

# UNIT 1

## ECONOMICS AND FINANCE

### Text 1. CAREERS: ECONOMISTS

#### *Discussion*

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

- Notes:*
- 1. wear a second hat – занимать вторую должность.*
  - 2. opt – выбирать, предпочитать (for; between).*
  - 3. addictiveness – вызывающий привычку, привыкание.*

In many ways, we are all part of the world economy. When we drink our imported coffee or hot chocolate in the morning, when we use a foreign-made videocassette recorder, or when we travel abroad on holiday, we are participating in the growing world of international trade and finance. And it is not only as a consumer of foreign goods and services that we are part of the world economy. The money that our pension funds or university endowments earn from global investments may actually be paying for our retirement or a new building on campus. Foreign investment in local real estate and companies can also provide needed jobs for our friends and families. Even the local athlete who has signed a contract to play abroad is part of the expanding global economy. The world economy is made up of all those interactions among people, businesses, and governments that cross international borders, even the illegal ones. We use the world economy to achieve specific political or ecological objectives when we employ economic sanctions to fight racial segregation or the illegal killing of whales.

Economists study the ways in which individuals and society choose to use limited resources, such as natural resources, labour,

factories, and machines, in an effort to satisfy unlimited wants. They are concerned with the production, distribution, and consumption of goods and services and are interested in helping society get as much satisfaction as possible from its limited resources.

Economists collect, process, and analyse data to determine the costs and benefits of using resources in various ways. Economists are employed in a number of different job settings. About half of them are academic economists, who engage in teaching, writing and doing research in colleges, and Universities. They also write textbooks and journal articles, develop and test new theoretical models, provide consulting services to governments and businesses, and engage in variety of other professional activities. The other half of all economists work for government or business.

Government economists collect and analyse information about economic conditions in the nation and possible changes in government economic policies. Much of this information is published in government bulletins and reports. Often the government economist wears a second hat<sup>1</sup> as a policy analyst. Economists forecast tax revenues and interest rates, analyse, who gains and who loses from particular changes, monitor prices, compute total output and perform other useful tasks in the public sector.

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

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

company.

While the percentage of growth for men entering into business independence could be measured in the teens, women's increase in a single decade was 69 percent. There is no mystery here. Women go into business for the same reason men do – to make money and to be their own bosses. Entrepreneurship is regarded to be the first track to success. Rather than to take a low-wage, big-industry job, people opt to use their wits and energy to climb the ladder of independence. People who are successful in business and so have become rich and powerful are called tycoons. Speaking about entrepreneurship, Professor K. Vesper of the University of Washington says that “A driving force in entrepreneurship is addictiveness. Once people have a taste of freedom in a business of their own, they like it. They don't want to go back to working for someone else.”

### Text exercises

#### 1. Match the following word combinations

A	B
1) academic argument	a) приобрести профессию
2) to provide fringe benefits	экономиста
3) a private entrepreneur	b) заниматься коммерцией
4) an independent entrepreneur	c) чисто теоретическое
5) to show a flair	доказательство
6) to engage in business	d) доход от налогов, налоговые
7) to monitor performance	поступления
8) to qualify as an economist	e) частный предприниматель
9) tax revenue	f) обнаруживать способность (к
	чему-либо)
	g) независимый
	предприниматель
	h) управлять работой
	i) предоставить
	дополнительные льготы

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

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

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

1. ... means having the qualities that are needed to succeed as an entrepreneur. 2. An ... is a person who sets up business and business deals. 3. A ... is a person who is successful in business and so has become rich and powerful. 4. The industry will have to pass its increased ... on to the consumer. 5. The management will ... accommodation, food and drink for thirty people. 6. He has always been ... for his children. 7. The ... of the job include a car and free health insurance. 8. He won't ... as an economist until next year. 9. An individual hoping to start up a new company needs to have entrepreneurial ... or talent. 10. Unfortunately ... of higher profits did not come true. 11. Economists are concerned with the production, ... and ....

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

**4. Retell the text in 12-15 sentences.**

## **Text 2. Microeconomics and macroeconomics**

1 Many economists specialize in a particular branch of the subject. Labor economics deals with the problem of the labor market A viewed by firms, workers, and society as a whole. Urban economics deals with city problems: land use, transport, congestion, and housing. However, we need not classify branches of economics according to the area of economic life in which we ask the standard questions what, how, and for whom. We can also classify branches of economics according to the approach or methodology that is used. The very broad division of approaches into microeconomic and macroeconomic cuts across the large number of subject groupings cited above.

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

3 If you think this sounds very complicated you are correct. It is. For many purposes, the analysis becomes so complicated that we tend to lose track of the phenomena in which we were interested. The interesting task for economics, a task that retains an element of art in economic science, is to devise judicious simplifications which keep the analysis manageable without distorting reality too much. It is here that microeconomists and macroeconomists proceed down different avenues. Microeconomists tend to offer a detailed treatment of one aspect of economic behaviour but ignore interactions with the rest of the economy in order to preserve the simplicity of the analysis. A

microeconomic analysis of miners' wages would emphasise the characteristics of miners and the ability of mine owners to pay. It would largely neglect the chain of indirect effects to which a rise in miners' wages might give rise. For example, car workers might use the precedent of the miners' pay increase to secure higher wages in the car industry, thus being able to afford larger houses which burned more coal in heating systems. When microeconomic analysis ignores such indirectly induced effects it is said to be partial analysis.

4 In some instances, indirect effects may not be too important, and it will make sense for economists to devote their efforts to very detailed analyses of particular industries or activities. In other circumstances, the indirect effects are too important to be swept under the carpet and an alternative simplification must be found.

5 Macroeconomics emphasises the interactions in the economy as a whole. It deliberately simplifies the individual building blocks of the analysis in order to retain a manageable analysis of the complete interaction of the economy. For example, macroeconomists typically do not worry about the breakdown of consumer goods into cars, bicycles, televisions, and calculators.

6 They prefer to treat them all as a single bundle called "consumer goods" because they are more interested in studying the interaction between households' purchases of consumer goods and firms' decisions about purchases of machinery and buildings.

7 Because these macroeconomic concepts are intended to refer to the economy as a whole, they tend to receive more coverage on television and in the newspapers than microeconomic concepts, which are chiefly of interest to those who belong to the specific group in question. To give an idea of the building blocks of macroeconomics, we introduce three concepts which you have probably read about in the newspapers or seen discussed on television. *Gross domestic product* (GDP) is the value of all goods and services produced in the economy in a given

period such as a year. GDP is the basic measure of the total output of goods and services in the economy.

8 The aggregate price level is a measure of the average level of prices of goods and services in the economy, relative to their prices at some fixed date in the past.

9 There is no reason why the prices of different goods should always move in line with one another. The aggregate price level tells us what is happening to prices on average. When the price level is rising, we say that the economy is experiencing inflation.

10 The *unemployment rate* is the percentage of the labour force without a job. By the labour force we mean those people of working age who in principle would like to work if a suitable job were available. Some of the landed gentries are of working age but have no intention of looking for work. They are not in the labour force and should not be counted as unemployed.

11 Already we can see two themes of modern macroeconomic analysis. Society reveals, both through statements by individuals and by the policy pronouncements of politicians who must submit themselves for re-election by the people, that it does not like inflation and unemployment. Yet for most of the 1970s economic interactions within and between national economies led to substantial inflation rates. In the 1980s, most Western economies faced sharp rises in the aggregate unemployment rate. Macroeconomists wish to understand how interactions within the economy can lead to these outcomes and whether government policy can make any difference.

*David Begg. Economics. — 3rd ed. — McGraw-Hill Book Company, 1991. — P. 11.*

**1. Use your dictionary to check the correct pronunciation of the words below.**

branch, society, urban, congestion, an aggregate, to aggregate, equilibrium, simultaneously, judicious, partial, circumstances, machinery.

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

1. What is the crucial difference between micro- and macroeconomic analysis?
2. Why do macroeconomists consider consumer goods as a single bundle?
3. What is GDP? How to calculate this macroeconomic index?
4. What does the aggregate price level show?
5. What is the difference between those individuals who are a part of the labour force and those who are not?

**3. Decide whether the following statements are *True* or *False* according to text.**

1. General equilibrium theory is a crucial branch of macroeconomic theory. \_\_\_\_
2. The main advantage of microeconomic analysis is the simplicity of the equilibrium theory. \_\_\_\_
3. In microeconomics, analysts examine one aspect of economic behaviour and ignore interactions with the rest of the economy. \_\_\_\_
4. GDP is the basic measure of the total output in microeconomics. \_\_\_\_
5. People who are of working age and strive for employment should be considered as the labour force. \_\_\_\_

**4. Fill in the gaps using the prepositions from the box below (where necessary).**

*for • to • on • between • into • in • at • with*

1. There is often a legitimate but hazy division \_\_\_\_\_ two “groups” of older people: the young, recently retired and the older group.



2. Employees said they would prefer more flexible working hours \_\_\_\_\_ a rigid timetable.
3. Its policy was to restrict public expenditure \_\_\_\_\_ fields such as housing and to extend home ownership for council house tenants \_\_\_\_\_ their Right-to-Buy legislation in the Housing Act 1980.
4. It is difficult to assess effectiveness \_\_\_\_\_ a point in time as environmental changes take place.
5. Lower oil prices also tend to influence \_\_\_\_\_ the rate of exploration and exploitation of new oil wells along \_\_\_\_\_ reduced investment in energy conservation.
6. Toyota in Kentucky and Nissan in Britain emphasise \_\_\_\_\_ their managers' open-plan, egalitarian offices.
7. To give you the flexibility you need, one information and communication company has committed itself \_\_\_\_\_ providing answers that make sense \_\_\_\_\_ your particular needs.
8. As the total area allocated \_\_\_\_\_ these crops increased, so the amount of time and land which a family could devote \_\_\_\_\_ food crop production for its own consumption often diminished.
9. Against that competition it is not altogether surprising that British newspaper readers found better issue coverage \_\_\_\_\_ British television.
10. This process is known as elaboration and involves a fruitful interaction \_\_\_\_\_ theory and data.

**5. Retell the text in 12-15 sentences.**

### **Text 3. Economic growth and development**

1 The study of economic growth and development is not a single branch of economics but falls, in fact, into two quite different fields. The two fields — growth and development — employ different methods of analysis and address two distinct types of inquiry.

2 Development economics is easy to characterise as one of the three major subfields of economics, along with microeconomics and macroeconomics. More specifically, development economics resembles economic history in that it seeks to explain the changes that occur in economic systems over time.

3 The subject of economic growth is not so easy to characterise. Indeed, it is the most technically demanding field in the whole of modern economics, impossible to grasp for anyone who lacks a command of differential calculus. Its focus is the properties of equilibrium paths, rather than equilibrium states. In applying economic growth theory, one makes a model of the economy and puts it into motion, requiring that the time paths described by the variables be self-sustaining in the sense that they continue to be related to each other in certain characteristic ways. Then one can investigate the way economics might approach and reach these steady-state growth paths from given starting points. Beautiful and frequently surprising theorems have emerged from this experience, but as yet there are no really testable implications nor even definite insights into how economies grow.

4 Growth theory began with the investigations by Roy Harrod in England and Evsey Domar in the United States. Their independent work, joined in the Harrod-Domar model, is based on natural rates of growth and warranted rates of growth. Keynes had shown that new investment has a multiplier effect on income and that the increased income generates extra savings to match the extra investment, without which the higher income level could not be sustained. One may think of this as being repeated from period to period, remembering that investment, apart from raising income disproportionately, also generates the capacity to produce more output. This results in products

that cannot be sold unless there is more demand — that is, more consumption and more investment. This is all there is to the model. It contains one behavioural condition: that people tend to save a certain proportion of extra income, a tendency that can be measured. It also contains one technical condition: that investment generates additional output, a fact that can be established. And it contains one equilibrium condition: that planned saving must equal planned investment in every period if the income level of the period is to be sustained. Given these three conditions, the model generates a time path of income and even indicates what will happen if income falls off the path.

5 More complex models have since been built, incorporating different saving ratios for different groups in the population, technical conditions for each industry, definite assumptions about the character of technical progress in the economy, monetary and financial equations, and much more. The new growth theory of the 1990s was labelled “endogenous growth theory” because it attempted to explain technical change as the result of profit-motivated research and development (R&D) expenditure by private firms. This was driven by competition along the lines of what Schumpeter called product innovations (as distinct from process innovations). In contrast to the Harrod-Domar model, which viewed growth as exogenous, or coming from outside variables, the endogenous theory emphasises growth from within the system. This approach enjoyed, and still enjoys, an enormous vogue, partly because it seemed to offer governments a new means of promoting economic growth — namely, national innovation policies designed to stimulate more private and public R&D spending.

<http://www.britannica.com/EBchecked/topic/178548/economics/236773/Growth-and-development>

**1. Use your dictionary to check the correct pronunciation of the words below.**

inquiry, distinct, to characterise, calculus, variables, theorems, to warrant, ratios, endogenous, vogue

**2. Read text A and do the tasks/answer the questions below.**

1. What common characteristic do economic history and development economics share?
2. What is the subject of development economics?
3. How do equilibrium states differ from equilibrium paths?
4. What is the endogenous growth theory about?
5. What does the Harrod-Domar model state?

**3. Decide whether the following statements are *True or False* according to text A.**

1. Development economics deals with changes which take place within a period of time. \_\_\_\_
2. Nowadays economists can clearly define how economies grow. \_\_\_\_
3. There is no precise difference between growth and development. \_\_\_\_

**4. Read the text below. Use the words below the text to form a word that fits the context.**

Economic (1) \_\_\_\_\_ is the amount of production in a country or region over a certain period of time. While (2) \_\_\_\_\_ ministers may keep track of these growth numbers every month, generally it is the (3) \_\_\_\_\_ and annual numbers that attract the most attention.

In (4) \_\_\_\_\_ to production, measured through the gross domestic product (GDP), local governments and individuals may use a different standard to (5) \_\_\_\_\_ economic growth.

If the GDP of a country one year is \$100 billion US Dollars (USD) and the next year is \$125 USD billion, then there has been economic growth of 25%. If, on the other hand, the GDP was only \$75 USD billion, the growth would be -25%. In most cases, it is still referred to as growth, even if it is a (6) \_\_\_\_\_ of the economy. Most (7) \_\_\_\_\_ economic growth to be one of the surest signs of a country's overall health. More commerce means more jobs, and more jobs mean more (8) \_\_\_\_\_, leading to more production. This can be a very good circle to get into. Like most things, however, this growth tends to come and go in cycles.

(1) to grow

(5) measurement

(2) finance

(6) contract

(3) quarter

(7) considerable

(4) to add

(8) to consume

<http://www.wisegeek.com/what-is-economic-growth.htm#did-you-know>

**5. Retell the text in 12-15 sentences.**