

# ENGLISH IN A PROFESSIONAL CONTEXT: ECONOMICS

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МОСКОВСКИЙ ГОСУДАРСТВЕННЫЙ УНИВЕРСИТЕТ  
имени М. В. Ломоносова  
Экономический факультет



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# ENGLISH

## in a Professional Context: Economics

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Учебно-методическое пособие English in a Professional Context: Economics предназначено для студентов 2 курса бакалавриата направлений «Экономика» и «Менеджмент», изучающих английский язык для специальных целей. Пособие включает подборку специальных текстов по экономической тематике, составленных на основе англоязычных аутентичных ресурсов (IMF, CORE Econ, The Economist, Financial Times, etc.) и направлено на развитие аналитических и дискуссионных навыков будущего специалиста. Текстовые материалы сопровождаются проектными и лексическими заданиями, в основе которых лежит развитие терминологического аппарата в сфере профессиональной коммуникации.

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# INTRODUCTION

## What is Economics?

Complete the definition. Compare and discuss, what is missing?

*Economics is a social science concerned with the p\_\_\_\_n, d\_\_\_\_n, and c\_\_\_\_n of goods and services. It studies how individuals, businesses, governments, and nations make c\_\_\_\_s about how to allocate r\_\_\_\_s.*

## VIDEO: What is Economics?



1.1 Watch the video and take notes on the key points.

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Click on the link or scan the QR code below and try to answer the questions as quickly as possible without any mistakes. How many correct answers do you have? Who is the winner?



<https://forms.gle/Y41ooih2644fGiB47>

## 1.2 Now discuss some of the questions.

- 1 What is the classic definition of economics according to the video?
- 2 What distinguishes positive economics from normative economics?
- 3 What is the key difference between microeconomics and macroeconomics?
- 4 According to the video, what unique characteristic defines economic resources?
- 5 What specialized branch of statistics do economists use?
- 6 How broad is the scope of economic research according to the video?
- 7 What fundamental economic challenge does the video highlight?

## 1.3 Fill in the blanks with the correct form of the word: economy, economics, economist(s), economic, economical.

- 1 The country's \_\_\_\_\_ is growing rapidly due to increased exports.
- 2 She gave an insightful lecture about the global \_\_\_\_\_ crisis.
- 3 To save money on fuel, it's more \_\_\_\_\_ to drive a hybrid car.
- 4 The \_\_\_\_\_ predicted that inflation would rise next year.
- 5 Many people are concerned about the impact of the new policy on the local \_\_\_\_\_.
- 6 They made an \_\_\_\_\_ decision to invest in renewable energy.
- 7 An \_\_\_\_\_ study showed that unemployment rates are decreasing.
- 8 Buying in bulk is often more \_\_\_\_\_ than purchasing in small quantities.
- 9 The government is trying to stimulate the \_\_\_\_\_ by lowering interest rates.
- 10 Several leading \_\_\_\_\_ from around the world attended the conference.
- 11 There has been a significant \_\_\_\_\_ downturn due to the recent trade restrictions.
- 12 He studied politics and \_\_\_\_\_ at Yale.
- 13 He claims that rising gas prices make the pipeline project \_\_\_\_\_.

## READING: The Three Basic Economic Questions

### 1.4 Complete the text with nouns. Work in pairs and compare your answers.

The three basic economic questions are fundamental to any economic system, whether it's a large industry or a single 1 h\_\_\_\_\_. They are: "What to produce?", "How to produce?", and "For whom to produce?". These questions are important because they are a crucial guide of how societies use their scarce 2 r\_\_\_\_\_ to satisfy the infinite 3 w\_\_\_\_\_ of people. Understanding and answering these questions help in determining the 4 a\_\_\_\_\_ of resources efficiently, which in turn maximizes welfare and productivity.

"What to produce?" refers to deciding which goods and services should be produced within an economy. As resources are limited, societies must decide on what goods and services will best meet the needs of their population, providing the most 5 b\_\_\_\_\_ at the least cost.

"How to produce?" focuses on determining the method of 6 p\_\_\_\_\_. It involves choosing the best combination of labor, 7 t\_\_\_\_\_, and resources to use, in order to produce goods and services in the most efficient way. This question is significant as it directly affects the 8 c\_\_\_\_\_ of goods and services and the environmental impact of production processes.

"For whom to produce?" addresses the distribution of goods and services among individuals and 9 g\_\_\_\_\_ within the economy. It dictates who receives the 10 p\_\_\_\_\_ produced, thereby impacting the equity and 11 f\_\_\_\_\_ of the economic system. How a 12 s\_\_\_\_\_ answers this question affects income distribution, living standards, and social welfare.

### What are the three basic economic questions?

### 1.6 Work in small groups and discuss the questions below.

- 1 How do governments intervene in the economy to influence the answers to the three basic economic questions?
- 2 How does competition among firms influence what to produce and how to produce?



- 3 How does the availability of natural resources affect the decision on what to produce?
- 4 How can innovation change the traditional answers to the three basic economic questions?
- 5 How do cultural values influence decisions about for whom to produce?
- 6 How do environmental concerns affect decisions about what to produce and how to produce?
- 7 How do government policies like subsidies or taxes influence the answers to how to produce?
- 8 Can the three basic economic questions change over time within the same economy? Why or why not?

### 1.7 Complete the text with prepositions if necessary.

#### *How the price system answers the 'what' question*

When buyers want more **1**\_\_\_a product, they are willing to pay more **2**\_\_\_ it. Higher prices attract other producers **3**\_\_\_the market. As production increases, the need **4**\_\_\_ additional workers causes wages to rise within the industry. When demand **5**\_\_\_ the product falls, the opposite happens. Prices fall, producers who can no longer operate profitably shut down, or switch **6**\_\_\_ other products, and production falls enough to meet **7**\_\_\_ the reduced demand.

This is the answer **8**\_\_\_the 'what' question and explains how resources are allocated **9**\_\_\_ the economy. The price system acts **10**\_\_\_ a signal to both consumers and producers, guiding their decisions **11**\_\_\_ buying and selling. It also helps to coordinate the actions **12**\_\_\_ millions of individuals without the need **13**\_\_\_ central planning.

### 1.8 Find English equivalents for the following collocations.

- 1 платить больше за продукт
- 2 привлекать производителей на рынок
- 3 потребность в дополнительных работниках
- 4 спрос на продукт
- 5 переключаться на другие продукты
- 6 служить сигналом для потребителей

# MICROECONOMICS AND MACROECONOMICS

## 1 GENERAL OVERVIEW.

Lead-in

Agree or disagree. Prove your point.

*Economics is split into two realms: the overall economy and individual markets.*

Before you read

1.1 Match the words and phrases with the definitions.

aggregate variable demand	business cycle employment	capital flows equilibrium	crisis
------------------------------	------------------------------	------------------------------	--------

- 1 a state of balance
- 2 a time of great danger, difficulty or doubt
- 3 a very strong request for something
- 4 expansion, peak, contraction, and trough
- 5 the movement of funds
- 6 the situation in which people have work
- 7 variables that measure the total economic activity

1.2 Fill in the gaps with the words from in box.

GDP	good service	inflation supply	investment trade	output
-----	-----------------	---------------------	---------------------	--------

- 1 Argentina was suffering from soaring \_\_\_\_\_.
- 2 Biggest falls in \_\_\_\_\_ during October were in the consumer durables, capital goods, and manufacturing sectors.
- 3 International \_\_\_\_\_ is essential for long-term economic growth.
- 4 Oil prices should be set by \_\_\_\_\_ and demand, and not artificially regulated.
- 5 She was given the award for a lifetime of public \_\_\_\_\_.
- 6 That year, Japanese \_\_\_\_\_ in American real estate totaled \$13.06 billion.
- 7 The market for consumer \_\_\_\_\_ is huge.
- 8 The government's goal is to reduce the deficit to 5% of \_\_\_\_\_ this year through a combination of spending cuts and tax increases.

**1.3 Agree or disagree with the following statements. Use the vocabulary from tasks 1.1 and 1.2.**

- 1 A reduction in a country's trade protection will show the country's willingness to have trading partners.
- 2 Economic growth is always advantageous.
- 3 Government's job is to keep the economy going in a healthy way.
- 4 Lower prices may improve standard of living for consumers as more can be bought than before.
- 5 Prolonged deflation may result in unemployment.
- 6 The main macroeconomic aims of the government are economic growth and full employment.

## **READING: Micro and macro: the economic divide**

**1.4 Read the text and answer the questions below.**

- 1 What is the difference between microeconomics and macroeconomics?
- 2 Why didn't early economists separate economics into microeconomics and macroeconomics?
- 3 Who is considered to be the founding father of macroeconomics and why?
- 4 How are microeconomics and macroeconomics divided?
- 5 What is the third subfield in economics?

*Economics is split between analysis of how the overall economy works and how single markets function.*

Economists look at two realms. There is big-picture *macroeconomics*, which is concerned with how the overall economy works. It studies such things as employment, gross domestic product, and inflation. Little-picture *microeconomics* is concerned with how supply and demand interact in individual markets for goods and services.

In macroeconomics, the subject is typically a nation — how all markets interact to generate big phenomena that economists call *aggregate variables*. In the realm of microeconomics, the object of analysis is a single market — for example, whether price rises in the automobile or oil industries are driven by supply or demand changes. The government is a major object of analysis in macroeconomics — for example, studying the role it plays in contributing to overall economic growth or fighting inflation. Macroeconomics often extends to the international sphere because domestic markets are linked to foreign markets through trade, investment, and capital flows. But microeconomics can have an international component as well. Single markets often are not confined to single countries; the global market for petroleum is an obvious example.

## **Why the divide?**

Economic theory developed considerably between the appearance of Smith's *The Wealth of Nations* and the Great Depression, but there was no separation into microeconomics and macroeconomics. Economists implicitly assumed that either markets were in equilibrium — such that prices would adjust to equalize supply and demand — or that in the event of a transient shock, such as a financial crisis or a famine, markets would quickly return to equilibrium. In other words, economists believed that the study of individual markets would adequately explain the behavior of what we now call aggregate variables, such as unemployment and output.

The severe and prolonged global collapse in economic activity that occurred during the Great Depression changed that. They studied business cycles — as economies regularly changed from a condition of rising output and employment to reduced or falling growth and rising unemployment, frequently punctuated by severe changes or economic crises. Economists also studied money and its role in the economy. But the economics of the time could not explain the Great Depression. Economists operating within the

classical paradigm of markets always being in equilibrium had no plausible explanation for the extreme “market failure” of the 1930s.

If Adam Smith is the father of economics, John Maynard Keynes is the founding father of macroeconomics. Its main concern is the instability of aggregate variables. Whereas early economics concentrated on equilibrium in individual markets, Keynes introduced the simultaneous consideration of equilibrium in three interrelated sets of markets — for goods, labor, and finance. He also introduced “disequilibrium economics”, which is the explicit study of departures from general equilibrium. His approach was taken up by other leading economists and developed rapidly into what is now known as macroeconomics.

### **Coexistence and complementarity**

Today the two fields coexist and complement each other.

Microeconomics, in its examination of the behavior of individual consumers and firms, is divided into consumer demand theory, production theory (also called the theory of the firm), and related topics such as the nature of market competition, economic welfare, the role of imperfect information in economic outcomes, and at the most abstract, general equilibrium, which deals simultaneously with many markets. It concerns such issues as the effects of minimum wages, taxes, price supports, or monopoly on individual markets and is filled with concepts that are recognizable in the real world. It has applications in trade, industrial organization and market structure, labor economics, public finance, and welfare economics. Microeconomic analysis offers insights into such disparate efforts as making business decisions or formulating public policies.

Macroeconomics is more abstruse. It describes relationships among aggregates so big as to be hard to apprehend — such as national income, savings, and the overall price level. The field is conventionally divided into the study of national economic growth in the long run, the analysis of short-run departures from equilibrium, and the formulation of policies to stabilize the national economy — that is, to minimize fluctuations in growth and prices. Those policies can include spending and taxing actions by the government or monetary policy actions by the central bank.

Microeconomics and macroeconomics are not the only distinct subfields in economics. Econometrics, which seeks to apply statistical and mathematical

methods to economic analysis, is widely considered the third core area of economics. Without the major advances in econometrics made over the past century or so, much of the sophisticated analysis achieved in microeconomics and macroeconomics would not have been possible.

*International Monetary Fund*

### 1.5 Find English equivalents for the following collocations.

- 1 агрегированные переменные
- 2 бороться с инфляцией
- 3 уравновесить спрос и предложение
- 4 экономический рост
- 5 возвращаться к равновесию
- 6 провал/фиаско рынка
- 7 применять статистические и математические методы
- 8 сосуществовать и дополнять друг друга

### 1.6 Write a summary of the text (6–8 sentences) and create a Content Map of it. Follow the plan.

- **Introduction** (The article examines/deals with/focuses on ...sth/the features of/the concept of/the main trends in/ implications of).
- **A thesis statement** (the main idea of the article in 1 sentence).
- **Supporting arguments** (arguments, underpinning the main point/idea).
- **Counter-arguments, if any** (starting with linkers for contrasting ideas, e.g. However).
- **Conclusion** (Overall/to sum up).

## CORE CONCEPTS AND WORD COMBINATIONS

### 1.7 Give English equivalents for the collocations below. Use the word in the box in each collocation:

#### ECONOMIC

экономическая деятельность  
экономические агенты  
экономические стимулы

#### AGGREGATE

совокупный спрос  
совокупное предложение  
агрегированные переменные

экономическая стабильность  
экономический рост  
экономическая политика  
экономическое благосостояние

### EQUILIBRIUM

точка равновесия  
общее равновесие  
находиться в равновесии  
равновесный уровень цен  
восстановить рыночное равновесие  
выводить из равновесия  
достичь равновесия

совокупное потребление  
совокупный доход  
совокупный выпуск  
сводные данные

### MARKET

рыночная экономика  
рыночная стоимость активов  
фондовый рынок  
внутренний рынок  
рынок труда  
исследование рынка  
рыночная конкуренция

### RATE

уровень безработицы  
уровень инфляции  
уровень смертности  
темп роста  
налоговая ставка  
ипотечная ставка  
процентная ставка

## 1.8 Which of the following statements refer to microeconomics and which to macroeconomics?

- 1 Unemployment throughout the OECD increased sharply in the aftermath of the oil shocks of the 1970s.
- 2 The unemployment rate among educated people in the country rose sharply in 2017–2018, according to the National Sample Survey Office.
- 3 The imposition of higher taxes on tobacco will discourage smoking and deter future smokers.
- 4 An increase in a society's aggregate income is likely to be reflected in higher consumer spending.
- 5 A worker who has received a salary increment is likely to buy more luxury goods.

- 6 High interest rates in an economy may discourage aggregate investment.
- 7 A drought causes an increase in the price of wheat.
- 8 The Russian government has proposed a corporate tax reduction to 5% for IT companies.
- 9 Increased consumer spending results in higher inflation.
- 10 The oil price shock in 1973–1974 led to rising inflation and unemployment in the UK.

## READING: Microeconomics and macroeconomics

### 1.9 Complete the text.

#### Macroeconomics

The old saying “Looking at the **1 f**\_\_\_\_\_ rather than the trees” describes macroeconomics. Macroeconomics is the **2 b**\_\_\_\_\_ of economics that studies decision **3 m**\_\_\_\_\_ for the economy as a **4 w**\_\_\_\_\_. Macroeconomics applies an overview perspective to an economy by examining economy-wide **5 v**\_\_\_\_\_, such as **6 i**\_\_\_\_\_, **7 u**\_\_\_\_\_, **8 g**\_\_\_\_\_ of the economy, the **9 m**\_\_\_\_\_ **s**\_\_\_\_\_, and the national incomes of developing countries. Macroeconomic decision **10 m**\_\_\_\_\_ considers such “big picture” policies as the effect that federal tax cuts will have on **11 u**\_\_\_\_\_ and the effect that changing the money supply will have on **12 p**\_\_\_\_\_.

#### Microeconomics

Examining individual trees, leaves, and pieces of bark, rather than surveying the **13 f**\_\_\_\_\_, illustrates microeconomics. Microeconomics is the **14 b**\_\_\_\_\_ of economics that studies decision **15 m**\_\_\_\_\_ by a single **16 i**\_\_\_\_\_, **17 h**\_\_\_\_\_, **18 f**\_\_\_\_\_, **19 i**\_\_\_\_\_, or level of government. Microeconomics applies a microscope to study specific parts of an economy, as one would examine **20 c**\_\_\_\_\_ in the body. The focus is on small economic units, such as economic decisions of particular groups of **21 c**\_\_\_\_\_ and businesses. An example of microeconomic analysis would be to study economic units involved in the market for ostrich eggs. Will suppliers decide to supply more, less, or the same **22 q**\_\_\_\_\_ of ostrich eggs to the market in response to price **23 c**\_\_\_\_\_? Will individual



consumers of these eggs decide to buy more, less, or the same quantity at a new price?

We have described macroeconomics and microeconomics as two separate branches, but they are **24 r** \_\_\_\_\_. Because the overall economy is the sum, or **25 a** \_\_\_\_\_, of its parts, micro changes affect the macro economy, and macro changes produce micro changes.

**1.10 Find English equivalents for the phrases from text 1.9.**

- 1 экономика в целом
- 2 налоговые послабления
- 3 изменение денежной массы
- 4 составные/отдельные части экономики
- 5 малые хозяйственные единицы
- 6 в ответ на изменения цен
- 7 покупать по новой цене

**1.11 Are the words below singular or plural? Complete the tables with all possible forms.**

Crises, knowledge, phenomenon, axis, news, hypothesis, means, criteria, index, formulae, curriculum, analysis, money, police, evidence, economics, information.

Singular	Plural	Always Singular	Always Plural
<i>Crisis</i>	<i>Crises</i>	<i>Knowledge</i>	-

**1.12 Complete the text with prepositions where necessary.**

Microeconomics and macroeconomics differ 1\_\_\_ the questions each asks and the level of aggregation each uses. Microeconomics deals 2\_\_\_ the determination 3\_\_\_ prices and quantities 4\_\_\_ individual markets and the relations 5\_\_\_ these markets. Thus, it looks 6\_\_\_ the details of the economy. It addresses how individuals and businesses conduct and benefit 7\_\_\_ efficient production and exchange and how they can best coordinate and cooperate 8\_\_\_ each other. Microeconomists form various types of models based 9\_\_\_ logic and observed human behavior and they test the models 10\_\_\_ real-world observations. 11\_\_\_ contrast, macroeconomics focuses 12\_\_\_ much broader aggregates. It looks 13\_\_\_ such things as the total number of people employed and unemployed, the average level of prices and how it changes 14\_\_\_ time, national output, and aggregate consumption. Macroeconomics asks what determines these aggregates and how they respond 15\_\_\_ changing conditions. Microeconomics looks 16\_\_\_ demand and supply 17\_\_\_ regard 18\_\_\_ particular commodities, whereas macroeconomics examines aggregate demand and aggregate supply.

### 1.13 Find English equivalents for the following collocations:

- 1 различаться в вопросах
- 2 установление цен
- 3 отношения между этими рынками
- 4 получать выгоду от эффективного производства
- 5 тестировать модели путем сравнения с реальными наблюдениями
- 6 изменяться с течением времени
- 7 реагировать на меняющиеся условия
- 8 в отношении конкретных товаров

## 2 MICROECONOMICS.

### Lead in

### Discuss the statements

- 1 *Market competition drives innovation and efficiency by pushing firms to lower prices, improve products, and better serve consumers.*
- 2 *Supply and demand create a natural balance in markets.*
- 3 *Price controls worsen the problem rather than solve it.*

## Before you read

### 2.1 Match the words and collocations with the definitions.

market equilibrium	price elasticity	opportunity cost
scarcity	incentives	market structure
		consumer surplus
	producer surplus	

- 1 a situation in which there is not enough of something
- 2 a stable state in which supply and demand are in balance
- 3 something that encourages you to work harder, start a new activity etc.
- 4 the amount of money someone is willing to pay for something, minus the amount they actually paid for it
- 5 the characteristics of a market that determine the behavior of firms and the overall outcome of the market
- 6 the degree to which a change in the price of something leads to a change in the amount of it that is sold or that could be sold if available
- 7 the difference between received price and minimum acceptable price
- 8 the real cost of doing something, including the cost of things that you cannot do because of the choice you have made

### 2.2 Paraphrase the sentences using the words and collocations from task 2.1.

- 1 As interest rates increase, people are less inclined to hold money for speculative purposes, and the money market gradually returns to balance.
- 2 Consider the trade-off while accepting a job because you are, by default, rejecting everything else out there.
- 3 There is a shortage of skilled workers in the building sector.
- 4 There is no stimulus for people to save fuel.
- 5 If the price of a popular luxury good rises, its responsiveness of demand to price changes will be high.

### 2.3 Complete the text.

In some markets, 1\_\_\_\_ such as ceilings or floors can cause 2\_\_\_\_, preventing prices from adjusting to their equilibrium levels. This often leads to 3\_\_\_\_, where producers create more goods than consumers want, resulting in 4\_\_\_\_. Overproduction causes a 5\_\_\_\_ of goods, which reflects allocative inefficiency because resources are not being used according to consumer preferences. For example, a 6\_\_\_\_ in government finances means revenues exceed expenditures, but if not used wisely, it can contribute to the 7\_\_\_\_. Firms sometimes use 8\_\_\_\_ strategies that flood the market, risking surplus and inefficiency. Additionally, 9\_\_\_\_ can cause labor markets to fail to clear, contributing to unemployment and further inefficiency. When prices or wages fail to adjust, the economy suffers from deadweight loss and reduced productivity. Correcting these distortions is key to improving allocative efficiency and reducing waste. Ultimately, avoiding misallocation and minimizing surplus through 10 \_\_\_\_\_ and efficient resource use supports sustainable business growth

- a flexible pricing
- b budget surplus
- c excess supply
- d market penetration
- e misallocation of resources
- f overproduction
- g price controls
- h price rigidity
- i surplus
- j wage rigidity

### 2.4 Choose the correct option.

- 1 *Market penetration / Market segmentation* is the process of dividing a broad market into smaller, distinct groups of consumers with shared characteristics, while *market segmentation/market penetration* is a measure of how well a company's products or services have captured a portion of its target market.
- 2 *Opportunity cost/accounting cost* refers to the value of the next best alternative foregone, whereas *opportunity cost/accounting cost* is the explicit monetary expense recorded in financial statements.

- 2 *Market equilibrium/market clearing* is the state where supply equals demand at a certain price, while *market equilibrium/market clearing* refers to the actual process of reaching that equilibrium.
- 3 *Normal goods/inferior goods* see demand increase as income rises, while demand for *normal goods/inferior goods* decreases as income rises.

## VIDEO: Supply and Demand: The Force Behind a Cup of Coffee



Before you watch

Agree or disagree? Prove your point.

"Supply creates its own demand".

A. Marshall

### 2.5 Watch the video. Mark the statements T (True) or F (False).

- 1 When the price of a good increases, the quantity demanded usually decreases.
- 2 A shift to the right in the demand curve indicates an increase in demand at all price levels.
- 3 An increase in supply generally causes prices to rise if demand remains constant.
- 4 The law of supply states that producers are willing to supply more of a good at higher prices.
- 5 If both supply and demand increase simultaneously, the equilibrium price will always increase.
- 6 A shortage occurs when the quantity demanded exceeds the quantity supplied at a given price.
- 7 Government-imposed price ceilings can lead to a surplus of goods in the market.

## 2.6 Watch again and provide English equivalents for the collocations below:

- |                               |                                     |
|-------------------------------|-------------------------------------|
| 1 цена за 1 чашку кофе        | 9 обстоятельства изменились         |
| 2 вертикальная ось            | 10 плохой урожай                    |
| 3 горизонтальная ось          | 11 удовлетворять спрос              |
| 4 кривая сдвигается вниз      | 12 контроль цен                     |
| 5 кривая сдвигается вверх     | 13 продавцы и покупатели            |
| 6 нанимать сотрудников        | 14 достигнуть негласного соглашения |
| 7 покрывать расходы (затраты) | 15 метод проб и ошибок              |
| 8 золотая середина            | 16 эмерджентный порядок             |

## 2.7 Put the word chunks in the correct order to make sentences.

- 1 strategy / the startup / its / through / trial and error / found / winning
- 2 increased / to meet / production / demand / the company
- 3 to keep / introduced / price controls / essential / for consumers / goods / affordable / the government
- 4 on the merger / both companies / worked / to reach/hard / an agreement
- 5 to cover costs / raised / remain / the business / prices / profitable / its / and
- 6 the supply and demand curve / a business / the best price / uses / to determine / in the market / for its products.

### Over to you

Search for three coffee shops in the neighborhood that charge their customers different prices.

- Which coffee shop in the neighborhood has the highest price for a cup of coffee, and which one has the lowest?
- Was that price really set by the owner of the shop, or is it the result of constant changes in supply and demand?



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## VIDEO: Opportunity cost: the hidden cost of everything



Before you watch

Why is opportunity cost referred to as *the hidden cost of everything*?

Watch the video and check your ideas.

**2.8 While watching, find English equivalents for the collocations below:**

- |                           |                             |
|---------------------------|-----------------------------|
| 1 альтернативные издержки | 7 работать на полную ставку |
| 2 находиться под угрозой  | 8 получать                  |
| 3 видеть полную картину   | высшее образование          |
| 4 обменивать один вариант | 9 пустые карманы            |
| на другой                 | 10 отказаться от идеи       |
| 5 сделать оптимальный     | 11 тратить на проживание    |
| выбор                     | 12 войти в семейный бизнес  |
| 6 обучение в колледже     |                             |

**Work in pairs. Create short stories or dialogues using new vocabulary. Share with the class.**

**2.9 Complete the text with the missing words.**

Sometimes a new exciting opportunity presents itself when we are completely happy about our existing life situation. If that happens, we are forced to think about opportunity **1 c**\_\_\_\_\_. This is because when we look at the new opportunity, we compare it with our current situation and think about what is at **2 s**\_\_\_\_\_ if we would go for it. This often happens without us being able to see the full **3 p**\_\_\_\_\_.

Economists define opportunity cost as the **4 b**\_\_\_\_\_ we forego as we trade off one **5 a**\_\_\_\_\_ for another, hoping we make the best **6 c**\_\_\_\_\_. Although they are often less obvious and sometimes speculative, opportunity costs can be **7 h**\_\_\_\_\_. Therefore, learning about them makes sense.

## 2.10 Over to you.

### The costs of dropping out of college

Let your class calculate the opportunity costs of a high school student who thinks about dropping out of college to help in the family business instead:

- The cost of tuition and living is \$2,000 a month.
- It takes a total of 6 years to finish university.
- After obtaining a degree the student can work in the field of medicine for 34 years earning \$10,000 a month and spending \$3,000 on monthly living expenses.
- If the student is entering the family business he or she earns \$3,500 a month right away for the next 40 years with zero living expenses.

What is the cost of dropping out of college?

**Think of the opportunity cost of the following activities:**

- Brushing your teeth.
- Spending time with your family.
- Watching your favorite show.
- The cost of a meal with a friend.

**Report to the class your opportunity costs.**

## 3 MACROECONOMICS.

**Lead in**

**Discuss the statements.**

*When GDP is growing, especially if inflation is not a problem, workers and businesses are generally better off than when it is not.*

*Inflation measures how much more expensive a set of goods and services has become over a certain period, usually a year.*

*The number of people at work is generally closely related to whether an economy is growing at a reasonable rate.*



## VIDEO: What's the best country to live in



Before you watch

Agree or disagree. Prove your point.

*"What's the best country to live in? Is it the one with the best food? The longest life expectancy? The best weather? For the past 70 years, most governments have relied heavily on a single number: the Gross Domestic Product, or GDP. But it was never intended for its current purpose; and some argue that we are addicted to making it grow..."*

### 3.1 Watch the video and take notes on the key points.

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Click on the link or scan the QR code below and try to answer the questions as quickly as possible without any mistakes. How many correct answers do you have? Who is the winner?



<https://forms.gle/9UWUYXViKifs8VbD6>

### 3.2 Choose the correct option.

- 1 The total market value of goods and services produced in a country without adjusting for inflation.  
A real GDP                      B nominal GDP                      C GDP per capita
- 2 GDP adjusted for inflation, reflecting the true growth in volume of production.  
A real GDP                      B nominal GDP                      C GDP per capita
- 3 GDP divided by the population, indicating average economic output per person.  
A real GDP                      B nominal GDP                      C GDP per capita.

- 4 Calculating GDP by adding consumption, investment, government spending, and net exports (exports minus imports).  
 A expenditure approach      B output approach      C income approach
- 5 Summing the value added at each stage of production across all industries.  
 A expenditure approach      B output approach      C income approach.
- 6 Calculating GDP by summing all incomes earned by factors of production (wages, rents, profits).  
 A expenditure approach      B output approach      C income approach.
- 7 The value of a country's exports minus its imports, affecting GDP positively or negatively.  
 A Gross Value Added (GVA)      B net exports      C Purchasing Power Parity (PPP).

### 3.3 Complete the text.

1 \_\_\_\_\_ unemployment includes 2 \_\_\_\_\_ unemployment, which occurs when people are temporarily between jobs or entering the workforce for the first time. 3 \_\_\_\_\_ unemployment rises during economic downturns when demand for labor falls. 4 \_\_\_\_\_ unemployment happens when workers' skills no longer match job requirements due to changes in the economy. 5 \_\_\_\_\_ unemployment refers to individuals who have been jobless for over a year, often due to persistent economic challenges. 6 \_\_\_\_\_ unemployment affects workers in industries with fluctuating demand throughout the year, such as agriculture or tourism. 7 \_\_\_\_\_ describes those working part-time or in jobs below their skill level who want more work. Together, these categories represent different reasons why 8 \_\_\_\_\_ may be out of work at any given time.

- a cyclical
- b long-term
- c natural
- d seasonal
- e structural
- f the unemployed
- g underemployment
- h frictional

## READING: Unemployment. The Curse of Joblessness

### 3.4 Mark the statements T (True) or F (False).

- 1 Unemployment and economic growth are closely related; when economic activity is high, unemployment tends to be low.
- 2 Unemployment always decreases immediately when economic growth increases.
- 3 Unemployment is considered a lagging indicator of economic activity.
- 4 In labor markets around the world, the demand for and supply of labor always reaches an equilibrium.
- 5 Structural unemployment can occur when wages do not adjust to clear the labor market.
- 6 Frictional unemployment happens because some people are temporarily between jobs or just starting their careers.
- 7 The natural rate of unemployment is the short-term average rate around which unemployment fluctuates.
- 8 Policies that boost consumer demand can permanently lower unemployment without any other effects.
- 9 To be counted as unemployed in government statistics, a person must be out of work and actively looking for a job.
- 10 The labor force participation rate is the percentage of the labor force that is looking for a job.

Unemployment is highly dependent on economic activity: growth and unemployment can be thought of as two sides of the same coin. When economic activity is high, more production happens overall, and more people are needed to produce the higher amount of goods and services. And when economic activity is low, firms reduce their workforce and unemployment rises. In that sense, unemployment is countercyclical, meaning it rises when economic growth is low and vice versa.

But unemployment does not fall in lockstep with an increase in growth. It is more common for businesses to first try to recover from a downturn by having the same number of employees do more work or turn out more products — that is, to increase their productivity. Unemployment starts rising only when the downturn is prolonged. Because unemployment follows growth with a delay, it is considered a lagging indicator of economic activity.

## Clearing the market

According to classical economic theory, every market, including the labor market, should have a point at which it clears — where supply and demand are equal. Yet the very existence of unemployment seems to imply that in labor markets around the world, the demand for and supply of labor fail to reach an equilibrium.

Sometimes it is a matter of wages, or the unit price of labor, not adjusting to clear the market. Some workers, particularly skilled ones, may have reservation wages below which they are not willing to work, but which are higher than what employers are willing to pay. Alternatively, the wage an employer is willing to pay may be lower than the legal minimum wage set by governments to try to ensure that wages can sustain a living. When such rigidities in the labor market lead to a shortage of jobs, it creates structural unemployment, and those who are structurally unemployed tend to have longer spells of joblessness, on average.

But the inflexibility of wages does not fully explain the perennial nature of unemployment. Some level of unemployment will always exist for no other reason than that there always will be some people who are between jobs or just starting out their careers. These people are unemployed not because there is a shortage of jobs in the market, but because finding a job takes time. Such temporary spells of unemployment are referred to as frictional unemployment.

The combination of these factors brings about a long-term average around which the unemployment rate tends to fluctuate, called the natural rate of unemployment (NRU). Understanding what is behind the long-term equilibrium rate of unemployment helps policymakers understand how they can, and cannot, change it. For example, policies that try to lower unemployment by boosting consumer demand (thereby raising production) can do so only temporarily, and at the cost of higher inflation later. However, policies that are geared toward easing frictional or structural unemployment can boost employment without necessarily affecting inflation.

## Measuring unemployment

Not all people who don't work are unemployed. To be considered unemployed for government statistics, a person must not only be out of work but also be actively looking for a job. In the United States unemployment

is measured by a monthly survey of households conducted for the Bureau of Labor Statistics and covers a representative sample of more than 100,000 individuals. The labor force includes both those with jobs and those looking for them. The unemployment rate is the percentage of the labor force that is looking for a job. The ratio of the labor force to the working-age population is called the labor force participation rate.

The labor force excludes people who are of working age but are neither employed nor looking for a job — such as students and homemakers. But the labor force also leaves out jobless people who were in the job market unsuccessfully for so long that they stopped looking for a job. Such discouraged workers are the reason why unemployment statistics can underestimate the true demand for jobs in an economy.

*International Monetary Fund*

### **3.5 Find English equivalents for the following collocations:**

- 1 экономическая деятельность
- 2 две стороны одной медали
- 3 товары и услуги
- 4 восстанавливаться после кризиса / экономического спада
- 5 повысить продуктивность
- 6 запаздывающий показатель
- 7 достигать равновесия
- 8 резервируемая заработная плата
- 9 минимальная заработная плата
- 10 зарабатывать на жизнь
- 11 недостаток рабочих мест
- 12 структурная безработица
- 13 негибкость (жесткость) заработной платы
- 14 постоянный характер
- 15 фрикционная безработица
- 16 естественный уровень безработицы
- 17 снижать уровень безработицы
- 18 увеличивать потребительский спрос
- 19 влиять на инфляцию
- 20 искать работу
- 21 трудоспособный слой населения
- 22 показатель экономической активности
- 23 демотивированные работники

### 3.6 Discuss the statements.

- 1 During recessions male unemployment typically exceeds female unemployment.
- 2 High unemployment rates are sometimes a necessary consequence of economic progress and technological innovation.
- 3 Unemployment benefits (=financial support) often discourage people from seeking jobs, ultimately prolonging the problem rather than solving it.
- 4 Unemployment is often described as the “curse of joblessness” because it reflects a situation where individuals who are willing and able to work cannot find employment.
- 5 Unemployment not only undermines economic growth by wasting valuable human resources but also generates profound social consequences such as poverty, social unrest, and psychological distress.

### 3.7 Match the words and phrases with the definitions.

price index	purchasing power	demand-pull inflation
cost-push inflation	built-in inflation	hyperinflation
deflation	supply shock	stagflation
		expectation(s)

- 1 a reduction in the amount of money in a country's economy so that prices fall or remain the same
- 2 (also known as *RPI*) a list of the prices of some ordinary goods and services which shows how much these prices change each month
- 3 an economic situation where there is high inflation (= prices rising continuously) but no increase in the jobs that are available or in business activity
- 4 a situation in which prices rise very fast, causing damage to a country's economy
- 5 money that people have available to buy goods with
- 6 an unexpected event that changes the supply of a product or commodity, resulting in a sudden change in price
- 7 a strong belief about the way something should happen or how somebody should behave
- 8 upward pressure on prices created by a shortage in supply, where there are not enough goods and services for an economy to purchase

- 9 a type of inflation that arises from the ongoing cycle where workers demand higher wages to keep up with rising living costs, leading businesses to raise prices to cover those higher wage costs, creating a self-sustaining wage-price spiral
- 10 the decrease in the aggregate supply of goods and services, often stemming from an increase in the cost of production

### 3.8 Paraphrase items in bold using the words and phrases from the previous task.

- 1 The cost of houses has increased more quickly than **people's ability to afford them**.
- 2 In situations of **extremely rapid inflation**, currency substitution may have positive effects.
- 3 The latest **data on prices** was published on Tuesday.
- 4 Our **outlook** is that the UK will cut its interest rate.
- 5 He warned that Euroland could sink into **a prolonged price decline** unless the central bankers tailored their policies to promote economic growth.
- 6 It's generally agreed that the main cause of **economic stagnation** is a major **supply disturbance**.
- 7 **Embedded inflation** results from consumers' expectations.

## VIDEO: Inflation

Before you watch

Agree or disagree? Prove your point.



*"Inflation is the parent  
of unemployment and the unseen  
robber of those who have saved".*  
Margaret Thatcher

### 3.9 Watch the video and contextualize the following words and collocations:

*a sharp increase; an emerging market; a supply chain; living standard; to alarm somebody; stimulus policy; to pour money into; Covid-relief package; a strong recovery; a decade; loose monetary policy.*

### 3.10 Watch the video again and answer the questions.

- 1 What is inflation?
- 2 At what percentage level consumers do not notice price change?
- 3 Why was inflation relatively low?
- 4 What are the causes of recent inflation?
- 5 What is *the base effect*?
- 6 Comment on the consumer spending pattern in the USA during COVID-19.
- 7 Comment on the consumer spending pattern in poor countries.
- 8 How does raising interest rates help to slow down inflation?

## VIDEO: CPI Explained

Before you watch



Agree or disagree? Prove your point.

*“The CPI measures the average change in prices paid by consumers for a fixed basket of goods and services over time; however, the composition of this basket never changes and does not reflect any shifts in consumer spending habits”. AI on CPI*

### 3.11 Watch the video “CPI Explained” and answer the questions.

- 1 What is CPI?
- 2 How is it calculated?
- 3 Why is it so important? Who sets it?
- 4 Why does inflation hit everyone differently?
- 5 Which index is sometimes more preferred than CPI? Why?
- 6 What keeps inflation down and why?



**3.12 Watch again and provide English equivalents for the collocations below:**

- 1 средние расходы домохозяйств
- 2 корректировка налоговых категорий
- 3 социальное обеспечение
- 4 талоны на питание
- 5 рассчитывать процент изменения
- 6 отслеживать цены
- 7 точность ИПЦ
- 8 исключать непрямые расходы
- 9 среднестатистический человек
- 10 личные расходы / расходы на личное потребление
- 11 максимальная занятость
- 12 стабильные цены

**3.13 Work in pairs. Create short stories or dialogues using new vocabulary. Share with the class.**

**3.14 Complete the sentences (1–10) with *rise/raise*, drawing on the rule.**

**Verb**

**1 RISE-rose-risen:**

**Sth RISES** to a higher level:

*Sales **rose** by 20%.*

*Costs **are** constantly **rising**.*

**2 RAISE sth** to a higher level:

*We cannot **raise** taxes now.*

*The bank **raised** interest rates to 15%.*

**Noun**

**1 RISE** = a movement upwards  
(Br.):

*a **rise** in interest rates.*

**RISE** = becoming more powerful or important:

***Rise** of capitalism, **rise** to power.*

**2 RAISE** (Am.):

*a three per cent **pay raise**.*

- 1 Sales \_\_\_\_\_ by 20% over the Christmas period.
- 2 \_\_\_\_\_ your hand if you know the right answer.
- 3 Many shops have \_\_\_\_\_ their prices.
- 4 The university is working to \_\_\_\_\_ the number of students from state schools.

- 5 The research budget \_\_\_\_\_ from €175,000 in 1999 to £22.5 million in 2001.
- 6 Temperatures rarely \_\_\_\_\_ above freezing.
- 7 Dr Hayward intends to \_\_\_\_\_ the museum's image.
- 8 Their ideas on how to \_\_\_\_\_ children didn't always agree.
- 9 We usually get a \_\_\_\_\_ at the start of the year.
- 10 The balloon \_\_\_\_\_ slowly into the air.

### 3.15 Words easily confused.

**In the sentences below choose the correct word or phrase.**

**Explain your choice.**

- 1 The government's total outstanding borrowing is called its \_\_\_\_\_.  
A Deficit  
B Debt.
- 2 When a country spends more than it earns in a year, it runs a budget \_\_\_\_\_.  
A Debt  
B Deficit.
- 3 \_\_\_\_\_ refers to an increase in a country's output, while \_\_\_\_\_ includes improvements in living standards.  
A Economic development / Economic growth  
B Economic growth / Economic development.
- 4 The economic system based on private ownership of resources is called \_\_\_\_\_.  
A Capital  
B Capitalism.
- 5 The total spending on goods and services in an economy is called \_\_\_\_\_, and the total output available is called \_\_\_\_\_.  
A Aggregate supply / Aggregate demand  
B Aggregate demand / Aggregate supply.
- 6 The \_\_\_\_\_ interest rate is the stated rate, while the \_\_\_\_\_ interest rate accounts for inflation.  
A Real / Nominal  
B Nominal / Real.
- 7 Interest calculated only on the original amount is called \_\_\_\_\_ interest.  
A Compound  
B Simple.
- 8 When goods and services are exchanged directly without money, it is called \_\_\_\_\_.

- A Trade**  
**B Barter.**
- 9 The \_\_\_\_\_ measures the average price change for consumers, while the \_\_\_\_\_ measures price change for producers.  
**A Producer Price Index / Consumer Price Index**  
**B Consumer Price Index / Producer Price Index.**
- 10 A short-term economic decline is a \_\_\_\_\_, whereas a prolonged and severe downturn is a \_\_\_\_\_.  
**A Depression / Recession**  
**B Recession / Depression.**
- 11 The ability to quickly convert assets into cash is called \_\_\_\_\_, while the ability to pay long-term debts is \_\_\_\_\_.  
**A Solvency / Liquidity**  
**B Liquidity / Solvency.**
- 12 Costs that remain constant regardless of production are \_\_\_\_\_, and costs that change with output are \_\_\_\_\_.  
**A Variable costs / Fixed costs**  
**B Fixed costs / Variable costs.**

### 3.16 Welcome to the Translation Games!

Follow the instructions below to complete the task.

Step 1	Step 2	Step 3	Step 4
Form groups of 4 and name your team.	Examine the sentences below and single out terms and phrases used in the unit.	Set the timer: you have only 10 minutes to complete the task.	You are ready to start.

And may the odds be in your favour!

Remember (!)

Translations are less about transposing words and more about carrying over meaning, emotion, and intent from one culture to another.

- 1 Экономические стимулы, такие как вложение денег в инфраструктуру, могут увеличить выпуск товаров и услуг. Нехватка материалов может привести к неэффективному распределению ресурсов в цепочке поставок.

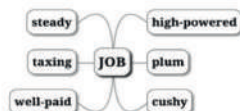
- 2 Когда регулировка цен, например, минимальная заработная плата, нарушает соотношение спроса и предложения, излишки производителя часто сокращаются из-за перепроизводства и нерационального использования ресурсов.
- 3 Длительная мягкая денежно-кредитная политика может привести к гиперинфляции. Она подрывает покупательную способность, несмотря на желание снизить уровень безработицы и укрепить внутренний рынок.
- 4 Альтернативные издержки влияют на инвестиционные решения: фирмы могут нанимать сотрудников на полный рабочий день вместо финансирования программ социального обеспечения.
- 5 Совокупные данные свидетельствуют об устойчивости цен во время дефляции. Покупатели и продавцы пытаются достичь равновесия, несмотря на низкий спрос.
- 6 Дисбаланс в торговле может спровоцировать инфляцию, резко снижая уровень жизни граждан.

## VIDEO: COVID-19: how to fix the economy

3.17 Watch the video and take notes on microeconomic and macroeconomic issues raised in the video.

Microeconomic issues	Macroeconomic issues
e.g. Some workers lost their jobs due to trade with China.	e.g. In April 2020, American unemployment was the highest since the Depression.

3.18 Study the word webs below. Cross out the word that has negative meaning in each web. Come up with your own sentences for some word webs.



## PROJECT

Work in groups and study the impact of the COVID-19 pandemic on the Russian economy.

**Deliver a short presentation on the most interesting findings you have made.**

Presentation plan:

- Hook.
- Objective.
- Agenda.
- Main body.
- Close.



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**Vote for the best project.**

**Each winner in the team receives 1 Econcoin.**



# THE ROLE OF GOVERNMENT

## 4 WELFARE ECONOMICS.

### READING: Welfare economics

4.1 Read the text, complete it with the words from the box and answer the questions.

- 1 How do governments try to make the economy fair?
- 2 What is the difference between horizontal and vertical equity?
- 3 Do all economists agree on the importance of equity?
- 4 What is an externality?

unjust	individual	unfairness	horizontal equity	society
	involved	negative externality	distributed	
vertical equity		fairness	positive externality	

Behind the numbers, charts and formulas of economics, there are people. This is sometimes easy to forget. Economics is not only about profits, losses and utility. It's about society. Economic ideas and theories often seem to be issues that are far removed from people's everyday lives. Welfare economics, however, tries to correct this. It looks at how economic policies affect society, families and the 1 \_\_\_\_\_.

One of the big issues in welfare economics is equity. Equity means 2 \_\_\_\_\_, and welfare economists are interested in measuring how fair our economic systems are. One way they do this is to look at how income and wealth are 3 \_\_\_\_\_ among the population. Welfare economists

also investigate the effects of government policy on equity. Governments' main weapon to fight inequity (4 \_\_\_\_\_) is taxation. Welfare economists try to find out how taxation affects vertical equity and horizontal equity, which are two ideas that taxation systems can be based on. The idea behind 5 \_\_\_\_\_ is that people with more income will pay more than those with less income. The idea behind 6 \_\_\_\_\_ is that people with the same income will pay the same amount of tax. Ideally, a tax system will have both vertical and horizontal equity.

However, some economists feel that any kind of taxation on people's earnings is 7 \_\_\_\_\_. They believe it is unfair to penalise entrepreneurs and hard-workers. Why should people who are less able or less hard-working be supported by others? In this view of welfare economies, inequity is a natural feature of every economic system. Trying to create equity, they say, is just a waste of time. Instead, it is better to make economic systems more efficient. A more efficient economy grows faster and everyone in society benefits.

Welfare economics isn't only about the fairness of economic systems. It's also about the impact that economic choices have on our lives. Economic transactions often 8 \_\_\_\_\_ other people who are not directly 9 \_\_\_\_\_ in those transactions. Economists call these results externalities. Externalities are sometimes good and sometimes bad for society. For example, pollution is a 10 \_\_\_\_\_ of the car industry. But cars give people better mobility, which is a 11 \_\_\_\_\_ of the same industry.

Production is not the only cause of negative externalities for society. Many are due to our use or consumption of goods. People's litter in parks and on beaches is one example: noisy neighbours listening to music loudly is another. These are both examples of externalities causing pollution. However, health problems from smoking and drinking alcohol are also externalities from economic transactions. These have a cost for individuals, but also for 12 \_\_\_\_\_ as a whole.

*Macmillan Guide to Economics*

**4.2 Work in groups. Make up a list of 4 transactions (e.g. Joining a fitness club). Discuss positive and negative externalities of these transactions.**

- 1
- 2
- 3
- 4

## **VIDEO: How economic inequality harms societies.**



### **Before you watch**

In your opinion, what are the consequences of income inequality?

Try to finish the quote and explain your reasoning

*If Americans want to live the American dream, they should go to \_\_\_\_\_.*

### **4.3 Watch the video and answer the questions.**

- 1 Is there a correlation between GNP and life expectancy in developed countries? What about GNP and health and social problems?
  - 2 Why are we shown the scale of income differences?
  - 3 What other consequences of income inequality does the speaker mention?
  - 4 What is social mobility? What's the correlation between social mobility and income inequality?
  - 5 Finish the quote: If Americans want to live the American dream, they should go to \_\_\_\_\_.
  - 6 How do Sweden and Japan get greater equality?
  - 7 Continue the quote: We can improve the real quality of human life by ...
- 4.4 What is the Gini index? How does it measure income inequality? Complete the text using the words in the box.**

coefficient

income

inequality  
population

equality

index



The Gini index determines a nation's level of **1** \_\_\_\_\_ inequality by measuring the income distribution or wealth distribution across its **2** \_\_\_\_\_. The Gini index was developed in 1912 by Italian statistician Corrado Gini.

The **3** \_\_\_\_\_ of the Gini index ranges from 0 (or 0%) to 1 (or 100%), with 0 representing perfect **4** \_\_\_\_\_ and 1 representing perfect **5** \_\_\_\_\_.

The nation of South Africa has the world's worst level of income inequality, at a Gini **6** \_\_\_\_\_ ranking of 63.0%, according to the World Bank. Norway had the lowest level of income inequality, at 22.7%.

*What do you think governments spend money on?*

*Where do you imagine most of the money goes?*

#### **4.5 Complete the structure of government spending. Discuss your answers in groups.**

##### **Russian Government Spending in 2023 (29 trillion roubles)**

<b>7673.9 bln</b>	S_____ p_____
<b>4972.6 bln</b>	The N_____ d_____
<b>3801.5 bln</b>	The N_____ e_____
<b>3564.6 bln</b>	National s_____ and l_____ e_____
<b>2008.5 bln</b>	N_____ i_____
<b>1523.6 bln</b>	H_____
<b>1519.6 bln</b>	G_____ debt s_____
<b>1409.5 bln</b>	E_____
<b>1252.0 bln</b>	I_____ transfers
<b>591.0 bln</b>	H_____ services and u_____
<b>352.2 bln</b>	E_____
<b>197.0 bln</b>	C_____, c_____
<b>119.7 bln</b>	M_____ m_____

*In your opinion, was the money distributed fairly and wisely? Has anything changed since then?*

## 5 GOVERNMENT FUNCTIONS.

### READING: Government functions

#### 5.1 Read the text carefully. Headline each paragraph.

We can think of government as having four basic economic functions:

1 \_\_\_\_\_

*First*, it establishes the legal framework within which the economy operates. Economists sometimes refer to this framework as the *rules of the game*. A complex body of commercial law clarifies relations between buyers and sellers, employers and employees, and parties involved in private contracts.

The corporation, an essential building block of modern economies, is a creation of the law. It was the development of the limited liability corporation in Britain during the industrial revolution that made possible the formation of very large firms co-owned by many individuals. Such enterprises could not exist without the assurance that individual shareholders are not personally liable for the actions of the corporation.

Property rights are not unconditional but rather are defined by laws which establish the privileges, obligations, and limitations of ownership. For example, city government decides what the owner of a city lot can and cannot do with it. The owner of a residence is entitled to live in it, rent it to someone else to live in, or sell it, but usually is prevented by zoning laws from tearing down the house and putting in a fast-food restaurant or a rifle range. Regulations control entry into certain economic activities such as banking or medicine, restrict what firms can say in their ads, and even prohibit sale of goods deemed not in the public interest.

2 \_\_\_\_\_

*Second*, taxes are collected by government from households and firms. The U.S. federal government collects most of its revenue from individual income taxes. It also taxes corporate profits and estates, levies excise taxes on the value of certain goods and tariffs on imports from abroad. State governments collect sales taxes on retail purchases and/or income taxes on both individuals and corporations. County and municipal governments levy

a tax on the value of real estate property, and often also participate in sales tax or income tax revenues.

What activities are taxed, and how heavily, gives government many levers with which to encourage or discourage specific economic activities. The tax on gasoline is cents per gallon in the U.S. and dollars per gallon in Europe. The high cost of fuel creates an incentive that results in cars in Europe being much smaller and less powerful than in the U.S. and less driving. This has far reaching effects on the environment and the greater use of public transportation.

### 3 \_\_\_\_\_

*Third*, government spends some of these tax revenues to provide goods and services through agencies that operate much like firms, for example the National Park Service which produces recreation and the U.S. Navy which produces national defense. These firms are engaged in the production of public goods, ones we consume as a society rather than as individuals. The prime example is national defense which cannot be provided to one individual without providing it to others. Some goods have both private and public dimensions. For example, education benefits not only the individual who is educated but society as a whole, so it is not surprising that government plays a large but not exclusive role in education.

The allocation of government spending among alternatives also influences how firms and households allocate their private resources. For example, police protection is thought of as a public good, but the level of police protection will affect whether the Jones family installs a burglar alarm. And whether government builds freeways or subways affects private choices among alternative forms of transportation.

### 4 \_\_\_\_\_

*Fourth*, government also makes transfer payments to those who are entitled to receive them under the law. For example, people qualify to receive Social Security benefits on the basis of age or disability or unemployment benefits. Farm subsidies are paid by the U.S. government to firms which qualify by engaging in certain farming activities.

Transfer payments redistribute income among groups in society and are a larger part of the total expenditures of the federal government than is the

purchase of goods and services including defense. The distribution of income between the young and the old in the U.S. has been substantially altered by the growth in Social Security benefits received primarily by the elderly and the corresponding increase in Social Security taxes paid primarily by the young. Transfer payments also affect private decisions. For example, the increase in the number of people choosing earlier retirement is surely related to the increase in the level of Social Security benefits as well as the penalties which the rules put on continued work by those qualifying for old age benefits.

We tend to focus on the federal government in thinking about the role of government in the economy, but state and local governments also play important roles in all four functions of government. Economists refer to governments at all levels as the public sector.

*ConspecteCom*

## **5.2 Find English equivalents for the phrases from the text:**

- 1 общество с ограниченной ответственностью
- 2 совместно владеть фирмой
- 3 нести личную ответственность за действия
- 4 ограничение права собственности
- 5 начало осуществления отдельных видов экономической деятельности
- 6 взимать акцизы
- 7 стимулировать или сдерживать отдельные виды экономической деятельности
- 8 налоговые поступления
- 9 производство общественных благ
- 10 распределение государственных расходов
- 11 осуществлять трансфертные платежи
- 12 иметь право на получение чего-либо
- 13 пособие по безработице
- 14 перераспределять доход между группами в обществе

**5.3 Make phrases by matching an item from each column. Make up sentences with some of the phrases.**

- |                |             |
|----------------|-------------|
| 1 allocate     | a block     |
| 2 building     | b example   |
| 3 collect/levy | c outlook   |
| 4 incentive    | d schemes   |
| 5 give         | e income    |
| 6 goods        | f a lever   |
| 7 prime        | g net       |
| 8 public       | h payment   |
| 9 redistribute | i programs  |
| 10 rosy        | j resources |
| 11 safety      | k revenue   |
| 12 support     | l sector    |
| 13 tax         | m &services |
| 14 transfer    | n taxes     |

**5.4 Choose the correct phrases to complete the sentences.**

- 1 Consumer spending on *support programs/goods and services* fuels about two-thirds of national economic activity.
- 2 Economists say *the rosy outlook/prime example* will mean lower long-term interest rates and cheaper mortgages.
- 3 Inflation tends to *redistribute income/give lever* and wealth in the economy.
- 4 Property rights are central to capitalism's ability to *allocate resources/transfer payments* efficiently.
- 5 The *tax revenue / public sector* still accounted for 40 percent of gross national product (GNP), and employed 44 percent of the nation's workforce.
- 6 The welfare system was set up to provide a *safety net / building block* for the poor.
- 7 To enhance the innovation activities of enterprises, it is necessary to create *incentive schemes / levy tax* for financing these activities.

## 5.5 Paraphrase and discuss the following sentences.

- 1 Government establishes the legal framework within which the economy operates- economists sometimes refer to this framework as the rules of the game.
- 2 What activities are taxed, and how heavily, gives government many levers with which to encourage or discourage specific economic activities.
- 3 The allocation of government spending among alternatives also influences how firms and households allocate their private resources.
- 4 Transfer payments redistribute income among groups in society.
- 5 Transfer payments also affect private decisions.
- 6 We tend to focus on the federal government in thinking about the role of government in the economy, but state and local governments also play important roles in all four functions of government.

## 5.6 Write a summary of the text (6–8 sentences) and create a content map/ mind map of it. Follow the plan.

- **Introduction** (The article examines / deals with / focuses on ...sth / the features of / the concept of / the main trends in / implications of).
- **A thesis statement** (the main idea of the article in 1 sentence).
- **Supporting arguments** (arguments, underpinning the main point/ idea).
- **Counter-arguments** (if any) — (starting with linkers for contrasting ideas, e.g. However / On the other hand).
- **Conclusion** (Overall / to sum up).

## 6 TAXATION.

Lead in

Discuss the statement.

*Taxes: making the best of a necessary evil.*

## 6.1 Discuss the questions in pairs.

Which official body is responsible for taxation in Russia?

What types of taxes exist in Russia? What are their tax rates?

What are the arguments in favour of and against taxation?

## 6.2 Choose the correct option to complete the definitions.

- 1 A tax on property and on land is a/an:  
**A** indirect tax                      **B** direct tax                      **C** value-added tax.
- 2 The tax people pay on salaries is called:  
**A** wage tax                      **B** income tax                      **C** wealth tax.
- 3 A tax that is paid at each stage in the production of goods or services, and by the final customer:  
**A** sales tax                      **B** value-added tax                      **C** capital gains tax.
- 4 Customs duties and VAT are examples of:  
**A** indirect taxes                      **B** direct taxes                      **C** progressive taxes.
- 5 A tax levied at a higher rate on higher incomes is called a:  
**A** flat tax                      **B** proportional tax                      **C** progressive tax.
- 6 Profits made by selling assets (e.g. shares) are generally liable to a/an:  
**A** capital gains tax                      **B** value-added tax                      **C** wealth tax.
- 7 Reducing the amount of tax you pay to a legal minimum is called:  
**A** tax evasion                      **B** tax avoidance                      **C** fiscal policy.
- 8 Making false declarations to the tax authorities is called:  
**A** tax evasion                      **B** tax avoidance                      **C** fiscal policy.
- 9 A place where people live or invest money so as to pay less tax than they would in other countries:  
**A** tax harbour                      **B** tax haven                      **C** an escape.

10 A small mistake in an agreement or law that gives someone the chance to avoid paying something:

A a loophole

B an excuse

C money laundering.

6.3 What are the standard names for the tax or taxes paid on the following? What are their rates in Russia?

- 1 company profits
- 2 goods bought in stores
- 3 alcoholic drinks and tobacco products
- 4 goods made in other countries
- 5 money made by selling shares at a profit
- 6 salaries and wages

6.4 Are the following statements true or false? Prove your point.

- 1 Excise duties are extra sales taxes on selected products.
- 2 Capital gains are generally taxed at a higher rate than income.
- 3 Taxes can be proportional and progressive at the same time.
- 4 Some international companies have their registered headquarters in small countries where they do only a small proportion of their business.
- 5 Tax avoidance is illegal.
- 6 Employees will pay less tax if their employer reduces their salary a little and provides them with a car.
- 7 Perks and loopholes are forms of tax evasion.

## VIDEO: A Soda Tax



6.5 In your opinion, why was a Soda tax introduced in some US states? Watch the video and answer the questions.

- 1 Why did they choose to focus their study on Philadelphia?
- 2 How much was a soda tax in Philadelphia? How was it levied?
- 3 Did more expensive soda result in fewer sales?
- 4 Did people actually drink less soda?
- 5 Did the soda tax influence all consumer groups equally?
- 6 How does cross-shopping undermine the intended goals of soda taxes?
- 7 How can legislators make soda taxes more effective?



## Over to you

### Improving Public Speaking Skills

Find information about 2–3 weird or unusual taxes in different countries.

Deliver a short speech on your findings to your group giving the reasons for introducing them.

Your speech should be well-structured, interesting and informative (you will deliver it in front of your groupmates).

Do not use your notes/phones.



*fusionbrain.ai*

Vote for the best speech.

The winner receives 1 Econcoin.



## READING: Taxation (and how to avoid it)

6.6 Read the text and answer the questions below.

- 1 What are the main functions of taxation?
- 2 Is the tax system fair?
- 3 What is wrong with progressive tax system?
- 4 Why do people cheat when it comes to taxes?
- 5 What are the examples of so-called loopholes?
- 6 What are the examples of tax shelters?
- 7 Do you know any tax havens?
- 8 What is the essence of money laundering?

The primary function of taxation is, of course, to raise revenue to finance government expenditure, but taxes can also have other purposes. Indirect excise duties, for example, can be designed to dissuade people from smoking, drinking alcohol, and so on. Governments can also encourage capital investment by permitting various methods of accelerated depreciation accounting that allow companies to deduct more of the cost of investments from their profits, and consequently reduce their tax bills. There is always a lot of debate as to the fairness of tax systems. Business profits, for example,

are generally taxed twice: companies pay tax on their profits (corporation tax in Britain, income tax in the USA), and shareholders pay income tax on dividends.

Income taxes in most countries are progressive, and are one of the ways in which governments can redistribute wealth. The problem with progressive taxes is that the marginal rate — the tax people pay on any additional income — is always high, which is generally a disincentive to both working and investing. On the other hand, most sales taxes are slightly regressive, because poorer people need to spend a larger proportion of their income on consumption than the rich.

The higher the tax rates, the more people are tempted to cheat, but there is a substantial 'black' or 'underground' economy nearly everywhere. In Italy, for example, self-employed people — whose income is more difficult to control than that of company employees — account for more than half of national income. Lots of people also have undeclared, part-time evening jobs (some people call this 'moonlighting') with small and medium-sized family firms, on which no one pays any tax or national insurance. In 1986, the Director of the Italian National Institute of Statistics calculated the size of the underground economy, and added 16.7% to Italy's gross national product (GNP) figure, and then claimed that Italy had overtaken Britain to become the world's fifth largest economy.

To reduce income tax liability, some employers give highly-paid employees lots of perks or benefits instead of taxable money, such as company cars, free health insurance, and subsidized lunches. Legal ways of avoiding tax, such as these, are known as loopholes in tax laws. Life insurance policies, pension plans and other investments by which individuals can postpone the payment of tax, are known as tax shelters. Donations to charities that can be subtracted from the income on which tax is calculated are described as tax-deductible.

Companies have a variety of ways of avoiding tax on profits. They can bring forward capital expenditure (on new factories, machines, and so on) so that at the end of the year all the profits have been used up; this is known as making a tax loss. Multinational companies often set up their head offices in countries such as Liechtenstein, Monaco, the Cayman Islands, and the Bahamas, where taxes are low; such countries are known as tax havens. Criminal organizations, meanwhile, tend to pass money through a series of companies in very complicated transactions in order to disguise its origin

from tax inspectors — and the police; this is known as laundering money or money laundering.

*MacKenzie Ian. English for Business Studies. Third edition.*

## 6.7 Find the words and phrases in the text that mean the following:

- 1 to persuade someone not to do something
- 2 the profit of a company that is paid to the people who own shares in it
- 3 the tax rate that you pay on your highest dollar of taxable income
- 4 business activity and income that people do not record in order to avoid paying tax on it
- 5 paid work that you do in addition to your normal job, especially without telling your employer
- 6 the amount of tax you owe to the federal government on your annual earned income
- 7 a way of investing or spending money that allows a person or a company to avoid tax or to pay less tax than they would normally
- 8 an expense that an individual taxpayer or a business can subtract from adjusted gross income
- 9 a situation in which a company or investment loses money in a particular period, so there is no tax to pay on it
- 10 a place where people live or invest money so as to pay less tax than they would in other countries
- 11 the action of moving money which has been earned illegally through banks and other business, to make it seem to have been earned legally

## VIDEO: Do tax cuts stimulate the economy?



## 6.8 Complete the following notes with one word from the video in the appropriate form.

trickle-down (x2) / combat / peak / high-income / rate / struggle / policy / savings

When president Ronald Reagan began his first term in 1981 the US economy was \_\_\_\_\_. Unemployment \_\_\_\_\_ were high and getting higher and in 1979 inflation had \_\_\_\_\_ at an all-time high for peacetime. To \_\_\_\_\_ these issues, Reagan's administration introduced a number of economic \_\_\_\_\_.

including tax cuts for large corporations and \_\_\_\_\_ earners. The idea was that tax \_\_\_\_\_ for the rich would cause extra money to \_\_\_\_\_ on everyone else, and for that reason, these policies are often referred to as \_\_\_\_\_ economics.

### 6.9 Study the phrases in the box below. Match them with the definitions.

tax cut	tax rate	tax revenue	tax bracket
	income tax	corporate tax	

- a a range of different incomes on which the same rate of tax must be paid
- b a reduction made by the government in the amount of tax that people pay
- c money collected by a government body from its constituents for public spending
- d tax that a company has to pay on its profits
- e the amount of tax that you pay to the government according to how much you earn
- f the percentage of an amount or value that has to be paid in tax

### 6.10 Discuss the following questions.

- 1 What is the main principle of a trickle-down theory?
- 2 Why was the trickle-down theory introduced?
- 3 What is Reaganomics?
- 4 Do you think trickle-down theory works?
- 5 Is cutting taxes for the rich better or worse than cutting taxes for the poor?

### 6.11 Welcome to the Translation Games!

Follow the instructions below to complete the task.

<b>Step 1</b>	<b>Step 2</b>	<b>Step 3</b>	<b>Step 4</b>
Form groups of 4 and name your team.	Examine the sentences below and single out terms and phrases used in the unit.	Set the timer: you have only 10 minutes to complete the task.	You are ready to start.

And may the odds be in your favour!

Remember (!)

Translations are less about transposing words and more about carrying over meaning, emotion, and intent from one culture to another.

- 1 Высокие ставки подоходного налога могут помешать работникам сообщать о своих реальных доходах. Они также являются причиной уклонения от уплаты налогов.
- 2 Правительства взимают налоги с компаний с ограниченной ответственностью, которые несут ответственность за уплату корпоративных налогов. Они также используют налоговые поступления для осуществления трансфертных платежей и финансирования государственных услуг.
- 3 Некоторые налогоплательщики используют лазейки, которые способствуют минимизации налогообложения. Другие же уклоняются от уплаты налогов и отмывают деньги.
- 4 Работники, которые подрабатывают, не декларируя свой дополнительный доход, могут не иметь права на социальные выплаты. Это усложняет распределение государственных расходов.
- 5 Снижение налогов может краткосрочно стимулировать экономическую деятельность.

# FISCAL AND MONETARY POLICY

Agree or disagree? Prove your point.

*"Government's view of the economy could be summed up in a few short phrases: If it moves, tax it. If it keeps moving, regulate it. And if it stops moving, subsidize it".*

Ronald Reagan

## 7 FISCAL POLICY vs MONETARY POLICY.

**VIDEO: Too Embarrassed To Ask: what is the difference between monetary & fiscal policy?**



Before you watch

What is the difference between monetary & fiscal policy?

**7.1 Try to complete the definitions. Then watch the video and check your answers.**

M\_\_\_\_\_ p\_\_\_\_\_ is managed by c\_\_\_\_\_ b\_\_\_\_\_ who aim to m\_\_\_\_\_ economic goals set by g\_\_\_\_\_. They do this by i\_\_\_\_\_ the amount of m\_\_\_\_\_ circulating in the economy.

F\_\_\_\_\_ p\_\_\_\_\_, on the other hand, refers to the t\_\_\_\_\_ used by g\_\_\_\_\_ to influence the economy. G\_\_\_\_\_ can r\_\_\_\_\_ or l\_\_\_\_\_ taxes. They can also d\_\_\_\_\_ s\_\_\_\_\_ — at specific industries or groups of people.

**7.2 Watch the video and provide English equivalents for the collocations below:**

- 1 основные рычаги
- 2 конкретное обоснование
- 3 развитие экономики
- 4 стоимость заимствования
- 5 поднятие/опущение процентной ставки
- 6 печатать деньги
- 7 покупать государственные облигации
- 8 стимулировать рост
- 9 увеличить инфляцию
- 10 стимулировать экономию средств вместо потребления
- 11 подавить инфляцию
- 12 главная особенность
- 13 возрастающая зависимость от
- 14 взлеты и падения
- 15 делегировать управление
- 16 развеять иллюзию
- 17 стремительно растущие цены на активы
- 18 растущее неравенство
- 19 справиться с последствиями
- 20 последствия для инвесторов

**7.3 Work in pairs. Make up 5 sentences in Russian using new vocabulary. Exchange with another pair, translate and then check.**

## 7.4 Decide if the following statements are true or false.

- 1 Fiscal policy involves government decisions about taxes and spending.
- 2 The Federal Reserve is responsible for fiscal policy in the United States.
- 3 Monetary policy is mainly about controlling the supply of money and interest rates.
- 4 Cutting government spending is an example of monetary policy.
- 5 Fiscal policy can be used to help the economy during a recession by increasing government spending.
- 6 Raising interest rates is a tool used in monetary policy.
- 7 Only government can set monetary policy.
- 8 Both fiscal and monetary policy aim to influence the economy's growth and stability.

## READING: Fiscal and Monetary Policy

### 7.5 Read the text below and answer the questions.

- 1 What is the main purpose of fiscal and monetary policy in an economy?
- 2 How do central banks implement monetary policy?
- 3 What are the components of the GDP expenditure equation?
- 4 How can governments directly and indirectly affect economic activity according to the text?
- 5 What is the difference between expansionary and contractionary fiscal policy?
- 6 What are some short-term and long-term objectives of fiscal policy described in the text?
- 7 What is a nominal anchor? Why is it important in monetary policy?
- 8 Why did many countries shift from money supply targeting to inflation targeting in their monetary policy?

When policymakers seek to influence the economy, they have two main tools at their disposal — monetary policy and fiscal policy.

Central banks indirectly target activity by influencing the money supply through adjustments to interest rates, bank reserve requirements, and the purchase and sale of government securities and foreign exchange (Monetary



policy). Governments influence the economy by changing the level and types of taxes, the extent and composition of spending, and the degree and form of borrowing (Fiscal policy).

Governments directly and indirectly influence the way resources are used in the economy. A basic equation of national income accounting that measures the output of an economy or GDP using the expenditure approach helps show how this happens:

$$GDP = C + I + G + NX.$$

On the left side is GDP — the value of all final goods and services produced in the economy. On the right side are the sources of aggregate spending or demand — private consumption (C), private investment (I), purchases of goods and services by the government (G), and exports minus imports (net exports, NX). This equation makes it evident that governments affect economic activity (GDP), controlling G directly and influencing C, I, and NX indirectly, through changes in taxes, transfers, and spending. Fiscal policy that increases aggregate demand directly through an increase in government spending is typically called expansionary or loose fiscal policy. By contrast, fiscal policy is often considered contractionary or tight if it reduces demand via lower spending.

Besides providing goods and services like public safety, highways, or primary education, fiscal policy objectives vary. In the short term, governments may focus on macroeconomic stabilization — for example, expanding spending or cutting taxes to stimulate an ailing economy, or slashing spending or raising taxes to combat rising inflation or to help reduce external vulnerabilities. In the longer term, the aim may be to foster sustainable growth or reduce poverty with actions on the supply side to improve infrastructure or education. Although these objectives are broadly shared across countries, their relative importance differs, depending on country circumstances. In the short term, priorities may reflect the business cycle or response to a natural disaster or a spike in global food or fuel prices. In the longer term, the drivers can be development levels, demographics, or natural resource endowments.

In general, a monetary policy framework provides a nominal anchor to the economy. A nominal anchor is a variable policymakers can use to tie down the price level. One nominal anchor central banks used in the past was a currency peg — which linked the value of the domestic currency to the value of the currency of a low-inflation country. But this approach meant that

the country's monetary policy was essentially that of the country to which it pegged, and it constrained the central bank's ability to respond to such shocks as changes in the terms of trade or changes in the real interest rate. As a result, many countries began to adopt flexible exchange rates, which forced them to find a new anchor.

Many central banks then began targeting the growth of money supply to control inflation. This approach works if the central bank can control the money supply reasonably well and if money growth is stably related to inflation over time. Ultimately, monetary targeting had limited success because the demand for money became unstable — often because of innovations in the financial markets.

As a result, many countries with flexible exchange rates began to target inflation more directly. The makers of monetary policy have adopted a technique called inflation targeting to control the general rise in the price level. In this framework, a central bank estimates and makes public a projected, or “target”, inflation rate and then attempts to steer actual inflation toward that target, using such tools as interest rate changes. Because interest rates and inflation rates tend to move in opposite directions, the likely actions a central bank will take to raise or lower interest rates become more transparent under an inflation targeting policy. Advocates of inflation targeting think this leads to increased economic stability.

*International Monetary Fund*

## **7.6 Find English equivalents for the phrases from the text.**

- 1 иметь в своем распоряжении два основных инструмента
- 2 влиять на предложение денег (денежную массу)
- 3 корректировки процентных ставок
- 4 покупка и продажа государственных ценных бумаг
- 5 объем и структура расходов
- 6 степень и форма заимствований
- 7 исчисление национального дохода
- 8 измерять объем производства экономики
- 9 стоимость всех конечных товаров и услуг
- 10 стимулирующая или мягкая фискальная политика
- 11 стимулировать слабеющую экономику
- 12 бороться с ростом инфляции
- 13 способствовать устойчивому росту

- 14 скачок мировых цен на продукты питания или топливо
- 15 обеспеченность природными ресурсами
- 16 режим (модель) денежно-кредитной политики
- 17 номинальный якорь
- 18 привязка валюты
- 19 ввести плавающий валютный курс
- 20 таргетирование инфляции
- 21 привести фактическую инфляцию к целевому уровню

## 7.7 Complete the sentences with the terms from the text.

- 1 When governments change the level of taxes and government spending to influence the economy, this is called \_\_\_\_\_.
- 2 Central banks use \_\_\_\_\_ to control the money supply and influence economic activity.
- 3 The equation  $GDP = C + I + G + NX$  includes \_\_\_\_\_, which represents exports minus imports.
- 4 A policy that increases government spending to boost aggregate demand is known as \_\_\_\_\_ fiscal policy.
- 5 To reduce aggregate demand and control inflation, governments may implement \_\_\_\_\_ fiscal policy.
- 6 A \_\_\_\_\_ is a variable used by policymakers to stabilize the price level, such as an inflation rate or currency peg.
- 7 Many central banks now use \_\_\_\_\_, which involves setting a public target for inflation and adjusting interest rates accordingly.
- 8 The total value of all final goods and services produced in an economy is measured by \_\_\_\_\_.

## 8 THE BUSINESS CYCLE.

### 8.1 Complete the text using the words in the box.

stimulate	consumption	increasing	cool down
upturn	re-elected	upswing	taxation
depression	boom	overheating	slump
	reducing(2)	boost	downturn
		spending	

## Expansion and contraction

All market economies have periods when 1 \_\_\_\_\_ expenditure — spending on goods and services — rises. Consumers buy more, companies invest more, and production, income, profits and employment increase. These periods are always followed by periods when spending and investment fall, and unemployment rises. This is the business cycle.

A period during which economic activity increases and the economy is expanding is an 2 \_\_\_\_\_ or 3 \_\_\_\_\_. If it lasts a long time it is called a 4 \_\_\_\_\_. The highest point of the business cycle is a peak, which is followed by a 5 \_\_\_\_\_ during which the amount of economic activity decreases. If the economy keeps contracting for more than six months, the downswing is called a recession. A serious, long-lasting recession is called a 6 \_\_\_\_\_ or a 7 \_\_\_\_\_. The lowest point of the business cycle is a trough, which is followed by a recovery, when economic activity increases again, and a new cycle begins.

*Note: A downturn is also called a downswing or a period of contraction; a recovery is also called an upturn, an upswing or a period of expansion.*

## Fiscal policy

Governments and central banks use fiscal policy, which involves changing the levels of government 8 \_\_\_\_\_ and 9 \_\_\_\_\_ to try to limit the extent of the business cycle.

If an economy is moving into a recession, the government might have a reflationary fiscal policy. This means trying to 10 \_\_\_\_\_ the economy by increasing government spending, or by cutting levels of direct or indirect tax so that individuals and companies have more money to spend.

If an economy is 11 \_\_\_\_\_ — expanding too quickly — it means that industry is working at full capacity and producing as much as it possibly can. Because demand is greater than supply, leading to rising prices and inflation, the government might have a deflationary fiscal policy. This means trying to 12 \_\_\_\_\_ the economy: reducing the amount of economic activity by raising tax rates or cutting government expenditure. This reduces the level of demand in the economy and helps to reduce inflation.

## Monetary policy

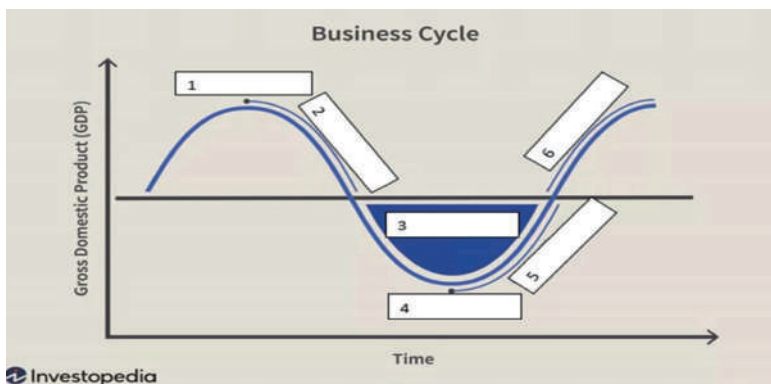
Governments or central banks can also use monetary policy — changing interest rates and the level of the money supply — to influence the level of economic activity.

They can **13** \_\_\_\_\_ or increase economic activity if the economy is in a downturn by **14** \_\_\_\_\_ interest rates and allowing the rate of growth of the money supply to increase. Alternatively, if the economy is growing too fast and causing inflation, they can slow it down by **15** \_\_\_\_\_ interest rates and **16** \_\_\_\_\_ the rate of growth of the money supply.

The main reason for having an independent central bank is to prevent governments from creating a political business cycle — a cycle that will be at a high point at the time of the next election. Governments can do this by beginning their periods of office with a couple of years of policies designed to stop the economy from growing, followed by tax cuts and monetary expansion in the two years before the next election. This policy, sometimes called boom and bust, helps the government get **17** \_\_\_\_\_ but is not good for economic stability. An independent central bank makes this less likely to happen.

### 8.2 Label the graph using the words in the box.

recovery    expansion    recession    trough    peak    depression



Business Cycle Graph

Source: <https://www.investopedia.com/terms/b/businesscycle.asp>

**8.3 Work in pairs and try to complete the sentences below.**

- People spend and borrow money when ...
- People tend to spend less when ...
- A downturn begins when ...
- When interest rates rise ...
- Companies invest when ...
- If the government thinks an economy is contracting too much, ...
- If there isn't an independent central bank, ...
- If the government thinks an economy is growing too quickly, ...

**8.4 Work in pairs. Define the terms from your column in random order so that your partner can guess them.**

Student A	Student B
1 Fiscal policy	1 GDP
2 Currency peg	2 Aggregate demand
3 Contractionary fiscal policy	3 Hyperinflation
4 Nominal anchor	4 Monetary policy
5 Net exports	5 Budget surplus
6 Equilibrium output	6 Trough
7 Trough	7 Expansionary fiscal policy
8 Budget deficit	8 Tight monetary policy

**8.5 Welcome to the Translation Games!**

Follow the instructions below to complete the task.

Step 1	Step 2	Step 3	Step 4
Form groups of 4 and name your team.	Examine the sentences below and single out terms and phrases used in the unit.	Set the timer: you have only 10 minutes to complete the task.	You are ready to start.

And may the odds be in your favour!

Remember (!)

Translations are less about transposing words and more about carrying over meaning, emotion, and intent from one culture to another.

- 1 Центральный банк имеет в своем распоряжении два основных инструмента: корректировки процентных ставок и покупка/продажа государственных ценных бумаг.
- 2 Оба инструмента используются для оказания влияния на предложение денег.
- 3 Государство влияет на экономическую деятельность через объем и структуру расходов, а также степень и форму заимствований.
- 4 Исчисление национального дохода помогает измерять объем производства экономики.
- 5 Для макроэкономической стабилизации государство может использовать стимулирующую (мягкую) фискальную политику или сдерживающую (жесткую) фискальную политику.
- 6 В условиях скачка мировых цен на продукты питания или топливо и ограниченной обеспеченности природными ресурсами важна эффективная модель денежно-кредитной политики с надежным номинальным якорем.
- 7 Центральный банк может вести плавающий валютный курс, использовать таргетирование роста денежной массы или таргетирование инфляции. Это может привести фактическую инфляцию к целевому уровню.
- 8 Цикл деловой активности включает в себя четыре четко различимые фазы: пик, спад, дно и подъем.

## PROJECT

What if AI replaced governments of all countries?

- Imagine a scenario in which AI replaced governments of all countries.
- Make up a mind map indicating: Functions, tasks, a degree and ways of regulation of economies, a macro/microeconomic impact on economic and social life, a response from the public, etc.
- Give your speech, interpreting the mind map (4–5 minutes).



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Vote for the best project.

The winner receives 1 Econcoin.





# MARKETS

## 9 ECONOMIC SECTORS.

### 9.1 Complete the definitions.

A modern economy is made up of 3 different sectors:

The **p**\_\_\_\_\_ sector provides raw materials and natural resources for industry.

The **s**\_\_\_\_\_ sector manufactures finished products.

The **s**\_\_\_\_\_ or **t**\_\_\_\_\_ sector provides support activities for customers or other industries.

**Which sector do these companies belong to:**

*Sber*

*Nike*

*McDonalds*

*Ford*

*BP*

*Yandex*

*Nestle*

*Marriott International*



9.2 The pictures show different industries. How many of them can you name? Complete the chart.



Transport and l\_\_\_\_\_ Sector:



S\_\_\_\_\_ production Sector:



T\_\_\_\_\_ Sector:



Oil e\_\_\_\_\_ Sector:



A\_\_\_\_\_ Sector:



Food p\_\_\_\_\_ Sector:



M\_\_\_\_\_ Sector:



A\_\_\_\_\_ Sector:



T\_\_\_\_\_ and clothing Sector:



R\_\_\_\_\_ Sector:



Car m\_\_\_\_\_ Sector:



I\_\_\_\_\_ Sector:

### 9.3 Complete the report with words from task 9.2.

In Turkey, the primary sector is made up of 1 \_\_\_\_\_ which produces basic foods, like fruits, vegetables, and wheat, and the exploration industries like 2 \_\_\_\_\_ which provide our basic energy and gas, or 3 \_\_\_\_\_ which extracts minerals and material for building.

The secondary sector consists of manufacturing industries, like the 4 \_\_\_\_\_. There are also processing industries, for example 5 \_\_\_\_\_.

The manufacturing sector is divided into heavy industries which need great power and big investment in machinery, for example steel production, and light assembly industries, like 6 \_\_\_\_\_, which produce goods for the fashion industry and need little investment.

The service sector includes many different activities which support both businesses and private customers. Businesses need services like 7 \_\_\_\_\_ to move or store goods and other marketing services, like 8 \_\_\_\_\_ to tell customers about their products.

But the biggest part of the private service sector is made up of consumer services, like 9 \_\_\_\_\_, which includes shops where we buy things, the finance sector, including banks and 10 \_\_\_\_\_ companies, and the fast-growing 11 \_\_\_\_\_ sector for the international travel market.

#### Over to you

**Improving Public Speaking Skills**  
Choose one country and give an overview of its economic sectors.

- Choose different countries.
- Your speech should be well-structured, interesting and informative (you will have to give the talk to your groupmates).
- Do not use your notes.



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Vote for the best speech.

The winner receives 1 Econcoin.



**9.4 Complete the text with the derivatives of the words “compete”, “consume”, “produce”.**

In a 1 \_\_\_\_\_ market, 2 \_\_\_\_\_ constantly strive to reduce their 3 \_\_\_\_\_ costs as a way to increase profits. The increased efficiency that allows them to reduce their costs also enables 4 \_\_\_\_\_ to sell their goods at a lower price. Thus, by promoting efficiency, 5 \_\_\_\_\_ leads to lower prices. 6 \_\_\_\_\_ also motivates 7 \_\_\_\_\_ to improve the quality and increase the variety of goods and services. 8 \_\_\_\_\_ soon will learn which brand offers the best value, and that firm will earn greater profits than its 9 \_\_\_\_\_. Similarly, 10 \_\_\_\_\_ in a 11 \_\_\_\_\_ market must constantly look for new and attractive goods and services to win a larger share of the market.

Furthermore, 12 \_\_\_\_\_ fosters innovation as companies seek to differentiate themselves by introducing new features, technologies, or services that better meet 13 \_\_\_\_\_ needs. This dynamic environment encourages continuous improvement and adaptation, benefiting the overall economy by driving growth and creating jobs. As firms 14 \_\_\_\_\_ for the consumer’s dollar in a market, their efforts lead to the 15 \_\_\_\_\_ of a variety of better-quality 16 \_\_\_\_\_ at the lowest possible prices. And since we are all 17 \_\_\_\_\_, it follows that competition benefits us all by expanding choices, improving quality, and making goods and services more affordable.

## 10 MARKET STRUCTURES.

### 10.1 Match each market structure in the box with its definition.

Monopoly	Oligopoly	Perfect competition
Monopolistic competition	Monopsony	Natural monopoly
	Dominant-firm oligopoly	

- 1 A market with many sellers offering identical products, where no single seller can influence the market price, and entry barriers are very low.

- 2 A market consisting of many sellers offering similar but slightly differentiated products, allowing some control over pricing due to product uniqueness.
- 3 A market dominated by a single seller with no close substitutes, resulting in significant control over price and high barriers to entry.
- 4 A market with a few large sellers, each of which may sell identical or differentiated products, and where firms are interdependent in pricing and output decisions.
- 5 A market where a single buyer controls the demand side, having significant power to influence prices and terms from sellers.
- 6 A market dominated by one firm that has a significantly larger market share than its competitors and can set prices, while smaller firms act as price-takers.
- 7 A market where a single firm is the sole provider due to very high fixed costs and economies of scale, making it inefficient for multiple firms to operate.

**10.2 Classify the following markets according to whether you think they are examples of the following:**

a dominant-firm oligopoly a monopsony		monopolistic competition an oligopoly	a monopoly perfect competition
1 Wheat.	4 Weapons.	7 Restaurants.	
2 Cars.	5 Confectionary.	8 Public transport.	
3 Rail transport.	6 Telecommunications.	9 Beetroot.	

## READING: Supply and Demand: Why Markets Tick

**10.3 Read the text and answer the questions:**

- 1 What is meant by the “market-clearing price”, and how is it determined in a perfectly competitive market?
- 2 Explain the difference between the supply curve and the demand curve as described in the text.
- 3 How does the presence of unlimited buyers and sellers affect prices in a perfectly competitive market?
- 4 What role do barriers play in preventing competition?

- 5 According to the text, how do monopolies differ from perfectly competitive markets in terms of setting prices?
- 6 Why might governments regulate the supply of certain goods, and what are two methods they might use to do so?
- 7 How can market entrants compete with established producers, and what effect might this have on product variety?

*Buyers and sellers meet and at the right price all products are sold*

In any market transaction between a seller and a buyer, the price of the good or service is determined by supply and demand in a market. Supply and demand are in turn determined by technology and the conditions under which people operate.

Economists have formulated models to explain various types of markets. The most fundamental is perfect competition, in which there are large numbers of identical suppliers and demanders of the same product. Buyers and sellers can find one another at no cost, and no barriers prevent new suppliers from entering the market. In perfect competition, no one has the ability to affect prices. Both sides take the market price as a given, and the market-clearing price is the one at which there is neither excess supply nor excess demand. Suppliers will keep producing as long as they can sell the good for a price that exceeds their cost of making one more (the marginal cost of production). Buyers will go on purchasing as long as the satisfaction they derive from consuming is greater than the price they pay (the marginal utility of consumption). If prices rise, additional suppliers will be enticed to enter the market. Supply will increase until a market-clearing price is reached again. If prices fall, suppliers who are unable to cover their costs will drop out.

Economists generally lump together the quantities suppliers are willing to produce at each price into an equation called the supply curve. The higher the price, the more suppliers are likely to produce. Conversely, buyers tend to purchase more of a product the lower its price. The equation that spells out the quantities consumers are willing to buy at each price is called the demand curve.

Prices can change for many reasons (technology, consumer preference, weather conditions). The relationship between the supply and demand for a good (or service) and changes in price is called elasticity. Goods that are inelastic are relatively insensitive to changes in price, whereas elastic goods

are very responsive to price. A classic example of an inelastic good (at least in the short term) is energy. Consumers require energy to get to and from work and to heat their houses. It may be difficult or impossible in the short term for them to buy cars or houses that are more energy efficient. On the other hand, demand for many goods is very sensitive to price. Think steak. If the price of steak rises, consumers may quickly buy a cheaper cut of beef or switch to another meat. Steak is an elastic good.

Of course, most markets are imperfect; they are not composed of unlimited buyers and sellers of virtually identical items who have perfect knowledge. At the other end of the spectrum from perfect competition is monopoly. In a monopoly, there is one supplier of a good for which there is no simple substitute. The supplier does not take the market price as a given. Instead, the monopolist can set it. Monopoly's twin is monopsony, in which there is only one buyer, usually a government, although there may be many suppliers.

In monopoly situations, there usually is a barrier — natural or legal — to potential competitors. For example, utilities are often monopolies. It would be inefficient for two water companies to manage watersheds, negotiate usage rights, and lay pipes to households. But consumers have no choice except to buy from the monopolist, and access may be unaffordable for some. As a result, governments usually regulate such monopolies to ensure that they do not abuse their market power by setting prices too high. In return for allowing a company to operate as a sole provider, there may be requirements for minimum services to be provided to everyone or a cap on the prices that can be charged. These caps generally allow companies to recover fixed costs.

Supply and demand can also be affected by the product itself. In perfect competition, all producers make and buyers seek the same product—or close substitutes. In a monopoly, buyers lack easy substitutes. Variety, though, allows for substitution across types. Market entrants could compete head-to-head with an existing producer by applying the same production technology, but they might instead introduce new varieties to cater to different tastes. As a result, producers have limited market power to set prices when markets are competitive, but products are differentiated.

*International Monetary Fund*

#### 10.4 Find English equivalents for the following words and word combinations in the text.

- 1 рыночная операция
- 2 спрос и предложение
- 3 совершенная конкуренция
- 4 влиять на цены
- 5 клиринговая цена рынка
- 6 превышать предложение
- 7 предельная полезность потребления
- 8 выходить на рынок
- 9 кривая предложения
- 10 кривая спроса
- 11 неэластичный товар
- 12 чувствительный к цене
- 13 неограниченное число продавцов и покупателей
- 14 одинаковые продукты
- 15 правовой барьер
- 16 злоупотреблять властью
- 17 ценовые ограничения
- 18 фиксированные издержки
- 19 производить аналог/заменитель
- 20 новички на рынке
- 21 соревноваться друг с другом

#### 10.5 Discuss the statements.

- 1 Perfect competition is mostly a theoretical concept and is rarely found in real markets.
- 2 In monopolistic competition, firms spend a lot on advertising and product features, which may not always benefit consumers.
- 3 Monopolies can sometimes be positive because they have more resources to invest in innovation without competition pressure.
- 4 Oligopolies often limit competition by cooperating quietly, which can reduce choices and raise prices for consumers.
- 5 Barriers to entry are often created by established firms to protect their market position and reduce competition from new businesses.



## 10.6 Welcome to the Translation Games!

Follow the instructions below to complete the task.

Step 1	Step 2	Step 3	Step 4
Form groups of 4 and name your team.	Examine the sentences below and single out terms and phrases used in the unit.	Set the timer: you have only 10 minutes to complete the task.	You are ready to start.

And may the odds be in your favour!

Remember (!)

Translations are less about transposing words and more about carrying over meaning, emotion, and intent from one culture to another.

- 1 Первичный сектор занимается добычей природных ресурсов. Вторичный сектор превращает эти ресурсы в готовую продукцию.
- 2 В третичном секторе предприятия предоставляют услуги.
- 3 Компании часто конкурируют за привлечение клиентов, предлагая лучшее качество или более низкие цены.
- 4 Монополия существует, когда одна компания доминирует на рынке и устанавливает цены без конкуренции.
- 5 Олигополия — это рыночная структура, в которой несколько крупных фирм конкурируют и могут вступать в сговор для контроля над ценами.
- 6 Совершенная конкуренция возникает, когда на рынок выходит множество фирм, предлагающих идентичные продукты. Ни одна из них не может устанавливать цены самостоятельно.
- 7 Цены на эластичные товары сильно зависят от спроса и предложения. Даже небольшие изменения могут существенно повлиять на них.
- 8 Естественная монополия возникает потому, что барьеры для входа мешают выходу на рынок других фирм.

## 11 THE PLATFORM ECONOMY.

### Lead in

*What is the Platform Economy?*

*Which Russian companies are the key players in the Platform Economy?*

### READING: The platform economy

#### 11.1 Read the text and answer the questions.

- 1 What factors contributed to the rapid growth of the platform economy in the early twenty-first century?
- 2 How do transaction platforms differ from innovation platforms according to the text?
- 3 According to the survey conducted by the Center for Global Enterprise in 2015, what trends were observed regarding the distribution of platform companies between the US and Asia?
- 4 How do algorithms play a role in the efficiency of e-commerce platforms?
- 5 What concerns do some experts have about the rise of platform-based businesses, and how do these concerns relate to traditional brick-and-mortar locations?
- 6 Compare the business landscape of 2008 to that of 2024 based on the text's description. What does this comparison indicate about the evolution of the global economy?

The platform economy refers to economic activity conducted on digital platforms. Digital platforms are online marketplaces that connect suppliers and consumers using several different methods. These methods can include platforms that facilitate business transactions, foster innovation, or act as a combination of both. They can also provide a place for investors to conduct financial transactions. Platforms can be purely digital and exist in online form only or the digital arm of a traditional brick-and-mortar company. Spurred by the rise of the Internet in the late twentieth century and the proliferation of smartphones in the early twenty-first, the platform economy has grown rapidly.

As consumers began to shift their buying habits away from traditional economies and toward online goods and services, the term platform economy

became attached to the digital marketplace in the early 2000s. The term applied to companies that were formed specifically as internet businesses as well as the move by traditional companies to offer online services in addition to their physical locations. Other names for the new trend included the creative economy, sharing economy, on-demand economy, or gig economy.

The modern platform economy is built upon businesses offering goods and services to consumers through digital platforms. In general, businesses that adhere to the platform model operate in four different ways. The most common is a **transaction platform**, which is sometimes referred to as a digital matchmaker. Transaction platforms connect sellers with buyers who may be searching for a specific good or service. The most high-profile example of this type of platform is the online retailer Amazon, which had an estimated market value of more than \$2 trillion in 2024 and reported \$620 billion in net sales.

Other notable examples of transaction platforms include the online auction site eBay, which reported \$10.2 billion in 2024 net sales; Airbnb, a vacation rental marketplace valued at \$83.28 billion in 2024; and Uber, a ride-sharing company that had \$11.2 billion in net revenue in 2024.

**Innovation platforms** offer technology that people can use as a framework or building block to create, market, or sell their own goods or services. For example, the technology company Microsoft has been making software products such as Windows and Office that people have used for decades for a variety of different functions. By 2024, Microsoft was valued at \$3.3 trillion. In addition to software, other innovation platforms provide hardware and applications that users can use to create content tailored to their needs.

**Integration platforms** combine elements of transaction and innovation platforms. Typically, these consist of software or application downloads that people use as an online marketplace. Examples include the Apple App Store, a digital platform offering mobile applications for Apple's line of iPhone and iPad operating systems. Another example is Google Play, which offers the same services for Google's Android operating systems. The last category is **investment platforms**, which consist of companies that facilitate online investments and offer online financial advice and portfolio strategies. E-Trade, TD Ameritrade, and Fidelity are just some of the many examples of this type of platform.

In 2015, the Center for Global Enterprise conducted a survey that identified 176 companies that followed the platform business model and had a combined estimated value of more than \$4.3 trillion. According to the survey, eighty-two of those companies were based in Asia, with sixty-four in the US; however, the US-based businesses performed better, with an estimated value of \$3.12 trillion compared to \$930 billion for the Asian companies. The US companies also employed more than 820 million people, while the Asian companies employed 352 million.

Many business experts see the platform economy as increasing productivity and providing a more efficient way to do business. E-commerce platforms often use algorithms to match prospective buyers with sellers based on a user's online activity. At the same time, platform sellers do not have to be the producers or manufacturers of a product or service. They can simply match the manufacturer with a potential buyer with no need to invest in physically storing inventory. At the same time, some experts have expressed concerns about platform-based businesses, seeing them as possibly undermining competition and threatening the existence of brick-and-mortar locations.

A clear sign of the shift toward a platform economy can be seen in a comparison of the top global businesses from 2008 and 2019. According to Companies Market Cap, at the beginning of 2008, the top two global businesses were gas and oil companies — PetroChina, a state-run Chinese company with a market capitalization of \$737 billion, and US-based Exxon Mobil, with a market capitalization of \$504 billion. Microsoft was the only digital platform company in the top ten, ranking at number seven with a market cap of \$172 billion. By 2024, four out of five businesses on the list were part of the platform economy.

*EBSCO*

## **11.2 Complete a summary of the article with appropriate words.**

The platform economy refers to **1 e** \_\_\_\_\_ activities conducted on digital platforms that connect **2 s** \_\_\_\_\_ and consumers. Platforms can facilitate business transactions, foster **3 i** \_\_\_\_\_, or serve both purposes, and may exist purely online or as digital extensions of traditional **4 c** \_\_\_\_\_. Since the late 20<sup>th</sup> century, the platform economy has rapidly expanded, with a significant shift toward online **5 b** \_\_\_\_\_ habits. By 2024, four out of five global corporations relied on platform-based business models. The most common type of platform is a **6 t** \_\_\_\_\_ platform like Amazon,

which had a market value of over \$2 trillion in 2024. Other types of platforms include 7 i\_\_\_\_\_ platforms, e.g. Microsoft, 8 i\_\_\_\_\_ platforms such as the Apple App Store, and 9 i\_\_\_\_\_ platforms like E-Trade. While the platform economy increases productivity and efficiency, some experts express concerns about its impact on competition and traditional 10 b\_\_\_\_\_.

### 11.3 Debate Task: The Impact of the Platform Economy.

*“The platform economy does more good than harm to society”.*

#### Task Instructions:

You will be divided into two teams: In favor of the statement and against it.

Each team must use evidence and arguments to support their position, considering economic, social, and regulatory perspectives.

Prepare opening statements, rebuttals, and closing arguments.

#### Debate Structure:

Opening Statements (2 minutes per team).

Main Arguments (each team presents 3–4 key points).

Rebuttals (each team responds to the opposing side).

Audience Questions (optional).

Closing Statements (1 minute per team).

#### PROJECT

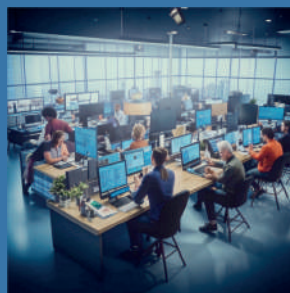
Choose one of the projects below.

1

**Digital Economy and Market Structures:** Study how digitalization changes firm behavior, competition, and influences macroeconomic stability and growth.

2

**The Gig Economy’s Impact on Labor Markets and Economic Stability:** Analyze how the rise of gig work affects individual income, employment patterns, and overall economic growth and unemployment rates.



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**Vote for the best project.**

**Each winner in the team receives 1 Econcoin.**



# BUSINESS ORGANISATIONS

## 12 FORMS OF BUSINESS ORGANISATION.

**12.1** Read the text, complete it using the words in the box and answer the questions.

- 1 What is the main difference between a sole trader and a partnership in terms of liability for business debts?
- 2 How is the liability of shareholders in a corporation different from that of owners in a partnership or sole proprietorship?
- 3 What does the term 'limited liability' mean in the context of company types?
- 4 How are private companies and public companies distinguished in terms of share ownership and public access?

business associates liable for proprietor unlimited liability	business entity limited liability share capital risks and profits	legal arrangements presenting accounts shareholders stocks stock exchange
------------------------------------------------------------------------	----------------------------------------------------------------------------	---------------------------------------------------------------------------------------

Company types

In law, there are various types of 1 \_\_\_\_\_. For each one there are different 2 \_\_\_\_\_ to register the company, different requirements for (3 \_\_\_\_\_), etc.

The main business types are:

Sole trader (UK) / Sole proprietorship (US).

A single person owns and operates a business. Legally, the business has no separate existence from its owner 4 (\_\_\_\_\_). This means that all the debts of the business are the debts of the owner.

Partnership (UK and US).

Two or more people work together and share the 5 \_\_\_\_\_. Just like a sole proprietor, the partners are fully 6 \_\_\_\_\_ (= responsible for) any debts the business has. This is referred to in law as 7 \_\_\_\_\_.

Company (US and UK) / Corporation (US).

The business is a legal entity that is separate from its owners — the 8 \_\_\_\_\_. The owners are not fully liable for the debts of the business. Instead, their liability (= potential risk) is restricted to their 9 \_\_\_\_\_. This is the amount of cash that they have contributed to the company. This is referred to in law as 10 \_\_\_\_\_.

There are two main types of companies:

- Private company: the shares (AmE 11 \_\_\_\_\_) are private in the sense that they cannot be bought by members of the 12 \_\_\_\_\_. The vast majority of companies fall into this category. They're often smaller companies, with shares held by a few 13 \_\_\_\_\_ or family members.
- Public company: the shares are openly traded on a public 14 \_\_\_\_\_. These are the large, often well-known businesses. The word 'public' should not be confused with 'state-owned'. A 'state-owned enterprise' (SOE) is owned by the government.

## 12.2 Agree or disagree with the following statements. Use the vocabulary from task 12.1.

- 1 A sole trader is the simplest business structure, where one individual has full control and is personally liable for all business debts, making it easy to set up but risky in terms of personal assets.
- 2 A partnership is a business structure where two or more individuals share ownership, responsibilities, and profits, often combining skills and resources but also sharing unlimited liability.



- 3 Companies are separate legal entities that limit owners' liability, offering protection of personal assets and often more credibility, but they require more complex administration and higher costs.
- 4 While sole traders enjoy complete decision-making power and minimal compliance, partnerships benefit from pooled resources and shared workload, though both expose owners to unlimited liability.
- 5 Limited companies offer tax benefits and growth opportunities not usually available to sole traders and partnerships, but they require stricter regulatory compliance and regular reporting.

**12.3 What makes a business successful? Add four more categories to the list below.**

**Then choose the five most important ones.**

- *Adaptability.*
- *Clear goals.*
- *Customer service.*
- *Effective management.*
- *Innovation.*
- *Positive workplace culture.*
- *Talented people.*

**12.4 Talk about a successful business you know.  
Why is it successful?**

**12.5 Develop the statements.**

- 1 A successful business clearly defines its goals and ....
- 2 Strong leadership inspires employees and ....
- 3 Understanding customer needs and delivering excellent service builds ...
- 4 Efficient operations reduce costs and ...
- 5 Sound financial management ensures ....
- 6 Innovation and adaptability help a business stay ....
- 7 Effective marketing and a strong brand ...
- 8 A positive company culture ...

## 12.6 Match the underlined idioms to their definitions below.

- 1 After facing several setbacks, the company made a strong comeback by launching an innovative product that captured the market's attention.
  - 2 After years of hard work and smart investments, the small startup finally came up in the world and became a leading player in the tech industry.
  - 3 Joe made a killing on the stock exchange. He can now retire without any worries.
  - 4 The company launched its new product and passed the market test with flying colours, exceeding all sales expectations in the first quarter.
  - 5 The company's ambitious expansion plans went up in smoke after their main investor suddenly withdrew funding, leaving the project completely stalled.
  - 6 The project is failing. Let's cut our losses before it's too late.
  - 7 With his father at the head of the firm, he's got it made.
- 
- a achieved great financial success
  - b achieved success again after a period of failure
  - c came to an end before producing a result
  - d end or stop being involved in something that is already failing, in order to reduce the loss of money, time or effort invested in it
  - e happy and successful in life
  - f richer / more successful than before or having a higher social status
  - g very successfully

## VIDEO: These companies with no CEO are thriving



### Before you watch

How can companies thrive without CEOs?

## 12.7 Watch the video and take notes on the key points.

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Click on the link or scan the QR code below and try to answer the questions as quickly as possible without any mistakes. How many correct answers do you have? Who is the winner?

<https://forms.gle/S2T9VzvJCpSNrUpA6>



## 12.8 Welcome to the Translation Games!

Follow the instructions below to complete the task.

Step 1	Step 2	Step 3	Step 4
Form groups of 4 and name your team.	Examine the sentences below and single out terms and phrases used in the unit.	Set the timer: you have only 10 minutes to complete the task.	You are ready to start.

And may the odds be in your favour!

Remember (!)

Translations are less about transposing words and more about carrying over meaning, emotion, and intent from one culture to another.

- 1 Деловые партнеры часто формируют товарищество, чтобы объединить свои навыки и разделить риски и прибыль.
- 2 Индивидуальный предприниматель — это коммерческая организация, в которой владелец несет личную ответственность за все долги. Он имеет неограниченную ответственность.
- 3 Акционеры одобрили увеличение уставного/акционерного капитала для размещения большего количества акций на фондовой бирже.
- 4 Ограниченная ответственность защищает акционеров компании. Они не несут личной ответственности за долги компании за пределами своих инвестиций.
- 5 Представление отчетности общественности является юридическим требованием для каждой публичной компании, которая котируется на фондовой бирже.
- 6 Перед запуском своего нового предприятия партнеры по бизнесу проконсультировались с юристом.

## Case study

Three companies are looking for a senior manager — a Chief Operating Officer who will be responsible for managing the company's day-to-day operations, and making sure that all operations are efficient and effective.

**Company A: Tech Innovators Inc.** A fast-growing technology startup focused on developing cutting-edge software solutions. The COO will lead day-to-day operations, oversee product development, supply chain, and quality control, and implement scalable operational strategies. This role demands strong leadership to build and mentor a high-performing team while collaborating closely with the CEO to drive innovation and growth.

**Company B: GreenEarth Manufacturing** An established manufacturing company specializing in sustainable products. The COO will manage production, logistics, and compliance with environmental regulations. Responsibilities include optimizing operational efficiency, controlling costs, and aligning processes with strategic goals. The ideal candidate will have extensive experience in operations management and team development within manufacturing industries.

**Company C: Global Services Group** A multinational service provider delivering customer support, IT, and consulting services. The COO will oversee diverse operational functions including finance, human resources, IT, and customer service to ensure seamless daily business activities. This position requires a strategic thinker who can enhance productivity, enforce regulatory compliance, and foster collaboration across departments to support global expansion.

**Which of the following candidates might be the most suitable for the positions?**

### Candidate 1

- Experience: 12 years in technology operations, including 5 years as Operations Director at a SaaS startup.
- Strengths: Expertise in scaling tech teams, streamlining product development, and implementing agile methodologies.
- Key Achievement: Led a product launch that increased customer retention by 30% within one year.

## Candidate 2

- Experience: 15 years in manufacturing operations, with a focus on lean manufacturing and sustainability.
- Strengths: Skilled in process optimization, cost control, and regulatory compliance.
- Key Achievement: Reduced production waste by 25% while maintaining output quality.

## Candidate 3

- Experience: 10 years in multinational service companies, managing cross-functional teams in HR, finance, and IT.
- Strengths: Strong strategic planning, operational integration, and global team leadership.
- Key Achievement: Successfully led a global operational restructuring that improved service delivery times by 20%.

## Candidate 4

- Experience: 13 years in operations management across tech and manufacturing sectors.
- Strengths: Versatile leader with experience in both startup and established companies, skilled in operational efficiency and team building.
- Key Achievement: Implemented a company-wide ERP system that increased operational transparency and reduced costs by 15%.

# 13 HOW THE STOCK MARKET WORKS.

## Lead in

What's the difference between a private company and a public company?

How does a company "go public"?

What information does a stock market index like the S&P 500 or FTSE 100 contain?

*\* The term "going public" refers to a private company's initial public offering (IPO) when it moves to a publicly traded and owned entity.*

### 13.1 Match the Stock Market Index with the Country.

Stock Market Index	Country
1 FTSE 100	a Japan
2 Nikkei 225	b United Kingdom
3 DAX	c United States
4 S&P 500	d Germany
5 CAC 40	e France
6 Hang Seng Index	f Russia
7 BSE Sensex	g India
8 IMOEX	h Hong Kong

## READING: How the stock market works

### 13.2 Read the text and answer the questions.

- 1 What is the difference between shares and stocks?
- 2 What rights do shareholders have in a company?
- 3 How are dividends decided and paid to shareholders?
- 4 Why do some large companies choose not to pay dividends?
- 5 What are the two main types of returns an investor expects from shares?
- 6 What is an IPO and why is it important for a company?
- 7 What is the role of market regulators?
- 8 What does it mean for an investment bank to underwrite a stock issue?
- 9 How does issuing new shares through a rights issue affect existing shareholders?

Every day people buy and sell shares on the stock market. Basically, when you buy a share you become an owner of part of that company. The English markets use the word 'shares', the American markets also use the word 'stocks'. As a shareholder or stockholder, your investment gives you rights to vote at the annual company meeting (the AGM) and to receive a percentage of the profits that a company will hopefully make.

The profit is distributed to you as a dividend, usually paid twice a year. This is because the Board of Directors who run the company decide each year how much of the profit to give back to the shareholders as a return on their investment and how much to retain for the company to use to invest in new projects. Some very big companies do not pay dividends because they feel that the profit made by the company is better retained in the company to grow that business. That way, the shareholder benefits long term because if the company succeeds, the shares will increase in value, so when they sell the shares, they will get a higher price.

That is why an investor in shares expects to make two kinds of return: a dividend and a capital increase when they sell. The value of the shares, of course, changes every day as people trade the stock, and so the market capitalization or total value of the company is never constant.

The biggest markets in the world, like Wall Street, try to value companies every day according to the economic prospects of the company and the progress of the economy. A company that wants to offer its shares to the public must first come to the market through an IPO, an Initial Public Offering. When it has this 'listing' the price of the shares can be 'quoted' every day in trading.

This initial offer to investors is organised by an investment bank which supports the company and organizes the first day of trading. They work, of course, with the market regulators, like the Financial Conduct Authority (FCA) in the UK or the Securities and Exchanges Commission (SEC) in the US, to make sure that the company follows all the regulations and the company is not trying to defraud investors.

The investment bank will 'underwrite' the shares by promising to buy the shares if no other investors are interested. Market participants call this first offer a primary listing. Once a stock has a quoted price, investors can buy and sell the stock every day, so the stock exists in what they call 'the secondary market'.

Sometimes companies need to raise more capital to grow their business and then they can issue new shares in what is called a rights issue. By selling new shares, the company, of course, is getting new money, but at the same time it also means that each individual share in the company is now worth less because it represents a smaller percentage of the whole company.

## VIDEO: The pros and cons of a company going public.

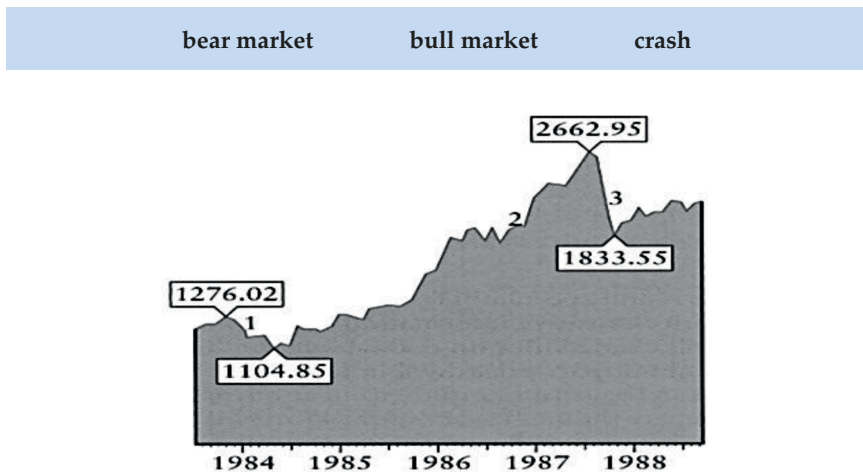


13.3 Watch the video and write down the advantages and disadvantages of a company going public.

PROS:

CONS:

13.4 Label the graph using the words in the box.



Study the information about shares. Do tasks 13.5 and 13.6.

### Ordinary and preference shares

If a company has only one type of shares these are **ordinary (common) shares**. Some companies also have **preference shares** whose holders receive a fixed dividend (e.g. 5% of the shares' nominal value) that must be paid before holders of ordinary shares receive a dividend. Holders of preference shares have more chance of getting some of their capital back if a company goes bankrupt — stops trading because it is unable to pay its debts. If the company **goes into liquidation** — has to sell all its assets to repay part of its debts — holders of preference shares are repaid before other shareholders, but after owners of bonds and other debts. If shareholders expect a company



to grow, however, they generally prefer ordinary shares to preference shares, because the dividend is likely to increase over time.

### **Buying and selling shares**

After newly issued shares have been sold (usually by investment banks) for the first time — this is called the primary market — they can be repeatedly traded at the stock exchange on which the company is listed, on what is called the secondary market.

Major stock exchanges, such as New York and London, have a lot of requirements about publishing financial information for shareholders. Most companies use over-the-counter (OTC) markets, such as NASDAQ in New York and the Alternative Investment Market (AIM) in London, which have fewer regulations.

The nominal value of a share — the price written on it — is rarely the same as its market price — the price it is currently being traded at on the stock exchange. This can change every minute during trading hours, because it depends on supply and demand — how many sellers and buyers there are. Some stock exchanges have computerized automated trading systems that match up buyers and sellers. Others have **market makers**: traders in stocks who quote bid (buying) and offer (selling) prices. The **spread** or difference between these prices is their profit or mark-up. Most customers place their buying and selling orders with a stockbroker: someone who trades with the market makers.

### **New share issues**

Companies that require further capital can issue new shares. If these are offered to existing shareholders first this is known as a **rights issue** — because the current shareholders have the first right to buy them. Companies can also choose to capitalize part of their profit or retained earnings. This means turning their profits into capital by issuing new shares to existing shareholders instead of paying them a dividend. There are various names for this process, including **scrip issue**, **capitalization issue** and **bonus issue**. Companies with surplus cash can also choose to buy back some of their shares on the secondary market. These are then called **own shares (BrE)** or **treasury stock (AmE)**.

### **Categories of stocks and shares**

Investors tend to classify the stocks and shares available in the equity markets in different categories.

**Blue chips:** Stocks in large companies with a reputation for quality, reliability and profitability. More than two-thirds of all blue chips in industrialized countries are owned by institutional investors such as insurance companies and pension funds.

**Growth stocks:** Stocks that are expected to regularly rise in value. Most technology companies are growth stocks, as investors expect rapid growth in their share prices.

**Income stocks:** Stocks that have a history of paying consistently high dividends.

**Defensive stocks:** Stocks that provide regular dividends and stable earnings, but whose value is less likely to rise or fall suddenly.

**Value stocks:** Stocks in companies that are currently trading for less than they are worth — when compared with the companies' assets.

*MacKenzie Ian. Professional English in Use. Finance*

### 13.5 Mark the statements T (True) or F (False).

- 1 Ordinary shares are the only type of shares a company can have if it does not issue preference shares.
- 2 Preference shareholders receive a fixed dividend that must be paid before ordinary shareholders receive any dividend.
- 3 Preference shareholders have a lower chance of getting their capital back than ordinary shareholders if the company goes bankrupt.
- 4 In liquidation, preference shareholders are repaid after bondholders but before ordinary shareholders.
- 5 Shareholders generally prefer preference shares over ordinary shares if they expect the company to grow.
- 6 Shares are first sold on the secondary market before being traded on the primary market.
- 7 Major stock exchanges require companies to publish detailed financial information for shareholders.
- 8 The nominal value of a share is usually the same as its market price during trading hours.
- 9 Market makers quote buying and selling prices and make a profit from the difference between these prices.

- 10 Companies can issue and give new shares to existing shareholders for free using a process called a rights issue.
- 11 A bonus issue gives existing shareholders additional shares for free, increasing the number of shares they own without changing the overall value of their investment.

### 13.6 Complete the sentences with the terms from the box.

blue chips stock	income stock rights issue	own shares growth stocks	bonus issue defensive stocks	value
---------------------	------------------------------	-----------------------------	---------------------------------	-------

- 1 A stock whose price has suddenly fallen a lot after a company had bad news could be a \_\_\_\_\_, as it will probably rise again.
- 2 The stocks of food, tobacco and oil companies are usually \_\_\_\_\_, as demand doesn't rise or fall very much in periods of economic expansion or contraction.
- 3 Pension funds and insurance companies, which can't take risks, usually only invest in \_\_\_\_\_.
- 4 The best way to make a profit in the long term is to invest in \_\_\_\_\_.
- 5 This stock used to be considered an \_\_\_\_\_, but two years ago the company started to cut its dividend and reinvest its cash in the business.
- 6 The financial director announced a forthcoming \_\_\_\_\_ of new shares to existing shareholders.
- 7 The company is planning a \_\_\_\_\_ of one additional share for every three existing shares.
- 8 We have bought back 200,000 ordinary shares, which increases the value of our \_\_\_\_\_ to €723,000.

### 13.7 In the stock market, various animal metaphors are used to describe different types of investors and market conditions. Match the descriptions of investors to the animals they represent.

- |                                                                                            |               |
|--------------------------------------------------------------------------------------------|---------------|
| 1 aggressive traders who focus on short-term profits, often through high-frequency trading | <b>a</b> Bull |
| 2 can be aggressive and unethical traders, potentially engaging in manipulative practices  | <b>b</b> Bear |

- |    |                                                                                                                  |   |          |
|----|------------------------------------------------------------------------------------------------------------------|---|----------|
| 3  | fearful investors who panic and make impulsive decisions, often selling at the bottom of a market drop           | c | Pig      |
| 4  | greedy investors who chase high returns without proper risk assessment, often leading to losses                  | d | Sheep    |
| 5  | ignore negative news and market signals, hoping that problems will disappear on their own                        | e | Chicken  |
| 6  | investors who favor high interest rates and are cautious about economic growth                                   | f | Rabbit   |
| 7  | investors who favor low interest rates and are more optimistic about economic growth                             | g | Turtle   |
| 8  | investors who follow the crowd and make decisions based on what others are doing, rather than their own analysis | h | Ostrich  |
| 9  | large institutional investors who can significantly impact market prices due to their substantial trading volume | i | Wolf     |
| 10 | large institutional investors whose buying or selling can cause noticeable shifts in market prices               | j | Shark    |
| 11 | long-term investors who take a slow and steady approach, holding positions for extended periods                  | k | Hawk     |
| 12 | optimistic investors who believe the market will continue to climb                                               | l | Dove     |
| 13 | pessimistic investors who anticipate further declines                                                            | m | Whale    |
| 14 | short-term traders who make quick decisions and hold positions for a very short time                             | n | Elephant |

### 13.8 Think of the social media posts each type of investor could generate.



*e.g. a social media post of a Pig:*

***Risk! It is NOT just part of life.  
It IS life.***

## PROJECT

### INVESTING A CLIENT'S MONEY

Imagine that you are an asset manager, investing money for a client. Select 10 different securities of Russian companies and invest imaginary 5,000,000 rubles in them, dividing up the sum as you wish.

Follow the progress of your portfolio in the financial press or the internet.

Depending on the length of your course, select a date to make a short presentation reporting on how well and badly the portfolio has done, attempting to provide reasons and explanations for any price changes.



*fusionbrain.ai*

Vote for the best presentation.

The winner receives 1 Econcoin.



# MONEY AND BANKING

## 14 FUNCTIONS OF MONEY.

### 14.1 Work in pairs. Comment on the quotations below.

*Money is a terrible master but an excellent servant.*

*Money is the root of all evil.*

*Lack of money is the root of all evil.*

*Money for me has only one sound: liberty.*

*Never spend your money before you have it.*

*If you don't find a way to make money while you sleep, you will work until you die.*

### VIDEO: Functions of money



### 14.2 What functions does money have? Watch the video and take notes on the 4 functions of money. Elaborate on each point.

- 1 A medium of \_\_\_\_\_.
- 2 A unit of \_\_\_\_\_.
- 3 A store of \_\_\_\_\_.
- 4 A standard of \_\_\_\_\_.

### 14.3 Put the correct word in each space.

lend	borrow	account	change	salary	wages
coin	banknotes	currency	spend	waste	exchange note

- 1 I decided to \_\_\_\_\_ my friend some money until he gets paid next week.

- 2 The fall in the \_\_\_\_\_ rate triggered a rise in inflation.
- 3 She had to \_\_\_\_\_ a few dollars to buy lunch because she forgot her wallet.
- 4 I checked my \_\_\_\_\_ balance online to see if my paycheck had been deposited.
- 5 His monthly \_\_\_\_\_ is directly transferred to his savings account.
- 6 The factory workers receive their \_\_\_\_\_ every Friday without fail.
- 7 The old \_\_\_\_\_ in my collection are worth a lot to currency enthusiasts.
- 8 The euro is the official \_\_\_\_\_ used by many countries in Europe.
- 9 In business you have to \_\_\_\_\_ money to make money.
- 10 Don't \_\_\_\_\_ your money on things you don't really need.
- 11 I need to \_\_\_\_\_ some euros into Australian dollars.
- 12 In the UK, a "tenner" is a ten-pound \_\_\_\_\_.
- 13 In the USA "quarters" (25 cents) and "dimes" (10 cents) are examples of \_\_\_\_\_.

#### 14.4 Choose the correct option (A, B, C).

- 1 I took the radio back to the shop and asked for a \_\_\_\_\_.  
A repayment                      B refund                      C return.
- 2 In a shop, to get a refund, you usually have to show a \_\_\_\_\_.  
A recipe                      B bill                      C receipt.
- 3 The euro became \_\_\_\_\_ in 12 European countries on Jan. 1, 2002.  
A legal tender                      B legal money                      C currency.
- 4 We paid for the car in monthly \_\_\_\_\_ over two years.  
A pieces                      B parts                      C installments.
- 5 In an auction, the item is sold to a person who makes the highest \_\_\_\_\_.  
A bid                      B offer                      C price.
- 6 \_\_\_\_\_ currency is any currency that is illegally produced in an attempt to deceive people by making it look like a genuine currency  
A paper                      B counterfeit                      C false.
- 7 The company \_\_\_\_\_ \$618 million to its creditors.  
A lends                      B borrows                      C owes.
- 8 Notes or coins for which the value written on them is greater than the value of the materials they are made from are called:  
A commodity money                      B paper money                      C token money.

## VIDEO: A cashless future.



*What are the advantages and disadvantages of living without cash?  
In groups, make up a list of benefits and challenges.*

**14.5 Look at the sentences below. Work in pairs and try to complete some of the sentences. Watch the video and check your answers.**

- 1 Money is c\_\_\_\_\_ for consumers and banks.
- 2 You have to transport money in armored trucks and store it in secure v\_\_\_\_\_.
- 3 It has become easier for governments to monitor tax e\_\_\_\_\_ and f\_\_\_\_\_.
- 4 Electronic money trails can allow governments and private companies to access and h\_\_\_\_\_ personal data.
- 5 Pretty much every day we hear of data b\_\_\_\_\_ and cyber-attacks.
- 6 Some people might be left behind. They might find it harder to g\_\_\_\_\_ how much money they have.
- 7 People living in the street don't carry card t\_\_\_\_\_ with them so it will be hard to collect money.
- 8 Central banks are the only e\_\_\_\_\_ that print and create money.
- 9 The move towards the cashless society is well under way, but governments need to ensure that the v\_\_\_\_\_ in the society aren't left behind.

**14.6 Complete the definitions with the idioms in the correct form. Make up sentences with them.**

be in the red  
a kickback  
a cash cow  
be loaded

be in the black  
highway/daylight robbery  
go broke  
make a killing

a license to print money  
a nest egg  
living paycheck to paycheck  
feather one's own nest

- 1 If you \_\_\_\_\_, you are very rich.
- 2 A \_\_\_\_\_ is a product or service that makes a lot of money over a long period of time for the company that sells it.
- 3 An amount of money that is secretly and illegally paid to someone in exchange for their help is \_\_\_\_\_.



- 4 If you or your bank account \_\_\_\_\_, you owe money to the bank.
- 5 A situation in which you have to pay far too much money for something is \_\_\_\_\_.
- 6 If a person or business \_\_\_\_\_, that person or business has money in the bank and is not in debt.
- 7 \_\_\_\_\_ means you spend all your income on your monthly living expenses — like your rent or mortgage, utilities, groceries and transportation — and have little to no money left over
- 8 \_\_\_\_\_ is an amount of money that has been saved or kept for a special purpose.
- 9 If a company or activity is a \_\_\_\_\_, it causes people to become very rich without having to make any effort.
- 10 \_\_\_\_\_ is to lose all your money or go bankrupt.
- 11 If you \_\_\_\_\_, you earn a lot of money in a short time and with little effort
- 12 If you \_\_\_\_\_, you make yourself rich, especially in a way that is unfair or dishonest

#### **14.7 Discuss the questions in pairs or small groups.**

- 1 How can a business recover after finding itself in the red, and what actions should it take first?
- 2 Why is it crucial for companies to be in the black, and how does this affect their future opportunities?
- 3 Which industries or products today could be considered a license to print money, and what factors contribute to their success?
- 4 How do kickbacks impact fairness in business, and what measures can prevent them?
- 5 Can you share an experience where you felt the price you paid was daylight robbery? How did it affect your trust in that business?
- 6 How can starting to save early help someone build a nest egg, and what habits support this goal?
- 7 In what ways can a company maintain its cash cow product while still innovating in other areas?
- 8 What financial mistakes or external challenges often cause people or businesses to go broke, and how can they be avoided?

## READING: What Is Money?

### 14.8 Read the text. Answer the questions.

- 1 What would happen if money didn't exist?
- 2 Why did precious metals like gold and silver become popular as money?
- 3 What is fiat money, and why does it have value?
- 4 What are inflation and deflation, and how do they relate to money supply?
- 5 Why do governments delegate money supply control to central banks?
- 6 What is dollarization, and why does it happen?

Money may make the world go around, as the song says. But despite its familiarity, probably few people could tell you exactly what money is, or how it works.

In short, money can be anything that can serve as a:

- store of value, which means people can save it and use it later — smoothing their purchases over time;
- unit of account, that is, provide a common base for prices;
- medium of exchange, something that people can use to buy and sell from one another.
- standard of deferred payment, which means it can be an accepted way to value and settle a debt in the future.

If there were no money, we would be reduced to a barter economy. Every item someone wanted to purchase would have to be exchanged for something that person could provide. For example, a person who specialized in fixing cars and needed to trade for food would have to find a farmer with a broken car. But what if the farmer did not have anything that needed to be fixed?

Without money, every trade would require a double coincidence of wants — each party must have exactly what the other desires — making transactions inefficient and limiting economic growth. But with money, you don't need to find a particular person. Instead you exchange your goods or services for a common medium of exchange — that is, money. You can then use that money to buy what you need from others who also accept the same medium of exchange.

## Many monies

Many different things have been used as money over the years — among them, cowry shells, barley, peppercorns, gold, and silver.

At first, the value of money was anchored by its alternative uses, and the fact that there were replacement costs. For example, you could eat barley or use peppercorns to flavor food. The value you place on such consumption provides a floor for the value. Anyone could grow more, but it does take time, so if the barley is eaten the supply of money declines. On the other hand, many people may want strawberries and be happy to trade for them, but they make poor money because they are perishable. There is also the problem of divisibility — not everything of value is easily divided.

But precious metals seemed to serve all three needs: a stable unit of account, a durable store of value, and a convenient medium of exchange. They are hard to obtain. There is a finite supply of them in the world.

Until relatively recently, gold and silver were the main currency people used. But then fiat money was born. Fiat money is materially worthless, but has value simply because a nation collectively agrees to ascribe a value to it. In short, money works because people believe that it will. Eventhoughusing standardized coins or paper bills made it easier to determine prices of goods and services, the amount of money in the system also played an important role in setting prices. For example, a wheat farmer would have at least two reasons for holding money: to use in transactions (cash in advance) and as a buffer against future needs (precautionary saving). Suppose winter is coming and the farmer wants to add to his store of money in anticipation of future expenses. If the farmer has a hard time finding people with money who want to buy wheat, he may have to accept fewer coins or bills in exchange for the grain. The result is that the price of wheat goes down because the supply of money is too tight. Keeping the demand for and supply of money balanced can be tricky.

## Manufacturing money

Fiat money is more efficient to use than precious metals. Adjustments to its supply do not depend on the amount of precious metal around. But that adds its own complication: Precisely because there is a finite amount of precious metals, there is a limit on the amount of notes that can be issued. If there is no gold or silver to back money, how do governments know how much

to print? On the one hand, the authorities will always be tempted to issue money, because governments can buy more with it, hire more people, pay more wages, and increase their popularity. On the other hand, printing too much money starts to push up prices. If people start expecting that prices will continue to rise, they may increase their own prices even faster. That is what happens during hyperinflation. To remove this temptation to print money willy-nilly, most countries today have delegated the task of deciding how much money to print to independent central banks. Most money today is in the form of bank deposits rather than paper currency.

## **Belief can fade**

In the 1980s, people in some Latin American countries, such as Argentina and Brazil, gradually lost confidence in the currency, because inflation was eroding its value so rapidly. They started using a more stable one, the U.S. dollar, as the de facto currency. This phenomenon is called dollarization.

Some policies governments have used to restore confidence in a currency nicely highlight the “faith” part of money functioning. In Turkey, for example, the government rebased the currency, the lira, eliminating six zeros in 2005. Overnight, 1,000,000 liras became 1 lira. Brazil, on the other hand, introduced a new currency in 1994, the real. In both countries, citizens went along, demonstrating that as long as everyone accepts that a different denomination or a new currency is the norm, it simply will be. Just like fiat money.

*International Monetary Fund*

## **14.9 Find English equivalents for the following word combinations.**

- 1 служить средством сохранения стоимости, единицей счета, средством обмена, мерой отложенных платежей
- 2 бартерная экономика
- 3 двойное совпадение желаний
- 4 принимать одно и то же средство обмена
- 5 стоимость денег была закреплена
- 6 альтернативные способы использования
- 7 предложение денег сокращается
- 8 ограниченное предложение драгоценных металлов
- 9 фиатные деньги
- 10 определять цены на товары
- 11 предупредительные сбережения

- 12 выпускать деньги
- 13 размывать стоимость
- 14 ввести в обращение новую валюту

## CORE CONCEPTS AND WORD COMBINATIONS

14.10 Give English equivalents for the following terms and collocations.

### ACCOUNT

открыть счет в банке  
закрывать счет в банке  
текущий банковский счет  
сберегательный счет,  
    приносящий процентный  
    доход  
совместный счет  
баланс счета  
кредитовать счет  
дебетовать счет

### DEPOSIT

ставка по депозитам  
вклад в банке  
процент по вкладу  
депозит до востребования  
срочный депозит  
отношение суммы ссуд  
    к депозитам  
выполнять требования  
    вкладчиков

### MONEY

хранить деньги в банке  
снимать деньги с банковского  
    счета  
привлекать средства  
выпускать деньги в обращение  
товарные деньги  
символические деньги /  
    денежные знаки  
объем денежной массы  
фиатные деньги  
безналичные деньги  
отмывание денег  
отмывать деньги  
фальшивые деньги

## 15 BANKS.

15.1 Read the web page below advertising online banking, complete the sentences.

### Why bank online?

Because you have access to your account 24 hours a day, 7 days a week.

With internet banking you can:

- *Pay bills without queuing at the bank.*
- *Check your balance whenever you want.*
- *Transfer money between your current account and your savings account.*
- *Print a statement at any time.*
- *Set up, change and delete your standing orders.*
- *View and cancel direct debits.*
- *Apply for a loan.*
- *Apply for a new or increased overdraft.*
- *Order foreign currency.*



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- 1 A \_\_\_\_\_ is an instruction to a bank to pay varying sums of money to another account on particular dates.
- 2 A \_\_\_\_\_ pays interest but usually has limits as to how much money can be withdrawn during a certain period of time.
- 3 A \_\_\_\_\_ lists the recent debits and credits in a bank account.
- 4 An \_\_\_\_\_ is an arrangement allowing someone to borrow money by withdrawing more than they have deposited in their account, up to a certain limit.
- 5 A \_\_\_\_\_ pays no or little interest, but usually allows the holder to withdraw cash or pay cheques without any restrictions.
- 6 A \_\_\_\_\_ is an amount of money borrowed from a bank for a fixed period.
- 7 A \_\_\_\_\_ is the amount of money in a bank account at a particular time.
- 8 A \_\_\_\_\_ is an instruction to a bank to pay regular, fixed sums of money to another account.

## 15.2 Match A and B.

A. Informal phrases	B. Formal phrases
1 I took out some money.	a My account is overdrawn.
2 I went to a cashpoint.	b It's paid by standing order.
3 The money's been sent.	c I deposited some money.
4 I paid in some money.	d I withdrew some money.
5 It goes out of my account every month.	e The funds have been transferred.
6 It went into my account.	f My account was debited.
7 It went out of my account.	g My account was credited.
8 I'm in the red.	h I used an ATM.
9 I checked my balance.	i I made a balance enquiry.

## 15.3 Work in pairs. Ask and answer the questions.

STUDENT A	STUDENT B
1 Who do you bank with?	1 Who do you bank with?
2 How or why did you choose the bank(s) you work with?	2 Do you own a credit card? What is your opinion of credit cards?
3 Do you have a bank account? If so, why?	3 Can you explain the difference between a debit card and a credit card?
4 Are cheques common in your society? If not, what are the most common methods of payment?	4 Is card payment secure for online shopping? Why/why not?
5 How have banks changed over the last 50 years?	5 How has mobile banking changed the way banks and clients interact?
6 Which online banking transactions do you make?	6 What do you think about the increasing role of technology in banking?
7 Would you like to work in a bank? Why or why not?	7 Do you think banks are the best place to keep money? Where else can you put it?
8 What is the difference between commercial and investment banks?	8 Are interest rates too high or too low in your country?

## READING

### Banks: At the Heart of the Matter

#### Lead in

*What Is the role of banks in economic development?*

#### 15.4 Read the text and answer the questions.

- 1 What is the main role of banks in the economy?
- 2 Who can be a borrower and a depositor at banks?
- 3 What is maturity transformation, and why is it important for banks?
- 4 How do banks earn most of their income? What other ways do banks make money?
- 5 How do banks contribute to the payments system?
- 6 How do banks create money?
- 7 What is the reserve requirement?
- 8 What role do banks play in the transmission of monetary policy?
- 9 Why is regulation important for banks, and what risks do regulators aim to control?

Although banks do many things, their primary role is to take in funds — called deposits — from those with money, pool them, and lend them to those who need funds. Banks are intermediaries between depositors (who lend money to the bank) and borrowers (to whom the bank lends money). The amount banks pay for deposits and the income they receive on their loans are both called interest.

Depositors can be individuals and households, financial and nonfinancial firms, or national and local governments. Deposits can be available on demand (a current account or an instant access account, for example) or with some restrictions (such as savings and time deposits).

#### Making loans

While at any given moment some depositors need their money, most do not. That enables banks to use shorter-term deposits to make longer-term loans. The process involves *maturity transformation* — converting short-term liabilities (deposits) to long-term assets (loans). Banks pay depositors less



than they receive from borrowers, and that difference accounts for the bulk of banks' income in most countries.

Not only do individuals, businesses, and governments need somewhere to deposit and borrow money, they need to move funds around — for example, from buyers to sellers or employers to employees or taxpayers to governments. Here too banks play a central role. They process payments, from the tiniest of personal checks to large-value electronic payments between banks. The payments system is a complex network of local, national, and international banks and often involves government central banks and private clearing facilities that match up what banks owe each other. The payments system also includes credit and debit cards. A well-operating payments system is a prerequisite for an efficiently performing economy, and breakdowns in the payments system are likely to disrupt trade — and, therefore, economic growth — significantly.

## **Creating money**

Banks also create money. They do this because they must hold on reserve, and not lend out, some portion of their deposits — either in cash or in securities that can be quickly converted to cash. It is called the reserve requirement (also known as the reserve ratio or cash reserve ratio). The amount of those reserves depends both on the bank's assessment of its depositors' need for cash and on the requirements of bank regulators, typically the central bank. Banks keep those required reserves on deposit with central banks, such as the U.S. Federal Reserve, the Central Bank of the Russian Federation, the Bank of Japan, and the European Central Bank. Banks create money when they lend the rest of the money depositors give them. This money can be used to purchase goods and services and can find its way back into the banking system as a deposit in another bank, which then can lend a fraction of it. The process of relending can repeat itself a number of times in a phenomenon called the multiplier effect. Banks have several ways of making money besides pocketing the difference (or spread) between the interest they pay on deposits and borrowed money and the interest they collect from borrowers or securities they hold. They can earn money from:

- income from securities they trade; and
- fees for customer services, such as checking accounts, financial and investment banking, loan servicing.

Banks earn on average between 1 and 2 percent of their assets (loans and securities). This is commonly referred to as a bank's return on assets.

### **Transmitting monetary policy**

Banks also play a central role in the transmission of monetary policy, one of the government's most important tools for achieving economic growth without inflation. The central bank controls the money supply at the national level, while banks facilitate the flow of money in the markets within which they operate. At the national level, central banks can shrink or expand the money supply by raising or lowering banks' reserve requirements and by buying and selling securities on the open market with banks as key counterparties in the transactions. Banks can shrink the money supply by putting away more deposits as reserves at the central bank or by increasing their holdings of other forms of liquid assets — those that can be easily converted to cash with little impact on their price. A sharp increase in bank reserves or liquid assets — for any reason — can lead to a “credit crunch” by reducing the amount of money banks have to lend, which can lead to higher borrowing costs as customers pay more for scarcer bank funds.

Banks can fail, just like other firms. But their failure can have broader ramifications — hurting customers, other banks, the community, and the market as a whole. Customer deposits can be frozen, loan relationships can break down, and lines of credit that businesses draw on to make payrolls or pay suppliers may not be renewed. In addition, one bank failure can lead to other bank failures.

When a bank is perceived — rightly or wrongly — to have problems, customers, fearing that they could lose their deposits, may withdraw their funds so fast that the small portion of liquid assets a bank holds becomes quickly exhausted. During such a “run on deposits” a bank may have to sell other longer-term and less liquid assets, often at a loss, to meet the withdrawal demands. If losses are sufficiently large, they may exceed the capital a bank maintains and drive it into insolvency. Essentially, banking is about confidence or trust. Many countries insure deposits in case of bank failure.

### **The need for regulation**

Bank safety and soundness are a major public policy concern, and government policies have been designed to limit bank failures and the panic

they can ignite. Banks are regulated by the laws of their home country and are typically subject to regular supervision. If banks are active abroad, they may also be regulated by the host country. Regulators have broad powers to intervene in troubled banks to minimize disruptions.

*International Monetary Fund*

### 15.5 Find English equivalents for the following word combinations.

- 1 посредники между вкладчиками и заемщиками
- 2 текущий счет или счет с мгновенным доступом
- 3 сберегательные вклады и срочные депозиты
- 4 предоставление займов
- 5 трансформация сроков (погашения)
- 6 норматив обязательных резервов
- 7 банки создают деньги
- 8 рентабельность активов банка
- 9 денежно-кредитная трансмиссия
- 10 способствовать движению денег на рынках
- 11 сокращать или увеличивать денежную массу
- 12 повышение или снижение нормативов обязательных резервов банков
- 13 покупка и продажа ценных бумаг
- 14 иметь более широкие последствия
- 15 массовое изъятие вкладов
- 16 страховать вклады
- 17 подлежать регулярному надзору

### 15.6 Give a short summary of the text and create a content map/mind map of it. Follow the plan.

- **Introduction** (The article examines/deals with/focuses on ...sth / the features of/the concept of/the main trends in / implications of).
- **A thesis statement** (the main idea of the article in 1 sentence).
- **Supporting arguments** (arguments, underpinning the main point/idea).
- **Counter-arguments — if any** (starting with linkers for contrasting ideas, e.g. However / On the other hand,...).
- **Conclusion** (Overall / to sum up).

## VIDEO: Could digital currencies put banks out of business?



15.7 Watch the video and take notes on the key points.

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Click on the link or scan the QR code below and try to answer the questions as quickly as possible without any mistakes. How many correct answers do you have? Who is the winner?



<https://forms.gle/ufW4rAVNhMWhd2k59>

15.8 Are the statements true or false? Discuss in pairs.

- 1 The majority of customers prefer to do their personal banking at the bank branch.
- 2 Current accounts pay more interest than savings accounts.
- 3 There is less risk for a bank with a mortgage than with unsecured loans without collateral.
- 4 All interest rates are set by central banks.
- 5 When interest rates fall, people tend to spend and borrow more.
- 6 A borrower who is very solvent will pay a very high interest rate.
- 7 Loans are usually cheaper if they are guaranteed by some form of security or collateral.
- 8 If banks make loans to customers with a lower level of solvency, they can increase their margins.
- 9 One of the causes of changes in interest rates is the supply and demand for money.
- 10 The failure of a large bank can have negative effects on the entire financial system.

- 11 Banks are required by law to keep a certain percentage of their deposits as reserves and cannot lend out all the money they receive.

## 15.9 Welcome to the Translation Games!

Follow the instructions below to complete the task.

Step 1	Step 2	Step 3	Step 4
Form groups of 4 and name your team.	Examine the sentences below and single out terms and phrases used in the unit.	Set the timer: you have only 10 minutes to complete the task.	You are ready to start.

And may the odds be in your favour!

Remember (!)

Translations are less about transposing words and more about carrying over meaning, emotion, and intent from one culture to another.

- 1 В бартерной экономике торговля затруднена из-за необходимости двойного совпадения желаний.
- 2 Фиатные деньги не имеют физического обеспечения, но служат средством обмена и единицей счета в экономике.
- 3 Коммерческие банки — финансовые посредники между вкладчиками и заемщиками. Они принимают депозиты и выдают кредиты клиентам, а также предоставляет другие финансовые услуги.
- 4 Центральные банки могут сокращать или увеличивать денежную массу. Они изменяют нормативы обязательных резервов для банков.
- 5 Если предложение денег сокращается, это может привести к снижению экономической активности и росту предупредительных сбережений.
- 6 Массовое изъятие банковских вкладов происходит, когда многие клиенты одновременно снимают средства с вкладов, потому что они обеспокоены финансовым состоянием банка.
- 7 Решения центрального банка по изменению процентных ставок могут иметь более широкие последствия для экономики.

Например, это влияет на способность банков финансировать долгосрочные кредиты.

## Project: Banks of the Future

Work in groups.

Try to imagine what the banks of the future will look like, what their responsibilities will be, and the trends that can be expected.

Give a presentation.

Presentation plan:

- Hook.
- Objective.
- Agenda.
- Main body.
- Close.



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Vote for the best project.

Each winner in the team receives 1 Econcoin.



# DATA ANALYSIS AND QUANTITATIVE REASONING

## Lead in

Discuss the quotes:

*"All models are wrong, but some are useful".*

George Box

*"Information is the oil of the 21st century, and analytics is the combustion engine".*

Peter Sondergaard

*"It is a capital mistake to theorize before one has data".*

Sherlock Holmes

## 16 EXPLORING NUMBERS.

### 16.1 Say the numbers.

1,000,000	0.001%
1,000,000,000	>1
1,000,000,000,000	<1
1%	≥1
0.1%	≤1
0.01%	1K

## 16.2 Match the numbers with the phrases.

- |   |              |                                                             |
|---|--------------|-------------------------------------------------------------|
| 1 | $4 - 2$      | A four divided by two (or four over two)                    |
| 2 | $4 + 2$      | B four squared                                              |
| 3 | $4 : 2$      | C four to the power of ten (or four to the tenth)           |
| 4 | $4 \times 2$ | D four plus two                                             |
| 5 | $4^2$        | E four multiplied by two (or four times two or four by two) |
| 6 | $4^3$        | F four cubed                                                |
| 7 | $4^1$        | G the square root of four                                   |
| 8 | $\sqrt{4}$   | H four minus two                                            |

## 16.3 Choose the correct answer.

- 1 Which is not a very usual way to say \$8.90?
  - a eight ninety
  - b eight dollars ninety
  - c eight dollars and ninety cents
  - d eight point nine dollars.
  
- 2 “Three plus two \_\_\_\_\_ five”. Which is not possible?
  - a equals
  - b makes
  - c is
  - d comes to
  - e does.
  
- 3 “I don’t care how you worked it out. Just tell me the bottom line”. Bottom line =
  - a amount of profit
  - b final result of a calculation
  - c total losses.
  
- 4 Alan earns £10k a year, Bella earns £20k a year and Cathy earns £60k a year. What’s their mean annual income?
  - a £20,000
  - b £30,000



- c £60,00.
- 5 The subtotal of credits is £8m and the subtotal of debits is £10m. What's the total?
- a "less two million pounds"
  - b "negative two million pounds"
  - c "minus two million pounds".
- 6 In most English-speaking countries, how do you write "minus two thousand five hundred and seventy"?
- a -2.570
  - b 2.570
  - c -2,570.
- 7 Which two are not another way to say "about fifty"?
- a around fifty
  - b fifty-ish
  - c fifty, up or down
  - d fifty, more or less
  - e fifty or thereabouts
  - f fifty, give or take
  - g in the region of fifty
  - h on the fifty.
- 8 Which is the correct way to say 0.05 in English?
- a zero point five
  - b nought point five
  - c zero point zero five
  - d nought point oh five.
- 9 If a company's profits increased from \$2m to \$3m, what's the percentage increase?
- a 25%
  - b 33%
  - c 50%
  - d 100%.

## 16.4 Complete the text.

In business, we look at a **1** \_\_\_\_ to see how things are going. Some numbers are **2** \_\_\_\_, and some are **3** \_\_\_\_\_. Sometimes, special **4** \_\_\_\_ appear in sales. A boss might say there are about 100 customers, which is an **5** \_\_\_\_, but the **6** \_\_\_\_ changes every day. Sales are counted as **7** \_\_\_\_ because you can only sell whole items. When we add all sales, we get an **8** \_\_\_\_ for the month. The **9** \_\_\_\_ shows how many products were sold, and the **10** \_\_\_\_ tells us how many sell each day. Sometimes, we use a **11** \_\_\_\_ to guess what might happen if things change suddenly. These numbers help businesses make better choices.

- a** aggregate number
- b** approximate number
- c** average number
- d** discrete number
- e** even numbers
- f** exact number
- g** odd numbers
- h** prime numbers
- i** random number
- j** series/set of numbers
- k** total number

## 16.5 Choose the best option.

We need to \_\_\_\_ the exact cost before finalizing the budget.

- a** estimate
- b** calculate
- c** tally
- d** round up.

The sales \_\_\_\_ for last quarter show a steady increase.

- a** figure
- b** fraction
- c** faction
- d** variable.

Please keep a \_\_\_\_ of all expenses during the trip.

- a** total
- b** tally
- c** incidence
- d** magnitude.

Only a small \_\_\_\_\_ of employees disagreed with the new policy.

- a** fraction
- b** faction
- c** tendency
- d** trend.

If the price is \$4.7, you should \_\_\_\_\_ it to \$5 for simplicity.

- a** round down
- b** round up
- c** estimate
- d** calculate.

About 30 \_\_\_\_\_ of customers prefer online shopping over in-store.

- a** percentage
- b** percent
- c** incidence
- d** magnitude.

The company noticed a positive sales \_\_\_\_\_ over the last six months.

- a** tendency
- b** trend
- c** faction
- d** fraction.

In the experiment, the temperature is a \_\_\_\_\_ that changes over time.

- a** value
- b** variable
- c** total
- d** figure.

The \_\_\_\_\_ of errors was low, but their \_\_\_\_\_ was significant.

- a** incidence/magnitude
- b** magnitude/incidence
- c** tendency/trend
- d** fraction/faction.

## 17 ECONOMETRICS.

17.1 Fill in the gaps using the words in the boxes.

ratio	proportion	outcome	reliable	sample	valid
-------	------------	---------	----------	--------	-------

- 1 A large \_\_\_\_\_ of customers preferred the new product over the old one.
- 2 The final \_\_\_\_\_ of the marketing campaign exceeded expectations.
- 3 The \_\_\_\_\_ of boys to girls in the class is 3 to 2.
- 4 The survey results are \_\_\_\_\_ because the questions were clear and unbiased.
- 5 To make good decisions, you need \_\_\_\_\_ data that can be trusted.
- 6 We collected a \_\_\_\_\_ of 200 customers to represent the entire market.

sum	mode	median	deviate from	average	correlation
-----	------	--------	--------------	---------	-------------

- 1 Some data points \_\_\_\_\_ the expected trend, showing unusual results.
- 2 The \_\_\_\_\_ score of the class was 85 out of 100.
- 3 The \_\_\_\_\_ is the middle value when the numbers are arranged in order.
- 4 The \_\_\_\_\_ of the data set is the number that appears most often.
- 5 The \_\_\_\_\_ of all sales this month was higher than last month.
- 6 There is a strong \_\_\_\_\_ between advertising budget and product sales.

## 17.2 Match the words and phrases with the definitions.

- |    |                                                                                                                                         |   |                         |
|----|-----------------------------------------------------------------------------------------------------------------------------------------|---|-------------------------|
| 1  | a data point that is very different from the other values in a dataset                                                                  | a | Correlation coefficient |
| 2  | a number that measures the strength and direction of a relationship between two variables                                               | b | Data clearing           |
| 3  | a set of statistical methods for estimating the relationships between variables                                                         | c | Data mining             |
| 4  | a statistical method to model the relationship between a dependent variable and one or more independent variables using a straight line | d | Linear regression       |
| 5  | a type of artificial intelligence where computers learn from data to make predictions or decisions                                      | e | Machine learning        |
| 6  | an error in analysis that occurs when a relevant variable is left out of a statistical model                                            | f | Omitted-variables bias  |
| 7  | when it is unclear which variable causes the other, or the direction of cause and effect is opposite to what was assumed                | g | Outlier                 |
| 8  | the practice of examining large datasets to find patterns, trends, or useful information                                                | h | Predictive analysis     |
| 9  | the process of fixing or removing incorrect, corrupted, or incomplete data from a dataset                                               | i | Regression analysis     |
| 10 | using historical data and statistical techniques to forecast future outcomes                                                            | j | Reverse causation       |

## READING: What is Econometrics?

### 17.3 Read the text. Agree or disagree? Prove your point.

- 1 Econometrics is used to turn qualitative statements into quantitative statements.
- 2 The first step in econometric analysis is to collect data without any theory or hypothesis.
- 3 Explanatory variables and the dependent variable must be clearly specified in an econometric model.
- 4 The relationship between domestic and foreign prices should always be negative, according to the text.
- 5 Econometricians often assume a linear relationship between variables in their models.
- 6 It is possible to account for every influence on the dependent variable in econometric models.
- 7 A catchall variable is used to represent all determinants of the dependent variable that cannot be accounted for.
- 8 Software packages are often used to estimate unknown parameters in econometric analysis.

#### *Taking a theory and quantifying it*

Econometrics uses economic theory, mathematics, and statistical inference to quantify economic phenomena. In other words, it turns theoretical economic models into useful tools for economic policymaking. The objective of econometrics is to convert qualitative statements (such as “the relationship between two or more variables is positive”) into quantitative statements (such as “consumption expenditure increases by 95 cents for every one dollar increase in disposable income”).

#### **Stages of development**

The methodology of econometrics is fairly straightforward.

*The first step* is to suggest a theory or hypothesis to explain the data being examined. The explanatory variables in the model are specified, and the sign and/or magnitude of the relationship between each explanatory variable and the dependent variable are clearly stated. At this stage of the analysis, applied econometricians rely heavily on economic theory to formulate the hypothesis.

*The second step* is the specification of a statistical model that captures the essence of the theory the economist is testing. The model proposes a specific mathematical relationship between the dependent variable and the explanatory variables. By far the most common approach is to assume linearity — meaning that any change in an explanatory variable will always produce the same change in the dependent variable (that is, a straight-line relationship).

Because it is impossible to account for every influence on the dependent variable, a catchall variable is added to the statistical model to complete its specification. The role of the catchall is to represent all the determinants of the dependent variable that cannot be accounted for — because of either the complexity of the data or its absence.

*The third step* involves using an appropriate statistical procedure and an econometric software package to estimate the unknown parameters (coefficients) of the model using economic data. This is often the easiest part of the analysis thanks to readily available economic data and excellent econometric software. Still, the famous GIGO (garbage in, garbage out) principle of computing also applies to econometrics.

The fourth step is by far the most important: administering the smell test. Does the estimated model make economic sense — that is, yield meaningful economic predictions? If the estimated parameters do not make sense, how should the econometrician change the statistical model to yield sensible estimates? And does a more sensible estimate imply an economically significant effect?

## **Testing the hypothesis**

The main tool of the fourth stage is hypothesis testing, a formal statistical procedure during which the researcher makes a specific statement about the true value of an economic parameter, and a statistical test determines whether the estimated parameter is consistent with that hypothesis. If it is not, the researcher must either reject the hypothesis or make new specifications in the statistical model and start over.

If all four stages proceed well, the result is a tool that can be used to assess the empirical validity of an abstract economic model. The empirical model may also be used to construct a way to forecast the dependent variable,

potentially helping policymakers make decisions about changes in monetary and/or fiscal policy to keep the economy on an even keel.

Students of econometrics are often fascinated by the ability of linear multiple regression to estimate economic relationships.

Econometrics, by design, can yield correct predictions on average, but only with the help of sound economics to guide the specification of the empirical model. Even though it is a science, with well-established rules and procedures for fitting models to economic data, in practice econometrics is an art that requires considerable judgment to obtain estimates useful for policymaking.

*International Monetary Fund*

#### **17.4 Find English equivalents for the following collocations :**

- 1 разработка экономической политики
- 2 преобразовывать качественные утверждения в количественные
- 3 предлагать теорию или гипотезу
- 4 независимая переменная
- 5 зависимая переменная
- 6 формулировать гипотезу
- 7 передать суть
- 8 линейная зависимость
- 9 учитывать каждый фактор
- 10 совокупная переменная
- 11 сложность данных
- 12 пакет средств программного обеспечения для эконометрического анализа
- 13 оценивать неизвестные параметры (коэффициенты)
- 14 иметь смысл
- 15 давать экономически значимые прогнозы
- 16 отвергать гипотезу
- 17 уточнять детали
- 18 оценивать эмпирическую значимость
- 19 линейная множественная регрессия
- 20 прочный экономический фундамент
- 21 подгонять модель под данные



## 17.5 What makes a good economic model?

case randomness	errors	explain statistics	give systematic	models tools	perspective volatility
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The scientific method requires that every model 1\_\_\_\_\_ precise and verifiable implications about the economic phenomena it is trying to 2\_\_\_\_\_. Economists use many 3\_\_\_\_\_ to test their models, including 4\_\_\_\_\_ studies, lab-based experimental studies, and 5\_\_\_\_\_.

Still, the 6\_\_\_\_\_ of economic data often gets in the way, so economists must be precise when saying that a model “successfully explains” something. From a forecasting 7\_\_\_\_\_ that means 8\_\_\_\_\_ are unpredictable and irrelevant (zero) on average. When two or more 9\_\_\_\_\_ satisfy this condition, economists generally use the 10\_\_\_\_\_ of the forecast errors to break the tie — smaller volatility is generally preferred.

An objective signal that an empirical model needs to be revised is if it produces 11\_\_\_\_\_ forecasting errors. Understanding why such errors arise is an important part of the regular assessment economists make of models.

## 17.6 Match expressions a–h with pictures 1–8.

A bar chart

B diagram

C flow chart

D line graph

E map

F pie chart

G table

H mind map/

1



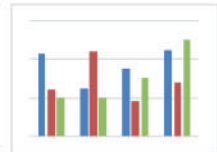
2



3



4



5


6



7



8



Indicate the type of graph or figure that you would use to represent the kinds of information below.

- a A solar-powered hot water system:\_\_\_\_\_.
- b The percentage of female and male medical workers in eight cities across the USA:\_\_\_\_\_.
- c Sales figures for five different types of computers in twelve retail outlets:\_\_\_\_\_.
- d Steps in the process of hiring staff for a company: \_\_\_\_\_.
- e The layout of a college campus:\_\_\_\_\_.
- f The number of men vaccinated for hepatitis over a 15-year period:\_\_\_\_\_.
- g The percentage breakdown of a country’s total working population by ethnic origin:\_\_\_\_\_.

17.7 Complete the table by writing numbers 1–9 in the boxes. Some words may be used more than once.

- a arrow
b bar
c column

d horizontal axis
e key
f row

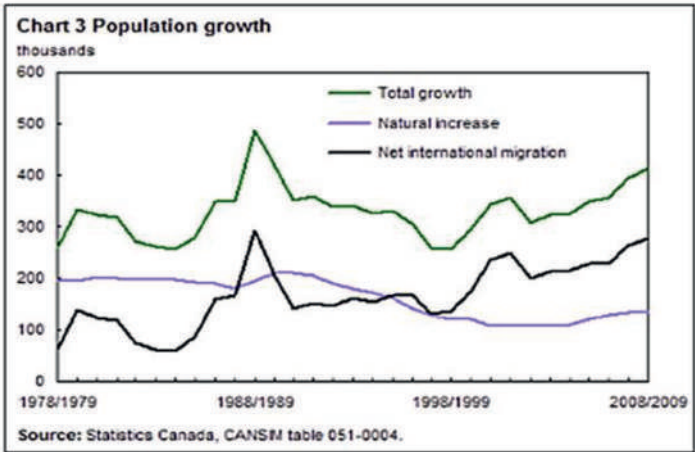
g segment
h step
i vertical axis.

bar chart	diagram	flow chart	line graph	map	pie chart	table

17.8 Fill in the gaps to complete trends.

To rise	To fall	To go up and down	Not to change
G _ u _ I _ _ _ _ _ e C _ _ _ b R _ _ _ _ t S _ _ r S _ _ _ e S _ _ _ _ u _ R _ _ _ y	D _ _ _ _ _ e D _ _ _ _ _ e P _ _ _ _ _ t S _ _ k S _ _ _ e P _ _ _ _ e D _ _ p T _ _ _ _ e	F _ _ _ _ _ _ _ _ e V _ _ y	Remain s _ _ _ _ e S _ _ _ _ _ _ _ e

17.9 Work in pairs. Describe the graph using the vocabulary from the unit.



# TO BE DISCUSSED:

## EXAM PREPARATION. OPTION 1

**Provide your reasoning/ facts/ figures**

- 1 Three basic economic questions.
- 2 Micro- and macroeconomics: key differences.
- 3 The factors that affect demand and supply of goods and services.
- 4 How opportunity cost results from the need to make choices.
- 5 GDP as an important economic indicator.
- 6 The causes and effects of inflation.
- 7 Unemployment: types, causes and measurement.
- 8 Welfare economics: measuring social welfare and efficiency.
- 9 How economic inequality harms societies.
- 10 The main government functions.
- 11 The tax system in the Russian Federation.
- 12 The arguments in favour of and against taxation.
- 13 Advantages and disadvantages of fiscal and monetary policy.
- 14 Macroeconomic measures governments take to affect economic performance.
- 15 Understanding the business cycle.
- 16 Key sectors driving Russia's economy.
- 17 Types of market structures.
- 18 The impact of the platform economy.
- 19 Advantages and disadvantages of different business entities.
- 20 How the stock market works.
- 21 Types of money and its functions.
- 22 The role of banks in the economy.
- 23 How economists use graphs, models, and data.

# TO BE DISCUSSED:

## EXAM PREPARATION. OPTION 2

### Provide your reasoning/facts/figures

- 1 There are three basic economic questions fundamental to any economic system whether it is a large industry or a single household.
- 2 Economists look at two realms: big picture macroeconomics and little picture microeconomics.
- 3 Economics is split between analysis of how the overall economy works and how single markets function.
- 4 Supply and demand are determined by technology and the conditions under which people operate.
- 5 Supply and demand can be affected by the product itself.
- 6 Economists define opportunity cost as the benefit we forego, as we trade-off one alternative to keep another.
- 7 For the past 70 years, most governments have relied heavily on a single number: the Gross Domestic Product, or GDP. But it was never intended for its current purpose ...
- 8 When GDP is growing, workers and businesses are generally better off than when it is not.
- 9 Inflation measures how much more expensive a set of goods and services has become over a certain period, usually a year.
- 10 Unemployment is highly dependent on economic activity: growth and unemployment can be thought of as two sides of the same coin.
- 11 Not all people who do not work are unemployed.
- 12 Economics is not only about profits, losses and utility. It's about society.
- 13 Economic inequality, the uneven distribution of wealth and resources, significantly harms societies.
- 14 The current tax system is distinguished by various types of taxes that can be applied to both individuals and legal entities. In Russia ...

- 15 The primary function of taxation is, of course, to raise revenue to finance government expenditure, but taxes can also have other purposes.
- 16 The higher the tax rates, the more people are tempted to cheat.
- 17 Fiscal policy and monetary policy are two distinct tools that governments and central banks employ to influence an economy.
- 18 Governments take different macroeconomic measures to affect economic performance.
- 19 Business cycles are a fundamental aspect of modern economies, characterized by fluctuations in economic activity over time.
- 20 There are certain sectors that fuel Russia's thriving economy.
- 21 At one extreme, the market could be populated by a large number of virtually identical sellers and buyers. At the other extreme, there might be only one seller and one buyer...
- 22 Economists have formulated models to explain various types of markets.
- 23 The global platform economy is undergoing rapid evolution.
- 24 In law, there are various types of business entities. The main business types are ...
- 25 When a company is considering going public, there are a few key factors to consider.
- 26 Money allows the economy to grow as transactions can be completed at greater speeds.
- 27 Banks are financial institutions that offer various services to the public that make daily financial activities easier.
- 28 Econometrics turns theoretical economic models into useful tools for economic policymaking.

# EXAMPLES OF SUMMARIES

## Text 1

### The British fuel crisis

#### Is panic buying to blame?

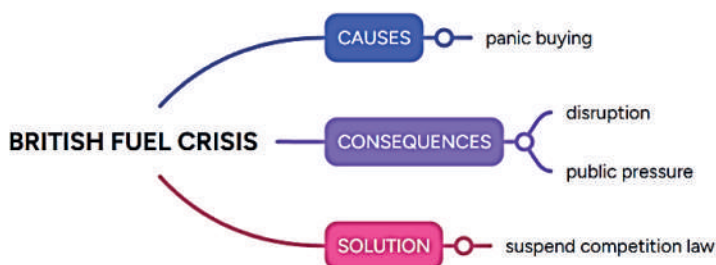
1. The fuel crisis in the United Kingdom showed no signs of abating this week, despite Prime Minister Boris Johnson's claim that the situation at petrol stations was stabilising. "We are now starting to see the situation improve," Johnson said, encouraging the public to "go about their business in the normal way." Environment Secretary George Eustice suggested that panic buying was to blame and that the only reason for the shortage was that people were buying gas when they didn't need it. The chairman of the Petrol Retailers Association told the BBC that "panic buying, pure and simple" was the root cause of the crisis, but are motorists at fault?
2. News outlets around the world have painted a worrying picture of a country in crisis. Chaotic scenes have been reported at petrol stations, with some customers queueing from the early hours of the morning. With tempers on edge, fights have broken out, and key workers have spoken of their struggle to get to work. The British Medical Association requested emergency measures so that medical staff could fill their cars first, warning that "there is a real risk that NHS staff won't be able to do their jobs" as petrol pumps run dry. There have been reports of patients having routine appointments rescheduled, including cancer sufferers. Across the country there have been calls on the government to do more to help, with opposition leader Keir Starmer accusing the Conservatives of lurching from "crisis to crisis".
3. Earlier this week, ministers met to discuss using armed forces in order to ease pressure on petrol stations. Although many, including

London mayor Sadiq Khan, have urged the government to deploy the army, there are concerns that this could be a short-term fix for a long-term problem. A shortage of truck drivers since Brexit has been made worse by COVID-19. Tests for new drivers were suspended at the height of the pandemic, and to make matters worse, a sharp rise in wholesale natural gas prices has bankrupted a number of energy companies. Electricity and gas bills have increased across the continent in recent months.

4. As Christmas approaches, analysts are warning of rising prices across a wide range of products. The government have responded by suspending competition law so that petrol companies can share information more easily and identify which parts of the country require fuel most urgently. In a controversial move, it has also issued temporary visas to European truck drivers. However, former Conservative minister Anna Soubry suggested that Brexit was to blame for the ongoing crisis, saying “We are now facing up to the reality of Brexit.”

*Sources: BBC, The Guardian, Reuters, The Independent*

### Content map, Summary



The article deals with the British fuel crisis.

The author outlines the causes of the current crisis, the consequences and a possible solution to it.

**Firstly**, the experts are blaming panic buying for the current crisis.

**Secondly**, the crisis disrupted some routine everyday activities of common citizens, intensifying public pressure and distrust.



**Finally**, the idea of suspending competition law was offered as a possible solution to the crisis in a short-term.

**To sum up**, the British fuel crisis is an acute problem and some measures have been announced in an attempt to resolve it.

## Text 2

### **Disappearing incentives. Ending pandemic unemployment aid has not yielded extra jobs — yet.**

One of the questions gripping America is the extent to which generous unemployment benefits are distorting the economy. When COVID-19 began to spread last year, Congress expanded unemployment insurance (ui) by topping up payments, allowing recipients to claim for longer and widening the eligibility criteria. The aid helped preserve incomes during lockdowns and fuelled consumer spending during the recovery. In March lawmakers extended federal funding for the benefits. But it is due to expire on September 6<sup>th</sup> — with consequences that are uncertain.

One possibility is that the cliff-edge will bring people back to work. Although employment remains about 5.7m below its level in February 2020, firms are struggling to fill vacancies. In July wages in leisure and hospitality jobs were nearly 10% above pre-pandemic levels. Economic theory says that ui deters job seeking — a prediction supported, at least to some degree, by most studies of its effects before 2020.

Yet this relationship has not been apparent during the pandemic. Congress allowed states to opt out of the prolonged benefits this year. Over the summer 26 of them — mostly those with Republican governors — ended at least some benefits early. Their economies do not seem to have benefited much. Between June and July the share of working-age people who were employed rose by 3.5 percentage points in states that kept the benefits, exceeding the 2.7-percentage-point increase in states that cut them off.

Several groups of researchers have struggled to unearth the expected correlation using more sophisticated methods. The latest attempt is by Kyle Coombs of Columbia University and co-authors, who studied the bank records of 18,000 low-income workers. They found that, in the states that ended benefits, 26% of workers who had previously received them were

employed in August, compared with 22% in other states — a difference that, as a share of the entire labour force, is modest.

The Economist has conducted its own analysis. The Census Bureau's Household Pulse Survey (hps) interviews tens of thousands of people each week about how the pandemic is affecting them. One of the questions is whether respondents have worked in the past week. We measured how the share of people aged 24–65 in each state who said they were working had changed since January. Using a technique called “difference in differences”, we compared average changes in reported employment rates in two groups of states, those that ended benefits early and those that had not. The numbers were virtually indistinguishable: in months when employment rose in cut-off states, it climbed by a similar amount in other states. The same was true when employment declined.

The absence of large effects does not mean that previous beliefs about ui were wrong. The pandemic is a highly unusual period for the economy, meaning the effects of benefit cut-offs could take longer to appear. By making jobseekers choosier, higher ui may be boosting wages instead of limiting the employment recovery—which might sound desirable, but could be inflationary. In cut-off states the earnings of drivers on ride-hailing apps, which respond in real time to labour supply and have been falling lately, have declined by about 10% more than in other states, reckon economists at Goldman Sachs, a bank. The nationwide cut-off in September should, they say, increase labour supply and slow the pace of wage growth.

One consequence of withdrawing benefits might not come as a surprise. It has left the jobless with less money in their pockets. Mr Coombs and his colleagues found that in cut-off states affected workers reduced their weekly outlays by \$278. Our analysis of the hps shows that the share of adults saying it was “somewhat” or “very” difficult to pay for typical household expenses began rising in cut-off states shortly before the expiry. Elsewhere, there was no change (see chart).

That raises the possibility that cutting off benefits could harm overall consumer spending. But the numbers involved are puny: a \$2bn fall between June and early August, compared with monthly aggregate consumer spending of over \$1.3trn. The labour-supply effect should be more significant — if it shows up.

*Sources: The Economist*

## Content map, Summary



### Summary

The article examines potential consequences of withdrawing unemployment insurance in the USA.

Cutting off unemployment benefits in 26 states has had different effects on their economy.

**Firstly**, several studies show that UI withdrawal has not significantly affected employment levels so far.

UI cliff-edge has **also** decreased some workers' earnings thus slowing down the pace of wage growth.

**Moreover**, it could harm overall consumer spending as households diminished their weekly spending in cut-off states.

**Overall**, although there are currently no significant effects of UI withdrawal, it may take longer for more significant effects to appear.

# GLOSSARY OF KEY TERMS AND COLLOCATIONS

## MICROECONOMICS, MACROECONOMICS

aggregate consumption	совокупное потребление
aggregate demand	совокупный спрос
aggregate output	совокупный объем производства
aggregate supply	совокупное предложение
aggregate variable	совокупные переменные
business cycle	экономический цикл
disturb equilibrium	нарушать равновесие
domestic market	внутренний рынок
economic activity	экономическая деятельность
economic growth	экономический рост
economic stability	экономическая стабильность
economic stimuli	экономические стимулы
equilibrium point	точка равновесия
GDP/Gross Domestic Product	ВВП / внутренний валовый продукт
goods and services	товары и услуги
growth rate	темп роста
inflation rate	уровень инфляции
interest rate	процентная ставка
international trade	международная торговля
labour market	рынок труда
reach an equilibrium	достигать равновесия
restore equilibrium	восстанавливать равновесие
tax rate	налоговая ставка
unemployment rate	уровень безработицы

## THE ROLE OF GOVERNMENT

allocation of government spending	распределение государственных расходов
black or underground economy	теневая экономика
capital gains tax	налог на прирост капитала
encourage or discourage specific economic activities	стимулировать или сдерживать отдельные виды экономической деятельности
externality	внешний эффект
income inequality	неравенство доходов
levy excise taxes	взимать акцизные сборы
limited liability corporation/company	общество с ограниченной ответственностью
make transfer payments	осуществлять трансфертные платежи
marginal tax rate	предельная/маржинальная ставка налога
money laundering	отмывание денег
moonlight (moonlighting)	подрабатывать на стороне / по совместительству
reduce tax liability	уменьшать налоговые обязательства
tax avoidance	минимизация налогов / налоговых обязательств (законным образом)
tax deductible	исключаемый/вычитаемый из налогооблагаемой базы
tax evasion	уклонение от уплаты налогов
tax haven	налоговая гавань, налоговое убежище
tax revenue	налоговые поступления
trickle-down theory	теория «просачивания благ сверху вниз»
unemployment benefit	пособие по безработице
value-added tax	налог на добавленную стоимость
welfare economics	экономика благосостояния

## FISCAL AND MONETARY POLICY

adopt flexible exchange rates	вводить плавающий валютный курс
adjustments to interest rates	корректировки процентных ставок
business cycle	экономический цикл, цикл деловой активности
buy government bonds	покупать государственные облигации
choke off inflation	подавлять инфляцию
combat rising inflation	бороться с ростом инфляции
contractionary or tight fiscal policy	сдерживающая или жесткая фискальная политика
currency peg	валютная привязка, привязка валюты
expansionary or loose fiscal policy	стимулирующая или мягкая фискальная политика
foster sustainable growth	способствовать устойчивому росту
influence money supply	влиять на предложение денег / денежную массу
inflation targeting	таргетирование инфляции
monetary policy framework	режим/модель денежно-кредитной политики
nominal anchor	номинальный якорь
purchase and sale of government securities	покупка и продажа государственных ценных бумаг
soaring asset prices	стремительно растущие цены на активы
steer actual inflation toward the target	приводить фактическую инфляцию к целевому уровню
stimulate an ailing economy	стимулировать слабеющую экономику

## MARKETS

affect prices	влиять на цены
buying habit	покупательская привычка
cap on prices	ценовые ограничения
compete head-to-head	соревноваться друг с другом
demand and supply	спрос и предложение
dominant-firm oligopoly	олигополия доминирующей фирмы
exceed supply	превышать предложение
fixed costs	фиксированные издержки
foster innovation	стимулировать инновации
identical items	одинаковые продукты
inelastic good	неэластичный товар
innovation platform	инновационная платформа
integration platform	интеграционная платформа
investment platform	инвестиционная платформа
monopolistic competition	монополистическая конкуренция
natural monopoly	естественная монополия
monopsony	монопсония
oligopoly	олигополия
perfect competition	совершенная конкуренция
platform economy	платформенная экономика
primary sector	первичный сектор экономики
secondary sector	вторичный сектор экономики
tertiary sector	третичный сектор экономики
transaction platform	транзакционная платформа

## BUSINESS ORGANIZATIONS

blue chips	голубые фишки
business associates	деловые партнеры
business entity	предприятие
common/preference share	обыкновенная/привилегированная акция
go into liquidation	обанкротиться, приступать к ликвидации
go public	впервые выставлять на продажу акции
growth stocks	акции роста
income, defensive, value stocks	доходные, защищенные, недооцененные акции
IPO/Initial Public Offering	первичное публичное размещение
liable for	нести ответственность за
limited liability	ограниченная ответственность
nominal value of a share	номинальная стоимость акции
own shares (BrE) / treasury stock (AmE)	собственные акции, выкупленные у акционеров
form a partnership	вступать в партнерство
rights issues	выпуск/эмиссия прав
script/capitalization/bonus issue	бонусная эмиссия
shares (BrE)/stocks (AmE)	акции
share capital	акционерный капитал
shareholders (BrE)/stockholders (AmE)	акционер
sole trader (BrE)/sole proprietor (AmE)	индивидуальный предприниматель
stock exchange	фондовая биржа
underwrite a stock issue	взять на себя гарантию размещения акций
unlimited liability	неограниченная ответственность






























































































## MONEY AND BANKING

become legal tender	становиться законным платежным средством
counterfeit money	фальшивые деньги
credit/debit an account	кредитовать/дебетовать счет
demand deposit	депозит до востребования
facilitate the flow of money in the markets	способствовать движению денег на рынках
fiat money	фиатные деньги
finite supply of precious metals	ограниченное предложение драгоценных металлов
instant access account	счет с мгновенным доступом
interest-bearing savings account	сберегательный счет, приносящий процентный доход
issue money	выпускать деньги
make loans	выдавать кредиты
maturity transformation	трансформация сроков (погашения)
meet depositors' claims	выполнять требования вкладчиков
open a current account	открывать текущий счет
precautionary saving	предупредительные сбережения
reserve requirement	норматив обязательных резервов
serve as a medium of exchange, a unit of account, a store of value, a standard of deferred payment	служить средством обмена, единицей счета, средством сохранения стоимости, мерой отложенных платежей
set up a standing order/direct debit	оформлять постоянное поручение или прямой дебет
shrink or expand the money supply	сокращать или увеличивать денежную массу
token money	символические деньги
withdraw money from a bank account	снимать деньги с банковского счета

## DATA ANALYSIS AND QUANTITATIVE REASONING

aggregate number	совокупное число
average number	среднее число, средний показатель
bar chart	гистограмма
correlation coefficient	коэффициент корреляции
data clearing	«очистка» данных
data mining	интеллектуальный анализ данных, «добыча» данных
discrete number	дискретное число
even numbers	четные числа
flow chart	блок-схема
horizontal axis	горизонтальная ось
line graph	линейный график
linear regression	линейная регрессия
machine learning	машинное обучение
odd numbers	нечетное число
omitted-variables bias	смещение из-за пропущенных переменных
outlier	«выброс», промах
pie chart	круговая диаграмма
predictive analysis	предиктивная аналитика
prime numbers	простое число
regression analysis	регрессионный анализ
reverse causation	обратная причинно-следственная связь
series/set of numbers	множество чисел
table	таблица
vertical axis	вертикальная ось

ECONCOINS

NAME	COINS
	      
	      
	      
	      
	      
	      
	      
	      
	      
	      
	      
	      
	      

## FURTHER READING

### Text 1

#### Measuring what matters

*Man does not live by GDP alone. A new report urges statisticians to capture what people do live by*

How well off are Americans? Frenchmen? Indians? Ghanaians? An economist's simplest answer is the gross domestic product, or GDP, per person of each country. To help you compare the figures, he will convert them into dollars, either at market exchange rates or (better) at purchasing-power-parity rates, which allow for the cheapness of, say, haircuts and taxi rides in poorer parts of the world.

To be sure, this will give you a fair guide to material standards of living: the Americans and the French, on average, are much richer than Indians and Ghanaians. But you may suspect, and the economist should know, that this is not the whole truth. America's GDP per head is higher than France's, but the French spend less time at work, so are they really worse off? An Indian may be desperately poor and yet say he is happy; an American may be well fed yet fed up. GDP was designed to measure only the value of goods and services produced in a country, and it does not even do that precisely. How well off people feel also depends on things GDP does not capture, such as their health or whether they have a job. Environmentalists have long complained that GDP treats the despoliation of the planet as a plus (via the resulting economic output) rather than a minus (forests destroyed).

In recent years economists have therefore been looking at other measures of well-being — even “happiness”, a notion that it once seemed absurd to quantify. Among those convinced that official statisticians should join in is Nicolas Sarkozy, the French president. On September 14th 2009 a commission he appointed in 2008, comprising 25 prominent social scientists, five with Nobel prizes in economics, presented its findings<sup>1</sup>. Joseph Stiglitz, the group's chairman and one of the laureates, said the 292-page report was a call to abandon “GDP fetishism”. France's national statistics agency, Mr. Sarkozy declared, should broaden its purview.

The commission divided its work into three parts. The first deals with familiar criticisms of GDP as a measure of well-being. It takes no account of the depreciation of capital goods, and so overstates the value of production. Moreover, the value of production is based on market prices, but not everything has a price. The list of such things includes more than the environment. The worth of services not supplied through markets, such as state health care or education, owner-occupied housing or unpaid child care by parents, is “imputed” — estimated, using often rickety assumptions — or left out, even though private health care and schooling, renting and child-minding are directly measured.

The report also argues that official statisticians should concentrate on households’ incomes, consumption and wealth rather than total production. All these adjustments make a difference. In 2005, the commission found, France’s real GDP per person was 73% of America’s. But once government services, household production and leisure are added in, the gap narrows: French households had 87% of the adjusted income of their American counterparts. No wonder Mr Sarkozy is so keen.

### **Sizing up the good life**

Next the commission turns to measures of the “quality of life”. These attempt to capture well-being beyond a mere command of economic resources. One approach quantifies people’s subjective well-being — divided into an overall judgment about their lives (a “ladder of life” score) and moment-by-moment flows of positive and negative feelings. For many years researchers had been spurred on by an apparent paradox: that rising incomes did not make people happier in the long run. Recent studies suggest, though, that countries with higher GDP per person do tend to have higher ladder-of-life scores. Exactly what, beyond income, affects subjective well-being — from health, marital status and age to perceptions of corruption — is much pored over. In the unemployed report lower scores, even allowing for their lower incomes. Joblessness hits more than your wallet.

Third, the report examines the well-being of future generations. People alive today will pass on a stock of exhaustible and other natural resources as well as machines, buildings and social institutions. Their children’s human capital (skills and so forth) will depend on investment in education and research today. Economic activity is sustainable if future generations can expect to be at least as well off as today’s. Finding a single measure that captures all this, the report concludes, seems too ambitious. That sounds right. For one

thing, statisticians would have to make assumptions about the relative value of, say, the environment and new buildings — not just today, but many years from now. It is probably wiser to look at a wide range of figures.

Some members of the commission believe that the financial crisis and the recession have made a broadening of official statistics more urgent. They think there might have been less euphoria had financial markets and policymakers been less fixated on GDP. That seems farfetched. Stockmarket indices, soaring house prices and low inflation surely did more to feed bankers' and borrowers' exaggerated sense of well-being.

Broadening official statistics is a good idea in its own right. Some countries have already started — notably, tiny Bhutan. There are pitfalls, though. The report justifies wider measures of well-being partly by noting that the public must have trust in official statistics. Quite so; which makes it all the more important that the statisticians are independent of government. The thought of grinning politicians telling people how happy they are is truly Orwellian. Another risk is that a proliferation of measures could be a gift to interest groups, letting them pick numbers that amplify their misery in order to demand a bigger share of the national pie. But these are early days. Meanwhile, get measuring.

*The Economist. Economics: Making Sense of the Modern Economy, 3rd edition*

## Text 2

### Grossly distorted picture

*If you look at GDP per head, the world is a different — and, by and large, a better — place.*

Which economy enjoyed the best economic performance between 2003 and 2007: America's or Japan's? Most people will pick America. The popular perception is that America's vibrant economy was sprinting ahead (albeit fuelled by credit and housing bubbles that have now painfully burst), whereas Japan crawled along at a snail's pace. And it is true that America's average annual real GDP growth of 2.9% was much faster than Japan's 2.1%. However, the single best gauge of economic performance is not growth in GDP, but GDP per person, which is a rough guide to average living standards. It tells a completely different story.

GDP growth figures flatter America's relative performance, because its population is rising much faster, by 1% a year, thanks to immigration and a higher birth rate. In contrast, the number of Japanese citizens has been shrinking since 2005. Once you take account of this, Japan's GDP per head increased at an annual rate of 2.1% between 2003 and 2007, slightly faster than America's 1.9% and much better than Germany's 1.4%. In other words, contrary to the popular pessimism about Japan's economy, it has actually enjoyed the biggest gain in average income among the big three rich economies. Among all the G7 economies it ranks second only to Britain.

Using growth in GDP per head rather than crude GDP growth reveals a strikingly different picture of other countries' economic health. For example, Australian politicians often boast that their economy has had one of the fastest growth rates among the major developed nations — an average of 3.3% over the five years to 2007. But Australia has also had one of the biggest increases in population; its GDP per head grew no faster than Japan's over this period. Likewise, Spain has been one of the euro area's star performers in terms of GDP growth, but over the three years to 2007 output per person grew more slowly than in Germany, which like Japan, has a shrinking population.

Some emerging economies also look less impressive when growth is compared on a per-person basis. One of the supposedly booming BRIC countries, Brazil, has seen its GDP per head increase by only 2.3% per year

since 2003, barely any faster than Japan's. Russia, by contrast, enjoyed annual average growth in GDP per head of 7-4% because the population is falling faster than in any other large country (by 0.5% a year). Indians love to boast that their economy's growth rate has almost caught up with China's, but its population is also expanding much faster. Over the five years to 2007, the 10.2% average increase in China's income per head dwarfed India's 6.8% gain.

Focusing on GDP per person also affects comparisons of economic health over time. During the five years to 2007, world GDP grew by an average of 4.5% a year, its fastest for more than three decades, though not as fast as during the golden age of the 1960s when annual growth exceeded 5%. But the world's population is now growing at half of its pace in the 1960s, and so world income per head has increased by more over the five years to 2007 than during any other period on record. Mankind has never had it so good.

### **Redefining recession**

Once you accept that growth in GDP per head is the best way to measure economic performance, the standard definition of a recession — a decline in real GDP over some period (eg, two consecutive quarters or year on year) — also seems flawed. For example, zero GDP growth in Japan, where the population is declining, would still leave the average citizen better off. But in America, the average person would be worse off. A better definition of recession, surely, is a fall in average income per person. On this basis, America has been in recession since the fourth quarter of 2007 when its GDP rose by an annualised 0.6%, implying that real income per head fell by 0.4%.

Many Americans will shrug this off, especially those politicians who believe that the prime goal of policy is to retain their economic and military dominance over the world. They see the size of a country's GDP as the best measure of its economic clout, in which case the absolute rate of GDP growth matters more than growth in income per head.

There are several other reasons Americans can quibble over the use of GDP per head, especially with reference to Japan. Firstly, its shrinking population is also an ageing one in which the labour force will decline as a share of the population. Unless this is offset by more rapid productivity growth, this could make it harder to maintain the same growth in output per person in future and so harder to pay pension bills. Secondly, slower GDP growth makes it more difficult to reduce the ratio of existing public-sector debt to GDP, which by 2010 was nearing 200% in Japan. Last, but not least, investors



care about GDP growth. Corporate profits depend upon the absolute rate of growth of an economy. And companies wanting to invest abroad will favour markets that are expanding more rapidly.

If GDP per head is nevertheless a superior measure of people's prosperity, why do governments not publish such figures each quarter along with their standard GDP figures? Population statistics tend to be less up to date than GDP figures and are generally not available on a quarterly basis. But that is a lame excuse: it should be much easier to count bodies than to put a value on diverse sorts of economic output. Not only do people have a right to know whether average living standards are rising or falling, but publishing such numbers could also benefit some countries. If Japan's government had drawn attention to the sprightlier growth in income per head in recent years, in contrast to endless reports about its "underperforming" economy, consumers may have felt cheerier and spent more — in other words, its GDP growth would have been stronger.

*The Economist. Economics: Making Sense of the Modern Economy, 3<sup>rd</sup> edition*

## Text 3

### The state's take

*Governments differ dramatically in how they tax — and how much they raise*

Thanks to the collateral damage from the financial crisis, government deficits have surged across the rich world. Once the recovery is entrenched this fiscal deterioration will need to be tackled. Although spending cuts could, and should, be the preferred route to prudence, taxes are all too likely to be part of the mix — at least judging from the experience of those countries that have already acted. Spain raised its value-added tax rate (VAT) from 16 to 18%. Ireland raised its top income tax rate from 41% to 46%. In both Britain and America current law promises higher future tax rates on wealthier folk.

The economic consequences of raising taxes will depend not just on the scale of the tax increase, but also on how the revenue is raised. The less efficient the type of taxation, the greater the burden on the economy. There is already striking variation in the size of the state and the structure of taxation, both among advanced economies, and between them and their emerging counterparts. Comparing countries' tax takes can offer useful clues to the most efficient ways to raise funds in future.

Figure 3.7 compares government revenue and its sources for some of the world's biggest rich and emerging economies. The state looms largest in France, where almost 50% of GDP flowed through the government's coffers in 2007. In China, in contrast, government revenue accounts for less than 20% of GDP. Broadly speaking, total government revenues (including both central and local) are a bigger share of the economy in continental Europe than in Anglo-Saxon economies, and are higher in richer economies than in poorer ones without generous social safety-nets. But not all emerging economies have a low tax burden. At almost 35% of GDP, Brazil's government revenue is bigger relative to the size of its economy than America's.

Government taxation, 2007													
	Advanced economies								BRICs				
	Australia	Britain	Canada	France	Germany	Italy	Japan*	South Korea	United States	Brazil	China*	India	Russia
Total revenue <sup>1</sup> , % GDP	35.9	41.8	41.4	49.6	43.8	46.4	34.5	33.6	33.7	34.8	18.1	22.3	47.7
Total tax, % GDP	29.5	37.7	34.8	44.7	40.4	43.0	28.2	28.7	28.0	32.3	16.4	18.9	33.2
Total tax, \$bn <sup>5</sup>	268.5	1,055.6	496.7	1,161.2	1,344.6	910.5	1,230.2	301.1	3,941.7	430.7	435.9	207.8	429.7
Structure, % of total tax													
Income and capital**	59.2	37.8	49.9	23.4	30.9	34.2	35.4	37.6 <sup>1</sup>	48.3	32.3 <sup>1</sup>	28.4 <sup>1</sup>	47.7 <sup>1</sup>	26.0
people	37.5	28.7	36.2	16.7	23.5	26.7	18.5	19.6 <sup>1</sup>	37.5	na	7.4 <sup>1</sup>	17.1 <sup>1</sup>	na
companies	21.2	9.1	12.4	6.6	3.4	7.5	17.0	17.9 <sup>1</sup>	10.8	na	21.0 <sup>1</sup>	30.7 <sup>1</sup>	na
Employment	4.5	nil	1.9	2.7	nil	nil	nil	nil <sup>1</sup>	nil	6.0 <sup>1</sup>	nil <sup>1</sup>	nil <sup>1</sup>	9.5
Property	9.1	12.0	9.7	10.2	2.1	1.9	9.1	4.4 <sup>1</sup>	10.9	0.1 <sup>1</sup>	0.9 <sup>1</sup>	0.1 <sup>1</sup>	nil
Goods and services**	25.4	28.1	22.4	24.1	26.2	28.7	18.6	30.3 <sup>1</sup>	15.6	25.3 <sup>1</sup>	64.9 <sup>1</sup>	34.1 <sup>1</sup>	24.2
consumption	13.2	17.0	13.7	15.7	17.0	14.1	9.2	20.7 <sup>1</sup>	7.6	na	49.0 <sup>1</sup>	0.2 <sup>1</sup>	na
excise	7.4	8.5	4.4	4.5	6.5	4.8	7.4	9.6 <sup>1</sup>	3.5	na	15.3 <sup>1</sup>	23.8 <sup>1</sup>	na
Other	1.8	nil	1.0	nil	nil	4.4	nil	9.4 <sup>1</sup>	0.7	11.5 <sup>1</sup>	5.8 <sup>1</sup>	18.0 <sup>1</sup>	22.0
Social contributions	nil	22.0	15.0	40.2	40.8	30.8	36.6	18.3 <sup>1</sup>	24.5	24.9 <sup>1</sup>	nil <sup>1</sup>	0.2 <sup>1</sup>	18.3

\*2006 data   <sup>1</sup>taxon plus other government income   <sup>1c</sup> market prices   \*\*sub-categories are not exhaustive   <sup>1</sup>Central government only

\*2006 data    <sup>1</sup>Taxation plus other government income    <sup>1a</sup>At market prices    \*\*Sub-categories are not exhaustive    <sup>1</sup>Central government only

Sources: CEIC; IMF; OECD; National statistics of

FIG 3.7 On top of the world

Taxes of varying kinds form the bulk of governments' revenues. But non-tax receipts — such as profits from state-owned enterprises — are often significant sources of cash, especially for commodity exporters. Russia's overall government revenue, which includes oil proceeds, is almost 50% of GDP. Its tax take is closer to 30%.

These broad ratios suggest that there is less room to increase taxes in Europe than elsewhere. But they mask big differences in how governments raise their funds. Anglo-Saxon economies tend to rely most on income taxes (on wages, profits and capital gains). In Australia 60% of tax revenue is raised from such levies. In America it is almost 50%. Most governments gain the bulk of their income-tax revenue from individuals, though in both Japan and South Korea almost half the total is extracted from firms. Contrary to popular perception, European countries rely much less on corporate taxes than America does.

European countries reap a bigger share of revenue from payroll taxes and other social contributions, as well as from indirect taxes on spending. France and Germany gain more than 40% of their tax take from social contributions and around a quarter from expenditure taxes, particularly VAT. America, the only industrial country without a VAT, gets only a sixth of its government revenue from expenditure taxes, most of that through sales taxes at the state and local level. Brazil's tax structure roughly mirrors that of European countries, while China and India raise more money from indirect taxes

than any other big economies. Over 60% of China's central government tax revenue comes from expenditure taxes.

### **How best to inflict pain**

Which of these combinations is best for economic growth? In theory, expenditure taxes are better than income taxes, since they do not punish saving. Flat tax-rates on a broad base are less distortive than high marginal rates on a narrow base. By the same token, taxes on things that cannot be moved easily, such as property, are less distortive than taxes on mobile economic agents, particularly firms. Among expenditure taxes, a flat tax-rate on final goods is less distortive than a panoply of excise taxes since it affects spending decisions less. (That said, sometimes, such as with carbon taxes, the goal is to influence decisions.)

An analysis of the relationship between tax structure and growth in 21 rich countries between 1970 and 2004 by Jens Arnold of the OECD bears out these theoretical insights. He found property taxes were the least damaging to growth, followed by consumption taxes. Income taxes were the least growth-friendly, especially those levied on firms. The study suggests that shifting tax revenues from income to consumption and property taxes could have a significant impact on GDP per head.

Most tax systems have become more growth-friendly in recent decades. The top rate of marginal income tax in OECD economies, for instance, has fallen from an average of almost 70% in 1981 to just over 40%, with the biggest declines in Japan and America. Still, America's tax system stands out as one of the least efficient. The heavy reliance on income taxation is compounded by the narrowness of the tax base, thanks to oodles of complexity-inducing deductions. Though Europeans still rely too much on job-deterring social contributions, they have been able to extract higher revenues overall thanks to greater use of more efficient taxes, especially VAT.

Expenditure taxes are not always well designed, however, particularly in federal countries. Brazil has long been trying to reform its VAT, which is levied in a fragmented manner at the state rather than national level. India, too, is trying to reform its potpourri of expenditure taxes. China's heavy reliance on consumption taxes may not be optimal in an economy that saves too much and spends too little.

Nor is tax policy only about efficiency. Politicians also care about fairness and political appeal. Property taxes may be non-distorting, but they are deeply unpopular with voters. Tax progressivity is often at odds with efficiency. A VAT, for instance, falls disproportionately on poorer people who spend a higher share of their income than richer folk. Thanks to its reliance on income taxes, America — by some measures — has the most progressive tax system in the OECD. Different countries will always strike different compromises between efficiency, fairness and simplicity. But as their debt burdens rise, the world's big rich economies would do well to focus most on efficiency.

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## Text 4

### Tax from scratch

*A new report lays out a blueprint for the ideal tax system*

“DEATH, TAXES AND CHILDBIRTH! There’s never any convenient time for any of them”, wrote Margaret Mitchell in “Gone With the Wind”. There may also be no convenient time for radical tax reform. But the global recession, which reduced tax receipts even as it forced governments to spend unprecedented amounts to prop up their economies, has left government budgets across the rich world in tatters. Many countries will have to make some changes to their tax systems as a result. A group of economists, headed by Sir James Mirrlees, a Nobel-prize-winning founder of the modern theory of optimal taxation, urged governments to do more than tinker at the margins.

The economists acknowledge that taxation always imposes economic costs, both because money is needed to collect taxes and because it distorts people’s consumption and work choices. But in a review of Britain’s tax system from the Institute for Fiscal Studies, a think-tank, which was released on November 10th 2010, they argue that most governments could find a way to raise the amount of money they need from the tax system while imposing much lower costs than they currently do.

The economists propose a tax system with three main features. It would be progressive (that is, it would place a larger burden on richer people); it would not discriminate between income earned in different ways; and it would be simple. Such ideals are not new, of course, but Sir James and his colleagues contrast them with Britain’s current system, which they describe as being marked by “a jumble of tax rates, a lack of a coherent vision of the tax base, and arbitrary discrimination across different types of economic activities”. Other rich-world countries also fall short.

Most income-tax systems are already progressive, and who could disagree with a simpler system? The challenge lies in reconciling these principles. In practice progressivity has tended to imply more than one rate of tax, for instance, which is necessarily less simple than a flat tax rate. The Mirrlees review has some useful ideas on how to square the circle: indeed, perhaps its biggest message is that thinking holistically about the tax system helps resolve some of these conflicts. It is the system as a whole that needs to be progressive, not every single tax.

For example, Britain and Ireland justify not charging value-added tax (VAT) on a number of “essential” products like children’s clothing on the ground that doing so would hurt the poor, who spend more of their income on these goods. But such a system distorts people’s choices. Moving to a single rate of VAT without exemptions would eliminate this distortion but it would also be regressive. No matter, argue the economists: far better to have undistorted consumption choices and to fulfil the government’s redistributive aims more efficiently through the income-tax system. The report reckons that the British government could get rid of most reduced- and zero-rate VAT, compensate those whose welfare was hurt and still have £3 billion (\$4.8 billion) left over. As Richard Blundell of University College, London, points out, one of the more redistributive societies on earth, Denmark, does pretty much what the panel recommends.

The Mirrlees review also has some interesting thoughts on progressivity itself. This is usually taken to mean that people who earn more should pay a larger share of their income as tax. But the economists argue that people whose income is temporarily low — perhaps because they have taken time out to study — often borrow and therefore consume more than their immediate income would allow. Basing taxes partly on expenditure rather than just income would therefore go some way towards the ideal of progressivity over a person’s lifetime. How that might be implemented is a different question entirely.

The economists also worry that many tax systems, including Britain’s, do not provide enough incentives for people to work. Here they recommend a departure from simplicity, urging governments to use the tax system to target incentives to those who will be most responsive. This might involve making tax rates conditional on certain demographic features such as age. Mothers of school-age children, for instance, could be urged back into the workforce by changing the way child tax credits are structured, making them more generous when the child is younger than five and less generous afterwards.

The authors reckon that this change could increase employment in Britain by 52,000, or 0.2%. Similarly, using the tax system to give those nearing retirement age a bigger incentive to keep working could increase employment by 157,000 and add £2 billion to British national income.

The report also argues that the costs of generating income should not be taxed. This has some interesting implications. Since forgoing consumption in order to save money can be thought of as the “cost” of future income, the

report suggests that the normal, or risk-free, return on saving should not be taxed, but that returns above this amount should be taxed exactly like other income. More generally, the report says tax systems should not differentiate between income earned in different ways — between working for someone else, say, and self-employment.

### **But will it happen?**

The economists are well aware of the enormous political difficulty such reforms would face. But they argue that elements of the optimal tax system already exist in some countries. The report advocates a corporate-tax deduction equal to a fraction of a firm's outstanding equity, which is designed to remove the bias towards debt finance when interest is deductible. James Poterba of the Massachusetts Institute of Technology, a member of the group, points out that this concept has been implemented in several countries, including Brazil, Austria and Croatia. Even if few governments are likely to undertake wide-ranging reform of the type the group advocates, having an idea of what a better tax system might look like is no bad thing.

*The Economist. Economics: Making Sense of the Modern Economy, 3<sup>rd</sup> edition*



## Text 5

### Smart work

*Faster productivity growth will be an important part of rich economies' revival*

Productivity growth is the closest economics gets to a magic elixir, especially for ageing advanced economies. When workers produce more for every hour they toil, living standards rise and governments have more resources to service their debts and support those who cannot work. As the rich world emerges from the financial crisis, faster productivity growth could counteract the drag from adverse demography. But slower productivity growth could make matters worse.

Workers' productivity depends on their skills, the amount of capital invested in helping them to do their jobs and the pace of "innovation" — the process of generating ideas that lead to new products and more efficient business practices. Financial crises and deep recessions can affect these variables in several ways. Workers' skills may erode if long-term unemployment rises. The disruption to the financial sector and the reluctance of businesses to invest in the face of uncertain demand may also reduce the rate of capital formation, delaying the factory upgrades and IT purchases that would boost workers' efficiency.

Financial crises can affect the pace of innovation, too, though it is hard to predict which way. Deep recessions can slow it down as firms slash their spending on research and development. But they can also boost the pace of efficiency gains as weak demand forces firms to rethink their products and cost structures and the weakest companies are winnowed out. According to Alexander Field of Santa Clara University, the 1930s saw the fastest efficiency improvements in America's history amid large-scale restructuring.

### Here we go again

Almost every government in the rich world has a spanking new "innovation strategy". Industrial policy — out of fashion since its most credible champion, Japan, lost its way in the 1990s — is staging a comeback. But mostly such policies end up subsidising well-connected industries and products. "Green technology" is a favourite receptacle for such subsidies.

In 2008 France created a sovereign-wealth fund as part of its response to the financial crisis; it promises to promote biotechnology ventures, though it has also sunk capital into conventional manufacturers that happened to need money. In 2009 Britain followed suit with a “strategic investment fund”. The Japanese too are back in the game. In June 2010 the newly invigorated Ministry of Economy, Trade and Industry (METI) unveiled a plan to promote five strategic sectors, ranging from environmental products to robotics. However, past experiments with industrial policy, from France’s Minitel, an attempt to create a government-run national communications network, to Spain’s expensive subsidies to jump-start solar power, suggest that governments are not much good at picking promising sectors or products.

More important, the politicians’ current focus on fostering productivity growth via exciting high-tech breakthroughs misses a big part of what really drives innovation: the diffusion of better business processes and management methods. This sort of innovation is generally the result of competitive pressure. The best thing that governments can do to foster new ideas is to get out of the way. This is especially true in the most regulated and least competitive parts of the economy, notably services.

To see why competition matters so much, consider the recent history of productivity in the rich world. On the eve of the recession the rate of growth in workers’ output per hour was slowing. So, too, was the pace of improvement in “total factor productivity” (a measure of the overall efficiency with which capital and workers are used which is economists’ best gauge of the speed of innovation). But that broad trend masks considerable differences.

Since the mid-1990s America’s underlying productivity growth — adjusted for the ups and downs of the business cycle — has outperformed most other rich economies by a wide margin. Workers’ output per hour soared in the late 1990s, thanks largely to investment in computers and software. At first this advance was powered by productivity gains within the technology sector. From 2000 onwards efficiency gains spread through the wider economy, especially in services such as retailing and wholesaling, helped by the deregulated and competitive nature of America’s economy. The improvements were extraordinary, though they slowed after the middle of the decade.

The recent history of productivity in Europe is almost the mirror image of America’s. Up to the mid-1990s the continent’s output per hour grew faster

than America's, helped by imports of tried and tested ideas from across the water. Thanks to this process of catch-up, by 1995 Europe's output per hour reached over 90% of the American level. But then Europe slowed, and by 2008 the figure was back down to 83%. This partly reflected Europe's labour-market reforms, which brought more low-skilled workers into the workforce.

Hurt seemed a price well worth paying for higher employment. But the main reason for Europe's disappointing productivity performance was that it failed to squeeze productivity gains from its service sector.

A forthcoming history of European growth by Marcel Timmer and Robert Inklaar of the University of Groningen, Mary O'Mahony of Birmingham University and Bart Van Ark of the Conference Board, a business-research organisation, carefully dissects the statistics for individual countries and industries and finds considerable variation within Europe. Finland and Sweden improved their productivity growth whereas Italy and Spain were particularly sluggish. Europe also did better in some sectors than in others; for example, telecommunications was a bright spot. But overall, compared with America, European firms invested relatively little in services and innovative business practices. A 2010 McKinsey study suggests that around two-thirds of the differential in productivity growth between America and Europe between 1995 and 2005 can be explained by the gap in "local services", such as retail and wholesale services.

Europe's service markets are smaller than America's, fragmented along national lines and heavily regulated. The OECD has tracked regulation of product and services markets across countries since 1998. It measures the degree of state control, barriers to competition and obstacles to starting a new company, assigning a score to each market of between 0 and 6 (where 0 is the least restrictive). Overall, the absolute level of product regulation fell between 1998 and 2008, and the variation between countries lessened. America and Britain score joint best, with 0.84. The EU average is 1.4. But when it comes to services, the variation is larger and Europe has made much less progress.

In professional services, the OECD's score for Europe is fully twice as high as for America (meaning it is twice as restrictive). As the McKinsey report notes, many European countries are rife with anticompetitive rules. Architects' and lawyers' fees in Italy and Germany are subject to price floors and ceilings. Notaries in France, Spain and Greece and pharmacies in Greece are banned from advertising their services. Such restrictions limit the ability of efficient

newcomers to compete for market share, cossetting incumbents and raising costs across the economy.

In Japan productivity growth slumped after the country's asset bubble burst at the start of the 1990s. One reason was the failure to deal decisively with the bad loans clogging its banks, which propped up inefficient "zombie" companies rather than forcing them into liquidation. That meant less capital was available to lend to upstart firms. Another problem was the lack of competition. Japan's service sector, unlike its world-class manufacturers, is fragmented, protected from foreign competition and heavily regulated, so it failed to capture the gains of the IT revolution.

Over the years Japan made various efforts at regulatory reform, from freeing up the energy market and mobile telephony in the mid- 1990s to liberalising the financial sector in the late 1990s. These have borne some fruit. Japan's total factor productivity growth, unlike Europe's, began to improve after 2000. But coupled with the continuing weakness of investment, the reforms were too modest to bring about a decisive change in the country's overall productivity prospects.

## **Learn Swedish**

Sweden offers a more encouraging lesson. In the aftermath of its banking bust in the early 1990s it not only cleaned up its banks quickly but also embarked on a radical programme of microeconomic deregulation. The government reformed its tax and pension systems and freed up whole swaths of the economy, from aviation, telecommunications and electricity to banking and retailing. Thanks to these reforms, Swedish productivity growth, which had averaged 1.2% a year from 1980 to 1990, accelerated to a remarkable 2.2% a year from 1991 to 1998 and 2.5% from 1999 to 2005, according to the McKinsey Global Institute.

Sweden's retailers put in a particularly impressive performance. In 1990, McKinsey found, they were 5% less productive than America's, mainly because a thicket of regulations ensured that stores were much smaller and competition less intense. Local laws restricted access to land for large stores, existing retailers colluded on prices and incumbent chains pressed suppliers to boycott cheaper competitors. But in 1992 the laws were changed to weaken municipal land-use restrictions, and Swedish entry into the EU and the creation of a new competition authority raised competitive pressures. Large stores and vertically integrated chains rapidly

gained market share. By 2005 Sweden's retail productivity was 14% higher than America's.

The restructuring of retail banking services was another success story. Consolidation driven by the financial crisis and by EU entry increased competition. New niche players introduced innovative products like telephone and internet banking that later spread to larger banks. Many branches were closed, and by 2006 Sweden had one of the lowest branch densities in Europe. Between 1995 and 2002 banking productivity grew by 4.6% a year, much faster than in other European countries. Swedish banks' productivity went from slightly behind to slightly ahead of American levels.

All this suggests that for many rich countries the quickest route to faster productivity growth will be to use the crisis to deregulate the service sector. A study by the Bank of France and the OECD looked at 20 sectors in 15 OECD countries between 1984 and 2007. It found that reducing regulation on "upstream" services would have a marked effect not just on productivity in those sectors but also on other parts of the economy. The logic is simple: more efficient lawyers, distributors or banks enable firms across the economy to become more productive. The size of the potential gains calculated by the Bank of France is stunning. Getting rid of all price, market-entry and other competition-restricting regulations would boost annual total factor productivity growth by one percentage point in a typical country in their sample, enough to more than double its pace.

Getting rid of all anti-competitive regulation may be impossible, but even the more modest goal of embracing "best practice" would yield large benefits. The IMF has calculated that if countries could reduce regulation to the average of the least restrictive three OECD countries, annual productivity growth would rise by some 0.2 percentage points in America, 0.3 percentage points in the euro area and 0.6 percentage points in Japan. The larger gains for Europe and Japan reflect the amount of deregulation left to be done. In both cases the productivity gains to be achieved from moving to best practice would all but counter the drag on growth from unfavourable demography.

Even in America there would be benefits. But, alas, the regulatory pendulum is moving in the opposite direction as the Obama administration pushes through new rules on industries from health care to finance. So far the damage may be limited. Many of Mr. Obama's regulatory changes, from tougher fuel-efficiency requirements to curbs on deep-water drilling, were

meant to benefit consumers and the environment, not to curb competition and protect incumbents. Some of the White House's ideas, such as the overhaul of broadband internet access, would in fact increase competition. The biggest risk lies in finance, where America's new rules could easily hold back innovation.

### **An unlikely role model**

The country that is grasping the challenge of deregulation most energetically is Greece, whose debt crisis has earned it a reputation for macroeconomic mismanagement. Under pressure from the IMF and its European partners, the Greek government has embarked on one of the most radical reforms in modern history to boost its productive potential.

Again, this involves freeing up an historically cushioned service sector. So far the main battleground has been trucking. Before Greece descended into crisis, its lorry drivers required special licences, and none had been granted for several decades. So a license changed hands in the secondary market for about €300,000, driving up the costs of everything that travelled by road in Greece. But under a reform recently passed by the Greek government, the number of licenses is due to double. Greek lorry drivers went on strike in protest, but the government did not budge. Lawyers and pharmacists too are slated for deregulation.

If Greece can stick to its plans, it will, like Sweden, show that crises can offer valuable opportunities. Without the country's brush with default and the conditions attached to the resulting bail-out, its leaders would have been unlikely to muster the necessary political will.

The sluggish progress of reform elsewhere underlines this point. Germany, which ranks 25th out of 30 OECD countries on the complications of its license and permit system, approaches deregulation on liptoes: it recently reduced restrictions on price-setting by architects and allowed chimney-sweeps easier market access.

Two French economists, Jacques Delpla and Charles Wyplosz, have argued that incumbent service providers should be paid off in exchange for accepting competition. They reckon that compensating French taxi drivers for deregulation would cost €4.5 billion. But buying off the losers from reforms may not hold much appeal.

Boosting European integration could be another way to cut through national resistance to deregulation. As Mario Monti, a former EU competition commissioner, pointed out, 70% of the EU's GDP is in services but only 20% of those services cross borders. The EU's Services Directive, which is supposed to boost cross-country competition in services, has proved fairly toothless.

## **How governments can help**

Activism on the part of governments is not always misguided. Their investment in basic research is important. The grants doled out by America's National Institutes of Health, for example, generate the raw ideas that pharmaceutical firms turn into profitable medicines. America's Defence Department created the beginnings of the internet. Public spending on building and maintaining infrastructure also matters, though economists argue about how much. Governments can encourage private R&D spending with tax credits and subsidies, and the evidence suggests that more R&D spending overall boosts growth. Other research shows that firms which spend more on RSD are also often quicker to adopt other innovations.

But these traditional ways of encouraging innovation may be less relevant now that research has become more global and more concentrated on software than on hardware. Since the mid-1990s China alone has accounted for a third of the increase in global spending on research and development. Big firms maintain research facilities in many countries. Dreaming up new products and services, as well as better ways of producing old ones, increasingly involves collaboration across borders and companies. As Dale Jorgenson of Harvard University puts it: "Think Google, not lab coats".

In this more fluid world the old kind of government incentives, such as tax credits and subsidies, may do less to boost innovation than more imaginative inducements, such as offering firms prizes for breakthrough innovations. Bigger efforts to remove remaining barriers to collaboration, from limitations on high-skilled immigration to excessively rigid land-use rules, should also help.

A smart innovation agenda, in short, would be quite different from the one that most rich governments seem to favour. It would be more about freeing markets and less about picking winners; more about creating the right conditions for bright ideas to emerge and less about promises of things like



green jobs. But pursuing that kind of policy requires courage and vision — and most of the rich economies are not displaying enough of either.

These areas of economics needed some serious rethinking. Macroeconomists were often content to develop elegant models where the system's financial plumbing was simply assumed to work. This made them less than adept at spotting the flaws in the financial system that eventually brought the global economy to its knees. And while some of their colleagues who studied finance spent considerable time poking holes in the idea that markets could always be relied upon to be efficient, they spent far too little in trying to disseminate their skepticism to the wider world. Too often, the profession cheered along — or was conspicuously silent — as its subtler insights were ignored.

The articles here lay out what is needed and what is happening as these fields struggle to regain their relevance. But they also make a broader point, which is that the crisis has exposed the shortcomings of economists becoming too narrow in their focus, arguing: "Economists need to reach out from their specialised silos: macroeconomists must understand finance, and finance professors need to think harder about the context within which markets work."

One of the most interesting things about contemporary economics is the extent to which this has been happening in other parts of economics — particularly development economics and microeconomics. Most of this has little to do with the crisis: economics is in a constant state of flux, as economists find new puzzles to explain and are sometimes led to explore new ways of looking at the world as a result. While Part 1 of this book tried to give the reader a sense of economics' fundamental concerns, Chapter 10 consists of articles that explore the ways in which the discipline is evolving. It describes how development economists have adopted some of the tools and vocabulary of the field of medical testing and how others are incorporating insights from psychology and neuroscience into their work.

This book began with accounts of the lives and works of some of those who defined the discipline in the 20th century. It ends with profiles of some who, in *The Economist's* judgment, will shape the subject in the present one.

*The Economist. Economics: Making Sense of the Modern Economy, 3<sup>rd</sup> edition*



## Text 6

### What went wrong with economics

#### *And how the discipline should change to avoid the mistakes of the past*

Of all economic bubbles that have been pricked, few have burst more spectacularly than the reputation of economics itself. A few years ago, the dismal science was being acclaimed as a way of explaining ever more forms of human behaviour, from drug-dealing to sumo-wrestling. Wall Street ransacked the best universities for game theorists and options modellers. And on the public stage, economists were seen as far more trustworthy than politicians. John McCain joked that Alan Greenspan, then chairman of the Federal Reserve, was so indispensable that if he died, the president should “prop him up and put a pair of dark glasses on him”.

In the wake of the biggest economic calamity in 80 years that reputation has taken a beating. In the public mind an arrogant profession has been humbled. Though economists are still at the centre of the policy debate — think of Ben Bernanke or Larry Summers in America or Mervyn King in Britain — their pronouncements are viewed with more skepticism than before. The profession itself is suffering from guilt and rancour. In a lecture given in June 2009, Paul Krugman, winner of the Nobel prize in economics in 2008, argued that much of the past 30 years of macroeconomics was “spectacularly useless at best, and positively harmful at worst”. Barry Eichengreen, a prominent American economic historian, says the crisis has “cast into doubt much of what we thought we knew about economics”.

In its crudest form — the idea that economics as a whole is discredited — the current backlash has gone far too far. If ignorance allowed investors and politicians to exaggerate the virtues of economics, it now blinds them to its benefits. Economics is less a slavish creed than a prism through which to understand the world. It is a broad canon, stretching from theories to explain how prices are determined to how economies grow. Much of that body of knowledge has no link to the financial crisis and remains as useful as ever.

And if economics as a broad discipline deserves a robust defence, so does the free-market paradigm. Too many people, especially in Europe, equate mistakes made by economists with a failure of economic liberalism. Their logic seems to be that if economists got things wrong, then politicians will do better. That is a false — and dangerous — conclusion.

## *Rational fools*

These important caveats, however, should not obscure the fact that two central parts of the discipline — macroeconomics and financial economics — are now, rightly, being severely re-examined. There are three main critiques: that macro and financial economists helped cause the crisis, that they failed to spot it, and that they have no idea how to fix it.

The first charge is half right. Macroeconomists, especially within central banks, were too fixated on taming inflation and too cavalier about asset bubbles. Financial economists, meanwhile, formalised theories of the efficiency of markets, fuelling the notion that markets would regulate themselves and financial innovation was always beneficial. Wall Street's most esoteric instruments were built on these ideas.

But economists were hardly naive believers in market efficiency. Financial academics have spent much of the past 30 years poking holes in the “efficient market hypothesis”. A recent ranking of academic economists was topped by Joseph Stiglitz and Andrei Shleifer, two prominent hole-pokers. A newly prominent field, behavioural economics, concentrates on the consequences of irrational actions.

So there were caveats aplenty. But as insights from academia arrived in the rough and tumble of Wall Street, such delicacies were put aside. And absurd assumptions were added. No economic theory suggests you should value mortgage derivatives on the basis that house prices would always rise. Finance professors are not to blame for this, but they might have shouted more loudly that their insights were being misused. Instead many cheered the party along. Put that together with the complacency of the microeconomists and there were too few voices shouting stop.

## *Blindsided and divided*

The charge that most economists failed to see the crisis coming also has merit. To be sure, some warned of trouble. The likes of Robert Shiller of Yale, Nouriel Roubini of New York University and the team at the Bank for International Settlements are now famous for their prescience. But most were blindsided. And even worrywarts who felt something was amiss had no idea of how bad the consequences would be.

That was partly to do with professional silos, which limited both the tools available and the imaginations of the practitioners. Few financial economists thought much about illiquidity or counterparty risk, for instance, because their standard models ignore it; and few worried about the effect on the overall economy of the markets for all asset classes seizing up simultaneously, since few believed that was possible.

Macroeconomists also had a blind spot: their standard models assumed that capital markets work perfectly. Their framework reflected an uneasy truce between the intellectual heirs of Keynes, who accept that economies can fall short of their potential, and purists who hold that supply must always equal demand. The models that epitomise this synthesis — the sort used in many central banks incorporate imperfections in labour markets (“sticky” wages, for instance, which allow unemployment to rise), but make no room for such blemishes in finance. By assuming that capital markets worked perfectly, macroeconomists were largely able to ignore the economy’s financial plumbing. But models that ignored finance had little chance of spotting a calamity that stemmed from it.

What about trying to fix it? Here the financial crisis has blown apart the fragile consensus between purists and Keynesians that monetary policy was the best way to smooth the business cycle. In many countries short-term interest rates are near zero and in a banking crisis monetary policy works less well. With their compromise tool useless, both sides have retreated to their roots, ignoring the other camp’s ideas. Keynesians, such as Mr Krugman, have become uncritical supporters of fiscal stimulus. Purists are vocal opponents. To outsiders, the cacophony underlines the profession’s uselessness.

Add these criticisms together and there is a clear case for reinvention, especially in macroeconomics. Just as the Depression spawned Keynesianism, and the 1970s stagflation fuelled a backlash, creative destruction is already under way. Central banks are busy bolting crude analyses of financial markets onto their workhorse models. Financial economists are studying the way that incentives can skew market efficiency. And today’s dilemmas are prompting new research: which form of fiscal stimulus is most effective? How do you best loosen monetary policy when interest rates are at zero? And so on.

But a broader change in mindset is still needed. Economists need to reach out from their specialised silos: macroeconomists must understand finance,

and finance professors need to think harder about the context within which markets work. And everybody needs to work harder on understanding asset bubbles and what happens when they burst. For in the end economists are social scientists, trying to understand the real world. And the financial crisis has changed that world.

*It takes a model to beat a model.*

The benchmark macroeconomic model, though not junk, suffers from some obvious flaws, such as the assumption of complete markets or frictionless finance. Indeed, because these flaws are obvious, economists are well aware of them. Critics like Mr Buiter are not telling them anything new. Economists can and do depart from the benchmark. That, indeed, is how they get published. Thus a growing number of cutting-edge models incorporate one or two financial frictions. And economists like Mr Brunnermeier are trying to fit their small, “blackboard” models of the crisis into a larger macroeconomic frame.

But the benchmark still matters. It formalises economists’ gut instincts about where the best analytical cuts lie. It is the starting point to which the theorist returns after every ingenious excursion. Few economists really believe all its assumptions, but few would rather start anywhere else.

Unfortunately, it is these primitive models, rather than their sophisticated descendants, that often exert the most influence over the world of policy and practice. This is partly because these first principles endure long enough to find their way from academia into policymaking circles. As Keynes pointed out, the economists who most influence practical men of action are the defunct ones whose scribbles have had time to percolate from the seminar room to wider conversations.

These basic models are also influential because of their simplicity. Faced with the “blooming, buzzing confusion” of the real world, policymakers often fall back on the highest-order principles and the broadest presumptions. More specific, nuanced theories are often less versatile. They shed light on whatever they were designed to explain, but little beyond.

Would economists be better off starting from somewhere else? Some think so. They draw inspiration from neglected prophets, like Minsky, who recognised that the “real” economy was inseparable from the financial. Such prophets were neglected not for what they said, but for the way they said it. Today’s

economists tend to be open-minded about content, but doctrinaire about form. They are more wedded to their techniques than to their theories. They will believe something when they can model it.

Mr Colander, therefore, thinks economics requires a revolution in technique. Instead of solving models “by hand”, using economists’ powers of deduction, he proposes simulating economies on the computer. In this line of research, the economist specifies simple rules of thumb by which agents interact with each other, and then lets the computer go to work, grinding out repeated simulations to reveal what kind of unforeseen patterns might emerge. If he is right, then macroeconomists, like zombie banks, must write off many of their past intellectual investments before they can make progress again.

Mr Krugman, by contrast, thinks reform is more likely to come from within. Keynes, he observes, was a “consummate insider”, who understood the theory he was demolishing precisely because he was once convinced by it. In the meantime, he says, macroeconomists should turn to patient empirical spadework, documenting crises past and present, in the hope that a fresh theory might later make sense of it all.

Macroeconomics began with Keynes, but the word did not appear in the journals until 1945, in an article by Jacob Marschak. He reviewed the profession’s growing understanding of the business cycle, making an analogy with other sciences. Seismology, for example, makes progress through better instruments, improved theories or more frequent earthquakes. In the case of economics, Marschak concluded, “the earthquakes did most of the job”.

Economists were deprived of earthquakes for a quarter of a century. The Great Moderation, as this period was called, was not conducive to great macroeconomics. Thanks to the seismic events of 2007–2009, the prestige of macroeconomics is low, but the potential of their subject is much greater. The furious rows that divide them are a blow to their credibility, but may prove to be a spur to creativity.

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## Text 7

### An economic bestiary

*Macroeconomists need to apply some new lessons and relearn some old ones*

No two economic crises are identical. But the same questions recur. How did we get into this mess? How can we get out of it? How do we avoid another? Some answers repeat themselves too. You can be pretty sure that sooner or later someone, quite possibly an anguished economist, will declare that economics itself has gone astray. The wisdom of some past master, whether celebrated (John Maynard Keynes, for example) or neglected (Hyman Minsky, perhaps), has been forgotten, and the economy is paying the price.

A book<sup>1</sup> “Animal Spirits” by George Akerlof of the University of California, Berkeley, and Robert Shiller of Yale, follows this rule to the letter. The authors seek to answer the first of those three old questions and thus to provide some pointers about the other two. They do indeed believe that economics has lost its way. And their chosen economist is Keynes.

So far, so familiar. But this book is rather more than the usual lament about the failings of economics. Its authors are two of the discipline’s leading lights. Mr Akerlof won a Nobel prize in 2001, in part for a classic paper explaining how, if sellers know more than buyers, markets may fail. (It was turned down by three leading journals before finding a home.) Mr Shiller sounded a warning about the “Irrational Exuberance” of the tech-boom stock market in a book of that name — and did the same for the housing market in a second edition. With a collaborator, Karl Case, he drew up a widely cited set of indices of American home prices.

The lesson that Messrs Akerlof and Shiller draw from Keynes is not just the standard one, of the usefulness of deficit finance in recessions. They borrow their title from “The General Theory of Employment, Interest and Money”:

*Most, probably, of our decisions to do something positive, the full consequences of which will be drawn out over many days to come, can only be taken as a result of animal spirits — of a spontaneous urge to action rather than inaction, and not as the*

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<sup>1</sup> Animal Spirits: How Human Psychology Drives the Economy, and Why It Matters for Global Capitalism. Princeton University Press, March 2009.

*outcome of the weighted average of quantitative benefits multiplied by quantitative probabilities.*

Too much economics, say Mr Akerlof and Mr Shiller, has been built on the premise that humans are rational calculators. That is not a new criticism, even from economists. Over the past couple of decades *Homo economicus* has evolved into a being more like *H. sapiens*, as economics has drawn on psychology, biology and even neuroscience. “Behavioural” economics has shaped public policy — for instance, in encouraging people to save or in shaping the choice of investments in their pension pots. Behavioural economists have earned Nobel prizes. Mr Akerlof and Mr Shiller, however, complain that this evolution has been confined mainly to microeconomics. It is time for macroeconomics to catch up.

*One, two, three, four, five*

Keynes mentioned animal spirits only twice, in a paragraph on what motivates people to invest and speculate. From this single thread, Messrs Akerlof and Shiller spin five classes of spirit. First and closest to the original is confidence. This goes beyond a rational estimate of next week’s share price, or the price in ten years’ time of what a new factory might produce. And confidence, or the lack of it, builds on itself — in a way similar to Keynes’s multiplier, but defying easy quantification. Second is fairness. Even if economists know that fairness matters, too little of their work reflects it. Third is corruption, or bad faith: what explains a Charles Ponzi or an Enron? Fourth is money illusion: economists have come to assume that people see through inflation, but they don’t, especially when it is low. The fifth they call “stories”. Economists are loth to suppose that people are irrational enough to latch onto plausible tales and forecasts — for example, that house prices will never go down. So their models won’t spot the consequences of misplaced belief until it is too late.

Messrs Akerlof and Shiller list eight questions which, they say, cannot be well explained without an appeal to animal spirits — but can be tackled with them. These range from why markets for housing and shares swing wildly (a combination of confidence, stories and bad faith) to why, contrary to standard theory, there appears to be a long-run trade-off between inflation and unemployment (mainly, a mix of money illusion and fairness).

The most topical of the eight, however, is the power of central banks. The animal-spirits version of the credit crisis is a mixture of bad faith, a

collapse of confidence and a change from a happy economic “story” to a thoroughly miserable one. Credit has dried up — so that applying the fiscal and monetary stimulus consistent with full employment is not enough. The Federal Reserve should also have a target for credit. Unless credit flows again, fiscal and monetary measures will not suffice: companies can’t borrow to build factories and consumers can’t borrow to buy cars. The Fed was set up, Messrs Akerlof and Shiller point out, to maintain confidence after the financial crisis of 1907. That, rather than the fine-tuning of interest rates in steady times, is its most important task.

How much do animal spirits help? Most of the time, the unrealistic assumption of rationality serves economists fairly well. They should, however, be more prepared to depart from it, especially in times like these — even if that makes behaviour more difficult to describe in elegant equations. Messrs Akerlof and Shiller have therefore done their profession a service.

Yet their ideas carry risks too. To a politician seeking to rein in free markets, animal spirits are a gift. The authors sum up their view of the role of government thus: “The role of the parent is to create a happy home, which gives the child freedom but also protects him from his animal spirits”. For liberals (in the European sense) that is not a wholly comforting thought.

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## Text 8

### Freud, finance and folly

*Human intuition is a bad guide to handling risk*

People make barmy decisions about the future. The evidence is all around, from their investments in the stock markets to the way they run their businesses. In fact, people are consistently bad at dealing with uncertainty, underestimating some kinds of risk and overestimating others. Surely there must be a better way than using intuition?

In the 1950s and 1960s, a group of researchers at American universities set out to find a more scientific method. They created a discipline called “decision science” which aimed to take the human element out of risk analysis. It would offer a way of making soundly based decisions for a future fraught with uncertainties. This would involve using computer models for forecasting, estimating the probabilities of possible outcomes and determining the best course of action, thus avoiding the various biases that humans brought to decision-making. Such models, the researchers thought, would provide rational answers to questions such as whether to build a factory, how to combat disease and how to manage investments.

Business schools soon adopted their teachings, and even some policymakers were persuaded. Decision science’s heyday may have been the Vietnam war when Robert McNamara, then America’s defence secretary, used such techniques to forecast the outcome of the conflict (though, as it turned out, without much success). But mostly the approach did not quite catch on. Decision-makers, whether in business or politics, were loth to hand over their power to a computer. They preferred to go with their gut instincts.

*Think like a machine*

Daniel Kahneman, now a professor at Princeton, noticed as a young research psychologist in the 1960s that the logic of decision science was hard for people to accept. That launched him on a career to show just how irrationally people behave in practice. When Mr Kahneman Globalisation is well worth defending. But neither governments nor businesses can be trusted to make the case

The strongest case for globalisation is the liberal one. It is almost never heard, least of all from governments or businessmen. International economic integration, on the liberal view, is what happens when technology allows people to pursue their own goals and they are given the liberty to do so. If technology advances to the point where it supports trade across borders, and if people then choose to trade across borders, you have integration, and because people have freely chosen it this is a good thing. Also, again because people have freely chosen this course, you would expect there to be economic benefits as well.

By and large, theory and practice confirm that this is so. Adam Smith's invisible hand does its work. People choose what serves their own self-interest, each of them making that judgment for himself. The result is that society as a whole prospers and advances — spontaneously, not by design of any person or government.

All kinds of qualifications and elaborations are needed, obviously, to fill out the argument properly. Some of them will be offered in due course. But it is essential to understand one point from the outset. The liberal case for globalisation is emphatically not the case for domestic or international *laissez-faire*. Liberalism lays down no certainties about the requirements of social justice in terms of income redistribution or the extent of the welfare state. It recognises that markets have their limits, for instance in tending to the supply of public goods (such as a clean environment). A liberal outlook is consistent with support for a wide range of government interventions; indeed a liberal outlook demands many such interventions.

But the starting point for all liberals is a presumption that, under ordinary circumstances, the individual knows best what serves his interests and that the blending of these individual choices will produce socially good results. Two other things follow. The first is an initial scepticism, at least, about collective decision-making that overrides the individual kind. The other is a high regard for markets — not as a place where profits are made, it must be stressed, but as a place where society advances in the common good.

Why then are governments and business leaders rarely heard to put this case? Because for the most part they are not liberals. Perhaps it goes with the job that politicians of left and right, traditional and modern, have an exaggerated view of their ability to improve on the spontaneous order of a lightly governed society.

It would be even more naive, and contrary to all experience, to expect business itself to favour a liberal outlook. Businesses are ultimately interested in one thing: profits. The business-bashing NGOs are right about that. If businesses think that treating their customers and staff well, or adopting a policy of “corporate social responsibility”, or using ecologically friendly stationery will add to their profits, they will do it. Otherwise, they will not.

Does that make market capitalism wrong? On the contrary, the point of a liberal market economy is that it civilises the quest for profit, turning it, willy-nilly, into an engine of social progress. If firms have to compete with rivals for customers and workers, then they will indeed worry about their reputation for quality and fair dealing — even if they do not value those things in themselves. Competition will make them behave as if they did.

Here, then, is where the anti-business NGOs get their argument completely upside down — with genuinely dangerous consequences for the causes, sometimes just, which they hope to advance. On the whole, stricter regulation of international business is not going to reduce profits: the costs will be passed along to consumers. And it is not going to diminish any company’s interest in making profits. What it may well do, though, by disabling markets in their civilising role, is to give companies new opportunities to make even bigger profits at the expense of society at large.

For example, suppose that in the remorseless search for profit, multinationals pay sweatshop wages to their workers in developing countries. Regulation forcing them to pay higher wages is demanded. The biggest western firms concede there might be merit in the idea. But justice and efficiency require a level playing-field. The NGOs, the reformed multinationals and enlightened rich-country governments propose tough rules on developing-country factory wages, backed up by trade barriers to keep out imports from countries that do not comply. Shoppers in the West pay more — but willingly, because they know it is in a good cause. The NGOs declare another victory. The companies, having shafted their developing-country competition and protected their domestic markets, count their bigger profits (higher wage costs notwithstanding). And the developing-country workers displaced from locally owned factories explain to their children why the West’s new deal for the victims of capitalism requires them to starve.

### *If firms ruled the world*

A fashionable strand of scepticism argues that governments have surrendered their power to capitalism — that the world's biggest companies are nowadays more powerful than many of the world's governments. Democracy is a sham. Profits rule, not people. These claims are patent nonsense. On the other hand, there is no question that companies would run the world for profit if they could. What stops them is not governments, powerful as they may be, but markets.

Governments have the power, all right, but they do not always exercise it wisely. They are unreliable servants of the public interest. Sometimes, out of conviction, politicians decide to help companies reshape the world for private profit. Sometimes, anti-market thinking may lead them to help big business by accident. And now and then, when companies just set out to buy the policies they want, they find in government a willing seller. On all this, presumably, the sceptics would agree.

But they miss the next crucial step: limited government is not worth buying. Markets keep the spoils of corruption small. Government that intervenes left and right, prohibiting this and licensing that, creating surpluses and shortages — now that kind of government is worth a bit. That is why, especially in developing countries with weak legal systems, taming capitalism by regulation or trade protection often proves such a hazardous endeavour.

If NGOs succeeded in disabling markets, as many of them say they would like to, the political consequences would be as dire as the economic ones. It is because the sceptics are right about some things that they are so wrong about the main thing.

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