

МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
Донецький національний університет економіки і торгівлі
ім. М.І. Туган-Барановського

Кафедра іноземних мов

Остапенко С.А.

GUIDE TO ECONOMICS

Практикум з дисципліни

«Іноземна (англійська) мова професійного спрямування»

для студентів напрямів підготовки

6.030503 «Міжнародна економіка», 6.030504 «Економіка підприємства»

Затверджено

на засіданні кафедри іноземних мов

Протокол № 12 від 1 лютого 2016 р.

Схвалено навчально-методичною

радою ДонНУЕТ

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Рецензенти:

канд. пед. наук, доцент Карпюк В. А.

канд. філ. наук, Чепурна О. В.

Остапенко С. А.

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Запропонована методична робота сприятиме розвитку лексичних навичок та комунікативній діяльності студентів. Робота містить вправи за темами, які вивчаються на другому етапі вивчення іноземної мови.

Зміст посібника викликає зацікавленість, пов'язану з актуальністю розроблених тем. Завдання складені на основі сучасних вимог з урахуванням розвитку комунікативної компетенції.

Навчальний посібник відповідає сучасним методичним вимогам до навчальної літератури.

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ПЕРЕДМОВА INTRODUCTION

Метою курсу «Іноземна мова професійного спрямування» є формування необхідної комунікативної спроможності у сферах професійного та ситуативного спілкування в усній і письмовій формах; вдосконалення вмінь та навичок читання і перекладу, ведення бесіди з професійної тематики, писемного мовлення та роботи з комерційною документацією.

Даний методичний посібник мають за мету набуття студентами навичок читати та перекладати тексти з побутової та професійної тематики середньої складності, спілкуватися іноземною мовою на побутові, суспільно-політичні та професійні теми в межах вивченої лексики та граматики, писати короткі повідомлення та есе іноземною мовою дотримуючись правил орфографії та граматики.

Методичний посібник складається з шістнадцяти розділів згідно тем, передбачених робочою навчальною програмою з дисципліни. Кожен розділ містить вправи на розвиток усіх видів мовленнєвої діяльності: аудіювання, читання, говоріння та писемного мовлення, виконання яких сприяє розвитку комунікативної компетенції студентів другого рівня вивчення іноземної мови.

**МЕТОДИЧНІ РЕКОМЕНДАЦІЇ З ВИВЧЕННЯ ДИСЦИПЛІНИ
«ІНОЗЕМНА МОВА (англійська)
ПРОФЕСІЙНОГО СПРЯМУВАННЯ»**

1. Опис навчальної дисципліни

Найменування показників	Галузь знань, напрям підготовки, освітньо-кваліфікаційний рівень	Характеристика навчальної дисципліни	
		денна форма навчання	заочна форма навчання
Кількість кредитів ECTS – 3	Галузь знань: <u>0305 «Економіка та підприємництво»</u>	Дисципліна вільного вибору студента	
		Рік підготовки:	
		1-й	1-й
Модулів - 2	Напрямок підготовки <u>6.030503</u> <u>«Міжнародна економіка»</u>	Семестр:	
Змістових модулів - 4		2-й	2-й
		Лекції:	
		-	2 год.
Індивідуальне науково-дослідне завдання -	ступінь: бакалавр	Практичні, семінарські:	
		60 год.	6 год.
		Лабораторні:	
Загальна кількість годин - 90		-	-
		Самостійна робота:	
Тижневих годин для денної форми навчання:		30 год.	82 год.
аудиторних – 4		Індивідуальні заняття:	
самостійної роботи студента – 2		-	-
		Вид контролю: залік	

2. Мета та завдання навчальної дисципліни

Мета - формування необхідної комунікативної спроможності у сферах професійного та ситуативного спілкування в усній і письмовій формах; вдосконалення вмінь та навичок читання і перекладу, ведення бесіди з професійної тематики, писемного мовлення та роботи з комерційною документацією.

знання і розуміння:

лексики, граматики, фонетики і орфографії іноземної мови;
правил усного ділового спілкування;
основних вимог до культури мовлення.

застосування знань і розуміння:

вміти конструювати параграфи для організації думок в єдину інтелектуальну структуру;

читати та перекладами текст з побутової та професійної тематики середньої складності;

спілкуватися іноземною мовою на побутові, суспільно-політичні та професійні теми в межах вивченої лексики та граматики;

писати короткі повідомлення та есе іноземною мовою дотримуючись правил орфографії та граматики;

складати ділові документи на задану тему, дотримуючись міжнародних стандартів;

одержувати новітню фахову інформацію через новітні джерела.

грамотно спілкуватися в межах усного мовлення;

вести презентації згідно вимог ділового мовлення.

формування суджень:

здатність практичного володіння іноземною мовою в різних видах мовленнєвої діяльності в обсязі тематики, зумовленої професійними потребами; одержування новітньої фахової інформації через іноземні джерела;

користування усним монологічним та діалогічним мовленням у межах побутової, суспільно-політичної, загальноекономічної та фахової тематики;

переклад з іноземної мови на рідну текстів загальноекономічного характеру;

формування основних вмінь використання знань на практиці під час ведення ділової бесіди або спілкування по телефону в ділових цілях з урахуванням конкретних умов;

ознайомлення з найбільш відомими зразками мовленнєвої поведінки під час проведення ділових зборів, презентацій та переговорів;

навчання підготовці до участі у наукових конференціях, семінарах, дебатах, тощо;

ознайомлення з особливостями оформлення найбільш вживаних паперів.

3. Програма навчальної дисципліни

Змістовий модуль 1. Основи економічної думки

Тема 1. Поняття економіки

Що вивчає економіка. Історія економічної думки. Економетрика. Закон попиту. Часи групи Perfect Continuous.

Тема 2. Типи економіки

Традиційна економіка. Ринкова економіка. Спланована економіка. Мішана економіка. Умовні речення.

Змістовий модуль 2. Ринкова діяльність

Тема 3. Ринок праці

Вибір споживача. Структура та конкурентність ринку. Монополії. Ринок праці. Узгодження часів.

Тема 4. Виробництво

Фактори та принципи виробництва. Розподіл праці. Непряма мова.

Змістовий модуль 3. Економічна діяльність

Тема 5. Кошти

Гроші. Банки. Фіскальна політика. Грошова політика. Валютні курси і грошові ринки. Економічний шок. Інфляція. Безробіття. Інфінітив.

Тема 6. Економічний розвиток

Економічне зростання. Бізнес-цикл. Відкрита економіка. Механізми обмінного курсу. Інфінітивні конструкції.

Змістовий модуль 4. Міжнародна економіка

Тема 7. Світова економіка

Глобальна економіка. Глобальна торгівля. Нерозвинені країни. Дієприкметник.

Тема 8. Стан української економіки

Підйоми і спади ринкової економіки. Зовнішня торгівля України. Герундій.

4. Структура навчальної дисципліни

Назви змістових модулів і тем	Кількість годин											
	денна форма						заочна форма					
	усьо го	у тому числі					усьо го	у тому числі				
		л	п	лаб	інд	с.р.		л	п	лаб	інд	с.р.
1	2	3	4	5	6	7	8	9	10	11	12	13
Змістовий модуль 1. Основи економічної думки												
Тема 1. Поняття економіки	10	-	8	-	-	2	10	-	-	-	-	10
Тема 2. Типи економіки	12	-	8	-	-	4	12	1	1	-	-	10
Разом за змістовим модулем 1	22	-	16	-	-	6	22	1	1	-	-	20
Змістовий модуль 2. Ринкова діяльність												
Тема 3. Ринок праці	12	-	6	-	-	6	12	-	1	-	-	11
Тема 4. Виробництво	11	-	8	-	-	3	11	-	1	-	-	10
Разом за змістовим модулем 2	23	-	14	-	-	9	23	-	2	-	-	21

Змістовий модуль 3. Економічна діяльність												
Тема 5. Кошти	13	-	8	-	-	5	13	-	1	-	-	12
Тема 6. Економічний розвиток	10	-	8	-	-	2	10	-	1	-	-	9
Разом за змістовим модулем 3	23	-	16	-	-	7	23	-	2	-	-	21
Змістовий модуль 4. Міжнародна економіка												
Тема 7. Світова економіка	11	-	8	-	-	3	11	1	-	-	-	10
Тема 8. Стан української економіки	11	-	6	-	-	5	11	-	1	-	-	10
Разом за змістовим модулем 4	22	-	14	-	-	8	22	1	1	-	-	20
Всього за курс	90	-	60	-	-	30	90	2	6	-	-	82

5. Теми практичних занять

№ з/п	Назва теми	Кількість годин	
		денна форма	заочна форма
1	Що вивчає економіка. Present Perfect Continuous.	2	
2	Історія економічної думки. Past Perfect Continuous.	2	
3	Економетрика. Future Perfect Continuous.	2	
4	Закон попиту.	2	
5	Традиційна економіка. Умовні речення I типу.	2	0,5
6	Ринкова економіка. Умовні речення II типу.	2	0,5
7	Спланована економіка. Умовні речення III типу.	2	
8	Мішана економіка. Умовні речення мішаного типу.	2	
9	Вибір споживача. Узгодження часів.	2	
10	Структура та конкурентність ринку. Монополії.	2	0,5
11	Ринок праці. Узгодження часів.	2	0,5
12	Фактори та принципи виробництва. Непряма мова.	4	1
13	Розподіл праці. Непряма мова.	4	
14	Гроші. Банки. Інфінітив.	2	

15	Грошова політика. Валютні курси і грошові ринки.	2	0,5
16	Фіскальна політика. Інфінитив.	2	
17	Економічний шок. Інфляція. Безробіття. Інфінитив.	2	0,5
18	Економічне зростання. Об'єктна інфінитивна конструкція.	2	
19	Бізнес-цикл. Суб'єктна інфінитивна конструкція.	2	0,5
20	Відкрита економіка. Прийменникова інфінитивна конструкція.	2	0,5
21	Механізми обмінного курсу.	2	
22	Глобальна економіка. Дієприкметник.	4	
23	Глобальна торгівля. Об'єктна дієприкметникова конструкція.	2	
24	Нерозвинені країни. Абсолютна дієприкметникова конструкція.	2	
25	Підйоми і спади ринкової економіки. Герундій.	2	0,5
26	Зовнішня торгівля України. Герундіальні конструкції.	4	0,5
	Разом	60	6

6. Самостійна робота

№ з/п	Назва теми	Кількість годин	
		денна форма	заочна форма
1	Що вивчає економіка. Present Perfect Continuous.	2	3
2	Історія економічної думки. Past Perfect Continuous.	-	3
3	Економетрика. Future Perfect Continuous.	-	4
4	Традиційна економіка. Умовні речення I типу.	1	2
5	Ринкова економіка. Умовні речення II типу.	1	3
6	Спланована економіка. Умовні речення III типу.	1	2
7	Мішана економіка. Умовні речення мішаного типу.	1	3
8	Вибір споживача. Узгодження часів.	2	4
9	Структура та конкурентність ринку. Монополії.	2	4
10	Ринок праці. Узгодження часів.	2	3
11	Фактори та принципи виробництва. Непряма мова.	2	5
12	Розподіл праці. Непряма мова.	1	5
13	Гроші. Банки. Інфінитив.	3	4
14	Фіскальна політика. Інфінитив.	-	4
15	Економічний шок. Інфляція. Безробіття. Інфінитив.	2	4
16	Економічне зростання. Об'єктна інфінитивна конструкція.	1	3
17	Бізнес-цикл. Суб'єктна інфінитивна конструкція.	1	3
18	Відкрита економіка. Прийменникова інфінитивна	-	3

	конструкція.		
19	Глобальна економіка. Дієприкметник.	1	4
20	Глобальна торгівля. Об'єктна дієприкметникова конструкція.	1	3
21	Нерозвинені країни. Абсолютна дієприкметникова конструкція.	1	3
22	Підйоми і спади ринкової економіки. Герундій.	3	5
23	Зовнішня торгівля України. Герундіальні конструкції.	2	5
	Разом	30	82

7. Методи навчання

Основні форми навчального процесу при вивченні дисципліни «Іноземна (англійська) мова професійного спрямування II рівень»:

навчальні заняття, самостійна робота студентів, робота в науковій бібліотеці ДонНУЕТ, робота в Інтернеті, контрольні заходи.

Види навчальної роботи студентів:

практичні заняття, консультація, дистанційне навчання, залік

У процесі вивчення дисципліни «Іноземна мова професійного спрямування II рівень» застосовуються наступні методи навчання:

За типом пізнавальної діяльності:

репродуктивний, проблемного викладу, аналітичний, індуктивний, дедуктивний.

За основними етапами процесу:

формування знань, формування умінь і навичок, застосування знань, узагальнення, закріплення, перевірка;

За системним підходом:

стимулювання та мотивація, контроль та самоконтроль;

За джерелами знань:

словесні – розповідь, пояснення, лекція; наочні – демонстрація, ілюстрація.

За рівнем самостійної розумової діяльності:

проблемний, частково-пошуковий, дослідницький, метод проблемного викладання.

8. Методи контролю

Оцінювання якості знань студентів в умовах організації навчального процесу за модульно-рейтинговою системою здійснюється шляхом поточного, модульного, підсумкового (семестрового) контролю за 100-бальною шкалою оцінювання, за шкалою ECTS та національною шкалою оцінювання.

8.1. Поточний контроль

Поточний контроль – це оцінювання навчальних досягнень студента (рівень теоретичних знань та практичні навички з тем, включених до змістових

модулів) під час проведення аудиторних занять, дистанційного навчання, організації самостійної роботи, на консультаціях (під час відпрацювання пропущених занять чи за бажання підвищити попереднє оцінювання) та активності студента на занятті.

Поточний контроль реалізується у формі опитування, контрольних робіт, виступів, експрес-контролю, контролю засвоєння навчального матеріалу, запланованого на самостійне опрацювання студентом тощо.

8.2. Підсумковий контроль

Підсумковий – залік

9. Розподіл балів, які отримують студенти

залік

Поточне тестування та самостійна робота										Сума
Змістовий модуль 1		Змістовий модуль 2		ПМК	Змістовий модуль 3		Змістовий модуль 4		ПМК	100
T1	T2	T3	T4		T5	T6	T7	T8		
10	10	10	10	10	10	10	10	10	10	

T1, T2 ... T8 – теми змістових модулів.

Шкала оцінювання: національна та ECTS

Сума балів за всі види навчальної діяльності	Оцінка ECTS	Оцінка за національною шкалою
		для екзамену, заліку
90-100	A	відмінно
80-89	B	добре
65-79	C	
55-64	D	
50-54	E	задовільно
35-49	FX	незадовільно з можливістю повторного складання
0-34	F	незадовільно з обов'язковим повторним вивченням дисципліни

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ЗАВДАННЯ ДО ПРАКТИЧНИХ ЗАНЯТЬ ТА САМОСТІЙНОЇ РОБОТИ СТУДЕНТІВ

UNIT 1

Before you read

Discuss the following with your partner.

- Do you know much about economics?
- Tick which of these statements you think are true. Then explain to your partner why.

- 1 Economics is only the study of money. _____
- 2 Economics is something governments take care of. _____
- 3 An economist basically decides how money is spent. _____

A Vocabulary

Match the words with the definitions

- | | |
|----------------|--|
| 1 trade-off | A the people who control a country and make laws |
| 2 unemployment | B information |
| 3 budget | C company that sells goods or services |
| 4 business | D easiness |
| 5 convenience | E the amount of money you have for something |
| 6 data | F how much people want something |
| 7 demand | G the number of people without work |
| 8 government | H something such as money, workers or minerals belonging to an organisation, country, etc which can be used to function properly |
| 9 inflation | I rising prices |
| 10 resources | J giving away something in exchange for something |

Reading 1

What does economics study?

What do you think of when you hear the word *economics*? Money, certainly, and perhaps more complicated things like business, inflation and unemployment. The science of economics studies all of these, but many more things as well. Perhaps you think that economics is all about the decisions that governments and business managers take. In fact, economists study the decisions that we all take every day

Very simply, economics studies the way people deal with a fact of life: resources are limited, but our demand for them certainly is not. Resources may be material things such as food, housing and heating. There are some resources, though, that we cannot touch. Time, space and convenience, for example, are also resources. Think of a day. There are only 24 hours in one, and we have to choose the best way to spend them. Our everyday lives are full of decisions like these. Every decision we make is a *trade-off*. If you spend more time working, you make more money. However, you will have less time to relax. Economists study the trade-offs people make. They study the reasons for their decisions. They look at the effects those decisions have on our lives and our society.

What are microeconomics and macroeconomics?

Economists talk about *microeconomics* and macroeconomics. Microeconomics deals with people, like you and me, and private businesses. It looks at the economic decisions people make every day. It examines how families manage their household budgets. Microeconomics also deals with companies – small or large – and how they run their business. Macroeconomics, on the other hand, looks at the economy of a country – and of the whole world. Any economist will tell you, though, that microeconomics and macroeconomics are closely related. All of our daily microeconomic decisions have an effect on the wider world around us.

Another way to look at the science of economics is to ask, ‘what’s it good for?’ Economists don’t all agree on the answer to this question. Some practise *positive* economics. They study economic data and try to explain the behaviour of the economy. They also try to guess economic changes before they happen. Others

practise *normative* economies. They suggest how to improve the economy. Positive economists say, ‘this is how it is’. Normative economists say, ‘we should ...’

So what do economists do? Mainly, they do three things: collect data, create economic models and formulate theories. Data collection can include facts and figures about almost anything, from birth rates to coffee production. Economic models show relationships between these different data. For example, the relationship between the money people earn and unemployment. From this information, economists try to make theories which explain why the economy works the way it does.

B Comprehension

Now read the text again and match each paragraph with the correct heading.

PARAGRAPH 1 _____	A How economists work
PARAGRAPH 2 _____	B Making deals every day
PARAGRAPH 3 _____	C Various ideas about economics
PARAGRAPH 4 _____	D Two areas of economics
PARAGRAPH 5 _____	E Two types of economist

Before you listen

Discuss these questions with your partner.

- If you live in a modern economy, life is quite easy.
- Before the Industrial Revolution, life was much harder.
- In what ways was life more difficult?

C Listening

Listen to someone talking about life before the Industrial Revolution. Which of these things are mentioned?

- | | | |
|----------------------|-----------------|-----------------------|
| 1 length of life ___ | 3 illnesses ___ | 5 food ___ |
| 2 housing ___ | 4 work ___ | 6 having children ___ |

Now listen again and match the descriptions with the numbers.

- | | |
|--|-------------|
| 1 life expectancy | A about 250 |
| 2 number of children who died before they reached five years old | B 1 in 10 |
| 3 number of women who died when they were giving birth | C 25 |
| 4 years since the Industrial Revolution | D 1 in 3 |

Before you read

Discuss these questions with your partner.

- Do you have any idea where the word *economics* comes from?
- Do you know the names of any famous economists from the past or anything about their ideas?

D Vocabulary

Complete each sentence with a word or phrase from the box.

Abundance	concept	consumer	firm	Industrial Revolution
population	precious metals	production process	profit	raw materials
satisfaction	scarcity			

1. The _____ began in the late 18th century when machines started to replace human workers.
2. Sand and limestone are the _____ needed to make glass.
3. The _____ to make a car involves many people and machines.
4. The extra money a company makes is called _____.
5. People want _____ from the products they buy.
6. _____ is when there is very little of something.
7. _____ is when there is lots of something.
8. Gold and silver are examples of _____.
9. Another word for idea is _____.
10. The _____ is the number of people a country has.
11. A business or company is sometimes called a _____.
12. When we buy things or use services we are a _____.

Reading 2

History of economic thought

Economic thought goes back thousands of years. The ancient Greek, Xenophon used the word *oikonomikos* (from *oikos*, meaning *family, household, estate*, and *nomos*, for *usage, law*). He was talking about skilful or clever ways to manage land and households. We could call main of Aristotle's political writings *economic*, although he did not use the word. The English word *economics* first appeared in the 19th century – two and a half thousand years after Xenophon.

Early economic thought was all about the meaning of wealth or being rich. These early thinkers asked, 'what makes a state or a country wealthy?'. For nearly 2,000 years, the answer was very simple – gold. A country or nation's wealth depended on its owning precious metals. This simple view of the economy remained until medieval times.

During medieval times – roughly the period between 1100 and 1500 AD, trading between nations grew, and a new social class appeared. These were merchants, people who made their money through the buying and selling of goods, and they began to write their own thoughts on the economy. They saw the economy as a way to make the state strong. For them, the nation's wealth depended on stocks of gold and the size of the population. More people meant bigger armies and a stronger state.

These were still simple ideas. However, daily experience had also taught people many basic economic concepts. For example, they understood the importance of trade with other states. They realised that scarcity makes things more expensive and abundance makes them cheaper.

Modern economics was really born in the 19th century. At this time, thinkers like Adam Smith wrote down ideas that are still important today. Adam Smith is often called *the Father of Modern Economics*, although the science was called *political economy* then. Smith realised that a nation's wealth depended on its ability to produce goods. The value of these goods depended on the cost of production. The

cost of production depended on the cost of workers, raw materials and land. This was really the first example of macroeconomics.

Smith and other classical economists were writing at a time of great change. The industrial revolution had begun. Paper money began to replace precious metals. The middle classes were growing stronger. Economists' theories echoed these changes. They wrote about the division of labour (each worker taking their part in the production process). They discussed the problems of population growth. They influenced thinking about social classes.

For classical economists, the value of goods depends on the cost of production. However, the price of goods is not always the same as their real cost. Later economists developed new theories to explain this *weakness* in classical economics. These are known as the *neoclassical* economists and they were writing at the end of the 19th and early 20th centuries.

In neoclassical economics, supply and demand make the economy work. In other words, the price of goods depends on how much people want them and how easily they can be found. Consumers want satisfaction from their resources (time and money). Firms want profit. In neoclassical economics, this is the basic relationship in the economy. These ideas are still the basis of economic thinking today.

E Comprehension

Now read the text again and decide whether these statements are true or false.

1. Aristotle did not use the word *economics*, but he did write about economic ideas. _____
2. Early economists thought that a nation without gold was poor. _____
3. People in medieval times didn't understand anything about economics. _____
4. In classical economics, the value of something was measured in gold. _____
5. Economists later found a problem with the *classical* model. _____
6. In neoclassical economics, supply and demand control price. _____

Before you listen

Look at this fact file about Adam Smith. Can you fill in any of the information?

Born in Scotland in (1) _____.

Lost his father at the age of (2) _____.

Kidnapped at the age of (3) _____.

Went to University of Glasgow at the age of (4) _____.

Went to Oxford University at the age of (5) _____.

Most famous book is *The Wealth of* (6) _____.

Influenced Karl Marx and the founding fathers of (7) _____.

F Listening

Now listen and complete the information about Adam Smith's life.

G Speaking

Discuss these questions with your partner.

- What use is the study of economics?
- What trade-offs do you make every day?
- How do the decisions we make affect the rest of the world?

Task

Give a two-minute talk on the history of economic thought.

First, read text 2 again and make notes below on the following.

- early economic thinking - the classical economists - neoclassical economics

H Writing

In this unit you learnt about Adam Smith, a famous 'thinker' from Scotland. Who are the most famous and influential 'thinkers' from your country?

Write a magazine article about one famous thinker from Ukrainian history.

TITLE

PARAGRAPH 1

Who is this thinker and what are they best known for?

PARAGRAPH 2

Biographical information: when and where born/ family life/ important points in life

PARAGRAPH 3

What was his/ her message? What were his her influential thoughts?

PARAGRAPH 4

Why do you think this person is important?

Write 100-150 words

UNIT 2

Before you read

Discuss the following with your partner.

- Econometrics is a term that economists use.
- Look at the word: *econo* + *metrics*. What do you think it means?

A Vocabulary

Choose the correct word.

1. Prices usually *increase* / *save* from one year to the next.
2. People work in order to *measure* / *earn* money.
3. My grandmother's only *income* / *salary* is her pension.
4. Einstein is famous for his of *theory* / *analysis* of relativity.
5. The police search for *evidence* / *variables* to help them find the criminal.
6. If you *increase* / *combine* blue with red you get purple.
7. Government *statistics* / *evidence* show that crime is rising
8. People *save* / *increase* their money in bank accounts.
9. You can use a ruler to *measure* / *earn* the size of things.
10. A person's *income* / *salary* is the money they earn each month from work.
11. His *theory* / *analysis* of the problem is very good.
12. In experiments, scientists try to find out what makes a *variable* / *evidence* change.
13. An expert in a subject who works and teaches at a university is known as an *individual* / *academic*.

Reading 1

Econometrics

Economists like to make theories. They theorise about why inflation happens, for example, or what causes unemployment. But theories are not useful if you cannot test them. This is true for all sciences, and the same for economics.

To test theory, you first need to gather what scientists call *empirical* evidence. That's evidence that can be measured, like money spent or babies born. When you have collected the evidence, you're ready to do the maths and statistics to test your theory. Economists call their maths *econometrics*.

Let's take an example. Imagine that you want to find out why some people save more money than others. You may think that it depends on two things: how much money they earn (their income) and how happy they generally are about saving money. We can express your theory as an econometric formula: amount someone saves = their income x their happiness to save.

Of course, we can't measure *happiness to save* exactly, but with econometric mathematics we can give it a value. Then we can see how that value differs between groups of people or cultures. Econometrics is about finding relationships between variables – in other words relationships between values that change. Economists try to find out if variable A changes every time value B changes. They want to find out if variable A is dependent on variable B. This is called analysis, and there are two main kinds of econometric analysis: time-series analysis and *cross-sectional* analysis.

Time-series analysis shows how variables change over a period of time. How salaries increased over the last century, for example. Cross-sectional analysis compares variables at one point in time. The salaries of men compared to women right now, for example. Of course, economists like to make things more complicated than that. Sometimes they combine cross-sectional with time-series analysis, and this is called *panel data* analysis.

As we said earlier, econometrics is good for testing economic theories. However, there is also a practical side to econometrics. The same maths and statistics are used by governments and business managers, as well as academics. Econometrics can help governments and companies find out how well they are doing. With the data from all this mathematics, they can make better decisions and plan better for the future.

B Comprehension

Now read the text again and choose the best answer A, B or C to complete each sentence.

1. A theory is only good if you can ...
 - A express it clearly.
 - B test it.
 - C measure it.
2. Empirical evidence is evidence that...
 - A we can see.
 - B economists can't use.
 - C can be measured.
3. Econometrics is ...
 - A the maths that economists use.
 - B a way to measure how much someone saves.
 - C a formula to find *out why* people save.
4. Panel data analysis ...
 - A only shows differences over time.
 - B only shows differences between groups.
 - C shows differences between groups and changes over time.
5. Econometrics is ...
 - A only good for proving theories.
 - B good for making practical economic decisions.
 - C only good for academic work.

Before you listen

Discuss the following with your partner.

The table below is an example of econometric data.

- What does the table show?
- Is this time-series analysis or cross-sectional analysis?
- What do you think are the missing numbers?

C Listening

Weekly spending by children aged seven to fifteen in the UK

	Girls	Boys
sweets, snacks and food:	£(1)	£4.60
clothing and personal care:	£(2)	£1.30
mobile phone charges:	£(3)	£0.40
magazines and books:	£0.90	£(4)
music, DVDs and videos:	£0.70	£0.90
games and hobbies:	£0.90	£(5)

Now listen to somebody talking about a survey of young people's spending habits. Fill in the gaps in the table.

Before you read

Discuss these questions with your partner.

- Why do you think gold is expensive?
- What might be the reason that so many electrical goods are quite cheap now?

D Vocabulary

Complete each sentence with a word from the box.

Applies	available	confusing	curve	demand	exception	
impressive	increase	law	limited	set	shift	taxes

1. Some of the puzzles in this book are really _____.
2. Newton's _____ of gravity explains why things fall towards the earth.
3. There is a lot of _____ for organic fruit and vegetables these days.
4. When you throw a ball, it follows a _____ back down to earth.
5. Gold is expensive because there is only a very _____ supply.
6. When a company stops making a product, it isn't _____ any more.
7. Normally I arrive at work at 8.00 am. But Thursday is an _____.

8. This rule _____ to everyone in the school, even teachers.
9. Everyone who earns a salary must pay _____ to the government.
10. There has been a _____ in public opinion about the environment recently.
11. There has been a huge _____ in demand for air conditioners due to the hot weather.
12. Prices have been _____ too high and nobody can afford the goods.
13. I found the work you've managed to do very _____. Well done!

Reading 2

The law of demand

Economics can often be very confusing. Econometric formulas and impressive charts are sometimes impossible to understand. Thankfully though, some economic ideas are completely obvious. One of these ideas is the *law of demand*. Economists are usually disagreeing with each other, but the law of demand is the only thing they all agree on. They all agree on it because it makes sense even to non-economists like you and me.

Demand is how much of the same good or service people would like to buy. The law of demand says that demand for something falls as its price rises. Economists show this concept with the *demand curve* which you can see in figure 1.

The reason why the law of demand works is quite obvious: the money we have is limited. If something becomes more expensive, we will have less money available to spend on our other needs. If the product or service is not a necessity we will decide to buy less of it.

Most rules have exceptions, but economists agree that there are very few exceptions to the law of demand. It even applies to basic necessities like water. When water becomes more expensive, people find ways to use less. When the government put higher taxes on petrol, people try not to use their cars so often. The fall in demand might be very small, but it is real.

So price has an effect on demand, but the strength of the effect varies. The strength of the price / demand relationship is called *price elasticity*. Economists use a

simple econometric formula to measure price elasticity for a certain product in a particular market. This helps governments and companies set prices at the correct level for a particular time and plan price increases.

Don't forget, though, that other things affect demand apart from price. For example, during a very cold winter, demand for heating fuel like gas or coal will rise at any price. If the winter is unusually warm, then demand for fuel will fall. Economists say that these situations cause a *shift* in the demand curve. You can see this in figure 2.

In figure 2, the curve is still the same shape because price still has the same effect on demand. However, something else has caused a general increase in demand at all prices. A rise or fall in people's incomes, fashion, climate and many other things can influence demand in this way.

E Comprehension

Now read the text again and decide whether these statements are true or false.

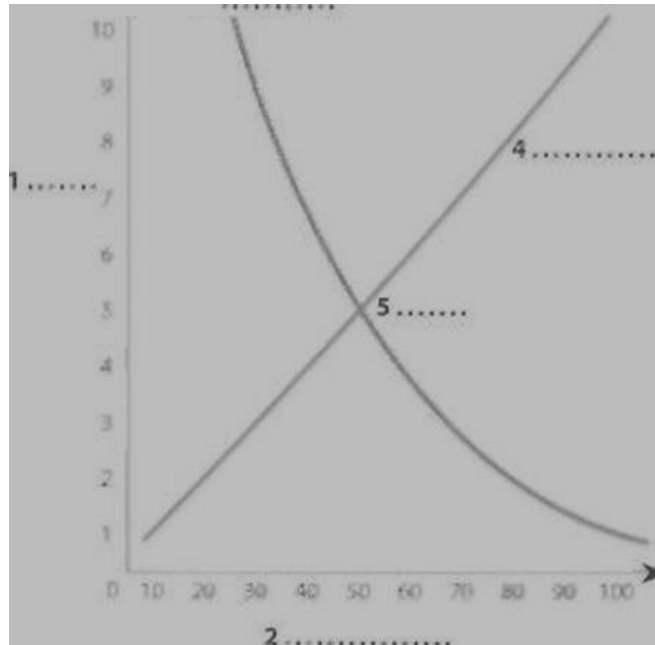
1. The law of demand is easy to understand. _____
2. The law of demand says that when people want more of something, its price rises. _____
3. There are no exceptions to the law of demand. _____
4. Price elasticity shows how much prices change when demand changes. _____
5. There are many reasons why people decide to buy something, not only price. _____
6. A shift in demand changes the shape of the demand curve. _____

Before you listen

Discuss the following with your partner.

- The graph below shows one of the basic relationships in economics: *supply and demand*.
- Talk about the graph with your partner.
- Can you label the diagram with the words from the box?

- Amount bought and sold
- Demand curve
- Price
- Equilibrium point
- Supply curve



F Listening

Now listen and check if you were right.

G Speaking

Discuss these questions with your partner.

- Apart from price, what other things affect demand for a product or service?
- If you were a producer, how would you react to increases, or the opposite – decreases in demand?
- What products or services are most in demand in your country now?

Task

Give a two-minute talk on the relationship between demand and supply.

First, read text 2 again and look at the diagram for exercise F Listening. Then make notes on the following:

- the law of demand and the reasons for changes in demand
- the supply curve and the reasons for it
- how the market takes into account the needs of producers and consumers

H Writing

With a partner, look at the supply and demand charts for ice cream and answer the following questions together.

- What do the two charts compare?
- What happens to the supply of ice cream as price increases?
- What happens to demand for ice cream as price increases?
- What changes in June – supply or demand?
- Why do you think there is a shift in demand for ice cream in June?

Report

Now write a short report describing the information in the charts. Organise your report like this

PARAGRAPH 1

Introduction. Explain briefly what the charts are about and, very generally, what they show. Begin like this: Both charts show demand and supply curves for ice cream. The charts also show ...

PARAGRAPH 2

The supply curve. Describe the supply curve for ice cream. Explain the relationship between price and supply. Give example figures from the chart to illustrate your points. Note that the supply curve is the same for both months. Begin like this: The supply curve for both December and June is the same. When production is low. The price ...

PARAGRAPH 3

The demand curve. Describe the general relationship between price and demand. Give example figures from the chart to illustrate your points. Begin like this: The charts also show that there is a relationship between demand for ice cream and price. Demand rises ...

PARAGRAPH 4

Shift in demand. Describe the difference between the demand curve for December and June. Mention that the equilibrium point is higher in June than in December (give figures). Give reasons for the shift in demand. Begin like this: However, there is a big difference between the demand curve for December and the demand curve for June

...

Write about 220 words

UNIT 3

Before you read

Discuss these questions with your partner.

- Imagine a world without money.
- How do you think society would be run?
- Would there be an economy as we understand it?
- Can you think of any examples of situations where people don't use money, either from the past or now?
- Do you know what a traditional economy is?

A Vocabulary

Choose the correct answer A, B or C from the list below.

1. Although we can buy meat in the shops, some people still like to ___ animals as a hobby.
2. ___ is another word for extra things that are not needed.
3. There are still ___ of people living traditional lives in the rainforests of South America.
4. In most modern societies, ___ like celebrations and dances have disappeared.
5. Corn and wheat are two ___ that farmers grow in their fields.
6. One of the ___ of playing sports is that you keep fit.
7. One of the ___ of living in a city is the noise.
8. Many African countries suffer from regular ___ when no rain falls for months.
9. Heavy rain causes ___ in many parts of Europe each year.
10. East Asian countries are well known for their ___ industries such as computers and cameras.
11. Exercises and sports at school are sometimes called ___ education.

- | | | |
|-------------|----------|------------|
| 1 A chase | B hunt | C eat |
| 2 A surplus | B goods | C shortage |
| 3 A customs | B tribes | C pygmies |

- | | | |
|-------------------|-----------------|--------------|
| 4 A parties | B patterns | C customs |
| 5 A crops | B animals | C foods |
| 6 A goods | B disadvantages | C benefits |
| 7 A drawbacks | B benefits | C customs |
| 8 A floods | B droughts | C hurricanes |
| 9 A floods | B droughts | C hurricanes |
| 10 A agricultural | B heavy | C technology |
| 11 A physical | B mental | C fun |

B Reading 1

The traditional economy

It's hard to imagine our lives without coins, banknotes and credit cards. Yet for most of human history people lived without money. For thousands of years human societies had very simple economics. There were no shops, markets or traders. There were no employers, paid workers or salaries. Today, we call this kind of economy the *traditional economy* and in some parts of Asia, South America and Africa this system still exists.

People who live in a traditional economy don't have money because they don't need it. They live lives of subsistence. That means they hunt, gather or grow only enough food to live. There is almost no surplus in the traditional economy, and there is almost no property. Families may own simple accommodation, but land is shared by all the tribe. Economic decisions are taken according to the customs of the tribe. For example, every family may need to give some of the crops they grow to the tribal leader, but keep the rest for themselves. They don't do this because it makes economic sense. They do it because the tribe has always done it. It's simply a custom.

Custom, also, decides what jobs people do in the traditional economy. People generally do the jobs that their parents and grandparents did before them. Anyway, there aren't many jobs to choose from in the traditional economy. Men are hunters, farmers or both. The woman's place is at home looking after children, cooking and

home-making. This division of labour between men and women is another characteristic of the traditional economy. Whatever the work is, and whoever does it, you can be sure it's hard work. This is because traditional economies have almost no technology. Physical strength and knowledge of the environment are the tools for survival.

Like any other economic system, the traditional economy has its benefits and drawbacks. Probably the biggest benefit is that these are peaceful societies. People consume almost everything they produce and own practically nothing. They are equally poor. For all these reasons, war is almost unknown in these societies.

However, people who live in traditional societies are among the poorest people in the world. Because custom decides what people do, nothing in these societies ever changes. Because there is no technology, people depend on nature to survive. They have no protection from environmental disasters like droughts and floods. They are always in danger of hunger and disease.

But the traditional economy is in danger itself. There are only a few examples left on the planet. In 100 years from now, it may have disappeared forever.

B Comprehension

Now read the text again and match each paragraph with the correct heading.

- | | |
|-------------------|--|
| PARAGRAPH 1 _____ | A Life without money |
| PARAGRAPH 2 _____ | B The advantages of the traditional economy |
| PARAGRAPH 3 _____ | C The future of the traditional economy |
| PARAGRAPH 4 _____ | D The disadvantages of the traditional economy |
| PARAGRAPH 5 _____ | E The importance of tradition |
| PARAGRAPH 6 _____ | F Work in the traditional economy |

Before you listen

Discuss these questions with your partner.

- What kind of people do you think still live in a traditional economy today?

- Where do they live?
- What are their lives like?

C Listening

Now listen and complete the notes about the Mbuti. Use one to three words for each gap. Then listen again and check your answers.

Pygmies

Pygmies live in parts of Africa and (1) _____.

Pygmies are known for their (2) _____.

They live in societies that still have a (3) _____.

The Mbuti

The Mbuti live in central (4) _____.

They live in houses made from (5) _____.

(6) _____ do the hunting.

(7) _____ build houses.

(8) _____ look after the children.

Before you read

Discuss these questions with your partner.

- Do you think most countries have a market which is free from government management?
- Can you think of any examples supporting or disagreeing with this idea?

D Vocabulary

Complete each sentence with a word or phrase from the box.

Advertise	afford	competition	controlled	costs	incentive	limit
prepared	profit	raise	reduce	role	street market	theoretical

1. Every Saturday this road becomes the local _____ where people come to buy fruit and vegetables.

2. Businesses _____ their products in the media to attract more customers.
3. My _____ in the business is to meet customers and find out what they want.
4. Making money is the main _____ to work.
5. I bought this old camera for €50 and sold it for €78. That's €25 _____.
6. If there's only one producer in the market, there's no _____.
7. Production _____ are the amount of money companies spend to make a product.
8. The idea that life exists on other planets is _____. Nobody knows for sure.
9. A _____ economy is one where a government decides what can be bought and sold and, or how it is done.
10. The speed _____ on this road is 90 kilometres per hour.
11. When there is a demand we _____ prices but we _____ them if we want to sell something quickly.
12. I can't _____ that car – it's far too expensive.
13. People are _____ to pay a lot for services if they are of a good quality.

Reading 2

The market economy

Have you ever walked through a busy street market? People push their way through crowds of others in order to reach the stalls first. The air is full of deafening shouts. Stall owners yell to advertise their goods. Buyers cry out their orders. It's hard to imagine, but behind this noisy confusion is a very logical economic theory the *market economy*.

The market economy is sometimes called the *free market*. A free market is not controlled in any way by a government. It is also free from the influence of custom or tradition. In a free market, the only reason why things are bought and sold is because there is a demand for them. Prices for goods and services are simply what people are prepared to pay. The market economy is not really controlled by anyone. It controls itself.

The street market where we began has many of the characteristics of the free market. Customers arrive at the market with a shopping list of things they need. They also come with an idea of how much they are prepared to pay. Stall owners sell what customers demand, and try to get the highest price they can for it. Supply and demand control what is on the market and how much it sells for. In the wider economy, we are all customers, and the stall owners are like companies.

The role of the company in the free market is to supply what people want. However, companies need an incentive. The incentive is profit. There are two ways for companies to make a profit. The first way is to raise their prices. The second way is to reduce their production costs. And this brings us to two more features of free market economy: *competition* and *technology*.

Competition exists in a free market because, theoretically, anyone can be a producer. This means that companies have to compete with each other for a share of the market. Competition is good for consumers because it helps to control prices and quality. If customers aren't happy with a product or service, or if they can't afford it, they will go to a competitor.

Technology exists in a free market because producers need ways to reduce their costs. They cannot buy cheaper raw materials. Instead, they must make better use of time and labour. Technology is the use of tools and machines to do jobs in a better way. This helps companies produce more goods in less time and with less effort. The result: more profit.

People often think that most economies are free markets. However, at the macroeconomic level, a truly free market economy does not exist anywhere in the world. This is because all governments set limits in order to control the economy. Some governments set many limits, other governments set very few, but they all set some. For this reason, a true market economy is only theoretical. Nevertheless, many of the features of the market economy do exist in most societies today.

E Comprehension

Now read the text again and answer these questions in your own words.

- Who controls a market economy?
- Who decides what products are for sale in a free market?
- What do companies want?
- Why is competition a good thing?
- Why does technology exist in the market economy?
- Why are there no true market economies in the world today?

Before you listen

Discuss these questions with your partner.

- Do you think the free market is a good idea?
- Is it good for society? Why / Why not?

F Listening

Now listen and choose the correct answer.

Adam Smith's *invisible hand* theory:

1. People are naturally *selfish / helpful*.
2. The free market only demands what is good for *society / producers*.
3. When people work for their own good, they do good for *consumers / society* also.

In the real economy:

4. In the free market there is a demand for goods which are not *expensive / necessary*.
5. There is also demand for goods which are *good / bad* for us.
6. *The market / Advertising* can create demands that do not normally exist.

G Speaking

Discuss these questions with your partner.

- Why do you think the traditional economy has almost disappeared?
- Would you like to live in a traditional economy? Why/Why not?

Task

You are the leader of a scientific expedition to the forests of Central Africa. You spend six months living with the Mbuti. Give a short presentation about your expedition. Use the space below to make your notes.

Talk about:

- why you went
- why the Mbuti are important people to study
- what the environment is like
- the Mbuti lifestyle
- their economic system
- what we can learn from the Mbuti

H Writing

Write an essay comparing the traditional economy with the market economy. Discuss the advantages and disadvantages of each economy. Decide which is best in your opinion.

Remember, you should organise your ideas logically.

These phrases will help you: firstly, secondly, furthermore, however, on the other hand

Discursive essay

PARAGRAPH 1

Introduce the subject by saying what a traditional economy is and what a market economy is.

PARAGRAPH 2

Say what the advantages and disadvantages of the traditional economy are.

PARAGRAPH 3

Say what the advantages and disadvantages of the market economy are.

PARAGRAPH 4

Conclude by saying what you think the best system is.

Write 200-250 words

UNIT 4

Before you read

Discuss the following with your partner.

You learnt about the free market economy in the last unit.

Can you think of any disadvantages it may have?

With your partner, see if you can think of any ideas for these points:

- advertising
- prices
- junk food

A Vocabulary

Match the words and phrases with the definitions.

- | | |
|------------------|---|
| 1 commodity | A when the government sets a limit on how much people can buy of something |
| 2 standard | B when there is not enough of something |
| 3 socialist | C a strong metal made from iron |
| 4 industry | D something you can buy or sell |
| 5 steel | E what is usual or typical |
| 6 indicate | F all the businesses and companies involved in the production of heavy goods, food, technology, etc |
| 7 warning system | G describes someone / something aiming to share wealth equally |
| 8 shortage | H secretly storing and hiding goods for use later |
| 9 rapidly | I work |
| 10 ration | J show |
| 11 solution | K very quickly |
| 12 hoard | L money paid regularly for work done |
| 13 operate | M answer to a problem |
| 14 wages | N a system which tells us that something bad is going to happen |

Reading 1

The planned economy

In many ways, the *planned economy* is the direct opposite of the market economy. In the market economy, the forces of supply and demand decide everything: what is produced, how much is produced, the methods of production and the price. In the planned economy, all of this is decided by the government. In every way that the market economy is free, the planned economy is *controlled*.

Unfortunately, no economic system is perfect. If there was a perfect system, economists wouldn't have anything to argue about! Market economies have their strengths, but they have their problems, too. Planned economies try to provide solutions to these problems. For example, the free market supplies the things that people want. However, what people want and what they need are not always the same. Fast food is always in demand, but it's bad for us. In a planned economy, the government could decide to stop fast food restaurants operating in the market.

A second problem with free markets is that producers always want the highest price. Often the poor can't afford things. In a planned economy, the government sets prices. They make sure that everyone can afford basic commodities. This is one way that planned economies try to share things equally. Another is to control how much people get paid.

In a planned economy, workers' wages depend on the service they provide to society. If people can live without their service, you get paid less. This is very different from the free market. In the free market, someone's salary mostly depends on the demand for his or her work. If people like what you do, you get paid more.

Before 1900, there were few examples of planned economies. During the 20th century, however, the planned economy became the standard for socialist governments like the USSR and China. These countries experienced amazing economic growth in a very short time. In a market economy, it takes a long time for big industries to grow from small companies. In a planned economy, however, huge industries can grow overnight. The government simply decides to spend money on

factories and factories appear. Britain, for example, took centuries to develop her steel industry in a free market economy. China developed hers in a few decades.

But, as we said, no economic system is perfect. The planned economy has many drawbacks. One of these drawbacks is problems with supply. It is difficult for governments of planned economies to know exactly how much to produce to meet demand. In a market economy, when the price of a commodity rises, this indicates a rise in demand. Companies then supply more to the market. This warning system doesn't work in a planned economy because price is controlled by the government. The result is shortages.

When shortages happen, governments can do two things ration goods or raise prices. In this situation, people then start to hoard things, and the problem gets even worse. As the population gets bigger, shortages like this become more common. For this reason, China – once the world's biggest planned economy – is rapidly moving towards another system: the *mixed economy*.

B Comprehension

Now read the text again and decide whether these statements are true or false.

1. In a planned economy, the government decides how products are made. _____
2. In a planned economy, suppliers can sell anything that is in demand. _____
3. In a planned economy, a doctor should get paid more than a footballer. _____
4. Planned economies grow more slowly than market economies. _____
5. In a market economy, greater demand for something makes it cheaper. _____
6. Planned economies are difficult to run in countries with large populations. _____

Before you listen

Discuss this question with your partner.

What everyday problems do you think people face in a planned economy?

C Listening

Rita lives in a country with a planned economy. Listen to her talk about her life and the problems she faces. Tick the problems she mentions in the list below. Then listen again and check your answers.

- | | |
|---|---|
| 1 food shortages <input type="checkbox"/> | 4 lack of career opportunities <input type="checkbox"/> |
| 2 low wages <input type="checkbox"/> | 5 lack of luxury items <input type="checkbox"/> |
| 3 unemployment <input type="checkbox"/> | 6 high prices <input type="checkbox"/> |

Before you read

Discuss the following with your partner.

- Can you actually think of any examples of countries with a completely free market or a totally controlled one?
- Give any examples you can think of or say why you can't come up with any true examples.

D Vocabulary

Complete each sentence with a word or phrase from the box.

agriculture	ban	efficiently	free	enterprise	manufacturers
monopoly	private sector	profit motivation	public transport	state sector	
telecommunications	trade				

1. _____ is when businesses are able to trade without control from the government.
2. _____ industries belong to and are run by the government.
3. _____ industries belong to and are run by independent businesses.
4. Buses, trains and planes are examples of _____.
5. _____ is another word for farming.
6. _____ produce new goods from raw materials.
7. When a business works _____ it runs successfully without wasting resources.
8. Telephone and Internet systems are part of the _____ industry.
9. _____ is what drives businesses in the market economy.

10. When the government puts a _____ on a commodity, people are not allowed to buy or own it.
11. If only one company controls part of the economy, they have a _____.
12. When companies _____ they do business with each other.

Reading 2

The mixed economy

Most economists would say that there are no examples in the world today of a completely free market or a completely controlled economy. Instead, every country operates a mixture of the two systems. Even in the freest economies, like the IUSA there is some government control; even in the strictest planned economy there is some free enterprise.

Economies mix government control and free market values in different ways. One way is to let privately owned businesses exist alongside state run industries. The economy becomes divided between the state sector and the private sector. The state sector often includes industries that the government thinks are important and need protection from the risks of the free market. These could include public transport, hospitals, schools and the postal service. The state sector can also include large industries that are important for a country's economic health- such as oil, steel or agriculture. These are sometimes called *primary industries* because they provide basic materials to manufacturers.

These state sector industries use money that the government collects in taxes. Often, they don't need to compete with other companies because no other company is allowed to provide the same product or service. However, many countries have recently started a process called *deregulation*.

Deregulation means freeing up the economy to allow private businesses to compete with state-run industries. The state sector should then run more efficiently in order to compete in the free market and because it now has less government protection.

Deregulation of services like telecommunications, transport and banking has happened in many countries in recent years. People have generally accepted these changes. However, generally the public is less happy when governments start talking about deregulation in education and health services. Many people feel that profit motivation will harm these services rather than improve them.

Another way in which economies today are mixed is that governments put limits on free enterprise. For example, governments may decide to ban trade in certain goods if they are dangerous. They may also create laws to make sure companies trade honestly or to prevent *monopolies*. If a company has a monopoly, normal market forces do not affect it. This is bad for consumers and the economy in general. Governments may also regulate methods of production. They do this to guarantee that products are safe for consumers and to protect the environment.

Many economists would argue that the mixed economy is the best system for consumers. This is because consumers have two ways to control the economy by choosing to buy a company's goods or services and by choosing to give political parties their votes.

E Comprehension

Now read the text again and answer the questions.

1. What do most economists believe about economies in the world today?
 - A There are a number of free markets.
 - B Some countries have a completely planned economy.
 - C A mixed economy exists in some way in all countries.
2. Why do governments choose to run some industries?
 - A So they can collect taxes.
 - B Because they need to be protected from the risks of the free market.
 - C To encourage a divided economy.
3. Why do governments deregulate some industries?
 - A To make the industries more efficient.

- B To protect them.
- C Because there is too much competition.
4. According to the text, what is not very popular with the public?
- A Deregulation of public transport.
- B Deregulation of hospitals and schools.
- C Deregulation of telecommunications and banking
5. What type of state control is *not* mentioned in paragraph 5?
- A Controlling the way companies do business.
- B Controlling what companies sell.
- C Controlling the prices companies set.

Before you listen

Discuss the following with your partner.

Here is a list of arguments against state-run hospitals and arguments against private hospitals.

Read the list and decide under which heading you think each one should go.

1. badly organised
2. creates a class of poor, unhealthy people
3. hospitals in bad condition
4. hospitals will reduce costs to make money
5. is bad for society in general
6. long waiting lists for patients
7. only the rich can afford health care
8. staff are poorly paid
- 9 taxpayers support everyone

Against state run hospitals	Against private hospitals

F Listening

Now listen and check your answers.

G Speaking

Discuss these questions with your partner.

Do people only work for money? What other motivation is there to work?

Task

Work in groups of three. Each of you will take one of the following roles.

STUDENT A

You believe that the planned economy is best.

STUDENT B

You believe that the free market is best.

STUDENT C

You believe that a mixed economy is best.

Take turns to present arguments to support your ideas for the best economic system.

Remember to include:

- why the system is good for the economy
- why it is good for society

When each of you has presented his or her argument, have an open discussion.

H Writing

Write an essay comparing the planned economy with the mixed economy. Discuss the advantages and disadvantages of each economy. Decide which is best in your opinion.

Use these words and phrases to organise your ideas: despite this, nevertheless, consequently, in contrast, similarly

Read texts 1 and 2 again and use these notes to help you. Write four paragraphs.

Discursive essay

PARAGRAPH 1

What is a planned economy?

What is a mixed economy?

Introduce the subject by saying generally there are these two kinds of economies that have advantages and disadvantages.

PARAGRAPH 2

Describe a planned economy, explaining its advantages and disadvantages.

PARAGRAPH 3

Describe a mixed economy, explaining its advantages and disadvantages.

PARAGRAPH 4

Conclude by saying which system you think is best.

Or

Explain why you think neither system is the best.

Write 200-250 words

UNIT 5

Before you read

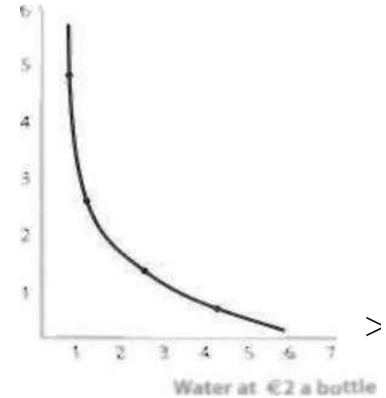
With your partner discuss how you going to buy. Think about:

budget

the price

satisfaction with the goods

make choices about what you are



A Vocabulary

Choose the correct word or phrase.

1. If you are in a hurry, it can be difficult to make a *maximum / rational* decision.
2. The amount of money you have to spend is your *budget constraint / deciding factor*.
3. The *maximum / rational* speed limit on this road is 120 kilometres per hour.
4. Quality is often the *budget constraint / deciding factor* when people choose something to buy.
5. Some people *calculate / assume* how much they spend every week.
6. Green is *a combination / an alternative* of yellow and blue.
7. When you buy something from a shop, you make a *purchase / budget constraint*.
8. When you *calculate / assume* something is true, you guess that it is true.
9. The use or satisfaction you get from something you buy is called *utility / purchase*.
10. Olive oil is a healthy *combination / alternative* to butter.

Reading 1

Consumer choices

It's a hot summer day. You've been out walking all morning and you're getting thirsty. It's also about lunchtime, and you're feeling pretty hungry, too. What luck!

Here's a kiosk selling snacks. You've got six euros to spend. You can buy bars of chocolate or bottles of water ... or a combination of both. Now you've got another problem: *consumer choice*.

If you're a *neoclassical economist*, however, there's nothing to worry about. Neoclassical economists believe that consumers make rational choices. Before a consumer buys something, they think about the cost and the amount of satisfaction the purchase will give them. They then compare the price and satisfaction of possible alternative purchases. In the end they buy what gives them maximum satisfaction at the lowest cost.

So, what will you buy from the kiosk? An important deciding factor is the amount you have to spend. Economists call this your budget *constraint*. Your total budget is six euros. Bottles of water are two euros each, chocolate bars are one euro each. You could buy three bottles of water, or you could buy six chocolate bars. Or, you could buy any combination that adds up to your total budget. We can put all of this information on a budget line like the one in figure 1. The budget line shows what combinations of goods are possible. Economists call these combinations of goods *bundles* but which is the best bundle? This depends on something called *utility*. Utility is the economists' word for the satisfaction we get from a purchase. Each good has its own utility value for the consumer. The utility of a bundle depends on two things: the utility of the goods in the bundle, and how much of each good is in the bundle. Figure 2 shows the bundles of chocolate and water that give the same level of utility. This kind of chart is called an indifference curve. Any point on the curve has the same utility value as any other point. For example, two bottles of water and two chocolate bars has the same utility as one bottle of water and four chocolate bars.

In figure 2. We assume that chocolate and water have tin same utility value for the consumer. But if water had a higher utility value than chocolate, the curve would be a different shape. Many things can affect the utility of a good. These include the cost of the good, the consumer's income and something called *marginal utility*

To understand marginal utility, just think about chocolate bars. Every time you consume a bar of chocolate, the satisfaction you get from the next bar will be less. In other words, you get less utility every time you eat another bar. This decrease in utility is called the marginal utility. The marginal utility is the one of an additional item, for example:

Bars of chocolate	Marginal utility	Total utility
0	-	0
1	10	10
2	9	19
3	8	27
4	7	34

Put very simply, budget, price and level of utility will all affect your choice at the kiosk. The neoclassical theory of consumer choice says that it is possible to calculate demand for products if we know this kind of information. However, not all economists agree!

B Comprehension

Now read the text again and answer the questions.

- According to neoclassical economists, what do consumers want?
 - The most satisfaction at the lowest cost.
 - The cheapest product.
 - To spend all their money.
- What is budget constraint?
 - An amount of money you want to save.
 - A combination of money and satisfaction.
 - The total amount of money you have to spend.
- What is utility?
 - How much of a product you get.
 - The satisfaction you get from a product or service.

C The cost of a product.

4. What explains marginal utility?

A The *more satisfaction* something gives you the more you want it.

B The more satisfaction something gives you, the less you want it.

C The more you have of something, the less satisfaction it gives you.

5. What do neoclassical economists believe about consumers?

A They make logical decisions.

B They always know what they want before they go shopping.

C They don't know what they want.

Before you listen

Not all economists agree with the theory of consumer choice described in the text.

Here is a list of reasons why. Complete each sentence with a word from the box.

C Listening

■ advertising ■ constraints
 ■ information ■ mistakes ■ rational

1. Consumers are not always _____.
2. Consumers often don't have enough _____,
3. Choices are affected by _____.
4. Consumers make _____.
5. Budget _____ may not guide consumers' choice.

Now listen and check your answers.

Before you read

Discuss this question with your partner.

What do you think a company has to spend money on? Make a list of your ideas.

D Vocabulary

Complete each sentence with a word or phrase from the box.

Interest	keep track of	loan	maintain	minus	nasty	part-time
rate	relationship	revenue	the	short	term	

1. I _____ what I spend by writing everything down in a notebook.
2. There is a _____ between the quality of a product and its cost.
3. A company's total _____ is all the money it receives from sales.
4. _____ is the next few weeks or months. The long term may be the next years or decades.
5. Five _____ three is two.
6. Factories have to _____ then machines to keep them working properly.
7. A _____ worker works for only a few hours a day or a few days per week.
8. When *someone or something is..* _____ they aren't nice at all.
8. If you borrow money from a bank, you have to pay it back with an extra charge which is called _____.
9. When somebody lends money, they are giving a _____.
10. The _____ at which something happens is how fast it occurs.

Reading 2

Costs and supply

Companies have to spend money in order to make money. The money they spend to manufacture their goods or provide their services are called *costs*. Costs are important. Any company that doesn't keep track of costs will soon be in trouble. And there are many different kinds of costs to keep track of such as *fixed costs* and *variable casts*.

Why are costs important? Well, for two reasons. Firstly, there is a relationship between costs and *profit*. Profit is overall revenue minus costs. Secondly, there is a relationship between costs and supply. To understand this relationship, we need to look at some types of cost. One type is *fixed costs*. Fixed costs are costs that don't change. They are costs that the company has to pay each month, for example, or

each year. The value of fixed costs will not rise or fall in the short term. Examples include the rent the company pays, the interest they have to pay each month on any loans and the salaries they have to pay for permanent employees. The good news about fixed costs is that they don't change with increases in production. For example, imagine a company produces 1,000 pens in January and 2,000 pens in February. The rent for the factory remains the same for both months. *Variable* costs, however, change (vary) with the size of production. The more pens the company produces, the more these costs increase. Examples of variable costs are the raw materials needed for production, the cost of electricity and the cost of maintaining machines that are working more. Also, the company may need to get more part-time employees. Their hourly pay is another variable cost. In unit 1 we said that the price of a product or service increases as supply increases. Variable costs are the reason why.

In a perfect world, variable costs will increase steadily as production increases. This is called constant return to *scale*. However, this is not a perfect world! Sometimes, variable costs rise at a faster rate than production. This nasty situation is called a *diseconomy of scale*. On the other hand, companies sometimes get lucky. Variable costs can rise at a much slower rate than production. This is called an *economy of scale*.

E Comprehension

Now read the text again and answer these questions in your own words in the space provided below.

- 1 What are costs?
- 2 Why are costs important?
- 3 What are fixed costs?
- 4 What are variable costs?
- 5 Why is an economy of scale good?
- 6 Why is a diseconomy of scale bad?

Before you listen

Discuss the following with your partner.

- Price is not only the cost of something.
- Every purchase has a hidden cost. What do you think this is?

F Listening

You're going to hear about another kind of cost called opportunity cost. Listen and choose the best answer for each question. Then listen again and check your answers.

1 What is opportunity cost?

- A Something you have to give up in order to have something else.
- B Something a company can charge people for goods or services.
- C Something that companies pay when they first start business.

2 What could be the opportunity cost of watching television?

- A Getting sore eyes.
- B The cost of buying a television.
- C Not sunbathing in the garden.

3 What is the opportunity cost for Alice's decision?

- A 3,000
- B 39,000
- C 13,000

G Speaking

Discuss these questions with your partner.

- How do you make decisions about what to buy?
- Do you think people make rational decisions? Why / Why not?

Task

Imagine you are the manager of a small manufacturing business (you decide what the company makes). *Give a short talk to your employees explaining what the company's costs are.*

First, read the texts again and make notes on the following:

- fixed costs;
- variable costs;
- Does your company have an economy of scale?

H Writing

You're the librarian at your school. The head teacher has asked you to buy some, more materials for the library. You can choose from the following.

- books, including fiction for teenagers, poetry, special interest and hobby books (€10 each)
- magazine subscription for one year (either a music magazine or a fashion magazine) (€50)
- educational CD- ROMS for science, history and technology (€20 each)
- a set of encyclopedias (€100) Your budget constraint is €200.

E-mail to your head teacher

Write an e-mail to your head teacher explaining the budget constraints you have. Tell him or her what you want to buy and why.

PARAGRAPH 1

Explain why you're writing.

Useful words and phrases:

Dear ... , I'm writing in order to

PARAGRAPH 2

Explain your budget constraints and the costs of materials.

Useful words and phrases:

Our current budget constraint is... There are a range of materials that we could buy. These include...

PARAGRAPH 3

Say how you intend to spend the money.

Useful words and phrases:

After careful consideration. I think the best purchases would be...

PARAGRAPH 4

Give reasons why you have chosen to spend the money in this way.

Useful words and phrases.

I have chosen, because, would be a good purchase because, would be very useful
for, first, next, in addition, finally

Sign off in a polite way

Write 100-150 words

UNIT 6

Before you read

Discuss the following with your partner.

Here are some things that affect how a market operates. How important do you think each one is?

- the size of companies
- what products and services are like
- what information consumers and companies have about products
- ease of entry into the market for companies
- companies having the resources and technology they need

A Vocabulary

Choose the correct answer A, B or C.

1. Companies usually have a _____ with senior managers at the top and employees at the bottom.
2. McDonald's has a very big _____ of the fast food market.
3. Some teachers mark students work using a _____ from A to E.
4. No one's work is _____. We all make mistakes.
5. A perfect economic system may never _____.
6. A _____ monopoly means an absolute or complete monopoly.
7. Not all twins are _____. Some twins are brother and sister, for example.
8. Sometimes a person's colour or race can be a _____ to getting work.
9. We use curtains to _____ light.
10. Countries have been _____ with each other for thousands of years.
11. The _____ point is where two things are balanced against each other.
12. Honey is a healthier _____ for sugar to make things sweet.
13. Everyone should have _____ to education.

1 A shape

B structure

C building

2 A piece

B part

C market share

3 A scale	B point	C grade
4 A good	B better	C perfect
5 A is	B live	C exist
6 A pure	B good	C clean
7 A similar	B identical	C same
8 A gate	B barrier	C block
9 A barrier	B close	C block
10 A shopping	B trading	C selling
11 A equilibrium	B middle	C equal
12 A difference	B addition	C substitute
13 A access	B openings	C entrance

Reading 1

Market structure and competition

When economists talk about *market structure* they mean the way companies compete with each other in a particular market. Let's take the market for pizzas, for example. There may be many thousands of small companies all trying to win a share of the pizza market, or there may be only one huge company that supplies all the pizzas. These are two very different market structures, but there are many other possible structures. Market structure is important because it affects price. In some market structures, companies have more control over price. In other market structures, consumers have more control over price.

You can think of market structure as a kind of scale. At one end of the scale is *perfect competition* and at the other end is *pure monopoly*. In a market with perfect competition, there are many companies supplying the same good or service, but none of them are able to control the price. This sounds fine, but in reality it is very difficult for such a market structure to exist. What's needed?

First of all, there must be many small companies competing. Each company has its own small share of the market. If one company has a much larger share than any other, it can affect price, and perfect competition will no longer exist.

Secondly, products or services from different companies must be the same. This doesn't mean that everything on the market has to be identical, but they have to be perfect substitutes. In other words, one company's product must satisfy the same need as another company's. Imagine a company produces a television that also makes tea. Its product is different from everyone else's. If it chooses to raise the price of its TVs, customers may still want to buy them because of this difference.

Thirdly, customers and companies must have perfect and complete information. This means that they know everything about the products and *prices on* the market and that this information is correct.

Fourthly, there mustn't be any barriers to new companies entering the market. In other words there must not be anything that helps one company stay in the market and blocks others from trading.

Finally, every company in the market must have the same access to the resources and technology they need.

If all of these conditions are met, there is perfect competition. In this kind of market structure, companies are *price takers*. This is because the laws of supply and demand set the price, not the company. How does this work? Very simply! An increase in demand will make a company increase its price in order to cover costs. It might try to push its prices even higher than necessary so that it can make more profit. However, it will not be able to do this for very long. The increase in demand and the higher price will make other companies want to enter the market, too. This will drive the price back down *to equilibrium*.

B Comprehension

Now read the text again and decide whether these statements are true or false.

1. Market structure describes how competitive a market is. _____

2. Perfect competition and pure monopoly are opposites. _____
3. Four conditions are necessary for perfect competition to exist. _____
4. In perfect competition, every company makes a slightly different product. _____
5. Perfect competition makes it easy for new companies to start trading. _____
6. When there is perfect competition, companies are able to set any price they want.

Before you listen

Discuss the following with your partner.

Perfect competition is really only an idea. It almost never happens in the real world. Why do you think this is? Can you think of any market that has perfect competition?

C Listening

Now complete each sentence with words from the box. Then listen and check your answers.

- | | |
|-------------------------|----------------|
| • a monopsony | • a monopoly |
| • imperfect competition | • an oligopoly |

1. Any market structure apart from perfect competition is called _____.
2. _____ is when there is only one seller of a good or service.
3. _____ is when only a small number of sellers control the market.
4. _____ is when there is only one buyer in the market for a product or service.

Before you read

Discuss these questions with your partner.

- Can you think of any reasons why there are monopolies?
- Do you think monopolies have advantages as well as disadvantages?

D Vocabulary

Complete each sentence with a word from the box.

- | | | |
|--------------|----------|-----------|
| • aggressive | • cables | • illegal |
|--------------|----------|-----------|

- | | | |
|--------------|------------|-------------|
| • innovation | • legal | • naturally |
| • network | • occurs | • printing |
| • publishing | • takeover | |

1. A _____ is a set of connections.
2. When one company gains control of another company it is called a _____.
3. Raw materials are things like wood or oil that exist _____.
4. Electricity travels along _____ to reach our houses.
5. _____ people get what they want by violence and force.
6. _____ companies are responsible for the writing and pictures in books, etc.
7. _____ companies make books.
8. _____ is inventing and thinking of new solutions to problems.
9. If something is _____ it is allowed by law.
10. When something is _____ it is not allowed by law.
11. If a problem _____ you will have to deal with it.

Reading 2

Monopolies

In a monopoly, one company has a much larger market share than any other company. In fact, their share is so big that other companies cannot really compete. When there is a monopoly, the normal laws of supply and demand do not always work. Monopolies come in different kinds, but a pure *monopoly* is when there is only one company in the market providing a particular product or service. This situation, in fact, is the exact opposite of *perfect competition*. How do pure monopolies happen?

Some monopolies occur naturally. This happens when a company manages to create an *economy of scale*. An economy of scale is when variable costs of production increase more slowly than increases in supply. Every company would like to be in this situation, unfortunately, it's not easy to achieve. Economies of scale are possible for companies which need a lot of money to set up but much less money to run.

A telephone company is a good example. Telephone companies have to spend millions of pounds laying cables. However, once they have made the network, running the system does not cost so much. Any other company that wants to compete will have to make their own network. Not surprisingly, not many bother!

However, the world of business is a jungle, and there are more aggressive ways to create a monopoly. One of these is by making *takeovers*. This means that a more powerful company buys a smaller one in the same industry. Takeovers happen vertically or horizontally. In a *vertical takeover*, a company buys companies that supply it with materials or services. For example, a publishing company might buy a printing business. In a *horizontal takeover*, a company buys its competitors. The competitors then become part of the first company.

One final way a monopoly occurs is for the government to make it happen. This is called a *legal monopoly*, but not because other monopolies are illegal! It is called a legal monopoly because it is created by law. The government may decide that a competitive market is not good for a certain industry. In this case, it can make one company the only legal supplier. Sometimes, it provides the service itself. This is called a *state monopoly*. The postal service in many countries is an example of a state monopoly.

Generally, monopolies are not good for consumers. This is because in a monopoly, the laws of supply and demand do not work in the same way. A company with a monopoly becomes a *price maker*. They have much more power to set the price for their product or service. Also, they don't usually spend money on innovation because they don't need to. The bottom line, as they say, is that monopolies mean less choice for consumers.

E Comprehension

Now read the text again and match the phrases on the left with the definitions on the right.

1 pure monopoly

A a company with the power to set prices in the market

- | | |
|-----------------------|--|
| 2 natural monopoly | B when a company buys a competitor |
| 3 legal monopoly | C when only one company supplies to the market |
| 4 horizontal takeover | D when a company buys a supplier |
| 5 vertical takeover | E when a monopoly occurs due to economies of scale |
| 6 price maker | F when a monopoly occurs due to government control |

Before you listen

Discuss these questions with your partner.

What dangers might monopolies face?

F Listening

Now listen to someone talking about threats which face monopolies. Tick the things in the list that are mentioned.

- 1 rising variable costs ____
- 2 a fall in demand ____
- 3 a change in fixed costs ____
- 4 innovation by another company ____
- 5 takeover from a foreign company ____

G Speaking

Discuss these questions with your partner.

- Do you know any industries where a monopoly exists?
- What are the bone-fits or drawbacks of having a monopoly in that industry?

Task

Give a two-minute summary of what perfect competition is. First, read text 1 again and make notes below on the following and then present the talk to your class.

- What is perfect and imperfect competition?
- What is needed to make perfect competition possible?

- Why is it very difficult to create perfect competition?

H Writing

Answer this essay question: 'What do economists mean by market structure? What kinds of market structure exist? How do different market structures affect consumers?'

Essay about market structure

Use this plan to help you

PARAGRAPH 1

Introduction. What is market structure?

Useful words and phrases:

compete, competition, market share, control over price

PARAGRAPH 2

Explain perfect and imperfect competition.

Useful words and phrases:

company size, market share, perfect substitutes, perfect information, barriers, access

PARAGRAPH 3

Explain monopolies.

Useful words and phrases:

pure monopolies, natural monopolies, economy of scale, takeover, legal monopolies

PARAGRAPH 4

Say how market structure affects consumers

Useful words and phrases:

price makers and price takers, variety and consumer choice, quality

PARAGRAPH 5

Conclusion. Sum up in a few words what market structure is and how it affects consumers.

Write 200-250 words

UNIT 7

Before you read

Discuss these questions with your partner.

- In what situation(s) do you think a worker can ask for a lot of money?
- In what situation(s) can an employer pay less money to workers?

A Vocabulary

Match the words with the definitions.

- | | |
|----------------|--|
| 1 take on | A employees |
| 2 obey | B satisfaction or usefulness |
| 3 utility | C be able to buy |
| 4 output | D follow |
| 5 compromise | E amount produced in a certain time |
| 6 productivity | F employ more staff |
| 7 afford | G both sides give up something in order to agree |
| 8 staff | H what a company produces |

Reading 1

The labour market

In many ways the relationship between employers and workers is similar to the relationship between consumers and producers: workers offer a service (the labour they provide), employers buy that service at a price they can afford (the wages they pay). As you can see, it's a kind of market. In economics, it's called the *labour market*.

In any market for products and services, consumers try to get the maximum utility, or satisfaction, from their purchase. This is the same in the labour market. What do companies want from their purchase of labour? What utility do they get? The answer is increased *output*. Output is how much of the product or service the company produces. If there is an increase in demand for their product, they will need

to increase output. One way to do this (but not the only way) is to take on more staff. Another is to ask staff they already have to work more hours. In both cases, the company is buying more labour.

Just like any other market, the labour market obeys the laws of supply and demand. The demand is the employers' need for labour. Supply is tin labour workers provide. Just like any other commodity, there is a relationship between price and demand. As the price of labour increases, the demand decreases.

The suppliers in the labour market are workers, just like suppliers in other markets, they want a higher price for greater supply. In other words, as supply of labour increases, they want higher wages. The wage that workers get for their labour is a compromise between what they want and what companies will pay. This is the point where the lines cross.

However, there can be shifts in demand. These shifts can cause the overall demand for labour to increase or decrease at any wage rate. For example, if there is an increase in the demand for the end product or service, there will be an overall increase in demand for labour (the demand curve shifts to the right). However, if new technology can replace workers, then there will lie an overall decrease in demand for labour (the demand curve shifts to the left).

One more thing which affects demand for labour is workers' productivity. The productivity of a worker is how much they produce in a certain time. For example, imagine that a worker makes ten pencils an hour one day, and only eight pencils an hour the next day. This is a fall in productivity. When worker productivity falls, companies will pay less for labour. They are also less likely to employ new workers.

B Comprehension

Now read the text again and complete the sentences below in your own words in the space provided.

- 1 The labour market is similar to ..
- 2 Companies buy labour because they ...
- 3 Workers want higher...

4 When the price of labour rises ...

5 Four things that cause a change in demand for labour are ...

Before you listen

Discuss this question with your partner.

What makes workers more or less productive?

C Listening

Now listen to someone talking about one thing which affects productivity: the law of diminishing returns. Listen and choose the chart A, B, or C which best illustrates this law.

Before you read

Discuss this question with your partner.

What would influence whether you want to work or not? Think about:

- wages
- free time
- where job situated
- health

D Vocabulary

Complete each sentence with a word or phrase from the box.

- | | | | |
|----------------|-------------|--------------|----------------|
| • balance | • leisure | • Influences | • skills |
| • compensation | • play a/an | • role | • substitution |
| • complex | • rate | | • switch off |

1. At the weekend everyone needs to relax and _____ from school or work.
2. Employers _____ important _____ in the economy.
3. _____ is what you receive if you are badly affected by something.
4. _____ means replacing one thing with another.
5. Most people's _____ time is at the weekend and in the evenings.
6. It can be difficult to get the right _____ between work and free time.
7. The money you can earn _____ people's choice of job.
8. Some economic problems are very _____. There is no easy solution.

9. The hourly _____ for this job is seven pounds an hour.

10. The ability to speak foreign languages is one of the _____ needed for this job.

Reading 2

Supply of labour

Why do people work? To make money, of course. However, nothing in economics is ever that simple. The economist will ask a further question – how much are people prepared to work? The answer to this question is much more complex. Finding the right balance between work time and leisure time is one of the trade-offs we have to make in life. The balance each person chooses depends on a number of things.

First of all, there are natural limits. There are only 24 hours in a day, and we can't spend all of them working. Most people need eight hours sleep. That brings the number of hours we can spend on work or leisure down to 16. None of us are robots, so we all need some time to rest and switch off from work. This also brings down the possible number of working hours.

Then, of course, money plays a role. The way money influences working hours, though, is quite complicated. It can be separated into two effects: the *income effect* and the *substitution effect*.

The income effect works like this: People's time is a resource. If they give up that resource for work, they need compensation. This is usually in the form of a wage for hours worked. The more compensation they get for each hour worked, the less they will need to work. People with higher rates of pay (wages) can afford to have more leisure time than people on lower rates of pay.

So far, so good. However, are people happy just sitting at home and enjoying themselves? It depends on what they'll lose. In other words, it depends on the *opportunity cost* of not working. As the hourly rate for work increases, the cost of not working also increases. This means that as the wage rate increases, people want to work more hours. This is called the substitution effect. But the substitution effect also

has a limit. Eventually, people will not work more hours, no matter how good the compensation is.

A good wage rate clearly attracts more workers, and encourages them to work longer hours. However, the strength of this relationship depends on how *elastic* the labour supply is. Sometimes it is difficult for companies to find a certain kind of worker. Perhaps there are not many people with the necessary skills. Or perhaps the company is in a place where there are not many available workers. In these situations, even if employers double the wage rate, they will only attract a small number of extra workers. The labour supply is *inelastic*. In the opposite situation, when it is easy for companies to find workers, the labour supply becomes elastic.

B Comprehension

Read the text again and choose the sentence which best summarises each paragraph.

PARAGRAPH 1

- A People generally spend equal amounts of time on work and leisure.
- B People have to make compromises.
- C People work in order to have leisure time.

PARAGRAPH 2

- A There are only a limited number of hours available for working.
- B Everyone works about 16 hours.
- C People can only work up to 24 hours a day.

PARAGRAPH 3

- A You have to work more hours to make more money.
- B Earning a good wage allows you to spend less time working.
- C Some people get paid in their leisure time.

PARAGRAPH 4

- A If you work more, you earn more.
- B If your wage is bad you will want to work more.

C If your wage is good, you will want to work more.

PARAGRAPH 5

A Sometimes it's hard to attract workers.

B Sometimes workers don't want more money.

C Elastic labour markets are more common than inelastic labour markets.

Before you listen

Discuss these questions with your partner.

- Why are some jobs paid better than others?
- Why do some people get paid more than others for doing the same job?

F Listening

Now listen to someone answering these questions. You will hear four reasons for differences in pay. What are they?

- 1 _____
- 2 _____
- 3 _____
- 4 _____

G Speaking

Discuss these questions with your partner.

- Do people only work for money?
- What other motivation is there to work?

Task

Give a two-minute talk on how supply and demand work in the labour market.

First, read the texts again and make notes below on the following.

How is the labour market just like any other market?

- How is the labour market just like any other market?
- What affects demand for labour?

- What affects the supply of labour?
- What motivates people to work?

H Writing

You have seen this job advertised in a newspaper. Write a letter of application for the job.

Required: Summer Camp Team Leader

We are looking for suitably qualified and experienced team leaders for cm summer camps for young children (aged seven to twelve). Children come from all over Europe to our camps and take part in a variety of outdoor activities (camping, canoeing, climbing, trekking, etc).

Suitable candidates should have proven experience of working with this age group and have the necessary skills and qualifications.

Send letters of application to:

Ms Gibson

Summer Fun Camps

Wayfield

Norfolk

England

Letter of application

Use these notes to help you.

PARAGRAPH 1

Say why you're writing and where you saw the advertisement.

Useful words and phrases:

Dear Sir Madam. I am writing in response to your advertisement in... I would like to apply for the post of...

PARAGRAPH 2

Summarise the suitable qualification you have for the job.

Useful words and phrases:

As you can see from my CV ... I am a qualified ... instructor.

In addition, I hold certificates in . . I am a fluent / good speaker of ...

PARAGRAPH 3

Summarise the relevant experience you have.

Useful words and phrases:

Furthermore, I have the relevant experience you are looking for. For the last five years I have ...

Two years ago I was ...

PARAGRAPH 4

Say why you would like the job.

Useful words and phrases:

There are a number of reasons why I would like to ...

firstly, secondly, thirdly, furthermore, what is more, I hope to gain, I enjoy working with ... This will be an opportunity to . .

Say thank you and sign off:

I look forward to hearing from you soon. Yours faithfully, (your full name)

Write 100-150 words

UNIT 8

Before you read

Discuss the following with your partner.

Look at the photos. Each photo shows something that an economy needs in order to produce. Talk with your partner about what the photos show and why each thing is necessary for an economy.



A Vocabulary

Choose the correct word.

1. All machines need *maintenance* / *replacement* so that they keep working well.
2. Scientists' laboratories are usually full of *packaging* / *apparatus* for experiments.
3. When a machine gets very old you need to buy a *maintenance* / *replacement*.
4. It's *illogical* / *mental* to take an umbrella out on a sunny day.

5. Plastic and cardboard are used a lot for the *packaging / apparatus* around products.
6. Some people enjoy doing *illogical / mental* activities like crosswords and board games.
7. Wood that hasn't been made into anything yet is called *timber / crops*.
8. A *storage / warehouse* is a large building for storing things.
9. The things that farmers grow in their fields are called *timber / crops*.
10. An industry that needs many workers is known as a *factor / labour* intensive industry.
11. If you don't need furniture or equipment for some time, you can put it into *storage / warehouse*.
12. The price of a product is a *factor / labour* which influences our decision to buy it.

Reading 1

Factors of production

One morning you wake up with a great idea. You've thought of a product that no one else has, and you're certain there's demand for it. But how will you turn your idea into reality? First of all you'll need raw materials to manufacture from – probably oil and metal, but also paper for packaging. You can't produce it by yourself, so you'll need people to help you make it, package it and market it. Finally, your staff will need a factory and machines to produce with. In short, you need the *factors of production: land, labour and capital*.

The factors of production are the starting point for all economies. No economy can exist without them. The most basic of the factors is land. When economists talk about land, however, they don't just mean space to build on or fields to grow crops. Land means everything that nature provides and we can use for production. The land factor includes raw materials like coal, metals, oil and timber. It also includes things like water, fish and salt. So, although it seems illogical, land also means the sea!

The second factor is labour. Raw materials will just stay in the ground unless people dig them out and do something with them. Similarly, factory machines will sit doing nothing without people to operate them. Labour can mean the physical effort

such as lifting, digging and building. This is called manual work. Labour also includes mental work like thinking, writing, communicating and designing. Industries that need many workers working long hours are called *labour intensive industries*. However, the quality of labour is as important as the quantity. An educated, skilled and fit workforce is more productive than an uneducated, unskilled and unhealthy one. This characteristic of the labour factor is called *human capital*. Some countries have large labour forces, but are poor in human capital because the economy lacks education and health care.

The third factor is capital. Capital includes buildings such as factories for production and warehouses for storage. It also includes the tools and equipment that workers use in the manufacturing process. In heavy industries such as shipbuilding or steel making, capital usually involves big machinery and mechanical equipment. In high-tech industries, on the other hand, capital generally means computers and complex laboratory apparatus. These days, industry tends to be more capital intensive than labour intensive.

When companies make investments, they buy new capital. There are two types of investment that companies need to make. The first is to buy new equipment so that they can expand their production. This is called *net investment*. Net investment is essential for economic growth. However, equipment gets old and needs repairing or replacing. The money spent on this kind of maintenance is called *replacement investment*.

Land, labour and capital are the three factors of production identified by Adam Smith and the classical economists. However, more recent economists have identified one more factor: *entrepreneurship*. This means people like you, with great business ideas that set the economy in motion.

B Comprehension

Now read the text again and decide whether these statements are true or false.

1. Raw materials are the most important factor of production. ____

2. The land factor includes all the raw materials that come from the land and the sea. ____
3. The most important thing about the labour factor is the size of the labour force. ____
4. In modern economies, more labour is used than capital. ____
5. Net investment allows companies to increase their production. ____
6. Entrepreneurs are part of the labour factor. ____

Before you listen

Discuss the following with your partner.

Entrepreneurship is the fourth factor of production. Which things in the list below do you think entrepreneurs bring to the economy?

C Listening

- 1 managing people _____
- 2 motivating people _____
- 3 finding solutions to problems _____
- 4 communicating with customers _____
- 5 inventing new products _____
- 6 finding new markets _____
- 7 making profits _____
- 8 organising things _____
- 9 taking risks _____

Now listen and tick the things which are mentioned.

Before you read

Discuss the following with your partner.

Look at the workers in the picture:

- What kind of work are those people doing?
- How do you think they feel about it?

- What advantages are there for the company in organising workers like this?



D Vocabulary

Complete each sentence with a word or phrase from the box.

- | | | | |
|-----------------|---------------|------------|------------------|
| • automatically | • emotional | • mindless | • specialisation |
| • child rearing | • fundamental | • sew | • take pride in |
| • dye | • means | • sloppy | |

1. _____ of transport are the methods we use to get from one place to another.
2. _____ work is work that is not very good quality.
3. To make clothes you have to know how to _____ the material together.
4. Having a _____ means that you deal with one particular area of any field.
5. You may visit a doctor if you have problems with your _____ health.
6. Competition is _____ to the idea of the free market.
7. People who _____ their work do it very carefully and enjoy the results.
8. Mothers and fathers both have important roles to play in _____.

9. Some people regard factory work as a _____ job but it isn't necessarily boring.
10. When you do something _____ you do it without dunking.
11. When manufacturers _____ clothes, they add colour.

Reading 2

Division of labour

Without the factors of production, companies cannot get started. To be successful, however, they need to make good use of those resources. To make best use of labour, you need to organise it. The *division of labour* is one way to achieve this.

Let's take making shirts as an example. What do you need to do to make a shirt? You need to design it, find the right material, cut the material, sew the pieces together, dye the shirt and sew on the buttons. One person working on their own could probably do all these tasks. This is one way to organise labour. Another way is for a number of workers to share the job. Each worker is responsible for one task in the process. This is an example of the division of labour.

The division of labour isn't a new idea. Even very early societies had some form of labour specialization. For example, in some societies men were hunters and gatherers of food, while women were responsible for child rearing. However, as societies became industrialised, the division of labour increased, factories became the main means of production, and each factory worker became responsible for smaller and smaller stages in the process.

As each worker gets more and more experience at doing their particular task, they get better and better at it. This should improve the quality of their work. With smaller tasks to do, workers can do things automatically, without thinking about them. This will speed up their productivity, and speed up the whole production process. Finally, small tasks are easier to learn. As the division of labour increases,

the amount of time needed to train each worker decreases. All of this means a more efficient and productive workforce ... at least, in theory.

There is, however, a human factor to consider. Workers are not machines. Their physical and emotional health has an impact on their productivity. Repeating the same simple task over and over again is very boring. Bored workers can't concentrate easily, and their mistakes will reduce the quality of their output. In Addition, there is the problem of ownership. Many workers take pride in their work. They don't just work for wages, but also because they get satisfaction from doing a good job or from creating something useful or beautiful. If you only add buttons to shirt, you don't feel that the shirt is your work. You can't take pride in a job that does not need skill to do. In this situation, workers become careless and their work becomes sloppy. Overall, this has a negative impact on productivity.

Thankfully, robots and machines can now do many of the mindless tasks that factory workers used to do. Nevertheless, the theory of the division of labour is still fundamental to all modern economies.

- | | |
|-------------------|---|
| PARAGRAPH 1 | A The advantages of the division of labour |
| PARAGRAPH 2 | B Technology has replaced a lot of human labour |
| PARAGRAPH 3 | C Two ways to organise labour |
| PARAGRAPH 4 | D The disadvantages of the division of labour |
| PARAGRAPH 5 | E Division of labour in history |
| PARAGRAPH 6 | F Making best use of what's available |

Before you listen

Discuss the following with your partner.

Read through the questions and tell each other what you think the correct answer might be.

1 When did Ford invent the Model T car?

A 1908 B 1918 C 1928

2 What was special about Ford's cars?

A They were the first quick car.

B They were affordable.

C Most Americans had one.

3 How did Ford keep costs low?

A By using cheap materials.

B By organising his labour force.

C By timing workers.

4 What did Ford have in 1930?

A The largest labour force in the world.

B The fastest production line in the world.

C The largest factory in the world.

5 In his film *Modern Times* Charlie Chaplin ...

A was criticising the effects of mass production.

B focused on Ford's factories.

C played a factory owner.

F Listening

Now listen and check your answers.

G Speaking

Discuss these questions with your partner.

- Do you think some division of labour is natural?
- Are some people better suited to some jobs than others?
- Do economies really need entrepreneurs?

Task

Work in groups of three. Talk about each of the items listed below. Make notes.

What factors of production are necessary?

What would be the best way to organise labour to produce the following items?

- a car
- a pencil

- a portrait painted in oil paints
- a newspaper
- a high quality violin

H Writing

You are the production manager for a new manufacturing company. (You decide what the company manufactures). The managing director has asked you to produce a report on the following.

- the land, capital and labour resources which are required
- the best way to organise production

Business report

Use these notes to help you.

PARAGRAPH 1

Introduction.

What this report is about and who it is for.

PARAGRAPH 2

Raw materials required.

Equipment required.

Buildings and transport required.

PARAGRAPH 3

Labour force required (numbers).

Human capital issues (qualifications and skills expected / training required).

PARAGRAPH 4

Division of labour – how should labour be organised for production.

CONCLUSION

Say you hope to be successful if your suggestions (sum up your points in a sentence) are followed.

Write 200-250 words

UNIT 9

Before you read

Discuss these questions with your partner.

- What is money?
- Can anything be used as money?
- Could stones and leaves be used instead of coins and notes?

A Vocabulary

Choose the correct word or phrase.

1. One reason why people buy gold is because it *holds its value / is taken for granted*.
2. When we buy things, we *swap / represent* money for goods.
3. Diamonds are valuable because they are so *intrinsic / rare*.
4. The dollar is the *cash / currency* of the USA.
5. When people *barter / guarantee* goods, they simply exchange one good for another.
6. Banks will only lend to people who can *barter / guarantee* to pay back the loan.
7. Some shops won't accept credit cards. They will only take *cash / currency*.
8. When something *holds its value / is taken for granted* people don't think it has great value.
9. Coins and notes are used to *swap / represent* value.
10. Metals have *intrinsic / rare* value because they can be used to make things.
11. If money can easily be moved around and used we say it has *liquidity / currency*.
12. Centuries ago people paid using *commodity money / fiat money*, such as gold and silver.
13. *Commodity money / Fiat money* like banknotes and coins, has no intrinsic value. It only represents value.

Reading 1

Money

The cash we use every day is something we take for granted, but for thousands of years people trailed without it. Before money was invented, people used a system called *bartering*. Bartering is simply swapping one good for another. Imagine that you have milk, for example, and you want eggs. You simply find someone who has eggs and wants milk – and you swap! However, you can set that this isn't a very convenient way to trade.

First of all, you can't be sure that anyone will want what you've got to offer. You have to hope that you'll be lucky and find someone who has what you want and that he or she wants what you've got. The second problem with bartering is that many goods don't hold their value. For example, you can't keep your milk for a few months and then barter it. Nobody will want it!

After some time, people realised that some goods held their value and were easy to carry around and to trade with. Examples were metals like copper, bronze and gold and other useful goods like salt. These are examples of *commodity money*. With commodity money, the thing used for buying goods has inherent value. For example, gold has inherent value because it is rare, beautiful and useful. Salt has inherent value because it makes food tasty. If you could buy things with a bag of salt, it meant you could keep a store of salt and buy things anytime you needed them, in other words, commodity money can store value.

Using commodity money was much more convenient than ordinary bartering, but it still had drawbacks. One of these drawbacks is that commodity money often lacks *liquidity*. Liquidity refers to how easily money can circulate. There is obviously a limit in how much salt you can carry around. There's another problem with commodity money not everyone may agree on the value of the commodity which is used as money. If you live by the sea, salt may not be so valuable to you. Money needs to be a good *unit of account*. In other words, everyone should know and agree on the value of a unit. This way, money can be used to measure the value of other things.

The solution is to create a kind of money that does not have any real intrinsic value, but that represents value. This is called *fiat* money. The coins and notes that we use today are an example of fiat money. Notes don't have any inherent value – they are just paper. However, everyone agrees that they are worth something. More importantly, their value is guaranteed by the government. This is the reason why pounds and dollars and the world's other currencies have value.

B Comprehension

Complete the table with information from the text.

	Examples	Advantages	Disadvantages
Bartering	swapping eggs for milk	simple to understand	not 1) _____ way to trade goods don't 2) _____
Commodity Money	3) _____ and 4) _____	allows you to store 5) _____	not 6) _____ agrees on its value lack of liquidity means money can't 7) _____ easily
Fiat Money	8) _____ and 9) _____	value is 10) _____ by the government	

Before you listen

Discuss the following with your partner.

You're going to listen to someone talking about the history of money. Before you listen, read through the statements below. Do you think they are true or false?

1. The earliest kind of money was used about 3.000 years ago. _____
2. Shells were used as a kind of fiat money. _____
3. The first metal coins appeared in Greece. _____

4. The first coins were round. _____
5. Paper money first appeared in China. _____
6. The idea of paper money travelled quickly to Europe. _____

C Listening

Now listen and check your answers

Before you read

Discuss the following with your partner.

What do banks do? Work with a partner to make a list of all the services that banks provide. Then compare your list with others in the class.

D Vocabulary

Complete each sentence with a word or phrase from the box.

- | | | | |
|--------------|-----------------|------------|--------------|
| • accessible | • deposit | • security | • transfer |
| • ATM | • make a living | • sensible | • withdrawal |
| • compensate | • reliable | | |

1. As _____ against possible burglaries, they installed alarms.
2. Some people aren't very _____ with their money and they waste it on useless things.
3. If you are injured at work, you may get money to _____ for losing your salary.
4. If something is _____ you can trust it to work properly.
5. _____ things are easy to reach or to get.
6. When you _____ things you move them from one place to another.
7. An _____ is a machine that gives customers money when the bank is closed.
8. Most people have to work in order to _____.
9. When you make a _____ you put money into your account.
10. When you make a _____ you take money out of your account.

Reading 2

Banks

If you work, you've probably got a bank account. You could keep the money you earn each month in a box under your bed, but it wouldn't be very sensible. One reason is that it's not very safe. If your house gets burgled, you'll lose everything you've saved. Another reason is that your money will lose value.

As prices rise, the money in a box under your bed will be able to buy fewer and fewer things. Money in a bank savings account, however, will earn interest. The interest will help compensate for the effect of inflation, but banks are more than just safe places for your money. What other services do they offer?

The other main service is lending money. Individuals and businesses often need to borrow money, and they need a lender that they can trust. This is exactly what banks are – reliable lenders. In fact, most of the money that people deposit in their bank accounts is immediately lent out to someone else.

Apart from storing and lending money, banks offer other financial services. Most of these are ways of making money more accessible to customers. For example, banks help people transfer money securely. They give customers cheque books and credit cards to use instead of cash. They provide ATM machines so that people can get cash any time of the day or night.

But how do banks make a living? Basically, they make a living by charging interest on loans. Of course, when you make a deposit into a bank savings account, the bank pays you interest on that money. However, the rate they pay savers is less than the rate they charge borrowers. The extra money they make by charging interest on loans is where banks earn most of their money.

For banks, interest is also a kind of security. Sometimes people do not pay back money they borrow. This is called *defaulting on a loan*. When someone defaults on a loan, the bank uses money earned from interest to cover the loss.

All of this means that most of the money people have saved in the bank is not there at all! A small amount of the total savings is kept by the bank so that customers

can make withdrawals. The rest, however, is made available for loans. The amount that is kept is called the *reserve*. The reserve must be a certain percentage of all the savings received from customers – for example 20 per cent. This figure is set by the central bank, and this is one of the ways that governments can control the amount of money circulating in the economy.

E Comprehension

Now read the text again and answer these questions in your own words in the space provided below.

1. What two reasons are given for saving your money in a bank account?
2. Why do people prefer to borrow money from banks?
3. Do banks do anything else for their customers other than store and lend money?
4. How do banks earn money?
5. Who decides how much money the bank keeps in reserve?

Before you listen

Discuss these questions with your partner.

If a bank note is not real, we call it a *fake* or *counterfeit* note.

- How do you know if a banknote is real or not?
- What can banks do to make people trust their notes and coins?

F Listening

Look at these notes about whether a ten-pound note is genuine or not and see if you can guess what goes in the gaps.

Paper is very (1) _____.

The words (2) _____ are raised from the paper.

There should be a strip of (3) _____ in the middle of the note.

There is a watermark of the (4) _____.

There is a hologram which shows a picture of Britannia, who was a (5) _____ and the (6) _____.

With a magnifying glass you can see the word (7) _____ written in tiny microlettering.

If you put the note under fluorescent light, a bright (8) _____ number ten will appear.

Now listen and check your answers

G Speaking

Discuss these questions with your partner.

- Can you imagine life without money?
- What are the dangers of using a credit card to pay with instead of money?
- What do you know about digital money?

Task

Give a two-minute presentation on the history of money. First, read through text 1 again and make notes below on the following.

- bartering
- commodity money
- fiat money

You can also include recent developments not mentioned in the text, such as credit cards and digital money.

H Writing

Write a promotional leaflet for a bank. The aim of the leaflet is to attract new customers and to inform existing customers about the services the bank offers.

Use an informal, friendly style like you see in advertisements. Organise the leaflet using the plan shown here.

Promotional leaflet

PARAGRAPH 1

Give a brief history of the bank and say how big it is today (to give confidence to customers).

PARAGRAPH 2

Explain what your main services are. And what advantages you offer compared to other banks (for example, interest rates).

PARAGRAPH 3

Say what other services you offer and how they can be useful to your customers: for example, special savings schemes for certain people (students / pension schemes for workers) and Internet banking.

PARAGRAPH 4

Say how customers (or potential customers) can contact the bank (e-mail, web page, phone number, local branches, etc).

Write 200-250 words

UNIT 10

Before you read

Discuss these questions with your partner.

- What taxes do people pay in your country?
- Are the taxes fair? Why / Why not?

A Vocabulary

Choose the correct answer A, B or C from the list opposite.

1. The _____ department of the government looks after roads, railways and airports.
2. The government hopes its _____ will help reduce unemployment.
3. The parts that something is made of are sometimes called _____.
4. _____ employment is when everyone who can work has a job.
5. The money that you have after you've paid taxes is called your _____ income.
6. The part of a person's salary that is not taxed is called their personal _____.
7. The government plans many new _____ projects, such as building new hospitals and schools.
8. Another word for extra goods that are not needed is _____.
9. When the economy is working at full _____, it is using all its resources for production.
10. A _____ is a large, fast road which connects cities.
11. A _____ is a plan for achieving something.
12. In a _____ tax system, people who earn more pay more tax than people who earn less.

- | | | |
|----------------|--------------|------------|
| 1 A transport | B education | C defence |
| 2 A components | B allowance | C policy |
| 3 A income | B components | C capacity |

4 A absolute	B complete	C full
5 A full	B disposable	C spending
6 A allowance	B surplus	C capacity
7 A personal	B public	C disposable
8 A surplus	B shortage	C allowance
9 A employment	B income	C capacity
10 A path	B motorway	C railway
11 A component	B project	C scheme
12 A surplus	B progressive	C public

Reading 1

Fiscal policy

As we saw in unit 9, fiscal policy is one of the tools that governments have to keep the economy on a steady path. The two main components of fiscal policy are changes to the tax system and changes in government spending. But what changes can governments make in these two areas, and how do changes affect the growth of the economy?

Let's look first at the tax system, and in particular at income tax. Income tax is one of the biggest sources of income for a government. Many governments operate a system called *progressive taxation*. This means that the more you earn, the more tax you pay. People are usually allowed to keep some of their income without paying any tax. This is called the *personal allowance*. The rest of their income is then taxed using the progressive system.

Governments can decide to change the size of the personal allowance, or change the percentage that each income group has to pay. If the economy is growing too fast, and demand for goods and services is more than the economy can supply, the government will want to slow down spending.

To do this, they can decrease the personal allowance, or they can increase the percentage to pay in tax. This will mean people have less disposable income, and

spending will slow down. If the economy is slowing down too much, governments can do the opposite.

What about government spending? How does that affect economic growth? The key to this is something called the *multiplier effect*. To understand how this works, let's look at an example. Imagine that the economy is not growing. This will make aggregate demand fall. In turn, productivity falls. This situation means that the nation's resources are not all being used. In other words, there are surplus raw materials, machines are not being used and workers are unemployed. What the economy needs is a *pull* in demand for goods and services.

The government can provide this pull by spending a large amount of money on public projects. For example, imagine that the transport department decides to spend £200 million on building a new motorway. This will give work to building companies and jobs to unemployed workers. In other words, more resources are being used and the nation's productivity is increased.

Companies and workers on the motorway project will save some of the money they earn, but also spend some. The money they spend will be income for others in the economy. If half of the £200 million is spent, then the total national income has grown by this much:

$$£200 \text{ million} + (0.5 \times £200 \text{ million})$$

Each time a proportion of the income is passed on, the economy grows again:

$$£200 \text{ million} + (0.5 \times £200 \text{ million}) + (0.5 \times £100 \text{ million}), \text{ etc.}$$

In theory, the multiplier effect will continue until there is full employment and the nation's resources are being used to their fullest extent.

B Comprehension

Now read the text again and answer these questions in your own words.

- What are the two tools of fiscal policy?
- What is someone's personal allowance?
- What will the government do to taxes if the economy is slowing down?

- How can the government create more demand in the economy?
- When does the multiplier effect stop working?

Before you listen

Discuss these questions with your partner.

- What do you think makes a good tax?
- Which four things listed below do you think are the most important?

- 1 It's easy to collect.
- 2 It's paid often.
- 3 It's easy to understand.
- 4 It's not paid too often.
- 5 It's a low percentage of income.
- 6 It's easy to pay.
- 7 It's fair.
- 8 It's large enough for the government to use.

C Listening

Now listen to someone talking about Adam Smith's four rules for good taxation.

Which four ideas from the list above are mentioned?

Before you read

Discuss the following with your partner.

Sometimes people feel like spending money. Other times they prefer to save their money. Why is this?

D Vocabulary

Complete each sentence with a word or phrase from the box.

- | | | | |
|----------------|--------------------|--------------|----------|
| • central bank | • commercial banks | • confident | • credit |
| • proportion | • exchange rate | • frequently | • impact |
| • repayments | | • mortgage | • expand |

1. We have to pay our bills too _____ in my opinion!
2. A country's _____ is the government bank.
3. The _____ are the high street banks that everyone uses.
4. When a loan is taken out, usually each month _____ have to be made.
5. A _____ is a special loan for people who want to buy a house.
6. When you feel _____ you fool sure that what you are doing is safe.
7. Many people these days buy things on _____ instead of paying in cash.
8. A large _____ of people use banks to deposit their savings.
9. The _____ compares the values of different currencies.
10. If a company wants to _____ , to move into new markets for example, it will need to borrow money.
11. High interest rates have an _____ on the consumer's ability to buy a new home.

Reading 2

Monetary policy

Monetary policy is another tool that governments use to control the economy. Monetary policy mainly involves making changes to the interest rate. It can also involve changing the amount of money that circulates round the economy. However, this second kind of monetary policy isn't used very often because it can lead to inflation. Changing interest rates, on the other hand, is a method that is used quite frequently for slowing down or speeding up the economy. So how does it work?

Basically, commercial banks are the ones that you and I use to keep our savings in and to borrow from – borrow their money from the country's central bank. This is the national or government bank, and it has the power to set interest rates. The interest rate of the central bank will influence the rates commercial banks set for their customers. When interest rates go up, borrowing money becomes more expensive. When they go down, it becomes cheaper.

People get loans from banks for all sorts of reasons, but the biggest loan most people take out is to buy a house. This kind of loan is called a mortgage. When

interest rates increase, mortgages become more expensive. People who already have a mortgage will need to pay more on their repayments, and will have less money to spend on other things, fewer people will want to buy new houses and house prices will fall. In turn, home owners will feel less confident about their own wealth and will spend less. As a result, the economy slows down. A fall in interest rates will have the opposite effect on the house buying chain.

Consumers also buy other things using borrowed money. This is called *buying on credit*, and interest rates will also affect how much people spend on credit. Purchases made using credit cards are now a huge proportion of total spending in many countries. This means that interest rate changes have a big impact on consumer spending and the economy as a whole.

Companies, too, are affected by interest rate changes. When interest rates are low, they feel more confident about investing in order to expand their business. Low interest rates will encourage them to take out loans in order to build factories, buy machines and increase production. All of this increases the size of national output. Again, higher interest rates will have the opposite effect.

Finally, interest rates can have an effect on the amount of exports a country sells. This is because the value of a currency (the exchange rate) often falls when the interest rate falls. When the value of a currency falls, a nation's products and services become cheaper for customers from other countries. This increases export sales, and more money comes into the economy. And, of course, a rise in interest rates will mean a rise in the exchange rate. This will reduce export sales, and reduce the total output of the economy.

E Comprehension

Now read the text again and choose the sentence which best summarises each paragraph.

PARAGRAPH 1

A Changing interest rates is the most common type of monetary policy.

B Governments never change the amount of money circulating in the economy.

C Changing interest rates increases the amount of money in the economy.

PARAGRAPH 2

A The commercial banks set exactly the same interest rate as the central bank.

B The central bank controls all other commercial banks.

C The central bank influences the interest rates of other banks.

PARAGRAPH 3

A High interest rates are good for the housing market.

B Mortgages are the most common type of loan.

C High interest rates are bad for the housing market.

PARAGRAPH 4

A Interest rates influence consumer spending.

B In every country the proportion of credit card holders is high.

C Most people borrow money with their credit card.

PARAGRAPH 5

A Businesses invest more when interest rates are low.

B National output drops when interest rates are low.

C Business investment is not affected by interest rates.

PARAGRAPH 6

A How much a country exports affects the interest rate.

B The interest rate can affect exports.

C A rise in exports reduces the total national income.

Before you listen

Discuss the following with your partner.

Every solution to a problem has its drawbacks. What do you think are the disadvantages of fiscal and monetary policy? Think about:

- changes in people's behavior
- length of time policies need to take effect

F Listening

Now listen and choose the best way to complete each sentence.

1. One problem with macroeconomic policy is that...
 - A people never do what you want.
 - B you can never be sure how people will act.
 - C you can't stop people spending.
2. An increase in government spending may make people ...
 - A spend more.
 - B work harder.
 - C save more.
3. Another problem with macroeconomic policy is that...
 - A it costs money.
 - B it takes time.
 - C it almost never works.

G Speaking

Discuss these questions with your partner.

- Do you believe people really think about the interest rate when they decide to save or spend money?
- What affect do you think taxes have on the way people work?

Task

Give a two-minute talk on monetary policy. First read through text 2 again and make notes below about the following.

- the *tools* of monetary policy that the government can use
- how interest rates affect...
 - house buying
 - consumer spending
 - business investment exports

H Writing

Imagine you run a business which has customers at home and abroad. Things are going well, and to make things better, the government has just announced a drop in interest rates. This is a good time to get a loan and invest in your business. Write a letter to your bank manager asking for a business loan.

Formal letter

Use this plan to help you.

INTRODUCTION

Dear Mr/Mrs/Miss (give a name).

Say briefly why you're writing.

Useful words and phrases:

I am writing to request... I would be grateful if you could ...

PARAGRAPH 1

Explain what your business is. Say how much you want to borrow.

Useful words and phrases:

I run a ... company which ... I would like to borrow approximately ...

PARAGRAPH 2

Explain why now is a good time to expand: (increasing sales / interest rate cut and its effect on the economy).

Useful words and phrases:

The reason why ... I believe this is the right time because ...

It would be sensible to take advantage of...

PARAGRAPH 3

Say how you will spend the money.

Useful words and phrases:

I intend to spend the money as follows ... The majority of the money will be needed for ... In addition, some of the funds will be spent on . .

PARAGRAPH 4

Ask for details about the loan: How long can you borrow for? What will the interest rate be?

Useful words and phrases:

Could you tell me how ... I would be grateful if you could let me know ...

CONCLUSION

Sign off politely

Useful words and phrases:

I look forward to hearing from you soon ... Yours sincerely,

Write about 200 words

UNIT 11

Before you read

Discuss these questions with your partner.

- Why do banks charge interest on loans?
- Why do banks pay interest on savings?
- How often do interest rates change?
- Why do you think they change?

A Vocabulary

Match the words and phrases with the definitions.

1 purse	A when there is not enough of something
2 cash till	B where a store of bank's money is kept
3 form	C to make sure
4 willing	D an advantage
5 a plus	E has to
6 target	F prepared to do
7 reserve account	G say formally
8 to ensure	H place in shop where money is kept
9 shortage	I kind (of)
10 obliged	J something you aim to achieve
11 state	K a way to invest money by lending it to the government
12 securities	L a small bag to keep money in

Reading 1

Interest rates and the money market

Economic growth is a plus, but, like all good things, it's host not to have too much at once. If the economy grows too rapidly, the result can be inflation. Steady growth is best, and governments use fiscal and monetary policy tools to achieve this. For example, they set interest rates in order to control borrowing and investment.

However, the government can't just state, 'today's interest rate is four per cent' and expect all the other banks to follow. As usual, things are a bit more complicated!

The interest rate is not really set by the government at all, but by the levels of demand and supply of money in the money market. Imagine that money is like any other commodity, and the price of money is the interest rate. Banks can charge any interest rate that customers are willing to pay. If there is a limited amount of money available, the suppliers (the banks) will charge a higher price (the interest rate) as demand for money increases. Demand comes from the public who want to spend money to buy things and from businesses who want to invest money in order to grow. Just like other commodities, demand for money will fall as the price (interest rate) rises. The interest rate will be set by the market. It will be where the demand and supply curves meet the *equilibrium point*. You can see this relationship shown in figure I on page 75

Also, just like other markets, there can be shifts in the demand and supply curves. When shifts happen, the equilibrium point (the interest rate that is set) changes. This new interest rate may be above or below the government's target. What can they do about it? One thing they can do is to influence the supply of money in the market.

What exactly is the money supply and how can the government influence it? Obviously, the money supply includes all the notes and coins in purses, pockets and cash tills. Some of this money will be money that has been borrowed from banks, so loans form part of the money supply too. The supply also includes money that people and companies have in bank accounts, and the money that banks have in their reserve accounts in the central government bank.

Remember that banks lend most of the money that customers deposit. When customers want to make withdrawals, the bank takes cash from its reserve account with the central government bank. If the commercial bank has a shortage of cash in its reserve account, it is obliged to borrow from the central bank. When a commercial bank borrows from the central bank, it must borrow at the government's rate of

interest. This is how the government can influence the interest rate equilibrium point of the market.

However, the government needs to ensure that at the end of each day the commercial banks have a shortage of cash. And, of course, they have ways of doing this.

B Comprehension

Now read the text again and decide whether these statements are true or false.

1. When the government sets interest rates, commercial banks must set the same rate. _____
2. Interest is the price of money. _____
3. As interest rates increase, demand for money falls. _____
4. The money supply is only all the notes and coins that are in circulation. _____
5. Banks lend money, but they never borrow money. _____
6. At the end of each day banks usually have less money than they need. _____

Before you listen

Discuss the following with your partner.

Read the summary which explains what open market operations are. Try to complete the gaps with words from the box.

- | | | |
|-----------|-------------|------------------|
| • borrow | • decreases | • lend |
| • reserve | • selling | • shortages (x2) |

The government can create (1) _____ of money for commercial banks by (2) _____ securities. Securities are a way to (3) _____ money to the government at an agreed rate of interest. This is what is known as *open market operations*. When people buy securities the money supply (4) _____. This causes (5) _____ in the commercial banks' (6) _____ accounts, so they have to (7) _____ money from the central bank.

C Listening

Now you're going to hear someone talking about open market operations. Listen and check your answers

Before you read

Discuss these questions with your partner.

- Economists sometimes talk about *economic shocks*.
- What do you think this might mean?
- What might cause a shock to the economy?

D Vocabulary

Complete each sentence with a word or phrase from the box.

- | | | |
|-----------|--------------------------|---------------|
| • disrupt | • go on strike | • stagflation |
| • miner | • gross national product | • unrest |
| • sharply | • knock-on effect | |

1. The total value of a country's goods and services consumed in one year is called the _____.
2. If something done affects something else, which then again affects something else, we call this a _____.
3. If people are not happy with their government, there may be political _____.
4. Being a _____ and digging underground to bring out minerals, must be very dangerous.
5. Some people _____ as a way of showing their unhappiness with work conditions or pay.
6. If we have _____ there is a sharp drop in production of some goods causing their price to rise.
7. A fallen tree can _____ the electricity supply to thousands of homes.
8. Prices have risen _____ but unfortunately wages haven't.

Reading 2

Economic shocks

Governments try their best to control economic growth, but there are some things that nobody can control. For example war, political unrest in another country or simply a change in the weather can all affect an economy in unexpected ways. Sometimes the effect of these events will cause a sudden shift in aggregate demand or aggregate supply. This is an *economic shock*.

The causes of *demand-side shocks* may be events in the local economy (*domestic demand*) or events abroad (*external demand*). An example of domestic demand was when house prices in the UK dropped suddenly in the late 1980s. Because a home is one of the largest assets most people have, homeowners suddenly felt that they were not as wealthy as they had been. As a result, people started to spend less. This had a knock-on effect on the rest of the economy. Aggregate demand fell sharply and the gross national product fell with it.

External demand-side shocks happen when a country relies heavily on exports or on foreign investment. The Great Depression in the 1930s is a classic example of this. At the time of the Great Depression, many countries exported their goods to the USA, and many other countries relied on American money for investments to help their industries grow. When the American economy collapsed, it had disastrous effects for other economies, too.

Supply-side shocks occur when the supply of goods is disrupted. If the commodity is an important raw material for many industries, then the supply from these industries will drop dramatically. When raw materials are in short supply, they become more expensive. This will cause an increase in manufacturers' variable costs. Manufacturers will then have to increase their prices. Imagine, for example, that miners in the iron industry went on strike. The supply of iron and steel to manufacturers would be disrupted. This would mean a drop in supply of all sorts of goods, from teaspoons to aeroplanes. The sudden drop in supply will cause a shift in

the supply curve. As a result, prices rise even though aggregate demand stays the same. This unfortunate situation is called *stagflation*.

The good news, however, is that sometimes positive supply-side shocks happen. These occur when there is a sudden increase in supply while demand stays the same. This can happen when new technology makes the production of materials or products much easier or more efficient. The result - prices fall and output grows.

E Comprehension

Now read the text again and choose the best way to finish each sentence.

1. An economic shock causes ...
 - A prices to rise.
 - B a demand or supply shift.
 - C demand to fall.
2. Demand-side shocks of a domestic nature ...
 - A are caused by events in another country.
 - B are only caused because of a fall in property prices.
 - C are caused by events at home.
3. The Great Depression is an example of ...
 - A an external demand-side shock.
 - B an external supply-side shock.
 - C a domestic demand-side shock.
4. Supply-side shocks can cause ...
 - A a fall in variable costs.
 - B an increase in variable costs.
 - C a fall in fixed costs.
5. Stagflation is when ...
 - A prices fall but output rises.
 - B prices rise and output rises.
 - C prices rise and output falls.

6. A positive supply-side shock is when ...

- A prices fall but output rises.
- B prices rise and output rises.
- C prices rise and output falls.

Before you listen

Discuss the following with your partner.

An embargo happens when a country stops trading with another. In 1973, there was an embargo on oil. What effects do you think this had on the world's economies?

F Listening

Now listen and complete the notes.

1. After _____ industrial nations enjoyed economic growth.
2. They used huge amounts of _____.
3. A lot of oil came from countries in the _____.
4. The embargo began on the _____ 1973.
5. Prices of oil rose to _____ times higher than before.
6. The New York Stock Exchange lost _____ dollars in a few weeks.
7. The embargo ended in _____.

G Speaking

Work in groups of three or four. Discuss the effects that these events might have on the economy in your country. Use phrases to describe economic shocks as seen in text 2.

- coal miners go on strike
- large amounts of oil and gas are discovered in Australia
- the government provides a free Internet service to anyone who wants it
- the interest rate doubles in just a few weeks

H Writing

Write an essay describing how interest rates are set in the money market. First read through text 1 again and make notes. Then use the plan to help you organise your essay.

Essay

INTRODUCTION

What are interest rates and why are they important for the economy?

PARAGRAPH 1

What does the money supply consist of? What is demand and supply in the money market?

PARAGRAPH 2

How is the interest rate set by the money market?

PARAGRAPH 3

How does the government try to influence the interest rate?

CONCLUSION

Sum up in a couple of sentences what you have said in paragraphs one to three.

Write 200-250 words

UNIT 12

Before you read

Discuss these questions with your partner.

Inflation is the rising cost in prices over time.

- Does your country suffer from inflation?
- Why do you think this is?

A Vocabulary

Choose the correct word.

1. When something is in the *headlines / articles*, it is an important story in the news.
2. When parents are unemployed it is difficult for a family to make ends *touch / meet*.
3. The *cost / price* of living in cities like London and Tokyo is very high.
4. People prefer to shop in supermarkets because they find a wide *range / amount* of goods there.
5. The *retail / shopping* industry includes shops, supermarkets and department stores.
6. In statistics, when a number is *valued / weighted* it is multiplied by another number to show its importance.
7. The *victim / culprit* is the person or thing that is responsible for doing something bad.
8. It is difficult for old people to *manage / cope* with living on a small pension.
9. In maths, a/an *equation / formula* is a sum which is equal on both sides.
10. The speed that something travels at is called *velocity / capacity*.

Reading 1

Inflation

Inflation is an overall increase in prices over a certain period of time. It's also a worry for anybody who's trying to make ends meet, and a headache for many governments. The rate of inflation is often in the headlines. However, inflation isn't really news. In most of Europe, for example, prices have risen year after year for at

least the last 50 years. *Deflation* (overall decrease in prices) does happen occasionally, but the trend is mostly for the cost of living to increase.

There are lots of ways to measure inflation. One of the most popular ways is the *retail price* index. This is calculated by recording increases in price for a range of goods and services. This is sometimes called a *basket of goods*. Some of the goods are weighted more heavily than others because they are more important. For example, food will be weighted more than the cost of a cinema ticket, because a 5% increase in food is more important than a 10% increase in the cost of seeing a film. Inflation is worked out from an average of all the price increases in the basket.

Inflation can happen for a number of reasons, but economists say there are two main culprits. These are *demand-pull inflation* and *cost-push inflation*. Demand-pull inflation can happen when the economy is growing fast. Aggregate demand begins to grow faster than suppliers can cope with. This causes a shortage, and prices rise. At first, customers may be able to pay the higher prices, and demand grows again. This forces prices up even more, and the cycle continues.

One of the characteristics of demand-pull inflation is that there is often too much money going round the economy. This is explained by the quantity theory of money. This theory uses the following equation:

$$\text{money supply} \times \text{velocity} = \text{average price} \times \text{transactions}$$

Velocity is the speed that money is passed on from one person to another. Some economists say that velocity and the number of transactions don't really change. The only things that change in this equation are the money supply and average prices. This means that when the money supply increases, prices will increase too. For this reason, printing money is rarely a solution for economic crises.

Cost-push inflation, on the other hand, occurs when prices rise without an increase in demand. This happens when suppliers' variable costs increase sharply. For example, workers may demand higher wages or raw materials may become more expensive. Producers then pass these increases on to consumers *by raising prices*. So, as usual, we are the ones who pay!

B Comprehension

Now read the text again and match each paragraph with the correct heading.

PARAGRAPH 1	A Measuring inflation
PARAGRAPH 2	B Too much cash
PARAGRAPH 3	C The effects of aggregate demand on inflation
PARAGRAPH 4	D Production cost changes
PARAGRAPH 5	E Inflation is a fact of life

Before you listen

Discuss the following with your partner.

High inflation affects the whole economy in different ways. How do you think inflation affects the people and organisations listed below? Try to match the people and organisations 1-4 with the effects A-D.

1 people on a fixed income	A lose money on loans
2 banks	B can't get investment
3 businesses	C are not so competitive
4 exporters	D can't buy as much with their money

C Listening

Now listen and check your answers.

Before you read

Discuss these questions with your partner.

- Look at the photo and answer these questions:
- What are these people doing?
- How do you think they feel? Why?
- Why do you suppose they are in this situation?



D Vocabulary

Complete each sentence with a word or phrase from the box.

- | | | | |
|---------------------|-------------|-------------|------------|
| • can't be bothered | • freelance | • obsolete | • retrain |
| • contracts | • mobility | • region | • shipyard |
| | | • relocates | • tastes |

1. People's _____ in clothes change with fashion and with then age.
2. If you _____ to do something, you just don't feel like doing it.
3. When something _____ it gets smaller.
4. A _____ is an area of a country.
5. When a company _____ to another part of the country or abroad, many workers lose their jobs.
6. _____ workers are not employees for a company, but are self-employed.
7. If something is _____ it no longer exists because it isn't needed anymore.
8. If you lose your job due to mechanisation, you may have to go to college and _____ for something else.
9. A _____ is where ships are built.
10. Your _____ is your ability to move from one place to another.

Reading 2

Unemployment

There will always be a certain amount of unemployment in the economy. When economists talk about *full employment* they mean that everyone who can work and wants to work has got a job. Able workers who are not working are simply not happy with the salaries that are offered - or just can't be bothered!

However, economies rarely reach full employment. There are a number of reasons for this, and a number of different types of unemployment. One of these is *cyclical unemployment*. This type of unemployment varies with the growth and recession cycle of the economy. As the economy grows, demand for labour grows and unemployment falls. As the economy contracts, unemployment grows.

A second kind of unemployment is *structural unemployment*. This occurs when changing public tastes or advances in technology cause a fall in demand for some types of work. For example, computer technology has revolutionised the printing industry, and many traditional printers' jobs have become obsolete. Sometimes whole regions of a country suffer from high structural unemployment. The north-east of England, for example, was famous for many years for its shipbuilding industry. Competition from abroad forced many shipyards to close. This caused huge unemployment in the region.

How long structural unemployment lasts will depend on two things. Firstly, how easily the workforce can retrain for new jobs. This may be difficult for older workers who find it hard to learn new skills. There is also the question of who pays for the training. The second issue is mobility. Workers who are able to relocate easily to another part of the country will find new jobs more quickly.

There are two other kinds of unemployment which we should mention here. These are less serious, perhaps, but they are still difficult for governments to get rid of. The first is *frictional unemployment*. This is a natural kind of unemployment that occurs when someone leaves a job and is looking for another one that suits them. Frictional unemployment often happens because people want to leave their job in

order to change careers. Few people walk straight into another job. However, when the economy is in recession, frictional unemployment will be more common because jobs are harder to find.

The second kind is *seasonal unemployment*. Some industries have busy periods and periods where there is no work at all. Some freelance farm workers, for example, get most of their work in the spring and summer. Like structural unemployment, seasonal unemployment can affect whole regions of a country. Areas that rely on summer tourism, for example, suffer serious unemployment during the autumn and winter months.

E Comprehension

Now read the text again and choose the best answer or answers for each question.

1. Which kind of unemployment happens regularly every year?
 - A cyclical unemployment
 - B structural unemployment
 - C frictional unemployment
 - D seasonal unemployment
2. Which kind of unemployment happens because of advances in technology?
 - A cyclical unemployment
 - B structural unemployment
 - C frictional unemployment
 - D seasonal unemployment
3. Which kind of unemployment may happen because someone wants it?
 - A cyclical unemployment
 - B structural unemployment
 - C frictional unemployment
 - D seasonal unemployment
4. Which kind of unemployment happens because of changes in economic growth?
 - A cyclical unemployment

B structural unemployment

C frictional unemployment

D seasonal unemployment

5. Which kind of unemployment happens in particular parts of the country? (2 answers)

A cyclical unemployment

B structural unemployment

C frictional unemployment

D seasonal unemployment

Before you listen

Discuss these questions with your partner.

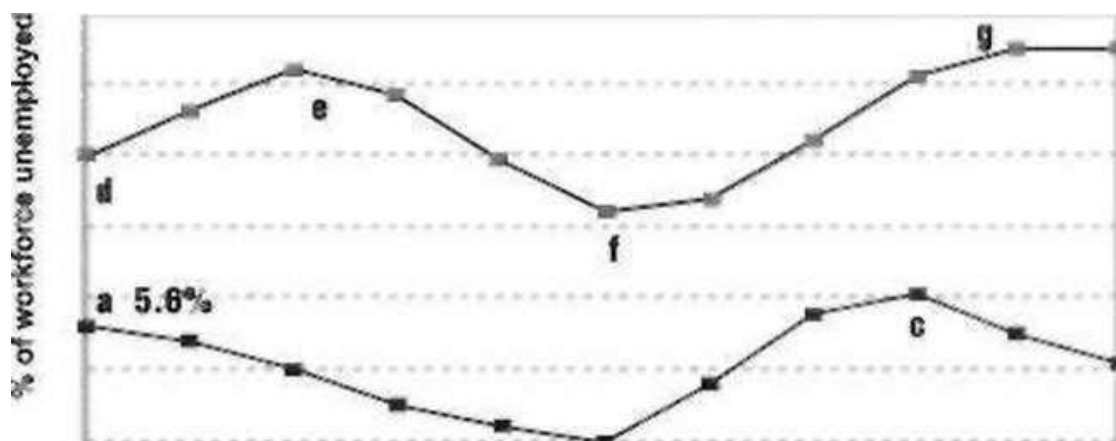
The chart below shows the trends in unemployment in two countries. Look at the chart, and answer these questions.

- What does the vertical axis show?
- What does the horizontal axis show?
- What two countries are shown?
- How many years are shown?
- Are there any similarities between the curves for the two countries?

F Listening

Now listen and write the correct percentages on the chart. The first answer has been done for you.

Unemployment in Germany and the USA 1995-2005



G Speaking

Discuss these questions with your partner.

- Is inflation a problem in your country? Why / Why not?
- How does unemployment affect people psychologically?
- What kind(s) of unemployment do you think affect the area where you live?
- Can you talk about the history of unemployment in your country since the 70s like the diagram in exercise F listening.

Task

Work in groups of three or four. Imagine you and your friends are running the country. Things are not going well! Here are some of your problems.

- unemployment is high (12%)
- the rate of inflation is also high
- workers are going on strike for higher wages
- your large steel industry is losing money because of foreign competition

Talk to each other and decide which of those problems is the most important. Then decide what you can do to make things better. In your discussion think about:

- retraining / relocation of workers
- cost-push inflation
- the money supply

H Writing

Imagine you are a shipyard worker who has just become unemployed because the government has decided to close down the shipyards. Write a letter to a friend explaining what's happened and how you feel about it.

Informal letter

Use this plan to help you.

Greeting

PARAGRAPH 1

Thank your friend for his/her last letter. Respond to a piece of news he/she had in his/her letter. Tell your friend your bad news

PARAGRAPH 2

Explain how you lost your job. Explain what the government's reasons were for closing the yard (inflation made exports uncompetitive).

PARAGRAPH 3

Explain how you feel about losing your job. How is it affecting you and your family?

PARAGRAPH 4

Explain what you're planning to do (retrain / relocate?).

Sign off

Write 100-140 words

UNIT 13

Before you read

Discuss this question with your partner.

- What do you think makes an economy grow?

A Vocabulary

Choose the correct answer A, B or C from the list.

1. In many ways life for previous _____ was much more difficult.
2. Home _____ has increased in many parts of Europe.
3. When the economy grows dangerously fast, we say it _____.
4. A _____ is when the economy is growing quickly.
5. _____ are fairground rides like trains that go up and down very fast.
6. _____ in technology in the last 30 years has been incredible.
7. _____ is when you get better after something bad like an illness - or economic depression.
8. When you _____ you fight or work hard for something.
9. Don't buy anymore milk. We've got _____ in the fridge.
10. A fortunate person is very _____.
11. Mountain climbers are people who enjoy a _____.
12. The _____ is the government minister responsible for the economy.
13. _____ growth is growth that can continue for a long time.

- | | | |
|---------------------|---------------|---------------|
| 1 A people | B generations | C family |
| 2 A ownership | B having | C belonging |
| 3 A boils over | B overheats | C warms up |
| 4 A bang | B boom | C balloon |
| 5 A roller-coasters | B big wheels | C bumper cars |
| 6 A growth | B increase | C progress |
| 7 A discovery | B recovery | C slump |
| 8 A overheat | B recover | C struggle |

- | | | |
|-------------------|------------------|--------------|
| 9 A plenty | B a shortage | C none |
| 10 A hard-working | B rich | C lucky |
| 11 A challenge | B race | C boom |
| 12 A economist | B prime-minister | C chancellor |
| 13 A sustainable | B sustained | C sustaining |

Reading 1

Economic growth

Many millions of people enjoy a quality of life today that previous generations could not have dreamed of. Home ownership, private cars and holidays are now standard for most families in industrialised countries. And yet at the same time, billions of people in other countries live without even clean drinking water. How can this be? The answer is that the fortunate few live in countries with sustained economic growth.

An economy is growing when the gross *national product* is increasing year after year. When economists calculate economic growth, though, they must take into account the effects of inflation. For example, imagine that the gross national product of a country increased from \$500 billion to \$510 billion from one year to another. That's an increase of two per cent in output. Very impressive! However, if the rate of inflation was two per cent, then there has been no real growth at all.

The other thing to remember about economic growth is that not all growth is good. Governments want steady, sustainable growth. Sudden, sharp increases in growth - a boom - can cause the economy to overheat and fall into recession. For many economies, the long run growth over many years is steady, but the short run is a roller-coaster ride of boom and depression. For instance, the long run growth of the UK economy since 1950 has been a steady 2.5% per year. However, if you look closely at any decade you'll see that there is a cycle of growth, recession and recovery. The truth is, steady growth in the short term is very hard to achieve.

Nevertheless, many countries are still struggling to achieve any kind of growth at all. Why is this? What is necessary for growth to happen? Many economists have tried to find the answer to this question, and there are plenty of theories to choose from. However, most economists agree that three things are essential for economic growth to occur: capital growth, savings and technological progress.

Capital refers to the factories and machinery that the labour force uses to turn raw materials into products. More workers and more raw materials will only lead to a certain amount of growth. Eventually, the economy needs more capital for the labour to use. Capital growth can also include training and education for the labour force. This makes the workforce more efficient, creative and productive.

Of course, someone has to pay for the new machines and training. In other words, capital growth needs investment. Money for investment needs to be borrowed from banks. Banks can only lend if customers make savings. This is why savings are so important for growth. However, the economy will not grow if everyone is saving and no one is spending. Getting the right balance between consumption and saving is another part of the challenge of economic growth.

But above all, technology is the real miracle worker of economic growth. An advance in technology can increase productivity from the same amount of capital and resources: just what the chancellor ordered!

B Comprehension

Now read the text again and choose the sentence which best summarises each paragraph.

PARAGRAPH 1

- A Economic growth does not happen everywhere.
- B Economic growth did not happen in the past.
- C Economic growth happens only in industrialised countries.

PARAGRAPH 2

- A GNP and economic growth are the same thing.

B An increase in GNP always means the economy is growing.

C An increase in GNP may not show economic growth.

PARAGRAPH 3

A All growth is good.

B Fast growth is good.

C Steady growth is good.

PARAGRAPH 4

A The majority of economists believe three factors positively influence economic growth.

B Economists are sure about what causes economic growth.

C Economists have no idea about what causes economic growth.

PARAGRAPH 5

A The economy needs more raw materials to grow.

B The economy needs more machines and factories in order to grow.

C The economy needs more labour to grow.

PARAGRAPH 6

A For economic growth there needs to be more spending and less saving.

B For economic growth there needs to be more saving and less spending.

C For economic growth there needs to be the right amount of saving and spending.

PARAGRAPH 7

A Technology creates more raw materials with less labour.

B Technology creates greater output from the same amount of capital, labour and materials.

C Technology creates more labour with fewer raw *materials*.

Before you listen

Discuss these questions with your partner.

- What countries are sometimes called the East Asian Tigers. Do you know why?
- Which of the things listed in C Listening helped the East Asian Tigers to grow?

C Listening

Now listen and tick the things that helped the East Asian Tigers grow.

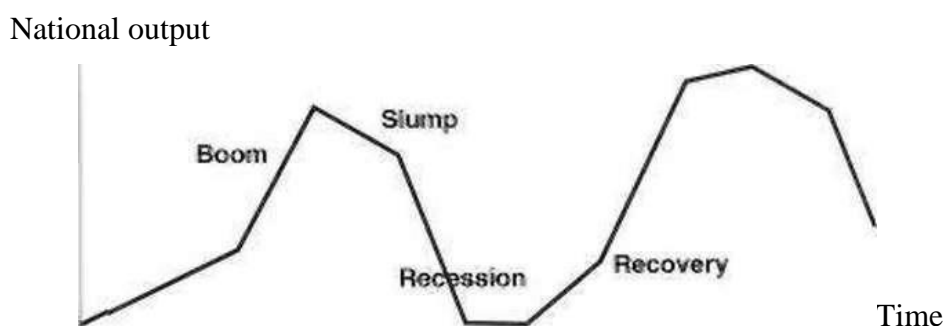
- 1 spending on education _____
- 2 cuts in welfare benefits lot unemployed _____
- 3 high rate of savings _____
- 4 high rate of local consumption _____
- 5 exports to richer countries _____
- 6 non democratic governments _____
- 7 democratic governments _____
- 8 good relations between management and workers _____
- 9 strict management rule _____

Before you read

Discuss these questions with your partner.

Look at the chart which shows the business or trade- cycle. What do you understand from the chart? What is happening to the economy at each stage?

The Business Cycle



D Vocabulary

Complete each sentence with a word or phrase from the box.

- | | | | |
|--------------|-----------|-----------|------------|
| • bankrupt | • current | • lay off | • pay off |
| • inevitable | • debt | • put up | • shrink |
| • reasonable | • secure | • stages | • turnover |

1. Each month I put 100 euros into the bank to _____ my loan.

2. If you feel _____ about your job, you don't think there is a danger of losing it.
3. In Britain if it's sunny in the morning, rain is _____ later!
4. A company's _____ is how much money it spends and earns each year.
5. The _____ price of oil is unbelievable.
6. Painting the body is one of the final _____ of manufacturing a car.
7. _____ prices are prices you think are fair.
8. If you wash some clothes in very hot water, they _____.
9. The opposite of taking on staff is to _____ staff.
10. If a company goes _____ it cannot pay back the money it owes and it must close down.
11. I have a large _____ and I have to pay back a lot of money every month.
12. Farmers have _____ their prices so the cost of fruit and vegetables has increased.

Reading 2

The business cycle

In the long term, over many years, an economy will grow at a steady rate. However, the climb up the hillside of economic growth is actually quite rocky. Long-term growth is made up of many short-term steps. Each short-term step may last for five or ten years. Over this short-term period the economy goes through a cycle of growth and recession. This is called the *trade or business cycle*, and it has four stages: *boom, slump, recession* and *recovery*.

During a boom, everything is good. Demand for goods and services is high and business is going well. To meet demand, companies need to take on more staff, so unemployment is low. Confidence is in the air! Consumers feel confident about spending because their jobs seem secure. What's more, interest rates are reasonable, so people take out loans and use their credit cards. Low interest rates also encourage companies to invest in new capital, and businesses grow. Governments are happy too, because tax revenues are increasing. However, the government has to be careful.

Boom economies are always in danger of overheating. Demand-pull or cost-push inflation will eventually bring the good times to an end.

When the slump comes, the economy continues to grow, but not so fast. Once inflation starts to rise, confidence falls. The government have probably put up interest rates to slow down borrowing. People with mortgages have to spend more money to pay off their debt, so they have less to spend on other things. Higher interest rates discourage business investment. Things are moving slowly, and people just hope that the economy will improve again. But will it?

If the government have not acted quickly enough, its fiscal and monetary policy changes may be too late. In this case, recession is inevitable. Some economists say a recession exists when the current rate of growth falls below the long-term rate of growth. Others say a recession is when there is no growth at all, and the economy actually shrinks. Whatever it is, a recession is bad news. Companies have to reduce costs because turnover is so low. The first thing they do is to lay off staff. If the recession is very bad, some companies may even go bankrupt and close. When this happens, thousands of workers may lose their jobs. As unemployment rises, the government needs to spend more on providing unemployment benefit for those who are out of work. In the worst recessions, these conditions can last for a number of years.

Eventually, with good government policy and a demand for goods or services from healthier economics abroad recovery will come. Slowly, confidence returns, investment grows and the cycle begins again.

E Comprehension

Now read the text again and answer these questions in your own words.

- What is economic growth like in the long run?
- What is economic growth like in the short run?
- Why are businesses and consumers confident during a boom?
- Why are mortgage repayments often higher during a slump?

- How do companies try to save money during a recession?
- What can help an economy recover?

Before you listen

Discuss this question with your partner.

How does each stage of the business cycle affect ordinary people?

F Listening

Now listen to these people. What part of the business cycle are they in? Match the people with the stage.

SPEAKER 1	A boom
SPEAKER 2	B slump
SPEAKER 3	C recession
SPEAKER 4	D recovery

G Speaking

Discuss these questions with your partner.

- Is economic growth always good?
- What are the negative results of economic growth (eg. pollution, destruction of environment)?

Task

Work in groups of three. Each of you should take one of the following roles.

STUDENT 1 the Chancellor

STUDENT 2 chief director of one of the country's largest industries

STUDENT 3 leader of a workers' union

Imagine that the economy has gone into a recession.

STUDENT 1 you're the Chancellor. Explain to the others why the country is in recession and what you plan to do about it.

STUDENTS 2 and 3 should tell the Chancellor what problems the recession is causing them. Tell the Chancellor what you want him/her to do.

H Writing

Answer this essay question: 'Economic growth isn't always a good thing.' How far do you agree with this opinion?

Essay on economic growth

Use this essay plan to help you.

PARAGRAPH 1

Introduction to the topic: What is economic growth and how does it occur?

Read text 1 again and make notes.

PARAGRAPH 2

What are the benefits of economic growth for a country?

standard of living, health care, education, employment

PARAGRAPH 3

What are the negative externalities of economic growth?

effects on the environment, traditional way of life, stress and family life, equity and inequality

PARAGRAPH 4

In summary - sum up both sides of the argument in a sentence and say what your view is.

Write 200-250 words

UNIT 14

Before you read

Discuss this question with your partner.

Nearly all countries trade with each other. Why do you think this is?

A Vocabulary

Match the words and phrases with the definitions

- | | |
|------------------------|--|
| 1 balance of trade | A the movement of something, like water in a river |
| 2 imports | B big variety |
| 3 wide range | C financial protection |
| 4 trading partnerships | D when you receive less money than you pay out |
| 5 value for money | E when something is worth the amount you pay for it |
| 6 deficit | F the difference between the total amount of exports and imports for a country in one year |
| 7 insurance | G people, companies or countries that do business together |
| 8 flow | H goods and services a country buys from abroad |

Reading 1

The open economy

All through history, people from one society have been trading with people from another. Three thousand years ago, for example, the Phoenicians of the Mediterranean built an economy almost completely on foreign trade. In the jargon of economics, the Phoenicians had an *open economy*, and almost every economy since theirs has been open too.

When an economy is open, this basically means that it imports and exports goods and services. What are the benefits of doing this? First of all, if you trade with other economies, you can import goods that do not exist in your economy. These may be products that your economy cannot manufacture, but they may also be raw materials. With a wider range of raw materials, an economy is able to use its capital

and labour to produce a wider range of products. In this way, importing can actually help an economy grow. What's more, if you allow imports from other countries, then you will have trading partnerships. This means that you can export to countries. If you have customers all over the world, your economy will grow faster.

Open economies are good for consumers, too. If the economy allows imports from abroad, there will be a greater variety of goods available locally. When products are available locally, imports of the same products should help to keep prices down and quality high. This is because local companies will have to compete with foreign companies, and more competition will mean better quality and greater value for money.

Economists describe imports and exports of material products as *visible* - because you can really see and touch them. Examples of visible exports and imports are food stuffs, furniture and electronic equipment. However, there are also *invisible* imports and exports. These are mainly services, but can include all sorts of things. Examples of invisible exports and imports include banking services, insurance products, educational courses and tourism.

Opening up economies, however, does bring problems. One of the main difficulties is keeping a good balance of trade. Every time a country manages to sell a product or service abroad, this means money will flow into the economy. On the other hand, every time someone buys from abroad, money flows out of the country. Over time, if the flow of money out of the economy is greater than the flow of money into the economy, then there is a *trade deficit*. This is not a good situation to be in. The challenge for governments is to keep the flow of trade equal in both directions, or to achieve a *trade surplus*. This is when total exports are greater than total imports.

B Comprehension

Now read the text again and decide whether these statements are true or false. If the statement is false, correct it.

1. Most economies in the world were closed until very recently. _____

2. Open economies exchange exports and imports with each other. _____
3. Importing products will always make the local economy shrink. _____
4. Only the producer benefits from an open economy. _____
5. If you go abroad for a holiday, you create an invisible export for your country. _____
6. When exports earn more money than imports, there is a trade surplus for the economy. _____

Before you listen

Try to complete this paragraph about autarchies by using words from the box.

- | | | | |
|-----------|---------------|-------------|-------------------|
| • America | • China | • closed | • invade |
| • empires | • North Korea | • resources | • self-sufficient |

An autarchy is another word for a completely (1) _____ economy. An autarchy does not have trading partners. It is (2) _____. D. There are no autarchies in the world today, although (3) _____ is almost an autarchy. Autarchies don't exist because no economy has all the (4) _____ it needs. In the 19th century, (5) _____ was an autarchy for about one year. (6) _____ was almost an autarchy in the 20th century. The only real autarchies that have existed are (7) _____. They have tended to (8) _____ instead of trade!

C Listening

Now listen and check your answers.

Before you read

Discuss this question with your partner.

Can you name the currencies that these countries use?

- the USA
- the UK
- India
- Switzerland
- Australia
- France
- Japan

D Vocabulary

Complete each sentence with a word or phrase from the box.

- | | | | |
|------------|---------------------|--------|------------|
| • currency | • equilibrium point | • euro | • overseas |
| • swap | • investors | • zone | • sterling |

1. A _____ is the kind of money used in a country.
2. The currency used in Italy, France and Greece is the _____.
3. _____ is another name for the UK's pounds and pence.
4. A _____ is an area.
5. Being _____ means you are not in your own country.
6. If you're not satisfied with what you've bought, you can _____ it for something else.
7. _____ are people or companies that lend money to companies in order to make a profit.
8. The _____ is the price that sellers are happy to sell at and buyers are happy to buy at.

Reading 2

Exchange rates

The UK has Sterling, the USA has dollars and Ukraine has the hryvna. Almost every country has its own currency. Some countries in an economic zone share a currency, for example the 13 European countries that share the euro, but this is quite rare. If I live in a Eurozone country and I want to buy something from the UK, I must buy it using UK sterling. To do this I need to exchange my euros for sterling. The amount of sterling I can swap for each euro depends on the *exchange rate*.

For example, if the exchange rate is £1 = €1.50 and the camera I want to buy is worth £ 100, then to buy the camera I must spend $100 \times 1.50 = €150$. Similarly, if someone in the UK wants to buy something from a Eurozone country, they must exchange their sterling for euros. If the computer they want to buy costs €500, then they must spend $500 \times 0.75 = £375$.

Most exchange rates, however, do not stay the same. They are changing all the time. Imagine that a few days later the exchange rate changes to £1 =€1.45. This would make the camera cheaper for me, but the computer more expensive for the buyer in the UK. In other words, sterling has got weaker against the euro and the euro has got stronger against sterling.

But what makes the exchange rate change? To understand this, just think of the exchange rate as the price of the currency. Just like any other commodity, the price of a currency is decided by supply and demand in the market. The rate set will be the equilibrium point where supply and demand meet.

Where does demand for a currency come from? Let's take the euro, for example. Exports from the Eurozone need to be paid for in euros. This means the buyers of those exports need to buy euros to make their purchases. So the demand for euros increases. Also, investors from outside the Eurozone may want to invest their money there because they think they will make a profit. To do this, they must buy euros, and again the demand for euros increases. The supply of euros on the international money markets comes from people who want to sell euros. If people want to buy imports from countries outside the Eurozone, or if they want to invest in countries outside the Eurozone, they must sell their euros to buy other currencies. So the supply of euros increases.

A change in the exchange rate of a currency can have a big impact on the economy. For example, it can have a big impact on the economy's balance of payments. As we saw in the example earlier, when a currency gets stronger, imports become cheaper. But at the same time, exports to overseas customers get more expensive. This will probably mean that more money will flow out of the economy than in.

E Comprehension

Now read the text again and answer these questions in your own words.

- How many countries currently use the euro?

- What must you do if you want to buy something from another country?
- How is the exchange rate between currencies set?
- What two things can make the demand for a currency increase?
- What happens to exports when a currency gets stronger?

Before you listen

Discuss the following with your partner.

A change in the exchange rate will make a currency stronger or weaker against other currencies. How will this affect the rest of the economy? Try to put the effects under the correct heading.

- economy grows
- economy shrinks
- exports fall
- exports grow
- imports are cheaper
- rate of inflation falls
- rate of inflation increases
- workers demand higher wages

Effects of strong currency	Effects of weak currency

G Speaking

Discuss these questions with your partner.

Do you think we could have one currency for the whole world? Why / Why not?

What would it be like to live in a closed economy?

Task

Give a two-minute talk about closed and open economies. First, read text 1 again and the listening summary and make notes on the following.

- what is an open economy and what is a closed economy
- closed and open economies in history
- the advantages and the disadvantages of each type of economy

H Writing

Answer this essay question: 'What is the exchange rate and how does it affect the economy?'

Essay about exchange rates

First, read text 2 again and the notes from the listening exercise and make notes. Use this essay plan to help you, and include those words and phrases:

Organising ideas: first of all, next, furthermore, in addition, in a number of ways

Describing cause and effect: as a result, consequently, this leads to, due to

PARAGRAPH 1

What are currencies?

How do countries trade with one another?

PARAGRAPH 2

What is the exchange rate?

How is the exchange rate set?

PARAGRAPH 3

What is the balance of payments?

How does the exchange rate affect imports and exports?

PARAGRAPH 4

What other effects does a change in the exchange rate have on the economy?

Write 200-250 words

UNIT 15

Before you read

Discuss the following with your partner.

Do you remember how the exchange rate affects the rest of the economy? Tell your partner what you remember about these things:

- the exchange rate and interest rates
- the exchange rate and the balance of trade

A Vocabulary

Match the words and phrases with the definitions.

- | | |
|-----------------------|---|
| 1 exchange | A unchanging mechanism |
| 2 variations | B different types of the same thing |
| 3 floating | C stay |
| 4 fixed exchange rate | D system for buying money |
| 5 extreme | E supplies |
| 6 reserves | F free |
| 7 constant | G stable currency price fixed by the government |
| 8 remain | H most absolute |
| 9 peg | I keep two currencies at same level |

Reading 1

Exchange rate mechanisms

If you're planning a holiday abroad, one of the things you won't forget to do is to buy some of the local currency. You'll probably visit a few banks to see which one offers the best exchange rate. But holiday makers aren't the only ones who are interested in exchange rates. Governments are watching them all the time. This is because a change in the exchange rate of the national currency can affect the whole economy. Interest rates, balance of payments and economic growth will all feel the effects of a change in exchange rates.

But can governments do anything about exchange rates apart from watch them? Well, yes, they can. They can use something called *exchange rate mechanisms*. These are ways to control the value of the national currency against other currencies. There are different types of mechanism, but they are all variations on two *extreme* mechanisms *free floating* exchange rate and *fully fixed* exchange rate.

When a currency's exchange rate is free floating, the government doesn't try to control the price of the currency. Remember that, just like any other price, the exchange rate changes when demand and supply change. When governments allow the currency to be free floating, they are saying, 'let the market decide the price of our currency'. In contrast, a fully fixed exchange rate is strictly controlled by the government. For example, the UK government might decide that they want sterling to remain at a constant exchange rate against the euro of £1= €1.50. This is sometimes called *pegging*. In this example, sterling is pegged against the euro at that rate, although in actual fact sterling is a free floating currency.

However, there is a problem. If demand on the money market rises for sterling, then the exchange rate will rise also. How can the government maintain the exchange rate they want? The only way is to change the level of supply of sterling on the money market. The government can increase the amount of sterling on the international market by selling it. This means they buy foreign currencies and sell sterling. Alternatively, if they want to increase demand for sterling, the government needs to reduce the supply on the money market. To do this, they sell their reserves of foreign currencies and buy sterling. This way, they keep the exchange rate (the price) of sterling at a constant rate.

So which system is best - fixed or floating? It depends on lots of things. Each system has its benefits and drawbacks. A free floating mechanism often makes it easier to keep a steady- balance of payments. Also, the government can make any changes it wants to interest rates without worrying about the exchange rate (the market looks after that). On the other hand, a fixed rate mechanism makes industry feel more secure. They know what the value of their exports will be, and so they can

plan for the future more easily. This is good for the local economy and for international trade.

B Comprehension

Now read the text again and then read the descriptions below. Which mechanism is being described?

1. The government chooses a target rate for the currency.
 - A fixed exchange rate
 - B floating exchange rate
 - C both fixed and floating mechanisms
2. The government accepts the market value of the currency.
 - A fixed exchange rate
 - B floating exchange rate
 - C both fixed and floating mechanisms
3. Supply and demand on the currency market affect the exchange rate.
 - A fixed exchange rate
 - B floating exchange rate
 - C both fixed and floating mechanisms
4. The government does not attempt to change the rate.
 - A fixed exchange rate
 - B floating exchange rate
 - C both fixed and floating mechanisms
5. The government needs reserves of foreign currency.
 - A fixed exchange rate
 - B floating exchange rate
 - C both fixed and floating mechanisms
6. There are advantages and disadvantages.
 - A fixed exchange rate
 - B floating exchange rate

C both fixed and floating mechanisms

Before you listen

Discuss the following with your partner.

You're going to hear someone talking about the foreign exchange market. As you listen, you'll make some notes about what you hear. First, read through the headings.

Do you know any of the answers?

Other names: (1) _____ (2) _____

Main trading centres: (3) _____ (4) D _____ (5) _____

Most traded currencies: (6) _____ (7) _____ (8) _____

Amount traded daily: (9) _____

Trading hours: (10) _____

Main traders: (11) _____ (12) _____ (13) _____

(14) _____

C Listening

Now listen and complete the notes.

Before you read

Discuss the following with your partner.

Do you remember these ideas from earlier units? Tell your partner what you know about these things:

- opportunity cost
- economic welfare
- the benefits of an open economy

D Vocabulary

Complete each sentence with a word from the box.

- | | | | |
|---------------|------------|-------------|-----------|
| • comparative | • exploit | • incentive | • tariffs |
| • specialises | • restrict | • stimulate | • quota |

1. All countries try to _____ the natural resources that they have.
2. _____ are a kind of tax that the government puts on imported goods.
3. Low interest rates can help to _____ the economy and make it grow.
4. A rise in salary is an _____ to make people work harder.
5. The UK economy _____ in services such as banking and insurance.
6. Governments sometimes need to _____ the flow of imports and exports.
7. The opposite of absolute is _____.
8. They have a _____ which must be fulfilled if they want to keep the contract.

Reading 2

International trade

There are plenty of incentives for a country to have an open economy. Exports increase the size of the market for producers. Imports stimulate competition in local markets and provide a wider choice for consumers. These are good reasons for international trade. However, another important reason for trading is to exploit advantages. Economists talk about two types of advantage that an economy can have over others: *absolute advantage* and *comparative advantage*.

An economy has absolute advantage when it can produce goods at a lower cost than other economies can, or they have resources that others don't have. For example, warm Mediterranean countries have an absolute advantage in the production of olive oil. Many countries in Asia have an absolute advantage in manufacturing electronic goods. Clearly, it makes sense for countries with absolute advantages to trade with each other.

The second kind of advantage is comparative advantage. This happens when an economy can produce something at a lower *opportunity cost* than other economies can. Remember that the opportunity cost of something is what you have to give up in order to have it. For example, imagine that country A makes two things with its resources: clothes and furniture. If it wants to increase production of clothes, it must decrease its production of furniture. This loss is the opportunity cost. Now imagine

that country B also makes clothes and furniture, but it makes less of both than country A. In other words, country A has an absolute advantage over country B in clothes and furniture. However, country B can increase its production of clothes with only a small opportunity cost in furniture. This means that country B has a comparative advantage over country A in the production of clothes.

But why would country A want to trade with country B? What benefit would they gain? In fact, both countries can benefit by specialising. If country A produces only furniture, and country R produces only clothes, both countries will be making best use of their available resources. By trading in this way, production of both products increases. In turn, this increases the economic welfare of both countries.

Despite all the advantages of having an open economy, countries sometimes restrict trade with other countries. For example, governments may charge tariffs on imports. These are taxes which make imports more expensive than locally produced products. Governments may also restrict the amount of imports entering the country. This kind of restriction is called an *import quota*. Since international trade has so many benefits, why would countries want to restrict trade in this way? There must be some very good reasons!

E Comprehension

Now read the text again and decide whether these statements are true or false. If the statement is false, correct it.

1. Imports can be good for an economy. _____
2. A country's natural resources can give it an absolute advantage over other countries. _____
3. A country with an absolute advantage will always have a comparative advantage, too. _____
4. A small economy can have a comparative advantage over a larger economy. _____
5. Specialising in one area of trade will give a country a comparative advantage. _____
6. Tariffs and quotas are used in order to increase imports into the economy. _____

Before you listen

Discuss this question with your partner.

Why do you think governments sometimes use tariffs and quotas to restrict free trade with other countries?

F Listening

You're going to listen to four people talking about trade restrictions. Match the speakers with the reasons for restricting trade. There is one extra reason that the speakers do not mention.

SPEAKER 1 _____ A to stop imports of dangerous goods

SPEAKER 2 _____ B to protect local jobs

SPEAKER 3 _____ C to punish other countries who use restrictions

SPEAKER 4 _____ D to stop the local market being flooded with cheap imports

E to let new local industries grow

G Speaking

Discuss these questions with your partner.

- Are trade restrictions a good thing or a bad thing in your opinion? Why?
- Do you know whether your country uses tariffs or quotas on imports?
- Do you think any country has a completely open economy?

Task

Give a two-minute talk on exchange rate mechanisms. First, read text 1 again and make notes below on the following.

- What is an exchange rate?
- What is a fixed exchange rate - how does the government keep it fixed?
- What is a floating exchange rate?
- What are the advantages of each system?

H Writing

Answer this essay question: ‘Describe the trade partnerships that your country has with other nations.’

First, do some research and find out what and how your country trades with others.

Then use this plan to organise your answer.

Essay about international trade

INTRODUCTION

Explain that you are going to write about your government's trade partnerships nowadays.

Mention that historically these partnerships haven't always been the same.

PARAGRAPH 1

What absolute advantages does your country have (natural resources or strong industries)?

What are the main exports from your country (goods and services)?

Which countries do they go to?

How does this affect your country's international trading?

PARAGRAPH 2

What are the main imports into your country, and where are they from?

Why are these imported?

Do other countries have an absolute or comparative advantage in these goods?

PARAGRAPH 3

Are there any barriers to trade?

If there are, why do they exist?

CONCLUSION

Sum up your country's international trading partnerships in two sentences.

Write 200-250 words

Before you read

Discuss these questions with your partner.

Why do you think some economies are less developed than others?

I Vocabulary

Choose the correct word.

1. Many African countries were *nations* / *colonies* of European countries until the 20th century.
2. If your debt is *stopped* / *cancelled*, you don't need to pay the money back.
3. A *privileged* / *reluctant* person is able to have things that others cannot have.
4. Political *stability* / *instability* happens when a country's political system does not work properly.
5. A *grant* / *loan* is money given to someone (or a country) without them having to pay it back.
6. If you are *reluctant* / *willing* to do something, you don't really want to do it.
7. Another word for help is *aid* / *hamper*.
8. When something *aids* / *hampers* you, it stops you from doing what you want to do.
9. *Capital* / *Primary* goods are goods which are used in order to produce other goods, or things which can be consumed without being processed.
10. *Mature* / *Reluctant* means highly developed.
11. *Capital* / *Primary* goods are the factories and machinery that an economy needs in order to produce other goods.
12. Human *aid* / *capital* is the educational level and the health of the working population.

Reading 3

Less developed countries

What do we mean when we say a country is *developed*? The United Nations uses three measures: life expectancy, education and real individual income. If we use these measures to describe the world, we quickly understand that only a privileged few live in developed countries. Poverty, for instance, causes the deaths of about

30,000 children every day. Over billion people cannot read or write. Half the world earns less than \$2 a day. Clearly, most of the world's population live in less developed countries. But why is development so difficult for these nations'?

There are many reasons. Some countries lack the raw materials and capital needed for growth. Others regularly suffer from natural disasters such as droughts and floods. Diseases such as cholera and AIDS are widespread in many less developed countries. This causes suffering to millions of individuals and families, but it is also disastrous for the economies of these nations. Lack of education also holds back development. This may be because governments cannot afford to provide schools and colleges. However, millions of families in these nations are caught in a poverty trap. This prevents their children from getting a basic education even when it is available. Without quality human capital, these economics cannot grow.

Political insecurity is another reason for underdevelopment. Many of these countries belonged to colonies in the past. When the foreign powers finally left, these countries often fell into years of political instability and war. Even when peace comes to these countries, political corruption makes development difficult as there is still a climate of political instability. Foreign companies do not want to invest in a country which suffers from corruption. Similarly, foreign governments are reluctant to give aid when they see that their money is spent badly or simply disappears.

All of these problems make it very difficult for less developed countries to improve their economics. However, there are other more complex issues which hamper development. The first of these is debt. The second is unfair trading. Many people believe that these two problems are the cause of all the other problems that developing countries face.

Many of the world's poorest countries are trapped in a cycle of debt. This is because they need to borrow money in order to pay the interest on debts they already have. The poorest 60 countries owe many hundreds of billions of dollars. However, they spend more money paying off debts than they receive in aid. Unless these debts are cancelled, these countries will never escape the cycle.

After years of slow development, it is hard for poorer countries to compete with developed countries for international trade. Without mature industries of their own, they must rely on exports of primary goods. These primary goods do not earn as much money as the products that developed countries export. What's more, because poor countries rely on grants from rich countries, they are often forced to spend the money on manufactured imports. This means they cannot buy the things they really need: capital goods to help their economies grow.

J Comprehension

Now read the text again and choose the best answer A, B or C to complete each sentence.

1. The majority of people in the world live ...
 - A in developed countries.
 - B in less developed countries.
 - C on less than a dollar a day.
2. Natural disasters and disease
 - A happen more often in less developed countries.
 - B are worse in less developed countries
 - C have a serious impact on the economy of less developed countries.
3. Children often can't get an education because ...
 - A there's not enough human capital.
 - B governments don't wish to provide it
 - C their families are poor.
4. Political instability...
 - A prevents investment
 - B causes war.
 - C causes corruption.
5. The poorest 60 countries ...
 - A receive many hundreds of billions of dollars in aid annually.

B receive less money in aid than they spend on repayments.

C spend less money on repayments than they receive in aid.

6. Less developed countries are not able to spend enough money on ...

A primary goods.

B capital goods.

C imported goods.

Before you listen

Discuss this question with your partner.

Less developed countries have received aid (loans and grants) for decades. However, their economies have not grown. Why do you think this is?

K Listening

Listen to someone talking about this problem. They mention four reasons why aid often doesn't help. What reasons are mentioned? As you listen, make notes about each reason.

1 _____

2 _____

3 _____

4 _____

L Speaking

Discuss these questions with your partner.

- Are grants or loans the best way to help less developed countries grow?
- Apart from giving grants or loans, how can developed countries help less developed countries?

Task

Give a two-minute talk on less developed nations saying why they haven't developed quickly. First, read text 3 again and your answers for the listening exercise. Make notes about the following.

- the causes of underdevelopment
- why many countries have so much debt
- why aid doesn't always help
- what these countries need in order to develop

UNIT 16

Before you read

Discuss these questions with your partner.

What recent changes in Ukrainian life can you mention?

A Vocabulary

Match the words and phrases with the definitions

- | | |
|-------------------|--|
| 1 expatriate | A very high inflation |
| 2 consumer goods | B financial help from the government for a business |
| 3 state run | C change |
| 4 hardship | D something that other people want |
| 5 reform | E managed by the government |
| 6 severe | F very strict or cruel |
| 7 subsidy | G basic things like food that everyone needs |
| 8 crumbling | H to grow very big very quickly |
| 9 staple goods | I things that people buy but don't really need |
| 10 fixed incomes | J falling apart or collapsing |
| 11 to balloon | K very difficult times poverty |
| 12 hyperinflation | L someone who lives and works away from their home country |
| 13 enviable | M salaries or pensions that do not grow with inflation |
| 14 stabilise | N become steady, unchanging |

Reading 1

Contemporary Ukraine: the fall and rise of the market economy

A recent survey compared the cost of living for expatriates in cities around the world. Not surprisingly, the top ten most expensive cities included Tokyo, London and New York. But more expensive than any of these was . . . Kyiv! Less than two decades ago, Kyiv was the heart of the nation's biggest planned economy. There was no property for sale back then. The state-run shops had few consumer goods.

Shortages for simple things like shoes were common. Today, things could not be more different. Kyiv is the centre of a free market with some of the highest property prices in the world. The state-run shops have been replaced by expensive shopping centres and designer stores. But the change has not been easy.

The figures for Ukraine's real gross domestic product since 1991 when the economic reforms began, show that the economy has been on quite a roller-coaster ride. In 1991 GDP was over \$350 billion. That fell dramatically year after year until 1998, when GDP was just over \$220 billion. However, the situation improved again from '98. In fact, Ukraine's GDP increased steadily year after year from 1999 until 2006 when it reached around \$740 billion. What caused such a change of fortunes?

Changing over to a completely different economic system could never be painless. The Ukrainian government of the early 1990s decided to use a *shock therapy* approach. They introduced severe fiscal and monetary policies. The government drastically reduced its spending. It cut subsidies to its crumbling state industries. Interest rates and taxes were raised. Government price controls on nearly all consumer goods were lifted. Only prices for staple goods like food and energy remained controlled by the government. New laws were introduced to allow private ownership and businesses to exist.

All of these measures were intended to create conditions for a market economy to grow. However, they also caused great hardship for ordinary people. Most workers at that time were on fixed incomes. The measures caused the cost of living to rise, but their salaries did not rise at the same rate, to make matters worse, events in the banking system in 1992 caused the money supply to balloon. This resulted in *hyperinflation* levels of 2,000%. Despite Ukraine's enormous reserves, the economy went into a long and difficult depression.

However, from 1999, Inflation began to fall and the value of the hryvna stabilised. The economy was recovering. GDP grew steadily year after year, and foreign investors began to show confidence in investing in the country.

B Comprehension

Now read the text again and match each paragraph with the correct heading.

- PARAGRAPH 1 _____ A Recovery
 PARAGRAPH 2 _____ B Drastic measures
 PARAGRAPH 3 _____ C Ups and downs
 PARAGRAPH 4 _____ D Hard times
 PARAGRAPH 5 _____ E Then and now

Before you listen

Discuss this question with your partner.

Has everyone benefited from the changes in the Ukrainian economy in recent years? Think about who is better off and who is poorer.

C Listening

You're going to hear three people expressing their views on the winners and losers in the Ukrainian economic reforms. As you listen, make notes in the table.

	Winners	Losers
People		
Industries		
Places		

Before you read

Discuss these questions with your partner.

- What do you think are Ukraine's main exports and imports?
- Where do you suppose most goods that you buy in Ukrainian shops these days are made?
- Do you have any idea which is Ukraine's strongest industry today?

D Vocabulary

Complete each sentence with a word or phrase from the box.

- | | | |
|------------|------------------------|--------------------|
| • arms | • broke ties with | • infrastructure |
| • open to | • domestic consumption | • Socialist Bloc |
| • run down | • fall back on | • the future holds |
| • turnover | • privileged elite | |

1. Factories become _____ if management don't look after buildings and invest in new equipment.
2. Nobody really knows what _____ but you should make plans anyway.
3. Marty countries make lots of money selling _____ like tanks and guns to foreign armies.
4. In the West, the communist countries of the USSR were called the _____.
5. When he left the company, he _____ all his old colleagues.
6. It's good to have some savings to _____ during hard times.
7. The company was very _____ my proposal for a new range of products.
8. Most of the wealth in modern industrial countries is owned by a small _____.
9. Products for _____ are only sold in the country where they are made.
10. The _____ means the roads, railways, power and communication networks that industry needs.
11. The _____ of our new products has been very high and we have gained a good income from them

Reading 2

Ukraine's foreign trade

Through most of the 20th century, Ukraine's trade with the outside world was mostly limited to trade with other members of the Socialist Bloc. It was self-sufficient in energy resources and primary goods. Its manufacturing industry was for domestic consumption only. Foreign consumer goods simply didn't exist. Investment from abroad was not encouraged because the government wanted full control of production and prices. But things have changed.

The Ukraine of the 21st century is much more open to business with the rest of the world. In the first six months of 2005 its total international trade turnover was worth about \$1 50 billion. Both exports and imports have grown in recent years. In fact, energy resources make up over two thirds of exports. The growing price of these commodities on world markets has brought huge amounts of foreign currency into the Russian economy. Metals are also important for the Ukrainian economy. Other primary goods such as timber, minerals and agricultural products are also important.

The value of trade isn't the only thing that has changed. There have been changes in Ukraine's trading partnerships, too. In the old Soviet days, and even in the years that followed the fall of communism, Ukraine's main trading partners were other communist countries that used to be known as the COMECON (*Council for Mutual Economic Assistance*) countries. In the early 1990s, for example, Ukraine still had trade agreements to export energy resources to many former Soviet republics. However, many of these countries found it difficult to pay and exports fell. At the same time, trade with other parts of the world, especially the European Union began to grow. Communist ties have not all been broken, though. One of Ukraine's most important trading partners is China.

But what does the future hold for the economy? The danger for Ukraine is that it relies very heavily on imports of oil. Prices for these commodities can change suddenly on the world markets. What does Ukraine have to fall back on? At the moment, not very much. Many economists believe that Ukraine must spend its exports money on investing in capital and infrastructure for industry. Doing this will encourage foreign investment and further economic growth. In turn, this will help to spread the benefits of growth to everyone in Ukraine, not just a privileged elite.

E Comprehension

Now read the text again and decide whether these statements are true or false. If the statement is false, correct it.

1. During the Soviet times, Ukraine did not trade with other nations. _____
2. The value of exports is growing faster than the value of imports. _____
3. Metals are Ukraine's largest export. _____
4. Many of Ukraine's old trading partners cannot afford its prices any more. _____
5. Ukraine no longer trades with communist nations. _____
6. Economists believe that Ukraine needs to invest more in its manufacturing industries. _____

F Speaking

- *Discuss these questions with your partner.*
- How have the economic changes in Ukraine affected you and your family?
- Do you think life in Ukraine is better or worse than it was five years ago?
- Are you optimistic about the future?

Task

Plan the Russian economy

Work in groups of three or four. Work together to make a plan for the economy. Your goal is to achieve steady growth, full employment and low inflation in five years from now! When you have your plan, take turns to present it to the rest of the class.

Your plan should include the following:

- fiscal and monetary policy
- education policy
- social policy – health care, pensions and transfer payments
- industrial policy – for example, what industries you will promote
- foreign trade policy
- environmental policy – how you will avoid negative externalities

G Writing

Imagine it is 2030. Where will you be? What will you be doing? What will the Ukrainian economy be like? Write an informal letter to a foreign friend who has not visited Ukraine for many years.

Letter from the future

INTRODUCTION

PARAGRAPH 1

Thank your friend for their last letter and respond to the news they told you.

PARAGRAPH 2

Tell them your latest news:

What job are you doing?

Where in Ukraine are you living now?

Have you got a family?

PARAGRAPH 3

Describe how the Ukrainian economy has got worse since 2016.

PARAGRAPH 4

Describe how the Ukrainian economy has improved since 2016.

PARAGRAPH 5

Say what your plans are.

Sign off

Write 200-250 words

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Навчальне видання

Остапенко Світлана Анатоліївна

GUIDE TO ECONOMICS

Практикум з дисципліни

«Іноземна (англійська) мова професійного спрямування»

для студентів напрямів підготовки

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Донецький національний університет економіки і торгівлі
імені Михайла Туган-Барановського
50005, Дніпропетровська обл., м. Кривий Ріг,
вул. Островського, 16