promissory note and receive, ... turn, a bank's demand deposit (checking account). The customer's promissory note is *not* money—it cannot be used to buy goods and services. But a bank's demand deposit *is* money and can readily be spent almost anywhere. Thus, ... granting loans, banks create money simply ... creating a spendable deposit ... the name of the borrower.

Second, the entire *system* of banks also creates money as the deposits generated ... lending flow ... bank ... bank. ... law, each bank must set aside only a *fractional reserve* ... each deposit received. Thus, every deposit received by a bank generates additional funds ... and ... the small required reserve that can be loaned ... . As customers spend their loan money these funds flow ... to other banks, giving them deposits to loan as well. Ultimately, a multiple amount of deposit money comes ... existence ... bank lending.

... each dollar loaned ... a bank in the financial system, multiple deposits and multiple loans will be created eventually. The banking system's capacity to create money is one reason banks are regulated.

*Read the above text once again and answer the following question: How and why do banks create money when they make loans?*

**Ex. 11.** *Open the brackets.*

### **Globalization of Banking.**

The rapid geographic expansion and consolidation of banking units (to reach) well beyond the boundaries of a single nation (to encompass) the entire globe. Today the largest banks in the world (to compete) with each other for business on every continent. In recent years Japanese banks, (to lead) by Dai-ichi Kangyo Bank and Fuji Bank, (to grow) much faster than most of their competitors worldwide due to the strength of the Japanese economy. Huge banks (to headquarter) in France (led by Caisse Nationale de Credit Agricole), West Germany (paced by the Deutsche Bank), and Great Britain (led by National Westminster Bank) also (to become) heavyweight competitors in the global market for corporate and government loans. Deregulation (to help) all of these institutions (to compete) more effectively with U.S. banks. Moreover, these leading international banks (to score) sharp gains in global market shares, along with growing shares of the domestic U.S. market.

1. What is meant by “globalization of banking”?

**Ex.12.** *Carefully explain the meaning of the following terms.*

Bank account; bank advance; bank bill; bank card; bank certificate; bank charges; bank draft; bank guarantee; bank holiday; bank loan; banknote; bank rate; bankable; banker’s cheque; banking.

**Ex. 13.** *Give 2-3 sentences of your own, using each word given below, to show that you understand the difference in the shades of their meanings.*

Defend, protect, secure, insure, ensure, guarantee.

**Ex. 14.** *Join the halves. Translate the sentences into Russian.*

1. Many savers lack the financial expertise
  2. Banks are closely watched because
  3. Cameras and guards patrol banks
  4. Banks are regulated because they provide
  5. Fed services are available on the same terms
  6. Banks are a source of jobs and satisfying
  7. Credit analyst and loan offices need professional training in
  8. Branch managers must know how to manage and motivate people
  9. Regulation acts as a safeguard against such losses
  10. All banks chartered by the Controller of the Currency are
  11. Consumers also receive help in managing their property
  12. Personal bankers must have excellent interpersonal skills
  13. Discrimination in the granting of credit would represent a significant obstacle
- a) by providing deposit insurance and by periodically examining bank policies.
  - b) individuals and institutions with loans which support consumption and investment spending.
  - c) to personal well-being and an improved standard of living.
  - d) to other depository institutions keeping reserve deposits at the Fed.
  - e) and in-depth knowledge of the bank’s menu of services.
  - f) and in building an estate for retirement or other purposes.
  - g) and how to represent the bank well in the local community.
  - h) and depth of information to correctly evaluate the riskness of a bank.
  - i) of their power to create money in the form of readily spendable deposits.
  - j) designated member banks.
  - k) accounting, financial statement analysis, and business finance.
  - l) professional careers for millions of people.
  - m) lobbies to reduce the risk of loss due to theft.

**Ex. 15.** *Match each job title on the left with the correct definition on the right.*

- |                   |   |
|-------------------|---|
| tax inspector     | a) The person who is responsible for an individual bank.  |
| tax consultant    | b) Someone who advises people on how to manage their financial affairs.   |
| bank manager      | c) Someone who prepares an individual's (or company's) tax return.  |
| commodity trader  | d) The person who is responsible for the financial side of running business.  |
| accountant        | e) A government official who checks that you are paying enough tax.   |
| finance director  | f) The person who finds you the best insurance policy at the best price.  |
| market analyst    | g) Someone who buys and sells stocks and shares for clients, and charges a commission.  |
| financial advisor | h) Someone who comments on business and share prices in a particular sector of the economy.   |
| insurance broker  | i) Someone who buys and sells things in large quantities, especially food products such as tea, coffee, cereals, and other raw materials. |
| stockbroker       |   |

**Ex.16.** Read the following text. Define the key-words of each paragraph. Put them down. Exchange the notes with your partner and retell the text using the key-words.

### **The Paris Club**

Debt rescheduling is a form of debt reorganization in which debtors and creditors negotiate to defer payments of a principal and interest falling due in a specified interval for repayment on a new schedule. Some countries find it almost impossible to service their external debts. Recently, Rescheduling external debts has become a widely accepted practice. Debt rescheduling occurs at the Paris club for government and private debt owed to official creditors and at the London Club for debt owed to commercial creditors.

The Paris Club is an informal forum where countries experiencing difficulties in paying their debts to governments and private institutions meet with their creditors to restructure these debts. The name might be quite misleading because in reality the Paris Club is not a club, nor is it a formal international organization. It has no offices, no secretariat, and above all, no charter. The Paris Club is an ad hoc institution with no legal status.

In part, the Paris Club's confidentiality policy has prevented it from becoming known to a wider public. Creditors refrain from releasing any information pertaining to their assessment of a given debtor's economic and financial situation or to the scope of debt relief granted. The onset of the international debt crisis in the early 1980s, however, brought public attention to the Paris Club and to its contribution to resolving the

balance-of-payment disequilibria experienced by a growing number of developing countries and by some Central and Eastern European countries.

Over the years, the Paris Club has become a key instrument in implementing the international debt strategy. This strategy rests on two main pillars: internal reform and structural adjustment, supplemented by external financial assistance in the form of fresh money and debt relief. Despite the public's recent discovery of the Paris Club, this forum has existed since 1956, when Argentina agreed to meet in Paris with official creditors to find a mutually acceptable basis for rescheduling payments due on officially supported export credits. In the late 1950's and 1960's, Brazil, Chile, and Turkey sought similar Paris Club reschedulings. Since 1980, 54 countries have rescheduled the total of 186 debt agreements.

**Ex. 17.** *Put the paragraphs into logical order. Read the text and answer the questions.*

### **Money Laundering**

One popular money-laundering practice is to make hundreds of small deposits to avoid having large deposits reported to law-enforcement agencies. Another alternative is to mix illegal deposits with legal ones, channeling illegally earned money through legitimate businesses that use banks for processing large amounts of legally earned deposits. A restaurant that does not accept credit cards, for example, deposits a large amount of cash each day in banks. These transfers can then serve as a cover for deposits of illicit funds.

The key to any money laundering scheme is to get the money into legitimate bank accounts without alerting law-enforcement officials to the money's illicit past. Once the money is in a legitimate account, it can be transferred around the world without interference from the authorities.

The currency of choice for most drug-related and other illegal transactions is the U.S. dollar. This partly explains why more than half of the U.S. greenbacks printed cannot be found anywhere in the American economy. Drug lords in the Far East, underground traders in Eastern Europe, and black market currency dealers in Latin America all make use of the U.S. dollar for their illegal activities.

The world's criminals need to periodically recycle their "dirty money" so that it can be used in the economy at large without anyone knowing about its illegal past. A money laundering scheme is the process that turns large sums of illegally earned funds into "respectable" money. A drug dealer, for example, may end a day's work with a large amount of cash that needs to be deposited or otherwise spent. Since there is a limit to the number of luxury automobiles and condominiums a drug dealer can effectively use or buy without creating suspicion, illicit earnings need to be put into a bank, to be available for future use.

The U.S. dollar, mainly twenty- and hundred-dollar bills, came into use as an underground currency because of its liquidity: it can be exchanged almost anywhere in the world without raising suspicion. Because of the size and stability of the U.S. economy, the U.S. dollar has become the preferred currency for most players in the underground economies of the world.

International bank transfers are just electronic messages, from one bank to another, that instruct banks to put money from one account into another. The sheer size of these international computerized transfers, often exceeding \$1 trillion per



day, makes them difficult to control. The illegal transfers disappear in a sea of legal ones.

1. What is the key to any money laundering?
2. What popular money-laundering practice is described in the text?
3. What is the currency of choice for most illegal transactions?

**Ex. 18.** *Translate the following text into Russian.*

### **Types of loans made by banks**

Bank loans may be divided into seven broad categories of loans, delineated by their purposes.

1. **Real estate loans**, which are secured by real property – land, buildings, and another structures – and include short-term loans for the construction of buildings and land development and long-term loans to finance the purchase of farmland, family homes, apartments and other multifamily structures, commercial (nonfarm and nonresidential) structures, and foreign properties.
2. **Financial institutions loans**, which include both long- and short-term credit to banks, insurance companies, finance companies, and other financial institutions to help them meet their obligations to customers and to expand their services and operations.
3. **Agricultural loans**, extended to farm operations to assist in planting and harvesting crops and to support the feeding and care of livestock.
4. **Commercial and industrial loans**, granted to businesses to cover such expenses as purchasing inventories, paying taxes, meeting payrolls, and to cover other operating costs.
5. **Loans to individuals**, which include credit to finance the purchase of automobiles, mobile homes, home appliances, and other retail goods and loans to repair and modernize homes, cover the cost of vacations, medical care, and other personal expenses, either extended directly to individuals or indirectly through the purchase of consumer installment paper from retail dealers.
6. **Miscellaneous loans**, which include all those loans not classified above, including securities loans made to brokers, dealers, and other investors desiring to purchase stocks, bonds, and other securities.
7. **Lease financing receivables**, where the bank buys equipment or vehicles and leases them to its customers.

Of the loan categories shown, the largest in dollar volume is real estate loans, accounting for nearly one-third of total bank loans. These loans are made to both individuals and businesses in order to construct and purchase homes, apartments, office buildings, retail shops, and industrial structures. The next largest category is commercial and industrial loans (C&I), also representing close to one-third of the total. These loans include credit to purchase inventories of goods and raw materials, to cover operating

expenses, and to finance new equipment. Next in importance are loans to individuals and families for living costs, medical expenses, automobile purchase, home appliances, vacations, education, and so on, accounting for about one-fifth of all loans made by federally insured U.S. commercial banks.

**Ex.19.** *Give the English equivalents.*

займы давались на ставке 6% годовых; банковские займы и депозиты; учреждения, занимающиеся обменом денег; финансовые посредники, подобные финансовым союзам; текущие расходы превышают текущие доходы; выпуск ценных бумаг; информация доступна всем по незначительной цене; достоинство акций; финансовые инструменты являются ликвидными; с минимальным риском для продавца; банк обладает знанием и опытом оценивать финансовые инструменты; вкладчики банка не имеют привилегии просматривать финансовые отчеты; анализировать финансовое состояние возможного заемщика; вернуть займ.

**Ex.20.** *Translate into English.*

1.Ссуды коммерческих банков служат для предпринимателей и фермеров источником краткосрочного оборотного капитала. 2. Кредитные союзы принимают вклады от своих «членов» -- обычно группы людей, работающих в одной компании. 3. Централизация и контроль служат необходимыми условиями эффективности банковской системы. 4. Федеральные резервные банки представляют собой «банки банков». 5.Они выполняют для депозитных учреждений те же функции, что депозитные учреждения для частных лиц. 6.Федеральная Резервная Система несет полную ответственность за регулирование денежного предложения. 7. В последнее время заметно усилилась интеграция мировых финансовых рынков. 8. Международный валютный фонд способствовал стабилизации курсов иностранных валют.

***SPEAK AND WRITE***

1. What different kinds of services do banks offer to the public?
2. From observation, draw up a list of ways in which people express higher value for time than for money.
3. Is your attitude towards money different from that of your parents? How? Why?
4. What are the key areas or functions of banks that are subject to regulation? Do you think all of these facets of banking should be regulated? Defend your answer.
- 5.What are the goals of international banking regulation?
- 6.What do you know of the activities of the Central Bank of the Republic of Belarus?
- 7.Comment on the following: “A banker is a man who lends you umbrella when the weather is fair, and takes it away from you when it rains.”
8. Money is more convenient means of exchange, but barter still exists. Why?
9. Find the information about the development of banking industries in England, Germany, France, your country and prepare a 10-15 minute report.

10. “Money is a resource because a person who has money can put it to productive use. The same is true of a nation’s money.” Do you agree?

11. If you possess a large sum of money, what are the pros and cons of the following: - putting it into a sock; - buying a lottery ticket; - taking it to (local) Las Vegas; - putting it in a bank; - buying gold; buying a picture by Van Gogh; - investing in property; - buying shares?

12. What financial barriers might confront people who live in different societies with different monetary systems and who wish to trade with one another? Would it be advantageous if the entire world used a common currency? What do you think are some of the reasons we do not have a world currency?

13. Summarize the information of the unit to be ready to speak on “Money”. The first step to be done is to write the plan of your future report.

14. Choose any question (problem, topic) relating to Banking and make a 10-12 minute report in class. Refer to different additional sources to make your report instructive, interesting and informative.

## UNIT 7

### FINANCE

*What the government gives it must first take away.*

J.S.Coleman

### Your Vocabulary

#### Finance

- management of money
- capital involved in a project
- loan of money for a particular purpose
- money resources of a state, company or person

#### **Finance house (company)**

– organization providing finance for hire-purchase agreements.

#### **Financial accountant**

– accountant whose primary responsibility is the management of the finances of an organization and the preparation of its annual accounts.

#### **Financial adviser**

– a person who offers financial advice to someone else, especially one who advises on investment.

-- organization, usually a merchant bank, which advises the board of a company during a take-over.

**Financial capital**

– the liquid as opposed to physical assets of a company.

**Financial futures**

– futures contract in currencies or interest rates.

**Financial institution**

– an organization that collects funds from individuals, other organizations or government agencies and invest these funds or lends them on to borrowers.

**Financial instrument**

– formal financial document.

**Financial intermediary**

– bank, building, society, finance house, insurance, company, investment trust etc. that holds funds borrowed from lenders in order to make loans to borrowers.

-- person or organization that sells insurance but is not directly employed by an insurance company.

**Financial year**

– any year connected with finance, e.g. a company's accounting period or a year for which budgets are made up.

-- specific period relating to corporation tax.

**Financial ratio**

– ratios between particular groups of the assets or liabilities of an enterprise and corresponding totals of assets or liabilities; or between assets and liabilities and flows like turnover or revenue.

**Financier**

– person who uses his own money to finance a business deal or venture or who makes arrangements for such a deal.

You've studied the definitions taken from a dictionary. Refer to some other sources to find more information about the concepts mentioned above.

**Ex. 1.** *Think of the nouns that are most commonly used with these verbs. Give your own sentences with the combinations of words.*

*to generate, to adopt, to utilize, to perform, to involve, to seek, to provide, to facilitate.*

**Ex. 2.** *Give Russian equivalents to the following.*

Grant loans, accept deposits, facilitate securities transfers, raising corporate funds, obtain funds, dividend policies, merger and acquisition activities, leasing, the realm of the capital budget, the cash budget, security trading, portfolio managers, stocks, bonds, stock and index options, warrants, financial futures, bank teller, financial analyst, a loan officer, depository institution, mortgage servicing specialist, insurance company, accounts payable staff, treasurer, brokerage house, investment counselor.

**Ex. 3.** *Match the word with its definition.*

**rate, portfolio, quotation, option, warrant, exchange rate, brokerage, deposit, merger, mortgage, counselor, interest rate.**

1. The value of a currency expressed in terms of another currency.

2. Numerical proportion between two sets of things.
3. Charge made for borrowing a sum of money, expressed as a percentage of the total sum loaned.
4. Indication of the price at which a seller might be willing to offer goods for sale.
5. Person giving professional guidance on personal problems.
6. Range of investments held by a person, company, etc.
7. Broker's fee or commission, which is usually calculated as a percentage of the sum involved in the contract.
8. Combining of two or more commercial organizations into one in order to increase efficiency and to avoid competition.
9. Right in property created as security for loan.
10. Money left with a bank for safe keeping or to earn interest.
11. Finance security that offers the owner the right to subscribe for the ordinary shares of a company at a fixed price.
12. Right to buy or sell a fixed quality of a commodity, currency, or security at a particular date at a particular price.

**Ex. 4.** Match each word on the left with its opposite on the right hand side.

1. increase	a) assets
2. expends	b) save
3. profit	c) public
4. private	d) borrow
5. debit	e) decrease
6. spend	f) revenues
7. lend	g) purchase
8. liabilities	h) loss
9. sell	i) indirect
10. direct	j) credit

Ask your partner as many questions as you can using the words above.

**Ex. 5.** Insert prepositions.

### **Financial planning process**

Financial planning is an important aspect ... the firm's operation and livelihood since it provides road maps ... guiding, coordinating and controlling the firm's actions in order to achieve its objectives. Two key aspects ... the financial planning process are *cash planning* and *profit planning*. Cash planning involves the preparation of the firm's *cash budget*; profit planning is usually done ... means of *proforma financial statements*.

The financial planning process begins ... long-run, or strategic, financial plans that in turn guide the formulation of short-run, or operating, plans and budgets. Generally, the short-run plans and budgets implement the firm's long-run strategic objectives.

Long-run (strategic) financial plans are planned long-term financial actions and the anticipated financial impact of those action. Such plans tend to cover periods ranging ... two ... 10 years. Long-run financial plans consider proposed fixed-assets outlays, research and development activities, marketing and product developing actions and major sources of financing.

Short-run (operating) financial plans are planned short-term financial actions and the anticipated financial impact ... those actions. These plans most often cover a one- to two-year period. Key inputs include the sales forecast and various forms of operating and financial data. Key outputs include a number ... *operating budgets*, the cash budget and proforma financial statements.

Read the text once again and answer the following questions: What are two key aspects of financial planning? What do short-run and long-run plans include?

**Ex. 6.** *Join the halves. Translate the sentences into Russian.*

1. Financial markets provide the mechanism for
  2. Investment analysis focuses on
  3. When a company obtains capital from external sources
  4. Equity financing and debt financing provide
  5. Working capital refers to
  6. Financial management is concerned with
  7. Transactions in short-term debt instruments that
  8. Major securities traded in the capital market
  9. When prices rise,
  10. Finance involves
  11. More experienced individuals would be eligible for
- a. the funds used to keep business working or operating.
  - b. carrying out the allocation of financial resources.
  - c. take place in the money market.
  - d. include bonds and both common and preferred stock.
  - e. the financing can be either on a short-term or a long-term arrangement.
  - f. how individuals or portfolio managers select appropriate financial and real assets.
  - g. important means by which a corporation may obtain its capital.
  - h. how firms acquire and allocate funds.
  - i. loan officer, branch manager, or senior analyst.
  - j. the securing of funds for all phases of business operations.
  - k. the same goods, cost more in terms of dollars, and the dollar's value in terms of those goods falls.

**Ex. 7.** *Translate the text into Russian in written form.*

### **Interest Rate**

Financial institutions and markets create the mechanism through which funds flow between *savers* (fund suppliers) and *investors* (fund demanders). The level of funds flow between *suppliers* and *demanders* can significantly affect economic growth. Growth results from the interaction of variety of economic factors, such as the money supply, trade balances, and economic policies, that affect the *cost of money* – the *interest rate* or *required return*. The level of this rate acts as regulating device that controls the flow of funds between suppliers and demanders. In general, the lower the interest rate, the greater the funds flow and therefore the greater the economic growth and vice versa.

**The interest rate** or required return represents the cost of money. It **is the rent or level of compensation a demander of fund must pay a supplier**. When funds are lent, the cost of borrowing the funds is the interest rate. When funds are invested to obtain an ownership (or equity) interest, the cost to the demander is commonly called **the required return**. In both cases the supplier is compensated for providing either debt or equity funds. Ignoring risk factors, the nominal and actual interest (cost of fund) result from the real rate of interest adjusted for *inflationary expectations* and *liquidly preferences* – general preferences of investors for shorter-term securities.

In a perfect world in which there is no inflation and in which funds suppliers and demanders are indifferent to the terms of loans or investment because they have no liquidity preference and all outcomes are certain, at a given point in time there would be one cost of money – the real rate of interest. The real rate of interest creates an equilibrium between the supply of savings and the demand for investment funds.

**Ex.8.** Give the Russian equivalents to the following.

Tax, taxation, taxable income, taxation brackets, tax avoidance, tax base, tax burden, tax evasion, tax exemption, tax-free, tax haven, tax holiday, taxman, tax relief, tax return, tax shelter, lump-sum tax, excise tax, heavy tax, payroll tax.

**Ex.9.** Match the following expressions with the correct definition.

- |   |                        |
|---|------------------------|
| 1. Sums allocated by an organization<br>for for future capital expenditure                            | working capital        |
| 2. Ratio of sales of a company<br>to its capital employed   | b. human capital       |
| 3. Income tax relief  | c. venture capital     |
| 4. The amount provided by ways<br>of loans  | d. share capital       |
| 5. Factor of production, usually<br>machinery and plant   | e. risk capital        |
| 6. Total depreciation of the value of<br>the capital goods in an economy<br>during a specified period | f. loan capital        |
| 7. The perceived value of people<br>and their skills  | g. capital budget      |
| 8. Money to carry on production<br>and keep trading   | h. capital turnover    |
| 9. Money a company has raised from<br>investors who bought shares                                     | i. capital allowances  |
| 10. Money a company borrows to start<br>up a new business   | j. capital consumption |
| 11. Money invested in a project with a high<br>chance of failure                                      | k. physical capital    |

**Ex. 10.** What is the English for?

Взимать налог; не платить налоги; облагать налогом; освободить от налога; платить налоги; подлежать налогообложению; снижать налоги; удерживать

НАЛОГИ; УКЛОНЯТЬСЯ ОТ УПЛАТЫ НАЛОГОВ; ДО ВЫЧЕТА НАЛОГОВ; ПОСЛЕ УДЕРЖАНИЯ НАЛОГОВ.

### **LET'S READ AND TALK**

#### TEXT 1

#### **WHAT IS FINANCE?**

The field of finance is broad and dynamic. It directly affects the lives of every person and every organization, financial and non-financial, private or public, large or small, profit-seeking or non-profit. **Finance can be defined as the art and science of managing money.** All individuals and organizations earn or raise money and spend or invest money. Finance is concerned with the process, institutions, markets, the instruments involved in the transfer of money among and between individuals, businesses and governments.

Finance can be defined at both the aggregate or macro level and the firm or micro level. Finance at the macro level is the study of financial institutions and financial markets and how they operate within the financial systems. Finance at the micro level is the study of financial planning, asset management, and fund raising for business firms and financial institutions.

Finance has its origin in the fields of economics and accounting. Economists use a supply-and-demand framework to explain how the prices and quantities of goods and services are set in a free-enterprise or market-driven economic system.

Accountants provide the record-keeping mechanism for showing ownership of the financial instruments used to facilitate *the flow of financial funds* between savers and borrowers. Accountants also record *revenues, expenses,* and profitability of organizations involved in the production and exchange of goods and services.

Large-scale production and a high degree of specialization of labour can function only if there exists an effective means of paying for productive resources and final products. Business can obtain the money it needs to buy *capital goods* such as machinery and equipment only if the institutions and markets have been established for making savings available for such investment. Similarly, the federal government and other governmental units can carry out their wide range of activities only if efficient means exist for raising money, for making payments, and for borrowing.

*Financial markets, institutions or intermediaries,* and *business financial management* are basic elements of well-developed financial systems. Financial markets provide the mechanism for carrying out the *allocation of financial resources* or funds from savers to borrowers. Financial institutions such as banks and insurance companies, along with other financial intermediaries, facilitate the flow of funds from savers to borrowers. Business financial management involves the efficient use of financial capital in the production and exchange of goods and services. The goal of the financial manager in a profit-seeking organisation is to maximize the owners' wealth through effective financial planning and analysis, asset management, and of financial capital. The same financial management functions must be performed by financial managers in not-for-



profit organizations, such as governmental units or hospitals, in order to provide the desired level of service at acceptable costs.

1. What is finance?
2. Where does finance have its origin?
3. What are the basic elements of financial system?

## TEXT 2

### WHY FINANCE?

One of the primary considerations when going into business is money. Without sufficient funds a company cannot begin operations. The money needed to start and continue operating a business is known as *capital*. A new business needs capital not only for *ongoing expenses* but also for purchasing necessary assets. These *assets* — inventories, equipment, buildings, and property — represent an investment of capital in the new business.

How this new company obtains and uses money will, in large measures determine its success. The process of managing this acquired capital is known as financial managing/management. In general **finance is securing and utilizing capital to start up, operate, and expand a company.**

To start up or begin a business, a company needs funds to purchase essential assets, support research and development, and buy materials for production. Capital is also needed for *salaries*, *credit extension* to customers, advertising, *insurance*, and many other day-to-day operations. In addition, financing is essential for growth and expansion of a company, because of competition in the market, capital needs to be invested in developing new product lines and productions techniques and in acquiring assets for future expansion.

In financing business operations and expansion, a business uses both short-term and long-term capital. A company, much like an individual, utilizes short-term capital to pay for items that last relatively short period of time. An individual uses *credit cards* for buying such things as clothing or food, while a company seeks short-term financing for salaries and office expenses. On the other hand, an individual uses long-term capital such as *bank loan* to pay for a home or car – goods that will last a long time. Similarly, a company seeks a long-term financing to pay for new assets that are expected to last many years.

When a company obtains capital from external sources the financing can be either on a short-term or a long-term arrangement. Generally, short-term financing must be repaid in less than one year, while long-term can be repaid over a longer period of time.

Finance involves the securing of funds for all phases of business operations. In obtaining and using this capital, the decisions made by managers affect the overall financial success of a company.

1. Why finance?

## TEXT 3

## CAPITAL

*Read the text and be ready to speak on:*

1. *the funds the capital of a business consists of;*
2. *the classification of capital;*
3. *the types of financing.*

The capital of a business consists of the funds used to start and run the business. The funds may be either the *owner's* (equity capital) or *creditor's* (debt capital). **Equity capital** consists of those funds provided to the business by the owner(s). These funds come from the personal savings of the owner. **Debt capital** consists of borrowed funds that the business owner owes to the lender. With debt capital the entrepreneur doesn't have to share ownership, but has a *legal obligation* to repay the borrowed money (principal) plus interest at a future date even if the business does not make profit.

Capital is also classified, depending on its use, as fixed or working. **Fixed capital** refers to items bought once and used for a long period of time. These items include *real estate, fixtures, equipment*. With a grocery, for example, the real estate consists of the store itself and the land on which it is built. The fixtures include such objects as counters, refrigerators, shelves. Equipment covers such articles as cutting machines, knives, scales. **Working capital** refers to the funds used to keep a business working or operating. It pays for merchandise, *inventory* and *operating expenses* such as *rent, utilities* (light and heat), *taxes, wages*. Cash on hand and accounts receivable are also considered working capital. Therefore, working capital is cash, or anything that can easily and quickly be turned into cash.

Equity financing (obtaining owner funds) can be exemplified by the sale of **corporate stock**. In this type of transaction, the corporation sells units of ownership known as **shares of stock**. Each share entitles purchaser to a certain amount of ownership. For example, if someone buys 100 shares of stock from Ford Motor Company, that person has purchased 100 shares worth of Ford resources, material, plants, production and profits. The person who purchases shares of stock is known as a **stockholder** or **shareholder**.

All corporations, regardless of their size, receive their starting capital from issuing and selling shares of stock. The initial sales involve some risk on the part of the buyers because corporation has no *record of performance*. If the corporation is successful, the stockholder may profit through increased valuation of the shares of stock, as well as by receiving dividends. **Dividends** are proportional amounts of profit usually paid *quarterly* to stockholders. However, if the corporation is not successful, the stockholder may take losses on the initial stock investment.

Often equity financing does not provide the corporation with enough capital and it must turn to debt financing, or borrowing funds. One example of debt financing is the sale of corporate **bonds**. In this type of agreement, the corporation borrows money from investor in return for bond. The bond has *maturity date*, a deadline when the corporation must repay all of the money it has borrowed. The corporation must also make periodic *interest payment* to the **bondholder** during the time the money is borrowed. If these obligations are not met, the corporation can be forced to sell its assets in order to make payments to the bondholders.

All businesses need financial support. Equity financing (as in the sale of stock) and debt financing (as in the sale of bonds) provide important means by which a corporation may obtain its capital.

#### TEXT 4

*Read the text. Define the main idea of each paragraph. Underline the sentences expressing these ideas.*

### FINANCIAL MARKETS

Financial markets provide a forum in which suppliers of funds and demanders of loans and investments can transact business directly. Whereas the loans and investments of institutions are made without the direct knowledge of the suppliers of funds (savers), suppliers in the financial markets know where their funds are being lent or invested. The two key financial markets are the **money market** and the **capital market**. Transactions in *short-term debt instruments*, or marketable securities, take place in the money market. Long-term **securities** (bonds and stocks) are traded in the capital market.

The money market is created by a financial relationship between suppliers and demanders of short-term funds, which have maturities of one year or less. The money market exists because certain individuals, businesses, governments and financial institutions have temporarily *idle funds* that they wish to put in some type of liquid assets or short-term, interest-earning instruments. At the same time, other individuals, businesses, governments and financial institutions find themselves in need of seasonal or temporary financing. The money market thus brings together these suppliers and demanders of *short-term liquid funds*.

The capital market is a financial relationship created by a number of institutions and arrangements that allows the suppliers and demanders of long-term funds -- funds with maturities of more than one year -- to make transactions. The backbone of the capital market is formed by the various securities exchanges that provide a forum for debt and equity transactions. Major securities traded in the capital market include bonds and both **common** and **preferred stock**.

All securities, whether in the money or capital markets, are initially issued in the **primary market**. This is the only market in which the corporate or government issuer is directly involved in the transaction and receives direct benefit from the issue -- that is, the company actually receives the *proceeds* from the sale of securities. Once the security begins to trade among individuals, businesses, government or financial institutions, savers and investors, they become part of the **secondary market**. The primary market is the one in which «new» securities are sold; the secondary market can be viewed as an «issued» or «preowned» securities market.

During the last two decades the **Euromarket** -- which provides for borrowing and lending currencies outside their country of origin -- has grown quite rapidly. The Euromarket provides multinational companies with an «external» opportunity to borrow or lend funds with the additional feature of less government regulation.

1. What is a financial market?
2. What are the two key financial markets?
3. In what do they differ?
4. Differentiate between primary and secondary markets.

## TEXT 5

**WHAT ARE DERIVATIVE INSTRUMENTS?**

It may sound like a house of cards, but many financial instruments in the global economy are based on nothing more than the value of other financial instruments. Today it would be impossible to responsibly manage any significant international investment without an understanding of financial derivatives like options, financial futures, and interest rate swaps. A *stock option*, which allows an investor to purchase or sell a given stock at a fixed price sometime in the future, is called a derivative because its value is determined by the value of an underlying stock.

A *financial future* is an agreement to buy a financial instrument—such as a stock or bond—sometime in the future at a fixed price. A stock index future, for example, allows investors to benefit from the rise in a stock index by buying, in a sense, all the shares in the index. Just as a gold future goes up in value when gold's price rises, a future on the Standard & Poor's 500 will increase in value when the stock index rises.

The basic idea of a swap is to trade something you have for something you want. A *swap* is a trade agreement between two or more counterparties, usually banks, to exchange different assets or liabilities such as interest payments. Essentially, it allows both parties to obtain the right assets and cash flows for their own particular needs. In the case of banks, this most often means trading two loans with different interest rates or different foreign currencies. For example, a bank lending money to consumers at a fixed interest rate may be borrowing money at floating or periodically changing interest rates. In order to eliminate the risk of having borrowed and lent money at two different interest rates, the bank enters into an interest rate swap agreement with another institution to exchange one flow of interest rates for another.

1. What is 'a financial instrument'?
2. What does a stock option allow?
3. What is 'a financial future'?
4. What is the basic idea of a swap?

## TEXT 6

**INFLATION**

**inflation** A persistent rise in the general level of prices.  
**disinflation** A falling inflation rate.

**zero inflation** No change in the general level of prices.

**hyperinflation** A rapidly rising inflation rate, often reaching hundreds of percentage points within a few months.

**deflation** The opposite of inflation, in which the general level of prices declines.

**stagflation** A simultaneous increase in both the inflation rate and the unemployment rate.

**purchasing power of money** The amount of goods and services a unit of money can command in the market.

**price index** A numerical device used to measure changes in prices.

**consumer price index** A measure of inflation based on a theoretical market basket of consumer goods.

Everyone is familiar with the way prices of goods and services behave in the marketplace. They usually go up. The phenomenon of rising prices is called inflation. Since the economy includes multitudes of prices, and all do not rise or fall at the same time, it is convenient to use the concept of an average price and describe inflation as a continuing rise in the level of the average price, or the general price level.

The inflation rate is the rate of change (or the percentage change) in the general price level over a specified time period, usually a year. An increase in the inflation rate means that prices are rising at a faster rate. A decrease in the inflation rate means that prices in general are not rising as quickly as before; it does not mean that prices are falling. The term disinflation is often used to describe a declining inflation rate. If prices in general do not change, a situation of zero inflation exists.

Rapidly rising prices may lead to a situation called hyperinflation. Many countries have experienced hyperinflation, some very recently, with inflation rates reaching hundreds of percentage points in a matter of months.

The phenomenon of falling prices is known as deflation. It is the opposite of inflation.

Economies have also experienced a situation known as stagflation. This occurs when a high rate of inflation is accompanied by a high level of unemployment. This presents a dilemma for policy makers, as attempts to cure one problem invariably make the other one worse. The cherished goal of every country has been to keep both problems under control to avoid the heavy costs they inflict on people.

Inflation and the purchasing power of money are inversely related. Inflation causes the purchasing power of money to fall. The purchasing power of money (also known as the *value of money*) is the amount of goods and services that one unit of money can buy. When prices rise, the same goods cost more in terms of dollars, and the dollar's value in terms of those goods falls.

Inflation is commonly measured with the aid of a price index. A price index is a statistical device to measure price changes between a base period and a subsequent period. Economists use many different price indices. The consumer price index (CPI) is the most popular index for tracking inflation in the United States. The CPI measures the average change in the prices paid by urban consumers for a fixed basket of goods and services. The statistics for this index are compiled by the Bureau of Labor Statistics of the U.S. Department of Labor, which publishes them monthly.

1. Sum up the text in 7-10 sentences and present your summary in class. Use the key-words given before the text.

## EXCHANGE RATE

When residents of one country trade with residents of another country, they must generally convert funds between the currencies of the two countries to facilitate payments. Currency conversion requires a rate to define the value of one currency in terms of another currency. This rate is the **exchange rate**.

Since multinational companies trade in many different foreign markets, that's why portions of their revenues and costs are based on foreign currencies. Among the currencies regarded as being major (or '*Hard*') are the British pound, the Swiss franc, the Deutsche mark, the French franc, the Japanese yen, the Canadian dollar and the US dollar. The value of two currencies with respect to each other is foreign exchange rate.

For the major currencies, the existence of a floating relationship means that the value of any two currencies with respect to each other is allowed to fluctuate on a daily basis. On the other hand, many of the nonmajor currencies of the world try to maintain a fixed (or semi-fixed) relationship with the respect to one of the major currencies, or some type of an international foreign exchange standard.

On any given day, the relationship between two of the major currencies will contain two sets of the figures, one reflecting the **spot exchange rate** (the rate on the date), and the other indicating the **forward exchange rate** (the rate at some specified future date).

Two widely used systems of quoting exchange rates are known as **European terms** and **American terms** of quotation. In European terms, the value of the U.S. dollar is expressed in terms of all other currencies. In American terms, the values of all foreign currencies are expressed in terms of U.S. dollars. American terms of quotation are commonly used in many retail currency transactions. In their dealings among themselves, banks use European terms of quotation except for quotes on the British pound, the Irish punt, the Australian dollar, and the New Zealand dollar. These currencies have been traditionally quoted in American terms. *The Wall Street Journal* reports daily exchange rates in both European terms and American terms.

Exchange rates between pairs of currencies that do not involve the U.S. dollar such as the rate between the German mark and the Swiss franc, are known as **cross rates**. The common practice of quoting exchange rates in either European or American terms requires an additional calculation to obtain cross rates from these quotations.

Consider the following quotes (in European terms) of Deutschemarks and Swiss francs against the U.S. dollar:

$$\text{DM}1.6240/\$ \text{ and } \text{SF}1.4625/\$$$

The cross rate of the DM against the SF is obtained by dividing the DM/\$ rate by the SF/\$ rate, as shown below:

$$\text{DM}/\text{SF} = (\text{DM}/\$)/(\text{SF}/\$) = 1.6240/1.4625 = \text{DM}1.1104/\text{SF}$$

This cross rate indicates that one Swiss franc is worth 1.1104 Deutschemarks.

1. What is exchange rate?
2. What are 'hard' currencies?
3. What does a floating relationship mean?
4. What are cross rates?

## TEXT 8

**TAXATION**

In poetry, spring is a time when a young person's fancy turns to thoughts of love. But in economics, spring is much less romantic period. It is the season when millions of people in many countries begin to sort their previous year's income and expense records—the first step in determining their personal income tax.

In calculating this tax, you are allowed to take specific types of deductions and exemptions. Some deductions that may be made (within limits) from your income are donations to your alma mater and to various non-profit organizations

The amount of income tax you must pay at a given income level depends on several things. These include whether you are single or married and what the particular tax rates happen to be at the time. The rates are usually revised by the government every few years.

**Tax is money compulsory levied by the state or local authorities on individuals, property, or businesses.** In modern economies taxes are the most important source of government revenues. Taxes can be levied and classified in many ways. In many countries there are three principal types of taxes:

**Taxes on income** (personal income taxes and corporate income taxes);

**Taxes on wealth** (property taxes; death and gift taxes);

**Taxes on activities** (sales and excise taxes; social security taxes).

Because the power to tax is so weighty a matter, economists have developed several broad standards for judging the merits of a tax:

1. *Equity*. Tax burdens should be distributed justly.
2. *Efficiency, Stability, and Growth*. A tax should contribute toward improving resource allocation, economic stabilization, and growth in the total output of goods and services.
3. *Enforceability*. A tax should be adequate for its purpose and acceptable to the public, or else it will be impossible to enforce.

Taxes are considered to have three functions:

- (a) fiscal or budgetary, to cover government expenditure, to provide the public authorities with the revenue required for meeting the cost of defence, social services, interest payment on the national debt, municipal services, etc.;
- (b) economic, to give effect to economic policy, to promote stable economic growth, to influence the rate of economic growth of the nation;
- (c) social, to increase the economic welfare of the community, to lessen inequalities in the distribution of income and wealth.

Businesses and individuals are subject to many forms of taxes. The various forms of business are not taxed equally. The tax situation is simplest for proprietorships and partnerships; corporations or companies are treated differently.

1. What are taxes?
2. What are the main functions of taxation?
3. What are the principal types of taxes?

## TEXT 9

## CAREERS IN FINANCE

Careers in finance vary as widely as the scope of finance itself. Some of these career paths require extensive, highly specialized knowledge and advanced degrees. Others begin with entry level positions open to enthusiastic, hard-working individuals regardless of their undergraduate majors.

The scope of finance has increased so much over the past decade that the field is generally subdivided into three parts. Financial markets and institutions, financial management, and investments are commonly considered to be separate disciplines. The study of financial markets and institutions focuses on those public and private institutions engaged in granting loans, accepting deposits, facilitating securities transfers, raising corporate funds, and regulating both the economy (domestic and global) and its financial institutions.

*Financial management* is concerned with how firms acquire and allocate funds. It examines how firms obtain short-term and long-term funds and how these funds are spent to acquire selected assets. Decisions regarding dividend policies, merger and acquisition activities, and leasing, all fall within the realm of the capital budget. Financial management also emphasizes the cash budget and management of its components.

*Investment analysis* focuses on how individuals or portfolio managers select appropriate financial and real assets. It examines the markets within which fund raising and security trading take place. It explores the methodologies used by investors, providing insights into criteria for analyzing companies and industries, as well as generating norms of behavior. The study of the markets for stocks and bonds, stock and index options, warrants, and commodities and financial futures are all part of the investments area.

### *Careers in Institutions and Markets*

Entry level positions in financial institutions and markets can include everything from bank teller to credit trainee. A person with a strong finance background would probably begin as an administrative assistant to a loan officer, or as a junior financial analyst in either the credit department or the research department of a depository institution. Positions such as customer service representative or mortgage servicing specialist in an insurance company or a mortgage banking company, respectively, are generally staffed by people with limited finance backgrounds. More experienced individuals would be eligible for loan officer, branch manager, or senior analyst positions.

### *Careers in Financial Management*

Entry level positions for those with associate degrees and limited experience in finance include data processing clerks, investor relations specialists, and accounts payable staff positions. Finance majors find entry level positions as junior accountants in cost or financial accounting departments, budget analysts, or financial planners. Promotion opportunities generally lead to managerial positions such as cash manager, credit manager, or financial accounting manager. Senior financial management positions include CFO, corporate comptroller, and treasurer.

### *Careers in Investments*

Generally it is the investment area that attracts people to finance. They see an appealing opportunity to control multimillion dollar investment portfolios, or to be part of an investment banking institution engaged in mergers and acquisitions. Most brokerage



houses, however, provide entry level positions as registered representatives (for those who qualify by passing specific NASD (National Association of Securities Dealers) examinations), or as investment or industry analysts. Clerical and assistant positions are always available with the major brokerage houses for those with limited experience, but excellent self-motivational skills. Senior employment opportunities include portfolio manager, senior investment analyst, and investment counselor.

1. The scope of finance is generally subdivided into three parts. What are they?
2. What does the study of financial markets and institutions focus on?
3. What is financial management concerned with?
4. What does investment analysis examine?
5. What are the parts of the investment area?
6. What can entry level positions in financial institutions include?
7. Where would a person with a strong finance background begin?
8. What can you say about entry level positions and promotion opportunities in Financial Management?
9. What are the appealing opportunities in the investment area?

**Ex.11.** *Study the following words and word-combinations. What are their Russian equivalents?*

**To be out of action, to break down, (a) dead end, dud, to go dead, to go wrong, to be (or to fall) short of, to take the consequences, vicious circle, in the red, to make a loss, to pay the penalty (or price) for, to reach a stalemate, to bear fruit, the end product, in the black, to pay dividends, to pay (one's) way, to pull off, to take effect.**

*Translate the following sentences into Russian.*

1. If discussion between the two companies bears fruit, as seems likely, the resulting merger will bring about far-reaching changes in our industry.
2. Whether we buy coal from Australia or Germany, either way the end product is the same: we're importing coal.
3. Shareholders will be pleased to hear that, once again, the company's year-end results show us strongly in the black.
4. The company's investment in staff training schemes should pay future dividends in the shape of more efficient, more effective personnel.
5. Your department is not paying its way. Unless you make cuts and improve performance, you'll have to go. I'm afraid that's the price you pay for the privilege of being head of department.
6. I see from the financial press that our main competitor has won a major overseas contract. I wonder how they managed to pull it off.
7. Your breach of contract is so serious that it rules out any possibility of doing further business with you. Needless to say, the contract may be regarded as terminated, such termination to take immediate effect.
8. The computer is out of action at the moment, due to an electrical fault.
9. The photocopier has broken down again. It may be due to overheating, or it could be mechanical failure.
10. This balance sheet does not give enough information. We need a complete breakdown of the figures.
11. After five years without promotion, she felt she was in a dead-end job.

12. We had high expectations of your assistant, but it seems he's turned out to be a dud on the job, in spite of all his qualifications.
13. We negotiated with them for months. They seemed interested at first and then they went dead on us – no replies to phone calls and faxes, no letters, nothing.
14. When carrying out this experiment, it is important to remember above all to be exact and go step by step and not cut corners. If you go wrong, the results can be expensive, and dangerous. So, better safe than sorry.
15. The company's final results put it seriously in the red and a sharp fall in its share price has taken place.
16. The company would be a more attractive for investment without its loss-making overseas activities.
17. The young executive paid the penalty for spending too much time on business; his wife left him for another man.
18. At first sight, the new manager seemed able to cope with his responsibilities. Under the acid test of stress, however, his performance fell seriously short.
19. Taking risks also involves the consequences if things go wrong.
20. Companies continuing to produce goods in a dying market are creating vicious circle.

**Ex.12.** *Explain the meaning of the following words and phrases. Translate them into Russian. Make up your own sentences.*

Saver, borrower, allocation of financial resources, financial intermediaries, ongoing expenses, inventories, credit extension, insurance, bank loan, credit card, secure funds, interest-earning instruments, liquid assets, primary market, secondary market, security trading, stock, warrant, option, financial futures.

**Ex. 13.** *Insert the missing words given below.*

**finance, profit, stockholder, financial, mutual, bondholders, legislative, comply, interrelated, managers, constraints, legal, counterparts, activities, investors, trends, predominate, recession, keystone.**

All participants in the world of ... have goals. While these goals may be grounded in the economic concepts of maximization of ... and maximization of satisfaction, they need to be much more specific to be useful in ... decisions. The financial manager of a corporation, for example, generally considers maximization of ... wealth to be the firm's primary goal. Other competing goals, combined with ... restrictions, tend to favour a goal of maximization of stakeholder wealth. Consequently, it is not unreasonable to say that ..., employees, community residents, and even environmentalists need to interact with the corporation in the pursuit of ... interest.

Institutional financial managers, like their corporate counterparts, are torn between personal goals and constituent goals. These managers also find limits on their flexibility from ... constraints imposed by regulatory agencies. Similarly, government financial ... are legally constrained in their actions and must work to maximize the efficiency of financial operations relative to these ... .

Individual ..., serving as their own financial managers, would love to be completely free to maximize their wealth. However, they quickly find that certain ...,

such as insider trading, are frowned upon by the US judicial system. It should be obvious that the goal of the individual investor and that of other financial managers are closely...

The principal ... in finance today are corporate restructuring and the internationalization of finance. Restructuring was forced upon an unwilling corporate world by a ... and an anemic economy recovery. Consequently, such words as downsizing or rightsizing entered the corporate vocabulary, and conservatism in financial matters has come to ... . The internationalization process has developed gradually over time, but the increasing complexity of trade and the continuing growth of multinational corporations has made it a ... of finance in the 1990s. Hence, all future financial decisions must now ... with this new dimension.

*Read the above text once again. Explain the meaning of the following words and phrases: financial decision, stockholder, legislative restrictions, regulatory agencies, individual investor, anemic economy recovery, downsizing, rightsizing.*

**Ex. 14.** *Think of the words (verbs and adjectives) that are most commonly used with:*

Money, fund, activity, resources, profit, level, success, company, loan.

**Ex.15.** *What is common and what is the difference in the meaning of the following words? Give your own sentences to show that you understand it.*

Gain, earnings, profit, income, salary, wages, pay, revenue, return, receipts

**Ex.16.** *Open the brackets.*

### **Insurance Companies**

Most of us (to will) (to pay) money (to avoid) some of the financial consequences of taking risks, so insurance companies can (to sell) us a guarantee against risk for a fee that (to be) large enough (to cover) their claims and operating costs and still (to permit) a profit. No one can (to predict) whose house (to burn down) next, yours or your neighbour's. Thus, all insurance policy buyers (to make) small contributions toward a fund that can (to be used) (to compensate) the person whose house (to go up) in flames. Insurance companies can (to provide) this service and (to expect) (to make) profits as long as the premium (to be) greater than the amount they might have (to pay), multiplied by the probability of payment. Vast amounts of money (to pay) to insurance companies as premiums for life, auto, and health insurance, or as contributions to pension funds, many of which (to administer) by insurance companies. These funds (to make) available for loans to business firms or (to invest) directly by the insurance companies.

**Ex. 17.** *Give the English equivalents to the following:*

а) добывать деньги; перевод денег; в пределах финансовой системы; механизм ведения записей; доходы и расходы; осуществлять широкий спектр деятельности; размещение финансовых ресурсов; страховые компании; текущие расходы; краткосрочное финансирование; банковский займ; заемщик; кредитор; уставной капитал; личные сбережения; привлеченный капитал; долговые обязательства; процентная ставка; недвижимость; арендная плата; акции; пакет

акций; акционер; облигации; дата выплаты (долга); выполнять обязательства; долгосрочные ценные бумаги; привилегированные акции; выпускать ценные бумаги; предоставлять заем; подвергать риску.

б) каждая акция дает право акционеру на ...; получить стартовый капитал путем выпуска и продажи акций; определенный риск со стороны покупателя; не имеет отчета о деятельности; получить прибыль за счет увеличения стоимости акций; выплачиваемая акционерам ежеквартально; берет деньги взаймы в обмен на облигации; корпорация могут заставить продать активы; фонды, срок выплаты по которым меньше года; эмитционер напрямую задействован в сделке; выручка от продажи ценных бумаг.

**Ex. 18.** *Translate into English.*

**Common stock** – акция корпорации, которая дает право голоса ее владельцу на выбор управляющих и право на получение части прибыли, которую корпорация выплачивает в виде дивидендов.

**Capital gain** – прибыль, получаемая в результате продажи акций или других активов по более высокой цене, чем та, по которой они были куплены.

**Preferred stock** – акция корпорации, которая не дает право голоса, но дает право на первоочередное распределение прибыли корпорации, а в некоторых случаях – первоочередное распределение имущества в случае банкротства. Как правило, доход на такую акцию не зависит от размера прибыли и является фиксированным. Таким образом, привилегированная акция близка облигации.

**Stockholder** – владелец одной или нескольких обычных акций корпорации.

**Limited liability** – юридическое положение, в соответствии с которым каждый собственник, вкладывающий капитал в дело, несет ответственность за пассивы предприятия только в размере вложенного капитала.

**Financial accounting** – отрасль бухгалтерского дела, которая связана с предоставлением финансовой информации за пределы организации.

**Mortgage** – долгосрочная ссуда на землю или строения.

**Prime rate** – процентная ставка, устанавливаемая банками по краткосрочным ссудам для своих наиболее платежеспособным клиентам.

**Stockbroker** – лицо, обслуживающее торговлю ценными бумагами между их продавцами и покупателями без принятия права на владение ценными бумагами.

**Underwriting** – процесс, в результате которого инвестиционный банкир или синдикат покупает целиком весь выпуск новых ценных бумаг организации и продает затем публике.

**Ex. 19.** *Translate the definition into English and match it with the appropriate word given below.*

**Stock option, inflation, price under, debenture, financial accounting, stockbroker, consumer price index, exchange rate, equity financing, portfolio, bond.**

1. Лицо, обслуживающее торговлю ценными бумагами без принятия права на их владение.
2. Договор между двумя инвесторами, один из которых получает право на покупку акций у другого или продажу другому по заранее оговоренной цене в любое время в течение оговоренного периода.
3. Отрасль бухгалтерского дела, которая связана с предоставлением финансовой информации за пределами организации.

4. Увеличение своих денежных фондов в обмен на долю своей собственности и долю в управлении.
5. Продолжительный рост среднего уровня цен на все товары и услуги.
6. Индекс цен, рассчитанный для группы товаров и услуг, входящего в потребительскую корзину среднего городского жителя.
7. Процентное отношение средневзвешенных цен одного периода к средневзвешенным ценам базового периода.
8. Количество денежных единиц одной национальной валюты, необходимое для покупки одной денежной единицы другой национальной валюты.
9. Долговые обязательства, предусматривающие выплату определенной суммы в оговоренный срок с выплатой процента в течение всего срока.
10. Негарантированная облигация.
11. Совокупность ценных бумаг, которыми владеет инвестор.

### ***SPEAK AND WRITE.***

1. Speak on the basic elements of financial system.
2. Speak on the main types of financing.
3. Describe the main types and characteristics of financial markets.
4. Differentiate between European and American terms of quotation.
5. Suggest and defend your own definition of finance.
6. Identify the key difference between finance at the macro and micro level.
7. Briefly explain the nature of interest rate.
8. Describe several factors that need to be taken into account when defining risks.
9. Should opening a financial institution be more complicated than starting a business as a florist? Why? What special controls, if any, should the government exercise over financial institutions?
10. Comment on the following statement: "Inflation is the cruelest tax".
11. "Career opportunities in finance are great" Outline as many points as you can to support this statement.
12. Summarize the information of the Unit to be ready to speak on Finance. The first step to be done is to write the plan of your future report.
13. Choose any question (problem topic) relating to Finance and make a 10-15 minute report in class. Refer to different additional sources to make your report interesting, instructive and informative.

## **UNIT 8**

*Accounting is the language of  
business*

### **ACCOUNTING and AUDITING**

#### **Your vocabulary**

#### **Account**

- a detailed record of all the money that a person receives and spends.

**Accountant**

- a person whose job is to inspect or keep accounts.

**Accounting**

- the system that measures business activities, processes that information into reports, and communicates these findings to decision makers.

**Accountancy**

- the theory and practice of keeping and inspecting accounts.

**Audit**

- the inspection of an organization's annual accounts.

**Auditor**

- a person who carries out an audit.

**Ex. 1.** *Translate the following sentences into Russian. Pay special attention to the words in bold. They are your professional vocabulary.*

1. The money that a business spends in order to produce goods or services is its **costs**.
2. **Fixed costs** do not vary in relation to the output level of goods or services; **variable costs** do.
3. **Direct costs** are directly related to the things produced. In manufacturing, for example, direct costs include raw materials and wages and **indirect costs** may include things like social security charges on top of the wages.
4. **Overhead costs** or **overheads** are used to mean different things, but usually cover all the regular non-production costs of running a business, such as salaries and telephone bills, and can be extended, for example, to include the cost of marketing and R&D activities.
5. A company's financial performance for a period is its results, which it reports in the form of a **profit and loss** account, indicating whether it has made a profit or a loss.
6. The equivalent document in the US is the **income statement**. A pre-tax profit or loss is one calculated before tax is taken into account.
7. The accuracy of accounts such as the **balance sheet** and the profit and loss account is checked and supposedly guaranteed by **auditors**, outside accountants who specialize in this.
8. When a company's accounts are presented in a way that makes performance look better than it really is, the company may be accused of window dressing or **creative accounting**.
9. The **bottom line** is an informal way of talking about the results of a company: the so-called bottom line of the profit and loss account. The bottom line also means the final result or the most important aspect of something.
10. **Assets and liabilities** are normally shown on a firm's **balance sheet**: a "photograph" taken, normally once a year, of its financial situation at that time. Firms in a good situation are said to have a strong balance sheet and those that are not, a weak one.
11. Things that are not shown in the balance sheet but in a footnote, for example, are **off-balance sheet**.
12. A company's balance sheet may include provisions for potential losses, such as **bad debts**, debts that may never be paid.



- |              |                 |
|--------------|-----------------|
| 2. public    | b. influence    |
| 3. earnings  | c. costs        |
| 4. purchase  | d. information  |
| 5. impact    | e. provide with |
| 6. acquire   | f. employ       |
| 7. expenses  | g. in charge of |
| 8. supply    | h. obtain       |
| 9. hire      | i. state-owned  |
| 10. evidence | j. income       |

Using these words ask your partner as many questions as you can.

**Ex. 4.** *Join the halves.*

1. Before making a loan, potential lenders...
2. Both profit and non-profit organizations...
3. Public accountants are those who...
4. Several accounting organizations have formulated...
5. To do an audit, there must be information in a ...
6. It is important to obtain a sufficient...
7. The final stage in the audit process is...
8. Very often the general public...
9. The function of accounting is to provide certain types of...
10. Auditing is the process of recording, classifying and summarizing economic...

- a. serve the general public and collect professional fees for their work
- b. quality and volume of evidence to satisfy the audit objectives
- c. the audit report
- d. quantitative information that management can use to make decisions
- e. verifiable form and some standards by which the auditor can evaluate the information
- f. determine the borrower's ability to meet scheduled payment.
- g. confuses auditing with accounting.
- h. codes of ethics that govern the behaviour of their members.
- i. events in logical manner for the purpose of providing financial information for decision-making.
- j. deal with budgets, payrolls, rent payments, and the like.

**Ex.5.** *Before you begin this exercise, be sure that you know the meaning of the words and word-combinations given below. From the list, choose a word or word combination that fits both grammatically and contextually in each blank. Use each word only once and add noun or verb endings if necessary.*

**direct costs, fixed costs, income statement, costs, indirect costs, assets and liabilities, earnings, balance sheet, timely information, revenue, entry, depreciation.**

1. Substance should triumph are form in situations of window-dressing and off-... financing.



2. It is argued that ...should be brought together on the balance sheet if this is necessary to give a true and fair view, whether or not the information involved is specifically required by legislation.
3. Firms locate their production and other operations internationally for reasons that are more complex than the simple minimization of ... .
4. Mainly because of higher ..., a German manufacturing worker costs almost twice as much per hour as a British one.
5. The ... shows the amount that the company earned during the year.
6. After deducting the costs of goods sold and other expenses, the firm had total ... before interest and taxes of \$ 10mln.
7. Lufhansa's cost problem is illustrated in a comparison with British Airways, when personnel ...amount to about 24 per cent of revenues against Lufhansa's 33 per cent.
8. Any gain in market share fattens profit, because ... are high and variable costs are low.
9. There remains, of course, the risk of capital ...
10. The purpose of adjusting ... is to bring the accounts to their proper balances before the financial statements are prepared.
11. This matching of expenses and ... is necessary for the income statement to present an accurate picture of the profitability of a business.
12. Since those interested in the activities of a business need ... , financial statements must be prepared periodically.

**Ex. 6.** Complete the table.

Noun	Adjective	Verb	Meaning
account	-- payable	trace	
profit	comparable	transfer	
finance		manage accept	
system	liable	require	
dependence quality	total	recognize estimate observe enter	
explanation			

**Ex. 7.** Study the difference between the following synonyms. Only one meaning of the word is given here. Consult a good dictionary to find the meanings and some more synonyms to the given words. Then use them in the sentences that follow.

**Evaluate.** If you evaluate something you decide on its significance, value, or quality after carefully studying its good and bad features.

**Estimate.** If you estimate an amount or quality you calculate it approximately, you make judgment about it based on the available evidence.

**Appreciate.** If you appreciate something, for example a piece of music or good food, you recognize and understand the good qualities or features that it has and like or admire it because of them.

1. They meet monthly to discuss policy and ... the current political situation.
2. They really ... the peace and quiet of rural Wales.
3. The hurricane caused damage ... at 300 mln pounds.
4. How would you ... our chances.
5. He is the kind of individual that's very hard to ... .
6. The lawyers ... the property at 90 thousand pounds.
7. The builder ... the cost of repairing of roof at 600 pounds.
8. It can explain why actual costs varied from cost ... .
9. I would ... the size of the garden at 1000 square metres.

**Ex. 8.** *What can we do with information? We can **record it, store, buy, classify**... Add as many verbs to this line as you can. Explain the action each verb names and the purpose of this action.*

e.g. When we classify the information, we subdivide it into groups according to some criteria to use it purposely in different situations.

## **LET'S READ AND TALK**

### **TEXT 1**

*What do you know about accounting? How old is it? What century does it date back? When you hear the word 'accountant', what kind of work do you draw in your mind?*

## **HISTORY OF ACCOUNTING**

**Accounting** has been called 'the language of business'. Perhaps a better term is the 'language of financial decisions'. The better you understand the language. The better you can manage the financial aspects of living.

Accounting has a long history. Some scholars claim that writing arose in order to record accounting information. Account records date back to the ancient civilisations of China, Babylonia, Greece, and Egypt. The rulers of these civilisations used accounting to keep track of the cost of labour and materials used in building structures like the great pyramids.

Accounting developed further as a result of the information needs of merchants in the city-states of Italy during the 1400s. In that commercial climate the monk Luca Pacioli, a mathematician and friend of Leonardo da Vinci, published the first known description of double-entry bookkeeping in 1494.

The **double-entry accounting system** -- in which for every 'debit dare' there is a 'debit habere' -- has evolved to the point where it is very much like the present day system. Debet dare and debet habere are Latin terms meaning 'should give' and 'should have' respectively.

The pace of accounting development increased during the Industrial Revolution as the economies of developed countries began to mass-produce goods. Until that time, merchandise had been priced based on managers' hunches about cost, but increased competition required merchants to adopt more sophisticated accounting systems.

In the nineteenth century, the growth of corporations, especially those in the railroad and steel industries, spurred the development of accounting. Corporation owners—the stockholders—were no longer necessarily the managers of their business. Managers had to create accounting systems to report to the owners how well their businesses were doing.

The role of government has led to still more accounting developments. When the federal government started the income tax, accounting supplied the concept of "*income*." Also, government at all levels has assumed expanded roles in health, education, labour, and economic planning. To ensure that the information that it uses to make decisions is reliable, the government has required strict accountability and compliance with standards in the business community.

**Accounting standards** may be defined as «... uniform rules for external financial reporting applicable either to all or to a certain class of entity». Accounting standards may be viewed as a method of resolving potential conflicts of interests between the various user groups which have access to company accounts. The various groups have different objectives, information needs, and capacities for the generation and interpretation of information and, therefore conflicts may arise between groups outside the entity. It is a role of accounting standards to attempt to reconcile the conflicts. A number of important issues for the accounting profession should be mentioned here. These issues are as follows:

- *Reliability*. Accounting information should be reliable in use.
- *Uniformity*. The pressure for the standardization of accounting practices is to ensure a uniformity of treatment of data and hence an identity of the meaning of information.
- *Comparability*. Reliability and uniformity are integrated in the notion of comparability.
- *Judgment*. Accountants say that they should be allowed to exercise some judgment in interpreting data. This implies that some variety should be allowed for in the procedures available for transforming data into information.

Accounting practice and financial reporting regulation have shown great variety internationally. In recent years there has been growing interest in the harmonization of international accounting. Factors which have stimulated the movement towards harmonization have included the increasing internationalization of business, the importance of multinational companies in the world economy, and the development of international capital markets. In 1973 the International Accounting Standards Committee (IASC) was established in an attempt to coordinate the development of accounting standards internationally.

## TEXT 2 WHAT IS ACCOUNTING?

The study of accounting begins with the understanding of the way in which accountants see the business enterprise. Accountants frequently refer to a business organization as an accounting entity or a business entity. A **business entity** is any business organization such as a hardware store or grocery store that exists as an economic unit. As an economic unit, the business enterprise acquires, organizes and transforms factors of production in its activity of producing goods and services. This activity may be presented as the following.

the input factors (land, buildings, equipment, material, labour)	-----	are combined and transferred into	-----	an output flow of goods and services
--	-------	---	-------	---

The accounting interpretation is an abstraction of the reality portrayed above. The business enterprise is viewed as a system of monetary flow, instead of a system of physical flows. In accounting, business activities are associated with **transactions** and, indeed, are limited to transactions. Thus, unless there is a transaction there is no observable business activity.

A transaction occurs whenever the firm enters into a *legal contract* for the acquisition of means of production or the sale of goods and services. Business activities which do not lead to transactions remain unrecognized in accounting. Transactions involving the acquisition of factors of production lead either to an *outflow* of money immediately or an obligation to pay money at a later date. Transactions by which the firm sells goods or services lead to an *inflow* of money or the right to receive money at a future date. The accounting interpretation of business activities leads to further analysis of these transactions.

First, transactions between the firm and its markets – both its supply markets and its selling markets – are defined as «**external transactions**». The totality of «external transactions» forms the subject matter of **financial accounting**. General purpose of financial statements (reports) is to provide most of the information needed by external users of financial accounting. These financial statements are formal reports providing information on a business entity's financial position (**solvency**), cash inflows and outflows, and the results of operations (**profitability**). Financial accounting information is historical in nature, reporting on what has happened in the past. Hence, the external users rely on relevant and reliable financial statements to make present decisions about future events.

Second, transactions within the firm, consisting of the exchanges which occur between the various departments are defined as «**internal transactions**». The totality of «internal transactions» forms the subject matter of cost or **management or managerial accounting**. Managerial accounting information provides special information for the managers of a business entity. The kind of information used by managers may range from very broad, long-range planning data to detailed explanation of why actual costs varied from costs estimates. The purpose of managerial accounting is the generate information that a manager can use to make sound internal decisions.

1. What does the study of accounting begin?
2. In what way may the activity of an organization be presented?
3. What is business activity associated with in accounting?

4. When does a transaction occur?
5. What business activities are recognized in accounting?
6. How can transactions be classified?
7. What is financial accounting?
8. What is managerial accounting?

### TEXT 3

*Read the following text. How many parts does it consist of? Give the title to the text and to its parts. Define the key-sentence of each paragraph.*

Accounting is shaped by the environment in which it operates. Just as nations have different histories, values, and political systems, they also have different patterns of financial accounting development. In a number of countries accounting information is directed primarily toward the needs of investors and creditors, and «decision usefulness» is the overriding criterion for judging its quality. Financial accounting in the US and Great Britain has had such an orientation for many years. Moreover, these countries have large and developed stock exchanges and bond markets. As a result, a great deal of information is disclosed in companies' financial reports; and determining profitability is an objective of financial accounting. However, in other countries, financial accounting has a different focus and performs other roles. For example, in some countries, financial accounting is designed primarily to ensure that the proper amount of income tax is collected by the national government. This is the case in most South American countries. In other countries, financial accounting is designed to help accomplish macroeconomic policies, such as achieving a predetermined rate of growth in the nation's economy. Whether income tax and economic policy information is also useful to individual investors and creditors is somewhat beside the point. In such countries as Switzerland, Germany, and Japan the environment is characterized by a few, very large banks that satisfy most of the capital needs of business. Ownership also tends to be concentrated. The information needs are satisfied in a relatively straightforward way – through personal contacts and direct visits. Not surprisingly, the financial reports tend not to contain as much information as US companies' reports. And since banks are the primary source of capital, financial accounting is oriented toward creditor protection. France and Sweden offer still another orientation of financial accounting. National government plays a strong role in managing the country's resources. Governments also actively ensure that businesses have adequate capital and will lend or even invest in companies if necessary. Financial accounting is oriented toward decision making by government planners.

### TEXT 4

#### **BUSINESS DOCUMENTS**

The analysis of the transactions complete, what is the next step in the accounting process? How does an accountant present the results of the analysis? We now look at the **financial statements**. These business documents report financial information about the entity to persons and organizations outside the business.

The primary financial statements are the (1) **balance sheet** (2) **income statement**, (3) **statement of owner's equity**, and (4) **statement of cash flow**.

*The balance sheet* lists all the assets, liabilities, and owner's equity *at a point in time*, usually the end of a month or a year. The balance sheet is like a snapshot of the entity. For this reason, it is also called the *statement of financial position*. A balance sheet is made up of two lists, placed side by side. On the left the company lists everything it owns, such as cash and 'fixed assets' called property, plant, equipment, which include everything from buildings and trucks to tools, pencils, and copy machines. This list is labeled *assets*. On the other side, the company lists its *liabilities*, consisting of all the claims to the company's assets, from creditors and from the company owners. The lists end up being exactly equal – whatever assets are not claimed by the company's creditors belong to the owners.

**MAIN STREET STORE, INC**  
**Balance Sheet**  
**August 31, 20XX**

<b>Assets</b>	<b>Liabilities and Owners' Equity</b>
Current assets:	Current liabilities:
Cash.....34,000	Short-term debt.....20,000
Accounts receivable.....80,000	Accounts payable.....35,000
Merchandise inventory..... <u>170,000</u>	Other accrued liabilities.... <u>12,000</u>
Total current assets.....284,000	Total current liabilities.....67,000
Plant and equipment:	Long-term debt..... <u>50,000</u>
Equipment.....40,000	Total liabilities.....117,000
Less: Accumulated Depreciation..... <u>(4000)</u>	Owners' equity.....203,000
Total assets ..... <u>320,000</u>	Total liabilities and owners' equity..... <u>320,000</u>

*The income statement*, or *profit and loss statement* (P&L) measures the performance of an enterprise. It presents a summary of the *revenues* and *expenses* of an entity for a specific period of time, such as a month or a year. The income statement, also called the *statement of operations*, is like a moving picture of the entity's operations during the period. The income statement holds perhaps the most important single piece of information about a business—its *net income*, which is revenues minus expenses. If expenses exceed revenues, the result is a *net loss* for the period.

*The statement of owner's equity* presents a summary of the changes that occurred in the owner's equity of the entity during a specific time period, such as a month or a year. Increases in owner's equity arise from investments by the owner and net income earned during the period. Decreases result from withdrawals by the owner and from a net loss for the period. Net income or net loss comes directly from the income statement. Investments and withdrawals by the owner are capital transactions between the business and its owner, so they do not affect the income statement.

Another tool for understanding a company's activity is to look at its cash flow. This measures the actual flow of funds – real money—flowing into and out of a company during a given period of time. A company's cash flow factors out all of the

accounting tricks and looks at what a company really earned, because it excludes accounting tools such as depreciation.

**Main Street Store, Inc.**  
Statement of Cash Flows  
For the Year Ended August 31, 20XX

**Cash flows operating activities:**

Net income.....	18,000
Add(deduct) items not affecting cash:	
Depreciation expense.....	4,000
Increase in accounts receivable.....	80,000
Increase in merchandise inventory.....	(170,000)
Increase in current liabilities.....	<u>67,000</u>
Net cash used by operating activities.....	<u>161,000</u>

**Cash flows investing activities:**

Cash paid for equipment.....	40,000
------------------------------	--------

**Cash flows from financing activities:**

Cash received from issue of long-term debt.....	50,000
Cash received from sale of common stock.....	190,000
Payment of cash dividend on common stock.....	<u>5,000</u>
Net cash provided by financing activities.....	<u>235,000</u>

Net increase in cash for the year.....34,000

Good record keeping by a business is not only wise but is required by law. Legal and financial questions may be raised by various agencies, banks, and employees. The questions may be accurately answered when written records of business proceedings are kept. By recording daily transactions, the owner can learn from mistakes and avoid errors in the future. Even if profits are not distributed to shareholders, any organization needs a P&L to account for its activities to see whether it is being efficiently and honestly run.

1. What are the main business statements?
2. What do they show?

TEXT 5

*Read the following two texts and be ready to differentiate between financial and managerial accounting.*

**FINANCIAL ACCOUNTING**

The classification of financial accounting transactions reflects the concern with two major interests in financial accounting. The first is addressed to the analysis of the *profitability* of the business. This is done normally on a yearly basis by comparing the *sale* and the *purchase transactions* and establishing the difference, with either a loss or a profit for the year. A profit will be shown when sale transactions are greater the purchase transactions during the year; a loss will be shown in the reverse case. In

financial accounting, the operating cycle is conventionally treated as a period of one year. This suggests that the profit or loss is a short-term analysis of business activities.

The second major interest in financial accounting is directed to the analysis of those transactions having a long-term impact on the firm. These transactions include, on the one hand, *investment transactions* by which the firm acquires assets of potential use for more than one accounting period, and, on the other hand, financial transactions by which the firm obtains funds for use for more than one year.

Financial accounting brings together investment and financial transactions in a statement of the financial status, or structure, of the enterprise which is commonly known as the balance sheet.

## TEXT 6

### MANAGERIAL ACCOUNTING

Managerial accounting (MA) involves using economic and financial information to plan and control many of the activities of the entity, and to support the management decision-making process. Cost-accounting is a subset of managerial accounting that relates primarily to the determination and accumulation of product, process, or service costs.

Managerial accounting is concerned with providing information to managers – that is, to those who are inside an organization and who are charged with directing and controlling its operations. We can identify major differences between financial and managerial accounting:

1. MA focuses on providing data for internal uses by the manager.
2. MA places more emphasis on the future.
3. MA is not governed by generally accepted accounting principles.
4. MA emphasizes the segments of an organization, rather than just looking at the organization as a whole.
5. MA is not mandatory.

As with financial accounting, managerial accounting and cost accounting have special terminology or, as many would say, jargon. Most of the terms relate to different types of costs. There are different costs for different purposes. Costs used for valuing inventory are different from the costs that should be considered when analyzing a product modification or potential new product. The cost classifications most frequently encountered are: product cost, period cost, direct cost, indirect cost, variable cost, fixed cost, controllable cost, noncontrollable cost, opportunity cost, etc.

Managerial accounting is in its infancy. Historically, it has played a secondary role to financial accounting, and in many organizations it still is little more than a by-product of the financial reporting process. However, the events of the last decades have shown the development of managerial accounting, and it is becoming widely recognized as a field of expertise separate from financial accounting.

## TEXT 7

### THE ACCOUNT



The raw data of accounting are the business transactions. A business may engage in thousands of transactions during a period of time. The data in these transactions must be classified and summarized before becoming useful information. Making the accountant's task somewhat easier is the fact that most business transactions are repetitive in nature and can be classified into groups having common characteristics.

**An account is an element in an accounting system that is used to classify and summarize money measurements of business activities of a similar nature.** An account is set up whenever it is necessary to provide useful information about a particular business item. The number of accounts in a company's accounting system depends on the information needed by those interested in the business.

Accountants may differ on the *account title* (or name) they give for the same item. The account title should be logical to help the accountant group similar transactions into the same account. Once an account is given a title, that same title must be used throughout the accounting records.

Accounts may take on a variety of formats. Some accounts are printed, and entries are written in by hand; others are on magnetic tape, and "invisible" entries are encoded by a computer. Every account format must provide for increases and decreases in the item for which the account was established. Once a business event is recognized as a business transaction, it is analyzed to determine its increase or decrease effect on the assets, liabilities, owner's equity, revenues, or expenses of the business. These increase or decrease effects are then translated into **debits** and **credits**. Then the account balance (the difference between the increases and decreases) can be determined.

In each business transaction is the activity that is recorded. The total dollar amount of debits must equal the total dollar amount of credits. The accounting requirement that each transaction must be recorded by an **entry** that has equal debits and credits is called the *double-entry procedure*, or *duality*. This double entry procedure keeps **the accounting equation – Assets = Liabilities+ Owner's equity** -- in balance.

To understand how the increases and decreases in an account are recorded, accountants use the **T-account**, which derives its name from the fact that it looks like the letter T. The title (name) of the item accounted for, such as cash, is written across the top of the T. Increases are recorded on one side of the vertical line of the T, and decreases on the other side, depending on the type of account. A T-account appears as follows:

Title of account	
Debit	Credit

The accountant uses the term debit (or charge) instead of saying "place an entry on the left side of the T-account" and credit for "place an entry on the right side of the T-account". Thus, for any account, the left side is the debit side, and the right side is the credit side. A synonym for «debit an account» is «charge an account».

1. What is an account?
2. When is an account set up?

3. What does the number of accounts depend on?
4. What must every account format provide for?
5. What is debit?
6. What is credit?

## TEXT 8

### TYPES OF ACCOUNT

This text gives you more information about different kinds of accounts. Read the text and be ready to speak about each of them. While reading make your own list of business terms.

**Assets.** Assets are rights to use resources that are expected to result in future economic benefit for the accounting entity.

**Cash.** The Cash account shows the cash effects of a business's transactions. Cash means money and any medium of exchange that a bank accepts at face value. Cash includes currency, coins, money orders, certificates of deposit, and checks. The Cash account includes these items whether they are kept on hand, in a safe, in a cash register, or in a bank.

**Notes Receivable.** A business may sell its goods or services in exchange for a promissory note, which is a written pledge that the customer will pay the business a fixed amount of money by a certain date. The Notes Receivable account is a record of the promissory notes that the business expects to collect in cash.

**Accounts Receivable.** A business may sell its goods or services in exchange for an oral or implied promise for future cash receipt. Such sales are made on credit (on account). The Accounts Receivable account includes these amounts.

**Prepaid Expenses.** A business often pays certain expenses in advance. Prepaid Expenses are assets because they will be of future benefit to the business. The ledger holds a separate asset account for each prepaid item. Prepaid Rent and Prepaid Insurance are prepaid expenses that occur often in business. Office Supplies are also accounted for as prepaid expenses.

**Land.** The Land account is a record of the land that a business owns.

**Building.** A business' buildings — office, warehouse, garage, and the like — appear in the Building account.

**Equipment, Furniture and Fixtures.** A business has a separate asset account for each type of equipment—Office Equipment and Store Equipment, for example. The Furniture and Fixtures account shows the cost of this asset.

**Liabilities.** Recall that a *liability* is a debt. A business generally has fewer liability accounts than asset accounts because a business' liabilities can be summarized under relatively few categories.

**Notes Payable.** This account is the opposite of the Notes Receivable account. Notes Payable records the amounts that the business must pay because it signed a promissory note to purchase goods or services.

**Accounts Payable.** This account is the opposite of the Accounts Receivable account. The oral or implied promise to pay off debts arising from credit purchases of goods appears in the Accounts Payable account. Such a purchase is said to be made on account. Other liability categories and accounts are added as needed. *Taxes Payable*, *Wages Payable*, and *Salary Payable* are accounts that appear in many ledgers.

Some other accounts may be as follows:

**Owner's Equity.** The claim that the owner has on the assets of the business is called owner's equity. In a proprietorship or a partnership, owner's equity is often split into separate accounts for the owner's capital balance and the owner's withdrawals.

**Capital.** This account shows the owner's claim to the assets of the business. After total liabilities are subtracted from total assets/ the remainder is the owner's capital. The balance of the capital account equals the owner's investments in the business plus its net income and minus net losses and owner withdrawals. In addition to the capital account/ the following accounts also appear in the owner's equity section of the ledger.

**Withdrawals.** When the owner withdraws cash or other assets from the business for personal use, its assets and its owner's equity both decrease. The amounts taken out of the business appear in a separate account entitled Withdrawals, or Drawing. If withdrawals were recorded directly in the capital account, the amount of owner withdrawals would be merged with owner investments. To separate these two amounts for decision making, businesses use a separate account for Withdrawals. This account shows a decrease in owner's equity.

**Revenues.** The increase in owner's equity from delivering goods or services to customers or clients is called revenue. The ledger contains as many revenue accounts as needed. If the business loans money to an outsider, it will also need an Interest Revenue account. If the business rents a building to a tenant, it will need a Rent Revenue account. Increases in revenue accounts are increases in owner's equity.

**Expenses.** The cost of operating a business is called expense. Expenses have the opposite effect of revenues, so they decrease owner's equity. A business needs a separate account for each category of its expenses, such as Salary Expense, Rent Expense, Advertising Expense, and Utilities Expense. Expense accounts are decreases in owner's equity.

*Let's check your list of business terms. Can you find the terms with the following meaning in it?*

Капитал, уставной капитал, остаток, чистый доход, снятие со счета, убытки, заем, стоимость, расходы, активы, пассивы, наличные, чек, номинальная стоимость, депозиты, ссуда, платежное поручение, счета дебиторов, векселя к получению, долговое обязательство, в кредит, предоплата, счета к оплате, бухгалтерская книга.

*Read the text and be ready to characterize each group of accounting information users.*

## USERS OF ACCOUNTING INFORMATION

Most of the material in this book describes business situations, but the principles of accounting apply to the financial considerations of individuals as well. The following sections discuss the range of people and groups who use accounting information.

*Individuals.* People use accounting information in day-to-day affairs to manage their bank accounts, to evaluate job prospects, to make investments, and to decide whether to rent or to buy a house.

*Businesses.* Managers of businesses use accounting information to set goals for their organisations, to evaluate their progress toward those goals, and to take corrective action if necessary. Decisions based on accounting information may include which building and equipment to purchase, how much merchandise inventory to keep on hand, and how much cash to borrow.

*Investors and Creditors.* Investors provide the money that businesses need to begin operations. To decide whether to help start a new venture, potential investors evaluate what income they can reasonably expect on their investment. This means analysing the financial statements of the new business. Those people who do invest monitor the progress of the business by analysing the company's financial statements and by keeping up with its developments in the business press. Before making a loan, potential lenders determine the borrower's ability to meet scheduled payments. This evaluation includes a projection of future operations, which is based on accounting information.

*Government Regulatory Agencies.* Most organisations face government regulation. Government regulation agencies base their regulatory activity in part on the accounting information they receive from firms.

*Taxing Authorities.* Local, state, and federal governments levy taxes on individuals and businesses. The amount of the tax is figured using accounting information. Businesses determine their sales tax based on their accounting records that show how much they have sold. Individuals and businesses compute their income tax based on how much money their records show they have earned.

*Non-profit Organisations.* Non-profit organisations — such as churches, most hospitals, government agencies, and colleges, which operate for purposes other than to earn a profit—use accounting information in much the same way that profit-oriented businesses do. Both profit and non-profit organisations deal with budgets, payrolls, rent payments, and the like—all from the accounting system.

*Other users.* Employees and labour unions may make wage demands based on the accounting information that shows their employer's reported income. Consumer groups and the general public are also interested in the amount of income that businesses earn.

## THE ACCOUNTING PROFESSION

Accounting is an old profession. Records of business transactions have been prepared for centuries. However, only during the last half-century accounting has been accepted as a profession with the same importance as the medical or legal profession. Positions in the field of accounting may be divided into several areas. Two general classifications are *public accounting* and *private accounting*. Public accountants are those who serve the general public and collect professional fees for their work, much as doctors and lawyers do. Their work includes auditing, income tax planning and preparation, and management consulting. **Public accountants** are a small fraction (about 10 percent) of all accountants. Those public accountants who have met certain professional requirements are designated as Certified Public Accountants (CPAs).

**Private accountants** work for a single business, such as a local department store, the McDonald's restaurant chain, or the Eastman Kodak Company. Charitable organizations, educational institutions, and government agencies also employ private accountants. The chief accounting officer usually has the title of controller, treasurer, or chief financial officer. Whatever the title, this person usually carries the status of vice-president.

Some public accountants pool their talents and work together within a single firm. Most public accounting firms are also called *CPA firms* because most of their professional employees are CPAs. CPA firms vary greatly in size. Some are small businesses, and others are medium-sized partnerships. The largest CPA firms are worldwide partnerships with over 2,000 partners. Such huge firms are necessary because some of their clients are so large and their operations are so complex.

In contrast to public accountants who provide accounting services for many clients, management accountants provide accounting services for a single business. In a company with many management accountants, the executive officer in charge of the accounting activity is often called a controller.

1. What are public accountants?
2. What are private accountants?
3. What is CPA?

### TEXT 11

*Read the text and be ready to comment on the points of the code. What other professions can use the same principles ?*

### ETHICAL BEHAVIOUR OF ACCOUNTANTS

Several accounting organizations have formulated codes of ethics that govern the behaviour of their members. «Code of Professional Conduct» adopted by the American Institute of Certified Public Accountants reads:

«Membership in the American Institute of Certified Public Accountants is voluntary. By accepting membership, a certified public accountant assumes an obligation of self-discipline above and beyond the requirements of laws and regulations...»

...In carrying out their responsibilities as professionals, members should exercise sensitive professional and moral judgments in all their activities.

...Members should accept the obligation to act in a way that will serve the public interest, honour the public trust, and demonstrate commitment to professionalism.

...A member should observe the profession's technical and ethical standards, strive continually to improve competence and the quality of services, and discharge professional responsibility to the best of the member's ability.

...To maintain and broaden public confidence, members should perform all professional responsibilities with the highest sense of integrity.

...A member should maintain objectivity and be free of conflicts of interest in discharging professional responsibilities. A member in public practice should be independent in fact and appearance when providing auditing and other attestation services.»

Some business firms have also developed codes of ethics for their employees to follow. But there is something more than merely making sure you are not violating a code of ethics. Most of us sense what is right and wrong. An accountant's most valuable asset is his or her reputation.

## Auditing

*What do you know about auditing?*

*How can we translate the word into Russian?*

*What is auditor's job supposed to be?*

*The answers to these questions can be found in the following texts.*

### TEXT 12

#### AUDITING

**Auditing** is the process by which a competent, independent person accumulates and evaluates evidence about qualifiable information related to a specific economic entity for the purpose of determining and reporting on the degree of correspondence between the quantifiable information and established criteria. This definition includes several key words and phrases. Let's discuss each of them.

*Qualifiable information and established criteria.* To do an audit, there must be information in a verifiable form and some standards (criteria) by which the auditor can evaluate the information. Quantifiable information can and does take many forms. It is possible to audit such things as a company's financial statements, the amount of time it takes an employee to complete an assigned task, the detail cost of a contract, and individual tax return. The criteria for evaluating qualitative information can also vary considerably. For example, in auditing a vendor's invoice for the acquisition of raw materials, it is possible to determine whether materials of the quantity and stated description were actually received, whether the proper raw material was delivered considering the production needs of the company, or whether the price charged for the goods was reasonable.

*Economic entity* is a legal entity, such as a corporation, unit of government, partnership, etc. Whenever an audit is conducted, the scope of the auditor's responsibilities must be made clear. The primary method involves defining the

economic entity and the time period, the last typically being one year, but may be for a month, a quarter, several years, and even the life time of entity.

*Accumulating and evaluating evidence.* Evidence is defined as any information used by the auditor to determine whether the quantifiable information being audited is stated in accordance with the established criteria. Evidence takes many different forms, including oral testimony of the auditee (client), written communication with outsiders, and observations by the auditor. It is important to obtain a sufficient quality and volume of evidence to satisfy the audit objectives.

*Competent, independent person.* The auditor must be qualified to understand the criteria used and competent to know the types and amount of evidence to accumulate to reach the proper conclusion after the evidence has been examined. The auditor must also have an independent mental attitude. Independence cannot be absolute by any means, but it must be a goal that is worked toward and it can be achieved to a certain degree. Even though an auditor is paid by a company, he or she may still be sufficiently independent to conduct audits that can be required and can be relied upon by users.

*Reporting* is the communication of the findings to users. The final stage in the audit process is the audit report. Reports differ in nature, but in all cases they must inform readers of the degree of correspondence between quantifiable information and established criteria. Reports also differ in form and can vary from the highly technical type usually associated with financial statements to a simple oral report in the case of an audit conducted for a particular individual.

Very often the general public confuses auditing with accounting. It happens due to the fact that most auditing is concerned with accounting information, and many auditors have considerable expertise in accounting matters. Auditing is the process of recording, classifying and summarizing economic events in a logical manner for the purpose of providing financial information for decision making. The function of accounting is to provide certain types of quantitative information that management and others can use to make decisions. In addition, accountants must develop a system to make sure that the entity's economic events are properly recorded on a timely basis and at a reasonable cost.

In auditing accounting data, the concern is with determining whether recorded information properly reflects the economic events that occurred during the accounting period. Since the accounting rules are the criteria for evaluating whether the accounting information is properly recorded, any auditor involved with these data must also thoroughly understand rules. In addition to understanding accounting, the auditor must also possess expertise in the accumulation and interpretation of audit evidence. Determining the proper audit procedures, sample size, particular items to examine, timing of the tests, and evaluating the results are problems unique to the auditor.

## TEXT 13

### TYPES OF AUDIT

Three types of audit are the main ones: operational audits, compliance audits, and audits of financial statements.

*Operational audits* is a review of any part of an organization's operating procedure and methods for the purpose of evaluating efficiency and effectiveness. At the

completion of an operational audit, recommendations to management for improving operations are normally expected. In operational auditing, the reviews are not limited to accounting. They can include the evaluation of organization structure, computer operation, production methods, marketing, and any other area in which the auditor is qualified. In this sense, operational auditing is more similar to management consulting than to what is generally required as auditing.

**Compliance audits.** The purpose of the compliance audits is to determine whether the auditee is following specific procedures or rules set down by some higher authority. A compliance auditing could include determining whether accounting personnel are following prescribed procedures, reviewing wage rates for compliance with minimum laws, or examining contractual agreements with bankers and other lenders, etc.

**Audits of financial statements.** This type of auditing is conducted to determine whether the overall financial statements are stated in accordance with specific criteria. The assumption underlying an audit of financial statements is that they will be used by different groups for different purposes. Normally, the criteria are generally accepted accounting principles.

1. What is auditing?
2. What is the difference between auditing and accounting?
3. Speak about each 'component' of the definition of auditing.
4. What types of auditing have you read about?

**Ex.9.** *Make up the sentences. Put them down into your notebooks. The first word is given to you.*

1. **Assets**, enterprises, and, plant, property, financial, and, include, in, investments, equipment, subsidiaries, leases, other. 2. **Assets**, transactions, from, non-cash, arise, may, past, be, events, which, cash, or. 3. **Liabilities**, obligations, include, financial, long-term, similar, loans, and, debentures, and, plans, payables, short-term, pension, overdrafts, and, bank, loans. 4. **Equity**, enterprise, of, is, the, residual, reporting, a, assets, arising, the, from, deduction, the, from, liabilities, of. 5. **Revenues**, enterprise, are, the, inflows, of, enhancement, activities, of, normal, assets, that, the, arise, of, in, course, the. 6. **Expenses**, activities, are, outflows, normal, or, enterprise's, depletions, the, of, , course, in, the, that, assets, arise, of.

**Ex. 10.** *Insert prepositions.*

1. Accountants frequently refer ... a business organization as an accounting entity.
2. Business activities are limited ... transactions.
3. First of all the firm must enter ... a legal contract ... the acquisition of means of production.
4. It means an obligation to pay money ... a later date.
5. Transaction ... the firm occur between the various departments.
6. The input factors are transferred ... goods and services.
7. Usually it is done ... a yearly basis.
8. Accounting is concerned ... providing information ... managers.
9. Transactions lead ... an outflow of money.
10. Accountants provide most of the information needed by external users of financial accounting.

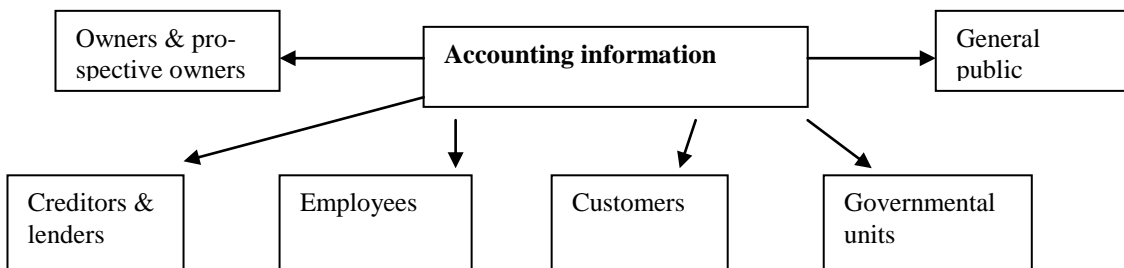


11. Financial statements are formal reports providing information ... a business' financial position.
12. The external users rely ... relevant & reliable financial statements.
13. They provide detailed explanations ... why actual costs varied ... cost estimated.
14. They must decide ... how much merchandise inventory to keep ... hand.
15. The general public is interested ... the amount of income that business earn.
16. They include depreciations ... factory buildings and equipment.

**Ex. 11.** *Translate the following sentences. Pay special attention to the word **charge**. Give your own sentences using as many meanings of the word as you can.*

1. Please charge the bill to my account.
2. The bank charges me 25 % interest on the loan.
3. They are happy to give their services free of charge.
4. He denied the crimes with which he was charged.
5. She was in charge of several young people.
6. It requires electricity to charge up its batteries.
7. I have no option but to charge you strictly to say nothing about it.
8. He has been in charge of department for 10 years.
9. For any organization it is important who is charged with directing and controlling its operations.
10. They charged us one thousand dollars for it.

**Ex. 12.** *Speak on the following.*



**Ex.13.** *Work with synonyms. Differentiate between*

1. buy – purchase
2. expenses – expenditures – costs
3. income – revenue
4. profit – return
5. rent – hire – lease

**Ex. 14.** *Translate the following text in written form.*

### **Bookkeeping**

**Bookkeeping** is writing down all the transactions arising from business activities which can be expressed in money. To run your business well you must know what money you have received, how much money you have spent and, most important

of all, how you spent it A bookkeeping system can provide you with that information. The books used for keeping records consist of a ledger and subsidiary books.

**The ledger** is the general book in which you enter almost all the figures arising from your business activities. A ledger consists of a number of accounts. A **chart of accounts** serves as an index to the ledger, and each account is numbered to facilitate the frequent references that are made to it. An account is a column in the ledger that has been given a specific name, e.g. Cash, Bank, Sales and etc.

**The invoice book** helps you to remember who owes the business money for goods and services you have sold but have not been paid for. When you have delivered a commodity or provided a service you send an invoice to the customer. You keep a copy of the invoice in the invoice book.

**The purchase journal** is used to write down details of goods and services bought on credit which are not yet paid for. The invoice you receive from the supplier is kept in the purchase journal until it is fully paid.

**The wages book.** In this book you make notes about your employee names, wages, advance payments and so on.

**Ex. 15.** *In turns, explain the meaning of the economic terms given below to your partner.*

Accounting, cost, income, liabilities, transaction, cost accounting, assets, balance sheet, debit, credit, invisible assets, account, double-entry, expenses, direct costs, cash, ledger, invoice book, revenue, owner's equity, profit & loss account, scheduled payments, inventory.

**Ex. 16.** *Form nine complete sentences by combining sentence parts from (A), (B) and (C).*

**A**

1. a business organization
2. whenever the firm
3. Decreases result from
4. the owner's claim to
5. The account title
6. individuals and business
7. Some business firms
8. the opening cycle is treated
9. increases and decreases in the firm

**B**

1. Accountants frequently refer to
2. In financial accounting
3. for which the account was established
4. Local, state and federal governments
5. enters into a legal contract
6. withdrawals by the owner and
7. have also developed codes of ethics
8. the assets of the business
9. should be logical to help

**C**

1. A transaction occurs
2. Every account format must provide for
3. as an accounting entity
4. from a net loss for the period
5. the accountant group similar transaction into the same account
6. levy taxes on
7. for their employees to follow
8. as a period of one year
9. This account shows

**Ex. 17.** *Translate the definitions into English and match them with the words given below.*

**Liquidity, balance sheet, historical cost, assets, accountability, inventory turnover ratio, liabilities**

1. Материальные ценности, находящиеся в собственности фирмы или отдельного лица.
2. Финансовый документ, показывающий что находится в собственности фирмы или отдельного лица, а что взято в долг или каковы активы, пассивы и собственный капитал.
3. Все официальные требования по отношению к фирме или частному лицу.
4. Способность активов непосредственно использоваться в качестве средства обращения или быть готовыми к превращению в средство обращения, сохраняя фиксированную свою номинальную стоимость.
5. Необходимость отвечать за результаты какого-либо действия.
6. Отношение продаж к запасам.
7. Цена, по которой действительно были куплены товарно-материальные запасы и фиксированные активы.

**Ex.18.** *Fill in the blanks.*

**depreciation, total, overhead, labour, cost, engaged, direct, contain, expenses, principle, internal, business, accounts, evaluating, allocation, directly, relationship, accounting.**

The way in which the enterprise is organized and the type of ... in which it is engaged will effect the nature of the ... system and the manner in which financial statements will be presented to users. Departmental and manufacturing ... may be prepared by sole traders, partnerships and companies. There are no required formats for these accounts, although certain ... should be applied in their presentation.

Departmental accounts are prepared for ... use only. The availability of such accounts enables management to make informed decisions for the ... of resources to different departments and activities. Such decisions include, for example, providing additional resources to one department rather than another, ... the performance of the departmental manager and making a decision as to retain him in that position or to moving him to another department.

The manufacturing account ... all those expenses associated with the factory cost of production. Although there is no required format of presentation of a manufacturing account, the order in which factory ... are listed appears as follows:

Direct (raw) materials

Direct ...

Direct expenses

Prime cost

Factory ... (indirect) expenses

Factory cost of goods produced

The term 'direct' indicates the ... of the cost element to the product being produced. ... materials represent the portion of materials used in manufacturing process that is clearly traceable to the goods produced. Direct labour includes the wages of all personnel directly ... in the production process. Direct expenses would be other items of ... identified with the making of a particular product, for example, the hire of special equipment for a particular job.

'Prime cost' is the term given to the ... cost of all direct expenses.

Factory overhead costs consist of all expenses which cannot be ... identified with a product and, therefore, cannot be included under direct materials, direct labour or direct expenses. They include ... on factory building and equipment, the cost of heat, light and power, and the wages of factory supervisors, cleaners, etc.

**Ex.19.** *Translate the following into English.*

1. **External costs** -- издержки производства, которые фирма перекладывает на другие предприятия и общество в целом.
2. **Internal costs** -- издержки производства, которые покрываются самой фирмой.
3. **Loss** -- превышение издержек над доходами.
4. **Profit** -- доходы минус издержки.
5. **Revenue** -- общая сумма денег, полученная от продаж.
6. **Accounts receivable** -- сумма задолженности покупателей организации за купленные ими в кредит товары.
7. **Current assets** -- активы, которыми организация намерена владеть в течение года или менее года.
8. **Current ratio** -- отношение общих текущих активов к текущим пассивам. Используется для определения платежеспособности организации.
9. **Double-entry bookkeeping** -- принцип, в соответствии с которым каждая операция должна быть отражена в балансовом отчете в двух разных частях для того, чтобы соблюдалось балансовое равенство.
10. **Liquid assets** -- активы, включающие монеты и бумажные деньги, банковские вклады и некоторые виды ценных бумаг.

**Ex.20.** *Give the English equivalents to the following:*

Бухгалтерское равенство; финансовая отчетность; пассивы; бухгалтерский учет по методу двойной записи; проводка; дебет счета; принцип работающего предприятия; преемственность; производственный учет; имеющий силу; главная бухгалтерская книга; первичный документ; внутренняя отчетность; безнадежные долги; дебиторская задолженность; просроченный; товарно-материальные запасы; нематериальные активы; ликвидные активы; активы за вычетом...; себестоимость реализованной продукции; прибыли или убытки;

точные данные; отчет о прибылях и убытках; амортизация; основной капитал; уменьшение стоимости активов; оборотный капитал; поток наличных средств; краткосрочные обязательства; срок платежа; платежный баланс.

### ***SPEAK AND WRITE***

1. Differentiate between financial and managerial accounting.
2. Describe employment opportunities in accounting.
3. Explain the relationship, if any, between accounting and auditing.
4. An anonymous adage reads, "An accountant is a man who is hired to explain that you didn't make the money you did". Your comments?
5. Explain, in your own words, the meaning of the fundamental accounting equation.
6. Define, in your own words, the notions of accounting, auditing and bookkeeping.
7. Drawing on the information provided in this Unit and referring to other professional sources, list the users of accounting information and define their interests in the business.
8. Summarize the information of the Unit to be ready to speak on Accounting and Auditing. The first step to be done is to write the plan of your future report.
9. Choose any question (topic, problem) relating to Accounting or Auditing and make a 10-15 minute report in class. Refer to different additional sources to make your report informative, instructive, and interesting.

## APPENDIX

*How do I know what I think  
until I see what I say?*

Forster

*Have you ever found yourself in a situation when you are sitting with the pen in your hand trying to start writing? You begin your paper by writing the first sentence, with the blind hope that it will somehow generate a second, which will in turn generate a third... No ideas, no clever thoughts, words have disappeared... You hate the lesson, you hate the teacher, you are going to hate the whole world.*

*I'm not going to lecture on rhetorics. I'd like you to read this "gathering together" of some practical suggestions on writing. I hope they will help you.*

**I**

The object of any piece of writing is to make your reader understand exactly what you have to say – and understand it quickly and as efficiently as possible. To make your reader do this you must lay out your article, essay, report, story –whatever it may be – like a carefully surveyed road. Think of a piece of writing as a trip from a definite starting point to a definite destination. Point out to your reader, then, at the beginning, the destination in which you are going and the destination you have in view. Remind him of the progress you are making by setting up easily read sign-points along the road. At the end tell them clearly that you have arrived – and see that they understand it.

Essay is one of the most interesting and fascinating pieces of writing. The most commonly used definition of an essay is the following: *An essay is the written expression of its author's opinion.* At its best an essay blends facts with imagination, knowledge with feeling, never giving itself over wholly to one or the other. Essays will differ in quality and in kind, in length, in style, in subject. But in the final analysis essay expresses a personal opinion. An essay does not merely record facts or recount experience; it requires the author's opinion of those facts and experiences.

Too often students let themselves become machines, ingesting the information their teachers offer them and then feeding it back. But a student is no machine when he writes an essay; he is a human being – judging, evaluating, interpreting, expressing not only what he knows but what he is. Thus every attempted essay is a kind of voyage toward self-discovery.

The methods an essayist may use to express his opinion vary enormously: he may put his opinion forward seriously or humourously, scientifically or imaginatively, formally or informally. He may state it explicitly or implicitly. But opinion is always present.

What is *an opinion*? Most of us use the word 'opinion' loosely. We tend to claim as opinion all sorts of prejudices, sentiments, platitudes, and vague convictions. But a genuine opinion, strong enough to support the structure of an essay, must meet certain specifications, all of them clearly laid in this definition: opinion is a belief not based on absolute certainty or positive knowledge but on what seems true, valid, or probable to one's own mind; what one thinks, judgement.

Which judgement is correct? Which represents the final truth? Nobody knows, for truth is not something that can be weighed, measured, labeled, and conveniently stored for future reference. We'll accept as true opinion the opinion that is supported by

the most evidence, that is most logical, the most clearly stated, the most persuasive. You cannot expect your opinion to be subject to scientific proof. Your purpose is to persuade, not to prove, and the strength of your essay will depend upon how well you persuade a reader to agree with your particular view.

You will quickly discover that certain opinions you reach seem more interesting than others. Certainly your own enthusiasm for your subject has something to do with it. All of us write best about the subjects we like best. But more effective than anything else in arousing interest in an opinion is *opposition*. If a substantial number of people disagree with your views on a subject, you may be sure that your views will excite interest.

## II

The basic structure of the essay is extremely simple. It has three parts: an introduction, a body, and a conclusion.

Do you remember the King's directions to the White Rabbit in *Alice in Wonderland*: "Begin at the beginning, , and go on until you come to the end: then stop." Thus, beginning is an introduction, stop is a conclusion, and what comes in between is a middle or body.

The function of the introductory paragraph is simply to introduce the subject and come to the point. Whether your middle section is short or long, it is here that the real power of your essay resides. For the middle section is your argument. The first consideration, the most crucial for the beginner, is logical development. Remember that your final argument in the middle section should be your strongest. To develop the middle section, you need only three rules to guide you:

1. Make the necessary concessions to the opposition as soon as possible.
2. Devote at least one full paragraph to every major pro argument in your full thesis statement.
3. Save your best argument for the last.

Your final paragraph – the conclusion – may echo the first one.

The introduction, i.e. the first paragraph, is a short paragraph whose purpose is to give the reader a general idea of the subject of the composition. It should attract the reader's attention so that he/she wants to continue reading.

The main body usually consists of two or more paragraphs and its purpose is to develop points related to the subject of the composition. The number of paragraphs and the way you divide them depends on the specific topics of the composition. Each paragraph should deal with points related to the same topic. Whenever you discuss a new topic, you should begin a new paragraph. For example, in a for and against essay the main body should have two paragraphs: one discussing the points for, and another discussing the points against.

Main body paragraphs should begin with topic sentences. A **topic sentence** includes or summarizes the main topic of the paragraph and gives the reader an idea of what the paragraph will be about. The topic sentence should be followed by supporting sentences which provide examples, details, reasons, justifications and/or evidence to support the topic sentence.

The conclusion is a short final paragraph in which you can summarize the main idea of the subject, restate your opinion in different words, make general comments, express your feelings, etc.

## III

Some words about the Paragraph, the Sentence, and the Word.

The paragraph is merely a group of more or less closely related sentences which deal with a subdivision of the thought. The paragraph was developed in order to make reading easier for. That's why don't make them so long that they are hard to follow, or so short that they are choppy. Take care that the subject of a paragraph is made clear in the paragraph itself and merely implied from the preceding paragraph or referred to by a pronoun. Unless a paragraph is more or less self-contained it does not fulfill its mission in life. Always remember that the beginning and the end of a paragraph are the most emphatic positions in a piece of writing.

The sentence was not invented by grammarians but by ordinary people as the best way of expressing thoughts. The form of the sentence is the way in which mankind naturally thinks, the order in which thoughts most easily take shape in our minds. That is why a man who thinks clearly will always find it possible to write a well constructed sentence, and a man who is vague or lazy in his thinking will almost always write a badly constructed sentence.

Good writing must be clear, accurate, and vivid. Whether you are clear or not depends to a great degree upon the clearness of your sentence structure, but your accuracy and vividness depend upon the words you choose. Ill-chosen words show that you have been lazy to think clearly what you are trying to say or that you don't quite know what words mean. There is rarely more than one word to express an idea exactly, See that you get that one right word. Nouns and verbs are the bones and sinews of speech. Nouns build up the bony structure of the sentence, verbs produce motion. The more concrete nouns and active verbs you see, the more forcefull your writing. Adjectives and adverbs are often necessary to complete your meaning and make it exact, but they lessen the force of the sentence. When you divide your reader's attention between a noun and its qualifying adjectives, or between a verb and its adverbs, you decrease the force of the impression which that noun and the verb normally make. The fewer the words used, the more concentrated the attention; and the greater the concentration, the greater the power. For this reason two or three adjectives pyramided upon each other's shoulders decrease the force of the impression instead of adding to it. At first sight this may not seem reasonable, but it is true. "The adjective", said Voltair, " is the enemy of the noun".

A note: Have you ever heard of O<sup>P</sup>S<sup>H</sup>A<sup>C</sup>O<sup>M</sup>? You won't find this word in your dictionaries. It has no real meaning. O<sup>P</sup>S<sup>H</sup>A<sup>C</sup>O<sup>M</sup> is a mnemonic. By remembering the spelling of this word, you can remember the order of the adjectives before noun.

Type	Example
O <sup>P</sup> inion	beautiful, horrible, lovely, nice
S <sup>H</sup> ape	long, short, round, narrow
A <sup>C</sup> ge	old, new, young
C <sup>O</sup> lour	red, black
O <sup>R</sup> igin	British, Canadian, German
M <sup>A</sup> terial	plastic, metallic, wooden



There are different approaches to writing. Look at the following steps. Try to follow them.

**STEP 1. Analyzing the question.**

Make sure you understand exactly what you have to do: Topic----Focus----Comment.

**STEP 2. Brainstorming.**

“Brainstorm” as many points as you can think of to do with the focus of the topic. Let your mind wander freely. Write down all the ideas. Don’t try to organize them in any way yet.

**STEP 3. Organizing your ideas.**

Put together ideas which are similar in some way. Get rid of irrelevant ideas. Develop a plan for writing.

**STEP 4. Writing a first draft.**

Concentrate on linking your ideas well. Do not worry too much about mistakes of grammar, spelling and punctuation.

**STEP 5. Rewriting and editing**

Check for language errors. Check for whether what you have said coincides with what you wanted to say in a logical and persuasive way.

## V

To plan your composition you should bear in mind the following:

the **imaginary situation** you will write about (e.g. *You are a reporter.. to write about a fire which broke out last night...*) This can also suggest who you are (e.g. a reporter), what has happened (e.g. fire broke out), etc.

the **imaginary reader** who is going to read your piece of writing (e.g. *the manager of the company you work for has asked you to write...*). This will help you decide on the writing style i.e. the appropriate style of language - formal/informal, etc you should use.

the **type of writing** (e.g. *a letter, an article describing an event you attended, etc*)

the **specific topics** you should include in your answer (e.g. *describe the place and comment on its good and bad points*)

Study the example below.

**You** (1) work for a travel agency. Your **editor** (2) has asked you to write an article (3) discussing **the pros and cons** of air travel(4), including factors such as **cost and convenience**(4) .

1 – situation	3 – type of writing
2 – reader	4 – specific topics

## VI

There are a variety of writing techniques you can use to make your essay more interesting to the reader.

**To begin or end your essay** you can:

**address the reader directly** i.e. write as if you were speaking to him/her. e.g.

You can *imagine what life would be like without water.*

**use direct speech** to give somebody's exact words, **a quotation** from a famous person or someone who has influenced your life, **a proverb** or **a saying** (i.e. a well-known phrase). In all cases it is necessary to use quotation marks. e.g. After all, *"An apple a day keeps the doctor away."*

**use a rhetorical question** i.e. a question that does not expect a reply. e.g. *What would modern society be like without computers?*

**start a narrative by setting the scene** i.e. by using the senses to describe the weather, atmosphere, surroundings and also to create mystery and suspense. e.g. *It was a cold winter's night. The wind was blowing hard as Jack was walking down the dark empty street.*

You can also use **a variety of adjectives, adverbs and verbs** to make your composition more attractive to the reader. e.g. *'Hold on!' Helen screamed to Bob as she desperately tried to help him get out of the freezing water.*

## VII

The writing style you should use depends on the type of an essay you are writing, the situation and the intended reader. Therefore, you should not use the same style of writing for every composition. The two main types of writing style are **formal** and **informal**.

**Formal style** is characterized by:

- formal expressions, advanced vocabulary, longer sentences; e.g. *Taking everything into consideration, It can be said that the facilities offered are of poor quality.*
- formal linking words/phrases (i.e. however, nevertheless, in addition, consequently, etc.)  
e.g. *Mobile phones are extremely useful for people who travel frequently. However, they can be dangerous.*
- no use of short forms (i.e. *I'm, there's...*); e.g. *I would be grateful if... (instead of: I'd be grateful if...)*
- impersonal tone, i.e. use of the passive, no description of feelings e.g. *Late this evening, 20-year-old Tim McComack was pulled to safety after being trapped under debris for more than ten hours.*
- factual presentation of the information; e.g. *The Town Hall, constructed in the late 1800s, was seriously damaged by fire in 1909.*

**Informal style** is characterized by:

- everyday/colloquial expressions, vocabulary and idioms. e.g. *I thought I'd drop you a line...*
- frequent use of short forms; e.g. *I won't be able to come to your party as I'll be away on a business trip.*
- informal phrasal verbs; e.g. *Lucy takes after her father. She's ...*
- simple linking words/phrases (i.e. *but, so, because, and, etc*) e.g. *It rains a lot here, so you'd better take an umbrella with you.*
- shorter sentences  
e.g. *Thanks a lot for the invitation. I'd love to come.*
- personal tone i.e. use of first person (I/We) e.g. *I've got great news. I've found a new job.*

• descriptive tone i.e. use of adjectives/adverbs etc for vivid description e.g. *it was a bitterly cold winter morning.*

**Semi-formal style** is characterized by:

- less formal language
- less frequent use of short forms, formal linking words/phrases or the passive
- respectful, polite tone.

Compare:

**Formal:** I would be grateful if you could reply at your earliest convenience.

**Semi-formal:** I look forward to receiving your reply as soon as possible.

**Informal:** I can't wait to hear from you.

## VIII

Essay is an argument. **'For and against' essays** are one type of discursive writing in which you discuss the advantages and disadvantages of a specific topic. A "For and against" essay should consist of:

- a) an introduction in which you present the topic, making a general remark about it .without giving your opinion;
- b) a main body in which you present the points for and the points against, in separate paragraphs, supporting your arguments with justifications/examples;
- c) a conclusion which includes your opinion (e.g. *In my opinion/view, I believe/ think,* etc) or a balanced summary of the topic.

You must not include opinion words (I believe, I think, etc) in the introduction or in the main body. Opinion words can only be used in the final paragraph, where you may state your opinion on the topic.

"For and against" essays are normally written in a formal style; therefore you should avoid using strong language (I know, I am sure, etc), short sentences, colloquial expressions or idioms.

**Essays providing solutions** to problems are pieces of writing in which you discuss a problem and its causes as well as the expected results or consequences of your suggestions. An essay providing solutions to problems should consist of:

- a) an introduction in which you state the problem and/or what has caused it;
- b) a main body which consists of two or more paragraphs presenting suggestions and their results/consequences. You should start a new paragraph for each suggestion and its results/consequences; and
- c) a conclusion in which you summarize your opinion.

Essays providing solutions to problems are normally written in a formal or semi-formal style, depending on who is going to read them and where they are published. They are usually found in newspapers and magazines.

**First-person narratives** are written in the first-person (I/we) about a series of events, real or imaginary, which happened to us. A first-person narrative should consist of:

- a) an introduction in which you set the scene (who was involved, time, place, etc) in an interesting way to make the reader want to continue reading;

- b) a main body, consisting of two or more paragraphs, where you develop your story, presenting the events in the order they happened; and
- c) a conclusion which includes what happened at the end of the story, as well as people's feelings, final comments or reactions. A surprising ending makes a long-lasting impression on the reader.

You should normally use *past tenses* in such pieces of writing, as well as a variety of adjectives or adverbs to make your story more attractive to the reader. Narratives can be found in articles, letters, novels, etc. To attract the reader's attention, give interesting and catchy titles to your stories, especially if they are for a magazine, newspaper, etc.

**Reviews** are short descriptions of books, films, plays, TV programmes, etc. They are written to inform readers and viewers, and to give them your opinion/recommendation about whether (or not) they should read a book or see a film/play/etc.

A review should consist of:

- a) an introduction in which you summarize all the background information of the book/film/etc, (i.e. title, name of author/director, type, setting, etc);
- b) a main body consisting of two paragraphs: one about the main points of the plot, presented in chronological order, and another including general comments on the plot, the main characters, the acting, the directing, etc.

**Note:** You should not reveal the end of the story to the reader.

- c) a conclusion in which you recommend or do not recommend the book/film/play/etc, giving reasons to support your recommendation.

Reviews are normally found in newspapers, magazines or as parts of a letter. The style you use depends on the publication and the intended reader and can be formal or semi-formal.

You normally use *present tenses* and *a variety of adjectives* to describe the plot and make your comments more clear and to the point.

**Reports** are normally written for someone in authority (e.g. your employer, the local council, the head of a committee, etc) and contain factual information.

**Assessment reports** present and evaluate the positive and negative qualities of a person (i.e. an employee) or a building/place (i.e. a hotel, a restaurant, a shop, a cinema complex, etc) in order to make a judgement or recommendation about them. **Proposal reports** present suggestions, plans or decisions about future actions. Reports should consist of:

- a) an introduction in which you state the purpose and content of the report;
- b) a main body in which you present each topic in detail under suitable subheadings. (these headings introduce the topic of the paragraphs, so you do not need to start each paragraph with a topic sentence);
- c) a conclusion which summarizes the information from the main body and states your general assessment and/or recommendation.

Reports are written in a formal, impersonal style. You should use *factual language, passive voice and full verb forms*. You should also write fairly *short sentences* to help your reader pick out the information easily. *Present tenses* are

normally used for assessment reports. *Past tenses* can be used for reports related to past events. *Modals, conditionals or would* are normally used for proposal reports.

You should always begin your report by stating who the report is addressed to and what their position is, the writer's name and position, what the report is about and the date.

## IX

### Techniques to begin your story

An interesting beginning is as important as an interesting ending. An interesting beginning will catch the reader's attention and make him/her want to continue reading. A good ending will make him/her feel satisfied.

You can *START* your story by:

- a) using your senses to set the scene and describe the weather, atmosphere, surroundings or people's actions to create mystery or suspense; *e.g. I could hear the wind howling around me. It was quite dark that night and it felt strange to be out in the wilderness all alone.*
- b) using direct speech; *e.g. "Always look on the bright side of life, kids", Mr Frisbain used to tell us.*
- c) asking a rhetorical question, i.e. a question that does not require an answer. *e.g. Have you ever travelled by train on a warm summer night?*
- d) addressing the reader directly, *e.g. I am sure you all know what a bargain is.*
- e) referring to your feelings or moods, *e.g. I was exhausted because I had been painting walls all day.*

### Techniques to end your story

You can *END* your story by:

- a) using direct speech, *e.g. Thank you, sir,' the boy said to me.*
- b) referring to your feelings or moods, *e.g. We were shivering but we were happy to have made it.*
- c) asking a rhetorical question. *e.g. 'Why did I have to suffer so much?'*
- d) describing people's reactions to/feelings about the events developed in the main body. *e.g. My brother had become the hero of the day and I was extremely proud.*

### Useful Vocabulary

#### Background:

The film/book tells the story of...

The film/story is set in ...

The book/novel was written by ...

The film is directed by...

It is a comedy/horror film/love story.

#### Main points of the plot:

The story concerns/is about/begins... The plot is (rather) boring/thrilling. The plot has an unexpected twist.

#### General Comments:

It is rather long/boring/confusing/slow.

The cast is excellent/awful/unconvincing.

The script is dull/exciting.

It is beautifully/poorly/badly written.

It has a tragic/dramatic end.

**Recommendations:**

Don't miss it. It is well worth seeing. I wouldn't recommend it because... I highly/thoroughly recommend it. It's bound to be a box-office hit. Wait until it comes out on video. It is a highly entertaining read. It's a bore to read.

**To make suggestions:**

A useful suggestion would be to... Another solution... .. could be solved by...

Steps/Measures should be taken in order to solve/deal with... Another way to...

is/would be to... The situation could be improved if /by...

It would be a good idea if/to... It would help if you/we...

**To present results and consequences:**

This would...

Then...

By doing this, you/we/etc would...

If... .., the result would be...

The effect/consequence/result of ... would be... In this way,...

**X**

*Nobody has ever yet learned how to write well by memorizing rules or trying consciously to write by them. Good writing comes only from good thinking, set down in simple and natural speech, and afterwards revised in accordance with good usage. The adequate vocabulary and the feeling for this good usage can be acquired only by wide and intelligent reading. And in no other way whatsoever.*

*Therefore, the only advice is : Use your eyes and ears. Think. Read, read and ... still read.*

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