МИНИСТЕРСТВО ВЫСШЕГО И СРЕДНОГО СПЕЦИАЛЬНОГО ОБРАЗОВАНИЯ РЕСПУБЛИКИ УЗБЕКИСТАН

САМАРКАНДСКИЙ ИНСТИТУТ ЭКОНОМИКИ И СЕРВИСА

КАФЕДРА ОБУЧЕНИЯ ЯЗЫКАМ

УЧЕБНЫЕ МАТЕРИАЛЫ ПО АНГЛИЙСКОМУ ЯЗЫКУ (ТЕКСТЫ И УПРАЖНЕНИЯ) ДЛЯ СТУДЕНТОВ – МАГИСТРАНТОВ ЭКОНОМИЧЕСКИХ И БУХГАЛТЕРСКИХ СПЕЦИАЛЬНОСТЕЙ (РУССКИЙ ЯЗЫК ОБУЧЕНИЯ)

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Данные учебные материалы по английскому языку(тексты и упражнения) для студентов-магистрантов экономических специальностей (русский язык обучения) В основу организации пособия положен последовательно реализуемый коммуникативный деятельностный принцип. Пособие предназначено для практических занятий.

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INTRODUCTION

The work aims to develop the vocabulary required by professionals and students. The materials provide clear and simple texts for self-work in various professional areas. The book is devoted to professional area, which helps post – graduate students to make conversation easily. Each section, focusing on one topic area, gives the knowledge of both specialists or as handy reference for self – study.

The book will also be a useful source of information for trainers who need to run courses of conversational English.

PART-I

CONTENTS

LESSON 1

ECONOMICS AS A SCIENCE

The subject of economics

There are many definitions of economics. One of them was formulated by Paul Samuelson, a prominent American economist and the author of textbooks on economics which have been used by economics students all over the world for decades:

Economics is the study of how societies use scarce resources to produce valuable commodities and distribute them among different people.

Economics is a science. However, it is of practical value in business. An understanding of the overall operation of the economic system puts the business executive in a better position to formulate policies. The executive who understands the causes and consequences of inflation is better equipped during inflationary periods to make more intelligent decisions than otherwise. Indeed, more and more economists are employed by corporations. Their job? To gather and interpret economic information upon which rational business decisions can be made.

In spite of its practical benefits, however, the students must be warned that economics is an academic subject. Unlike accounting, advertising, corporation finance, and marketing, economics is not primarily a how-to-make-money area of study. A knowledge of economists may be helpful in running a business or in managing one’s personal finances, but this is not its primary objective. In economics, problems are usually examined from the social, not from the individual point of view. Production and consumption of goods and services are discussed from the viewpoint of society as a whole, not from the standpoint of one’s own personal financial benefits.

Economics is concerned with the following:

1. The **production** of goods and services: how much the economy produces; what particular combination of goods and services; how much each firm produces; what techniques of production it uses; how many people it employs.

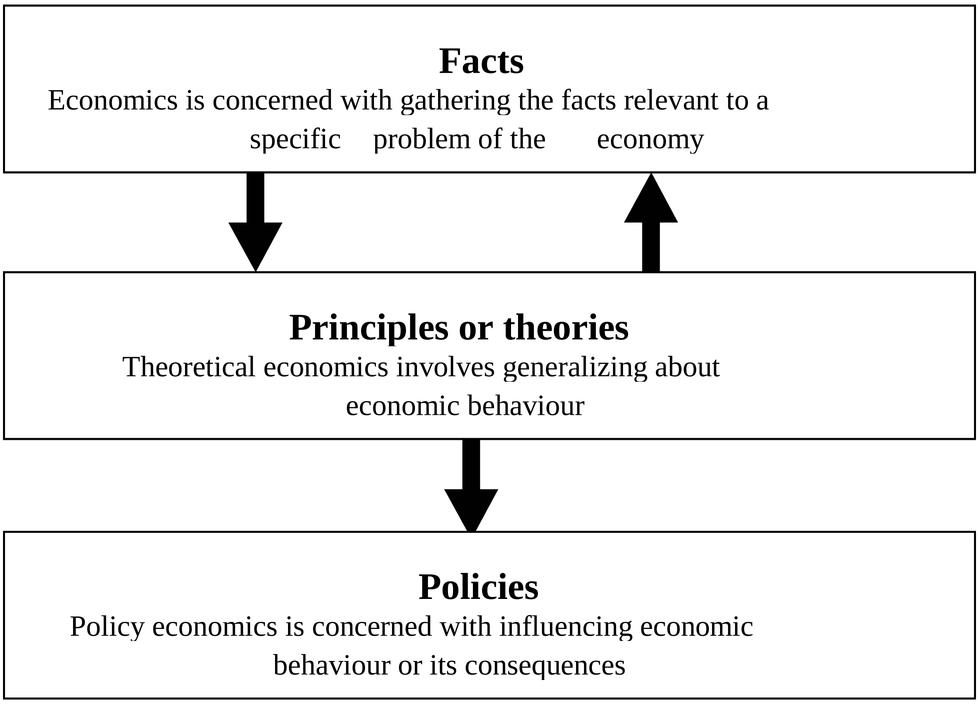
2. The **consumption** of goods and services: how much the population as a whole spends (and how much it saves); what pattern of consumption is in the economy; how much people buy of particular items; how people's consumption is affected by prices, advertising, fashion and other factors.

As individuals want more than they can have, this makes them behave in certain ways. Economics studies that behavior of people as consumers of various goods and services. The society as a whole faces the similar problem, so economics also studies the behavior of producers (firms), and of governments which can influence the level of production and consumption as a whole.

Methodology

What do economists do? What procedures do they employ? The economist must first gather the facts which are relevant to consideration of a specific economic problem. Then the economics puts this collection of facts in order and summarizes them, and finds out a principle concerning the way individuals and institutions actually behave. Deriving principles from facts is called "economic theory" or "economic analysis". Finally, the general knowledge of economic behavior which economic principles provide can then be used in developing policies for correcting or avoiding the problem. This final aspect of the field is called "applied economics" or "policy economics". In this way economic theory serves as the basis for economic policy. Economic principles are extremely valuable as predictive devices. If some undesirable event (such as unemployment or inflation) can be predicted or understood through economic theory, we may be able to influence or control the event, or prepare for it. Ability to predict a rainstorm does not give us control over the weather, but it does permit us to prepare for it by carrying a raincoat and an umbrella.

Picture 1.1 Economic analysis.



Economic principles are generalizations and characterized by imprecise quantitative statement. Economic facts are usually diverse; some individuals and institutions act one way and some another way. Hence, economic principles are stated in terms of averages. For example, when economists say that the average household earned an income of $22,390 in 1981, they are making a generalization. It is recognized that some households earned much more and many others much less. Yet this generalization, properly handled and interpreted, can be very meaningful and useful.

Economists try to find economic principles by building models. The predictions of the models form the basis of economic theories. The theories can be tested by comparing the predictions of the models with the facts of the real world.

What methods are used by economists to develop their theories?

Induction and deduction

Induction takes place when accumulated facts are arranged systematically and analyzed so as to permit the derivation of principle. Deriving principles of facts, we are describing the inductive or empirical method.

The other method is called deductive or hypothetical. For example, economists may say that it is rational for consumers to buy more of a product when its price is low than when its price is high. Such untested principle is called a hypothesis. The validity of this hypothesis can be tested by the systematic and repeated examination of relevant facts. Thus, the deductive method goes from the general to the particular, from theory to facts. Most economists view deduction and induction as complementary, rather than opposing, techniques of investigation.

All sciences are careful to distinguish between two types of statements: statements about what *is* or *was* or *will be* – positive statements; and statements about what *ought* to be – normative statements. Thus, **positive economics** investigates the ways in which economic agents seek to achieve their goals. It deals with facts and is free from subjective opinions. For example, '*The unemployment rate is 7%'.*

Normative economics makes suggestions about the ways in which society's goals might be more efficiently realized. For example, *'The unemployment should be lowered'*.

Economic models

When economic science discovers a relationship between two or more things, then a model can be designed. Economics uses economic models to explain economic processes which are so complex in the real economy that models become useful.

A model is a simplified picture of reality that tells how some things influence other things. And various simplifying assumptions are used. For example, "other things being equal" assumption:

In constructing their generalizations, economists as well as other scientists make use of the *ceteris paribus* (Latin) or 'other things being equal' assumption. That is, they assume all other variables are held constant except the one under consideration. To illustrate: If economists want to focus on "the price of product X – purchases of product X" relationship, they assume that only the price of product X varies, and all other factors which may influence the amount of product X purchased are constant, such as the prices of other products, consumer incomes, tastes, fashion, etc.

Exactly what is an economic model?

An economic model is the same thing as an economic theory or principle or law. Economists talk about the “principle of diminishing marginal utility” and the “law of demand” and the “theory of the firm”. All these are models: statements of “what causes what” and “what would happen if…”. A model can be represented in three ways:

- verbally (in words)
- graphically (in graphs and diagrams)
- mathematically (equations)

There are two levels of the economic analysis: microeconomics and macroeconomics.

Microeconomics deals with the problems that consumers and firms face in their economic activity. Microeconomics also studies the way that individual markets work and the detailed way that government activities such as regulations and taxes affect individual markets. Much of microeconomics focuses on trying to understand what factors affect the prices and quantities traded in individual markets.

Macroeconomics deals with the economy as a whole. It is concerned with the economy of a country and regulation of the economy by the governments. In particular, it studies the overall values of output as a whole, of unemployment and of inflation.

The division is useful because what is rational for the individual firm or household is not necessary rational when considering the whole economy.

Applied economics includes the following: management, marketing, finance, accounting, logistics, to name just a few.

KEY WORDS

definition	определение
formulate	формулировать
scarce resources	редкие (ограниченные) ресурсы
commodity	товар
distribute	распределять
business executive	управляющий директор, топ
causes and consequences	причины и следствия
inflationary	инфляционный
rational	рациональный, разумный
run (a business)	управлять, руководить
production and consumption	производство и потребление
particular item	отдельный предмет
behavior	поведение
level	уровень
methodology	методология
derive (a principle)	выводить (принцип)
applied economics	прикладная экономика
prediction	предсказание
economic theory	экономическая теория
generalization	обобщение
quantitative	количественный
average	средний показатель
household	условная семья
economic model	экономическая модель
deduction and induction	дедукция и индукция

simplify	упрощать
variable	переменная величина
constant	постоянный
purchase	покупать, покупка
income	доход
assumption	аксиома, допущение
other things being equal	при прочих равных условиях
micro- and macroeconomics	микро- и макроэкономика
management	менеджмент
marketing	маркетинг
finance	финансы и денежное об обращение
accounting	бухгалтерский учет
logistics	логистика
research and development	исследования и развития

After studying this module, you should be able to answer the following questions:

1. What is economics about?

2. How should we study economics? What is the character of methodology of economics?

3. What specific problems and limitations might we encounter in studying economics?

4. What is meant by an economic theory and how economic theories are developed by building and testing economic models?

5. What is the difference between microeconomics and macroeconomics?

6. How can you distinguish positive and normative statements?

EXERCISES:

I. Insert: some, any, no.

1. I'm afraid there's ... juice in ... fridge. Would you like ... lemonade? 2. My friends from Chicago can't speak ... foreign languages. 3. She bought ... new books yesterday. 4. Where are ... books which you brought from ... library yesterday? 5. Did you buy ... apples when you were at... shop? 6. We could not skate because there was ... snow on ... ice. 7. ... house must have ... windows. 8. Most people like ... music. 9. There was ... meat on Nick's plate and ... fish on Tom's. 10. We saw ... houses in the distance. 11. ... cats like ... milk. 12. They stopped in ... front of ... house where Tom lived. 13. I showed him ... way to ... station. 14. What is ... name of ... street in which you live? 15. I want to say ... words to your sister. 16. ... tea in this glass is cold. 17. ... sun was high in ... sky. 18. Oh, there are ... apples in ... vase: ... children have eaten all of them. Please put ... apples into ... vase. 19. Yesterday we had ... fish for dinner. 20. He gave me ... coffee. 21. I drank ... cup of ... coffee after ... dinner.

II. Use necessary sequence of tenses:

Ann: Hello, Kate. I am so glad you (to come) at last. Where you (to spend) the morning?

Kate: I (to be) in the bookstore choosing new books in English.

Ann: It (to rain) still? It (to be) rather dark in the room.

Kate: No, the rain (to stop), but the wind (to blow). On my way to your place I (to meet) Mary. You (to know) her?

Ann: Of course I .... I (to know) her since childhood. When we (to be) children, we often (to play) together. Where you (to meet) her? I (not to see) her for a long time. What she (to look) like?

Kate: She (not to change) a bit. She (to go) to the library when I (to meet) her.

Ann: What she (to tell) you?

Kate: She (to tell) me she recently (to return) from a very interesting trip and that she (to travel) a lot and (to see) many interesting things. She (to want) to see all her friends soon.

Ann: Oh, then she (to come) to see me, too, I (to think).

Kate: Yes, that (to be) a pleasant meeting, I (to be) sure. But what (to be) the time? My watch (to stop) and I (not to know) the exact time.

Ann: It (to be) ten minutes to three.

Kate: Oh, then let's begin working at once. At four o'clock I must go. My mother (to wait) for me at the metro station at a quarter past four.

III. Translate.

1. English is as difficult as German. 2. My composition is not as long as yours. 3. It isn't as warm today as it was yesterday. 4. The house his aunt lives in is as old as the one his uncle lives in. 5. His apartment isn't as elegant as her apartment, but it's much bigger. 6. Johnny isn't as rich as Don but he is younger and much happier. 7. My dog isn't as friendly as your dog. 8. You can eat as much as you like. 9. A football match isn't as exciting as a hockey match. 10. The hotel isn't as cheap as we expected. 11. His songs aren't as popular as the Beatles songs. 12. Her brother is as intelligent as his wife.

LESSON 2

MARKETING ACTIVITIES AND THEIR CHARACTERISTICS

The importance of marketing in a company`s ongoing success can better be understood and appreciated when you consider the activities it embraces. In essence, marketing anticipates and measures the importance of needs and wants of a given group of consumers and responds with a flow of need-satisfying goods and services. Accomplishing this requires the firm to:

Target those markets most compatible with its resources

Develop products that meet the needs of the target market better than competitive products

Make the products readily available

Develop customer awareness of the problem-solving capabilities of the company`s line of products

Obtain feedback from the market about the success of company products and programs.

One important characteristic of marketing as a business function is its focus on customers and their needs. When properly done, such focusing enables firms to enjoy success over time by exploiting changes in the marketplace, by developing products that have demonstrable superiority over what is currently available and thus fill a strong need, and by using a more integrated approach to their total operation.

The relationship of marketing to business strategy and operations

If we define business strategy largely as direction the firm`s resources to provide the best fit between the firm and its environment –and further, to obtain a lasting competitive or differential advantage –than it should be clear that marketing plays an important role in strategy formulation.

Marketing also plays a key role in development of operational (action) plans that are designed to implement a given strategy. In many, if not most, multiproduct companies, these plans are drafted within the marketing department. For example, a large consumer goods company assigns the responsibility for developing and implementing programs designed to build product volume and profit to a manager in the marketing department. This manager has specific responsibilities toward the product (to ensure its competitive superiority within certain cost constraints), advertising (making certain the advertising copy provides the maximum selling power and the media schedule delivers the message to the target audience in the most effective and efficient manner), merchandising (executes and evaluates sales promotions that are cost-effective), and adjustments to the plan during the fiscal year to deliver the required sales volume. These major responsibilities are detailed in an annual plane (complete with budget) that is updated quarterly.

The development of marketing system in society

Consider the Tiwi, an extremely primitive people living in the wilds of northern Australia. With the family as the center of Tiwi life, the household is the principal economic unit of their society. Each household is a self-sufficient production unit. Tiwi women gather vegetables, roots, grubs, worms and other delicacies from the surrounding countryside. The most experienced food gatherers are older women (often widows) who become the first wives of the young males. First wives supervise food gathering and other production activities of the younger women who subsequently join the household as additional wives of the polygamous men. The men contribute to their households` well-being by hunting and fishing.

Because of their subsistence-level lifestyle and the self-sufficiency of each household, the Tiwi are one of the last remaining societies in which marketing activities are seldom undertaken.

But even the Tiwi have learned the benefits of specialization and division of labor. The women concentrate on gathering and preparing vegetables and insects; the males specialize in hunting and fishing. Increased division and specialization of labor is one of the most important changes that occurs as societies move from a primitive economy toward higher levels of economic services or for use in the day-to-day operations of the organization (as when a university buys paper and typewriter or computer printer ribbons). These are called **industrial goods and services**.

Individual and organizations have different needs and wants to satisfy through exchange transactions, and they go through different decision processer when seeking exchange partners and choosing transactions. For example, consumers make many purchases on their own. Organization purchase decisions, however, are often made or influenced by a group or team representing different functional departments such as engineering, purchasing, and finance. Also, consumer markets typically consist of many more—and geographically dispersed –potential customer than organizational markets. Because of such differences, some marketing strategies and tactics are more appropriate and successful for consumer markets; others work better when selling to organizations. Throughout this book we examine differences in the buying behavior of these two types of customers, and the marketing strategies and programs relevant for each.

Customer needs and wants

Needs are basic forces that drive customers to take action and engage exchanges. An unsatisfied need is a gap between a person`s actual and desired states on some physical or psychological dimension.

Thus we all have basic physical needs critical to our survival, such as food, drink, warmth, shelter, and sleep. We also have social and emotional needs critical to our psychological well-being, such as security, belonging, love, esteem, and self-fulfillment. Those needs that motivate the consumption behavior of individuals, however, are few and basic. They are not created by marketers or other social forces; they flow from our basic biological and psychological makeup as human beings.

Organization also must satisfy needs to assure their survival and well-being. Shaped by the organization`s strategic objectives, these needs relate to the resource inputs, capital equipment, supplies, and services necessary to meet those objectives.

Wants reflect a person`s desires or preferences for specific ways of satisfying a basic need. Thus, a person wants particular products, brands, or services to satisfy an unsatisfied need.

Basic needs are relatively few; but people`s many wants are shaped by social influences, their past history, and consumption experiences. Different people, then may have very different wants to satisfy the some need. Everyone needs to keep warm on cold winter nights, for instance. But some people want electric blankets, while others prefer old-fashioned down comforters. These individual differences in wants to satisfy basic needs are very apparent the consumption differences across cultures or social groups within a society.

This distinction between needs and wants helps put into perspective the charge that “marketers create needs,” or that “marketers make people want things they don`t need.” Neither marketers nor any other single social force can create needs deriving from the biological and emotional imperatives of human nature. On the other hand, marketers—and many other social forces—influence people`s wants. Indeed, a major part of a marketer`s job is to develop a new product or service and then to stimulate customer wants for it by persuading people it can help then better satisfy one or more of their needs. For example, homeowners might buy a home security system to satisfy their need for personal safety.

KEY WORDS

store	запас, склад
rapid	быстрый, скорый, крутой
expansion	расширение, растягивание
divorced	развод, разделить
leadership	руководство, предводительство
sales	продажа
incorporated	объединяться, соединить
change	перемена, обмен,
escriptive	описательный, образный
executive	исполнительный
route	маршрут
insurance	страхование
real	настоящий
estate	поместье, имущество
subsidiary	вспомогательный, дополнительный
annual	ежегодный, годовой
image	образ

After studying this module, you should be able to answer the following questions:

1. Speak on marketing activities.

2. Why do me any that marketing plays a key role in development of operational plans?

3. What do me call industrial goods and services?

4. Discuss customer needs and warts.

5. Is there distinction between needs and warts?

EXERCISES:

I. Use the following modal verbs: must, may, can, need, to have to, to be able to.

1. You ... not come to help them tomorrow: the work is done. 2. You ... not change the whole text as the beginning is all right. You ... only rewrite the second part of it. 3. ... you help me now? — I am afraid not: I am in a great hurry. I shall be free in the evening. Come to my place at about eight, and I ... help you. 4. John ... not tell us the rules of the game: we know them. 5. ... I return the book to you on Friday? I am afraid I ... not finish it before. — No, that is too late. You ... bring it to me not later than Wednesday. 6. It is already six o'clock. We ... hurry if we don't want to be late. 7. ... you translate this text into English? — I think I .... 8. They spent all the morning on the river bank. Only Ann ... return home as she ... not stay in the sun for such a long time. 9. How do you feel when you ... take a test? — I'm always a little frightened and unhappy. 10. She ... decorate a room nicely. 11. We ... not afford to pay the bill. 12. He's got a lung problem and he ... go to hospital every two weeks. 13. Ann ... not go to his birthday party yesterday because she ... go to the dentist. 14. You ... take medicine three times a day before meals. You ... not stop taking it until you have finished the bottle. Don't forget. You ... drink water as much as you ... . You ... get up tomorrow if you like. You ... not stay in bed all the time. But you ... not do any work at all. You ... just relax for a few days.

II. Open brackets.

1. Her eyes are (grey) than mine. 2. He was the (fat) man in the village. 3. As he went on, the box became (heavy) and (heavy). 4. My sister is the (tall) girl in her class. 5. Who is the (attentive) student in your group? 6. It is autumn. Every day the air becomes (cold), the leaves (yellow). 7. This is the (beautiful) view I have ever seen in my life. 8. Your handwriting is now (good) than it was last year; but still it is not so (good) as Nick's handwriting. Nick has a (good) handwriting than you. And of course Nellie has the (good) handwriting of all. 9. Oil is (light) than water. 10. We shall wait for a (dry) day to go on the excursion. 11. A bus is (fast) than a tram. 12. Take some of these sweets: they are very (nice). They are (nice) than the sweets in that box. 13. He clearly did not like the explanation, and as he listened to it, he became (angry) and (angry). 14. He worked (hard) and (hard) as the end of the term came nearer. 15. The (tall) trees in the world grow in California. 16. Please be (careful) next time and don't spill the milk again. 17. Bobby was a (quiet) child. He was (quiet) than his sister.

III. Translate.

1. We did not know where our friends went every evening. 2. We did not know where our friends had gone. 3. She said that her best friend was a doctor. 4.She said that her best friend had been a doctor. 5. I didn't know that you worked at the Hermitage. 6. I didn't know that you had worked at the Hermitage. 7. I knew that you were ill. 8. I knew that you had been ill. 9. We found that she left home at eight o'clock every morning. 10. We found that she had left home at eight o'clock that morning. 11. When he learnt that his son always received excellent marks in all the subjects at school, he was very pleased. 12. When he learnt that his son had received an excellent mark at school, he was very pleased.

LESSON 3

ORGANIZATIONAL MARKETS AND BUYING BEHAVIOR

Users

The people in the organization who must use or work with the product or service often have some influence on the purchase decision. For example, drill-press operators might request that the purchasing agent buy a particular brand of drills because they stay sharp longer and reduce down-time in this plant. Physicians, along with a variety of hospital laboratory specialists would have substantial input into any decision relating to the purchase GE's diagnostic imaging systems.

Influencers

Influencers provide information for evaluating alternative products and suppliers. They are usually technical experts from various departments within the organization. Influencers help determine which specifications and criteria to use in making the purchase decision, as do government specialists when it comes to the purchase of any of large power-generating equipment involving nuclear energy.

Gatekeepers

Gatekeepers control the flow of information to other people in the purchasing process. They include the organization's purchasing agents and the suppliers' salespeople, as well as secretaries and receptionists. Gatekeepers influence a purchase by controlling the information reaching other division makers. An organization does not decide to buy a new product, for example, unless information about its existence and advantages over alternatives is brought to the decision-makers' attention

Buyer

The buyer is usually referred to as a purchasing agent or purchasing manager. In most organizations, buyers have the authority to contact suppliers and negotiate the purchase transaction. In some cases, they exercise wide discretion in carrying out their jobs. In other firms, they are lightly constrained by specifications and contract requirements determined by technical experts and top administrators-as would have been the case in the purchase of factory automation equipment from GE by General Motors.

Deciders

The decider is the person with the authority to make a final purchase decision. Sometimes buyers have this authority; but often lower-level purchasing managers carry out the wishes of more powerful decision makers. When American Airlines ordered 80 jell aircraft engines from GE to power its new fleet of Boeing 767s, the final decision to do so was made by American's top-level executives.

Organizational markets and buying behavior

Organizational markets include resellers (retailers and wholesalers); goods producers (agriculture, mining, manufacturing); services-both consumer and business (such as those in the education, health, lodging, transportation, and amusement sectors); and the government – federal, state, and local. The federal government of the United States is the largest single buyer of goods and services in the world.

By definition, organizational buyers purchase goods and services for further production (raw materials and components) for use in operations (office supplies and insurance), and for resale to other customers (furniture and pharmaceuticals). In contrast, individuals and households buy for their own use and consumption. These two types of markets also differ in numerous other ways, including their demand characteristics, their market demographics, and their buyer-seller relationships

The derived demand characteristic of organization markets has led some companies to try to stimulate demand for their customers' products. For example, Du Pont regularly advertises clothing products made from its synthetic fibers. Fluctuating and cyclical demand have caused some producers of industrial goods to diversify into other products and markets in an effort to have more balanced sales.

The market demographics of industrial goods and services have a number of marketing strategy implications. They facilitate-often require-the use of direct selling with all its implications of personal selling, advertising, and physical logistics. Because continuing relationships are so important, services such as delivery, spare parts availability, and uniform product quality are emphasized

Buyer-seller relationships can take many forms, including leasing, outright purchase using a variety of contracts, and customer financing by the seller. Because buyers depend on suppliers for an assured and continuing supply of a product and its servicing, the buyer-seller relationship is unusually close and extends substantially beyond simply the sale transaction. It is also marked by a complex buying process that affects the seller's formal organization structure as well as the qualifications of managers.

Organizational buying decisions and participants

Organizations purchase different kinds of goods and services for different purposes than consumers do. The crucial question from a marketer's viewpoint is whether organizations make their purchase decisions in different ways. What members of the organization are involved in making purchase decisions? Are the stages in the organizational buyer's decision-making process similar to those that consumers go through? How do the activities of the two types of buyers differ at each stage? Are organizational buyers influenced by environmental variables in the same ways as consumers?

Who makes organizational purchasing decisions?

Organizational purchasing often involves people from various departments. These participants in the buying process can be grouped as users, influencers, gatekeepers, buyers, and deciders.

Market opportunity analysis

The organizational buying center

For routine purchases with a small dollar value, a single buyer or purchasing manager may make the purchase decision. For many organizational purchases, though, several people from different departments participate in the decision process. The individuals in this group, called a buying center, share knowledge and information relevant to the purchase of a particular product or service.

A buyer or purchasing manager is almost always a member of the buying center. The inclusion of people from other functional areas, however depends on what is being purchased. When the purchase is a major new installation, the high dollar value of the purchase usually dictates that the firm's chief executive and its top financial officer actively participate in the final decision. For purchases of key fabricating parts for the manufacture of the final product, engineering, production, and quality control people are likely to be added. For accessory equipment, such as new office equipment, an experienced user of the equipment (say, a secretary or office manager) might participate in the decision.

For an example of the roles played by the various individuals involved in the purchase or upgrading of a telecommunications system. Note the addition of the initiator's role in the list of people involved in the buying situation, the composition of the buying center often varies by market segment.

KEY WORDS

assure	гарантированный
fiber	волокно
transaction	сделка
affect	влияет
request	запрос
reduce	сокращать
inclusion	включение

installation	устройство
accessory	вспомогательный
exert	оказывать
bulk	часть
involve in	включать в себя
challenge	вызов
promotion	продвижение
wholesale	оптовая торговля
amusement	развлечение
consumption	потребление

After studying this module, you should be able to answer the following questions:

1. What do organizational markets include?
2. What is the difference between these two types of markets?
3. Buyer-seller relationship can take many forms, can they? Why?
4. Who makes organizational purchasing decisions?
5. Who is buyer?

EXERCISES:

I. Make up conditional sentences.

1. The travelers had no camera with them, so they could not take photos of the beautiful scenery. If ... 2. There was no sugar left, so we had to go to the shop late in the evening. If ... 3. This house is very nice and comfortable, but it is not very good for living because it is situated close to a chemical plant and the air around is very bad. If ... 4. He is an excellent specialist, but I cannot ask his advice because I am not acquainted with him. If ... 5. You cannot enjoy this merry evening party because you have a toothache. If ... 6. You know the material well enough, but you are very

absent-minded, and that's why you always make many mistakes. If ... 7. You did not ring me up, so I did not know you were in trouble. If ... 8. You left the child alone in the room, so he hurt himself. If ... 9. They spent a year in the tropics, so they got very sun-tanned. If ... 10. It rained heavily, so we got drenched to the skin. If ... 11. Why didn't you watch the cat? It ate all the fish. If ... 12. A huge black cloud appeared from behind the forest, so we had to turn back and hurry home. If ... 13. We shall not go to see them because it is very late. If ... 14. Naturally she was angry, because you were in her way. If ...

II. Insert: much, many, little, few, a little, a few.

1. When we walked ... farther down the road, we met another group of students. 2. Have you got ... money on you? — I'm sorry. I have very ... money at the moment. 3. At the conference we met ... people whom we knew well. 4. There are very ... old houses left in our street. Most of them have already been pulled down. 5. If you have ... spare time, look through this book. You will find ... stories there which are rather interesting. 6. There are ... things here which I cannot understand. 7. Shall I bring ... more chalk? — No, thank you. There is ... chalk on the desk. I hope that will be enough for our lesson. 8. He had ... English books at home, so he had to go to the library for more books. 9. She gave him ... water to wash his hands and face. 10. I'd like to say ... words about my journey. 11. After the play everybody felt ... tired. 12. Let's stay here ... longer: it is such a nice place. 13. There were ... new words in the text, and Peter spent ... time learning them. 14. There was ... hay in the barn, and the children could not play there. 15. My friend isn't going to the concert this evening because he has got ... work to do. 16. My mother knows German ... and she can help you with the translation of this letter. 17. He's got very ... time left. If he doesn't hurry up, he'll miss the plane.

III. Translate.

1. The new cinema in our district is much bigger than the old one. 2. He is one of the most dangerous criminals in the world. 3. Nevsky Prospect is much more beautiful than our street. 4. Our house isn't as big as yours. 5. That's the funniest story

I've ever heard. 6. The tram system isn't as reliable as it used to be. 7. What is your height? You are taller than me. 8. She felt as strong as her brother. 9. We started earlier than you. 10. He was more careful than I. 11. This student is the most attentive in our group. 12. I need a warmer coat. 13. He is as tired as you. 14. He was one of the most experienced workers at the factory. 15. Better late than never. 16. She was not so attractive as her mother. 17. His work is not so difficult as mine. 18. He was the eldest in the family. 19. It is easier to swim in the sea than in the river. 20. This is the smallest room in our flat.

LESSON 4

BASIC CONCEPTS OF ECONOMICS

The central economic problem is about scarcity and choice

Human wants are virtually unlimited whilst the resources to satisfy our wants are limited. The most pressing wants are food, housing, clothing and warmth. They have to be satisfied first. Advances in technology, however, have added new wants and brought about new ways of satisfying existing wants. For example, our wants for cars and television sets were unknown to previous generations and the wants to travel, regarded as difficult in the past, can be satisfied easily because of many different types of transport. At any time, people in different countries of the world can produce only a limited amount of goods and services because the available resources are limited, or scarce. These resources or factors of production as they are often called are of three types:

Labor: all forms of human input, both physical and mental, into production. The labor force is limited both in number and in skills.

Natural resources: land and raw materials. They are inputs into production that are provided by nature. The world’s land area is limited, as are its raw materials.

Capital: all inputs that have themselves been produced, e.g. factories, machines, transportation and other equipment. All of them are also limited. Moreover, the productivity of capital is limited by the state of technology.

Three fundamental questions of economics arise because of scarcity and the need to choose between alternative uses of scarce resources.

1. What goods and services are going to be produced? For example, how many cars, how much wheat, how many rock concerts, how mush education, etc. The answer depends not only on resources but also on the needs: in Finland consumers need mare warm clothes because of the climate. In China consumers need more rice because it is traditional everyday food there.

2. How are things going to be produced? Resources can be used in different proportions. Labor-intensive production versus capital-intensive production: In Brazil maize is grown with a lot of labor and limited capital, and in the Netherlands tomatoes are grown with a lot of capital and limited labor. In India electronic devices are produced in small workshops with relatively more labor than capital, and in Germany electronic goods are made with more capital and less labor than in India.

3. For whom are things going to be produced? How will the nation's income be distributed? Historically there have been various answers: according to traditions and customs: in the primitive society hunters got the best food; according to the principle of equality: in the former communist-bloc countries; according to people's ability to pay: in contemporary Russia. In answering this question, modern economics is more focused on the following aspects of the problem: What will the wages of farm workers, builders, accountants, teachers be? How much will pensioners receive? How much will go to shareholders?

Choice and opportunity cost

Choice involves sacrifice. The more food we choose to buy; the less money we have to spend on other goods. The more food a nation produces, the less resources there will be for producing other goods. In other words, production and consumption of one good involves the sacrifice of alternatives. The opportunity cost of something is what you give up to get it/do it. For example, if a farmer's production is either 1000 tons of carrots or 2000 tons of potatoes, then the opportunity cost of producing 1 ton of carrots is the 2 tons of potatoes forgone. Another example is from a student's everyday life: the opportunity cost of buying a textbook is a new pair of trainers you also wanted that you will have to go without. Consumers' rational decisions involve choosing those goods that give you the greatest benefit relative to cost.

The same principles apply to firms when deciding what to produce. Rational choices are also needed in production. The problem is associated with the allocation of the limited resources. For example, should a car manufacturer open up another production line? A rational decision will again involve weighing up the *benefits* and *costs*. The benefits are the revenues that the firm will earn from selling the extra cars. The costs will include the extra labor costs, raw material costs, costs of component parts, etc.

To sum up, we can say that the basic economic problem is concerned with the allocation of scarce resources among competing and virtually unlimited wants of consumers in society. All nations have to decide in some way what, how and for whom to produce.

The production possibility curve

Now let us consider how the economic problem can be illustrated by means of a production possibility frontier, or curve in terms of graphics. This diagram is actually a graph. Like many diagrams in economics it shows a simplified picture of reality. The graph is based on the data shown in Table 2.1. We assume that Country A allocates all its resources – land, labor and capital – to produce just two goods, food and clothing. The table shows all possible combinations that could be produced over a year.

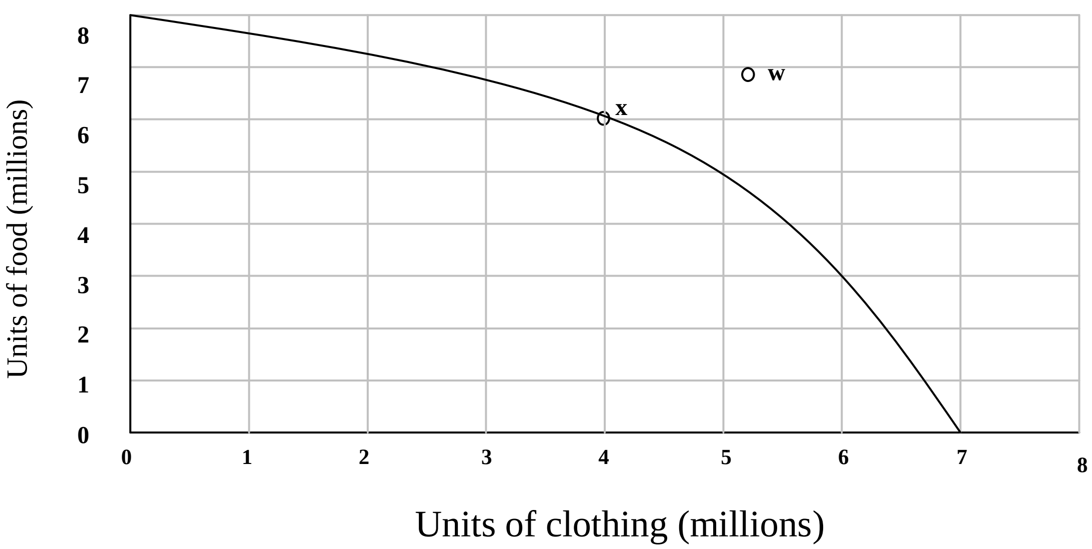
Table 2.1 Maximum possible combinations of food and clothing that can be produced in a given time period.

Units of food	Units of clothing

(millions)	(millions)
8.0	0.0
7.0	2.2
6.0	4.0
5.0	5.0
4.0	5.6
3.0	6.0
2.0	6.4
1.0	6.7
0.0	7.0

The information in the table can be transferred to a graph (Figure 2.1): units of food are measured on the vertical axis and units of clothing on the horizontal axis. The curve also shows all combinations of the two goods that can be produced.

Figure 2.1 A Production Possibility Curve.



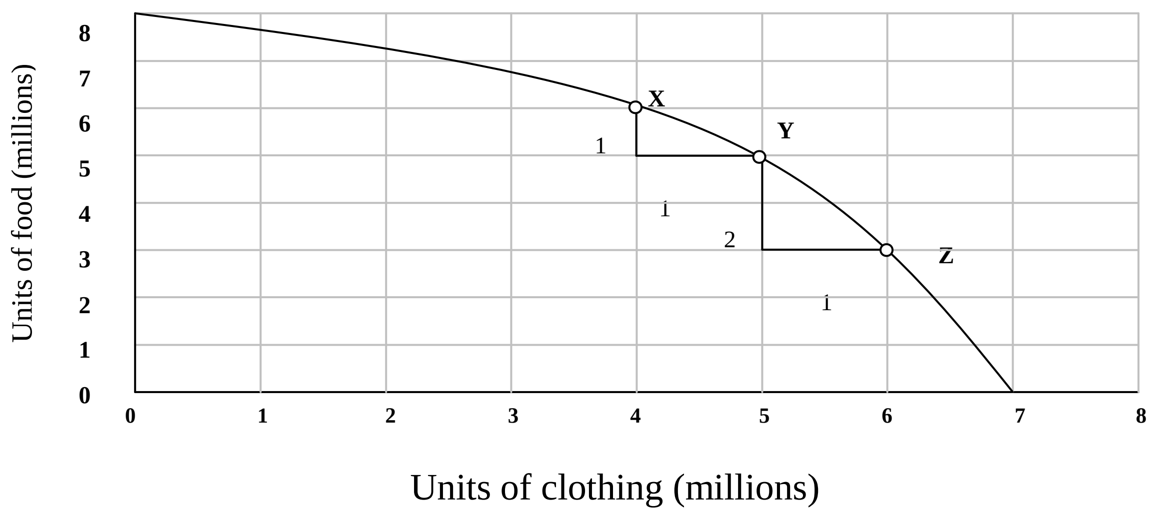
For example, production could take place at point ***x***, with 6 million units of food and 4 million of clothing being produced.

Production cannot take place beyond the curve, for example, at point ***w***: there are not enough resources to do this.

The fact that to produce more of one good involves producing less of the other is illustrated by the downward sloping nature of the curve. For example, the country could move from point ***x*** to point ***y*** in Figure 2.2. In doing so it would be producing an extra 1 million units of clothing, but 1 million fewer units of food. This diagram is to a large degree a simplification, but it still allows important principles to be illustrated. A production possibility curve illustrates the microeconomic issues of choice and opportunity cost.

It also illustrates the phenomenon of increasing opportunity costs.

Figure 2.2 Increasing opportunity costs.

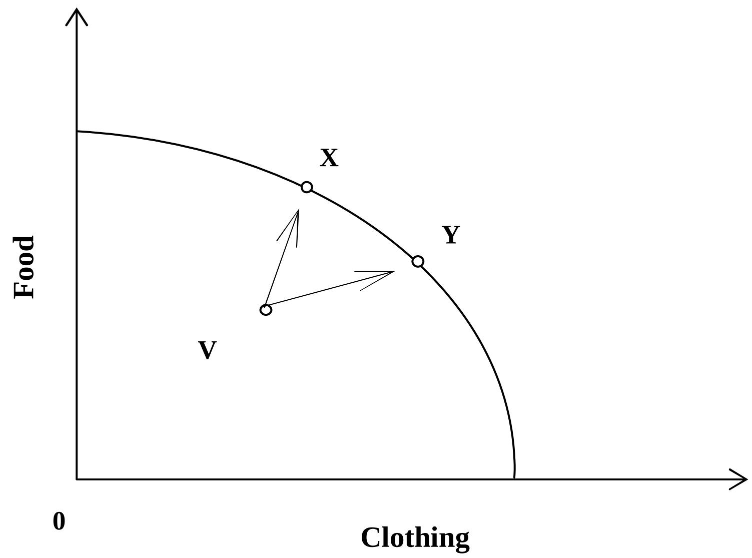


As production moves from point x to y to z, the amount of food sacrificed rises for each additional unit of clothing produced. The opportunity cost of the fifth million units of clothing is **1** million units of food. The opportunity cost of the sixth million units of clothing is **2** million units of food. In other words, as the country produces more of one good, it has to sacrifice ever-increasing amounts of the other. The reason for this is that different factors of production have different properties. People have different skills. Land differs in different parts of the country. Raw materials differ, and so on. Thus as the nation concentrates more and more on the production of one good, it has to start using less and less suitable resources.

Making a fuller use of the resources

If not all the resources are used in the country, the nation will be producing at the point inside the curve (Figure 2.3), say, point ***v***. The economy is producing less of both goods than it could possibly produce. The reason may be unemployment. By increasing employment, the nation could move out on the curve: to point ***x*** or ***y***. It means it could produce more clothing **and** more food (proportions will be different).

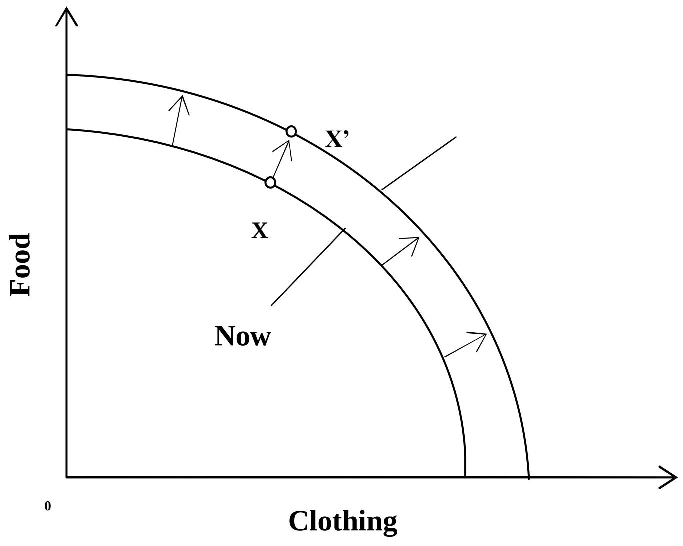
Figure 2.3. Macroeconomics and the production possibility curve.



In Figure 2.3. we are not concerned with the combination of goods produced (a microeconomic issue), but with the issue whether the **total** amount produced is as much as it could be (a macroeconomic issue).

The production possibilities of a nation are likely to increase over time. For example, investment in a new plant and machinery will increase the stock of capital, new raw materials may be discovered; technological advances are likely to take place. Labor is likely to become more productive through education and training. This growth in potential output is illustrated by an outward shift in the production possibility curve. This will allow actual output to increase: for example, from point ***x*** to point $\boldsymbol{x^1}$ (Figure 2.4)

Figure 2.4 Shifts in the PPC from now to 5 years later.



KEY WORDS

scarcity and choice	нехватка и выбор
satisfy	удовлетворять
housing	жилье
available	доступный
factors of production	факторы производства
input	вводимый ресурс
output	объем производства
amount	количество
labor	труд
natural resources	природные ресурсы
capital	капитал
skills	умения, квалификация
equipment	оборудование
productivity	производительность
wage	зарплата

shareholder	акционер
opportunity costs	альтернативные издержки
sacrifice	жертвовать, жертва
weigh up benefits and costs	взвешивать выгоды и издержки
forgo	поступаться
revenues	поступления, доходы
production possibility	производственные возможности
data	данные
measure	мера, измерять
transfer	переводить, превращать
ever-increasing	всё возрастающий
properties	свойства
suitable	пригодный
unit of a good	единица товара
employment	занятость
unemployment	безработица
technological advances	технологический прогресс

After studying this module, you should be able to answer the following questions:

1. What is the central economic problem faced by all individuals and societies?

2. What are the three fundamental questions of economics?

3. Why is it essential for people to make economic decisions?

4. What is meant by ‘opportunity cost’? How is it relevant when people make economic choices?

EXERCISES:

I. Use the following modal verbs: must, can, need.

1. I ... not believe. I failed another test. — But you ... go to more classes and fewer parties. 2. Perhaps we ... meet next week. 3. ... he speak English in childhood? 4. My neighbors ... grow their own vegetables. 5. ... you turn the music down, please. 6. I ... not believe. I am already out of money. — You ... learn not to spend so much. — But I ... not help it, there are just things that I ... to buy. 7. If you want to improve your English, you ... work very hard. 8. ... I take this book? — Certainly, but you ... not give it to anybody. 9. Mother, ... I go to the country tomorrow? — No, you ... not. The doctor says you ... stay at home for a day or two. 10. There is something wrong with your television set. You ... call a repairman. — Oh, we ... not do it! My brother ... fix it himself. 11. ... we bring these textbooks every day? — No, you ... not: you ... take them from the library. 12. ... you go to the country with us? — No, I am afraid I ... not: I ... go to the library.

II. Open brackets. Insert modal verbs: should, need, to have to.

1. You ... not (to go) out in this rain; as it is you have a cold in your head. 2. It was Sunday, and we ... not (to go) to school. 3. Everything is all right. You see that you ... not (to worry). 4. You are out of breath. You ... not (to run): you know how bad it is for you. 5. You ... not (to tell) her about it. Now she is sure not to sleep the whole night worrying. 6. You ... not (to go) with her: she knows the way perfectly well. 7. You ... not (to put) so much pepper in the meat. No one will be able to eat it. 8. You ... not (to give) them any lunch. They can get coffee and sandwiches on the train. 9. We don't accept credit cards. — Well, I just ... (to pay) cash, I guess. Oh, I don't have enough cash. I ... (to give) you a cheque. 10. If you see anything unusual you ... (to call) the police. 11. There ... not (to be) any difficulty about getting her a visa. 12. You ... not (to tell) him the news; he knew it already. 13. According to the label, the orange marmalade ... (to refrigerate) after opening. 14. I'm not particularly busy. I've got a few things to do but I ... not (to do) them now. 15. You ... not (to be) so impatient with him.

III. Make this in Passive:

A)

Michael: I say, Bill, can you show me around a bit? I only came here two days ago and I haven't been anywhere as yet.

Bill: Of course, I shall do it with pleasure. Let's go at once. And let's invite Alice to come with us. She knows a lot about the places of interest here.

Michael: That's a good idea.

Bill: Alice, can you come with us? We are going for a walk, and I want to show Michael some places of interest.

Alice: No, I can't go with you, boys. I am sorry. Mother told me to buy some bread, and I forgot about it. I shall have to do it now. Go without me. I shall go with you some other time.

Bill: It's a pity. All right, Michael, let's go.

B)

Waiter: What will you order?

Man: Give me the menu, please.

Waiter: Here you are.

Man: Chicken soup for the first course...

Waiter: For the second course I recommend you to take fried fish. It is very good.

Man: All right, bring me fried fish.

Waiter: Any vegetables?

Man: Yes, bring me some potatoes, and then cheese, coffee and fruit.

Waiter: Yes, sir.

LESSON 5

ECONOMIC SYSTEMS

Economies fall into three major groups:

1. Command or planned economy
2. Free market economy
3. Mixed economy

In a command or planned economy direction is given by government bureaucracy that determines through a system of planning offices *what* goods are produced, *how* they are produced, and *who* gets the fruits of productive activity. Such planned economy existed in the Soviet Union and in the Soviet bloc countries.

A free market economy, or free enterprise, or laissez-faire (a French word for ‘let people do what they choose’) is the type when resources are allocated through markets, and governments do not intervene in economic decisions of production and consumption. Under the market system, firms buy factors of production and produce outputs, selecting inputs in order to maximize their profits.

Consumers supply factors of production and buy consumer goods to maximize their satisfactions.

The free-market economy is usually associated with a capitalist system, where land and capital are privately owned. Economic decisions are made by households and firms that are assumed to act in their own self-interest.

It is also assumed that individuals are free to make their own economic choices: consumers are free to decide what to buy with their incomes; workers are free to choose where and how much to work; firms are free to choose what to sell and what production methods to use. The resulting supply and demand decisions of firms and households are transmitted to each other through their effect on prices.

A mixed economy.

Most modern economies are mixed as they are partly regulated by market forces and partly by governments. When governments influence economic decisions of economic agents, we talk about government intervention in the economy. The degree and forms of intervention differ from country to country.

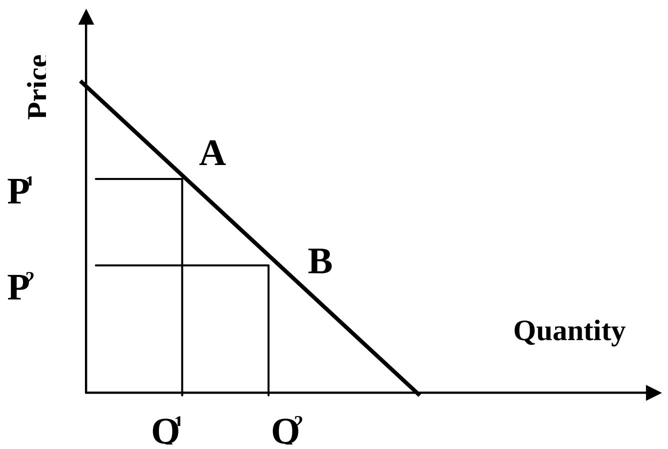
Market forces: supply and demand

Adam Smith advocated the principles of a free market economy with no government regulation. He called the market forces – supply and demand – an *'invisible hand'* which can regulate the economy better than any governments.

Demand is the willingness and the ability of consumers to buy goods and services. In other words, demand is related to people's unlimited wants and influences consumer's decisions what, how much and at what price to buy.

The **demand curve** is a graph which shows the relationship between the price of a good and the quantity of the good demanded. Price is measured on the vertical axis; quantity demanded is measured on the horizontal axis.

Figure 3.1 Demand curve.

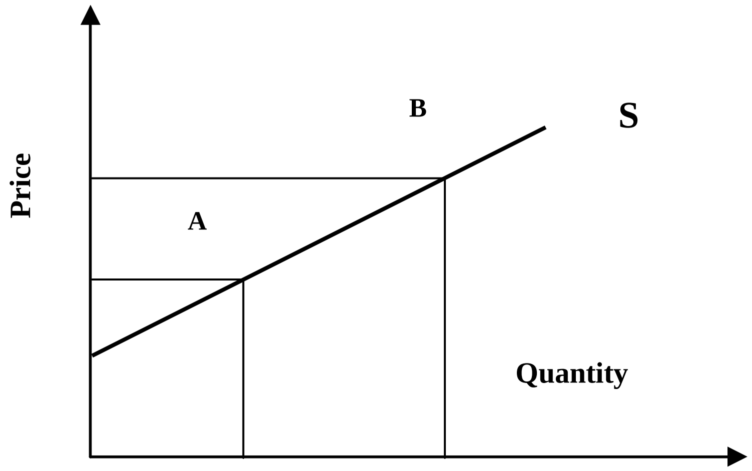


Supply is the willingness and the ability of producers to sell goods and services to consumers. In other words, supply is related to the limited resources that producers use as inputs and influences producer's decisions what, how much and at what price to sell.

The **supply curve** is used to illustrate the quantity of a good that producers wish to sell at each price. Other things equal, when prices are high, the supplied quantity is high as well.

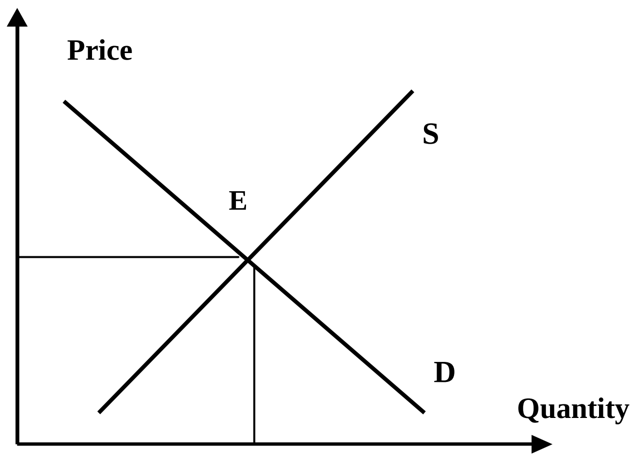
The concepts of demand and supply can be illustrated graphically.

Figure 3.2 Supply curve.



The relationship between demand and supply in the free- market economy can also be illustrated graphically.

Figure 3.3 Demand and supply curves.



Let us study Figure 3.3. The decisions of consumers (buyers) are represented by the demand curve (**D**) and the decisions of producers (sellers) are represented by the supply curve (**S**). Demand and supply are regulated through prices: the lower the price the more goods and services will be bought by consumers (demand curve). The higher the price the more goods and services will be produced by producers (supply curve). Prices and quantities of goods '*adjust themselves*' until supply meets demand and then we say that the market is in equilibrium (point **E**).

The role of the government

In addition to consumers (households) and producers (firms), there is also a third group of decision-makers: a government is an institute that redistributes income and wealth in the society and provides goods and services. The basic service provided by government is laws and a mechanism for their enforcement (courts and police forces). But governments also provide such services as national defense, health services, and many more listed below.

Governments play an important role in modern economies. In particular, they interfere with 'market forces' regulating the areas where the private sector and the market system fail. In particular, governments control the production of public goods, i.e. the goods that would not be provided by the free market. Governments implement and regulate various tasks in the following areas:

- Education
- Health care
- Housing
- Working conditions (working hours, child labor, minimum wages, and so on)
- Social security (unemployment and sickness benefits, old age pensions)
- Defense (the armed services - army, navy, air force)
- The police, the justice system, prisons, and so on
- Public transport (trains, buses, and so on)
- Traffic regulations (the driving test, speed limits, seat belts, the alcohol limit, parking restrictions, the size and weight of lorries and trucks, the safety of cars, and so on)
- Health, safety, and cleanliness regulations (concerning factories, shops, restaurants, food, medicines, the disposal of chemical and nuclear waste, and so on)

- The sale of alcohol, drugs, guns, and so on
- The press, broadcasting, the arts, entertainment, and the freedom of expression (concerning sex, violence, politics, and so on). Moreover, governments help domestic producers to compete with foreign firms by subsidizing export industries and by helping domestic firms to enter new export markets. One of the main tasks of any government is also to implement monetary policy and a fiscal policy. We will study these macroeconomic issues later.

KEY WORDS

wealth	богатство
set laws	устанавливать законы
govern	управлять
property rights	права собственности
variety	разнообразие
command economy	административная экономика
market economy	рыночная экономика
mixed economy	смешанная экономика
invisible	невидимый
direction	направление, указание
supply	поставлять, снабжать
adjust	регулировать
supply meets demand	предложение равно спросу
equilibrium	равновесие
law enforcement	обеспечение соблюдения законов
defense	оборона
fail	терпеть неудачу
social security	социальное обеспечение

justice	правосудие
disposal	утилизация
violence	насилие
government intervention	государственное вмешательство
market forces	рыночные силы
demand curve	кривая спроса
supply curve	кривая предложения
quantity	количество
public good	общественный продукт
broadcasting	радиотрансляция
subsidize export industries	субсидировать экспортные отрасли
monetary policy	кредитно-денежная политика
fiscal policy	налоговая политика

After studying this module, you should be able to answer the following questions:

1. What are the answers to the fundamental economic questions in a command, market and mixed economies?

2. What are the main economic functions of the state (government) in a modern economy?

3. What instruments does government use to intervene in the economy?

EXERCISES:

I. Open brackets.

1. We should eat (healthy) food. 2. Today the streets aren't as (clean) as they used to be. 3. It's (bad) mistake he has ever made. 4. This man is (tall) than that one. 5. Asia is (large) than Australia. 6. The Volga is (short) than the Mississippi. 7. Which building is the (high) in Moscow? 8. Mary is a (good) student than Lucy. 9. The Alps are (high) than the Urals. 10. This garden is the (beautiful) in our town. 11.

She speaks Italian (good) than English. 12. Is the word "newspaper" (long) than the word "book"? 13. The Thames is (short) than the Volga. 14. The Arctic Ocean is (cold) than the Indian Ocean. 15. Chinese is (difficult) than English. 16. Spanish is (easy) than German. 17. She is not so (busy) as I am. 18. It is as (cold) today as it was yesterday. 19. She is not so (fond) of sports as my brother is. 20. Today the weather is (cold) than it was yesterday. 21. This book is (interesting) of all I have read this year. 22. January is the (cold) month of the year. 23. My sister speaks English (bad) than I do. 24. Which is the (hot) month of the year? 25. Which is the (beautiful) place in this part of the country? 26. This good-looking girl is the (good) student in our group.

II. Insert: some, the, a or nothing.

1. In ... bedroom of this flat there are twin beds, ... little bedside table between them, and ... chair. There are clothes thrown over ... chair. 2. Here is ... book that you left on my table yesterday. 3. ... men saw ... boat on ... river. 4. Can you give me ... match? 5. I get ... long letters from my mother, but only ... postcards from my brother. 6. The waitress put ... salad into each plate. 7. When did ... lesson begin? 8. Children must go to ... school. 9. Pass me ... piece of ... bread, please. 10. Do you like ... cucumbers? 11. We bought ... cucumbers at ... market. 12. We use ... pencils or ... pens when we write. 13. He was reading ... book when I came into ... room. 14. Give me ... water to drink, please. 15. At what time will ... meeting begin? 16. Do you find ... English difficult? 17. I got ... letter from my brother yesterday. 18. I had ... bread and ... butter and ... egg for ... breakfast this morning.

III. Translate.

1. You should know how to raise your children not to be losers. 2. You shouldn't give the child everything he wants. You shouldn't satisfy his every craving for food, drink and comfort. Otherwise, he will grow up to believe the world owes him a living. 3. You shouldn't laugh at him when he Ricks up bad words. This will make him think he isn't cute. It won't also encourage him to pick up "cuter" phrases. 4. You shouldn't avoid use of the word "wrong". This won't condition him to believe, later, when he is arrested for stealing a car, that society is against him. 5. You

shouldn't pick up everything he leaves lying around — books, shoes and clothing. You shouldn't do everything for him, otherwise, he will be experienced in throwing all responsibility onto others. Your child should know and do his duties at the expected time. He should have sense of responsibility. He should be a decent person. 6. You shouldn't quarrel frequently in the presence of your child. Otherwise, he will not be too shocked when the home is broken up later. 7. You shouldn't take his part against neighbors, teachers and policemen. They aren't all prejudiced against your child. 8. When he gets into trouble, you shouldn't apologize for yourself by saying, "I never could do anything with him."

LESSON 6

TARGET MARKET AND STRATEGY RECOMMENDATIONS.

As might be expected, the researchers found that the Brave New Workshop attracted primarily hedonist theater-goers. The researchers thus recommended that Riggs' strategy should be to expand his audience within the hedonist group, because no other theater in the area presented the satirical reviews and improvisations that appealed to this group.

Segmentation, targeting and positioning

The research findings and recommendations presented Dudley Riggs illustrate three interrelated marketing concepts: market segmentation, target marketing, and product positioning. Market segmentation is the process of dividing a market into distinct subset of customers. Each segment consists of people with similar needs and characteristics that lead them to respond in a similar way to a particular product offering and marketing program. In the Brave New Workshop example, the researchers first divided the total population into theater-goers and non goers. They then segmented the theater-goers into three groups according to the benefits each groups sought from attending a theater and the relative importance they attached to various choice criteria (such as price and location) they might use in deciding which theater to attend. They described each segment's demographic characteristics as age, income, and educational levels.

No single theater would satisfy the unique needs of all three segments of theater-goers; therefore, Dudley Riggs had to decide which segment to pursue as his target market. He decided to target the hedonist segment after evaluating the relative attractiveness, of the tree groups as to size, revenue potential, and growth rates. He also compared the strengths and weaknesses of the Brave New Workshop with the benefits sought by the customers in each segment and with other theaters competing for those customers. This process of deciding which segments to pursue is called target marketing.

Finally, product positioning involves designing a product offering and marketing program that creates a competitive advantage in the target market.

Why segment the market?

The past two chapters stressed that individual consumers or organizations have different needs and make purchase influenced by different personal, social, and environmental factors. Where big-ticket installation is involved, such as the development of a new fighter plane or the construction of a custom-designed house, a firm may tailor its products and marketing programs for each customer.

Because, markets are rarely homogeneous in benefits wanted, purchase rates, and price and promotion elasticities, their response rates vary depending on product and marketing program differences. Variations among markets in product preferences, size and growth, media habits, and competitive structures further impact the differences in their response rates. Thus, segmentation is a prerequisite to product and program development.

Market aggregation

During the first 50 years of this century, most American firms - particularly manufacturers of consumer goods-pursued a strategy of market aggregation. They tried to maximize the efficiency of their production and marketing efforts by making one or a few standardized products and selling them to a mass market. Their major marketing strategy was to appeal to as many potential customers as possible. They relied on their efficiency to offer the lowest prices or provide the margins necessary to support substantial advertising and promotion efforts aimed at the mass market.

Today, a market aggregation strategy is still appropriate where the total market has few differences in customer needs or desires. It is also appropriate where it is operationally difficult to develop distinct product or marketing actions to reach different customer segments. Relatively few product-markets meet these conditions in our economy; but some firms have pursued at least a partial aggregation strategy in recent years.

The growing importance of segmentation

Market segmentation has become increasingly important in developing business and marketing strategies for three reasons. First, population growth has slowed, and many product-markets are mature or declining. This slower rate of market growth has sparked more intense competition for customers as firms-including aggressive foreign competitors-seek growth by wresting market share away from others (as in the color TV industry). To survive, firms are forced to pay more attention to the needs and desires of their customers. They must identify customer segments with different needs and target segments where they have greater strenghts than the competition.

Second, other social and economic forces, such as expending disposable incomes, higher education levels, and more awareness of the world through TV and other media, have produced customers with more varied and sophisticated needs, tastes, and lifestyles than ever before. Standardized products and mass-marketing campaigns are no longer as effective or as cost-efficient as they once were in many markets.

Third, many institutions and agencies facilitating the implementation of marketing programs have responded to increasingly diverse customer needs and tastes by broadening and segmenting their own services and operations.

KEY WORDS

appealed	привлеченный
interrelated	соотносительный
target	цель
subsets	подмножества
unique	единственный
involves	вовлечённые средства
competitive	конкурирующий
advertising	рекламирующий
evidence	доказательство
announcement	объявление
prerequisite	предпосылка
attract	привлекать
penetrate	проникать
environment	окружение
assumption	принятие
aggregation	собирание
aware	осведомлённый
actually	действенно
relevant	уместный
solving	решение
define	определять
decay	приходить в упадок
fresh	новый
plaque	доска
extent	размер

brands	марки
sources	источники
capacity	способность
prescription	предписание
innovative	обновленный
appropriate	свойственный
diverse	разный
array	выстраивать
allocation	распределение
identify	опознавать
benefits	выгода
referred	направленный
descriptors	описатель
loyalty	верность
usage	употребление
concern	интерес
scheme	проект
adequate	достаточный
accessibility	доступность
response	ответственный
latter	недавний
level	уровень
size	размер, единица

After studying this text, you should be able to answer the following questions.

1.What are the recommendations of target market and strategy?

2.What does product positioning involve?

3.Why segment the market?

4. Who pursued a strategy of market aggregation and why?

5.Why a market aggregation strategy is stile appropriate today?

EXERCISES:

I. Use necessary sequence of tenses:

1. When the train (to stop), I (to look) out of the window but (not to see) any of my friends there. I (to send) them a telegram and hoped that they (to meet) me. As I (to discover) later, they (to receive) it ten minutes before the train arrived and could not meet me. 2. We were greatly surprised not to find Ann at home. It turned out that her sister (to forget) to give her our message, and Ann (to leave) the house fifteen minutes before we (to come). 3. I decided not to put on my raincoat as it (to stop) raining already and the sun (to shine) brightly. 4. The young people entered the theatre. The performance already (to begin), and they (to have) to wait till the first act (to be) over. Nina never (to be) here before and she (to like) the theatre very much. 5. I did not recognize Helen as I (not to see) her for a very long time and she greatly (to change). 6. When the teacher told the boy to recite the poem, the boy (to burst) into tears: he (not to remember) anything, though he (to try) to learn his lesson so hard. 7. Jane usually works in the library. She (to work) there now. She already (to gather) the necessary material and now she (to write) her report. 8. When we (to come) to the station, our train already (to leave), and we (to have) to wait for two hours before another one (to come). 9. I was anxious to see the place where I (to spend) my childhood. 10. Victor asked me to explain the new rule to him, as he (to miss) the previous lesson. 11. John Gray (to visit) Russia in 1989 and (not to be) here since that time. 12. The sight of the school building brought back the old days to us. Here we

(to spend) many years together. We (to learn) to read and write; here we (to experience) our first joys and sorrows. We recollected our first day at school, how we (to come) to our first lesson looking alarmed and excited.

II. Make this in Passive:

1. I said to Boris, "Does your friend live in London?" 2. I said to the man, "Are you living in a hotel?" 3. Nick said to his friend, "Will you stay at the Hilton?" 4. He said to me, "Do you often go to see your friends?" 5. He said to me, "Will you see your friends before you leave St. Petersburg?" 6. Mike said to Jane, "Will you come to the railway station to see me off?" 7. She said to me, "Have you sent them a telegram?" 8. She said to me, "Did you send them a telegram yesterday?" 9. I said to Mike, "Have you packed your suit-case?" 10.1 said to Kate, "Did anybody meet you at the station?" 11. I said to her, "Can you give me their address?" 12. I asked Tom, "Have you had breakfast?" 13. I asked my sister, "Will you stay at home or go for a walk after dinner?" 14.1 said to my mother, "Did anybody come to see me?" 15. I asked my sister, "Will Nick call for you on the way to school?" 16. She said to the young man, "Can you call a taxi for me?" 17. Mary said to Peter, "Have you shown your photo to Dick?" 18. Oleg said to me, "Will you come here tomorrow?" 19. He said to us, "Did you go to the museum this morning?"

III. Insert little, a little, few, a few.

1. There is ... salad left in this bowl. 2. Would you like ... salad? — Yes, thank you. My doctor says it's good for my health. 3. I have ... money, so we can go to the cinema. 4. I have ... money, so we cannot go to the cinema. 5. This girl works very ... , that's why she knows nothing. 6. Mother gave us ... apples, and we were glad. 7. He did not like it at the camp: he had very ... friends there. 8. This lemon drink is sour; if you put ... sugar in it, it will be sweeter. 9. This lemon drink is sour; if you put ... lumps of sugar in it, it will be sweeter. 10. The hall was almost empty: there were very ... people in it. 11. I can't buy this expensive hat today: I have too ... money. 12. She left and returned in ... minutes. 13. I think you can spare me ... time now. 14. I am sorry I have seen ... plays by this author.

LESSON 7

FORMS OF BUSINESS OWNERSHIP

The main types of business organization

Business is a commercial enterprise performing all those functions that govern the production, distribution, and sale of goods and services for the benefit of the buyer and the profit of the seller. The existing forms of business organization enable various branches of industry to adapt to changing conditions and to function more efficiently and profitably. The main three forms of business ownership are sole proprietorship, a partnership, and a corporation. **Sole proprietorship** is ownership of a business by a single person. The sole proprietor provides capital to run the business and makes all the decisions. He/she employs other people and is responsible for the success and for the failure of the business. It is the simplest and the oldest form of business ownership.

Advantages:

- It is relatively easy to start this type of business;
- The owner has an incentive to run the firm efficiently as all the profits are his/hers;
- It is a flexible type of business as the owner can quickly respond to changes in the market conditions.

Disadvantages:

- Unlimited liability – in case of bankruptcy the owner may lose all his property including his personal assets including a house/flat, a car, etc. that can be sold to settle the debts of the business;
- A single owner is seldom able to invest as much capital as a partnership or a corporation can obtain;
- Unless the owner has much personal wealth, the business may have difficulty borrowing money in critical times;

- A sole proprietor may also have difficulty hiring and keeping good employees because the business will dissolve when the owner retires or dies.
- The owner faces all the risks, and alone bears all the responsibility for the business.

In many countries this type prevails in such sectors as farming, retailing, repair and maintenance work, personal services (e.g. hairdressing). But in terms of total employment, capital and output this type is relatively unimportant.

A **partnership** is an association of two or more persons who have agreed to combine their financial assets, labor, property, and other resources as well as their abilities and who carry on a business jointly for the purpose of profit. The agreement the partners usually sign to form an association is known as a partnership contract and may include general policies, distribution of profits, responsibilities, etc.

Advantages are similar to those of sole proprietorship: it is easy to establish a partnership, and this is also a flexible form of business. It is usually easier for partnerships to obtain additional financing because the personal assets of the group are usually larger and the chances of success are higher.

Disadvantages:

- Unlimited liability of each partner for the debts of the business, i.e. complete financial responsibility for losses.
- Partners who wish to retire may find it difficult to recover their investments without dissolving the partnership and ending the business.
- Partnerships dominate in such professions as law, accountancy, medical services, real estate business and so on.

A **business corporation** (AE) is an organization created by law that allows people to associate together for the purpose of profit making. Corporations are also known as joint-stock companies (BE) because they are jointly owned by different persons who receive shares of stock in exchange for an investment of money in the company. Shares represent fractions of the company's assets such as cash, equipment, real estate, manufactured goods, etc.

Though the corporation is more difficult and expensive to organize than other business forms, it has a number of advantages. Most business people form limited companies. In this case shareholders have the liability only for the amount of money they have invested. If the company goes bankrupt, their personal possessions are not in danger, i.e. they cannot be sold to pay the debts of the company (except in criminal cases).

Most companies begin as private limited companies as the founders invest their private capital (or borrow from banks). Successful, growing companies apply to one of the Stock Exchanges to become a public limited company. After that its shares are traded in different financial markets and anyone can buy shares at the market price.

Advantages:

- Limited liability – if the corporation goes bankrupt, shareholders can lose no more than they have invested.
- Money to operate the business is obtained by the sale of stocks to the general public and this enables the corporation to exist independently of its owners.
- The corporation finds it easier to borrow money from banks and it is also a successful means for attracting large amounts of capital and investing the latter in plants, modern equipment and expensive research.
- Salaries large corporations can offer to managers and specialists are high, and that allows corporations to hire professional and talented CEOs and employees.

Disadvantages:

- A double taxation of profits: taxes are first paid on net income, and then shareholders pay taxes on their dividends;
- Numerous financial reports must be sent to various federal regulatory agencies;
- In large corporations shareholders have no real control over the business and as a consequence there is risk of mismanagement that may lead to bankruptcy.

A **state-owned corporation** has no private shareholders. Government owns the business and appoints managers to run it. Profits are used for investments. If this type of business is inefficient, government may sell it, i.e. have it privatized (as it happened with some large state-owned companies in the UK in the 1980s).

The purpose of this type is to run an industry which is important for the national economy. For example, such large nationalized industries in the UK as the Port of London (1909), and the BBC (1927). Another purpose of state-owned corporations is to provide important public services at a reasonable price. For example, the Tennessee Valley Authority in the USA is a federal corporation providing power and irrigation services, and flood control since the 1930s.

Public interest requires organization and operation of business to be subject to governmental regulation. Government regulation, particularly in the USA, attempts to prevent the formation of monopolies that totally control a particular branch of industry such as steel, petroleum, or automobile production.

KEY WORDS

commercial enterprise	коммерческое предприятие
sole proprietorship	индивидуальное предпринимательство
raise money	добывать денги (инвестиции)
settle the debts	улаживать долги
hire, employ	нанимать
employer	работодатель
employee	сотрудник, работник
dissolve	ликвидировать
retire	уходить в отставку, на пенсию
bear the responsibility	нести ответственность
retailing	розничная торговля
maintenance	тех.обслуживание

partnership	товарищество
accountancy	бухгалтерия
real estate	недвижимость
joint-stock company	акционерное общество
fraction	доля
go bankrupt	обанкротиться
stock Exchange	фондовая биржа
salary	оклад, зарплата
CEO (chief executive officer)	топ-менеджер
mismanagement	неэффективное руководство
state-owned corporation	государственное предприятие
appoint	назначать (на должность)
privatize	приватизировать
nationalize	национализировать
private limited companies	закрытое акционерное общество
public limited company	открытое акционерное общество
expansion	расширение, укрупнение, рост
merger	слияние
takeover	поглощение
acquisition	выкуп, приобретение
limited liability	ограниченная ответственность
shareholder (BE), stockholder (AE)	акционер
bankruptcy	банкротство
property	собственность
profit	прибыль

After studying this module, you should be able to answer the following questions:

1. What is a firm?

2. Why do people prefer to form limited companies?

3. What are advantages and disadvantages of major forms of business organizations?

4. What types of integration are used by companies?

5. What is special about a state-owned corporation?

EXERCISES:

I. Use the following modal verbs: to have to, to be to.

1. She ... to send a telegram because it was too late to send a letter. 2. They decided that she ... to send them a telegram every tenth day. 3. You ... to learn all the new words for the next lesson. 4. Do you know this man? He ... to be our new teacher of history. 5. Who ... to go to the library to get the new books? — I was, but I couldn't because I ... to finish some work at the language laboratory. 6. It is raining. You ... to put on your raincoat. 7. "The patient ... to stay in bed for a few days," ordered the doctor. 8. The child had stomach trouble and ... to take castor oil. 9. I told her she ... to open the window for a while every day. 10. The agreement was that if Johnny White could not repay the money he had borrowed, then Luke Flint ... to have the right to sell the land. 11. If I don't ring up before six o'clock, then you ... to go to the concert hall alone and wait for me at the entrance. Is that clear? 12. The planters ... to gather their cotton at once, as they had been warned that heavy rains were expected. 13. I ... to wear glasses as my eyesight is very weak. 14. Johnny White ... to borrow from Luke Flint at a high interest, for there was no one else in the district who lent money. 15. "Cheating is a very nasty thing," said the teacher, "and we ... to get rid of it."

II. Use necessary sequence of tenses:

1. He said he (to listen) to the same stories for a long time. 2. By the evening he (to translate) ten pages. 3. You ever (to be) to the new stadium? — Yes, I (to be) there last Saturday. 4. The old lady was happy: she (not to see) her son for three years. 5. What you (to do) yesterday? 6. How many pages you (to translate) for today? 7. The day (to be) cold and it (to rain). When I (to reach) home, my raincoat (to be) all wet. I (to take) it off, (to shake) the water off it, (to hang) it up and (to go) into the living room. My children (to play) on the carpet. When they (to see) me, they (to jump) up and (to run) up to me. 8. I (to hear) this song several times already, but I cannot remember the words. I (to write) them down as soon as I (to hear) this song again. 9. Hard¬ly1 he (to open) the suitcase, when he (to find) the tie which he (to think) he (to lose) long before. 10. Shut the door! The room (to be) full of smells which (to come) from the kitchen. Mother (not to like) kitchen smells in the room. 11. Last night he (to finish) the book which he (to begin) writing a year ago. 12.1 (to be) afraid he (to lose) this match. 13. Who (to make) all that noise? 14. Sharks (to be) on earth more than 350 million years.

III. Insert some, any, no or their derivatives.

1. Are there ... cinemas or theatres in your town? — There aren't ... cinemas, but there is a theatre festival in summer. 2. Is there ... for young people — a zoo, interesting museums? — I'm sorry, there is ... zoo in our town. But there are ... museums, ... discos and every three weeks there is a rock concert for young people here. 3. Have you ... relations? — No, I haven't ... , I have ... relations. 4. Has she ... nephews or nieces? — She has ... nephews. 5. She has ... sisters, she has only brothers. 6. Do you know ... about Chinese art? 7. They have ... cousins in Minsk. 8. Have you ... brothers? — No, I haven't ... , I have ... brothers. 9. I have ... good friends. 10. We did not know ... about his problems: he told us ... . 11. Have you got ... interesting books? 12. Have you ... friends in America? 13. He has ... English books in this bookcase. 14. Did you meet ... on your way to school? 15. Have you got

... pencils in your bag? 16. Do we have ... chalk on the blackboard? 17. How could I know that he was ill? ... told me .... 18. She has ... mistakes in her test.

LESSON 8

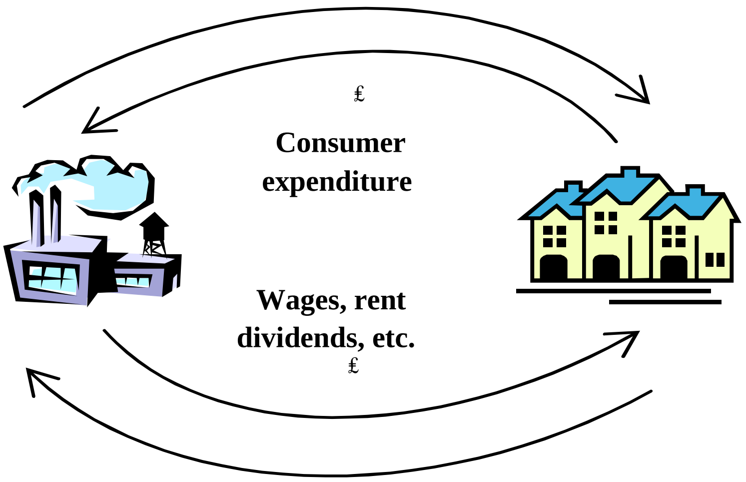
MARKETS AND COMPETITION

The circular flow of goods and incomes

The process of satisfying human wants involves producers and consumers. The relationship between them is two-sided and can be represented in a flow diagram (see Figure 5.1).

The consumers of goods and services are called ‘households’. Some members of households are also workers, and in some cases they are also the owners of other factors of production, such as land. The producers of goods and services are called ‘firms’. Firms and households are in a twin ‘demand and supply’ relationship with each other.

Figure 5.1 The circular flow of goods and incomes.



Services of factors of production (labour, etc)

First, in the top half of the diagram, households demand goods and services. In the process, exchange takes place. Firms exchange goods and services for money. In other words, money flows from households to firms in the form of consumer expenditure, while goods and services flow the other way – from firms to households.

This coming together of buyers and sellers is known as a market. There are all sorts of markets: the market for apples, the market for oil, for cars, for houses, for televisions and so on.

Second, firms and households come together in the market of factors of production. This is illustrated in the bottom half of the diagram. This time the demand and supply role are reversed. Firms demand the use of factors of production owned by households – labor, land, and capital. Households supply them. Thus the services of labor and other factors flow from households to firms, and in exchange firms pay households money – namely, wages, rent, dividends and interest. There are also particular factor markets – the market for shop assistants, for hairdressers, for land, etc.

There is thus a circular flow of incomes. Households earn incomes from firms, and firms earn incomes from households. The money circulates. There is also the circular flow of goods and services, but in the opposite direction. Households supply services to firms, which use them to supply goods and services to households.

In addition to two groups of decision-makers and the flows between them, Figure 5.1 shows two groups of markets. In everyday speech, the word 'market' means a place where people buy and sell goods such as fruit and vegetables, fish and meat. In economics, 'market' has a more general meaning. A market is any arrangement that facilitates buying and selling. For example, the hotel market in London, the EU milk market or the world insurance market. The latter is not a place. It is a mechanism by which consumers (households) and producers (firms) interact: households buy insurance and insurance companies sell it. In this market, decision makers do not necessary meet physically. They can make deals by telephone, email and via the Internet.

There are two groups of markets: goods markets and factor markets.

Goods markets are those in which goods and services are bought and sold, such as bread or video players or hotel accommodation.

Factor markets are those in which factors of production change hands. Factors as well as goods may be bought, hired or rented. For example, a stadium may rent the land it uses, own the buildings it builds on the land and hire the labor force that works there.

One of the fundamental features of the market is competition, and it is traditional to divide industries into categories according to the degree of competition that exists between the firms within the industry.

Competition is a market condition when there is more than one producer of a specific good or service and consumers are free to choose which product to buy. On the one hand, producers want to maximize profits by selling as much as possible at high prices. On the other hand, buyers having budget constraint want 'the most for the money'. Thus, producers, in order to compete successfully among other producers, seek to use resources efficiently. Thus competition is a market mechanism which encourages technological innovation, modernization, and rationalization.

It is traditional to divide industries into categories according to the **degrees of competition**: that exists between the firms within the industry. There are four such categories: perfect competition, monopolistic competition, an oligopoly, and a monopoly, the latter three representing imperfect competition. To distinguish between these four categories, the following must be considered:

The number of firms: from one to many.

The nature of the product:

Homogeneous (undifferentiated): an identical product;

Differentiated: a particular brand or model or variety;

Unique: the only product in the market.

Market power: to what extent firms can control the price.

Freedom of entry into the market can be free or limited.

Table 5.1 Features of the four market structures.

Type of market	Number of firms	Freedom of entry	Nature of product	Market power	Example s
Perfect competition	Very many	Unrestricted	Homogeneous (undifferentiated)	No	Wheat, cabbage
Monopolistic competition	Many/several	Unrestricted	Differentiated	Yes, but limited	Restaurants, builders
Oligopoly	Few	Restricted	1.Undifferentiated or 2. Differentiated	Yes, but limited	1.Cement 2. Cars
Monopoly	One	Restricted or completely blocked	Unique	Yes	Prescription drugs

Perfect competition. Under this condition there is a large number of small firms and they cannot have much influence on the market price. Economists are in favor of perfect competition as with the market mechanism, the price is near equilibrium.

A **monopoly** is an opposite situation: There is one producer, which does not allow competition. As a result, a single producer can fix the price. A natural monopoly is in question when an efficient existence of more than one seller is impossible or uneconomical. For example, electricity, gas and water supply to households and firms.

Monopolistic competition is based on the fact that consumers may have preferences for different brands; so producers can sell products at higher prices than equilibrium. However, the control over the market is limited: if a price is too high, consumers can buy a good from another producer.

An **oligopoly** is a degree of competition when the market is dominated by a few large producers. Each firm is large enough to influence the price and entry of new firms is restricted.

Unfair methods of competition:

1. **Dumping** is selling products at cost price or lower with the purpose to defeat the competitors and later to increase the prices in order to cover the losses.

2. **Cartel** is an agreement by competitors to fix the price at the level which is usually higher than the equilibrium price. Hence the other name of this method, namely, a price-fixing agreement.

The consequences re obviously that under these conditions the market forces – supply and demand – do not produce an equilibrium price and the consumers pay more. Therefore, dumping and cartels are considered illegal practices in many countries. Antidumping and anti-monopoly laws prevent such practices, in particular in the USA.

KEY WORDS:

circular flow	кругооборот
household	условная семья
twin	двойной, двусторонний
top (bottom) half	верхняя (нижняя) половина
expenditure	расходы
flow	перетекать, переходить
reverse	меняться местами
interest	проценты
facilitate	содействовать
insurance	страхование, страховка
factor market	факторный рынок
rent, hire	арендовать, нанимать

interact	взаимодействовать
budget constraint	бюджетное ограничение
compete	конкурировать, соперничать
restricted	ограниченный
perfect competition	совершенная конкуренция
imperfect competition	несовершенная конкуренция
monopolistic competition	монополистическая конкуренция
oligopoly	олигополия
monopoly	монополия
natural monopoly	естественная монополия
fix the price	устанавливать цену
cost price	себестоимость
illegal	противозаконный
differentiated product	дифференцированный продукт
undifferentiated	недифференцированный
dumping	демпинг
cartel	картель, ценовой сговор
entry into the market	вход на рынок
barriers to entry	барьеры на входе
economies of scale	экономия на масштабе (от масштаба)

After studying this module, you should be able to answer the following questions:

1. What is market?
2. How much competition does a firm face?
3. What determines the degree of market power of a firm?
4. What happens when there are many firms all competing with each other? Is it good for us as consumers?

EXERCISES:

I. Make up conditional sentences.

1. He is busy and does not come to see us. If ... 2. The girl did not study well last year and received bad marks. If ... 3. He broke his bicycle and so he did not go to the country. If ... 4. He speaks English badly: he has no practice. If ... 5. I had a bad headache yesterday, that's why I did not come to see you. If ... 6. The ship was sailing near the coast, that's why it struck a rock. If ... 7. He was not in town, therefore he was not present at our meeting. If ... 8. The pavement was so slippery that I fell and hurt my leg. If ... 9. The sea is rough, and we cannot sail to the island. If ... 10. They made a fire, and the frightened wolves ran away. If ... 11. It is late, and I have to go home. If ... 12. I was expecting my friend to come, that's why I could not go to the cinema with you. If ... 13. He always gets top marks in mathematics because it is his favorite subject and he works a lot at it. If ... 14. I did not translate the article yesterday because I had no dictionary. If ... 15. We lost our way because the night was pitch-dark. If ... 16. The box was so heavy that I could not carry it. That's why I took a taxi. If ...

II. Insert: little, few.

1. He has got ... friends. 2. I drink ... coffee. I don't like it. 3. We must hurry. We've got very ... time. 4. There are very ... scholarships for students in this university. 5. The Smiths have ... money. They aren't rich. 6. The theatre was almost empty. There were very ... people there. 7. There was ... lemonade in the bottle. There were ... peaches in the basket. 8. I have ... time, so I can't go with you. 9. He has ... English books. 10. There is ... juice in my glass. Have you got any juice? 11. There are ... bears in the zoo. 12. Tom Canty was the son of poor parents and had very ... clothes. 13. There is too ... soup in my plate. Give me some more, please. 14. The children returned from the wood very sad because they had found very ... mushrooms. 15. There was too ... light in the room, and I could not read. 16. There are very ... people who don't know that the Earth is round. We have very ... time. 8. I am sorry to say, I have read very ... books by Walter Scott. 9. My brother is a young

teacher. Every day he spends ... time preparing for his lessons. 10. I know very ... about this writer. It is the first book I am reading. 11. The pupils of our class ask ... questions at the lesson. They want to know everything. 12. You do not make ... mistakes in your spelling. Do you work hard at it? — Oh, yes, I do, I work very ....

III. Use necessary sequence of tenses:

1. Where is Nick? — He (not to be) at home, he (to go) to the cinema. Wait for him, he (to come) in half an hour. 2. It was very late. I (to go) to bed and (to fall) asleep when my father (to return) home. 3. I'll join you when I (to drink) my tea. 4. When I (to come), he (to live) in the same old house where I first (to meet) him. He (to tell) me he (to wait) for me for some time already. 5. The pupils (to do) a lot of exercises before they (to learn) to write dictations well. 6. I could not hear a sound: they (to stop) talking. 7. On entering the drawing room, he (to find) that his two friends (to get) up and (to wait) for him. 8. The sportsmen (to train) since early morning; now they (to go) over the high jump, as they (not to be) satisfied with their results. 9. Five minutes (not to pass) when the train for which we (to wait) (to appear) in the distance. 10. Tomorrow father (to come) late. We (to do) all our homework and (to drink) tea when he (to come). 11. When Mrs. Smith (to come) home yesterday, she (to see) that her daughter (to cook) supper and (to wait) for her with the table laid. 12. Anyone (to see) my dog? 13. You (to go) to the pictures tonight?

LESSON 9

COSTS OF PRODUCTION AND PROFITS

Factors of production in the short run and in the long run

If a firm wants to increase production, it will take time to obtain a greater quantity of certain inputs. For example, a producer can use more electricity by turning on more switches, but it may take a long time to buy and install more machines, and longer still to build another factory.

If the firm wants to increase output in a hurry, it will only be able to increase the quantity of certain inputs. It can use more raw materials, more tools and possibly more labor. But it will not be able to build a new building or buy additional machines. Thus the factors of production used by the firm can be classified into fixed factors and variable factors. If a firm cannot obtain more of a certain factor within the period under consideration, the factor is said to be a fixed factor. If the factors can be varied, they are called variable factors. The distinction between fixed and variable factors allows us to distinguish between the short run and the long run.

When we speak of the short run and the long run, we are not referring to definite periods of calendar time. We are referring to certain conditions. We define the short run and the long run in terms of fixed and variable factors. The short run is a situation in which the firm has at least one fixed factor, while the long run is a situation in which all the firm's factors are variable.

The actual length of the short run will differ from firm to firm. If it takes a farmer a year to buy new land, buildings and equipment, the short run is any time up to a year, and the long run is any time period longer than a year. On the other hand, if it takes a shipping company three years to obtain an extra ship, the short run is any period up to three years, and the long run is any period longer than three years.

Firms seek to maximize their profits, i.e. they attempt to produce as cheaply as possible. Thus, profit (π) can be defined in terms of revenue and costs. Revenue (R) is what the firm earns by selling goods or services in a given period such as a year. **Costs (C)** are the expenses which are necessary for producing and selling goods or services during the period. Profit is the total revenue (**TR**) from selling the output minus the total costs (**TC**) of inputs used: π **= TR – TC**

where π – a Greek letter 'pi' represents profits.

Profit is an absolute indicator that illustrates how efficient the production of the firm is. If we measure the efficiency of costs per a unit of output, we will know how profitable the firm is, in other words, the **profitability** = profit / costs. For example, if the profits are 15 money units and costs are 100 money units, then the profitability is 0.15 (15%).

Costs should include opportunity costs of all resources used in production. Opportunity cost of a commodity is the amount obtained by an input in its best alternative use. In particular, costs include the owner's time and effort in running the business. Costs also include the opportunity cost of the financial capital used in the firm.

Factors not owned by the firm are called explicit costs. They are direct payments to outside suppliers of inputs, for example, payments for electricity. Factors already owned by the firm are called implicit costs. They are the costs that do not involve a direct payment of money to a third party, but which nevertheless involve a sacrifice of some alternative. For example, the firm owns machinery and it does not have to pay for using them. Their opportunity costs are thus implicit costs.

Aiming to get higher profits, firms obtain each output level as cheaply as possible. Firms choose the optimal output level to receive the highest profits. This decision can be described in terms of marginal cost and marginal revenue.

Marginal cost (MC) is an increase in total cost when one additional unit of output is produced.

Marginal revenue (MR) is the corresponding change in total revenue from selling one more unit of output.

As the individual firm has to be a price-taker, each firm's marginal revenue is the prevailing market price. Profits are the highest at the output level at which marginal cost is equal to marginal revenue, that is, to the market price of the output. If profits are negative at this output level, the firm should close down.

An increase in marginal cost reduces output. A rise in marginal revenue increases output. Of course, the optimal quantity supplied is affected by such noneconomic factors as technology, environment, etc.

Other cost concepts are average cost (**AC**) and average total cost (**ATC**), average fixed cost (**AFC**) and average variable cost (**AVC**). If **Q** represents the quantity of output produced, these concepts can be defined as follows:

AFC = TFC/Q: AVC = TVC/Q; ATC = TC/Q; ATC = AFC + AVC

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KEY WORDS:

inputs	вводимые ресурсы
output	объем производства
install	устанавливать
fixed factor	постоянный фактор
variable factor	переменный фактор
short run	краткосрочный период
long run	долгосрочный период
obtain	приобретать, принимать
distinction	отличие
distinguish	различать
profit	прибыль
profitability	рентабельность
revenue	доход

opportunity costs	альтернативные издержки
explicit and implicit costs	явные и неявные издержки
marginal costs	предельные издержки
marginal revenue	предельный доход
average total costs	средние общие (валовые) издержки

After studying this module, you should be able to answer the following questions:

1. What is the relationship between inputs and outputs in the short run and in the long run?

2. What is meant by ‘costs’?

3. How are profits measured?

EXERCISES:

I. Insert: some, any, no, every or their derivatives.

1. Can you see ... in an empty box? No, I can't see ... in an empty box. I can see ... in an empty box. Why not? Because there is ... in an empty box. There isn't ... in an empty box. What is an empty box? An empty box is a box that has ... in it. An empty box is a box without ... in it. An empty room is a room without ... in it.

2. Can ... see? No, ... people can't see. ... people are blind. Blind people can't see. They can't see ... ; they can see ....

3. Can ... hear? No, ... people can't hear. ... people are deaf. People who are quite deaf can't hear. They can't hear ..., they can't hear .... They can hear ... ; they can hear ....

4. Can we see ... ? No, we can't see .... We cannot see the air. ... can see the air.

5. We can't walk without legs and feet. People without legs and feet can't walk. They can't walk .... They can walk ....

II. Open brackets.

1. — How do you like Smucker's Sweet Orange Marmalade, Mrs. Johnson? — I think it's (delicious). It's much (delicious) than the marmalade I usually buy. — We agree with you, Mrs. Johnson. We think Smucker's Sweet Orange Marmalade is (delicious) marmalade in the world. 2. The rivers in America are much (big) than those in England. 3. The island of Great Britain is (small) than Greenland. 4. What is the name of the (high) mountain in Asia? 5. The English Channel is (wide) than the Straits of Gibraltar. 6 Russia is a very (large) country. 7. Which is (large): the United States or Canada? 8. What is the "name of the (big) port in the United States? 9. Moscow is the (large) city in Russia. 10. The London underground is the (old) in the world. 11. There is a (great) number of cars and buses in the streets of Moscow than in any other city of Russia. 12. St. Petersburg is one of the (beautiful) cities in the world.

III. Make this in Passive:

1.I said to Nick, "Where are you going?" 2. I said to him, "How long are you going to stay there?" 3. I said to him, "How long will it take you to get there?" 4. He said to her, "Where do you usually spend your summer holidays?" 5. Ann said to Mike, "When did you leave London?" 6. She said to Boris, "When will you be back home?" 7. Boris said to them, "How can I get to the railway station?" 8. Mary asked Tom, "What time will you come here tomorrow?" 9. She asked me, "Why didn't you come here yesterday?" 10. She asked me, "What will you do tomorrow if you are not busy at your office?" 11. Pete said to his friends, "When are you leaving St. Petersburg?" 12. He said to them, "Who will you see before you leave here?" 13. They said to him, "What time does the train start?" 14. I asked Mike, "What will you do after dinner?" 15. I asked my uncle, "How long did you stay in the Crimea?" 16. Mother said to me, "Who has brought this parcel?" 17. Ada said to me, "Where did you see such trees?" 18. I said to Becky, "What kind of book has your friend brought you?"

LESSON 10

BASES OF COMPETITION

The key bases of competition represent what a business must do (what activities it must undertake) if it IS to be successful. They are often referred as strategy elements, and as such are important in strategy formulation, for they help to define which resources are needed.

The relative importance of the different bases of competition varies widely from industry to industry and across strategic groups within an industry. For example, the competitive bases in the computer and laundry detergent industries are very different. In the soft-drink Industry, the more important elements include advertising. In-store promotions, product avail ability, and new-product development.

Typically, each element has several dimensions. For example, the product itself is always a critical strategy element that has much to do with success or failure in a given industry. Too often we think of product primarily on the basis of how its physical characteristics can be differentiated and ignore or minimize the importance of service features. Other important dimensions to consider ere the extent to which a full line is needed and the importance of new products. These latter two dimensions, as well as container type and size, are important in the soft-drink industry.

A firm must consider what resources it needs to make a given strategy element successful. Product differentiation, for example, requires not only product engineering skills, but also management capabilities to decide which combination of product attributes is apt to be most successful. It takes other resources to effectively communicate the product's differences to the target audiences and to obtain the needed distribution.

The sports shoe industry requires a number of operational strategy elements, including low-cost overseas sourcing (manufacturing). This requires decentralized quality control, plants in various countries to spread the risks, accurate forecasting to avoid overages and underage's in production, funds or credit to finance the large buildup in preseason inventory, and strong physical logistics capabilities.

A large company needs a full line of running, walking, exercise, basketball, and tennis shoes for man and women and perhaps children, at a variety of prices. This is necessary because of scale effects and the need of large retailers to carry a full line of sports shoes. R&D skills, a sense of style, and fashion trends are obviously important, too. Large advertising investments are necessary to presell the product, as mass merchandisers provide little sales support. Merchandising is also important here. The sales force must be versatile enough to sell specialty shoe/sports stores, department stores, and mass merchandisers and be large enough to handle thousands of accounts.

The scope of a successful mass seller in this industry probably must be international to permit a varied response to acts of aggression by other international companies. An example is responding to a price cut here by a European company-such as Adidas-by cutting price in the aggressor's home country.

Competitive positioning

After assessing the forces affecting competition in an industry and how they affect the way firms compete, managers can better identify their own company's competitive strenghts and weaknesses. Managers must take these into account when devising business-unit and marketing strategies for product-market entries in the industry.

At the business-unit level, managers can pursue either adaptive or proactive strategies. An adaptive strategy takes as given the competitive forces at work in the industry and tries to position the business unit so that its capabilities provide the best defense against those forces. A proactive strategy takes the offense and attempts to alter the balance of competitive forces through strategic moves, thereby improving the business's position relative to its competitors.

Adaptive business strategy

An adaptive strategy weighs the business's strenghts and weaknesses against the industry's existing competitive structure. It builds defenses against the major competitive forces or finds positions in the industry where the competitive forces are the weakest.

Knowing a business's capabilities and the competitive forces at work in the industry can help a manager identify areas in which the business should confront competitors directly and those where it should not.

Proactive business strategy

When dealing with the forces that drive competition within an industry, a business can devise a strategy that takes the offensive-a strategy that attempts to after the nature of competitive forces. For example, by making capital investments in large-scale facilities or in vertical integration, a firm can raise entry barriers and reduce the power of suppliers. Or its innovative marketing efforts can change the bases of competition and give the firm a competitive advantage through increased brand recognition and product differentiation. IBM's emphasis on customer service during the early days of the mainframe industry, for example, not only changed the nature of competition in that industry but also gave the company a differential advantage and a customer base that has remained loyal to this day.

Adapting to, or trying to change, the major competitive forces in an industry is an important concern when formulating a business strategy. It is also a critical part of a successful marketing strategy for an individual product-market entry.

Individual competitor analysis

Following the identification of present and potential key rivals, this analysis consists of examining their characteristics, objectives, strategies, performance to date, and their strenghts and weaknesses to gain insights into their future behavior. The purpose of this process is to predict the future behavior of each competitor. Managers need to assess the likelihood that each firm will change its strategy in response to dissatisfaction with its present position, changes in the environment, or moves made by other competitor's. The evaluation process also helps management better understand a competitor's vulnerability, which can be an important source of opportunities to the firm.

Competitor's characteristics

Here managers are concerned with such characteristics as size of sales, profitability market position or share, growth, financial strenghts, reaction to parent company, domestic versus foreign coverage, and specialization. The trend of a competitor's.

Strategic business unit(SBU) and product-market entry sales and market share are of particular interest because-along with profitability data- they reveal the success of a competitor's strategy. When growth (or loss) is substantial over a short time, these also provide insights into the stresses and strains to which the competitors organization is being subjected. Under Philip Morris, Seven-Up not only lost share but also was a chronic money loser. Clearly, its strategy was not paying off. This fact did not go unnoticed by Coke or Pepsi as they sought to enhance their own shares of the lemon-lime market segment-a distant second to cola in popularity.

Analyzing the financial strenghts of key competitors helps evaluate their durability or staying power. This is an especially important characteristic during periods of turmoil and strong competitive pressures. Financial strenghts can be assessed on the basis of profitability, margins, cost trends, price / earning ratios, and other performance measures.

Competitor's objectives

An analysis of a competitor's objectives is important for several reasons. It provides insights into whether the competitor is satisfied with its profitability and its current market position and, thus, how likely it is to retain its present strategy. It helps a firm predict how the competition will respond to changes in the environment, such as a sharp decrease in demand. And it is a predictor of how the firm will react to a particular strategic move made by a competitor.

Objectives usually include more than simply financial goals. Most also include competitive position (market share) and qualitative objectives- such as industry leadership in price, product technology, and social responsibility. Managers must know which trade- offs the company will make between these and its economic (profitability) objectives during times of stress. For example, at the business-unit level managers try to get answers to the following questions.

KEY WORDS:

Interrelation	взаимоотношение
handle	управлять
routinely	обычно
search	поиск
extensive	обширный
govern	управлять
appropriate	подходящий
discount	скидка
amount	сумма
dedicate	предназначать
avoid	избегать
evaluation	оценка
shortage	нехватка
cope	справляться
flexibility	гибкость
impact	влияние
obviously	очевидно
retail	розничная торговля

truck	грузовик
consumption	потребление
expenditure	расход
substantial	существенный
legislative	законодательный

After studying this module, you should be able to answer the following questions:

1. What is a firm?

2. Why do people prefer to form limited companies?

3. What are advantages and disadvantages of major forms of business organizations?

4. What types of integration are used by companies?

5. What is special about a state - owned corporation?

EXERCISES:

I. Use the following modal verbs: can, may, must, need.

1. Peter ... return the book to the library. We all want to read it. 2. Why ... not you understand it? It is so easy. 3. ... we do the exercise at once? — Yes, you ... do it at once. 4. ... you pronounce this sound? 5. You ... not have bought this meat: we have everything for dinner. 6.1... not go out today: it is too cold. 7. ... I take your pen? — Yes, please. 8. We ... not carry the bookcase upstairs: it is too heavy. 9. We ... not carry the bookcase upstairs ourselves: the workers will come and do it. 10. When ... you come to see us? — I ... come only on Sunday. 11**.** Shall I write a letter to him? — No, you ... not, it is not necessary. 12. ... you cut something without a knife? 13. Everything is clear and you ... not go into details now. 14. He ... not drink alcohol when he drives.

II. Use necessary sequence of tenses:

1. I knew they (to wait) for me at the metro station and I decided to hurry. 2. I didn't know that you already (to wind) up the clock. 3. I was afraid that the little girl (not to be) able to unlock the front door and (to go) upstairs to help her. 4. He says that he (to know) the laws of the country. 5. Sarie understood why Lanny (not to come) the previous evening. 6. She asked me whether I (to remember) the legend about a faithful lion. 7. He understood that the soldiers (to arrest) him. 8. He could not understand why people (not to want) to take water from that well. 9. I suppose they (to send) a dog after the burglar immediately. 10. He said he (to leave) tomorrow morning. 11. She says she already (to find) the book. 12. He stopped and listened: the clock (to strike) five. 13. She said she (can) not tell me the right time, her watch (to be) wrong. 14. I asked my neighbor if he ever (to travel) by air before. 15. The policeman asked George where he (to run) so early. 16. The delegates were told that the guide just (to go) out and (to be) back in ten minutes.

III. Make this in Passive:

1. My question (to answer) yesterday. 2. Hockey (to play) in winter. 3. Mushrooms (to gather) in autumn. 4. Many houses (to burn) during the Great Fire of London. 5. His new book (to finish) next year. 6. Flowers (to sell) in shops and in the streets. 7. St. Petersburg (to found) in 1703. 8. Bread (to eat) every day. 9. The letter (to receive) yesterday. 10. Nick (to send) to Moscow next week. 11. I (to ask) at the lesson yesterday. 12. I (to give) a very interesting book at the library last Friday. 13. Many houses (to build) in our town every year. 14. This work (to do) tomorrow. 15. This text (to translate) at the last lesson. 16. These trees (to plant) last autumn. 17. Many interesting games always (to play) at our PT lessons. 18. This bone (to give) to my dog tomorrow. 19. We (to invite) to a concert last Saturday. 20. Lost time never (to find) again. 21. Rome (not to build) in a day.

LESSON 11

DEMAND

Theory of demand

Economics is concerned with consumption and production. Another way of looking at this is in terms of demand and supply. In fact, the market forces – demand and supply, and the relationship between them lie at the very center of economics. We will start with the theory of demand and revise some of the material that we have had in Module 3.

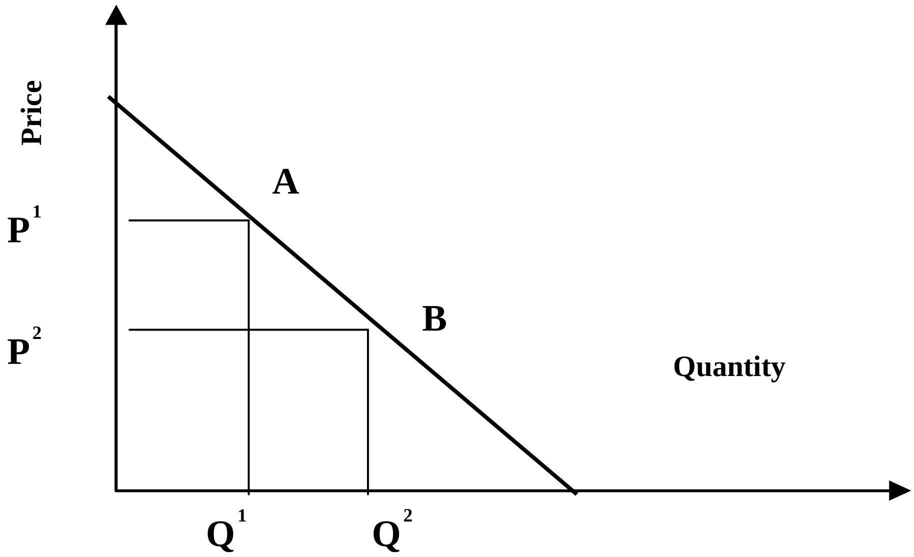
Demand is the willingness and the ability of consumers to buy goods and services. In other words, demand is related to people's unlimited wants and influences consumer's decisions what, how much and at what price to buy. We have to distinguish consumer demand and market demand.

Consumer demand is the quantities of a particular good that an individual consumer wants and is able to buy as the price varies, if all other factors influencing demand are constant. These factors are prices of other goods, income, consumer tastes and preferences.

The law of demand

Consumer demand for a product is determined by its price. This relationship between the quantity demanded of a good and its price is called the law of demand: at low prices the demanded quantity will be higher. A price increase will result in a reduction in the quantity demanded. In other words, the higher the price, the lower the level of demand. Thus the sign of this relationship between the quantity demanded and its price is negative, and the demand curve slopes down from left to right.

Figure 7.1 Consumer demand.



A demand curve is constructed on the assumption that 'other things remain equal'. The effect of a change in price is then simply illustrated by a movement along the demand curve (Figure 7.1). Demand and determinants other than price of a good

There are some factors influencing demand for a good, such as the prices of related goods (substitution effect), consumer incomes, and some others.

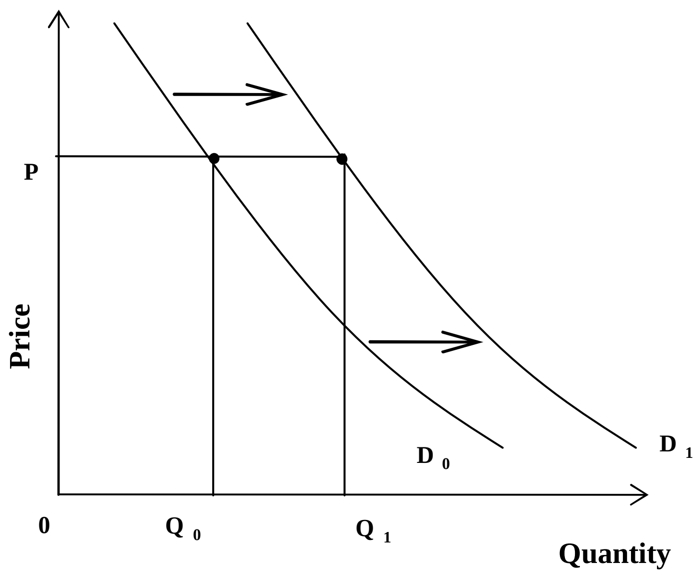
An increase in the price of a substitute good (or a decrease in the price of a complement good) will at the same time raise the demanded quantity.

As consumer income is increased, demand for a normal good will also increase but demand for an inferior good will decrease. A normal good is a good for which demand increases when incomes rise. An inferior good is a good for which demand falls when incomes rise.

What happens with the demand curve when one of other determinants (tastes, the number and the price of other goods, income, expectations of future price changes) does change? The answer is that we have to construct a new demand curve: the curve shifts. If one of the determinants (other than price) changes, e.g. income rises – the whole curve will shift to the right. This shows that at each price, more will be demanded than before. If a change in a determinant other than price causes demand to fall, the whole curve will shift to the left.

To distinguish between movements along and shifts in demand curves, it is usual to distinguish between a change in the quantity demanded and a change in demand. A movement along the demand curve as a result of a change in price is referred to as a change in quantity demanded (see Figure 7.1), whereas a shift in demand is referred to as a change in demand (see Figure 7.2).

Figure 7.2 A shift in the demand curve.



Market demand is the quantities of a good that all consumers in a particular market want and are able to buy as price varies and as all other factors are assumed constant. Market demand depends not only on the factors affecting individual demands, but also on the number of consumers in the market. The law of demand also works with market demand.

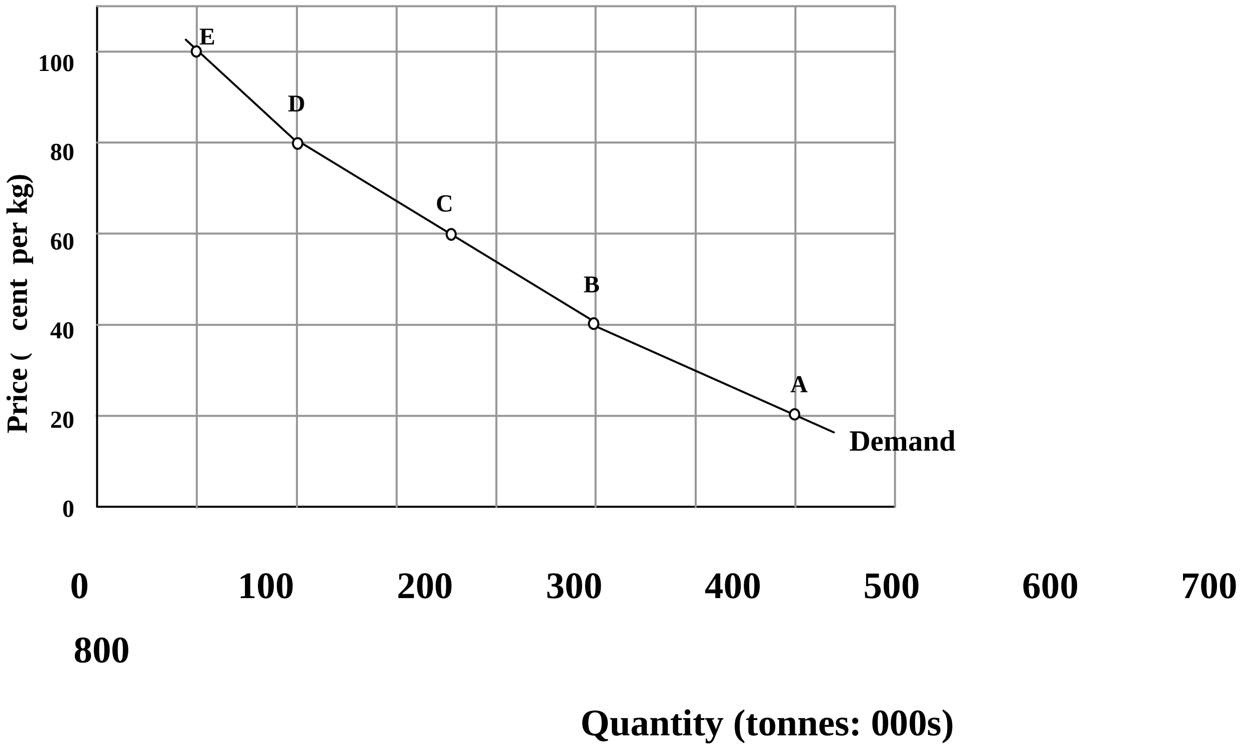
Table 7.1 The demand for potatoes (monthly)

	Price (cent per kg)	Total market demand (tonnes: 000s)
A	20	700
B	40	500
C	60	350
D	80	200

E	100	100

For example, Table 7.1 shows how many kilos of potatoes per month would be purchased at various prices by all consumers over a period of time (a month in our example).

Figure 7.3 Market demand curve for potatoes per month.



KEY WORDS:

theory of demand	теория спроса
quantity demanded	величина спроса
income	доход
preference	предпочтение
law of demand	закон спроса
consumer demand	потребительский спрос
market demand	рыночный спрос
slope down / up	отрицательный / положительный уклон
determinant	детерминанта, решающий фактор

expectation	ожидание
shift	смещаться, сдвигаться
change in quantity	изменение величины
change in demand	изменение спроса
forecast	прогноз

After studying this module, you should be able to answer the following questions:

1. What determines the amount that consumers buy of a product?

2. How are market prices determined and when they are likely to rise or fall?

EXERCISES:

I. Insert: some, any or no

A

1. There are ... pictures in the book. 2. Are there ... new students in your group? 3. There are ... old houses in our street. 4. Are there ... English textbooks on the desks? — Yes, there are ... . 5. Are there ... maps on the walls? — No, there aren't ....

6. Are there ... pens on the desk? — Yes, there are ... . 7. Are there ... sweets in your bag? — Yes, there are ... . 8. Have you got ... English books at home? — Yes, I have ... . 9. There are ... beautiful pictures in the magazine. Look at them. 10. There is ... ink in my pen: I cannot write. 11. Is there ... paper on your table? 12.1 haven't got ... exercise books. Give me ... , please. 13. It is winter. There are ... leaves on the trees.

B

1. I need ... sugar, ... flour, ... eggs, ... butter and ... milk to make a cake. 2. There is ... butter in the fridge, but there isn't ... milk. 3. Are there ... eggs? — There aren't ... eggs left. 4. We haven't got ... flour. 5. To make cabbage soup I need ... cabbage, ... onions, ... carrots, and ... salt. I don't need ... plums or ... pineapples. 6. I need to buy a lot of things. There isn't ... time to waste. 7. Oh, dear! There is ... money in my purse.

II. Make this in Passive:

1. The rule explained by the teacher at the last lesson (to understand) by all of us. 2. The poem was so beautiful that it (to learn) by everybody. 3. I hope the invitation (to accept) by everybody. 4. The letter (to post) in half an hour. 5. It seems to me that music (to hear) from the next room. 6. At the last competition the first prize (to win) by our team. 7. The question (to settle) as soon as they arrived. 8. Your report must (to divide) into two chapters. 9. Soon he (to send) to a sanatorium. 10. The book (to discuss) at the next conference. 11. The composition must (to hand) in on Wednesday. 12. Yesterday he (to tell) to prepare a speech. 13. The article (to publish) last week, if I am not mistaken. 14. The lecture (to attend) by all of us yesterday. 15. A taxi (to call) fifteen minutes ago, so we are expecting it any moment. 16. The young man (to introduce) to me only a couple of hours ago, but it seems to me that I've known him for years.

LESSON 12

SUPPLY

The theory of supply

The theory of supply is the theory of how much output firms choose to produce. The principal assumption of the supply theory is that the producer will maintain the level of output at which he maximizes his profit.

Supply is the willingness and the ability of producers to produce goods and services for consumers. Unlike demand, supply is limited as it is related to resources. So producers also have to make decisions about what, how much and at what prices to produce. In other words, supply is the quantity of a good that sellers wish to sell at each price. Other things equal, when prices are high, the supplied quantity is high as well.

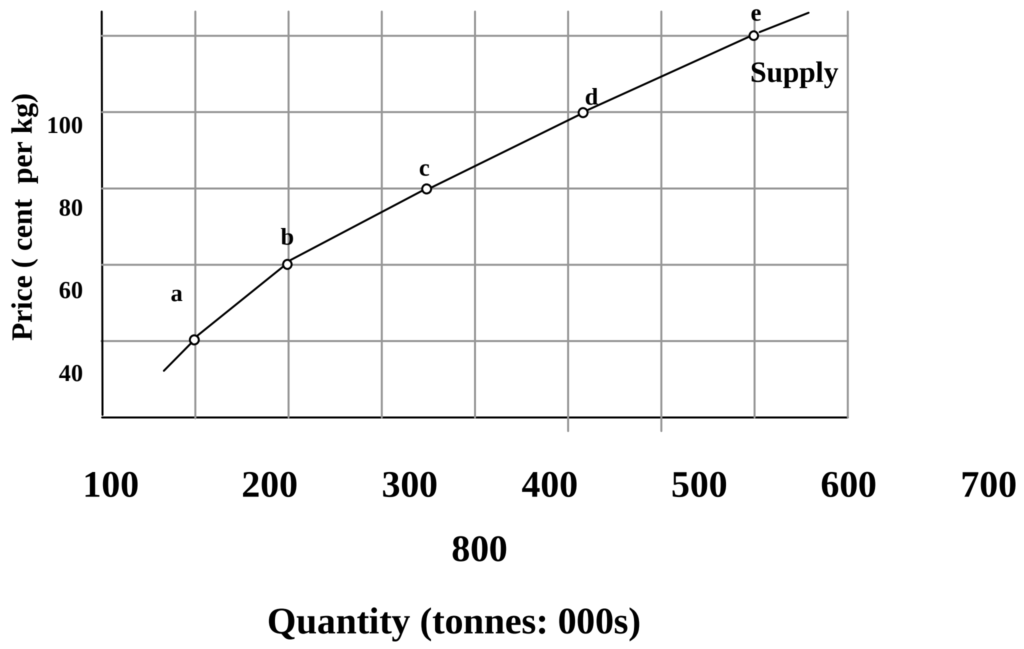
Among the factors assumed constant are technology, the input price, as well as degree of government regulation. An improvement in technology is as important for increasing the supplied quantity of a good as a reduction in input prices.

Making economic forecasts, it is necessary to know the effect of a price change on the whole output rather than the supply of individual firms. **Market supply** is defined in terms of the alternative quantities of a commodity all firms in a particular market offer as price varies and as all other factors are assumed constant.

Table 7.2 The supply of potatoes (monthly).

	Price (cent per kg)	Total market supply (tonnes: 000s)
a	20	100
b	40	200
c	60	350
d	80	530
e	100	700

Figure 7.4 Market supply curve of potatoes per month

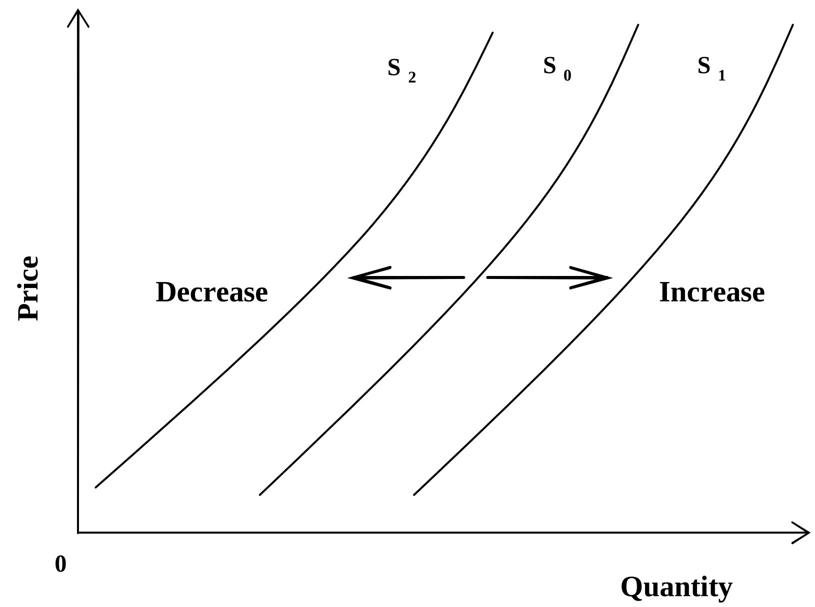


The effect of the change in price is illustrated by a movement along the supply curve. For example, from point ***d*** to point ***e*** in Figure 7.4 when price rises from 80c to 100c. Quantity supplied rises from 530,000 to 700,000 tonnes per month.

If any other determinant of supply changes, the whole supply curve will shift. A rightward shift illustrates an increase in supply (S_1) and a leftward shift illustrates a decrease in supply (S_2).

A movement along the supply curve as a result of a change in price is referred to as **a change in quantity supplied**, whereas a shift in supply is referred to as a **change in supply** (see Figure 7.5).

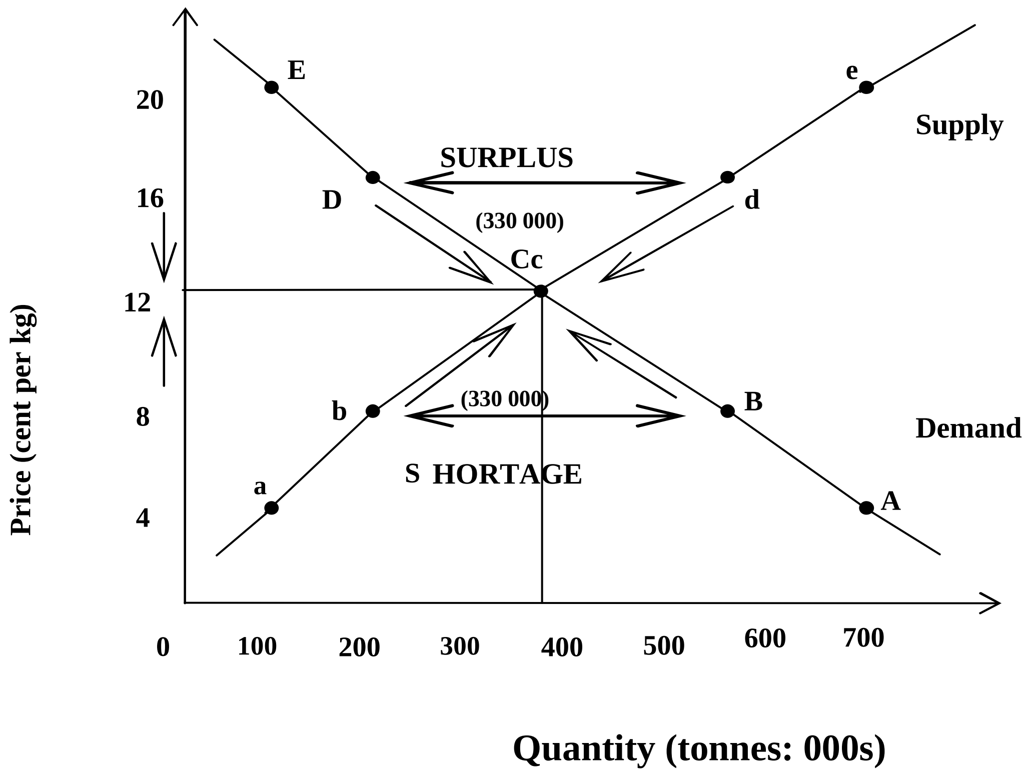
Figure 7.5. Shifts in the supply curve.



Equilibrium market

The market is in equilibrium when the price regulates the quantity supplied by produces and the quantity demanded by consumers. When prices are not so high as the equilibrium price, there is excess demand (**shortage**) raising the price. At prices above the equilibrium price, there is excess supply (**surplus**) reducing the price. We can see these situations on Figure 7.6 with both the market demand curve and the market supply curve.

Figure 7.6. The determination of market equilibrium (potatoes: monthly).



A rise in demand is signaled by a rise in price. This then acts as an incentive for firms to produce more of the good: the quantity supplied rises. A fall in demand is signaled by a fall in price. This then acts as an incentive for firms to produce less: such goods are less profitable to produce. Thus the quantity supplied falls.

In all cases of change in demand and supply, the resulting changes in price act as both signals and incentives.

KEY WORDS:

theory of supply	теория предложения
quantity supplied	величина предложения
output	объем производства
profit	прибыль
revenue	доход
costs	издержки, расходы
marginal costs	предельные издержки
marginal revenue	предельный доход

market supply	рыночное предложение
shortage	дефицит, нехватка
surplus	избыток
substitute good	товар-заменитель
complementary good	товар-дополнение
normal good	качественный товар
inferior good	товар низкого качества
signal	сигнал
incentive	стимул
respond	реагировать, отвечать

After studying this module, you should be able to answer the following questions:

1. What determines how much producers supply of a product?

2. How are market prices determined and when they are likely to rise or fall?

3. How do markets respond to changes in demand or supply?

EXERCISES:

I. Make up conditional sentences.

1. I shall go to the dentist because I have a toothache. If ... 2. He is groaning with pain now because he did not go to the dentist to have his tooth filled. If ... 3. She does not go to the polyclinic because she does not need any treatment. If ... 4. He will not go to see the play as he was present at the dress rehearsal. If ... 5. He went to Moscow specially to hear this famous singer because he is fond of him. If ... 6. We did not go to the cafeteria to have a glass of lemonade because we were not thirsty. If ... 7. She could not mend her dress herself because she had no needle. If ... 8. He is not a first-class sportsman now because he did not train enough last year. If

... 9. The pupils were active because they wanted to understand this difficult material. If ... 10. The pupils did not understand the homework because they were inattentive. If ... 11. The pupils worked hard and did well in their exams. If ... 12. She won't try to enter the foreign languages department because she is not good at foreign languages. If ...

II. Open brackets. Insert modal verbs: should, had to.

1. Mike isn't here. He ... (to leave) early. 2. The car broke down and they ... (to get) a taxi. 3. You ... (to disconnect) the computer yesterday. There's something wrong with it. You can't send e-mail now. 4. She ... (to go) shopping last Friday because there was nothing in the fridge. 5.1... (to write) this composition yesterday, but I was too busy as I ... (to translate) a very long text from English. 6. I ... not (to take) my little brother to the evening performance, he was so excited; but I really ... (to do) so, for there was nobody at home to leave him with. 7. You ... (to see) our team play! You have missed a lot. You ... (to go) to the stadium. 8. It was a very important meeting and we ... (to attend) it. That's why we returned home late. 9. He ... (to attend) the lesson: the material which the teacher explained was very difficult, and now it will be impossible for him to write the paper well. 10. Although he felt unwell, he ... (to attend) the lesson, because the teacher explained some very difficult material.

III. Insert: some, any, no, every or their derivatives.

1. To know ... is to know ... . 2. ... is rotten in the state of Denmark (W. Shakespeare). 3. Wealth is ... without health. 4. ... is good in its season. 5. Can I have ... milk? — Yes, you can have ... . 6.Will you have ... tea? 7. Give me ... books, please. I have ... to read at home. 8. Put ... sugar in her tea: she does not like sweet tea. 9. Is ... the matter with you? Has ... offended you? I see by your face that ... has happened. 10. We did not see ... in the hall. 11. ... was present at the lesson yesterday. 12. He is busy. He has ... time to go to the cinema with us. 13. Do you need ... books to prepare for your report? 14. Have you ... questions? Ask me ... you like,

LESSON 13

CONSUMER CHOICE

Consumer behavior

In this module our objective is to explain the behavior of consumers in the market. The assumption is that consumers make rational decisions choosing those goods that allow them to maximize their satisfaction, or utility as economists call it. In other words, consumers have to allocate their limited incomes between various goods and services available in the market at various prices. There are two approaches to the study of a consumer behavior – the utility analysis known as the cardinalist approach or theory, and the indifference curve analysis known as the ordinalist approach.

1. The cardinalist approach. When you buy a good, it is because you want it. You want it because you expect to get satisfaction or some other sort of benefit from it. This applies to everything: chocolate bars, bus journeys, CDs, jeans, insurance. Economists use the term ‘utility’ to refer to the benefit we get from consumption. A question arises: how to measure ‘utility’.

In the 19th century economists (Alfred Marshall was among them) suggested a util as a unit measured in cardinal numbers. For example, a consumer may obtain 20 utils of utility from a dish of potatoes, but only 10 utils from a dish of rice. This was the idea of the cardinalist theory of demand.

However, utility is an abstract concept, thus it is a problem to compare subjective satisfaction enjoyed by one individual with that of another individual because there are different factors which influence an individual’s level of utility such as economic, social, and psychological factors.

However, there is a simple rule that applies to all people and all goods: As you consume more of a product, your desire for additional units of it will decline. The economists call this rule the principle of diminishing marginal utility**:** As more and more units of a good are consumed in a given time period, the extra utility from the consumption of additional units eventually falls. For example, when you drink tea in the morning, the utility from the first cup is very high. A second cup may also be very welcome, but its utility level is not as high, and the utility of a third cup is even less. We call the additional utility you get from consuming an extra unit of a product the **marginal utility**. In other words, marginal utility is the extra utility from the consumption of one more unit of a good, the consumption of all other goods remaining unchanged.

It is reasonable to generalize this consumer behavior: the more a consumer has of a good, the less utility he derives from the consumption of an additional unit. This rule says that the marginal utility will fall as we consume more of a product over a given period of time.

How can marginal utility be measured? One way is to measure marginal utility **in money terms**: the amount of money that a person would be prepared to pay for one more unit of a product. Let us take an example. When you go to have a cup of coffee at the café downstairs, you may also wish to buy a cake that costs 20 rubles or so. If you were prepared to pay 20 rubles for an extra cake in our café, then we would say that your marginal utility from consuming this extra cake is 20 rubles. As long as you are prepared to pay more for the same as the actual price, you will buy an additional cake. If you are not prepared to pay, you will not.

Utility maximization

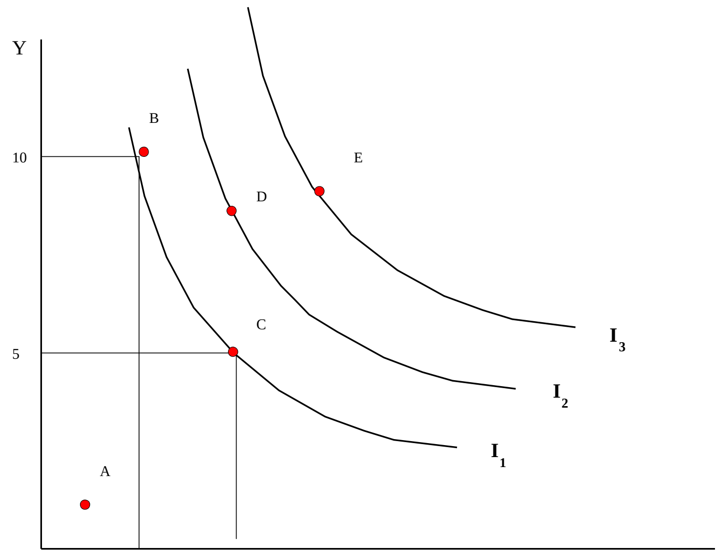
Now let us have a situation when there are two products and the consumer has to choose between two goods, ***X*** and ***Y***, which have prices ***Px*** and ***Py***. The rational decision of a consumer is to maximize his total utility within the limits of his income. The consumer can maximize it when he allocates his income in such a way that the utility from the consumption of one extra rouble's worth of ***X*** is equal to the utility from the consumption of one extra rouble's worth of ***Y***. In other words, when the marginal utility per rouble of ***X*** is equal to the marginal utility of extra rouble's worth of ***Y***.

2. The ordinalist theory was developed in the 1930s by such economists as Hicks and Allen, who were influenced by the earlier works of Pareto and Slutsky. They suggested an idea that an individual can rank goods in order of preference, for example, potatoes could be first and rice could be second in terms of utility although 'first, second…' say nothing about the absolute difference between utilities. Indifference curves and budget lines are the means of illustrating this ordinalist approach to demand theory.

Indifference curves can simplify the analysis of the ordinal utility approach graphically in two dimensions. An indifference map (Figure 9.1) shows consumer's preferences for ***X*** and ***Y*** using 3 indifference curves. An indifference curve joins together all the different combinations of the two goods which have the same utility for the consumer in question. Consider the consumer's choice between two goods ***X*** and ***Y*** in Figure 9.1.

- Every point on the graph represents a combination of ***X*** and ***Y***.
- Point ***A*** represents very small quantities of both goods ***X*** and ***Y***.
- Points ***B***, ***C***, ***D*** represent larger quantities.
- Since combinations ***B*** (10 units of ***Y*** and 2 units of ***X***) and ***C*** (5 units of ***Y*** and 4 units of ***X***) are on the same indifference curve, the consumer is said to be indifferent between them, i.e. both combinations mean the same utility to him.
- Combination ***D*** is on a higher indifference curve, which implies that he prefers ***D*** to both ***B*** and ***C***; and ***E*** to ***B***, ***C***, and ***D***.

Figure 9.1 An indifference map (field of choice)



Quantity of good X

Indifference curves do not tell us which combinations of the two goods will be chosen by a consumer. In addition to the consumer's preferences, we need to know his income and the prices of the two goods. Then we can determine the combination of ***X*** and ***Y*** that the consumer will choose.

As an example, suppose the price of ***X*** is 10 money units and the price of ***Y*** is 20 money units, and the consumer's income is 100 money units. Table 9.1 shows the combinations of ***X*** and ***Y*** that he can just afford to buy. Plotting these points on the same graph (Figure 9.2) as the indifference map, we obtain what is called the **budget line**.

Table 9.1 The combinations of ***X*** and ***Y*** that a consumer can afford to buy with an income of 100 money units.

Quantity of ***X*** (price = 20)	Quantity of ***Y*** (price = 10)
0	10
1	8
2	6

3	4
4	2
5	0

Figure 9.2 Consumer equilibrium in point A

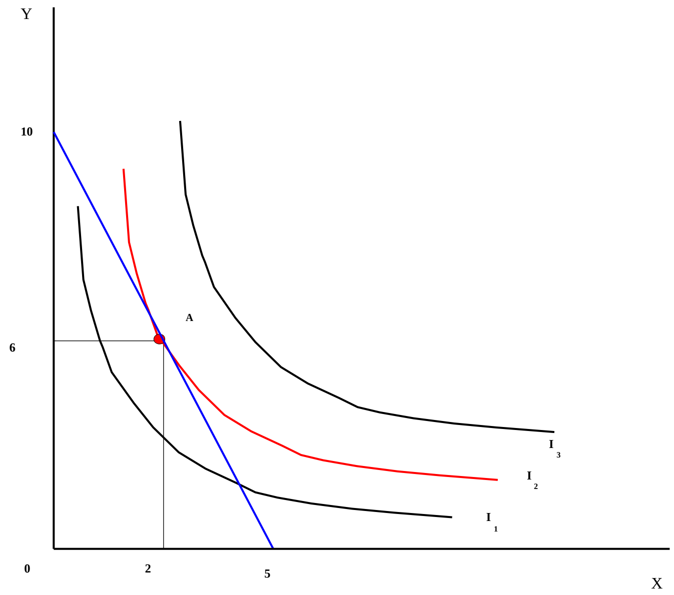


Figure 9.2 shows the indifference map and the budget line on the same graph. Suppose our consumer spends all his income on ***X*** and ***Y***, he will choose the combinations represented by point ***A***. This is the point where the budget line is tangent to an indifference curve – I_2 is the highest point that can be reached. This point is called **'consumer equilibrium'** point, and the consumer is said to be maximizing his utility subject to his budget constraint.

Effect of an income change

If the consumer's income increases, his budget line will shift upwards remaining parallel to the original one. A new consumer equilibrium point will be found on an indifference curve I_3 (Figure 9.2). Similarly, if his income falls, his budget line will shift downwards remaining parallel, and this time an equilibrium point will appear on an indifference curve I_1. The quantity of ***X*** and ***Y*** that our consumer will afford to buy will respectively increase or decrease.

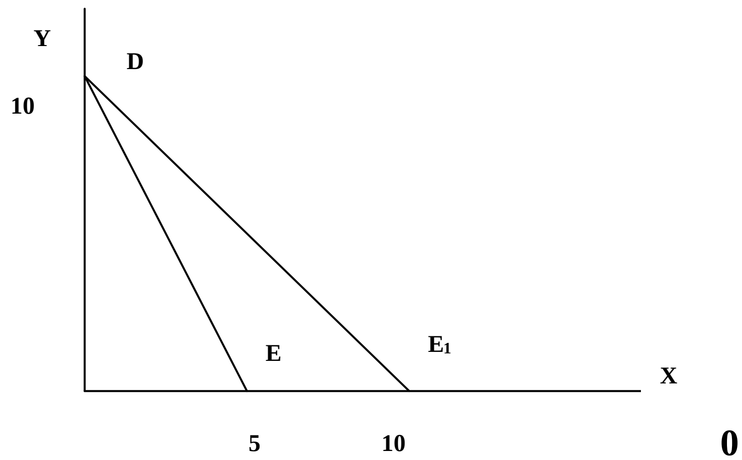
Effect of a price change

Suppose that the price of ***X*** falls, ceteris paribus. Table 9.2 shows the combinations that the consumer can just afford to buy when his income is 100 money units, the price of ***Y*** is 10 money units and the price of ***X*** has fallen to 10.

Table 9.2 The combination of ***X*** and ***Y*** after a price change.

Quantity of X (price = 10)	Quantity of Y (price = 10)
0	10
2	8
4	6
6	4
8	2
10	0

Figure 9.3 Budget lines before and after a price change of ***X***.



The new budget line ***DE₁*** is graphed together with the original one ***DE*** in Figure 9.3. Notice that when the price of one of the goods falls, the budget line shifts, but this time it is not parallel to the original one. It becomes less steep reflecting the fall in the price of ***X*.**

KEY WORDS:

consumer behavior	поведение потребителя
satisfaction	удовлетворение
cardinalist approach	кардиналистский (количественный) подход
ordinalist approach	ординалистский (порядковый) подход
utility	полезность
util	ютил
total utility	общая полезность
diminishing marginal utility	убывающая предельная полезность
term	термин
rank	ранжировать
dimension	измерение
indifference curve	кривая безразличия
consumer's preferences	потребительские предпочтения
budget constraint	бюджетное ограничение
budget line	бюджетная линия
plot	наносить (точки), отмечать
money unit	денежная единица
tangent	касательный
consumer equilibrium	равновесие потребителя

After studying this module, you should be able to answer the following questions:

1. What determines how much consumers are prepared to pay for a product?

2. Given a consumer’s income and the prices of goods, how will this consumer behave in the market in order to maximize his satisfaction?

3. How can consumer satisfaction be measured?

EXERCISES:

I. Insert: much or many.

1. A don't eat ... mangoes. 2. He eats ... fish. 3. She ate so ... dessert that she is in bed today with a stomachache. 4. That man drank so ... wine, and he smoked so ... cigarettes that he has a terrible headache today. 5. Mary must not eat too ... salt because she has problems with her blood pressure. 6. My mother says I eat too ... French fries and drink too ... beer. She wants me to be healthy. 7. There is not too ... space in my flat. 8. There are ... new pictures in this room. 9. There are ... teachers at our school, and ... of them are women. 10. ... of these plays are quite new. 11. Thanks awfully for the books you sent me yesterday. — Don't mention it, it wasn't ... bother. 12. ... of her advice was useful. 13. He had ... pairs of socks. 14. Please don't put ... pepper on the meat. 15. There were ... plates on the table. 16. I never eat ... bread with soup. 17. Why did you eat so ... ice cream? 18. She wrote us ... letters from the country. 19. ... of these students don't like to look up words in the dictionary. 20. ... in this work was too difficult for me. 21. ... of their answers were excellent. 22. ... of their conversation was about the university.

II. Use necessary sequence of tenses: Present Continuous, Present Simple, Future Simple.

1. You (to come) to my place next Sunday? 2. You (to read) this book next week? 3. You (to read) books every day? 4. You (to read) a book now? 5. I (not to see) him tomorrow. 6. What you (to do) tomorrow? 7. What your friend (to do) tomorrow? 8. Where you (to go) next summer? 9. Where you (to go) every morning? 10. Where you (to go) now? 11. Look! Mary (to dance). 12. She (to dance) every day. 13. She (to dance) tomorrow? 14. He (to go) to the theatre tomorrow. 15. We (to go) to school in the morning. 16. Look! Kate (to go) to school. 17. You (to help) your

mother tomorrow? 18.1 (not to play) the guitar now. 19. My brother (to play) the guitar every evening. 20. They (not to take) care of the garden next summer. 21". You (to like) apples? 22. You (to eat) apples tomorrow? 23. Nick (to read) many books. 24. Mother (to work) every day. 25. He (not to sleep) now. 26. Your brother (to go) to the exhibition next Sunday? 27. We (not to go) to the zoo tomorrow. 28.1 (not to learn) the poem now. 29. She (to live) in San Francisco. 30. My father (to shoot) very well. 31. He is very strong. Look! He (to carry) a very heavy box.

III. Comment on the following actions using modal verbs: should, shouldn't, needn't.

E.g. 1) A boy was impolite to a girl and did not apologize. You should have apologized to the girl.

2) A pupil did all the exercises in writing even those which were meant for oral practice. You needn't have done all the exercises in writing.

3) Your aunt is running a temperature. You should consult the doctor.

What will you say to the person who:

1) crossed the street under the red light?

2) doesn't cross the street when the lights are green?

3) doesn't want to cross the street by the subway?

4) doesn't take off his hat when entering a room?

5) did not help his classmate to clean the classroom?

6) has a splitting headache?

7) bought bread which was not necessary?

8) was not present at the meeting?

9) sent a telegram which was quite unnecessary?

10) went out without his coat and caught cold?

11) apologized for asking you a question?

12) didn't attend a very important lecture?

13) got up at six o'clock on Sunday morning, which was not at all necessary?

14) read till two o'clock in the morning?

15) copied the whole text into his exercise book?

16) watered the garden, and it is raining now?

17) hasn't returned the books to the library?

LESSON 14

FROM THE HISTORY OF ECONOMIC THOUGHT. PART I

Schools of economic thought and some of the great names

- Mercantilists
- Physiocrats
- Classical Economics: Adam Smith and David Ricardo
- Karl Marx
- Neoclassical Economics
- John Maynard Keynes
- Monetarists: Milton Friedman
- Paul Samuelson

Mercantilists

The first systematic thinkers were the mercantilists of the 16th – 18th centuries. The major emerging nation-states of Europe believed in the economic theory of mercantilism. Mercantilists argued that nations should behave as if they were merchants competing with one another for profit. Accordingly, governments should support industry by enacting laws designed to keep labor and other production costs low, and exports high. In this way the nation could achieve what was called a ‘favorable balance of trade’, a situation in which exports exceeded imports. The excess, which was like profits to a merchant, would result in an increase in the nation's supply of gold or silver.

To achieve favorable trade balances, the major European powers sought to acquire colonies. Colonies, it was thought, could provide the ‘mother country’ with cheap labor, raw materials and a market for its manufactured goods.

In an effort to achieve these goals in their American colonies, the British, for example, enacted the Navigation Acts. The Navigation Acts protected British industry by prohibiting the colonies from producing certain goods like hats, woolen products and wrought iron (кованое железо). Protest against the Navigation Acts was so great that they are regarded as one of the principal causes of the American Revolution.

Mercantilist practices inspired numerous ideas. David Hume (1711-1776) suggested his brilliant gold-flow mechanism to demonstrate how the mercantilists’ gold inflow would eventually end up raising prices rather than output.

Physiocrats

The group known as the Physiocrats reacted powerfully to the ideas of the French mercantilists. The Physiocrats declared agriculture the only source of economic wealth and attempted to remove trade restrictions from corn and other sectors. In other words, since real wealth came from the land, it followed that the wisest thing government could do would be to keep its hands off business. This idea was expressed in the slogan ‘laissez-faire’ (`let people do as they choose’).

A remarkable depiction of the economy as a circular flow, still used in today’s texts, was made by François Quesnay, Louis XIV's court physician. He stressed that the different elements of the economy are as integrally tied together as are the blood vessels of the body.

Classical Economics: Adam Smith

1776, the year that Americans associate with the signing of the Declaration of Independence, also marked the publication in England of one of the most influential books of our time an *Inquiry into the Nature and Causes of the Wealth of Nations*, known as the *Wealth of Nations* written by Adam Smith. The book earned the author the title 'the father of economics'.

Smith objected to the principal economic beliefs of his day. He differed from the physiocrats who argued that land was the only source of wealth. He also disagreed with the mercantilists who measured the wealth of a nation by its money supply and called for government regulation of the economy in order to promote a 'favorable balance of trade'.

In Smith's view, a nation's wealth was dependent upon production, not agriculture alone. How much it produced, he believed, depended upon how well it combined labor and the other factors of production. The more efficient the combination, the greater the output, and the greater the nation's wealth.

The heart of Smith's economic philosophy was his belief that the economy would work best if left to function on its own without government intervention. In those circumstances, self-interest would lead business firms to produce only those products that consumers wanted, and to produce them at the lowest possible cost. They would do this, not as a means of benefiting society, but in an effort to outperform their competitors and gain the greatest profit. But all this self-interest would benefit society as a whole by providing it with more and better goods and services, at the lowest prices.

To explain why all the society benefits when the economy is free of regulation, Smith used the metaphor of an 'invisible hand': *"Every individual . . . neither intends to promote the general interest, nor knows how much he is promoting it. He intends only his own security, his own gain. And he is in this led by an invisible hand to promote an end which was no part of his intention. By pursuing his own* *interest, he frequently promotes that of society more effectually than when he really intends to promote it.'*

The 'invisible hand' was Smith's name for the economic forces that we today would call supply and demand, or the marketplace.

His idea of the importance of the division of labor for the efficient production, and other sections dealing with the factors of production, money and international trade are as meaningful today as when they were first written. Smith's *Wealth of Nations* contains some of the best descriptions of the principles upon which the market economy is based.

Classical Economics: David Ricardo

David Ricardo (1772-1823) is one of history's most influential economists, from whose thinking both neoclassical and modern economics derive. Born in England, Ricardo made a fortune on the London Stock Exchange. This wealth gave him the time to write and to serve in Parliament's House of Commons. His most famous work, *Principles of Political Economy and Taxation* (1817), marked him as the greatest spokesman for classical economics since Adam Smith. One of Ricardo's contributions lay in a thorough analysis of the nature of economic rent – a theory that survives almost intact today. He also presented a careful analysis of the labor theory of value. But his major contribution was his analysis of the laws of income distribution in a capitalist economy.

Ricardo is especially famous in international economics for demonstrating the advantages of free trade. Free trade is a policy in which tariffs and other barriers to trade between nations are removed. To prove his point, Ricardo developed a concept we now call the law of comparative advantage. Comparative advantage enabled him to demonstrate that one nation might profitably import goods from another even though the importing country could produce that item for less than the exporter.

As Member of Parliament, Ricardo pressed the government to abandon its traditional policy of protection. Though he did not live to achieve that goal, his efforts bore fruit in the 1840's when England became the first industrial power to adopt a policy of free trade. There followed 70 years of economic growth during which the nation became the world's wealthiest industrial power. Karl Marx

Karl Marx (1818-1883) was a philosopher, economists and a revolutionary. The first volume of his *Das Kapital* was published in 1867 but the rest of his work did not appear until after his death. His theory explains the origin and the historical development of the capitalist economic system. Class analysis, the central component of Marxism, is not peculiar to Marx but was shared by contemporary political economists, such as Adam Smith and David Ricardo.

The center of Marx's economics was the labor theory of value. Marx assumed that it is labor power that gives value to a commodity – both the direct labor and the indirect labor embodied in buildings or machinery used up in the productive process. Marx realized that, under competitive capitalism, market prices would not necessarily equal labor values because capitalists receive an excess in revenues over labor costs – a surplus value by which Marx meant the difference between revenues and total labor costs.

The economic interpretation of history is one of Marx s lasting contributions to Western thought. Marx argued that economic interests lie behind and determine our values. Why do business executives vote for conservative candidates, while labor leaders support those who advocate raising the minimum wage or increasing unemployment benefits? The reason, Marx held, is that people's beliefs and ideologies reflect the material interests of their social and economic class.

KEY WORDS:

enact laws	принимать законы
european powers	Европейские державы
mainstream	главенствующая

era of modern economics	эра современной экономики
laissez-faire	свободная рыночная экономика
contribution	вклад
policy implications	политические выводы
merchant	купец, торговец
source of wealth	источник богатства
favorable balance of trade	положительный торговый баланс
trade restrictions	торговые ограничения
circumstance	обстоятельство
benefit society	приносить пользу обществу
outperform competitors	работать лучше конкурентов
make a fortune	сделать состояние

After studying this module, you should be able to answer the following questions:

1. What is the basic difference between Mercantilists and Physiocrats?

2. What economic issues raised by Adam Smith secured him the name of the father of modern economics?

EXERCISES:

I. Open brackets:

1. If you were on a hijacked plane, you (to attack) the hijackers? 2. If they were on a hijacked plane, they (to stay) calm and probably (to survive). 3. If my friend had been trying harder, he (to succeed). 4. If I (to live) in 1703,1 shouldn't (wouldn't')1 have had a computer. 5. If she (to smell) smoke in the middle of the night, she would telephone the fire brigade and run into the street and shout, "Fire!" 6. If he (to invite), he would have come to the party last Sunday. 7. If the driver in front hadn't stopped suddenly, the accident (not to happen). 8. If you (not to know)

how to play, my sister will explain the rules to you. 9. If she had told them it was her birthday, they (to give) her a birthday present. 10. If I had more time, I (to read) more books. 11. If their TV had been working, they (to watch) the President's speech last night. 12. If my T-shirt hadn't been 100 percent cotton, it (not to shrink) so much. 13. How can you become more popular in your class: if you (to get) the top mark in mathematics or English or if you (to be) good at sports? 14. If they (to go) by car, they would have saved time. 15. If I (to be) a bird, I would1 be able to fly. 16. If he (to bring) his book home, he would have done his homework last night. 17. If my mother (to win) a million pounds, she would spend it as fast as possible. 18. If you had been feeling well, you (to be) in class yesterday.1. I can't find my book .... I have looked all over the house. 2. Johnny

II. Insert:

a) some, any, no.

1. There were ... of my friends there. 2. Well, anyway, there is ... need to hurry, now that we have missed the train. 3. Have you ever seen ... of these pictures before? 4. There is ... water in the kettle: they have drunk it all. 5. There were ... fir trees in that forest, but many pines. 6. We could not buy cherries, so we bought ... plums instead.

b) somebody, anybody, nobody.

1. I saw ... I knew at the lecture. 2. I dare say that there may be ... at the lecture that I know, but what does that matter? 3. Do you really think that ... visits this place? 4. I have never seen ... lace their boots like that.

c) somewhere, anywhere, nowhere.

1. I haven't seen him ... . 2. I know the place is ... about here, but I don't know exactly where. 3. Did you go ... yesterday? — No, I went ... , I stayed at home the whole day.

LESSON 15

FROM THE HISTORY OF ECONOMIC THOUGHT. PART II

Neoclassical Economics

Classical writers worked with horizontal supply curves and ignored the role of demand curves. Around 1870, three scholars independently laid the foundation for modern economics by devising an analysis that could synthesize both demand elements and cost elements. They were W. Stanley Jevons (1835-1882) in England, Carl Menger (1840-1921) in Austria, and Leon Walras (1834-1910) in Switzerland.

The key element in the neoclassical revolution was to understand how consumer preferences (called ‘utility’) enter the demand for goods. The neoclassical economists provided the missing link in a complete theory of the market mechanism by showing that demand depends upon marginal utility.

Walras discovered how to analyze the economy as a whole – as a general equilibrium of all the labor, land, and product markets. Joseph Schumpeter (1883-1950) used to say that of all great economists, surely Walras was the greatest – for it was he who discovered how all markets interact in a general equilibrium.

Ever since Adam Smith analyzed the harmful effects of government regulation of the market, economists have devised technical tools that could measure the losses that arise from government interferences with a competitive equilibrium; important innovations were the concepts of consumer surplus devised by Alfred Marshall and allocational efficiency introduced by Vilfredo Pareto. But neoclassical economists were not all proponents of laissez-faire. Most of the great economists have been critical of capitalism’s inequality.

Even as economics became more ‘scientific’, it never lost its interest in policy. Most of the great economists were inspired by the idea how to help improve the world. But, however much the great economists wanted to bring about a more just economic order.

The Keynesian Revolution

In the years after World War I, economists made great contribution to the analysis of the economic world of developed and developing regions. One enormous hole, however, still remained, for neoclassical economics did not have a well-developed macroeconomics to match its microeconomics.

The neoclassical theories of money and the price level earlier developed by Alfred Marshall (1842-1924) and Yale's Irving Fisher (1867-1947) paved the way for the Keynesian concepts of the demand for money.

John Maynard Keynes (1883-1946) stands with Adam Smith and Karl Marx as one of the world’s most influential economists. The son of a noted British economist, Keynes made a fortune through speculation in Stock Exchanges. He served the British government as a financial adviser and was a key participant in the negotiations following both World Wars I and II.

Although Adam Smith had written *The Wealth of Nations* about the time of the American Revolution, by the 1930s little had changed in the thinking of mainstream economists. Most would have agreed with Smith, that the best thing government could do to help the economy would be to keep its hands off. They reasoned that as long as the economy was free to operate without interference, the forces of supply and demand would come into balance. Then, with total supply and demand in equilibrium, everyone looking for work could find a job at the prevailing wage, and every firm could sell its products at the market price.

But the 1930s was the period of the Great Depression. Despite the assurances (уверения) of the classical economists, the fact was that unemployment and bankruptcy had reached record proportions in the United States and the rest of the industrialized world. It was at this time (1936) that Keynes’ famous work was published. *The General Theory of Employment, Interest and Money* transformed economic thinking in the 20th century, much the way that *The Wealth of Nations* had in the 18th century.

Keynes demonstrated that it was possible for total supply and demand to be at equilibrium at a point well under full employment. What is more, Keynes demonstrated that unemployment could persist indefinitely, unless someone stepped in to increase total demand. The 'someone' Keynes had in mind was government.

The suggestion that governments abandon 'laissez-faire' in favor of an active role in economic stabilization was regarded as revolutionary in the 1930s. Now, whenever a nation appears to be entering a period of recession or inflation, economists and others immediately think of steps the government might take to reverse the trend.

Monetarism

In the 1950s and 1960s, monetarists, most notably Milton Friedman, began to argue that Keynesian fiscal policy had negative long-run effects. Unlike Keynesians, monetarists insisted that money is neutral, meaning that in the long run, changes in the money supply will only change the price level and have no effect on output and employment. They argued that governments should abandon any attempt to manage the level of demand in the economy through fiscal policy. On the contrary, monetarists focus on the supply and demand for money being the primary means by which economic activity is regulated. They argued that excessive expansion of the money supply is inflationary, and that monetary authorities should focus solely on maintaining price stability.

Paul Samuelson and Milton Friedman

Paul Samuelson and Milton Friedman are two of America's most distinguished economists. In recognition of their achievements, Samuelson was awarded the Nobel Prize in Economics in 1970 and Friedman in 1976. Both spent most of their professional lives on the faculty of major universities (Samuelson at the Massachusetts Institute of Technology, and Friedman at the University of Chicago). Though they have much in common, they hold strikingly different views on economic issues. In particular, they differ on what role the government should play in the economy.

Classical economists had long recognized the need for government to provide goods and services that would not or could not be provided by the private sector (like national defense). But they insisted that this participation should be kept to a minimum.

Samuelson argued that too many of the problems the classical economists wanted to leave to the marketplace were not subject to its influence. These externalities, affecting things like public health, education, and environmental pollution, were not subject to the laws of supply and demand. Consequently, governments have to establish goals for the economy and use its powers to achieve them.

Milton Friedman sees things differently. Like the classical economists of old, he regards supply and demand as the most powerful and potentially beneficial economic forces. The best that government can do to help the economy, in Friedman's view, is to keep its hands off business and allow the market to ‘do its thing’. The minimum wage laws are a case in point. Whereas Samuelson advocates minimum wage laws as a means of helping workers at the bottom of the income ladder, Friedman would argue that by increasing labor costs, minimum wage laws make it too expensive for many firms to hire low-wage workers. As a result, those who might otherwise be employed are laid off.

On the one hand, Samuelson is in favor of the concept of government-sponsored programs such as public housing and food stamps as a means of reducing poverty. Friedman, on the other hand, would prefer to give the poor additional income and allow them to use the funds to solve their problems without government interference.

Economics today

Today the giants of modern economics keep one eye on economic analysis and the other upon the policy implications of their theoretical studies. Economists of the late twentieth century study government budget deficit, the money supply, the environment, and poverty not only because they are interested in economic behavior.

They also look for ways that the government can promote economic efficiency. Modern economists are far from consensus. Economists are divided between the conflicting schools of thought of monetarism and Keynesianism as to the extent to which governments can influence economies. Contemporary problems in economics center upon the control of inflation, unemployment, and the balance of payments, as well as the stimulation of economic growth.

KEY WORDS:

government regulation	правительственное регулирование
self-interest	личный интерес, корысть
division of labour	разделение труда
barriers to trade	торговые барьеры
law-of-comparative-advantage	закон сравнительных - преимуществ
abandon a policy of protection	отказ от политики протекциониз
surplus value	прибавочная стоимость
negotiations	переговоры
persist	упорствовать
reverse the trend	переломить тенденцию
externalities	экстерналии
beneficial	благоприятный
lay off	увольнять
food stamps	продуктовые талоны
reduce poverty	снижать бедность
inequality	неравенство
money supply	денежное предложение/масса
budget deficit	бюджетный дефицит

After studying this module, you should be able to answer the following questions:

1. Which of the neoclassical economists discovered how to analyze the economy as a whole in the general equilibrium?

2. What issues lay the foundation for the dividing line between Keynesians and monetarists?

EXERCISES:

I. Insert: somewhere, anywhere, nowhere, everywhere.

1. I can't find my book .... I have looked all over the house. 2. Johnny lives ... near Chicago. 3. It so happened that he had ... to go to. So last summer he stayed at home in his beloved city for his holidays. 4. This book can be found .... Let's buy it. 5. Do you live ... near them? 6. Is it ... in Russia? — Yes, it's ... in Russia. 7. Where are you going? — I am not going ... . 8. I put my dictionary ... yesterday and now I can't find it ... . — Of course, that is because you leave your books ... . 9. You must go ... next summer. 10. Did you go ... on Sunday? 11. Let's go ... . The weather is fine. I don't want to stay at home in such weather. 12. I cannot find my glasses ... . I always put them ... and then look for them for hours. 13. Today is a holiday. The streets are full of people. There are flags, banners and flowers ....

II. Use necessary sequence of tenses:

1. How long you (to wait) for me? I am really very sorry. 2. Yesterday I (to meet) a friend of mine whom I (not to see) for a long time. 3. Ring me up at eleven o'clock, I (not yet to sleep). 4. You (to be) late for the concert if you (not to take) a taxi. 5. The sun (to set) a long time ago, and it (to begin) to get really cold. 6. When I (to come) home yesterday, my sister already (to return) and (to sit) at the fireplace looking through some old photographs. 7. He (to smoke) three cigarettes and (to look) through all the books on the shelf, when at last he (to hear) his friend's steps approaching the door. 8. The first person whom Andrew (to see) as he (to enter) was

his old nurse. She (to sit) on the sofa. During the last five years she greatly (to change) and now (to look) a very old woman. 9. She is going to read the letter she just (to receive). 10. He just (to approach) the door, when she (to enter). 11. He (to write) the composition for three hours and he (to say) he soon (to finish) it as he (to think) over the conclusion now. 12. Where is the baby? — The nurse (to put) it to bed. 13. He said he (to work) for a long time without achieving good results. 14. Hardly1 I (to go) out when I (to remember) that I (to forget) to take my umbrella. 15. It (to be) late. You (not to finish) yet?

III. Open brackets using necessary form of Wish sentence.

1. I wish I (to have) a season ticket to the Philharmonic next winter. 2. I wish I (to consult) the teacher when I first felt that mathematics was too difficult for me. 3. I love sunny weather. I wish it (to be) warm and fine all the year round. 4. I wish I (not to lend) Nick my watch: he has broken it. 5. I wish you (to send) word as soon as you arrive. 6. I wish I (not to have) to do my homework every day. 7. I wish you (to go) skiing with me yesterday: I had such a good time! 8. I wish I (to know) Spanish. 9. I wish I (not to drink) so much coffee in the evening: I could not sleep half the night. 10. I wish you (to read) more in future. 11. I wish I never (to suggest) this idea. 12. I wish I (to be) at yesterday's party: it must have been very merry. 13. I wish we (to meet) again next summer. 14. Don't you wish you (to see) that performance before? 15. They wished they (not to see) this horrible scene again. 16. The unfortunate pupil wished he (not to forget) to learn the rule.

LESSON 16

ELASTICITY OF DEMAND AND SUPPLY. PART I

1. Responsiveness of demand to changes in price

According to the law of demand, when the price of a good rises, the quantity demanded will fall. But in most cases we want to know how much the quantity demanded will fall. In other words, we will want to know how responsive demand is to a rise in price.

Take the case of two products: oil and tangerines. In the case of oil, a rise in price is likely to result in a slight fall in the quantity demanded. If people want to continue driving, they have to pay the higher prices for fuel. Some may turn to using public transportation, and some people may try to use the car less often, but for most people, a rise in the price of petrol and diesel will make little difference to how much they use their cars.

In the case of tangerines, however, a rise in price may lead to substantial fall in the quantity demanded. The reason is that there are alternative fruits that people can buy: oranges, apples, or bananas.

The responsiveness of demand to a change in price is called the **price elasticity of demand**. If we know the price elasticity of demand for a product, we can predict the effect on price and quantity of a shift in the supply curve for that product.

Measuring the price elasticity of demand: We need to compare the size of the change in quantity demanded with the size of the change in price in percentage. This gives us the following formula for the price elasticity of demand ($\mathbf{P}\varepsilon_d$):

$$\mathbf{P\varepsilon_d = \%\Delta Q_d / \%\Delta P}$$

where ε (a Greek letter *'epsilon'*) is the symbol we use for elasticity, and Δ (a capital Greek letter '*delta*') is the symbol we use for 'a change in', **Q** is quantity, and **P** is price.

For example, if a 40 per cent rise in the price of oil caused the quantity demanded to fall by 10 per cent, the price elasticity of oil would be:

$$\mathbf{-10\% / 40\% = -0.25}$$

On the other hand, if a 5 per cent fall in the price of tangerines caused a 15 per cent rise in the quantity demanded, the price elasticity of demand for tangerines would be: **15% / – 5% = – 3**

The figures (–0.25 and –3) show that tangerines have a more elastic demand than oil. The sign is negative, because price and quantity change in opposite directions. Thus when calculating price elasticity of demand, we either divide a negative change by a positive figure, or positive figure by a negative.

The value (greater or less than 1): if we focus on the number and ignore the sign, we can know whether demand is elastic or inelastic.

- **Elastic demand** ($\varepsilon > 1$). Change in demand is larger than change in price.
- **Inelastic demand** ($\varepsilon < 1$). Change in demand is a smaller number than change in price.
- **Unit elastic demand** ($\varepsilon = 1$). This is where the price and quantity demanded change by the same proportion.

Determinants of price elasticity of demand:

1. The **number of substitute goods**;
2. The **proportion of income** spent on the good.

The larger the number of substitute goods and the proportion of income spent on a good, the greater will be the price elasticity of demand. For example, salt has a very low price elasticity of demand, but if mortgage interest rates rise (the ‘price’ of loans for house purchase), people may have to cut down on their demand for housing.

3. The **time period**. When price rises, people may take time to find alternatives. The longer the time period after a price change, the more elastic the demand is likely to be.

To illustrate this, let us return to our example of oil. Between December 1973 and June 1974 the price of crude oil quadrupled, which led to similar increases in the prices of petrol and other oil products. Over the next few months, there was only a very small fall in the consumption of oil products. Demand was highly inelastic (people still wanted to drive their cars).

Over the time, however, as the higher prices persisted, many people switched to smaller cars. Demand was thus much more elastic in the long run.

2. Responsiveness of demand to changes in income

In addition to price elasticity of demand (**$P\varepsilon_d$**) there is also income elasticity of demand (**$Y\varepsilon_d$.**). The letter ***Y*** is used for income because letter ***I*** is already used for 'investment'). This measurement enables us to predict how much the demand curve will shift for a given change in income. The formula is as follows:

$$Y\varepsilon_d = \%\Delta Q_d / \%\Delta Y$$

For example, if a 2 per cent rise in income caused an 8 per cent rise in a product's demand, then its income elasticity of demand will be: **8% / 2% = 4**

The major determinant of income elasticity of demand is the degree of 'necessity' of the good. In a developed country, the demand for luxury goods increases rapidly as people's incomes rise, whereas the demand for basic goods, such as bread, rises only a little. Thus items such as cars and holidays abroad have a high income elasticity, whereas items such as potatoes and bus journeys have a low income elasticity of demand.

The demand for some goods actually decreases as incomes rise. These are **inferior goods** such as cheap margarine. As people earn more, they switch to butter or better-quality margarine. Unlike **normal goods**, which have a positive income elasticity of demand, inferior goods have a negative income elasticity of demand.

KEY WORDS:

responsiveness to a change	реагирование на изменение
price elasticity of demand	ценовая эластичность спроса
(in)elastic demand	(не)эластичный спрос
formula	формула
figure	число
value	величина

loan	ссуда
switch	перейти, переключиться
substitute good	товар-заменитель
complementary good	товар-дополнение
normal good	качественный товар
inferior good	некачественный
luxury goods	предметы роскоши
basic good (necessity good)	товар первой необходимости

After studying this module, you should be able to answer the following questions:

1. How responsive is consumer demand to changes in prices and changes in incomes?

2. How responsive is firms' output to a change in price?

3. How does this responsiveness (or 'elasticity') of demand and supply affect the working of markets?

EXERCISES:

I. Open brackets:

1. She must (to be) mad if she thinks he is going to lend her any more money. 2. They must (to be) upset when they heard the news. 3. You must (to come) and (to visit) us soon. It would be so nice to see you again. 4. It's the third time he's been playing the piano today. He must really (to enjoy) it. 5. Oh, look how white and clean everything is! It must (to snow) at night. 6. Oh, you are all in snow, you look like a snowman. It must (to snow) heavily. 7. Look, what huge snowdrifts there are everywhere, and the path is covered with knee-deep snow. It must (to snow) for several hours already. 8. You look fresh! You must (to have) a good sleep at night. 9. You look very tired. You must (to have) a good sleep at night. 10. He knows

mathematics much better than he did last year. He must (to work) a lot in summer. 11. Your mathematics is very poor. You must (to work) at it in summer. 12. Where is Peter? — Oh, he must (to read) in the library. He is getting ready for a very difficult exam. 13. You must (to study) English for several years already. Your language is very good taken in the north. 3. This tape recording was done last week. 4. James was given an excellent mark in history. 5. Ann was given an excellent mark for her geometry test. 6. This house was built at the beginning of this century. 7. This tower was built in the 9th century. 8. This book was written by a very good writer. 9. This film was made by a very good director. 10. This play was written by a very clever playwright. 11. This film has been shot in a fortnight. 12. This book was translated into Russian in the 19th century. 13. This castle was built in the 15th century. 14. This picture was painted by an Italian artist. 15. This computer was built ten years ago.

II. Open brackets. Use necessary sequence of tenses:

1. Our train starts late in the evening, so if you (to come) at seven o'clock, we still (to pack) our lug¬gage. 2. When you (to see) him last? 3. I (to meet) him when he (to walk) across the park. 4. You ever (to act) on the stage? — Why, yes, that's what I (to do) for the last six years. 5. Don't enter the bedroom! The child (to sleep) there, and he always (to wake) up when somebody (to open) the door. 6. Where is your luggage? — I (to leave) it at the station. I (to take) it tomorrow when Nick (to come) to help me. 7. I (to read) about an hour when he (to come). 8. The play (not yet to begin) and the people (to talk) in the hall. 9. One night a little swallow (to fly) over the city. His friends (to fly) away to Egypt six weeks before, but he (to stay) behind. 10. What you (to do) these three months? 11. Yesterday I (to buy) a new pair of gloves, as I (to lose) the old ones. 12. We (to walk) in silence. He already (to tell) me all that (to be) interesting about himself, and I (to have) noth¬ing to tell him. 13. The moon (not to rise) yet, and only two stars, like two distant lighthouses, (to shine) in the dark blue sky.

LESSON 17

ELASTICITY OF DEMAND AND SUPPLY. PART II

3. The third type of elasticity of demand is known as **cross elasticity of demand.** It is a measure of the responsiveness of demand for one product to a change in the price of another (either a substitute or a complement). The formula for the cross elasticity of demand ($C\varepsilon_d$) is:

Cεdab = %ΔQda / %ΔPb

If a good ***b*** is a substitute for good ***a***, ***a***’s demand will rise as ***b***’s price rises. In this case, cross elasticity will be a positive figure. For example, if the demand for butter rose by 2% when the price of margarine (a substitute) rose by 8%, then the cross elasticity of demand for butter with respect to margarine would be:

2% / 8% = 0.25

If good ***b*** is complementary to good ***a***, ***a***’s demand will fall as ***b***’s price rises and thus the quantity of ***b*** demanded falls. In this case, cross elasticity of demand will be a negative figure. For example, if a 4% rise in the price of bread led to a 3% fall in demand for butter, the cross elasticity of demand for butter with respect to bread would be: – 3% / 4% = – 0.75

Firms will wish to know the cross elasticity of demand for their product when considering the effect on the demand for their product of a change in the price of a rival’s product. These are vital pieces of information for firms when making their production plans.

4. Responsiveness of supply to changes in price

The importance of the elasticity of the supply of the inputs used in production is best illustrated by considering two extreme examples. First let us consider diamond necklaces. Diamonds are in inelastic supply – even if the price of diamonds doubles, not many more can be found. If the price of diamond necklaces rose, necklace makers would like to supply more necklaces. However, they would be unable to do it as there would be no more found. The supply of diamond necklaces is inelastic because the supply of diamonds is inelastic.

Next let us consider silicon chips. Silicon comes from sand which is available in almost unlimited quantities and so have a highly elastic supply. If the price of silicon chips rose, their makers would like to supply more and they would be able to get extra sand at about the same price as before. So they could supply more chips at their present price. In other words, the supply of silicon chips is elastic because the supply of sand is highly elastic.

KEY WORDS:

responsiveness to a change	реагирование на изменение
price elasticity of demand	ценовая эластичность спроса
(in)elastic demand	(не)эластичный спрос
formula	формула
figure	число
value	величина
loan	ссуда
switch	перейти, переключиться
substitute good	товар-заменитель
complementary good	товар-дополнение
normal good	качественный товар
inferior good	некачественный
luxury goods	предметы роскоши
basic good (necessity good)	товар первой необходимости

After studying this module, you should be able to answer the following questions:

1. How responsive is consumer demand to changes in prices and changes in incomes?

2. How responsive is firms' output to a change in price?

3. How does this responsiveness (or 'elasticity') of demand and supply affect the working of markets?

EXERCISES:

I. Say that in your opinion these events can't happen.

•E.g. This old bracelet was found in Africa.

This old bracelet can't have been found in Africa.

1. This car was produced twenty years ago. 2. These photographs were taken in the north. 3. This tape recording was done last week. 4. James was given an excellent mark in history. 5. Ann was given an excellent mark for her geometry test. 6. This house was built at the beginning of this century. 7. This tower was built in the 9th century. 8. This book was written by a very good writer. 9. This film was made by a very good director. 10. This play was written by a very clever playwright. 11. This film has been shot in a fortnight. 12. This book was translated into Russian in the 19th century. 13. This castle was built in the 15th century. 14. This picture was painted by an Italian artist. 15. This computer was built ten years ago.

II. Insert: somebody, anybody, nobody, everybody.

1. Don't tell ... about it. It's a secret. 2. Life is tough! ... has problems. 3. ... has eaten all the ice cream. That's terrible! ... will be able to have it for dessert tonight. 4. I think, ... in our class is honest. That's why we trust ... . 5. If you look in the yellow pages, I am sure you'll find ... who can fix your TV. 6. I am not a perfectionist. ... is perfect in this world. 7. Is there ... in the office? 8. ... needs good friends. A friend in need is a friend indeed. 9. Has ... in this group got a dictionary? 10. ... left a magazine in our classroom yesterday. 11. The question was so difficult that ... could answer it. 12. I am afraid I shan't be able to find ... in the office now: it is too late. 13. ... knows that water is necessary for life. 14. Is there ... here who knows French? 15. You must find ... who can help you. 16. ... knew anything about America before Columbus discovered it. 17. I saw ... in the train yesterday who looked like

you. 18. There is ... in the next room. I don't know him. 19. Please tell us the story. ... knows it. 20. Is there ... in my group who lives in the dormitory? 21. Has ... here got a red pencil? 22. ... can answer this question. It is very easy. Petrov lives on the third floor. 8. They have some English books. 9. There are some tall trees in front of their house. 10. Peter has something in his box. 11. There are some parks in this town. 12. There are some good bookshops in our district.

III. Use necessary sequence of tenses:

1. What you (to read)? — I (to read) a magazine. — How long you (to read) it? — I (to read) it for half an hour. 2. She (to live) in Moscow for ten years when her sister (to come) to live with her. 3. Our teacher (to come). Now he (to speak) with our librarian. 4. They (to speak) when I (to look) at them. 5. What you (to do) here? — I (to prepare) for my report. — How long you (to prepare) for it? — Oh, I (to work) since morning. 6. He (to teach) at school for five years when the war (to break) out. 7. She (to study) English since last year. 8. You ever (to be) to London? — Yes, I (to be) there last summer. 9.What your friend (to do) now? — She (to have) dinner. She usually (to have) dinner at this time. 10.I (to buy) a new dress. I (to show) it to you tomorrow when you (to come) to my place. 11. So you begin working tomorrow! And who (to take) care of your children when you (to go) to work? 12. Hello, Peter! Where you (to go)? — I (to go) to the library.13. I (to walk) about an hour when I (to see) a little house not far from the river. 14. When he (to read) the newspaper, he (to give) it to his brother. 15. He (to leave) for Rostov in 1990 and since then he (to live) there. 16. At this time tomorrow we (to discuss) your report. 17. Now she (to read) the book which I (to give) her yesterday. 18. I always (to hate) such cruelty. 19. No, I (not to see) that movie.

PART-II

CONTENTS

LESSSON 1

ACCOUNTING FOR CASH

Cash is broadly defined for financial statement purposes. Generally, it includes currency and other items that are payable on demand such as checks, money orders, bank drafts and certain savings accounts. Savings accounts that require substantial penalties for early withdrawal should be classified as investments rather than cash. Further, post dated checks or IOUs represent receivables and should not be accounted for as cash.The amount of cash on hand must be closely monitored so as to ensure the viability and profitability of the business. There must be enough cash available to pay employees, suppliers, and creditors as amounts become due. When a company fails to pay legal debts, the creditors can force the business into bankruptcy. While the availability of cash is critical, management should avoid the accumulation of excess idle cash. The failure to invest excess cash in earning assets will adversely affect profitability. Cash inflows and outflows must be properly managed to prevent a short-age or surplus of cash.

Controlling Cash

Cash more than any other asset requires a strict adherence to internal control procedures. It has universal appeal. Relatively small quantities of high denomination currency can be used to represent significant amounts of value. Further, specific identification as to who owns currency is difficult to prove. In most cases possession equates to ownership. Because of these qualities, cash is highly susceptible to theft and must be kept under close scrutiny. Cash is most susceptible to embezzlement at the points of receipt and disbursement. The following procedures should be employed to reduce the likelihood of theft.

CASH RECEIPTS

A record of all cash receipts should be prepared immediately. If cash receipts are recorded in a timely and accurate manner, missing quantities of money can be detected by comparing the actual balances of cash with the book balances. Customers should be given written copies of the receipts that evidence their payments. This practice results in a control on the receipts clerk by the customer. A customer will usually review the receipt to ensure that he/she has been given credit for the amount paid and will call any errors to the clerk's attention.

Cash receipts should be deposited in a bank or other financial institution on a timely basis. Cash collected late in the day should be deposited in a night depository. Every effort should be made to minimize the amount of cash on hand. Large quantities of cash not only place the business at risk of loss from theft but also place the employees in danger of being harmed by criminals who attempt to rob the company.

CASH PAYMENTS

To effectively control cash a company should make all disbursements by check thereby providing a record of cash payments. All checks should be renumbered and kept under lock. When checks are renumbered lost or stolen checks are easily identifiable by comparing the supply of unwritten and canceled checks with the list of renumbered checks. If checks are kept locked and under the care of a responsible person, then there is less opportunity for unauthorized disbursements.

The duties of approving disbursements, signing checks and recording transactions should be separated. If one person is authorized to approve, sign, and record checks, then it would be easy for that person to falsify supporting documents, write a check and record it in the records. By separating these three duties, the check signer reviews the documentation provided by the approving agent before signing the check. Likewise the recording clerk reviews the work of both the approval agent and the signer when information is input into the accounting records. Again, collusion would be required in order to circumvent the system of controls created by the separation of these duties.

Supporting documents with authorized approval signatures should be required when checks are presented to the check signer. Supporting documents prove an actual need for a payment. Before approving the payment, invoice amounts should be checked and the payee verified as being a legitimate vendor. Thus, the authorized approval signature acts as a check on the documents submitted by the payables clerk. Both the supporting documents and an authorized approval will aid in deterring the payables clerk from creating fake documents with the disbursement being made to a friend or fictitious business. Also, the approver serves as a check on the accuracy of the work of the payables clerk.

Supporting documents should be marked as "paid" when the check is signed. If the documents are not indelibly marked, they could be retrieved from the file and resubmitted for a second payment. A payables clerk could work with the payee to share in any extra cash paid out by submitting the same supporting invoices for a second payment.

All spoiled and voided checks should be defaced and retained. An employee may claim that a certain check was written for an incorrect amount and therefore, thrown away. Unless there is physical proof of the existence of the check, the firm would have no way of knowing if the clerk is telling the truth or if he/she had stolen the check. To prevent this uncertainty all spoiled and voided checks should be kept.

Checking Account Documents

The previous section of the text clearly establishes the need for businesses and individuals to use checking accounts. There are several types of forms associated with a bank checking account. The following section will discuss these forms and their use.

Signature Card

One such form is the bank signature card. This form contains the bank account number and the signatures of the people who are authorized to write checks on the account. The form is retained in the bank's files. If the bank employee is unfamiliar with the signature on a check that is presented to the bank for payment, he/she can refer to the signature card to verify the signature for that particular account.

Deposit Ticket

Each deposit of cash or checks is accompanied by a deposit ticket. The deposit ticket normally contains the account number, and the name of the account. The depositor fills in the amount of currency, coins, and checks deposited. The total of all currency, coins, and checks deposited is noted on the deposit ticket.

Bank Check

A written check involves three parties: (1) the person or business writing the check (i.e., the payer), (2) the bank on which the check is drawn, and (3) the person or business to whom the check is made payable (i.e., the payee). Checks are often multi-copy, renumbered forms, with the name of the business issuing it preprinted on the face. A remittance notice is usually attached to the check. This portion of the check provides the payer space to establish a record that identifies why the check is being written (e.g., what invoices are being paid), the amount being disbursed, and the date of payment. When signed by the person whose signature is on the signature card, the check authorizes the bank to transfer the face amount of the check from the payer's account to the payee.

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6 signature card, the check authorizes the bank to transfer the face amount of the check from the payer's account to the payee.

I periodically, the bank provides the depositor with a bank statement.

It is important to note that the bank statement is presented from the bank's point of view. Since the bank is obligated to pay back the money that customers have deposited in their accounts, a checking account is a liability to the bank. Accordingly, the checking account carries a credit balance on the bank's books. Debit memos describe transactions that act to reduce the balance of the bank's liability (i.e., the customer s account) . Credit memos describe activities that increase the bank's liability (i.e., the customer’s account balance). To avoid confusion, remember that the checking account is an asset (i.e., cash) to the depositor. Accordingly, a debit memo listed in the bank statement will require a credit entry to the cash account on the depositor’s books.

The information contained in the bank statement normally includes: (a) the balance of the account at the beginning of the period, (b) additions caused by customer deposits made during the period, (c) other additions described in credit memos (e.g., earned interest), (d) subtractions made for the payment of checks drawn on the account during the period, (e) other subtractions described in debit memos (e.g., service charges), (f) a running balance of the account, and (g) the balance of the account at the end of the period. Examples of these items are referenced via the alphabetic subscripts in the example of a bank statement contained in Illustration 1. Normally, the deposit tickets and the canceled checks that are listed on the bank statement are enclosed with the bank statement.

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Reconciliation of Bank Statement

Usually the balance shown on the bank statement will be different

from the balance shown in the cash account on the depositor's books. The difference is usually attributable to timing. For example, a depositor will deduct the amount of a check from his or her account immediately after writing the check. However, bank will have no knowledge of the check.

A schedule is prepared to reconcile the differences between the cash balance shown on the bank statement and the cash balance recorded in the depositor's accounting records. This schedule is called a bank reconciliation. It begins with the cash balance reported by the bank as of the statement date (i.e., the unadjusted bank balance). The schedule then lists the adjustments necessary to determine the amount of cash that the depositor actually owned as of the date of the bank statement. The actual cash balance is called the true cash balance. The true cash balance is determined a second time by making adjustments to the unadjusted book balance. The bank statement is reconciled with the cash balance per books when the true cash balance determined from the perspective of the unadjusted bank balance agrees with the true cash balance determined from the perspective of the unadjusted book balance,. The procedures necessary to arrive at the true cash balance from the two different per¬spectives are outlined below.

The first step in determining the true balance from the perspective of the bank statement is to compare the deposit tickets with deposits shown in the depositor's records. Any deposits recorded on the depositor's books, but not yet recorded by the bank are deposits in transit. Since deposits are frequently made in the night depository or the day following the receipt of the cash, this is a frequent occurrence. Deposits in transit have not been recorded by the bank; and, therefore, are added to the unadjusted bank balance to arrive at the true cash balance.

The second step is to sort the checks returned with the bank statement into numerical sequence. These checks are then compared with checks listed in the depositor's cash records and the amounts are verified. After verifying all the checks returned with the bank statement, there may be some checks that were issued by the depositor but have not been presented to the bank for payment. These outstanding checks must be deducted from the unadjusted bank balance to determine the true cash balance. A certified check is a check issued by a bank that guarantees that the check is drawn on an account having sufficient funds. Whereas a regular check is deducted from the drawer's account when it is presented for payment, a certified check is deducted from the drawer's account when the bank certifies that it is good. Accordingly, all certified checks have been deducted by the bank in the determination of the unadjusted bank balance whether they have cleared the bank or remain outstanding as of the date of the bank statement. For this reason, it is not necessary to deduct outstanding certified checks from the unadjusted bank balance to determine the true balance of cash.

The unadjusted book balance must be adjusted to reflect the credit and debit memos shown in the bank statement. Credit memo items such as earned interest are added to the unadjusted book balance and debit memo items such as service charges are subtracted from it. Not-sufficient funds checks must be subtracted from the unadjusted book balance to determine the true cash balance.

Errors can affect the determination of the true cash balance determined from either the perspective of the bank statement or from the perspective of the depositor’s books. If an error is found on the bank statement, the bank should be notified immediately and the adjustment is made to the unadjusted bank balance to determine the true cash balance. In contrast, errors made by the depositor would require adjustments to the book balance in order to arrive at the true cash balance.

The following example will illustrate the process of preparing the bank reconciliation schedule for Green Shades Resorts, Inc. (GSRI). Recall that the bank statement for GSRI is shown in Illustration 1. Illustration 2 represents the completed bank reconciliation schedule. The items included in the reconciliation schedule are described below.

As of September 30, 19X3 the bank statement shows an unadjusted balance $3,516.45. Assume that a review of the bank statement discloses two adjustments that must be added to this amount. First, assume that a review of the deposit tickets indicated that there were $724.11 of deposits in transit. Second, assume that an examination of the returned checks disclosed that a $25.00 check written by Green Valley Resorts had been deducted from GSRI’s bank account. Since the bank erroneously deducted this amount from GSRI’s account, it must be added back to the unadjusted bank balance to arrive at the true balance.

Finally, assume that the returned checks included in the bank statement were sorted and compared to the cash records, and that three checks were found to be outstanding. Since these checks have not yet been deducted from GSRI's bank account, the unadjusted bank balance must be reduced. Illustration 2 assumes that the amount of the outstanding checks was $235.25. After this deduction is made, the true cash balance is determined to be $4,030.31.

English	**Russian**
advising bank	советующий банк
agency problem	агентская проблема
airway bill.	авианакладная
appreciation	признание
arbitrage	арбитраж
ask price	спрос на цену
assignment of proceed	назначение продолжения
balance of payment	платежный баланс
balance of trade	баланс торговли
barter.	бартер
bid price	цена предложения
bilateral netting system	двусторонная сетка
capital account	счет операций с капиталом
Carry forward	перенос
Cash management	управление наличностью
central exchange rate	центральный обменный курс
centralized cash flow management	централизованное управление денежными потоками
coefficient of determination	коэффициент детерминации
Co financing agreement	соглашение о софинансировании
commercial invoice	счет-фактура
comparative advantage	сравнительное преимущество

compensation	компенсация
consignment	партия
contingency graph.	график непредвиденных обстоятельств
dependent variable	зависимая переменная
depreciation	амортизация
devaluation	девальвация
devalue	девальвировать
direct foreign investment	прямые иностранные инвестиции
documentary collections	документальные коллекции
economic exposure	экономическое воздействие
economies of scale	экономия масштаба

EXERCISES:

I. Insert: some, any, no.

1. I'm afraid there's ... juice in ... fridge. Would you like ... lemonade? 2. My friends from Chicago can't speak ... foreign languages. 3. She bought ... new books yesterday. 4. Where are ... books which you brought from ... library yesterday? 5. Did you buy ... apples when you were at... shop? 6. We could not skate because there was ... snow on ... ice. 7. ... house must have ... windows. 8. Most people like ... music. 9. There was ... meat on Nick's plate and ... fish on Tom's. 10. We saw ... houses in the distance. 11. ... cats like ... milk. 12. They stopped in ... front of ... house where Tom lived. 13. I showed him ... way to ... station. 14. What is ... name of ... street in which you live? 15. I want to say ... words to your sister. 16. ... tea in this glass is cold. 17. ... sun was high in ... sky. 18. Oh, there are ... apples in ... vase: ... children have eaten all of them. Please put ... apples into ... vase. 19. Yesterday we had ... fish for dinner. 20. He gave me ... coffee. 21. I drank ... cup of ... coffee after ... dinner.

II. Use necessary sequence of tenses:

Ann: Hello, Kate. I am so glad you (to come) at last. Where you (to spend) the morning?

Kate: I (to be) in the bookstore choosing new books in English.

Ann: It (to rain) still? It (to be) rather dark in the room.

Kate: No, the rain (to stop), but the wind (to blow). On my way to your place I (to meet) Mary. You (to know) her?

Ann: Of course I .... I (to know) her since childhood. When we (to be) children, we often (to play) together. Where you (to meet) her? I (not to see) her for a long time. What she (to look) like?

Kate: She (not to change) a bit. She (to go) to the library when I (to meet) her.

Ann: What she (to tell) you?

Kate: She (to tell) me she recently (to return) from a very interesting trip and that she (to travel) a lot and (to see) many interesting things. She (to want) to see all her friends soon.

Ann: Oh, then she (to come) to see me, too, I (to think).

Kate: Yes, that (to be) a pleasant meeting, I (to be) sure. But what (to be) the time? My watch (to stop) and I (not to know) the exact time.

Ann: It (to be) ten minutes to three.

Kate: Oh, then let's begin working at once. At four o'clock I must go. My mother (to wait) for me at the metro station at a quarter past four.

III. Translate.

1. English is as difficult as German. 2. My composition is not as long as yours. 3. It isn't as warm today as it was yesterday. 4. The house his aunt lives in is as old as the one his uncle lives in. 5. His apartment isn't as elegant as her apartment, but it's much bigger. 6. Johnny isn't as rich as Don but he is younger and much happier. 7. My dog isn't as friendly as your dog. 8. You can eat as much as you like. 9. A

football match isn't as exciting as a hockey match. 10. The hotel isn't as cheap as we expected. 11. His songs aren't as popular as the Beatles songs. 12. Her brother is as intelligent as his wife.

LESSON 2

FOOTNOTES TO FINANCIAL STATEMENTS

Footnotes to financial statements help explain the information contained in the financial statements themselves. The need for this additional information will become clearer in future chapters, but for now keep in mind that companies have to make estimates when performing accounting calculations. They also often have the option of accounting of for a given transaction in different ways. Generally Accepted Accounting Principles (GAAP) allow considerable flexibility. Footnotes exist to explain some of the estimates that were made as well as which of the options available under GAAP were used. It would be foolish, and even dangerous, for a user to try to understand a company's financial statements without reading the footnotes. To emphasize this point, financial statements often have a statement at the bottom of the pages, such as, "The accompanying footnotes are an integral part of these financial statements."

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis, referred to as **MD&A**, is usually located at the beginning of the annual report. MD&A is the section of the annual report that management uses to explain many different aspects of the company's past performance and future plans. For example, MD&A typically discusses this year's sales compared to past year's and explains reasons for changes. If the company is planning significant acquisitions of assets or other businesses, this should be included in MD&A. Likewise, plans to dispose of part of the existing business should be discussed. Some events included in MD&A might also be discussed in the footnotes.

ROLE OF THE INDEPENDENT AUDITOR REVISITED

The auditors' report was explained in Chapter 2. A well-educated business person should be aware that the auditor has a different role and responsibility for different parts of the annual report. Auditors have great responsibility for the financial statement and the footnotes to those statements. From an auditor's point of view the footnotes are a part of the financial statements. This means that information in the footnotes is audited the same as information in the balance sheet.

Auditors have a lesser responsibility for information in MD&A, but they do have some responsibility for this section of the annual report. Auditors review the MD&A section to be sure it does not contain comments that conflict with information in the financial statements. For example, if the current year's net income is down from last year's, management cannot say in MD&A that, "earnings continue to grow."

However, a review is not the same as an audit. MD&A often contains expressions of opinion that are not found in the financial statements or footnotes. Management's opinion cannot be verified, or audited, the same way the balance in the cash account can be.

THE SECURITIES AND EXCHANGE COMMISSION

A final note is in order about published financial reports. Much of the discussion above relates more to large and medium size companies than to small companies even though many small companies are audited. (Small is obviously a subjective term.) The reason annual reports of large companies are often different than those of small companies is because large companies are more likely to be registered with the **Securities and Exchange Commission,** usually referred to as the SEC. SEC companies, as they are often called, have to follow the reporting rules of the SEC as well as GAAP. For example, SEC rules require that annual reports include a MD&A, though they could if management wanted.

The Securities and Exchange Commission is a government organization whose responsibilities include overseeing the accounting rules to be followed by SEC companies. Although in theory the SEC could "over-rule" GAAP that are established by the private accounting profession, this has very seldom occurred. More often, the SEC requires companies that are registered with it to give information in addition to GAAP. All companies whose stock trades on public stock exchanges, and some that do not, are required to register with the SEC. The SEC has no jurisdiction over non-SEC companies.

PERIOD VERSUS PRODUCT COST

Inventory costs are capitalized in (i.e., accumulated in) the merchandise inventory account and shown as an asset on the balance sheet. Any cost that is incurred to acquire goods or to make them ready for sale should be accumulated in the inventory account. Examples of inventory costs incurred by merchandising companies include: the price of the goods purchased, transportation, or packaging costs associated with obtaining merchandise, storage costs, and transit insurance. Take note that all of these costs are associated with products. As a result, inventory costs are frequently referred to as **product costs.** Costs that cannot be directly traceable to products are called **period costs.** Some typical examples of period costs include advertising, administrative salaries, insurance, and interest. Period costs are usually recognized as expenses in the period in which they are incurred. In contrast, product costs are expensed in the period in which the inventory is sold.

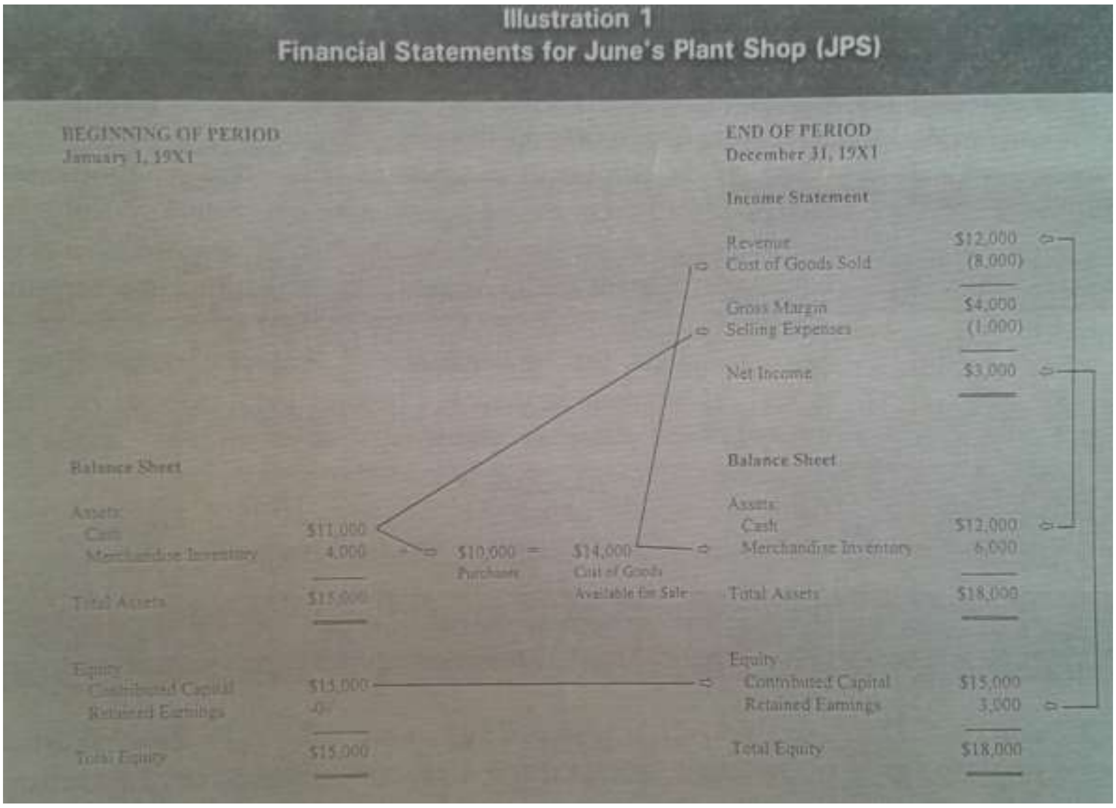
ALLOCATING INVENTORY COST BETWEEN ASSET AND EXPENSE ACCOUNT

The total inventory cost for any given accounting period is determined by adding the cost of inventory on hand at the beginning of the period to the cost of inventory purchased during the period. The total cost (i.e., beginning inventory plus purchases)is called the **cost of goods available for sale.**The cost of goods available for sale is allocated between an asset account called **merchandise inventory,** and an expence account called **cost of goods sold.**The cost of the items that have not been sold (i.e., merchandise inventory) is shown as an asset on the balance sheet; and the cost of the items sold (i.e., cost of goods sold) is expenced on the income statement.

The difference between the sales reveneu and the cost of goods sold is called **gross margin.** Period costs such as selling and administrative expenses are subtracted from gross margin to obtain net income. The following illustration demonstrates these relationships.

June Gardener was appropriately named. She loved plants; and they grew for her like no one else. At the encouragement of her friends, June decided to start a small retail plant store. She started the business on January 1, 1991 with $4,000 of her plants. In addition, $11,000 in cash was contributed by several friends who along with June became owners of the company. The company was named June's Plant Shop (JPS). During the first year of operations the company purchased additional plant inventory that cost $10,000. Plants costing $8,000 were sold for $12,000. Finally, the company incurred selling expenses of $1,000 during the period. All sales, purchases, and payments of expenses were made with cash.

Illustration 1 outlines the effects of the above transactions on the financial statements for JPS. Notice that the $4,000 of beginning inventory plus the $10,000 of purchases results in a cost of goods available for sale of $14,000. This cost is allocated between the income statement and balance sheet. Specifically, the $14,000 of total cost is allocated to (1) cost of goods sold (i.e., $8,000) which appears on the income statement and (2) merchandise inventory (i.e., $6,000) which appears on the balance sheet. Take note that the entire amount of the period cost (i.e., $1,000) is expensed in the current accounting period while only $8,000 of the product cost (i.e., cost of goods sold) is expensed. This phenomenon exists because period costs are usually expensed in the period in which they are incurred and product costs are expensed in the period in which the products are sold. The $6,000 of ending inventory cost will be expensed in the period in which the remaining plants are sold. The beginning cash balance of $11,000 was spent for $10,000 of product and $1,000 of period costs. The $12,000 ending cash balance resulted from cash inflows from customers (i.e., revenue). Finally, equity increased by $3,000 which represented the increase in retained earnings resulting from the net earnings. The $15,000 of contributed capital was unchanged.



RECORDING INVENTORY COST

Inventories are accounted for either the **perpetual** or the **periodic** method. The perpetual method derives its name from the fact that the balance in the inventory account is adjusted perpetually. Each time merchandise is purchased the inventory account is increased and each time it is sold, the inventory account is decreased. In contrast, the periodic method adjusts the inventory balance only at the end of the accounting period. The inventory account is unaffected by purchases or sales of inventory during the period. It is important to note that the two methods represent alternative procedures for reporting the same information. The amount of cost of goods sold and ending inventory reported on the financial statements will be the same regardless of whether the perpetual or periodic procedures are applied. The chief advantage of the periodic method is recording efficiency. Recording inventory transactions occasionally (i.e., periodically) requires less work than recording them on a continuous basis (i.e., perpetually). Think of the number of transaction that a typical grocery store would have to record every business day under a perpetual system. The recording advantage of the periodic system must be weighed against the control advantage inherent in the perpetual system. Since the perpetual system increases and decreases the inventory account balance when purchases and sales are made, the book balance of inventory should agree with the amount of the inventory in stock at any given point in time. Accordingly, the amount of lost, damaged, destroyed or stolen inventory can be determined by checking the book balance against a physical count of inventory. Also, reorder decisions and profitability assessments are facilitated by the availability of immediate feedback. Fortunately, the advent of computer technology has removed most of the practical constraints associated with recording inventory transactions on a continual basis. Electronic scanners can capture accounting information rapidly and efficiently. Computer programs that access the data captured by the scanners can update the accounting records instantaneously. As a result, the perpetual inventory system has experienced rapid growth in recent years. Continued growth in the application of the perpetual method can be expected as technology advances. Accordingly, this text concentrates on the perpetual inventory method.

English	**Russian**
financial	финансовый
transaction	сделка
asset	актив
audit	аудит
balance	остаток средства
cash	деньги
account	учетная запись

merchandise	товар
price	цена
transit	транзит
revenue	доход
customer	покупатель
equity	равенство
perpetual	бессрочный
periodic	периодический
alternative	альтернатива
procedure	процедура
trade	сделка
inherent	свойственный
count	подсчитывать
assessment	оценка
reorder	изменение порядка
gross	общий
capital	денежные средства
income	доход
efficiency	плодотворный
insurance	страхование
determine	определять
contrast	сравнивать
section	отделение

EXERCISES:

I. Make up conditional sentences.

1. He is busy and does not come to see us. If ... 2. The girl did not study well last year and received bad marks. If ... 3. He broke his bicycle and so he did not go to the country. If ... 4. He speaks English badly: he has no practice. If ... 5. I had a bad headache yesterday, that's why I did not come to see you. If ... 6. The ship was sailing near the coast, that's why it struck a rock. If ... 7. He was not in town, therefore he was not present at our meeting. If ... 8. The pavement was so slippery that I fell and hurt my leg. If ... 9. The sea is rough, and we cannot sail to the island. If ... 10. They made a fire, and the frightened wolves ran away. If ... 11. It is late, and I have to go home. If ... 12. I was expecting my friend to come, that's why I could not go to the cinema with you. If ... 13. He always gets top marks in mathematics because it is his favorite subject and he works a lot at it. If ... 14. I did not translate the article yesterday because I had no dictionary. If ... 15. We lost our way because the night was pitch-dark. If ... 16. The box was so heavy that I could not carry it. That's why I took a taxi. If ...

II. Insert: little, few.

1. He has got ... friends. 2. I drink ... coffee. I don't like it. 3. We must hurry. We've got very ... time. 4. There are very ... scholarships for students in this university. 5. The Smiths have ... money. They aren't rich. 6. The theatre was almost empty. There were very ... people there. 7. There was ... lemonade in the bottle. There were ... peaches in the basket. 8. I have ... time, so I can't go with you. 9. He has ... English books. 10. There is ... juice in my glass. Have you got any juice? 11. There are ... bears in the zoo. 12. Tom Canty was the son of poor parents and had very ... clothes. 13. There is too ... soup in my plate. Give me some more, please. 14. The children returned from the wood very sad because they had found very ... mushrooms. 15. There was too ... light in the room, and I could not read. 16. There

are very ... people who don't know that the Earth is round. We have very ... time. 8. I am sorry to say, I have read very ... books by Walter Scott. 9. My brother is a young teacher. Every day he spends ... time preparing for his lessons. 10. I know very ... about this writer. It is the first book I am reading. 11. The pupils of our class ask ... questions at the lesson. They want to know everything. 12. You do not make ... mistakes in your spelling. Do you work hard at it? — Oh, yes, I do, I work very ....

III. Use necessary sequence of tenses:

1. Where is Nick? — He (not to be) at home, he (to go) to the cinema. Wait for him, he (to come) in half an hour. 2. It was very late. I (to go) to bed and (to fall) asleep when my father (to return) home. 3. I'll join you when I (to drink) my tea. 4. When I (to come), he (to live) in the same old house where I first (to meet) him. He (to tell) me he (to wait) for me for some time already. 5. The pupils (to do) a lot of exercises before they (to learn) to write dictations well. 6. I could not hear a sound: they (to stop) talking. 7. On entering the drawing room, he (to find) that his two friends (to get) up and (to wait) for him. 8. The sportsmen (to train) since early morning; now they (to go) over the high jump, as they (not to be) satisfied with their results. 9. Five minutes (not to pass) when the train for which we (to wait) (to appear) in the distance. 10. Tomorrow father (to come) late. We (to do) all our homework and (to drink) tea when he (to come). 11. When Mrs. Smith (to come) home yesterday, she (to see) that her daughter (to cook) supper and (to wait) for her with the table laid. 12. Anyone (to see) my dog? 13. You (to go) to the pictures tonight?

FOOTNOTES TO FINANCIAL STATEMENTS

Footnotes to financial statements help explain the information contained in the financial statements themselves. The need for this additional information will become clearer in future chapters, but for now keep in mind that companies have to make estimates when performing accounting calculations. They also often have the option of accounting of for a given transaction in different ways. Generally Accepted Accounting Principles (GAAP) allow considerable flexibility. Footnotes exist to explain some of the estimates that were made as well as which of the options available under GAAP were used. It would be foolish, and even dangerous, for a user to try to understand a company's financial statements without reading the footnotes. To emphasize this point, financial statements often have a statement at the bottom of the pages, such as, "The accompanying footnotes are an integral part of these financial statements."

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's discussion and analysis, referred to as **MD&A**, is usually located at the beginning of the annual report. MD&A is the section of the annual report that management uses to explain many different aspects of the company's past performance and future plans. For example, MD&A typically discusses this year's sales compared to past year's and explains reasons for changes. If the company is planning significant acquisitions of assets or other businesses, this should be included in MD&A. Likewise, plans to dispose of part of the existing business should be discussed. Some events included in MD&A might also be discussed in the footnotes.

ROLE OF THE INDEPENDENT AUDITOR REVISITED

The auditors' report was explained in Chapter 2. A well-educated business person should be aware that the auditor has a different role and responsibility for different parts of the annual report. Auditors have great responsibility for the financial statement and the footnotes to those statements. From an auditor's point of view the footnotes are a part of the financial statements. This means that information in the footnotes is audited the same as information in the balance sheet.

Auditors have a lesser responsibility for information in MD&A, but they do have some responsibility for this section of the annual report. Auditors review the MD&A section to be sure it does not contain comments that conflict with information in the financial statements. For example, if the current year's net income is down from last year's, management cannot say in MD&A that, "earnings continue to grow."

However, a review is not the same as an audit. MD&A often contains expressions of opinion that are not found in the financial statements or footnotes. Management's opinion cannot be verified, or audited, the same way the balance in the cash account can be.

THE SECURITIES AND EXCHANGE COMMISSION

A final note is in order about published financial reports. Much of the discussion above relates more to large and medium size companies than to small companies even though many small companies are audited. (Small is obviously a subjective term.) The reason annual reports of large companies are often different than those of small companies is because large companies are more likely to be registered with the **Securities and Exchange Commission,** usually referred to as the SEC. SEC companies, as they are often called, have to follow the reporting rules of the SEC as well as GAAP. For example, SEC rules require that annual reports include a MD&A, though they could if management wanted.

The Securities and Exchange Commission is a government organization whose responsibilities include overseeing the accounting rules to be followed by SEC companies. Although in theory the SEC could "over-rule" GAAP that are established by the private accounting profession, this has very seldom occurred. More often, the SEC requires companies that are registered with it to give information in addition to GAAP. All companies whose stock trades on public stock exchanges, and some that do not, are required to register with the SEC. The SEC has no jurisdiction over non-SEC companies.

PERIOD VERSUS PRODUCT COST

Inventory costs are capitalized in (i.e., accumulated in) the merchandise inventory account and shown as an asset on the balance sheet. Any cost that is incurred to acquire goods or to make them ready for sale should be accumulated in the inventory account. Examples of inventory costs incurred by merchandising companies include: the price of the goods purchased, transportation, or packaging costs associated with obtaining merchandise, storage costs, and transit insurance.

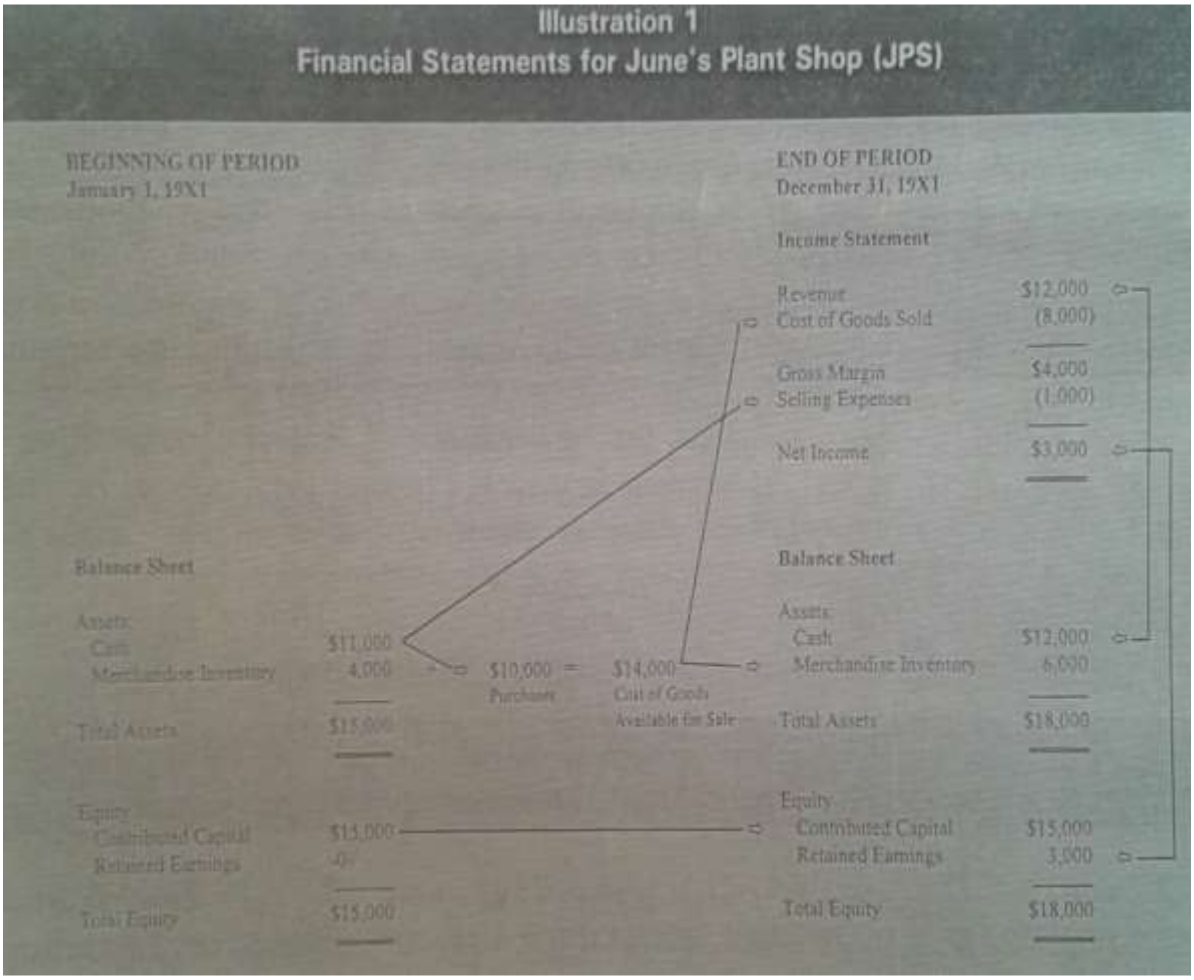
Take note that all of these costs are associated with products. As a result, inventory costs are frequently referred to as **product costs.** Costs that cannot be directly traceable to products are called **period costs.** Some typical examples of period costs include advertising, administrative salaries, insurance, and interest. Period costs are usually recognized as expenses in the period in which they are incurred. In contrast, product costs are expensed in the period in which the inventory is sold.

ALLOCATING INVENTORY COST BETWEEN ASSET AND EXPENSE ACCOUNT

The total inventory cost for any given accounting period is determined by adding the cost of inventory on hand at the beginning of the period to the cost of inventory purchased during the period. The total cost (i.e., beginning inventory plus purchases)is called the **cost of goods available for sale.**The cost of goods available for sale is allocated between an asset account called **merchandise inventory,** and an expence account called **cost of goods sold.**The cost of the items that have not been sold (i.e., merchandise inventory) is shown as an asset on the balance sheet; and the cost of the items sold (i.e., cost of goods sold) is expenced on the income statement. The difference between the sales reveneu and the cost of goods sold is called **gross margin.** Period costs such as selling and administrative expenses are subtracted from gross margin to obtain net income. The following illustration demonstrates these relationships.

June Gardener was appropriately named. She loved plants; and they grew for her like no one else. At the encouragement of her friends, June decided to start a small retail plant store. She started the business on January 1, 1991 with $4,000 of her plants. In addition, $11,000 in cash was contributed by several friends who along with June became owners of the company. The company was named June’s Plant Shop (JPS). During the first year of operations the company purchased additional plant inventory that cost $10,000. Plants costing $8,000 were sold for $12,000. Finally, the company incurred selling expenses of $1,000 during the period. All sales, purchases, and payments of expenses were made with cash.

Illustration 1 outlines the effects of the above transactions on the financial statements for JPS. Notice that the $4,000 of beginning inventory plus the $10,000 of purchases results in a cost of goods available for sale of $14,000. This cost is allocated between the income statement and balance sheet. Specifically, the $14,000 of total cost is allocated to (1) cost of goods sold (i.e., $8,000) which appears on the income statement and (2) merchandise inventory (i.e., $6,000) which appears on the balance sheet. Take note that the entire amount of the period cost (i.e., $1,000) is expensed in the current accounting period while only $8,000 of the product cost (i.e., cost of goods sold) is expensed. This phenomenon exists because period costs are usually expensed in the period in which they are incurred and product costs are expensed in the period in which the products are sold. The $6,000 of ending inventory cost will be expensed in the period in which the remaining plants are sold. The beginning cash balance of $11,000 was spent for $10,000 of product and $1,000 of period costs. The $12,000 ending cash balance resulted from cash inflows from customers (i.e., revenue). Finally, equity increased by $3,000 which represented the increase in retained earnings resulting from the net earnings. The $15,000 of contributed capital was unchanged.



RECORDING INVENTORY COST

Inventories are accounted for either the **perpetual** or the **periodic** method. The perpetual method derives its name from the fact that the balance in the inventory account is adjusted perpetually. Each time merchandise is purchased the inventory account is increased and each time it is sold, the inventory account is decreased. In contrast, the periodic method adjusts the inventory balance only at the end of the accounting period. The inventory account is unaffected by purchases or sales of inventory during the period. It is important to note that the two methods represent alternative procedures for reporting the same information. The amount of cost of goods sold and ending inventory reported on the financial statements will be the same regardless of whether the perpetual or periodic procedures are applied.The chief advantage of the periodic method is recording efficiency. Recording inventory transactions occasionally (i.e., periodically) requires less work than recording them on a continuous basis (i.e., perpetually). Think of the number of transaction that a typical grocery store would have to record every business day under a perpetual system. The recording advantage of the periodic system must be weighed against the control advantage inherent in the perpetual system. Since the perpetual system increases and decreases the inventory account balance when purchases and sales are made, the book balance of inventory should agree with the amount of the inventory in stock at any given point in time. Accordingly, the amount of lost, damaged, destroyed or stolen inventory can be determined by checking the book balance against a physical count of inventory. Also, reorder decisions and profitability assessments are facilitated by the availability of immediate feedback.Fortunately, the advent of computer technology has removed most of the practical constraints associated with recording inventory transactions on a continual basis. Electronic scanners can capture accounting information rapidly and efficiently. Computer programs that access the data captured by the scanners can update the accounting records instantaneously. As a result, the perpetual inventory system has experienced rapid growth in recent years. Continued growth in the application of the perpetual method can be expected as technology advances. Accordingly, this text concentrates on the perpetual inventory method.

English	**Russian**
financial	финансовый
transaction	сделка
asset	актив
audit	аудит
balance	остаток средства
cash	деньги в наличнии
account	учетная запись
merchandise	товар

price	цена
transit	транзит
revenue	доход
customer	покупатель
equity	равенство
perpetual	бессрочный
periodic	периодический
alternative	альтернатива
procedure	процедура
trade	сделка
inherent	свойственный
count	подсчитывать
assessment	оценка
reorder	изменение порядка
gross	общий
capital	денежные средства
income	доход
efficiency	плодотворный
insurance	страхование
determine	определять
contrast	сравнивать
section	отделение
acquisition	успеваемость

EXERCISES:

I. Make up conditional sentences.

1. He is busy and does not come to see us. If ... 2. The girl did not study well last year and received bad marks. If ... 3. He broke his bicycle and so he did not go to the country. If ... 4. He speaks English badly: he has no practice. If ... 5. I had a bad headache yesterday, that's why I did not come to see you. If ... 6. The ship was sailing near the coast, that's why it struck a rock. If ... 7. He was not in town, therefore he was not present at our meeting. If ... 8. The pavement was so slippery that I fell and hurt my leg. If ... 9. The sea is rough, and we cannot sail to the island. If ... 10. They made a fire, and the frightened wolves ran away. If ... 11. It is late, and I have to go home. If ... 12. I was expecting my friend to come, that's why I could not go to the cinema with you. If ... 13. He always gets top marks in mathematics because it is his favorite subject and he works a lot at it. If ... 14. I did not translate the article yesterday because I had no dictionary. If ... 15. We lost our way because the night was pitch-dark. If ... 16. The box was so heavy that I could not carry it. That's why I took a taxi. If ...

II. Insert: little, few.

1. He has got ... friends. 2. I drink ... coffee. I don't like it. 3. We must hurry. We've got very ... time. 4. There are very ... scholarships for students in this university. 5. The Smiths have ... money. They aren't rich. 6. The theatre was almost empty. There were very ... people there. 7. There was ... lemonade in the bottle. There were ... peaches in the basket. 8. I have ... time, so I can't go with you. 9. He has ... English books. 10. There is ... juice in my glass. Have you got any juice? 11. There are ... bears in the zoo. 12. Tom Canty was the son of poor parents and had very ... clothes. 13. There is too ... soup in my plate. Give me some more, please. 14. The children returned from the wood very sad because they had found very ... mushrooms. 15. There was too ... light in the room, and I could not read. 16. There are very ... people who don't know that the Earth is round. We have very ... time. 8. I

am sorry to say, I have read very ... books by Walter Scott. 9. My brother is a young teacher. Every day he spends ... time preparing for his lessons. 10. I know very ... about this writer. It is the first book I am reading. 11. The pupils of our class ask ... questions at the lesson. They want to know everything. 12. You do not make ... mistakes in your spelling. Do you work hard at it? — Oh, yes, I do, I work very ....

III. Use necessary sequence of tenses:

1. Where is Nick? — He (not to be) at home, he (to go) to the cinema. Wait for him, he (to come) in half an hour. 2. It was very late. I (to go) to bed and (to fall) asleep when my father (to return) home. 3. I'll join you when I (to drink) my tea. 4. When I (to come), he (to live) in the same old house where I first (to meet) him. He (to tell) me he (to wait) for me for some time already. 5. The pupils (to do) a lot of exercises before they (to learn) to write dictations well. 6. I could not hear a sound: they (to stop) talking. 7. On entering the drawing room, he (to find) that his two friends (to get) up and (to wait) for him. 8. The sportsmen (to train) since early morning; now they (to go) over the high jump, as they (not to be) satisfied with their results. 9. Five minutes (not to pass) when the train for which we (to wait) (to appear) in the distance. 10. Tomorrow father (to come) late. We (to do) all our homework and (to drink) tea when he (to come). 11. When Mrs. Smith (to come) home yesterday, she (to see) that her daughter (to cook) supper and (to wait) for her with the table laid. 12. Anyone (to see) my dog? 13. You (to go) to the pictures tonight?

LESSON 3

ACCOUNTING FOR EQUITY TRANSACTION

The three major forms of business organization are sole proprietorship, partnership, and corporation. These business structures evolved to meet the special needs of society at different points in time. The most basic form is the sole proprietorship. Sole proprietorships are owned by one person, and are usually fairly small. Since the participants of any exchange of goods cloud be classified as proprietors, it is impossible to identify the first proprietorship in history.

The proprietorship was the dominant form of business for many years. Gradually,business people realized the benifits that can be derived by joining together partners to share their talents, capital, and the risks of business. The partnership also dates back to some unidentifiable transaction occuring thousands of years ago. However, the real development of parterships began around the thirteenth century during the Middle Ages. To defend and promote their interests, artisans formed professional associations called guilds. These guilds conducted extensive trade, often with one partner providing capital while another went in search of riches. The corporation's roots lie in the exploration of the New World. The need for large amounts of capital led to the sale of shares in trading companies like the Dutch East India Company. The industrial revolution of the nineteenth century further influenced the proliferation of the corporate form of business. In this case, vast sums of capital were needed to keep pace with increasing technology and mass production.

THE FORMATION OF BUSINESS ORGANIZATIONS

Since proprietorships are owned b y a single individual, there are no disputes regarding who is ultimately responsible for making decisions or how profits are to be distributed. Accordingly, the process of establishing a sole proprietorship is usually as simple as obtaining a business license from local governmental authorities. In contrast, partnerships require clear communication as to how authority, risks, and profitability will be shared among the partners. To minimize misunderstandings and conflict most partnerships are based on a partnership agreement. The partnership agreement is a legal document that defines the responsibilities of each partner and describes the division of income and losses. In addition to legal advice, the formation and operation of partnerships may require the services accounting professionals. The distribution of profits is certainly affected by the profitability. Accordingly, partnerships may require the services of independent public accountants to assure that records are kept in accordance with GAAP. Also, the application of tax regulations to partnerships may become so complicated that many partners are forced to seek professional advice.

The establishment of a corporation usually requires the assistance of legal and accounting professionals. While individuals are permitted to file the documents necessary to start a corporation, the process involves the completion of a fairly complex set of forms that contain technical terminology. Accordingly, the filing process may be perplexing to a layperson who is unfamiliar with business practice. Even so, the process is simple and methodical for professionals who are trained and experienced in the filing process. As a result, legal and accounting services for routine filings are usually well worth the customary fees charged.

A corporation is designated as a separate legal entity by the state in which it is incorporated. Each of the fifty states has its own laws governing this process; however, many have adopted the provisions of the Model Business Corporation Act, and standard procedures are followed by most states. The first step of incorporation consists of an application filed with a state agency. This application is called the articles of incorporation and contains all the information required by state law. The most common information items required are: (1) the name of the corporation and proposed date of incorporation, (2) the purpose of the corporation, (3) the location of the business and its expected life (whichcan be “perpetuity” meaning “endless”),(4) provisions for capital stock (I ,e.,the certificates that evidence an ownership interests in the corporation), and (5) names and addresses of the members of the first Board of Directors (i.e., the designated group of individuals with the ultimate authority for operating the business). If the articles are found to be in order, a charter of corporation and is filed, along with the articles, in county records that are available to any person interested in reviewing them.

REGULATION

There are very few laws that apply specifically to the operation of proprietorships and partnerships. Corporations are a different story. The level of regulation applicable to corporations depends on the size and distribution of the company's ownership interest. The ownership interest in a corporation is normally evidenced by stock certificates. When owners contribute assets to a corporation, they receive stock certificates that describe the rights and privileges that accompany their ownership interest. Since stock evidences their ownership, the owners are frequently called stockholders.

Ownership can be transferred from one individual to another by the exchange of the stock certificates. So long as exchanges (i.e., the buying and selling of shares of stock) are limited to transactions between individuals the company is defined as being a closely-held corporation. However, once a corporation reaches a certain size, it may list its stock on a stock exchange such as the New York Stock Exchange or the American Stock Exchange. Trading on a stock exchange is limited to the stockbrokers who are members of the exchange. These brokers represent buyers and sellers who desire to exchange their stock certificates. The buyers and sellers pay the brokers commissions as compensation for completing the transactions. While closely-held corporations are relatively free from regulation, companies whose stock is traded on the exchanges by brokers are subject to an extensive set of rules and regulations.

Before the 1930's, trading on stock exchanges was relatively free of regulation. However, the stock market crash of 1929 and the subsequent economic depression led to the passage of the Securities and Exchange Acts of 1933 and 1934. These acts were designed to regulate the issuance of stock and to govern the exchanges. The laws created the Securities and Exchange Commission (SEC) to enforce the acts. As part of its enforcement powers, the SEC has generally deferred its rule-making authority to the accounting profession. Even so, it is important to realize that the only legal authority for accounting procedures does reside with the SEC. Indeed, the SEC has stepped in on several occasions when it felt the profession was not properly regulating itself.

ADVANTAGES AND DISADVANTAGES OF DIFFERENT FORMS OF BUSINESS ORGANIZATION

The owners of proprietorships and partnerships are held personally accountable for the actions that they take in the name of their business. Indeed, a partner is responsible not only for his or her own actions but also for the actions that any other partner takes on behalf of the partnership. In contrast, corporations are established as legal entities that are separate from their owners. Accordingly, corporations, rather than their owners, bear the responsibility for actions taken in the name of the company. These different levels of responsibility provide a unique set of advantages and dis advantages for each type of business structure. The next section of this chapter compares and contrasts the advantages and disadvantages of proprietorships, partnerships, and corporations.

DOUBLE TAXATION

Because the corporation is an entity in itself, its profits are taxed by state and federal governments. This often gives rise to a situation known as double taxation. Double taxation refers to the fact that corporate profits which are distributed to owners are taxed twice; once when the income appears on the corporation's income tax return and again when the distribution appears on the individual's return. For example, assume that a corporation in a30% tax bracket earns pretax income of $100,000. The corporation would be required to pay income tax of $30,000. (i.e., $100,000 x . 30). If the corporation distributes the after tax income of $70,000 (i.e., $100,000-$30,000) to an individual who is also taxed at a30% rate, that individual would have to pay $21,000 (i.e.,$70,000 x .30) of income taxes. Accordingly, a total of $51,000 of tax would have to be paid on $100,000 of earned income. This equates to an effective tax rate of 51% (i.e.,$51,000-$100,000).

Double taxation could be a great burden to small, closely-held corporations. Fortunately, tax laws permit the election of an "S Corporation" which allows closely-held companies to be taxed as partnerships or proprietorships. Also, many states have recently enacted legislation that permits the formation of limited liability companies (LLCs). While LLCs offer many of the benefits associated with corporate ownership, the Internal Revenue Service has, in general, permitted them to by taxed as partnerships. Since partnerships and proprietorships are not separate legal entities, they do not earn income in the names of their companies. Instead, the income generated by these businesses is considered to be earned by the owners. It is therefore taxed only at the individual owner's tax rate. This is true regardless of whether the income is retained in the business or distributed to the owners.

REGULATION

Corporations do not exist in a natural state. Instead, they are created by government authorities. These authorities may restrict corporations from engaging in certain activities. Also, they frequently require corporations to make public disclosures that are not required of proprietorships or partnerships. For example, the Securities and Exchange Commission requires large publicly traded corporations to make a full set of audited financial statements available for public review. Staying in compliance with the multitude of regulations that apply to corporations can be complicated and expensive. Clearly, exposure to governmental regulation is a disadvantage of the corporate form of business organization.

LIMITED LIABILITY

Given the consequences of double taxation and increased regulation, you may wonder why anyone would choose the corporate form of business structure over a partnership or proprietorship. One major reason is that the corporate form limits the potential liability that an investor must accept in order to obtain an ownership interest in a business venture. Because a corporation is responsible for its own actions,creditors cannot lay claim to theowner's personal assets as payment for the company's debts. As a result, the most that any owner of a corporation can lose is the amount that he or she has invested in the company. In contrasts, the owners of proprietorships and partnerships are personally liable for actions taken in the name of their companies. The benefit of limited liability is one of the most significant reason for the popularity of the corporate form of business organization.

CONTINUITY

Unlike partnerships or proprietorships which are terminated with the departure of their owners, a corporation's life may extend well beyond the time any particular shareholder decides to retire or to sell his or her stock.Continuity of existence accounts for the fact that many corporations which were formed in the 1800's continue to thrive in today's economy.

TRANSFERABILITY

Since the ownership of a corporation is divided into small units that are represented by shares of stock, the exchange of ownership interests can be accomplished with ease. Indeed, hundreds of millions of shares of stock representing ownership in corporations are bought and sold on the major stock exchanges on a daily basis. The operations of the firm are usually unaffected by the transfers, and owners of corporations are not burdened with the task of finding willing buyers for an entire business as are the owners of proprietorships and partnerships. For example, think of difference in the difficulty of selling a million dollars of Exxon stock versus the sale of a locally owned gas station. The stock could be sold on the New York Stock Exchange to adivers group of investors within a matter of minutes. In contrasts, it may take years to find an individual who is financially capable of and also interested in owning a gas station.

MANAGEMENT STRUCTURE

Partnerships and proprietorships are usually operated by their owners. In contrasts, there are three tiers of authority in acorporate structure. The owners (i.e., stockholders) are perched at the highest level of the organization. These stockholders elect a board of directors to oversee the operations of the corporation. The directors then hire executives who manage the company. Since large corporations are able to offer high salaries and challenging career opportunities, they are often able to attract superior managerial talent. However, exceptional performance is not guaranteed and the elimination of incompetent managers is sometimes complicated by a bureaucratic corporate structure. Firing the chief executive officer who is usually a member of the board of directors. Further, many individuals are reluctant to give the necessary approval. Corporations operating under such conditions are said to be suffering from entrenched management.

ABILITY TO RAISE CAPITAL

Because corporations can be owned by millions of individuals, they have more opportunities to raise capital. Few individuals would have the financial ability to establish a telecommunications network such as AT&T or a marketing distribution system such as Wal-Mart. However, by pooling the resource of millions of individuals through public stock and bond offerings, corporations are able to generate the billions of dollars of capital necessary to make such massive investments. In contrasts, the capital capacity of proprietorships and partnerships is bound by the financial condition of a relatively few number of private owners. While these types of business can increase their resource base by borrowing the amount that creditors are willing to lend them is usually limited by the size of the owner's net worth. The capacity to raise vast sums of capital is one of the primary reasons that corporations are able to develop and market expensive new technologies more effectively than individuals operating other forms of business.

English	**Russia**
advising bank	советующий банк
agency problem	агентская проблема
Air waybill.	авианакладная
appreciation	признательна
arbitrage	арбитраж

ask price	спросовая цена
assignment of proceed	назначение продолжения
balance of payment	платежный баланс
balance of trade	баланс торговли
Barter	бартер
bid price	цена предложения
bilateral netting system	двусторонняя сетка
capital account	счет операций с капиталом
carry forward	перенос
cash management	управление наличностью
central exchange rate	центральный обменный курс
centralized cash flow management	централизованное управление денежными потоками
coefficient of determination	Коэффициент детерминации
financing agreement	Соглашение о софинансировании
commercial invoice	счет-фактура
comparative advantage	сравнительное преимущество
compensation	компенсация
consignment	партия
contingency graph.	график непредвиденных обстоятельств
dependent variable	зависимая переменная
depreciation	амортизация
devaluation	девальвация
devalue	девальвировать
direct foreign investment	прямые иностранные

documentary collections	документальные коллекции
economic exposure	экономическое воздействие
economies of scale	экономия от масштаба

EXERCISES:

I. Insert: some, any or no

A

1. There are ... pictures in the book. 2. Are there ... new students in your group? 3. There are ... old houses in our street. 4. Are there ... English textbooks on the desks? — Yes, there are ... . 5. Are there ... maps on the walls? — No, there aren't ....

6. Are there ... pens on the desk? — Yes, there are ... . 7. Are there ... sweets in your bag? — Yes, there are ... . 8. Have you got ... English books at home? — Yes, I have ... . 9. There are ... beautiful pictures in the magazine. Look at them. 10. There is ... ink in my pen: I cannot write. 11. Is there ... paper on your table? 12.1 haven't got ... exercise books. Give me ... , please. 13. It is winter. There are ... leaves on the trees.

B

1. I need ... sugar, ... flour, ... eggs, ... butter and ... milk to make a cake. 2. There is ... butter in the fridge, but there isn't ... milk. 3. Are there ... eggs? — There aren't ... eggs left. 4. We haven't got ... flour. 5. To make cabbage soup I need ... cabbage, ... onions, ... carrots, and ... salt. I don't need ... plums or ... pineapples. 6. I need to buy a lot of things. There isn't ... time to waste. 7. Oh, dear! There is ... money in my purse.

II. Make this in Passive:

1. The rule explained by the teacher at the last lesson (to understand) by all of us. 2. The poem was so beautiful that it (to learn) by everybody. 3. I hope the invitation (to accept) by everybody. 4. The letter (to post) in half an hour. 5. It seems

to me that music (to hear) from the next room. 6. At the last competition the first prize (to win) by our team. 7. The question (to settle) as soon as they arrived. 8. Your report must (to divide) into two chapters. 9. Soon he (to send) to a sanatorium. 10. The book (to discuss) at the next conference. 11. The composition must (to hand) in on Wednesday. 12. Yesterday he (to tell) to prepare a speech. 13. The article (to publish) last week, if I am not mistaken. 14. The lecture (to attend) by all of us yesterday. 15. A taxi (to call) fifteen minutes ago, so we are expecting it any moment. 16. The young man (to introduce) to me only a couple of hours ago, but it seems to me that I've known him for years.

LESSON 3

Debit/Credit Terminology

The left side of the T-account is referred to as the debit side and the right side is called the credit side. It is common practice to abbreviate the terms *debit* and *credit* with the initials *Dr* and Cr, respectively. Further, it is customary to say that an account has been “debited” when an amount is placed on the left side of the account and “credited” when an amount is entered on the right side. For any given account the difference between the debit and credit amounts is known as the *account balance.* An account can have either a debit or credit balance.

The double-entry accounting system has been designed so that total debits will always equal total credits. Accordingly, the recording of each transaction can be checked for accuracy by verifying that the debits and credits are equal. Further, the entire list of accounts can be checked by verifying that the total of all debit balances is equal to the total of all credit balances. This system cannot assure complete accuracy. For example, while it may have been appropriate to make a debit entry, the accountant may select the wrong account when recording the debit. As a result, the debits and credits would be equal, but the records would be inaccurate. While the system is not perfect, it has proven to be very effective in eliminating or reducing incomplete entries, transposed or incorrect amounts, and inaccurate entries to accounts.

There are two fundamental equality requirements of the **double entry accounting** system. They are: (1) the equality of the basic accounting equation (i.e., Assets = Claims) must be maintained, and (2) total debits must equal total credits. A recording scheme which maintains these two equalities simultaneously will now be discussed.

Suppose that a company borrows $1,000 from a bank. In accordance with equality requirement No. 1, assets and liabilities would increase, thereby maintaining the equality of the accounting equation. If the increases in assets is recorded as a debit, the second equality rule

(i.e., debits = credits) requires that the corresponding increase in liabilities be recorded as a credit. Therefore, the financing activity would be recorded as a debit to cash and a credit to notes payable. Similarly, increases in all asset accounts are recorded as debits and increases in liability and equity accounts are recorded as credits. Extending the logic requires that decreases in asset accounts be recorded as credits and decreases in liability and equity accounts to be recorded as debits. Accordingly, the repayment of the $1,000 of debt would be recorded with a debit to notes payable and a credit to cash. Other recording schemes could be devised which would satisfy the two equality requirements. Such schemes would function with equal effectiveness. Accordingly, the establishment of the recording scheme is somewhat arbitrary. However, once established, the scheme must be followed by everyone if effective communication is to be accomplished. Perhaps it would be useful to draw a parallel between the requirements of the recording process and those of a simpler system such as a traffic light. It makes no difference whether *red* is defined as “go” or “stop.” What is important is that the users of the system agree on the definition. Similarly, the users of the double-entry accounting system must agree on the recording rules. In summary these rules are:

1.Debits increase assets and decrease liabilities and equity.

2.Credits increase liabilities and equity and decrease assets.

The rules for debits and credits are shown below in T-account form.

The Ledger

A collection of accounts such as that exhibited in Illustration 2 is commonly referred to as a ledger. In manual systems a ledger may take the form of a book containing pages which represent accounts. Transaction information is recorded into the books by hand. In more sophisticated systems a set of magnetic tapes may constitute the ledger. Input of transaction information to this type of ledger may be provided by electronic key boards or scanners. Ledger accounts are generally assigned a name and a number which is descriptive of certain classifications of data. The accounts are frequently listed in the ledger according to the sequence of their numbers. A list of the various accounts and their corresponding account numbers which are contained in the ledger is referred to as a chart of accounts.Since it contains all accounts, the ledger constitutes the primary information source for the financial statements.

The General Journal

As business activity expands, it becomes increasingly difficult to enter transaction data directly into ledger accounts. For example, think about the number of entries that would be required to record a single day's cash transactions for a large grocery store. If customers were required to wait for the cashier to make a formal entry into ledger accounts for every food item sold, lines would become so long that shopping would be discouraged and the store would loose business. To simplify the record keeping process transaction data are usually recorded by non-accounting personnel on general purpose business documents before they are transferred to the accounting department. For example, a sales clerk may record data about a sales transaction on a cash register tape. The tape then becomes a **source document**that the accountant uses to enter the transaction data into the accounting system. Other examples of source documents include invoices, time cards, check stubs, and cash receipts.

Ledger accounts contain information about a particular part of a transaction. For example, a debit in the ledger account for cash indicates that cash increased. However, it does not identify the cause for the increase nor does it explain when the increase occurred in relation to the timing of other transactions. In order to maintain a **complete chronological** record (i.e., a record arranged in order of time) of all business transactions, accountants initially record the data from source documents into a journal. In other words, **information is recorded in journals before it isentered into the ledger accounts**. *Accordingly, journals are frequently referred to as* **the books of original entry**.A single company may use several different.journals to maintain their chronological record of accounting events. Most transactions would be recorded in a **general journal**. However, **special journals** could be used to record repetitive transactions that occurred frequently. For example, a journal could be specially designed to record only transactions involving sales on account. A different journal could be used to record receipts of cash. Special journals are frequently named to be consistent with the types of transactions that are recorded in them. The journal used to record purchases on account may be called a *purchases journal.* Likewise cash payments may be recorded in a *cash payments journal.*

After complete transaction data have been recorded in a journal, portions of the data are summarized and transferred to the ledger accounts. For example, the total amount of many cash transactions that have been recorded individually in a cash receipts journal may be posted as a single debit to the cash account in the general ledger. The process of transferring information from journals to ledgers is called **posting**. After the information has been *posted* to the ledger accounts, the respective debit and credit balances of the accounts are determined and tested for equality. Finally/ the ledger account balances are used to prepare financial statements. Accordingly, the recording process is composed of five steps including. (1) preparing and analyzing source documents, (2) journalizing the transaction data that were selected from the analysis of the source documents (3) posting the transaction data from the journals to ledger accounts, (4) determining balances of the ledger accounts and testing the equality of debits and credits, and (5) using the ledger account balances to prepare financial statements.

An increasing number of companies are using computer technology to facilitate the process of recording transaction data and the preparation of financial statements. While the computer can accomplish the required work at incredible speed with unparalleled accuracy, it follows the same basic five step sequence that is used in manual systems. Accordingly, the analysis of a simple manual accounting system can provide significant insight, into the more complex operation of computer based systems. In recognition of this point, the following section of this chapter demonstrates the recording procedures that would be used in a simple manual accounting system.

The illustration will use a **general journal**. While *special journals* can facilitate the recording process, their use is not required. As in the case described below, all transactions can be recorded in the *general journal.* At a minimum, the general journal provides space for the date, account titles and amounts of each transaction. The typical format used in a general journal is shown in Illustration 3. The date of the transaction is recorded in the first column. The account to be debited is written first at the extreme left edge of the column provided for the account titles. The account to be credited is indented and placed on the line directly below the account to be debited. The money amounts of the transaction are recorded in the debit and credit columns on the same lines with their respective account titles. The journal entries are separated by skipping a line between the recording of each transaction. Illustration 3 contains entries for all of the transactions discussed thus far for Collins Consultants

Key words

English	Russian
practice	практика
abbreviate	сокрашать
account	отчёт
equal	равно
reduce	убавлять
entry	вхождение
simultaneously	одновременность
borrow	занимать
discuss	обсуждать
rule	положение
communication	связь
decrease	уменьшать
increase	повышать
definition	истолкование
include	содержащий
compensation	компенсация
consignment	отправка
contingency graph.	график непредвиденных обстоятельств
dependent variable	зависимая переменная
depreciation	обесцениться
devaluation	девальвация
devalue	девальвировать
direct foreign investment	дрямые иностранные

documentary collections	документальные коллекции
economic exposure	экономическое воздействие
economies of scale	экономия от масштаба

EXERCISES:

I. Make up conditional sentences.

1. I shall go to the dentist because I have a toothache. If ... 2. He is groaning with pain now because he did not go to the dentist to have his tooth filled. If ... 3. She does not go to the polyclinic because she does not need any treatment. If ... 4. He will not go to see the play as he was present at the dress rehearsal. If ... 5. He went to Moscow specially to hear this famous singer because he is fond of him. If ... 6. We did not go to the cafeteria to have a glass of lemonade because we were not thirsty. If ... 7. She could not mend her dress herself because she had no needle. If ... 8. He is not a first-class sportsman now because he did not train enough last year. If ... 9. The pupils were active because they wanted to understand this difficult material. If ... 10. The pupils did not understand the homework because they were inattentive. If ... 11. The pupils worked hard and did well in their exams. If ... 12. She won't try to enter the foreign languages department because she is not good at foreign languages. If ...

II. Open brackets. Insert modal verbs: should, had to.

1. Mike isn't here. He ... (to leave) early. 2. The car broke down and they ... (to get) a taxi. 3. You ... (to disconnect) the computer yesterday. There's something wrong with it. You can't send e-mail now. 4. She ... (to go) shopping last Friday because there was nothing in the fridge. 5.1... (to write) this composition yesterday, but I was too busy as I ... (to translate) a very long text from English. 6. I ... not (to take) my little brother to the evening performance, he was so excited; but I really ... (to do) so, for there was nobody at home to leave him with. 7. You ... (to see) our team play! You have missed a lot. You ... (to go) to the stadium. 8. It was a very important meeting and we ... (to attend) it. That's why we returned home late. 9. He ...

(to attend) the lesson: the material which the teacher explained was very difficult, and now it will be impossible for him to write the paper well. 10. Although he felt unwell, he ... (to attend) the lesson, because the teacher explained some very difficult material.

III. Insert: some, any, no, every or their derivatives.

1. To know ... is to know ... . 2. ... is rotten in the state of Denmark (W. Shakespeare). 3. Wealth is ... without health. 4. ... is good in its season. 5. Can I have ... milk? — Yes, you can have ... . 6.Will you have ... tea? 7. Give me ... books, please. I have ... to read at home. 8. Put ... sugar in her tea: she does not like sweet tea. 9. Is ... the matter with you? Has ... offended you? I see by your face that ... has happened. 10. We did not see ... in the hall. 11. ... was present at the lesson yesterday. 12. He is busy. He has ... time to go to the cinema with us. 13. Do you need ... books to prepare for your report? 14. Have you ... questions? Ask me ... you like, I shall try to answer ... question. 15. ... liked that play: it was very dull. 16. If ... is ready, we shall begin our experiment. 17. Money isn't... in the world.

LESSON 4

CLASSIFICATIONS OF LONG-TERM OPERATIONAL ASSETS.

Long-term assets are either tangible or intangible. **Tangible** means able to be touched" and refers to such assets as equipment, machinery natural resources, and land. **Intangible assets** may be represented by pieces of paper or contracts that appear tangible; however, the true value of an intangible asset lies in the rights and privileges that are extended to its owners. For example, a patent assures an inventor that the government will not permit anyone to copy his or her invention. Accordingly, the inventor can rest assured that he or she will profit from the effort expended to create the invention.

Tangible Long-Term Assets

Property Plant and Equipment. Assets in this category are sometimes called plant assets or fixed assets. The category contains machinery that is used to produce products and equipment that is used in the administration of the company or in the process of selling its products. Examples include cash registers, delivery trucks, computers, and mechanical robots. Plant assets also include buildings, ranging from corporate headquarters to warehouses. Rather than recording all these assets in a single account each company breaks down the category according to its particular needs for information. One company may include all office machinery in one account, whereas another might divide office equipment into computers, desks, chairs, etc. As indicated in earlier chapters, the process of expense recognition by systematically allocating the cost of property, plant, and equipment to different accounting periods is called **depreciation**.

Natural Resources. Mineral deposits, oil and gas reserves, reserves of timber, mines, and quarries are known as natural resources. They are sometimes called "wasting assets" because their value "wastes away" as the resources are removed. The accounting procedures for natural re- sources presents a contradiction to the original definition of long-term assets, for in a strict sense, natural resources are inventories. However they are classified as long-term assets because (1) the resource deposits generally have long lives, (2) the accounting treatment is very similar to that for other long-term assets and (3) because practice and convention have made this the acceptable treatment. The process of expense recogni- tion by systematically allocating the cost of natural resources over their useful lives is called depletion.

Land. Land is classified in a separate category from other property for one major reason: land is not subject to depreciation or depletion. It is considered to have an infinite life. In other words, land is not destroyed through process of its use. When buildings or natural resources are purchased simultaneously with land, the amount paid must be carefully divided between the land and the other assets because of the non- depreciable nature of the land.

Intangible assets. Intangible assets may be classified into two groups: those that are specifically identifiable and can be acquired individually; and those that arise from the purchase of a group of assets and cannot be attributed to any one asset. **Specifically Identifiable Intangible Assets**. This category includes patents, trademarks, franchises, copyrights and other privileges extended by government agencies. The costs of acquiring these assets may range from relatively insignificant legal fees to huge sums paid for fast-food franchises. Later in this chapter we will look at several of these intangibles on an individual basis, but accounting treatment is basically the same for each. The process of expense recognition by systematically allocating the cost of intangibles over their useful lives is called **amortization.**

Goodwill. Goodwill refers to the benefits resulting from purchasing a company with a good reputation, an established clientele, a favorable business location, or other features that provide an above average profit potential. For example, a fast food restaurant with the name McDonald's.

Accounting for debt transactions. Most businesses spend large sums of cash in the course of their daily operations. They use cash to replace inventories, pay employees, settle liabilities, purchase supplies, obtain advertising, buy insurance, etc. For most firms, expenditures for short-term operating activities consume only a portion of the funds needed to keep the business running. Expenditures for long-term operational assets such as newer, more technologically advanced machinery or improved buildings and plant facilities require even larger amounts of cash is so exhaustive that most companies are forced to borrow some of the funds necessary to accomplish their goals and objectives. There are a variety of options available for the interest and principal payments that are associated with borrowed funds. Interest may be paid annually, semiannually, monthly or may be added to the principal balance of the debt. Interest rates may remain the same over the term of the loan or may fluctuate with market conditions. Rates that do not change over the life of a loan are called **fixed rates**; those that fluctuate are called **variable rates.** The principal (i.e., amount borrowed) may be repaid in one lump sum at the loan with the maturity date of the debt. Alternatively, it can be **amortized (**i.e., paid systematically) over the life of the loan. Some debt instruments combine these options by amortizing a portion of the debt over the term of the loan with the remainder being due in full at maturity. This type of payment schedule is referred to as an amortization with a **balloon payment**. This chapter covers the major forms of debt financing and the options available for the payment of principal and interest.

Bond liabilities. One method of obtaining relatively permanent funds is through the issuance of bonds. When a company issues bonds, it is, in effect , borrowing money. The company that borrows, issues (i.e., gives)the bond as evidence of a promise to repay. *Since the borrower issues the bond, the borrower is called the **issuer.***There are advantages and disadvantages to be considered when obtain- ing funds through bond issues. First, companies are usually able to obtain longer term commitments from bondholders than they can obtain from financial institutions. The typical term of a bond is 20 years, while the term loans from banks are normally limited to a maximum of five years Second, the amount of interest may be lower than the interest charged by banks or other financial institutions. Banks obtain much of the money that they use for making loans from their depositors. In other words, banks use the money that the public places in savings and checking accounts to make loans to their customers. Banks profit by charging a higher rate of interest on loans than they pay for deposits. For example, they may pay four percent interest on a certificate of deposit and charge nine percent for an auto loan . The five percent spread (ie , 9 % minus 4 %) is used to pay the expenses of operating the bank and to provide a return to the owners of the bank. The spread can be avoided if a company is able to borrow directly from the public through a bond issue. Since bonds are not insured by the federal government as are bank deposits, businesses have to pay more than the bank rate of interest to encourage the public to accept the risk of default (i.e., the failure to pay principal or interest). However, the huge sums of money that pass through the bond markets attest to the fact that the public is willing to accept a higher level of risk in order to obtain higher interest. Accordingly, companies frequently are able to borrow money by issuing bonds at lower rates of interest than they would have to pay to borrow money from banks or other financial institutions Regardless of whether interest is paid to banks or to bondholders, it is deductible in determining income for tax purposes. Thus, while interest acts to reduce income, part of the effect will be offset because the com pany will pay lower taxes. Further, as discussed in earlier chapters of the text, borrowing activities may even lead to earnings increases. If a firm can generate earnings of 14 percent on assets and can borrow money at only 10 percent interest, then the 4 percent differential will actually increase the firm's profitability. As noted earlier the concept of increasing earnings through debt financing is referred to as financial leverage. The concept has been a key element in the generation of wealth for many individuals and corporations. Finally, as with other forms of borrowing inflation has an advantageous effect in that the debt is repaid with dollars that have less purchasing power than the dollars that were borrowed There are some very real disadvantages that often negate the advantages listed above. A firm is legally bound to pay the specified interest. In addition, there is a legal liability to repay the principal. The failure to satisfy these obligations can force companies into bankruptcy.

ENGLISH	RUSSIAN
replace	Заменить
settle liabilities	определители обязательств
purchase supplies	покупка
obtain	получить
expenditure	статья расхода
consume	потреблять

portion	часть
asset	актив
require	требовать
amount	количество
exhaustive	исчерпывающий
to borrow	одолжить
accomplish	достижения
variety	разнообразие
principal payment	основной платеж
annually	ежегодно
semiannually	раз в полгода
monthly	ежемесячный
loan	кредит
fluctuate	колебаться
fixed rates	фиксированные ставки
variable rates	переменные ставки
lump sum	сумма
maturity	зрелость
alternatively	альтернативно
combine	объединить
schedule	график
amortization	амортизация

balloon payment	воздушный шар платежей
long-term	долгосрочные
operational assets	операционные активы
tangible	материальные
intangible	нематериальные
value	стоимость
patent	патент
inventor	изобретатель
property plant and equipment	основные средства и оборудование
wasting assets	истощающие активы
depletion	истощение
depreciation	амортизация
simultaneously	одновременно
intangible asset	нематериальный актив
identifiable	идентифицируемая
trademarks	торговая марка
franchises	франшизы
copyrights	авторские права
privileges	привилегии
goodwill	доброжелательность
clients	заказчики
funds	фонды, средства

bond issues	выпуски облигаций
bondholders	владельцы облигаций
depositors	вкладчики

EXERCISES:

I. Insert: much or many.

1. A don't eat ... mangoes. 2. He eats ... fish. 3. She ate so ... dessert that she is in bed today with a stomachache. 4. That man drank so ... wine, and he smoked so ... cigarettes that he has a terrible headache today. 5. Mary must not eat too ... salt because she has problems with her blood pressure. 6. My mother says I eat too ... French fries and drink too ... beer. She wants me to be healthy. 7. There is not too ... space in my flat. 8. There are ... new pictures in this room. 9. There are ... teachers at our school, and ... of them are women. 10. ... of these plays are quite new. 11. Thanks awfully for the books you sent me yesterday. — Don't mention it, it wasn't ... bother. 12. ... of her advice was useful. 13. He had ... pairs of socks. 14. Please don't put ... pepper on the meat. 15. There were ... plates on the table. 16. I never eat ... bread with soup. 17. Why did you eat so ... ice cream? 18. She wrote us ... letters from the country. 19. ... of these students don't like to look up words in the dictionary. 20. ... in this work was too difficult for me. 21. ... of their answers were excellent. 22. ... of their conversation was about the university.

II. Use necessary sequence of tenses: Present Continuous, Present Simple, Future Simple.

1. You (to come) to my place next Sunday? 2. You (to read) this book next week? 3. You (to read) books every day? 4. You (to read) a book now? 5. I (not to see) him tomorrow. 6. What you (to do) tomorrow? 7. What your friend (to do) tomorrow? 8. Where you (to go) next summer? 9. Where you (to go) every morning? 10. Where you (to go) now? 11. Look! Mary (to dance). 12. She (to dance) every day. 13. She (to dance) tomorrow? 14. He (to go) to the theatre tomorrow. 15. We (to go) to school in the morning. 16. Look! Kate (to go) to school. 17. You (to help) your

mother tomorrow? 18.1 (not to play) the guitar now. 19. My brother (to play) the guitar every evening. 20. They (not to take) care of the garden next summer. 21". You (to like) apples? 22. You (to eat) apples tomorrow? 23. Nick (to read) many books. 24. Mother (to work) every day. 25. He (not to sleep) now. 26. Your brother (to go) to the exhibition next Sunday? 27. We (not to go) to the zoo tomorrow. 28.1 (not to learn) the poem now. 29. She (to live) in San Francisco. 30. My father (to shoot) very well. 31. He is very strong. Look! He (to carry) a very heavy box.

III. Comment on the following actions using modal verbs: should, shouldn't, needn't.

E.g. 1) A boy was impolite to a girl and did not apologize. You should have apologized to the girl.

2) A pupil did all the exercises in writing even those which were meant for oral practice. You needn't have done all the exercises in writing.

3) Your aunt is running a temperature. You should consult the doctor.

What will you say to the person who:

1) crossed the street under the red light?

2) doesn't cross the street when the lights are green?

3) doesn't want to cross the street by the subway?

4) doesn't take off his hat when entering a room?

5) did not help his classmate to clean the classroom?

6) has a splitting headache?

7) bought bread which was not necessary?

8) was not present at the meeting?

9) sent a telegram which was quite unnecessary?

10) went out without his coat and caught cold?

11) apologized for asking you a question?

12) didn't attend a very important lecture?

13) got up at six o'clock on Sunday morning, which was not at all necessary?

14) read till two o'clock in the morning?

15) copied the whole text into his exercise book?

16) watered the garden, and it is raining now?

17) hasn't returned the books to the library?

LESSON 5

Accounting for actual advanced topics receive and payobles.

Many people are impulse buyers. A particular mmix between environmental setting and emotional condition sparks an immediate urge to purchase. If forced to wait, because of a lack of funds, the mix between environment and emotion will shift and the desire to buy dissipates. In recognition of this phenomenon, merchants offer credit terms that permit the customer to "buy now and pay later." By offering credit, businesses are able to increase their sales. The offsetting disadvantage of this strategy occurs when some customers are unable or unwilling to pay their bills However, the widespread availability of credit attests to the fact that the advantages of increased sales generally outweigh the disadvantages arising from the associated bad debts. When a company permits one of its customers to "buy now and pay later," the expected future receipt is called an account receivable. Typi- amounts due from accounts receivable are relatively small terms to maturity are short. Collection on most accounts receivable occurs within thirty days. When a longer credit term is necessary or when the amount of the receivable is large, a note evidencing a credit agreement between the parties involved is usually exchanged. The note specifies the maturity date, the rate of interest, and other credit terms. Receivables evidenced by such notes are called notes receivable Accounts receivable are shown as assets on the balance sheet. For every expected future collection (i.e., receivable) listed on one company's books, there is a corresponding expected future obligation listed on another company's books. In other words, if one company expects to collect, another com- pany expects to pay. Expected future obligations to pay are called pay- ables. Accounts and notes payable are shown as liabilities on the balance sheet. Receivables and payables represent future expected cash receipts or payments. However, most companies do not expect to receive the full face value of their receivables because they know that some of their customers will be unable or unwilling to pay the amounts due. Companies recognize this fact by reporting receivables accounts whose collection is doubtful. The net realizable value (i.e amount actually expected to be collected) is the amount added in the computation of total assets. In contrast, payables are normally carried at face value because companies operate under the going concern assump- tion. Since companies believe that they will continue to (i.e, they are going concerns), they assume that they will be responsible for payingthe full balance of their obligations. Accordingly, it is customary pract to carry receivables at net realizable value and payables at face value on the balance sheet The practice of reporting the net realizable value of receivables in the financial statements is commonly called the allowance method of ac- counting for bad debts. The following section of the text demonstrates the application of the allowance method for a company named Allen's College Tutoring Services (ACTS). ACTS was started as a part time venture by an individual named Mark Allen. Allen is a bright young college student who started the tutoring service during his sophomore year. The following section of this chapter shows three accounting events that affected ACTS during its first year of operations The effect of each of the three events on the accounting equation is shown in Illustration 1. As you read the text material, you should try to anticipate the effect that each event will have on the accounting equation. Then turn to the illustration to check the accuracy of your expectation. You will learn more rapidly if you think about the possible effects of each transaction before you proceed to the illustration. To facilitate your analysis of the illustration, the transaction data are referenced by the event number.

Inventory Cost Flow Methods.

If the two inventory items purchased by Baker Company were when they were purchased so that the specific cost of each item sould be identified, then the actual cost of the item sold could be charged to cont of goods sold. When the inventory consists of low priced, high sum ov goods such as food items, the record keeping lank necessary for specifie identification can become burdensome, Think of the work that would e required to maintain a record of the specific cost of each food item in grocery store. Another potential disadvantage of the specific identification method the opportunity that it provides to manipulate the income statement. By selecting which items to deliver to customers, management can control the cost of goods sold expense, and thereby manipulate the amount of net income reported in the financial statements Even so, specific identification is frequently used for high priced, low tunover items such as automobiles. Here the record keeping is minimal and customer demands for specific products limit management's ability to select the merchandise that is being sold First In First Out (FIFO) The FIFO cost flow method assumes that the cost of the items pur- chased first should be assigned to cost of goods sold. Under FIFO the cost of goods sold by Baker Company would be S100 The LIFO cost flow method requires that the cost of the last items purchased be charged to cost of goods sold. Under this method the cost of goods sold for Baker Company would be S110 Last In First Out (LIFO) Under the weighted average cost flow method, the average unit cost of the inventory would be determined by totaling the costs incurred and dividing by the number of units [i.e., (100 + 110) 2 105. The average unit cost would then be multiplied times the number of units sold and the result would be charged to cost of goods sold. In the Baker Company case S105 would be assigned to cost of goods sold Weighted Average It is important to note that the above discussion has been in reference to the flow of costs through the accounting records. The physical flow of goods is an entirely separate consideration. Goods are usually moved physically on a FIFO basis. This means that the first merchandise in (i.e. the oldest merchandise) is the first merchandise to be delivered to custom- ers.

The last items in (i.e., the newest goods) are retained by the business. Obviously this procedure is necessary to keep inventories from becoming filled with dated merchandise. However, it should be noted that while the Physical Flow piysical fow of goods is being conducted on a FIFO basis, the flow of costs can be moved on an entirely different basis such as LIFO or weighted average Effect on Income Statement. The cost flow method that a company uses can bave a significant affect on the amount of gross margin reported in the income statement. To demonstrate this point assume that Baker Company sold the inventory item under discussion for $120. The amount of gross margin under the FIFO, LIFO and weighted average cost flow assumptions is shown in following table Effect of Cost Flow on Financial Statements.

Take note that the amount of gross margin reported under FIFO is double the amount reported under LIFO. This result occurs even though the accounting events described by each of the cost flow methods are identical. In each case, the same inventory items were bought and sold This example clearly demonstrates that companies experiencing identical economic circumstances can report significantly different results in their financial statements. Financial analysis requires understanding of reporting practices as well as economic relationships Effect on Balance Sheet. Since total product costs are allocated be- tween cost of goods sold and ending inventory, the type of cost flow method used will affect the balance sheet as well as the income statement For example, since FIFO transfers the first cost to the income statement, it leaves the last costs on the balance sheet. Similarly, by transferring the last cost to the income statement, LIFO leaves the first costs in ending inventory. The weighted average method uses the average cost per unit to determine the amount of both cost of goods sold and ending inventory The amount of ending inventory reported on the balance sheet for each of the three cost flow methods is shown in the following table.

Inventory Cost Flow Under a Perpetual System.

In order to facilitate your understanding of the different cost flow methods, the preceding example utilized a simplified case which included only two cost layers (i.e., $100 and $110) with one inventory item in each layer. The following information will be used to demonstrate a more complex situation that includes multiple layers with different quantities being contained in each layer. The underlying allocation concepts remain unchanged and should facilitate your understanding of the more complex situation. Multiple Layers with Multiple Quantities Suppose the accounting records of The Mountain Bike Company (TMBC) contained the following account balances as of January 1, 19x6: cash of $12,000, inventory of $2,000, contributed capital of $6,000, and retained earnings of $8,000. During 19X6 TMBC made two cash pur- chases of inventory. The following table shows the detailed records of the beginning inventory balance and the two purchases:

Assume bikes at a price of $350 per bike. Also, assume that TMBC incurred $2,600 of cash operating expenses during 19X6. Finally, assume that the company paid income taxes at a rate of 30 % of net income . Accordingly , there are five events that affected the company during the 19X6 accounting period including: (1 & 2) two cash purchases of inventory, (3) the cash sale of inventory, (4) the cash payment of operating expenses, and (5) the cash payment of taxes. The effect of each of these events on the accounting equation is shown in Illustration 1. The illustration shows the effects of the five transactions under three different inventory cost flow assumptions including FIFO, LIFO, and weighted average. Finally, the illustration assumes that TMBC uses a perpetual inventory system. As shown in Illustration I, purchases of inventory are treated exactly the same under FIFO, LIFO, and weighted average. In each case the purchase constitutes an asset exchange. The asset, inventory, increases and the asset, cash, decreases. Total assets are unaffected. Event Nos. 1&2 Purchase of Inventory As with purchases the treatment of sales revenue is not affected by the flow of inventory cost. Note that under al three cost flow methods sales amounted to $15,050 (i.e., 43 bikes x $350 per bike). The sale represents source of assets. The effect of recognizing the sales revenue is to Event No. 3(a) Sale of Inventory increase assets (i.e., cash) and equity (i.e., revenue) FIFO Inventory Cost Flow. When goods are sold the cost of those goods is transferred from the inventory account to the cost of goods sold account. Accordingly, the assets (ie, inventory) and equity decrease. The decrease in equity results from the increase in the expense account eod is deter Event No. 3(b) Cost of Sale cost of goods sold which reduces net income and retained earnings. The amount to be transferred from inventory to cost of goods sold is deter- mined by the type of cost flow method that is applied. The FIFO method transfers the cost of the first 43 bikes that came into TMBC to the goods sold account. This allocation occurs no matter which bikes were actually sold. Remember physical flow and cost flow are totally separate events. The first 43 bikes that were acquired by TMBC would include the 10 bikes that were in the beginning inventory (i.e, these would have been

English	**Russian**
immediate	без промедления
merchant	коммерсант
associated	начальный
receive	получить
recognize	опознать
demonstrate	доказать
accuracy	определенность
illustration	образец
reference	рекомендация
conduct	ведение
separate	отбирать
obviously	отчетливый
assumption	догадка
margin	лишнее время

identical	подобно
facilitate	оказать помощь
multiple	помногу
incurred	попадать
retain	поддерживать
acquire	приобретать

EXERCISES:

I. Open brackets:

1. If you were on a hijacked plane, you (to attack) the hijackers? 2. If they were on a hijacked plane, they (to stay) calm and probably (to survive). 3. If my friend had been trying harder, he (to succeed). 4. If I (to live) in 1703,1 shouldn't (wouldn't')1 have had a computer. 5. If she (to smell) smoke in the middle of the night, she would telephone the fire brigade and run into the street and shout, "Fire!" 6. If he (to invite), he would have come to the party last Sunday. 7. If the driver in front hadn't stopped suddenly, the accident (not to happen). 8. If you (not to know) how to play, my sister will explain the rules to you. 9. If she had told them it was her birthday, they (to give) her a birthday present. 10. If I had more time, I (to read) more books. 11. If their TV had been working, they (to watch) the President's speech last night. 12. If my T-shirt hadn't been 100 percent cotton, it (not to shrink) so much. 13. How can you become more popular in your class: if you (to get) the top mark in mathematics or English or if you (to be) good at sports? 14. If they (to go) by car, they would have saved time. 15. If I (to be) a bird, I would1 be able to fly. 16. If he (to bring) his book home, he would have done his homework last night. 17. If my mother (to win) a million pounds, she would spend it as fast as possible. 18. If you had been feeling well, you (to be) in class yesterday.1. I can't find my book .... I have looked all over the house. 2. Johnny

II. Insert:

a) some, any, no.

1. There were ... of my friends there. 2. Well, anyway, there is ... need to hurry, now that we have missed the train. 3. Have you ever seen ... of these pictures before? 4. There is ... water in the kettle: they have drunk it all. 5. There were ... firtrees in that forest, but many pines. 6. We could not buy cherries, so we bought ... plums instead.

b) somebody, anybody, nobody.

1. I saw ... I knew at the lecture. 2. I dare say that there may be ... at the lecture that I know, but what does that matter? 3. Do you really think that ... visits this place? 4. I have never seen ... lace their boots like that.

c) somewhere, anywhere, nowhere.

1. I haven't seen him ... . 2. I know the place is ... about here, but I don't know exactly where. 3. Did you go ... yesterday? — No, I went ... , I stayed at home the whole day.

LESSON 6

Conceptual Foundation for User sand Preparers of Financial Statements

This is a conceptually based / user oriented book that focuses on the meaningful comprehension of accounting fundamentals as opposed to the rote memorization of recording procedures. What do we mean by a conceptually based book? We mean that the book focuses on the relationships between accounting events and financial statements. The primary objective is to produce students who can explain how an accounting event such as “provided services on account” affects the elements of financial statements. Did the event cause assets to increase, decrease or stay the same? Similarly, what was the effect on liabilities, equity, revenue, expense, gains, losses, net income, and distributions. Further, how did the event affect cash flows? These are the primary questions that are addressed repeatedly as new accounting events are introduced throughout the text.

We believe that an understanding of how accounting events affect financial statements is reinforced by the preparation and use of financial statements. As a result, the text has two secondary objectives: (1) to provide coverage of recording procedures to the extent that they are necessary for students to learn how to organize accounting information for the preparation of financial statements, and (2) to provide a base of analytical tools that enable students to identify meaningful differences in business performance as it is reflected in financial statements. This dual focus is consistent with the goals and objectives of the **Accounting Education Change Commission** as outlined in Position Statement No. Two, which states that the first course in accounting ". . . should be a rigorous course focusing on the relevance of accounting information to decision-making (use) as well as its source (preparation)."

We have delayed the introduction of recording procedures , including debit and credit terminology, ioumai entries, ledger accounts, etc. until Chapter 4. Non-technical terminology (i.e., increase/decrease) is used to discuss the effects of events on the elements of financial statements in the first three chapters of the text. Why bother with debits and credits? In general, students enter business with a sense of debits and credits that is directionally reversed. This phenomenon occurs because businesses speak to customers from the perspective of the business entity, while customers listen from their personal perspective. When a business credits one of its receivable accounts, it reduces the customer's obligation to the business. Unfortunately, when a customer is told by a business that his/her account is being credited, they develop the erroneous impression that credits act to reduce liabilities. Even non-accounting majors should have opportunity to correct these misconceptions of basic business terminology. More importantly is the fact that some knowledge of the double entry recording scheme facilitates the comprehension of basic concepts by promoting organization and communication skills. As a result, authors disagree with the philosophy that general business majors can ignore recording procedures. Reduce, yes --ignore, no!

Each chapter ends with a discussion entitled **Using Accounting Information**. This section introduces special topics such as the use of ratio analysis, the role of the audit report, the use of management discussion and analysis (MD&A), the importance of footnotes to financial statements, and differential reporting formats. Accordingly, the tools of financial statement analysis are integrated throughout the text. The complete 1993 annual report for Tredegar Industries has been included in Appendix A. The end of chapter material includes a special case that relates the topics covered in each chapter to the Tredegar report.

INTRODUCTION

People around the world use some form of accounting every day. Consumers account for the money they spend; students have to plan for their educational expenses; and companies use accounting to track the performance of their operating activities. **Accounting** is a diverse and dynamic industry. Much like the fields of medicine or law, accounting is a service based discipline. The accountant's responsibility is to provide reliable and relevant information that is useful in making business decisions. Users of accounting information hold either a direct or indirect interest in the companies that issue the accounting reports. Direct users of financial information include investors, managers, creditors, suppliers, and employees. Indirect users advise and influence the direct users of financial information. They include financial analysts, brokers, bankers, government regulators, and reporters. The importance of accounting's role in business is evidenced by the fact that it is frequently referred to as the language of business.

Accounting's Role in Business

To understand the importance of accounting in the modern business world, you must know that first and foremost accounting is a measurement discipline There are many different measurement schemes needed in the world of commerce, such as measurements of length, weight and time. Accounting is the measurement of financial results. Exactly what this means cannot be explained in a sentence or even in a page. This entire textbook is devoted to introducing the topic. However, to help explain the importance of understanding financial measurement, consider some of the issues relate to other types of measurement with which you are more familiar.

How long is a yard? A yard is .944 of a meter. So, how long is a meter? According to the International System of Units, a meter is the distance traveled by light in a vacuum during 1/299,792,458 of a second. Now, that is helpful! Is it important to know the precise definition of a meter? No. However, if you wish to communicate the length of a particular object to other people, it is important that both parties agree on a definition of the unit of measure.

The diversity in accounting for business activity may appear to contradict the earlier statement that “accountants have established rules that business people can use to assure themselves that they are talking about the same thing.” However, upon further reflection, you can see that this is not a contradiction. Carpenters in Europe may use meters as the measurement unit, while carpenters in the United States use yards. Even so, construction companies operating on both continents can still communicate so long as they agree on the rules governing the length of a yard and a meter. Similarly, one business may record sales when they are made while another business records them in the period that cash is collected. Effective communication can still be accomplished so long as both businesses disclose which measurement method was used to report their sales.

Certainly, communication would be easier if only one measurement method were used to report each type of business activity. Unfortunately, world economies have not yet evolved to the point where it is possible to attain uniformity in financial reporting. Indeed, significant diversity continues to exist even in highly SO phisticated countries such as the United States. A well-educated business person must be able to understand and interpret accounting information that has been prepared under a variety of measurement rules. The rules of measurement for accounting used in the United States are called generally accepted accounting principles This textbook is designed to introduce you to these principles so that you will be able to understand business activity as it is presented in accounting reports.

The diversity in accounting for business activity may appear to contradict the earlier statement that “accountants have established rules that business people can use to assure themselves that they are talking about the same thing.” However, upon further reflection, you can see that this is not a contradiction. Carpenters in Europe may use meters as the measurement unit, while carpenters in the United States use yards. Even so, construction companies operating on both continents can still communicate so long as they agree on the rules governing the length of a yard and a meter. Similarly, one business may record sales when they are made while another business records them in the period that cash is collected. Effective communication can still be accomplished so long as both businesses disclose which measurement method was used to report their sales.

MATERIALITY AND FINANCIAL AUDITS

This is where things get a bit fuzzy. What is a material error? An error, or other reporting problem, is considered material if knowing about the problem would have affected the decisions of an average prudent investor. Thus, the concept of materiality is very subjective. However, it means that the auditors are not guaranteeing that the financial statements are absolutely correct, only that they are materially correct. If Ford Motor company inadvertently overstated its sales by $1 million would this be material? In 1992 Ford had over $100 billion of sales! A $1 million error in computing sales at Ford is like a $1 error in computing the pay of a person who makes $100,000 per year not material at all.

Just as a financial audit is not concerned with absolute precision, it is not primarily looking for fraud on the part of the company's employees. While the detection of fraud is not the primary focus of the audit, it is non the-less an important part of the auditor’s job. Should fraud be discovered in the process of conducting the audit, the auditors have a responsibility to report it to the appropriate authorities within the company. They cannot simply turn their heads and pretend that they didn't see anything. Also, auditors are responsible for insuring that internal control procedures (explained in Chapter 6) are in place to help prevent fraud. If fraud is widespread in a company, normal audit procedures should detect it. However, as indicated earlier, the primary purpose of a financial audit is to insure that the financial statements are fairly presented in accordance with GAAP, not to detect fraud.

Accounting majors take at least one and often two or more courses in auditing in order to understand how to conduct an audit so as to detect material accounting problems. Obviously there is not enough time in this course to explain auditing techniques, but at least be aware that auditors do not review how the company accounted for every transaction. Along with other methods auditors use statistical sampling to systematically review company records.

TYPES OF AUDIT OPINIONS

Once an audit is complete the auditors present their conclusions in an audit report also known as the auditors' opinion, although the opinion itself is only part of the report. There are several basic types of auditors' opinions and variations within these types, but the four basic types are explained below.

An unqualified opinion, despite its negative sounding name, is the best that auditors can give. It means the auditor believes the financial statements are (i.e. without qualification, reservation, or exception) in compliance with GAAP.

The most negative report that an auditor could issue would contain an adverse opinion. This means something(s) in the financial statements are not in compliance with GAAP and the auditors think these things would be material to the average prudent investor. The auditors' report would explain the unacceptable accounting practice that resulted in the adverse opinion being issued. Adverse opinions are very rare. To avoid receiving an adverse opinion a company usually would correct the accounting issue that concerned the auditors.

A qualified opinion falls in between an unqualified and adverse opinion. A qualified opinion means that for the most part the company's financial statements are in compliance with GAAP, but that the auditors have reservations about something in the statements or have some other reason not to give a fully unqualified opinion. At least an entire chapter could be written about reasons qualified opinions are given, but typically they result from the auditors' need to bring special attention to some accounting attribute in the financial statements. A qualified opinion usually does not imply a serious accounting problem, but users should read the auditors' report and draw their own conclusions about the relevance of the issues involved. The auditors' report will explain the reasons a qualified opinion is being issued.

The fourth type of opinion that can be issued by an auditor is a disclaimer. This type of opinion is issued if the auditor is unable to perform the audit procedures necessary to determine whether the statements are prepared in accordance with GAAP. A disclaimer is neither negative or positive. It simply means that the auditor is unable to obtain enough information to confirm compliance or noncompliance with GAAP.

It is very important for business executives to understand that the independent auditor’s responsibility for the financial statements in no way relieves the managers from their responsibility for those same statements. A company's management has primary responsibility for the financial statements of the company. Just like the auditors, managers can be sued by investors who believe they lost money due to improper financial reporting. This is one of the reasons that non-accounting business people should understand accounting fundamentals.

CONFIDENTIALITY

With respect to confidentiality, auditors have a professional as opposed to a legal relationship with their clients. The code of ethics for CPAs forbids auditors from voluntarily disclosing information that they have acquired as a result of their client/accountant relationships. However, if accountants are called to testify in a court of law, they must answer questions honestly and completely. They have no legal basis for withholding testimony as do attorneys and clergy. Further, if auditors terminate a client relationship because of ethical or legal disagreements, and are subsequently contacted by a successor accountant, they are bound to inform the successor of the reasons that lead to the termination. Notice that the auditor is not required nor even permitted to seek out the successor.

To illustrate assume that Joe Smith, CPA discovers that his client John Doe is misrepresenting information shown in his financial statements. Mr. Smith tries to convince Mr. Doe to reform his practices, but Mr. Doe refuses to cease and desist. Mr. Smith would be required by the code of ethics to terminate his relationship with Mr. Smith. However, Mr. Smith would not be permitted to disclose Mr. Doe's dishonest reporting practices unless he is called upon to provide testimony in a legal hearing or is responding to an inquiry by Mr. Doe's successor accountant.

With respect to the discovery of significant fraud, the auditor is required to inform management at one level above the position of the employee who is engaged in the fraud and to notify the board of directors of the company. Suppose Joe Smith, CPA discovers that John Doe, employee of Western Company, is embezzling money from Western. Mr. Smith would be required to inform Mr. Doe's supervisor and to notify We stem's board of directors. However, Mr. Smith would be restricted from speaking publicly about the fraud.

A Review of Core Concepts

Four types of transactions have been introduced in the first two chapters of this textbook. It is helpful to identify transactions by type. While there is an infinite number of different transactions in which businesses engage, all transactions can be classified into one of the four types. By learning to identify transactions by type, students can learn how to incorporate unfamiliar events within the bounds of a conceptual framework. The four types of transaction are:

1. Asset Source Transactions: An asset account increases and a corresponding claims account increases

2. Asset Use Transactions: An asset account decreases and a corresponding claims account decreases.

3. Asset Exchange Transactions: One asset account increases and another asset account decreases.

Glossary

Accounts Receivable. Amounts of future cash receipts that are due from customers, i.e., revenue from customers that has been recognized but the cash has not been collected.

Accrual. The recognition of events before the cash consequences are realized.

Accrual Accounting. A method of accounting that records the effects of accounting events in the period that such events occur regardless of when cash is exchanged.

Adjusting Entry A entry that updates account balances prior to preparation of the financial statements.

Asset Exchange Transaction. A transaction that decreases one asset account while increasing another asset account so that total assets do not change. For example, the purchase of land with cash is an asset exchange transaction.

Claims Exchange Transaction. A transaction that decreases one claims account and \ ' increases another so that total claims do not change. For example, the accrual of interest expense is a claims exchange transaction. Liabilities increase and the recognition of the expense causes retained earnings to decrease.

Expense Expanded Definition. A decrease in assets or an increase in liabilities that occurs in the process of generating revenue.

Generally Accepted Accounting Standards (GAAP). The rules and regulations that accountants agree to follow when preparing financial reports for public distribution.

Historical Cost. The actual price paid for an asset at the time that it was purchased.

Investment by a Business. The commitment of assets (i.e., usually cash) by a business to acquire other assets that will be used for the production of revenue.

Issuer of a Note. The individual or business who is borrowing funds (i.e., the party that receives the cash when a note is issued). Note Payable A liability that requires the borrower to execute a legal document called a note.

Recognition. The act of recording an accounting event in the financial statements.

Revenue Expanded Definition. An increase in assets or a decrease in liabilities that results from the operating activities of the business.

Salaries Payable. Amounts of future cash payments owed to employees for services that have already been performed.

ENGLISH	**RUSSIAN**
principles	принципы
purchase supplies	покупка
obtain	получить
expenditure	статья расхода
consume	потреблять
balance of trade	баланс торговли
asset	актив
require	требовать
amount	количество
settle liabilities	установить обязательства
to borrow	одолжить

accomplish	достижения
variety	разнообразие
principal payment	основной платеж
annually	ежегодно
semiannually	раз в полгода
monthly	ежемесячный
loan	кредит
fluctuate	колебаться
fixed rates	фиксированные ставки
variable rates	переменные ставки
lump sum	сумма
maturity	зрелость
alternatively	альтернативно
combine	объединить
schedule	график
long-term operational	долгосрочные
assets	операционные активы
tangible	материальные
intangible	нематериальные
value	стоимость
patent	патент
inventor	изобретатель
property plant	основные средства
and equipment	и оборудование

wasting assets	истощающие активы
depletion	истощение
depreciation	амортизация
simultaneously	одновременно
intangible asset	нематериальный актив
trademarks	торговая марка
copyrights	авторские права
privileges	привилегии
client	заказчики

EXERCISES:

I. Insert: somewhere, anywhere, nowhere, everywhere.

1. I can't find my book .... I have looked all over the house. 2. Johnny lives ... near Chicago. 3. It so happened that he had ... to go to. So last summer he stayed at home in his beloved city for his holidays. 4. This book can be found .... Let's buy it. 5. Do you live ... near them? 6. Is it ... in Russia? — Yes, it's ... in Russia. 7. Where are you going? — I am not going ... . 8. I put my dictionary ... yesterday and now I can't find it ... . — Of course, that is because you leave your books ... . 9. You must go ... next summer. 10. Did you go ... on Sunday? 11. Let's go ... . The weather is fine. I don't want to stay at home in such weather. 12. I cannot find my glasses ... . I always put them ... and then look for them for hours. 13. Today is a holiday. The streets are full of people. There are flags, banners and flowers ....

II. Use necessary sequence of tenses:

1. How long you (to wait) for me? I am really very sorry. 2. Yesterday I (to meet) a friend of mine whom I (not to see) for a long time. 3. Ring me up at eleven o'clock, I (not yet to sleep). 4. You (to be) late for the concert if you (not to take) a taxi. 5. The sun (to set) a long time ago, and it (to begin) to get really cold. 6. When I (to come) home yesterday, my sister already (to return) and (to sit) at the fireplace

looking through some old photographs. 7. He (to smoke) three cigarettes and (to look) through all the books on the shelf, when at last he (to hear) his friend's steps approaching the door. 8. The first person whom Andrew (to see) as he (to enter) was his old nurse. She (to sit) on the sofa. During the last five years she greatly (to change) and now (to look) a very old woman. 9. She is going to read the letter she just (to receive). 10. He just (to approach) the door, when she (to enter). 11. He (to write) the composition for three hours and he (to say) he soon (to finish) it as he (to think) over the conclusion now. 12. Where is the baby? — The nurse (to put) it to bed. 13. He said he (to work) for a long time without achieving good results. 14. Hardly1 I (to go) out when I (to remember) that I (to forget) to take my umbrella. 15. It (to be) late. You (not to finish) yet?

III. Open brackets using necessary form of Wish sentence.

1. I wish I (to have) a season ticket to the Philharmonic next winter. 2. I wish I (to consult) the teacher when I first felt that mathematics was too difficult for me. 3. I love sunny weather. I wish it (to be) warm and fine all the year round. 4. I wish I (not to lend) Nick my watch: he has broken it. 5. I wish you (to send) word as soon as you arrive. 6. I wish I (not to have) to do my homework every day. 7. I wish you (to go) skiing with me yesterday: I had such a good time! 8. I wish I (to know) Spanish. 9. I wish I (not to drink) so much coffee in the evening: I could not sleep half the night. 10. I wish you (to read) more in future. 11. I wish I never (to suggest) this idea. 12. I wish I (to be) at yesterday's party: it must have been very merry. 13. I wish we (to meet) again next summer. 14. Don't you wish you (to see) that performance before? 15. They wished they (not to see) this horrible scene again. 16. The unfortunate pupil wished he (not to forget) to learn the rule.

LESSON 7

Adjustment to Book Balance

Assume that GSRl’s unadjusted book balance as of September 30, 19X3 amounted to $3,361.22. Assume further that a review of the bank statement revealed two items that had to be added to this amount in order to determine the true cash balance. First, the $940.00 credit memo represented the collection of an account receivable made by the bank for GSRI. Since GSRI did not have this collection recorded on its books, the collection must be added to the cash balance in GSRI's ledger. Second, assume that GSRI discovered a transposition error in check number 633. The check which was written to pay utilities expense in the amount of $36.45 was recorded as a $63.45 disbursement. Since cash disbursements were overstated by $27.00 (i.e., 63.45 - 36.45), this amount must be added back to GSRI’s unadjusted book balance.Finally, notice that the bank statement reflects an $8.40 service charge and a $289.51 NSF check. These amounts must be subtracted from the unadjusted book balance to arrive at the true balance of $4,030.31. Since the true balance determined from the perspective of the unadjusted bank agrees with the true balance determined from the perspective of the unadjusted book balance, the bank statement has been successfully reconciled with the accounting records.

Updating the Cash Balance

Several journal entries must be prepared and posted in order to correct the unadjusted book balance. The adjusting entries required for the month of September, 19X3 are listed below

Cash Short and Over

These adjustments to GSRTs ledger will result in the following changes to the balance sheet elements: (1) a net increase of $569.09 in the cash account, (2) a decrease of $940 in the notes receivable account, and (3) an increase of $289.51 in the accounts receivable account. The following income statement accounts will be affected: utilities expense will decrease by $27.00 and bank service charges will increase by $8.40. After the adjusting entries have been posted to the ledger, the accounts will be in order and the reconciliation procedures will be complete.

Sometimes errors are made when employees are collecting cash or making change to customers. If these errors occur, then the amount of money in the cash register will not agree with the amount of cash receipts recorded on the cash register tape. For example, suppose that when a customer paid for $17.95 of merchandise with a twenty dollar bill, the sales clerk returned $3.05 in change instead of the correct amount of $2.05. If, at the end of the day, the cash register tape showed total receipts of $487.50, the cash drawer would contain only $486.50. The actual cash balance is under the expected cash balance by one dollar. Any shortage of cash or excess of cash is recorded in a special account named cash short and over. In this example, the shortage would be recorded in the following journal entry:

A debit to the cash short and over account indicates a cash shortage which represents an expense. An overage of cash is considered to be revenue and is recorded by crediting the cash short and over account. As with other expense and revenue items, the balance of the cash short and over account will be closed to the retained earnings account

Pretty Cash Funds

Petty cash funds are usually maintained on an imprest basis. This means that the cash disbursed is replenished on a periodic basis. The fund is created by drawing a check on the regular checking account, cashing it, and giving the currency to the petty cash custodian. The custodian

normally keeps the cash under lock and key. The journal entry to record the establishment of the petty cash fund is as follows:

The amount of the petty cash fund depends on what it will be used for, how often it is used, and how often it will be replenished. It should be large enough to handle disbursements for a reasonable period of time, such as a week or a month.

When money is disbursed from the petty cash fund, the custodian should fill out a petty cash voucher such as the one in Illustration 3. Any supporting documents, such as an invoice, restaurant bill, or parking fee receipt, should be attached to the petty cash voucher. The person who receives the cash should always sign the voucher as evidence of the receipt. At any point in time the total of the amounts recorded on the petty cash vouchers plus the remaining coin and currency should be equal to the balance of the petty cash ledger account.

When the amount of cash in the petty cash fund is relatively low the fund should be replenished. To accomplish the replenishment, the petty cash vouchers are totaled and a check for this amount is issued to the bank to obtain the currency needed to return the fund to its full balance. For example, suppose the petty cash fund is replenished at a time when the total amount of petty cash vouchers equals $216. The vouchers can be classified according to different types of expense or may be listed in total as miscellaneous expense. Assuming that a miscellaneous account is used in this example, the journal entries to record the replenishment of the funds is as follows:[16]

Once the vouchers have been checked, the fund replenished and the journal entry recorded, the vouchers should be indelibly marked “paid” so that they cannot be reused.

Sometimes, cash shortages and overages are discovered when a physical count is taken of the money in the petty cash fund. Suppose that a physical count revealed $212.30 in petty cash vouchers and only $87 in cash. Assuming a normal petty cash balance of $300, the journal entries necessary to record the replenishment would be:

If a cash shortage or overage does not occur frequently, and it is an insignificant amount, then the shortage or overage may be included in miscellaneous expense.

USING ACCOUNTING INFORMATION

CURRENT VERSUS

NON-CURRENT Assets have been defined as items that have probable future economic benefits to a business, and liabilities as the creditors' claims on some of those assets. However, all assets and liabilities are not the same. A significant distinguishing feature relates to their liquidity. The more quickly an asset will be converted into cash the more "liquid" it is. This is important because companies usually pay their bills with cash. Land and buildings are valuable assets, but they cannot be used to pay this month's electric bill.

Why not keep all assets in cash or liquid investments? Because investments in liquid assets usually do not earn as much money as investments in other assets. Thus, a company must try to maintain a proper balance between liquid assets, (so it can pay its bills), and non-liquid assets, (so it can earn a good return).

This distinction is so important that accountants organize items on the balance sheet according to their liquidity. There are two major classes of assets, **current** and **non-current.** Current items are also referred to as **short-term** and non-current items as **long-term.** A **current asset** is one that will be converted into cash or consumed within one year or an operating cycle, whichever is longer. For example, accounts receivable are usually expected to be collected (i.e., converted into cash) within a year. Therefore, they are classified as current.

An **operating cycle** is defined as the average time it takes a business to convert cash into inventory; inventory into accounts receivable; and accounts receivable back into cash. Graphically it can be shown as:

Operating cycles for most businesses are less than one year, but they can be longer. Consider the time it takes a construction company to build and sell a house. This time could easily exceed a year. Ratios that help measure the length of a company's operating cycle will be introduced in the next two chapters. However, unless there is strong evidence otherwise, assume that operating cycles are less than one year.

Based on the definition of *current* as explained above, the typical current assets section of a balance sheet would include the following items:

Current Assets:

Cash

Marketable Securities

Accounts Receivable

Short-term Notes Receivable

Interest Receivable

Inventory

Supplies

Prepaids

Given the definition of current assets, it seems logical that current liabilities would be those that must be repaid within one year or an operating cycle. This is almost always correct. However, this definition places some surprising accounts in the category of current liabilities. If a company issues bonds[17] that are to be repaid in twenty years, the bonds are

Bonds are certificates issued to creditors that evidence a company's obligation to pay interest and return of principal on borrowed funds. They are normally issued to the general public in exchange for the receipt of borrowed money. Bonds usually carry long terms to maturity with twenty years being typical. A later chapter

Operating cycles for most businesses are less than one year, but they can be longer. Consider the time it takes a construction company to build and sell a house. This time could easily exceed a year. Ratios that help measure the length of a company's operating cycle will be introduced in the next two chapters. However, unless there is strong evidence otherwise, assume that operating cycles are less than one year.

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Given the definition of current assets, it seems logical that current liabilities would be those that must be repaid within one year or an operating cycle. This is almost always correct. However, this definition places some surprising accounts in the category of current liabilities. If a company issues bonds[17] that are to be repaid in twenty years, the bonds are included in long-term liabilities. That is, until they have been outstanding for nineteen years. After nineteen years the twenty-year bonds become due within one more year, and would be classified as a current liability on the balance sheet.

There is an exception to the general rule for determining which liabilities should be listed as short-term. If a business does not plan to use any of its current assets to repay a debt, then that debt is listed as long-term even if it is due within one year. How can debt be repaid without using current assets? Assume that the twenty-year bonds introduced above are now due within the next year. The company may plan to issue new twenty-year bonds (long-term debt) and use the proceeds from those bonds to repay the old bonds. In this case, the currently maturing debt would be classified as long-term. This situation is referred to as *refinancing shortterm debt on a long-term basis.*

Liabilities typically included in the current section of a balance sheet include:

Liquidity, as explained above, deals with the ability to generate shortterm cash flows. Solvency is the ability to repay liabilities in the long-run. Both, of course, are important to the survival of a business, but one may be more important to a particular user than the other. If a bank is considering loaning a company money that must be repaid in six months, it obviously is more concerned with the company's liquidity. An investor thinking of purchasing the company's twenty-year bonds would be interested in the company's solvency as well as its liquidity.This is because a company that cannot pat its bills in the short-term will not be around to repay the bonds twenty years from now.

English	**Russia**
advising bank	советующий банк
agency problem	агентская проблема
airway bill.	авианакладная
appreciation	оценка
arbitrage	арбитраж
ask price	спросовая цена
assignment of proceed	назначение продолжения
balance of payment	платежный баланс
balance of trade	баланс торговли
barter.	бартер
bid price	цена предложения
bilateral netting system	двусторонняя сетка
capital account	счет операций с капиталом
carry forward	перенос
cash management	управление наличностью
central exchange rate	центральный обменный курс
centralized cash flow management	централизованное управление денежными потоками
coefficient of determination	коэффициент детерминации
Co financing agreement	соглашение о со финансировании

commercial invoice	счет-фактура
comparative advantage	сравнительное преимущество
compensation	компенсация
contingency graph.	непредвиденных обстоятельств
dependent variable	зависимая переменная
depreciation	амортизация
devaluation	девальвация
devalue	девальвировать
direct foreign investment	прямые иностранные инвестиции
documentary collections	документальные коллекции
economic exposure	экономическое воздействие
economies of scale	экономия от масштаба

EXERCISES:

I. Open brackets:

1. She must (to be) mad if she thinks he is going to lend her any more money. 2. They must (to be) upset when they heard the news. 3. You must (to come) and (to visit) us soon. It would be so nice to see you again. 4. It's the third time he's been playing the piano today. He must really (to enjoy) it. 5. Oh, look how white and clean everything is! It must (to snow) at night. 6. Oh, you are all in snow, you look like a snowman. It must (to snow) heavily. 7. Look, what huge snowdrifts there are everywhere, and the path is covered with knee-deep snow. It must (to snow) for several hours already. 8. You look fresh! You must (to have) a good sleep at night. 9. You look very tired. You must (to have) a good sleep at night. 10. He knows

mathematics much better than he did last year. He must (to work) a lot in summer. 11. Your mathematics is very poor. You must (to work) at it in summer. 12. Where is Peter? — Oh, he must (to read) in the library. He is getting ready for a very difficult exam. 13. You must (to study) English for several years already. Your language is very good taken in the north. 3. This tape recording was done last week. 4. James was given an excellent mark in history. 5. Ann was given an excellent mark for her geometry test. 6. This house was built at the beginning of this century. 7. This tower was built in the 9th century. 8. This book was written by a very good writer. 9. This film was made by a very good director. 10. This play was written by a very clever playwright. 11. This film has been shot in a fortnight.

II. Open brackets. Use necessary sequence of tenses:

1. Our train starts late in the evening, so if you (to come) at seven o'clock, we still (to pack) our luggage. 2. When you (to see) him last? 3. I (to meet) him when he (to walk) across the park. 4. You ever (to act) on the stage? — Why, yes, that's what I (to do) for the last six years. 5. Don't enter the bedroom! The child (to sleep) there, and he always (to wake) up when somebody (to open) the door. 6. Where is your luggage? — I (to leave) it at the station. I (to take) it tomorrow when Nick (to come) to help me. 7. I (to read) about an hour when he (to come). 8. The play (not yet to begin) and the people (to talk) in the hall. 9. One night a little swallow (to fly) over the city. His friends (to fly) away to Egypt six weeks before, but he (to stay) behind. 10. What you (to do) these three months? 11. Yesterday I (to buy) a new pair of gloves, as I (to lose) the old ones. 12. We (to walk) in silence. He already (to tell) me all that (to be) interesting about himself, and I (to have) nothing to tell him. 13. The moon (not to rise) yet, and only two stars, like two distant lighthouses, (to shine) in the dark blue sky.

LESSON 8

The Periodic inventory Method

Under certain conditions it is impractical to record inventory transactions as they occur. For example, consider the operations of a fast food restaurant. If records were maintained perpetually, it would be necessary to transfer costs from the inventory account to cost of goods sold each time a hamburger, order of fries, soft drink or and other food item were sold. Obviously, recording each item at the point of sale would be impractical without the availability of sophisticated computer equipment. The **periodic inventory method** offers a practical approach to recording inventory transactions in a low technology, high turnover environment. Under the periodic method the cost of goods sold is determined at the end of the period rather than at the point of sale. Indeed, the inventory account is not affected by purchases or sales of inventory. When goods are purchased the cost is recorded in a purchases account, and no entry is made to reduce inventory when goods are sold. Purchases returns and allowances, purchase discounts, and transportation-in are recorded in separate accounts. The amount of cost of goods sold is determined by subtracting the amount of ending inventory from the total cost of goods available for sale. The amount of ending inventory is determined by making a year-end physical count. Goods that are not in stock at the end of the period are assumed to have been sold. This is the same logic that was used in earlier chapters to determine the amount of supplies that had been used during an accounting period. It is important to note that the perpetual and periodic inventory methods represent alternative procedures for recording the same information. The amount of cost of goods sold and ending inventory reported in the financial statements will be the same regardless of which method is applied. For comparative purposes the general journal entries that would be used to record the accounting events for June's Plant Shop for the 19X 2 accounting period are shown in Illustration 9. Note carefully that the amount of cost of goods sold is recorded in an adjusting entry. This entry transfers the various product costs to the cost of goods sold account, and adjusts the inventory accounting period. As it's name implies, accountants using the periodic method record changes in the balance of the inventory account and cost of goods sold at the end of the accounting period.

Illustration 9			
General Journal Entries			
Event №	Account Title	debit	credit
1	Purchases	000	
	Accounts Payable		000
2	Transportatio-in	00	
	Cash		00
3	Accounts Payable	000	
	Purchase Returns and Allowances		000
4(a)	Accounts Payable	40	
	Purchases Discounts		40
4(b)	Accounts Payable	860	
	Cash		860
5	Cash	000	
	Notes Poyable		000
6	Accounts Receivable	6200	
	Sales Revenue		6200
7	Transportation-out	50	
	Cash		50
8	Sales Returns and Allowances	200	
	Accounts Receivable		200

9(a)	Sales	50	
	Accounts Receivable		50
9(b)	Cash	4750	
	Accounts Receivable		4750
10	Purchases	4000	
	Accounts Payable		4000
11(a)	Interest Expense	50	
	Cash		50
11(b)	Note Poyable	000	
	Cash		000
12	Accounts Receivable	6800	
	Sales Revenue		6800
13	Accounts Payable	000	
	Cash		000
14	Operating Expenses	000	
	Cash		000
ADJ	Cost of Goods Sold	0160	
	Inventory	000	
	Purchases Returns and Allowances	000	
	Purchases Discounts	40	
	Purchases		2000

	Transportation-in		00
CL	Sales Revenue	1550	
	Cost of Goods Sold		0160
	Transportation-out		50
	Operating Expenses		000
	Interest Expense		50
	Retained Earnings		2690

Schedule of Cost of Goods Sold

Since under the periodic method cost of goods sold is not determine at the point of sale, it must be computed at the end of the period. The following logic is used to make the computation. First, calculate the cost of goods available for sale. This computation includes the amount or beginning inventory, plus the cost of all purchases, less any purchases returns and allowance, less purchase discounts, plus the cost of transportation-in. The result represents the total cost of all merchandise inventory that could have been sold to customers (i.e., the cost of goods available for sale). The next step is to subtract the amount of inventory that is on hand at the end of the accounting period from the cost of goods available for sale. The result is the amount of cost of goods sold.

The computation of cost of goods sold for June's Plant Shop's 19X2 accounting period is shows in Illustration 10. **Schedule of cost of goods sold** is used for internal reporting purposes and is not shown is the formal financial statements that are made available to the public. The amount of cost of goods sold is reported as a single line item on the income statement in exactly the same manner as demonstrated for the perpetual inventory. Indeed, the financial statements shown in Illustration 8 would be the same regardless of whether JPS used the perpetual or periodic method to account for inventory transactions.

Illustration 10		
Schedule of Cost of Goods Sold		
Beginning Inventory	6000	
Purchases	2000	
Purchases Returne and Allowances	000	
Purchase Discounts	40	
Transportation-in	00	
Cost of Goods Available for Sale	27160	
Ending Inventory	000	
Cost of Goods Sold		20160

LOST, DAMAGED, OR STOLEN MERCHANDISE

While the perpetual inventory system is designed to capture information as it occurs, some events are not detectable at the time of occurrence. For example, when a shoplifter steals merchandise the loss cannot be recorded until it is discovered which usually occurs sometime after the theft has taken place. Also, customers or employees may not report damage to merchandise at the time of its occurrence. Finally, merchandise may be lost or misplaced. Again, the loss cannot be recorded until it is discovered. Discovery of lost, damaged or stolen merchandise on hand at the end of the accounting period and comparing that amount with the book balance in the inventory account.

When a discrepancy between the book balance and the physical count of inventory is discovered, an adjusting entry will be necessary to correct the book balance. If goods have been lost, damaged or stolen the book balance will be greater than the actual amount of inventory on hand. In this case the adjusting entry will act to reduce assets and equity. More specifically, the inventory account will be reduce and an expense for the amount of the lost, damaged or stolen inventory will be recognized.

Adjustment for Lost, Damaged or Stolen Inventory

To illustrate, assume that The Midwest Merchandising Company uses the perpetual inventory method. Further, assume that the end-of-period physical count reveals \$23,500 of merchandise on hand while the inventory account contains a \$24,000 balance. The effect of the inventory write down on the accounting equation is as follows:

Assets	**=**	**Liabilities**	**+**	**Erquity**
-\$500				-\$500

The following entry would be used to record the transaction in the general journal.

Account Title	debit	credit
Inventory Loss (Cost of Goods Sold)	00	
Inventory		00

Theoretically, the inventory loss is an operating expense. However, such losses are normally immaterial in amount and are treated as additions to the amount of cost of goods sold for external reporting purposes. In a periodic inventory system lost, damaged or stolen merchandise is included in cost of goods sold as port of the computational process. Since lost, damaged or stolen merchandise would not be included in the year-end physical count, these goods are assumed to have been sold when cost of goods sold is computed by subtracting ending inventory from cost of goods sold is computed by subtracting ending inventory from cost of goods available for sale. From a managerial perspective this is a major disadvantage of the periodic system. Since the periodic system does not separate the cost of lost, damaged or stolen merchandise from the cost of goods sold, the amount of the inventory loss is unknown. Without knowing the amount of the inventory loss, management cannot make informed decisions regarding the cost benefit tradeoff of various security systems.

Using accounting information

Merchandising companies are in a very competitive business. A consulting enterprise may shelter itself from competitive by hiring personnel whose expertise cannot be duplicated. A manufacturing company may hold a patent to a product that gives the company exclusive rights to produce an item. Merchandising companies, on the other hand, usually sell products that are available for sale by other companies. Merchandise sold at Wal-Mart usually is sold at K Mart as well, and many customers shop where the prices are lowest. Because of the competitive nature of their business, merchandising companies watch their **margins** very carefully. One such margin is the gross margin that was introduced earlier in the chapter. The gross margin is also called gross profit.

Common Size Financial Statements

Chapters 1 and 2 introduced ratios as a meaningful way to compare accounting information for a large company to that of a small company. It was shown that raw accounting numbers alone can be misleading. Suppose Company A has 10%return-on-assets while company B is able to return only 8% on its invested assets./ Further, assume that Company A has $1,000,000 of assets while Company A would report less income (i.e., $1,000,000 x . 10= $100,000) that Company B (i.e., $2,000,000 x .

08= $160,000) even though Company A was doing a better job of investing its financial statements from the current period to those of prior periods. How good is a $1,000,000 increase in net income? Certainly not as good if the company is Sears Roebuck as it would be if the company were Al Bundy's shoe store. To facilitate comparisons between companies or between companies or between periods, ratios can be used to prepare financial statements on a percentage basis. These are called common size statements. The discussion in this chapter will focus on common size income statements.

To prepare a common size income statement, each account balance on the statement, or at least those of interest, are converted to a percentage of sales. Thus, sales are always 100%. Next, the cost of goods sold is divided by sales to determine the cost of goods sold percentage; and by dividing it by total sales. A common size income statement is demonstrated below in Illustration 11 using data from the 19X2 income statement that was shown in Illustration 8 for June's Plant Shop.

Illustration 11		
June's Plant Shop		
Common Size Income Statement*		
For the Year Ended 19X2		
Net Sales	41,550	00%
Cost of Goods Sold	0160	8,52%
Gross Margin	21,39	1,48%
Less: Operating Exp.		
Selling and Admin. Exp		9,25%
Transportation-out	450	,08%
Operating Income	12,940	1,14%
Non-operating Items		
Interest Expense	50	0%
Net Income	12,690	0,54%
*Percentages do not add properly because they have been rounded.		

Gross Profit Percentage

Probably the most important percentage on the common size income statement is that for gross margin. Users of accounting information often compute this ratio even when common size statements are not prepared. It is often called the gross profit rate or **gross margin percentage,** and is defined as:

<u>Gross Margin</u>

Sales

Gross profit percentages vary from one industry to another. Gross margin rates for large discount chains average between 20% and 30%. For example, in 1992 the gross margin for Wal-Mart was $11.3 billion and for K Mart it was $9.5 billion. Their respective gross profit percentages were 20.28% and 25.08%. While Wal-Mart's gross profit was almost $2 billion higher than K Mart's, K Mart had the highest gross profit percentage. Gross profit percentages tend to be very stable. In 1991, the gross profit percentages for Wal-Mart and K Mart were 20.74% and 25.61%. Comparing the percentages for 1992 and 1991 shows that on the average $100 sale, each store made only 50 less gross margin in 1992.

The gross margin percentage can tell a lot about a retailer. For example, it provides some indication as to a company's pricing strategy.

Companies with low margins have a small spread between their cost and their sales price. In other words, they price their merchandise low in relation to the cost of the merchandise. For example, assume that two stores purchase the same type of inventory item for resale. Suppose the item costs Si00. Store A sells the item for $130, while Store B charges $140. Store A's gross margin percentage would be 23.1% (i.e. $30 / $130) while Store B's percentage would be 28.6% (i.e., $40 $140). Accordingly, lower margins suggest lower sales prices. Since Wal-Mart's gross margin percentage is lower than K-Mart's, the financial analysis supports Wal-Mart's claim to be the low price leader.

It is possible that Wal-Mart's lower profit margin is attributable to higher acquisition costs. In other words, Wal-Mart could be paying more to obtain its inventory. This condition would also lead to a lower spread assuming that the two stores sold inventory for the same prices. However, it is not likely that Wal-Mart pays more for inventory that K-Mart. Due to its size, Wal-Mart is usually able to obtain favorable pricing through quantity discounts (i.e., price reductions given when a customer buys large quantities of goods). Accordingly, the most logical explanation for the lower gross margin percentage, is that Wal-Mart is selling its goods for lower prices. Given the competitive nature of the merchandising business lower prices should translate to higher sales. Indeed, Wal-Mart has experienced phenomenal growth in sales during the last two decades.

Return-on-Sales

While low prices motivate high sales, there is a limit as to how low a company can go. The gross profit percentage must be high enough to cover the cost of other expenses that are necessary to operate the stores. Employees must be paid. Also, a retailer must pay for utilities, rent, office equipment, furnishings, taxes and a variety of other operating activities that consume resources. If Wal-Mart sells its goods at lower prices, this means that the company will have less money to pay for other expenses. Does this mean that Wal-Mart will also have relatively lower profits? Another ratio from the common size income statement that can help answer this question is the net income percentage. This percentage is called return-on-sales, and is determined as:

$$\frac{\textbf{Net income}}{\textbf{Sales}}$$

Recall from Chapter 1 that if a company has unusual items, using income from continuing operations to compute ratios may be more appropriate than using net income.

In 1992 the net income for Wal-Mart was $2 billion and for K Mart it was just less than $1 billion. Since Wal-Mart had a lower gross profit percentage than K Mart, it might be predicted to have a lower return-on- sales as well. However, this does not have to be the case. Indeed, the effect of lowering prices could be offset through the reduction of operating expenses.

Surprisingly, at 3.6%, Wal-Mart's return-on-sales was significantly higher than K Mart's 2.5%. Do not confuse these percentages, which may seem low (they are not) with the return-on-assets or return-on- equity percentages. The return-on-equity ratios for Wal-Mart and K Mart were 23% and 12.5% respectively. Accordingly, the analysis suggests that one way Wal-Mart is able to sell for less is by exercising effective control over its operating expenses.

Using Common Size Financial Statements

The previous discussion focused on the use of common size income data to make comparisons between companies. Investors, creditors and managers also find it useful to make comparisons of a particular company's performance over different time periods. To illustrate, assume that June's Plant Shop decides to relocate its store to an up scale shopping mall where there is a wealthier customer base. June realizes that she will have to pay more for rent, but believes that she will be able to cover the higher cost by selling her merchandise at higher prices. June changes location on January 1, 19X3. Illustration 12 contains common size income statements for 19X2 and 19X3. Comparisons between these two income statements can provide insight as to whether June's strategy was successful.

An analysis of the common size statements suggests that June's strategy did indeed increase the profitability of her business. By increasing prices June was able to increase the absolute dollar value of sales by $8,310 ($49,860 - $41,550). Notice that operating expenses increased as expected. They now constitute 25% of sales instead of 19%. However, the gross margin rate increased by an even greater percentage. Gross profit in 19X3 was 9% higher than in 19X2 (i.e. 60% minus 51%). June was indeed able to raise her prices. Transportation cost remained relatively stable. Interest costs were higher implying that it was necessary to borrow more funds to support the higher operating expenses. However, neither transportation nor interest costs changed drastically enough to affect the measurement in percentage terms. The "overall impact of the new strategy is apparent in the net income percentage which increased from 30% to 33%. Accordingly, profitability increased as expected.

Illustration 12				
June's Plant Shop				
Common Size Income Statement*				
	19X2		19X3	
Net Sales	41,550	00%	49,860	00%
Cost of Goods Sold	0160	8,52%	9,944	0%
Gross Margin	21,39	1,48%	6,957	0%
Less: Operating Exp.				
Selling and Admin. Exp	000	9,25%	2,465	5%
Transportation-out	50	,08%	00	%
Operating Income	12,940	1,14%	16,957	4%
Non-operating Items				
Interest Expense	50	0%	00	%
Net Income	12,690	0,54%	16,557	3%
*All percentages have been rounded to the nearest whole percentage point.				

Financing Merchandise Inventory

Suppose a store purchases inventory in October to be sold during the Christmas season. Sales are made on account so that cash from the sale is collected in January or February of the next year. Since the cash from the sale is collected three or four months after the goods were purchased, how will the company get the money to pay for the inventory? One answer is to borrow the money. The company could pay for the merchandise in October with money borrowed from a bank. The bank could be repaid when the cash collections from sales come in during January and February.

The obvious drawback to obtaining a loan to pay for inventory is that interest expense is incurred on the borrowed funds. However, other alternative sources of financing inventory, would also be expensive. If owners' money is used, then these funds cannot be invested elsewhere. For example, the owner’s money could be deposited in an interest earning savings account. The loss of interest earned is called an opportunity cost and is effectively, a cost that is just as real as the interest expense. Net income falls regardless of whether you incur expenses or lose, revenue.

A third alternative is to purchase the inventory on account. However, when purchases are made on account the seller usually charges the buyer an interest fee. This charge may be “hidden” in the form of higher prices. So while interest costs are lower, the cost of goods sold is higher. Indeed, as indicated in a previous section of this chapter, many companies recognize financing costs by offering buyers the opportunity to receive cash discounts by paying for purchases within a short period of time immediately following the sale. In summary, anyway you look at it, merchandisers incur significant inventory financing costs.

While there is no way to eliminate the cost of financing inventory, accounting information can help companies minimize this cost. As much as possible, businesses should reduce the time goods stay in inventory before being sold. Ratios that facilitate the management of inventory turnover are explained in Chapter 8. Companies should also try to shorten the time it takes to get customers to pay for the goods they purchase. This relates to managing accounts receivable turnover, which is explained in Chapter 7. While the chapter has provided a clear explanation of the need for such control.

INTERNATIONAL FINANCIAL RELATIONS

English	**Russian**
advising bank	советующий банк
agency problem	агентская проблема
airway bill.	авианакладная
appreciation	признатель
arbitrage	арбитраж

ask price	спроси цену
assignment of proceed	назначение продолжения
balance of payment	платежный баланс
balance of trade	баланс торговли
barter.	бартер
bid price	цена предложения
bilateral netting system	двусторонняя сетка
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carry forward	перенос
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central exchange rate	центральный обменный курс
centralized cash flow management	централизованное управление денежными потоками
coefficient of determination	коэффициент детерминации
cofinancing agreement	соглашение о со финансировании
commercial invoice	счет-фактура
comparative advantage	сравнительное преимущество
compensation	компенсация
consignment	партия
contingency graph.	график непредвиденных обстоятельств
dependent variable	зависимая переменная
depreciation	амортизация
devaluation	девальвация
devalue	девальвировать
direct foreign investment	прямые иностранные инвесиции
documentary collections	документальные коллекции
economic exposure	экономическое воздействие
economies of scale	экономия от масштаба

EXERCISES:

I. Use the following modal verbs: must, may, can, need, to have to, to be able to.

1. You ... not come to help them tomorrow: the work is done. 2. You ... not change the whole text as the beginning is all right. You ... only rewrite the second part of it. 3. ... you help me now? — I am afraid not: I am in a great hurry. I shall be free in the evening. Come to my place at about eight, and I ... help you. 4. John ... not tell us the rules of the game: we know them. 5. ... I return the book to you on Friday? I am afraid I ... not finish it before. — No, that is too late. You ... bring it to me not later than Wednesday. 6. It is already six o'clock. We ... hurry if we don't want to be late. 7. ... you translate this text into English? — I think I .... 8. They spent all the morning on the river bank. Only Ann ... return home as she ... not stay in the sun for such a long time. 9. How do you feel when you ... take a test? — I'm always a little frightened and unhappy. 10. She ... decorate a room nicely. 11. We ... not afford to pay the bill. 12. He's got a lung problem and he ... go to hospital every two weeks. 13. Ann ... not go to his birthday party yesterday because she ... go to the dentist. 14. You ... take medicine three times a day before meals. You ... not stop taking it until you have finished the bottle. Don't forget. You ... drink water as much as you ... . You ... get up tomorrow if you like. You ... not stay in bed all the time. But you ... not do any work at all. You ... just relax for a few days.

II. Open brackets.

1. Her eyes are (grey) than mine. 2. He was the (fat) man in the village. 3. As he went on, the box became (heavy) and (heavy). 4. My sister is the (tall) girl in her class. 5. Who is the (attentive) student in your group? 6. It is autumn. Every day the air becomes (cold), the leaves (yellow). 7. This is the (beautiful) view I have ever seen in my life. 8. Your handwriting is now (good) than it was last year; but still it is not so (good) as Nick's handwriting. Nick has a (good) handwriting than you. And of course Nellie has the (good) handwriting of all. 9. Oil is (light) than water. 10. We

shall wait for a (dry) day to go on the excursion. 11. A bus is (fast) than a tram. 12. Take some of these sweets: they are very (nice). They are (nice) than the sweets in that box. 13. He clearly did not like the explanation, and as he listened to it, he became (angry) and (angry). 14. Bobby was a (quiet) child. He was (quiet) than his sister.

III. Translate.

1. We did not know where our friends went every evening. 2. We did not know where our friends had gone. 3. She said that her best friend was a doctor. 4.She said that her best friend had been a doctor. 5. I didn't know that you worked at the Hermitage. 6. I didn't know that you had worked at the Hermitage. 7. I knew that you were ill. 8. I knew that you had been ill. 9. We found that she left home at eight o'clock every morning. 10. We found that she had left home at eight o'clock that morning. 11. When he learnt that his son always received excellent marks in all the subjects at school, he was very pleased. 12. When he learnt that his son had received an excellent mark at school, he was very pleased.

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