

**МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ  
ДЕРЖАВНИЙ ЕКОНОМІКО-ТЕХНОЛОГІЧНИЙ УНІВЕРСИТЕТ  
ТРАНСПОРТУ**

**Кафедра «Іноземні мови»**

**А. О. ВОРНАЧЕВ**

**АНГЛІЙСЬКА МОВА  
(за професійним спрямуванням)**

**Методичні рекомендації щодо проведення практичних занять і  
самостійного опрацювання матеріалу.  
Для студентів освітнього ступеня «Бакалавр»  
напряму підготовки 6.030509 «Облік і аудит» усіх форм навчання**

**Київ 2016**

УДК 811.111 (075.8)

I 31

**Ворначев А.О. Англійська мова (за професійним спрямуванням)**

Методичні рекомендації щодо проведення практичних занять і самостійного опрацювання матеріалу. Для студентів освітнього ступеня «Бакалавр» напряму підготовки 6.030509 «Облік і аудит» усіх форм навчання / А.О. Ворначев. – К.: ДЕТУТ, 2016. – 152 с.

Методичні рекомендації розроблено відповідно до Робочої навчальної програми «Англійська мова за (професійним спрямуванням)».

Навчальні матеріали цієї методичної розробки мають на меті ознайомити студентів із особливостями їхньої професійної діяльності англійською мовою. Тренувальні та контрольні завдання спрямовані на формування у студентів освітнього ступеня «Бакалавр» навичок усного та писемного мовлення за професійним спрямуванням англійською мовою. Тексти методичної розробки є професіє-орієнтованими за характером, висвітлюють міжнародні стандарти економіки загалом та обліку і аудиту зокрема.

Методичні рекомендації розглянуто та рекомендовано до друку рішенням кафедри ІМ ДЕТУТ (протокол № 2 від 26 жовтня 2015 р.), методичної комісії факультету УЗТ (протокол № 3 від 17 листопада 2015 р.).

**Укладач:** А.О. Ворначев, к. ф. н., доцент кафедри іноземних мов  
Державного економіко-технологічного університету транспорту

**Рецензенти:** Г.Г. Михайленко, викладач кафедри іноземних мов Київського  
національного університету будівництва і архітектури

Л.В. Кушмар, к. філол. н., доцент кафедри «Іноземні мови»  
Державного економіко-технологічного університету транспорту

Ворначев А.О.  
© ДЕТУТ, 2016

## ЗМІСТ

<b>Передмова</b> .....	4
<b>Методичні рекомендації щодо проведення практичних занять</b> .....	5
<b><i>PART I. Economics and economic mechanisms</i></b> .....	7
1. Profession of an economist.....	7
2. Economics as a science.....	12
3. Economic systems.....	18
4. Gross domestic product.....	25
5. Inflation.....	31
6. Economic business cycles and unemployment.....	37
7. Banking.....	45
8. Money and monetary policy.....	57
9. Fiscal policy.....	64
10. Supply and demand.....	69
11. Market structure.....	74
12. International trade.....	80
<b><i>PART II. Accounting and audit</i></b> .....	87
1. Accounting.....	87
2. Financial statements and bookkeeping.....	96
3. Accountant work skills.....	101
4. Development of the accounting profession.....	106
5. International financial reporting standards.....	110
6. Annual financial statements.....	115
7. Company performance.....	121
8. Accounting for banks.....	125
9. Green accounting.....	130
10. Auditor's opinion on a company's financial report.....	134
11. Auditor liability.....	139
12. Audit report on the company financial statement.....	144
<b>Критерії оцінювання знань студентів</b> .....	150
<b>Список використаної літератури</b> .....	151

## ПЕРЕДМОВА

Навчальні матеріали представленої методичної розробки з дисципліни «Англійська мова (за професійним спрямуванням)» призначені для студентів освітнього ступеня «Бакалавр» напряму підготовки 6.030509 «Облік і аудит» усіх форм навчання та є стрижневим компонентом навчально-методичного комплексу з англійської мови, що забезпечує курс професіє-орієнтованого навчання студентів із вказаної спеціальності.

Методичні рекомендації складені відповідно до вимог Робочої навчальної програми «Англійська мова (за професійним спрямуванням)» і розраховані на 120 годин аудиторної роботи при повному обсязі курсу в 360 годин.

Необхідність цих методичних рекомендацій обумовлена тим, що професійне іншомовне спілкування є функціонально значущим блоком у системі підготовки сучасного економіста. Особливу актуальність воно набуває на сучасному етапі соціально-економічного розвитку. Відкритість кордонів, процеси інтеграції матеріальної і духовної культури багатьох сторін життя європейської та світової спільноти, розвиток інформаційних технологій привели до розширення міжнародних зв'язків, створення спільних підприємств, проектів та інших форм співробітництва. Знання мов міжнародного спілкування стало важливою частиною кваліфікаційної характеристики економіста, дозволяючи йому якісно виконувати свої функціональні обов'язки, відкриваючи доступ до бази сучасних наукових даних і забезпечуючи конкурентоспроможність вітчизняного фахівця на світовому ринку праці.

Зміст методичних рекомендацій погоджено з профілюючою кафедрою. Він корелює зі змістом спеціальних дисциплін, що забезпечує ефективну адаптацію майбутнього фахівця до багатогранної професійної діяльності в умовах міжкультурного спілкування. Широке охоплення професійної тематики дозволяє найповніше скласти уявлення про соціокультурні особливості функціонування економічних систем в англійськомовних країнах.

## **МЕТОДИЧНІ РЕКОМЕНДАЦІЇ ЩОДО ПРОВЕДЕННЯ ПРАКТИЧНИХ ЗАНЯТЬ**

Ефективна робота над іншомовним матеріалом вимагає системності, тому ці методичні рекомендації побудовано із максимально доцільним застосуванням принципу аналогічності. Кожна навчальна «порція» завдань у межах однієї теми містить навчальний матеріал, спрямований на опрацювання лексико-семантичних особливостей англomовних текстів за фахом, активізацію граматичної компетенції та рецептивно-репродуктивних мовленнєвих навичок, розвиток навичок ознайомчого та переглядового читання, розвиток навичок аналітичного читання і продуктивних мовленнєвих навичок, та завдань, спрямованих на утворення і розвиток у студентів індивідуального досвіду професійної діяльності з використанням англійської мови.

Мета розробки полягає у формуванні у студентів освітнього ступеня «Бакалавр» напряму підготовки 6.030509 «Облік і аудит» необхідної комунікативної спроможності в сферах професійного спілкування в усній і письмовій формах, навичок практичного володіння англійською мовою у різних видах мовленнєвої діяльності в обсязі тематики, зумовленої професійними потребами оволодіння фаховою інформацією за допомогою іншомовних джерел. Ця мета передбачає застосування професіє-орієнтованого підходу до навчання, який став загально визнаним і обов'язковим для немовних вищих закладів освіти і є основою опанування студентами англійської мови, орієнтованої на роботу за обраним фахом.

За своєю структурою методичні рекомендації складають серію розділів (24), організованих за тематичним принципом. Перші 12 розділів утворюють 1 частину рекомендацій під загальною назвою «Economics and Economic Mechanisms». Ця частина розрахована на студентів першого курсу і має на меті ознайомити їх із загальними принципами та механізмами економіки. Друга частина рекомендацій розрахована на студентів другого курсу, складається з останніх 12 розділів під загальною назвою «Accounting and Audit» і має на меті

занурення студентів у сферу безпосередньо їхньої професійної діяльності, а саме, облік і аудит.

Кожен розділ (розрахований на 5 академічних годин) – це самостійний лінгвометодичний комплекс, який систематизує матеріал за основними видами мовленнєвої діяльності. Він має уніфіковану структуру і складається з наступних частин:

- Автентичних текстів і завдань з розвитку навичок різних видів читання (вивчаючого, переглядового, ознайомлювального, пошукового);

- Завдань з навчання письма (есе, анотування, реферування), сфокусованих на індивідуальних потребах студентів, найбільш ймовірних в їх подальшій професійній діяльності;

- Комплексу завдань і вправ з розвитку навичок аудіювання та перекладу;

- Завдань для поглиблення комунікативної компетенції учнів у рамках заданої проблематики максимально наближеної до реальних професійних ситуацій;

- Аналізу проблем економічного характеру на основі конкретних прикладів діяльності корпорацій і приватних підприємців (case study).

Передбачається, що комплексне навчання усім видам мовленнєвої діяльності на тематичній основі (content based approach) сприятиме більш глибокому і всебічному засвоєнню матеріалу і тим самим досягненню головної мети навчання: комунікативного та соціокультурного розвитку особистості, здатної використовувати іноземну мову як засіб професійного спілкування в діалозі культур: рідної та іноземної.

**PART I**  
**ECONOMICS AND ECONOMIC MECHANISMS**

**1. PROFESSION OF AN ECONOMIST**

---

**DISCOVERING CONNECTIONS**

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

**READING**

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

**Careers: Economist**

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

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

The other half of all economists work for government or business.

*Government economists* collect and analyze information about economic conditions in the nation and possible changes in government economic policies. Much of this information is published in government bulletins and reports. Often the government economist wears a second hat<sup>1</sup> as a policy analyst. Economists forecast tax revenues and interest rates, analyze, who gains and who loses from particular

changes, monitor prices, compute total output and perform other useful tasks in the public sector.

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

Some economists operate their own economic businesses. They are called *entrepreneurs*. This is a French word that has been accepted into the English language. Entrepreneurs are a mystery to some people, especially those who are only comfortable with a nine-to-five existence and assured weekly paychecks and fringe benefits. The entrepreneur is a business person who prefers to take calculated risks in order to be his or her own boss. An individual hoping to start up a new company needs to have entrepreneurial flair or talent, as well as good technical skills and financial skills, because they make a profit through risk-taking or initiative. They are self-employed, and often work long hours for less pay than they would if they were an employee of another company.

While the percentage of growth for men entering into business independence could be measured in the teens, women's increase in a single decade was 69 percent. There is no mystery here. Women go into business for the same reason men do – to make money and to be their own bosses.

Entrepreneurship is regarded to be the first track to success. Rather than to take a low-wage, big-industry job, people opt<sup>2</sup> to use their wits and energy to climb the ladder of independence. People who are successful in business and so have become rich and powerful are called tycoons.

Speaking about entrepreneurship, Professor K. Vesper of the University of Washington says that “A driving force in entrepreneurship is addictiveness<sup>3</sup>. Once people have a taste of freedom in a business of their own, they like it. They don't want to go back to working for someone else.”

**Notes:**

1. Wear a second hat – займати другу посаду.
2. Opt – вибирати, віддавати перевагу (for; between).
3. Addictiveness – той, що викликає звикання.

## ***Vocabulary Focus***

**Ex. 1.** Study the meaning of the following words and then use them to fill in the gaps: ***monitor, check*** and ***control***.

- We *check* something to see if it is correct.
  - The word *control* refers to power and domination. It is both a noun and a verb.
  - If you *monitor* something you regularly check its progress.
1. I've ... the documentation and everything is in order.
  2. Inflation has not gone away but it is under ... .
  3. We constantly ... the situation and if anything goes wrong we take action immediately.
  4. We apologize for the delay which is due to reasons beyond our ... .
  5. Economists ... prices, compute total output and perform other useful tasks.

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

- A salary is paid monthly and usually by bank transfer. We use the word *salary* for monthly payments to professional employees.
- Wages are paid weekly to manual or unskilled workers.
- Fringe benefits (also known as *perks*) are extra payments (a company car, free accommodation etc.). In many job advertisements the combination of salary plus perks is called a *remuneration package*.

*Complete this extract from a job advertisement.*

We are offering an attractive ... .., including basic ... of 60K p.a<sup>1</sup>., plus numerous ... such as subsidized accommodation, free medical insurance etc.

***Note:***

1. K p. a. – one thousand per annum.

**Ex. 2.** Match the following word combinations in column **A** with their Ukrainian equivalents in column **B**:

- | <b>A</b>                      | <b>B</b>                       |
|-------------------------------|--------------------------------|
| 1) academic argument          | a) здобути професію економіста |
| 2) to provide fringe benefits | b) займатися комерцією         |

- |                                |  |
|--------------------------------|--|
| 3) a private entrepreneur      | c) теоретичний доказ                   |
| 4) an independent entrepreneur | d) дохід від податків                  |
| 5) to show a flair             | e) приватний підприємець               |
| 6) to engage in business       | f) виявляти здатність (до чого-небудь) |
| 7) to monitor performance      | g) незалежний підприємець              |
| 8) to qualify as an economist  | h) управляти роботою                   |
| 9) tax revenue                 | i) надати додаткові пільги             |

**Ex. 3.** *Express in one word.*

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

---

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

**Ex. 4.** *Choose the words with similar meaning from two columns and arrange them in pairs.*

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

**Ex. 5.** *Complete the sentences using the words given below.*

- ... means having the qualities that are needed to succeed as an entrepreneur.
- An ... is a person who sets up business and business deals.

3. A ... is a person who is successful in business and so has become rich and powerful.
4. The industry will have to pass its increased ... on to the consumer.
5. The management will ... accommodation, food and drink for thirty people.
6. He has always been ... for his children.
7. The ... of the job include a car and free health insurance.
8. He won't ... as an economist until next year.
9. An individual hoping to start up a new company needs to have entrepreneurial ... or talent.
10. Unfortunately ... of higher profits did not come true.
11. Economists are concerned with the production, ... and ... .

---

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

### ***Comprehension***

**Ex. 1.** *Expand the sentences.*

1. Economists study the ways in which individuals and society choose to use ... .
2. They are concerned with ... .
3. About half of them are academic economists who ... .
4. The other half of the profession work for ... .
5. Government economists forecast ... .
6. Business economists work for ... .
7. Rather than to take low-wage, big-industry job, people opt to ... .
8. An individual hoping to start up a new company needs to have ... .
9. Entrepreneurship is regarded to be ... .

**Ex. 2.** *Answer the questions.*

1. What do economists study?
2. What job settings are economists employed in?
3. What are the spheres of activities of:

- a) academic economists?
  - b) government economists?
  - c) business economists?
4. How do entrepreneurs differ from above mentioned economists?
  5. What is a driving force in entrepreneurship?
  6. What is the percentage of growth for men and women entering into business independence?

**Ex. 3.** *Re-order the sentences to make a paragraph with a logical sequence.*

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

## **2. ECONOMICS AS A SCIENCE**

---

### **DISCOVERING CONNECTIONS**

1. Can you explain the difference between wants and needs? Is it possible to satisfy all the desires? Why?
2. Do you know what scarcity is? Do you agree that scarcity is typical for all nations?
3. What is a luxury and what is a necessity?

### **READING**

*As you read the text, focus on the difference between macroeconomics and microeconomics.*

#### **Economics: the Study of Scarcity and Choice**

Our world is a finite place where people, both individually and collectively, face the problem of scarcity. Scarcity is the condition in which human wants are

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

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

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

### **Macroeconomics**

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

### **Microeconomics**

Examining individual trees, leaves, and pieces of bark, rather than surveying the forest, illustrates microeconomics. Microeconomics is the branch of economics that studies decision making by a single individual, household, firm, industry, or level

of government. Microeconomics applies a microscope to specific parts of an economy, as one would examine cells in the body. The focus is on small economic units, such as economic decisions of particular groups of consumers and businesses.

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

***Vocabulary Focus***

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

*Study the explanations of the words.*

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

**Economics** is the social science concerned with the production and consumption of goods and services and the analysis of the commercial activities of a society.

**Economy** means careful management of resources to avoid unnecessary expenditure or waste; the complex of human activities concerned with the production, distribution, and consumption of goods and services; the management of the resources, finances, income, and expenditure of a community, business enterprise, etc

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

**Economist** is a specialist in economics

**Economize** means to limit or reduce (expense, waste, etc.)

<b>Econom</b>	<b>y</b>		
	<b>ics</b>		
	<b>ic</b>	<b>al</b>	<b>ly</b>
	<b>ist</b>		
	<b>ize</b>		

**Ex. 1.** *Put the right word in the blanks:*

1. Marx and Keynes are two famous \_\_\_.
2. Those people are studying the science of \_\_\_.
3. We sometimes call a person's work his \_\_\_ activity.
4. People should be very \_\_\_ with the money they earn.
5. The \_\_\_ system of a country is usually called the national \_\_\_.
6. The people in that town live very \_\_\_.

**Ex. 2.** *Complete the following sentences with the appropriate word from the list below.*

economic	economics	economize
economical	economist	economy

1. A good manager is \_\_\_\_\_ in the use of his funds.
2. An \_\_\_\_\_ person saves money and expense wherever possible.
3. An \_\_\_\_\_ is a person who studies, teaches, or writes about economics.
4. By exercising strict \_\_\_\_\_ he saved enough money to retire early.
5. By using \_\_\_\_\_ in buying food and clothes, we were soon able to save money for the new car we needed.
6. \_\_\_\_\_ is a social science concerning behavior in the fields of production, consumption, distribution, and exchange.
7. In times of difficulties we all have to \_\_\_\_\_.
8. It is much more \_\_\_\_\_ to buy in bulk.
9. Nations experience different rates of \_\_\_\_\_ growth.
10. The country is in the period of \_\_\_\_\_ and industrial crisis.

*The table shows how words are formed around the verb **to produce**.*

<b>Produc</b>	e	r	
	t	iv(e)	ity
		ion	

*Use these words in the suitable blanks:*

1. The company \_\_\_ a new commodity every year.

2. The company's newest \_\_ is a special blue soap powder.
3. The \_\_ of soap powders met last year to discuss prices.
4. That factory is not as \_\_ now as it was 5 years ago.
5. The \_\_ of that factory has gone down over the last 5 years.
6. The manager of the factory has decided that they must increase their \_\_\_\_\_ of packets of soap powder.

**Ex. 3.** *From two columns choose the words with similar meaning and arrange them in pairs.*

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

**Ex. 4.** *From two columns choose the words with opposite meaning and arrange them in pairs.*

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

**Ex. 5.** *Form the following pairs of derivatives and memorize them.*

V	→	N	N	→	A
govern			threat		
		provision			wealthy
apply			economics		
		improvement	nation		
grow					scientific
		development			

**Ex. 6.** *Match English and Ukrainian equivalents.*

- | <b>A</b>                          | <b>B</b>                           |
|-----------------------------------|------------------------------------|
| 1) задовольняти будь-яке бажання  | a) to face the problem of scarcity |
| 2) зіткнутися з проблемою нестачі | b) to satisfy every desire         |
| 3) перспективний погляд           | c) unsatisfied wants               |
| 4) розподіляти ресурси            | d) economy's ability               |
| 5) вічна проблема                 | e) an affluent individual          |
| 6) істотне економічне зростання   | f) to be dissatisfied              |
| 7) поліпшувати якість             | g) to improve the quality          |
| 8) бути незадоволеним             | h) substantial economic growth     |
| 9) заможний індивідуум            | i) perpetual problem               |
| 10) здатність економіки           | j) to allocate resources           |
| 11) вічні потреби                 | k) perspective overview            |

**Comprehension**

**Ex. 1.** *Expand the sentences, using the text.*

1. Our world is a finite place where people ... .
2. Scarcity is the condition in which... .
3. Economics is the study of how ... .
4. Macroeconomics is the branch of economics that ... .
5. Microeconomics is ... .

**Ex. 2.** *Choose the right variant.*

1. The condition of scarcity:
  - a. cannot be eliminated.
  - b. prevails in poor economies.
  - c. prevails in rich economies.
  - d. all of the above.
  - e. none of the above.
2. The condition of scarcity can be eliminated if:
  - a. people satisfy needs rather than false wants.
  - b. sufficient new resources were discovered.

- c. output of goods and services were increased.
  - d. all of the above.
  - e. none of the above.
3. The subject of economics is primarily the study of:
- a. the government decision-making process.
  - b. how to operate a business successfully.
  - c. decision-making because of the problem of scarcity.
  - d. how to make money in the stock market.
4. Which of the following is included in the study of macroeconomics?
- a. Salaries of college professors.
  - b. Computer prices.
  - c. Unemployment in the nation.
  - d. Silver prices.
5. Microeconomics approaches the study of economics from the viewpoint of:
- a. individual or specific markets.
  - b. the national economy.
  - c. government units.
  - d. economy-wide markets.

### **3. ECONOMIC SYSTEMS**

---

#### **DISCOVERING CONNECTIONS**

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

#### **READING**

*As you read the text, focus on the concept “economic system”.*

#### **Economic System**

People and societies organize economic life to deal with the basic problems raised

by scarcity and opportunity cost through economic systems. An economic system works via the interaction of three invisible forces: the invisible hand (economic forces), invisible foot (political forces) and invisible handshake (social forces).

An economic system can be described as the collection of institutions, laws, activities, controlling values, human incentives that collectively provide a framework for economic decision-making. An economic system is closely tied to a political system through which people decide what their society desires. In a democracy, voting procedures determine society's will. In an autocracy, a ruling individual or group of individuals decides what society's desires are.

Before we discuss how the invisible forces operate, we need to find out what people can reasonably expect from an economic system.

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

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

Once the question of what to produce is answered, it is necessary to decide what production methods are to be used. For example, food can be produced by a large number of workers using simple and inexpensive tools, or by a small number of workers using complex and expensive machinery. The same is true of the production of most items you use every day.

Because no nation can produce enough goods and services to satisfy everybody's wants, it is necessary for people to have a method of deciding who gets the goods and

services produced. Should everybody get an equal share, or should some people get more goods and services than others? If some people are to get more, how much more should they receive? This second question is perhaps the most difficult of all because it involves the issue of fairness; and different people have different ideas about what is fair.

Any economic system must use one or more decision – making methods or rules. Though the list of ways to make decisions is long, there are three basic approaches to economic decisions.

One of them is based on tradition (families often decide to do something the “old way”; people generally repeat the decisions made at an earlier time or by an earlier generation, etc.).

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

The third is based on markets (individuals bargain with one another privately to obtain goods) and so on.

Most economic systems use one of three basic methods to make economic decisions.

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

*Traditional economy* is an economic system using social customs to answer the basic economic questions.

Nowadays traditional economies are found primarily in the rural, non-industrial areas of the world. In such areas, there is no national economy. Instead, there are many small segmented economies, each centred around a family or tribal unit. Each unit produces most of its own goods and consumes what it produces. The basic economic questions of “what”, “how”, and “for whom” are answered directly by the people involved, and the answers are usually based on tradition.

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

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

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

The American economy is predominantly a market economy. Other examples of predominantly market economies include the economies of Canada, Japan, and many of the countries of Western Europe.

In actual practice, there are no real economies in the world that rely solely on freely operating markets or on government decisions to answer basic economic questions. All major economies are mixed economies in the sense that some decisions are made through a system of freely operating, or free markets, by individual households and businesses, and some are made by the government. In *mixed economies*, a distinction is usually made between the private sector, in which decisions are made primarily by

individual households and businesses, and the public sector, in which decisions are made by the government.

Mixed economy is an economic system that relies on a mixture of markets, government commands and tradition. This economic system is used in most countries. The United States are an example of this type of economy. Most decisions there are made by individuals and firms as they exchange goods, services, and resources in private markets. But some decisions are made through the political process of government.

Although several countries own most resources, especially land and large basic enterprises like steel plants, hospitals, and electric power plants, markets are allowed to play a role in certain economic activities, such as dining in restaurants, repairing shoes, selling garden produce, etc. Even China, at one time an extreme example of a command economy, has in recent years taken steps toward allowing some markets to operate.

In the 1990s there appeared a new term *transition economy* to describe the countries of Eastern Europe and the former Soviet Union. Transition economies face the task of moving from a centrally-planned system of resource allocation towards a more market-oriented approach.

### ***Vocabulary Focus***

**Ex. 1.** Match the words in column A with their definitions in column B.

#### **A**

- 1) invisible hand
- 2) invisible foot
- 3) invisible handshake
- 4) autocracy
- 5) labour resources

#### **B**

- a) social forces
- b) economic forces
- c) physical and mental talents that people can make available for production
- d) political forces
- e) absolute power

**Ex. 2.** Complete the sentences, use the words and expressions from the text.

1. An economic system works via ... of three invisible forces.
2. An economic system can be described as the collection of laws, activities, values and human ....

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

---

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

**Ex. 3.** Match the Ukrainian word combinations from *A* with their English equivalents from *B*.

- | <b>A</b>                                   | <b>B</b>             |
|--|----------------------|
| 1) альтернативна вартість, ціна можливості | a) capital goods     |
| 2) невидимі сили                           | b) opportunity cost  |
| 3) засоби виробництва                      | c) economic decision |
| 4) споживчі товари                         | d) invisible forces  |
| 5) процедура голосування                   | e) bargain           |
| 6) задовольнити потреби                    | f) voting procedures |
| 7) торгуватися про ціну                    | g) satisfy wants     |
| 8) економічний висновок                    | h) consumer goods    |

**Ex. 4.** Fill in the following prepositions: *into, for, by, with, from, out, through, to*.

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

## ***Comprehension***

**Ex. 1.** Complete the sentences using information from the text.

1. People and societies organize economic life through ... .
2. An economic system works via the interaction of three invisible forces. They are... .
3. An economic system can be described as ... .
4. There are three basic economic questions that every nation must consider. They are ...
5. Three basic approaches to economic decisions are ... .

**Ex. 2.** *Say if the statements are true or false.*

1. An economic system works via the interaction of three invisible forces: the invisible hand (economic forces), invisible foot (political forces) and invisible handshake (social forces).
2. An economic system is interrelated with a political system.
3. In an autocracy voting procedures determine society's will.
4. In a democracy a group of individuals decide what society's desires are.
5. Every nation can produce enough goods and services to satisfy everybody's wants.
6. Every economic system answers three basic questions: *what, how* and *for whom*.
7. There are three basic approaches to economic decisions.

**Ex. 3.** *Answer the following questions.*

1. How can economic systems be classified?
2. What are the three invisible forces which make economic system work?
3. What are the tree basic economic questions that every nation must answer?
4. What are three basic approaches to economic decisions based on?
5. What economic systems do you know?
6. How can you characterize the economy of Ukraine?

## 4. GROSS DOMESTIC PRODUCT

---

### READING

*As you read the text, analyze the definition of GDP.*

#### **Gross Domestic Product**

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

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

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

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

GDP is based on the assumption that the owner, in effect, pays rent to himself, so the rent is included both in his expenditure and in his income.

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

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

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

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

*“Produced . . .”* GDP includes goods and services currently produced. It does not include transactions involving items produced in the past. When General Motors produces and sells a new car, the value of the car is included in GDP. When one person sells a used car to another person, the value of the used car is not included in GDP.

*“Within a Country . . .”* GDP measures the value of production within the geographic confines of a country. When a Canadian citizen works temporarily in the

United States, his production is part of U.S. GDP. When an American citizen owns a factory in Haiti, the production at his factory is not part of U.S. GDP. (It is part of Haiti's GDP.) Thus, items are included in a nation's GDP if they are produced domestically, regardless of the nationality of the producer.

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

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

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

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

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

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100$$

## ***Vocabulary Focus***

**Ex. 1.** Match the words from *A* with their synonyms from *B*.

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

**Ex. 2.** Match the verbs and nouns below to make verb-noun partnerships that are found in the text.

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

**Ex. 3.** Make the opposite to the following words by adding negative prefixes: **il-; ex-; in-; non-; un-**. Use the dictionary if necessary.

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

**Ex. 4.** Match the words in column *A* with their English equivalents in column *B*:

<b>A</b>	<b>B</b>
1) надання неринкових послуг	a) to produce output
2) випускати продукцію	b) deflator
3) загальний обсяг витрат	c) items produced and sold illicitly
4) товари, що вироблені і які продають незаконно	d) total amount of the expenditure undertaken
5) проміжний продукт	e) the provision of non-market services
6) кінцевий продукт	f) intermediate goods
7) матеріальні товари	g) produced domestically
8) рух коштів між рахунками	

- |                                 |                        |
|---------------------------------|------------------------|
| 9) нематеріальні послуги        | h) intangible services |
| 10) вироблений всередині країни | i) tangible goods      |
| 11) дефлятор                    | j) final goods         |
|                                 | k) funds transfer      |

**Ex. 5.** Match the words from A with their definitions from B.

- | A                         | B   |
|---------------------------|---|
| 1) GDP                    | a) the amount of sth product  |
| 2) Gross National Product | b) the market value of all final goods and services produced in a nation during the period of time                    |
| 3) final goods            | c) the market value of all final goods and services produced by a nations residents no matter where they are located; |
| 4) net domestic product   | d) finished goods or services produced for the ultimate user;   |
| 5) output                 | e) the gross domestic product minus depreciation of capital work out in producing output.                             |
| 6) expenditure            | f) altering sth by a small amount so that it will fit properly or be right for use                                    |
| 7) inventory              | g) an amount of money spent   |
| 8) adjustment             | h) stocks of raw materials and finished goods   |
| 9) transfer               | i) the action of transferring sth/sb  |

### **Comprehension**

**Ex. 1.** Complete the following sentences, use the prompts below:

- \_\_\_\_\_ is the most widely used measure of a nation's economic performance and is the market value of all final goods produced in the country during a period of time.
- To avoid double counting. GDP does not include \_\_\_\_\_.
- The \_\_\_\_\_ sums the four major spending components of GDP consisting of: consumption, investment, government, and net exports.
- GDP less depreciation of fixed capital equals \_\_\_\_\_.
- \_\_\_\_\_ is total income received by households and is calculated as national income less corporate taxes, retained earnings, Social Security taxes plus transfer payments and net interest from government securities.

6. \_\_\_\_\_ is personal income minus personal taxes.
7. \_\_\_\_\_ measures all final goods produced in a given time period valued at the prices existing during the time period of production.
8. \_\_\_\_\_ is the value of all final goods and services produced during any time period valued at prices existing in a base year.
9. \_\_\_\_\_ is the market value of all final goods and services produced by a nation's residents no matter where they are located.
10. A government payment to individuals not in exchange for goods or services currently produced is called a \_\_\_\_\_.
11. \_\_\_\_\_ are finished goods and services produced for the ultimate user.

---

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

**Ex. 2.** *Based on your understanding of the text, are the following TRUE or FALSE?*

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

**Ex. 3.** *Answer the questions.*

1. What factors are taken into account to describe the overall performance of the economy?
2. How can Gross Domestic Product be defined?
3. How do they manage to compare the value of absolutely different goods?
4. How do you understand the fact that GDP tries to be comprehensive?
5. Does GDP include the value of intermediate good?
6. What are the tangible goods and intangible services that GDP includes?
7. Does GDP include transactions involving items produced in the past?
8. Are items produced abroad by subsidiaries included in a nation's GDP?
9. What are most common intervals for measuring GDP?
10. How do real and nominal GDP differ?

## **5. INFLATION**

---

### **READING**

*As you read the text, focus on the terms in italics.*

#### **Meaning and Measurement of Inflation**

*Inflation* is a situation in which a decline in the purchasing power of money results in a rise of the general price level. Its opposite is *deflation*. Prices in some markets (e.g. pocket calculators) can fall even in times of inflation, and prices in some markets (e.g. medical care) rise even in times of deflation. But it is not the change in individual prices that determines the extent to which an economy is experiencing inflation or deflation. It is the upward or downward movement in the average prices of all goods and services combined that determines the extent of inflation or deflation. In other words, inflation is an increase in the overall average level of prices and not an increase in the price of any specific product. An extreme form of inflation is known as hyperinflation. *Hyperinflation* is an extremely rapid rise in the general price level. There is no consensus on when a particular rate of inflation becomes "hyper."

The boundary between inflation and deflation is price stability. Price stability occurs when the average level of prices is moving neither up nor down. The average level of prices is called the price level and is measured by a price index. *A price index* measures the average level of prices in one period as a percentage of their average level in an earlier period called the base period.

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

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

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

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

The adverse effects of inflation depend on the extent to which inflation is correctly anticipated and the extent to which it is unanticipated. If inflation is correctly anticipated, contracts can be negotiated to include “inflation premiums”. Such premiums are designed to protect lenders and other recipients of future money payments from declines

in the purchasing power of the money to be repaid to them. Lenders, for example, will insist on higher interest rates if they anticipate inflation; and the greater the inflation they anticipate, the higher the rate of interest they will ask. Borrowers who agree to the lender's terms presumably share similar anticipations of inflation.

However, it is often difficult to correctly anticipate a future rate of inflation.

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

### ***Vocabulary Focus***

**Ex. 1.** *Study the meaning of the following easily confused words and do the exercise.*

#### ***successive/successful***

***successive*** – послідовний;

***successful*** – успішний.

*Fill in the blanks with the proper word.*

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

**Ex. 2.** *Find the words or expressions in the text which mean the following.*

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

---

*Words for references:* to move upward; to negotiate; to vary; to loan out; to hurt; to result; to anticipate; to reduce.

**Ex. 3.** Using a dictionary, add as many words as possible into the table and suggest some common word partnerships with them.

Noun	Adjective/Adverb	Verb
	persistently	
	purchasing	
allowance		
recipient		
		determine
		measure
		reduce
		anticipate
		negotiate
		vary

**Ex. 4.** Complete the sentences with the words given below.

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

---

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

**Ex. 5.** Match the Ukrainian word-combinations in *A* with their English equivalents in *B*.

- | A   | B                                    |
|---|--------------------------------------|
| 1) стабільність цін                       | a) a general price level             |
| 2) рух вгору і вниз                       | b) a price stability                 |
| 3) індекс споживчих цін                   | c) a price index                     |
| 4) реальна купівельна спроможність грошей | d) a consumer price index            |
| 5) інфляційна надбавка                    | e) inflation premiums                |
| 6) зниження купівельної спроможності      | f) a decline in the purchasing power |
| 7) чекати інфляцію                        | g) the upward and downward movement  |

- |                             |                                |
|-----------------------------|--------------------------------|
| 8) загальний ціновий рівень | h) money real purchasing power |
| 9) індекс цін               | i) to anticipate inflation     |
| 10) несприятливий ефект     | j) adverse effect              |

**Ex. 6.** Match the words in *A* with their definitions in *B*.

- | <b>A</b>          | <b>B</b>   |
|-------------------|--|
| 1) inflation      | a) usual or normal position  |
| 2) deflation      | b) the amount of money etc. asked or given for something   |
| 3) disinflation   | c) amount of sth, esp. money allowed or given regularly  |
| 4) hyperinflation | d) reaction or an instance of giving one thing or person of the same type or of equal value in return for another                          |
| 5) exchange       | e) a person taking or receiving (something) with the understanding that he will return it  |
| 6) level          | f) person making a loan  |
| 7) price          | g) a logical result or conclusion  |
| 8) boundary       | h) a rise in prices and wages caused by an increase in the money supply and demand for goods and resulting in a fall in the value of money |
| 9) premium        | i) a reward or prize, an amount paid in addition to the regular change   |
| 10) borrower      | j) a limit or a border   |
| 11) lender        | k) a situation in which very large and rapid price rises occur   |
| 12) consequence   | l) a reduction in the rate of inflation.   |
| 13) allowance     | m) the reduction of the amount of money being used in a country, in order to lower prices or keep them steady                              |
| 14) base year     | n) a year chosen as a reference point  |

### ***Comprehension***

**Ex. 1.** Chose the correct answer.

1. Inflation is:

- a. an increase in the general price level.

- b. not a concern during war.
  - c. a result of high unemployment.
  - d. an increase in the relative price level.
2. Inflation is measured by an increase in:
    - a. homes, autos and basic resources.
    - b. prices of all products in the economy.
    - c. the consumer price index.
    - d. none of the above.
  3. The consumer price index (CPI):
    - a. adjusts for changes in product quality.
    - b. includes separate market baskets of goods and services for both base and current years.
    - c. includes only goods and services bought by the typical consumer.
    - d. uses current year quantities of goods and services.
  4. Deflation is a (an)
    - a. increase in most prices.
    - b. decrease in the general price level.
    - c. situation that has never occurred in U.S. history.
    - d. decrease in the inflation rate.
  5. Suppose a typical automobile tire costs \$50 in the base year and had a useful life of 40,000 miles. Ten years later, the typical automobile tire cost \$75 and had a useful life of 75,000 miles. If no adjustment is made for mileage, the CPI would:
    - a. underestimate inflation between the two years.
    - b. overestimate inflation between the two years.
    - c. accurately measure inflation between the two years.
    - d. not measure inflation in this case.

**Ex. 2.** *Say whether the following is true or false.*

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

**Ex. 3.** *Use the text to answer the questions:*

1. Do prices in the times of inflation rise in all markets equally?
2. What is the boundary between inflation and deflation?
3. What is the price level and what is it measured by?
4. How do they define the inflation rate?
5. What do they call the situation when the money real purchasing power increases?
6. What category of people is most heavily hurt by inflation?
7. What measures can be taken to protect lenders from inflation?
8. After World War II, a 12-ounce bottle of Pepsi sold for 5 cents. Nowadays, a 12-ounce can of Pepsi sells for more than 10 times that much. Can this serve as an example of inflation?
9. Consider this statement: “When the price of a good or service rises, the inflation rate rises”. Do you agree or disagree? Explain.

## **6. ECONOMIC BUSINESS CYCLES AND UNEMPLOYMENT**

---

### **READING**

#### **Text 1**

*As you read the text, focus on various theories of business cycle.*

#### **Economic Business Cycles**

The business cycle or trade cycle is a permanent feature of market economies: gross domestic product (GDP) fluctuates as booms and recessions succeed each other. During a boom, an economy (or at least parts of it) expands to the point where it is working at full capacity, so that production, employment, prices, profits, investment and interest rates all tend to rise. During a recession, the demand for goods and services declines and the economy begins to work at below its potential. Investment, output, employment, profits, commodity and share prices, and interest rates generally fall. A serious, long-lasting recession is called a depression or a slump.

The highest point on the business cycle is called a peak, which is followed by a downturn or downswing or a period of contraction. The lowest point on the business cycle is called a trough, which is followed by a recovery or an upturn or upswing or a period of expansion. Economists sometimes describe contraction as 'negative growth'.

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

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

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

business cycle is caused by governments beginning their periods of office with a couple of years of austerity Programmes followed by tax cuts and monetary expansion in the two years before the next election.

### *Vocabulary Focus*

**Ex. 1.** Match the Ukrainian words and word combinations in column A with their English equivalents in column B.

<b>A</b>	<b>B</b>
працювати на повну потужність	boom
платіжний баланс / сальдо	to work at full capacity
влязати в борги	peak
негативне зростання	balance of payments
економічний підйом	tax cut
пік, вища точка циклу	recession
нижча точка циклу	negative growth
економічний спад	trough
зниження податків	to work at below potential
працювати нижче потенційних можливостей	to run up debts

**Ex. 2.** Express in one word.

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

---

*Words for reference:* mortgage, investment, lay off, expectations, rent, demographic, consumption, austerity, industrialist, output.

**Ex. 3.** Complete the sentences using the words given below.

1. Recurrent rises and falls in real GDP over a period of years is called the \_\_\_\_\_.
2. A (an) \_\_\_\_\_ is officially defined as two consecutive quarters of real GDP decline.
3. \_\_\_\_\_ is measured by the annual percentage change in real GDP in a nation.
4. The \_\_\_\_\_ is the difference between full-employment or potential real GDP and actual real GDP.
5. The phase of the business cycle during which real GDP reaches its maximum after rising during a recovery is called a \_\_\_\_\_.
6. A \_\_\_\_\_ is a phase of the business cycle during which real GDP reaches its minimum after falling during a recession.
7. An upturn in the business cycle during which real GDP rises is called a \_\_\_\_\_.

---

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

### **Comprehension**

**Ex. 1.** Match up the following half sentences:

- | <b>A</b>   | <b>B</b>   |
|--|--|
| 1) Companies may have to reduce investment or the size of the work force | a) consumers borrow a lot of money.              |
| 2) Companies only invest   | b) if labour costs increase too much.            |
| 3) During a period of economic growth                                    | c) if their company's sales are increasing.      |
| 4) External theories of the business cycle                               | d) include psychological factors.                |
| 5) Governments often stimulate the economy                               | e) include technological and population changes. |
| 6) Increases in interest rates   | f) prior to general elections.                   |
| 7) Internal theories of the business cycle                               | g) result in higher rents and mortgages.         |
| 8) People can demand higher pay  | h) when they are afraid of becoming unemployed.  |
| 9) People tend to spend less   | i) while consumption is increasing.              |

**Ex. 2.** Choose the right answer.

1. The \_\_\_\_\_ phase of the business cycle follows a recession.

- a. recovery;
  - b. recession;
  - c. peak;
  - d. trough.
2. The GDP gap is the difference between:
- a. frictional unemployment and actual real GDP;
  - b. unemployment rate and real GDP deflator;
  - c. full-employment real GDP and actual real GDP;
  - d. full-employment real GDP and real GDP deflator.
3. A recession is a business contraction lasting at least:
- a. one year;
  - b. six months;
  - c. three months;
  - d. one month.
4. When is the GDP gap largest?
- a. During peak periods in the business cycle;
  - b. During trough periods in the business cycle;
  - c. When unemployment rates are relatively low;
  - d. When cyclical unemployment is close to zero.

**Ex. 3.** *Answer the questions on the text.*

1. What is a business cycle?
2. Which of the various theories of the business cycle mentioned in the text do you find the most convincing?
3. What is the current economic situation in your country? Why?
4. Are most of the people you know currently optimistic or pessimistic about the future? Would you say that they are saving money for bad times ahead, or spending and borrowing without worrying too much about the future? Either way, can you see anything coming that might cause them to change their behaviour?

## **Text 2**

*Skim the text to define unemployment, its negative and positive sides.*

### **Unemployment**

Unemployment is the number of adult workers who are not employed and are

seeking jobs. To be classified as unemployed, a person must be able and willing to work, be actively seeking work, and be without a job. Everyone who fits this description is unemployed. The labour force is the total number of employed and unemployed workers. The unemployment rate is unemployment expressed as a percentage of the labour force.

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

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

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

Unemployment has negative sides. The most obvious *cost* of unemployment is *the loss of output and the loss of income*. How big this cost is depends on the natural rate of unemployment.

Besides prolonged unemployment seriously lowers the value of a person's *human capital*, *i.e.* the value of a person's education and acquired skills. When unemployment is prolonged, human capital depreciates or deteriorates – skills lose their value.

A rise in the unemployment rate also causes an increase in the amount of *crime*. When people cannot earn an income from legitimate work, they sometimes turn to crime. A high crime rate is also one of the costs of high unemployment.

A final cost that is difficult to quantify is the loss of self-esteem that is *human dignity*, which afflicts people.

The unemployment rate is determined by three different types of unemployment: *frictional*, *structural*, and *cyclical*. Understanding these conceptual categories of unemployment aids in understanding and formulating policies to ease the burden of unemployment. In fact, each type of unemployment requires a different policy prescription to reduce it.

For some unemployed workers, the absence of a job is only temporary. At any given time, some people with marketable skills are fired, and others voluntarily quit jobs to accept or look for new ones. And there are always young people who leave school and search for their first job. Workers in industries, such as construction, experiencing short periods of unemployment between projects and temporary layoffs are common. Other workers are seasonally unemployed. For example, ski resort workers will be employed in the winter but not in the summer, and certain crops are harvested “in season.” Because jobs requiring their skills are available once the unemployed and the job vacancies are matched, such workers are considered “between jobs.” This type of unemployment is called *frictional unemployment*, and it is not of great concern.

The fact that job market information is imperfect influences frictional unemployment in the economy. Because it takes time to search for the information required to match employer and employees, some workers will always be frictionally unemployed. Frictional unemployment is therefore a normal condition in an economic system permitting freedom of job choice. Improved methods of distributing job information through job listings on the Internet can help unemployed workers find jobs more quickly and reduce frictional unemployment.

Unlike frictional unemployment, *structural unemployment* is not a short-term situation. Instead, it is long-term, or possibly permanent unemployment resulting from the non-existence of jobs for unemployed workers. Structural unemployment is unemployment caused by a mismatch of the skills of workers out of work and the skills required for existing job opportunities. Note that changing jobs and lack of job

information are not problems for frictionally unemployed workers. While frictionally unemployed workers have marketable skills, structurally unemployed workers require additional education or retraining.

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

Because both frictional and structural unemployment are present in good and bad times, *full employment* does not mean “zero percent unemployment.” Full employment is the situation in which an economy operates at an unemployment rate equal to the sum of the frictional and structural unemployment rates. Full employment therefore is the rate of unemployment that exists without cyclical unemployment.

**Ex. 1.** *Choose the right answer according to the text and your background knowledge. Explain your choice.*

1. The number of people officially unemployed is *not* the same as the number of people who can't find a job because:
  - a. people who have jobs continue to look for better ones;
  - b. the armed forces is included;
  - c. discouraged workers are not counted;
  - d. none of the above;
  - e. all of the above.
2. Frictional unemployment refers to:
  - a. unemployment related to three ups and downs of the business cycle;
  - b. workers who are between jobs;
  - c. people who spend relatively long periods out of work;
  - d. people who are out work and have no job skills.
3. A mismatch of the skills of unemployed workers and the skills required for existing jobs is defined as:
  - a. involuntary unemployment;

- b. cyclical unemployment;
  - c. structural unemployment;
  - d. frictional unemployment.
4. Unemployment caused by a recession is called:
- a. structural unemployment;
  - b. frictional unemployment;
  - c. involuntary unemployment;
  - d. cyclical unemployment.
5. Full employment occurs when the rate of unemployment consist of:
- a. seasonal plus structural plus frictional unemployment;
  - b. cyclical plus frictional unemployment;
  - c. structural, frictional, and cyclical unemployment;
  - d. none of the above.

**Ex. 2.** *Scan the text and say:*

- a) what changes in the economy create structural unemployment;
- b) if economists consider a certain level of structural unemployment inevitable;
- c) why frictional unemployment is considered to be persistent;
- d) if there is any difference between frictional and structural unemployment;
- e) what is meant by cyclical unemployment;
- f) if full employment means absolute absence of unemployment;
- g) what professions are obsolete nowadays and why;
- h) what is the goal of full employment;
- i) if there are any advantages and disadvantages of being unemployed.

## **7. BANKING**

---

### **READING**

#### **Text 1**

*After reading the text choose the heading for each paragraph.*

- Investment Banking
- Interest Rates

- Commercial Banking
- Universal Banking
- Central Banking
- Eurocurrency

1. A central bank fulfils a number of key roles in the economy, acting as a bankers' bank and as a lender of last resort, being responsible for monetary creation, and having overall responsibility for monetary policy. The central bank can use control of interest rates, open market operations and required reserves to influence the monetary base and overall interest rates in the economy. In recent years, the interest rate has been prime instrument. By influencing the amount of real money in the economy, the central bank is able to influence aggregate demand, which in turn will influence prices. Thus the central bank has to balance the need to restrain inflation with the desire to allow economic growth.

2. Commercial or retail banks are businesses that trade in money. They receive and hold deposits, pay money according to customers' instructions, lend money, offer investment advice, exchange foreign currencies, and so on. They make a profit from the difference (known as a spread or a margin) between the interest rates they pay to lenders or depositors and those they charge to borrowers. Banks also create credit, because the money they lend, from their deposits is generally spent (either on goods or services, or to settle debts), and in this way transferred to another bank account - often by way of a bank transfer or a cheque (check) rather than the use of notes or coins - from where it can be lent to another borrower, and so on. When lending money, bankers have to find a balance between yield and risk, and between liquidity and different maturities.

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

themselves. Investment banks make their profits from the fees and commissions they charge for their services.

4. In the USA, the Glass-Steagall Act of 1934 enforced a strict separation between commercial banks and investment banks or stock broking firms. Yet the distinction between commercial and investment banking has become less clear in recent years. Deregulation in the USA and Britain is leading to the creation of ‘financial supermarkets’: conglomerates combining the services previously offered by banks, stockbrokers, insurance companies, and so on. In some European countries (notably Germany, Austria and Switzerland) there have always been universal banks combining deposit and loan banking with share and bond dealing and investment services.

5. A country’s minimum interest rate is usually fixed by the central bank. This is the discount rate, at which the central bank makes secured loans to commercial banks. Banks lend to a blue chip borrowers (very safe large companies) at the base rate or the prime rate; all other borrowers pay more, depending on their credit standing (or credit rating, or creditworthiness): the lender’s estimation of their present and future solvency. Borrowers can usually get a lower interest rate if the loan is secured or guaranteed by some kind of asset, known as collateral.

6. In most financial centers, there are also branches of lots of foreign banks, largely doing Eurocurrency business. A Eurocurrency is any currency held outside its country of origin. The first significant Eurocurrency market was for US dollars in Europe, but the name is now used for foreign currencies held anywhere in the world (e.g. yen in the US, euros in Japan). Since the US\$ is the world’s most important trading currency – and because the US for many years had a huge trade deficit – there is a market of many billions of Eurodollars, including the oil-exporting countries’ “petrodollars.” Although a central bank can determine the minimum lending rate for its national currency it has no control over foreign currencies. Furthermore, banks are not obliged to deposit any of their Eurocurrency assets at 0% interest with the central bank, which means that they can usually offer better rates to borrowers and depositors than in the home country.

## ***Vocabulary Focus***

**Ex. 1.** *The text contains a number of common verb-noun partnerships (e.g. to lend money, to finance international trade). Match up the verbs and nouns below to make common collocations. Give their Ukrainian equivalents.*

<b>A</b>	<b>B</b>
1) influence	a) advice
2) restrain	b) bonds
3) exchange	c) business
4) issue	d) currencies
5) make	e) deposits
6) offer	f) funds
7) pay	g) interest
8) raise	h) loans
9) receive	i) profits
10) underwrite	j) security issues
11) charge	k) monetary base
12) do	l) inflation

**Ex. 2.** *Match the definitions in A with the words from the text in B.*

<b>A</b>	<b>B</b>
1) buying and selling government bonds on the open market	a) collateral
2) the currency supplied by the Central bank both to the commercial banks and to private circulation	b) to restrain
3) to place money in a bank; or money placed in a bank	c) deposit
4) the money used in countries other than one's own	d) foreign currencies
5) how much money a loan pays, expressed as a percentage	e) blue chip
6) available cash, and how easily other assets can be turned into cash	f) conglomerate
7) the date when a loan becomes repayable	g) liquidity

- |   |                           |
|---|---------------------------|
| 8) to guarantee to buy all the new shares that a company issues, if they cannot be sold to the public | h) open market operations |
| 9) when a company combines with another one   | i) maturity               |
| 10) buying and selling stocks or shares for clients   | j) portfolio management   |
| 11) taking care of all a client's investments   | k) monetary base          |
| 12) the ending or relaxing of legal restrictions  | l) to underwrite          |
| 13) a group of companies, operating in different fields, that have joined together                    | m) merge                  |
| 14) a company considered to be without risk   | n) takeover               |
| 15) ability to pay liabilities when they become due   | o) stock broking          |
| 16) anything that acts as a security or a guarantee for a loan  | p) deregulation           |
| 17) any currency held outside its country of origin   | q) solvency               |
| 18) when a company buys or acquires another one   | r) yield                  |
| 19) to hold sth back  | s) Eurocurrency           |

**Ex. 3.** Write down the English equivalents for the following. Use the text and Ex. 1 – 2 for references.

Останній кредитор у критичній ситуації; резервна норма; стримувати інфляцію; забезпечувати економічне зростання; різниця між собівартістю і продажною ціною; термін погашення платежу; погасити борги; дохід за цінними паперами з фіксованим відсотком; поглинання; злиття; облікова процентна ставка; майно; забезпечення кредиту; застава; гарантувати, ручатися; кредитоспроможність, платоспроможність (3 варіанти); євровалюта; торговий дефіцит.

## ***Comprehension***

*Discuss with your partner the following questions:*

1. How do you understand the role of the central bank “to act as a bankers’ bank”?
2. For what purposes may the central bank regulate interest rates?
3. How do the commercial banks earn money?
4. What sort of balance do bankers have to find when lending money?
5. What are the main functions of merchant banks in England?
6. How do investment banks in America differ from merchant banks in England?
7. What is the difference between an interest rate and a discount rate?
8. How are interest rates determined?
9. Why are there so many dollars deposited outside the USA?
10. Why did American legislation separate commercial and investment banking?

## **Text 2**

*Scan the text for the information about the functions of commercial banks, accounts and services they offer their customers.*

### **Commercial Banks of Britain**

A bank is an intermediary between a depositor will and a borrower. The interest rate which the commercial banks charge borrowers and pay to depositors will be influenced by the interest rate which is quoted from time to time by the Bank of England, which is, of course, controlled by the British government. If the Bank of England recommends that the interest rates will have to rise, then the commercial banks and most other financial institutions will also raise their interests rates.

A rise in the interest rate will make borrowing more expensive and saving more attractive. A fall in the interest rate will make borrowing cheaper, saving less attractive.

The government may use the interest rate (sometimes called the bank rate) to regulate the economic climate of the country. By this we mean that borrowing becomes more expensive, businessmen will become more reluctant to borrow and develop their business, but if it falls, then they probably become more active.

If the economy becomes too active, there is usually a tendency for inflation to occur, and this is usually caused by too many goods produced and too much money circulating in the economy.

To combat inflation the government will often raise the interest rate. If the economy was stagnant then the interest rate would probably be lowered so that to encourage it to expand and become more active. There are, of course, factors which the government must consider before it influences the institutions to raise or lower their interest rates.

Commercial banks make a profit by:

1. Making loans to businessmen and private individuals.
2. Charging interest payments on overdrawn accounts.
3. Lending to the money market.
4. Investing in sound shares and securities.

The bank's most important activity is the extension of credit. In order to provide a loan, a bank must have funds to lend. This comes from paid-in capital, earnings of previous years, borrowed funds and the bank's customers' deposits. The banker must always remember that the money he lends is not his bank's own money. It is the money deposited by the bank's customers. To evaluate the risk, a banker must first obtain certain basic information about the potential borrower. The banker must learn how much money the borrower needs, the purpose and the term of the loan, and how the borrower will repay the loan. The borrower's ability to repay depends on the purpose of the loan.

Banks will lend money in two ways:

- by a personal loan;
- by an overdraft loan arrangement.

The personal loan is charged at a fixed rate of interest repayable over a fixed period of time.

The overdraft is used mostly by businessmen. The advantage with overdrafts is that interest is repayable only on the amount owed at a particular time. Interest is calculated on a daily basis. The borrower will have to pay a lot of interest when the

debt is large, but if he is able to make a good deposit and reduce the size of the overdraft then the interest charged will be lowered accordingly. Overdrafts may be recalled by the bank at a very short notice.

The commercial bank offers its customers accounts of two types: deposit account and the current account. The deposit account will probably be used to pay a fixed rate of interest, and will sometimes issue the saver with a saving book. The current account pays no interest. A cheque book is used to make payments from an account and a paying-in book is used when money is paid into the account.

Banks will normally give statements to both deposit and current holders about once every three months, or more frequently if required by the account holder. Statements give a detailed account, on a day to day basis, of all money and cheques which have either been paid into account or withdrawn from the account.

Money is the commodity that banks sell. A bank seeks to buy money cheaply and to sell it dearly. This is what the banks are busy doing. Naturally, the banks put their money where it brings the highest profit. That is why they always keep up to date with the market situation by shifting money from one geographical region to another, the banks activity stimulates progress in industry, construction and agriculture.

Banks are interested in keeping most of their money in circulation so that it should bring them profit. They seek to reduce their lending rates in order to attract buyers.

In their pursuit of high profit, the banks sometimes get involved in risky operations fraught with bankruptcy. That is why the government takes measures to minimize the danger of banks going broke. Every bank is obliged to take out insurance against robbery or bankruptcy lest the clients should lose their money in any case.

Technological innovations and increased competition in the face of deregulation are changing the face of British banking. Banks and other financial institutions are using computer technology now, that is why they can offer their clients different types of services:

1. Accept deposits from depositors.
2. Make loans to borrowers.

3. Conduct deposit and current accounts for customers.
4. Keep valuables in safe custody.
5. Give advice on income tax matters.
6. Give advice on overseas trading.
7. Buy and sell shares for customers.
8. Issue foreign currency and travellers' cheques.
9. Act as executors and trustees for deceased persons.
10. Change old bank-notes for new ones.

The commercial banks cater to big companies, small companies and to individuals.

**Ex. 1.** *Expand the sentences.*

1. The interest rate which the commercial banks charge ...
2. A rise in the interest rate will...
3. The banker must always remember that the money he lends ...
4. The government may use the interest rate to ...
2. The advantage with overdrafts is that ...
3. Banks will normally give statements to ...
4. To combat inflation ...
5. If the economy becomes too active ...
6. By shifting money of various costs the bank activity ...
7. Banks make a profit by...
8. The banks cater to ...

**Ex. 2.** *Are the following sentences true or false? Say why.*

- |  | True                     | False                    |
|--|--------------------------|--------------------------|
| a. If the banks lends money to a company, the banks is one of the company's debtors. | <input type="checkbox"/> | <input type="checkbox"/> |
| b. If you borrow money from the bank at a variable rate of interest,                 |                          |                          |

- you might have to pay back more than you think you will.
- c. Creditors prefer low interest rates.
- d. Debtors prefer high interest rates.

**Ex. 3.** *Answer the questions.*

1. What is a commercial bank according to the text?
2. What does the interest rate the commercial banks offer depend on?
3. What are the ways of making a profit by banks?
4. What do the funds that banks use to provide a loan come from?
5. What factors should a banker consider to evaluate the risk when providing a loan?
6. What are the two ways that banks lend money?
7. What is the advantage with overdrafts?
8. What types of accounts do commercial banks offer to their customers? How do they differ?
9. What measures does the government take to minimize the danger of banks going broke?
10. What types of services can customers get in a bank?

**Text 3**

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

**Banking in the USA**

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

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

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

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

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

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

Another function performed by the Fed includes **(2) clearing checks**. Banks can use the Federal Reserve's check-clearing service to clear checks drawn on banks outside their Federal Reserve districts.

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

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

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

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

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

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

**Credit unions** are member-owned corporations that offer checking and savings accounts, credit cards, and consumer loans. Most of the 16,326 credit unions in this country serve employee groups.

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

**Ex. 1.** *Find in the text answers to the following questions:*

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

## 8. MONEY AND MONETARY POLICY

---

### READING

#### Text 1

*As you read the text, focus on the types and functions of money.*

#### **Money and its Functions**

Historically, many commodities, ranging from precious metals to cigarettes, have been used as money. In prisoner-of-war camps, cigarettes served as money. In the nineteenth century money was mainly gold and silver coins. These are examples of **commodity money**, ordinary goods with industrial uses (gold) and consumption uses (cigarettes) which also serve as a medium of exchange. In most modern societies, however, commodities are rarely used as money because they are expensive. Instead, they use **fiat money**, that is mainly paper currency issued by governments and deposits in checking accounts that are accepted as a means of payments for goods and services. Fiat money is sometimes called **token money**. By collectively agreeing to use fiat money, society economizes on the scarce resources required to produce money as a medium of exchange. The essential condition for the survival of fiat money is the restriction of the right to supply it. Private production is illegal.

Society enforces the use of fiat money by making it legal tender. The law says it must be accepted as a means of payment.

In modern economies, fiat money is supplemented by **IOU (I owe you) money**. IOU money is a medium of exchange based on the debt of a private firm or individual. A bank deposit is IOU money because it is a debt of the bank. When you have a bank deposit the bank owes you money. Bank deposits are a medium of exchange because they are generally accepted as payment.

Although the crucial feature of money is its acceptance as the means of payment or **medium of exchange**, money has three other functions. It serves as a **unit of account**, as a **store of value**, and as a **standard of deferred payment**. We discuss each of the four functions of money in turn.

Money, *the medium of exchange*, is used in one-half of almost all exchanges.

Workers exchange labour services for money. People buy or sell goods in exchange for money. Money is the medium through which people exchange goods and services.

To see that society benefits from a medium of exchange, imagine a barter economy. A barter economy has no medium of exchange. Goods are traded directly or swapped for other goods. In a barter economy, the seller and the buyer each must want something the other has to offer. Each person is simultaneously a seller and a buyer. There has to be a double coincidence of wants.

Trading is very expensive in a barter economy. People must spend a lot of time and effort finding others with whom they can make mutually satisfactory swaps. The use of money – any commodity generally accepted in payment for goods, services, and debts - makes the trading process simpler and more efficient.

*The unit of account* is the unit in which prices are quoted and accounts are kept. In Britain prices are quoted in pounds sterling; in America in dollars. It is usually convenient to use the units in which the medium of exchange is measured as the unit of account as well. However there are exceptions. During the rapid German inflation of 1922-23 when prices in marks were changing very quickly, German shopkeepers found it more convenient to use dollars as the unit of account. Prices were quoted in dollars even though payment was made in marks, the German medium of exchange.

*Money is a store of value* because it can be used to make purchases in the future. To be accepted in exchange, money has to be a store of value. Nobody would accept money as payment for goods supplied today if the money was going to be worthless when they tried to buy goods with it tomorrow. But money is neither the only nor necessarily the best store of value. Houses, stamp collections, and interest-bearing bank accounts all serve as stores of value. Since money pays no interest and its real purchasing power is eroded by inflation, there are almost certainly better ways to store value.

Finally, *money serves as a standard of deferred payment* or a unit of account over time.

## Vocabulary Focus

**Ex. 1.** Match the words from *A* with their synonyms from *B*.

A	B
1) illegal	a) to postpone
2) restriction	b) limitation
3) crucial	c) against law
4) to consume	d) rare
5) to benefit	e) to profit
6) wasteful	f) barter
7) exchange	g) to use up
8) to defer	h) vital
9) scarce	i) costly

**Ex. 2.** The text contains a number of common verb-noun partnerships (e.g. *to store money, to make purchases...* ). Match up the **verbs** and **nouns** below to make common collocations.

A	B
1) consume	a) prices
2) exchange	b) interest
3) quote	c) money
4) keep	d) goods and services
5) bear	e) payment
6) deferred	f) accounts
7) serve	g) as a store of value

**Ex. 3.** Match the Ukrainian word-combinations with their English equivalents.

A	B
1) рахункова одиниця	a) to be eroded by inflation
2) обопільний збіг потреб	b) a unit of account
3) засіб заощадження	c) a medium of exchange
4) засіб обігу	d) a store of value
5) одиниця відстроченого платежу	e) to swap for other goods
6) обмінювати на інші товари	f) a standard of deferred payment
7) зменшуватися в результаті інфляції	g) a double coincidence of wants
8) взаємовигідний обмін	h) legal tender
9) законний засіб платежу	i) a mutually satisfactory swap

## ***Comprehension***

**Ex. 1.** *Complete the sentences.*

1. Commodity money is...
2. Fiat money is ...
3. In modern economies, fiat money is supplemented by ...
4. Money is the medium through which...
5. The unit of account is the unit in which...
6. Money is a store of value because...
7. A standard of deferred payment or a unit of account...
8. In a barter economy, the seller and the buyer each must want something...

**Ex. 2.** *Choose the correct answer:*

1. A direct exchange of fish for corn is an example of:
  - a. storing value.
  - b. a modern exchange method.
  - c. barter.
  - d. a non- coincidence of wants.
2. Which of the following is a store of value?
  - a. Money market mutual fund share.
  - b. Repurchase agreement.
  - c. All of the above are a store of value.
  - d. None of the above are a store of value.
3. Anything can be money if it acts as a:
  - a. unit of account.
  - b. store of value.
  - c. medium of exchange.
  - d. all of the above.

**Ex. 3.** *Say whether the following is true or false.*

1. Money eliminates the need for barter.
2. Any item can successfully serve as money.
3. Money is said to be liquid because it is immediately available to spend for goods.

**Ex. 4.** *Answer the questions.*

1. What example of commodity money is given in the text?
2. What is fiat money?
3. What is fiat money supplemented by in modern economies?
4. In what way does society enforce the use of fiat money?
5. Why can a bank deposit serve as an example of IOU money?
6. How are goods exchanged in a barter economy?
7. Why is trading expensive in a barter economy?
8. What else can be used instead of money as a store of value?
9. What are the four functions of money? What do they imply?

**Text 2**

*Read the text and think of a proper title for it.*

Monetary policy is a central government policy with respect to the quantity of money in the economy, the rate of interest and the exchange rate.

Let us consider the demand and supply for money.

Why do people hold (demand) currency and checkable deposits (M1), rather than putting their money to work in stocks, bonds, real estate, or other non-money forms of wealth? John Maynard Keynes, in his 1936 work entitled *The General Theory of Employment, Interest, and Money*, gave three important motives for doing so: transactions demand, precautionary demand, and speculative demand.

The *transactions demand for money* is the stock of money people hold to pay everyday predictable expenses. The desire to have “walking around money” to make quick and easy purchases is the principal reason for holding money. Without enough cash, the public must suffer forgone interest.

People have a second motive to hold money, called the *precautionary demand for money*. The precautionary demand for money is the stock of money held to pay unpredictable expenses. This is the “mattress money” people hold to guard against those proverbial rainy days.

The third motive for holding money is the *speculative demand*. The speculative demand for money is the stock of money held to take advantage of expected future changes in the price of bonds, stocks, or other non-money financial assets. It is the so called “betting money”.

As the interest rate falls, the opportunity cost of holding money falls, and people increase their speculative balances.

*Money supply* comes in many forms, including currency, demand deposits, time deposits, and plastic money.

The narrowest commonly used measure of money M1 consists of currency (bills, coins, money orders and travelers checks) and current accounts (AmE -checking accounts).

A broader measure M2 includes M1 plus saving accounts.

When the money supply *increases*, people have more money to spend, and demand for goods and services increases. As demand increases, businesses hire additional workers to increase output. This is an economic growth scenario. But, if output does not keep pace with demand, prices increase. When prices rise continuously, inflation results. This tends to cause problems for people whose incomes do not increase at a rate consistent with inflation.

**Ex. 1.** Match the Ukrainian word combinations in with their English equivalents.

**A**

**B**

- |  |  |
|--|--|
| 1) попит на гроші для здійснення угод                | a) forgone interest                                |
| 2) попит на гроші для непередбачених витрат          | b) cash receipts from sales                        |
| 3) спекулятивний попит на гроші                      | c) transactions demand for money                   |
| 4) плановані витрати                                 | d) to keep pace with smth                          |
| 5) упущені відсотки                                  | e) withdrawal penalties                            |
| 6) несення збитків в результаті відвертання капіталу | f) to increase at a rate consistent with inflation |
| 7) грошові надходження від продажів                  | g) the speculative demand                          |
| 8) фінансові активи, що приносять дохід              | h) interest-bearing financial assets               |

- |  |  |
|--|--|
| 9) альтернативні витрати від зберігання грошей       | i) <i>ceteris paribus</i>                |
| 10) за інших рівних умов                             | j) predictable expenses                  |
| 11) взаємні фонди грошового ринку                    | k) time deposits                         |
| 12) зростати на рівні, що відповідає рівню інфляції; | l) the opportunity cost of holding money |
| 13) встигати за чим-небудь                           | m) the precautionary demand              |
| 14) строкові вклади                                  | n) money market mutual funds             |

**Ex. 2.** Match the kind of demand for money in *A* with the stock of money people hold *B* and the definitions that follow.

- | <b>A</b>                              | <b>B</b>                  |
|---------------------------------------|---------------------------|
| 1) The transactions demand for money  | a) “betting money”        |
| 2) The precautionary demand for money | b) “walking around money” |
| 3) The speculative demand for money   | c) “mattress money”       |
1. The stock of money people hold to pay unpredictable expenses.
  2. The stock of money people hold to take advantage of expected future changes in the price of bonds, stocks, or other non-money financial assets.
  3. The stock of money people hold to pay everyday predictable expenses.

**Ex. 3.** Choose the correct answer.

1. The stock of money people hold to pay everyday predictable expenses is the:
  - a. transactions demand for holding money.
  - b. precautionary demand for holding money.
  - c. speculative demand for holding money.
  - d. store of value demand for holding money.
2. The stock of money people hold to take advantage of expected future changes in the price of bonds, stocks, or other non-money financial assets is the:
  - a. unit-of-account motive for holding money.
  - b. precautionary motive for holding money.
  - c. speculative motive for holding money.
  - d. transactions motive for holding money.
3. Which of the following statements is true?

- a. The speculative demand for money at possible interest rates gives the demand for money curve its upward slope.
- b. There is an inverse relationship between the quantity of money demanded and the interest rate.
- c. According to the quantity theory of money, any change in the money supply will have no effect on the price level.
- d. All of the above.

**Ex. 4.** *Discuss the following questions with your partner.*

1. Why do people hold (demand) currency and checkable deposits (M1), rather than putting their money to work in stocks, bonds, real estate, or other non-money forms of wealth?
2. What's the main reason for having "walking around money"?
3. What are the consequences of lacking cash?
4. What is the precautionary demand for money based on?
5. What do precautionary balances help to avoid?
6. What is the speculative demand for money held for?
7. Why do people prefer to invest in stocks and bonds when the interest rate is high?
8. What happens to the opportunity cost of holding money when the interest rate falls?
9. What does a demand for money curve represent?
10. What does the money supply of the U.S. consist of?
11. What measures can be taken to regulate the money supply?
12. What may happen if output does not keep pace with demand?

## **9. FISCAL POLICY**

---

### **READING**

*Scan the text and find definitions of the following terms: **fiscal policy**, **deficit**, **surplus**. Read the text and do the tasks that follow.*

## **Fiscal Policy**

Policy aimed at changing the level of either government spending or taxes to stimulate or slow down the economy is known as fiscal policy. It was invented by the British economist John Maynard Keynes in the 1930s. Keynes believed that increased demand for goods and services should be met by expanded production. However, after a nation's economy reaches full capacity, production cannot expand. If the demand for goods and services increases, prices continue to rise and inflation occurs. In such cases, Keynes recommended a tax increase, which would reduce the demand for goods and services and relieve the pressure on prices.

Keynes maintained that governments should use fiscal policy (tax and spending programs) to stabilize the economy. He said the overall level of economic activity depends on effective demand – that is, total spending by individuals, businesses, and government.

According to Keynes, major depressions, such as the Great Depression of the 1930's, occur as a result of a drop in effective demand. He argued that in periods of depression the government should increase its spending, cut taxes, or do both to stimulate the economy. These steps would result in a government budget deficit (shortage). But Keynes said the actions could lead to higher levels of investment and nongovernment spending and to full employment.

To understand how fiscal policy works, we need to understand three basic concepts. First, the deficit. When government spending is greater than tax revenue, we have a federal budget deficit. The government is paying out more than it's taking in. How does it make up the difference? It borrows. Deficits have been much more common than surpluses. This is not to say that deficits are always bad. Indeed, during recessions, they are just what the economic doctor ordered.

Second, budget surpluses are the exact opposite of deficits. They are prescribed to fight inflation. When the budget is in a surplus position, tax revenue is greater than government spending.

Finally, we have a balanced budget when government expenditures are equal to tax revenue.

Thus, fiscal policy is the manipulation of the government budget deficit or surplus to influence the level of aggregate income (or GDP) in the economy. If aggregate income is too low (actual income is below target income), the appropriate fiscal policy is expansionary fiscal policy: increase the deficit, or reduce a surplus, which means the government spends more or takes in less. If aggregate income is too high (actual income is above target income), the appropriate fiscal policy is contractionary fiscal policy: reduce the deficit, or increase a surplus, which means the government takes in more in taxes or spends less.

Expansionary and contractionary fiscal policies are two basic types of discretionary fiscal policy.

Exhibit 1 lists these types of fiscal policy and the corresponding ways in which the government can pursue each of these options.

*Exhibit 1*

#### **Discretionary fiscal policy**

<i>Expansionary fiscal policy</i>	<i>Contractionary fiscal policy</i>
Increase government spending	Decrease government spending
Decrease taxes	Increase taxes
Increase government spending and taxes equally	Decrease government spending and taxes equally

The fundamental purpose of fiscal policy is to eliminate unemployment or inflation. When recession exists, an expansionary fiscal policy is in order. This entails increased government spending or lower taxes, or a combination of the two. In other words, if the budget is balanced at the outset, fiscal policy should move in the direction of a government budget deficit during a recession or depression.

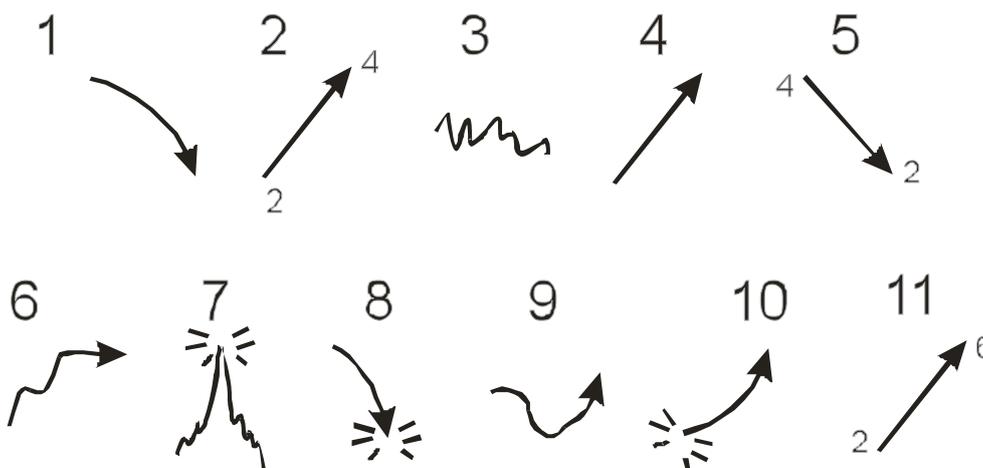
Conversely when demand-pull inflation stalks the land, a restrictive or contractionary fiscal policy is appropriate. A contractionary policy is composed of decreased government spending, or higher taxes, or a combination of these two policies. Fiscal policy should move toward a surplus in the government's budget when the economy is faced with the problem of controlling inflation.

**Vocabulary Focus**

**Ex. 1.** Which preposition? Complete each sentence with a suitable preposition.

1. Companies invest ..... new equipment that will increase production.
2. The government can use its spending and taxing programs to reduce the demand ..... goods and services.
3. A tax increase reduces the demand ..... goods and services and relieves the pressure ..... prices.
4. The overall level of economic activity depends ..... effective demand – that is, total spending by individuals, businesses, and government.
5. The government takes ..... more ..... taxes or spends less.
6. The economy is faced ..... the problem ..... controlling inflation.

**Ex. 2.** What kind of movement do the verbs below describe? Match them to the symbols. Then compare your answers with a partner. (Use some symbols more than once.)



decline	gain	drop	increase	rocket	plummet
double	fall	halve	level off	triple	recover
decrease	fluctuate	improve	peak	rise	zoom

**Ex. 3.** Match the following Ukrainian common collocations with their English equivalents:

<b>A</b>	<b>B</b>
1) збирати податки	a) fiscal policy
2) дискреційна фіскальна політика	b) aggregate demand
3) сукупний попит	c) take in taxes
4) фіскальна політика	d) discretionary fiscal policy
5) стабілізувати економіку	e) to reduce the demand for goods and services
6) споживчий попит	f) to depend on effective demand
7) ліквідувати безробіття та інфляцію	g) to stabilize the economy
8) скоротити попит на товари і послуги	h) government spending
9) стимулююча фіскальна політика	i) consumer spendings
10) дефіцит федерального бюджету	j) consumer demand
11) залежати від платоспроможного балансу	k) expansionary fiscal policy
12) державні витрати	l) to eliminate unemployment or inflation
13) споживчі витрати	m) income tax
14) прибутковий податок	n) federal budget deficit

**Ex. 4.** Choose the words with opposite meaning from two columns and arrange them in pairs.

<b>A</b>	<b>B</b>
1) cut	a) collective
2) exogenous	b) contraction
3) expansion	c) demand
4) flexible	d) endogenous
5) individual	e) increase
6) nominal	f) poverty
7) private	g) public
8) save	h) real
9) supply	i) rigid
10) wealth	j) spend

**Ex. 6.** Make the following words negative by using one of the following prefixes:

<b>de-</b>	<b>dis-</b>	<b>im-</b>	<b>in-</b>	<b>un-</b>
1) ... accelerating			4) ... natural	
2) ... intended			5) ... stabilize	
3) ... prove			6) ... effective	
7) ... desirable			10) ... perfect	
8) ... stable			11) ... predictable	
9) ... efficiency			12) ... voluntary	

## ***Comprehension***

**Ex. 1.** *Complete the sentences.*

1. Sometimes the economy zooms ... .
2. But there have also been periods ... .
3. Until the 1930's, the government ...
4. Policy aimed at ... .
5. Keynes maintained that governments ... .
6. If aggregate income is too low ... .
7. If aggregate income is too high ... .
8. Expansionary and contractionary fiscal policies are ... .
9. The fundamental purpose of fiscal policy ... .
10. A contractionary policy is composed of ... .
11. Monetarists question whether ... .

**Ex. 2.** *Comment on the following issues.*

1. What periods of business activity are mentioned in the text?
2. What happens to an economy during a boom?
3. How can the government influence the demand for goods and services?
4. Who invented fiscal policy? What kind of policy is it?
5. How do contractionary and expansionary fiscal policies differ?
6. What did economists blame Keynesian policies for?

## **10. SUPPLY AND DEMAND**

---

### **READING**

*As you read the text, pay special attention to the definitions of terms in italics.*

#### **Supply and Demand**

The terms *supply* and *demand* refer to the behavior of people as they interact with one another in markets. *A market* is defined as an institution or mechanism which brings together buyers – “demanders” and sellers – “suppliers”.

*Demand* is the amount of the good that buyers are willing and able to purchase. What factors determine the demand for any good? They are as following:

*Price.* The quantity demanded falls as the price rises and rises as the price falls, so the quantity is *negatively related* to the price. The relationship between price and quantity demanded is true for most goods in the economy and, in fact, is so pervasive that economists call it the *law of demand: other things equal (ceteris paribus in Latin), when the price of a good rises, the quantity demanded of the good falls.*

*Income.* A lower income means that you have less to spend in total so you would have to spend less on some – and probably most – goods. If the demand for a good falls when income falls, the good is called a *normal good*. Not all goods are normal goods. If the demand for a good rises when income falls, the good is called an *inferior good*. An example of an inferior good might be bus rides. As your income falls, you are less likely to buy a car or take a cab, and more likely to ride the bus.

*Prices of Related Goods.* Suppose that the price of frozen yogurt falls. The law of demand says that you will buy more frozen yogurt. At the same time you will probably buy less ice-cream. Ice-cream and frozen yogurt are substitutes, that is pairs of goods that are used in place of each other.

When a fall in one price of one good raises the demand for another good, the two goods are called *complements*. Complements are often pairs of goods that are used together, such as gasoline and automobiles, computers and software.

*Tastes.* The most determinant of your demand is your tastes. If you like ice-cream, you buy more of it.

*Expectations.* Your expectations about the future may affect your demand for a good or service today too.

We now turn to *supply* that is the amount that sellers are willing and able to sell. What determines the quantity an individual supplies? These are:

*Price* Because the quantity supplied rises as the price rises and falls as the price falls, we say that the quantity supplied is positively related to the price of the good. This relationship between price and quantity supplied is called the *law of supply: Other things equal, when the price of a good rises, the quantity supplied of the good also rises.*

*Input Prices.* The supply of a good is negatively related to the price of the inputs used to make the good.

*Technology.* By reducing firms' costs, the advance in technology raises the supply of a good.

*Expectations.* The amount of goods you supply today may depend on your expectations of the future. For example, if you expect the price of goods to rise in the future, you will put some of your current production into storage and supply less to the market today.

### ***Vocabulary Focus***

**Ex. 1.** *Study the meaning of the following words.*

1. To affect means 'to influence': The tax increases have affected us all.
2. An effect is a result or consequence of an event: The political crisis has already had an effect on the Stock Market.
3. The word "effect" can have two other meanings: We tried exporting tea to China but with little effect (impact). In effect (in fact) the two systems are identical.
4. There is also a verb "to effect", which is fairly formal: Production was stopped until repairs were effected (made).

*Choose the right word in italics:*

1. Do you think a rise in interest rates will *affect/ effect* consumer spending?
2. Cultural attitudes can *affect/effect* the success or failure of a merger with an overseas firm.
3. The bad publicity has had an adverse *affect/effect* on our reputation.

**Ex. 2.** *Match the following common collocations with their Ukrainian equivalents:*

**A.**

**A**

- 1) користуватися великим попитом
- 2) створювати попит
- 3) перевищувати попит

**B**

- a) enormous / great demand (for)
- b) to be in good /great demand
- c) consumer market

- |                             |                            |
|-----------------------------|----------------------------|
| 4) асортимент товарів       | d) to create/make demand   |
| 5) споживчий ринок          | e) to exceed/outgo demand  |
| 6) дохід на душу населення  | f) to meet/ satisfy demand |
| 7) попит і пропозиція       | g) demand and supply       |
| 8) великий попит            | h) range of goods          |
| 9) оподатковуваний прибуток | i) taxable income          |
| 10) задовольняти попит      | j) per capita income       |

**В.**

- | А  | В                               |
|--|---------------------------------|
| 1) вартість витрат                           | a) to be in (short /low) supply |
| 2) бути в дефіциті                           | b) to exhaust supply            |
| 3) основний постачальник                     | c) leading / major supplier     |
| 4) невиконання зобов'язань<br>постачальником | d) a supplier default           |
| 5) обсяг промислового виробництва            | e) current inputs               |
| 6) щоденний випуск продукції                 | f) cost of inputs               |
| 7) вичерпати запас                           | g) industrial output            |
| 8) поточні витрати.                          | h) daily output                 |

**Ex. 3. Express in one word:**

1. something that is sold for money;
2. the desire of customers for goods or services which they wish to buy or use;
3. pairs of goods that are used together;
4. an idea or a principle relating to sth abstract;
5. pairs of goods that are used in place of each other;
6. to interact (with sth);
7. the price to be paid or amount of money needed for sth;
8. that which is put in;
9. the amount of sth that a person or thing produces;
10. to give sb that is needed or useful/ to provide sb with sth;
11. to establish a connection between, e.g. ideas, events or situations; to think or associate sth with sth else.

---

*Words for reference:* compliments, concept, demand, goods, substitutes, to act or have an effect on each other, to relate, output, input, to supply, costs.

**Ex. 4.** Choose the words with similar meaning from two columns and arrange them in pairs.

A	B
1) concept (n)	a) rise (v)
2) interaction (n)	b) idea (n)
3) loan (n)	c) expenses (n)
4) supply(v)	d) cooperation (n)
5) increase (v)	e) credit (n)
6) purchase (v)	f) buy (v)
7) transaction (n)	g) bargain, deal (n)
8) affect(v)	h) commodity (n)
9) demand (n)	i) request (n)
10) good (n)	j) influence (n)
11) costs (n)	k) offer (v)

**Ex. 5.** Complete the sentences using the words given below.

1. The government increased prices on several basic ... .
2. Computers and software, gasoline and automobiles are ... .
3. ... for these services is outgoing supply.
4. The ... of demand and supply may be explained in the context of a market for specific goods.
5. The new model comes in an exciting ... of colours.
6. We made a small charge for parking to cover the ... of hiring the hall.
7. Supply, the quantity of a product that suppliers will provide, is the seller's side of a ... transaction.
8. Manufacturing ... has increased by 8% in two years.
9. They discussed the ... of additional resources into the scheme.

---

*Words for reference:* input, range, output, concepts, demand, goods/commodities, market, compliments, cost.

### **Comprehension**

**Ex. 1.** Complete the sentences.

1. A market is defined as an institution or mechanism which ... .
2. Demand is the amount of the good that buyers... .

3. The law of demand says that ... .
4. Ceteris paribus is ... .
5. The good is called an inferior good if ... .
6. The good is called a normal good if ... .
7. Substitutes are ... .
8. Complements are ... .
9. The factors which affect the amount of the good that buyers are willing and able to purchase are ... .
10. The factors which affect the amount of the good that sellers are willing and able to sell are ... .
11. The law of supply is ... .

**Ex. 2.** *Answer the questions on the text.*

1. What is a *market*?
2. What is *demand*? What does the law of demand say?
3. What factors affect the amount of the good that buyers are willing and able to purchase?
4. What's the difference between a *normal good* and an *inferior good*?
5. How can you define *compliments* and *substitutes*?
6. What is supply? What does the law of supply say?
7. What factors affect the amount of the good that sellers are willing and able to sell?

## **11. MARKET STRUCTURE**

---

### **READING**

#### **Market Structures**

Market structure is determined primarily by (1) the number of firms selling in the market; (2) the extent to which the products of different firms in the market are the

same or different; (3) the ease with which firms can enter into or exit from the market. Based on these three criteria, economists usually group market structures into four basic categories: (1) pure competition; (2) monopoly; (3) oligopoly; and (4) monopolistic competition. Let us examine each of these market structures.

**Pure Competition.** The main characteristics of the pure competition are:

1. Many sellers: There are many sellers, and each firm is so small relative to the entire market that its actions will have no effect on the price of its product. Instead, it must accept the going market price, established by the forces of supply and demand.
2. Standardized product: The products of the various firms in the market are so nearly identical that buyers do not prefer the product of any one firm over that of any other firm.
3. Easy entry and exit: There are no significant financial, legal, technological, or other barriers to prevent new firms from entering the market or to prevent existing firms from leaving the market. Firms are free to enter and leave the market at will.
4. No artificial restrictions: There are no wage and price controls, minimum wage laws, labour unions, or other artificial restrictions on the free movement of prices and wages up and down.

Pure competition has its limitations. Although it works well in an industry such as agriculture, it is not practical for all markets and all industries. Nevertheless, since competition is the controlling mechanism of a market economy, a high degree of competition is usually desirable in most markets.

**Monopoly.** Monopoly is the extreme opposite of pure competition and has the following characteristics: (1) the market consists of a single seller; (2) the seller sells a product for which there are no close substitutes; (3) there are barriers to entry that prevent competitors from entering the market; and (4) the seller can control the price of his or her product.

Monopoly disadvantages include the following: (1) a monopolist charges a higher price and produces less output than a perfectly competitive firm, (2) resource allocation is inefficient because the monopolist produces less than if

competition existed, (3) monopoly produces higher long-run profits than if competition existed, and (4) monopoly transfers income from consumers to producers to a greater degree than under competition.

**Oligopoly.** Although few industries are controlled by a single firm, main industries in the United States are dominated by a few giant firms. Such a market structure is known as oligopoly, and it is the market structure under which most large corporations operate. Oligopoly has the following characteristics: (1) a few sellers; (2) substantial barriers to entry; (3) standardized or differentiated products; and (4) substantial non-price competition.

Non-price competition includes advertising, packaging, product development, better quality, and better service. Under imperfect competition, firms may compete using non-price competition, rather than price competition.

**Monopolistic Competition.** Monopolistic competition is a market structure that is characterized by (1) many sellers; (2) differentiated products; (3) non-price competition; (4) relatively easy entry and exit. It has similarities to both pure competition and oligopoly.

Monopolistic competition is similar to pure competition in the sense that there are many sellers and no strong barriers to entry. Firms can enter and leave markets on a regular basis and, indeed, do so. The amount of money required to go into business is relatively small, and there are few government regulations restricting those wishing to enter a market. In addition, each seller controls such a small share of the market that each believes that his or her actions will bring no reactions from competitors.

Unlike pure competition, however, monopolistic competition is characterized by product differentiation and non-price competition. The latter involves efforts to persuade consumers to buy a particular product for reasons other than price. In fact, product differentiation and non-price competition are the most important characteristics that distinguish monopolistic competition from pure competition. Firms operating in markets characterized by monopolistic competition do extensive advertising in an effort to convince consumers that their products are better than those of their competitors. Often there is little or no actual difference in the products, but

advertising campaigns lead at least some consumers to believe otherwise.

Most retail stores in medium-to-large-sized cities fall into the category of monopolistic competition. They advertise heavily and try to convince consumers that their products and services are superior to those of their competitors. A store may emphasize such things as convenient location, ample parking space, courteous service, and a large selection of merchandise.

### ***Vocabulary Focus***

**Ex. 1.** *Read the international words and guess their meaning.*

Criteria, monopoly, oligopoly, limitation, economy, substitute, permanent, service.

**Ex. 2.** *Memorize the following singular and plural forms:*

datum – data

criterion – criteria

basis – bases

phenomenon – phenomena

crisis – crises

memorandum – memoranda

thesis – theses

**Ex. 3.** *From two columns choose the words with similar meaning and arrange them in pairs.*

<b>A</b>	<b>B</b>
1) to produce	a) customer
2) wage	b) to manufacture
3) limitation	c) salary
4) to persuade	d) to convince
5) pure	e) clean
6) competition	f) restriction
7) substantial	g) rivalry
8) advertising	h) considerable
9) share	i) publicity
10) premium	j) portion
11) to consume	k) reward
12) buyer	l) to use up
13) artificial	m) fake

**Ex. 4.** *From two columns choose the words with opposite meaning and arrange them in pairs.*

- | A                | B                 |
|------------------|-------------------|
| 1) standardized  | a) entry          |
| 2) insignificant | b) substantial    |
| 3) exit          | c) differentiated |
| 4) vigorous      | d) weak           |
| 5) to expand     | e) to narrow      |
| 6) combined      | f) pure           |

**Ex. 5.** Complete the table by inserting the missing forms.

Noun	Verb	Adjective/Participle
monopoly		
	complete	
product		
	pay	
reduction		
		differentiated
restriction		
		standardized
	engage	
	stipulate	
	dominate	

**Ex. 6.** Match English and Ukrainian equivalents.

- | A                                  | B                                  |
|------------------------------------|------------------------------------|
| a) відсутність штучних обмежень    | 1) a free movement of prices       |
| b) вільний рух цін                 | 2) a differentiated product        |
| c) потенційний конкурент           | 3) monopolistic competition        |
| d) стандартний продукт             | 4) pure competition                |
| e) ринкова структура               | 5) market structure                |
| f) чиста конкуренція               | 6) substantial barriers to entry   |
| g) монополістична конкуренція      | 7) a standardized product          |
| h) диференційований продукт        | 8) a potential competitor          |
| i) суттєві бар'єри до входу        | 9) no artificial restrictions      |
| j) безцінова конкуренція           | 10) non-price competition          |
| k) відсутність близьких замінників | 11) no close substitutes           |
| l) відносно легкий вхід і вихід    | 12) relatively easy entry and exit |

### **Comprehension**

**Ex. 1.** Match the words with their definitions.

- 1) Oligopoly                      a) A market structure characterized by a few sellers,

standardized or differentiated products and substantial non-price competition.

- |                             |  |
|-----------------------------|--|
| 2) Pure competition         | b) A market structure characterized by a single seller, a product for which there are no close substitutes, and strong barriers to entry that prevent potential competitors from entering into the market. |
| 3) Monopoly                 | c) A market structure characterized by many sellers, standardized products, easy entry and exit, and no artificial restrictions on the free movement of prices and wages up and down.                      |
| 4) Monopolistic competition | d) A market structure characterized by many sellers, differentiated products, non-price competition, and relatively easy entry and exit.   |

**Ex. 2.** *Fill in the missing words from the text.*

1. Although few ..... are controlled by a single firm, main ..... in the United States are dominated by a few giant firms.
2. Such a ..... is known as oligopoly, and it is ..... under which most large corporations operate.
3. .... usually define oligopoly as few enough firms so that there is mutual interdependence among the firms.
4. Non-price ..... involves efforts to persuade consumers to buy a particular product for reasons other than price.
5. Monopolistic competition is similar to pure competition in the sense that there are ... and no strong barriers to entry.
6. Unlike ..., however, monopolistic competition is characterized by product differentiation and non-price competition.

**Ex. 3.** *Expand the sentences.*

1. Market structure is determined primarily by... .

2. Economists usually group market structures into four basic categories: ... .
3. The main characteristics of the pure competition are ... .
4. Monopoly is the extreme opposite of pure competition and has the following characteristics: .... .
5. Oligopoly has the following characteristics: .... .
6. Monopolistic competition is a market structure that is characterized by ... .

**Ex. 4.** *Answer the following questions, using the text.*

1. What are the four characteristics of pure competition? Does pure competition exist?
2. What problems would exist in a purely competitive economy?
3. Describe four characteristics of monopoly.
4. Identify four characteristics of oligopoly. What is meant by “mutual interdependence”? Describe non-price competition.
5. What are the four characteristics of monopolistic competition? In what ways is monopolistic competition similar to oligopoly? In what ways is it similar to pure competition?

## **12. INTERNATIONAL TRADE**

---

### **READING**

*As you read the text, focus on the difference between absolute and comparative advantages and pay attention to trade restrictions.*

#### **International Trade**

Since ancient times people have strived to expand their trading as far as technology allowed.

Today, container ships laden with cars and machines and Boeing 747s shuttled with fresh fruit, fresh New Zealand lamb, and French cheeses ply the sea and air routes, carrying billions of dollars worth of goods and services. Trade in goods such as food, raw materials, and manufactured goods is known as *visible exports* and

*visible imports*. Trade in services such as banking, insurance, and tourism is known as *invisible exports* or *invisible imports*. So why do people go to great lengths to trade with those in other nations?

International trade is a form of *specialization*. Sri Lanka specializes in tea because it has an appropriate climate and soil, and skilled growers and packers. The principle is just the same as individual specialization: Jill specializes in math teaching because she is good at math and at dealing with people, Jack specializes in dentistry because he understands the biology and is deft with his hands. Of course, it is important for both that there is demand for what they are offering.

Economic theory distinguishes between *absolute advantage* and *comparative advantage*.

*Absolute advantage* is the ability of a country to produce a good using fewer resources than another country.

*Comparative advantage* is a bit harder to understand, but more important for trade. *The principle of comparative advantage* is a central concept in international trade theory which holds that a country or a region should specialize in the production and export of those goods and services that it can produce relatively more efficiently than other goods and services, and import those goods and services in which it has a comparative disadvantage.

*Comparative advantage* is the ability of a country to produce a good at a lower opportunity cost than another country. Comparative advantage refers to the *relative opportunity costs* between countries of producing the same goods. World output and consumption are maximised when each country specialises in producing and trading goods for which it has a comparative advantage.

The majority of economists believe that international trade should be based on comparative advantage and free trade. *Free trade* is a system which allows certain countries to buy and sell goods from each other without any financial restrictions. In practice, despite the advice of economists, every nation protects its own domestic producers to some degree from foreign competition. Behind these barriers to trade are people whose jobs and income are threatened, so they clamour to the government for

protectionism. *Protectionism* is the government's use of embargoes, tariffs, quotas, and other restrictions to protect domestic producers from foreign competition.

*Embargoes* are the strongest limit on trade. *An embargo* is a law that bars trade with another country. For example, the United States and other nations in the world imposed an arms embargo on Iraq in response to Iraq's invasion of Kuwait in 1990.

*Tariffs* are the most popular and visible measures used to discourage trade. *A tariff* is a tax on an import. Tariffs are also called customs duties. Historically, these provided revenue to governments when taxes were not easily collected from other sources. Modern tariffs are usually imposed for a different reason: to shut out (or add to the price of) certain imports in order to protect home producers from foreign competition. An obvious example is the protectionist policy used by European Union for many agricultural products. The current US tariff code specifies tariffs on nearly 70 percent of U.S. imports. A tariff can be based on weight, volume, or number of units.

Another way to limit foreign competition is to impose *a quota*. *A quota* is a limit on the quantity of a good that may be imported in a given time period. For example, the United States might allow 10 million tons of sugar to be imported over a one-year period. Once this quantity is reached, no more sugar can be imported for the year. Quotas can limit imports from all foreign suppliers or from specific countries. Like all barriers to trade, quotas invite other nations to retaliate with more measures to restrict trade. With tariffs, it is impossible to know the quantity that will be imported, because prices might be elastic. With quotas, governments can set a limit to imports. Yet unlike tariffs, quotas provide no revenue for the government.

### ***Vocabulary Focus***

#### **Ex. 1.**

export: /'eksport/ or /ik'sport/?

1. *Look at these words. Where is the stress when the word is used as a noun and when it is a verb?*

- |             |             |            |              |
|-------------|-------------|------------|--------------|
| a. export   | d. increase | g. refund  | j. transport |
| b. import   | e. progress | h. produce | k. insult    |
| c. decrease | f. record   | i. permit  | l. protest   |

2. Fill the gaps with one of the words in its correct form.

- a. Scotland \_\_\_\_\_ a lot of its food from other countries. Its \_\_\_\_\_ includes oil, beef, and whisky.
- b. I'm very pleased with my English. I'm making a lot of \_\_\_\_\_.
- c. Ministers are worried. There has been an \_\_\_\_\_ in the number of unemployed.
- d. But the number of crimes has \_\_\_\_\_, so that's good news.
- e. How dare you call me a liar and a cheat! What an \_\_\_\_\_!
- f. There was a demonstration yesterday. People were \_\_\_\_\_ about blood sports.
- g. People usually buy CDs these days. Not many people buy \_\_\_\_\_ any more.
- h. Don't touch the video! I'm \_\_\_\_\_ a film.
- i. Britain \_\_\_\_\_ about 75% of its own oil.

**Ex. 2.** Match the following common collocations with their Ukrainian equivalents:

- |  |                                 |
|--|---------------------------------|
| 1) to exceed one's quota                 | a) призначати тарифні ставки    |
| 2) under embargo                         | b) порівняльна перевага         |
| 3) absolute advantage                    | c) абсолютна перевага           |
| 4) comparative advantage                 | d) митний збір                  |
| 5) to remove an embargo                  | e) складати квоту               |
| 6) customs duty                          | f) перевершувати квоту          |
| 7) to impose, levy a tariff              | g) вводити, накладати обмеження |
| 8) to fill/fulfill/ meet a quota         | h) знімати заборону             |
| 9) to impose, place, put restrictions on | i) під заборонаю                |

**Ex. 3.** Match the words in column A with their synonyms in column B.

- | A              | B                           |
|----------------|-----------------------------|
| 1) tariff      | a) benefit/profit           |
| 2) embargo     | b) prohibition/interdiction |
| 3) restriction | c) limitation/restraint     |
| 4) advantage   | d) complete/total           |
| 5) quota       | e) Relative                 |
| 6) absolute    | f) a fixed amount           |
| 7) comparative | g) Rate                     |

**Ex. 4.** *There is a logical connection among three of the four words in each of the following groups. Which is the odd one out, and why?*

- 1) absolute advantage – barriers – comparative advantage – free trade
- 2) balance – deficit – dumping – surplus
- 3) banking – insurance – merchandise – tourism
- 4) comparative advantage – protectionism – quotas – tariffs
- 5) non-tariff barriers – norms – quotas – taxes
- 6) barter – import substitution – infant industries – tariff barriers
- 7) liberalize – protect – subsidize – substitute

**Ex. 5.** Match each headword on the left with a set of examples on the right.

- |                    |   |
|--------------------|---|
| 1) imports         | a) taxes, tariffs, quotas on imported goods       |
| 2) free trade      | b) wheat, oil, being brought into the country     |
| 3) domestic market | c) no restrictions on imports                     |
| 4) exports         | d) rice, wool being sent abroad                   |
| 5) open market     | e) customers in the same country                  |
| 6) protectionism   | f) f. products available to anyone willing to buy |

**Ex. 6.** *Complete the following sentences, use the prompts below:*

1. \_\_\_\_\_ means that each nation specializes in a product for which its opportunity cost is lower in terms of the production of another product and then nations trade.
2. \_\_\_\_\_ benefits a nation as a whole but individuals may lose jobs and incomes from the competition from foreign goods and services.
3. A government's use of embargoes, tariffs, quotas, and other methods to protect particular domestic industries by imposing barriers that reduce imports is called \_\_\_\_\_.
4. A (an) \_\_\_\_\_ prohibits the import or export of particular goods and a (an) \_\_\_\_\_ discourages imports by making them more expensive. These trade barriers often result primarily from domestic groups that exert political pressure to gain from these barriers.

5. The \_\_\_\_\_ is a summary bookkeeping record of all the international transactions a country makes during a year. It is divided into different accounts including the current account, the capital account and the statistical discrepancy.
6. The \_\_\_\_\_ measures only goods (not services) that a nation exports and imports. It is the most widely reported and largest part of the current account.
7. A (an) \_\_\_\_\_ is the price of one nation's currency in terms of another nation's currency. The intersection of the supply and demand curves for dollars determines the number of units of a foreign currency per dollar.
8. A \_\_\_\_\_ is a limit on the quantity of a good that may be imported in a given time period.

---

*Words for reference:* comparative advantage; free trade; protectionism; embargo; tariff; balance of payments; balance of trade; exchange rate; quota.

### ***Comprehension***

**Ex. 1.** *Based on your understanding of the text, are the following TRUE or FALSE?*

*Explain why.*

1. International trade is a form of specialization.
2. Comparative advantage is the ability of a country to produce a good using fewer resources than another country.
3. Protectionism is the government's use of embargoes, tariffs, quotas, and other restrictions to protect domestic producers from foreign competition.
4. Tariffs are the strongest limit on trade.
5. Embargoes are the most popular and visible measures used to discourage trade.
6. Tariffs provide no revenue for the government.

**Ex. 2.** *Find in the text the answers to the following questions.*

1. What is the basis for trade between nations? Why does international trade bring gains to all countries?
2. What's the difference between absolute advantage and comparative advantage?

Which of them is more important for international trade? Why?

3. What encourages governments to impose tariffs and quotas?
4. What's the difference between embargoes, tariffs and quotas? Which of them provides revenue for the government? In what way?
5. What are the ways of liberalizing international trade?

*Ex. 3.* Write questions, relating to the text, to which these could be the answers.

1. People have strived to expand their trading as far as technology allowed.
2. A form of *specialization*
3. The ability of a country to produce a good using fewer resources than another country.
4. The ability of a country to produce a good at a lower opportunity cost than another country.
5. Tariffs are.
6. Unlike quotas they produce revenue.
7. So-called safety norms, and the deliberate creation of customs difficulties and delays.

## PART II ACCOUNTING AND AUDIT

### 1. ACCOUNTING

---

#### READING

##### Text 1

*As you read pay attention to the functions of accounting.*

#### What is Accounting?

Accounting is the process by which the profitability and solvency of the company can be measured. It also provides information needed as a basis for making decisions, that will enable management to guide the company on a profitable and solvent course.

The range of those who use accounting information is not limited by businesses only. It also includes:

*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.

*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.

*Government Regulatory Agencies* base their regulatory activity on the accounting information they receive from firms.

*Taxing Authorities.* Local, state, and federal governments levy taxes on individuals and businesses using the accounting information they present.

*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.

The methods used by a business to keep records of its financial activities and to summarize these activities in periodic accounting reports comprise *the accounting system*.

The first function of an accounting system is *creating* information, that is a

systematic record of the daily business activity. It is carried out by means of recording, classifying and summarizing information.

The second function of an accounting system is *communicating* the summarized information to interested parties.

The third function is *interpreting* the accounting information as it relates to specific business decisions.

In accounting, business activities are associated with *transactions*. 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.

Transactions between the firm and its markets - both its supply markets and its selling markets – are defined as “*external transactions*”. 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 managerial accounting. The main task of *managerial accounting* is preparing budgets and other financial reports necessary for management. *Cost accounting* deals with working out the unit cost of products, including materials, labour and all other expenses. Other types of accounting are tax accounting and creative accounting. *Tax accounting* is used for calculating an individual's or a company's liability for tax. *Creative accounting* uses all available accounting procedures and tricks, to disguise the true financial position of a company.

Persons with little knowledge of accounting may fail to understand the difference between accounting and bookkeeping.

Bookkeeping means the recording of transactions, the record-making phase of accounting. The recording of transactions tends to be mechanical and repetitive, it is only a small part of the field of accounting and probably the simplest.

Accounting includes the design of accounting systems, preparation of financial statements, audits, cost studies, development of forecasts, income tax work, computer applications to accounting processes, and the analysis and interpretation of accounting information as an aid to making business decisions. A person might become a reasonable proficient bookkeeper in a few weeks or months, however, to become a professional accountant requires several years of study and experience.

## ***Vocabulary Focus***

**Ex. 1.** *Study the difference between the following synonyms. 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.

- a. They meet monthly to discuss policy and ... the current political situation.
- b. They really ... the peace and quiet of rural Wales.
- c. The hurricane caused damage ... at 300 mln pounds.
- d. How would you ... our chances?
- e. He is the kind of individual that's very hard to ... .
- f. The lawyers ... the property at 90 thousand pounds.
- g. The builder ... the cost of repairing of roof at 600 pounds.
- h. It can explain why actual costs varied from cost... .
- i. I would ... the size of the garden at 1000 square metres.

**Ex. 2.** *Choose the right definition from column B to the words and expressions from column A.*

<b>A</b>	<b>B</b>
1) bookkeeping	a) calculating an individual's or a company's liability for tax
2) accounting	b) writing down the details of transactions (debits and credits)
3) managerial accounting	c) keeping financial records, recording income and expenditure, valuing assets and liabilities, and so on
4) cost accounting	d) preparing budgets and other financial reports necessary for management
5) tax accounting	e) inspection and evaluation of accounts by a second set of accountants
6) auditing	f) using all available accounting procedures and tricks, to disguise the true financial position of a company
7) creative accounting	g) working out the unit cost of products, including materials, labour and all other expenses

**Ex. 3.** Choose the right variant from the words given below.

The purpose of \_\_\_\_\_ is to provide financial information about the economic entity. 2. The \_\_\_\_\_ of creating accounting information are recording, classifying and summarizing. 3. Financial information provided by an accountant is needed by managerial \_\_\_\_\_ \_\_\_\_\_ to help them plan the company's activities. 4. The purpose of each business to earn \_\_\_\_\_. 5. Every economic entity should stay \_\_\_\_\_, that is to have sufficient cash to play debts. 6. The company that is unable to meet its obligations is called \_\_\_\_\_. 7. To meet \_\_\_\_\_ of our society we need some knowledge of accounting.

---

*Words for reference:* challenge; insolvent; profit; makers; solvent; decision; means; accounting.

**Ex. 4.** Find the sentences with the following expressions in the text and translate them into Ukrainian.

Managerial accounting, external transaction, taxing authorities, levy taxes (on), legal contract, non-profit organisations, financial statement, audit, cost accounting, creative accounting, bookkeeping.

### ***Comprehension***

**Ex. 1.** Answer the questions.

1. What is the definition of accounting?
2. What information does accounting provide business entities with?
3. Who are the users of accounting information? Why do they need it?
4. What are the functions of accounting?
5. What means are used for creating information?
6. What are business activities in accounting associated with?
7. What is the difference between external and internal transactions?
8. What are the subjects of managerial, cost, tax and creative accounting?
9. What is the difference between accounting and bookkeeping?

## Text 2

*As you read the text, focus on the main types of financial statements.*

### **Accounting and Financial Statements**

In accounting, it is always assumed that a business is a going concern, i.e. that it will continue indefinitely into the future, which means that the current market value of its fixed assets is irrelevant, as they are not for sale. Consequently, the most common accounting system is *historical cost accounting*, which records assets at their original purchase price, minus accumulated depreciation charges. In times of inflation, this understates the value of appreciating assets such as land, but overstates profits as it does not record the replacement cost of plant or stock (GB) or inventory (US). The value of a business's assets under historical cost accounting – purchase price minus depreciation - is known as its net book value. Countries with persistently high inflation often prefer to use *current cost or replacement cost accounting*, which values assets (and related expenses like depreciation) at the price that would have to be paid to replace them (or to buy a more modern equivalent) today.

Company law specifies that shareholders (GB) or stockholders (US) must be given certain financial information. Companies generally include three financial statements in their annual reports.

The *profit and loss* account (GB) or *income statement* (US) shows revenue or earnings or income and expenditure. It usually gives figures for total sales or turnover, and costs and overheads (GB) or overhead (US). The first figure should obviously be higher than the second, i.e. there should be a profit. Part of the profit goes to the government in taxation, part is usually distributed to shareholders (stockholders) as a dividend, and part is retained by the company.

The *balance sheet* shows a company's financial situation on a particular date, generally the last day of the financial year. It lists the company's assets, its liabilities, and shareholders' (stockholders') funds. A business's assets include *debtors (GB) or accounts receivable* (US) as it is assumed that these will be paid. Liabilities include *creditors (GB) or accounts payable (US)*, as these will have to be paid. Negative

items on financial statements, such as creditors, taxation, and dividends paid, are usually enclosed in brackets.

In accordance with the principle of *double-entry bookkeeping* (that all transactions are entered as a credit in one account and as a debit in another), the basic *accounting equation* is  $\text{Assets} = \text{Liabilities} + \text{Owners' (or Shareholders') Equity}$ . This can be rewritten as  $\text{Assets} - \text{Liabilities} = \text{Owners' Equity or Net Assets}$ . This includes share capital (money received from the issue of shares), share premium (GB) or paid-in surplus (US) (any money realized by selling shares at above their nominal value), and the company's reserves, including the year's retained profits. Shareholders' equity or net assets are generally less than a company's market capitalization (the total value of its shares at any given moment, i.e. the number of shares times their market price), because net assets do not record items such as goodwill.

The third financial statement has various names, including the *source and application of funds statement*, and the *statement of changes in financial-position*. This shows the flow of cash in and out of the business between balance sheet dates. Sources of funds include trading profits, depreciation provisions, sales of assets, borrowing, and the issuing of shares.

Applications of funds include purchases of fixed or financial assets, payment of dividends, repayment of loans, and - in a bad year - trading losses.

**Ex. 1.** Complete the following sentences using the text from the Exercise 1.

1. Companies record their fixed assets at historical cost because ...
2. Historical cost accounting usually underestimates, . . .
3. Countries with a regularly high rate of ...
4. Company profits are usually split, ...
5. Double-entry bookkeeping requires that ...
6. A company's net assets consist of...
7. A company's stock market capitalization ...
8. Flows of cash both in and out of the company ...

### **Text 3**

*Before reading, take a few minutes to preview the text for a general overview of its main ideas. After reading the text be ready to speak on:*

- two general classifications of accountants;
- ethical behavior of accountants;
- other professions where the same principles are used;
- the functions of accounting;
- the importance of accountants' work.

### **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.

The primary function of the Chief Accountant is to ensure that adequate funds are available for such capital expenditure on new plant and equipment as is required in the Corporate Plan. Adequate working capital will also be required to meet revenue expenditure such as wages and salaries, purchases of raw materials and the inevitable administration expenses. Whenever purchases or sales are made records will need to be kept. In many ways the accounts are like a storybook telling you what has happened since the business commenced. On 3rd April we purchased a new mainframe computer for £750,000. On 11th May we spent £15,000 on a new motor van, and so on. The data tells management what assets are at their disposal and what commitments they have to be prepared to meet. By examining the accounts managers can see how much cash is available, how much they owe to their creditors, and how much they are owed by their debtors. They must always be in a position to meet their commitments if insolvency is to be avoided. The accounts make a vital contribution to the decision-making process. Once problems have been identified, alternative solutions have to be considered and evaluated. The evaluation will very often be centred on statistical data provided by the accounting departments. If we chose Option A how much would it cost? What would be the net revenue (after deduction of the expenses)? How much would labour costs amount to? Would it be cheaper to use more capital, intensive methods of production? It is this type of question which can be answered by the accountants.

When the decision is implemented there will be a need for feedback. Control mechanism will be necessary to ensure that any deviations are speedily noticed so that corrective action can be taken. The continuous flow of accounting information

will be the means by which the deviations are spotted. The use of computers will make it possible to improve the feedback both in terms of accuracy and speed.

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.

**Ex. 1.** *Make questions to each paragraph of the text above.*

## 2. FINANCIAL STATEMENTS AND BOOKKEEPING

---

### READING

Analyze the business documents and do the task that follows:

#### Financial statements

Accounting data is classified and summarised in the form of statements. 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*

A balance sheet is a financial statement or business form that lists, as of a certain date, all assets owned and all claims against these assets. These claims are held by *creditors*, to whom money is owed, and the owners themselves, in the form of their owner's equity. When arranged in this way, it is easy to see that the fundamental bookkeeping equation holds true:

$$A = L + OE$$

Let us analyze the balance sheet for Thomas Morales's business on September 30 of the current year.

*Evergreen Landscaping Service  
Balance Sheet  
September 30, 2005*

<b>Assets</b>		<b>Liabilities</b>	
Cash	<b>785 000</b>	Gardners Supply Co.	<b>34 500</b>
Truck	<b>1 100 000</b>	Equipment Mlg. Corp.	<b>100 000</b>
Trailer	<b>150 000</b>	Island National Bank	<b><u>770 000</u></b>
Accounts Receivable	<b>360 000</b>	Total Liabilities	<b>904 500</b>
Equipment	<b>332 000</b>		
Office furniture	<b>75 000</b>	Owner's Equity Thomas Morales, Capital	<b><u>1 972 000</u></b>

Supplies (paper, pens, etc)	<u>74 500</u>		
Total Assets	<u>2 876 500</u>	Total Liabilities & Owner's Equity	<u>2 876 500</u>

This balance sheet shows the *financial condition* of Morales's business on the specified date. When this form is arranged with two sides- - assets on the left, liabilities and owner's equity on the right – it is called an *account form balance sheet*.

Note the following details carefully:

1. The heading consists of “answers” to the questions *who*, *what*, and *when*.
2. The account form lists assets on the left side, liabilities and owner's equity on the right side.
3. The sum of all assets is listed below the last one and identified as “*Total Assets*.”
4. The sum of all liabilities is listed below the last one and identified as “*Total Liabilities*.”
5. The sum of total liabilities and capital is listed on the same line level as the total assets and identified as “*Total Liabilities and Owner's Equity*” or with acceptable abbreviations.
6. The final total amounts on both sides are double ruled.
7. The dollar symbol, comma, and decimal point are not used in any bookkeeping form or statement.

(Single ruled lines indicate an addition or subtraction. Double ruled lines indicate the end of the work.)

#### *Income Statement – Form and Content*

An *income statement* is prepared first, using the information in the Income Statement columns of the work sheet. The heading will answer the questions *who*, *what*, and *when*. All revenue is listed first, and totaled. Expenses are then listed, totaled, and subtracted from total revenue. The difference is the net income (or net loss).

$$\text{Revenue} - \text{Expenses} = \text{Net Income or Net Loss}$$

Follow this illustration:

*De Van Loc Company*  
*Income Statement*  
*for the Month Ended October 31, 2005*

Revenue:		
Rent Income		<b>200000</b>
Expenses:		
Advertising Expense	<b>15000</b>	
Salary Expense	<b><u>40000</u></b>	
Total Expenses		<b><u>55000</u></b>
Net Income		<b><u><u>145000</u></u></b>

If expenses are greater than revenue, the difference (revenue subtracted from expenses) is identified as a net loss. Note that the first money column is used to list more than one item; the second money column is for totals (or a single item) and the results of the business operations for the fiscal period – net income or net loss. Double lines are ruled through both money columns to show a completed statement.

*Capital Statement*

The next financial statement to be prepared is a *capital statement*. This shows how owner's equity has changed during a fiscal period. It starts with the beginning capital account balance. Any changes that occur are then listed. Possible changes in owner's equity are:

<b>Increases</b>	<b>Decreases</b>
1. additional investments	1. withdrawals
2. net income for period	2. net loss for period

De Van Loc's capital statement is a simple one; only two items are involved.

*De Van Loc Company*  
*Capital Statement*  
*for the Month Ended October 31, 2005*

Beginning Balance, Oct. 1, 2005		515 000
Plus: Net Income		<b><u>145 000</u></b>
Ending Balance, Oct. 31, 2005		<b><u>660 000</u></b>

Following are illustrations of capital statements with more changes (headings are omitted here):

Beginning Balance, Sept. 1, 2005		<b>750000</b>
Plus: Additional Investment	<b>100000</b>	
Net Income	<b><u>250000</u></b>	
	<b>350000</b>	
Less: Withdrawals	<b><u>150 000</u></b>	
Net Increase in Capital		<b><u>200 000</u></b>
Ending Balance, Sept. 30, 2005		<b><u>450 000</u></b>

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.

*Task: Prepare a balance sheet for Maria's Beauty Salon, use the following data:*

Assets:	Cash	\$ 1,750
	Furniture and Fixures	8,900
	Beauty Supplies	600
Liabilities:	Regal Laundry	275
	Mavelle Corp.	2,500

## TRANSLATION

**A.** *Translate the text into Ukrainian.*

### **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.

**B.** *Translate the abstract from Ukrainian into English.*

1. У бухгалтерському обліку зацікавлені власники, керівництво підприємства, податкова служба. 2. Бухгалтерський облік забезпечує інформацію про платежі за певний період. 3. Кожен підприємець зобов'язаний вести книги і вносити в них торгові операції. 4. Кожна компанія прагне залишатися платоспроможною. 5. Бухгалтерський облік є основою для

прийняття ділових рішень. 6. Однією з функцій бухобліку є виявлення розміру прибутку. 7. Інвестори, які вкладають гроші в бізнес, зацікавлені в отриманні надійної інформації.

### **3. ACCOUNTANT WORK SKILLS**

---

#### **READING**

*Read and translate the following text:*

#### **Business skills give you the edge**

Anybody can call themselves an accountant, but a recognised qualification generally guarantees proper training, experience and professional standards. Most accountants work in-house for companies or organisations in the private, public or voluntary sectors. Those employed by accountancy firms, on the other hand, usually specialise in very specific areas, such as auditing, taxation, insolvency or forensic accounting. Naturally, each specialism has different training requirements.

Despite the existence of global accounting practices serving global clients, the accountancy bodies that oversee training are almost entirely domestic and serve the needs of their domestic market.

Although the widespread adoption of international accounting standards is making training easier, taxation is a national issue. Therefore, accountancy training naturally tends to occur at a national level. “We are not educating accountants to work anywhere in the world, but to work in their own national environment,” says Jim Sylph, Executive Director of Professional Standards at the International Federation of Accountants (IFAC).

IFAC describes itself as “the global organisation for the accountancy profession”. It has 2.5 million members from all areas of the profession, belonging to 157 member and affiliated bodies and accountancy associations, from all over the world.

But accountancy training is not just about the initial qualification. The big

challenge is keeping accountants up to date in a changing world. To support its members, IFAC sets very broad standards for education programmes, including continuing professional education and lifelong learning.

The current trend is to emphasise strategy and management over the purely technical subjects, because strategic and managerial skills can give the big global practices a competitive advantage.

In this way, at Pricewaterhouse-Coopers (PwC), the concept of the “business adviser” runs right through from newly qualified accountants to partners. This includes skills such as managing teams, and coaching and appraising people. Business and relationship skills have huge financial implications. Indeed, they often determine the length of time that the business relationship between an accountancy firm and its customers exists.

Similarly, global training at KPMG concentrates on values, skills and behaviours. However, KPMG’s main strategic focus is the mobility of its workforce, and it views the lack of portability of national qualifications as the main barrier to this. “It presents challenges within the profession,” says Michael Walby, Senior Training Manager at KPMG. “We need to be able to get our resource to the opportunities, irrespective of geographical boundaries. The profession needs to work together across the various institutes to take advantage of future opportunities.”

“If you get training right, it can make a significant difference to competitive advantage,” says Ms. Kilbride, Associate Partner for Global Learning at Deloitte. This is especially the case in small or emerging markets that are growing rapidly. They face challenges to consistency and quality because of a rapid influx of people.

According to Mr. Blewitt, Chief Executive of the Association of Chartered Certified Accountants (ACCA), increasingly employers want people who can move around the world with a common accounting language and set of standards and ethics. He states, “There is an inexhaustible demand from developing nations. With a qualified accountancy profession, these countries will continue to be able to attract inward investment and aid from agencies such as the World Bank.”

### ***Vocabulary Focus and Comprehension***

**Ex.1.** *Read the article and say whether these statements are true (T) or false (F). Identify the part of the article that gives this information. Correct the false ones.*

1. Most accountants work for accountancy firms.
2. There are a number of different specialist areas in accounting.
3. Accountancy firms only operate in their domestic market.
4. Accountancy training is mainly organised locally.
5. With a recognised accountancy qualification, you are sufficiently trained for the rest of your working career.
6. IFAC does not expect accountants to get any further training once they have obtained their initial accountancy qualification.
7. Giving its accountants business-skills training can have a serious impact on a firms' success.

**Ex.2.** *Read the article again and answer these questions.*

1. Which phrase in paragraph F has the same meaning as the edge in the title?
2. What are the three main advantages of an employee who holds a recognised accountancy qualification?
3. Why do accountants generally train in their own country?
4. How does IFAC describe itself?
5. Which two broad sets of skills do large accountancy firms value as much as the purely technical accounting skills?
6. What does KPMG see as being the most important asset in its accountants?
7. Which major barrier to this does KPMG's Senior Training Manager mention?
8. Which markets would currently benefit from having more accountants trained to a high level?
9. Which attributes do employers need their internationally mobile employees to share?
10. What sort of economic benefits would a stronger accountancy profession bring to developing countries, according to ACCA's Chief Executive?

**Ex. 3.** Paragraph A lists four accountancy specialisms. Match these words and phrases from the article (1-4) with their meanings (a-d).

1. auditing	a) when a company's financial records are officially checked because illegal activity is suspected
2. tax accounting	b) an accountant working in this area acts for a person or company that is no longer able to pay their debts or a company whose liabilities exceed its assets
3. insolvency	c) preparing a person's or company's financial information in order to calculate the proportion of their profit which they must pay to their government
4. forensic accounting	d) checking an organisation's activities or performance or examining a person's or organisation's accounts to make sure that they are true and honest

**Ex.4.** Read paragraphs G and H again and match each of these nouns or noun phrases with either PwC or KPMG.

- |                             |     |
|-----------------------------|-----|
| 1. business adviser concept | PwC |
| 2. mobility                 |     |
| 3. values and behaviours    |     |
| 4. team-management skills   |     |
| 5. coaching                 |     |
| 6. employee appraisal       |     |
| 7. relationship skills      |     |

**Ex. 5.** Use words and phrases from Exercises 3 and 4 to complete these sentences.

- Due to a sharp drop in sales, the company was not able to pay its creditors and eventually entered into .....
- Accountants need to deal with clients, so it is important for them to have ..... skills as well as technical ones.

3. It is important to have ..... -..... skills if you are going to be responsible for groups of employees.
4. Accountants involved in ..... check that their clients' financial statements present a true and honest picture of the company.
5. The company was suspected of being dishonest in its financial reporting, so the ..... accountants were called in to investigate its dealings.
6. Accountants need to develop ..... ..... skills in order to give appropriate feedback to the teams they manage.

**Ex.6.** Match the sentence halves to make sentences similar to ones in the article.

1. Global accounting practices serve	a) a wide range of education programmes
2. A recognised qualification guarantees	b) a significant difference to competitive advantage.
3. Accountancy bodies that oversee training serve	c) global clients.
4. IFAC provides	d) challenges to consistency and quality.
5. Good training can make	e) proper training.
6. Emerging markets face	f) the needs of their domestic market.

**Ex. 7.** Choose the best explanation for each phrase from the article.

1. “ ... not just about the *initial* qualification.”
  - a) occurring at the end
  - b) occurring at the beginning
2. “ ... have huge financial *implications*. ”
  - a) consequences
  - b) difficulties
3. “There is an *inexhaustible* demand .. .”
  - a) never-ending
  - b) enormous

## 4. DEVELOPMENT OF THE ACCOUNTING PROFESSION

---

### READING

*Read and translate the text below*

#### **Professional bodies: global profiles**

In Chartered Accountants' Hall, there is a memorial to past presidents of the Institute of Chartered Accountants in England and Wales (ICAEW). Names such as Waterhouse, Coopers, Peat and Young display the largely British roots of the profession.

But these days, the ICAEW and other UK accounting bodies are looking overseas. "Accountancy is an international business," says Vernon Soare of the ICAEW. "We are developing to support our members and the firms they work in." Today, there is much talk of partnerships with local institutes and developing an international reputation for the qualifications they offer.

Over half of the Association of Chartered Certified Accountants' (ACCA) 122,500 members are registered overseas. ACCA feels that work that helps the standing of the profession across the world helps its members, even if it is supporting bodies that will eventually become competitors.

Both the ICAEW and the Chartered Institute of Management Accountants (CIMA) are working on World Bank projects in Bangladesh to develop professional services to support its economy and businesses. CIMA is studying the accounting profession and the operations of the Institute of Cost and Management Accountants of Bangladesh.

CIMA is also establishing joint ventures with a number of overseas institutes and looking at local language training. "The main part of our growth strategy is employer-led. We listen to them carefully. There has been a huge shift in the finance function. Finance processes are being outsourced [to a variety of countries], so there is an increasing need for common qualifications around the world," says Robert Jelly, Director of Education at CIMA.

In the UK, the ICAEW has hosted Bangladeshi accountants working towards the Institute's certificate in International Financial Reporting Standards (IFRS).

These are the accounting rules now accepted or in the process of being adopted by more than 100 countries. The group includes academics, regulators and government officials. “They are not simply learning the technical side, they are learning how to teach it and pass it on,” says Mr. Soare. The aim is to develop a stronger accounting profession in the country to help build a stronger economic system.

Another exciting area is Eastern Europe and central Asia. The Institute of Chartered Accountants of Scotland (ICAS) is working in Armenia and Kazakhstan to bring together Russian speakers from across the region to help develop the profession and to discuss IFRS.

“It is a fast-developing part of the world. We have a good reputation in the region due to the development work we have already done there ,” says Anton Colella, Chief Executive of ICAS. “We want to build strong national institutes. The demands and pressures on the global profession are increasing, particularly in developing nations, where IFRS and international audit standards are proving very challenging.”

But all the institutes insist the UK profession is not looking for world domination. “There is always going to be a need for local control. You need to understand local customs, to build groups of professionals who have loyalty to each other and to their local profession,” says Neil Wallace, Director of International Services at ICAS. “Take Kazakhstan. It now has a chamber of auditors, and the profession is developing alongside the economy, something all developing countries need.”

### ***Vocabulary Focus and Comprehension***

**Ex.1.** *Read the article and answer these questions. Identify the part of the article that gives this information.*

1. How are some of the UK accounting bodies helping to develop the accountancy profession overseas with local institutes?
2. What does ACCA think about the fact that some of the accounting organisations it is supporting will most probably become its competitors in the future?
3. As well as accountancy, which other area of training has CIMA identified as being essential to overseas accountants?

4. Robert Jelly mentions that there is a growing need for a common set of accounting qualifications around the world. What reasons does he give for this?
5. Which set of accounting standards is in the process of being adopted by over a hundred countries?
6. What benefit would a well-established accounting profession bring to developing economies?
7. In spite of UK help, what is the most important factor in the development of a strong accounting profession in developing countries, according to Neil Wallace?

**Ex. 2.** *Read the article again and answer these questions. Identify the part of the article that gives this information.*

1. What proportion of ACCA's members are registered outside the UK?
2. Which programme do CIMA and ICAEW's projects in Bangladesh belong to?
3. Which Bangladeshi institute is CIMA helping?
4. In which developing regions is the accountancy profession becoming more important?
5. What sort of jobs do the visiting Bangladeshi accountants have?
6. What does Anton Colella, Chief Executive of ICAS, want to see happening in Eastern Europe?
7. Which organisation has been established in Kazakhstan?

**Ex. 3.** *Find words or phrases in the article which fit these meanings.*

1. An area of work that needs advanced education and specific training (paragraph A)  
accountancy p ..... .
2. Official organisations which represent people of a particular profession (paragraph B).  
a) accountancy b.....                      b) accountancy i .....
3. The set of new accounting rules that over 100 countries have adopted or are in the process of adopting (paragraph F).                      I..... F..... R..... S .....
4. A person or organisation chosen by the government to ensure that an industry or system operates legally or fairly (paragraph F).                      r.....
5. Someone who has a responsible position in a government organisation (paragraph F)  
g..... o .....
6. Official body of auditors, who check that a company's financial report is true and

honest (paragraph I). c..... of auditors

**Ex.4.** Find different forms of the word **develop** in the article and use them to complete these sentences.

1. ICAS is working in Armenia and Kazakhstan to help ..... the profession.
2. Several institutes have been doing ..... work in Eastern Europe.
3. .... nations need a strong accountancy profession.
4. Accountancy is a fast-..... profession.
5. There is much talk of ..... an international reputation for the qualifications that overseas institutes offer.

**Ex.5.** Use words and phrases from Exercises 3 and 4 to complete these sentences.

1. In the future, many accountants in developing countries will produce company accounts which comply with ..... ..
2. Although developing countries need international help to establish the ..... .. in their countries, success will depend mainly on having strong local control.
3. Many ..... .. are working hard with these countries to develop local qualifications with an international reputation.
4. Some countries even have a ..... of ..... for the first time.
5. It is equally important that their ..... , who are responsible for making sure that an industry or system works legally or fairly, have a good understanding of accounting.
6. The international accountancy profession is ..... fast.

**Ex.6.** Match the sentence halves to make sentences similar to ones in the article.

1. ICAEW is developing	a) joint ventures with a number of overseas institutes.
2. CIMA is studying	b) its members and the firms they work in.
3. CIMA is establishing	c) to discuss IFRS.
4. Finance processes are	d) the accounting profession of Bangladesh.
5. The demands and pressures on the global profession	e) being outsourced overseas to a variety of countries.
6. ICAS is bringing Russian speakers together	f) are increasing.
7. International audit standards are proving challenging	g) in developing nations.

**Ex.7.** Choose the best explanation for each phrase from the article.

1 “The main part of our growth strategy is *employer-led*.”

- a) followed by employers                      b) heavily influenced by employers

2 “There has been a *huge shift* in the finance function.”

- a) a long working period                      b) a big move

3 “Finance processes are being *outsourced* .. .”

- a) carried out by another company      b) carried out by another country

4 “These are the accounting rules now accepted or in the process of being *adopted* by more than 100 countries.”

- a) used for the first time                      b) changed

## **5. INTERNATIONAL FINANCIAL REPORTING STANDARDS**

### **READING**

*Read and translate the following text*

#### **CEOs need to take account of IFRS**

“No one anticipated how big it was going to be!” says Ken Wild, global International Financial Reporting Standards (IFRS) leader at Deloitte, speaking of the European switch to the new international accounting standards. “Every company was too late and too slow in preparing - even the good ones.”

Accounting used to be in the hands of only the bookkeepers and auditors. Not any more. The change in accounting rules has forced many Chief Executive Officers (CEOs) to roll up their sleeves. Even when they have reached the first milestone of the changeover, they need to keep up to date with ongoing developments in IFRS in order to deal with the way their company’s financial performance will be viewed from the outside.

A changeover to IFRS involves far more changes than might at first appear. These range from retraining staff and altering data-collection systems to potentially

changing pay policies and adjusting key accounting policies in order to avoid anomalies in the reported accounts. Changing over was more difficult than many originally anticipated. It required a lot of adjustments to the computer information systems to try to build the final financial statements.

Mark Smith, Director of External Reporting at Tomkins, led his engineering group through the change. “There were really two phases to the whole project,” he says. “Firstly, we had to work out which accounting policies had to change. Secondly, we had to understand how to produce the new style of accounts.” The extra disclosure requirements caused headaches. “It was not necessarily huge additional amounts of data, but the differences in the data which caused problems - collecting it and explaining why you need it.”

Externally, there were also big challenges. Executives had to educate the market as to what the different numbers meant and prepare investors and analysts for any significant changes. During the UK conversion, PwC staff tracked the share price movements of companies on the first day they reported results under IFRS. “The moves were normally 1 or 2 per cent, so that is not bad, but that is, in fact, a big deal for something that was promoted as only a change in book keeping ,” says Ian Dilks, head of the IFRS conversion team at PwC.

No two companies go through exactly the same experience, and the extent of the change depends on the complexity of the company. Financial services and multinational firms tend to be at one end of the scale, and small companies that operate only domestically at the other.

In Europe, the process was complicated further by different accounting rules in each country. Some of these were more geared towards tax collection and required a major reorientation towards capital markets, in line with IFRS.

Interestingly, European companies with less-developed accounting systems were generally better prepared for the switchover, whereas many UK companies had to rush to work through the unexpected detail of the new requirements. UK at counting was considered quite similar to IFRS. Some companies made the mistake of thinking that the change would be relatively easy.

“This is absolutely not just a technical issue,” says Mr. Dilks. “Should CEOs be panicking? No - but neither should they be thinking that they can simply leave this issue to someone else much lower down [their organisation].”

### ***Vocabulary Focus and Comprehension***

**Ex.1.** *Read the article and say whether these statements are true (T) or false (F). Correct the false ones. Identify the part of the article that gives this information.*

1. The European changeover to International Financial Reporting Standards went as expected.
2. CEOs need to fully understand how these accounting and reporting changes could affect the way their financial results look to outsiders.
3. The changeover to IFRS only involved changing a few numbers in the accounts of the companies concerned.
4. Once companies had understood which accounting policies they had to change, the major problems were over.
5. The changeover experience was the same for each of the companies involved.
6. Many European countries’ old reporting standards had been designed mainly with their respective tax authorities in mind.

**Ex. 2.** *Read the article again and answer these questions.*

1. There is a pun in the title. Can you explain it?
2. Which expression describes a negative effect on the final accounting report which can occur if a company does not make the necessary changes throughout the whole organisation?
3. How did senior executives at Tomkins have to handle these changes in terms of the outside world?
4. Shortly after the changeover to IFRS, what evidence was there that analysts and investors might not have fully understood the new method of reporting and reacted negatively?
5. Find the phrase in paragraph E which shows that the changes had simply been

regarded as a minor technical accounting change.

6. Who was the new reporting system aimed at?

7. In Europe, which type of company generally found the changeover process more difficult?

**Ex. 3.** Find words or phrases in the article which fit these meanings.

1. a) the title of the manager with the greatest authority in the normal everyday management of a company (paragraph B). C..... E..... O .....

b) people who make an official record of all the money paid into and paid out of businesses (paragraph B). b .....

c) person who is in charge of the way a company reports its accounts to the outside world (paragraph D). D..... of E..... R.....

2. a synonym for profitability (paragraph B). f..... p.....

3. the documents that are produced for investors at the end of the accounting process (paragraph C). a) r ..... a..... b) f..... f..... s.....

4. a synonym for the “main methods of accounting” (paragraph C). k..... a..... p .....

5. things which do not “fit” in a company’s accounts (paragraph C). a.....

6. rules which force companies to publish a specific piece of information in their accounts (paragraph D). d..... r.....

7. companies can get extra funds by selling shares here (paragraph G). c..... m.....

**Ex. 4.** Complete the chart with different words and expressions to describe change.

verb	noun
adjust	
	alteration
change	change
change over	
convert	
reorient	

	switchover
--	------------

**Ex. 5.** Use words and phrases from Exercises 3 and 4 to complete these sentences.

1. The ..... to the new set of accounting rules by many European companies was much more complicated than they originally thought it would be.
2. Companies had to assess how they would have to ..... their accounting and reporting processes.
3. They had to start by adjusting their ..... ..
4. The ..... of ..... has responsibility for how the company presents its accounts to the public.
5. The public will use the ..... to get a picture of the company's financial performance.
6. Companies need to fulfill all of the ..... in their reported accounts in order to comply with IFRS.
7. They must be careful not to publish any ..... in their accounts.

**Ex. 6.** Use the verbs and verb phrases in the box to complete the description of some of the steps involved in the process of changing over to IFRS.

adjust	alter	change	educate	keep up to date with	prepare	produce
retrain	understand					

CEOs have to ...

- 1 ..... ongoing developments in IFRS.
- 2 ..... the impact of IFRS on the view of the company's performance from the outside world.

Companies have to ...

- 3 ..... staff.
- 4 ..... data-collection systems.
- 5 ..... pay policies.
- 6 ..... key accounting policies.

Directors of External Reporting have to ...

7 ..... the new style of accounts.

CEOs have to ...

8 ..... the market about the new style of reporting.

9 ..... analysts and investors for any significant changes.

**Ex. 7.** Choose the best explanation for each phrase from the article.

1 “ ... has forced many Chief Executive Officers to *roll up their sleeves*. ”

a) start fighting                      b) work very hard

2 “... when they *have reached the first milestone* .. .”

a) put in place the main parts of the new reporting system  
b) experienced their first problems with the new reporting system

3 “ ... but that is, in fact, *a big deal* .. .”

a) very significant                      b) a big business contract

4 “ ... the *extent* of the change depends on the complexity of the company.”

a) size                                      b) cost

## 6. ANNUAL FINANCIAL STATEMENTS

---

### READING

Scan and analyze the following statement to complete exercises given below it:

Summary Consolidated Income Statement	US\$ m	
	2008	2007
Interest income	<b>91,301</b>	92,359
Interest expense	<b>(48,738)</b>	(54,564)
<b>Net interest income</b>	<b>42,563</b>	37,795
Fee income	<b>24,764</b>	26,337
Fee expense	<b>(4,740)</b>	(4,335)
<b>Net fee income</b>	<b>20,024</b>	22,002

Trading income excluding net interest income	847	4,458
Net interest income on trading activities	5,713	5,376
<b>Net trading income</b>	<b>6,560</b>	9,834
Changes in fair value of long-term debt issued and related derivatives	6,679	2,812
Net income/(expense) from other financial instruments designated at fair value	(2,827)	1,271
Net income from financial instruments designated at fair value	3,852	4,083
Gains less losses from financial investments	197	1,956
Gains arising from dilution of interests in associates	-	1,092
Dividend income	272	324
Net earned insurance premiums	10,850	9,076
Gains on disposal of French regional banks	2,445	-
Other operating income	1,808	1,439
<b>Total operating income</b>	<b>88,571</b>	87,601
Net insurance claims incurred and movement in liabilities to policyholders	(6,889)	(8,608)
<b>Net operating income before loan impairment charges and other credit-risk provisions</b>	<b>81,682</b>	78,993
Loan impairment charges and other credit-risk provisions	(24,937)	(17,242)
<b>Net operating income</b>	<b>56,745</b>	61,751
Employee compensation and benefits	(20,792)	(21,334)
General and administrative expenses	(15,260)	(15,294)
Depreciation and impairment of property, plant and equipment	(1,750)	(1,714)
Goodwill impairment	(10,564)	-
Amortisation and impairment of intangible assets	(733)	(700)

<b>Total operating expenses</b>	<b>(49,099)</b>	(39,042)
<b>Operating profit</b>	<b>7,646</b>	22,709
Share of profit in associates and joint ventures	<b>1,661</b>	1,503
<b>Profit before tax</b>	<b>9,307</b>	24,212
Tax expense	<b>(2,809)</b>	(3,757)
<b>Profit for the year</b>	<b>6,498</b>	20,455
Profit attributable to shareholders of the parent company	<b>5,728</b>	19,133
Profit attributable to minority interests	<b>770</b>	1,322
<b>US \$</b>		
Basic earnings per ordinary share	<b>0.47</b>	1.65
Diluted earnings per ordinary share	<b>0.47</b>	1.63
Dividends per ordinary share	<b>0.93</b>	0.87

**Ex.1.** Read HSBC's 2007 and 2008 income statement and decide whether these statements are true (T) or false (F). Correct the false ones. Indicate the line(s) in the statement that give you the answer.

1. In 2008, the total operating income increased slightly on the previous year.
2. Interest expenses fell by a larger amount than the fall in interest from savers' accounts, so the net figure actually went up on the previous year.
3. Trading income rose significantly on the previous year.
4. Employee salaries and bonuses are deducted from the operating profit.
5. The banking group sold off some German regional banks in 2008,
6. The bank's tax bill in 2008 was lower than in the previous year.
7. Earnings per share were significantly reduced on the previous year.

**Ex.2.** Match these words and phrases from the income statement (1-6) with their meanings (a-f).

1. operating income	a) A part of the profits of the company for a particular period of time that is paid to shareholders for each share that
---------------------	--

	they own
2. depreciation	b) Money earned from a company's normal activities, not including exceptional items
3. goodwill	c) The value that a company has in addition to its assets, such as a good reputation with its customers
4. dividend	d) Profit relating to a company's normal activities of providing goods or services, before tax is deducted
5. operating profit	e) Costs relating to a company's normal activities of providing goods or services
6. operating expense	f) The gradual loss in value of a fixed asset that wears out over a number of years or needs to be replaced regularly

*Scan and analyze the following sheet to complete exercises given below it:*

<b>Summary Consolidated Balance Sheet</b>	<b>US \$ m</b>	
<b>US \$ m</b>	<b>2008</b>	<b>2007</b>
<b>ASSETS</b>		
Cash and balances at central banks	<b>52,396</b>	21,765
Items in the course of collection from other banks	<b>6,003</b>	9,777
Hong Kong Government certificates of indebtedness	<b>15,358</b>	13,893
Trading assets	<b>427,329</b>	445,968
Financial assets designated at fair value	<b>28,533</b>	41,564
Derivatives	<b>494,876</b>	187,854
Loans and advances to banks	<b>153,766</b>	237,366
Loans and advances to customers	<b>932,868</b>	981,548
Financial investments	<b>300,235</b>	283,000
Interests in associates and joint ventures	<b>11,537</b>	10,384
Goodwill and intangible assets	<b>27,357</b>	39,689
Property, plant and equipment	<b>14,025</b>	15,694
Other assets	<b>37,822</b>	39,493
Current tax assets	<b>2,552</b>	896

Deferred tax assets	<b>7,011</b>	5,284
Prepayments and accrued income	<b>15,797</b>	20,091
<b>Total assets</b>	<b>2,527,465</b>	2,354,266
<b>LIABILITIES AND EQUITY</b>		
<b>Liabilities</b>		
Hong Kong currency notes in circulation	<b>15,358</b>	13,893
Deposits by banks	<b>130,084</b>	132,181
Customer accounts	<b>1,115,327</b>	1,096,140
Items in the course of transmission to other banks	<b>7,232</b>	8,672
Trading liabilities.	<b>247,652</b>	314,580
Financial liabilities designated at fair value	<b>74,587</b>	89,939
Derivatives	<b>487,060</b>	183,393
Debt securities in issue	<b>179,693</b>	246,579
Retirement benefit liabilities	<b>3,888</b>	2,893
Other liabilities	<b>72,384</b>	35,013
Current tax liabilities	<b>1,822</b>	2,559
Liabilities under insurance contracts	<b>43,683</b>	42,606
Accruals and deferred income	<b>15,448</b>	21,766
Provisions	<b>1,730</b>	1,958
Deferred tax liabilities	<b>1,855</b>	1,859
Subordinated liabilities	<b>29,433</b>	24,819
<b>Total liabilities</b>	<b>2,427,236</b>	2,218,850
<b>Equity</b>		
Called-up share capital	<b>6,053</b>	5,915
Share premium account	<b>8,463</b>	8,134
Other equity instruments	<b>2,133</b>	-
Other reserves	<b>(3,747)</b>	33,014

Retained earnings	<b>80,689</b>	81,097
<b>Total shareholders' equity</b>	<b>93,591</b>	128,160
Minority interests	<b>6,638</b>	7,256
<b>Total equity</b>	<b>100,229</b>	135,416
<b>Total equity and liabilities</b>	<b>2,527,465</b>	2,354,266

**Ex. 3.** Read the balance sheet and say whether these statements are true (T) or false (F). Correct the false ones. Indicate the line(s) in the statement that give you the answer.

1. The bank more than doubled its cash deposits in 2008.
2. Customers had more money in savings than in the previous year.
3. The bank lent a lot more money to customers and other banks compared to the previous year.
4. The bank's derivatives increased dramatically in 2008.
5. The bank's pension liabilities went up significantly in 2008.
6. Shareholders' equity grew significantly on the previous year.
7. The value of the bank's intangible assets decreased in 2008.
8. The bank's balance sheet grew in 2008. However, the bank's "other reserves" ended the year as a negative figure.

**Ex. 4.** Find words in the balance sheet which fit these meanings.

1. things which belong to a business which have the value or power to create money, such as machinery                    a .....
2. amounts of money owed by a business to a supplier or lender                    l.....
3. money which is lent or borrowed                    l.....
4. money set aside for a future expense (such as debts which a company's customers fail to pay)                    p.....
5. shares which have been issued and for which the company is demanding payment  
c..... -u. . ..... S..... C .....

6. the capital that a company has from shares rather than from loans e .....
7. less than half a company's shares, or fewer shares than the largest shareholder m ..... i.....
8. the part of a company's profits from previous years which have not been paid to investors r.....

## **7. COMPANY PERFORMANCE**

---

### **READING**

*Read and translate the text below*

#### **Pearson upbeat on trading**

Pearson met or exceeded its previous guidance for 2008 in all its businesses, the publisher said this week. This was in marked contrast to a number of “bearish” announcements from rival educational, book and newspaper companies. The owner of the *Financial Times* said, in a trading update, that it expected full-year earnings growth of around 20 per cent, indicating that adjusted earnings per share could advance from 46.7p to about 56p, ahead of consensus forecasts of 51 p.

“We are naturally cautious about the economic environment, but we take confidence from our performance in 2008,” said Dame Marjorie Scardino, Chief Executive. ‘Some of our markets will be tough this year, and we are managing the company accordingly,’ she added. However, Pearson’s strategy, past investments and resilience would enable it ‘to take full advantage of the opportunities this environment gives us to build our business and gain [market] share’.

Pearson’s shares closed up 27p at 625p. Pearson’s statement stood in clear contrast to recent comments by some rivals. McGraw-Hill, the US educational publisher, cautioned in January that spending by states on elementary- to high-school materials had slumped since August and might fall by 10-15 percent this year.

This statement marks the second time in three months that Pearson has indicated that its earnings would be above consensus levels. It noted that earnings had benefited

from the strength of the dollar and a tax rate towards the lower end of a previous 27-29-per-cent guidance range.

Analysts had also been prepared for poor Christmas sales from consumer book publishers, since Borders, the US book retailer, said its holiday sales had fallen by 11 per cent. Analysts were also worried about the impact of a weak advertising market on the FT Group.

Simon Baker of Credit Suisse commented, “It is good news, but there are some question marks. Pearson is a late-cycle company, and if the good news now is coming from market share increases, from the tax charge and the strong dollar, people are generally going to be cautious about assuming all that will continue.” Alex de Groote, analyst at Panmure Gordon, stated “There are certainly no new horror stories, but I remain concerned about exposure to the education market in the US.”

Pearson’s statement highlighted the strength in its historically countercyclical US higher-education business. This has benefited from a contracting job market, which has encouraged more people to invest in continuing education rather than looking for employment. Growth in the international education business helped offset “some weakness” in the US school publishing market, which accounts for approximately one-fifth of Pearson Education, and slightly more than 10 per cent of group revenues.

FT Publishing, which includes the *FT*, business magazines and online brands such as Mergermarket, saw an advertising slowdown in the fourth quarter, but produced “good sales and profit growth” for the full year. Penguin Group UK (which incorporates famous brands such as the *Rough Guides* to travel, Penguin Classics and the Puffin and Ladybird children's books) performed “in line with expectations”, Pearson said.

### ***Vocabulary Focus and Comprehension***

**Ex.1.** Read the article and say whether these statements are true (T) or false (F). Correct the false ones. Identify the part of the article that gives this information.

1. Pearson’s results were worse than expected in 2008.
2. Some of Pearson’s competitors did better than expected in that year.

3. Pearson operates in the travel and tourism market.
4. Pearson owns the Financial Times newspaper
5. It expected 2009 to be a challenging year for some of its markets.
6. Not all of the analysts who studied this market were quite as convinced that the future looked so rosy.
7. The economic downturn may actually have improved Pearson's sales in 2008.

**Ex.2.** *Read the article again and answer these questions.*

1. What figure had Pearson's adjusted earnings per share originally been estimated at?
2. What price did Pearson's shares reach by the end of the year?
3. At the beginning of the year, what size of drop in US state schools' educational materials spending did rival publisher McGraw-Hill forecast?
4. Which two financial factors had contributed to Pearson's better-than-expected performance?
5. Which two negative factors had analysts been concerned about before Christmas?
6. What percentage of Pearson Education's income depends on the US educational market?
7. Which division of Pearson did not perform as well in the final three months of 2008 as it had in the previous nine months?
8. Which Pearson division's performance did not surprise anyone?

**Ex.3.** *When someone expects prices on a financial market to rise or economic activity to increase, they are said to be bullish. Find a word in paragraph A which has the opposite meaning*

**Ex. 4.** *Complete the chart with words from paragraph G of the article.*

<b>adjective</b>	<b>noun</b>
growing	
	contraction
strong	
weak	

**Ex.5.** Find words or phrases in the article which precede a figure to show it is an approximation.

1. a..... (paragraph A)
2. a..... (paragraph A)
3. a..... (paragraph G)
4. s..... m ..... t..... (paragraph G)

**Ex. 6.** Find words or phrases in the article which match these meanings.

1. forecast (noun) (paragraph A) g.....
2. latest business information (paragraph A) t..... v.....
3. good performance under difficult conditions (paragraph B) r .....
4. a market which takes time to react to changing economic conditions (*adjective*) (paragraph F) l.....-c .....
5. not following the normal pattern of business activity (*adjective*) (paragraph G) c .....-c .....

**Ex. 7.** Match the verbs (1-4) with the nouns (a-d) to make word partnerships from the article. Then match each word partnership with a definition (i-iv).

1. meet	a) guidance	i) to take some of its competitors' part of the business
2. offset	b) guidance	ii) to reach forecast targets
3. gain	c) weakness	iii) to do better than originally forecast
4. exceed	d) market share	iv) to make up for areas which are not as successful

**Ex.8.** Complete these sentences from the article.

1. The owner of the *Financial Times* said, in a trading update, that it ..... full-year earnings growth of around 20 per cent. (paragraph A).
2. .... indicating that adjusted earnings per share ..... . advance from 46.7p to about 56p, ahead of consensus forecasts of 51p. (paragraph A).
3. “Some of our markets ..... be tough this year .....” (paragraph B).
4. .... spending by states [...] had slumped since August and ..... fall by 10-15 per cent this year (paragraph C).

**Ex.9.** Use words and phrases from Exercises 3-8 to complete these sentences.

1. Companies and their investors are always happy to announce in their ..... that they have ..... or exceeded their guidance on future performance.
2. In an economic downturn, it can help if some of the markets a company operates in are ..... -..... This can help to ..... any weakness in its operations.
3. These markets might be ..... markets which the company has not been as active in up to now.
4. They tend to predict that the earnings per share ..... or might go up, unless they are very sure that they will, in which case they state that they are ..... to go up.
5. They rarely give an exact figure. Instead, they use phrases like “.....” or “..... ..”

## **8. ACCOUNTING FOR BANKS**

---

### **READING**

*Read and translate the following text*

#### **IASB questions relaxing of fair-value accounting**

European banks' accounting practices deteriorated as a result of the relaxing of fair-value accounting standards in late 2008, according to Sir David Tweedie, Head of the International Accounting Standards Board (IASB). After a battle with the European Commission in October 2008, the IASB was forced to change its rules without consultation. He warned that any further interfering in accounting rules by politicians would risk destroying the long-running project towards developing a single global set of accounting rules.

The change helped troubled European banks reclassify some of their assets and avoid a hit to their earnings. In a single week, more than €113bn (\$144bn) was moved under the new rules. This saved more than €3bn in losses from banks' revenues.

The adjustment allowed banks to account for more of their assets using the amortised cost method. This way, asset gains are reported steadily over the lifetime of the financial instrument. Therefore, during a period of market volatility, the reduced

market value of an asset at any specific point in time is not taken into account.

The change came as the US Securities and Exchange Commission was close to releasing its own detailed “roadmap” of how it proposed to shift from US accounting rules to the international system - a move that would effectively “cement” the use of the IASB’s rules as the single worldwide accounting language. However, Sir David explained that in order to create a level playing field for the international banking sector, the IASB had made its change only because its US counterpart was not yet in a position to do so.

The new rules would require banks to disclose any assets valued at amortised cost. However, Sir David argued that the original “fair-value” system, which led banks to write down hundreds of billions in the value of their holdings as markets plunged in 2008 , had its benefits. It had at least forced regulators and executives to face the problems head on, rather than hiding from them.

He warned that in spite of the added disclosures, using amortised cost would still allow banks to rely heavily on their own judgement in valuing their holdings - a practice he questioned. “They bought these assets originally and thought they were going to be fine. Well, they weren’t. So how accurate is their long-term assessment?”

On the other hand, many banks had complained that fair-value accounting was pro-cyclical because it helped to exaggerate the impact of a downturn. They had criticised the rules for reducing their capital reserves by making them report losses on assets which they continued to hold and had no intention of selling.

Regulators closely link their assessment of a bank's reserves with its published accounts. These watchdogs can suddenly require a bank to hold more capital when markets are falling - at the very point when it is hardest for it to do so. Sir David argued that it would be better if regulators changed the way they used a bank’s accounts to calculate its capital needs.

The changes created a storm in the accounting and regulatory world. Some observers warned that by giving in to political pressure, led by European opposition to the current fair-value rules, the IASB had permanently damaged its credibility.

### ***Vocabulary Focus and Comprehension***

**Ex.1.** *Read the article and say whether these statements are true (T) or false (F).*

*Identify the part of the article that gives this information.*

1. The European banks changed the way they valued certain types of asset in late 2008.
2. In Sir David Tweedie's opinion, this weakened banking accounting practices.
3. He said that the overruling of the IASB by politicians posed no particular threat to the gradual move towards a global set of accounting rules.
4. The change had the effect of increasing the book valuation of certain bank assets.
5. European banks originally used the amortised cost system of accounting to value their assets.
6. These changes came about after a sharp upturn in the economy.
7. In Sir David Tweedie's opinion, a change in the way regulators calculated a bank's lending ability would have been better than a change in banking accounting and reporting practice.

**Ex. 2.** *Read the article again and answer these questions.*

1. Which institution was Sir David Tweedie representing?
2. Which institution imposed the new accounting rules?
3. In one week alone, by how much were the troubled European banks able to increase their asset values?
4. In that week, how much in losses did they save?
5. Which country's regulators had been moving closer to using the IASB accounting rules before the change?
6. What did the new amortised cost valuation rules require banks to do?
7. What was the banks' criticism of the old rules?

**Ex. 3.** *Match these accounting terms (1-2) with their meanings (a-b).*

1. fair-value asset valuation
  2. amortised cost asset valuation
- a) An asset's market value at any specific point in time is not taken into account. It is

assumed to increase steadily over the asset's lifetime.

b) An asset's valuation at any specific point in time is based on the amount of money that could be obtained if the asset were sold at that time.

**Ex. 4.** *Find words or phrases in the article which mean the same as these words and phrases.*

1. a change (paragraph C) a .....
2. to change (paragraph D) to s .....
3. judgement (paragraph F) a .....
4. regulators (paragraph H) w .....
5. cash and easily liquidated assets that a bank must hold to satisfy stock-exchange regulations (paragraph H) c..... n.....

**Ex. 5.** *Find words or phrases in the article which have the opposite meaning to these words.*

1. improved (paragraph A) d .....
2. healthy (paragraph B) t .....
3. market stability (paragraph C) m..... v.....
4. increased market value (paragraph C) r..... m..... v.....
5. to keep secret (paragraph E) to d .....
6. to mark up (paragraph E) to w..... d.....
7. rose sharply (paragraph E) p.....
8. an upturn (paragraph G) a d.....

**Ex. 6.** *Use words and phrases from Exercises A-C in the correct form to complete these sentences.*

1. The banks prefer the ..... method to the fair-value method of accounting for certain assets.
- 2 ..... monitor the banks to make sure that they have enough capital to lend money to customers.
3. The banks' problems emerged as international stock markets started to ..... in 2008.

4. The amortised cost accounting system is considered to be particularly useful during a period of .....
5. The specific amount of capital a bank must hold in order to lend a specific amount to customers is known as its .....
6. Under the old system of accounting, banks were forced to ..... their assets by very large amounts if asset prices fell.

**Ex. 7.** Choose the best explanation for each phrase from the article.

- 1 “... *relaxing* of fair-value accounting” (article title)
  - a) making stricter
  - b) making easier
- 2 “... over the lifetime of the *financial instrument*.”
  - a) an investment such as a bond or share
  - b) an order to buy shares
- 3 “... a move that would effectively “*cement*” the use .. .”
  - a) stick
  - b) formalise
- 4 “ ... in order to create a *level playing field* for the international banking sector .. .”
  - a) a situation where the conditions are equal for everyone
  - b) a reduction in the volatility of the market
- 5 “ ... forced regulators and executives to *face the problems head on* .. .”
  - a) ignore the problems
  - b) deal with the problems openly
- 6 “ ... that fair-value accounting *was pro-cyclical* .. .”
  - a) followed the economic cycle
  - b) moved in the opposite direction to the economic cycle
- 7 “ ... by *giving in to political pressure* .. .”
  - a) doing something due to political pressure
  - b) putting political pressure on someone
- 8 “ ... the IASB had permanently damaged its *credibility*.”
  - a) the extent to which someone can be believed or trusted
  - b) the amount of credit someone is allowed to have

## 9. GREEN ACCOUNTING

---

### READING

*Read and translate the text below*

#### **Counters face up to green beans**

When it comes to taking action on climate change, few outsiders would view accountancy as being a green profession. A few years ago, that would have been true. Finance directors did not consider environmental or social factors, except for rare cases such as the Exxon Valdez oil-spill disaster, in their annual reports.

But times are changing. The reason is simple: figures. If accountants have figures to measure, then they can see how environmental issues affect an organisation's overall strategy.

In 2006, EDF Energy set up a Sustainable Future project using corporate social responsibility (CSR) as a business performance driver. They wanted to radically transform their business culture, and set a target to reduce carbon emissions from their energy generation activities by 60 per cent by 2020.

Mark Bromley, Head of Business Performance at EDF Energy, became involved in the work of the Prince of Wales's Accounting for Sustainability Project. He wanted to find an effective reporting system for the company. So he started trialling the connected reporting framework, which the project had devised and promoted.

'This was fully in line with our thinking, and we used it as a dynamic management reporting tool,' he says. The framework aims to ensure that sustainability measures are not isolated in a CSR report but are connected to the main financial reporting system. This way, they can have a direct impact on corporate strategy.

Louella Eastman, Group CSR Director at insurance group Aviva, pioneered the use of the connected reporting framework within the group, aligning non-financial and financial data. In partnership with the finance function, the CSR team collected information on the five environmental areas outlined in the report: polluting

emissions, waste and usage of water, energy and other finite resources. The findings were extremely interesting, and the connection of the two disciplines produced strategic change.

She says, “It became a discussion about cost. For example, we moved our cleaners onto a day shift from evenings and told the security staff to switch the lights off.” This was a simple action which brought about serious financial change. It came from connecting the CSR information and personnel with the finance function. It translated into significant savings and, more importantly, moved sustainability onto senior executives’ agendas.

Pharmaceuticals group Astra Zeneca also got rid of its sustainability section in the annual report and put the important information into the main figures. Instead of being an add-on, sustainability has become “fully embedded” in the normal reporting processes of the business. If you show how it links with strategy, it becomes more fundamental to running the business.

Sustainability issues are moving up the priority lists of both the private and public sector. Companies now consider being sustainable more of a business priority than just a means of persuading the public that they are doing “good things”. However, the change is being driven from outside, as well as inside organisations. It has become an important issue when recruiting the best graduates into an organisation, for example. Equally, it has become a key issue with customers, particularly in the retail sector.

Up to now, however, it has mainly been a question of accountants learning to manage the information and allowing their organisations to see the true strategic effects of sustainability figures.

### ***Vocabulary Focus and Comprehension***

**Ex. 1.** *Read the article and answer these questions.*

1. Why didn't company accountants generally report on environmental or social issues in the past?
2. Which fundamental change did Mark Bromley, Head of Business Performance at

EDF, want to bring about in the company?

3. Which external project did he participate in?

4. Which financial tool did the Prince of Wales's project create to help businesses with their financial reporting?

5. What is the main aim of this tool?

6. Was Aviva CSR Director Louella Eastman's trialling of this tool a success or a failure?

7. At Aviva, what two positive changes resulted from the trial?

8. What is the best way to make company directors take notice of sustainability issues?

**Ex. 2.** *Read the article again and answer these questions.*

1. Which environmental goal did EDF set in 2006?

2. At Aviva, which department did the CSR department work with to collect environmental data?

3. Which five environmental factors did Aviva monitor?

4. Is the interest in sustainability issues limited to the private sector?

5. Which two external groups are encouraging companies to pay attention to sustainability issues?

**Ex. 3.** *Find word and phrases in the article which match these meanings.*

1. environmentally aware (title) g.....

2. when a company takes into account environmental and social factors (paragraph C)  
c..... s..... f .....

3. management which respects the environment and the future interests of society (paragraph D) s.....

4. what the Prince of Wales's project tackles (paragraph D) a..... for s.....

5. a structure which supports something (paragraph D) f .....

6. when something has a fundamental influence on an organisation's decision-making (paragraph F) s.....

**Ex. 4.** Complete the chart.

verb	adjective/participle	noun
		sustainability
	measurable/measured	
		transformation
connect		
	isolated	
reduce		
align		
pioneer		

**Ex. 5.** Match the verbs (1-10) with the phrases (a-j) to make expressions similar to ones found in the article.

1. to affect	a) the connected reporting framework
2. to use CSR	b) to the main reporting system
3. to radically transform	c) an organisation's strategy
4. to find	d) your business culture
5. to trial	e) as a dynamic management tool
6. to use the connected reporting framework	f) strategic change
7. to connect sustainability	g) as a business performance driver
8. to align	h) non-financial and financial data
9. to produce	i) an effective reporting system
10. to become	j) fully embedded in the normal reporting processes

**Ex. 6.** Use words and phrases from Exercises 3-5 to complete these sentences.

- ..... is now an important consideration in the corporate board room.
- This factor is now increasingly being fully ..... in companies' normal reporting processes.
- A company's approach to ..... no longer needs to be isolated in a separate report.
- Companies can use a ..... framework to link financial and non-financial data.
- For some companies, the results of this have had a ..... impact on company values and behaviours.

6. In these companies, sustainability has actually become an important business ..... ..
7. One day, maybe even accountancy will be considered a ..... profession!

**Ex. 7.** Find three verbs in paragraphs F and G of the article which have the same meaning as **to result in**. Write them in their infinitive form.

**Ex. 8.** Choose the best explanation for each phrase from the article.

1 “... as a *business performance driver*.”

- a) something which measures performance
- b) something which improves performance

2 “... *triallying* the connected reporting framework .. .”

- a) to judge a court case
- b) to test a new process

3 “This was *fully in line with our thinking* .. .”

- a) matched our corporate values
- b) gave us some good ideas

4 “... *moved sustainability onto senior executives' agendas*.”

- a) put sustainability on top of executives' diaries
- b) made executives start to take sustainability seriously

5 “Instead of being *an add-on*, .. .”

- a) an increase
- b) a separate feature

6 “... sustainability has *become "fully embedded"* in the normal .. .”

- a) been totally integrated
- b) become lost in the middle of

## **10. AUDITOR'S OPINION ON A COMPANY'S FINANCIAL REPORT**

---

### **READING**

*Read and translate the following text*

#### **Scary jargon in a jittery market**

Many large UK companies' annual financial statements are audited by a firm of external auditors. The auditor's opinions are published in the audit report, included in a company's annual report.

Auditors' jargon rarely enters normal conversation but one phrase – “added emphasis” - has the power to terrify boardrooms. It is a phrase that auditors sometimes use to indicate possible dangers hiding below the surface of a company's balance sheet.

Every January, just after the books close for more than half the UK's top companies, investors begin the wait for the full-year financial statements. Most years, the auditor's report - a page of largely standardised phrases, including an opinion of whether the business is a valid going concern - attracts little interest. In a bad year, however, that “going concern” statement is critical to investors.

Technically, “going-concern approval” means that the auditors consider the business to be viable for at least a year from when the accounts are signed off. At worst, auditors can give an “adverse opinion”, indicating a general and serious disagreement with the directors' statement of the company's financial position. In volatile markets, however, even a “qualified opinion”, indicating a limited and specific concern, can act as a death warning.

Rather than a “qualified opinion”, an auditor's report is more likely to include “emphasis of matter” paragraphs, which are designed to draw investors' attention to crucial disclosures. In difficult times, you see more of these in audit reports.

Says Steve Maslin, a partner at Grant Thornton, a large firm of accountants, “Take the case where you don't disagree that the business is a going concern, but there is an important disclosure, perhaps about the company's financing facilities for the next year. You want to tell investors “you need to read and understand Note 27”. So we'll add a paragraph in the report [to highlight this fact].”

In auditing standards, these “emphases” are preceded by terrifying phrases such as “significant level of concern” and “material uncertainty”. “The wording is horrid. There is a danger that the market will react to this and it will become a self-fulfilling prophecy,” says Martyn Jones, National Audit Technical Partner at Deloitte.

Auditors have good reason to worry about professional liability. After the failure of many dotcom companies in 2001, a wave of lawsuits against audit firms followed. Since then, regulators have made it clear they will take a firm line with audit firms.

“There are no excuses these days for saying “when we signed off, we didn't think about that,” said Paul Boyle, Chief Executive of the Financial Reporting Council in a warning issued to the FTSE 350.

In a difficult economic environment, investors can start to panic at any delay in the publishing of the annual report, so the nightmare scenario is a last-minute hitch in the financing plans - without which the auditors will not sign off a clean opinion. Take the situation “where a client is heavily dependent on a bank facility and the bank suddenly wants last-minute information. You end up having meetings late into the night” says Mr. Ratcliffe, an audit partner at PwC.

This means that, despite auditors’ best efforts to prepare, the outcome is not in their hands. So in a difficult year, auditors are even more rigorous than usual. No matter how well-run the client company is, a year of difficult economic conditions is the year you sit down and make sure you really, really understand that bank mandate or those liabilities.

### ***Vocabulary Focus and Comprehension***

**Ex. 1.** *Read the article and say whether these statements are true (T) or false (F).*

*Identify the part of the article that gives this information.*

1. In general, investors pay careful attention to the auditors’ report on a company.
2. A negative auditors’ opinion indicates that the auditors disagree with the statements that a company’s directors have made about it.
3. In difficult economic times, investors might react more strongly to a negative opinion, to the extent that they push the company into complete failure.
4. Auditors are not held responsible if they fail to indicate that a company’s financial affairs look unhealthy, then the company goes bankrupt.
5. Financial regulators require auditors to clearly indicate a company’s poor financial outlook.
6. Poor economic conditions make auditors even more cautious when writing their report.

**Ex.2.** *Read the article again and answer these questions.*

1. When do the majority of UK companies have their year end?
2. How long is an auditor's opinion on a company valid for?
3. What is the worst opinion an auditor can give?
4. What does every company want its auditor to give it?
5. Which paragraph alerts investors to important information?
6. Which two phrases might auditors put before this paragraph?
- 7 Which series of events in 2001 was very costly for audit firms?

**Ex. 3.** *Find words or phrases in the article which fit these definitions.*

1. the technical vocabulary that a certain industry or profession uses (title) j.....
2. volatile, nervous (title) j.....
3. what the phrases in an audit report are said to be when the wording of opinions varies very little from one report to another (paragraph B) s.....
4. what the accounts are said to be when a company's financial accounts have been inspected and the auditors have found them to give a true and fair view of the company's finances (paragraph C) s..... o.....
5. extra information which the directors of a company give in the notes to the financial report (paragraph D) d.....
6. a company which does business using the Internet or provides an Internet service (paragraph G) d.....
7. a charge, complaint or claim against a company or person made in a court of law. Several audit firms suffered these after the dotcom crash in 2001. (paragraph G) l.....
8. when auditors are satisfied that a company is in good financial health for the coming year (paragraph H) c..... o.....
9. an arrangement made by a bank for its customers which lets them borrow money (paragraph H) b ..... f.....
10. an official instruction given to a person or organisation by a bank, allowing them to do something (paragraph I) b..... m.....

**Ex.4.** Match these phrases from the article (1-4) with their meanings (a-d).

1. going concern	a) given in an audit if the auditor disagrees with the treatment or disclosure of a specific piece of information in the financial statements, or if the auditor feels that the audit has been too limited in its scope
2. emphasis of matter	b) a business that functions without the intention or threat of liquidation for the next 12 months
3. qualified opinion	c) when the auditor decides that the financial statements of a company are materially misstated and, when considered as a whole, do not conform with the generally accepted accounting principles in force at the time (such as IFRS)
4. adverse opinion	d) a paragraph which draws attention to a specific point disclosed in a company's financial statement which the auditor considers to be of great importance to the user's understanding of the statement

**Ex. 5.** Use words and phrases from Exercises 3 and 4 to complete these sentences.

1. The auditors were very pleased to give the company their ..... -..... approval for the next year.
2. Therefore, they ..... its financial report.
3. The banks were having financial difficulties and called the company's directors to a meeting to discuss its ..... for the coming year.
4. The auditors were satisfied in general with PRQ company's accounts, but in their report, they drew attention to a specific ..... in an ..... of ..... paragraph.

5. The auditors were totally dissatisfied with the financial affairs of XYZ company. They gave an ..... in their report.

**Ex. 6.** Choose the best explanation for each phrase from the article.

1. “ ... it will *become a self-fulfilling prophecy* ...”
  - a) actually make the disaster happen
  - b) describe the disaster
2. “ ... *a wave of lawsuits* ....”
  - a) a small number
  - b) a large number
3. “ ... they will *take a firm line with* audit firms.”
  - a) create a new audit firm
  - b) be very strict with
4. “ ... the nightmare scenario is a *last-minute hitch* .. .”
  - a) a problem which occurs late in the process
  - b) a last-minute drop in the company's share price
5. “ ... *the outcome is not in their hands.*”
  - a) they are not responsible for the final result
  - b) they are not responsible for what they publish
6. “ ... even more *rigorous* than usual.”
  - a) difficult
  - b) careful and thorough

## **11. AUDITOR LIABILITY**

---

### **READING**

*Read and translate the following text*

#### **Auditor liability: Solution faces threat**

The arguments about auditor liability had run for decades. But every time a possible solution to the auditors problem had been found, it had eventually been rejected. Now, the latest attempt to allow UK audit firms to agree specific limits on

their liability was in the hands of a US regulator. The Securities & Exchange Commission - which has jurisdiction over UK companies that are listed in the US or have raised money in US markets - objected that the proposed deal might not be in investors' interests.

In the past, if a company failed as the result of negligence or fraud, the auditors had sole financial responsibility. It seemed that no one else would be sued, no matter how guilty. The auditors were seen as having very deep pockets.

“It was dishonest,” says Peter Wyman, Global Leader for Public Policy and Regulation at PwC, “and it was not sustainable. Auditors do not have unlimited funds.” Jan Babiak, Regulatory and Public Policy Managing Partner with Ernst & Young UK, agrees.

Legal reform proceeded slowly and with many setbacks. The first step was to allow firms to become limited liability partnerships, in line with the US model. That took years to achieve. The next step was to allow them to cap their liability. The government issued a consultation document. However, the institutional investor community persuaded it that this was not in consumers' interests, and the proposal was rejected.

Only one option remained. This was to limit firms' liability to their proportion of blame in any future case of negligence, on a contractual basis, company by company. The investment community was happy with it, so the government supported it, and proposals were incorporated into the next UK Companies Act.

Nobody objected until after the Act was passed. Implementation would not be automatic across all companies. Each board of directors would have to put an auditors' liability limitation proposal to a vote at their next annual general meeting. Directors started to worry about shareholder opposition. They would be unable to benefit from the auditors' deep pockets in the event of corporate failure. “There was a big legal debate over whether directors would be acting in the interests of shareholders if they proposed a limitation resolution,” says Richard Bennison, Head of UK Audit at KPMG.

As a result, the profession's main body, the Institute of Chartered Accountants of England & Wales (CAEW), stepped in to obtain a legal opinion. Then, to help persuade directors that this was the right course of action, the Financial Reporting Council (PRC) published guidance to directors along with recommended wording to be used in the

proposed resolutions to their investors. This seemed to have solved the problem.

It was at this point that the SEC arrived on the scene . The main US regulatory authority, aware of its jurisdiction over certain UK companies, became anxious. It saw the possibility of conspiracies between auditors and directors and objected that this would not be in investors' interests.

“The SEC fears a “cosy deal” between directors and auditors,” said Mr Wyman. “But in UK legislation, it is an agreement between auditors and shareholders. It is not a “cosy deal” at all. It is totally transparent.” Everything was on hold once again.

### ***Vocabulary Focus and Comprehension***

***Ex.1.*** Read the article and say whether these statements are true (T) or false (F).

*Identify the part of the article that gives this information.*

1. The UK audit firms were trying to limit their financial risk.
2. The process was an easy one.
3. The outcome of their mission would be decided not only by the British regulators and investors, but also by French ones.
4. By the end of the period described in the article, the auditors had achieved their goal.

***Ex.2.*** Read the article again and put these events in the correct sequence.

- a) The UK government issued a public consultation document on limiting auditors' liability.
- b) The proposals to set a limit on a firms' liability only after agreement by a company's shareholders were not opposed by the investment community.
- c) The next UK Companies Act allowed audit firms to limit their liability to their proportion of blame by shareholder resolution, once a year.
- d) Auditors had total financial responsibility if their clients went bankrupt due to fraud or negligence.
- e) The ICAEW got a legal opinion, and the FRC published a set of guidelines to help company directors write legally satisfactory proposals to limit auditor liability, which they could put to their shareholders at the annual general meeting.

- f) The SEC raised objections to the changes.
- g) Audit firms were permitted to become limited liability partnerships.
- h) Company directors became anxious about liability limitation and started a big legal debate about whether they could carry out the permitted changes.
- i) The institutional investor community didn't agree with the government's consultation document and rejected it.

**Ex.3.** *Read the article again and answer these questions.*

1. In which two situations does the SEC have the right to object to certain legal matters affecting UK companies?
2. Why weren't the UK auditors happy about the degree of liability they held in the case of failure of a company due to fraud or negligence?
3. Which country provided the model for limited liability partnerships in the UK?
4. Under the new UK Companies Act, would all audit firms automatically benefit from liability limitation?
5. Whose interests did the company directors say they were trying to protect when they started to debate the changes to the Companies Act?
6. Which two UK financial organisations tried to provide a solution to these company directors' problems?
7. What was the SEC concerned about when it opposed the act?

**Ex.4.** *Complete the chart.*

verb	noun
	solution
reject	
achieve	
object	
	limitation
	implementation
	proposal
	opposition

**Ex.5.** Match the verbs (1-8) with the phrases (a-h) to make expressions similar to those in the article.

- |                         |   |
|-------------------------|---|
| 1. to achieve           | a) financial responsibility             |
| 2. to have jurisdiction | b) proportional limitation of liability |
| 3. to have sole         | c) a consultation document              |
| 4. to cap               | d) over companies listed in the US      |
| 5. to issue             | e) a resolution                         |
| 6. to propose           | f) liability                            |
| 7. to put a proposal    | g) a legal opinion                      |
| 8. to obtain            | h) to the vote                          |

**Ex.6.** Choose the best explanation for each word or phrase from the article.

1. “ ... which has *jurisdiction* over ...”

- a) responsibility for a company's financial management
- b) the official right and power to make decisions about something

2. “ ... as the result of *negligence* ...”

- a) theft
- b) failure to take enough care over something that you are responsible for, for which you may have to pay damages

3. “ ... or *fraud* ...”

- a) a method of illegally getting money from a person or organisation
- b) stealing money from a company

4. “ ... no one else would be sued ...”

- a) fired
- b) taken to court

5. “... to become limited liability partnerships ...”

- a) partnerships in which individual partners are not held legally and financially responsible for their defective audit opinions
- b) partnerships in which individual partners are protected from the risk of personal bankruptcy if they are not personally responsible for a defective audit opinion

6. “... on a contractual basis ...”

- a) by temporary (renewable) agreement
- b) by permanent agreement

7. “There was a big legal debate over ...”

- a) illegal action
- b) argument or discussion about a point of law

**Ex.7.** Use words and phrases from Exercises 4-6 to complete this paragraph.

The UK audit firms were trying to achieve proportional l.....<sup>1</sup> of their l.....<sup>2</sup>. They thought that it was very unfair that they should have s..... f..... r.....<sup>3</sup> in the event of the failure of a company they had audited in the previous 12 months. The Companies Act allowed auditors to propose a liability limitation r.....<sup>4</sup> to shareholders at a company's annual general meeting. The resolution would not be permanent. It would only be agreed by a company's shareholders on a c..... b.....<sup>5</sup> once a year. This solution had been arrived at after much l ..... d.....<sup>6</sup> and a l..... o.....<sup>7</sup>, provided by experts. However, the process was stopped in its tracks once again. The US Stock Exchange Commission, which had j.....<sup>8</sup> over many large UK companies, objected to the idea.

**Ex.8.** Find phrases in the article which fit these meanings.

1. was up to (somebody) to decide (paragraph A) .....
2. were considered to have unlimited funds (paragraph C) .....
3. it couldn't be continued (paragraph D) .....
4. with many breaks in progress (paragraph E) .....
5. to place a maximum limit on their liability (paragraph E) .....
6. a euphemism for conspiracy (paragraph J) .....

## **12. AUDIT REPORT ON THE COMPANY FINANCIAL STATEMENTS**

### **READING**

*Read and translate the text below*

1. ....

We have audited the parent Company Financial Statements of Vodafone Group Plc for the year ended 31 March 2008, which comprise the balance sheet and the related notes 1 to 10. These parent Company Financial Statements have been prepared under the accounting policies set out therein.

We have reported separately on the Consolidated Financial Statements of Vodafone Group Plc for the year ended 31 March 2008 and on the information in the directors' remuneration report that is described as having been audited.

2. ....

The directors' responsibilities for preparing the Annual Report and the parent Company Financial Statements in accordance with applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice) are set out in the Statement of Directors' Responsibilities.

Our responsibility is to audit the parent Company Financial Statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the parent Company Financial Statements give a true and fair view and whether the parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is consistent with the parent Company Financial Statements.

In addition, we report to you if, in our opinion, the Company has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by law regarding directors' remuneration and other transactions is not disclosed.

We read the information contained in the Annual Report for the above year as described in the contents section and II How the text is organised consider whether it is consistent with the audited parent Company Financial Statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the parent Company Financial Statements. Our responsibility does not extend to any further information outside the annual report.

3. ....

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination , on a test basis, of evidence relevant to the amounts and disclosures in the

parent Company Financial Statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the parent Company Financial Statements, and of whether the accounting policies are appropriate to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the parent Company Financial Statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we also evaluated the overall adequacy of the presentation of information in the parent Company Financial Statements.

4. ....

In our opinion:

- the parent Company Financial Statements give a true and fair view, in accordance with United Kingdom Generally Accepted Accounting Practice, of the state of the Company's affairs as at 31 March 2008;
- the parent Company Financial Statements have been properly prepared in accordance with the Companies Act 1985; and
- the information given in the Directors' Report is consistent with the parent Company Financial Statements.

### ***Vocabulary Focus and Comprehension***

**Ex. 1.** *Read the report again and decide which section (1-4) each of these headings should go with.*

- a) Opinion
- b) Respective responsibilities of directors and auditors
- c) Independent auditor's report to the members of Vodafone Group plc
- d) Basis of audit opinion

**Ex. 2.** *Read the audit report and say whether these statements are true (T) or false (F). Identify the part of the report that gives this information.*



2. adjective which describes the financial statements which have been prepared for the entire group of companies, rather than just the parent company (paragraph B).

c .....

3. document in which the directors explain how they pay themselves (paragraph B).

d..... r..... r.....

4. statement which explains the duties that the directors of a company have to prepare legal and accurate financial statements (paragraph C). S..... of D..... R.....

5. when the law requires or states something (paragraph F). s ..... by l.....

6. false statements by the directors in the audit report (paragraph G). m .....

7. significant differences between what the auditors believe to be the company's true financial state and the information given by the directors in the annual report (paragraph G). m ..... i.....

8. what the auditors have to do to get the general picture because they cannot examine every single transaction or calculation behind the figures in a company's financial statements (paragraph H). check on a t..... b.....

9. description of the auditors' view on the accuracy of important forecasts made and decisions taken by the directors on the company's behalf (paragraph H).

significant e..... and j.....

10. what the auditors provide because they can't state with absolute certainty that the company's accounts are totally accurate and fair (paragraph I). r ..... a.....

**Ex.5.** Match these phrases from paragraph H of the report (1-3) with their meanings (a-c).

1 ... policies are *appropriate to the Company's circumstances* ...

2 ... the Company's circumstances, *consistently applied* and ...

3 ... and *adequately disclosed*.

a) The company *hasn't switched* from one accounting policy to another.

b) The company has followed policies which *fit its trading and financial situation*.

c) The company's accounting policies have been *explained clearly enough* for investors.

**Ex.6.** Match each word or phrase from the article (1-6) with one which has a similar meaning (a-f).

- |                       |                          |
|-----------------------|--------------------------|
| 1. comprise           | a) in force or in effect |
| 2. set out therein    | b) consist of            |
| 3. in accordance with | c) in agreement with     |
| 4. applicable         | d) written out in them   |
| 5. consistent with    | e) conforming to         |
| 6. so as to           | f) in order to           |

**Ex.7.** Use words and phrases from Exercises 3-5 to complete this extract from an audit report for ABC Group Plc.

We have audited the parent Company Financial Statements of ABC Group Plc ..... the .....<sup>1</sup> 31 March 20XX which .....<sup>2</sup> the balance sheet and the related notes 1 to 15. These parent Company Financial Statements have been prepared under the accounting policies .....<sup>3</sup> therein.

We report to you our opinion as to whether the parent Company Financial Statements give a true and fair view and whether the parent Company Financial Statements have been properly prepared .....<sup>4</sup> the Companies Act 1985. We also report to you whether in our opinion the Directors' Report is.....<sup>5</sup> the parent Company Financial Statements.

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a .....<sup>6</sup>, of evidence relevant to the amounts and disclosures in the parent Company Financial Statements. It also includes an assessment of the significant ..... and .....<sup>7</sup> made by the directors in the preparation of the parent Company Financial Statements, and of whether the accounting policies are .....<sup>8</sup> to the Company's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit .....<sup>9</sup> obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give .....<sup>10</sup> that the parent Company Financial Statements are free from material .....<sup>11</sup> or .....<sup>12</sup> whether caused by fraud or other irregularity or error.

## КРИТЕРІЇ ОЦІНЮВАННЯ ЗНАНЬ СТУДЕНТІВ

Перехід на кредитно-трансферну систему потребує високої організації навчального процесу. Модульно-рейтингова система передбачає шестибальну систему оцінювання. Модульна організація курсу з цієї дисципліни передбачає можливість отримання студентом по 40 балів за кожний змістовий модуль і 20 балів за залік / іспит. Розрахунки ведуться за таким принципом: практичні заняття – 15 балів; самостійна робота – 10 балів; навчально-дослідне завдання – 5 балів; модульний контроль – 10 балів.

### Оцінювання навчальних досягнень студента за шкалою ECTS

<b>За шкалою ECTS</b>	<b>За національною шкалою</b>		<b>За шкалою навчального закладу (як приклад)</b>
A	відмінно	5	90-100
B	дуже добре	4	82-89
C	добре	4	74-81
D	задовільно	3	64-73
E	достатньо	3	60-63
FX	незадовільно з можливістю повторного складання	2	35-59
F	незадовільно з обов'язковим повторним курсом	2	1-34

## СПИСОК ВИКОРИСТАНОЇ ЛІТЕРАТУРИ

1. *Бедрицкая Л. В.* Английский для экономистов. – Мн.: «Книжный дом», 2004.
2. *Князева Н. И.* и др. Экономика. Шаг за шагом. 1-3 ч. – Мн., БГУ, 2000.
3. *Коваленко П. И. Агабекян И. А.* Английский для экономистов. – Ростов-на-Дону: «Феникс», 1999.
4. *Лазаренко А. М.* Сосредоточьтесь на экономике. – Мн.: «Лексис», 2003.
5. *Carrier Michael.* Business Reading Skills. – Thomas Nelson and Sons LTD. – 1985.
6. *Barnard Roger, Cady Jeff.* Business Venture. – OUP.
7. *Bateman T. S.* Management Building. Competitive Advantage. – MacGraw Hill Co. – 1996.
8. *Burke David.* Byz Talk. – Optima Books. – 1993.
9. English for Banking. – Москва: «Менеджер», 1997.
10. English for Business. A Functional Approach. – DP Publications LTD. – 1995.
11. *Helm S.* Market leader: accounting and finance. – Pearson Education Limited. – 2010.
12. *Ivancevich et al.* Management. Quality and Competitiveness. – Irwin. – 1994.
13. *Jones Leo, Alexander Richard.* International Business English. – CUP.
14. *Horner David, Strutt Peter.* Words at Work. – CUP.
15. *MacConnel Campbell R., Brue Stanley L.* Macroeconomics.– McGraw-Hill, Inc. – 1990.
16. *Mac Kenzie Ian.* English for Business Studies. – Cambridge University Press. – 2000.
17. *Mankiw N. Gregory.* Essentials of Economics. – Harcourt College Publishers.
18. *Parkin Michael.* Macroeconomics. – Addison- Wesley Publishing Company.
19. *Tucker Irving B.* Survey of Economics. – South Western College Publishing. – 2001.

*Навчальне видання*

**Андрій Олександрович Ворначев**

**АНГЛІЙСЬКА МОВА**  
(за професійним спрямуванням)

Методичні рекомендації щодо проведення практичних занять і  
самостійного опрацювання матеріалу.

Для студентів освітнього ступеня «Бакалавр»  
напряму підготовки 6.030509 «Облік і аудит» усіх форм навчання

*У авторській редакції*

Відповідальний за випуск

**А.О. Ворначев**

---

Підписано до друку \_\_\_\_\_ 2014 р. Формат паперу 60x84/16, папір офсетний, спосіб друку – ризографія.

Надруковано в Редакційно-видавничому центрі Державного економіко-технологічного університету транспорту  
Свідоцтво про реєстрацію Серія ДК № 3079 від 27.12.07 р.  
03049, м. Київ - 49, вул. Миколи Лукашевича, 19