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АНГЛИЙСКИЙ ЯЗЫК. СБОРНИК ТЕКСТОВ ДЛЯ СТУДЕНТОВ ЭКОНОМИЧЕСКИХ СПЕЦИАЛЬНОСТЕЙ

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М66 **Митина Ю.В., Петренко В.И.** Английский язык. Сборник текстов для студентов экономических специальностей. – СПб.: РГГМУ, 2018. – 40 с.

Сборник текстов предназначен для студентов дневного отделения РГГМУ, обучающихся по направлениям 38.03.01 – Экономика, 38.03.02 – Менеджмент, 38.03.04 – Государственное муниципальное управление. Применение в учебном процессе материалов, представленных в сборнике, ориентировано на развитие навыков перевода, подробного и краткого пересказа текстов профессиональной направленности. Тематика текстов охватывает широкий круг экономических дисциплин.

Mitina J., Petrenko V. English texts for the students of Economics – St. Petersburg: RSHU Publishers, 2018. – 40 pp.

The textbook is designed for full-time students of Economics and Management at Russian State Hydrometeorological University. It focuses on developing reading comprehension and translation skills, as well as skills of rendering and detailed representation of economic texts into Russian. The topics of the texts cover the broad areas of economic sciences. The materials are adopted from the original English-language sources – books, articles, and the Internet.

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Предисловие

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Данный сборник представляет собой набор текстов научного жанра на английском языке. Тематика подобранного текстового материала охватывает широкий круг экономических дисциплин. Материалы заимствованы из оригинальных англоязычных источников – научных статей и монографий, поэтому пособие может представлять интерес и для широкого круга читателей, имеющих дело с научной литературой на английском языке в данной профессиональной области.

Тексты рассчитаны на средний уровень владения английским языком (B2 – пороговый продвинутый по общеевропейской шкале уровней владения иностранным языком).

Сборник разделен на пять разделов, которые содержат тексты, ориентированные на развитие навыков перевода, подробного и краткого пересказа.

Introduction

The collection of texts in English is designed for full-time students of of Economics and Management at Russian State Hydrometeorological University. The topics of the texts cover the broad areas of Economic sciences. The materials presented are built on the authentic books and articles, therefore it could be useful for all those who are interested in Economics.

The texts are meant for intermediate level students of English (B2 – Common European Framework of reference for languages).

The collection is divided into five sections containing the texts focused on developing translation skills, detailed and brief retelling.

Welcome to economics

Text 1. Prologue to economics

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

Economics is divided into two major branches: macroeconomics and microeconomics. Macroeconomics is the study of behavior of the economy as a whole with emphasis on the factors that determine growth and employment, and the level of prices. Macroeconomics studies broad economic events that are largely beyond the control of individual decision makers and yet affect nearly all firms, households, and other institutions in the economy. Specialists in macroeconomics are particularly interested in those factors that determine inflation, unemployment, and grow thin the production of goods and services. Such an understanding is necessary in order to develop policies that encourage production and employment while controlling inflation.

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

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

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

Text 2. Economics

Economics (from the Greek «household management») is a social science that studies the production, distribution, trade and consumption of goods and services.

Economics, which focuses on measurable variables, is broadly divided into two main branches: microeconomics, which deals with individual agents, such as households and businesses, and macroeconomics, which considers the economy as a whole, in which case it considers aggregate supply and demand for money, capital and commodities. Aspects receiving particular attention in economics are resource allocation, production, distribution, trade, and competition. Economic logic is increasingly applied to any problem that involves choice under scarcity or determining economic value. Mainstream economics focuses on how prices reflect supply and demand, and uses equations to predict consequences of decisions. The fundamental assumption underlying traditional economic theory is the utility-maximizing rule.

1. What does Economics study?
2. How can Economics be broadly divided?
3. What is the fundamental assumption of traditional economic theory?

Text 3. History of economics

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

Such reasoned explanations required more knowledge of the way things were, and the amount of information expanded so rapidly that it had to be divided or categorized for an individual to have hope of knowing a subject. Soon philosophy was subdivided into science and philosophy. In the 1700s, the sciences were split into natural sciences and social sciences. The amount of knowledge kept increasing, and in the late1800s and early 1900s social science itself split into subdivisions: economics, political science, history, geography, sociology, anthropology, and psychology. Many of the insights about how the economic system worked were codified in Adam Smith's *The Wealth of Nations*, written in 1776. Notice that this is before economics as a subdiscipline developed, and Adam Smith could also be classified as an anthropologist, a sociologist, a political scientist, and a social philosopher.

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

For a while economics got lost in itself, and economists learned little else. Marshall's analysis was downplayed, and the work of more formal economists of the1800s (such as Leon Walrus, Francis Edge worth, and Antoine Cournot) was seen as the basis of the science of economics. Economic analysis that focuses only on formal interrelationships is called Walrasian economics…

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

Text 4. Origins of Money

There are numerous myths about the origins of money. The concept of money is often confused with coinage. Coins are a relatively modern form of money. Their first appearance was probably in Asia in the 7th century BC. And whether these coins were used as money in the modern sense has also been questioned.

To determine the earliest use of money, we need to define what we mean by money. We will return to this issue shortly. But with any reasonable definition the first use of money is as old as human civilization. The early Persians deposited their grain in state or church granaries. The receipts of deposit were then used as methods of payment in the economies. Thus, banks were invented before coins. Ancient Egypt had a similar system, but instead of receipts they used orders of withdrawal– thus making their system very close to that of modern checks. In fact, during Alexander the Great's period, the granaries were linked together, making checks in the 3rd century BC more convenient than British checks in the 1980s.

However, money is older than written history. Recent anthropological and linguistic research indicates that not only is money very old, but it's origin has little to do with trading, thus contradicting another common myth. Rather, money was first used in a social setting. Probably at first as a method of punishment.

Early Stone Age man began the use of precious metals as money. Until the invention of coins, metals were weighed to determine their value. Counting is of course more practical, the first standardized ingots appeared around 2200 BC. Other commonplace objects were subsequently used in the abstract sense, for example miniature axes, nails, swords, etc.

Full standardization arrived with coins, approximately 700 BC. The first printed money appeared in China, around 800 AD. The first severe inflation was in the 11th century AD. The Mongols adapted the bank note system in the 13th century, which Marco Polo wrote about. The Mongol bank notes were «legal tender», i.e. it was a capital offense to refuse them as payment. By the late 1400s, centuries of inflation eliminated printed bank notes in China. They were reinvented in Europe in the 17th century.

1. Are the concepts of money and coinage the same?
2. How old is the first money?
3. What did early Stone Age men use as money?
4. Where and when did the first bank notes appear?
5. When and where was the printed money reinvented?

Text 5. The economic system

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

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

Without a system of distribution economy simply could not exist. A major part of this distribution system is credit. Economy flourishes on credit or extended methods of payment.

Such a system literally affects every link in the distribution chain from the supplier of raw materials to the ultimate consumer. Without this vital financingfunction being performed, the economy would doubtless be forced to a lower order of production.

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

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

Text 6. What Is Capitalism?

In common usage capitalism refers to an economic system in which the means of production are privately owned and operated in order to generate capital, and where investment and the production, distribution and prices of commodities (goods and services) are determined mainly in a free market, rather than by the state. The means of production are usually operated in pursuit of profits.

Capitalism is contrasted with feudalism, where land is owned by the feudal lords, who collect rent from private operators; socialism, where the means of production is owned and used by the state; and communism, where the means of production is owned and used by the community collectively.

An economy with a large amount of intervention – which may include state ownership of some of the means of production – in combination with some free market characteristics is sometimes referred to as a mixed economy, rather than a capitalist one. Some economists oppose all or almost all state control over an economy. By some definitions, all of the economies in the developed world are capitalist, or mixed economies based on capitalism. Others see the world integrated into a global capitalist system, and even those nations, which today resist capitalism, operate within a globalized capitalist economy.

Anders Chydenius was first to propose free trade and industry and to lay out the principles of liberalism in 1765, eleven years before Adam Smith. Yet, Adam Smith became more famous as the intellectual father of capitalism. From then on, most theories of what has come to be called capitalism developed in the 18th century, 19th century and 20th century, for instance in the context of the industrial revolution and European imperialism (e.g. Chydenius, Smith, Ricardo, Marx), The Great Depression (e.g. Keynes) and the Cold war (e.g. Hayek, Friedman).

These theorists characterize capitalism as an economic system in which capital is owned by the capitalist class and economic decisions are determined in a market – that is, by trades that occur as a result of agreement between buyers and sellers; where a market mentality and entrepreneurial spirit exists; and where specific, legally enforceable, notions of property and contract are instituted. Such theories typically try to explain why capitalist economies are likely to generate more economic growth than those subject to a greater degree of governmental intervention.

Some emphasize the private ownership of capital as being the essence of capitalism, or emphasize the importance of a free market as a mechanism for the movement and accumulation of capital, while others measure capitalism through class analysis (i.e. class structure of society, relations between the proletariat and the bourgeois). Some note the growth of a global market system.

Others focus on the application of the market to human labor. Still others, such as Hayek, note the self-organizing character of economies which are not centrally-planned by government. Many, such as Adam Smith, point to what is believed to be the value of individuals pursuing their self-interest as opposed to altruistically working to serve the «public good».

Many of these theories call attention to various economic practices that became institutionalized in Europe between the 16th and 19th centuries, especially involving the right of individuals and groups of individuals acting as «legal persons» (or corporations) to buy and sell capital goods, as well as land, labor, and money, in a free market, and relying on the state for the enforcement of private property rights rather than on a system of feudal protection and obligations.

Aside from referring to an economic or political system, capitalism may also refer to the condition of owning capital. Likewise, in addition to the term «capitalist» referring to someone who favors capitalism, capitalist also commonly refers to a person who owns and controls capital.

1. Where does the etymology of the word «capital» have roots?
2. Who and when was the first to use the word «capitalist»?
3. Who and when used the word «capitalism» for the first time?
4. When has the term «capitalist» become widespread?

Text 7. Private Property

An essential characteristic of capitalism is the institution of rule of law in establishing and protecting private property, including, most notably, private ownership of the means of production. Private property was embraced in some earlier systems legal systems such as in ancient Rome, but protection of these rights was sometimes difficult, especially since Rome had no police. Such and other earlier system often forced the weak to accept the leadership of a strong patron or lord and pay him for protection. It has been argued that a strong formal property and legal system made possible a) greater independence; b) clear and provable protected ownership; c) the standardization and integration of property rules and property information in the country as a whole; d) increased trust arising from a greater certainty of punishment for cheating in economic transactions; e) more formal and complex written statements of ownership that permitted the easier assumption of shared risk and ownership in companies, and the insurance of risk; f) greater availability of loans for new projects, since more things could be used as collateral for the loans; g) easier and more reliable information regarding such things as credit history and the worth of assets; h) an increased standardization and transferability of statements documenting the ownership of property, which paved the way for structures such as national markets for companies and the easy transportation of property through complex networks of individuals and other entities. All of these things enhanced economic growth.

Capitalism is often contrasted to socialism in that besides embracing private property in terms of personal possessions, it supports private ownership of the means of production. Those who support capitalism often credit the lack of control over the means of production by government as crucial to maximizing economic output. In all modern economies some of the means of production are owned by the state, however an economy is not considered capitalism unless the bulk of ownership is private. Some characterize those that have a mixture of state and private ownership as «mixed economies».

Many governments extend the concept of private property to ideas, in the form of «intellectual property». It has been argued that the introduction of the patent system was a crucial factor behind the rapid development and widespread use of new technology during and following the industrial revolution. Some oppose the establishment of intellectual property as being counterproductive or coercive. Others argue that some intellectual property rights may be too rigid or constraining to innovation, favoring weaker protections.

1. What is an important feature of capitalism?
2. Is capitalism the only system embracing private property?
3. Give your definition to the term «intellectual property».

Text 8. Market Economy

The notion of a «free market» where all economic decisions regarding transfers of money, goods, and services take place on a voluntary basis, free of coercive influence, is commonly considered to be an essential characteristic of capitalism. Some individuals contend, that in systems where individuals are prevented from owning the means of production (including the profits), or coerced to share them, not all economic decisions are free of coercive influence, and, hence, are not free markets. In an ideal free market system none of these economic decisions involve coercion. Instead, they are determined in a decentralized manner by individuals trading, bargaining, cooperating, and competing with each other. In a free market, government may act in a defensive mode to forbid coercion among market participants but does not engage in proactive interventionist coercion. Nevertheless, some authorities claim that capitalism is perfectly compatible with interventionist authoritarian governments, and/or that a free market can exist without capitalism.

A legal system that grants and protects property rights provides property owners the entitlement to sell their property in accordance with their own valuation of that property; if there are no willing buyers at their offered price they have the freedom to retain it. According to standard capitalist theory, as explained by Adam Smith, when individuals make a trade they value what they are purchasing more than they value what they are giving in exchange for a commodity. If this were not the case, then they would not make the trade but retain ownership of the more valuable commodity. This notion underlies the concept of mutually-beneficial trade where it is held that both sides tend to benefit by an exchange.

In regard to pricing of goods and services in a free market, rather than this being ordained by government it is determined by trades that occur as a result of price agreement between buyers and sellers. The prices buyers are willing to pay for a commodity and the prices at which sellers are willing to part with that commodity are directly influenced by supply and demand (as well as the quantity to be traded). In abstract terms, the price is thus defined as the equilibrium point of the demand and the supply curves, which represent the prices at which buyers would buy (and sellers sell) certain quantities of the good in question. A price above the equilibrium point will lead to oversupply (the buyers will buy less goods at that price than the sellers are willing to produce), while a price below the equilibrium will lead to the opposite situation. When the price a buyer is willing to pay coincides with the price a seller is willing to offer, a trade occurs and price is determined.

However, not everyone believes that a free or even a relatively-free market is a good thing. One reason proffered by many to justify economic intervention by government into what would otherwise be a free market is market failure. A market failure is a case in which a market fails to efficiently provide or allocate goods and services (for example, a failure to allocate goods in ways some see as socially or morally preferable). Some believe that the lack of «perfect information» or «perfect competition» in a free market is grounds for government intervention. Other situations or activities often perceived as problems with a free market may appear, such monopolies, monophonies, information inequalities (e.g. insider trading), or price gouging. Wages determined by a free market mechanism are also commonly seen as a problem by those who would claim that some wages are unjustifiably low or unjustifiably high. Another critique is that free markets usually fail to deal with the problem of externalities, where an action by an agent positively or negatively affects another agent without any compensation taking place. The most widely known externality is pollution. More generally, the free market allocation of resources in areas such as health care, unemployment, wealth inequality, and education are considered market failures by some. Also, governments overseeing economies typically labeled as capitalist have been known to set mandatory price floors or price ceilings at times, thereby interfering with the free market mechanism. This usually occurred either in times of crises, or was related to goods and services which were viewed as strategically important. Electricity, for example, is a good that was or is subject to price ceilings in many countries. Many eminent economists have analyzed market failures, and see governments as having a legitimate role to mitigate these failures, for examples through regulation and compensation schemes.

However, some economists, such as Nobel prize-winning economist Milton Friedman as well as those of the Austrian School, oppose intervention into free markets. They argue that government should limit its involvement in economies to protecting freedom rather than diminishing it for the sake of remedying «market failure». These economists believe that government intervention creates more problems than it is supposed to solve. Laissez-faire advocates do not oppose monopolies unless they maintain their existence through coercion to prevent competition, and often assert that monopolies have historically only developed because of government intervention rather than due to a lack of intervention. They may argue that minimum wage laws cause unnecessary unemployment, that laws against insider trading reduce market efficiency and transparency, or that government-enforced price-ceilings cause shortages.

1. How should the government act in an ideal free market?
2. How do you understand the concept of mutually-beneficial trade?
3. How is the price determined?
4. What is a market failure?
5. What is the best known externality?

Text 9. Private Enterprise

In capitalist economies, a predominant proportion of productive capacity has belonged to companies, in the sense of for-profit organizations. These include many forms of organizations that existed in earlier economic systems, such as sole proprietorships and partnerships. Non-profit organizations existing in capitalism include cooperatives, credit unions and communes.

More unique to capitalism is the form of organization called corporation, which can be both for-profit and non-profit. This entity can act as a virtual person in many matters before the law. This gives some unique advantages to the owners, such as limited liability of the owners and perpetual lifetime beyond that of current owners.

A special form of corporation is a corporation owned by shareholders who can sell their shares in a market. One can view shares as converting company ownership into a commodity – the ownership rights are divided into units (the shares) for ease of trading in them. Such share trading first took place widely in Europe during the 17th century and continued to develop and spread thereafter. When company ownership is spread among many shareholders, the shareholders generally have votes in the exercise of authority over the company in proportion to the size of their share of ownership.

To a large degree, authority over productive capacity in capitalism has resided with the owners of companies. Within legal limits and the financial means available to them, the owners of each company can decide how it will operate. In larger companies, authority is usually delegated in a hierarchical or bureaucratic system of management.

Importantly, the owners receive some of the profits or proceeds generated by the company, sometimes in the form of dividends, sometimes from selling their ownership at higher price than their initial cost. They may also re-invest the profit in the company which may increase future profits and value of the company. They may also liquidate the company, selling all of the equipment, land, and other assets, and split the proceeds between them.

The price at which ownership of productive capacity sells is generally the maximum of either the net present value of the expected future stream of profits or the value of the assets, net of any obligations. There is therefore a financial incentive for owners to exercise their authority in ways that increase the productive capacity of what they own. Various owners are motivated to various degrees by this incentive – some give away a proportion of what they own, others seem very driven to increase their holdings. Nevertheless the incentive is always there, and it is credited by many as being a key aspect behind the remarkably consistent growth exhibited by capitalist economies. Meanwhile, some critics of capitalism claim that the incentive for the owners is exaggerated and that it results in the owners receiving money that rightfully belongs to the workers, while others point to the fact that the incentive only motivates owners to make a profit – something which may not necessarily result in a positive impact on society. Others note that in order to get a profit in a non-violent way, one must satisfy some need among other persons that they are willing to pay for. Also, most people in practice prefer to work for and buy products from for-profit organizations rather than to buy from or work for non-profit and communal production organizations which are legal in capitalist economies and which anyone can start or join.

When starting a business, the initial owners or investors typically provide some money (the capital) which is used by the business to buy or lease some means of production. For example, the enterprise may buy or lease a piece of land and a building; it may buy machinery and hire workers (labor-power), or the capitalist may provide the labor himself. The commodities produced by the workers become the property of the capitalist («capitalist» in this context refers to a person who has capital, rather than a person who favors capitalism), and are sold by the workers on behalf of the capitalist or by the capitalist himself. The money from sales also becomes the property of the capitalist. The capitalist pays the workers a portion of this profit for their labor, pays other overhead costs, and keeps the rest. This profit may be used in a variety of ways, it may be consumed, or it may be used in pursuit of more profit such as by investing it in the development of new products or technological innovations, or expanding the business into new geographic territories. If more money is needed than the initial owners are willing or able to provide, the business may need to borrow a limited amount of extra money with a promise to pay it back with interest. In effect, it may rent more capital.

1. What is the predominant type of organizations in capitalist economies?
2. What advantages does corporation have?
3. How can shareholders exercise their authority over a company?
4. What rights do company owners have?
5. Describe the process of starting a business

Macroeconomics

Text 10. Economic Growth

One of the primary objectives in a social system in which commerce and property have central roles is to promote the growth of capital. The standard measures of growth are Gross Domestic Product or GDP, capacity utilization, and «standard of living».

The ability of capitalist economies to increase and improve their stock of capital was central to the argument which Adam Smith advanced for a free market setting production, price and resource allocation. It has been argued that GDP per capita was essentially flat until the industrial revolution and the emergence of the capitalist economy, and that it has since increased rapidly in capitalist countries. It has also been argued that a higher GDP per capita promotes a higher standard of living, including the adequate or improved availability of food, housing, clothing, health care, reduced working hours and freedom from work for children and the elderly. These are reduced or unavailable if the GDP per capita is too low, so that most people are living a marginal existence.

Economic growth is, however, not universally viewed as an unequivocal good. The downside of such growth is referred to by economists as the «externalization of costs». Among other things, these effects include pollution, the disruption of traditional living patterns and cultures, the spread of pathogens, wars over resources or market access, and the creation of underclasses.

No matter how wealthy the richest capitalists are, it does not ensure the well-being of all the citizens. Such examples of this include the Hurricane Katrina crisis in New Orleans where the working class (a majority of them being African-American) was left without aid despite the US being the wealthiest country in the world at that time.

In defense of capitalism, liberal philosopher Isaiah Berlin has claimed that all of these ills are neither unique to capitalism, nor are they its inevitable consequences.

1. What are the standard measures of economic growth?
2. What are the side effects of economic growth?
3. What did the recent natural disasters prove?

Text 11. Employment

Since individuals typically earn their incomes from working for companies whose requirements are constantly changing, it is quite possible that at any given time not all members of a country's potential work force will be able to find an employer that needs their labor. This would be less problematic in an economy in which such individuals had unlimited access to resources such as land in order to provide for themselves, but when the ownership of the bulk of its productive capacity resides in relatively few hands, most individuals will be dependent on employment for their economic well-being. It is typical for true capitalist economies to have rates of unemployment that fluctuate between 3 % and 15 %. Some economists have used the term «natural rate of unemployment» to describe this phenomenon.

Depressed or stagnant economies have been known to reach unemployment rates as high as 30 %, while events such as military mobilization (a good example is that of World War II) have resulted in just 1–2 % unemployment, a level that is often termed «full employment». Typical unemployment rates in Western economies range between 5 % and 10 %. Some economists consider that a certain level of unemployment is necessary for the proper functioning of capitalist economies. Equally, some politicians have claimed that the «natural rate of unemployment» highlights the inefficiency of a capitalist economy, since not all its resources – in this case human labor – are being allocated efficiently.

Some libertarian economists argue that higher unemployment rates are in part the result of minimum wage laws, as well as in part the result of misguided monetary policy, and are not inevitable in a capitalist economy. They also claim that if the value of the productive capacity of a given employee is worth less to the employer than the minimum wage, that person will become unemployed, and therefore unemployment will exist whenever the legal minimum wage exceeds the true economic value of the least productive members of the labor pool. Likewise, if the amount of money a person can obtain on welfare approaches or equals what they could make by working, that person's incentive to work will be reduced.

Some unemployment is voluntary, such as when a potential job is turned down because the unemployed person is seeking a better job, is voluntarily living on savings, or has a non-wage-earning role, such as in the case of a traditional homemaker. Some measures of employment disregard these categories of unemployment, counting only people who are actively seeking work and have been unable to find any.

1. What is the natural rate of unemployment?
2. What sort of events can lead to full employment?
3. How can minimum wage laws affect unemployment rates?
4. When will person's incentive to work be reduced?

Text 12. Tax

A tax is a compulsory charge or other levy imposed on an individual or a legal entity by a state or a functional equivalent of a state (e.g., tribes, secessionist movements or revolutionary movements). Taxes could also be imposed by a subnational entity.

Taxes may be paid in cash or in kind or as curve labor. In modern capitalist taxation systems, taxes are designed to encourage the most efficient circulation of goods and services and are levied in cash. In kind and curve taxation are characteristic of traditional or pre-capitalist states and their functional equivalents. The means of taxation, and the uses to which the funds raised through taxation should be put, are a matter of hot dispute in politics and economics, so discussions of taxation are frequently tendentious.

Public finance is the field of political science and economics that deals with taxation.

History of taxation

Political authority has been used to raise capital throughout history. In many pre-monetary societies, such as the Incan empire, taxes were owed in labor. Taxation in labor was the basis of the Feudal system in medieval Europe.

In more sophisticated economies such as the Roman Empire, tax farming developed, as the central powers could not practically enforce their tax policy across a wide realm. The tax farmers were obligated to raise large sums for the government, but were allowed to keep whatever else they raised.

Many Christians have understood the New Testament to support the payment of taxes, through Jesus's words «Render unto Caesar the things that are Caesar's».

There were certain times in the Middle Ages where the governments did not explicitly tax, since they were self-supporting, owning their own land and creating their own products. The appearance of doing without taxes was however illusory, since the government's (usually the Crown's) independent income sources depended on labor enforced under the feudal system, which is a tax exacted in kind.

Many taxes were originally introduced to fund wars and are still in place today, such as those raised by the American government during the American Civil War (1861–1865). Income tax was first introduced into Britain in 1798 to pay for weapons and equipment in preparation for the Napoleonic wars and into Canada in 1917 as a «temporary» tax under the Income War Tax Act to cover government expenses resulting from World War I.

The current income tax in America was set up by Theodore Roosevelt in 1913. It was called The Federal Income Tax and was deducted from incomes at rates varying from 1–7 %. But, since then, the American Tax Code has been modified and new taxes have been added, especially over the World War I and II periods. Since World War II, the American Tax Code has increased in size four-fold.

1. What is the definition of a tax?
2. How can taxes be paid?
3. How were taxes paid in medieval Europe?
4. Why were many taxes originally introduced?
5. What kind of document describes what taxes people have to pay in US?

Text 13. Types of Taxes

Taxes are sometimes referred to as direct or indirect. The meaning of these terms can vary in different contexts, which can sometimes lead to confusion. In economics, direct taxes refer to those taxes that are collected from the people or organizations on whom they are imposed. For example, income taxes are collected from the person who earns the income. By contrast, indirect taxes are collected from someone other than the person responsible for paying the taxes.

From whom a tax is collected is a matter of law. However, who pays the tax is determined by the market place and is found by comparing the price of the good (including tax) after the tax is imposed to the price of the good before the tax was imposed. For example, suppose the price of gas in the U.S., without taxes, were $ 2.00 per gallon. Suppose the U.S. government imposes a tax of $ 0.50 per gallon on the gas. Forces of demand and supply will determine how that $ 0.50 tax burden is distributed among the buyers and sellers. For example, it is possible that the price of gas, after the tax, might be $ 2.40. In such a case, buyers would be paying $ 0.40 of the tax while the sellers would be paying $ 0.10 of the tax.

Income tax

Income tax is commonly a progressive tax because the tax rate increases with increasing income. For this reason, it is generally advocated by those who think that taxation should be borne more by the rich than by the poor, even to the point of serving as a form of social redistribution. Some critics characterize this tax as a form of punishment for economic productivity. Other critics charge that income taxation is inherently socially intrusive because enforcement requires the government to collect large amounts of information about business and personal affairs, much of which is considered proprietary and confidential.

Income tax fraud is a problem in most, if not all, countries implementing an income tax. Either one fails to declare income, or declares nonexistent expenses. Failure to declare income is especially easy for non-salaried work, especially those paid in cash. Tax enforcement authorities fight tax fraud using various methods, nowadays with the help of computer databases. They may, for instance, look for discrepancies between declared revenue and expenses along time. Tax enforcement authorities then target individuals for a tax audit – a more or less detailed review of the income and tax-deductible expenses of the individual.

Income tax may be collected from legal entities (e.g., companies) as well as natural persons(individuals), although, in some cases, the income tax on legal entities is levied on a slightly different basis than the income tax on individuals and may be called, in the case of income tax on companies, a corporation tax or a corporate income tax.

Poll tax

A poll tax, also called a per capita tax, or capitation tax, is a tax that levies a set amount per individual. The earliest tax mentioned in the Bible of a half-shekel per annum from each adult Jew was a form of poll tax. Poll taxes are regressive, since they take the same amount of money (and hence, a higher proportion of income) for poorer individuals as for richer individuals. Poll taxes are difficult to cheat.

Value added tax

A value added tax (sometimes called a goods and services tax, as in Australia and Canada) applies the equivalent of a sales tax to every operation that creates value. To give an example, sheet steel is imported by a machine manufacturer. That manufacturer will pay the VAT on the purchase price, that amount to the government. The manufacturer will then transform the steel into a machine, selling the machine for a higher price to a wholesale distributor. The manufacturer will collect the VAT on the higher price, but will remit to the government only the excess related to the «value added» (the price over the cost of the sheet steel). The wholesale distributor will then continue the process, charging the retail distributor the VAT on the entire price to the retailer, but remitting only the amount related to the distribution markup to the government. The last VAT amount is paid by the eventual retail customer who cannot recover any of the previously paid VAT. Economic theorists have argued that this minimizes the market distortion resulting from the tax, compared to a sales tax.

VAT was historically used when a sales tax or excise tax was uncollectible. For example, a 30 % sales tax is so often cheated that most of the retail economy will go off the books. By collecting the tax at each production level, and requiring the previous production level to collect the next level tax in order to recover the VAT previously paid by that production level, the theory is that the entire economy helps in the enforcement. In reality, forged invoices and the like demonstrate that tax evaders will always attempt to cheat the system.

1. What are the two main kinds of taxes?
2. What determines who pays the tax?
3. What is the income tax?
4. What is the poll tax?
5. What is the VAT?

Text 14. Profit

The pursuit and realization of profit is an essential characteristic of capitalism. Profit is derived by selling a product for more than the cost required to produce or acquire it. Some consider the pursuit of profit to be the essence of capitalism. Sociologist and economist, Max Weber, says that «capitalism is identical with the pursuit of profit, and forever renewed profit, by means of conscious, rational, capitalistic enterprise».

However, it is not a unique characteristic for capitalism, some practiced profitable barter and monetary profit has been known since antiquity.

Opponents of capitalism often protest that private owners of capital do not remunerate laborers the full value of their production but keep a portion as profit, claiming this to be exploitative. However, defenders of capitalism argue that when a worker is paid the wage for which he agreed to work, there is no exploitation, especially in a free market where no one else is making an offer more desirable to the worker; that «the full value of a worker's production» is based on his work, not on how much profit is created, something that depends almost entirely on factors that are independent of the worker's performance; that profit is a critical measure of how much value is created by the production process; that the private owners are the ones who should decide how much of the profit is to be used to increase the compensation of the workers (which they often do, as bonuses); and that profit provides the capital for further growth and innovation.

1. Is the pursuit of profits a unique characteristic of capitalism?
2. What do defenders of capitalism think the value of a worker's production is based on?

Microeconomics

Text 15. Utility

Utility is a term used by economists to describe the measurement of «usefulness» that a consumer obtains from any good. Utility may measure how much one enjoys a movie, or the sense of security one gets from buying a deadbolt. The utility of any object or circumstance can be considered. Some examples include the utility from eating an apple, from living in a certain house, from voting for a specific candidate, from having a given wireless phone plan. In fact, every decision that an individual makes in their daily life can be viewed as a comparison between the utility gained from pursuing one option or another.

Utility is measured in numbers that are purely cardinal, rather than ordinal. The numbers used to measure utility (often in a unit called the «util») is useful only for comparison. If the utility given by one thing is 100 and the utility given by another is 12,000, we can only say that the utility of the latter is greater. We could not say that the individual gets

«120 times more utility» from this option, because utility is not a quantity. Furthermore, the sign of utility may be positive or negative with no effect on its interpretation. If one option gives –15 utility and another gives –12, selecting the second is not, as it might seem, the «lesser of two evils», but can only be interpreted as the better option.

Utility can be seen as a measure of how much one values a particular good. This depends entirely on the preferences of that individual, rather than some external, or universal measure. So while an apple and an orange may give utility values of 5 and 10 respectively to one individual, they may give 1,250 and –180 to another. These values depend only on how they are valued case. In ordinary uses the term utility is used to denote usefulness but in economics the term utility is used in different meaning and in wider sense.

In economics, we usually say that an individual is «rational» if that individual maximizes utility in their decisions. That is, whenever an individual is to choose between a group of options, they are rational if they choose the option that, all else equal, gives the greatest utility. Recalling that utility includes every element of a decision, this assumption is not particularly difficult to accept. If, when everything is taken into account, one decision provides the greatest utility, which is equivalent to meaning that it is the most preferred, then we would expect the individual to take that most preferred option.

This should not necessarily be taken to mean that individuals who fail to quantify and measure every decision they make are behaving irrationally. Rather, this means that a rational individual is one who always selects that option that they prefer the most.

The rationality assumption may seem trivial, but it is basic to the study of economics. This assumption gives a basis for modeling human behavior and decision-making. If we could not assume rationality, it would be impossible to say what, when presented with a set of choices, an individual would select. The notion of rationality is therefore central to any understanding of microeconomics.

There are no real methods of measuring utility outside of a purely theoretical framework. An option giving 100 utils has no real interpretation, except that it is preferred to an option giving 50, and is less preferred than an option giving 101. The numbers used to model utility are only determined in the functional form of the model from which they result. It is meaningless, for example, to ask «how much utility does this apple give you?» It could only be meaningful to ask, «Would you prefer an apple or an orange?» in any non-theoretical framework.

In microeconomic theory, we often say that an individual is made «better off» if one circumstance is preferred to another (that is, gives greater utility), and that individual is put into it. A simple example would be giving a child a cookie. Assuming the child enjoys cookies, the child is «better off» with the cookie than without it. Again, in this example we say he is «better off» only in terms of his preferences, rather than in terms of his health, etc.

1. What is utility?
2. Does it depend entirely on the preferences of the individual?
3. When do we say that the individual is «rational»?

Text 16. Demand

In most economies, prices determine what, how, and for whom goods are produced. Firms will produce whatever goods can be sold at a profitable price and will choose resources on the basis of what prices must be paid to employ them. The consumers willing to pay the price will be the ones for whom goods are produced. Given the importance of prices, we need to know how they are determined. Why are some high and others low? Why do some rise while others fall? It's all demand and supply.

Economists use the term *demand* to indicate *willingness to buy*. While the demand for a product depends upon many different factors, one obvious determinant is price. Price has a negative effect on willingness to buy. All else equal, as the price of a product falls, the quantity demanded will rise.

It is often useful to illustrate these relationships graphically. We draw a *demand curve* to show the relationship between the price of the good and the quantity that consumers are willing to buy. For example, suppose people are willing to buy 20 pounds of strawberries at a price of $2, but are willing to buy 30 pounds if the price falls to $1. Because a change in price will always push the quantity demanded in the opposite direction, all demand curves will have a negative slope.

The price of good is not the only factor that impacts willingness to buy. Other important factors include:

1) consumer tastes and preferences (or the perceived value of the product)

2) consumer income

3) prices of substitute and complementary goods

Note: Substitute goods can be used in place of one another (like corn and green beans); complementary goods are used together (like cars and gasoline).

4) consumer expectations
5) number of potential consumers in the market or population

These factors often are called *demand shifters*. If any of them changes, the entire demand curve will move or *shift.* For example, suppose new research indicates that eating strawberries will make you more attractive to members of the opposite sex. Will consumers react to this news? Of course. It will change the perceived value of strawberries and increase the quantity of strawberries people are willing to buy *at every price.* Using the above numbers, suppose this new research triples the quantities people are willing to buy at each price. In other words, consumers are now willing to buy 60 pounds (rather than 20) at the $ 2 price and 90 pounds (rather than 30) at the $ 1 price. The demand curve will shift to the right.

Changes in other demand shifters can have similar effects. The following will cause the demand curve to shift to the right (i.e. larger quantities will be demanded at each price).

1) an increase in perceived value of the good
2) an increase in consumer income

   Note: This is true only for *normal goods*. Increased income will lower the demand for what we call *inferior goods*. Inferior goods are those we would buy less of if our income rose. Low-quality (but inexpensive) cuts of meat might be an example. Can you think of others?

3) an increase in the price of a substitute good
4) a decrease in the price of a complementary good
5) an increase in the number of potential consumers in the market

Opposite changes in the above factors will cause the demand curve to shift down or to the left (i.e. less will be demanded at each price than before).

Be careful not to confuse a *movement along* a demand curve with a *shift* to a new demand curve. It is a common mistake. Remember that the demand curve already shows the negative effect of price on quantity demanded. If the price of the good changes, we simply move to a new point along the existing demand curve. We call this a *change in quantity demanded*. If there is a change in a factor influencing demand, other than the price of the good, the entire demand curve moves or shifts. We term this a *change in demand*.

1. How do economists define demand?
2. Distinguish between substitute and complementary goods, between normal and inferior goods, and give examples.
3. Identify factors that will cause demand curves to shift.

Text 17. Supply

Supply indicates *willingness to sell*. Like demand, the supply of a product depends upon many different factors and, like demand, one obvious factor is price. However, while high prices discourage buyers, they are likely to encourage sellers. Price has a positive effect on willingness to sell. All else equal, as the price of a product rises, the quantity firms are willing to sell will rise as well.

A *supply curve* illustrates the relationship between the price of the good and the quantity that firms are willing to sell. For example, firms might be willing to sell 600 bushels of wheat at a price of $ 3, but be willing to sell 900 bushels at a price of $ 4. The relevant supply curve is drawn below. Because a change in price will push the quantity supplied in the same direction, supply curves will have a positive slope.

Price is not the only factor that impacts willingness to sell. Other important factors include:

1) cost of inputs
2) available technology
3) profitability of other goods
4) number of sellers in the market
5) producer expectations

These factors are *supply shifters*. If any of them changes, the entire supply curve will move or *shift.* For example, suppose new technology lowers the cost of growing wheat. How will farmers react? The new technology increases the profitability, and therefore the willingness to sell *at every price.* Suppose the new technology doubles the quantities people are willing to sell at each price. In other words, firms are now willing to sell 1200 bushels (rather than 600) at the $ 3 price and 1800 pounds (rather than 900) at the $ 4 price. The supply curve will shift to the right.

Changes in other supply shifters can have similar effects. The following will cause the supply curve to shift to the right (i.e. larger quantities will be supplied at each price)

1) a decrease in the price of inputs
2) a increase in technological efficiency
3) a decrease in the profitability of producing other goods

4) an increase in the number of sellers in the market

Opposite changes in the above factors will cause the supply curve to shift to the left (i.e. less will be supplied at each price than before).

As above, be careful not to confuse a *movement along* a curve and a *shift* to a new curve. Remember that the supply curve already shows the positive effect of price on quantity supplied. If the price of the good changes, we simply move to a new point along the existing supply curve. We call this a *change in quantity supplied*. If there is a change in a factor influencing supply, other than the price of the good, the entire supply curve moves or shifts. We term this a *change in supply*.

1. What is supply?
2. What factors are supply shifters?
3. What is the change in supply?

Text 18. Equilibrium

At last we return to the initial question: how does a market economy determine prices? The answer is that every market has a stable equilibrium where the quantities supplied and demanded are equal. Use your common sense for a minute. If you have supplied 100 pounds of strawberries, but consumers are willing to buy only 70, what will happen? How do real-world firms react when they are faced with products sitting on their shelves that no one wants to buy? They have a sale. They lower the price. After all, it's better to sell products at a reduced price than to not sell them at all. In other words, if the quantity supplied exceeds the quantity demanded (a *surplus*), prices will fall.

Change the example. This time, suppose consumers are clamouring to buy 100 pounds of strawberries, but you have only 70 to sell. Might you raise the price? In fact, consumers probably will offer a higher price. If you were one of the 100 potential customers, how could you make sure that the firm sold the scarce strawberries to you rather than someone else? Offer to pay a higher price! In other words, when the quantity demanded exceeds the quantity supplied (a shortage), prices will rise. Prices will be stable or in equilibrium only if the quantities supplied and demanded are equal.

Since both supply and demand curves are drawn with price on the vertical axis and quantity on the horizontal axis, we can put both curves on the same graph. The point at which the curves cross or intersect is the equilibrium.

In the real world, prices change every day. Why? Perhaps it is because of a shift either in demand or supply. If either the demand or supply curves shifts or moves, the equilibrium price and quantity will move as well. As an example, suppose there is an increase in the costs of inputs needed to produce a good. This lowers the profitability of production and causes a decrease in supply (i. e. the supply curve shifts to the left showing that less will be supplied at each price).

1. What is equilibrium?
2. Why are prices above or below the equilibrium level not stable in the long run?

Text 19. Consumers are so different

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

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

Fulfilled are mature, satisfied, comfortable, reflective people who value order, knowledge, and responsibility. Most are well educated, and in (or recently retired from) professional occupations. They are well-informed about world and national events and are alert to opportunities to broaden their knowledge. Content with their careers, families, and station in life, their leisure activities tend to center around the home. Fulfilled have a moderate respect for the status quo institutions of authority and social decorum, but are open-minded about new ideas and social change. Fulfilled tend to base their decisions on strongly held principles and consequently appear calm and self-assured. Fulfilled are conservative, practical consumers; they look for functionality, value, and durability in the products they buy.

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

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

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

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

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

Strugglers' lives are constricted. Chronically poor, ill-educated, low-skilled,without strong social bonds, elderly and concerned about their health, they are often resigned and passive. Because they are limited by the need to meet the urgent needs of the present moment, they do not show a strong self-orientation. Their chief concerns are for security and safety. Strugglers are cautious consumers. They represent a very modest market for most products and services, but are loyal to favorite brands.

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

Economic organizations

Text 20. The Interdependence of Society and Organizations

Modern societies have been called *organizational.* Unlike so-called primitive societies, modern ones produce most of their goods and services through special-purpose organizations that are, in the main, neither familial nor tribal. Some of the organizations of a modern society are meant to earn a profit and some are «not-for-profit».

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

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

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

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

Text 21. Organization

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

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

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

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

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

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

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

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

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

Authority can be defined as power that has been given official recognition by the organization. Once an organization legally authorizes an individual to act on its behalf, that person is said to possess authority. Every member of the organization has some amount of authority to take action necessary to carry out his responsibility. The concern of the theorist is to understand how authority comes to be officially recognized by the organization and what considerations should be made regarding its use.

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

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

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

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

Text 22. Why are companies referred to as LTD., INC., GMBH, OR S.A.?

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

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

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

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

1. What do the names of companies around the world reflect?
2. Can the shares of «private» companies be held by the public?

Text 23. The field of international business

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

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

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

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

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

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

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

1. How would you define the concept «international business»?
2. How many countries can be involved in international business?
3. What are the main motives for a firm to join international business?

Managementaccounting

Text 24. Accountancy

Accountancy (British English) or accounting (American English) is the measurement, disclosure or provision of assurance about information that helps managers and other decision makers make resource allocation decisions. Financial accounting is one branch of accounting and historically has involved processes by which financial information about a business is recorded, classified, summarized, interpreted, and communicated. Auditing, a related but separate discipline, is the process whereby an independent auditor examines an organization's financial statements in order to express an opinion (with reasonable but not absolute assurance) as to the fairness and adherence to generally accepted accounting principles, in all material respects.

Practitioners of accountancy are known as accountants. Officially licensed accountants are recognized by titles such as Chartered Accountant (UK) or Certified Public Accountant (US).

Accountancy attempts to create accurate financial reports that are useful to managers, regulators, and other stakeholders such as shareholders, creditors, or owners. The day-to-day record-keeping involved in this process is known as book-keeping.

At the heart of modern financial accounting is the double-entry book-keeping system. This system involves making at least two entries for every transaction: a debit in one account, and a corresponding credit in another account. The sum of all debits should always equal the sum of all credits. This provides an easy way to check for errors. This system was first used in medieval Europe, although some believe that the system dates back to Ancient Greece.

According to critics of standard accounting practices, it has changed little since. Accounting reform measures of some kind have been taken in each generation to attempt to keep book-keeping relevant to capital assets or production capacity. However, these have not changed the basic principles, which are supposed to be independent of economics as such.

1. What is accountancy or accounting?
2. What is auditing?
3. What is the essence of the double-entry book-keeping system?

Text 25. Financial Audit

A financial audit is the examination of financial records and reports of a company or organization, in order to verify that the figures in the financial reports are relevant, accurate, and complete. The general focus is to ensure the reported financial statements fairly represent a company's stated condition for the firm's stakeholders. These stakeholders will be interested parties, such as stockholders, employees, regulators, and the like.

Doing a financial audit is called the «attest» function. The general purpose is for an independent party (the CPA firm) to provide written assurance (the audit report) that financial reports are «fairly presented in conformity with generally accepted accounting principles».

Because of major accounting scandals (failure by CPA firms to detect widespread fraud), assessing internal control procedures has increased in magnitude as a part of financial audits.

Financial audits are typically done by external auditors (accountancy firms). Many organizations, including most very large organizations, also employ or hire internal auditors, who do not attest to financial reports. Internal auditors often assist external auditors, and, in theory, since both do internal control work, their efforts should be coordinated.

1. What is a financial audit?
2. What is the general purpose of audit?
3. Who typically does financial audits?

Text 26. Internal, Governmental and External Audit

Although the audit process of obtaining and evaluating evidence and communicating the results to interested users applies to all audit applications, the objectives of auditing vary depending on the needs of users of the audit report. Internal auditing, governmental auditing, and external auditing all serve different objectives.

Internal auditing is defined as an independent appraisal function established within an organization to examine and evaluate its activities as a service to the organization. The objective of internal auditing is to assist members of the organization in the effective discharge of their responsibilities. To this end, internal auditing furnishes them with analyses, appraisals, recommendations, counsel, and information concerning the activities reviewed.

Internal auditors require a broader definition of auditing because they are employed by the company that they audit. Consequently, internal auditors must define their function in such a way that the function will include any activity that is helpful to their employer.

Governmental auditing covers a wide range of activities on the federal, state, and local levels and numerous regulatory agencies. Governmental auditors not only examine financial statements but also determine whether government program objectives are met and whether certain government agencies and private enterprises comply with applicable laws and regulations.

External auditing involves reporting on financial statements prepared by management for external users of third parties. Third parties include stockholders, creditors, bankers, potential investors, and federal, state, and local regulatory agencies. External audits are performed by independent CPA firms.

1. What types of auditing do you know?
2. Describe the internal auditing.
3. What do you know about the governmental auditing?
4. What is the essence of external auditing?

Содержание

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