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**АНГЛИЙСКИЙ ЯЗЫК для студентов  
экономических факультетов**

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## THE ECONOMIC ENVIRONMENT (ЭКОНОМИЧЕСКАЯ СРЕДА)

The economy *comprises* millions of people and thousands of firms as well as the government and *local authorities*, all *taking decisions* about prices and wages, what to buy, sell, produce, export, import and many other matters. All these organizations and the decisions they take *play a prominent part* in *shaping the business environment* in which firms exist and operate.

The economy is complicated and difficult to control and *predict*, but it is certainly important to all businesses. You should *be aware* that there are times when businesses and individuals have plenty of funds to spend and there are times when they have *to cut back on their spending*. This can have *enormous implications* for business as a whole.

When the economy is enjoying a boom, firms experience high sales and *general prosperity*. At such times, unemployment is low and many firms will be investing funds *to enable* them to produce more. They do this because *consumers* have plenty of money to spend and firms expect high sales. It naturally follows that the state of the economy is a major factor in the success of firms.

However, during periods when people have less to spend many firms face hard times as their sales fall. Thus, the economic environment *alters* as the economy moves into *a recession*. At that time, *total spending declines* as *income* falls and *unemployment* rises. Consumers will *purchase* cheaper items and *cut expenditure on luxury items* such as televisions and cars.

Changes in the state of the economy *affect* all types of business, though *the extent* to which they are affected varies. In the recession of the early 1990s *the high street banks suffered badly*. *Profits* declined and, in some cases, *losses were incurred*. This was because fewer people *borrowed money from banks*, thus *denying them the opportunity to earn interest on loans*, and a rising proportion of those who did borrow *defaulted on repayment*. These so-called "bad debts" cut *profit margins* substantially. Various forecasters reckoned that the National Westminster Bank's losses in the case of Robert Maxwell's collapsing business empire amounted to over £100 million.

No individual firm has the ability to control this aspect of its environment. Rather, it is *the outcome of the actions* of all the groups who *make up society* as well as being influenced by the actions of foreigners with whom the nation *has dealings*.

### VOCABULARY NOTES

**to comprise** – включать в себя, составлять

**local authorities** – местные органы власти

**to take (syn. to make) decisions** – принимать решения

**to play a prominent part** – играть заметную (значительную) роль

**to shape the environment** – формировать обстановку, среду, окружение

**to predict (syn. to forecast)** – предсказывать

**to be aware** – осознавать, знать

**to cut back on spending** – сокращать расходы

**enormous implications** – большое значение, смысл, влияние

**general prosperity** – всеобщее процветание

**to enable smb to do smth** – делать возможным для кого-то, позволять кому-либо что-либо делать

**consumers** – потребители  
**to alter** – изменяться  
**a recession** – упадок  
**total spending** – общие, суммарные расходы  
**to decline** – снижаться  
**income** – доход  
**unemployment** – безработица  
**to purchase** (*syn. to buy*) – покупать  
**to cut expenditure** – сокращать расходы  
**luxury items** – предметы роскоши  
**to affect** (*syn. to influence smb. smth*) – влиять  
**the extent** – степень  
**to some extent** – в некоторой степени  
**the high street banks** – центральные банки  
**to suffer badly** – сильно пострадать  
**profits** – прибыль  
**to incur** (*syn. to bear, to suffer*) **losses** – нести убытки, потери  
**to borrow from** – занимать, брать займы  
**to deny the opportunity** – лишать возможности  
**to deny** – отрицать  
**to earn interest** – получать процентный доход  
**loans** – ссуды, займы  
**to default on repayment** – не выполнять обязательств по выплате (долгов, процентов и т. п.)  
**a debt** – долг  
**profit margins** – размеры прибыли  
**the outcome of the actions** – результат действий  
**to make up society** – составлять общество  
**to have dealings** – иметь торговые (деловые) связи

### Assignments (задания)

#### I. Suggest the Russian equivalents

the government and local authorities; firms experience high sales; their sales fall; total spending declines as income falls; luxury items; the high street banks suffered badly; to earn interest on loans; so-called "bad debts"

#### II. Replace the parts in *italics* by synonyms

The economy *comprises* millions of people; losses *were incurred*; the nation *has dealings*; changes in the state of the economy *affect* all types of business; profits *declined*; losses *amounted to* over £ 100 million.

#### III. Increase your vocabulary

There is a set of words related to the word **economics**. In a table we can show them like this.

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

Each word has a different use. Try to put the right word in the blanks in these sentences:

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 \_\_\_.

Translate into English

1. Состояние экономики очень тревожное.
2. Экономическая политика правительства часто подвергается справедливой критике.
3. Она очень экономная хозяйка.
4. Мировая экономика – это наука, которая изучает состояние экономики в разных странах мира.
5. Моя новая машина гораздо экономичнее старой.

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

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

Use these words in the suitable blanks in the sentences below:

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.

Translate into English

1. В этом году наша компания изготовила (выпустила) вдвое больше автомобилей, чем в прошлом.
2. Производители этой модели оборудования не смогли найти для нее рынка сбыта.
3. Эта фирма известна своей высококачественной продукцией.
4. Производство нового самолета начнется в следующем году.
5. Они работают очень много, но все их усилия не слишком продуктивны.
6. Руководство ищет эффективные способы повышения производительности труда.

IV. Fill in the gaps with the words and expressions from the text

1. The economy is complicated and difficult to \_\_\_.
2. When the economy \_\_\_, firms experience high sales and \_\_\_.
3. The economic environment \_\_\_ as the economy moves into \_\_\_.
4. Changes in the state of the economy \_\_\_ all types of business.
5. During a \_\_\_ fewer people borrowed money from banks, thus \_\_\_ to earn interest on \_\_\_.

6. So-called "bad debts" cut \_\_ substantially.
7. The economic \_\_ is \_\_ of all the groups who make up society as well as \_\_ of the actions of foreigners with whom the nation \_\_.

*V. Translate into English*

**to affect smb, smth**

1. Перемена погоды плохо повлияла на выступление спортсменов.
2. Эта новость сильно на него подействовала.
3. Рост цен повлиял на спрос.
4. Его мнение не повлияет на мое решение.

**to deny**

1. Она рассердилась, узнав, что лишена возможности его видеть.
2. Она ни в чем себе не отказывает.
3. Мы лишены возможности уплатить по счету в срок.

**to some, what, such an, a certain extent**

1. В некоторой степени вы правы.
2. В какой степени ему можно верить?
3. Ковер был грязный до такой степени, что невозможно было понять, какого он был цвета.
4. В определенной степени я согласен с вами.

*VI. Find in the text English equivalents for the following*

играть заметную роль; формировать среду; сокращать расходы на... (2 var.); сократить размеры прибыли; переживать подъем; переживать тяжелые времена; прийти в упадок; доходы падают (2 var.); нести убытки; состояние экономики; иметь большое значение для бизнеса в целом; отсюда, естественно, следует; лишать возможности; результат действий; не выполнять обязательств по уплате.

*VII. Answer the questions*

1. What does the economy comprise?
2. What's a boom in the economy? What characterises the state of the economy at that time?
3. What happens when the economy moves into a recession?
4. What are "bad debts"?
5. What happened to some banks in the early 1990s and why?

*VIII. Translate using all the active possible*

1. Состояние экономики (экономической среды) имеет большое значение для успешной деятельности фирм.
2. Когда экономика находится на подъеме, то фирмы продают больше товаров, что ведет к получению больших прибылей и процветанию.
3. Упадок экономики характеризуется сокращением объема производства и сбыта продукции. Отсюда, естественно, следует, что доходы предприятий снижаются и они несут убытки.
4. Результатом деятельности всех субъектов производства (групп общества) является формирование той или иной экономической среды в которой развивается бизнес.
5. У фирмы не было возможности увеличить расходы на рекламу в результате чего она потеряла часть рынка сбыта.

## MEASURING ECONOMIC ACTIVITY (ИЗМЕРЕНИЕ ЭКОНОМИЧЕСКОЙ АКТИВНОСТИ)

There are a large number of statistics produced regularly on the operation of the world's major economies. The UK's economy *is no exception in this respect*. You will probably have noticed that often the headlines in newspapers or *important items* on television news programmes *relate to* economic data and the implications for individuals and businesses. A prime example of this occurs when interest rates are increased: the media responds *by highlighting the adverse effects on* businesses with debts and *householders with mortgages*.

*Data is provided on a wide range of aspects of the economy's operation. Statistics are available to show.*

- \* the level of unemployment
- \* the level of inflation
- \* a country's *trade balance* with the rest of the world
- \* production volumes in *key industries* and the economy as a whole
- \* the level of *wages*
- \* *raw material prices*, and so forth.

The main statistics illustrating the economy's behaviour relate to the level of activity in the economy. That is, they tell us whether the economy is working *at full capacity* using all or nearly all, *available resources of labour, machinery and other factors of production* or whether these resources are being *under-utilized*.

The *unemployment figures* for the economy give *an indicator* of the level of activity. As the economy moves towards a recession and a lower level of prosperity it is likely that unemployment figures will rise. An alternative measure of the level of activity is *national income* statistics, which show *the value of a nation's output* during a year. Economists use the term *Gross National Product* to describe this data. Changes in the level or *trends* of such key data have great significance for businesses, as we shall see later.

There are numerous sources of data on the economy of which we can make use. The government publishes much through *the Treasury*, Department of Trade and Industry, the Bank of England and *the Department of Employment*. *The Central Statistical Office*, which was established during the Second World War, publishes about half of the government's economic data.

Much of this is contained in its annual publication, *"The Annual Abstract of Statistics"*. It also publishes the *equally valuable "Social Trends"* annually. Additionally, private organizations, such as the banks, *building societies* and universities, publish figures on various aspects of the economy's performance.

Economic statistics are presented in many forms, the most common being *graphs and tables*. Although these statistics can be valuable in *assisting managers, they should be treated with some caution* when predicting the future trend of the economy and thus helping the business to take effective decisions.

### VOCABULARY NOTES

**to measure** – измерять, рассчитывать, оценивать

**economic activity** – экономическая деятельность

**is no exception in this respect** – в этом отношении не является исключением

**important items** – важные вопросы, проблемы

**to relate to** – относиться к чему-либо, иметь отношение; рассказывать

**by highlighting the adverse effects on...** - в первую очередь освещая неблагоприятное влияние на...

**householder** – домовладелец, домохозяин

**household** – домашнее хозяйство

**mortgage** – закладная

**data** – данные

**on a wide range of aspects** – по самым разнообразным аспектам

**statistics are available to show** – статистика показывает

**trade balance** – торговый баланс

**key industries** – основные отрасли промышленности

**wages** – заработная плата (*рабочих*)

**salary** – оклад, жалованье (*служащих*)

**raw material prices** – цены на сырье

**at full capacity** – на полную мощность

**available resources** – доступные, имеющиеся в наличии ресурсы

**labour** – труд

**machinery** – оборудование

**factors of production** – производственные факторы, факторы производства (*труд, земля, природные ресурсы, капитал*)

**to be under-utilized** – не использоваться полностью

**unemployment figures** – количество безработных

**indicator** — показатель

**national income** – национальный доход

**the value of a nation's output** – оценка объема производства страны

**Gross National Product (GNP)** – валовой национальный продукт (ВНП)

**trend** – направление, тенденция, тренд

**the Treasury** – Государственное казначейство. Министерство финансов (*в Великобритании*)

**the Department of Employment** – Министерство по вопросам занятости (*в Великобритании*)

**the Central Statistical Office** – Центральное статистическое управление

**to contain** – содержать

**equally valuable** – такой же важный

**building societies** – *англ.* строительные общества (*специализированные сберегательные учреждения*)

**graphs and tables** – графики и таблицы

**to assist** – помогать, оказывать помощь

**they should be treated with some caution** – к этим данным следует относиться с некоторой осторожностью

## Assignments

### I. Suggest the Russian equivalents

important items on TV programmes relate to economic data and the implications for individuals and businesses; a prime example; the adverse effects; householders; statistics are available to show; available resources of labour; at full capacity; key industries; key data; the value of a nation's output; the Treasury; building societies; they should be treated with some caution;

trend (find it in 3 sentences)

*II. Replace the parts in **italics** by synonyms*

*a large number of*, the operation of the world's major economies; headlines *relate to*; the *implications* for individuals and businesses; by *highlighting* the adverse effects on businesses; these resources are being *under-utilized*; figures *give an indicator of*, changes have great *significance* for; *numerous*; *additional-*  
*ly*;

economic statistics are *presented* in many forms

*III. Fill in the gaps with the words and expressions from the text*

1. The headlines in newspapers often \_\_\_ economic data and \_\_\_ for individuals and businesses.

2. The statistics tell us whether the economy is working \_\_\_ using all or nearly all, \_\_\_ resources of labour, machinery and other factors of production or whether these resources are being \_\_\_.

3. Economists use the term \_\_\_ to describe the value of a nation's output during a year.

4. Although these statistics can be \_\_\_ in assisting managers, they should \_\_\_ with \_\_\_ when \_\_\_ the future trend of the economy.

*IV. Find in the text English equivalents for the following*

много (многочисленные); в этом отношении; средства массовой информации; подчеркивать, выделять; закладные; объем производства; сырье; не полностью используется; уровень занятости; валовой национальный продукт; опубликовать в каких-либо источниках

*V. Increase your vocabulary*

**it is likely (unlikely) that...**

**smb is likely (unlikely) to be (to do smth)**

1. Эта статистика, возможно, будет опубликована в ежегоднике Центрального статистического бюро.

2. Вряд ли эти цифры говорят о низком уровне занятости.

3. Похоже, что эти производственные мощности используются не полностью.

4. Может быть, экономика будет работать на полную мощность, если будут использованы все факторы производства.

*VI. Give explanations in English*

media; householders; mortgages; trade balance; wages; building societies

*VII. Answer the questions*

1. Why does the media relate to economic data and the implications for individuals and businesses?

2. What aspects of the economy's operation are statistics available to show?

3. What do statistics show?

4. What are the sources of data on the economy in the UK? In Russia?

5. What is the GNP?

6. Why should statistics be treated with some caution?

*VIII. Translate using all the active possible*

1. К официальным статистическим данным по уровню инфляции в стране следует относиться с осторожностью.

2. Валовой национальный продукт – это совокупность товаров и услуг, произведенных национальной экономикой за год.



3. Объем производства продукции в ключевых отраслях промышленности в значительной степени показывает уровень активности населения.

4. Если в экономике отмечается падение производства, то следствием этого становится рост безработицы и понижение уровня зарплаты.

5. Средства массовой информации сообщили об отрицательном влиянии на производство увеличившейся процентной ставки.

## THREE ECONOMIC ISSUES (ТРИ ВОПРОСА ЭКОНОМИКИ)

### Three economic issues

Economics is the study of how people choose to *allocate scarce resources to satisfy their unlimited wants*. The main problem in economics is the question of allocating scarce resources between *competing uses*. In this section three economic issues are discussed to show how society allocates its scarce resources between competing uses. In this connection the question **what, how and for whom** to produce is of *great significance*.

### The oil price shocks

Oil is an important *commodity in modern economies*. Oil and its derivatives provide fuel for heating, transport, and machinery, and are basic inputs for the manufacture of industrial petrochemicals and many household products ranging from plastic utensils to polyester clothing. From the beginning of this century until 1973 the use of oil increased steadily. Over much of this period the price of oil fell in comparison with the prices of other products. Economic activity was organized on the assumption of cheap and abundant oil.

In 1973 – 74 there was an abrupt change. The main oil-producing nations, mostly located in the Middle East but including also Venezuela and Nigeria, belong to OPEC — the Organisation of Petroleum Exporting Countries. Recognizing that together they produced most of the world's oil, OPEC decided in 1973 to raise the price at which this oil was sold. Although higher prices encourage consumers of oil to try to economize on its use, OPEC countries correctly forecast that cutbacks in the quantity demanded would be small since most other nations were very dependent on oil and had few commodities available as potential substitutes for oil. Thus OPEC countries correctly anticipated that a substantial price increase would lead to only a small reduction in sales. It would be very profitable for OPEC members.

Oil prices are traditionally quoted in US dollars per barrel. Fig. 1 shows the price of oil from 1970 to 1986. Between 1973 and 1974 the price of oil tripled, from \$2.90 to \$9 per barrel. After a more gradual rise between 1974 and 1978 there was another sharp increase between 1978 and 1980, from \$12 to \$30 per barrel. The dramatic price increases of 1973 – 79 and 1980 – 82 have become known as the OPEC oil price shocks, not only because they took the rest of the world by surprise but also because of the upheaval they inflicted on the world economy, which had previously been organized on the assumption of cheap oil prices.

People usually respond to prices in this or that way. When the price of some commodity increases, consumers will try to use less of it but producers will want to sell more of it. These responses, guided by prices, are part of the process by which most Western societies determine what, how and for whom to produce. Consider first **how** the economy produces goods and services. When, as in the 1970s, the price of oil increases six-fold, every firm will try to reduce its use of oil-based products. Chemical firms will develop artificial substitutes for petroleum inputs to their production processes; airlines will look for more fuel-efficient aircraft; electricity will be produced from more coal-fired generators. In general, higher oil prices make the economy produce in a way that uses less oil.

## Oil price (\$ per barrel)



Figure 1. The price of oil. 1970 – 86

How does the oil price increase affect *what* is being produced? Firms and households reduce their use of *oil-intensive products*, which are now more expensive. Households *switch to* gas-fired central heating and buy smaller cars. *Commuters form car-pools* or move closer to the city. High prices not only *choke off the demand* for oil-related commodities; they also encourage consumers to purchase *substitute commodities*. Higher demand for these commodities *bids up their price* and *encourages their production*. Designers produce smaller cars, architects *contemplate solar energy*, and research laboratories develop alternatives to petroleum in chemical production. Throughout the economy, what is being produced *reflects a shift away from* expensive oil-using products towards less oil-intensive substitutes. The *for whom* question in this example has a clear answer. *OPEC revenues* from oil sales increased from \$35 billion in 1973 to *nearly \$300 billion* in 1980. Much of this increased revenue was spent on goods produced in the *industrialized Western nations*. In contrast, *oil-importing nations* had to *give up more of their own production in exchange for* the oil imports that they required. In terms of goods as a whole, the rise in oil prices raised *the buying power* of OPEC and reduced the buying power of oil-importing countries such as Germany and Japan. The world economy was producing more for OPEC and less for Germany and Japan. Although it is the most important single answer to the '*for whom*' question, the economy is *an intricate, interconnected system* and a disturbance anywhere *ripples throughout the entire economy*,

In answering the '*what*' and '*how*' questions, we have seen that *some activities expanded and others contracted* following the oil price shocks. Expanding industries may have to *pay higher wages to attract the extra labour* that they require. For example, in the British economy coal miners were able to use the *renewed demand for coal to secure large wage increases*. The opposite effects may have been expected if the 1986 oil price slump had persisted.

The OPEC oil price shocks example illustrates how society allocates scarce resources between competing uses.

A *scarce resource* is one for which the demand at a zero price would exceed the available supply. We can think of oil as having *become more scarce in economic terms* when its price rose.

## VOCABULARY NOTES

**to allocate resources** – распределять ресурсы  
**scarce resources** – ограниченные, скудные ресурсы  
**scarcity** – дефицит  
**to satisfy unlimited wants** – удовлетворять неограниченные потребности  
**competing uses** – конкурирующие сферы использования  
**to be of great significance** – иметь большое значение  
**commodity** (*syn.* **good**) – товар, предмет широкого потребления  
**modern economy** – современная экономика  
**oil and its derivatives** – нефть и нефтепроизводные  
**to provide fuel for heating and transport** – обеспечивать топливом системы теплоснабжения и транспорт  
**basic inputs** – основные составляющие  
**to range from... to...** – от... до...  
**plastic utensils** – изделия из пластика  
**polyester clothing** – одежда из синтетических тканей  
**to increase [-z], v. steadily** – постоянно увеличиваться  
**increase [-s], n.** – увеличение  
**over much of this period** – большая часть этого периода  
**in comparison with** (*syn.* **as compared with**) – по сравнению с  
**on the assumption of** – исходя из предположения (допущения)  
**abundant oil** – нефть, имеющаяся в изобилии, избытке  
**an abrupt change** – резкое изменение  
**oil-producing nations** – страны, производящие нефть  
**to be located in** – располагаться в  
**to belong to** – принадлежать  
**OPEC (the Organization of Petroleum Exporting Countries)** – ОПЕК (Организация стран – экспортеров нефти)  
**to raise the price** – повышать цену  
**to encourage consumers** – побуждать, поощрять потребителей  
**to economize on its use** – экономить на использовании  
**to forecast correctly** – правильно прогнозировать  
**cutbacks in quantity demanded** – сокращения требуемого количества  
**to be dependent on oil** – быть зависимым от нефти  
**to be available** (*syn.* **to be in stock; ant. to be out of stock**) – иметься в наличии  
**potential substitutes** – потенциальные (возможные) заменители  
**to anticipate** – предсказывать, предвидеть, прогнозировать  
**substantial price increase [-s]** – существенное, значительное повышение цен  
**to lead (led, led) to** (*syn.* **to cause, to entail, to result in**) – привести к  
**reduction in sales** – сокращение продаж  
**to be profitable for** – быть прибыльным, выгодным  
**OPEC members** — страны – члены ОПЕК.  
**to quote prices in US dollars per barrel** – назначать, котировать цены в долларах США за баррель  
**to triple ['tripl]** – возрастать в три раза, утраивать  
**a gradual rise** – постепенное увеличение

**sharp, dramatic increase** – резкое повышение  
**to take by surprise** – застать врасплох  
**upheaval [i:]** – переворот  
**to inflict upheaval on the world economy** – наносить удар по (причинять ущерб) мировой экономике  
**to respond to prices** – реагировать на цены  
**a producer** – производитель  
**to determine what, how and for whom to produce** – определять что, как и для кого производить  
**to increase six-fold** – возрастать в шесть раз  
**oil-based products** – нефтепродукты  
**artificial substitutes for petroleum** – искусственные заменители бензина  
**production processes** – производственные процессы  
**fuel-efficient aircraft** – самолет с экономичным расходом топлива  
**oil-intensive products** – продукты с высоким содержанием нефти  
**switch to** – переключиться на  
**commuters** – жители пригорода, регулярно приезжающие в город на работу или учебу  
**car-pools** – группа людей, договорившихся по очереди обслуживать друг друга автомашиной  
**to choke off the demand** – задушить спрос  
**substitute commodities** – товары-заменители  
**to bid up the price** – наращивать цену  
**to encourage production** – стимулировать производство  
**to contemplate solar energy** – рассматривать (обдумывать) вопрос об использовании солнечной энергии  
**to reflect a shift away from... towards (to)...** – отражать переход (смену, замену) от... к...  
**OPEC revenues** – доходы стран – членов ОПЕК  
**nearly \$300 billion** – почти 300 миллиардов долларов  
**industrialized Western nations** – индустриальные (промышленные) западные страны  
**in contrast** – по контрасту  
**oil-importing nations** – страны, импортирующие нефть  
**to give up the production** – отказаться (прекратить) от производства  
**in exchange for** – в обмен на  
**to require** – требовать  
**the buying (syn. purchasing, spending) power** – покупательная способность  
**an intricate interconnected system** – сложная взаимосвязанная система  
**a disturbance** – нарушение равновесия, отклонение, срыв  
**to ripple throughout the entire economy** – прокатиться волной через всю экономику  
**some activities expanded/contracted** – некоторые виды деятельности расширились/сократились  
**to pay higher wages to attract the extra labour** – платить более высокую зарплату для привлечения дополнительной рабочей силы  
**to renew** – восстанавливать, возобновлять  
**demand for** – спрос на

**to secure wage increases** – добиваться повышения зарплаты  
**price slump** – резкое снижение цен  
**to persist** – сохраняться, продолжать существовать  
**to exceed** – превышать  
**the available supply** – имеющееся предложение  
**to become more scarce in economic terms** – стать более скудным, недостаточным в экономическом смысле

### Assignments

#### *I. Suggest the Russian equivalents*

to increase steadily; try to economize on the use of...; to choke off the demand; to encourage consumers to purchase smth; to encourage the production of...

#### *II. Replace the parts in **italics** by synonyms*

three economic questions; to give a share of resources; to have scarce *supplies of raw materials*; a sudden change; *realising* that; potential *replacements*; to encourage *people who use oil*; price increases *six times*; try to *cut down* on the use of oil

*III. Find in the text antonyms for the following words* rare, scarce; outputs; expensive; exports; straightforward; get, acquire; not to need; getting smaller

#### *IV. Fill in the gaps with the words and expressions from the text*

1. Economics is the study of how people choose \_\_ scarce resources to satisfy their \_\_.
2. Economic activity was organized on the assumption of \_\_ oil.
3. In 1973 – 74 there was an \_\_ change in oil prices.
4. \_\_ countries correctly forecast that \_\_ in the quantity demanded would be small.
5. Most nations are very dependent on oil and have few commodities available as \_\_ for oil.
6. Oil prices are traditionally \_\_ in US dollars per barrel.
7. The price of oil \_\_, from \$2.90 to \$9 per barrel.
8. There was another \_\_ between 1978 and 1980, from \$12 to \$30 per barrel.
9. The dramatic price increases inflicted \_\_ on the world economy.
10. These responses, \_\_ prices, are part of the process by which most Western societies \_\_ what, how and for whom to produce.
11. Chemical firms will develop \_\_ for petroleum inputs to their production processes; airlines will look for more \_\_ aircraft.
12. Finns and \_\_ reduce their use of \_\_ products.
13. Commuters form \_\_ or move closer to the city.
14. High prices not only \_\_ for oil-related commodities; they also encourage consumers to purchase \_\_.
15. OPEC \_\_ from oil sales increased from \$35 billion in 1973 to nearly \$300 billion in 1980.
16. The rise in oil prices raised \_\_ of OPEC.
17. The economy is an \_\_, interconnected system and a \_\_ anywhere ripples throughout the entire economy.
18. \_\_ industries may have to pay higher wages to attract the \_\_ labour that they require.
19. A scarce resource is one for which the demand at a zero price would \_\_

the available supply.

*V. Find in the text English equivalents for the following*

распределять ресурсы; ограниченные ресурсы; значительное повышение цен повлечет за собой несущественное снижение объема продаж; цена возросла в три раза; резкий подъем; резкий взлет цен; возросшие доходы; повысить/понизить покупательную способность; повышать заработную плату для привлечения дополнительной рабочей силы

*VI. Explain in English*

prices are quoted; a gradual rise; a sharp increase; household; commuters; commodities

*VII. Check your grammar*

**Present Tenses**

Use the following verbs to complete the paragraph below:

*concern, base, discuss, be, show, take up, hope for, say, offer, wish, live, suggest, provide, govern*

Students \_\_ economics for different reasons. Some \_\_ a career in business, some \_\_ for a deeper understanding of government policy, and some \_\_ about the poor or the unemployed. This book \_\_ an introduction, which \_\_ that economics \_\_ a live subject. It \_\_ real insights into the world in which we \_\_. The material that we \_\_ in this book \_\_ by two ideas. The first \_\_ that there \_\_ a body of economics, which has to be learned in any introductory course. The second \_\_ on the belief that modern economics is more readily applicable to the real world than traditional approaches \_\_.

**Past Tenses**

Write the following sentences out in full, like this:

*Keynes/famous/ his/ day/ economist/ own/ a/in... (be)*

*Keynes was a famous economist in his own day*

- 1915/ Treasury/ London/ in/ he/ in/ the... (join)
- best-known/ 1935/ his/ book/ in... (publish)
- public/ war/ during/ he/ service/ the/ to... (recall)
- 5th/ in/ Cambridge/ June/ Keynes/ 1883/ on... (bear)
- student/ he/ distinguished/ a... (be)
- instrumental/ the IMF/ in/ the/ 1944/ World Bank/ he/ in/ and/ starting... (be)
- Cambridge University/ to/ 1902/ he/ in... (go)
- a/ he/ as/ Cambridge/ teacher/ to... (return)
- time/ he/ a/ economist/ by/ as/ this/ brilliant... (accept)
- also/ heavy/ his/ he/ by/ workload... (exhaust)
- The General Theory of Employment, Interest and Money/ it... (call)
- 1919/ in/ he/ with/ Treaty of Versailles/ he/ because/ the... (resign, disillusion)
- April/ on/ 21st/ he/ 1946... (die)
- book/ conventional/ this/ thinking/ enemies/ many/ and/ him... (go against, make)

*Arrange the sentences you have made into a single paragraph.*

### *VIII. Answer the questions*

1. What are the three main questions of the economy?
2. What do you need in order to understand economics?
3. What happened to the price of oil from 1900 to 1973?
4. What did OPEC decide in 1973?
5. Why was there only a small reduction in oil sales?
6. What is an oil price shock? What did the oil price shocks lead to?
7. How do people respond to a higher price for a commodity?
8. What effect do higher oil prices have on the economy?
9. What happens throughout the economy when there are high oil prices? 10
- What 2 effects did high prices have on oil-importing countries?
11. When did oil become scarce?
12. What is a scarce resource?

### *IX. Translate using all the active possible*

1. Решение вопроса о распределении ограниченных ресурсов в экономике (обществе) зависит от того, **что** именно, **каким** способом и **для кого** данное общество намерено производить.
2. Цены на нефть стабильно растут и отсюда, естественно, следует что потребители нефти пытаются более экономно ее использовать
3. Невероятный скачок цен на нефть в 70-х годах привел к резкому изменению экономической среды в целом. Однако результатом этого было лишь несущественное снижение объема продаж.
4. Резкое снижение спроса на нефть способствовало росту производства заменителей нефти.
5. Расширяющиеся отрасли производства для привлечения дополнительной рабочей силы вынуждены повышать уровень заработной платы. Возросшие доходы поднимают покупательную способность общества.
6. Возросшие доходы поднимают покупательную способность. Одновременно для привлечения дополнительной рабочей силы расширяющиеся отрасли производства вынуждены повышать уровень заработной платы.



## INCOME (ДОХОД)

The second of the three economic issues is the question of income, that is, *income distribution*, the way in which income – that's what people earn – is distributed or shared around.

You, and your family, have an income. You have *an annual income*, that is what you earn in a year. This income allows you to enjoy various goods and services. It means you have *a certain standard of living*. Your standard of living, of course, includes what you think of as necessary to your life, things like food, water, somewhere to live, health and education. But your income doesn't just *cover the necessities of life*. It also includes *recreation*, whether that's sport or TV or a holiday. Your income will be less than some of your neighbours', but it will be more than some of your other neighbours'. Your neighbours mean not just people living in your own country, but also people living in other countries.

Just as you and your family have an income, so nations, different countries, also have an income — *the national income*, it's often called. A national income is not the money the government gets. The national income is the sum total of the incomes of all the people living in that country, in other words, everyone's income added together. In the same way one can think of world income as the total of all the incomes earned by all the people in the world.

Concerning the distribution of national and world income, some questions are to be asked: who, in the world, gets what *share of these incomes*? The distribution of income, either in the world or in a country, tells us how income is divided between different groups or individuals. **Table 1** shows the distribution of world income. There are three headings down the left-hand side of the table: *income per head*, *percentage of world population* and *percentage of world Income*. In poor countries, like India, China and the Sudan, the income per head is only one hundred and fifty-five pounds per year. But at the same time, they have fifty point seven per cent of the world's population. These poor countries only have five per cent of the world's income.

In middle-income countries the income per head is eight hundred and forty pounds, that's in countries like Thailand and Brazil. In the major oil countries, like Kuwait and Saudi Arabia, it's seven thousand, six hundred and seventy. In industrial countries it's six thousand, two hundred and seventy.

Turning to middle-income countries again, they have twenty-five point one per cent of world population, with fourteen point two per cent of world income. The major oil countries have point four per cent of population, the industrial countries fifteen point six. The oil countries have one point five per cent of world income, the industrial countries sixty-four point eight.

The first economic question is *for whom* does the world economy produce? As the table shows, it produces *essentially* for the people living in the rich industrial countries. They get sixty per cent of the world's income, although they only have sixteen per cent of its population. This suggests an answer to the second question, that is of *what* is produced. The answer is that most of *world production* will be directed towards the goods and services that these same *rich industrialised countries* want.

The third question is *how* goods are produced. In poor countries, with little machinery, *not very much technical training* and so on, workers produce much less than workers in rich countries. And poverty is very difficult to *escape*. It continues on and on. And this goes some way towards *accounting for* the dif-

*ferences in national incomes.* It accounts for *an unequal distribution of income*, not just between countries but also between members of the same country, although there individual governments can help through taxation. In other words, governments can act to help distribute income *throughout their population.*

### VOCABULARY NOTES

**income distribution** – распределение дохода

**an annual income** – годовой доход

**a certain standard of living** – определенный уровень жизни

**to cover the necessities of life** – охватывать основные жизненные потребности

**recreation** – отдых, досуг

**national income** – национальный доход

**share of income** – доля, часть дохода

**income per head** – доход на душу населения

**percentage of world population** – процент мирового населения

**percentage of world income** – процент мирового дохода

**essentially** – в основном, большей частью

**world production** – мировое производство

**rich industrialised countries** – богатые промышленные страны

**not very much technical training** – недостаточное техническое обучение

**to escape** – *зд.* избежать

**to account for** (*syn.* **to explain**) – объяснять

**the differences in national incomes** – различия в национальных доходах

**unequal distribution of income** – неравное распределение дохода

**throughout population** – среди населения

### Assignments

*I. Suggest the Russian equivalents*

income is shared around; income doesn't just cover the necessities of life; to suggest an answer to the question; to direct the production towards the goods and services; individual governments

*II. Fill in the table with the data from the text*

**Table 1. The distribution of world income**

	Poor countries	Middle-income countries	Major oil countries	Industrial countries	Soviet bloc
Income per head					
% of world population					
% of world income					

*III. Fill in the gaps with the words and expressions from the text*

1. You have \_\_, that is what you earn in a year.
2. Your income doesn't just \_\_ the necessities of life.
3. It includes \_\_, whether that's sport or TV or a holiday.
4. \_\_ is the sum total of the incomes of all the people living in that country.
5. \_\_ is the total of all the incomes earned by all the people in the world.
6. In poor countries \_\_ is only one hundred and fifty-five pounds per year.
7. In \_\_ countries the income per head is eight hundred and forty pounds.
8. Most of world production \_\_ towards the goods and services that these same rich industrialised countries want.
9. In poor countries, with \_\_, not very much technical training workers produce much less than workers in rich countries.
10. This goes some way towards \_\_ the differences in national incomes.

#### *IV. Find English equivalents*

распределение доходов; ежегодный доход; определенный уровень жизни; национальный доход; мировой доход; доля национального дохода; доход на *душу* населения; процент мирового населения; страны со средним уровнем дохода; в основном; скудное техническое оборудование; недостаточное техническое образование; объяснение разницы в уровнях национальных доходов; неравное распределение доходов; избежать бедности

*V. Give the definition of income distribution*

*VI. Give the definition of national Income*

*VII. Answer the questions*

1. What countries are called poor?
2. For whom and what does economy produce?
3. What is the role of governments in distributing incomes?

*VIII. Translate into English using all the active possible*

1. Национальный доход — это общая сумма, полученная населением в виде заработной платы, ренты, процента и прибыли в течение определенного периода, обычно в течение одного года.

2. Источники неравенства — это причины, вызывающие неравенство в распределении дохода. Поскольку существуют два основных источника доходов — трудовые доходы и доходы от собственности, источники неравенства разделяют на 2 группы: источники, вызывающие неравенство в трудовых доходах; и источники, вызывающие неравенство в доходах от собственности. В развитых странах источниками неравенства в трудовых доходах являются, в основном, образование и профессия. Доходы от собственности еще более дифференцированы, чем доходы от трудовой деятельности, поскольку обусловлены неравенством в распределении богатства. Основными источниками неравенства в доходах от собственности являются предпринимательская деятельность и наследство.

# THE ROLE OF GOVERNMENT (РОЛЬ ПРАВИТЕЛЬСТВА)

Having mentioned the effect of government tax policy on the income distribution, it's necessary to examine in greater detail the role of the government in society. In every society governments provide such services as national defence, police, public education, firefighting services, and the administration of justice. In addition, governments through budget make transfer payments to some members of society.

Transfer payments are payments made to individuals without requiring the provision of any service in return. Examples are social security, retirement pensions, unemployment benefits, and, in some countries, food stamps. Government expenditure, whether on the provision of goods and services (defence, police) or on transfer payments, is chiefly financed by imposing taxes, although some (small) residual component may be financed by government borrowing. Tabl. 2 compares the role of the government in four countries.

**Tabl. 2. Government Spending as a Percentage of National Income**

Country	Purchase of goods and services	Transfer payments	Debt interest	Total
UK	23,0	17,2	5,1	45,3
Japan	14,9	12,7	4,6	32,2
USA	20,1	12,2	4,8	37,1
Italy	27,0	23,0	9,2	59,4

In each case, we look at **four measures of government spending** as a percentage of national income: spending on the direct provision of goods and services for the public, transfer payments, Interest on the national debt, and total spending.

Italy is a "big-government" country. Its government spending is large and it needs to raise correspondingly large tax revenues. In contrast, Japan has a much smaller government sector and needs to raise correspondingly less tax revenue. These differences in the scale of government activity relative to national income reflect differences in the way different countries allocate their resources among competing uses.

Governments spend part of their revenue on particular goods and services such as tanks, schools and public safety. They directly affect **what** is produced. Japan's low share of government spending on goods and services in Tabl. 2 reflects the very low level of Japanese spending on defence.

Governments affect **for whom** output is produced through their tax and transfer payments. By taxing the rich and making transfers to the poor, the government ensures that the poor are allocated more of what is produced than would otherwise be the case; and the rich get correspondingly less.

The government also affect **how** goods are produced, for example through the regulations it imposes. Managers of factories and mines must obey safety requirements even where these are costly to implement, firms are prevented from freely polluting the atmosphere and rivers, offices and factories are banned in attractive residential parts of the city.

The scale of government activities in the modern economy is *highly controversial*. In the *UK* the government takes nearly 40 per cent of national income in taxes. Some governments take a *larger share*, others a *smaller share*. Different shares will certainly affect the questions **what, how and for whom**, but some people believe that a large government sector *makes the economy inefficient*, reducing the number of goods that can be produced and *eventually* allocated to consumers.

*It's commonly asserted* that high tax rates reduce *the incentive to work*. If half of all we *earn* goes to the government, we might prefer to work fewer hours a week and spend more time in the garden or watching TV. That is one possibility, but there is another one: if workers have in mind *a target after-tax income*, e.g. to have *at least sufficient to afford a foreign holiday* every year, they will have to work *more hours to meet this target* when taxes are higher.

Whether *on balance* high taxes make people work more or less remains an open question. *Welfare payments* and unemployment benefit are more likely to reduce incentives to work *since* they actually *contribute to* target income. If *large-scale government activity* leads to important disincentive effects, government activity will affect not only *what, how, and for whom* goods are produced, but also *how much* is produced by the economy as a whole.

This discussion of the role of the government is central to the process by which society allocates its scarce resources. It also *raises a question*. Is it *inevitable* that the government plays a prominent part in the process by which society decides how to allocate resources between competing demands? This question *lies at the heart of economics*.

## VOCABULARY NOTES

- having mentioned** – упомянув, рассмотрев
- government tax policy** – налоговая политика государства
- to examine in greater detail** – рассмотреть более подробно
- to provide service** – оказать услугу
- national defence** – национальная оборона
- firefighting service** – противопожарная служба
- administration of justice** – отправление правосудия
- to make transfer payments** – осуществлять трансфертные платежи
- without requiring the provision of any service in return** – не требуя ответных услуг
- social security** – социальное обеспечение (за *счет государственных налогов*)
- retirement pensions** – пенсии за выслугу лет
- unemployment benefit (syn. dole)** – пособие по безработице
- to be, live on the dole** – жить на пособие по безработице
- food stamps** – талоны на продовольствие
- to impose taxes** – облагать налогами
- residual component** – остаточная часть
- to be financed by government borrowing** – финансироваться правительственными займами
- direct provision of goods and services for the public** – прямое (непосредственное) снабжение (обеспечение) граждан товарами и услугами
- interest on the national debt** – проценты по национальному долгу

**correspondingly** – соответственно  
**the scale of government activity** – размах (масштаб) государственной деятельности  
**relative to** – в отношении чего-либо  
**to reflect differences** – отражать различия  
**to affect directly** – непосредственно влиять  
**low share** – низкая (малая) доля  
**to affect through tax and transfer payments** – оказывать воздействие через систему налогообложения и трансфертные платежи  
**to ensure that** – обеспечивать такое положение, при котором...  
**than would otherwise be the case** – как было бы в противном случае  
**to impose regulations** – издавать административные положения, постановления, распоряжения  
**to obey safety requirements** – соблюдать требования безопасности  
**to be costly to implement** – использование (применение) обходится дорого  
**to pollute freely** – безнаказанно загрязнять  
**to ban** (*syn. to prohibit*) – запрещать  
**residential parts of the city** – жилые части города  
**to be highly controversial** – быть крайне неоднозначным  
**a large/small share** – большая/малая доля, часть  
**to share** – делить, разделять с кем-либо, *e.g.* 1) to share smb's views, 2) to share a room with a classmate  
**to make the economy inefficient** – снижать эффективность экономики, делать экономику неэффективной  
**eventually** (*syn. at last*) – в конце концов, в конечном счете  
**it's commonly asserted** – принято считать, по всеобщему утверждению  
**the incentive to work** – стимул, мотивация к работе  
**to earn (money)** – зарабатывать (деньги)  
**to earn one's living** – зарабатывать на жизнь  
**a target after-tax income** – целевой, базовый, чистый доход (*после выплаты налогов*)  
**at least sufficient to afford a foreign holiday** – быть достаточным, по крайней мере, для того, чтобы провести отпуск за границей  
**to meet a target** – достичь цели  
**on balance** – с учетом всего вышесказанного, в конечном счете  
**welfare payments** – государственные пособия (*напр., по безработице, по страхованию*)  
**since** (*syn. as, for, because*) – поскольку, так как  
**to contribute to** – вносить вклад в  
**large-scale government activity** – широкомасштабная деятельность правительства  
**to raise** (*syn. to bring up*) **a question** – поднять вопрос  
**to be inevitable** – неизбежно  
**to lie at the heart of economics** – быть в самом центре экономики

## Assignments

*I. Suggest the Russian equivalents*

to obey safety requirements; governments take a larger/smaller share; to

make the economy inefficient; measures of government spending; interest on the national debt; total spending; to allocate resources between competing demands

*II. Replace the parts in **italics** by synonyms*

it's *generally declared*; managers of *factories* must obey the requirements; Government directly *influence* what is produced; *to bring up* a question; to *collect* taxes; Government's *expenditure* is financed by imposing taxes.

*III. Find the terms in the text, -which describe the following:*

- money paid to people without asking for a service in return
- money paid to people when they stop working
- money paid to people who have no work
- money owed by the government of a country
- money received by governments from taxation
- money a worker keeps after paying taxes

*IV. Using the information in the text, say if these statements are correct or incorrect*

- Governments do not make free transfer payments.
- Food stamps are an example of a transfer payment.
- Most government income comes from borrowing.
- Japan raises more taxes than Italy.
- Japan spends very little on defence.
- The poor get more of what is produced through taxation and transfer payments.
- Governments do not affect how goods are produced.
- Nobody questions the scale of government economic activity.
- Many people believe that high taxes result in people not wanting to work so hard.

*V. Fill in the gaps with the words and expressions from the text*

1. Having mentioned the effect of government \_\_ on the income distribution, it's necessary to examine in greater detail the role of the government in society.

2. Government expenditure is chiefly financed by \_\_ taxes.

3. Italy's government spending is large and it needs to \_\_ correspondingly large tax revenues.

4. These differences in the scale of government activity relative to \_\_ reflect differences in the way different countries allocate their resources among \_\_ uses.

5. By taxing the rich and making transfers to the poor, the government \_\_ that the poor are allocated more of what is produced than would otherwise be the case.

6. Managers of factories and mines must \_\_ safety requirements.

7. Offices and factories are \_\_ in attractive residential parts of the city. , 8. \_\_ of government activities in the modern economy is highly controversial.

9. Different \_\_ will certainly affect the questions *what, how and for whom*.

10. A large government sector makes the economy inefficient, reducing the number of goods that can be \_\_ allocated to consumers.

11. \_\_\_ that high tax rates reduce the incentive to work.

12. Welfare payments and unemployment benefit are more likely to reduce \_\_\_ to work since they actually contribute to \_\_\_.

*VI. Find in the text English equivalents for the following*

пенсии за выслугу лет; пособие по безработице; продовольственные карточки (талоны); облагать налогом; правительственные займы; налоговая политика правительства; распределение доходов; переводные (трансфертные) платежи; взимать налоги; собирать налоговые поступления; принято считать (по всеобщему утверждению); уменьшать заинтересованность в работе; целевой (плановый) чистый доход после уплаты налогов.

*VII. Answer the questions*

1. What are transfer payments? Give some examples.
2. Using Tabl. 1 compare the UK and the USA on the same basis.
3. In what way can governments affect what and for whom is produced?
4. Why does a large government sector make the economy inefficient?
5. What are the two possibilities of responding to high tax rates on the part of workers?
6. What is the possible outcome of large-scale government activity?
7. Summarise in your own words the arguments for and against high taxes.

*VIII. Translate using the active possible*

1. Переводные платежи, к которым относятся социальное обеспечение, выплата пенсий за выслугу лет, пособия по безработице и т.д., непосредственно влияют на налоговую политику правительства.
2. Правительственные расходы (2 варианта) в основном финансируются за счет налогообложения, поэтому, чем больше сумма расходов (2 варианта), тем больше налоговых поступлений необходимо государству.
3. Степень участия государства в делах экономики может быть большей или меньшей.
4. Таким образом, государство играет важную роль в распределении ограниченных ресурсов общества.



# THE PRODUCTION POSSIBILITY FRONTIER (ГРАНИЦЫ ВОЗМОЖНОСТЕЙ ПРОИЗВОДСТВА)

Let's turn to the most important *tool* for an economist – the production possibility frontier. This frontier shows the maximum combinations of *output* that the economy can produce, if it uses all its available scarce resources.

The easiest way to explain it is to complete a *figure*. First, *the vertical axis or line, is labelled "food output"*. The units of food output run from *nought* at the bottom to 25 at the top, entering the units of food output in fives: 0, 5, 10, etc. Along *the horizontal axis (or the bottom line)* we have units of *film output*. Let's enter in the units of film output in fives again, this time up to 30.

Suppose we have an economy with only food and film industries. Now, if we put all the workers into producing food, we shall produce 25 units of food, but no units of film. We can mark this on the diagram with point A – no film, 25 units of food. It means point A comes on the vertical line at the number 25. Now, *at the other extreme*, if the economy puts all its workers into producing film, it will produce 30 units, but it will not produce any food. So, the next point is on the bottom, horizontal line, at 30 units. Let's label it as point E.

These two points, A and E, are the two extreme points of the production possibility frontier. Let's put in three more points. Point B is where the economy is producing 22 units of food and 9 units of film. Point C is where the economy is producing 17 units of both film and food. And, finally, point D is where we have 10 units of food and 24 units of film. Now *draw a line joining all these points together*, from A to E. The line drawn is not a *straight line*, it's a *concave curve*. It is this concave curve that is called *the production possibility frontier*.

The production possibility frontier represents a *trade-off*. More of one commodity, food or film, means less of the other, and this is because of *the law of diminishing returns*. It states that if, in *the production of a commodity*, one factor of production is increased *by stages* while the other factors are kept unchanged, the stage will sooner or later be reached where *each farther addition* to the increasing factor will produce a smaller and smaller *increase in output*.

In our example, movements from A to B, to C and so on along the curve *involve the transfer* of one or more workers from one industry to the other, say, from food production to film production. The number of workers in the film industry increases, and so does the film output, but on the whole each additional worker produces less additional film. That is to say, each transfer *reduces output per person* in the film industry. At the same time a decrease in the food industry can be observed. So with each transfer we get less *additional film output* and have to give up increasing *amounts of output*. That's why a society faces the problem of choosing between different products, as the scarcity of available resources does not allow it to increase the production of one *good* without decreasing the production of the other. As all the resources are scarce, points *outside the frontier* (point F in the example) represent *the level of production unattainable* at the given stage of development. *On the contrary*, it is inefficient to produce *within the frontier* (point G in the example), as it means *poor management of production*. By moving on to the frontier, society could have more of some goods without having less of any other good.

## VOCABULARY NOTES

**a tool** – инструмент  
**output** – объем производства  
**a figure** – чертеж, рисунок  
**the vertical axis (line)** – вертикальная ось  
**to label** – обозначить  
**food output** – количество произведенных (объем производства) продовольственных товаров  
**nought** – ноль  
**the horizontal axis (the bottom line)** – горизонтальная ось  
**film output** – количество произведенной (объем производства) пленки  
**at the other extreme** – на другом полюсе  
**to draw a line joining all these points together** – провести линию, соединяющую все эти точки  
**a straight line** – прямая линия  
**a concave curve** – вогнутая кривая (*ant. convex* – выпуклый)  
**a trade-off** – альтернатива, выбор  
**the law of diminishing returns** – закон сокращающейся доходности  
**the production of a commodity** – производство товара  
**by stages** – постепенно  
**each further addition** – каждое последующее дополнение  
**an increase in output** – увеличение объема производства  
**to involve the transfer** – включать в себя, подразумевать перемещение  
**to reduce output per person** – сокращать выработку на одного человека  
**additional output** – дополнительный объем производства  
**amounts of output** – объем производства, количество произведенной продукции  
**good** – зд. благо  
**outside the frontier** – за пределами границы  
**the level of production unattainable** – уровень производства, недостижимый...  
**on the contrary** – напротив  
**within the frontier** – внутри границы  
**poor management of production** – плохая организация производства

### Assignments

*I. Suggest the Russian equivalents* the most important tool for the economist; the production possibility frontier;

the maximum combinations of output; to involve the transfer of workers

*II. Fill in the gaps with the words and expressions from the text*

1. The production possibility frontier is the most important \_\_ for an economist.

2. This frontier shows the maximum combinations of \_\_ that the economy can produce, if it uses \_\_.

3. To complete a figure of \_\_ we need to draw \_\_ together.

4. The line drawn is not \_\_, it's \_\_. It is this concave curve that is called \_\_.

5. The production possibility frontier represents \_\_.

6. More of one \_\_, food or film, means \_\_ of the other, and this is because

of\_\_.

7. It states that if, in \_\_, one \_\_ is increased \_\_ while the other factors are kept \_\_, the stage will be reached where \_\_ to the increasing factor will produce \_\_.

8. The number of workers in the film industry \_\_, and so does the film \_\_, but on the whole each \_\_ worker produces \_\_ additional film.

9. Each transfer \_\_ in the film industry.

10. That's why a society faces the problem of \_\_ between \_\_, as \_\_ does not allow it \_\_ the production of one good without \_\_ the production of the other.

*III. Draw a figure, complete it, mark all the points (from A to G) and explain it in English making use of the following phrases*

a vertical axis (line), a horizontal axis (a bottom line), to label, to enter in the units in 5s, to draw a line

*IV. Find English equivalents*

прямая линия; вогнутая (выпуклая) кривая; именно эта кривая называется границей производственных возможностей; альтернатива, выбор; закон сокращающейся доходности; увеличивать (уменьшать) выработку на одного человека; вертикальная ось; обозначить; горизонтальная ось; провести линию, соединяющую все эти точки; производственный фактор, фактор производства; включать в себя, подразумевать перемещение; дополнительный объем производства

*V. Explain in English*

a trade-off; the law of diminishing returns

*VI. Answer the question*

What does the production possibility frontier show?

*VII. Translate into English using all the active possible*

1. Граница производственных возможностей — это предел в полном использовании ресурсов общества при существующем уровне развития технологии, когда увеличение производства одного блага требует сокращения производства другого.

2. Такое состояние экономики может быть отражено на графике в виде кривой, представляющей различные комбинации производства благ при максимальном использовании имеющихся ресурсов и существующем уровне технологии.

3. На графике изображена кривая, каждая точка которой показывает количество одного блага, производимого при полном использовании всех ресурсов, взамен другого блага.

4. Точки за пределами границы производственных возможностей показывают уровень производства, недостижимый при данном количестве ресурсов и имеющейся технологии.

5. Точки внутри границы показывают, что производство организовано неэффективно и есть неиспользованные ресурсы, например, рабочая сила.

6. Отсюда следует естественный вывод, что в современной экономике, когда неограниченных ресурсов практически нет, развитие технологии играет значительную роль и имеет огромное значение для экономики в целом.

# ECONOMIC SYSTEMS (ЭКОНОМИЧЕСКИЕ СИСТЕМЫ)

There are a number of ways in which a government can organize its economy and the type of system chosen is critical in shaping environment in which businesses operate.

**An economic system** is quite simply the way in which a country uses its available resources (land, workers, natural resources, machinery etc.) to satisfy the demands of its *inhabitants* for goods and services. The more goods and services that can be produced from these limited resources, the higher the standard of living enjoyed by the country's citizens.

There are three main economic systems:

## Planned economics (Плановая экономика)

*Planned economies* are sometimes called "command economies" because the state commands the use of resources (such as labour and factories) that are used to produce goods and services as it *owns* factories, land and *natural resources*. Planned economies are economies with *a large amount of central planning and direction*, when the government takes all the decisions, the government decides production and *consumption*. Planning of this kind is *obviously* very difficult, very *complicated* to do, and the result is that there is no society, which is completely a command economy. The actual system employed varies from state to state, but command or planned economies *have a number of common features*.

Firstly, the state decides precisely what the nation is to produce. It usually plans five years ahead. It is *the intention* of the planners that there should be enough goods and services for all.

Secondly, industries are asked *to comply* -with these plans and each industry and factory is set *a production target to meet*. If each factory and farm meets its target, then the state will meet its targets as set out in the five-year plans. You could think of the factory and farm targets to be *objectives* which, if met, allow the nation's *overall aim* to be reached.

A planned economy is simple to understand but not simple to operate. It does, however, have a number of **advantages**:

- Everyone in society receives enough goods and services *to enjoy a basic standard of living*.
- Nations do not waste resources *duplicating production*.
- The state can use its control of the economy *to divert* resources to wherever it wants. As a result, it can ensure that everyone receives a good education, proper health care or that transport is available.

Several **disadvantages** also exist. It is these disadvantages that have led to many nations *abandoning* planned economies over recent years:

- There is no incentive for individuals to work hard in planned economies.
- Any profits that are made are paid to the government.
- Citizens cannot start their own businesses and so new ideas rarely come forward.
- As a result, industries in planned economies can be very inefficient. *A major problem faced by command or planned economies* is that of deciding **what to produce**. Command economies tend to be slow when responding to *changes in people's tastes and fashions*. Planners are likely *to underproduce* some items as they cannot predict changes in demand. Equally, some products,

which consumers *regard as obsolete* and unattractive, may be *overproduced*. Planners are afraid to produce goods and services unless they are sure substantial amounts will be purchased. This leads to *delays and queues* for some products.

## VOCABULARY NOTES

**inhabitants** – жители, население

**to own** – владеть

**natural resources** – природные ресурсы

**a large amount** – большой объем

**central planning and direction** – центральное планирование и руководство

**consumption** – потребление

**obviously** – очевидно

**complicated** – сложный

**to have a number of common features** – иметь ряд общих черт

**intention** – намерение

**to comply with** – подчиняться

**a production target to meet** – производственная задача (задание), которую надо выполнить

**an objective** – цель, задача

**an overall aim** – общая цель

**to enjoy a basic standard of living** – иметь основной уровень жизни

**to duplicate production** – дублировать производство

**to divert** – отвлекать (*напр., ресурсы на другие цели*)

**to abandon** – отказываться от чего-либо

**a major problem faced by command or planned economies** – основная проблема, стоящая перед командной или плановой экономикой

**changes in tastes and fashions** – изменения вкусов и моды

**to underproduce** – недопроизводить

**to regard smth as** – воспринимать что-либо, относиться к чему-либо как...

**obsolete** (*syn. out of date*) – устарелый, вышедший из употребления

**to overproduce** – перепроизводить

**delays and queues** – зд. перебои (с товарами) и очереди

## Assignments

### I. Suggest the Russian equivalents

each factory is set a production target to meet; to divert resources to wherever it wants; new ideas rarely come forward; tend to be slow when responding to changes

### II. Replace the parts in *italics* by synonyms

*obsolete* products; it can *ensure* that...; it can be very *inefficient*

There is no *incentive* for individuals to work hard in planned economies.

It led to many nations *abandoning* planned economies over recent years.

### III. Fill in the gaps with the words and expressions from the text

1. The type of system chosen is \_\_\_ in \_\_\_, in which businesses operate.

2. An economic system is the way in which a country uses its \_\_\_ to satisfy

the demands of \_\_\_ for goods and services.

3. The more goods and services that can be produced, the higher the standard of living \_\_\_ by the country's citizens.

4. The state \_\_\_ factories, land and \_\_\_.

5. Planned economies are economies with \_\_\_ of \_\_\_, when the government \_\_\_ all \_\_\_, decides \_\_\_ and \_\_\_.

6. The actual system employed \_\_\_ from state to state, but command or planned economies have \_\_\_.

7. It is \_\_\_ that there should be enough goods and services for all.

8. Industries are asked \_\_\_ these plans and each industry and factory is set \_\_\_.

9. The factory and farm targets are \_\_\_ which, if met, allow the nation's \_\_\_ to be reached.

10. Nations do not waste resources \_\_\_.

11. The state can use its control of the economy \_\_\_ to wherever it wants.

12. It is \_\_\_ that have led to many nations \_\_\_ planned economies over recent years.

13. There is no \_\_\_ for individuals to work hard in planned economies.

14. Industries in planned economies can be very \_\_\_.

15. Command economies tend to \_\_\_ when \_\_\_ to changes in people's tastes and fashions.

16. Planners are likely \_\_\_ some items as they cannot \_\_\_ changes in demand.

17. Some \_\_\_ and unattractive products may be \_\_\_.

18. This leads to \_\_\_ for some products.

*IV. Find in the text English equivalents/or the following*

имеющиеся в распоряжении ресурсы; управлять использованием ресурсов; управление экономикой; отказываться от плановой экономики; иметь высокий жизненный уровень; иметь общие черты; подчиняться 5-летнему плану; значительное количество; ставить производственные задачи; полученная прибыль; стимул к эффективной работе; перебои и очереди; реагировать на изменения спроса; предсказывать изменения спроса; основная проблема, стоящая перед...

*V. Answer the questions*

1. What's an economic system?

2. What does a standard of living depend on?

3. What's a planned economy? What are its main features?

4. Give the advantages of a planned economy.

5. Give the disadvantages of a planned economy.

6. What causes delays and queues for some products?

7. What can you add to the list of advantages and disadvantages of a planned economy?

*VI. Translate using the active possible*

1. Если хозяйство плановое, то работа промышленности подчиняется плану, в котором государство определяет производственные задачи и планирует развитие на 5 лет вперед.

2. В плановой экономике покупатели лишены возможности влиять на производство товаров.

3. Поскольку значительная доля полученной прибыли должна быть выплачена государству, то в условиях плановой экономики стимулы ра-

ботать эффективно невелики.

4. Промышленность часто выпускает непривлекательные и старомодные товары, поскольку невозможно предсказать изменения моды на 5 лет вперед.

5. Государство в условиях плановой экономики может гарантировать своим гражданам образование и медицинское обслуживание.

6. Все крупные решения, касающиеся объема используемых ресурсов, структуры и распределения продукции, производства и потребления, принимаются центральным плановым органом.

### **Market economics (Рыночная экономика)**

The best examples of this type of economy are to be found in small South-East Asian states like Hong Kong and Singapore, though even they are not pure examples of market economies. Even they contain some *businesses owned and run by the state*.

In a true market economy the government plays no role in the management of the economy, the government does not *intervene* in it. The system is based on *private enterprise with private ownership of the means of production and private supplies of capital*, which can be defined as *surplus income available for investment in new business activities*. Workers are paid wages by employers according to how skilled they are and how many firms wish to employ them. They spend their wages on the products and services they need. Consumers are willing to spend more on products and services, which are favoured. Firms producing these goods will make more profits and this will *persuade* more firms to produce these particular goods rather than less favoured ones.

Thus, we can see that in a market economy it is consumers who decide what is to be produced. Consumers will be willing to pay high prices for products they particularly desire. Firms, which are privately owned, see the opportunity of increased profits and produce the new fashionable and favoured products.

Such a system is, *at first view*, very attractive. The economy *adjusts automatically* to meet changing demands. No planners have to be employed, which allows more resources to be available for production. Firms tend to be highly *competitive* in such an environment. New advanced products and low prices are good ways to increase sales and profits. Since all firms are privately owned they try to *make the largest profits possible*. In a free market individual people are free to *pursue their own interests*. They can become millionaires, for example. Suppose you invent a new kind of car. You want to *make money out of it* in your own interests. But when you have that car produced, you are in fact *moving the production possibility frontier outwards*. You actually *make the society better-off by creating new jobs and opportunities*, even though you become a millionaire in the process, and you do it without any government help or intervention.

Not surprisingly there are also *problems*. Some goods would be *underpurchased* if the government did not *provide free or subsidised supplies*. Examples of this type of good and service are health and education. There are other goods and services, such as defence and policing, that are impossible to supply individually *in response* to consumer spending. Once defence or a police force is supplied to a country then everyone in this country benefits.

**A cornerstone of the market system** is that production *alters swiftly* to meet changing demands. These swift changes can, however, have serious *consequences*. Imagine a firm, which switches from *labour-intensive production* to

one where new technology is employed in the factory. The resulting unemployment could lead to social as well as economic problems.

In a market economy there might be minimal control on *working conditions* and *safety standards* concerning products and services. It is necessary to have *large-scale government intervention to pass laws to protect consumers and workers*.

Some firms produce goods and then advertise heavily *to gain sufficient sales*. Besides wasting resources on advertising, firms may also duplicate one another's services. *Rival firms*, providing rail services, for example, could mean that two or more systems of rail are laid.

Finally, firms have *to have confidence* in future sales if they are to produce new goods and services. At certain times they tend *to lack confidence* and cut back on production and the development of new ideas. This decision, when taken by many firms, can lead to a recession. A recession means less spending, fewer jobs and a decline in the prosperity of the nation.

### VOCABULARY NOTES

**to own and run** (*syn. to manage, to operate*) **businesses** – владеть и управлять бизнесом

**to intervene** – вмешиваться

**private enterprise** (*syn. entrepreneurship*) – частное предпринимательство

**private ownership** (*syn. property*) **of the means of production** – частная собственность на средства производства

**public property, common ownership** – общественная собственность

**personal property** – личная собственность

**state-owned property, state ownership** – государственная собственность

**private supplies of capital** – частный капитал

**surplus income available for investment in new business activities** – допол- ] нительный доход (излишек дохода), который можно вложить (инвестировать) в новое дело (бизнес)

**to employ** – использовать; предоставлять работу, нанимать

**employer** – работодатель

**employee** – служащий

**employment** – занятость

**unemployment** – безработица

**to persuade** – убеждать

**at first view** (*syn. at first sight*) – на первый взгляд

**to adjust automatically** – автоматически приспособливаться; приводиться в соответствие

**competitive** – конкурентоспособный

**to make the largest profits possible** – получить наибольшую возможную прибыль

**to pursue one's own interests** – преследовать свои интересы

**to make money out of it** – заработать деньги на этом

**to move the production possibility frontier outwards** – продвинуть вперед предел производственных возможностей

**to make the society better-off** – сделать общество более состоятельным



**to create new jobs and opportunities** – создать новые рабочие места, но-

### !С ВОЗМОЖНОСТИ

**to underpurchase** (*ant. to overpurchase*) – недостаточно раскупать  
**to provide free or subsidized supplies** – обеспечить бесплатное или субсидированное (дотированное) предоставление (товаров, услуг)  
**in response to** (*syn. in answer to*) – в ответ на  
**a cornerstone** – краеугольный камень  
**to alter swiftly** – быстро меняться  
**consequences** – последствия  
**labour- intensive production** – трудоемкое производство  
**working conditions** – условия работы  
**safety standards** – нормы техники безопасности  
**large- scale intervention** – широкомасштабное вмешательство  
**to pass laws** – принимать законы  
**to gain sufficient sales** – добиться достаточного объема продаж  
**rival firms** – фирмы-конкуренты, соперники  
**to have confidence** – иметь уверенность  
**to lack confidence** – не хватать уверенности

### Assignments

#### *I. Suggest the Russian equivalents*

new advanced products; products which are favoured; they try to make the largest profits possible; provide free or subsidized supplies; produce goods and

then advertise heavily; a firm which switches from labour- intensive production a new one; a decline in the prosperity of the nation 77. *Replace the parts in italics by synonyms*

businesses owned and *run* by the state; products and services, which are *favoured*; at first *view*; production *alters swiftly* ill. Fill in the gaps -with the words and expressions from the text

1. Small South-East Asian states like Hong Kong and Singapore contain some businesses \_\_\_ by the state.
2. The system is based on \_\_\_ with \_\_\_ of \_\_\_.
3. Private supplies of capital can be defined as \_\_\_ available for \_\_\_ in \_\_\_.
4. Consumers are willing to spend more on products and services, which \_\_\_.
5. More profits will \_\_\_ more firms to produce those particular goods that are favoured.
6. In a market economy it is \_\_\_ who decide what is to be produced.
5. \_\_\_ firms see the opportunity of \_\_\_ and produce the new fashionable and favoured products.
6. The economy \_\_\_ automatically to meet changing demands.
7. Firms tend to be highly \_\_\_ in such an environment.
7. In a free market individual people are free \_\_\_.
8. But when you have that car produced, you are moving \_\_\_.
9. You actually make \_\_\_ by \_\_\_, even though you become a millionaire in the process, and you do it without \_\_\_ or \_\_\_.
10. Some goods would be \_\_\_ if the government did not provide \_\_\_ supplies.

11. Some other goods and services, such as defence and policing, are impossible to \_\_\_ in response to consumer spending.
12. \_\_\_ of the market system is that production \_\_\_ to meet changing demands.
13. If a firm switches from \_\_\_ to one where new technology \_\_\_ in the factory, it can lead to \_\_\_ and \_\_\_ problems.
14. It is necessary to have \_\_\_ to pass laws \_\_\_ consumers and workers.
15. Firms have \_\_\_ in future sales if they are to produce new goods and services.
16. A recession means \_\_\_ spending, \_\_\_ jobs and \_\_\_ of the nation

*IV. Find in the text English equivalents for the following*

управление экономикой; процветание нации; широкомасштабное вмешательство правительства; принимать законы; быстро меняться; конкурирующие фирмы; автоматически изменяться (приспосабливаться); быть конкурентоспособным; частные фирмы; фирмы, принадлежащие государству и управляемые им; краеугольный камень; иметь серьезные последствия для...;

трудоемкое производство; сокращать производство; быть уверенным в...; не хватает уверенности в...; дорого платить за что-либо

*V. Answer the questions*

1. What's a market economy?
2. What's the main difference between a market economy and a planned economy?
3. Do changing demands affect production? In what way?
4. What's the mechanism of producing goods and services in a market economy?
5. Give the advantages of a market economy.
6. Give the disadvantages of a market economy.

*VI. Translate using all the active possible*

1. В рыночной экономике невелика или очень мала необходимость в планировании, контроле и широкомасштабном вмешательстве со стороны государства (правительства) в экономический процесс.

2. В условиях рыночной экономики изменения потребительского спроса играют заметную роль в формировании политики фирм.

3. Чтобы быть конкурентоспособными и увеличивать доходы, фирмы должны постоянно изучать спрос и менять свою деятельность в ответ на его изменения.

4. Чем более модный товар, тем более высокую цену надо за него платить.

5. Некоторые виды услуг, например здравоохранение и образование, не могут быть полностью обеспечены только частными фирмами.

6. Рыночная экономика характеризуется частной собственностью на ресурсы и использованием системы рынков и цен для управления экономической деятельностью.

7. В такой системе каждый ее участник волен преследовать свои собственные интересы; каждая экономическая единица стремится получить наибольший возможный доход на основе индивидуального принятия решений.

**Mixed economics (Смешанная экономика)**

Command and market economies both have *significant faults*. Partly because

of this, an intermediate system has developed, known as mixed economies.

A mixed economy means very much what it says as it contains elements of both market and planned economies. *At one extreme* we have a command economy, which does not allow individuals to make economic decisions, *at the other extreme* we have a free market, where individuals *exercise considerable economic freedom of choice* without any government *restrictions*. Between these two extremes lies a mixed economy. In mixed economies some resources are controlled by the government *whilst* others are used in response to the demands of consumers.

Technically, all the economies of the world are mixed: it is just the balance elements between market and planned elements that alters. Some countries are nearer to command economies, while others are closer to free market economies. So, for example, Hong Kong has some *state-controlled industry*, while Cuba has some privately owned and controlled firms.

The aim of mixed economies is *to avoid the disadvantages* of both systems while *enjoying the benefits* that they both offer. So, in a mixed economy the government and the private sector *interact in solving economic problems*. The state controls the *share of the output* through taxation and transfer payments and intervenes to supply *essential items* such as health, education and defence, while private firms produce cars, furniture, electrical items and similar, less essential products.

The UK is a mixed economy: some services are provided by the state (for example, health care and defence) whilst *a range of* privately owned *businesses* offer other goods and services. The Conservative government under Margaret Thatcher switched many businesses from being state-owned and controlled to being privately owned as part of its privatization programme. This has taken the UK economy further away from the planned system.

### VOCABULARY NOTES

**significant faults** – значительные недостатки

**at one extreme... at the other extreme** – на одном полюсе... на другом  
**to exercise considerable economic freedom of choice** – иметь значительную экономическую свободу выбора

**restriction** – ограничение

**whilst [waɪlst] (syn. while)** – в то время как, пока

**state-controlled industry** – промышленность, контролируемая государством

**to avoid disadvantages** – избегать недостатков

**to enjoy the benefits** – иметь преимущества, пользоваться преимуществами

**to interact** – взаимодействовать

**to solve economic problems** – решать экономические проблемы

**a share of the output** – доля в объеме производства

**essential items** – товары и услуги первой необходимости

**a range of businesses** – *зд.* ряд компаний, фирм

### Assignments

*I. Suggest the Russian equivalents*  
an intermediate system has developed; to supply essential items; the government controls a share of the output

*II. Replace the parts in italics by synonyms*

significant *faults*; a range of products; whilst others are used in response to the demands of consumers

*III. Fill in the gaps with the words and expressions from the text*

1. Command and market economies both have \_\_\_.
2. \_\_\_ contains elements of both market and planned economies.
3. \_\_\_ we have a command economy, which does not \_\_\_, \_\_\_ we have a free market, where individuals \_\_\_ without \_\_\_.
4. Some countries are \_\_\_ to command economies, while others are \_\_\_ to free market economies.
5. It is just \_\_\_ between market and planned element that \_\_\_ in all the economies of the world.
6. The aim of mixed economies is \_\_\_ the disadvantages of both systems while \_\_\_ the benefits that they both offer.
7. In a mixed economy the government and the private sector \_\_\_ in \_\_\_.
8. The state controls \_\_\_ through \_\_\_, and \_\_\_, and intervenes to supply
9. The Conservative government switched many state-owned businesses to being privately owned as part of its \_\_\_.

*IV. Find in the text English equivalents for the following*

избегать недостатков; частный сектор; налогообложение; централизованно принимать экономические решения; на одном полюсе – на другом...; без ограничений; взаимодействовать в решении проблем; пользоваться благами; правительство, возглавляемое...

*V. Increase your vocabulary*

**to enjoy** (*syn.* — to have as an advantage — иметь, пользоваться)  
to enjoy a boom  
to enjoy a high standard of living  
to enjoy a basic standard of living  
to enjoy the benefits

*Make some sentences of your own with the above expressions.*

*Translate:*

1. Иметь хорошее здоровье.
2. Все граждане государства должны иметь равные права.
3. Эта пьеса очень популярна.

*VI. Check your grammar*

**It is (was) ... that (who)** – именно

*It is the Intention* of the planners *that* there should be enough goods and services for all.

*It is these disadvantages that* have led to many countries abandoning planned economies.

*It is consumers who* decide what is to be produced.

*It is just the balance* between market and planned elements *that* alters.

*Rewrite the following sentences using the emphatic construction*

1. Television was invented in this century.  
*1. Mathematicians have solved complicated problems with the help of computers.*
3. I first saw this play on TV.
4. Two doctors made this discovery.

5. *Owing to the rain* we couldn't come.

*VII. Answer the questions*

1. Are there really pure examples of planned and market economies in the world?

2. What's a mixed economy? What's its aim?

3. What type of economy is the UK? is Russia now?

*VIII. Translate into English using all the active possible*

1. В реальной действительности экономические системы располагаются где-то между чисто рыночной и плановой экономикой.

2. Смешанная экономика — это система, при которой частная собственность и рынок, а также правительство и общественные институты, энергично участвующие в обеспечении экономической стабильности и перераспределении доходов, взаимодействуют в решении экономических проблем.

# MARKETS (РЫНКИ)

## The Role of Market (Роль рынка)

Reports in the press tend to say "the market did this" or "the market expected good news on the economic front", as if the market were a single living entity with a single conscious mind. This is not, of course, the case. To understand reports of market behaviour you have to *bear in mind* the way the market works.

A market is simply a mechanism, which allows individuals or organizations to trade with each other. Markets bring together buyers and sellers of goods and services. In some cases, such as *a local fruit stall*, buyers and sellers meet physically. In other cases, such as *the stock market*, *business can be transacted* over the telephone, almost *by remote control*. There's no need to *go into* these details. Instead, we use a *general definition* of markets.

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

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

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

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

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

would buy more *cheese* sandwiches for lunch. Adjustments in prices would encourage society to **reallocate resources to reflect the increased scarcity** of cattle.

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

### VOCABULARY NOTES

**to bear in mind** (*syn. to keep in mind*) – иметь в виду

**a local fruit stall** – фруктовый ларек

**stock market** – фондовая биржа, рынок акций

**to transact business** (*syn. to make a deal*) – совершать сделку

**by remote control** – при помощи дистанционного управления

**to go into details** – вдаваться в подробности

**a general definition** – общее определение

**a shorthand expression** – краткое, рабочее выражение (определение)

**households' decisions** – решения домохозяйств

**to reconcile** – приводить в соответствие, согласовывать

**by adjustment of prices** – посредством корректировки цен

**to demand** – требовать

**given** (*syn. taking into account, consideration*) – при условии, что...,

учитывая **limited resources** – ограниченные ресурсы

**to satisfy one's appetite** – удовлетворять аппетит

**to answer the question in favour of smb else** – решать вопрос в пользу кого-либо другого

**the seller's viewpoint** – точка зрения продавца

**the cafe owner** – владелец кафе

**the rent** – арендная плата

**to switch to luxury lunches** – переключиться на дорогие обеды

**rich executives** – состоятельные служащие

**behind the counter** – за прилавком

**suitable** – подходящий

**to suit** – подходить

**part-time job** (*ant. full-time job*) – работа с неполной занятостью

**a bit of money** (*ant. scads of money*) – немного денег

**it would hardly be worth working at all** – вряд ли вообще имеет смысл работать

**conversely** (*syn. on the opposite, on the contrary*) – наоборот, напротив

**unskilled job** – неквалифицированная работа

**to guide one's decision** – влиять на чье-либо решение

**through the price system** – через систему цен

**to cover the cost** – покрывать расходы

**to run the cafe** – содержать кафе

**to devote resources** – выделять ресурсы  
**to guide resources into hamburger production** – направить ресурсы на производство гамбургеров  
**cattle** – крупный рогатый скот  
**to contract a disease** – подхватить болезнь  
**thereby** – следовательно, таким образом  
**to reduce the economy's ability** – снижать возможности экономики  
**competition** – состязание, конкуренция  
**to purchase scarce supplies** – скупать дефицитные ресурсы  
**to reallocate resources** – перераспределять ресурсы  
**to reflect the scarcity** – отражать дефицит  
**to be involved in** – быть задействованным в  
**the local labour market** – локальный рынок труда  
**the local wholesale market** – локальный оптовый рынок  
**the local market for rented buildings** – локальный рынок аренды помещений  
**precise descriptions of markets** – точные описания рынков  
**to adopt a definition** – принять определение  
**to adopt a child in a family** – принять ребенка в семью, усыновить  
**to emphasize** – подчеркнуть, выделить  
**arrangements through, which prices influence smth** – структуры (механизмы), посредством которых цены влияют на что-либо

### Assignments

#### *I. Suggest the Russian equivalents*

a single living entity with a single conscious mind; a shorthand expression; to be reconciled by adjustment of smth; a suitable part-time job; to offer high wages; to guide smb's decision; to cover the cost of smth

#### *II. Replace the parts in **italics** by synonyms*

*at a distance, of the neighbourhood, carried out, done; ask for, make certain that; buy, illness, managing, put up; rareness*

#### *III. Increase your vocabulary*

Using words from paragraph 5 ("Much of economics ..."), complete the following statements:

1. I quite like lamb but really I \_\_\_ beef.
2. He was a very keen student. He \_\_\_ most of the time to his studies.
3. I don't like the canteen, but it's more \_\_\_ than going out to a cafe.
4. I'm not in \_\_\_ of long and expensive lunches.
5. Please \_\_\_ that your essays reach me on time.
6. A good degree should \_\_\_ you to get a job.

#### *IV. Fill in the gaps with the -words and expressions from the text*

1. To understand reports of market behaviour you have to \_\_\_ the way the market works.
2. On the stock market, business can be transacted over the telephone, almost by \_\_\_.
3. A market is a \_\_\_ expression for the process by which households' decisions about consumption of alternative goods, firms' decisions about what and



how to produce, and workers' decisions about how much and for whom to work are all \_\_\_ by \_\_\_.

4. Much of economics is devoted to the study of how markets and prices \_\_\_ society to solve the problems.

5. \_\_\_ your desire to eat, and your limited resources, the low hamburger price told you that this was a good way to \_\_\_ your appetite.

6. Society answers the "for whom" question about lunchtime steaks \_\_\_ someone else.

7. The cafe owner is in business because it is still possible to sell hamburgers \_\_\_.

8. If rents were higher, it might be more profitable to sell hamburgers in a cheaper area or \_\_\_ to \_\_\_ lunches.

9. The student is working there because it is a suitable \_\_\_, which pays a bit of money.

10. Society is allocating resources into hamburger production \_\_\_ the price system.

11. If nobody liked hamburgers, the owner could not sell enough at a price that \_\_\_ of running the cafe and society would \_\_\_ no resources to hamburger production.

12. If cattle \_\_\_, competition to purchase more scarce supplies of beef would \_\_\_ the price of beef.

13. Adjustments in prices would encourage society \_\_\_ resources to reflect the increased scarcity of cattle.

14. There were several markets \_\_\_ your purchase of a hamburger.

15. The student behind the counter was part of the local \_\_\_ market.

16. The cafe owner was part of the local \_\_\_ meat market and the local market for \_\_\_ buildings.

17. **We** \_\_\_ a very general definition of markets, which emphasizes that they are \_\_\_ through, which prices influence the allocation of scarce resources.

#### V. Check your grammar

verb + infinitive (want to do)

verb + ing (enjoy playing)

verb + infinitive or ing (the meaning sometimes changes):

He remembered (= **did not forget**) *to book* a table. I

remember (= **recall**) *seeing* that film 5 years ago.

#### Open the brackets:

1. He suggested (go) into the country on Sunday.

2. I'm sorry I forgot (return) your book yesterday.

3. Stop (make) that noise! I can't work!

4. Which definition would you use (describe) markets?

5. You must avoid (make) unnecessary mistakes.

6. Try (understand) the difference between microeconomics and macroeconomics.

7. Try (pay) more attention to what I say.

8. Would you mind (lend) me your notes?

9. Tomorrow I intend (discuss) the matter with you.

10. Serious illness prevented him from (take) the exam.

11. I am looking forward to (study) economics.

*VI. Find in the text English equivalents for the following*

поведение рынка; рынок ценных бумаг; проводить сделку, операцию; иметь что-то общее с чем-либо; с учетом чего-либо (принимая во внимание); в пользу кого-либо другого; прибыльно продавать; переключиться на что-либо; неквалифицированная работа; распределять ресурсы посредством системы цен; сокращать возможности экономики; набавлять цену; перераспределять расходы; оптовый рынок; механизмы (структуры), посредством которых цены влияют на распределение.

*VII. Explain in English*

rent; profit; expense account; part-time job; labour market; wholesale (meat) market

*VIII. Answer the questions*

1. What example is given of a market where sellers and buyers actually meet?
2. How are households' decisions on what to buy reconciled?
3. Why do prices adjust?
4. What problems do markets and prices solve for society?
5. Why is the cafe owner in business?
6. Why don't cafe owners have to pay high wages?
7. What makes society put resources into hamburger production?
8. What would consumers do if hamburger prices rose?
9. How many markets are you involved in if you buy a hamburger? What are those markets?
10. Enumerate all the components comprising the concept of "Market".
11. What does the term "resources" comprise?
12. In what way can prices guide your decision to buy some goods?
13. In what way can prices guide a person's decision to take a job?

*IX. Translate using all the active possible*

1. Рынок ценных бумаг, как и любой рынок вообще, где совершаются сделки, представляет собой механизм (структуру), посредством которого цены регулируют (2 варианта) распределение ограниченных ресурсов в обществе.

2. Потребности различных групп общества приводятся в соответствие путем изменения (регулирования) цен на товары и ресурсы – труд, капитал (оборудование), землю.

3. Ваше решение о покупке на ленч гамбургера имеет непосредственное отношение к вопросу о рынках и ценах, поскольку, к примеру, повышение цен на мясо и, соответственно, переключение продавцов – владельцев кафе на более дорогие обеды может привести к тому, что вопрос "для кого производить" будет решаться в пользу других, более богатых потребителей.

4. Многие студенты ищут работу в кафе, поскольку она занимает у них лишь часть времени и не требует квалификации, несмотря на то, что владельцы кафе предлагают невысокую плату за такой труд.

5. Если бы возможности экономики по производству мясопродуктов сократились, цена на мясо возросла бы, и покупатели стали бы покупать сэндвичи с сыром, то есть корректировка цен побудила бы общество к перераспределению ресурсов.

# POSITIVE AND NORMATIVE ECONOMICS (ПОЗИТИВНАЯ И НОРМАТИВНАЯ ЭКОНОМИЧЕСКИЕ ТЕОРИИ)

In studying economics it is important to *distinguish two branches of the subject*. The first is known as "positive economics", the second as "normative economics".

**Positive economics** deals with *objective or scientific explanations of the working of the economy*. The aim of positive economics is to explain how society makes decisions about consumption, production, and *exchange of goods*. *The purpose of this investigation is twofold: to satisfy our curiosity about why the economy works as it does, and to have some basis for predicting how the economy will respond to changes in circumstances*.

Normative economics is very different. **Normative economics** offers *prescriptions or recommendations based on personal value judgements*.

*In positive economics*, we hope to act as *detached scientists*. *Whatever our political persuasion*, whatever our view about what we would like to happen or what we would regard as "a good thing", *in the first instance* we have to be concerned with how the world *actually* works. *At this stage, there is no scope* for personal value judgements. *We are concerned with propositions of the form: if this is changed then that will happen*. *In this regard*, positive economics is *similar to the natural sciences such as physics, geology or astronomy*.

Here are some examples of positive economics *in action*. Economists of widely differing political persuasions would agree that, when the government imposes a tax on a good, the price of that good will rise. The normative question of whether this price rise *is desirable is entirely distinct*. Similarly, there would be *substantial agreement* that the following proposition of positive economics is correct: *favourable weather conditions will increase wheat output, reduce the price of wheat, and increase the consumption of wheat*. Many propositions in positive economics would *command widespread agreement* among professional economists.

Of course, as in any other science, there are *unresolved questions where disagreement remains*. *These disagreements are at the frontiers of economics*. *Research in progress* will resolve some of the issues but *new issues will arise and provide scope for further research*.

Although *competent and comprehensive research* can in principle resolve many of the *outstanding issues* in positive economics, no *corresponding claim* can be made about the resolution of disagreement in normative economics.

**Normative economics** is based on subjective value judgements, not on the *search for any objective truth*. The following statement combines positive and normative economics: *"The elderly have very high medical expenses compared with the rest of the population, and the government should subsidize health bills of the aged."* The *first part* of the proposition – the claim that the aged have relatively high medical bills – is a *statement* in positive economics, it is a statement about how the world works, and we can imagine a research programme that could *determine whether or not it is correct*. *Broadly speaking, this assertion happens to be correct*.

The *second part* of the proposition – the recommendation about what the government should do – could never be "proved" to be correct or false by any scientific research investigation. It is simply a subjective value judgement

based on the feelings of the person making the statement. Many people might happen to *share* this subjective *judgement*, for example those people who believe that all citizens alive today should be able to purchase *roughly equal amounts of luxury and recreational goods* after paying for the necessities of life. But other people might *reasonably disagree*. You might believe that it is more important to devote society's scarce resources to *improving the environment*.

There is no way that economics can be used to show that one of these normative judgements is correct and the other is wrong. It all depends on *the preferences or priorities of the individual or the society* that has to make this choice. But that does not mean that economics can *throw no light on* normative issues. We can use positive economics to *spell out the detailed implications* of making the choice one way or the other. For example, we might be able to show *that failure* to subsidize the medical bills of the elderly leads middle-aged people to seek a lot of unnecessary *medical check-ups* in an attempt to detect diseases before their treatment becomes expensive. Society might have to devote a great deal of resources to providing *check-up facilities*, leaving less resources available than had been *supposed* to devote to improving the environment. Positive economics can be used to *clarify the menu of options* from which society must eventually make its normative choice.

## VOCABULARY NOTES

**to distinguish two branches of the subject** – разграничивать два аспекта предмета

**positive economics deals with objective explanations** – позитивная экономическая теория предлагает объективные объяснения

**the working of the economy** – действие экономики

**exchange of goods** – обмен товаров

**the purpose of the investigation is twofold** – цель исследования двояка

**to satisfy curiosity** – удовлетворять любопытство

**circumstances** – обстоятельства

**prescriptions or recommendations** – предписания или рекомендации

**based on** – основанный на

**personal value judgements** – субъективные оценки ценностей

**detached scientists** – беспристрастные, независимые ученые

**whatever our political persuasion** – независимо от политических убеждений

**whoever** – кто бы ни

**whenever** – когда бы ни

**wherever** – где бы ни

**in the first instance** – прежде всего

**actually** – в действительности

**at this stage** – на этом этапе

**there is no scope for** – нет места

**on a large scope** – широкомасштабно

**to be concerned with** – интересоваться чем-либо, заботиться о чем-либо

**propositions of the form** – формальные утверждения, суждения

**in this regard** – в этом отношении

**to be similar to** – быть похожим на

**natural sciences** – естественные науки  
**liberal arts, humanities** – гуманитарные науки

**in action** – в действии

**to be desirable** – быть желательным

**to be entirely distinct** – быть совершенно несхожим

**substantial agreement** – принципиальное единомыслие

**favourable weather conditions** – благоприятные погодные условия

**wheat output** – производство пшеницы

**to command widespread agreement** – привести к общей согласованности во взглядах

**unresolved questions** – неразрешенные вопросы

**where disagreement remains** – где разногласия продолжают существовать

**research in progress** – исследования, проводимые в настоящее время

**new issues will arise (arose, arisen)** – возникнут новые проблемы

**to provide scope for further research** – создать фундамент, базу, основу для дальнейших исследований

**competent and comprehensive research** – квалифицированная и всеобъемлющая исследовательская работа

**outstanding issues** – спорные, остающиеся неразрешенными вопросы

**corresponding claim** – аналогичное заявление

**to claim** – притязать на что-либо

**search for objective truth** – поиск объективной истины

**in search of smth** – в поисках чего-либо

**the elderly (syn. aged)** – пожилые люди

**medical expenses** – расходы на здравоохранение

**to subsidize health bills** – субсидировать расходы на здравоохранение

**statement (syn. assertion)** – заявление

**to determine whether or not it's correct-** определить, правильно ли это

**broadly speaking** – в широком значении, в общем понимании

**assertion (syn. statement)** – утверждение, заявление

**to assert** – утверждать, заявлять

**to share one's judgement (view)** – разделять чьи-либо суждения,

взгляды

**roughly equal amounts** – приблизительно равные количества

**luxury and recreational goods** – предметы роскоши и товары для

отдыха

**to disagree reasonably** – приводить разумные возражения

**to improve the environment** – охранять окружающую среду

**the preferences or priorities of the individual or the society** – предпочтения или приоритеты отдельных лиц или общества в целом

**to make a choice** – делать выбор

**to throw light on** – пролить свет на

**to spell out** – точно, обстоятельно объяснить

**the detailed implications** – скрытый смысл, значение

**failure** – провал, неудача

**to fail smth** – терпеть неудачу в чем-либо

**to fail an exam** – провалиться на экзамене

**to seek (sought, sought)** – искать что-либо  
**medical check-ups** – медицинские осмотры  
**an attempt** – попытка  
**to attempt** (*syn. to try*) – пытаться  
**to detect smth** – выявить, обнаружить  
**check-up facilities** – оборудование для медосмотров  
**to suppose to do smth** – предполагать сделать что-либо  
**to clarify smth** (*syn. to clear up*) – пояснить что-либо  
**the menu of options** – набор вариантов

## Assignments

### I. Suggest the Russian equivalents

twofold; to respond to changes in circumstances; to command widespread agreement among smb; a corresponding claim; disagreement in positive economics; to be proved correct or false; to devote a great deal of resources to providing smth; to clarify the menu of options

### II. Replace the parts in *italics* by synonyms

the price of the goods will *rise*; favourable conditions will *increase* output; the new issues will *arise*; medical *check-ups*; *to devote* resources to smth; when the government *places* the tax *on* the goods; there would be *considerable* agreement

### III. Find in the text the opposites to the following

subjective; lack of interest; treat as the same; involved; not to notice or see; success; confuse; general; things with no claim to consideration

### IV. Fill in the gaps with the words and expressions from the text

1. In studying economics it is important to \_\_ two branches of the subject.
2. Positive economics deals with \_\_ or scientific explanations of \_\_ the economy. .
3. Normative economics offers prescriptions based on personal \_\_.
4. Whatever our \_\_ in the first instance we have to be concerned with how the world \_\_ works.
5. \_\_, positive economics is similar to the natural sciences.
6. There would be \_\_ that the following \_\_ of positive economics is correct: favourable weather conditions will increase \_\_, reduce the price of wheat, and increase the consumption of wheat.
7. There are \_\_ questions where disagreement remains.
8. New \_\_ will arise and provide \_\_ for further research.
9. \_\_ and \_\_ research can in principle resolve many of the outstanding issues in positive economics.
10. The government should \_\_ health bills of the aged.
11. Many people might happen \_\_ this subjective judgement.
12. Some people believe that all citizens alive today should be able to purchase roughly equal amounts of luxury goods after paying for \_\_ of life, but other people might \_\_.
13. It all depends on \_\_ of the individual or the society that has to make this choice.
14. We can use positive economics \_\_ the detailed implications of making the choice one way or the other.
15. Society might have to devote a great deal of resources to providing \_\_.

16. Positive economics can be used \_\_\_ the menu of options from which society must eventually make its normative choice.

*V. Find in the text English equivalents for the following*  
каковы бы ни были политические убеждения; в этом отношении; облагать товары налогом; согласованность во взглядах, единогласие в принципах; неразрешимые вопросы; исследования, проводимые в настоящее время; квалифицированная и всеобъемлющая исследовательская работа; разделять взгляды; в широком значении, в общем понимании; приблизительно равные количества; привести разумные возражения; то, чему отдается предпочтение в обществе; пролить свет на...

*VI. Explain in English*

predicting; personal value judgement; proposition

*VII. Answer the questions*

1. What are two branches of economics?
2. What does the positive economics deal with?
3. What is the aim of normative economics?
4. What is the difference between positive and normative economics in regard to the role of research?
5. What are the global consequences of the government's failure to subsidize the medical bills of the elderly?

*VIII. Translate using all the active possible*

\. При изучении экономики необходимо различать (2 варианта) позитивную и нормативную экономические теории. Если в позитивной теории мы можем оставаться беспристрастными, независимо от наших политических убеждений, то нормативная теория основывается на личной системе ценностей. В этом отношении различие между двумя теориями очень наглядно.

2. Квалифицированная и всесторонняя исследовательская работа может в некоторой степени исправить положение (3 варианта) в области нерешенных вопросов, порождающих (2 варианта) разногласия среди экономистов. В широком понимании никакая рекомендация правительству не может оказаться правильной или ложной, поскольку она основана на субъективных оценках.

3. Позитивная теория может предложить ряд возможных альтернатив, из которых индивид или общество в целом выбирают наиболее приоритетные.

# MICROECONOMICS AND MACROECONOMICS (ТЕОРИЯ МИКРОЭКОНОМИКИ И МАКРОЭКОНОМИКИ)

Many economists specialize in a particular branch of the subject. For example, there are *labour economists*, *energy economists*, *monetary economists*, and *international economists*. What distinguishes these economists is the segment of economic life in which they are interested. Labour economics deals with problems of the labour market as viewed by firms, workers, and society as a whole. Urban economics deals with city problems: land use, transport, *congestion*, and housing. However, we need not classify branches of economics according to the area of economic life in which we ask the standard questions what, how and for whom. We can also classify branches of economics according to the approach or methodology that is used. The very broad division of approaches into microeconomic and macroeconomic *cuts across* the large number of subject groupings cited above.

**Microeconomic analysis** offers a *detailed treatment* of individual decisions about particular commodities.

For example, we might study why *individual households* prefer cars to bicycles and how producers decide whether to produce cars or bicycles. We can then *aggregate* the behaviour of all households and all firms to discuss total car purchases and total car production. Within a market economy we can discuss the market for cars. Comparing this with the market for bicycles, we may be able to explain *the relative output* of these two goods. The sophisticated branch of microeconomics known as **general equilibrium theory** extends this approach to its logical conclusion. It *studies simultaneously* every market for every commodity. From this it is hoped that we can understand *the complete pattern* of consumption, production, and exchange in the whole economy at a point in time.

If you think this sounds very complicated you are correct. It is. For many purposes, the analysis becomes so complicated that we tend *to lose track of the phenomena* in which we were interested. The interesting task for economics, a task that retains an element of art in economic science, is *to devise judicious simplifications*, which *keep the analysis manageable* without *distorting reality* too much. It is here that microeconomists and macroeconomists proceed down different avenues.

Microeconomists tend to offer a detailed treatment of one aspect of economic behaviour, but ignore interactions with the rest of the economy in order *to preserve the simplicity of the analysis*. A microeconomic analysis of miners' wages would emphasize the characteristics of miners and the ability of mine owners to pay. It would largely *neglect the chain of indirect effects* to which a rise in miners' wages might give rise. For example, car workers might use the precedent of the miners' pay increase *to secure higher wages* in the car industry, thus being able to afford larger houses, which burned more coal in heating systems. When microeconomic analysis ignores such *indirectly induced effects* it is said to be **partial analysis**.

In some instances, indirect effects may not be too important and it will make sense for economists to devote their effort to very detailed analyses of particular industries or activities. In other circumstances, the indirect effects are too



important *to be swept under the carpet* and an alternative simplification must be found.

**Macroeconomics** emphasizes the interactions in the economy as a whole. It *deliberately simplifies* the individual building blocks of the analysis in order *to retain a manageable analysis* of the complete interaction of the economy.

For example, macroeconomists typically do not worry about *the breakdown of consumer goods* into cars, bicycles, televisions, and calculators. They prefer to treat them all as a *single bundle* called "consumer goods" because they are more interested in studying the interaction between households' purchases of consumer goods and firms' decisions about purchases of machinery and buildings.

## VOCABULARY NOTES

**a labour economist** – специалист по экономике труда

**an energy economist** – специалист по экономике (электро) энергии

**a monetary economist** – специалист по монетарной экономике

**an international economist** – специалист по мировой экономике

**congestion** – перенаселенность

**to cut across** – не соответствовать

**a detailed treatment** – детальный, подробный анализ

**an individual household** – отдельное домашнее хозяйство

**to aggregate, v** – собирать в одно целое

**aggregate, n** – совокупность

**in the aggregate** – в совокупности

**aggregate, adj** – совокупный

**the relative output** – относительный объем производства

**general equilibrium theory** – теория общего равновесия

**to study simultaneously** – одновременно изучать

**the complete pattern** – полная структура, система, схема

**to lose track of the phenomena** – потерять след явлений

**to devise judicious simplifications** – выработать разумные упрощения

**to keep the analysis manageable** – позволять проводить анализ

**to distort reality** – исказить реальность

**to preserve the simplicity of the analysis** – сохранить простоту анализа

**to neglect the chain of indirect effects** – пренебрегать косвенным воздействием, совокупностью (цепочкой) косвенных результатов, эффектов

**to secure higher wages** – получить более высокую заработную плату

**indirectly induced effects** – воздействие, вызванное косвенными причинами

**partial analysis** – частичный (неполный) анализ

**to sweep under the carpet** – прятать, маскировать {доел. замести под ковер}

**to simplify deliberately** – намеренно упрощать

**to retain a manageable analysis** – сохранить возможность анализа (выполнимый, поддающийся выполнению анализ)

**the breakdown of consumer goods** – классификация (подразделение) товаров потребления

**a single bundle** – отдельная единица, величина (*доел. набор*)

## Assignments

### I. Suggest the Russian equivalents

cuts across the large number of subject groupings cited above; the sophisticated branch of microeconomics; the complete pattern of consumption, production, and exchange; to devise judicious simplifications; keep the analysis manageable; to retain a manageable analysis; indirectly induced effects

### II. Replace the parts in *italics* by synonyms

*pulling out of shape, pay not enough attention; pay no attention; think out, plan; keep safe, brought about, showing good sense; keep; make less complicated; as a rule, characteristically, be sensible*

### III. Fill in the gaps with the words and expressions from the text

1. What distinguishes different economists is \_\_ in which they are interested.
2. Urban economics deals with city problems: .land use, transport, \_\_, and housing.
3. We can also classify branches of economics according to \_\_ that is used.
4. The very broad division of approaches into microeconomic and macroeconomic \_\_ the large number of subject groupings.
5. To discuss total car purchases and total car production we can \_\_ the behaviour of all households and all firms.
6. The sophisticated branch of microeconomics known as \_\_ studies \_\_ every market for every commodity.
7. The task for economics is to devise \_\_ simplifications, which keep the analysis \_\_ without \_\_.
8. Microeconomists tend to offer \_\_ of one aspect of economic behaviour but \_\_ with the rest of the economy in order to \_\_ of the analysis, largely \_\_ the chain of \_\_.
9. When microeconomic analysis ignores such indirectly induced effects it is said to be \_\_.
10. Macroeconomics \_\_ the individual building blocks of the analysis in order to \_\_\_\_ a manageable analysis of \_\_ of the economy.
11. Macroeconomists prefer to treat cars, bicycles, televisions, and calculators as a single \_\_ called "consumer goods".

### IV. Check your grammar

Define each of the words given below, using the pronouns **who** and **which**:

- an energy economist is...who...
- microeconomics is...which...
- international economics is...
- a monetary economist is...
- consumer goods are...
- macroeconomics is...
- a worker is...
- a miner is...
- coal is...

Complete the following sentences using adjectives or/and adverbs:  
e.g.: a *relatively difficult branch* (adverb and adjective) an  
*expensive cassette player* (adjective) to buy something

*cheaply* (adverb)

1. This is a \_\_\_ book to read. (comparative, easy)
2. \_\_\_ car production is not always \_\_\_ to estimate \_\_\_. (total, easy, general)
3. Even some \_\_\_ tools of \_\_\_ analysis are not \_\_\_ known, (common, economic, general)
4. Some microeconomic analyses offer \_\_\_ detailed treatments of \_\_\_ decisions, (extreme, individual)
5. If we compare the market for cars and bicycles \_\_\_, we may be able to offer a \_\_\_ explanation for their \_\_\_ prices, (careful, good, relative)
6. \_\_\_ she managed to pass her \_\_\_ exams \_\_\_. (fortunate, final, easy)
7. My tutor emphasized the \_\_\_ importance of putting ideas in a \_\_\_ order. (great, logical)
8. \_\_\_ analysis ignores \_\_\_ induced effects, (partial, indirect)
9. The \_\_\_ economist keeps his analysis \_\_\_ without \_\_\_ distorting reality. (sensible, manageable, undue)
10. She's an \_\_\_ novelist — something \_\_\_ and \_\_\_ happens in her stories. (excellent, unusual, exciting, constant)

*V. Find in me text English equivalents for the following*

перенаселенность; собирать в одно целое; теория общего равновесия; исказить реальность; подробный анализ (рассмотрение); сохранить простоту анализа; косвенное (непрямое) воздействие (эффект); взаимодействие внутри экономики

*VI. Explain in English*

consumption; exchange; partial analysis; simplification; indirect effect

*VII. Answer the questions*

1. What distinguishes an energy economist from an urban economist?
2. Are the same questions asked in each area of economic life?
3. What is needed before total car purchases and production can be discussed?
4. What does the general equilibrium theory examine?
5. What can be understood from such a study?
6. What happens when an analysis becomes too complicated?
7. What can keep an analysis manageable?
8. What do most microeconomists leave out of their analysis?
9. What does partial analysis ignore?
10. Why wouldn't most macroeconomists make a breakdown of consumer goods?

*VIII. Translate using all the active possible*

1. Макроэкономика – это один из основных разделов экономической теории, который изучает поведение экономики как единого целого. Она анализирует взаимодействие факторов, влияющих на рост национального производства, а также такие процессы, как безработица, инфляция, и т. п. Объектом макроэкономики является именно взаимодействие этих величин внутри экономики, при этом сами эти величины рассматриваются упрощенно, абстрактно.

2. Микроэкономика – это один из основных разделов экономической теории, изучающий поведение отдельных экономических единиц, их взаимодействие на рынках, в результате которого формируются цены на

производимые товары и услуга и т. д. Микроэкономика стремится к детальному рассмотрению поведения какой-либо экономической единицы, при этом не уделяя достаточного внимания косвенному воздействию этого поведения на другие экономические единицы и на экономику в целом.

## PRICE AND DEMAND (ЦЕНА И СПРОС)

The following text will introduce you to the topic of the effect of price and income on demand quantities.

### The Price Responsiveness of Demand

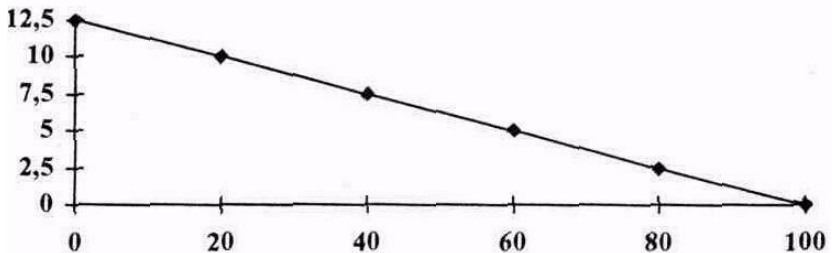
Tabl. 3 presents some hypothetical numbers for the relation between ticket price and quantity demanded, other things equal.

**Tabl. 3. The Demand for Football Tickets**

PRICE (£/ ticket)	Quantity of tickets demanded (thousands/game)
12,50 10,00 7,50 5,00 2,50 0	0 20 40 60 80 100

Fig. 2 plots the demand curve, which happens to be a straight line in this example.

**Ticket price**  
(£)



### Quantity of tickets

Figure 2. The Demand for Football Tickets

For given prices of related goods and consumer incomes, higher ticket prices reduce the quantity of tickets demanded.

How should we measure the responsiveness of the quantity of tickets demanded to the price of tickets? One obvious measure is the slope of the demand curve. The downward slope of the demand curve shows that quantity demanded increases as the price of a good falls. Each price cut of £ 1 leads to 8000 extra ticket sales per game.

Suppose, however, that we wish to compare the price responsiveness of football ticket sales with the price responsiveness of the quantity of cars demanded: clearly, £ 1 is a trivial cut in the price of a car and will have a negligible effect on the quantity of cars demanded.

When commodities are measured in different units it is often best to exam-

ine the percentage change, which is *unit-free*. This suggests that we think about the effect of a 1 per cent price cut on the quantity of care and football tickets demanded. Similarly, it is not the absolute number of cars or tickets we should examine but the percentage change in quantity demanded. Not only does this solve the problem of comparing things measured in different quantity units, it also *takes account of the size* of the market. Presumably an *extra sale* of 8000 tickets is more important when ticket sales are 4000 than when they *number* 40000.

Thus we reach the definition of the price elasticity of demand, which economists use to measure responsiveness to price changes.

The price elasticity of demand is the percentage change in the quantity of a good demanded *divided by* the corresponding percentage change in its price.

Although we shall *shortly* introduce other demand elasticities – the *cross price elasticity* and the *income elasticity* – the *(own) price elasticity* is perhaps *the most frequently used* of the three. Whenever economists speak of the demand elasticity they mean the price elasticity of demand *as it has been defined above*.

If a 1 per cent price increase reduces the quantity demanded by 2 per cent, the demand elasticity is  $-2$ . Because the quantity *falls* 2 per cent, we *express* this as a change of  $-2$  per cent, then divide by the price change of 1 per cent (a price rise) *to obtain*  $-2$ . If a price fall of 4 per cent increases the quantity demanded by 2 per cent, then the demand elasticity is  $-1/2$ , since the quantity change of 2 per cent is divided by the price change of  $-4$  per cent. Since demand curve slopes down, we are either dividing a *positive percentage change* in quantity (a quantity rise) by a *negative percentage change* in price (a price fall) or dividing a *negative percentage change* in quantity (a quantity fall) by a *positive percentage change* in price (a price rise). The price elasticity of demand tells us about *movements along a demand curve* and the demand elasticity must be a negative number.

For further brevity, economists sometimes *omit the minus sign*. It is easier to say the demand elasticity is 2 than to say it is  $-2$ . Whenever the price elasticity of demand is expressed as a positive number, it should be understood (*unless there is an explicit warning to the contrary*) that a minus sign *should be added*. Otherwise, we *should be implying* that demand curves slope upwards, a *rare but not unknown phenomenon*.

## VOCABULARY NOTES

**to introduce smb to the topic of** – познакомить кого-либо с темой

**the effects of smth on smth** – воздействие чего-либо на что-либо

**hypothetical numbers** – вымышленные, гипотетические числа

**the relation between** – соотношение между

**quantity demanded** – требуемое количество

**to plot the demand curve** – вычерчивать кривую спроса

**for given price** – для данной (приведенной) цены

**to measure the responsiveness of smth to smth** – измерять

способность, реагировать (реакция) на

**obvious measure** – очевидная, наглядная мера

**the slope of the curve** – покатость кривой

**the downward slope** – движение кривой вниз

**ticket sales per game** – продажа билетов на игру

**trivial (syn. minor, slight)** – незначительный

**a negligible effect** – мелкий, незначительный эффект  
**to examine smth** – рассмотреть, проанализировать  
**the percentage change** – процентное изменение  
**unit-free** – независящий от характера единиц (<? *которых измеряются товары*)  
**this suggests** (*syn. to imply*) – это предполагает  
**similarly** – подобным образом  
**to take account of** (*syn. to take into account, consideration*) – учитывать, принимать во внимание  
**presumably** (*syn. probably*) – возможно, вероятно  
**extra sale** – дополнительные продажи  
**to number** – насчитывать  
**to reach the definition** – подвести к определению  
**the price elasticity of demand** – ценовая эластичность спроса  
**to divide by** – разделить на  
**shortly** – зд. вскоре  
**cross price elasticity** – перекрестная эластичность цен  
**income elasticity** – эластичность по доходу  
**the (own) price elasticity** – собственно ценовая эластичность  
**the most frequently used** – наиболее часто используемый  
**as it has been defined above** – согласно определению, приведенному выше  
**to express smth** – выражать что-либо  
**to obtain** (*syn. to get*) – получить, *e.g. to obtain a diploma*  
**a positive percentage change** – положительное (плюсовое) процентное изменение  
**a negative percentage change** – отрицательное (минусовое) процентное изменение  
**movements along a demand curve** – движения вдоль кривой спроса  
**for further brevity** – для краткости  
**to omit the minus sign** – опускать знак минуса  
**it's easier to say** – легче сказать  
**unless there is an explicit warning to the contrary** – если только не имеется точного указания на обратное  
**to add** – добавить, сложить  
**adding, addition** – сложение, дополнение  
**addendum** – дополнение, приложение  
**to imply** (*syn. to suggest*) – предполагать, подразумевать  
**a rare but not unknown phenomenon** – редкое, но встречающееся явление

## Assignments

### *I. Suggest the Russian equivalents*

the effect of price and income on demand quantities; the downward slope of the demand curve; movements along a demand curve

### *II. Replace the parts in **italics** by synonyms*

a *minor* cut; a *slight* effect; *to consider* the size of the market; *probably*; a *clear* warning

### III. Fill in the gaps with the words and expressions from the text

1. How should we measure \_\_\_ of the quantity of tickets demanded to the price of tickets?
2. Clearly, £ 1 is a \_\_\_ cut in the price of a car and will have a negligible effect on the quantity of cars demanded.
3. It is not the absolute number of cars or tickets we should examine but \_\_\_ in quantity demanded.
4. \_\_\_ of demand is the percentage change in the quantity of a good demanded divided by the corresponding percentage change in its price.
5. The price elasticity of demand tells us about movements along \_\_\_ and the demand elasticity must be a negative number.
6. For further brevity, economists sometimes \_\_\_ the minus sign.

### IV. Check your grammar

Shorten the following sentences without changing their meaning, like this:

Nobody likes prices, which *are constantly rising*.

Nobody likes *constantly rising prices*.

- A demand curve, which slopes.
- John is a person who works very hard.
- We must develop a policy, which fixes prices better.
- Interest rates, which rise will damp down demand.
- An economy, which is rapidly expanding can get out of control.
- Let's look at the information, which corresponds to this in tabular form.

Shorten the following sentences without changing their meaning, like this:

*The quantity, which we require* is 5000 units. *The required quantity* is 5000 units.

- A demand curve, which has been drawn inaccurately.
- A price, which has been fixed.
- We can see changes in the price of goods, which are related to each other.
- The prices, which we have been given should be seen as hypothetical.
- If we don't use a model, which has been simplified we shall get bogged down.
- Ours is a company, which is managed well.
- An economy, which is poorly run leads to problems in society.
- That is a theory, which is now out of date.
- On the evidence available, that is a conclusion, which is not justified.

### V. Find in the text English equivalents for the following

кривая спроса; реакция на...; при прочих равных условиях; товар, предмет потребления; снижение цены на 1 процент; процентное изменение в количественном показателе спроса; эластичность спроса в зависимости от изменения цены; измерить гибкость реакции на...; положительное (плюсовое) процентное изменение; негативное (минусовое) процентное изменение

### V. Explain in English

different units; percentage change; unit-free; absolute number

### VII. Answer the questions

1. What does the downward slope of the demand curve show?
2. Give the definition of the price elasticity of demand. Explain it in your



own words.

3. Name the three types of the demand elasticity as mentioned above.
4. Explain in your own words how to calculate demand elasticity.
5. Explain why economists sometimes omit the minus sign and how negative and positive numbers should be distinguished.

*VIII. Translate using all the active possible*

1. Построенная (начерченная) кривая спроса отображает воздействие цен и доходов на количественные показатели (величину) спроса. Нисходящая кривая показывает рост спроса по мере снижения цен.
2. Незначительное снижение цены какого-либо товара мало влияет на величину спроса на этот товар.
3. Понятия перекрестной ценовой эластичности, эластичности доходов и собственно эластичности спроса в зависимости от изменения цен помогают экономистам измерять гибкость реакции на изменения цен.
4. В случае нисходящей кривой спроса мы имеем дело либо с повышением количественного показателя спроса (положительное процентное изменение) при снижении цен (отрицательное процентное изменение), либо с обратной ситуацией (падение величины спроса при росте цен).

## PRICE, INCOME AND DEMAND (ЦЕНА, ДОХОД И СПРОС)

In this chapter we're going *to investigate* the price elasticity of demand for football tickets. Let's start by looking at *Table 4*. It *reproduces the demand data* from *Tabl. 3*, that is to say, it reproduces it in columns one and two.

**Tabl. 4. The Price Elasticity of Demand for Football Tickets**

PRICE (£/ticket)	Quantity of tickets demanded (thousands/game)	Price elasticity of de- mand
12,50 10,00 7,50 5,00 2,50 0	0 20 40 60 80 100	-4 -1,5 -0,67 -0,25 0

We have to look at column one. As you can see, this shows *price cuts* of two pounds fifty. By considering the effects of price cuts of two pounds fifty we can calculate the price elasticity of demand at each price. This price is shown in column three. But how have we calculated this? Let's, as an example, take the price of ten pounds, which you can see in the table. There is a *corresponding quantity* of twenty thousand tickets demanded. If we consider a price cut to seven pounds fifty, there is a price change here of - 25%, from ten pounds to seven pounds fifty. Now look at *the corresponding change in the quantity* of tickets demanded, in the next column, column two. The change in the quantity of tickets demanded is a 100%, from 20,000 tickets to 40,000 tickets.

There is a 100% change in demand, and a 25% change in price. So we divide a 100 by - 25, which gives the answer - 4. So we say the demand elasticity at ten pounds is - 4. You calculate other elasticities in the same way, that is by dividing the percentage change in quantity by the corresponding percentage change in price.

Notice one thing here in the table. That is when we begin from the price of twelve pounds fifty the demand elasticity is minus *-infinity*. It's simply because the percentage change looks like this. Any positive number divided by zero *yields* plus infinity. When we then divide by the minus twenty per cent change in price, that's from twelve pounds fifty to ten pounds, we obtain or get, minus infinity as the demand elasticity at this price.

There's one more thing to be said at this stage. We say demand elasticity is *high*, when it is a *large* negative number. And we say demand elasticity is *low*, when it is a *small* negative number, and when the quantity demanded is relatively *insensitive* to price. It follows from this that the words *high* and *low* refer to the *magnitude* of the elasticity ignoring the minus sign. The demand elasticity falls when it becomes a smaller negative number and quantity demanded becomes less sensitive to price.

### VOCABULARY NOTES

**to investigate** – исследовать, рассматривать

**to reproduce the data** – представлять

данные **price cuts** – сокращения цены

**a corresponding quantity** – соответствующее количество

**a corresponding change in the quantity** – соответствующее изменение количества

**infinity** – бесконечность

**to yield** – приносить, давать

**magnitude** – величина, размер

### Assignments

#### I. Suggest the Russian equivalents

a price change of minus 25 per cent; high/low demand elasticity; to be insensitive to price; magnitude

#### II. Fill in the gaps with the words and expressions from the text

1. By considering the effects of price cuts of two pounds fifty we can calculate \_\_\_ of demand at each price.

2. You calculate other elasticities by dividing \_\_\_ in quantity by the corresponding percentage change in price.

3. When we divide by the minus twenty per cent change in price we obtain minus \_\_\_ as the demand elasticity at this price.

4. Demand elasticity is \_\_\_, when it is a large negative number.

5. Demand elasticity is \_\_\_, when it is a small negative number.

6. \_\_\_ falls when it becomes a smaller negative number and quantity demanded becomes less sensitive to price.

#### III. Find in the text English equivalents for the following

снижение цены на ... фунтов; соответствующее количество; разделить сотню на 25; встретить понятие; процентное изменение в количестве; процентное изменение в цене; минус бесконечность/плюс бесконечность

#### IV. Answer the questions

1. How is the demand elasticity calculated?

2. Why is the demand elasticity minus infinity in the example?

3. In what case can we speak of high/ low demand elasticity?

4. What does the insensitivity of the quantity demanded to the price mean?

5. When does the demand elasticity fall?

#### V. Translate into English using all the active possible

1. Безграничная эластичность – это такая эластичность спроса, при которой изменение в количестве спрашиваемых или предлагаемых товаров и услуг будет приводить к увеличению дохода. Такая эластичность характерна для условий совершенной конкуренции, когда отдельная фирма не имеет возможности оказывать влияние на рыночную цену и имеет кривую спроса на свой товар или услуги в виде горизонтальной прямой.

## ELASTIC AND INELASTIC DEMAND (ЭЛАСТИЧНЫЙ И НЕЭЛАСТИЧНЫЙ СПРОС)

Although elasticity *typically falls* as we move down the demand curve, an important *dividing line* occurs at the demand elasticity of  $-1$ .

Demand is **elastic** if the price elasticity is more negative than  $-1$ . Demand is **inelastic** if the price elasticity lies between  $-1$  and  $0$ .

In Tabl. 4 demand is elastic at all prices of £7,50 and above and inelastic at all prices of £5-00 and below. If the demand elasticity is exactly  $-1$ , we say that demand is **unit-elastic**.

Later in this section we'll see that a cut in prices *raises revenue* from football ticket sales if demand for football tickets is elastic but lowers revenue if demand is inelastic. Whether or not demand is elastic is *the key piece of information* required in *setting the price* of football tickets in this example.

Although the price elasticity of demand typically changes as we move along demand curves, economists frequently talk of goods with high or low demand elasticities. For example, they will say that the demand for oil is price-inelastic (price changes have only a small effect on quantity demanded) but the demand for *foreign holidays* is price-elastic (price changes have a large effect on quantity demanded). Such statements *refer to parts of the demand curve corresponding to prices (adjusted for inflation)* that are *typically charged* for these goods and services. They do not necessarily describe the demand elasticity at points on the demand curve corresponding to real prices, which have never been *observed historically*.

### The Determinants of Price Elasticity. Основные факторы ценовой эластичности спроса

What determines whether the price elasticity of demand for a good is high (say,  $-5$ ) or low (say,  $-0,5$ )? Ultimately, the answer *must be sought in* consumer tastes. If it is considered *socially essential* to own a television, higher television prices may have little effect on quantity demanded. If televisions are considered *a frivolous luxury*, the demand elasticity will be much higher. Psychologists and sociologists may be able to explain more fully than economists *why tastes are as they are*. Nevertheless, as economists, we can *identify some considerations* likely to affect consumer responses to changes in the price of a good. **The most important consideration is the ease with which consumers can substitute another good that fulfils approximately the same function.**

Consider two *extreme cases*. Suppose first that the price of all cigarettes is raised 1 per cent, perhaps because the cigarette tax has been raised. Do you expect the quantity of cigarettes demanded to fall by 5 per cent or by 0,5 per cent? Probably the *latter*. People who can easily *quit smoking* have already done so. A few smokers may try to cut down but this effect is unlikely to be large. In contrast, suppose the price of *one particular brand of cigarettes* is increased by 1 per cent, all other brand prices remaining unchanged. We should now expect a much larger quantity response from buyers. With so many other brands available at unchanged prices, consumers will switch away from the more expensive brand to other brands that *basically fulfil* the same function of *nicotine provision*. For a particular cigarette brand the demand elasticity could be quite high.

Ease of substitution implies a high demand elasticity for a particular good. In fact this example suggests a general rule. *The more narrowly we define* a commodity (a particular brand of cigarette rather than cigarettes in general or oil rather than energy as a whole), the larger will be the price elasticity of de-

mand.

### Measuring Price Elasticities. Измерение ценовой эластичности

To illustrate these general principles we report estimates of price elasticities of demand in *Tabl. 5*.

**Tabl 5. Estimates of Price Elasticities of Demand in the UK**

Good (general category)	Demand elasticity	Good (narrower category)	Demand elasticity
Fuel & light Food	-0,47 -0,52 -	Dairy produce Bread & ce-	-0,05 -0,22 -
Alcohol Durables	0,83 -0,89 -	reals Entertainment Ex-	1,40 -1,63 -
Services	1,02	penditure abroad Catering	2,61

The table confirms that the demand for general categories of basic commodities, such as fuel, food or even household durable goods, is inelastic. As a category, only services such as *haircuts*, the theatre, and *sauna baths*, have an elastic demand. Households simply do not have much scope to alter the broad pattern of their purchases.

In contrast, there is a much wider variation in the demand elasticities for narrower definitions of commodities. Even then, the demand for some commodities, such as dairy produce, is very inelastic. However, particular kinds of services such as entertainment and catering have a much more elastic demand. Small changes in the relative price of restaurant meals and theatre tickets may lead households to switch in large numbers between eating out and going to the theatre, whereas the demand for getting out of the house on a Saturday evening may be relatively insensitive to the price of all Saturday night activities taken as a whole.

### VOCABULARY NOTES

**typically falls** – обычно снижается

**a dividing line** – разделительная черта

**unit-elastic (unitary-elastic) demand** – спрос с единичной эластичностью, единичная эластичность спроса

**to raise/to lower revenue** – повышать/снижать доходы

**the key piece of information** – ключевая информация

**to set the price (syn. to quote)** – устанавливать, назначать цену

**foreign holidays** – отдых за границей

**to refer to** – относиться к

**parts of the curve corresponding to prices** – участки кривой спроса, относящиеся к ценам

**adjusted for inflation** – с учетом инфляции

**prices typically charged** – цены, обычно назначаемые

**be observed historically** – встречаться в истории

**determinants** – основные факторы, определители, показатели

**the answer must be sought in** – ответ следует искать в

**socially essential** – существенно, значимо в общественном мнении

**a frivolous luxury** – бездумная роскошь

**why tastes are as they are** – почему вкусы именно таковы

**nevertheless** (*syn. however*) – тем не менее  
**to identify some considerations** – выявить некоторые соображения, моменты, факторы  
**the ease** – легкость, простота  
**to substitute smth for smth** – заменить одно другим  
**a substitute** – заменитель  
**substitution** – замена  
**to fulfil approximately the same function** – выполнять примерно аналогичную функцию  
**extreme cases** – экстремальные случаи  
**the latter** (*ant. the former*) – последний (упомянутый)  
**to quit** (*syn. to give up*) **smoking** – бросить курить  
**one particular brand of cigarettes** – один конкретный сорт сигарет  
**to fulfil basically** – в основном выполнять  
**nicotine provision** – насыщение никотином  
**the more narrowly we define** – чем более узкое определение мы даем  
**to illustrate general principles** – для иллюстрации общих принципов  
**to report estimates in a table** – приводить оценки в таблице  
**durables** – товары долговременного пользования  
**dairy produce** – молочные продукты  
**cereals** – крупы  
**entertainment** – развлечения, досуг  
**catering** – поставка продуктов и обслуживание церемоний  
**the table confirms** – из таблицы следует  
**as a category** – как категория  
**haircuts** – стрижка, з.д. парикмахерские услуги  
**sauna baths** – посещение сауны  
**to alter the broad pattern** – изменить широкий ассортимент  
**a much wider variation** – большая вариативность  
**whereas** (*syn. while, whilst*) – в то время как  
**to be relatively insensitive** – быть относительно нечувствительным  
**taken as a whole** – в целом

### Assignments

#### I. Suggest the Russian equivalents

goods with high or low demand elasticities; prices adjusted for inflation

#### II. Replace the parts in *italics* by synonyms

*to set* the prices; ease of substitution *suggests* a high demand elasticity; may *cause* households to...; *to turn* from...to; *relatively inelastic*

III. Fill in the gaps with the words and expressions from the text Demand is \_\_\_ if the price elasticity is more negative than -1.

2. Demand is \_\_\_ if the price elasticity lies between -1 and 0.
3. If the demand elasticity is exactly -1, we say that demand is \_\_\_.
4. Whether or not demand is elastic is \_\_\_ required in setting the price.
5. Economists will say that the demand for oil is \_\_\_, but the demand for foreign holidays is \_\_\_.
6. Such statements refer to parts of the demand curve \_\_\_ prices (\_\_\_ inflation)

that are typically charged for these goods and services.

7. The answer must \_\_\_ in consumer tastes.
8. If televisions are considered \_\_\_, the demand elasticity will be much higher.
9. As economists, we can \_\_\_ some considerations likely to affect consumer \_\_\_ in the price of a good.
10. The most important consideration is the ease with which consumers can \_\_\_ another good that \_\_\_ approximately the same function.
11. Consider two \_\_\_ cases.
12. With so many other brands \_\_\_ at unchanged prices, consumers will switch away from the more expensive brand to other \_\_\_ that basically fulfil the same \_\_\_.
13. \_\_\_ implies a high demand elasticity for a particular good.
14. The table \_\_\_ that the demand for general categories of basic commodities is inelastic.
15. Households simply do not have much scope \_\_\_ the broad pattern of their purchases.
16. There is a much wider \_\_\_ in the demand elasticities for narrower definitions of \_\_\_.
17. Small changes in the \_\_\_ price of restaurant meals and theatre tickets may lead households to switch in large numbers between eating out and going to the theatre, \_\_\_ the demand for getting out of the house on a Saturday evening may be relatively \_\_\_ to the price of all Saturday night activities taken as a whole.

*IV. Check your prepositions. Insert a suitable preposition in each of the blanks in these sentences*

1. He is interested \_\_\_ economics.
2. He is not concerned \_\_\_ non-essential commodities.
3. The demand \_\_\_ bananas will probably increase.
4. The supply \_\_\_ cigarettes does not usually fluctuate.
5. The consumers' need \_\_\_ such a commodity is well-known.
6. There was a change \_\_\_ the quantity of material supplies.
7. He paid quite a lot of money \_\_\_ that car.
8. He paid the money \_\_\_ that man.
9. Non-essential commodities like chocolates cannot be compared basic commodities like fuel.

*V. Find in the text English equivalents/or the following*

повышать/понижать доходы от...; устанавливать цену; основной, определяющий фактор; в конечном счете, в конечном итоге; выполнять приблизительно ту же функцию; сорт; упасть на...%; основные товары (товары первой необходимости); хозяйственные товары длительного пользования; спрос на некоторые товары; единичная эластичность спроса

*VI. Answer the questions*

1. Explain when demand is elastic, inelastic or unit-elastic.
2. How do consumer tastes determine the demand elasticity?
3. What considerations are likely to effect consumer responses to changes in the price of a good?
4. Illustrate the consideration of the demand elasticity according to the case

of substitution on the part of buyers by the example of cigarettes.

5. State the interdependence between the scale of definition a commodity and the price elasticity of demand.

6. Think why the demand for going out Saturday nights may be relatively inelastic to the price of the activities.

7. Give your own examples of an elastic and inelastic demand.

*VII. Translate using all the active possible*

1. Снижение цен может повышать доходы от продаж при эластичном спросе или снижать доходы при неэластичном спросе. В конечном итоге вопрос эластичности спроса становится основным определяющим фактором при установлении (2 варианта) цены.

2. В случае, если цена на 1-й сорт какого-либо товара повышается на...%, а цены на другие сорта остаются неизменными, покупатели предпочитают другие, более дешевые, сорта товара, поскольку они в основном выполняют приблизительно ту же функцию. Легкость замены одних товаров другими предполагает высокую эластичность спроса.

3. Спрос на некоторые категории товаров первой необходимости неэластичен. К этим товарам относятся топливо, продукты питания, хозяйственные товары длительного пользования. Структура покупательского спроса домашних хозяйств не предполагает широкомасштабных изменений.



## A MODEL OF THE ECONOMY (МОДЕЛЬ ЭКОНОМИКИ)

Economists spend a lot of time trying to develop models of the working of the economy. The London Business School, like many universities and also the Treasury, has a model of the economy which it has entered into a computer. The reason for this is that much of its work is concerned with forecasting future economic trends so as to *aid decision-making* by business and government. The London Business School's *model can be fed with economic information*, such as changes in tax rates, and it will then predict how the economy will behave. Such predictions are an invaluable aid to business decision-making because, for example, businesses can find out whether people's incomes are likely to rise or not.

The complete economy comprises many millions of economic units. There are households, as one kind of unit. There are also firms, and the departments of both central and local government. These units together decide the economy's total spending. They also decide its *total income* and its *total level of production of goods and services*. But in order to develop a simple model of the economy we need to ignore the government sector and the possibility of transactions between households and foreigners. Suppose we *are dealing with an isolated economy*, one which has no government. Let's assume that there are two main sectors in the economy: households and firms. Households supply firms with the factors of production that firms need *to carry on their concerns*.

Thus, *households provide labour services*, both skilled and unskilled, in return for the payment of wages. They may also supply land for which they are paid rent. Finally, they might supply the finance, which is essential to the business. If the finance is in the form of a loan they *receive interest payments*, but if they have purchased *shares* in the business they may *be entitled to a share of the profits*. Most households provide some *factor services* or *services of productive/actors*, to a public or private business. Anyone at work is providing labour, and if you or someone in your family has bought shares in the privatization programme (in, for example, British Gas, British Telecom or *the water authorities*) then they *have supplied share capital*. Households receive payments for these factor services, that is to say, they earn factor incomes, such as wages, rents and profits.

The other part of our simple model *portrays firms* supplying households with all the goods and services that they require. In return for these the households pay the firms. These two sets of actions create the model of the circular flow of money, which is shown in *Fig. 3*.

In fact, there are two *flows*. One which is *monetary* and one comprising goods and services. A flow of factor services from households to firms for which there is *an opposite stream of factor payments* and a flow of goods and services, which households pay firms. It is this monetary flow in which we are most interested.

What does the figure suggest? It suggests that there are three ways of *measuring the amount of economic activity* in the economy. First, we can measure *the value of goods and services produced*, second, we can measure *the level of factor earnings*. These factor earnings represent *the value of factor services supplied*. Third, we can measure *the value of spending on goods and services*. Then, economists refer to the size of the monetary circular flow as the level of national income.

If we assume that all the goods and services, which are produced are in fact sold and that households spend all their income, then we have arrived at what economists call a *neutral equilibrium*. The level of income, which is spent and received by the two groups will not alter since as one group receives it, they spend it with the other.

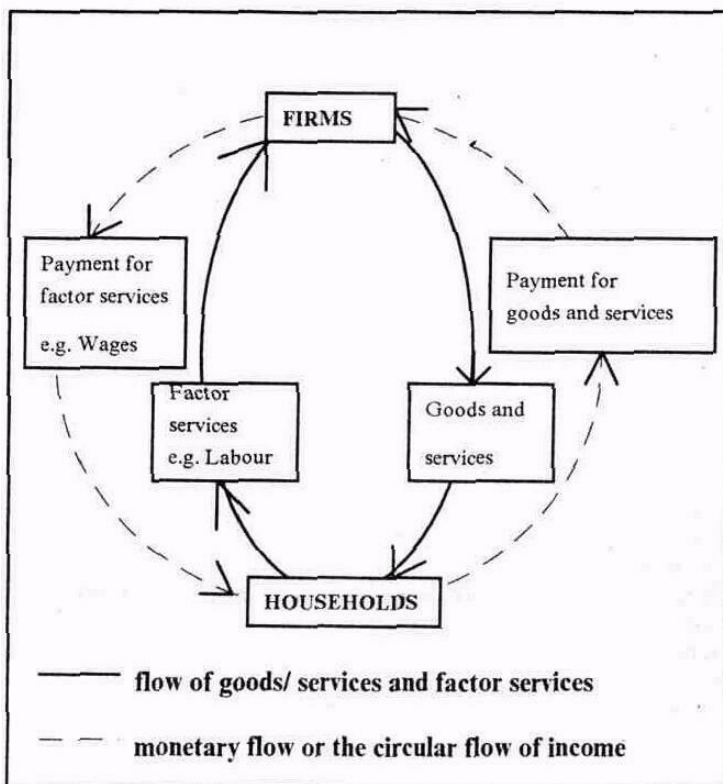


Figure 3. The Circular Flow of Income

The fact that the economy is in a neutral equilibrium means simply that the level of national income, and hence the level of economic activity, are stable and unchanging. (An equilibrium is a point of balance in which there is no *inherent tendency to change*). If the economy was in equilibrium it does not mean that everyone who wants a job has one or that the country is importing exactly the same value of goods and services as it is exporting.

### VOCABULARY NOTES

**to aid decision-making** – помогать, содействовать в принятии решений

**the model can be fed with economic information** – в модель можно внести экономическую информацию

**total income** – общий, суммарный доход

**total level of production of goods and services** – общий уровень производства товаров и услуг

**to deal with an isolated economy** – иметь дело с изолированной эконо-

микой , **to carry on their concerns** – продолжать свое дело  
**to provide labour services** – предоставлять рабочую силу (труд)  
**to receive interest payments** – получать платежи в виде процентов  
**shares** – акции  
**to be entitled to a share of the profits** – иметь право на долю прибыли  
**factor services or services of productive factors** – факторы  
производства  
**the water authorities** – управление водного хозяйства  
**to supply share capital** – предоставить акционерный капитал  
**factor incomes** – доход на факторы производства  
**to portray** – отображать  
**a monetary flow** – денежный поток  
**an opposite stream** – противоположный поток (*доел.* течение)  
**factor payments** – выплаты (доход) на факторы производства  
**to measure the amount of economic activity** – измерять уровень  
экономической активности  
**the value of goods and services produced** – стоимость произведенных  
товаров и услуг  
**the level of factor earnings** – уровень доходов на факторы  
производства  
**the value of factor services supplied** – стоимость предоставленных  
факторов производства  
**the value of spending on goods and services** – размер расходов на  
товары и услуги  
**a neutral equilibrium** – общее равновесие  
**the circular flow of income** – круговой поток (круговорот) доходов  
**an inherent tendency to change** – внутренняя тенденция к изменению

## Assignments

### I. Suggest the Russian equivalents

forecasting future economic trends; to feed with economic information;  
factors that firms need to carry on their concerns; to provide labour services;  
circular flow of money; a flow of factor services; factor payments; neutral equilibrium; set of action

### II. Replace the parts in *italics* by synonyms

the model can *be filled with* economic information; they have *bought* shares;  
they *have the right to get* a share of the profits; the flow *includes* goods and  
services; the level of income will not *change*; the level of income and *consequently*  
the level of economic activity

### III. Fill in the gaps -with the words and expressions/ran the text

- The model of the economy is concerned with forecasting \_\_ so as to aid \_\_ by business and government.
- Such predictions are \_\_ aid to business decision-making because business can find out whether people's incomes \_\_ to rise or not.
- These units together decide the economy's \_\_, \_\_ and \_\_.
- In order to develop a simple model of the economy we need to \_\_ the government sector and \_\_ between \_\_ and \_\_.
- Suppose we are dealing with \_\_, one which has no government.

6. In order to develop \_\_\_ of the economy we need to \_\_\_ that there are two main sectors in the economy: \_\_\_ and \_\_\_.
7. Households provide \_\_\_, both \_\_\_, in return for \_\_\_.
8. If the finance is in the form of \_\_\_, households receive \_\_\_, but if they have purchased \_\_\_ in the business they may be entitled to \_\_\_.
9. Households receive payments for \_\_\_, that is to say, they earn \_\_\_, such as \_\_\_, \_\_\_ and \_\_\_.
10. There are two flows: one which is \_\_\_ and one \_\_\_ goods and services.
11. The model suggests that there are three ways of \_\_\_ in the economy.
12. We can measure \_\_\_, \_\_\_ and \_\_\_.
13. Economists refer to \_\_\_ of the monetary circular flow as \_\_\_.
14. If we assume that all the goods and services, which \_\_\_ are in fact \_\_\_ and that households spend \_\_\_, then we have arrived at what economists call
15. The fact that the economy is in a neutral equilibrium means simply that the level of \_\_\_, and hence the level of \_\_\_, are \_\_\_ and \_\_\_.

16. An equilibrium is a point of balance in which there is no \_\_\_.

*IV. Find in the text English equivalents/or the following*

принятие решений; изменение ставки налогообложения; неопенимая помощь; доходы населения; необходимо допустить, что...; факторы производства; выплата процентов; купить акции; иметь право на часть (долю) дохода; акционерный капитал; денежный поток; уровень национального дохода; уровень экономической активности; внутренняя (присущая чему-либо) тенденция к изменению; следовательно; круговой поток доходов

*V. Give explanations in English*

to pay rent; a loan; interest payments; share capital; factor services; factor payments; factor incomes; factors of production; a neutral equilibrium in the economy

*VI. Read the description of drawing a circular/low*

Start with the two blocks. The one on the left should be labelled "households", and the one on the right "firms". On the top of the inner loop, circle, put "goods and services", with an arrow running from the firms block to the households block. At the bottom of the inner loop put "services of productive factors", with an arrow running from households to firms. On the outer loop, at the top, put "spending on goods and services", with an arrow running from households to firms. And finally, at the bottom of the outer loop, put "factor incomes", with an arrow running from firms to households.

*Find in the text English equivalents for the following*

подписать обозначения на картинке; внутренний круг (кольцо); внешний круг (кольцо); стрелка направлена от ... к ...; вверху; внизу; справа; слева

*Draw the circular flow (it will be different from the one in the unit!) and describe it using all the active possible*

*VII. Answer the questions*

1. What units does the economy comprise? What do they decide?
2. What are the two main sectors in the economy?
3. What sets of actions create the model of the circular flow of income?
4. Dwell on the monetary flow. How is the level of national income connected with it?

5. Dwell on the flow of goods and services.
6. What does the figure suggest?
7. How can the amount of economic activity be measured?
8. What's an equilibrium? a neutral equilibrium? *VIII. Translate using all the active possible*

1. Кругооборот (круговой поток) доходов — это поток товаров и услуг между домашними, семейными хозяйствами (населением) и фирмами (предпринимателями), с одной стороны, и поток денежных платежей за них — с другой стороны.

2. Если рассматривать простейшую модель экономики, то необходимо допустить, что население полностью тратит все полученные доходы на покупку товаров и услуг, а предприниматели продают все товары, которые производят.

3. В уплату за товары и услуги, которые предлагают населению предприниматели, население передает им деньги, которые, в свою очередь, получает от предпринимателей в обмен за факторы производства.

4. Если мы допустим, что схема описывает ситуацию, при которой достигнута эффективность распределения ресурсов, то мы получим модель экономики, находящейся в состоянии общего равновесия.

# INJECTIONS (ВЛИВАНИЕ ДЕНЕГ В ЭКОНОМИКУ)

An *injection* is simply an addition to the circular flow of income, which does not *arise from* the spending of households. It was unrealistic to *assume* earlier that there would be no such additions. These additions or injections will, of course, increase the size of the circular flow and *thus* the level of activity in the economy. There are *three recognized ways* in which funds can flow into an economy. They can be *generated through*:

- Investment
- Government spending
- Export sales

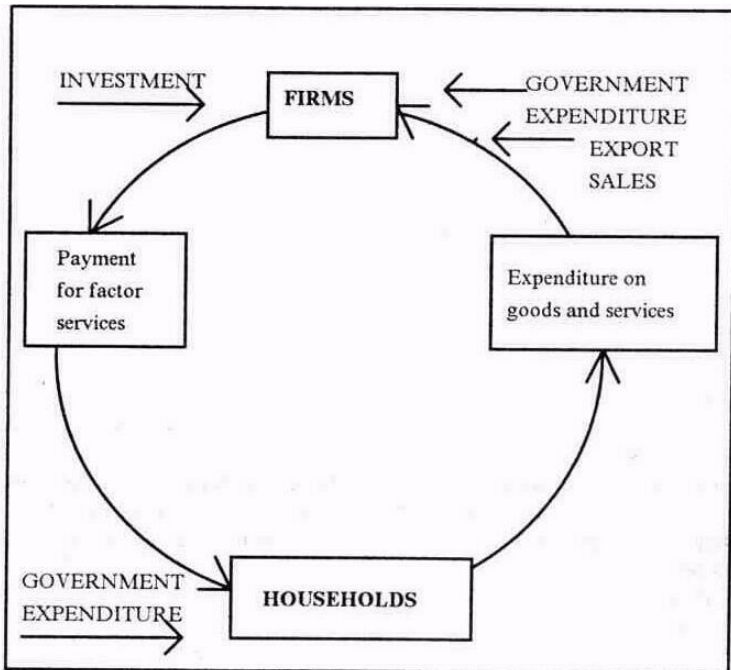


Figure 4. Additions to the Circular Flow of Income

## Investments. Инвестиции

Investment is expenditure on productive capital goods. That is, goods which can be used to produce other goods and services. Thus, investment is usually held to be expenditure on factories, machinery and other physical *assets*. It is important to realize that economists use the word investment in a different context to the *layman*. An economist referring to investment does not mean the purchase of *paper financial assets* such as *stocks* or *shares*. Clearly, if the ownership of a company's shares is transferred from one UK citizen to another *there is no overall impact on the economy*.

Investment can be categorized into *net investment* and *gross investment*. *Net investment* is investment, which actually increases the nation's stock of capital

goods. It is such investment that enables the economy to grow. However, some investment is necessary to replace capital stock that is *worn out* or obsolete. This loss of value of assets is called **depreciation**. When this replacement is added to the net investment *the total achieved is termed gross investment*.

You should note that investment increases the circular flow since it comprises extra spending that has not originated in the circular flow. The main influences on the amount of investment that takes place are:

- \* *the rate of interest* since firms often have to borrow to undertake the investment

- \* the firm's expectation about the future behaviour of the economy. If they believe the economy will boom and the level of economic activity will increase, then they are more likely to enjoy increased sales. They may well decide to invest in new machinery or in a new factory. On the other hand, if the level of investment declines then there will be less injections than previously into the economy and *the rate of growth* of economic activity (or the national income) will fall. Economic statistics show us that over the last few *decades the level* of gross investment in the UK economy *has fluctuated*. This will have been one of the factors affecting the level of national income and the environment in which businesses operate.

### **Government Expenditure. Расходы государства**

Government' expenditure takes many forms and, particularly over the last 50 years or so, *has been a very substantial total*. This heading covers spendings by both central government and local authorities. Government spending *results in* an injection of funds into the circular flow.

Let us take as an example a decision by the Department of Transport to build a new motorway. *This will lead to a variety of spending*, which would not have taken place otherwise. The authorities will have to employ *surveyors*, lawyers, accountants and construction workers and will have to purchase large quantities of construction materials. All of the spending generated in this way will be an addition or an injection to the circular flow.

Government spending can, of course, take many other forms. *Major financial items* are the provision of health and *social security benefits*. The latter *tends* to put money directly into the hands of people who need it badly and who are, therefore, likely to spend all or most of it in the near future. If it so wishes the government can use its own expenditure to *rapidly* affect the level of injections and thus the circular flow. *Pursuing such policies*, however, can have *undesirable side-effects*.

### **Exports. Экспорт**

Exports are an injection because they result in income entering the UK's circular flow *as a result of the spending decisions* of foreign households, firms and governments. Notice that this spending by foreign households is a loss (or *withdrawal* from) their domestic circular flows.

Britain is a major trading nation and, as such, can be described as an open economy. It exports approximately one-third of all the goods and services it produces. *The amount* of the UK imports *varies* but *over time* will be *roughly* the same proportion. *The UK's trade is recorded in the balance of payments figures*, which are published monthly and then collected into *annual accounts*. If you look at the UK's trade figures you will see that *rarely, if ever*, does the value of exports equal the value of imports.

*The balance of payments accounts are split into two broad sections: the*

*current account*, which records imports and exports of goods and services; and *the capital account*, which records international monetary flows in and out of the UK, such as foreign loans and investment in the UK.

Exports have always been important to the UK economy and are *indisputably* an engine of economic growth. They provide domestic employment not only in the exporting industry but also in the industries, which supply components and raw materials to that industry. Exports *bolster* the circular flow and *promote employment in a range of industries*. They also stimulate *innovation* and competition and generate a satisfying standard of living. Most of the world's most prosperous economies are successful exporters, *notably* Japan and Germany. Few isolated economies have been economically successful.

## VOCABULARY NOTES

**injection** – инъекция, вливание (*напр.*, денег в экономику)

**to arise from** – проистекать, являться результатом

**to assume** – предполагать, считать

**thus** – таким образом

**they can be generated through** – это может происходить посредством...

**assets** – имущество, активы

**layman** – непрофессионал, неспециалист

**an economist referring to investment** – говоря о вложениях,

экономист...

**paper financial assets** – имущество, вложенное в ценные бумаги

**stock** – акция, ценная бумага; запас, ассортимент

**there is no overall impact on the economy** – большого влияния на

экономику это не окажет

**net investment** – чистые инвестиции

**gross investment** – валовые капиталовложения

**worn out** – изношенный

**depreciation** – обесценение (*денег*), снашивание (*в результате износа и морального устаревания*)

**total** – целое, сумма, итог

**to term** (*syn. to call*) – называть

**rate of interest** – процентная ставка

**rate of growth** – скорость роста

**decade** – десятилетие

**the level... has fluctuated** – уровень колебался

**has been a very substantial total** – составило очень значительную

сумму

**this heading covers** – под этим заголовком рассказывается

**to result in** (*syn. to lead to, to cause, to entail*) – приводить к чему-либо;

иметь своим результатом

**this will lead to a variety of spending** – это повлечет за собой самые разнообразные затраты

**surveyor** – землемер, топограф

**major financial items** – основные статьи расходов

**social security benefits** – льготы социального обеспечения

**to tend to** – иметь тенденцию



**rapidly** – быстро, скоро  
**pursuing such policies** – проведение такой политики  
**undesirable side-effects** – нежелательные побочные явления  
**as a result of the spending decisions** – как результат решения покупать или нет  
**withdrawal** – утечка, изъятие  
**the amount ... varies** — количество ... бывает различным  
**over time** – иногда, время от времени  
**roughly** – приблизительно  
**the UK's trade is recorded in the balance of payments figures** – торговля Великобритании отображена в данных платежного баланса  
**annual accounts** – ежегодные отчеты  
**rarely, if ever** – редко или почти никогда  
**the balance of payments accounts are split into** – статьи (разделы) платежного баланса разделяются на  
**current account** – счет текущих операций  
**capital account** – счет движения капиталов  
**indisputably** – бесспорно  
**to bolster** – поддерживать, укреплять  
**promote employment in a range of industries** – обеспечивают занятость в ряде отраслей  
**innovation** – новшество, нововведение  
**notably** – особенно

## Assignments

### *I. Suggest the Russian equivalents*

which does not arise from; they can be generated through; government spending (expenditure); an economist referring to investment; paper financial assets; capital stock; extra spending that has not originated in the circular flow; the level... has fluctuated; a very substantial total; government spending results in...; construction workers (materials); social security benefits; the current (capital) account; domestic employment; they generate a satisfying standard of living

### *II. Replace the parts in **italics** by synonyms*

does not *arise from* the spending; it was *unrealistic to assume*; *increase* the size of the circular flow; there are three *recognized* ways; there is no overall *impact* on the economy; to replace capital stock that is *worn out or obsolete*; this heading *covers*; this will *lead to a variety* of spending; *rapidly*; *over time*;

accounts are *split* into; *indisputably*; exports *bolster* the circular flow and promote employment

### *III. Fill in the gaps with the words and expressions from the text*

1. An injection is simply an addition to \_\_, which does not arise from the spending of households.

2. Investment is \_\_ on productive capital goods.

3. An economist referring to investment doesn't mean the purchase of \_\_, such as \_\_ or \_\_.

4. Some investment is necessary to replace capital stock that is \_\_ or \_\_.

5. Economic statistics show us that the level of \_\_ in the UK economy \_\_

over the recent years.

6. A decision to build a new motorway will lead to \_\_, which would not have taken place otherwise.

7. Major financial items are the provision of \_\_ and \_\_.

8. The amount the UK imports varies but \_\_ will be roughly the same proportion.

9. If you look at the UK's trade figures you will see that \_\_ does the value of exports equal the value of imports.

10. Exports \_\_ the circular flow and \_\_ employment in \_\_ of industries.

*IV. Find in the text English equivalents for the following*

предполагать; товары производственного назначения, основные фонды; неспециалист; чистые инвестиции, валовые инвестиции; объем основных фондов; изношенный; делать вложения; за последние несколько десятилетий; имеет много форм; это потребует значительных затрат; основные статьи финансирования; побочные явления; очень редко; платежный баланс; промышленность, работающая на экспорт; обесценение основных фондов, амортизация

*V. Give explanations in English*

physical assets; paper financial assets; stock; shares; capital goods; capital stock; social security benefits; the balance of payments accounts

*VI. Answer the questions*

1. What is an injection?

2. What is expenditure?

3. What are net and gross investments?

4. What are the main influences on the amount of investment? Can you add anything else?

5. Speak on government expenditure and its forms.

6. What have you learnt about the UK's exports and imports?

7. Why are exports an engine of economic growth?

*VII. Translate the following sentences using all the active possible*

1. В последнее время процентная ставка крупных банков сильно колеблется и это влияет на состояние инвестиций в промышленности.

2. Неспециалисту трудно понять, что такое товары производственного назначения и основных фондов.

3. Создание новых отраслей, работающих на экспорт, потребует больших затрат, включая социальную защиту работников. Но именно это и обеспечивает занятость населения страны.

4. В Великобритании ежегодно публикуются статистические данные о состоянии платежного баланса страны.

5. Чтобы создать новые рабочие места, нужны немалые капиталовложения.

6. Конкуренция способствует развитию технического прогресса.

7. Что увеличивает кругооборот доходов?

8. Инъекции – это потоки денежных средств, направленные на приобретение национального продукта, созданного внутри страны, и не связанные с потребительскими расходами населения на его покупку. Такие потоки образуются капиталовложениями, правительственными закупками и платежами за товары и услуги, проданные за границу.

## WITHDRAWALS (ИЗЪЯТИЯ ДЕНЕГ ИЗ КРУГООБОРОТА)

Withdrawals (or *leakages*) are that part of the circular flow, which *are not passed on* as spending with UK firms. This is income, which individuals, firms or governments take out of the circular flow *with the likely result that* the level of economic activity in the economy declines. The three forms that withdrawals can take are:

- Savings
- Imports
- Taxation

### **Savings. Сбережения**

Both businesses and individual citizens can take the decision not to spend all of the income that they receive. *A number of factors are thought to determine* the level of savings at any one time. Interest rates obviously influence the saver's decision since they represent *the return on his or her savings*. Many economists believe that decisions to save are taken in response to periods of economic uncertainty: the more worried people are about interest rates, job security and so on, the more they are likely to save. Alternatively, *there is evidence that* when money is losing value quickly, as in a period of inflation, people tend to purchase consumer durable goods such as televisions and washing machines.

Another factor is social change. Previous generations *placed great store by* saving in order to carry out major purchases; this is less common today perhaps *due to* the ready availability of credit.

### **Imports. Импорт**

You will know that expenditure by UK inhabitants on goods and services imported from abroad *will remove* those funds *from* the domestic circular flow and will cause a decrease in the level of economic activity. Periodically, the UK has spent too freely on imports and earnings from exports have been *insufficient to cover* this. Many factors *encourage us to* purchase imports: some are favourable to the economy *in the long term*, whilst others are harmful. If imports of raw materials increase due to the growth of a *domestic industry*, then this indicates an expanding economy, which should sell more exports in the future in order to pay for the increased expenditure. However, if the imports are the consequence of UK citizens preferring foreign goods on grounds of, for example, price or quality, then the impact may be harmful as jobs are lost in domestic industries.

### **Taxation. Налогообложение**

Funds *are withdrawn* from the circular flow in the form of taxation by the government. It *levies* two types of tax:

- *Direct taxes*, such as *income tax*, *corporation tax* (on profits) and other taxes on income or wealth;
- *Indirect taxes*, such as *VAT* and *customs and excise duties*, which are levied on spending by all of us;

If the authorities withdraw funds through taxation *and then fail to spend this tax revenue*, the circular flow will reduce the level of activity in the economy.

Taxation policy *has been substantially altered* by the Conservative government in the 1980s and early 1990s. It has reduced direct taxes because of the

belief that taxation of this kind reduces the incentive to work and *so dampens the spirit of enterprise* in the economy. Indirect taxes, such as VAT, have been increased *to make up for* some of the revenue lost from direct taxes. The government has thus transferred *the tax burden* from direct to indirect taxes. The total burden of taxation has hardly altered.

## VOCABULARY NOTES

**leakage** – утечка

**which are not passed on as** – которые рассматриваются не как...

**with the likely result that** – в результате чего может; результатом чего может

**savings** – сбережения, накопления

**a number of factors are thought to determine** – считается, что ряд факторов определяет

**the return on his or her savings** – отдача, процент, доход от... сбережений

**there is evidence that** – очевидно, что

**to place great store by** – придавать большое значение

**due to** – благодаря, из-за

**to remove from** – удалить, изъять

**insufficient to cover** – недостаточный для покрытия (*расходов*)

**to encourage smb to do smth** – побуждать кого-то сделать что-то

**in the long term (ant. in the short term)** – в (отдаленном) будущем

**domestic industry** – национальная промышленность

**to withdraw** – изымать, выводить, удалять

**to levy** – взимать, облагать (о *налогах*)

**direct (indirect) taxes-** прямые (косвенные) налоги

**income tax** – подоходный налог

**corporation tax (on profits)** – налог с прибыли (доходов) корпораций

**VAT (value added tax)** – НДС (налог на добавленную стоимость)

**customs duty** – таможенная пошлина

**excise duty** – акцизный сбор

**and then fail to spend this tax revenue** – а затем не могут распорядиться (потратить) этими налоговыми поступлениями

**has been substantially altered** – была значительно изменена

**and so dampens the spirit of enterprise** – и таким образом подавляет дух предпринимательства

**to make up for** – компенсировать, восполнять

**tax burden** – бремя налогов

## Assignments

*1. Suggest the Russian equivalents*

withdrawals, which are not passed on as spending with UK firms; a number of factors are thought to determine the level of savings; job security; another factor is social change; generations placed great store by saving; will remove those funds from the domestic circular flow and will cause a decrease; direct (indirect, corporation, income) taxes; the tax revenue; taxation of this kind reduces the incentive to work and so dampens the spirit of enterprise; the tax burden

## II. Replace the parts in *italics* by synonyms

with the *likely* result that...; decisions are taken *in response to* economic uncertainty; *alternatively*; consume *durable* goods; UK *Inhabitants*; if the authorities fail to spend this tax *revenue*; will *cause a decrease* on the level of economic activity; *earnings* from exports have been *insufficient*; if imports *increase due to* the growth of industry; *substantially*; *because of the belief that*.

## III. Fill in the gaps with the words and expressions from the text

1. Interest rates influence the saver's decision since they represent \_\_\_ on his savings.
2. Previous generations \_\_\_ saving in order to carry out major purchases.
3. Expenditures on goods and services imported- from abroad \_\_\_ those funds from \_\_\_ and will cause \_\_\_ in the level of economic activity.
4. If imports of raw materials increase due to the growth of \_\_\_, then this indicates \_\_\_.
5. Funds are withdrawn from the \_\_\_ by the government, which \_\_\_ two types of tax.
6. Indirect taxes include VAT and \_\_\_.
7. Direct taxes reduce \_\_\_ to work and so dampen \_\_\_ in the economy.
8. The government has transferred \_\_\_ from direct to indirect taxes.

## IV. Find in the text English equivalents for the following

доходы от сбережений; очевидно, что...; подталкивать, побуждать; в конце концов; это означает рост экономики; на том основании, что; налог на добавленную стоимость; акцизный сбор; Восполнять

## V. Find English explanations

the return on one's savings; taxes (direct, indirect, income, corporation, on wealth, VAT); excise duties; the tax revenue

## VI. Answer the questions

1. What are withdrawals? Name their forms.
2. When do people decide to save?
3. What is the reason for purchasing imports?
4. Why can buying imports be harmful?
5. What are direct and indirect taxes?
6. Why did the Conservative government reduce direct taxes in the 1980s and increase indirect ones?

7. Make conclusions from the Circular Flow Model. VII. Translate into English using all the active possible

1. В ответ на увеличение правительством налогов предприниматели приняли решение поднять цены на потребительские товары. Подобное налогообложение явно не способствует развитию торговли.

2. Считается, что на решение покупать или не покупать импортные товары влияет целый ряд факторов: цены, качество и т. д.

3. Выпуская хорошие товары, предприниматели побуждают население покупать их, а не откладывать деньги, что может привести к падению уровня экономической активности.

4. Многие люди, пытавшиеся получить большой процент со своих денег, положенных на депозит в разные сомнительные банки, оказались обманутыми.

5. В некоторых странах акцизный сбор с продажи алкогольных на-

питков является очень доходной статьей.

6. В России налог на добавленную стоимость был введен в январе 1992 года.

7. Изъятия – это часть национального дохода, которая не используется населением для покупки потребительских благ, произведенных в стране. Изъятия состоят, таким образом, из сбережений, чистых налогов и затрат на покупку импортных товаров. Изъятия равны инъекциям.

# INFLATION (ИНФЛЯЦИЯ)

**Inflation** is generally defined as *a persistent rise* in the general price level *with no corresponding rise in output*, which leads to a corresponding fall in the purchasing power of money.

In this section we shall look *briefly* at the problems that inflation causes for business and consider whether there are any *potential benefits* for an enterprise from an inflationary period.

Inflation *varies considerably in its extent and severity*. Hence, the consequences for the business community differ according to circumstances. *Mild inflation* of a few per cent each year *may pose few difficulties* for business. However, hyperinflation, which *entails enormously high rates of inflation*, can create almost *insurmountable* problems for the government, business, consumers and workers. In post-war Hungary, the cost of living was published each day and workers were paid daily so as to avoid the value of their earnings falling. Businesses would have experienced great difficulty in costing and pricing their production while the incentive for people to save would have been removed.

Economists argue *at length* about the causes of, and "cures" for, inflation. They would, however, recognize that *two general types of inflation* exist:

- \* *Demand-pull inflation*
- \* *Cost-push inflation*

## **Demand-pull Inflation. Инфляция спроса**

*Demand-pull inflation occurs* when demand for a nation's goods and services *outstrips* that nation's ability to supply these goods and services. This causes prices to rise generally as a means of limiting demand to the available supply.

An alternative way that we can look at this type of inflation is to say that it occurs when injections exceed withdrawals *and* the economy is already *stretched* (i.e. *little available labour* or factory space) and *there is little scope* to increase further its level of activity.

## **Cost-push Inflation. Инфляция издержек**

Alternatively, inflation can be of the *cost-push* variety. Tills takes place when firms face increasing costs. This could be caused by an increase in wages *owing to trade union militancy*, the rising costs of imported raw materials and components or companies pushing up prices *in order to improve their profit margins*.

## **VOCABULARY NOTES**

**a persistent rise** – неуклонный, постоянный подъем

**with no corresponding rise in output** – не сопровождающийся подъемом производства

**briefly** – коротко, кратко

**potential benefits** – потенциальные выгоды

**varies considerably in its extent and severity** – бывает разной по длительности и остроте

**hence** – следовательно

**mild inflation** – мягкая, низкая инфляция

**may pose few difficulties** – особых проблем не представляет

**entails enormously high rates of inflation** – означает (ведет к)

громадный рост инфляции

**insurmountable** – неисчислимые, колоссальные

**at length** – и сейчас

**to pull** – тянуть

**demand-pull inflation** – инфляция, вызванная превышением спроса над предложением, инфляция спроса

**to push** – толкать

**cost-push inflation** – инфляция, вызванная ростом издержек производства, инфляция издержек

**to occur** – происходить

**to outstrip** – обгонять, опережать, превосходить

**to stretch** – натягивать, напрягать

**little available labour** – мало рабочей силы

**there is little scope** – мало возможностей

**owing to trade union militancy** – благодаря воинственности профсоюзов

**in order to improve their profit margins** – чтобы увеличить прибыль (размеры прибыли)

### Assignments

#### *I. Suggest the Russian equivalents*

inflation varies considerably in its extent and severity; mild inflation of a few%; rate of inflation; insurmountable problems: demand-pull (cost-push) inflation; the economy is already stretched

#### *II. Replace the parts in italics by synonyms*

*a persistent rise; hence; may pose few difficulties; which entails enormously high rates; at length; inflation occurs when; little scope to increase its level of activity; firms face increasing costs; owing to trade union militancy*

#### *III. Fill in the gaps with the words and expressions from the text*

1. Inflation varies considerably in its \_\_\_ and \_\_\_.
2. Mild inflation may \_\_\_ few difficulties for business.
3. Businesses would have experienced great difficulty in \_\_\_ and \_\_\_ their production while \_\_\_ for people to save would have been removed.
4. Demand-pull inflation occurs when \_\_\_ for a nation's goods and services \_\_\_ that nation's ability to \_\_\_ these goods and services.
5. An alternative way that we can look at this type of inflation is to say that it occurs when injections \_\_\_ withdrawals.
6. An increase in costs for firms, for example, can be caused by an increase in wages \_\_\_ trade union militancy.

#### *IV. Find in the text English equivalents/or the following*

повышение (падение) спроса (покупательной способности) и т. д.; гиперинфляция; запросы опережают возможности экономики предложить товары и услуги; воинственность профсоюзов; уровень прибыли

#### *V. Translate into English using all the active possible*

1. Следует отличать инфляцию спроса от инфляции, обусловленной ростом издержек. Суть инфляции спроса иногда объясняют одной фразой: "Слишком много денег охотятся за слишком малым количеством товаров". Теория инфляции, обусловленной ростом издержек, объясняет рост цен такими факторами, которые приводят к увеличению издержек на единицу



продукции.

# THE IMPACT OF INFLATION ON BUSINESS (ВЛИЯНИЕ ИНФЛЯЦИИ НА БИЗНЕС)

Inflation can adversely affect business in a number of ways:

## 1. Accounting and financial problems. Трудности бухгалтерского учета и финансирования

Significant rates of inflation can cause accounting and financial problems for businesses. They may experience difficulty in valuing assets and stocks, for example. Such problems can *waste valuable management time* and *make* forecasting, comparisons and financial control *more onerous*.

## 2. Falling sales. Снижение объема продаж

Many businesses may experience falling sales during inflationary periods for two broad reasons. Firstly, it may be that saving rises in a time of inflation. We would expect people to spend more of their money when prices are rising *to avoid holding an asset* (cash), which is falling in value. However, during the mid-1970s, when industrialized nations were experiencing high inflation rates, savings as a proportion of income rose! It is not easy to identify the reason for this, but some economists suggest that people like to hold a relatively high proportion of their assets in a form which can be quickly converted into cash when the future is uncertain. *Whatever the reason*, if people save more they spend less and businesses suffer falling sales. The economic model predicts that if savings rose the level of activity in the economy would fall. Clearly, if this happened we would expect businesses to experience difficulty in maintaining their levels of sales.

*I Businesses may be hit* by a reduction in sales during a time of inflation for a second reason. As inflation progresses, it is likely that workers' money wages (that is, *wages unadjusted/or inflation*) will be increased broadly in line with inflation. This may well take a worker into *a higher tax bracket* and result in a higher percentage of his or her wages being taken as tax. This process, known as *fiscal drag*, will cause workers to have less money available to spend on firms' goods and services. The poverty trap has a similar impact. As money wages rise, the poor may find that *they no longer qualify for* state benefits *to supplement their incomes* and at the same time they begin to pay income tax on their earnings. Again, *this leaves less disposable income* to spend on the output of firms. Finally, it may be that the wages of many groups are not *index-linked* and so they rise less quickly than the rate of inflation, causing a *reduction in spending power* and demand for goods and services.

Once again, the economic model can be used to predict that increases in the level of taxation will increase withdrawals, lowering the level of economic activity and depressing firms' sales

Not all businesses will suffer equally from *declining demand* in an inflationary period. Those selling essential items, such as food, may be little affected whilst others supplying less essential goods and services, such as foreign holidays, may be hard hit.

## 3. High interest rates. Высокие процентные ставки

Inflation is often accompanied by high interest rates. High interest rates *tend to discourage investment* by businesses as they increase the cost of borrowing funds. Thus, investment may fall. *Businesses may also be dissuaded from* undertaking investment programmes because of *a lack of confidence* in the future

stability and prosperity of the economy. *This fall in investment may be worsened by foreign investment being reduced* as they also lose some confidence in the economy's future.

Such a decline in the level of investment *can lead to businesses having to retain* obsolete, inefficient and expensive means of production and cause a loss of international competitiveness. Finally, a fall in investment can lower the level of economic activity, causing lower sales, output and so on. Thus, to some extent, businesses can influence the economic environment in which they operate.

#### 4. Higher costs. Рост издержек производства

During *a bout of inflation* firms will face higher costs for the resources they need to carry on their business. They will have to pay higher wages to their employees to compensate them for rising prices. Supplies of raw materials and fuel will become more expensive as will rents and rates. The inevitable reaction to this is that the firm has to raise its own prices. This will lead to further demands for higher wages as is called *the wage-price spiral*. Such cost-push inflation may make the goods and services produced by that enterprise internationally *less competitive in terms of price*. An economy whose relative or comparative rate of inflation is high may find that it is unable to compete in home or foreign markets because its products are expensive. The economic model tells us that a situation of declining exports and increasing imports will lower the level of activity in the economy with all the consequent side-effects.

#### VOCABULARY NOTES

**impact** – удар, влияние, воздействие

**waste valuable management time** – может уходить много драгоценного времени

**make more onerous** – сделать более затруднительным

**to avoid holding an asset** – чтобы избавиться от наличности

**whatever the reason** – какова бы ни была причина

**businesses may be hit by** – фирмы (предприятия) могут пострадать от...

**wages unadjusted for inflation** – заработная плата без учета уровня инфляции

**a higher tax bracket** – следующая группа, категория (*напр., при группировке налогоплательщиков по доходу*)

**fiscal drag** – финансовый тормоз экономического роста с помощью налоговых изъятий

**they no longer qualify for** – они больше не попадают под...

**to supplement their incomes** – что является дополнением к их доходу

**this leaves less disposable income** – из-за этого остается меньше средств **index-linked** – индексированный

**a reduction in spending** (*syn. buying, purchasing*) **power** – снижение покупательной способности

**declining demand** – падение спроса

**tend to discourage investment** – не способствуют инвестированию

**may also be dissuaded from** – могут также отказаться от...

**a lack of confidence** – недостаток (отсутствие) уверенности

**this fall in investment may be worsened by foreign investment being reduced** – это падение уровня инвестирования может стать еще сильнее, если сократятся иностранные инвестиции

**can lead to businesses having to retain** – может привести к тому, что фирмам (предприятиям) придется сохранить

**a bout (syn. period, spell) of inflation** – период инфляции

**less competitive in terms of price** – менее конкурентоспособный в смысле цены

### Assignments

#### I. Suggest the Russian equivalents

difficulty in valuing assets and stocks; to avoid holding an asset; wages unadjusted for inflation; increased in line with inflation; this may well take a worker into a higher tax bracket; fiscal drag; poverty trap; wages are not indexed; spending power; the cost of borrowing funds; the wage-price spiral; in terms of price

#### II. Replace the parts in *italics* by synonyms

*broad* reasons; *to identify* the reason for this; businesses may be *hit* by a *reduction* in sales; wages *unadjusted* for inflation; *in line with*; *to supplement incomes*; will increase *withdrawals* *depressing* firms' sales; may be *dissuaded* *from undertaking* ...

#### III. Fill in the gaps with the words and expressions from the text

1. Accounting and financial problems can waste \_\_ and make \_\_, \_\_ and \_\_ more \_\_.

2. Businesses may be \_\_ by a reduction in sales.

3. The process, known as \_\_, will cause workers to have less money available.

4. If the wages are not \_\_, they rise less quickly than the rate of inflation.

5. Those selling \_\_, such as food, may be little affected in an inflationary period.

6. High interest rates tend to \_\_ by businesses.

7. The fall in investment may be \_\_ by foreign investment being reduced.

8. Firms will have to pay higher wages to their employees to \_\_ rising prices.

#### IV. Find in the text English equivalents for the following

делать что-либо затруднительным; периоды инфляции; назвать причину чего-либо; превратить в наличные; распространяться на кого-либо (о государственных льготах); доход, остающийся после уплаты налогов; товары первой необходимости; компенсировать кому-либо что-либо

#### V. Translate into English using all the active possible

1. Концепция инфляции спроса предполагает, что если экономика стремится к высокому уровню производства и занятости, то умеренная инфляция необходима. Однако сторонники концепции инфляции издержек утверждают, что умеренная инфляция, которая может сначала способствовать оживлению экономики, потом, нарастая как снежный ком, превратится в более жесткую гиперинфляцию (чрезвычайно быстрые темпы роста инфляции, которая оказывает разрушительное действие на объем национального производства и занятость).

## CAN INFLATION BE BENEFICIAL (МОЖЕТ ЛИ ИНФЛЯЦИЯ БЫТЬ БЛАГОТВОРНОЙ)?

We would be simplifying the impact of inflation on business if we suggested that all effects were *unfavourable*. *There is a school of thought, which argues that a low and stable rate of increase in the price level can be beneficial*. It believes that a steady rise in money profits produces favourable expectations and *'induces investment as firms seek to expand'*. This action expands the economy as a whole. Paradoxically, inflation can also reduce the costs of businesses *in the short run*. Many enterprises *incur costs, which are fixed for some period of time* – for example, the rent of a factory may be fixed at a particular figure for a few years. At a time when the selling price of the firm's product, and hence its sales income, is rising this cost will be falling in real terms and thus stimulating the business.

There is *a further argument* that firms may be persuaded *to borrow heavily* in a period of inflation since the burden of *repaying loans* is reduced by inflation. If inflation is running annually at 10 per cent, for example, then the real value of the repayments of the loan will fall by approximately that amount each year. This may serve to encourage investment which, since it is an injection into the circular flow, will promote the level of activity. However, in these circumstances interest rates are likely to be high.

Government will accept that low rates of inflation are likely to exist in many economies. Inflation rates of 5 per cent or below are not considered to be too great a problem, especially if competitor nations are suffering similar rates.

In spite of the above, the conclusion must be drawn that inflation is, in general, harmful to business and its environment. Indeed, many economists would *contend* that inflation is the fundamental evil as its presence leads to lack of competitiveness and therefore relatively high unemployment and low rates of growth. *This viewpoint has gained in credence* in government circles over the last few years. It is for this reason that its control has been *a major objective* of government economic policy throughout the 1980s and early 1990s.

### VOCABULARY NOTES

**beneficial** – выгодный, приносящий доход

**unfavourable** (*ant. favourable*) – неблагоприятный

**there is a school of thought, which argues that** – существует мнение, что...

**and induces investment as firms seek to expand** – и способствует росту капиталовложений, так как фирмы (предприятия) расширяются

**in the short run** – очень быстро

**incur costs, which are fixed for some period of time** – несут расходы, которые в течение какого-то периода являются неизменными

**a further argument** – еще один аргумент

**to borrow heavily** – брать займы большие суммы

**repaying loans** – выплата займов

**to contend** – настаивать, утверждать

**this viewpoint has gained in credence** – эта точка зрения получила большое распространение

**a major objective** – главная цель

### Assignments

### *I. Suggest the Russian equivalents*

a steady rise in money profits produces favourable expectations; this cost will be falling in real terms; this viewpoint has gained in credence in government circles.

### *II. Replace the parts in **italics** by synonyms*

*a steady rise in money profits induces investment as firms seek to expand;* rates are *not* considered to be ...; *the conclusion must be drawn*

### *III. Fill in the gaps with the words and expressions from the text*

1. A steady rise in money profits produces \_\_\_ and induces \_\_\_ as firms seek to expand.

2. There is a \_\_\_ argument that firms may be \_\_\_ **to** borrow heavily in a period of inflation.

3. Many economists would \_\_\_ that inflation is the fundamental \_\_\_.

4. This viewpoint has \_\_\_ in government circles over the last few years.

*IV. Find in the text English equivalents for the following* стимулировать капиталовложения; устанавливать цену; брать займы крупные суммы; настаивать, утверждать; страдать от подобного уровня

## **Assignments to the whole text**

### *I. Increase your vocabulary*

**a)** Find in the text all word-combinations with the verb "**to experience**" and translate them. Think of your own examples with these combinations. What other word-combinations with this verb do you know? Give examples.

**b)** Find in the text the words expressing the English for:

**"понижать(ся)" and "повышать(ся)";**

**"привести" and "вызвать".**

Write out the word-combinations with them and use these in your own sentences. Give synonyms to each word-combination you found in the text. What other words expressing the same meaning do you know?

### *II. Find English explanations or paraphrase*

the economy is stretched; fiscal drag; state benefits; not index-linked wages; selling essential items; borrowing funds; a bout of inflation; wage-price spiral; a school of thought

*III. Make a written translation of the paragraph beginning with "Businesses may be hit by..." ("Falling sales").*

*IV. Draw the scheme to mentioned cases of the impact of inflation on businesses related in "Falling sales", "High interest rates" and "Higher costs". For example: saving rises-spending falls-sales fall.*

### *V. Answer the questions*

1. Give the definition of inflation. What can you add to it?

2. The extent and severity of inflation.

3. Types of inflation (short characteristics). Are there any others?

4. Demand-pull inflation. Name countries with this type of inflation.

5. Cost-push inflation. Name countries with this type of inflation.

6. The impact of inflation on business (in brief):

- accounting and financial problems;
- falling sales;
- high interest rates.

How can businesses influence the economic environment?

7. Do you believe in the advice to borrow heavily in a period of inflation?  
Give your reasons.

8. Can inflation be beneficial?

9. What other factors not mentioned in this unit can cause inflation?

10. What "cures" for inflation do you know and can suggest?

*VI. Translate into English using all the active possible*

1. В прошлом месяце уровень инфляции составил 1%, а в нынешнем он, возможно, по официальным данным составит 0%.

2. Данный взгляд на уровень инфляции не отражает официальной точки зрения.

3. В периоды острой инфляции льготы, которые обычно распространяются на определенные слои населения, значительно сокращаются.

4. Падение спроса на товары первой необходимости в связи с их ухудшившимся качеством привело к относительно мягкой инфляции в несколько процентов.

5. Низкий процент инфляции не считается слишком большой проблемой для государства и даже может способствовать увеличению капиталовложений.

# MONEY AND BANKING (ДЕНЬГИ И БАНКОВСКОЕ ДЕЛО)

## Money and its Functions. Деньги, их функции

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

## The Medium of Exchange. Средство обращения

Money, the medium of exchange, is used in one-half of almost all exchange. Workers exchange labour services for money. People buy and sell goods in exchange for money. We accept money not to consume it directly but because it can *subsequently* be used to buy things we do wish to consume. Money is the medium through, which people exchange goods and services.

To see that society benefits from a medium of exchange, imagine a barter economy.

*A barter economy* has no medium of exchange. Goods are traded directly or *swapped/or* other goods.

In a barter economy, the seller and the buyer each must want something the other has to offer. Each person is simultaneously a seller and a buyer. In order to see a film, you must *hand over in exchange* a good or service that the cinema manager wants. There has to be a *double coincidence of wants*. You have to find a cinema where the manager wants what you have to offer in exchange.

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

## Other Functions of Money. Другие функции денег

Money can also serve as *a standard of value*. Society considers it convenient to use *a monetary unit* to determine relative costs of different goods and services. In this function money appears as *the unit of account*, is the unit in which prices are quoted and accounts are kept.

In Russia prices are quoted in roubles; in Britain, in pounds sterling; in the USA, in US dollars; in France, in French francs. 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 – 1923 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*.

The situation in Russia nowadays *reminds* of that of in Germany.

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 collec-



tions, and *interest-bearing bank accounts* all serve as stores of value. Since money *pays no interest* and its real purchasing power *is eroded* by inflation, there are almost certainly better ways to store value.

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

### **Different Kinds of Money. Различные виды денег**

In *prisoner-of-war camps*, cigarettes served as money. In the 19th century money was mainly gold and silver coins. These are examples of **commodity money**, ordinary goods with industrial uses (gold) and consumption uses (cigarettes), which also serve as a medium of exchange. To use a commodity money, society must either cut back on other uses of that commodity or devote scarce resources to producing additional quantities of the commodity. But there are less expensive ways for society to produce money.

**A token money** is a means of payment whose value or purchasing power as money greatly exceeds its cost of production or value in uses other than as money.

A \$10 note is worth far more as money than as a 3x6 *inch* piece of high-quality paper. Similarly, the monetary value of most coins exceeds the amount you would get by *melting* them *down* and selling off the metals they contain. By collectively agreeing to use token money, society economizes on the scarce resources required to produce money as a medium of exchange. Since the manufacturing *costs* are *tiny*, why doesn't everyone make \$10 notes?

The essential condition for the survival of token money is the restriction of the right to supply it. Private production is illegal.

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

In modern economies, token money *is supplemented by IOU money*.

**An IOU money** is a medium of exchange based on the debt of a private firm or individual.

**A bank deposit** is IOU money because it is a debt of the bank. When you have a bank deposit the bank owes you money. You can write a cheque to yourself or a third party and the bank is obliged to pay whenever the cheque is presented. Bank deposits are a medium of exchange because they are generally accepted as payment.

### **VOCABULARY NOTES**

**the means of payment** – средство платежа

**medium of exchange** – средство обращения

**a standard of value** – мера стоимости

**a unit of account** – единица учета

**a store of value** – средство сбережения (сохранения стоимости)

**a standard of deferred payment** – средство погашения долга

**subsequently** – впоследствии **a barter economy** – бартерная экономика

**o swap (a/so swap; syn. to exchange, to barter)** – обменивать, менять

**to hand over in exchange** – передать, вручить в обмен

**a double coincidence of wants** – двойное совпадение потребностей  
**a monetary unit** – денежная единица  
**to remind of** – напоминать  
**to be worthless** – обесцениваться  
**an interest-bearing bank account** – счет в банке с выплатой процентов  
**to pay interest** – приносить процентный доход  
**to erode** – зд. фактически уменьшать  
**hard currency** – твердая (конвертируемая) валюта  
**soft currency** – неконвертируемая валюта  
**invariably** – неизменно, постоянно  
**prisoner-of-war camp** – лагерь военнопленных  
**commodity money** — деньги – товар  
**token money** – символические деньги (дензнаки)  
**inch** – дюйм (*равен 2,5 см*)  
**to melt down** – расплавить **tiny costs** – мизерные затраты  
**legal tender** – законное платежное средство  
**to supplement** – дополнять  
**IOU money** – **I owe you** – я вам должен; деньги – долговое обязательство **a bank deposit** – вклад в банке

## Assignments

### I. Suggest the Russian equivalents

exchange labour services for money; you must hand over in exchange a good or service; a double coincidence of wants; spend a lot of time and effort; make mutually satisfactory swaps; a barter economy is wasteful; commodity generally accepted in payment for goods; prices are quoted and accounts are kept; the rapid German inflation; its purchasing power is eroded by inflation; it's usually but not invariably convenient; cut back on other uses; exceeds its cost of production; by collectively agreeing; the survival of token money; society enforces the use of token money; token money is supplemented by IOU money; interest-bearing bank accounts

### II. Replace the parts in *italics* by synonyms

sometimes payment can be *put off till later*, the *vital* feature of money; its purchasing power is *worn away*; the money is *without value*, it is not *always* convenient; time and effort are *rare* resources; private production of money is *against the law*

### III. Find in the text opposites to the following words and expressions

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

### IV. Fill in the gaps with the words and expressions from the text

- The crucial feature of money is its acceptance as **\_\_ or \_\_**.
- People buy and sell goods **\_\_** for money.
- In a barter economy goods are traded directly or **\_\_** other goods.
- People must spend a lot of **\_\_** finding others with whom they can make mutually **\_\_**.
- Society considers it convenient to use **\_\_** to determine **\_\_** of different goods and services.
- The unit of account is the unit in which prices are **\_\_** and **\_\_** are kept.
- During the rapid German inflation German shopkeepers found it **\_\_** to use

dollars as \_\_\_.

8. Money is a store of value because it can be used \_\_\_.

9. Nobody would accept money as payment for goods supplied today if the money was going \_\_\_.

10. Since money \_\_\_ and its real \_\_\_ power \_\_\_ by inflation, there are almost certainly better ways to store value.

11. UK citizens can get bank loans \_\_\_ the amount that \_\_\_ next year.

12. When you borrow, the amount to be repaid next year is measured in \_\_\_.

13. \_\_\_ are ordinary goods with \_\_\_ (gold) and \_\_\_ (cigarettes), which also serve as a medium of exchange.

14. To use a commodity money, society must either \_\_\_ other uses of that commodity or devote \_\_\_ to producing \_\_\_ of the commodity.

15. A token money is a means of payment whose \_\_\_ as money greatly \_\_\_ its cost of production or value in uses other \_\_\_.

16. By \_\_\_, society economizes on the scarce resources required to produce money as \_\_\_.

17. The essential condition for the survival of token money is \_\_\_ to supply it.

18. Society enforces the use of token money by making it \_\_\_.

19. In modern economies, token money \_\_\_ by \_\_\_.

20. An IOU money is a medium of exchange based on \_\_\_ 1.

21. \_\_\_ is IOU money because it is a debt of the bank.

*V. Find in the text English equivalents for the following* основная (ключевая) черта (2 варианта); средство платежа; средство обращения; мера стоимости; средство сбережения (средство сохранения стоимости); единица учета; средство погашения долга; в обмен на; может быть впоследствии использовано; обмениваться товарами и услугами; бартерная экономика; измерять(ся); обесцененный; платить проценты; покупательная способность; промышленное использование; потребительское использование; деньги – товар; денежные знаки (символические деньги); денежная стоимость; ограничение права; вклад в банке; банковская ссуда; законное платежное средство; долговое обязательство

#### *VI. Explain in English*

double coincidence of wants; deferred payment; medium of exchange; purchasing power; monetary value; legal tender; IOU

#### *VII. Answer the questions*

1. Why do people accept money?

2. Dwell on the functions of money.

3. Dwell on different kinds of money.

4. What's a barter economy? Why is trading expensive in a barter economy?

5. What currency can be used as the unit of account? Speak on the current situation in Russia.

6. What does IOU stand for?

#### *VIII. Translate into English using all the active possible*

1. Существует несколько функций денег. Во-первых и прежде всего, деньги являются средством платежа, или обращения; деньги можно использовать при покупке и продаже товаров и услуг. Деньги выступают также мерой стоимости. Общество считает удобным использовать денеж-

ную единицу в качестве масштаба для соизмерения относительных стоимостей различных благ и ресурсов.

Деньги служат средством сбережения. Поскольку деньги являются наиболее ликвидным товаром, то есть таким, который можно без проблем продать (обменять), то они являются очень удобной формой хранения богатства. Это, однако, не единственная форма хранения богатства. Во время упадка в экономике, при высокой инфляции и обесценении денег, население, скорее всего, будет хранить богатство в виде недвижимости или других дорогостоящих товаров – предметах искусства, драгоценностях.

2. Деньги, которые, в сущности, являются долговыми обязательствами государства, коммерческих банков и сберегательных учреждений, имеют стоимость благодаря товарам и услугам, которые приобретаются за них на рынке.

# THE ROLE OF BANKS (РОЛЬ БАНКОВ)

The following story is going to explain the role of banks. In the past most societies used different objects as money. Some of these were valuable because they were *rare* and beautiful, others- because they could be eaten or used. Early forms of money like these were used to buy goods. They were also used to pay for marriages, *finer* and debts. But although everyday objects were extremely practical kinds of cash in many ways, they had some disadvantages, too. For example, it was difficult *to measure their value accurately, divide some of them into a wide range of amounts, keep some of them for a long time, use them to make financial plans for the future.* For reasons such as these, some societies began to use another kind of money, that is, *precious metals*.

People used gold, *gold bullion*, as money. Those were dangerous times, and people wanted a safe place to keep their gold. So they *deposited* it with *goldsmiths*, people who worked with gold for *jewellery* and so on and also had a *guarded vault* to keep it safe in. And when people wanted some of their gold to pay for things with, they went and *fetch*ed it from the goldsmith.

Two developments turned these goldsmiths into bankers. The first was that people found it a lot easier to give the seller a letter than it was to fetch some gold and then physically hand it over to him. This letter *transferred* some of the gold they had at the goldsmith's to the seller. This letter we would nowadays call a cheque. And, of course, *once these letters or cheques, became acceptable as a way of paying for goods,* people felt that the gold they had deposited with the goldsmith, was just as good as gold in their own pockets. And as letters or cheques, were easier to carry around than gold, and a lot less dangerous, people started to say that *their money holdings* were what they had with them plus their deposits. So a system of deposits was started. The second development was that goldsmiths realized they had a great deal of unused gold lying in their vaults doing nothing. This development was actually of greater importance than the first.

Now let's turn to the first *bank loan* ever and see what happened. A firm asked a goldsmith for a loan. The goldsmith realized that some of the gold in his vault could be lent to the firm, and of course he asked the firm to pay it back later with *a little interest*. Of course, at that moment *the goldsmith was short of gold*, it wasn't actually *his* gold, but he *reckoned* it was unlikely that everyone who had deposited gold with him would want it back at the same time, *at any rate* – not before the firm had repaid him his gold with a little interest. He thought it safe enough.

To understand what actually happened in. this simple *transaction* let's consider the following table.

**Tabl. 6. Goldsmiths as bankers**

	Assets	Liabilities
1. Old-fashioned goldsmith 2. Gold lender 3. Deposit lender:	Gold \$100 Gold \$90+loan \$10	Deposits \$100 Deposits \$100
Step 1 4. Deposit lender: Step 2	\$100+loan \$10 Gold \$90+loan \$10	Deposits \$110 Deposits \$100

The first row shows what the goldsmith did before he made this loan. He had a hundred dollars of gold, which he *owed* to the people who had deposited it with him, so his *assets and liabilities* were the same. But when he lent, say,

\$10 of gold to the firm, he actually had only \$90 of gold in his vault plus *the value of his loan*. His assets still *equalled* his liabilities, but he was going to get some interest.

It so happened that *the firm*, that took out the loan, *didn't really want to carry that \$10 of gold around*, so it asked the goldsmith if, *instead of actually taking the gold, it could be given a deposit*. The third row of Tabl. 6 shows what happened then. Although the goldsmith's assets and liabilities were the same, but *were then worth \$110*, not \$100. When the firm *wrote a cheque* for \$10, and that person came in to collect his \$10 worth of gold, the goldsmith's *assets failed*, but so did his liabilities (the fourth row of the table). The important point to notice here is that it made no difference to the goldsmith whether his *initial loan was* in actual gold or in a form of a deposit.

Now let's turn to the question of *reserves*. Reserves are *the amount of gold that is immediately available in the vault to meet depositors' demands*. People originally deposited \$100 of gold with the goldsmith. The goldsmith lent \$10, *leaving himself with \$90*. As a banker he *was relying on* the fact that not everyone would want their gold back at the same time. If they had done, he couldn't have paid out. His reserves of \$90 were not enough.

The goldsmith in the table has a 100% reserve ratio. *The reserve ratio* is the ratio of reserves to deposits. Once he has made his loan, he has a 90% deposit ratio. This is a small risk with a small profit. How much *dare* he lend out in order to *make a profit through his interest charges*? *What are the risks involved*? Suppose the goldsmith took too much of a risk. He lent 80% of the gold he had. This *panicked* people. They *doubted* he could pay them all back, he *was bound to lose some of the gold* he had lent, so they rushed to get their gold back before it was too late. That was what we would now call *a run on the bank*, a financial panic. And *the financial panic* leads to exactly what people *fear*. the bank cannot pay them, *goes bankrupt*, and they go bankrupt as well.

## VOCABULARY NOTES

**rare** – редкий

**fines** – штрафы

**to measure their value accurately** – точно измерить их стоимость (ценность)

**to divide into a wide range of amounts** – разделить на много частей (маленьких или больших)

**precious metals** – драгоценные металлы

**gold bullion** – золотой слиток

**to deposit with** – хранить, вкладывать

**'a goldsmith** – золотых дел мастер

**worked with gold for jewellery** – делал золотые украшения

**a guarded vault** – охраняемый подвал, хранилище

**to fetch** – приносить, доставать

**to transfer** – переводить, передавать

**once these letters or cheques, became acceptable as a way of paying for goods** – как только (когда) эти письма, или чеки, стали приниматься при оплате товаров

**their money holdings** – деньги, которые им принадлежали, которыми они владели

**a bank loan** – банковская ссуда,

заем

**a little interest** – небольшой

процент

**the goldsmith was short of gold** – у мастера не было достаточно золота

**to reckon** – полагать, считать

**at any rate** – во всяком случае

**a transaction** – сделка

**to owe** – быть должным

**assets and liabilities** – активы и пассивы

**the value of his loan** – стоимость ссуды, которую он дал

**to equal** – равняться, быть равным

**the firm didn't really want to carry that gold around, so it asked the goldsmith**

**if, instead of actually taking the gold, it could be given a deposit** – фирма не хотела держать золото при себе (носить золото с собой) и вместо того, чтобы на самом деле его забрать, попросила мастера принять это золото на хранение в виде вклада

**(they) were worth \$110** – их стоимость составляла, они оценивались (имели ценность) в 110 долларов

**to write (syn. to draw, to issue, to make out) a cheque** – выписать чек

**his assets failed** – эд. его активы снизились

**to fail** – (о банках) обанкротиться

**initial loan** – первоначальная ссуда

**reserves** – резервы

**the amount of gold that is immediately available in the vault** – запасы (количество) золота, которое всегда находится (и может быть немедленно получено) в хранилище банка

**depositors' demands** – требования вкладчиков

**leaving himself with \$90** – оставив себе только 90 долларов

**to rely on** – рассчитывать, надеяться на что-либо

**the reserve ratio** – резервная норма

**dare** – осмеливаться

**to make a profit through his interest charges** – получить прибыль за счет платежа процентов

**What are the risks involved?** – Чем он рискует?

**to panic (panicked)** – пугать, приводить в панику

**to doubt** – сомневаться

**he was bound to lose some of the gold** – он непременно должен был потерять часть золота

**a run on the bank** – натиск вкладчиков на банк

**the financial panic** – финансовая паника

**to fear** – опасаться, страшиться

**to go bankrupt** – обанкротиться

## Assignments

### *1. Suggest the Russian equivalents*

they wanted their gold to pay for some things with; two developments turned these goldsmiths into bankers; it transferred some of the gold they had...to the seller; the goldsmith was short of gold; the risks involved; to make a profit through his interest charges; a goldsmith took too much of a risk; he

was bound to lose some of the gold

*II. Fill in the gaps with the words and expressions from the text*

1. In the past most societies used different objects as \_\_\_ to buy \_\_\_, to pay for \_\_\_.
2. Some of these were valuable because they were \_\_\_, others- because they \_\_\_.
3. People used gold, \_\_\_, as money.
4. People \_\_\_ their gold with \_\_\_, people who \_\_\_ also had \_\_\_ to keep gold safe in.
5. When people wanted some of their gold to \_\_\_, they went and \_\_\_ it from the goldsmith.
6. People found it a lot easier \_\_\_ the seller \_\_\_, that we would nowadays call \_\_\_, than it was \_\_\_ some gold and then \_\_\_ to him.
7. Once these letters or cheques, became \_\_\_ as a way of \_\_\_ for goods, people felt that the gold they \_\_\_ with the goldsmith, was just \_\_\_ as gold in their own \_\_\_.
8. People started to say that their \_\_\_ were what they \_\_\_ plus their \_\_\_.
9. Goldsmiths realized they had a great deal of \_\_\_ lying in their vaults \_\_\_.
10. This development was actually of \_\_\_ than the first.
11. At the moment of his first loan the goldsmith \_\_\_, it wasn't actually \_\_\_ gold, but he \_\_\_ it was \_\_\_ that everyone who \_\_\_ gold with him would want it back \_\_\_.
12. The third row shows that although the goldsmith's \_\_\_ were the same, but \_\_\_ \$110, not \$100.
13. When the firm \_\_\_ for \$10, and that person came in \_\_\_ his \$10 worth of gold, the goldsmith's \_\_\_.
14. It made \_\_\_ to the goldsmith whether his \_\_\_ was in \_\_\_ or in a form of \_\_\_.
15. Reserves are the amount of gold that is \_\_\_ to meet \_\_\_.
16. As a banker he \_\_\_ the fact that \_\_\_ would want their gold \_\_\_ at the same time.
17. The reserve ratio is the ratio of \_\_\_ to \_\_\_.
18. How much \_\_\_ he lend out in order to \_\_\_ through \_\_\_?
19. People \_\_\_ he could pay them all back, he \_\_\_ to lose some of the gold he had lent, so they \_\_\_ to get their gold back before \_\_\_.
20. The \_\_\_ or \_\_\_, leads to exactly what people \_\_\_: the bank cannot \_\_\_ them, \_\_\_, and they \_\_\_ as well.

*III. Find in the text English equivalents for the following*

использовать золото (слитки) в качестве денег; отдавать на хранение; золотых дел мастер; (банковское) хранилище (охраняемый подвал); забирать у мастера; стали приниматься в качестве платежа за товары; неиспользуемое золото; оставив себе только 90 долларов; простая сделка; небольшой риск с небольшой прибылью; расплатиться; обанкротиться (2 вар.); финансовая паника; натиск вкладчиков на банк

*IV. Answer the questions*

1. What did people use as money? Give some examples.
2. What were the reasons that made some societies start using precious metals as money?
3. Who were the original bankers? Where did they keep gold?
4. What are the 2 developments that turned the goldsmiths into bankers?



Which of them is of greater importance?

5. What kind of letter did people give to the seller as a payment? What's it called nowadays?
6. Why did people start to say that their money holdings were what they had with them plus their money deposits?
7. How was the system of deposits started?
8. What did a firm ask a goldsmith for? Did he agree to it? On what terms?
9. Explain the information in the first and in the second rows of the table.
10. What did the firm want to do with the gold it had borrowed from the goldsmith? What would we call a deposit today?
11. Explain the information in the third and the fourth rows of the table.
12. What was the goldsmith relying on as a banker?
13. What is reserves and a reserve ratio? What is the goldsmith's reserve ratio after making the loan?
14. Why is it said that the goldsmith took too much of a risk? How much did he lend? What did people do? What is it called nowadays?

*V. Translate into English using all the active possible*

1. Когда царствует процветание, можно ожидать, что банки расширят кредит до максимума своих возможностей. Наоборот, когда на экономическом горизонте появляются тучи депрессии, банкиры поспешно берут назад свои предложения о займах, стремясь к безопасной ликвидности, даже если для этого потребуется пожертвовать потенциальным доходом от процента. Банкиры могут опасаться крупномасштабных изъятий вкладов паникующим населением и сомневаться в способности заемщиков выплатить ссуду.

## MODERN BANKING (СОВРЕМЕННАЯ БАНКОВСКАЯ СИСТЕМА)

The goldsmith bankers were an early example of a *financial intermediary*.

A **financial intermediary** is an institution that specializes in *bringing* lenders and borrowers *together*.

A **commercial bank** borrows money from the public, crediting them with a deposit. The deposit is a liability of the bank. It is money owed to depositors. In turn the bank lends money to firms, households or governments wishing to borrow.

Banks are not the only financial intermediaries. *Insurance companies, pension funds*, and building societies also take in money in order to relend it. The crucial feature of banks is that some of their liabilities are used as a means of payment, and are therefore part of *the money stock*.

Commercial banks are financial intermediaries with a government licence to make loans and *issue deposits*, including deposits against, which cheques can be written.

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

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

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

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

However on the same day someone else is probably writing a cheque on a Lloyds' deposit account to pay for some stereo equipment from a shop banking with Barclays. The stereo shop pays the cheque into its Barclays' account, increasing its deposit. Barclays then pays the cheque into its account at Lloyds where this person's account is simultaneously debited. Now the transfer flows from Lloyds to Barclays.

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

**The Balance Sheet of the London Clearing Banks. Балансовый отчет лондонских клиринговых банков**

Tabl. 7 shows the balance sheet of the London clearing banks. Although more complex, it is not fundamentally different from the balance sheet of the goldsmith-banker shown in Tabl 6. We'll begin by discussing the asset side of the balance sheet.

**Tabl. 7. Balance Sheet of London Clearing banks**

Assets	£b	Liabilities	£b
<b>Sterling: Cash Bills &amp; market loans Advances</b>	2,9 34,7	<b>Sterling: Sight deposits Time deposits CDs</b>	54,1
<b>Securities Lending in other currencies Miscel-</b>	83,0 9,4	<b>Deposits in other cur-</b>	59,9
<b>laneous assets TOTAL</b>	54,6 15,5	<b>rencies Miscellaneous</b>	8,1
<b>ASSETS</b>	200,1	<b>liabilities TOTAL</b>	46,2
		<b>LIABILITIES</b>	31,8
			200,1

*Cash assets* are notes and coin in the banks' vaults. However, modern banks' cash assets also include their cash reserves deposited with *the Bank of England*. The Bank of England (usually known as the Bank) is **the central bank or banker** to the commercial banks.

Apart from cash, the other entries on the asset side of the balance sheet show money that has been lent out or used to purchase *interest-earning assets*. The second item, **bills and market loans**, shows *short-term lending in liquid assets*.

*Liquidity* refers to the speed and the certainty with which an asset can be converted back into money, whenever the asset-holders desire. Money itself is thus the most liquid asset of all.

The third item, **advances**, shows lending to households and firms. A firm that has borrowed to see it through a *sticky period* may not be able to repay whenever the bank demands. Thus, although advances represent the major share of clearing bank lending, they are not very liquid forms of bank lending. The fourth item, **securities**, shows bank purchases of *interest-bearing long-term financial assets*. These can be *government bonds* or *industrial shares*. Although these assets are traded daily on *the stock exchange*, so in principle these securities can be cashed in any time the bank wishes, their price fluctuates from day to day. Banks cannot be certain how much they will get when they sell out. Hence financial investment in securities is also illiquid.

The final two items on the asset side of the balance sheet show **lending in foreign currencies** and **miscellaneous bank assets**. Total assets of the London clearing banks were £200,1 billion. We now shall examine how the equivalent **liabilities** were made up.

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

**Certificates of deposit (CDs)** are an extreme form of time deposit where the

bank borrows from the public for a specified period of time and knows exactly when the loan must be repaid. The final liability items in *Table 7* show deposits in foreign currencies, *miscellaneous liabilities*, such as cheques, in the process of clearing.

### VOCABULARY NOTES

- a financial intermediary** – финансовый посредник
- to bring together** – соединять, сводить вместе
- insurance companies** – страховые компании
- pension funds** – пенсионные фонды
- the money stock** – денежная масса, деньги в обращении
- to issue deposits** – открывать вклады
- the National Girobank** – *англ.* Национальный жиробанк
- trustee saving banks** – доверительные сберегательные банки
- London clearing banks** – лондонские клиринговые банки (банки – члены расчетной палаты)
- a central clearing house** – центральная расчетная палата
- inter-bank accounts** – межбанковские счета
- Barclays** – Барклайз банк (*Великобритания*)
- Lloyds** – Ллойдз банк (*Великобритания*)
- to credit** – кредитовать
- to debit** – дебетовать
- cheque recipient** – получатель чека
- cash assets** – денежные активы
- the Bank of England** – Банк Англии, Английский банк
- interest-earning** (*syn.* **interest-bearing**) **assets** – активы, приносящие процентный доход
- bills and market loans** – векселя и рыночные займы
- short-term lending** – краткосрочное кредитование
- liquid** (*ant.* **illiquid**) **assets** – ликвидные активы
- liquidity** – ликвидность
- advances** – ссуда в виде аванса
- a sticky period** – трудный период
- securities** – ценные бумаги
- interest-bearing long-term financial assets** – долгосрочные финансовые активы, приносящие процентный доход
- government bonds** – государственные облигации
- industrial shares** – промышленные акции
- the stock exchange** – фондовая биржа
- miscellaneous bank assets** – прочее имущество банка
- sight deposit** – депозит до востребования; бессрочный вклад
- time deposit** – срочный вклад
- to withdraw** – отзываться (*вклад*)
- to run down a deposit** – уменьшать вклад
- cheque (checking) accounts** – текущий (чековый) счет
- to sell off** – распродавать
- call in high-interest loans** – требовать возврата займов (требовать уплаты процентов)

**certificates of deposit** – депозитные сертификаты  
**miscellaneous liabilities** – прочие (другие) пассивы

### Assignments

#### I. Suggest the Russian equivalents

institution that brings lenders and borrowers together; crediting them with a deposit; with a government licence; as a means of payment; handling payments by cheque; a set of arrangements; adding up all the transactions; to balance inter-bank accounts; the net amount; to calculate the net flows between banks; costs of making transactions; cash assets are notes and coin; to purchase interest-earning assets; bills and market loans; asset-holders; lending to households and firms; the major share of clearing bank lending; interest-bearing long-term financial assets; price fluctuates; a period of notification; high-interest investments

#### II. Replace the parts in *italics* by synonyms

debited *at the same time*; *interest-bearing* assets; *current* assets; *to support* the firm for a *difficult* period of time; firms may *not be able to repay* when the bank demands; *demand* deposit; *to draw* money from a bank account

#### III. Fill in the gaps with the words and expressions from the text

1. A financial intermediary is an institution that specializes in \_\_\_.
2. A commercial bank \_\_\_ money from the public, \_\_\_ them with a deposit, which is \_\_\_ of the bank.
3. As liabilities are used as \_\_\_, and are part of \_\_\_.
4. Commercial banks are \_\_\_ with a government licence to \_\_\_ and \_\_\_.
5. The clearing banks are so named because they have \_\_\_ for \_\_\_.
6. A clearing system is a set of \_\_\_ in which \_\_\_ between banks are \_\_\_.
7. Lloyds presents the cheque to Barclays, which will \_\_\_ Lloyds' account at Barclays and \_\_\_ your account at Barclays by \_\_\_ amount.
8. Because you purchased goods from a supermarket using \_\_\_, \_\_\_ between the two banks is required.
9. Barclays then \_\_\_ into its account at Lloyds where this person's account is \_\_\_.
10. The clearing system calculates \_\_\_ between the member clearing banks, thus representing another way society \_\_\_ of making transactions.
11. Modern banks' \_\_\_ include notes and coin in the banks' vaults and their \_\_\_ deposited with \_\_\_.
12. The other entries on the asset side of \_\_\_ show money that has been \_\_\_ or used to purchase \_\_\_.
13. The second item, \_\_\_, shows \_\_\_.
14. Money itself is thus \_\_\_ asset of all.
15. The third item, \_\_\_, shows lending to \_\_\_.
16. Although advances represent \_\_\_ of clearing bank lending, they are not \_\_\_ of bank lending.
17. The fourth item, \_\_\_, shows bank purchases of \_\_\_, which can be \_\_\_ or \_\_\_.
18. Although these assets are traded daily on \_\_\_, their price \_\_\_ from day to day, hence financial investment in securities is also \_\_\_.
19. Deposits are chiefly of two kinds: \_\_\_ and \_\_\_.
20. Whereas \_\_\_ can be withdrawn \_\_\_ whenever the depositor wishes, without giving the bank \_\_\_, a minimum \_\_\_ must be given before \_\_\_ can be \_\_\_.

21. Whereas most banks do not pay interest on \_\_ or \_\_, they can afford to pay interest on \_\_.

22. Since they have notification of any withdrawals, they have plenty of time to sell of \_\_\_ or call in \_\_\_ in order to have the money to pay out deposits.

23. CDs are an \_\_ form of \_\_ where the bank borrows from the public for \_\_ and knows exactly when \_\_.

#### *IV. Increase your vocabulary*

##### *Prepositions*

to borrow *from*; to purchase *from*

to bank *with*; to deposit *with*

to credit *with*; to lend *to*

to take *in*; to call *in* loans

to write a cheque *against* a deposit

to pay the cheque *into* account

an account *at* a bank

*Make sentences of your own using these phrases.*

#### *V. Find in the text English equivalents/or the following*

финансовый посредник; банковские пассивы; страховая компания; пенсионный фонд; строительное общество; предоставлять ссуды; открыть депозит; доверительный сберегательный банк; клиринговый банк; центральная расчетная палата; кредитовать счет; дебетовать счет; перевод суммы денег (фондов); получатель чека; банк – член расчетной палаты; балансовый отчет; активы; денежные активы; кассовый резерв; краткосрочные ссуды; переводить в деньги; авансовая ссуда; ценные бумаги; правительственные облигации; акции какой-либо промышленной компании; фондовая биржа; неликвидный; прочее имущество; бессрочный вклад (депозит до востребования); отзывать вклад по предъявлению; срочный вклад; не предупреждая заранее; текущий (чековый) счет; выплачивать проценты; депозитный сертификат

#### *VI. Explain in English*

the National Girobank; cash assets; cash reserves; interest-earning assets; asset-holders; liquid assets; illiquid assets; sight deposits; time deposits

#### *VII. Answer the questions*

1. What's a financial intermediary? Name different financial intermediaries.
2. What's a deposit?
3. What's a bank liability? In what way are the bank liabilities part of the money stock?
4. What's a commercial bank?
5. What's a clearing bank?
6. What's a clearing system? How does it work? Draw a scheme showing how the system works.
7. What's the role of the Bank of England?
8. What do assets include? Dwell on each item.
9. What's liquidity? Why is money itself the most liquid asset? Why aren't advances very liquid forms of bank lending?
10. What do liabilities include? Dwell on each item.

### *VIII. Translate into English using all the active possible*

1. О деятельности коммерческого банка можно судить (понять) с помощью балансового отчета, в котором активы равняются пассивам.

2. У коммерческого банка две основные функции — прием денежных вкладов и выдача ссуд.

3. Банкир преследует две противоречащие друг другу цели. Одна цель — прибыль. Коммерческие банки, как и другие предприятия, стремятся к прибыли. Поэтому они предоставляют кредиты и покупают ценные бумаги, правительственные облигации и акции компаний. Эти операции в балансе показаны как основные активы, приносящие доход коммерческим банкам. С другой стороны, коммерческий банк должен стремиться к безопасности. Для банков безопасность обеспечивается ликвидностью, в частности такими ликвидными активами, как наличность. Поэтому банкиры стремятся к балансу между осторожностью и прибылями.

4. Финансовые посредники – это институты, которые собирают сбережения населения и предоставляют их заемщикам. Финансовые посредники в общем виде могут быть разбиты на три группы – банковские, страховые и инвестиционные институты. Банковские институты состоят из коммерческих банков, сберегательных банков и др. Для них характерно принятие вкладов населения и организаций. Страховые институты представлены страховыми компаниями и пенсионными фондами. Инвестиционные институты представлены финансовыми компаниями. Они привлекают деньги, выпуская собственные акции и инвестируя фонды в акции и облигации.

## MONEY AND THE RETURN IT EARNS (ДЕНЬГИ И ДОХОД, КОТОРЫЙ ОНИ ПРИНОСЯТ)

Fundamental to all financial markets is the idea of earning a return on money. Money has to work for its owner. Here are some of the ways it can do so:

1. You deposit \$1,000 with a bank, which pays you, say, 10 per cent a year interest. In other words, your \$1,000 of capital earns you \$100 a year, which is the return on your money. When you want your \$1,000 back you get \$1,000, plus any *accumulated interest*, not more or less. *Provided* your bank does not *go bust*, your \$1,000 of capital is not at risk, except from inflation, which may reduce its purchasing power each year.

2. You buy gold bullion to a value of \$1,000 because you think the price of gold will rise. If the price of gold has risen by 20% after a year, you can sell your gold for \$1,200. You have made a profit or a *capital gain*, of \$200 on your *capital outlay* of \$1,000. In other words you have a return of 20% on your money. If the price of gold fails to move, you've earned nothing because commodities like gold do not pay interest.

3. You use your \$1,000 to buy securities that are traded on a stockmarket. Usually these will be **government bonds** (known as *gilt-edged securities* or *gilts* in the UK) or **ordinary shares** in a company. The former always provide an income; the latter normally do. Traditional gilt-edged securities pay a *fixed rate of interest*. Ordinary shares in companies normally *pay a dividend* from the profits the company earns. If the company's profits rise, the dividend is likely to be increased; but there is no guarantee that there will be a dividend at all. If the company makes losses, it may have *to cease* paying a dividend.

But when you buy securities that are traded on a stockmarket, the return on your \$1,000 is not limited to the interest or dividends you receive. The prices of these securities will also rise and fall, and your original \$1,000 investment accordingly becomes worth more or less. So you are taking the risk of capital gains or *capital losses*.

Suppose you buy \$1,000 worth of ordinary shares, which pay you a dividend of \$40 a year. You are getting a return or **dividend yield** of 4% a year on your investment (\$40 as a percentage of \$1,000). If after a year the market value of your \$1,000 of shares has risen to \$1,100, you can sell them for a capital gain of \$100 (or a 10% profit on your original outlay). Thus your **overall return** over a year consists of the \$40 income and the \$100 capital gain: a total of \$140 or a 14% overall return on your original \$1,000 investment.

Investors are generally prepared to accept much lower initial *yields* on shares than on fixed-interest stocks because they expect the income to rise in the future. Most investors in ordinary shares are seeking capital gains at least as much as income. Note that if you are buying a security, you are taking the risk that the price may fall whether it is a government bond or a share. But with the government bond the income is at least guaranteed by the government. With the share there is a *second layer of risk*. the company may not earn sufficient profits to pay a dividend.

**To summarize:** money can be deposited to produce an income; it can be used to buy commodities or goods, which are expected to rise in value; or it can be invested in stockmarket securities, which normally produce an income but show capital gains or losses as well. Of course, there are many variations on



each of these items.

## VOCABULARY NOTES

**an accumulated interest** – накопленный процент

**provided** (*syn. providing*) – при условии

**to go bust** (*syn. to go bankrupt*) – обанкротиться

**a capital gain** – доход от прироста капитала (*как результат роста рыночной стоимости активов; может быть получен при продаже активов*)

**capital outlay** – капиталовложения

**gilt-edged securities (gilts)** – первоклассные (особо надежные) ценные бумаги (*досл. с золотым обрезом*)

**ordinary shares** – обыкновенные акции

**a fixed rate of interest** – фиксированная процентная ставка

**pay a dividend** – приносить дивиденд

**to cease** – прекращать

**a capital loss** – капитальный убыток (*потери от понижения рыночной стоимости активов*)

**a yield** – доход по ценным бумагам (*особенно облигациям*)

**a dividend yield** – доход на акцию

**overall return** – общий, суммарный доход

**a second layer of risk** – дополнительный риск

**a layer** – слой

## Assignments

### I. Suggest the Russian equivalents

the idea of earning a return on money; your \$1,000 of capital earns you \$100 a year; a profit or a capital gain of \$200 on your capital outlay of \$1,000; commodities like gold do not pay interest; securities that are traded on a stockmarket; your overall return over a year; most investors in ordinary shares are seeking capital gains at least as much as income; there is a second layer of risk; the company may not earn sufficient profits to pay a dividend; so you are taking the risk of capital gains and capital losses

### II. Replace the parts in *italics* by synonyms

*in case* your bank does not *go bankrupt*; securities that *are bought and sold* on a stockmarket; to earn profits *enough* to pay a dividend.

### III. Fill in the gaps with the words and expressions from the text

1. Fundamental to all financial markets is the idea of \_\_\_\_.
2. Your \$1,000 of \_\_\_\_ earns you \$100 a year, which is \_\_\_\_ on your money.
3. When you want your \$1,000 back you get \_\_\_\_.
4. Provided your bank does not \_\_\_\_, your \$1,000 of capital is \_\_\_\_.
5. You may buy \_\_\_\_, but if the price of gold fails to move, you've earned \_\_\_\_ because commodities like gold \_\_\_\_.
6. Of all \_\_\_\_ traded on a stockmarket \_\_\_\_ always provide an income, \_\_\_\_ normally do, and traditional \_\_\_\_ pay \_\_\_\_.
7. Ordinary shares in companies normally pay \_\_\_\_ the company \_\_\_\_.
8. When you buy securities that are traded on \_\_\_\_, the return is not limited to \_\_\_\_ or \_\_\_\_ you receive.
9. If the market value of your shares has risen, your \_\_\_\_ over a year consists of \_\_\_\_ and \_\_\_\_.

10. Investors are generally prepared to accept \_\_\_ on shares than on \_\_\_ stocks because they expect the income \_\_\_.

11. Most investors in ordinary shares are seeking \_\_\_ at least as much as \_\_\_.

12. With the government bond the income is at least \_\_\_.

13. If the company does not \_\_\_, it may \_\_\_ to pay \_\_\_.

*IV. Find in the text English equivalents for the following*

процент годовых; накопленные проценты; при условии, что...; обанкротиться; сокращать покупательную способность денег; рисковать; золотой слиток; ценные бумаги; государственные облигации; акции; фиксированная процентная ставка; прекратить выплату дивидендов; начальный доход по акциям; приносить доход (проценты) (2 варианта); доходы на капитал (доходы от прироста капитала); потеря капитала

*V. Explain in English*

a capital gain; a capital loss; a return; an overall return; a dividend yield; a fixed rate of interest.

*VI. Answer the questions*

1. What are the ways of earning a return on money?

2. What are gilt-edged securities? Who issues them? Why are they considered to be of the highest class?

3. In what cases does the investor take the risk of capital gains? Capital losses? .

4. Which way of earning a return do you consider the safest and most profitable other things being equal?

*VII. Translate into English using all the active possible*

1. В условиях рыночной экономики всякая денежная сумма способна приносить доход.

2. Если вы владеете акциями какой-либо компании и цены на эти акции поднялись, то вы можете получить доход, продав эти акции.

3. Продать или купить акции можно на особом рынке – фондовом.

4. Цена акции колеблется, ее курс может падать и повышаться. Это зависит от размеров прибыли, которую получает компания, и, следовательно, от дивиденда, который выплачивается по акциям, а также от банковской процентной ставки.

5. Предположим, цена на акции составляет \$100. Если дивиденд по акциям равен \$10, а рыночная ставка процента равна 10%, то 100-долларовая акция приносит доход в 10 долларов. Сумма наличными в 100 долларов, помещенная (вложенная) в банк, тоже принесит доход в 10 долларов. Следовательно, цена на акции не изменится.

6. Если дивиденд повысится до 20 долларов, а процентная ставка останется неизменной (10%), то доход по акциям в этих новых условиях удвоится по сравнению с доходом от такой же суммы, помещенной в банк. Вполне естественно, что курс акции (цена на акции) удвоится.

# INTEREST RATES AND BOND PRICES (СТАВКА ПРОЦЕНТА И ЦЕНЫ НА ОБЛИГАЦИИ)

The change in interest rates has important implications for the stockmarket prices of bonds, which pay a fixed rate *of interest: fixed-interest securities*, of which the traditional gilt-edged securities issued by the government are the most familiar though companies also issue fixed-interest bonds. It works like this.

Gilt-edged securities are a form of IOU (I owe you) or *promissory note* issued by the government when it needs to borrow money. The government undertakes to pay so much a year in interest to the people who *put up the money* and who get the IOU in exchange. Normally the government agrees *to redeem* the stock at some date in the future, but to illustrate the interest rate mechanism it is easiest initially to take an *irredeemable* or *undated stock*, which does not have to be repaid.

The original investors who lend the money to the government do not have to *hold on to* the IOUs. They can sell them to other investors, who then become entitled to receive the interest from the government. Suppose the government needs to borrow money at a time when investors would expect an 11% yield on a gilt-edged security. It offers \$11 a year interest for every \$100 it borrows. The investor is prepared to pay \$100 for the right to receive \$11 a year interest, because this represents an 11% return on his outlay.

Then suppose that interest rates rise to a point where an investor would expect a 12,5% return if he bought a gilt-edged security. He will no longer pay \$100 for the right to \$11 a year in income. He will only be prepared to pay a price that gives him a 12,5% return on his outlay. The "right" price in this case is \$88, because if he pays only \$88 to receive \$11 a year in income, he is getting a 12,5% return on his investment. So in the stockmarket the price of the gilt-edged security that pays \$11 a year interest will have to fall to \$88 before investors are prepared to buy it. The original investor who paid \$100 thus sees the value of his investment fall because of the rise in interest rates. Conversely, the value of his investment would have risen if interest rates had fallen.

**To summarize:** If interest rates on securities go down, bond prices or prices for securities go up, and *vice versa*.

## VOCABULARY NOTES

**a promissory note** – долговое обязательство

**to put up the money** – вкладывать деньги

**to redeem** – погашать (ценные бумаги)

**irredeemable stock** – непогашаемые ценные бумаги

**undated stock** – ценные бумаги без указания даты погашения

**to hold on (to smth)** – сохранять что-либо, держаться за что-либо

**vice versa** – наоборот

## Assignments

I. Suggest the Russian equivalents

pay a fixed rate of interest: fixed-interest securities; IOU; become entitled to receive the interest; the original investor.

II. Replace the parts in *italics* by synonyms

has important *implications*; *undertakes* to pay; people who *put up* the mon-

ey; agrees to *redeem* the stock; become *entitled to* receive the interest

*III. Fill in the gaps with the words and expressions from the text*

1. The change in \_\_ has important implications for the stockmarket prices of bonds, which \_\_.

2. **Of** fixed-interest securities the traditional \_\_ issued by \_\_ are the most familiar though companies also issue \_\_.

3. When the government needs to borrow money, it issues \_\_ as a form of \_\_ and undertakes to pay so much a year in interest to the people who \_\_ and who get the IOU \_\_.

4. When the government \_\_ securities, it normally agrees \_\_ the stock at some date in the future.

5. The original investors can sell their \_\_ to other \_\_, who then become \_\_ from the government.

6. The investor \_\_ to pay \$100 for the right to receive \_\_, because this represents an 11% \_\_ on his \_\_.

7. If \_\_ rates rise, the \_\_ investor sees \_\_ fall.

8. \_\_, the value of his investment \_\_ if interest rates had fallen.

9. If interest rates on securities \_\_, bond prices or prices for securities \_\_, and \_\_.

*IV. Find in the text English equivalents for the following* долговое обязательство; непогашаемые ценные бумаги (без указания даты погашения); наоборот, напротив (2 варианта)

*V. Explain in English*

a promissory note; **IOU**; fixed-interest securities; irredeemable (undated) stock

*VI. Answer the questions*

1. What does the government do when it needs to borrow money?

2. What are the implications of the change in interest rates for the stockmarket prices of bonds? Explain how it works.

*VII. Translate into English using all the active possible*

1. Государство, выпуская в тяжелые времена облигации в качестве долговых обязательств, когда ему необходимо занять деньги у населения, гарантирует обратную выплату всей занятой суммы плюс накопленный процент.

2. Вы не имеете права на пособие по безработице, если вы никогда не работали.

3. Правительство выделило около 500000 долларов, чтобы спасти популярный футбольный клуб.

4. Более высокая процентная ставка невыгодна для инвесторов, уже вложивших свой капитал в акции с фиксированным дивидендом, так как она означает для них большие потери.

# THE MONEY SUPPLY AND THE DEMAND FOR MONEY (ПРЕДЛОЖЕНИЕ И СПРОС НА ДЕНЬГИ)

## The Bank and the Money Supply. Банк и предложение денег

The narrowest measure *M1* of *the money supply* is **currency in circulation** outside the banking system plus **the sight deposits** of commercial banks against, which the private sector can write cheques. Thus the money supply is partly a liability of the Bank (currency in private circulation) and partly a liability of commercial banks (checking accounts of the general public).

## The Demand for Money. Спрос на деньги

The demand for money is the quantity of liquid assets people are willing to have in hand at any given moment. It depends on the income they gain and *the opportunity costs* connected with the interest rate. But why do people hold money at all?

Money is a stock. It is the quantity of circulating currency and bank deposits held at any given time. Holding money is not the same as spending money when we buy a meal or go to the cinema. We hold money in order to spend it later.

The distinguishing feature of money is its use as a medium of exchange, for which it must also serve as a store of value. It is in these two functions of money that we must seek the reasons why people wish to hold it.

*The Transactions Motive for holding money.* In a monetary economy we use money to purchase goods and services and receive money in exchange for the goods and services we sell. Without money, making transactions by direct barter would be costly in time and effort. Holding money economizes on the time and effort involved in *undertaking transactions*. **We** need to hold money between receiving payments and making subsequent purchases.

How much money we need to hold depends on two things, the value of the transactions we wish to make and the degree of synchronization of our payments and *receipts*. We do not know how much \$100 will buy until we know the price of goods. If all prices double, we will need to hold twice as much money to make the same transactions as before.

The demand for money is a demand for real money. **We** need a given amount of real money to undertake a given quantity of total transactions.

*The Precautionary Motive for holding money.* Thus far we have assumed that people know exactly when they will obtain receipts and make payments. But of course we live in an uncertain world. Tills uncertainty about *the precise timing* of receipts and payments gives rise to a precautionary motive for holding money. Suppose you decide to buy a lot of interest-earning bonds and try *to get by* with only a small amount of money holdings. You are walking down the street and *spot a great bargain* in a shop window. But you do not have enough money *to take advantage* immediately of this opportunity. By the time you have arranged for some of your interest-earning bonds to be sold off in exchange for money, the sale may be over. Someone else may have *snapped up* the video recorder on sale at half-price. This is the precautionary motive for holding money. In advance, we decide to hold money to meet *contingencies* the exact nature of which we cannot *foresee*.

Together, the transactions and the precautionary motives provide the main

reasons for holding the medium of exchange. They are the motives most relevant to the benefits from holding money.

**The Asset Motive for holding money.** Suppose we forget all about the need to transact. We think of a wealthy individual or a firm deciding in which assets to hold wealth. At some distant date there may be a prospect of finally spending some of that wealth, but in the short run the objective is to earn a good rate of return.

Some assets, such as industrial shares, *on average* pay a high rate of return but are also quite risky. Some years their return is very high, but in other years it is negative. When share prices fall, shareholders can make a capital loss, which *swamps* any dividend payment to which they are entitled. Other assets are much less risky, but their rate of return tends to be much lower than the average return on risky assets. Since people dislike risk, they will not put all their eggs in one basket. As well as holding some *risky assets*, they will keep some of their wealth in safe assets. Although on average this *portfolio* will earn a lower rate of return, it will help avoid absolute *disaster* at hard times.

The asset motive for holding money arises because people dislike risk. People are prepared *to sacrifice* a high average rate of return to obtain a portfolio with a lower but more *predictable rate of return*.

## VOCABULARY NOTES

**currency in circulation** – наличность в обращении

**the opportunity costs** – альтернативные издержки владения деньгами

**the transactions motive for holding money** – транзакционный мотив накопления денег (*категория кейнсианского анализа*)

**to undertake transactions** – проводить, совершать сделки

**receipts [ri:si:ts] pi.** – денежные поступления

**the precautionary motive for holding money** – мотив накопления денег на непредвиденные цели (*категория кейнсианского анализа*)

**the precise timing** – точное время

**to get by** – прожить, сводить концы с концами

**to spot** – *разг.* увидеть, заметить

**a great bargain** – хорошая вещь, которая предлагается по специальной (сниженной) цене; удачная покупка

**to take advantage of** – воспользоваться

**to snap up** – подхватить, перехватить

**contingencies** – случайности, непредвиденные обстоятельства

**to foresee** – предвидеть

**the asset motive for holding money** – мотив накопления денег в качестве активов (*категория кейнсианского анализа*)

**on average** – в среднем

**to swamp** – поглощать, сводить на нет

**risky assets** – неликвидные активы (*долгосрочные инвестиции и ссуды; ценные бумаги с колеблющимся курсом*)

**a portfolio** – портфель (*напр., ценных бумаг*)

**disaster** – бедствие, крах

**to sacrifice** – жертвовать, приносить в жертву

**predictable rate of return** – предсказуемая норма прибыли

## Assignments

### *I. Suggest the Russian equivalents*

the distinguishing feature of money; in a monetary economy; the time and effort involved in undertaking transactions; snapped up the video recorder on sale at half-price; the motives most relevant **to...**; a capital loss, which swamps any dividend payment to which they are entitled; will not put all their eggs in one basket; avoid absolute disaster at hard times; to sacrifice a high average rate of return; in the short run

### *II. Replace the parts in **italics** by synonyms*

*gives rise to; to take advantage of the opportunity, to meet contingencies, to foresee, a more predictable rate of return*

### *III. Fill in the gaps with the words and expressions from the text*

1. The narrowest measure M1 of the money supply is \_\_\_ outside the banking system plus \_\_\_ of commercial banks.

2. The money supply is partly \_\_\_ of the Bank and partly a liability of

3. The demand for money is \_\_\_ people are willing to have in hand at any given moment.

4. Holding money is not the same as \_\_\_ money, as we hold money, in order to \_\_\_.

5. It is in two main functions of money, that is, its use as a medium of \_\_\_ and a store of \_\_\_, that we must seek the reasons why \_\_\_.

6. Without money, making transactions by \_\_\_ would be \_\_\_ in time and effort.

7. We need to hold money between \_\_\_ and \_\_\_.

8. How much money we need to hold depends on \_\_\_ we wish to make and the degree \_\_\_.

9. We need a given amount of \_\_\_ to undertake a given quantity of \_\_\_.

10. The uncertainty about \_\_\_ of receipts and payments gives rise to \_\_\_.

11. The precautionary motive for holding money is a decision to hold money to meet \_\_\_ the exact nature of which we cannot \_\_\_.

12. Together, \_\_\_ and \_\_\_ provide the main reasons for holding the medium of exchange as they are the motives \_\_\_ to the benefits from \_\_\_.

13. Some assets, such as \_\_\_, on average pay a high rate of return but are also \_\_\_.

14. When share prices fall, \_\_\_ can make \_\_\_, which \_\_\_ any dividend payment to which \_\_\_.

15. Since people dislike risk, they will not \_\_\_.

16. Although on average \_\_\_ will earn a lower rate of return, it will help avoid \_\_\_ at hard times.

17. People are prepared to sacrifice \_\_\_ to obtain a portfolio with a lower but \_\_\_ rate of return.

### *IV. Find in the text English equivalents for the following*

наличность в обращении; денежные обязательства банка; текущий (чековый) счет; путем непосредственного обмена; транзакционный мотив накопления денег; мотив накопления денег на непредвиденные цели; прожить на небольшие деньги; быть готовым к случайностям, непредвиденным обстоятельствам; получать доходы и производить платежи; мотив накопления денег в качестве активов; портфель ценных бумаг

### *V. Answer the questions*

1. What is the money supply?

2. What determines the demand for money?
3. What are the reasons for holding money? How do people hold their money?
4. Dwell on each motive for holding money.

*VI. Translate into English using all the active possible*

1. Одна из причин спроса на деньги состоит в том, что люди нуждаются в деньгах как в средстве обращения, то есть в удобном способе приобретения товаров и услуг. Домашние хозяйства должны иметь достаточное количество денег, чтобы делать покупки, платить по счетам и т. д. Предприятиям деньги нужны для оплаты труда, материалов, энергии и т. д. Необходимые для этих целей деньги называются спросом на деньги для сделок.

2. Другая причина, по которой люди держат деньги, вытекает из их функции как средства сбережения. Люди могут держать свои финансовые активы в различных формах, например: в виде акций, частных или государственных облигаций или в деньгах. Отсюда, естественно, следует, что существует спрос на деньги, как на финансовые активы.

3. В узком смысле предложение денег, обозначаемое  $M1$ , состоит из двух элементов: наличности, то есть металлических и бумажных денег, находящихся в обращении, и чековых (бессрочных) вкладов, то есть вкладов в коммерческих банках, различных сберегательных учреждениях, на которые могут быть выписаны чеки.



## THE MONEY MARKET (РЫНОК ДЕНЕГ)

The money market comprises the demand for money and the money supply. The equilibrium in the money market is such a state of balance when the demand for money from households and businesses is satisfied by the quantity of the money supplied. The equilibrium in the money market is reached by changing bond prices.

People can hold their wealth in various forms — money, bonds, *equities*, and property. For simplicity we assume that there are only two assets: **money**, the medium of exchange that pays no interest, and **bonds**, which we use to stand for all other interest-bearing assets that are not directly a means of payment. As people earn income, they add to their wealth. As they spend, they *deplete* their wealth. How should people divide their wealth at any instant between money and bonds to gain the best profits possible and not to incur losses?

There is an *obvious* cost of holding money. **The opportunity cost** of holding money is the interest one would have gained if he (she) had held bonds. It naturally follows that people will hold money rather than bonds only if there is a benefit *to offset* this cost, only if holding money is more profitable than holding bonds. It may happen only when interest rates on bonds are too low to make it profitable to hold bonds.

Suppose the money market is in equilibrium when the interest rate on interest-bearing assets (e.g. *Treasury bills* and other securities) is 6% and the amount of money demanded is \$200 mm. Now suppose the interest rate goes down, say, to 4%. In this case interest-bearing assets are no longer profitable as they can't earn a sufficient return. Hence the demand for money will rise and will lead to a temporary lack of money in the money market. If they lack money, households and businesses are likely to sell bonds they possess for cash. That will cause an increase in the bond supply, which lowers bond prices and raises interest rates on interest-bearing assets. With a higher interest rate the amount of money people are willing to have in hand will decrease again. *Consequently*, the money supply will adjust to a current demand to reflect a new higher interest rate.

*Conversely*, the increase in the money supply creates its *temporary surplus*, which results in the demand for bonds and bond prices going up. The interest rate falls thus restoring balance in the money market, but at a new lower interest rate.

### VOCABULARY NOTES

**equities** (*syn.* **ordinary shares, equity shares, ordinary stocks**) –  
обыкновенные акции

**to deplete** – истощать, исчерпывать

**obvious** – очевидный

**to offset** – возмещать

**Treasury bills** – казначейские векселя

**consequently** – следовательно, поэтому

**conversely** – наоборот

**temporary surplus** – временный избыток, излишек

### Assignments

*I. Suggest the Russian equivalents*

interest-bearing assets are no longer profitable; to sell bonds they possess for cash; the supply will adjust to the current demand; we use to stand for all

other interest-bearing assets; thus restoring balance

*II. Replace the parts in **italics** by synonyms*

*to offset* this cost

*III. Fill in the gaps with the -words and expressions from the text*

1. The money market comprises \_\_ and \_\_.
2. The equilibrium in the money market is such \_\_ when the demand for money from \_\_ is satisfied by the quantity of \_\_.
3. The equilibrium in the money market is reached by \_\_.
4. Money is the medium of \_\_ that \_\_.
5. We use bonds to stand for all other \_\_ that are not directly \_\_.
6. As people earn income, they \_\_ their wealth. As they spend, they \_\_ their wealth.
7. \_\_ of holding money is the interest one \_\_ if he (she) \_\_ bonds.
8. People will hold money rather than bonds only if holding money is \_\_ than holding bonds, that is when \_\_ on bonds are \_\_ to make it profitable to
9. In case the interest rate goes down \_\_ are no longer profitable as they can't \_\_.
10. The demand for money will rise and will lead to \_\_ in the money market.
11. If they lack money, households and businesses are likely to \_\_ they possess \_\_.
12. If there is an increase in the bond supply, it will \_\_ bond prices and \_\_ interest rates on \_\_.
13. The money supply will \_\_ to a current demand to \_\_ a new higher interest rate.
14. The increase in the money supply creates its \_\_, which results in \_\_.

*IV. Find in the text English equivalents for the following*

равновесие денежного рынка; временная нехватка (избыток) денег; иметь на руках; быть в равновесии; восстанавливать равновесие; достичь равновесия; активы (облигации), приносящие процентный доход; увеличивать богатство; исчерпывать (истощать) богатство; для простоты допустим, что...; альтернативные издержки владения деньгами; компенсировать издержки

*V. Answer the questions*

1. Explain in your own words the term "opportunity costs". What is the opportunity cost of holding money?
2. What's the equilibrium in the money market? How can it be reached?
3. How does the money market work?

*VI. Translate into English using all the active possible*

1. Для экономики плох как недостаток, так и избыток денег, так как первый ведет к снижению расходов во время упадка, а последний – к обесценению денег и снижению их покупательной способности во время инфляции.
2. Денежный рынок объединяет спрос и предложение денег для определения равновесной ставки процента.
3. Равновесие денежного рынка устанавливается посредством изменения цен на облигации. С изменением цен на облигации процентные ставки меняются в обратном направлении. При равновесной ставке процента цены на облигации постоянны, а спрос и предложение денег

равны.

4. Уменьшение предложения создает временную нехватку денег на денежном рынке. Люди и учреждения пытаются получить больше денег путем продажи облигаций. Поэтому предложение облигаций увеличивается, что понижает цену на облигации и поднимает процентную ставку.

5. Увеличение предложения денег создает временный их избыток, в результате чего увеличивается спрос на облигации и цена на них становится выше. Процентная ставка падает, и на денежном рынке восстанавливается равновесие.

# MARKETS AND INTEREST RATES (РЫНКИ И НОРМА ПРОЦЕНТА)

For each type of investment and for many of their *derivatives* there is a market. There is a market in money in London. It is not a physical marketplace: dealings take place over the telephone, and the price a borrower pays for the use of money is the interest rate. There are markets in commodities. And there is a market in government bonds and company shares:

***the stockmarket.*** The important thing is that no market is entirely independent of the others. *The linking factor* is the cost of money (or the return an investor can get on money). If interest rates rise or fall there is likely to be a *ripple of movement through all the financial markets*. Money will *gravitate* to where it earns the best return, *commensurate with* the risk the investor is prepared to take and the length of time for which he can *tie up* his money. This is the most important mechanism in the financial sphere. As a ***general rule:***

\* The more money you have to invest, the higher the return you can expect.  
\* The longer you are prepared to tie your money up, the higher the return you can expect.

\* The more risk you are prepared to take, the higher the return you can expect if all goes well.

In either type of market, the buyers and the sellers may deal direct with each other or they may deal through a *middleman* known as a *marketmaker*. If they deal direct, each would-be buyer has to find a corresponding would-be seller. If there is a marketmaker, a seller will sell instead to the marketmaker, who buys *on his own account* in the hope that he will later be able to find a buyer to whom he can sell at a profit. Marketmakers make a book in shares or bonds. They are prepared to buy shares in the hope of finding somebody to sell to or sell shares (which they may not even have) in the expectation of finding somebody from whom they can buy to balance their books. Either way, they make their living on the difference between the prices at which they buy and sell. Marketmakers (in practice there will normally be a number of them competing with each other) lend liquidity – *fluidity* – to a market. A potential buyer can always buy without needing to wait until he can find a potential seller, securities can readily be turned into cash.

**VOCABULARY NOTES derivatives** – производные **the linking factor** – связующий фактор, звено **a ripple of movement through all the financial markets** – движение, волнение на всех финансовых рынках **to gravitate** – стремиться **commensurate with** – соразмерный **to tie up** – вкладывать (*капитал*) **a middleman** – посредник **a marketmaker** – "делатель рынка"; брокерская фирма, постоянно котирующая ценные бумаги, товар **on one's own account** – на свой страх и риск; самостоятельно **fluidity** – подвижность

## Assignments

### I. Suggest the Russian equivalents

the other side of the same coin; a ripple of movement; he can sell at a profit; they make a book in shares and bonds; buy to balance their books

### II. Replace the parts in *italics* by synonyms

money will *move* to where it earns the best return; investor can *tie up* his money; who buys *on his own account*.

*III. Fill in the gaps with the words and expressions/row the text*

1. A market in money in London is not \_\_: dealings take place \_\_, and the price a borrower pays for \_\_ is \_\_.
2. \_\_ is a market in government bonds and company shares.
3. If interest rates rise or fall there is likely to be \_\_ through all the financial markets.
4. Money \_\_ to where it earns the best return, \_\_ with the risk the investor \_\_ and the length of time for which he can \_\_ his money.
5. The more money you \_\_, the higher the return you \_\_.
6. The longer you are prepared to \_\_, the higher the return \_\_.
7. The more risk you \_\_, the higher \_\_.
8. If the buyers and the sellers deal direct, each \_\_ has to find a corresponding \_\_.
9. A marketmaker buys \_\_ in the hope that he will later be able to find a buyer to whom he can \_\_.
10. Marketmakers are prepared to buy shares \_\_ of finding somebody to sell to or sell shares \_\_ of finding somebody from whom they can buy to \_\_.
11. Marketmakers make their living on \_\_ at which they buy and sell.
12. Marketmakers lend \_\_ to a market.

*IV. Find in the text English equivalents for the following*

рынок товаров; рынок акций; лежать в основе; перемещаться; вложить деньги; наибольшая прибыль, соизмеримая (соразмерная) с риском; посредник, известный как "создатель рынка"; потенциальный (2 варианта) покупатель и продавец; на свой страх и риск; в надежде (2 варианта)

*V. Check your grammar*

**the + comparative... the + comparative**

e.g. the sooner the better

*Make sentences using this construction, like this:*

much money to invest – a high return

*The more money you have to invest, the higher the return you can expect.*

1. to produce goods and services — to enjoy a high standard of living
2. a high standard of living – a lot of expenditure on luxury items
3. wide advertising — high sales
4. high prices for some goods – low sales
5. a great demand – high prices – much profit
6. injections into the economy — the size of the circular flow of income and the level of the activity in the economy increase
7. the severe inflation – the rise in the general price level – the fall in the purchasing power

*Add some more sentences of your own on inflation, the money supply and the demand for money, the money market etc.*

*VI. Answer the questions*

1. What are different types of investment and what are the corresponding markets? Dwell on each item.
2. What is a marketmaker? How does he make the market?

*VII. Translate into English using all the active possible*

1. Вкладывая деньги в различные банки и инвестируя их в различные фонды, инвестор всегда преследует цель получить наибольшую прибыль,

соизмеримую с риском.

2. Фондовая биржа – это посредник между потенциальными покупателями и продавцами государственных облигаций, акций компаний и других ценных бумаг.

3. В основе любого рынка, в т.ч. рынка ценных бумаг, лежит принцип равновесия между теми, кто хочет продать, и теми, кто хочет купить акции.

# PRIMARY AND SECONDARY MARKETS (ПЕРВИЧНЫЙ И ВТОРИЧНЫЙ РЫНКИ)

Fixed-interest securities and ordinary shares are the main *stock-in-trade* of the securities markets and *the Stock Exchange* is the main securities market in the UK (and the New York Stock Exchange is the largest in the USA). By buying one or the other, investors are helping – directly or indirectly – to provide the finance that government or industry needs. Why "directly or indirectly"? Because the stockmarket is two markets in one: a *primary market* and a *secondary market*.

A **primary market** is one in which the government, companies or other bodies can sell new securities to investors to raise cash.

A **secondary market** is a market in which the investors can buy and sell these securities among each other. The buying and the selling in the secondary market does not directly affect the finances of government and companies. But if investors did not know they could buy and sell securities in the secondary market they might well *be reluctant* to put up cash for the government or companies by buying securities in the primary market when they were first issued. And the prices established by the buying and selling by investors in the secondary market help to determine the price that government and companies will have to pay next time they need to issue further securities for cash in the primary market. A reasonably liquid secondary market is normally considered vital for a healthy primary market.

## VOCABULARY NOTES

**stock-in-trade** – товарная наличность; товар

**the Stock Exchange** – Лондонская фондовая биржа

**to be reluctant to do smth** – неохотно делать что-либо

## Assignments

### I. Suggest the Russian equivalents

sell securities to raise cash; might be reluctant to put up cash for the government; to issue further securities for cash

### II. Replace the parts in *italics* by synonyms

might *be reluctant to put up* cash for the government; directly *affect* the finances; are *helping to provide* the finance; is considered *vital*

### III. Fill in the gaps with the words and expressions from the text

1. By buying \_\_\_ and \_\_\_ investors are helping to \_\_\_ that government or industry needs.
2. The stockmarket is two markets in one: a \_\_\_ market and \_\_\_ market.
3. A primary market is a market in which the government, companies or other bodies can sell \_\_\_ to investors to \_\_\_.
4. A secondary market is a market in which \_\_\_ can buy and sell these securities \_\_\_.
5. If investors did not know they could trade securities in \_\_\_ they might \_\_\_ to put up cash for the government or companies by buying securities \_\_\_ when they were \_\_\_.
6. The prices established by investors in the secondary market help to \_\_\_ the price that government and companies will have to pay next time they need to \_\_\_ further securities \_\_\_ in \_\_\_.
7. A \_\_\_ secondary market is normally considered \_\_\_ for a \_\_\_.

*IV. Find in the text English equivalents for the following* рынок ценных бумаг; фондовая биржа; первичный рынок; вторичный рынок

*V. Answer the questions*

1. What is a primary market?
2. What is a secondary market?
3. How are they interconnected?

*VI. Translate into English using all the active possible*

Все рынки взаимосвязаны: процентные ставки влияют на цены облигаций и акций на фондовом рынке; цены акций и облигаций влияют на состояние финансов компаний и правительства, что меняет ситуацию на денежном рынке. Это, в свою очередь, имеет огромное значение для состояния экономики в целом и поднимает или понижает стоимость национальной валюты на внешнем валютном рынке (the foreign exchange market).



# MONETARY POLICY (КРЕДИТНО-ДЕНЕЖНАЯ ПОЛИТИКА)

Monetary policy is one of the main *instruments of macroeconomics*. It is based on the ability of the Central bank to *control the money supply*, which leads to changes in interest rates and *the exchange rate*, and therefore in *the amount of investment*, which influences directly the national output. This method of controlling the economy centres on *adjusting the amount of money in circulation* in the economy and so the level of spending and economic activity. Monetary policy was first employed as a means of control in the 1950s, but has been more widely used since the 1970s. The Central Bank plays a major role in the *implementation of a nation's monetary policy*. In some countries (for example, Germany) the Central Bank operates monetary policy independent of government policy. However, the UK's Central Bank, *the Bank of England*, *implements* monetary policy *on behalf of the government*. Monetary policy has *three main aspects*:

- Controlling the money supply
- Controlling interest rates
- Managing the exchange rate

In this section we study the ways in which a central bank can *control the supply of money* in the economy. The aim of the authorities when controlling the money supply is to limit the amount borrowed, and hence spent, by businesses and individuals during an inflationary period. It is hoped in this way to limit the level of overall demand in the economy and thus to remove or reduce inflationary pressure. During a recession monetary policy is aimed at increasing the money supply to encourage spendings. We now describe the three most important instruments available to affect the money supply: *open market operations*, *reserve requirements* and *the discount rate*.

## **Open Market Operations. Операции на открытом рынке**

Open market operations are the most important way of controlling the money supply. It refers to the Bank trading government bonds in the open market – that is when they are bought from and sold to commercial banks and individuals.

When the Bank sells government bonds in the open market, the Bank withdraws the money from population and reduces the money supply. When the Bank buys government bonds in the open market, it increases the amount of money in circulation and hence the money supply.

## **Reserve Requirements. Резервные требования**

To understand the way a central bank can influence the money supply we should consider the creation of money by commercial banks and in this connection introduce *the money multiplier*.

Banks have to hold a proportion of their assets as a reserve in case customers demand repayment of their deposits. This *required reserve* has to be in a liquid form, that is *easily convertible into cash*. Many banks indeed hold a significant proportion of this reserve as notes and coin either in their vaults or at the central bank. A *required reserve ratio (%)* is a minimum ratio of cash reserves to deposits that the central bank requires commercial banks to hold. Commercial banks can hold more than the required *cash reserves* (this amount of money is called *excess reserves* and is used to create new money), but they

cannot hold less. If their cash falls below the required amount, they must immediately borrow cash, usually from the central bank, to restore their required reserve ratio.

Commercial banks can make loans, i.e. they can create money and increase their excess reserves. Suppose somebody deposited \$100 with bank A. If a required reserve ratio is 20%, the bank has \$20 as required reserves and \$80 as excess reserves, which can be lent. If a borrower *draws a cheque* for this whole sum and deposits it with bank B, then bank B gets \$80 as its assets. Bank B is to hold 20% of this sum (that is \$16) as required reserves. It means it has \$64 of excess reserves, which it can lend to somebody. *Tabl. 8* illustrates the process with banks C, D, E, etc. being involved.

**Tabl. 8. The expansion of the money supply by a system of commercial banks**

Bank	Reserves and Loans, \$	Required Reserves, \$	Excess Reserves, \$	Created Money (the amount of money to lend), \$
Bank A	100,00	20,00	80,00	80,00
Bank B	80,00	16,00	64,00	64,00
Bank C	64,00	12,80	51,20	51,20
Bank D	51,20	10,24	40,96	40,96
Other banks	204,80	40,96	163,84	163,84
The total amount of the money created				400,00

The *money multiplier (m)* shows the maximum amount of *money*, which can be *created* by one dollar of excess reserves, the required reserve ratio given. The money multiplier is *Inversely proportional* to the required reserve ratio, or  $m = 1 / R$ , where

m – a money multiplier

R – a required reserve ratio

So we can see that the larger the required reserve ratio is the smaller the money multiplier is; the less money can be created and the less the money supply is.

Now suppose the commercial banking system has \$1 million in cash and for strictly commercial purposes would normally *maintain* cash reserves equal to 5% of sight deposits. Since sight deposits will be 20 times cash reserves, the banking system will create \$20 million of sight deposits against its \$1 million cash reserves:

cash reserves \$1 mln – 5%

sight deposits x – 100%

$x = \$1 \text{ mln} \times 100\% : 5\% = \$20 \text{ mm}$ .

Suppose the Bank now *imposes a reserve requirement* that banks must hold cash reserves of at least 10% of sight deposits. Now banks can create only \$10 million sight deposits against their cash reserves of \$1 million. Thus a reserve requirement acts like a tax on banks by forcing them to hold a higher *fraction* of their total assets as bank reserves and a lower fraction as loans earning high interest rates.

Thus, when the central bank imposes a reserve requirement *in excess of* the reserve ratio that *prudent* banks would anyway have maintained, the effect is to reduce the creation of bank deposits, reduce the value of the money multiplier,

and reduce the money supply. Similarly, when a particular reserve requirement is already *in force*, any increase in the reserve requirement will reduce the money supply.

### **The Discount Rate. Учетная ставка**

The second instrument of monetary control available to the central bank is the discount rate.

*The discount rate* is the interest rate that the Bank *charges* when the commercial banks want to borrow money.

Suppose banks think the minimum safe ratio of cash to deposits is 10%. Say their cash reserves are 12% of deposits. How far dare they let their cash reserves fall towards the minimum level of 10%?

Banks have to balance the interest rate they will get on extra lending with the dangers and costs involved if there is a sudden flood of withdrawals, which push their cash reserves below the critical 10% figure. This is where the discount rate comes in. Suppose market interest rates are 8% and the central bank makes it known it is prepared to lend to commercial banks at 8%. Commercial banks may as well *lend up to the hilt* and *drive their cash reserves down to the minimum* 10% of deposits. The banks are lending at 8% and, *if the worst comes to the worst* and *they are short of cash*, they can always borrow from the Bank at 8%. Banks cannot lose by lending as much as possible.

Suppose however that the Bank announces that, although market interest rates are 8%, it will lend to commercial banks only at *the penalty rate* of 10%. Now a bank with cash reserves of 12% may conclude that *it is not worth making the extra loans* at 8% interest that would drive its cash reserves down to the minimum of 10% of deposits. There is too high a risk that sudden withdrawals will then force the bank to borrow from the Bank at 10% interest. It will have lost money by making these extra loans. It makes more sense to hold some excess cash reserves against the possibility of a sudden withdrawal.

Thus, by setting the discount rate at a penalty level in excess of the general level of interest rates, the Bank can *induce* commercial banks *voluntarily* to hold additional cash reserves. Since banks have to hold more cash as reserves, the money multiplier is reduced, less money can be created and the money supply is lower.

### **VOCABULARY NOTE**

**instruments of macroeconomics** – макроэкономические инструменты  
**to control the money supply** – контролировать предложение денег

**the exchange rate** – обменный (валютный) курс

**the amount of investment** – размер капиталовложений

**to adjust the amount of money in circulation** – корректировать количество денег в обращении

**implementation of a nation's monetary policy** – осуществление, проведение в жизнь национальной денежно-кредитной политики

**to implement** – выполнять, осуществлять, обеспечивать выполнение

**the Bank of England** – Банк Англии (Английский банк). *The Bank of England is the UK's central bank. Established in 1694, it plays a key part in implementing the government's monetary policy. It ensures that interest rates are at the level desired by the government of the day and oversees the printing of notes and coin. It has wider responsibilities in managing the nation's debt and holding its reserves of foreign currency and gold. Thus, it holds responsibility*

for the country's monetary policy and its financial relations with other countries.

**on behalf of** – от имени

reserve **requirements** – резервные требования

**a discount rate** – учетная ставка

**the money multiplier** – денежный мультипликатор

**required reserves** – требуемые резервные фонды

**easily convertible into cash** – легко обратимый в наличные (*напр.*, депозиты, ценные бумаги)

**a required reserve ratio** – требуемая резервная норма

**cash reserves** – кассовые резервы

**excess reserves** – избыточные резервы

**to draw** (*syn.* **to write out, to make out, to issue**) **a cheque** – выписать

чек

**created money** – созданные деньги

**inversely proportional** (*ant.* **directly proportional**) – обратно пропорциональный

**to maintain** – поддерживать

**to impose a reserve requirement** – налагать (вводить) резервное требование

**fraction** – часть, доля

**in excess of smth** – сверх чего-либо

**prudent** – расчетливый, предусмотрительный

**in force** – в силе

**to charge** – назначать, начислять

**to lend up to the hilt** – *зд.* продолжать предоставлять ссуды

**up to the hilt** – полностью, целиком

**drive their cash reserves down to...** – довести (снизить) свои кассовые резервы до...

**if the worst comes to the worst** – если случится самое худшее

**they are short of cash** – у них не хватит наличных денег

**the penalty rate** – повышенная (штрафная) ставка

**it is not worth making the extra loans** – не стоит предоставлять дополнительных займов

**to induce smb to do smth** (*syn.* **to cause smb to do smth**) – заставить кого-то сделать что-то

**voluntarily** – сознательно, осознанно

## Assignments

### *I. Suggest the Russian equivalents*

to restore their required reserve ratio; maintain cash reserves equal to 5% of sight deposits; create \$20 million of sight deposits; a higher fraction of their total assets; a lower fraction as loans; the interest rate that the Bank charges; extra lending; impose a reserve requirement; the dangers and costs involved; prudent banks; lend up to the hilt; the minimum safe ratio of cash to deposits; flood of withdrawals; the Bank can induce banks voluntarily to hold additional cash reserves; the required reserve ratio given

### *II. Replace the parts in italics by synonyms*

*implements* monetary policy; plays a *major* role; *operates* monetary policy; *extra lending*; if *the worst comes to the worst*; they are *short of* cash; to *affect* the money supply; *in excess of* the reserve ratio

III. Fill in the gaps with the words and expressions from the text

1. Monetary policy is a method of controlling the economy that centres on \_\_\_ the amount of money \_\_\_ in the economy and so \_\_\_ and \_\_\_.

2. In some countries the Central Bank operates monetary policy \_\_\_ government policy, but the UK's Central Bank implements monetary policy \_\_\_ the government.

3. Monetary policy has three main aspects: controlling \_\_\_, controlling \_\_\_, managing \_\_\_.

4. The aim of the authorities when controlling the money supply is \_\_\_, and hence \_\_\_, by businesses and individuals during \_\_\_.

5. It is hoped to limit the level of \_\_\_ in the economy and thus to remove or reduce \_\_\_.

6. During a recession monetary policy is aimed at \_\_\_ to \_\_\_ spendings.

7. The three most important instruments \_\_\_ the money supply are \_\_\_, \_\_\_ and \_\_\_.

8. Open market operations refer to the Bank trading government bonds \_\_\_, that is when they are bought from and sold to \_\_\_.

9. When the Bank sells \_\_\_ in the open market, the Bank \_\_\_ the money from population and \_\_\_ the money supply.

10. When the Bank buys government bonds in the open market, it \_\_\_ the amount of money \_\_\_ and hence \_\_\_.

11. Banks have to hold a proportion of their assets \_\_\_ in case customers demand \_\_\_.

12. The required reserve has to be \_\_\_, that is easily \_\_\_ into cash.

13. \_\_\_ is a minimum ratio of \_\_\_ to \_\_\_ that the central bank requires commercial banks to hold.

14. If cash of commercial banks \_\_\_ the required amount, they must immediately \_\_\_ cash, usually from \_\_\_, to restore their \_\_\_.

15. Commercial banks can make loans, i.e. they can \_\_\_ and increase \_\_\_.

16. The money multiplier (m) shows \_\_\_, which can be created by one dollar of \_\_\_, the required reserve ratio \_\_\_.

17. The money multiplier is \_\_\_ to the required reserve ratio, it means that the larger \_\_\_ is the smaller \_\_\_ is; the less money \_\_\_ and the less \_\_\_ is.

18. Since sight deposits will be 20 times cash reserves, the banking system will create \$20 million of \_\_\_ against its \$1 million \_\_\_.

19. A reserve requirement acts like \_\_\_ by forcing them to hold \_\_\_ of their total assets as \_\_\_ and \_\_\_ as loans earning \_\_\_.

20. When the central bank imposes a reserve requirement \_\_\_ the reserve ratio, the effect is to reduce \_\_\_, reduce \_\_\_, and reduce \_\_\_.

21. When a particular reserve-requirement is already \_\_\_, any increase in \_\_\_ will reduce \_\_\_.

22. The discount rate is \_\_\_ that the Bank \_\_\_ when the commercial banks want \_\_\_.

23. Banks have to balance \_\_\_ they will get on extra lending with \_\_\_ if there is \_\_\_, which push their cash reserves \_\_\_.

24. Commercial banks may as well lend up \_\_\_ and \_\_\_ their cash reserves \_\_\_ to the minimum.

25. If the worst \_\_ and commercial banks \_\_, they can always \_\_ the Bank.
26. The Bank announces that it will lend to commercial banks only at \_\_.
27. If the Bank imposes a penalty rate, a commercial bank may conclude that \_\_ making the extra loans.
28. There is too high a risk that \_\_ will then force the bank to \_\_ the Bank at the penalty interest rate.
29. It makes more sense to hold \_\_ against the possibility of \_\_.
30. By setting the discount rate at \_\_ in excess of \_\_ of interest rates, the Bank can \_\_ commercial banks \_\_ to hold \_\_.
31. Since banks have to hold more cash as reserves, \_\_ is reduced, less money can \_\_ and \_\_ is lower.

*IV. Find in the text English equivalents for the following*

от имени правительства; кредитно-денежная политика; для поощрения расходов; операции на открытом рынке; резервные требования; кассовый резерв; избыточные резервы; требуемая резервная норма (уровень резервных требований); создавать деньги; денежный мультипликатор; обратно пропорциональный; сверх резервной нормы; дисконтная (учетная) ставка; повышенная ставка; изымать деньги

*V. Explain in English*

a money multiplier; required reserves; excess reserves; a required reserve ratio; a discount rate

*VI. Answer the questions*

1. What is the aim of monetary policy?
2. Why is it important to control the money supply?
3. Dwell on open market operations.
4. Explain the creation of money by commercial banks. What does a money multiplier show?
5. Why does the Bank impose a reserve requirement? What's the effect of the Bank imposing a reserve requirement?
6. Why does a reserve requirement act like a tax on banks?
7. What is a discount rate? How does it work?

*VII. Translate into English using all the active possible*

1. основополагающей целью кредитно-денежной политики является помощь экономике в достижении общего уровня производства, характеризующегося полной занятостью и отсутствием инфляции. Кредитно-денежная политика состоит в изменении денежного предложения с целью стабилизации совокупного объема производства, занятости и уровня цен. Более конкретно: кредитно-денежная политика вызывает увеличение денежного предложения во время спада для поощрения расходов, а во время инфляции, наоборот, ограничивает предложение денег для ограничения расходов.

2. Существуют три основных средства кредитно-денежного контроля: операции на открытом рынке, изменение резервной нормы и изменение учетной ставки.

3. Операции на открытом рынке – наиболее важное средство контроля денежного предложения. Этот термин относится к покупке и продаже государственных облигаций центральным банком на открытом рынке, то есть к покупке и продаже облигаций коммерческим банкам и населению в целом.

4. При изменении резервной нормы меняется величина денежного мультипликатора и, следовательно, денежное предложение. В основе денежного мультипликатора лежит тот факт, что резервы, потерянные одним банком, получает другой.

5. Подобно тому, как коммерческие банки взыскивают процентные платежи по своим ссудам, центральный банк взыскивает процентные платежи по ссудам, предоставленным коммерческим банкам. Такая ставка процента называется учетной ставкой.

6. Снижение учетной ставки поощряет коммерческие банки к приобретению дополнительных резервов путем заимствования у центрального банка.

7. Готовность банков давать ссуды на основе избыточных резервов периодически меняется, и в этом кроется причина государственного контроля за денежным предложением с целью обеспечить экономическую стабильность.

# ОГЛАВЛЕНИЕ

THE ECONOMIC ENVIRONMENT (ЭКОНОМИЧЕСКАЯ СРЕДА).....	1
MEASURING ECONOMIC ACTIVITY (ИЗМЕРЕНИЕ ЭКОНОМИЧЕСКОЙ АКТИВНОСТИ).....	6
THREE ECONOMIC ISSUES (ТРИ ВОПРОСА ЭКОНОМИКИ).....	10
INCOME (ДОХОД).....	17
THE ROLE OF GOVERNMENT (РОЛЬ ПРАВИТЕЛЬСТВА).....	20
THE PRODUCTION POSSIBILITY FRONTIER (ГРАНИЦЫ ВОЗМОЖНОСТЕЙ ПРОИЗВОДСТВА).....	25
ECONOMIC SYSTEMS (ЭКОНОМИЧЕСКИЕ СИСТЕМЫ).....	28
MARKETS (РЫНКИ).....	38
POSITIVE AND NORMATIVE ECONOMICS (ПОЗИТИВНАЯ И НОРМАТИВНАЯ ЭКОНОМИЧЕСКИЕ ТЕОРИИ).....	43
MICROECONOMICS AND MACROECONOMICS (ТЕОРИЯ МИКРОЭКОНОМИКИ И МАКРОЭКОНОМИКИ).....	48
PRICE AND DEMAND (ЦЕНА И СПРОС).....	53
PRICE, INCOME AND DEMAND (ЦЕНА, ДОХОД И СПРОС).....	58
ELASTIC AND INELASTIC DEMAND (ЭЛАСТИЧНЫЙ И НЕЭЛАСТИЧНЫЙ СПРОС).....	60
A MODEL OF THE ECONOMY (МОДЕЛЬ ЭКОНОМИКИ).....	65
INJECTIONS (ВЛИВАНИЕ ДЕНЕГ В ЭКОНОМИКУ).....	70
WITHDRAWALS (ИЗЪЯТИЯ ДЕНЕГ ИЗ КРУГООБОРОТА).....	75
INFLATION (ИНФЛЯЦИЯ).....	79
THE IMPACT OF INFLATION ON BUSINESS (ВЛИЯНИЕ ИНФЛЯЦИИ НА БИЗНЕС).....	82
CAN INFLATION BE BENEFICIAL (МОЖЕТ ЛИ ИНФЛЯЦИЯ БЫТЬ БЛАГОТВОРНОЙ)?.....	85
MONEY AND BANKING (ДЕНЬГИ И БАНКОВСКОЕ ДЕЛО).....	88
THE ROLE OF BANKS (РОЛЬ БАНКОВ).....	93
MODERN BANKING (СОВРЕМЕННАЯ БАНКОВСКАЯ СИСТЕМА).....	98
MONEY AND THE RETURN IT EARNS (ДЕНЬГИ И ДОХОД, КОТОРЫЙ ОНИ ПРИНОСЯТ).....	104
INTEREST RATES AND BOND PRICES (СТАВКА ПРОЦЕНТА И ЦЕНЫ НА ОБЛИГАЦИИ).....	107
THE MONEY SUPPLY AND THE DEMAND FOR MONEY (ПРЕДЛОЖЕНИЕ И СПРОС НА ДЕНЬГИ).....	109
THE MONEY MARKET (РЫНОК ДЕНЕГ).....	113
MARKETS AND INTEREST RATES (РЫНКИ И НОРМА ПРОЦЕНТА).....	116
PRIMARY AND SECONDARY MARKETS (ПЕРВИЧНЫЙ И ВТОРИЧНЫЙ РЫНКИ).....	119
MONETARY POLICY (КРЕДИТНО-ДЕНЕЖНАЯ ПОЛИТИКА).....	121