**Economic Bubble**

*History and Origin of the term*

The term "bubble", in reference to financial crisis, originated in the 1711–1720 British South Sea Bubble, and originally referred to the companies themselves, and their inflated stock, rather than to the crisis itself. This was one of the earliest modern financial crises; other episodes were referred to as "manias", as in the Dutch tulip mania. The metaphor indicated that the prices of the stock were inflated and fragile – expanded based on nothing but air, and vulnerable to a sudden burst, as in fact occurred.

Some later commentators have extended the metaphor to emphasize the suddenness, suggesting that economic bubbles end "All at once, and nothing first, / Just as bubbles do when they burst," though theories of financial crises such as debt-deflation and the Financial Instability Hypothesis suggest instead that bubbles burst progressively, with the most vulnerable (most highly-leveraged) assets failing first, and then the collapse spreading throughout the economy.

*Possible Causes*

In the 1970s, excess monetary expansion after the U.S. came off the gold standard (August 1971) created massive commodities bubbles. These bubbles only ended when the U.S. Central Bank (Federal Reserve) finally reined in the excess money, raising federal funds interest rates to over 14%.[citation needed] The commodities bubble popped and prices of oil and gold, for instance, came down to their proper levels. Similarly, low interest rate policies by the U.S. Federal Reserve in the 2001–2004 are believed to have exacerbated housing and commodities bubbles. The housing bubble popped as subprime mortgages began to default at much higher rates than expected, which also coincided with the rising of the fed funds rate.

It has also been variously suggested that bubbles may be rational, intrinsic, and contagious. To date, there is no widely accepted theory to explain their occurrence. Recent computer-generated agency models suggest excessive leverage could be a key factor in causing financial bubbles.

Puzzlingly for some, bubbles occur even in highly predictable experimental markets, where uncertainty is eliminated and market participants should be able to calculate the intrinsic value of the assets simply by examining the expected stream of dividends. Nevertheless, bubbles have been observed repeatedly in experimental markets, even with participants such as business students, managers, and professional traders. Experimental bubbles have proven robust to a variety of conditions, including short-selling, margin buying, and insider trading.

**Accounting and Bookkeeping**

Accounting and Bookkeeping is the process of identifying (определение), measuring (измерение/оценка), recording (запись) and communicating economic information about an organization or other entity. Bookkeeping is the record-keeping aspect of accounting. Accounting principles are applied (применяются) in the preparation of financial statements and other financial information.

Personal record keeping (персонифицированный учет) often uses a simple-entry bookkeeping (система простого учета), in which amounts are recorded (записываются) in column form. Such entries (записи) include the date of the transaction, its nature and the amount of money.

Record keeping (ведение записей) of organizations is based on a double-entry system (двойная система бухучета). Each transaction is recorded on the basis of its influence (влияние) on the organization’s financial position or operating results (результаты хозяйственной деятельности предприятия). Information about financial position of an enterprise is presented in a balance sheet, while operating results are displayed in an income statement account. Data (данные, информация) relating to an organization’s liquidity and changes in its financial structure are shown in a financial statement. Such financial statements are prepared to provide information about past performance, which in turn (в свою очередь) becomes a basis for readers to try to project what might happen in the future.

Accounting information

Accounting information can be classified into two categories: financial accounting (финансовый учет) or public information and managerial accounting (управленческий/внутренний учет) or private information.

Financial accounting includes information distributed (предоставляемый) to stockholders, creditors, customers, suppliers, financial analysts and trade associations. This information is also of interest to the company’s officers and managers. Such information relates to (относится к) the financial position, liquidity (that is ability to convert to cash (обращать в наличные)) and profitability of an enterprise.

Managerial accounting deals with cost-profit-volume relationships (зависимость прибыли и убытков от объема производства), efficiency and productivity, planning and control, pricing decisions, capital budgeting and similar matters. This information is not generally distributed (представлена, распространена и под.) outside the company. Managerial accounting provides a wide variety of specialized reports for division managers (руководителя филиала), department heads (руководители отделов), project directors, section supervisors and other managers.

**Financial institutions**

Financial institutions are corporations which provide services as intermediaries of financial markets. Broadly speaking, there are three major types of financial institutions.

Depository institutions – deposit-taking institutions that accept and manage deposits and make loans, including banks, building societies, credit unions, trust companies, and mortgage loan companies.

Contractual institutions – insurance companies and pension funds.

Investment institutions – investment banks, underwriters, brokerage firms.

Some experts see a trend toward homogenisation of financial institutions, meaning a tendency to invest in similar areas and have similar business strategies. A consequence of this might be fewer banks serving specific target groups, and small-scale producers may be under-served.

Financial institutions in most countries operate in a heavily regulated environment because they are critical parts of countries' economies, due to economies' dependence on them to grow the money supply via fractional reserve lending. Regulatory structures differ in each country, but typically involve prudential regulation as well as consumer protection and market stability. Some countries have one consolidated agency that regulates all financial institutions while others have separate agencies for different types of institutions such as banks, insurance companies and brokers.

Countries that have separate agencies include the United States, where the key governing bodies are the Federal Financial Institutions Examination Council (FFIEC), Office of the Comptroller of the Currency - National Banks, Federal Deposit Insurance Corporation (FDIC) State "non-member" banks, National Credit Union Administration (NCUA) - Credit Unions, Federal Reserve (Fed) - "member" Banks, Office of Thrift Supervision - National Savings & Loan Association, State governments each often regulate and charter financial institutions.

Countries that have one consolidated financial regulator include: Norway with the Financial Supervisory Authority of Norway, Germany with Federal Financial Supervisory Authority and Russia with Central Bank of Russia.

**Asset**

In financial accounting, an asset is an economic resource. Anything tangible or intangible that can be owned or controlled to produce value and that is held by a company to produce positive economic value is an asset. Simply stated, assets represent value of ownership that can be converted into cash (although cash itself is also considered an asset).

The balance sheet of a firm records the monetary value of the assets owned by that firm. It covers money and other valuables belonging to an individual or to a business. One can classify assets into two major asset classes: tangible assets and intangible assets. Tangible assets contain various subclasses, including current assets and fixed assets. Current assets include inventory, while fixed assets include such items as buildings and equipment.

Intangible assets are nonphysical resources and rights that have a value to the firm because they give the firm some kind of advantage in the marketplace. Examples of intangible assets include goodwill, copyrights, trademarks, patents and computer programs, and financial assets, including such items as accounts receivable, bonds and stocks.

*Fixed assets*

Also referred to as PPE (property, plant, and equipment), these are purchased for continued and long-term use in earning profit in a business. This group includes as an asset land, buildings, machinery, furniture, tools, IT equipment, e.g., laptops, and certain wasting resources e.g., timberland and minerals. They are written off against profits over their anticipated life by charging depreciation expenses (with exception of land assets). Accumulated depreciation is shown in the face of the balance sheet or in the notes. An asset is an important factor in a balance sheet.

*Intangible Assets*

Intangible assets lack of physical substance and usually are very hard to evaluate. They include patents, copyrights, franchises, goodwill, trademarks, trade names, etc. These assets are (according to US GAAP) amortized to expense over 5 to 40 years with the exception of goodwill.

*Tangible Assets*

Tangible assets are those that have a physical substance, such as currencies, buildings, real estate, vehicles, inventories, equipment, art collections, precious metals, rare-earth metals, Industrial metals, and crops.

Depreciation is applied to tangible assets when those assets have an anticipated lifespan of more than one year. This process of depreciation is used instead of allocating the entire expense to one year.

**Stock**

*Stock and shares*

The shares together form stock. The stock of a corporation is partitioned into shares, the total of which are stated at the time of business formation. Additional shares may subsequently be authorized by the existing shareholders and issued by the company. In some jurisdictions, each share of stock has a certain declared par value, which is a nominal accounting value used to represent the equity on the balance sheet of the corporation. In other jurisdictions, however, shares of stock may be issued without associated par value.

Shares represent a fraction of ownership in a business. A business may declare different types (or classes) of shares, each having distinctive ownership rules, privileges, or share values. Ownership of shares may be documented by issuance of a stock certificate. A stock certificate is a legal document that specifies the number of shares owned by the shareholder, and other specifics of the shares, such as the par value, if any, or the class of the shares.

In the United Kingdom, Republic of Ireland, South Africa, and Australia, stock can also refer to completely different financial instruments such as government bonds or, less commonly, to all kinds of marketable securities.

*Types*

Stock typically takes the form of shares of either common stock or preferred stock. As a unit of ownership, common stock typically carries voting rights that can be exercised in corporate decisions. Preferred stock differs from common stock in that it typically does not carry voting rights but is legally entitled to receive a certain level of dividend payments before any dividends can be issued to other shareholders. Convertible preferred stock is preferred stock that includes an option for the holder to convert the preferred shares into a fixed number of common shares, usually any time after a predetermined date. Shares of such stock are called "convertible preferred shares" (or "convertible preference shares" in the UK).

New equity issue may have specific legal clauses attached that differentiate them from previous issues of the issuer. Some shares of common stock may be issued without the typical voting rights, for instance, or some shares may have special rights unique to them and issued only to certain parties. Often, new issues that have not been registered with a securities governing body may be restricted from resale for certain periods of time.

Preferred stock may be hybrid by having the qualities of bonds of fixed returns and common stock voting rights. They also have preference in the payment of dividends over common stock and also have been given preference at the time of liquidation over common stock. They have other features of accumulation in dividend. In addition, preferred stock usually comes with a letter designation at the end of the security

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**Liability**

In financial accounting, a liability is defined as the future sacrifices of economic benefits that the entity is obliged to make to other entities as a result of past transactions or other past events, the settlement of which may result in the transfer or use of assets, provision of services or other yielding of economic benefits in the future.

A liability is defined by the following *characteristics*:

- any type of borrowing from persons or banks for improving a business or personal income that is payable during short or long time;

- a duty or responsibility to others that entails settlement by future transfer or use of assets, provision of services, or other transaction yielding an economic benefit, at a specified or determinable date, on occurrence of a specified event, or on demand;

- a duty or responsibility that obligates the entity to another, leaving it little or no discretion to avoid settlement;

- and, finally, a transaction or event obligating the entity that has already occurred.

Liabilities in financial accounting need not be legally enforceable; but can be based on equitable obligations or constructive obligations. An equitable obligation is a duty based on ethical or moral considerations. A constructive obligation is an obligation that is implied by a set of circumstances in a particular situation, as opposed to a contractually based obligation.

Liabilities are debts and obligations of the business they represent as creditor's claim on business assets.

*Classification*

Liabilities are reported on a balance sheet and are usually divided into two categories.

Current liabilities – these liabilities are reasonably expected to be liquidated within a year. They usually include payables such as wages, accounts, taxes, and accounts payable, unearned revenue when adjusting entries, portions of long-term bonds to be paid this year, short-term obligations (e.g. from purchase of equipment).

Long-term liabilities – these liabilities are reasonably expected not to be liquidated within a year. They usually include issued long-term bonds, notes payables, long-term leases, pension obligations, and long-term product warranties.

Liabilities of uncertain value or timing are called provisions.

**Franchising**

*Franchising* is based on a marketing concept which can be adopted by an organisation as a strategy for business expansion. Where implemented, a franchiser licenses its know-how, procedures, intellectual property, use of its business model, brand; and rights to sell its branded products and services to a franchisee. In return the franchisee pays certain fees and agrees to comply with certain obligations, typically set out in a Franchise Agreement.

The word "franchise" is of Anglo-French derivation – from franc, meaning free – and is used both as a noun and as a (transitive) verb. For the franchisor, use of a franchise system is an alternative business growth strategy, compared to say expansion through corporate owned outlets or "chain stores". Adopting a franchise system business growth strategy for the sale and distribution of goods and services minimises the franchisor's capital investment and liability risk.

As with any business venture, franchising is not immune to risk. But if undertaken in the right way, franchising can be a vehicle of success for both the franchisor and franchisee.

Thirty-three countries have laws that explicitly regulate franchising, with the majority of all other countries having laws which have a direct or indirect effect on franchising. Franchising is also used as a foreign market entry mode.

Franchising brings with it several advantages and disadvantages for firms looking to expand into new areas and foreign markets. The primary advantage is that the firm does not have to bear the development cost and risks of opening a foreign market on its own, as the Franchisee is typically responsible for those costs and risks, putting the onus on the Franchisee to build a profitable operation as quickly as possible. Through franchising a firm has the potential of building a global presence quickly and also at a low cost and risk.

A primary disadvantage to franchising is quality control, as the franchisor wants the firm's brand name to convey a message to consumers about the quality and consistency of the firm's product. They want the consumer to experience the same quality regardless of location or franchise status. This can prove to be an issue with franchising, as a customer who had a bad experience at one franchise may assume that they will have the same experience at other locations with other services. Distance can make it difficult for firms to detect whether or not the franchises are of poor quality. One way around this disadvantage is to set up extra subsidiaries in each country or state in which the firm expands. This creates a smaller number of franchisees to oversee, which will reduce the quality control challenges.

**Diversification (marketing strategy)**

*Diversification* is a corporate strategy to enter into a new market or industry in which the business doesn't currently operate, while also creating a new product for that new market. This is risky, as the business has no experience in the new market and does not know if the product is going to be successful.

A diversification strategy stands apart from the other three strategies. Whereas, the first three strategies are usually pursued with the same technical, financial, and merchandising resources used for the original product line, the diversification usually requires a company to acquire new skills and knowledge in product development as well as new insights into market behavior simultaneously. This not only requires the acquisition of new skills and knowledge, but also requires the company to acquire new resources including new technologies and new facilities, which exposes the organisation to higher levels of risk.

Note: The notion of diversification depends on the subjective interpretation of “new” market and “new” product, which should reflect the perceptions of customers rather than managers. Indeed, products tend to create or stimulate new markets; new markets promote product innovation.

Product diversification involves addition of new products to existing products either being manufactured or being marketed. Expansion of the existing product line with related products is one such method adopted by many businesses. Adding tooth brushes to tooth paste or tooth powders or mouthwash under the same brand or under different brands aimed at different segments is one way of diversification. These are either brand extensions or product extensions to increase the volume of sales and the number of customers.

*A typology of diversification strategies*

The strategies of diversification can include internal development of new products or markets, acquisition of a firm, alliance with a complementary company, licensing of new technologies, and distributing or importing a products line manufactured by another firm. Generally, the final strategy involves a combination of these options. This combination is determined in function of available opportunities and consistency with the objectives and the resources of the company.

There are three types of diversification: concentric, horizontal, and conglomerate.

**Security**

A security is a tradable financial asset. The term commonly refers to any form of financial instrument, but its legal definition varies by jurisdiction. In some jurisdictions the term specifically excludes financial instruments other than equities and fixed income instruments. In some jurisdictions it includes some instruments that are close to equities and fixed income, e.g., equity warrants. In some countries and languages the term "security" is commonly used in day-to-day parlance to mean any form of financial instrument, even though the underlying legal and regulatory regime may not have such a broad definition.

In the United Kingdom, the national competent authority for financial markets regulation is the Financial Conduct Authority; the definition in its Handbook of the term "security" applies only to equities, debentures, alternative debentures, government and public securities, warrants, certificates representing certain securities, units, stakeholder pension schemes, personal pension schemes, rights to or interests in investments, and anything that may be admitted to the Official List.

In the United States, a security is a tradable financial asset of any kind. Securities are broadly categorized into:

- debt securities (e.g., banknotes, bonds and debentures)

- equity securities (e.g., common stocks)

- derivatives (e.g., forwards, futures, options, and swaps).

The company or other entity issuing the security is called the issuer. A country's regulatory structure determines what qualifies as a security. For example, private investment pools may have some features of securities, but they may not be registered or regulated as such if they meet various restrictions.

Securities may be represented by a certificate or, more typically, "non-certificated", that is in electronic (dematerialized) or "book entry" only form. Certificates may be bearer, meaning they entitle the holder to rights under the security merely by holding the security, or registered, meaning they entitle the holder to rights only if he or she appears on a security register maintained by the issuer or an intermediary. They include shares of corporate stock or mutual funds, bonds issued by corporations or governmental agencies, stock options or other options, limited partnership units, and various other formal investment instruments that are negotiable and fungible.

**Laissez-faire**

***Laissez-faire*** is an economic system in which transactions between private parties are free from government intervention such as regulation, privileges, tariffs and subsidies.

Being a system of thought, laissez-faire rests on the following axioms:

- the individual is the basic unit in society;

- the individual has a natural right to freedom;

- the physical order of nature is a harmonious and self-regulating system.

Corporations are creatures of the State and therefore must be watched closely by the citizenry due to their propensity to disrupt the Smithian spontaneous order.

These axioms constitute the basic elements of laissez-faire thought, although another basic and often-disregarded element is that markets should be competitive, a rule that the early advocates of laissez-faire have always emphasized. To maximize freedom and allow markets to self-regulate, early advocates of laissez-faire proposed a *impôt unique*, a tax on land rent to replace all taxes that damage welfare by penalizing production.

*Critiques*

Over the years, a number of economists have offered critiques of laissez-faire economics.

Adam Smith acknowledged deep moral ambiguities towards the system of capitalism. Smith had severe misgivings concerning some aspects of each of the major character-types produced by modern capitalist society: the landlords, the workers and the capitalists. Smith claimed "[t]he landlords' role in the economic process is passive. Their ability to reap a revenue solely from ownership of land tends to make them indolent and inept, and so they tend to be unable to even look after their own economic interests" and that "[t]he increase in population should increase the demand for food, which should increase rents, which should be economically beneficial to the landlords". According to Smith, the landlords should thus be in favour of policies which contribute to the growth in the wealth of nations. Unfortunately, they often are not in favour of these pro-growth policies because of their own indolent-induced ignorance and intellectual flabbiness.

The British economist John Maynard Keynes condemned laissez-faire economic policy on several occasions. In The End of Laissez-faire (1926), one of the most famous of his critiques, Keynes argues that the doctrines of laissez-faire are dependent to some extent on improper deductive reasoning and Keynes says the question of whether a market solution or state intervention is better must be determined on a case-by-case basis.