

МЕЖРЕГИОНАЛЬНАЯ  
АКАДЕМИЯ УПРАВЛЕНИЯ ПЕРСОНАЛОМ



МАУП

**ПРАКТИКУМ  
ПО ДЕЛОВОМУ  
АНГЛИЙСКОМУ ЯЗЫКУ**

*Учебно-методическая разработка*

Киев 2003

ББК 81.2АНГ-923  
П69

Рецензенты: Б. Н. Ажнюк, доктор филологических наук, ведущий научный сотрудник института языкознания НАНУ им. О. О. Потебни.

Б. А. Нечипоренко, кандидат филологических наук.

*Одобрено Ученым советом Межрегиональной Академии управления персоналом (протокол № 2 от 23.02.2000)*

**Практикум по деловому английскому языку:** Учебн.-метод. разработка/ Сост. Е. В. Гринько, И. С. Бахов, Т. И. Вошинина, И. В. Редзюк, Г. Н. Кондрашова, Н. О. Старкова, И. Н. Туленкова, Л. А. Люлька.

Под общей редакцией И. С. Бахова., Е. В. Гринько.

Второе издание “Практикума по деловому английскому языку” представляет собой исправленное, переработанное и дополненное издание. Дополнения подготовлены Е. В. Гринько, И. С. Баховым, И. В. Редзюк, Т. И. Вошиной, Л. А. Люлькой.

Практикум состоит из 9 разделов с лексическими комментариями к текстам, заданиями на закрепление прочитанного материала. Материал разработки состоит их текстов различной степени сложности и рассчитан на дифференцированный подход в обучении деловому английскому языку. Для студентов вузов и широкого круга лиц, желающих изучать и совершенствовать знания по деловому английскому языку.

**ББК 81.2АНГ-923**

ISBN 966-608-015-X

© Е. В. Гринько, 2003  
© Я. С. Уласик (дизайн обложки), 2003  
© Межрегиональная Академия  
управления персоналом (МАУП), 2003

## Введение

Практикум представляет собой второе исправленное, переработанное и дополненное, издание учебно-методической разработки “Практикум по деловому английскому языку”, созданного коллективом кафедры романских и германских языков МАУП.

Практикум предназначен для студентов, обучающихся экономическим специальностям, владеющим английским языком в объеме средней школы и продолжающих изучение языка на неязыковых факультетах экономики в университетах, институтах бизнеса, экономических колледжах в качестве дополнительного пособия к программному материалу.

Второе издание практикума ставит своей целью развитие и совершенствование навыков поискового и просмотрового чтения для извлечения необходимой информации по актуальным проблемам профессиональной деятельности. С этой целью подобраны тексты широкого профиля из оригинальных источников (газеты, журналы, пособия, справочники и учебники), сгруппированные по следующим разделам:

1. “Правоведение: коммерческое и трудовое право” (сост. И. Н. Туленкова)
2. “Бухгалтерский учет и аудит” (сост. И. В. Редзюк)
3. “Кадровый менеджмент” (сост. Е. В. Гринько, Г. Н. Кондрашова)
4. “Маркетинг. Экономика и управление сбытом” (сост. Е. В. Гринько, Н. О. Старкова Бахов И. С.)
5. “Банковское дело” (сост. И. С. Бахов)
6. “Финансы. Финансовый менеджмент” (сост. Т. И. Вощинина)
7. “Психология.” (сост. Е. В. Гринько)
8. “Социология” (сост. Л. А. Люлька)
9. “Связи с общественностью” (сост. Е. В. Гринько)

Ряд составителей внесли некоторые поправки, изменения и дополнения в свои главы, приняв во внимание замечания и рекомендации к первому изданию. Дополнились текстовым материалом, лексическими и грамматическими заданиями разделы “Banking” (Бахов И. С.), “Bookkeeping and auditing accounting” (Редзюк И. В.), “Finance. Finance management” (Вощинина Т. И), “Marketing, Economics and distribution management.” (дополн. Бахов И. С., Ред-

зюк И.В.), новые разделы “Sociology”(Люлька Л. А.), “Public Relations” (Гринько Е.В.).

Тексты сопровождаются лексическими комментариями и заданиями, направленными на развитие коммуникативных умений и навыков, их можно использовать в разном порядке в зависимости от поставленной цели.

Общая редакция второго издания выполнена Е.В.Гринько, Баховым И.С.

Составители будут признательны за высказанные замечания, рекомендации и пожелания по данному практикуму.

## LEGAL SCIENCE: COMMERCIAL AND INDUSTRIAL LAW

### ПРАВОВЕДЕНИЕ: КОММЕРЧЕСКОЕ И ТРУДОВОЕ ПРАВО

- 1.1. Types of Federal Courts (*Типы федеральных судов*)
- 1.2. Special Courts (*Суды специальной юрисдикции*)
- 1.3. Constitutional Courts (*Конституционные суды*)
- 1.4. District Courts (*Окружные суды*)
- 1.5. Judicial Review (*Право на пересмотр судебного дела*)
- 1.6. The American Legal System I (*Юридическая система Америки*)
- 1.7. The American Legal System II (*Юридическая система Америки*)
- 1.8. Department of Justice (*Министерство юстиции*)
- 1.9. Department of Labor (*Министерство труда*)
- 1.10. Department of Commerce (*Министерство торговли*)
- 1.11. Rights that Employees Demand (*Права, которые требуют служащие*)
- 1.12. False and Deceptive Advertising (*Обманчивая и фальшивая реклама*)
- 1.13. Three ways to protect your ideas: Copyrights, Trademark, and Patent (*Три способа защититься: авторское право, товарный знак, патент*)
- 1.14. The Governmental Environment of Business (*Государство как среда для бизнеса*)
- 1.15. Contracts (*Контракты*)
- 1.16. Breach of Contract (*Нарушение контракта*)
- 1.17. Property transactions (*Операции с собственностью*)
- 1.18. Bankruptcy (*Банкротство*)
- 1.19. Current Federal Taxes (*Современные федеральные налоги*)
- 1.20. Bananas Can be Dangerous: A Study of a Court Suit (*Бананы могут быть опасны. Исследование одного из судебных процессов*)

## 1.1. Types of Federal Courts

Beneath the Supreme Court, Congress has created two distinct types of federal courts: 1) constitutional courts and 2) special courts.

The **constitutional courts** are the federal courts that Congress has formed under Article III, to exercise “the judicial power of the United States”. They are sometimes called the “regular courts”. Together with the Supreme Court, they now include: the Courts of Appeals, the District Courts, and the Court of International Trade.

The **special courts** do not exercise the broad “judicial power of the United States”. Rather, they have been created by Congress to hear cases arising out of certain of the expressed powers given to Congress in Article I. They hear a much narrower range of cases than those which may come before the constitutional courts.

The special courts are sometimes called the “legislative courts”. Today, they include the Court of Military Appeals, the Claims Court, the Tax Court, the various territorial courts, and the courts of the District of Columbia.

### The Supreme Court

The Supreme Court of the United States is the only court specifically created in the Constitution. It is made up of the Chief Justice of the United States, whose office is also established by the Constitution, and eight Associate Justices.

**Jurisdiction.** The Supreme Court has both original and appellate jurisdiction. Most of all, however, it is an appellate tribunal. Most of the cases it hears come to it on appeal from the lower federal courts and from the State supreme courts.

Article III, Section 2 spells out two classes of cases which may be heard by the High Court in its original jurisdiction: 1) those to which a State is a party, and 2) those affecting ambassadors, other public ministers, and consuls.

Congress cannot enlarge upon this constitutional grant of original jurisdiction.

If Congress could do so, it would in effect be amending the Constitution. But Congress can implement the constitutional provision, and it has. It has provided that the Court shall have original and exclusive jurisdiction over: 1) all controversies between two or more States; and

2) all cases against ambassadors or other public ministers (but not consuls). But the Court may take original jurisdiction over any other case covered by the broad wording in Article III, Section 2.

## Vocabulary

**regular court** — суд общей юрисдикции

**Court of Appeals** — апелляционный суд

**District Court** — окружной суд

**Court of International Trade** — суд по вопросам международной торговли

**Court of Military Appeals** — военно-апелляционный суд

**Claims Court** — претензионный суд

**Legislative Court** — суд, образованный законом Конгресса

**Tax Court** — налоговый суд

**High Court** — Высокий суд, который входит в состав Верховного суда

**Supreme Court** — Верховный суд

**Chief Justice** — Председатель Верховного суда

**Associate Justice** — член Верховного суда

**original jurisdiction** — юрисдикция суда первой инстанции

**appellate jurisdiction** — апелляционная юрисдикция

**appellate tribunal** — апелляционный суд

## 1.2. Special Courts

The special courts are often called the legislative courts. They are the federal courts Congress has set up to exercise jurisdiction only in certain cases — cases dealing with particular subjects that fall within the expressed powers of Congress. That is, these courts have not been set up under Article III, and they do not exercise “the judicial power of the United States”.

### The United States Claims Court

The United States cannot be sued, by anyone, in any court, for any reason, without its consent. It may be taken to court only in those cases in which Congress has declared that the Government is open to suit.

Originally, any person with a claim against the United States could secure redress (satisfaction of the claim, payment) only by an act of

Congress. In 1855, however, Congress set up a special court, the Court of Claims, to hear these pleas. It did so acting under its expressed power to pay the debts of the United States. Congress restructured the Court of Claims — as the United States Claims Court — in 1982.

The Court now has 16 judges. They hold trials — hear claims for damages against the Government — throughout the country. Those claims they uphold cannot in fact be paid until Congress appropriates the money (which it does almost as a matter of course).

Appeals from the Court's decisions may be carried to the Court of Appeals for the Federal Circuit.

### **The Territorial Courts**

Acting under its power to “make all needful rules and regulations respecting the territory ... belonging to the United States”, Congress has created courts for the nation's territories. Today these territorial courts sit in the Virgin Islands, Guam, and the Northern Mariana Islands (in the Pacific Trust Territory). They work in much the same way as the local courts in the 50 States. (There is a regular federal District Court in Puerto Rico.)

### **The Courts of the District of Columbia**

Acting under its power “to exercise exclusive legislation in all cases whatsoever, over such District ... as may ... become the seat of the Government of the United States”, Congress has set up a judicial system for the nation's capital. Both the federal District Court and the Court of Appeals for the District of Columbia hear many local cases as well as those they try as constitutional courts. Congress has also established two local courts, much like the courts in the States: a Superior Court, which is the general trial court, and a Court of Appeals.

### **The Court of Military Appeals**

Acting under its power “to make rules for the government and regulation of the land and naval forces”, Congress created the Court of Military Appeals in 1950. It has a chief judge and two associate judges, appointed by the President and Senate for 15-year terms.

The Court is sometimes called the “GI Supreme Court”. It is the court of last resort in dealing with offenses against military law.



## The United States Tax Court

Acting under its power to tax, Congress established the Tax Court in 1969. It has 19 judges, one of whom serves as chief judge. Each of these judges is named by the President and Senate for a 12-year term.

The Tax Court hears civil — not criminal — cases involving disputes over the application of the tax laws. Most of its cases, then, are generated by the Internal Revenue Service and other Treasury agencies.

## Vocabulary

**special court** — суд специальной юрисдикции

**to be sued** — быть привлеченным к ответственности в судебном порядке

**to take to court** — отдавать под суд

**law suit** — судебный процесс; дело

**plea** — иск

**to hold a trial** — проводить судебный процесс

**to uphold** — удовлетворять (*жа-лобу*)

**general trial court** — суд первой инстанции

**Federal Circuit** — федеральный окружной суд

**chief judge** — главный судья

**associate judge** — судебный заседатель

## 1.3. Constitutional Courts

### Jurisdiction

The term **jurisdiction** may be defined as the authority of a court to hear (to try and to decide) a case.

Under Article III the federal courts have jurisdiction over a case either because of 1) the subject matter or 2) the parties involved in the case.

**Subject matter.** In terms of subject matter, the federal courts may hear a case if it deals with:

- 1) the interpretation and application of a provision in the Constitution or in any federal statute or treaty; or
- 2) a question of admiralty or maritime law.

Any case which falls into either of these categories can be brought in the proper federal court.

**Parties.** A case comes within the jurisdiction of the federal courts if any of the parties (one of the litigants) in the case is:

- 1) the United States or one of its officers or agencies;
- 2) an ambassador, consul, or other official representative of a foreign government;
- 3) a State suing another State, or a citizen of another State, or a foreign government or one of its subjects;
- 4) a citizen of one State suing a citizen of another State;
- 5) an American citizen suing a foreign government or one of its subjects;
- 6) a citizen of one State suing a citizen of that same State where both claim land under grants from different States.

Any case in the above categories can be brought in the proper federal court.

All of those cases which are not heard by the federal courts are within the jurisdiction of the States' courts.

The State courts hear by far the larger number of court cases in this country.

Still more must be said on the federal courts' power "to say the law".

**Exclusive and Concurrent Jurisdiction.** In several of the categories of cases which we have just listed, the federal courts have **exclusive jurisdiction**. That is, those cases can be heard only in the federal courts. For example, a trial for a federal crime cannot be heard in a State court, it must be held in a federal District Court.

Many cases may be tried in either a federal or a State court, however. That is, the federal and State courts have **concurrent jurisdiction** over them. Cases involving citizens of different States are fairly common examples of the type. They are known in the law as cases in diverse citizenship.

Congress has provided that the federal District Courts may hear cases in diverse citizenship only if the amount of money in each case is over \$10,000. In these cases the plaintiff may bring the suit in the proper State or federal court, as he or she chooses. If the case is brought before the State court, the defendant may have it moved to the federal District Court.

**Original and Appellate Jurisdiction.** A court in which a case is heard first-hand is said to have **original jurisdiction** over it. A court which hears a case on appeal from a lower court has **appellate jurisdiction**.

In the federal court system, the District Courts have only original jurisdiction and the Courts of Appeals have only appellate jurisdiction. The Supreme Court has both.

### **The Other Constitutional Courts**

There are two other constitutional courts today.

***The Court of International Trade.*** The Trade Court was originally created as the Board of United States General Appraisers in 1890. That body became the Court of Customs in 1926, and it was renamed by Congress in 1980.

The Trade Court now has nine judges, one of whom is its chief judge. It hears civil cases arising out of the tariff and other trade-related laws. Its judges sit in panels of three and often hold trials at such major ports of entry as New Orleans, San Francisco, Boston, and New York.

Appeals from decisions of the Trade Court are taken to the Court of Appeals for the Federal Circuit.

***The Court of Appeals for the Federal Circuit.*** Congress created the Court of Appeals for the Federal Circuit in 1982. It established the new tribunal especially to centralize — and so speed up — the handling of appeals in certain kinds of civil cases. To that end, this Court, unlike the 12 other federal Courts of Appeals, has a nationwide jurisdiction.

It hears appeals from several places. Many of its cases come from the Trade Court and others from the Claims Court (one of the special courts). It also hears appeals in certain cases decided by any of the 91 District Courts around the country — those involving patents, trademarks, or copyrights. Then, too, it takes cases that arise out of the administrative rulings made by the International Trade Commission, the Patent and Trademark Office (in the Department of Commerce), and the Merit Systems Protection Board.

The Court of Appeals for the Federal Circuit has 12 judges — and appeals from their decisions may be carried to the Supreme Court.

## Vocabulary

**to try a case** — рассматривать (расследовать) судебное дело  
**to decide a case** — выносить решение по делу

**subject matter** — предмет судебного разбирательства  
**to bring a suit in a court** — открыть судебное дело; вынести иск на судебное разбирательство

**litigant** — сторона в судебном разбирательстве

**to claim smth** — претендовать на что-то (*заявлять право на что-либо*)

**exclusive jurisdiction** — исключительная юрисдикция

**concurrent jurisdiction** — одновременная юрисдикция (*действующая совместно*)

**plaintiff** — истец, истица

**defendant** — ответчик, подсудимый, обвиняемый

**diverse citizenship** — разное гражданство сторон в деле

**appraiser** — таксатор (*оценщик*)

**panel** — состав присяжных (*судей*)

**appeal** — апелляция

## 1.4. District Courts

The United States District Courts are the federal trial courts. They now handle over 200,000 cases a year — some 90 percent of all of the federal case load.

The District Courts were set up by Congress in the Judiciary Act of 1789. There are now 91 of them. The 50 States are divided into 89 judicial districts, with one court in each district. There is also a District Court in the District of Columbia and another in Puerto Rico.

Each State forms at least one federal judicial district. The larger, more populous States are divided into two or more districts — because of the greater amount of judicial business arising in them, of course.

At least one judge is assigned to each district, but many have several. Thus, New York is divided into four judicial districts; and one, the United States Judicial District for Southern New York, now has 27 judges. All told, 507 judges now preside over the 91 federal District Courts.

Cases tried the District Courts are most often heard by a single judge; but certain cases may be heard by a three-judge panel.

***Jurisdiction.*** The District Courts have original jurisdiction over most of the cases heard in the federal courts. Clearly, then, they handle many different kinds of cases. They hear criminal cases ranging from bank robbery, kidnapping, and mail fraud to counterfeiting, tax evasion, and treason. They try civil cases arising under the bankruptcy, postal, tax, labor relations, public lands, civil rights, and other laws of the United States. The District Courts are the only federal courts that regularly use grand juries (to indict) and petit juries (to try) defendants.

Cases decided in the District Courts do not often go further in the judicial process. But they may be appealed to the Court of Appeals in that judicial circuit. In a few instances, they may be taken directly to the Supreme Court.

## **The Courts of Appeals**

The Courts of Appeals were formed in 1891. They were intended to relieve the Supreme Court of much of the burden of hearing appeals from the District Courts. There were so many appeals that the High Court was then three years behind its docket.

There now 12 Courts of Appeals. The United States is divided into 11 judicial circuits. There is a Court of Appeals for each of those circuits and also one in the District of Columbia.

Altogether, 132 circuit judges sit on these appellate courts. In addition, a Justice of the Supreme Court is assigned to each of them. Take the United States Court of Appeals for the Seventh Circuit, for example. The Seventh Circuit covers three States: Illinois, Indiana, and Wisconsin. The court has nine circuit judges, and Supreme Court John Paul Stevens is also assigned to the circuit. The court sits in Chicago. As another: the Fifth Circuit encompasses three States: Louisiana, Mississippi, and Texas. Its Court of Appeals has 13 judges, plus Associate Justice Byron R. White. It holds its sessions in a number of different cities within the circuit.

Each of the Courts of Appeals usually sits in panels of three judges. Once in a while, to hear an important case, a court will sit *en banc* — that is, with all of the circuit judges participating.

***Jurisdiction.*** The Courts of Appeals have only appellate jurisdiction. Most often, their cases come from the District Courts within their circuits. They hear cases appealed from the United States Tax Court and from the territorial courts, as well. They also hear appeals from the decisions of several federal regulatory agencies — from such quasi-judicial agencies as the Interstate Commerce Commission, the Civil Aeronautics Board, and the Federal Trade Commission.

The Courts of Appeals now handle about 25,000 cases a year. Their decisions are final — except in those (very few) cases the Supreme Court agrees to hear on appeal.

## Vocabulary

**to handle a case** — рассматривать дело

**trial court** — суд первой инстанции

**judicial district = judicial circuit** — судебный округ

**kidnapping** — похищение людей с целью получения выкупа

**counterfeiting** — фальшивомонетничество

**tax evasion** — уклонение от уплаты налогов

**treason** — государственная измена

**petit jury** — малое жюри

**grand jury** — большое жюри

**to indict** — обвинять по обвинительному акту

**docket** — досье судопроизводства (*книга записей*)

**circuit judge** — окружной судья

**en (in) banc** — в полном составе

**quasi-judicial** — квазисудебный

**final decision** — окончательное решение

### 1.5. Judicial Review

Courts have the power of **judicial review**, the power to decide if what government does squares with what the Constitution provides.

More exactly, judicial review may be defined in these terms: It is the power of a court to determine the constitutionality of a governmental action. In part, then, it is the power to declare unconstitutional — to declare illegal, null and void, of no force and effect — a governmental action found to violate some provision in the Constitution.

The power of judicial review is held by all federal courts and by most State courts, as well.

The Constitution does not provide for judicial review in so many words. But it is clear that the Framers meant that the federal courts — and that most especially the Supreme Court — should have that power.

In practice, the Supreme Court established the power of judicial review in 1803.

Since it was decided, the High Court and other federal and State courts have used the power in thousands of cases. In most of them, the challenged governmental action has been upheld.

But that is not always the result, of course. To date, the Supreme Court has decided more than 130 cases in which it has found an act or some part of an act of Congress to be unconstitutional. And it has

struck down several presidential and other executive branch actions, as well. It has also voided hundreds of actions of the States and their local governments, including more than 900 State laws.

## Vocabulary

**judicial review** — пересмотр судебного дела

**null and void** — утративший юридическую силу

**provision** — условие, положение (закона, договора)

**the Framers** — творцы конституции США

## Vocabulary Practice

### 1. Match a line in A with a line in B:

a)

A	B
to take to	case
to hold	suit
to try	court
to bring in	trial

b)

A	B
trial	matter
subject	decision
final	court
regular	district
concurrent	jurisdiction
associate	
judicial	judge

### 2. Find synonyms:

- a) suit;
- b) to decide a case;
- c) juridical circuit;
- d) to indict;
- e) plea.

### 3. Say what you have learned about:

- a) Court of Appeals;
- b) Claims Court;
- c) Tax Court;
- d) Court of International Trade;
- e) Supreme Court;
- f) Special Courts;

- g) Constitutional Courts;
- h) District Courts;
- i) Judicial Review.

## 1.6. The American Legal System I

One of the most pervasive ways that government affects business is through the legal system. The law protects both individuals and businesses against those who threaten society. It also spells out accepted ways of performing many essential business functions — along with the penalties for the failure to comply. In other words, like the average person, companies must obey the law or face the consequences. Although this fact limits a company's freedom, it also provides protection from wrongdoers.

### Sources of law

Law is not static; it develops in response to changing conditions and social standards. The U.S. Constitution and the Bill of Rights are the foundation for the laws, but they are rather general documents. Laws offering specific answers to specific problems are constantly embellishing the basic principles of our society.

Laws originate in various ways: through legislative action (statutory law), through administrative rulings (administrative law), and through customs and judicial precedents (common law). To one degree or another, all three forms of law affect businesses.

### Statutory law

**Statutory law**  
Statute, or law,  
created by a legislature

Without Congress, there would be no federal statutory law, which is law written by legislative bodies. The Constitution, in fact, specifically grants the Senate and the House of Representatives the right “to regulate [interstate] commerce”. Because of the many steps involved in passing a bill, most statutory law reflects a broad consensus of opinion. In some cases, however, laws benefiting narrow interests are sometimes pushed through Congress by senators or representatives friendly to those interests.



**\*Uniform Commercial Code**

Set of standardized laws governing business Transactions that have been adopted by many states

States also have legislative bodies that write statutory laws applicable within their boundaries. It is common for state laws to vary considerably, presenting problems for companies that do business in several states. The problem would be much worse, however, without the \*Uniform Commercial Code (UCC), which provides a nationwide standard in a number of areas of commercial law, such as the writing of sales contracts and warranties. The UCC has been adopted in its entirety in 49 states, and about half of it has been adopted in Louisiana.

## Vocabulary

**penalty** — взыскание (*штраф, наказание*)

**legislative action** — действие законодательной власти

**judicial precedent** — судебный прецедент

**to pass a bill** — принимать (*одобрять*) законопроект

**warranty** — договорная гарантия

**UCC (Uniform Commercial Code)** — единый торговый кодекс США

## 1.7. The American Legal System II

### Administrative law

Once laws have been passed by a legislature, responsibility for enforcing them typically passes to an administrative agency or commission. That administrative agency may be called on to clarify a regulation's intent, often in consultation with representatives of the affected industry. The administrative agency may then write more specific regulations, which are considered **administrative law**. For example, the Federal Trade Commission issues regulations (and enforces laws Congress has enacted) concerning such deceptive trade practices as unfair debt collection and false advertising.

Administrative agencies also have the power to investigate whether any corporations are breaking administrative laws. A particular cor-

poration found to be misbehaving may agree to a consent order, which allows the company to promise to stop doing something without actually admitting to any illegal behavior. As an alternative, the administrative agency may start legal proceedings against the company in a trial presided over by an administrative judge. During the trial, witnesses are called and testimony is taken to determine the facts of the situation. The judge then issues a decision, which may impose corrective actions on the company. If the company objects to the decision, it may file an appeal in a regular federal court. The administrative agency may also appeal if it is unhappy with the ruling of the independent administrative law judge.

## **Common Law**

**Common Law**, the sort of law that comes out of courtrooms and judges' decisions, began in England many centuries ago and was brought to America by the colonists. It is applied in all states except Louisiana, which has a French heritage and therefore follows some of the principles of the Napoleonic Code. Common law is sometimes called the "unwritten law" to distinguish it from legislative acts and administrative agency regulations, which are written documents. Instead, common law is established through custom and the precedents set in courtroom proceedings.

Despite its "unwritten" nature, common law has great continuity, which derives from the doctrine of *stare decisis* (Latin for "to stand by decisions"). What the *stare decisis* doctrine means is that judges' decisions establish a precedent for deciding future cases of a similar nature. Because common law is based on what has gone before, the legal framework develops very gradually.

In the United States, common law is applied and interpreted in the system of courts. Common law thus develops through the decisions in trial courts, special courts, and appellate courts. The Supreme court (or the highest court of a state, when state laws are involved) sets precedents for entire legal systems; lower courts must then abide by those precedents as they pertain to similar cases.

In legal proceedings, common law, administrative law, and statutory law may all be applicable. If there is a conflict, statutory law generally prevails. But the three forms of law overlap to such an extent that the difference among them is often indistinguishable. For instance, if you bought what you thought was a goose down coat and then found out that

it was actually filled with reprocessed polyester, you could sue the coat manufacturer for misrepresentation. Although the basis for this suit is an old concept in common law, it has also been incorporated in state and federal legislation against fraudulent and misleading advertising, which is further interpreted and enforced by the Federal Trade Commission.

## Vocabulary

**to pass a law** = **to pass a bill** — принимать (*одобрить*) законопроект

**administrative law** — административное право

**to break a law** — нарушать закон

**consent order** — приказ суда согласно с составленным сторонами соглашением

**witness** — свидетель

**to take a testimony** — снимать свидетельские показания

**to file an appeal** — подавать апелляцию

**common law** — общее право, закон

**“unwritten law”** — неписанный закон

**courtroom** — зал судебных заседаний

**stare decisis** — стоять на решенном (*обязывающая сила прецедентов*)

**fraudulent** — обманный, мошеннический

## Vocabulary Practice

### 1. Match a line in A with a line in B:

a)

A	B
to take	appeal
to break	bill
to pass	law
to file	testimony

b)

A	B
judicial	order
legislative	decisis
administrative	precedent
consent	law
stare	action

### 2. Say what you have learned about:

- American legal system;
- statutory law;

- c) administrative law;
- d) common law.

## 1.8. Department of Justice

Established: 1870

Head: Attorney General

**Solicitor General.** Represents the United States in the Supreme Court; decides which lower court decisions Government should ask Supreme Court to review and position Government should take in cases heard by High Court.

**Antitrust Division.** Handles court cases involving violations of anti-trust laws, other federal statutes covering illegal business practices.

**Land and Natural Resources Division.** Handles most civil (non-criminal) cases involving the public lands and other real property owned by the United States; represents the Government's interests in civil cases involving Indians and Indian affairs; handles both civil and criminal cases arising out of federal environmental protection laws.

**Tax Division.** Handles both civil and criminal cases arising out of the tax laws; most often, acts as in-court attorney for the Internal Revenue Service.

**Civil Rights Division.** Handles both civil and criminal cases involving acts of discrimination prohibited by the various federal civil rights laws.

**Civil Division.** Handles most of the civil cases to which the United States is a party (all of those civil cases not handled by one of the other Divisions).

**Criminal Division.** Handles most court cases involving federal crimes (all criminal cases not handled by one of the other Divisions).

**Federal Bureau of Investigation.** Investigates most cases involving violations of federal criminal laws; pursues, arrests most persons suspected of or charged with federal crimes.

**Drug Enforcement Administration.** Administers, enforces federal laws relating to controlled substances (principally narcotics and dangerous drugs).

**Attorney General** — министр юстиции США

**Solicitor General** — заместитель министра юстиции США

**lower court** — подведомственный суд

**High Court** — Высокий суд

**Supreme Court** — Верховный суд

**Antitrust Division** — антитрастовый отдел Министерства юстиции

**antitrust laws** — антитрастовое законодательство

**real property** — недвижимость (*недвижимая собственность*)

**in-court** — судебный

**Internal Revenue Service** — Служба внутренних прибылей в США

**to be charged with a crime** — быть обвиненным в преступлении

## 1.9. Department of Labor

Established: 1913

Head: Secretary of Labor

### Employment and Training Administration

An umbrella agency. Through the United States Employment Service, aids the States to operate a system of local employment offices; through the Unemployment Insurance Service, supervises the States' administration of their unemployment compensation programs (largely financed by a federal tax on employers); through the Office of Employment and Training Programs, makes grants for and administers several job-training, work experience, and public service employment programs; through the Bureau of Apprenticeship and Training, works to improve the standards of apprenticeship and training for various skilled jobs.

**Employment Standards Administration.** An umbrella agency. Through the Wage and Hour Division, enforces federal minimum wage and maximum hours laws; through the Office of Federal Contract Compliance Programs, enforces laws prohibiting discrimination in employment on all federal or federally-supported construction projects; through the Office of Workers' Compensation Programs, administers laws providing injury and accident benefits for federal employees.

**Labor-Management Services Administration.** Administers laws guaranteeing the reemployment rights of veterans; enforces federal laws regulating the operations of private pension and welfare plans; acts as an advisory agency to help in the collective bargaining process.

**Occupational Safety and Health Administration.** Enforces federal laws setting minimum safety and health standards in most work situations.

**Mine Safety and Health Administration.** Enforces federal laws setting minimum safety and health standards for mining operations.

**Bureau of Labor Statistics.** Collects, analyzes, and publishes data on employment, unemployment, hours of work, wages, and prices.

## Vocabulary

**umbrella agency** — агентство, в котором еще несколько подведомственных агентств  
**compliance** — соответствие, согласие

**to administer laws** — отправлять правосудие  
**accident benefits** — пособия при несчастном случае

## 1.10. Department of Commerce

Established: 1903

Head: Secretary of Commerce

**Bureau of the Census.** Takes a census of the nation's population every 10 years (as required by the Constitution, particularly for the apportionment of seats in the House of Representatives); collects, analyzes, and publishes a wide variety of other statistical data about the people and the economy of the nation.

**National Bureau of Standards.** Develops and maintains the uniform standards of all weights and measures which, by law, may be used in the United States; performs a wide range of advanced scientific and other experimental and testing functions; furnishes scientific and technological services to both government and private industry.

**Patent and Trademark Office.** Issues more than 60,000 patents each year (patents of invention, good for 17 years; patents of design, good for 14 years; and plant patents, good for 17 years); registers some 30,000 trademarks each year (good for 20 years, and renewable).

**National Oceanic and Atmospheric Administration.** Operates the National Weather Service, which forecasts and reports weather conditions throughout the country; makes satellite observations of weather and other features of the Earth's environment; conducts oceanic, atmospheric, seismological, and other environmental research; publishes its findings in nautical and aeronautical maps, charts, and other reports; administers the Sea Grant program (which provides grants for marine research and education).

**Maritime Administration.** Administers several programs to promote the development and operation of the nation's merchant marine; subsidizes shipbuilding and certain ship operating costs (especially to counter foreign competition); conducts research and development programs to improve the merchant marine; trains officers for the merchant marine (at the U.S. Merchant Marine Academy, at Kings Point, N.Y.).

**Minority Business Development Agency.** Promotes and coordinates federal and other public and private efforts to help organize and strengthen business owned and operated by members of minority groups; furnishes management and technical assistance to minority firms.

**Bureau of Economic Analysis.** Collects, analyzes, and publishes data to provide a reliable and detailed picture of the structure, condition, and prospects of the nation's economy; makes continuing reports on the gross national product (the GNP, the total national output of goods and services, measured in dollar terms).

**International Trade Administration.** Promotes American interests in foreign trade; maintains a network of Foreign Commercial Service offices to report on business conditions and trade and investment opportunities abroad; conducts trade fairs and operates trade centers in other countries.

## Vocabulary

**to take the census** — проводить  
перепись населения  
**to furnish** — *зд.* предоставлять

**GNP — Gross National Product** —  
валовой национальный про-  
дукт

# Vocabulary Practice

## 1. Match a line in A with a line in B:

A	B
umbrella	court
antitrust	general
lower	agency
accident	benefits
real	division
attorney	property

## 2. Put the necessary word in the sentence: *employment, countries, criminal, Solicitor General, violations, pension:*

- Antitrust division handles court cases involving ... of antitrust laws.
- ... represents the United States in the Supreme Court.
- Bureau of Labor Statistics collects, analyzes, and publishes data on ... , unemployment, hours of work, wages, and prices.
- Tax Division handles both civil and ... cases arising out of the tax laws.
- Labor-Management Services Administration enforces federal laws regulating the operations on private ... and welfare plans.
- International Trade Administration conducts trade fairs and operates trade centers in other ... .

## 3. Say what you have learned about 3 executive departments of the Federal Government, their functions and divisions inside them.

### 1.11. Rights that Employees Demand

There are many rights that workers feel entitled to today. Following are the major ones:

- the right to a job;
- the right to protection from arbitrary or sudden termination;
- the right to privacy of possessions and person in the workplace, including freedom from arbitrary searches, use of polygraphs, surreptitious surveillance, and intrusive psychological or medical testing;



- the right to equal opportunity and nondiscriminatory treatment in personnel decisions;
- the right to a clean, healthy, and safe environment on the job, including freedom from undue stress, sexual harassment, cigarette smoke, and exposure to toxic substances;
- the right to be informed of records and information kept and to access to personnel files;
- the right to freedom of action, association, and lifestyle when off duty;
- the right to freedom of conscience and to inform government or media about illegal or socially harmful corporate actions;
- the right to self-actualization through career advancement;
- the right to collective bargaining and to strike;
- the right to due process for grievances against the employer;
- the right to free expression of sexual preference and choice of a romantic partner;
- the right to participate in major decisions affecting one's job;
- the right to freedom of political belief and expression, including the right to publish opinions related to occupation;
- the right to adequate leisure time for personal and family activities;
- the right to reject interdepartment and intercity transfers;
- the right to choose clothing and hair style;
- the right to fair pay and fringe benefits such as medical and insurance;
- the right to an adequate pension.

## Vocabulary

**surreptitious surveillance** — тайное наблюдение  
**harassment** — приставание

**fringe benefits** — дополнительные льготы

### 1.12. False and Deceptive Advertising

There is a little doubt that advertising is an effective marketing tool, but many people question its value to society. They suggest that advertising raises costs, wastes resources, perpetuates stereotypes, manipulates the consumer on a subconscious level, and distorts the truth.

Public concern about potential misuses of advertising is responsible in part for the growth of government regulation. Today, several federal agencies and state governments strive to guarantee “truth in advertising”. Advertisers themselves, their agencies, the media, and many trade and professional associations also set guidelines to protect the public from unscrupulous pitches.

### **The Federal Trade Commission**

The federal government’s advertising watchdog is the Federal Trade Commission (FTC). This agency was created in 1914, when Congress passed the Federal Trade Commission Act. The commission’s role was expanded in 1938 by the Wheeler-Lea Act, which gives the FTC specific authority to control false or misleading advertising by most food, drug, health, and cosmetic companies.

The FTC has developed a couple of ground rules for advertisers. One is that all statements of fact must be supported by evidence. This includes words (“Bounty soaks up more than the next leading brand”) and demonstrations. Thus, advertisers cannot use whipped cream in a shaving cream commercial to create an impression of a firm, heavy lather. Furthermore, advertisers must not create an overall impression that is incorrect. In other words, they cannot claim that doctors recommend a product if they do not; nor can they present an actor who delivers the message dressed in a doctor’s white jacket.

Under the Reagan administration, the FTC has taken the position that guaranteeing the truth of ads is extremely costly and that consumers would be better served if the rules were relaxed somewhat. Consumers could exercise their own good judgement, and they might pay less for products because advertising costs might decline. Although there has been no formal change in FTC regulation, lately the agency seems to have favored a loose interpretation of appropriate evidence for advertising claims.

### **Other government regulators**

The U.S. Postal Service plays an important role in advertising that travels through the mail. Much of its activity is geared toward preventing obscenity in advertising and stopping promotional fraud. In 1982 the Postal Service began taking a more aggressive stance, encouraging victims of mail fraud to bring information to the Postmaster to help end such activities.

Advertising is also regulated by forty-four states that have passed the Printer’s Ink Model Statute, drawn up in 1911 by the trade newspaper of the advertising industry. The statute provides punishment for “untrue, deceptive, or misleading” advertising. Most states also regulate advertising practices by individual industries, such as liquor stores, stock brokerages, employment agencies, and small loan companies.

## Vocabulary

**FTC** — Федеральная торговая комиссия  
**good judgement** — здоровое суждение  
**claim** — иск

**fraud** — обман, мошенничество  
**deceptive** — обманчивый, вводящий в заблуждение  
**misleading** — вводящий в заблуждение

### 1.13. Three ways to protect your ideas: Copyrights, Trademark, and Patent

Several forms of legal protection are available for your creations. Which you should use depends on what you have created.

#### Copyrights

Copyrights protect the creators of literary, dramatic, musical, artistic, and other intellectual works. Any printed, filmed, or recorded material can be copyrighted. The copyright gives its owner the exclusive right to reproduce (“copy”), sell, or adapt the work he or she has created. Copyright law covers reproduction by photocopying, videotape, and magnetic storage.

The Copyright Office, Library of Congress, will issue a copyright to the creator or to someone the creator has granted the right to reproduce the work. (A book, for example, may be copyrighted by the author or the publisher.) Copyrights issued after 1977 are valid for the lifetime of the creator plus 50 years. Copyrights issued prior to 1977 are good for 75 years.

Technically, copyright protection exists from the moment you create the material. When you distribute a work, place a notice on copies that

includes the term “copyright” or an abbreviation, the name of the author and the year of publication — for example, “Copyright 1986 Jane Doe”. Works can be registered with the Copyright Office for \$10.

## **Trademark**

A trademark is any word, name, symbol, or device used to distinguish the product of one manufacturer from those made by others. A service mark is the same thing for services. McDonald’s golden arches are one of the most visible of modern trademarks. Brand names can also be registered as trademarks. Examples are Polaroid, and Chevrolet.

If property registered and renewed every 20 years, a trademark generally belongs to its owner forever. Among the exceptions are popular brand names that have become generic terms, meaning that they describe a whole class of products. A brand-name trademark can become a generic term if the trademark has been allowed to expire, if it has been incorrectly used by its owner (as in the case of Borden’s ReaLemon lemon juice, which the Federal Trade Commission ruled was being used by Borden to maintain a monopoly in bottled lemon juice), or if the public comes to equate the name with the class of products (for example, yo-yos).

It is a good idea to have a patent attorney do a “clearance search” before you begin using a mark to be sure it isn’t already in use. There’s filing fee of \$175 for registration with the Patent and Trademark Office. Registration protects your mark for 20 years, and you may renew every 20 years.

## **Patent**

A patent protects the invention or discovery of a new and useful process, an article of manufacture, a machine, a chemical substance, or an improvement on any of these. Issued by the U.S. Patent Office, a patent grants the owner the right to exclude others from making, using, or selling the invention for 17 years. After that time, the patent becomes available for common use. On the other hand, patent law guarantees the originator the right to use the discovery exclusively for a relatively long period of time, thus encouraging people to devise new machines, gadgets, and processes. On the other hand, it also ensures that rights to the new item will be released eventually. Other enterprises may be able to make use of it more creatively than its originator.

filing fee — плата

## Vocabulary Practice

**1. Match a line in A with a line in B:**

A	B
to pass to charge to apply to levy	taxes law bill prices
good filing fringe	benefits fee judgement

**2. Say what you have learned about:**

- a) copyrights;
- b) trademarks;
- c) patents.

**3. Put the necessary word in the sentence: copyright, trademark, patent, service, creations.**

1. A ... grants one the sole right to manufacture, use, or sell any new and useful art, machine, manufacture etc.
2. Several forms of legal protection are available for your ... .
3. The patent laws are administered by the Patent and ... Office in the Department of Commerce.
4. A ... is the exclusive right of an author to reproduce, publish, and sell his/her creative work.
5. A ... mark is the same thing for services.

## 1.14. The Governmental Environment of Business

There is today practically no aspect of business that governments cannot and will not regulate if the occasion arises and popular or legislative support exists. In recent years, governments have responded affirmatively to a wide range of public concerns about such matters as product safety, product labeling, advertising, minority employment, honesty, pollution, and worker safety, to mention a few. Accordingly, laws have been passed to deal with these concerns. These, when added to the accumulated volume of laws in the past, have resulted in more government control of business than at any peacetime period in our history. Furthermore, the direction of many of these laws has been to involve government in detailed managerial decision making. Government controls in the automobile industry over emission and safety standards are cases in point.

To the typical businessperson, government regulation is burdensome. Antipollution controls, for example, require vast expenditures of funds by many companies. Equal opportunity regulations influence the ways in which companies employ and treat people. Other laws force managers to act in certain ways with respect to product design, work environment, prices charged, costs of capital, and so on. An often overlooked cost of regulation is the time and energy managers and staff must devote to preparing reports for government.

Business not only is subject to the regulations of the federal government but also must deal with fifty state and hundreds of local governments. In addition, the companies that do business abroad are subject to foreign government regulations.

But governments support business as well. For example, the federal government helps business by making direct cash subsidies to individual companies, it gives business the results of government-funded research, it protects businesses from unfair domestic and foreign competition, and it opens up foreign markets for business by negotiating with foreign governments.

The impact of government on business derives from laws applied by individuals in the executive branches of governments or tested in courts of law. These laws and their implementation are, in turn, based upon legal powers given to governments and the administrators of government programs. The fundamental basis for this tower of regulations is the Constitution of the United States.

In the Constitution, most of the economic powers exercised by the federal government are contained in Article 1, Section 8. This section gives Congress the power to levy and collect taxes; to pay debts and provide for common defense and general welfare; to borrow money; to regulate commerce; to establish bankruptcy laws; to coin money and regulate its value; to fix standards of weights and measures; to stop counterfeiting; to establish post offices and post roads; to promote science and useful arts by granting patents and exclusive rights over writings and discoveries; to punish piracies; to exercise exclusive legislation over the geographical seat of government, military establishments, and other lands owned by the governments; and “to make all laws which shall be necessary and proper for carrying into execution these foregoing powers, and all other powers vested by this Constitution in the government of the United States, or in any department or officer thereof”. A reasonable interpretation of such grants of authority permits the national government in today’s economy to do just about anything that is likely to pass through congressional law-making machinery.

## Vocabulary

**to pass a law** — принимать законопроект

**to charge prices** — запрашивать цены

**to apply a law** — применять закон

**to levy taxes** — облагать налогом  
**counterfeiting** — подделка денег, ценных бумаг

## 1.15. Contracts

Broadly defined, a contract is an exchange of promises enforceable by law. A great many business and personal transactions — including marriage, estate planning (wills), and credit purchases — involve contracts. For example, the conflict between Pennzoil and Texaco over the purchase of Getty Oil falls into the category of contract law.

### Conditions for contracts

The law of contracts deals largely with identifying the exchanges that can be classified as contracts. Commitment is the essence of a contract. In addition, the following factors must usually be present for a contract to be valid and enforceable:

***An offer must be made.*** One party must propose that an agreement be entered into by both parties. The offer may be oral or written; for example, a salesperson may telephone or write a prospective client, offering to sell the client materials at a certain price. Or the offer may take the form of an act; for example, the telephone company offers to provide service by the act of placing a pay phone on a street corner. In any case the offer must be firm, definite, and specific enough to make it clear that someone intends to be legally bound by the offer.

***Acceptance of the offer must be voluntary.*** Don Corleone, the godfather of film and novel, frequently made people “an offer they couldn’t refuse”. Luckily for him, he did not depend on the law to enforce the promises gained by these offers, because an ability to refuse is a prerequisite for a valid contract. The courts will not uphold a contract if either the offer or the acceptance was obtained through what is termed “duress or undue influence”. This rule is known as the principle of mutual acceptance. Both parties must enter into a contract freely.

***Both parties must give consideration.*** A contract is legally binding only when each party gives something of value to the other. This item of value, or **consideration**, may be money, goods, services or the forbearance (giving up) of a legal right. But the relative value of each party’s consideration generally does not matter to the courts. If people make what seems later to be a bad bargain, that is their affair. Consideration is legally sufficient when both parties receive what they agreed on.

***Both parties must be competent.*** The law gives to certain classes of people only a limited capacity to enter into contracts. Minors, people who are senile or mentally handicapped, and in some cases those who are intoxicated cannot usually be bound by a contract for anything but the bare necessities: food, clothing, shelter, and medical care.

***The contract must be legal.*** The law will not enforce a promise that involves an illegal act. For example, a gangster cannot get help from the courts to enforce a contract to deliver illegal drugs at a prearranged price. Nor can a contract be enforced if one party signed under duress.

***The contract must be in proper form.*** Although many contracts can be made orally, by an act, or by a casually written document, in certain situations the law requires that a prescribed form be followed. For example, the transfer of goods worth \$500 or more must be accompanied by a written document signed by both parties. The written form is also required for all real estate contracts and for contracts that cannot be fulfilled within one year, such as installment-purchase agreements.



When the law requires a written document, any change in the agreement must also be written.

## Vocabulary

**estate planning** — завещание имущества

**duress** — принуждение

**handicapped person** — человек с физическими или умственными недостатками, инвалид

**to cancel a contract** — аннулировать контракт

**real estate** — недвижимое имущество

**to enforce a promise** — принуждать к выполнению договорных обязательств

### 1.16. Breach of Contract

Most valid contracts are obeyed by both parties. Each does what was promised, and the contract is terminated by being carried out. But sometimes a contract will not be fulfilled because both parties agree to end it. And occasionally the law will excuse one party from meeting an agreement; for example, bankruptcy frees a person from certain credit agreements, and death or serious illness is a valid excuse for not fulfilling a contract for personal services. When one party has no legal excuse for failure to live up to the terms of a contract, the other party may claim **breach of contract**.

The essence of a contract is that the law will enforce the promise. Say that Nick Santo, a builder, contracts to buy 2,000 feet of pine board from the Zeller Lumberyard. The contract stipulates that the price for the board is to be \$2 per foot and that delivery must be made by January 25. But on January 10 the lumberyard calls Santo and tells him that another contractor has offered to buy all the yard's lumber at \$2.50 per foot. Zeller tells Santo that he must pay the higher price or wait until February 15 for delivery. Santo has the following options:

**Discharge:** When one party violates the terms of the agreement, generally the other party is under no obligation to continue with his or her end of the contract. In other words, the second party is discharged from the contract. Santo is free to buy his wood from another lumberyard. If Zeller goes ahead and delivers the wood at the later date, Santo does not have to accept it.

**Damages:** A party has the right to sue in court for damages that were foreseeable at the time the contract was entered into and that result from the other party's failure to fulfill the contract. The amount of damages awarded usually reflects the amount of profit lost and, often, court costs as well. If Santo had to pay another yard a higher price to get lumber, he would be entitled to collect the difference from Zeller. If Zeller's failure to deliver the wood caused Santo to lose a large contract or a good customer, the court might force Zeller to pay damages far exceeding the value of the wood itself.

**Specific performance:** A party can be compelled to live up to the terms of the contract if money damages would not be adequate. If, for instance, Zeller had agreed to sell not pine board but a unique, one-of-a-kind wood paneling from a sixteenth-century Spanish castle, Santo could demand specific performance of the contract. Another similar situation would be a personal services contract. If Bruce Springsteen didn't show up for a concert, he could well be sued for breach of contract, because he's a hard act to replace.

## Vocabulary

**to fulfill (to carry out) a contract** —

исполнять условия контракта

**to meet an agreement** — выпол-

нить соглашение, договор

**breach of contract** — нарушение

контракта

**lumberyard** — лесной склад

**delivery** — поставка

**to sue in court** — выступать в суде

**to enter into a contract** — заклю-

чить контракт

**court costs** — судебные издержки

## Vocabulary Practice

1. **Match a line in A with a line in B and make up your own sentences using the table:**

A		B
cancel	an	promise
carry	a	contract
meet	in	court
sue	out	agreement
enter	into	
enforce		

2. *Say what you have learned about:*

- a) conditions for contracts;
- b) cancellation of a contract;
- c) breach of a contract.

3. *Put the necessary word in the sentence: propose, voluntary, fulfilled, enforceable, legal.*

1. A contract is an exchange of promises ... by law.
2. One party must ... that an agreement be entered into by both parties.
3. Acceptance of the offer must be ... .
4. The contract must be ... .
5. A contract will not be ... because both parties agree to end it.

## 1.17. Property transactions

Anyone interested in business must know the basics of property law. **Property** is anything of value, tangible or intangible, that can be owned or enjoyed by someone. The law recognizes two types of property, real and personal. **Real property** is land or anything permanently fixed to land, such as trees, fences, or mineral deposits. **Personal property** is anything movable that can be owned. A piece of marble in the earth is real property. When it is cut and sold as a block, it becomes personal property.

Sometimes it is difficult to determine ownership of intellectual (intangible) property, such as a company's customer lists or other confidential business information. For example, when Steven Jobs left Apple Computer to start his own firm, Apple management was worried that Jobs would use what he knew about his old company's customers and operations to compete against it. Was Jobs taking information illegally from Apple, or did it belong to him? Eventually Jobs and Apple came to an understanding and settled without any court action, but the controversy could have become a lawsuit.

When ownership is more clear-cut, both real and personal property can be handled as the owners see fit, with one notable exception: Under certain circumstances, government has a claim that takes precedence. Let's say, for example, that your state government wants to build a road right through your yard. Even though you may not want to move, you can be forced to sell your property to the state. You will be paid a

fair market price, but you will not have the right to refuse to sell. By the same token, the state can zone your property for various uses without your approval.

### **Transfer of real property**

Two types of documents are important in obtaining real property for factory, office, or store space. A **deed** is a legal document by which an owner transfers her or his interest in real property to a new owner. A **lease** is used for a temporary transfer of interest in real property. The party that owns the property is commonly called the landlord; the party that occupies or gains the right to occupy the property is the tenant. A lease is granted for a specific period of time, during which the tenant pays the landlord in periodic installments. Generally, a lease may be granted for any length of time that the two parties agree on. A long lease allows a business with insufficient capital to buy real property and enjoy the stability normally associated with ownership.

### **Transfer of personal property**

A permanent transfer of tangible or intangible personal property — such as merchandise or a check — is technically a transfer of **title**, or legal possession of the property and the right to use it. Most problems with the transfer of personal property relate to the question of when the sale occurred or who should be responsible for damaged or lost goods. These questions may sound easy, but in a legal sense they are sometimes difficult to answer.

When an individual is buying something from a merchant, the time of transfer is sometimes easily established. In the typical cash register sale, for example, title passes when the clerk accepts the customer's money and hands over the goods. Any loss before the transaction is the seller's, and any loss afterward is the buyer's. But when property is purchased COD (cash on delivery), the time of transfer is not so easily determined. Although an agreement to sell and buy something has already been struck, title is not transferred until the buyer accepts the goods and pays for them. Installment purchases are even more complicated. Generally title passes when the buyer takes possession of the property. If, for example, you buy a stereo set on credit, you have title to it once you take delivery; even if the set is stolen or damaged before you have finished paying for it, you are responsible for paying the full purchase price.

## Vocabulary

**transaction** — сделка (*операция*)

**real property** — недвижимость

**personal property** — личная собственность

**tangible** — материальный

**court action** — судебный иск

**deed** — документ о передаче абсолютного права на недвижимость, протокол

**to lease** — брать, сдавать в аренду

**title** — право собственности

**tenant** — арендатор

**COD** (cash on delivery) — оплата после доставки

**to pay by installments** — платить в рассрочку

## Vocabulary Practice

### 1. Match a line in A with a line in B:

A	B
real	market
fair	firm
temporary	installment
own	transfer
periodic	property

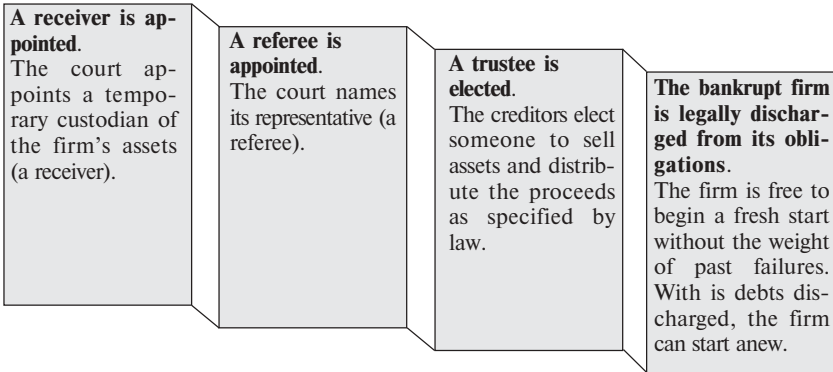
### 2. Say what you have learned about:

- property;
- real property;
- personal property;
- deed;
- title;
- lease.

### 3. Put the necessary word in the sentence: *circumstances, landlord, lease, ownership.*

- Sometimes it is difficult to determine ... of intellectual property.
- Under certain ... government has a claim that takes precedence.
- The party that owns the property is called ... .
- A long ... allows a business with insufficient capital to buy real property.

## 1.18. Bankruptcy



*Fig. 1. Steps in Bankruptcy Proceedings*

Voluntary bankruptcy may buy a debtor time to reorganize finances and continue operating. But using this device to evade financial obligations is extremely risky from a legal standpoint, and declaring bankruptcy may severely damage the reputation and credit rating of a firm or individual.

**Bankruptcy** is the legal procedure by which a person or a business that is unable to meet financial obligations is relieved of most of its debts. The court steps in to divide the existing assets among those who are owed money. Although some companies cease to exist after declaring bankruptcy, many continue to operate and eventually emerge from bankruptcy proceedings. (Figure 1 shows the steps involved in declaring bankruptcy.)

When bankruptcy proceedings are initiated by firm's creditors, the firm undergoes **involuntary bankruptcy**. Far more common is **voluntary bankruptcy**, in which the debtor begins the proceedings. By entering voluntary bankruptcy, a company may gain time to reorganize, to cut costs drastically and continue streamlined operations. While this reorganization is going on, the company can often stop regular payments on interest and principal to creditors as well as delay lawsuits. Texaco, for instance, considered filing bankruptcy as a tactic in its suit with Pennzoil.

Since 1978, almost 68,000 companies have filed for voluntary bankruptcy, and the majority has managed to survive and even prosper. Some critics contend that many of these companies did not really need to file

bankruptcy but rather were using bankruptcy to avoid unpleasant obligations. In one controversial case, Continental Airlines used voluntary bankruptcy to avoid paying wages and benefits agreed to during a collective bargaining session with a union, claiming that it could not meet those obligations and remain in business; the bankruptcy court sided with Continental. Another case involved Manville Corporation, a producer of asbestos and building materials. Manville claimed that it could not afford to pay the costs of settling an estimated 16,500 lawsuits filed against it by people who had become ill after exposure to asbestos. However, the bankruptcy judge ordered Manville to create a \$2.5 billion fund to compensate the victims. Experts believe that the settlement will discourage other companies from resorting to bankruptcy. This case is therefore another example of how government and business interact to establish the ground rules for commerce.

## Vocabulary

**to meet obligations** — выполнять обязательства

**to be relieved of debts** — быть освобожденным от уплаты долгов

**to cut costs** — сократить расходы

**interest** — процент

**principal** — основная сумма (*в отличие от процентов, основной капитал*)

**lawsuit** — судебный процесс, иск, тяжба

**to file bankruptcy** — уведомлять о банкротстве

**receiver** — управляющий конкурсной массой при банкротстве

**referee** — рефери

**trustee** — доверенный, собственник по назначению суда, попечитель

**to discharge (from)** — освобождать (*от*)

## Vocabulary Practice

### 1. Match a line in A with a line in B:

A	B
legal	start
fresh	materials
regular	case
controversial	court
bankruptcy	payments
building	procedure

## 2. *Say what you have learned about:*

- a) involuntary bankruptcy;
- b) voluntary bankruptcy;
- c) bankruptcy proceedings;
- d) referee.

## 3. *Put the necessary word in the sentence: creditors, referee, costs, procedure, trustee, interest.*

1. A ... is appointed.
2. The ... elect someone to sell assets.
3. Bankruptcy is the legal ...
4. By entirely voluntary bankruptcy, a company may gain time to cut ...
5. While this reorganization is going on, the company can stop regular payment on ...
6. A ... is elected.

## 1.19. Current Federal Taxes

### **Income Taxes**

The 16th Amendment gave Congress the power to levy taxes on income.

Income taxes first became the major source of federal revenue during World War I, and (except for a few years during the Depression on the 1930s) they have remained so ever since.

Income of both individual and corporations are taxed. The rates have always been **progressive** — that is, the higher the income the higher the tax rate applied to it.

The individual income tax regularly produces the larger amount. It is levied on a person's taxable income — one's total income in the previous year minus certain exemptions and deductions.

Each taxpayer has a personal exemption of \$1000 plus another \$1000 exemption for each of his/her dependents; an additional \$1000 exemption is also allowed for each person over age 65 or blind. Deductions are allowed for several things — mainly for medical and hospital care costs, most State and local taxes, interest payments, and charitable contributions.



By April 15 all persons with taxable income in the preceding year must file tax returns (declarations of that income) with the Internal Revenue Service. The rates applied to taxable income received in 1983 (and reported on 1984 returns) began at 11 percent in the lowest brackets (\$2300 to \$3400 for single persons, \$3400 to \$5500 for married couples) and ranged on up to a maximum of 50 percent in the top brackets (above \$55,300 for single persons, \$109,400 for married couples).

The corporation income tax is applied to all of a corporation's **net income** — all of its earnings above its costs of doing business. (Non-profit organizations — such as churches, labor unions, charitable foundations, and cooperatives — are not subject to the tax). This levy has been called the most complicated of federal taxes, largely because of the many deductions allowed in figuring a corporation's net (taxable) income.

The rates now run from 15 percent on the first \$25,000 of taxable earnings on up to a top rate of 46 percent on that income above \$100,000.

## **Social Insurance Taxes**

Three major social welfare programs are supported by “payroll taxes” (1) The Old-Age, Survivors, and Disability Insurance (OASDI) program — the basic social security program, established by the Social Security Act of 1935; (2) Medicare — health care for the elderly, added to the social security program in 1965; and (3) the unemployment insurance program — to pay unemployment compensation benefits to jobless workers, also established by the Social Security Act of 1935.

The payroll taxes for both OASDI and Medicare are collected from most employees and their employers, and from self-employed persons. Employees now (1984) pay a 6.7 percent tax on their salaries or wages (up to a ceiling of \$37,800 of yearly pay — a maximum tax, then, of \$2532.60 for the year). Their employers now pay a tax of 7 percent on those salaries or wages. The self-employed pay 11.3 percent on the first \$37,800 of yearly income (a maximum of \$4271.40).

The unemployment insurance program is a joint federal-State operation, to make payments to workers who lose their jobs for reasons beyond their own control. It is financed by a 3.4 percent federal tax on the payrolls of nearly all businesses. The States administer the program, paying jobless benefits according to federal guidelines.

## **Excise Taxes**

Taxes laid on the production, transportation, sale, or consumption of goods or services are **excises**. Federal excise taxes are imposed on a great many items today, including: gasoline, oil, tires, the “windfall profits” of oil companies, cigarettes, pipe and chewing tobacco, liquor, wine, beer, firearms, telephone service, and airline tickets. (Many of them are called “hidden taxes” — because they are collected from producers who then figure them into the prices they charge to their retail customers.)

## **Estate and Gift Taxes**

The federal estate tax, levied since 1916, is a tax on the property of deceased persons. Congress added the gift tax in 1924, to plug a loophole in the estate tax (the giving of money or other property before death to avoid that tax).

The estate tax is applied to one’s net estate — its full value minus certain exemptions and deductions. For 1984, the first \$325,000 of an estate is exempt (so, in fact most estates are not taxed). Deductions are allowed for such things as State death taxes and bequests to religious and charitable groups. Anything a husband or wife leaves to the other is taxed, if at all, only when the surviving spouse dies.

Any person may make up to \$10,000 in tax-free gifts to any other person in any one year. Gifts husband/wives make to one another are not taxed, regardless of value.

The estate and gift taxes are separate federal taxes, but both are taxes on the transfer of property (before or after death) — and so they are levied at the same rates. For 1984, those rates range from a minimum of 18 percent on up to a maximum of 55 percent on a net estate or a gift worth more than \$2.5 million.

## **Customs Duties**

Customs Duties (tariffs) are taxes on goods brought into the United States. Congress decides which imports will be taxed (dutied) and at what rates. Most imports (some 30,000 different items) are dutied; but some are not — for example, Bibles, coffee, and up to \$300 of American tourist’s purchases. Many duties are set purposefully high (the “protective tariff”), to protect industries and jobs in the country.

## Miscellaneous Receipts

Huge sums come every year from a multitude of nontax sources, including interest payments on many types of loans, court fines, sales/leases of public lands, sales of surplus property, canal tolls, fees for passports, copyrights, trademarks, and patents, seignorage (the profit on minting coins), and many others.

## Vocabulary

**income tax** — подоходный налог

**to levy taxes** — облагать налогом

**exemption** — освобождение

**dependent** — иждивенец

**to file tax returns** — подавать налоговую декларацию

**Internal Revenue Service** — Служба внутренних доходов (*прибылей*) в США

**net income** — чистый (*нетто*) доход

**payroll profits tax** — налог на зарплату

**excise tax** — акцизный сбор

**“windfall profits”** — неожиданная прибыль, налог

**“hidden tax”** — скрытый налог (*косвенный*)

**estate tax** — налог на передачу собственности в наследство

**gift tax** — налог на дарение

**customs duty** — таможенный сбор

**“protective tariff”** — “протекционный тариф”

**receipts** — денежные поступления

**fine** — штраф

**toll** — пошлина

**seignorage** — налог на право чеканки монет

## Vocabulary Practice

### 1. Match a line in A with a line in B:

A	B
customs	income
protective	tariff
excise	profits
net	duty
windfall	tax

### 2. Say what you have learned about:

- Internal Revenue Service;
- Payroll profits;
- Income tax;
- Exemptions.

**3. Put the necessary word in the sentence: imports, property, goods, exemption, income, excises.**

1. ... taxes are the major source of federal revenue.
2. Taxes laid on the production, transportation, sale, or consumption of goods or services are ... .
3. The federal estate tax is a tax on the ... of deceased persons.
4. Customs duties are taxes on ... brought into the United States.
5. Most ... are dutied.
6. An additional ... is also allowed for blind.

## **1.20. Bananas Can be Dangerous: A Study of a Court Suit**

When Willard Joye slipped and fell on a banana in an A & P supermarket, he felt the Great Atlantic and Pacific Tea Company (A & P) should pay for his injuries. In bringing a civil action against A & P (the defendant), Joye became a plaintiff.

The complex rules used to settle disputes like this differ from court to court, but they are similar in broad outline. Of course, Joye should start by consulting an attorney who specializes in personal injury to determine to extent of the harm, the time and effort that may be involved in bringing an action, and the likelihood of winning the suit.

### **Initiating a lawsuit**

Joye's attorney must first file with the appropriate court the pleadings (papers), including the summons and the complaint. The summons is a legal document telling the defendant that an action has been initiated; it states that if the defendant doesn't answer the complaint, the court will declare a judgment in favor of the plaintiff (default). A summons differs from a subpoena in that a subpoena requires only that a person give testimony, whereas the summons requires an answer to the complaint.

The complaint contains a brief statement of the facts of the case, tells how the defendant allegedly caused the harm, and demands relief for the plaintiff, usually in the form of monetary damages. When the pleadings are served, the defendant officially learns that the action has been filed and that the plaintiff is seeking reimbursement for personal injuries. However, discussions and negotiations among plaintiff, defendant,

and both parties' legal counsel usually occur after the accident, and so the complaint frequently comes as no surprise.

### **Responding to the claim**

When faced with a summons, A & P had the following two options available:

- A & P could have answered the complaint (within a specific number of days) by serving Joye with a document outlining the company's admission or denial of guilt and detailing its defense. A & P may even have asserted a counterclaim, a demand for relief from some alleged harm done by the plaintiff.
- If A & P had determined that it was not legally liable for the damages or that there were not sufficient facts, even if the facts in the complaint were true, it could have filed a motion to dismiss, which is a challenge to the legal or factual sufficiency of the plaintiff's complaint. If the motion is accepted by the court, the case would end at that point.

If the court does not dismiss the case, then preparation for the trial begins. Mainly, each party wants to obtain as much evidence and as many facts as possible from the other party; this gathering of information is known as discovery. The following procedures usually are included in the discovery process:

1. A deposition, or sworn verbal testimony, from the defendant, the plaintiff, and/or witnesses is taken by an officer of the court (often in an attorney's office).
2. Sworn written answers to written questions, called interrogatories, are prepared by the defendant and the plaintiff.
3. Requests for admissions are made to parties in the case in order to establish the validity of facts.
4. If the mental or physical condition of a party to the case is in question, mental or physical examinations may be requested.

Both the defendant and the plaintiff may also inspect documents and other items relevant to the case by formally requesting access to them.

Either party in a lawsuit can minimize the length of the action by requesting a summary judgement. Such a judgment will be granted by the court only when the facts of the case are not disputed by either party and when the only issue in question is the application of the law. Thus the trial, or search for the truth, becomes unnecessary. The judge need only apply the law to the given facts.

## Going to trial

If there is no dismissal, summary judgment, or out-of-court settlement, the trial begins. Depending on the amount of damages demanded and the type of court, there may or may not be a jury trial. If there is, the jury is selected and the attorneys begin by making their opening statements concerning the facts and what they plan to prove during the trial.

Because the burden of proof is on the plaintiff — that is, the harmed party must prove the correctness of the case — the plaintiff's attorney has the opportunity to call the first witness. Both sides in the case may examine (question) the witnesses and enter exhibits and physical evidence. After presenting their evidence, both sides present closing arguments to the court. If it is a jury trial, the judge instructs the jury about the appropriate law to be applied to the facts, the jury deliberates, and finally it reaches a verdict.

In *Joye versus A & P*, the jury did find in favor of Joye, the plaintiff, and A & P owed him \$10,000 in damages. If the jury had found in favor of A & P, the company would not have been liable for the damages. A & P subsequently filed an appeal to a higher court (appellate level) requesting a review and reversal of the judgement. Eventually, A & P won a reversal. The company did not have to pay damages, because the appellate court found there was insufficient evidence to prove that the defendant was negligent (careless) and had created a dangerous condition, a banana-slick floor.

## Vocabulary

**court suit** — судебный процесс  
**to bring a civil action** — подавать гражданский иск  
**defendant** — подсудимый, ответчик, обвиняемый  
**plaintiff** — истец, истица  
**to initiate a lawsuit** — открывать судебное дело  
**to file papers** — подавать документы  
**pleadings** — документы

**summons** — повестка  
**to declare a judgement** — объявить приговор  
**subpoena** — повестка в суд под личную роспись  
**default** — невыполнение обязательств, неявка в суд  
**testimony** — показания свидетелей  
**allegedly** — якобы  
**monetary damages** — денежная компенсация

**reimbursement** — возмещение убытков

**admission (denial) of guilt** — признание (*отрицание*) вины

**counterclaim** — встречный иск

**motion** — ходатайство (*прошение*)

**to dismiss a case** — прекратить дело

**deposition** — письменные показания

**sworn testimony** — скрепление присягой показаний

**summary judgement** — приговор, принятый в порядке упрощенного (*суммарного*) судопроизводства

**out-of-court settlement** — мировое соглашение вне суда

**jury trial** — суд присяжных

**burden of the proof** — бремя доказательства

**to enter exhibits** — предъявлять вещественные доказательства

**closing argument** — решающий (*неоспоримый*) довод

**to reach a verdict** — выносить приговор

**versus** — против

**to file an appeal** — подавать апелляцию

**review** — пересмотр дела

**reversal of judgement** — отмена судебного приговора

## Vocabulary Practice

### 1. Match a line in A with a line in B:

a)

A	B
to bring	exhibits
to declare	verdict
to file	judgement
to initiate	civil action
to enter	case
to dismiss	papers
to reach	lawsuit

b)

A	B
summary	trial
closing	suit
jury	argument
sworn	dames
monetary	judgement
court	testimony

### 2. Put the necessary word in the sentence: *summons, law, trial, deposition, admissions.*

1. The ... is a legal document telling the defendant that an action has been initiated.
2. If the court doesn't dismiss the case, then preparation for the ... begins.
3. A ... is taken by an officer of the court.

4. The judge needs only apply the ... to the given facts.
5. Requests for ... are made to parties in the case in order to establish the validity of facts.

## **Список использованной и рекомендуемой литературы**

1. *Daniels J. D., Radebaugh L. H.* International Business. — Massachusetts, USA: Addison-Wesley Publishing Company, Inc., 1997.
2. *Dufee T. W. et al.* Modern Business Law. — N. Y.: Random House, 1989.
3. *Litka M.* International Dimensions of the Legal Environment of Business. — Boston: DWS-Kent, 1988.
4. *Magruder F. A.* American Government. — N. Y.: Allyn and Bacon, Inc., 1984.
5. *Rachman D. J., Mescon M. H.* Business Today. — N. Y.: McGraw-Hill, Inc., 1993.
6. *Steiner G. A., Steiner J. F.* Business, Government and Society. — N. Y.: McGraw-Hill, Inc., 1991.
7. *Whitman D., Gergacz J. W.* The Legal Environment of Business. — 2nd ed. — N. Y.: Random House, 1988.
8. *Жданова И. Ф., Вартумян Э. Л.* Англо-русский экономический словарь. — М.: Рус. яз., 1995.
9. *Зеленський П. Г., Зеленська О. П.* Українсько-російсько-англійський тлумачний словник ділової людини. — К.: Українсько-фінівський інститут менеджменту і бізнесу, 1998.
10. *Назаров В.* Курс юридического перевода и англо-русский словарь по англо-американскому торговому праву. — М., 1994.
11. *Новый англо-русский юридический словарь / Ю. Ф. Березовенко и др.* — К., 1993.



## BOOKKEEPING AND AUDITING ACCOUNTING

### БУХГАЛТЕРСКИЙ УЧЕТ И АУДИТ

- 2.1. What bookkeepers do (*Чем занимаются бухгалтеры*)
- 2.2. Bookkeeping (*Бухгалтерия*)
- 2.3. What is accounting?
- 2.4. Accounting (*Учет, отчетность*)
- 2.5. Managerial accounting (*Административная отчетность*)
- 2.6. Financial accounting (*Финансовый учет*)
- 2.7. Accounting versus bookkeeping (*Бухучет и бухгалтерия*)
- 2.8. The asset account (*Учет активов*)
- 2.9. Steps in the accounting cycle (*Последовательность в учетном цикле*)
- 2.10. The fundamental accounting equation (*Основы бухгалтерского уравнения*)
- 2.11. Auditing (*Аудит*)
- 2.12. The income statement (*Отчет о доходах / расходах*)
- 2.13. Gross sales, net sales, and revenue (*Валовый доход от продажи, чистая сумма продаж и доходы*)
- 2.14. Cost of goods sold (or cost of goods manufactured) (*Цена товара*)
- 2.15. Operating expenses (*Операционные расходы/затраты*)
- 2.16. Net income (*Чистая прибыль*)
- 2.17. The statement of changes in cash flows (*Отчет об изменениях в потоках денежных выплат*)
- 2.18. Directors' report (*Отчет совета директоров*)
  - 2.18.1 Revenue Account (*Отчет о доходах*)
  - 2.18.2 Balance Sheet (*Балансовая ведомость*)
  - 2.18.3 Cash Flow Statement (*Отчет о движении наличных денег*)
  - 2.18.4 Statement of Total Recognized Gains and Losses (*Отчет об общей суммарной прибыли и убытках*)
  - 2.18.5 Reconciliation of Movements in Share Holders' Funds (*Согласованность движения акционерного капитала*)
  - 2.18.6 Notes to the Accounts (*Записи по счетам*)

## 2.1 What bookkeepers do

If you were a bookkeeper, the first task you would perform would be to divide all of the firm's paperwork into meaningful categories. Those categories would probably include the following:

- Sales documents (sales slips, cash register receipts, and invoices).
- Purchasing documents.
- Shipping documents.
- Payroll records.
- Bank documents (checks, deposit slips).
- Various expense documents.

If you collected all this information, you would have several piles of papers, much like the piles that are generated in the preparation of income tax forms. If this information is not compressed somehow, it will become too unmanageable. Therefore, the bookkeeper must begin to record the data from the *original transaction documents* (the sales slips and so forth) into record books called journals. Journals are the books where accounting data are first entered. The term *journal* comes from the French word *jour*, which means day. A journal, therefore, is where the day's transactions are kept.

So a bookkeeper is busy keeping the books of account of a business, recording a profit and loss account and compiling the balance sheet.

### Vocabulary

**income tax** — подоходный налог  
**compile v.** — составлять

**balance sheet** — балансовый счет

**deposit slips** — карточки по вкладам

## 2.2. Bookkeeping

Bookkeeping is an essential accounting tool. A small business or company may employ only one bookkeeper, who records all of the financial data by hand; large organizations may employ many bookkeepers, who use electronic and mechanical equipment for a large part of their work. Each organization has its own bookkeeping requirements, but all systems operate on the same basic principles. The bookkeepers themselves must be accurate, good in math, and meticulous; that is, they must be very careful to record each detail in its proper place.

About 3,000 B.C., the Sumerians, the Egyptians, and other peoples of the Middle East developed the first known business records. The results of tax collections, farming harvests, and the transactions of merchants were recorded by means of written numbers. The Romans, too, were prolific keepers of records. Indeed, Roman numerals were used in many parts of Europe until the fifteenth century A.D. The stimulus for modern bookkeeping came with the introduction of Arabic, or Hindu-Arabic, numerals and the decimal system in the twelfth century A.D. Most people today use Arabic numerals.

The two basic systems of bookkeeping are double-entry and single-entry. The double-entry method was perfected by the merchants of Venice during the fifteenth century and is still used today. The basic principle of double-entry bookkeeping is that every transaction has a twofold effect. In other words, a value is received and a value is yielded or parted with. Both effects, which are equal in amount, must be entered completely in the bookkeeping records.

An account is a record of the financial transactions that concern one item or a group of similar items. The account includes categories of financial data for each area of interest during a specific period: the value at the beginning of a period, changes in value during the same period, and the value at the end of a period. The broad areas of interest can be labeled assets, liabilities, and net worth. Income and expense accounts are totaled at regular intervals, and the resulting profit or loss is posted to a capital account.

### ***SPECIAL TERMS***

***Liability:*** An obligation that is owed by an organization: debts to other organizations for merchandise or services; wages owed to employees; accrued (owed but not yet paid) taxes; and payments due on loans or mortgages.

***Capital:*** The investment in an organization or business by its owner or owners. Other terms often used instead of capital are owners' equity, often abbreviated OE, and proprietorship.

***Account:*** A record of the changes and balances in the value of an individual item listed in the ledger (see next page) of an organization. An example of an asset account is the company's furniture and fixtures, usually listed as one item since it would be impractical to list every desk and chair. Each account, usually abbreviated a/c, frequently has its own page in the organization's ledger.

**Double-entry:** A method of bookkeeping in which the twofold effect of every entry is recorded, thus requiring two entries to record each transaction. By recording both effects of each transaction, this system offers protection against error.

**Single-entry:** Any bookkeeping system that does not include the complete results of each transaction. It is usually used by small companies or to keep track of specific accounts: for example, a checkbook which only keeps a record of the cash balance.

**Debit:** An amount entered on the left-hand side of an account. Asset and expense accounts are increased by debiting, that is, by entering amounts in the left-hand column. Debit is usually abbreviated DR.

**Credit:** An amount entered on the right-hand side of an account. Liability, capital, and income accounts are increased by crediting, that is, by entering amounts in the right-hand column. Credit is usually abbreviated CR.

**Journal:** A book in which transactions are recorded. In double-entry bookkeeping, both sides of the transaction — both the debit and the credit side — are entered in the journal.

**Ledger:** A listing of detailed accounts, such as a record comprising the accounts receivable of each customer. The general ledger is the book used to list all the accounts of an organization. Entries from all the journals are transferred to the ledger at regular intervals, usually monthly. This process is called posting. The ledger then serves as a summary of all the fiscal activity for that period.

**To Foot:** To add or total the amounts in a column.

**Trial Balance:** When all the transactions for a certain period have been posted and footed, the debits should equal the credits. The test to see if this is so is called a trial balance.

## Vocabulary

**account** — счет; счет-фактура; озаглавленный раздел бухгалтерской книги

**accrue** — увеличиваться, накапливаться, нарастать

**asset** — актив

**double-entry** — система бухгалтерского учета с двойной записью

**ledger** — бухгалтерская книга (книга записей) гроссбух, баланс

**liability** — пассив; обязательство  
**contingent liability** — условное обязательство

**current liabilities** — текущие обязательства

**deferred liability** — отсроченное обязательство

**longterm liability** — долгосрочное обязательство

**secured liability** — обеспеченное обязательство

**loan** — заем

**merchandise** — товары

**mortgage** — ипотека; закладная

**owners' equity** — общая стоимость всего имущества собственника

**payroll** — платежная ведомость

**payroll tax** — налог на заработную плату

**posting** — проводка, разноска по счетам; перенесение из книги первичной записи (Book of Prime entry); перенесение с другого счета

**taxes** — налоги

**to foot** — прибавить или подсчитать общую сумму в правой колонке счета

**trial balance** — пробный баланс

**voucher** — расписка или любой другой документ, который проводится в бухгалтерских счетах

**wages** — заработная плата

## 2.3 What is accounting ?

**Accounting** is the recording, classifying, summarizing and interpreting of financial events and transactions to provide management and other interested parties the information they need to make better decisions.

*Transactions* include buying and selling goods and services, acquiring insurance, using supplies. Transactions may be recorded by hand or they may be recorded in a computer system. Of course, the trend today is to use computers since the process is often repetitive and complex, and computers greatly simplify the task.

After the transactions have been recorded, they are usually classified into groups that have common characteristics. For example, all purchases are grouped together, as are all sales transactions. A businessperson is thus able to obtain needed information about purchases, sales, and other transactions that occur over a given period of time. The methods used to record and summarize accounting data into reports is called an **accounting system**. Systems that use computers enable an organization to get financial reports daily if they so desire. One purpose of accounting is to help managers evaluate the financial condition and the operating performance of the firm so that they may make better decisions. Another is to report financial information to people outside the firm such as owners, creditors, suppliers, employees, and the government (for tax purposes).

In more basic terms, accounting is the measurement and reporting to various users (inside and outside the organization) financial information regarding the economic activities of the firm. Accounting has been called the language of *business*, which may make you think accounting is only for profit seeking firms. However, it is also the language used to report financial information about non-profit organizations such as churches, schools, hospitals, fraternities, and governmental units. Accounting can be divided into two major categories: managerial accounting and financial accounting. An accountant working for an organization is likely to do both.

## Vocabulary

**purchase n.** — покупка приобретение

**transaction n.** — 1) (deal) сделка  
2) pl. протоколы,

ведомости

**evaluate v.** — оценивать, выражать  
в числах

**supplier n.** — поставщик

**fraternity n.** — братство,  
студенческая община

**measurement n.** — измерение,  
размер

## 2.4. Accounting

Anything of value that a business or organization owns is commonly known as an asset. Asset accounts include cash, which is the money on hand or in the bank; furniture and fixtures; accounts receivable, the claims against customers that owe money; stock or inventory; office supplies; and many others that show what the organization owns.

Debts owed to creditors are known as liabilities. If money is owed to an organization or person for things or services purchased on credit, this liability is called an account payable. Other liabilities include wages or salaries that are owed to employees, or taxes that have not yet been paid.

The value of the business to the owner or owners is known as capital. Other terms used to designate capital are proprietorship, owners' equity (usually abbreviated OE), ownership, or net worth.

A separate account is kept for each asset, liability, and capital item so that information can be recorded for each of them. Accounts are also maintained for income and for expenses, and like assets, liabilities, or capital, these accounts are also entered in the ledger, which is a detailed listing of all the accounts of an organization. Entries from all the jour-

nals are transferred to the ledger at regular intervals. This process — called posting — is usually done monthly.

*Journals*, or books of original entry, are designed to record information about different transactions, including sales, purchases, cash receipts, cash disbursements, and many others. Journals have two or more columns to record increases or decreases in the accounts affected by the transaction, and they often have space for a date and an explanation of the transaction.

All transactions affect at least two accounts. Each transaction must be analyzed to determine which accounts are affected, and whether they should be increased or decreased. An entry made on the left-hand side or column of an account is called a debit, while an entry made on the right-hand side or column is a credit. Debit, usually abbreviated DR, at one time meant value received, or literally he owes. Credit, usually abbreviated CR, meant value parted with, or literally he trusts. In modern bookkeeping, debit refers only to the left-hand side of an account, whereas credit refers to the right-hand side. Some bookkeepers use a far right-hand column to keep an up-to-date balance of the account.

## Vocabulary

**increase** (*v*) — возрастать, увеличивать

**decrease** (*v*) — уменьшать

**income** (*n*) — приход, доход  
(обычно годовой)

**expense** (*n*) — трата, расход

**proprietorship** (*n*) — собственность

CASH A/C				
DATE	EXPLANATION	DR.	CR.	BALANCE
9/1/77	Cash in Bank			412.50
9/2/77	Cash Sales	254.56		667.06
	Rent Paid		500.00	167.06
9/3/77	Bank Loan	5000.00		5,167.06
9/4/77	Sales Tax Paid (Aug. 1977)		187.60	4,979.46
	Payroll		1,000.00	3,979.46
	Cash Sales	612.00		4,591.46

**A cash journal**

From the basic accounting formula, that is, assets = liabilities + owners' equity (or capital), certain guidelines have evolved through general agreement and custom. Asset accounts are increased by debiting, that is, on the left side, and they are decreased by crediting, that is, on the right side. The opposite is true for liability and proprietorship accounts, which are increased on the credit side and decreased on the debit side.

<i>Assets</i>	=	<i>Liabilities</i>	+	<i>Owners' Equity</i>
<i>Asset A/C's</i>		<i>Liability A/C's</i>		<i>Proprietorship A/C's</i>
DR   CR		DR   CR		DR   CR
+   -		-   +		-   +

Income and expense accounts represent changes in equity. Income increases proprietorship, while expenses decrease proprietorship. Income accounts are increased on the credit side and decreased on the debit side, while expense accounts are increased on the debit side and decreased on the credit side.

<i>Expense A/C's</i>	<i>Income A/C's</i>
DR   CR	DR   CR
+   -	-   +

Since every transaction affects at least two accounts, at least two entries must be made in the journal. When Morgan's Appliance Store, for example, sells a refrigerator for \$260, the bookkeeper debits the cash account (asset) and credits the sales account (income) by \$260. On the day that Mr. Morgan pays his monthly rent of \$500, the bookkeeper debits the rent account (expense) and credits the cash account (asset) by \$500.

Regularly and at fixed intervals, usually monthly, the bookkeeper posts all the entries from each journal to the appropriate account in the general ledger. The bookkeeper then foots, or totals, the columns of each account; that is, he or she adds the amounts of the debits and credits, and records the balance of each account. Since debits are always recorded in amounts equal to credits, the debits and credits should always equal each other. The test that determines whether the total of debits equals the total of credits is called a trial balance. If the accounts are not balanced, some error has been made which the bookkeeper



must find and correct. The financial statements of a company help management to evaluate and direct the operations of an organization.

The second basic system of bookkeeping, as mentioned previously, is called the single-entry method. The method refers to any system that does not include the complete results of every transaction. The most common type of single-entry bookkeeping involves records of cash, accounts receivable, and accounts payable.

Many bookkeeping systems include journals and records for specific types of transactions. Special purchase books, for example, include invoice and voucher registers. Invoices are itemized statements of merchandise sold to a customer; they list the quantity and the charges. Vouchers are bills received for merchandise or services. One important, widely used journal is a cash disbursement register, which records the details of all checks written: to whom, when, how much, and for what purpose. Another popular journal is the cash receipts journal, in which all payments received are recorded.

Bookkeepers are also responsible for maintaining the records of a company, including, of course, the completion of taxes that are to be deducted and withheld, and the completion of government forms that are required for tax and other employment purposes. In a small company, the bookkeeper may also function as a cashier, as an assistant to the manager, or in any number of clerical jobs. Larger firms have staffs of bookkeepers ranging from as few as two or three to several hundred. They often use special forms and high-speed computing and tabulating machines, but basic bookkeeping rules are the same. Regardless of the size of the operation, the bookkeeper is a key person in the organization's system of financial information.

## Vocabulary

**deduct** (v) — вычитать; удерживать

**withhold** (v) — удерживать; останавливать

**compute** (v) — считать; подсчитывать; вычислять; делать выкладки

**tabulate** (v) — сводить в таблицы

## 2.5 Managerial accounting

Managerial accounting is used to provide information and analyses to managers within the organization to assist them in decision making. Managerial accounting is concerned with measuring and reporting costs of production, marketing, and other functions (cost accounting); preparing budgets (planning); checking whether or not units are staying within their budgets (controlling); and designing strategies to minimize taxes (tax accounting).

Simple analyses of corporate figures can disclose very important information. For example, a slight month-to-month increase in payroll costs may not appear significant. But multiply that increase by 12 months, and the increase in costs can be disastrous. Monitoring figures such as profit margins, unit sales, travel expenses, cash flow, inventory turnover, and other such data is critical to the success of a firm. Top management's decision making is based on such data. The question that managerial accounting reports are designed to answer include the following:

What goods and services are selling the most, and what promotional tools are working best?

How quickly we are selling what we buy, and how does that compare with other firms in the same industry?

How much profit is the firm making, and does that compare favourably with other firms? If not, why not?

What are our major expenses, and are they in line with what other firms spend?

How much money do we make on the investment the owners have made in the firm, and does that compare favourably with other firms in the same industry? If not, why not?

How much money are we paying in taxes, and how can we legally minimize that amount?

Will we have enough cash at the end of each month this year to pay our bills and, if not, have we made arrangements to borrow that money somehow?

Are our costs of doing business in line with the costs of other firms in the industry and if not, why not?

If you are a business major, it's almost certain you will be required to take a course in managerial accounting. With growing emphasis on global competition, company downsizing, and organizational cost cutting, managerial accounting may be one of the most important courses you study in your college career.

## Vocabulary

**assist v.** — помогать, содействовать, принимать участие  
**disclose v.** — открывать, раскрывать; обнаруживать  
**payroll n.** — платежная ведомость

**margin n.** — 1) край; (off page) поле (usu. pl.)  
2) запас, коэффициент  
3) чистая прибыль  
**favourable** — благоприятный, благосклонный  
**a favourable report** — положительный отчет

## 2.6 Financial accounting

Financial accounting differs from managerial accounting because the information and analyses are for people outside of the organization. This information goes to owners and prospective owners, creditors and lenders, employee unions customers, suppliers, governmental units, and the general public. These external users are interested in the organization's profits, its ability to pay its bills, and other financial information. Much of the information is contained in the annual report, a yearly statement of the financial condition and progress of the organization. Various quarterly reports keep the users more current. Financial accounting reports answer such questions as the following:

Has the company's income been satisfactory? Should we invest in this company?

Should we loan money to this company? Will it be able to pay the money back?

Can the company afford to raise its salaries? Is it financially strong enough to provide permanent employment?

Is the company financially strong enough to stay in business to honour product warranties?

## Vocabulary

**prospective (adj)** — будущий, пред- полагаемый, ожидаемый  
**warranty (n.)** — основание, гаран- тия

**external (adj.)** — внешний  
**annual report** — годовой отчет

## 2.7 Accounting versus bookkeeping

Bookkeeping involves the recording of business transactions. It is a rather mechanical process and does not demand the financial training and insights of accounting. Bookkeeping is an important part of accounting, but accounting goes far beyond the mere recording of data. Accountants classify and summarize the data provided by bookkeepers. They interpret the data and report them to management. They also suggest strategies for improving the financial condition and progress of the firm. Accountants are especially valuable for income tax preparation and financial analysis.

Now that you have some understanding about what accountants do and for whom they do it, we can get down to the fundamental aspects of bookkeeping and accounting. Accounting, remember, involves the gathering and recording of transactions (for example, the sale of merchandise, the payment of a bill, or the receipt of merchandise into storage), and the periodic preparation of financial statements that summarize those transactions. While reading the texts the goal is not to learn how to be an accountant, just to learn the terms and concepts.

### Vocabulary

**insight** *n.* — проицательность; понимание

**summarize** *v.* — суммировать; резюмировать; подводить итог

**interpret** *v.* — толковать, истолковывать

**merchandise** *n.* — товары (m. pl.)

### Vocabulary Practice

1. What is a *liability*? What are some examples of liabilities?
2. What does *capital* mean? What other terms are often used instead of capital?
3. What is an *account*? Give an example of an account. What abbreviation is commonly used for account?
4. What is *double-entry* bookkeeping? How does it differ from *single-entry* bookkeeping?
5. What is a *debit*? What kind of accounts are increased by debiting? What abbreviation is commonly used for a debit?
6. What is a *credit*? What kind of accounts are increased by crediting? How is it commonly abbreviated?
7. What is a *journal*? In double-entry bookkeeping, what is entered in the journal?

8. What is a *ledger*? What is the relationship of a journal to a ledger? What does *posting* mean?
9. What does *to foot* mean?
10. What is a *trial balance*?

## Discussion

1. How do bookkeeping procedures in a large organization differ from those in a small one? Are the basic principles the same or different?
2. What are some of the basic requirements for a bookkeeper?
3. When were the first known business records kept? By whom? What kinds of records were kept?
4. How did modern bookkeeping begin?
5. What are the two basic methods of bookkeeping?
6. When was the double-entry method introduced? By whom? What is its basic principle?
7. What is an account? What are the three categories of financial data listed in an account?
8. What broad areas of interest is bookkeeping concerned with?
9. What is the difference between an asset and a liability? Give an example of each.
10. What is the term used for the value of a business to its owner? What other terms refer to the same concept?
11. What is a ledger? What kinds of accounts are entered in it?
12. What is posting?
13. What information is recorded in journals?
14. On which side of an account are debits entered? On which side are credits entered? What do these terms mean literally? How are they commonly abbreviated?
15. For what purpose do some bookkeepers use a far right-hand column in their ledgers?
16. What is the basic accounting formula?
17. How are asset and expense accounts decreased? How are they increased?
18. How are liability, capital, and income accounts decreased? How are they increased?
19. Describe the entries to be made by a bookkeeper for a furniture store when (a) a couch is sold for \$300, and (b) when the janitor is paid his weekly salary of \$175.
20. What is the process by which entries are made in the ledger?
21. What is the purpose of footing, or totaling, the columns of an account?

22. What does it mean if the debits and credits in a ledger are not balanced?
23. What is not included in single-entry bookkeeping? What type of record is commonly kept by means of the single-entry method?
24. What are some of the specific types of transactions that are frequently recorded by bookkeepers?
25. What are some of the other records that a bookkeeper often keeps?
26. Why is a bookkeeper a key person in an organization?

## 2.8 The asset account

**Assets** are what a business owns, but they are also more than that. Assets include productive items (such as equipment, buildings, land, furniture, fixtures, and motor vehicles) that contribute to generating income, as well as intangibles of value such as patents or copyrights. Assets include the following:

- Cash (cash on hand, "petty" cash, and deposits in banks).
- Accounts receivable (money owed to a business from customers who bought goods on credit).
- Inventory (goods in storage that could be sold).
- Investments (e.g., stocks and bonds that the company owns).
- Land.
- Equipment.
- Buildings.
- Motor vehicles.
- Patents (the saleable rights to inventions).
- Copyrights (e.g., the saleable rights to published materials).

Assets, then, are things such as property, patents, and machines that have money value (see Figure 1-1). Assets are listed according to their liquidity. Liquidity refers to how fast an asset can be converted to cash. For example, land is considered highly non-liquid because it takes much time and paperwork to sell land. On the other hand, stock is considered highly liquid because it can be sold within minutes. Based on liquidity, assets are divided into three categories:

1. **Current assets** — items that can be converted to cash within one year.
2. **Fixed assets** — items such as land, buildings and fixtures that are relatively permanent.
3. **Intangible assets** — a catch-all category that includes items such as patents and copyrights that have no real physical form.

Figure 1-1. Sample of Specific Account Titles in General Account Classifications.

For the Balance Sheet			For the Income Statement			
Assets	Liabilities	Owners Equity	Revenues	Cost of Goods Sold	Expenses	
Accounts receivable	Accounts payable	Capital stock	Sales revenue	Cost of buying goods	Wages	Interest
Inventory	Notes payable	Retained earnings	Rental revenue	Cost of storing goods	Rent	Donations
Investments	Bonds payable		Commissions revenue		Repairs	Licenses
Equipment	Taxes payable		Royalty revenue		Travel	Fees
Land					Insurance	Supplies
Buildings					Utilities	Advertising
Motor vehicles					Entertainment	Transp.
Goodwill					Storage	
Cash						

You can see why one of the key words in accounting is assets. Take a few minutes to go through the list, visualizing this financial base of the firm.

Notice that it basically has to do with things that have value that are owned by the organization.

Two key **financial statements**, as you have learned, are the following:

1. The balance sheet, which reports the financial condition of a firm on a specific date.
2. The income statement, which reports revenues, costs, expenses, and profits (or losses) for a specific period of time, showing the results of operations during that period.

After taking an intensive accounting course, one reporter summarized the difference this way: "The balance sheet is a snapshot, while the income -statement is a motion picture. The former tells what the company owns and owes on a certain day; the latter, what it sells its products for and what its selling costs are over a period of time".

## Vocabulary

**fixture n.** — приспособление  
**intangible adj.** — (non-material) не-  
 связанный, неуловимый;  
 ~ assets — немате-  
 риальные активы, неосязаемые цен-  
 ности

**inventory n.** — инвентарь  
**revenue n.** — доход; государствен-  
 ные доходы  
**snapshot n.** — (любительский) снп-  
 мок

## 2.9 Steps in the accounting cycle

1 →	2 →	3 →	4 →	5 →	6 →
Analyze source documents (sales slips, travel records, etc.)	Record transactions in journal	Transfer (post) journal entries to ledger	Take a trial balance	Prepare income statement and balance sheet	Analyze financial statements

Financial statements also provide the link between accounting the finance. An accountant's work is pretty much done when he or she prepares and analyzes the financial statements. That is where finance begins. The accountant or finance person's job is to analyze those statements and make recommendations to top management. Naturally, accountants and finance managers may work together to help interpret the firm's data and make recommendations. A financial statement is merely the summary of all transactions that have occurred over a particular period. Financial statements indicate the financial health of the firm. That is why they are of interest to stockholders (the owners of the firm); banks and bondholders (people who have loaned money to the firm); investors (people who may want to own part of the firm); unions; employees; and, of course, the Internal Revenue Service, which wants its share of the profits.

To understand accounting, you must be able to read and understand both the balance sheet and the income statement. There is one more financial statement that is critically important: the statement of changes in cash flows. That statement helps managers see what the sources of cash are and where cash is spent. The idea, remember, is to have cash available when you need it. The statement of changes in cash flows helps managers understand where cash is going so that they can keep more cash on hand. Some people say that cash flow statements are more important than the balance sheet and income statement. The truth is that all three statements are very important to all organizations.

A balance sheet is the financial statement that reports the financial condition of a firm at a specific time. It is composed of assets, liabilities, and owners' equity. Note that the income statement reports on changes over a period of time and the balance sheet reports financial conditions at a specific point in time.

The words *balance sheet* imply that the report shows a balance, an equality between two figures. That is, the balance sheet shows a balance



between assets on the one hand, and liabilities plus owner's equity on the other. The following analogy will explain the idea of the balance sheet.

Let's say that you want to know what your financial condition is at a given point in time. May be you want to buy a new house or car and need to calculate the resources you have available to buy these things. First, you would add up everything you own - cash, property, money people owe you, and so forth. Subtract from that the money you owe others (for example, credit card debt, IOUs) and you have a figure that tells you that, as of today, you are worth so much.

## Vocabulary

**stockholder n.** — акционер  
**bondholder n.** — держатель облигаций / бон  
**liability n.** — ответственность; обязательство

**equity n.** — справедливость;  
(pl., fin.) обыкновенные акции  
**subtract v.** — вычитать, вычесть

## 2.10 The fundamental accounting equation

Imagine that you don't owe anybody any money. That is, you don't have any liabilities. Then the assets you have (cash and so forth) are equal to what you own (equity). Translated into business terms, you have a fundamental accounting equation that is rather obvious. If a firm has no debts, then:

**Assets = Owners' equity**

This means that the owners of a firm own everything. If a firm has debts, the owners own everything except the money due others, or:

**Assets - Liabilities = Owners' equity**

If you add an equal amount to both sides of the equation (you remember this operation from algebra), you get a new formula:

**Assets = Liabilities + Owners' equity**

This last formula is the basis for the balance sheet. On the balance sheet, you list assets in a separate column from liabilities and owners' equity. The assets are equal to or are balanced with the liabilities and owners' equity. It is that simple. The only complicated part is determining what is included in the term assets and what is included in the terms *liabilities and owners' equity*. Let's look at a balance sheet in Figure 1-2 and we shall get some clues.

Figure 1-2 Classic Cereals balance sheet.

**CLASSIC CEREALSJNC.**  
Balance Sheet

Assets	
Current assets	
Cash	\$15 000
Accounts receivable	200 000
Notes receivable	50 000
Inventory	<u>33,500.</u>
<b>Total current assets</b>	<b>\$600.000</b>
Fixed assets	
Land	\$40 000
Buildings and improvements	200 000
Equipment and vehicles	120 000
Furniture and fixtures	26 000
Less Accumulated depreciation	<u>180 000</u>
<b>Total fixed assets</b>	<b>\$206.000</b>
Other assets	
Goodwill	\$200.000
Research and development	80 000

**CLASSIC CAREALS, INC.**  
Balance Sheet

<b>Total other assets</b>	<b>\$100.000</b>
<b>Total assets</b>	<b><u>\$ 906.000</u></b>
Liabilities	
Current liabilities	
Accounts payable	\$ 40 000
Notes payable	8 000
Accrued taxes	150 000
Accrued salaries	15 000
Pension found	<u>75 000</u>

<b>Total current liabilities</b>	<b><u>288.000</u></b>
Long-term liabilities	
Notes payable	335 000
Bonds	<u>290 000</u>
<b>Total long-term liabilities</b>	<b><u>\$ 325.000</u></b>
Owner's equity	
Common stock	\$100 000
Retained earnings	<u>\$193 000</u>
<b>Total owners equity</b>	<b>\$ 293.000</b>
<b>Total liabilities and owner's equity</b>	<b><u>\$ 906.000</u></b>

First of all, the balance sheet shows that assets are divided into three categories: (1) current assets (cash or assets that can be turned into cash in one year or less), such as accounts receivable; (2) fixed assets (land, buildings, furniture); and (3) intangible assets, such as patents and copyrights.

Liabilities are divided into two categories: (1) current liabilities (obligations that must be paid within one year), such as accounts payable, and (2) long-term liabilities (obligations that will not be paid within one year), such as long-term loans and corporate bonds.

In a corporation, owner's equity consists of common stock (certificates of ownership) and retained earnings (earnings not distributed to owners). Because neither sole proprietorships nor partnerships have common stock, their owners' equity is called a *capital account*. The asset, liability, and owners' equity accounts set up in the journals and ledgers are all part of the preparation for the balance sheet.

## Vocabulary

**asset n.** — актив

**equation n.** — (making equal, balancing) выравнивание, уравнение

**sole adj.** — (exclusive) исключительный

**proprietorship n.** — обладание, владение

**ledger n.** — главная учетная книга

## Review

### A. Match the phrase on the left with the statement on the right.

- |                   |       |   |
|-------------------|-------|---|
| 1. Liability      | _____ | Something of value to an organization.              |
| 2. Credit         | _____ | The basic record in double-entry bookkeeping.       |
| 3. Journal        | _____ | Owners' equity.                                     |
| 4. Post           | _____ | The left-hand column of an account.                 |
| 5. Footing        | _____ | The right-hand column of an account.                |
| 6. Account        | _____ | The test balance of the accounts.                   |
| 7. Asset          | _____ | A book of original entries.                         |
| 8. Trial balance  | _____ | The book that lists all of the accounts.            |
| 9. Proprietorship | _____ | That which is owed by an organization.              |
| 10. Debit         | _____ | To transfer entries from the journal to the ledger. |
| 11. Ledger        | _____ | Totaling or adding columns.                         |

### B. What type of account — asset, liability, capital, income, or expense — do you think each of the following items should be listed under?

- |                                  |       |
|----------------------------------|-------|
| 1. Office supplies in stock      | _____ |
| 2. Accrued taxes                 | _____ |
| 3. Typewriter rental             | _____ |
| 4. Installment payments received | _____ |
| 5. Cash in bank                  | _____ |

### C. Check the appropriate box — debit or credit — to show what the bookkeeper should do if he or she wants to:

1. Increase the payroll (expense) account.
2. Increase the notes payable (liabilities) account.
3. Increase the proprietorship account.
4. Increase the inventory (asset) account.
5. Increase the sales (income) account.
6. Decrease the owners' equity account.
7. Decrease the furniture and fixtures (asset) account.
8. Decrease the telephone (expense) account.
9. Decrease the sales (income) account.
10. Decrease the mortgage (liability) account.

DR.	CR.

- D. Describe in your own words the qualifications that a good bookkeeper should have.*
- E. Do you think the bookkeeper is an important part of an organization? What kind of satisfaction would a person receive by working as a bookkeeper?*

## 2.11 Auditing

**Auditing**, the oldest area of practice, remains the largest for many firms. An **audit** is a CPA's (Certified Public Accountants) examination of a company's financial statements in order to express an opinion about the fairness of those statements in accordance with generally accepted accounting principles. When a company wants to borrow funds from a bank or have its stock listed on a stock exchange, it must present statements regarding its financial affairs. Because these statements are prepared by independent auditors, those interested in the information know it has been presented fairly and accurately.

Auditing is an accounting function that involves the review and evaluation of financial records. It is done by someone other than the person who entered the transactions in the records. Not so many years ago, the presence of an auditor suggested that a company was having financial difficulties or that irregularities had been discovered in the records. Currently, however, outside audits are a normal and regular part of business practice. In addition, many corporations, especially the larger ones with complex operations, maintain a continuous internal audit by their own accounting departments.

Even those companies that do not conduct an internal audit need to maintain a system of internal control. Most good systems will provide accounting controls against errors, as well as a division of duties to reduce the possibility of misappropriations. An example of a business paper used in an internal control system is the petty cash voucher. Vouchers indicate receipt of payment. In the case of petty cash vouchers, they are a record of payment from the small cash fund that most companies keep for minor transactions for which cash is needed. Another example is the expense account voucher that is required by many organizations before payment can be made to reimburse an employee for money spent for business travel and entertaining.

Ideally, a business should use as many internal controls as are consistent with efficient operation. In practice, the cost of installing and

maintaining control systems forces management to decide which control devices to use. If there are too many controls, a time may come when the company's employees are spending more time filling out forms than performing productive work.

As we noted above, many companies employ their own accountants to maintain an internal audit. They continuously review operating procedures and financial records and report to management on the current state of the company's fiscal affairs. These accountants also report on any deviations from standard operating procedures; that is, the company's established methods for carrying on its operating and recording functions. The internal auditors also make suggestions to management for improvements in the standard operating procedures. Finally, they check the accounting records in regard to completeness and accuracy, making sure that all irregularities are corrected. Overall, the internal auditors seek to ensure that the various departments of the company follow the policies and procedures established by management.

The emphasis placed on different parts of the internal auditor's report varies from company to company. In some organizations, the auditor's major or even sole function is to report on the completeness and accuracy of the books of account, as the financial records are known collectively. In more progressive companies, greater attention may be paid to the auditor's suggestions. In this case, instead of dealing primarily with the accounting and financial aspects of the business, the auditor also deals with operations such as marketing, production, and purchasing.

A weakness exists, however, in internal auditing. If a report is unfavorable, it may not be shown to the person in management who can correct the problem. As a result, management receives the false impression that things are running smoothly because they do not know about the problems that the internal audit has uncovered. To make efficient use of an internal auditing function, management must ensure that reports are received at all levels with an absolutely objective attitude.

Independent auditing is done by accountants who are not employees of the organization whose books they examine. The independent accountant is almost always a CPA. His or her clients are generally the owners of the business or their representatives, the board of directors.

Independent accountants review the business's operating activities; they also examine financial statements, the accounting records, and supporting business papers, usually known collectively as evidential matter. They do this in order to determine the accuracy, authenticity, and completeness of the records, all of which are part of the concept that is expressed

as fairness in accounting terminology. The accountant's judgment or opinion on the fairness of the record is contained in a document sent to the client upon completion of the audit. It consists of a letter addressed to the client that contains both a scope paragraph and an opinion paragraph.

The scope paragraph states the extent or range of the accountant's examination. In the letter below, the accountant states that he has examined the balance sheet, the statement of operations, and the statement of retained income for the accounting period. This is called a complete examination because it includes all accounts in the general ledger. The general ledger is the financial record where the individual accounts are kept.

In addition to the extent of the audit, the scope paragraph also states the standards that have been used for the audit. General categories for auditing have been developed in the accounting profession. These categories cover technical competence, independence of attitude, and reporting standards.

An independent auditor who examines company's records follows certain standards of field work. These deal with the planning and supervision, if necessary, of the audit. The independent auditor must also review internal controls as a basis for the applications of tests of their effectiveness. Furthermore, he or she is responsible for obtaining a reasonable and appropriate amount of evidential material from business papers, ledgers, and other sources in arriving at an opinion on the accuracy of the financial statements.

The reporting standards deal with the contents of the report. The report must state whether the financial statements of the organization have been prepared in accordance with generally accepted accounting principles. Furthermore, these principles must have been observed in the current accounting period in relation to the previous period. Unless the report states otherwise, the auditor verifies that the financial statements can be considered sufficient. The report must either express an opinion on the condition of the fiscal records or state that no opinion can be expressed, listing the reasons for the conclusion.

The opinion paragraph of the auditor's letter meets the standards given immediately above. The opinion is based on a careful examination. To reach his or her conclusions, the auditor uses whatever test and procedures he or she thinks are necessary. These may include a comparison of figures with those from previous years, computations of various kinds, physical examination of the operation, documentary evidence, personal contact with employees, and studies of operational and control procedures.

The language of the opinion paragraph is important and must be precise. It can express several different opinions that fall into definite categories:

1. *Unqualified opinion.* The auditor is able to satisfy himself by thorough examination of the accounting records that the financial statements are in accordance with generally accepted accounting principles on a basis that is consistent with the practices of the previous accounting period. The opinion in the letter given as an illustration is unqualified.

2. *Qualified opinion.* The auditor's opinion is affected by procedural omissions and variations in keeping with the financial records. In this case, the auditor has to give a clear explanation of the reasons for the qualification and of the effect on financial position and results of operations.

3. *Disclaimer of opinion.* The auditor has not obtained sufficient competent evidential matter to form an opinion on the fairness of presentation of the financial statements as a whole. The necessity of disclaiming an opinion may arise either from a serious limitation on the scope of examination or from the existence of unusual uncertainties concerning the amount of an item or the outcome of a matter materially affecting financial position or results of operations. In some situations where a disclaimer of opinion is required, a piecemeal opinion may be given. This kind of opinion may be offered when some but not all aspects of the statements, such as inventory, can be audited and confirmed.

4. *Adverse opinion.* The auditor feels that the financial statements do not present fairly the financial position or results of operations in conformity with generally accepted accounting principles. This kind of opinion is required in any report where the exceptions to fairness of presentation are so evident that in the auditor's judgment a qualified opinion is not justified. In such circumstances, a disclaimer of opinion is inappropriate because the auditor has sufficient information to form an opinion that the financial statements are not fairly presented.

The owner of a business may keep his or her own books of account and feels no need to have them examined by an auditor. Nowadays, however, it is generally accepted that every business should be audited. Auditors can help the business set up a reliable accounting system. They can also ensure that all transactions have been actually and properly recorded. They can also discover whether nonexistent transactions have been entered in the books. Even in a small business, mistakes in the books of account can lead to a business failure. Management must act upon the information in the financial records; the auditor ensures that this information is accurate, adequate, and accessible.



## Vocabulary

**internal control** — внутренний контроль

**internal audit** — внутренний аудит

**petty cash voucher** — расписка за мелкие наличные деньги

**fiscal affairs** — финансовые дела

**deviation** — отклонение, отступление

**independent auditing** — независимый аудит

**fairness** — беспристрастность, законность

**disclaimer of opinion** — отказ от мнения

**funds npl.** — (money) денежные средства, фонды

**stock exchange n.** — фондовая биржа

**fairly adv.** — справедливо; до-вольно

**adverse opinion** — неблагоприятное, отрицательное мнение

The Board of Directors  
Company, Inc.

I have examined the balance sheet of the Company, Inc., as of December 31, 1999, as well as the related statements of income and retained earnings and changes in financial position for the year ending on that date. My examination was made in accordance with generally accepted standards of auditing. It included tests of the accounting records and those other procedures that I considered necessary.

In my opinion, the accompanying balance sheet and statement of income and retained earnings present fairly the financial condition of Company, Inc., on December 31, 1999, and the results of its operations for the year ending on that date, in conformity with generally accepted principles of accounting applied on a basis consistent with that of the year preceding.

*Daniel M. Fletcher*

Daniel M. Fletcher  
Certified Public Accountant

New York, New York  
January 30, 2000.

**Sample petty cash voucher**

CASH VOUCHER		№. <i>138</i>	
		Date <i>May 8,</i> 19 <i>99</i>	
Pay to <i>Martha Reynolds</i>			
Description		Amount	
		Account Number	
<i>Cabfare and postage</i>		<i>20.</i>	<i>00</i>
		<i>707</i>	
Approved By <u><i>CWM</i></u>	Entered By <u><i>PMS</i></u>	Receipt of Above is Hereby Acknowledged By <u><i>M. Reynolds</i></u>	

**SPECIAL TERMS**

**Audit:** A review and evaluation of financial records by experts (auditors) who check the accuracy of the entries and the procedures followed by the accountants who originally compiled the records.

**Internal Control:** A system that includes the plan of organization and all the related methods and measures adopted within a business to safeguard its assets, check the accuracy and reliability of its accounting date, promote operational efficiency, and encourage adherence to prescribed managerial policies.

**Voucher:** A business paper indicating receipt of a payment. Vouchers used for internal control include petty cash vouchers, showing payments from small cash funds that most companies keep for sums too small for writing checks, and expense account vouchers for expenses paid by personnel in connection with travel, entertainment, and so on.

**Internal Audit:** A review and evaluation of company's financial records by employees of the same company.

**Standard Operating Procedures:** Organization's established methods of carrying out its operating and recording functions.

**Independent Audit:** An audit performed by someone from outside the organization. Most independent auditors are CPAs (certified public accountants).

**Fairness:** A term used to describe financial records' state of accuracy, authenticity, and completeness.

**Scope Paragraph:** A paragraph in a letter sent to a client by an independent auditor upon completion of an audit. It gives the scope, or extent, of the audit and the standards that have been applied.

**General Ledger:** The financial record in which the accounts that appear on the statements of financial position, owner's equity, and income are kept.

**Field Work:** In auditing, the accounting activities of an independent auditor who examines company's records.

**Opinion Paragraph:** The part of an auditor's letter to his client that gives his opinion, or judgement, on the financial statements.

## Vocabulary Practice

1. What is an *audit*?
2. What is an *internal control*?
3. What is a *voucher*? Name two kinds of vouchers.
4. What is an *internal audit*?
5. What are *standard operating procedures*?
6. What is an *independent audit*? Who conducts most independent audits?
7. What does *fairness* describe in relation to financial records?
8. What is the *scope paragraph*?
9. What is the *general ledger*?
10. What does *field work* refer to in auditing?
11. What is the *opinion paragraph*?

## Discussion

1. What does the auditing function of accounting involve?
2. How has the attitude toward auditing changed in modern times?
3. What kind of system for checking on operating and recording jobs is maintained by many organizations? What business papers are used in this kind of system?
4. What is the practical difficulty with internal control systems?
5. What are the various functions of internal auditors? Overall, what do they try to ensure?
6. What different emphases can be placed on an internal auditor's report?
7. What weakness exists in the internal auditing system? How can management overcome this weakness?

8. Who carries out an independent audit? Who are usually the clients?
9. What does the independent accountant review? What does he or she seek to determine?
10. How is his or her opinion expressed to his clients?
11. Where does the independent auditor indicate the extent of his or her work? What does a complete examination consist of?
12. What is stated in the scope paragraph in addition to the extent of the audit?
13. What do the general categories in an independent audit cover?
14. What must an independent auditor who examines company's records follow? What else must the auditor do?
15. What do the reporting standards deal with? What is included in them?
16. What should the auditor's opinion be based on? How does he reach his conclusion?
17. What are the different categories of opinion that an auditor can reach about organization's financial records? What is included in each?
18. How is auditing useful to a business?

## Review

### ***A. Indicate whether each of the following statements is true or false.***

1. \_\_\_\_\_ The people, who keep the financial records for an organization, are the same people who carry out an audit of those records.
2. \_\_\_\_\_ An outside or independent auditor is only brought in when a company is having financial difficulties or when irregularities are suspected.
3. \_\_\_\_\_ The more internal controls an organization has, the more efficient is its operation.
4. \_\_\_\_\_ Many companies nowadays employ accountants of their own to maintain a continuous internal audit.
5. \_\_\_\_\_ Internal auditors try to make sure that the operating sections of a company follow the policies established by management.
6. \_\_\_\_\_ The reports of internal auditors always reach the people in management who can act on them.
7. \_\_\_\_\_ CPAs seldom do independent auditing work.
8. \_\_\_\_\_ An independent auditor must examine not only the financial records, but also the evidential matter that supports them.

9. \_\_\_\_\_ The scope paragraph of an auditor's reporting letter includes both the extent of the audit and the standards that have been used to carry it out.
10. \_\_\_\_\_ The general ledgers of a company are used to keep a record of petty cash expenditures.
11. \_\_\_\_\_ An independent auditor is not concerned with judging the efficiency of a company's internal control system.
12. \_\_\_\_\_ The precision with which an auditor expresses his opinion is not important.
13. \_\_\_\_\_ If a company's financial records are not in satisfactory condition, the independent auditor must state in what way they are incorrect or incomplete.
14. \_\_\_\_\_ When an auditor's opinion is unqualified, he believes that a company's records meet the standard for fairness.
15. \_\_\_\_\_ An unqualified opinion by an independent auditor indicates that he has found minor areas in the financial statements that are not kept according to generally accepted accounting principles.
16. \_\_\_\_\_ A qualified opinion indicates that there were procedural omissions or variations in the financial records that have been audited.
17. \_\_\_\_\_ An independent auditor can give a piecemeal opinion about only some aspects of the financial records.
18. \_\_\_\_\_ A disclaimer of opinion indicates that the independent auditor cannot reach any judgment on the financial records.
19. \_\_\_\_\_ Only very large corporations need independent audits.

***B. State which of the following types of opinion an auditor should issue for each example:***

1. Unqualified opinion.
2. Qualified opinion.
3. Disclaimer of opinion.
4. Disclaimer of opinion plus a piecemeal opinion.
5. Adverse opinion
  - \_\_\_\_\_ The auditor was unable to complete his examination because the system of internal control was too poor.

- \_\_\_\_\_ The auditor believes that the method of depreciating fixed assets is not in conformity with generally accepted accounting principles. However, this error did not make the statement significantly misleading.
- \_\_\_\_\_ The auditor believes the statements are in accordance with generally accepted accounting principles, applied on a basis consistent with previous years.
- \_\_\_\_\_ The auditor was unable to complete his audit. However, he has satisfied himself that the inventory is correct.
- \_\_\_\_\_ The auditor completed his examination and believes that the assets of the company are materially overstated.

## 2.12 The income statement

The financial statement that shows the 'bottom line' - that is, profit after costs, expenses and taxes - is the **income statement**. The income statement summarizes all of the recourses (called **revenue**) that came into the firm from operating activities; money resources that were used up, called **cost of goods sold (or cost of goods manufactured)**; expenses; and what resources were left after all costs and expenses were incurred, including taxes (**net income**, also called net profit or net loss). The income statement reports the results of operations over a particular period of time. The formulas for the income statement are as follows:

Revenue **less** cost of goods sold **equals** gross profit or gross margin.

Gross margin **less** operating expenses **equals** profit (income) or loss before taxes.

Income before taxes **less** taxes **equals** net profit (income) after taxes.

Naturally, stockholders and others want to know if the company is earning income (profit) or not. Also, it is instructive to note what profit is made on sales and what profit is realized on the money invested by the owners (return on investment). Income statement is a financial Statement showing a firm's revenues, expenses, and net income for some period of time; indicates profitability and ability to generate income. It is also called earnings statement or statement of profit and loss.

### Vocabulary

**revenue n.** — доходы

**incur v.** — (expenses, loss) нести / понести; (debt) наделять

**margin n.** — маржа, чистая прибыль

## 2.13 Gross sales, net sales, and revenue

The figure that is most important at the top of the income statement is **net sales** (see Figure 1-3). To determine net sales, a firm must add up all of its sales revenues and subtract discounts, returns, and other adjustments made for customers.

Note the terms *revenue* and sales. Most revenue (money coming in to the firm) comes from sales, but there are other sources of revenue such as rents received, money paid to the firm for use of its patents, interest earned, and so forth. The top of the income statement looks only at sales revenues. Thus, *revenue* and sales are synonymous at that point.

Be careful not to confuse the terms *revenue* and *income*. Some people use them as if they were synonymous. But a glance at the income statement shows that revenue is at the top of the statement and income is at the bottom: net income is *revenue minus costs, expenses, and taxes*.

### Vocabulary

**subtract v.** — вычитать

**adjustment n.** — регулирование (of prices, wages)

**expenses n.** — расходы, затраты

## 2.14 Cost of goods sold (or cost of goods manufactured)

To calculate how much money a business earned by selling merchandise over the year, you have to subtract how much it spent to buy the merchandise from the sales revenue. That cost includes the purchase price plus any freight charges paid to bring in the goods plus the costs associated with storing the goods. In other words, all the costs of buying and keeping merchandise for sale, including packaging, are included in the cost of goods sold.

When you subtract the cost of goods sold from net sales, you get what is called *gross margin or gross profit*. **Gross margin**, then, is how much the firm earned by buying and selling merchandise,

In a service firm, there may be no cost of goods sold; therefore, net sales equals gross margin. In a manufacturing firm, we would estimate the

*cost of goods manufactured*. In either case (selling goods or services), the gross margin or gross profit figure doesn't tell you enough. What you are really interested in is net profit or net income. To get that, you must subtract expenses.

## Vocabulary

**freight charge** — стоимость провоза  
**merchandise n.** — товары

**packaging n.** — упаковка

## 2.15 Operating expenses

To sell goods or services, a business has certain expenses. Obvious ones include rent, salaries, supplies, utilities, insurance and depreciation of equipment. Accountants can help you find other expenses you may need to deduct including travel expenses, entertainment, and so on.

After all expenses are deducted, the accountant determines the firm's net income before taxes. Taxes (federal, state, and local) are a responsibility of the business and must be paid. After the allocation for taxes, we get to what people call the bottom line, which is the net income (or perhaps net loss) the firm incurred from operations. It answers the question, How much did the business earn?

## Vocabulary

**salary n.** — зарплата

**supply n.** — поставка, снабжение, запас

**utility n.** — коммунальные услуги (public utilities)

**insurance n.** — страхование

**depreciation n.** — обесценение

**deduct v.** — вычитать

**allocation n.** — выделение, ассигнование, распределение

## 2.16 Net income

After taxes are paid, the company may want to distribute some of the income (profit) to stockholders in the form of dividends. The remainder is left in the firm to invest. This remainder is known as retained earnings.



Keeping profits increases the value of the firm. Therefore, stockholders (owners) benefit from income (profits) whether they receive a share of it in the form of dividends or whether it is kept in the firm for reinvestment. Pause here for a moment and review the income statement in Figure 1-4 until you feel you understand what is involved.

## Vocabulary

**remainder n.** — остаток  
**share n.** — доля

**involve n.** — вовлекать; (concern, affect) касаться

## 2.17 The statement of changes in cash flows

The Financial Accounting Standards Board requires the statement of cash flows to replace the statement of changes in financial position. The statement of changes in cash flows reports cash receipts and disbursements related to the firm's major activities:

- Operations.
- Investments.
- Financing.

Figure 1-4 shows an example of a statement of changes in cash flows. This report could also be known as a funds statement because it answers the following questions: How much cash came into the business from current operations? That is, how much cash came into the firm from buying and selling goods and services?

Adjustments have to be made in various accounts, such as inventory, accounts receivable, and accounts payable, to see what actual cash flow changes occurred over time. A similar analysis is made of the cash flows from investing. That is, was cash used to buy stocks, bonds, or other investments? Were some investments sold that brought in cash? To avoid the problems faced a firm must plan its cash flow, it has to know what its cash needs will be. By developing a detailed financial plan, management helps ensure the long-run success of the firm.

Figure 1-4. Statement of changes in cash flows.

**CLASSIC CEREALS, INC.**  
**Statement of Changes in Cash Flows**

Cash flows from operating activities	
Cash received from customers	\$ 150.000
Cash paid to suppliers and employees	(90.000)
Interest paid	(5.000)
Income tax paid	(4.500)
Interest and dividends received	<u>1.500</u>
Net cash provided by operating activities	\$52.000

**CLASSIC CEREALS, INC.**  
**Statement of Changes in Cash Flows**

Cash flows from investing activities	
Proceed from sale of plant assets	\$4.000
equipment	
Payments for purchase of equipment	(10.000)
Net cash provided by investing activities	(6.000)
Cash flows from financing activities	
Proceeds from issuance of short-term debt	\$ 3.000
Payment of long-term debt	(7.000)
Payment of dividends	<u>(15.000)</u>
Net cash inflow from financing activities	<u>(19.000)</u>
Net change in cash and equivalents	\$ 27.000
Cash balance, December 31, 1996	<u>(2.000)</u>
Cash balance, December 31, 1997	<u>\$25.000</u>

Finally, an analysis is made of cash flows resulting from financing. That is, how much money came in from issuing stock, and how much went out for paying dividends? Other financial transactions are analyzed to see their effect on the cash position of the firm.

The firm analyzes all of the cash changes that have occurred from operating, investing, and financing and learns the net change in cash position. The changes in cash flows statement also gives the firm some insight into how to better handle cash so that no cash flow problems occur in the future. The statement of cash flows is the most complicated and we will not give a detailed analysis here. The statement of cash flows shows the flow of cash into and out of a business during a period of time. This statement indicates net cash flow (either inflow or outflow) from operating, investing,

and financing activities. Cash flow from operations measures the cash results of the firm's primary revenue-generating activities.

## Vocabulary

**disbursement n.** — (act of paying) оплата; (sum paid) выплаченная сумма

**adjustment n.** — регулирование (of prices, wages)

**inventory n.** — инвентаризационная опись

**ensure v.** — обеспечивать

**insight n.** — понимание

**inflow n.** — (of goods, money etc) наплыв, приток

**outflow n.** — истечение, утечка

## 2.18. Directors' Report

### Financial Statements

Turnover for the year increased by 3.9% to £348.8 million. In making comparisons it should be noted the accounting period was 52 weeks against 53 weeks in the preceding year and after adjusting for this difference in periods, the turnover increase was 5.9%. With inflation at low levels throughout the year, these figures confirm a volume growth in business was achieved, influenced by the acquisition of the Coventry & East Mercia Society's dairy business and record levels in travel bookings throughout 1993.

In general, there was little evidence of a return to more buoyant trading conditions and severe competition, particularly in food retailing, restricted margins. Despite these pressures, trading profit at £8.3 million was virtually identical to the record figure achieved in the previous year.

Asset disposals, principally the sale of properties in Derby centre and land at Bond End, Burton-on-Trent, contributed to both profit and cash flow. This enabled us to raise capital expenditure for the year to £17.1 million — more than twice the 1992/93 level — and more importantly to make a further reduction of over £4 million in our bank borrowings. Revenue reserves were increased by £9 million to £56.8 million at the end of the year. These excellent results confirm another outstanding year for the Society.

### Current Trading and Future Prospects

The key objectives of the Board and management are to maintain the existing core businesses and to be in a position to take advantage of suitable development opportunities as they arise. In 1994 all trading operations will see continuing investment to upgrade stores and improve production and distribution and distribution facilities. The major project of

the current year will be the completion of the new superstore at Peak the Park in Derby, scheduled for September. Also in 1994 the Society will seek to build on the partnerships launched successfully in 1993.

1994 is an important anniversary for the Co-operative Movement and we share the hope of our neighbouring societies that this year will at last see an upturn in economic prospects, leading to improved trading conditions.

## 2.18.1. Revenue Account

*year ended 29<sup>th</sup> January 1994*

Articles	Notes *	January 1994 (52 weeks)		January 1993 (53 weeks) (Restated)	
		£'000	£'000	£'000	£'000
<b>Turnover</b>			348,786		335,714
Less Value Added Tax			13,235		12,774
<b>Sales</b>	1		335,551		322,940
Cost of Sales			239,225		228,781
Gross Profit			96,326		94,159
Expenses	2		88,061		85,858
<b>Trading Profit</b>	4		8,265		8,301
Profit/(Loss) on Disposal of Fixed Assets	5		6,711		(137)
<b>Profit Before Interest</b>			14,976		8,164
Interest Payable less Receivable	6		257		900
<b>Profit Before Distributions</b>			14,719		7,264
Share Interest		293		330	
Other Distributions	7	299		217	
			592		547
<b>Profit Before Taxation</b>			14,127		6,717
Taxation	8		1,988		949
<b>Retained Profit for Year</b>			12,139		5,768

## 2.18.2. Balance Sheet

*Continued*

*as at 29<sup>th</sup> January 1994*

Articles	Notes	January 1994 (52 weeks)		January 1993 (53 weeks) (Restated)	
		£'000	£'000	£'000	£'000
<b>Fixed Assets</b>					
Tangible Assets	9		90,784		87,852
Investments	10		1,720		1,828
			92,504		89,680
<b>Current Assets</b>					
Stocks		10,788		10,480	
Debtors	11	14,674		10,637	
Investments	12	7,496		4,065	
Cash at Bank and in Hand		4,244		5,899	
			37,202		31,081
<b>Creditors:</b> Amounts falling due within one year	13		32,685		31,391
<b>Net Current Assets/(Liabilities)</b>			4,517		(310)
<b>Total Assets Less Current Liabilities</b>			97,021		89,370
<b>Creditors:</b> Amounts falling due after more than one year	14		9,503		12,893
<b>Provisions for Liabilities and Charges</b>					
Deferred Taxation	17		1,070		320
			86,448		76,157
<b>Capital and Reserves</b>					
Share Capital	18		7,287		7,033
Revenue Reserve	19		56,846		47,852
Revaluation Reserve	19		22,315		21,272
			86,448		76,157

## 2.18.3. Cash Flow Statement

*year ended 29<sup>th</sup> January 1994*

Articles	Notes*	January 1994 (52 weeks)		January 1993 (53 weeks) (Restated)	
		£'000	£'000	£'000	£'000
<b>Net cash inflow from Operating Activities</b>	20		11,264		15,263
<b>Returns on Investments and Servicing of Finance</b>					
Interest and Dividends Received		583		1,012	
Interest Paid		(929)		(2,148)	
<b>Net cash outflow from Returns on Investments and Servicing of Finance</b>			(346)		(1,136)
<b>Taxation</b>					
Corporation Tax Paid			(540)		(580)
<b>Investing Activities</b>					
Payments to Acquire Intangible Fixed Assets		(3,546)		(459)	
Payments to Acquire Tangible Fixed Assets		(13,134)		(7,413)	
Receipts from Sales of Fixed Assets		12,304		104	
<b>Net cash outflow from Investing Activities</b>			(4,376)		(7,768)
<b>Net cash inflow before Financing</b>			6,002		5,779
<b>Financing</b>					
Decrease in Members' Share Capital	23	(39)		(151)	
Repayment of Loans	23	(4,188)		(7,062)	
<b>Net cash outflow from Financing</b>			(4,227)		(7,213)
<b>Increase/(Decrease) in Cash and Cash Equivalents</b>	21		1,775		(1,434)

## 2.18.4. Statement of Total Recognised Gains and Losses

*year ended 29<sup>th</sup> January 1994*

Articles	January 1994 (52 weeks)	January 1993 (53 weeks)
	£'000	£'000
Retained Profit for Year	12,139	5,768
Unrealized Gain from Investment Property Revaluation	<u>1,059</u>	<u>1,266</u>
<b>Total Recognized Gains for the Year</b>	<u>13,198</u>	<u>7,034</u>

*Table I*

## 2.18.5. Reconciliation of Movements in Share Holders' Funds

*year ended 29<sup>th</sup> January 1994*

Articles	January 1994 (52 weeks)	January 1993 (53 weeks)
	£'000	£'000
Retained Profit for Year	12,139	5,768
Other Recognized Gains for the Year	1,059	1,266
Goodwill Sold previously written-off	780	—
Goodwill Acquired during the Year	(3,941)	(459)
Increase in Share Capital	<u>254</u>	<u>179</u>
<b>Net Addition to Shareholders' Funds</b>	10,291	6,754
Shareholders' Funds at 30 <sup>th</sup> January 1993	<u>76,157</u>	<u>69,403</u>
<b>Shareholders' Funds at 30<sup>th</sup> January 1994</b>	<u>86,448</u>	<u>76,157</u>

## 2.18.6. Notes to the Accounts

Articles	January 1994 (52 weeks) £'000	January 1993 (53 weeks) £'000
<b>1 Sales</b>		
Retail — Continuing Business	330,122	317,471
Operating Leases	<u>5,429</u>	<u>5,469</u>
	<u>335,551</u>	<u>322,940</u>
<b>2 Expenses</b>		
Personnel Expenses (Note 3)	50,964	50,482
Occupancy Costs	6,772	7,218
Depreciation of Owned Assets	5,616	5,146
Depreciation of Assets held under Finance Leases	141	283
Operating Lease Rentals — Plant and Machinery	1,644	1,246
Operating Lease Rentals — Land and Buildings	3,037	2,865
Auditors' Remuneration	45	45
Directors' Emoluments	22	20
Employee Discount Scheme	139	140
Other Expenses	<u>19,681</u>	<u>18,413</u>
	<u>88,061</u>	<u>85,858</u>
<b>3 Employees</b>		
The average number employed by the Group was:		
<b>January 1994</b>	January 1993	
Full-time <b>3,089</b>	3,061	
Part-time <u><b>1,877</b></u>	<u>1,898</u>	
<u><b>4,966</b></u>	<u>4,959</u>	
The costs incurred in respect of these employees were:		
Wages and Salaries	45,773	45,504
Social Security Costs	3,459	3,258
Pension Costs	<u>1,732</u>	<u>1,720</u>
	<u>50,964</u>	<u>50,482</u>



Articles	January 1994 (52 weeks)		January 1993 (53 weeks)	
	£'000	£'000	£'000	£'000
<b>4 Trading Profit</b>				
Income and Expenses relating to Investment Properties included in Trading Profit were:				
Rents Received		3,603		3,562
Depreciation	15		12	
Personnel and Other Expenses	1,252		1,365	
		1,267		1,377
		2,336		2,185
<b>5 Profit/(Loss) on Disposal of Fixed Assets</b>				
Profit/(loss) on Disposal of Tangible Fixed Assets		6,632		(137)
Loss on Disposal of Goodwill				
Cost of Disposals during the year (Note 19)	(780)		—	
Disposal Proceeds	344		—	
		(436)		—
Profit on Disposal of Fixed Asset Investments		515		—
		6,711		(137)
<b>6 Interest Payable less Interest Receivable</b>				
<b>Interest Payable</b>				
Bank Loans		793		1,856
Bank Overdraft		31		11
Finance Lease Charges		11		25
Other Loans		23		20
		858		1,912
<b>Interest and Dividends Received Unlisted</b>				
Fixed Asset Investments	127		130	
Current Asset Investments	23		25	
Short Term Deposits	352		768	
	502		923	

Articles	January 1994 (52 weeks)		January 1993 (53 weeks)	
	£'000	£'000	£'000	£'000
<b>Listed</b>				
Fixed Asset Investments	30		20	
Current Asset Investments	69		69	
		601		1,012
		257		900
Interest payable relating to loans not wholly repayable within five years amounted to £793,000 (1993 £1,058,000). All other interest payable relates to loans wholly repayable within five years				
<b>7 Other Distributions</b>				
Dividend Schemes		73		9
Member Relations		189		172
Co-operative Party		37		36
		299		217
<b>8 Corporation Tax</b>				
Provided on chargeable income and gains of the year at 33% (1993 33%)		1,302		728
Provided for Deferred Taxation (Note 17)		750		320
Adjustment for Previous Years		(64)		(99)
		1,988		949

Articles	Investment Properties £'000	Trade Properties £'000	Machinery and Plant £'000	Development in Progress £'000	Transport £'000	Total £'000
<b>9 Tangible Fixed Assets Cost or Valuation</b>						
Total Brought Forward	31,361	46,195	39,977	—	8,800	126,333
Additions	577	4,055	4,741	1,747	2,014	13,134
Transfers	292	(905)	—	613	—	—
Revaluation Adjustment	1,434	—	—	—	—	1,434
Disposals	(1,312)	(4,445)	(1,006)	—	(522)	(7,285)
	<u>32,352</u>	<u>44,900</u>	<u>43,712</u>	<u>2,360</u>	<u>10,292</u>	<u>133,616</u>
<b>Depreciation</b>						
Total Brought Forward	—	8,971	24,092	—	5,418	38,481
Provided this Year	9	1,034	3,345	—	1,369	5,757
Transfers	150	(615)	—	465	—	—
Revaluation Adjustment	375	—	—	—	—	375
Disposals	(534)	(15)	(774)	—	(458)	(1,781)
	<u>—</u>	<u>9,375</u>	<u>26,663</u>	<u>465</u>	<u>6,329</u>	<u>42,832</u>
<b>Net Book Value January 1994</b>	<u>32,352</u>	<u>35,525</u>	<u>17,049</u>	<u>1,895</u>	<u>3,963</u>	<u>90,784</u>
Net Book Value January 1993	<u>31,361</u>	<u>37,224</u>	<u>15,885</u>	<u>—</u>	<u>3,382</u>	<u>87,852</u>

The value of investment properties has been restated by Chesterton International Limited (International Property Consultants) as at 31<sup>st</sup> December 1993 by reference to the valuation undertaken by them as at 25<sup>th</sup> December 1992.

The valuation was carried out on an open market basis in accordance with the Statements of Asset Valuation Practice and Guidance Notes, published by the Royal Institution of Chartered Surveyors.

Equipment rented to customers is included in Machinery and Plant. Its net book value is £1,051,000 (1993 £1,071,000).

Articles	January 1994 £'000	January 1993 £'000
<b>The Net Book Value of Land and Buildings comprises:</b>		
<b>Investment Properties:</b>		
Freehold	29,567	27,862
Leasehold over 50 years	1,609	1,622
Leasehold under 50 years	<u>1,176</u>	<u>1,877</u>
	<u>32,352</u>	<u>31,361</u>
<b>Other Properties:</b>		
Freehold	23,935	25,520
Leasehold over 50 years	9,716	10,170
Leasehold under 50 years	<u>1,874</u>	<u>1,534</u>
	<u>35,525</u>	<u>37,224</u>
<b>All Properties:</b>		
Freehold	53,502	53,382
Leasehold over 50 years	11,325	11,792
Leasehold under 50 years	<u>3,050</u>	<u>3,411</u>
	<u>67,877</u>	<u>68,585</u>
<b>The Historical Cost of Investment Properties now included at valuation:</b>		
Cost	12,791	13,142
Accumulated Depreciation	<u>2,677</u>	<u>3,053</u>
<b>Net Book Value</b>	<u>10,144</u>	<u>10,089</u>

**Included in the above are the following amounts relating to assets leased under finance leases:**

Articles	Machinery and Plant £'000	Transport £'000	Total £'000
<b>Cost</b>			
Total Brought Forward	3,662	159	3,821
Additions	—	—	—
Disposals	(5)	(57)	(62)
	<u>3,657</u>	<u>102</u>	<u>3,759</u>
<b>Depreciation</b>			
Total Brought Forward	3,437	159	3,596
Provided this year	141	—	141
Disposals	(2)	(57)	(59)
	<u>3,576</u>	<u>102</u>	<u>3,678</u>
<b>Net Book Value January 1994</b>	<u>81</u>	<u>—</u>	<u>81</u>
Net Book Value January 1993	<u>225</u>	<u>—</u>	<u>225</u>

Articles	January 1994		January 1993	
	£'000	£'000	£'000	£'000
<b>10 Fixed Assets—Investments</b>				
Shares				
Listed	28		41	
Unlisted	1,692		1,691	
		1,720		1,732
Loans		—		96
		1,720		1,828
The Market Value of the Listed Shares at 29 <sup>th</sup> January 1994 was £1,256,000 (1993 £790,000)				
<b>11 Debtors</b>				
Trade Debtors		12,886		8,795
Prepayments and Accrued Income		1,788		1,842
		14,674		10,637
<b>12 Current Assets—Investments</b>				
Loans				
Listed	618		619	
Unlisted	115		113	
		733		732
Short Term Bank Deposits		6,763		3,333
		7,496		4,065
The Market Value of Listed Loans at 29 <sup>th</sup> January 1994 was £799,000 (1993 £701,000)				
<b>13 Creditors</b>				
Amounts falling due within one year				
Loans (Note 15)		1,763		2,114
Trade Creditors		18,953		18,198
Holiday Pay		3,850		3,723
Accrued Charges		3,052		2,576
Value Added Tax		166		75
Corporation Tax		1,452		754
Dividend Stamps		24		31
Other Creditors		3,425		3,920
		32,685		31,391

Articles	January 1994 £'000	January 1993 £'000
<b>14 Creditors</b>		
Amounts falling due after more than one year		
Loans (Note 15)	7,696	11,533
Funeral Pre-payment Plan	<u>1,807</u>	<u>1,360</u>
	<u>9,503</u>	<u>12,893</u>

Based upon the Group's experience of funerals carried out under its pre-payment plan, the liability has been divided between the current liability for those plans which may be completed within one year and the remainder where the liability is classified as an amount falling due after one year.

### 15 Loans

Articles	Interest %	January 1994		January 1993	
		Within One Year £'000	After One Year £'000	Within One Year £'000	After One Year £'000
Bank Loans—Unsecured (b)	6.2*	1,393	7,696	1,631	11,494
Savings Stamps (c)	Nil	56	—	51	—
Ordinary Loans (c)	2–3	152	—	152	—
Development Bonds (d)	4	19	—	21	—
Income Bonds (e)	4	104	—	127	—
Finance Leases (Note 16) (a)	*	39	—	132	39
		<u>1,763</u>	<u>7,696</u>	<u>2,114</u>	<u>11,533</u>

\* Interest rates charged at 29<sup>th</sup> January 1994 but which vary with prevailing market rates.

No loans are secured (1993 £5,000,000 secured).

Obligations under Finance Leases are secured against Leased Assets.

Terms of repayment:

(a) By installments wholly repayable within five years.

(b) By installments not wholly repayable within five years.

(c) On demand.

(d) Six months from date of investment.

(e) One year from date of investment.

Articles	January 1994		January 1993	
	£'000	£'000	£'000	£'000
<b>16 Obligations under Leases</b>				
<b>Finance Leases</b>				
The minimum finance lease payments to which the Group is committed in future years are:				
Amounts payable within one year		39		132
In the second to fifth years inclusive		—		39
		39		171
Obligations under Finance Leases are shown as part of Loans in Notes 13 and 14 as analysed in Note 15.				

### Operating Leases

At 29<sup>th</sup> January 1994 the Group had annual commitments under non-cancellable Operating Leases as follows:

Articles	Land and Buildings		Other	
	Land and Buildings	Other	Land and Buildings	Other
Operating Leases expiring:				
Within one year	467	434	297	54
In the second to fifth years inclusive	402	1,359	245	1,463
Over five years	2,146	40	1,996	16
	3,015	1,833	2,538	1,533
A number of Leases of Land and Buildings are subject to rent reviews.				
<b>17 Deferred Taxation</b>				
Accelerated Capital Allowances		1,405		1,032
Other timing differences		(335)		(712)
		1,070		320
No provision has made for deferred taxation relating to revalued investment properties for which the potential liability has not been quantified, since it is not intended to make any substantial disposals.				



Articles	January 1994 £'000	January 1993 £'000
<b>18 Share Capital</b>		
Contributions	711	447
Interest	293	330
	<u>1,004</u>	<u>777</u>
Withdrawals	(750)	(598)
<b>Movement in year</b>	254	179
Balance at 30 <sup>th</sup> January 1993	<u>7,033</u>	<u>6,854</u>
<b>Balance at 29<sup>th</sup> January 1994</b>	<u>7,287</u>	<u>7,033</u>

Articles	Revenue Reserve £'000	Revaluation Reserve £'000	Total £'000
<b>19 Movements in Reserves</b>			
Transfer from Revenue Account	12,139	—	12,139
Transfer of Realized Profits	16	(16)	—
Surplus on Revaluation of Property	—	1,059	1,059
Goodwill Sold previously written-off	780	—	780
Purchased Goodwill written-off	(3,941)	—	(3,941)
Movement in year	8,994	1,043	10,037
Balance at 30 <sup>th</sup> January 1993	<u>47,852</u>	<u>21,272</u>	<u>69,124</u>
Balance at 29 <sup>th</sup> January 1994	<u>56,846</u>	<u>22,315</u>	<u>79,161</u>

Articles	January 1994 £'000	January 1993 £'000
<b>20 Reconciliation of Trading Profit to Net Cash Inflow from Operating Activities</b>		
Trading Profit	8,265	8,301
Depreciation charged	5,757	5,429
Other Distributions	(299)	(217)
(Increase)/Decrease in Debtors	(3,565)	718
Increase in Creditors	1,414	1,649
Increase in Stocks	<u>(308)</u>	<u>(617)</u>
Net cash inflow from Operating Activities	<u>11,264</u>	<u>15,263</u>

Articles	January 1994 £'000	January 1993 £'000
<b>21 Analysis of Changes in Cash and Cash Equivalents during the year</b>		
Balance at 30 <sup>th</sup> January 1993	9,232	10,666
Net cash inflow/(outflow)	<u>1,775</u>	<u>(1,434)</u>
Balance at 29 <sup>th</sup> January 1994	<u>11,007</u>	<u>9,232</u>

Articles	January 1994 £'000	January 1993 £'000	Change in Year £'000
<b>22 Analysis of the Balances of Cash and Cash Equivalents as shown in the Balance Sheet</b>			
Cash at Bank and in Hand	4,244	5,899	(1,655)
Short Term Bank Deposits	<u>6,763</u>	<u>3,333</u>	<u>3,430</u>
	<u>11,007</u>	<u>9,232</u>	<u>1,775</u>

Articles	Share Capital £'000	Bank Loans £'000	Finance Leases £'000	Other Loans £'000
<b>23 Analysis of Changes in Financing during the Year</b>				
Balance at 30 <sup>th</sup> January 1993	7,033	13,125	171	351
Cash outflow from Financing	(39)	(4,036)	(132)	(20)
Share Interest charge	<u>293</u>	<u>—</u>	<u>—</u>	<u>—</u>
Balance at 29 <sup>th</sup> January 1994	<u>7,287</u>	<u>9,089</u>	<u>39</u>	<u>331</u>

### ***Check Questions.***

1. Can you explain the difference between managerial and financial accounting?
2. Could you define accounting to a friend so that he or she would clearly understand what is involved?
3. What is the difference between accounting and bookkeeping?
4. Can you name five original documents that bookkeepers use to keep records?
5. What is an accounting journal?
6. Can you name the six «accounts» of accounting and for each account give examples of items that go into it?
7. Can you list various assets by degree of liquidity?
8. What goes into the account called liabilities?
9. What is the formula for owners' equity?
10. What are two key financial statements?
11. What is the balance sheet?
12. What is the income statement?
13. What is the statement of changes in cash flows?

### ***Group Activities. Get ready for the discussion***

#### ***Discuss:***

1. What particular skills do you think different kinds of accountants need?
2. Do you think you possess these skills? What are your assets and liabilities?
3. If you have yet to choose a career, do you think it could be accountancy?

### ***Relevant Quotations. Read, translate, explain the following quotations.***

#### **ARISTOTLE (384-322 B.C.):**

*Greek philosopher*

Poverty is the parent of revolution and crime.

#### **GEORGE BUCHANAN (1506-1582):**

*Scottish humanist*

A fool and his money are soon parted.

**THOMAS CARLYLE (1795-1881):**

*English writer, historian and philosopher*

Debt is a bottomless sea.

A fair day's wages for a fair day's work: it is as just a demand as governed men ever made of governing. (Past and Present)

**J.B. COLBERT (1619-1683):**

*French Minister of Finance (from 1665)*

The art of taxation consists in so plucking the goose as to obtain the largest amount of feathers with the least possible amount of hissing.

***Choose the best alternative to complete the sentence.***

1. It's up to the accountant to \_\_\_\_\_ the various financial statements.  
a) interpret;      b) intercept;      c) invent;      d) translate.
2. The bookkeeper keeps a record of every financial \_\_\_\_\_.  
a) action;      b) transaction;      c) entry;      d) transcription.
3. It's essential to \_\_\_\_\_ the invoice number in any correspondence.  
a) estimate;      b) quote;      c) say;      d) tell.
4. The \_\_\_\_\_ of the invoice goes to the customer, another copy goes to Sales, and we keep the other one here in Accounts.  
a) photocopy;      b) issue;      c) top copy;      d) account.
5. We're in \_\_\_\_\_ with our supplier over this invoice so don't pay it until you hear from me.  
a) argument;      b) dispute;      c) agreement;      d) distress.
6. We send a \_\_\_\_\_ to customers who haven't settled their accounts.  
a) reminder;      b) remainder;      c) remembrance;      d) memory.
7. If these figures could be \_\_\_\_\_ into parts and labour it would make them easier to understand.  
a) set up;      b) broken down;      c) rounded up;      d) laid down.
8. This company has a weekly \_\_\_\_\_ of about £100,000.  
a) pay;      b) payroll;      c) salary;      d) wage.
9. Buying that new machinery has seriously \_\_\_\_\_ our reserves.  
a) depreciated;      b) depleted;      c) depressed;      d) deprived.
10. By examining the balance \_\_\_\_\_ and other documents we were able to find out that the company was not doing as well as they claimed.  
a) slip;      b) ledger;      c) account;      d) sheet.
11. Surely we can set some of these expenses \_\_\_\_\_ tax.  
a) against;      b) for;      c) on;      d) from.

12. The rent for the office is already 3 months \_\_\_\_\_!  
a) overtime;      b) in the red;      c) in demand;      d) overdue.
13. Due to the economic climate we have had to \_\_\_\_\_ more bad debts this year than ever before.  
a) tell off;      b) write off;      c) find out;      d) note down.
14. Do they have enough working \_\_\_\_\_ to keep trading?  
a) capital;      b) expenses;      c) accounts;      d) currency.
15. Such items as buildings and machinery are known as \_\_\_\_\_ assets.  
a) current;      b) hidden;      c) fixed;      d) liquid.

Check your answers:

1. a), 2. b), 3. b), 4. c), 5. b), 6. a), 7. b), 8. b), 9. b), 10. d), 11. a), 12. d), 13. b), 14. a), 15. c).

## **Список использованной и рекомендуемой литературы**

1. *Annual Report and Financial Statements*. Central Midlands co-operative Society Limited, 1994.
2. *Costinett S.* English for careers. The Language of accounting in English. — Oxford University Press, 1996.
3. *Kaluza H. J.* Introductory College Accounting (University of Western Ontario). — McGraw-Hill Ryekson Limited, 1980.
4. *Natekop B. J., Weis E., Haberfellner E.* Business Letters for All. — Oxford University Press, 1977.
5. *Norman S.* We're in Business. English for Commercial practice and international trade / Student's Book. — England: Longman, 1990.
6. *Rachman D. J., Mescon M. H.* Busines Today. — 5th ed. — N. Y.: Random House Business Division, cop. 1987.
7. *Богацкий И. С., Дюканова Н. М.* Бизнес-курс английского языка. — К.: Логос, 1997.
8. *Шевелева С. А., Стогов В. Е.* Elementary economics and business. Основы экономики и бизнеса. Москва, "Культура и спорт" 1996.
9. *Fundamentals of accounting and finance*. Professional content book in English. Danilova Z. V., Knyazivskaya I. B., "Aston", Ternopil, 1996.

## Unit 3

# PERSONNEL MANAGEMENT

## КАДРОВЫЙ МЕНЕДЖМЕНТ

- 3.1. Human Resource Management (*Управление трудовыми ресурсами*)
- 3.2. Human Resource Planning (*Планирование трудовых ресурсов*)
- 3.3. Forecasting (*Прогнозирование*)
- 3.4. Job Analysis (*Анализ труда, должностей*)
- 3.5. Recruiting and Selecting New Employees (*Подбор кандидатов и прием на работу*)
- 3.6. Stages in the Hiring Process (*Этапы приема на работу*)
  - 3.6.1. The Recruitment Process (*Процесс приема на работу*)
  - 3.6.2. Hiring Personnel (*Прием на работу*)
- 3.7. Manager-Employee relations (*Взаимоотношения руководителя со служащими*)
- 3.8. Leader Characteristics that Followers Admire (*Характеристика лидера, которым восхищается его окружение*)
- 3.9. Health and Safety Programs (*Программы здравоохранения и безопасности*)
- 3.10. Summary (*Краткое содержание основных вопросов*)
- 3.11. Jobs and Responsibilities (*Должности и ответственность*)
- 3.12. Applying for a Job (*Подача заявления о приеме на работу*)
  - 3.12.1. Samples of resumes (*Образцы резюме*)
  - 3.12.2. Samples of Letters Applying for a Vacancy (*Заявления на заполнение вакансии*)
- 3.13. Some tips for those who are going to the job interview (*Несколько подсказок тем, кто собирается на собеседование*)
- 3.14. Application Form (*Бланк-заявление для поступления на работу*)
- 3.15. Review Questions and Tasks (*Вопросы и задания для проверки*)

### 3.1. Human Resource Management

#### **personnel management**

Administrative activities related to acquiring workers, preparing them for work, overseeing their performance, and providing compensation

#### **human resource management**

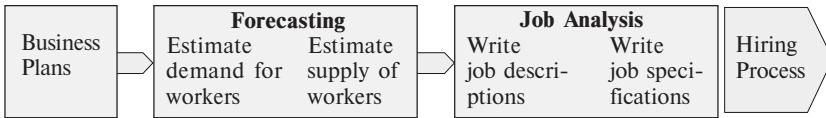
Expansion of personnel management to include strategic planning

Employees are an important component of every business. Realization of this fact was behind the rise of **personnel management**, the specialized task of obtaining the people a company needs and then overseeing their training, evaluation, and compensation. In the 1970s top management also began to realize that, with the right people in the right jobs, businesses can compensate for short-falls in other areas. The term **human resource management** was adopted by many companies to reflect the attitude that workers are of strategic importance; human resource managers became integral members of management teams plotting a course through rough economic seas. Many companies focus on the training and supervision of their managerial employees so that they have the resources they need for steady growth.

Human resource management is becoming more complex and crucial as the 1990s approach. Technology and the business environment are changing at an accelerating pace, creating mismatches between workers' skills and employers' needs. Human resource managers must figure out how to keep good workers when economic difficulties make pay freezes necessary; how to lay off workers equitably; how to retrain workers to enable them to cope with increasing automation and computerization; how to deal with increasingly complex (and expensive) employee benefits, such as pensions and health insurance; how to encourage employees to work more productively; and how to cope with the challenge of equal opportunity in employment. Given the growing importance and complexity of human resource problems, it is scarcely surprising that all but the smallest businesses employ specialists to deal with them.

What exactly do human resource departments do? Every human resource staff must perform this series of functions: planning, recruiting and selecting employees, training and developing workers, and appraising employment performance. A human resource staff gets involved in accommodating changes in employment status and in administering pay and employee benefits.

## 3.2. Human Resource Planning



*Fig. 2. Steps in Human Resource Planning*

Careful attention to each phase of this sequence helps to ensure that a company will have the right human resources when it needs them

The first step in staffing business organizations, as in any other management endeavor, is to plan. Figure 2 shows the sequence of activities involved in human resource planning. As one human resource staff director explains, a company must have “people on hand at the right time and in the right place to make a thing go”.

Planning is a critical step. A miscalculation could leave a company without enough people to keep production up to the level of demand, with the result that business is lost as customers or clients go elsewhere. Yet if a company expands its staff too rapidly, profits may disappear into the payroll. Or it may have to lay off the very people it just recruited and trained at considerable expense. This situation recently confronted National Semiconductor. A couple of years ago, anticipating greatly increased demand for its electronic components, National Semiconductor had hired many new workers — 1,200 for its Silicon Valley operations alone. But the expected business upturn failed to materialize, and orders for National Semiconductor’s products began to slump badly. Thus the company had to lay off 1,300 employees just a year after its hiring spree, including 600 in Silicon Valley.

## 3.3. Forecasting

**The personal interview** is a key in the hiring progress

Supply and demand are factors in human resource planning, just as they are in more general business planning. Forecasting begins with estimates of demand, the numbers and kinds of workers that will be needed at various points. For example, a boutique chain that is planning to



open another store within six months could estimate that it would need an additional store manager and an assistant manager as well as part-time salesclerks. Although the chain might start looking for someone as important as the manager right away, salesclerks would not have to be hired until just before the store opens.

The next task is to estimate the supply of workers. In many cases, that supply is within the company already — perhaps just needing training to fill future needs. If not, the human resource manager must figure out how difficult it will be to find people in the general work force who have the required skills. The boutique may well find that the assistant manager at an existing store can be promoted to manager of the new store — and perhaps current salesclerks could be made assistant managers. If not, the manager and assistant managers could be hired outside (although they would probably need specialized training in the boutique's operations), along with additional clerks for the new store.

Another consideration in estimating supply is whether enough people with the required skills are available in the general work force. But keeping track of the job market is a major undertaking these days, because it is in the process of substantial change. Although there are fewer jobs for factory workers in troubled “smokestack” industries, the demand for people with skills in engineering, nursing, paralegal work, and many other technical areas is mushrooming. Planners also worry that the end of the baby boom will shrink the pool of young, relatively unskilled workers who are so necessary in some businesses. Some experts believe that by 1995 the number of young people entering the labor market will have fallen by more than 10 percent.

Another problem planners must take into account is that today's fluid business conditions may leave companies drastically overstaffed or understaffed without much warning. Many companies are turning to part-time and temporary workers, who are easily added when business picks up and easily let go when it slows down again. The U.S. Department of Labor says that the number of temporary workers supplied by agencies doubled between 1982 and 1985, when economic growth was relatively uncertain. It is also less expensive to hire part-time and temporary workers, because the company doesn't have to provide benefits. Some companies have begun to provide at least some benefits, however, in order to attract high-quality workers.

### 3.4. Job Analysis

**job analysis** Process by which jobs are studied to determine the tasks and dynamics involved in performing them

If you were the owner of a small business, you might be able to hire employees on an informal basis. You would be in a good position to know the requirements of all the jobs in your company. In large organizations, however, where hundreds or thousands of employees are doing very different kinds of jobs, management needs a more formal and objective method of evaluating job requirements. That method is **job analysis**.

Several questions must be asked in job analysis: What tasks are involved in the job (what does the person do all day)? What qualifications and what skills are needed to do the job? (An architect, for example, must have a license; a secretary must be able to type.) What kind of setting does the job take place in? (Some jobs, such as sales, require extensive public contact; others, such as factory work, do not.) Does the job entail much time pressure (such as newspaper reporting) or little time pressure (such as attending to children in a day-care center)?

Let's look at a specific job — that of college professor. It requires a person with certain qualifications, usually an advanced degree and teaching experience. The work can be broken down into a number of specific tasks; giving lectures, grading exams, leading seminars, supervising independent study, doing research, attending department meetings, and so on. The job also requires both “people” skills and technical skills. Finally, the work can also be evaluated by its intended results: What are students supposed to learn in the professor's courses?

You might wonder why all this analysis is necessary. But if you were in charge of assigning professors to classes, this breakdown would help you know whom to hire and whom to promote. It would also help you identify larger problems in the way duties are assigned. Perhaps professors aren't doing enough research because teaching loads are too heavy. Or perhaps students' grades aren't being turned in on time because some professors have no teaching assistants to help them read hundreds of essays.

There are several ways to obtain the information needed for a job analysis. Human resource experts may simply ask employees or supervisors for information. They may also use direct obser-

**job description**

Statement of the tasks involved in a given job and the conditions under which the holder of the job will work

**job specification**

Statement describing the kind of person who would be best for a given job — including the skills, education, and previous experience the job requires. A job description lists the tasks the job involves and the conditions under which those tasks are performed.

A job specification spells out the characteristics — skills, education, and experience — of the ideal candidate for the job.

Job description

Job specification

vation, perhaps using a stopwatch or videotape to monitor someone’s work activities. Some employers have even asked employees to keep daily diaries describing exactly what they do during the work day.

After job analysis has been completed, the human resource manager may develop a **job description**, a specific statement of the tasks involved in the job and the conditions under which the holder of the job will work. The manager may also develop a **job specification**, a statement describing the skills, education, and previous experience the job requires. Figure 3 shows a job description and job specification for the same job.

<b>Data Control Clerk</b>	
	<p>Under immediate supervision receives and reviews input and output data for recurring computer reports and records. Receives detailed instructions on assignments which are not routine. Work is checked through standard controls.</p> <p><b>DUTIES:</b></p> <p>Operates data processing equipment such as Sorters (IBM 083), Bursters (Std Register and Moore), decollators (Std Register), Communications Terminal (IBM 3775) and interactive operation of IBM 327X family of terminals to process accounting, personnel and other statistical reports.</p> <p>Feeds and tends machine according to standard instructions.</p> <p>Makes minor operating adjustments to equipment.</p> <p>Submits data with necessary documentation for computer processing.</p> <p>Reviews output data and corrects problems causing incorrect output.</p> <p>Revises and maintains lists, control records, and source data necessary to produce reports.</p> <p>Distributes output reports by predetermined instructions.</p> <p>Operates magnetic tape cleaning and testing equipment.</p> <p>Corrects and/or adjusts files via use of time-sharing terminals.</p>
	<p><b>QUALIFICATIONS:</b></p> <p>Six months experience in operating data processing equipment.</p> <p>Ability to reconcile differences and errors in computer data.</p>

*Fig. 3. Sample Job Description and Job Specification*

### 3.5. Recruiting and Selecting New Employees

The next step is to match the job specification with an actual person or selection of people. Where does the human resource department get these candidates? Recruiters, specialists on the human resource staff who are responsible for obtaining candidates, may look among people already working for the company; they may seek referrals from employees or colleagues in the industry; they may advertise in newspapers and work through public and private employment agencies; they may go to union hiring halls; they may go to college campuses; they may even resort to pirating key employees from other companies.

### 3.6. Stages in the Hiring Process

After going through at least one — but usually more — of these recruitment channels to assemble a pool of applicants, the human resource department may spend weeks and sometimes even months on the selection process. Most companies go through the same basic steps in sifting through applications to come up with the person or people they want.

First, a small number of qualified candidates is separated from the applicants. A person may be chosen on the basis of a standard application form that all candidates are required to fill out or on the basis of a **resume**, which is a summary of education, experience, interests, and other personal data compiled by the applicant. Sometimes both sources of information are used.

Application forms typically include questions about a person's job experience, and they might include some about matters that are not strictly job-related (outside activities and so on). But questions about some unrelated factors are prohibited by the Equal Employment Opportunity Commission (EEOC) because they yield information that can be used to discriminate against people illegally. Questions about religion, age, gender, marital or family status, physical handicaps, arrest records, and financial affairs fall into this category. Thus companies have had to develop better, less discriminatory ways of finding out whether a person can handle a job.

### 3.6.1. The Recruitment Process

A British personnel Manager describes his company's recruitment procedure:

First, we advertise the job internally. The advertisement is on all the company noticeboards for two weeks. Then, we advertise the job in the national newspapers. Three weeks later, we produce our first shortlist, and invite eight candidates to a first interview. A week later, we interview the candidates in the first shortlist.

A week after the first interviews, we produce a final shortlist of two or three candidates and invite them to a second interview two weeks later. While the final candidates are waiting for their second interview, we check their references. Then we have the second round of interviews.

One week after the second interviews, we choose the successful candidate and offer him or her the job. If the successful candidate accepts the job (we allow them a week to decide), we then inform the unsuccessful candidates.

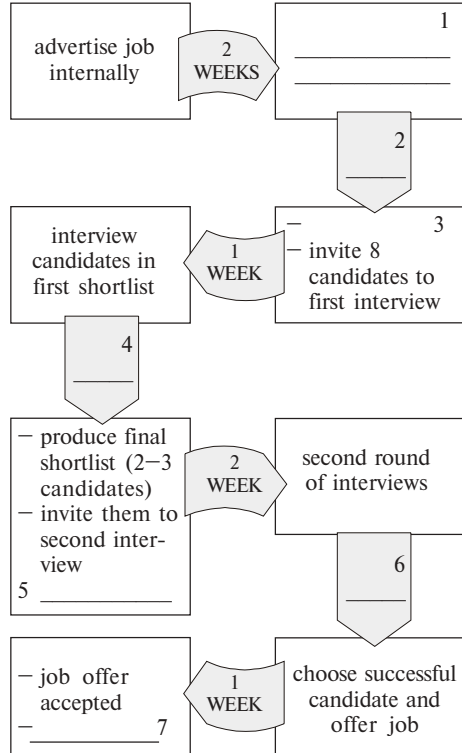


Fig. 4.

1. Complete the chart, using the information in the text.
2. How long does the whole process take?

### 3.6.2. Hiring Personnel

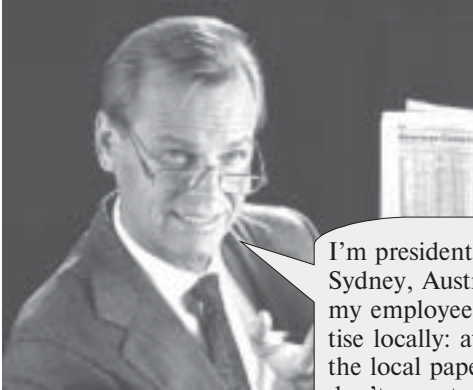
**People talk about hiring procedures in their companies.**



We're one of the largest construction companies in the States. We usually hire our younger staff straight from college, and we also advertise in magazines and newspapers. I guess our procedures are pretty typical. We ask people to send us their resumes, with references, of course, then a panel of interviewers meets a selection of applicants and makes a decision.



I work for an advertising agency in London. We're always looking for new people, and we do a lot of head-hunting. If we hear about someone who obviously has talent and ambition, we contact them and set up an informal meeting. If both sides are interested, we work out a deal.



I'm president of a small plastic factory in Sydney, Australia. If I need people, I get my employees to ask around, and I advertise locally: at the employment office, in the local paper, and outside the factory. I don't care too much about their background: I prefer to give a person the job first, and then see how they get on. Kind of a trial period, I guess.



We have about 1,500 employees at Futura Computers France, and we use a number of tests to screen job applicants, including an IQ test and a multiple-choice personality test. We have done some research into handwriting analysis, but we don't use it at present. We believe that it's necessary to find out as much as possible about an applicant before making a decision to hire.

1. What happens in your company?
2. What other hiring procedures and interview techniques do you know? Which are most common in Ukraine?

## Vocabulary

<b>personnel management</b> — управление персоналом; кадровый менеджмент	<b>compensation</b> — компенсация
<b>human resource management</b> — управление трудовыми ресурсами	<b>wages</b> — заработная плата ( <i>почасовая</i> )
<b>job analysis</b> — анализ труда, должностей	<b>salaries</b> — заработная плата, жалование ( <i>помесячная, годовая</i> )
<b>job description</b> — описание должности; условия работы	<b>incentive</b> — стимул
<b>job specification</b> — требования к претенденту на должность	<b>bonus</b> — премия
<b>recruiter</b> — работодатель	<b>commission</b> — комиссионные
<b>resume</b> — резюме	<b>profit sharing</b> — раздел прибыли
<b>orientation</b> — ориентация	<b>production sharing</b> — совместное владение производством ( <i>на паях</i> )
<b>performance appraisal</b> — оценка работы	<b>fringe benefits</b> — дополнительные выплаты, доплаты
<b>termination</b> — истечение срока	<b>perks (perquisite)</b> — дополнительные нерегулярные доходы
<b>seniority</b> — старшинство	<b>unemployment insurance</b> — страхование от безработицы
<b>outplacement</b> — устройство на работу сокращенного персонала	<b>pension plan</b> — программа пенсионного обеспечения
<b>mandatory retirement</b> — принудительный, обязательный уход с работы, увольнение	<b>employee stock ownership plan (ESOP)</b> — план приобретения акций служащими компании
<b>worker buyout</b> — выкуп работниками контрольного пакета акций компании	

### 3.7. Manager-Employee relations

Managers have many different ways of developing good relations with the employees they manage. Below is a list of ways suggested by a group of presidents of small Japanese companies.



**QUESTION: What do you do to develop good relations with your employees?**

Suggestion	You
A Be a good leader by working hard	
B Consult employees regularly	
C Hold a morning meeting with employees	
D Arrange morning exercises for the company	
E Invite employees home	
F Regularly socialize with employees after working hours	
G Eat lunch with employees in the staff restaurant	
H Go picnicking together	
I Help arrange the marriage of employees	
J Attend marriages and family funerals of employees	

1. Which suggestions do you prefer? Write 1 next to the best suggestion, 2 next to the second best, and so on.

2. Do you think that Western managers' answers would be very different? Which of the suggestions above would not appear on their list?

### **3.8. Leader Characteristics that Followers Admire**

To begin the investigation, along with professor Warren Schmidt we surveyed nearly 1,500 managers from around the country in a study sponsored by the American Management Association. We asked the following open-ended question: "What values (personal traits or characteristics) do you look for and admire in your superiors?" More than 225 different values, traits, and characteristics were identified. Subsequent content analysis by several independent judges reduced these items into fifteen categories. The most frequent responses, in order of mention, were (1) integrity (is truthful, is trustworthy, has character, has convictions), (2) competence (is capable, is productive, is efficient), and (3) leadership (is inspiring, is decisive, provides direction).

In a follow-up study sponsored by the Federal Executive Institute Alumni Association, we surveyed 800 senior executives in the federal government. Responding to the categories generated in the previous study, public-sector executives rated integrity, competence, and leadership as the three characteristics most admired in their superiors.

In a subsequent study, we elaborated on several categories and added a few new characteristics not included in the previous two studies. In a two-year series of executive seminars conducted at Santa Clara University and several corporate locations, over 2,600 top-level managers completed a checklist of superior leader characteristics. The results from these surveys, shown in Table 1, are striking in their regularity. It appears that there are several essential tests that a person must pass before we are willing to grant him or her the title *leader*. According to our research, the majority of us admire leaders who are:

- Honest;
- Competent;
- Forward-looking;
- Inspiring.

Table 1

**Characteristics of Superior Leaders**

Characteristic	U.S. Managers (N=2,615)	
	Ranking	Percentage of Managers Selecting
Honest	1	83
Competent	2	67
Forward-looking	3	62
Inspiring	4	58
Intelligent	5	43
Fair-minded	6	40
Broad-minded	7	37
Straightforward	8	34
Imaginative	9	34
Dependable	10	33
Supportive	11	32
Courageous	12	27
Caring	13	26
Cooperative	14	25
Mature	15	23
Ambitious	16	21
Determined	17	20
Self-controlled	18	13
Loyal	19	11
Independent	20	10

An internal study at AT&T has produced results that support our findings. Boyd Clarke and Ron Crossland of AT&T's Cincinnati-based Sales and Marketing Education Center have administered an internal AT&T version of our modified checklist of characteristics of admired leaders as part of their leadership research. Their findings show striking similarity to the findings among the general management population. The top five characteristics selected by AT&T employees were: (1) honest, (2) competent, (3) inspiring, (4) courageous, and (5) forward-looking. Considering all the hurdles AT&T has overcome in recent years, it seems predictable that "courageous" would rank slightly higher on their results than on the national survey.

You will note the similarity between some of these characteristics and the practices described by successful leaders above. We will examine the relationship among leaders' practices and these attributes.

### **3.9. Health and Safety Programs**

Health and safety programs are a means of reducing potential suffering and keeping health-related losses to a minimum. Thus they are, or should be, a major concern of every human resource manager. By educating employees in safety procedures, establishing and enforcing safety regulations, and redesigning work environments to minimize the potential for death, injury, and illness, businesses have often succeeded in cutting their health-related losses sharply. And they also have happier, healthier, and usually more productive employees.

Some companies are taking a more active role in maintaining employee health. Wellness and fitness programs encourage employees to eat sensibly, stop smoking, control stress, and exercise. The results have been impressive. One group of 7,000 employees at Lockheed Missiles and Space Company, Inc. in Sunnyvale, California, went through an educational program on improving diet and cutting stress and smoking; the group's incidence of high blood pressure dropped from 17 percent to 1.7 percent. Prudential Insurance Company in Houston installed exercise facilities for its employees and found that disability absence days declined by 20 percent. It estimates that it saved almost \$2 in medical and disability costs for every dollar invested in the exercise equipment. And in Asheboro, North Carolina, Black & Decker's household products group has hired a specialist to observe 800 employees' posture and

working conditions. If she finds problems that could affect an employee's physical well-being, she has a mechanic modify the work site to suit the employee. In two years, sore backs and tired muscles have decreased by 50 percent. Many other companies are joining this trend, and employees are enthusiastic. Best of all, their enthusiasm is translating into greater loyalty to the company and better work.

### 3.10. Summary

- 1 State the six main functions of human resource departments.

Human resource departments engage in planning, recruiting and selecting new employees, training and developing employees, appraising employee performance, accommodating changes in employment status, and compensating employees.

- 2 Identify ten stages in the hiring process.

The ten stages in the hiring process are soliciting applicants, setting up initial contact with applicants, collecting application forms and/or resumes, administering employment test (optional), setting up an interview with the human resource department, setting up an interview with the supervisor, conducting reference checks, setting up a medical examination (optional), evaluating candidates and selecting one for the job, and notifying that person to report for employment.

- 3 Identify at least three types of training programs.

One type of training programs is orientation, which helps new employees become acclimated to the new environment. Two other types are on-the-job training and classroom training. Training may cover job skills, specialized and advanced skills, and remedial education.

**4** Describe three ways an employee's status may change.

An employee's status may change through promotion to a higher-level position or reassignment to a similar or lower-level position; through termination (removal from the company's payroll); or through retirement at the end of the employee's work life.

**5** Distinguish between the two reasons employment may be terminated.

Employment may be terminated through layoff or firing. Layoffs occur because the company is in distress, and they may be temporary. Firings, however, are permanent removals of employees because of inadequacy.

**6** Identify two general ways of compensating workers.

Employees are compensated through cash payments and through benefits and services.

**7** Describe the two possible components of employee pay.

Wages (for hourly workers) and salaries (for nonhourly workers) are the most typical component of employee pay. Some employees also receive incentive payments (bonuses, commissions, profit sharing, and production sharing), which are cash payments tied to their performance or that of the company in order to encourage productivity and accountability; some workers, such as some sales representatives, receive incentive pay only.

**8** Explain at least four standard employee benefits and services.

Insurance plans, including unemployment benefits, are the most popular type of benefit; they help protect workers against the risk of losing their income through illness, death,

or changing economic conditions. Retirement benefits, including Social Security, are also popular as a means of guaranteeing working people a comfortable old age. Employee stockownership plans, in which employees receive shares of the company's stock, give workers a say in its management. "Cafeteria" benefits are flexible plans providing employees the unique combination of benefits that suit their needs. Health and safety programs, including fitness and wellness programs, help keep employees at peak productivity.

### 3.11. Jobs and Responsibilities

#### 1. Study these sentences.

I'm **a** financial controller. (a/an + job)  
**an** engineer

I work **for** ATT. (for + employer)

I'm **in** marketing. (in + type of work)  
the chemical business.  
chemicals.

**Complete this conversation.** Use *a, an, for, and in*.

A What do you do for a living?

B I'm \_\_\_\_\_ computers.

A Really? Who do you work \_\_\_\_\_ ?

B Olivetti. I'm \_\_\_\_\_ product manager.

What about you?

A I work \_\_\_\_\_ Balfour Beatty.

B So you're \_\_\_\_\_ the construction business?

A Yes. I'm \_\_\_\_\_ engineer.

#### 2. Complete these sentences about yourself.

1. I'm a/an \_\_\_\_\_ .

2. I work for \_\_\_\_\_ .

3. I'm in \_\_\_\_\_ .

#### 3. How many executive managers and divisions does this organization have?

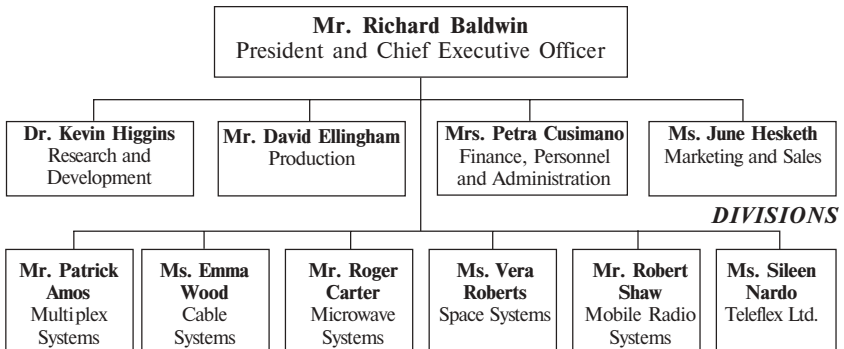


Fig. 5

Ask and answer questions about it.

Who is responsible for production? Mr. Ellingham.  
in charge of

Who is he responsible to? The Chief Executive Officer.

Who does he report to?

**4. Study the diagram below which represents the management of a company and ask similar questions.**

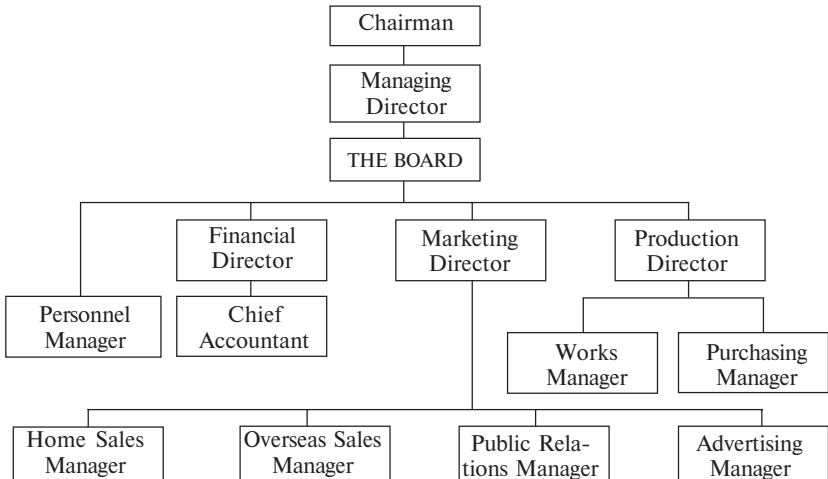


Fig. 6

1. Purchasing Manager	Начальник отдела снабжения
2. Personnel Manager	Начальник отдела кадров
3. Marketing Director	Директор по маркетингу
4. Managing Director	Управляющий
5. Home Sales Manager	Управляющий сбытом на внутреннем рынке
6. Public Relations Manager	Руководитель по связям с общественностью
7. Production Director	Руководитель производства
8. Works Manager	Директор
9. Chairman	Председатель
10. Financial Director	Финансовый директор
11. Overseas Sales Manager	Управляющий экспортными операциями
12. Advertising Manager	Руководитель рекламного отдела
13. Chief Accountant	Главный бухгалтер
14. The Board	Совет директоров фирмы

**5. Find out about your partners.**

- Which division do they work in?
- What are they responsible for?
- Who are they responsible to?

**6. Look through the following job advertisements.**

*What type of people would you expect to be given these jobs?*

*Also, what responsibilities would you expect each job to involve?*

**Small business advisers**

**A.** The Ministry of Overseas development is looking for Small Business Advisers to help train business people in Third World countries. The Ministry has 50 advisers working abroad at the moment, engaged in work, which has a lasting effect in the fight against world poverty and hunger. Each adviser finds the experience richly rewarding. Single people only. Please apply by letter to the Director of Overseas personnel. Ministry of Overseas Development, 372 Whitehall, London SW1.

**B. RIDER INSTRUMENTS INC.**

**SALES MANAGER**

25.000 pounds + car + benefits



We are a worldwide US Corporation who leads the international field in business machines. Corporate plans for growth in the UK call for the appointment of a key professional to lead and coordinate a small team of salesmen, and to ensure that sales targets are met.

You must be hungry for results, and already have at least ten years of highly successful sales experience. Call for an appointment.

Phone Steve Rezetzky on *0517-097050*

### **3.12. Applying for a Job**

Read the dialogue. Learn and reproduce it in pairs. Then make up your own dialogue-interview.

Dick: Hi, Ann, I hope I'm not calling too late.

Ann: Hi, no, I was watching TV. How are you?

Dick: I'm fine. Thank you. I'm calling at such a late hour because there is good news for you. I spoke to a friend of mine. He's on the board of directors of "A&B Instrument Company".

They have an immediate opening for a software programmer. They are looking for a specialist in this field. I told my friend about you. He wants to know if you can come tomorrow for an interview. You shouldn't miss this opportunity.

Ann: Dick, you're absolutely right.

I agree with you completely. But what about a resume?

Dick: Well, your resume, or curriculum vitae, should reflect your professional experience. No doubt, you have advanced knowledge. In the resume you should tell about your strengths and experience which let you do that job. Your strengths should be given more space. Other information could be left out.

Ann: Sometimes it is rather difficult to decide what to stress and what to leave out.

Dick: An employer's main interest is in what you can do for the company. Include information that shows that you are the right person for the job.

Ann: Thank you very much indeed.

#### **3.12.1. Samples of Resumes**

1

Irene Green

220 84th Street, Apartment 402

Jackson Heights, #4, 11372

Tel. (710) 456-8628

Objective: Commercial Artist.  
 Summary: Successful freelance artist for eight years in such areas as sign painting, oil painting and design. Possesses considerable abilities in a number of specialized areas of commercial art. Has a talent to stimulate interest for a variety of particular products, ideas and activities.  
 Accomplishments: Coordinated two different advertisement ideas around one basic theme on a poster for Park South Gallery. Designed a menu for Howard Johnson. Also completed all exterior advertising.  
 Experience:  
 1985 – present Freelance Commercial Artist, New York  
 1975 – 1985 Hollywood, Designer  
 Education: Arts College, Beverley Hills, California, USA  
 1970 – 1975 Degree: B.A. in Art and Design  
 Personal: Married, one child. Eyesight — excellent.

## Vocabulary

<b>commercial artist</b> — рекламный художник	<b>particular</b> — особый
<b>freelance</b> — внештатный	<b>advertisement</b> — реклама
<b>design</b> — <i>зд.</i> : оформление	<b>basic</b> — основной
<b>sign</b> — вывеска, плакат	<b>poster</b> — плакат
<b>to paint</b> — писать картину	<b>around</b> — вокруг
<b>considerable abilities</b> — большие способности	<b>exterior</b> — внешний, наружный
<b>area</b> — область	<b>eyesight</b> — зрение
<b>variety</b> — разнообразие	<b>excellent</b> — отличный
	<b>available</b> — доступный: <i>зд.</i> : предоставляется

2

Victor Freeman  
 376 West 186th Street, Apartment 6-1  
 New York, #4, 10033  
 Tel. (212) 973-6792

Objective: A position of a programmer.  
 Summary: 15 years of experience in software programming. Familiar with various kinds of computer languages.  
 Experience: IBM (Research Center)  
 1976 – present Software programmer  
 Education: Massachusetts Institute of Technology.

1970 – 1975 Dr. Sci (Mathematics).  
Personal: Married, two children.

## Vocabulary

**experience** — опыт

**Dr. Sci** — ученая степень докто-  
ра наук

**research center** — исследователь-  
ский институт

**software programmer** — програм-  
мист-математик

### 3.12.2. Sampels of Letters Applying for a Vacancy

**A.** Dear Sir,

Your advertisement for a software programmer in today's New York Times interests me very much because many years of experience have qualified me to work for a company like yours. Please consider me an applicant. You will find additional information about my qualification in the enclosed resume. I would appreciate your granting me an interview.

Sincerely yours

Victor Freeman

Enclosure.

**B** Dear Sir,

I am writing to you because of your advertisement in the Sunday issue of the New York Times. Ten years of experience as commercial artist have qualified me to seek employment at a company like yours.

I am enclosing my resume that will inform you of my work experience as an artist. I would greatly appreciate your granting me an interview at your convenience.

Sincerely yours

Irene Green

Enclosure.

### 3.13. Some tips for those who are going to the job interview.

Read the dialogue. Learn it and reproduce it with a partner.

Peter: Before going to the interview try to find information about the company you would like to get into. This will help you to make a better impression.

Jack: You're right. But how can I overcome my nervousness?

Peter: If you are well informed, your confidence is up. Your best guide is to rely on your common sense. There are, however, some basic rules common to most interviews.

Jack: Could you give me some examples?

Peter: When greeting the representative of the company, wait until he moves to shake hands. You should also wait until he offers you a seat.

Jack: But what about usual questions people are asked in an interview?

Peter: The most common questions are, for instance:

Why do you feel qualified for the job? – What do you know about the company? Do you enjoy working with others? – Are you willing to work overtime? – Tell me about your experience? What can I do for you?

Jack: Are there any surprise questions?

Peter: You should anticipate such questions:

Why should I hire you?

What are your three greatest strengths for this job?

Jack: I see. Are there any topics that should be avoided?

Peter: Yes, certainly. Avoid criticizing your former employers or fellow workers. Don't discuss your personal, domestic or financial problems unless you are asked about them.

Jack: Can I ask about the salary?

Peter: Absolutely. You can state the salary you want, but not until the employer has introduced the subject.

Jack: Thank you very much for all this valuable information.

***1. Now try to write your resume, and a letter applying for a vacancy you are interested in.***

### 3.14. Application Forms

*Now complete job application forms.*

#### Variant A

---

Name

---

Address

---

---

---

Telephone number

---

Age

---

---

Education and qualification

School/College	Examinations taken	Dates

Interests

---

---

---

References

Name	Name

Position	Position
----------	----------

Address	Address
---------	---------

---

---

Date available to start \_\_\_\_\_

---

## Variant B.

Application form Ref:  
Post:

Surname (Mr. Mrs. Miss Ms)	Forename (s)		
Maiden Name	Age	Date of birth	
Marital status	No of children —	Ages —	
Address			
Tel daytime		Tel evening	
Next of kin			

Education	From	To	Address
Secondary	20__	20__	
Higher	20__	20__	

Examination Title	Grade	Subject(s)	Date
Diploma			20__
Abitur			20__
LCCI Higher			20__
Cambridge Proficiency			20__

Have you any of the following skills?

Tick appropriate box

- Typing ..... wpm
- Shorthand ..... wpm
- Word processing
- Keyboard skills
- Bookkeeping
- Accounts
- Telex
- Customer contact
- Driving licence
- Filing

Languages	Fluent	Good	Fair
French			
English			

Employers Name and address	From	To	Position and duties	Salary
	20__	20__		

Names of two referees besides employers

Can we approach your employer for a reference?

- Yes  No

Hobbies/activities
--------------------

When will you not be available for an interview?

Date

Signature

Date(s)

## Variant C.

### 1. Personal

<b>Last name</b>  Sex: <input type="checkbox"/> Male <input type="checkbox"/> Female	<b>First name</b>  Marital Status: <input type="checkbox"/> Single <input type="checkbox"/> Married <input type="checkbox"/> Children (No)	<b>Date of Birth</b>  _____ dd m yr	<b>Photo</b>
Position Applied for:	Type of Employment: <input type="checkbox"/> Full Time <input type="checkbox"/> Part Time	Current Salary:	Date Available:

Place of Permanent Residence (Passport Registered):	Telephone No (W) (H)
Address You Can Be Reached at Present:	

How were you referred to our Company:  By your colleague. Yes, by whom? \_\_\_\_\_  
 By an employee. Yes, by whom? \_\_\_\_\_  
 Advertisement. Where? \_\_\_\_\_  
 Walk in

### 2. Health

Do you have any disabilities which would prevent you from performing the position for which you are applying, or which would require special accommodations?  
 Yes If yes, explain.  No

### 3. Education

Name of Educational Establishment	School, Location	Major Studies	Degree/Diploma or Certificate	Dates From/To
University				
College				
Others				
Secondary School				

### 4. Special knowledge, skills or qualifications

**Languages:** + - fluent, v - basic, - no

	Read	Write	Speak
Ukrainian			
English			

Personnel Computer  Yes  No  
 Typing Skills  Yes  No  
 Driving license  Yes  No year  
 Hobbies:

**5. Additional information**

- Have you been previously employed?  Yes  No  
 At our Company?  Yes (where? when) \_\_\_\_\_  No  
 Have you ever applied for a job  
 at our Company?  Yes (where? when) \_\_\_\_\_  No  
 Do you have a work book?  Yes  No  
 Did you serve in the Army?  Yes  No  
 Do you have a criminal record?  Yes  No

**6. Employment data**

List below employers for the last 5 years (starting from the last place).

From To	Company Name	Position	Responsibilities	Supervisor's Name/Phone	Reason for Leaving

I authorize investigation of all statements contained in this application. I understand that misrepresentation or omission of facts called for is cause for dismissal.

Applicant's Signature \_\_\_\_\_ Date \_\_\_\_\_

---



---

**DO NOT WRITE BELOW THIS LINE**

Interviewed by: \_\_\_\_\_ Date: \_\_\_\_\_

REMARKS:
----------



### 3.15. Review Questions and Tasks

1. How do personnel management and human resource management differ?
2. What is the purpose of conducting job analysis? What are some of the techniques used for gathering information?
3. Why are orientation programs important?
4. How may employee performance be evaluated?
5. What are some of the problems facing workers who are nearing retirement?
6. What is the purpose of using incentive programs as part of the compensation package?
7. What types of insurance benefits are available to today's workers? Why are they so popular?
8. Why are health and safety programs becoming more popular with employers, despite the costs?
9. Choose a company from an advertisement. Take the role of the company's representative. Write a letter offering an interview, appoint a date and a time. Ask to return the job application form to you as soon as possible.
10. Take the role of the applicant. Reply to the above letter. State that you will come at the appointed time.
11. Take the role of the interviewer. Plan the interview and questions you want to ask using the completed application form.
12. Take the role of the applicant. Prepare for a job interview. Decide what questions you want to ask about the job and the firm, what you can add about yourself and your qualification.
13. Write a letter giving a date and a time for an interview, ask to complete the Company's job application form and return it to you.
14. Reply to a letter offering a job interview. State that you will come at the appointed time. Complete the application form.
15. Prepare for a job interview. Decide what questions you want to ask about the job and the firm, what you can say about your experience.
16. Make up a plan of the interview and questions you want to ask based on the information given in the application form.

**Choose the best alternative to complete each sentence.**

Choose the best alternative to complete each sentence.

1. You must keep staff \_\_\_\_\_, especially when things get difficult.  
a) generated;      b) motivated;      c) frustrated;      d) electrified.
2. Weigh up the \_\_\_\_\_ of each alternative before deciding.  
a) checks and balances;      b) assets;      c) pros and cons;      d) profits.
3. A good manager must be able to handle \_\_\_\_\_ situations.  
a) sensible;      b) impressive;      c) touching;      d) touchy.
4. He decided to let things \_\_\_\_\_, so he dropped the subject until later.  
a) freeze;      b) ice over;      c) cool down;      d) flare up.
5. She \_\_\_\_\_ creating a better atmosphere amongst the staff.  
a) set about;      b) set off;      c) set out;      d) set down.
6. We need to have \_\_\_\_\_ arrangements in case things don't work out.  
a) container;      b) contingency;      c) consolidated;      d) consecutive.
7. In a meeting you must stop people talking at \_\_\_\_\_ purposes.  
a) opposite;      b) angry;      c) cross;      d) opposing.
8. Why doesn't he stick to the point? He's always going off \_\_\_\_\_.  
a) at an angle;      b) at a tangent;      c) by the way;      d) on the side.
9. It's always difficult when a team is working \_\_\_\_\_ a deadline.  
a) in;      b) at;      c) to;      d) opposite.
10. Try to ensure that each employee's \_\_\_\_\_ is not too great.  
a) workload;      b) working practice;      c) work-to-rule;      d) working party.
11. Those who can't manage their time efficiently always have high stress \_\_\_\_\_.  
a) grades;      b) standards;      c) performances;      d) levels.
12. The more responsibilities she \_\_\_\_\_, the more mistakes she made.  
a) took off;      b) took on;      c) took down;      d) took out.
13. I hope the project continues to run as \_\_\_\_\_ as it has so far.  
a) calmly;      b) confidently;      c) smoothly;      d) wisely.
14. After \_\_\_\_\_ many unforeseen obstacles they just managed to meet their deadline.  
a) overtaking;      b) overcoming;      c) overwhelming;      d) overriding.
15. What can we do to improve \_\_\_\_\_ in this department?  
a) morale;      b) mortality;      c) moral;      d) temperament.

Look for and underline useful word partnerships.

Check your answers:

1. b), 2. c), 3. d), 4. c), 5. a), 6. b), 7. c), 8. b), 9. c), 10. a), 11. d), 12. b), 13. c), 14. b), 15. a).

## Список использованной и рекомендуемой литературы

1. *Ashley A.* A Handbook of Commercial Correspondence. — Oxford University Press, 1992.
2. *Brieger N.* Early Business Contacts.
3. *Hollett V.* Business objectives. — Oxford University Press, 1997.
4. *Hollett V.* Business Opportunities. — Oxford University Press, 1996.
5. *Kouzes J. M., Posner B. Z.* The Leadership Challenge. How to Let Extraordinary Things Done in Organizations. — 5th ed. — Lossey-Bass jnc, cop. 1987.
6. *Rachman D. J., Mescon M. H.* Business Today. — 5th ed. — N. Y.: Random House Business Division, cop. 1987.
7. *Starting Up Your Own Business.* Expert Advice From the US Small Business Administration / Compiler Z. H. Poteet.

## Unit 4

# MARKETING. ECONOMICS AND DISTRIBUTION MANAGEMENT

## МАРКЕТИНГ. ЭКОНОМИКА И УПРАВЛЕНИЕ СБЫТОМ

- 4.1. What is marketing?(*Что такое маркетинг?*)
  - 4.1.1. Marketing backgrounds(*Основы маркетинга*)
- 4.2. Market analysis(*Анализ рынка*)
- 4.3. Marketing Strategy and Types of Markets  
(*Стратегия маркетинга и типы рынков*)
- 4.4. Pricing(*Ценообразование*)
- 4.5. Setting the price(*Установление цены*)
- 4.6. Pricing objectives(*Цели ценообразования*)
- 4.7. Break-even analysis(*Анализ безубыточности*)
- 4.8. Pricing Strategies(*Стратегии ценообразования*)
- 4.9. Non-price competition(*Неценовая конкуренция*)
- 4.10. Give Benefits not Products(*Предоставьте льготы, не продукты*)
- 4.11. Promotion(*Продвижение*)
- 4.12. Advertising(*Реклама*)
  - 4.12.1. Classes of Advertising(*Классы рекламы*)
- 4.13. Publicity(*Гласность*)
- 4.14. Product-Market Strategy(*Стратегия “товар – рынок”*)
- 4.15. Matching Products and Markets(*Соответствие товаров рынку*)
- 4.16. Branding (*Присвоение торгового знака*)
- 4.17. Product brands and Trademarks(*Торговые знаки и торговые марки*)
- 4.18. Transportation(*Перевозка*)
- 4.19. “Cash and carry”( *Плати и уноси*)

## 4.1. What is Marketing?

**Marketing** is the process of planning and executing the conception, price, promotion, and distribution of ideas, goods, and services to create exchanges that satisfy individual and organizational objectives.

People have been trying to sell things for years, and you've learned something about their techniques — advertisements, price markdowns, special contests, tantalizing displays of merchandise. But despite marketing's high visibility, the term itself is difficult to define. The American Marketing Association recently devoted a year of study to the question and evaluated 25 different definitions before reaching a consensus on the meaning of the word. According to its definition, marketing is planning and executing the conception, pricing, promotion, and distribution of ideas, goods, and services to create exchange that satisfy individual and organizational objectives. Marketing is a broad term, not limited to profit-making businesses alone; it encompasses the efforts of nonprofit organizations to “sell” intangibles.

What does the term marketing really mean? Many people mistakenly think of it as advertising or selling. However, advertising or selling are only two of several marketing functions, and not necessarily the most important ones.

Marketing can be defined as any human activity which is directed at satisfying needs and wants by creating and exchanging goods and value with others.

Marketing has become a key factor in the success of western businesses. Today's companies face stiff competition and the companies which can best satisfy customer needs are those which will survive and make the largest profits.

For an exchange to take place, four conditions must exist. First, an exchange requires participation by two or more individuals, groups, or organizations. Second, each party must possess something of value that the other party desires. Third, each must be willing to give up its “something of value” to receive the “something of value” held by the other. The objective of a marketing exchange is receiving something that is desired more than what is given up to get it, that is, a reward in excess of costs. Fourth, the parties to the exchange must be able to communicate with each other to make their “something of value” available. Note, though, that an exchange will not necessarily take place just because these four conditions exist. However, even if there is no exchange,

marketing activities still have occurred. The “somethings of value” held by the two parties are most often products and/or financial resources such as money or credit. When an exchange occurs, products are traded for either other products or financial resources.

## Vocabulary

**value** — потребительская стоимость, величина

**to face stiff competition** — сталкиваться с жесткой конкуренцией

**to make profit** — получить прибыль

**to trade** — обмениваться, торговать

**exchange** — обмен

**to require** — требовать

**to possess** — обладать, владеть

**a reward** — награда, вознаграждение

**in excess of** — более чем, сверх чего-то

**to occur** — происходить, случаться

## Vocabulary practice

### 1. Fill the gaps in these sentences, using the words from the list.

*Creative process, design, distribution, end-users, first, hire purchase, image, labels, mail order, need, opportunities, outlets, patterns, place, posters, price, product, production-oriented, profitably, promotion, range, rival, satisfy, strengths, threats, weaknesses*

1. What is marketing? Marketing is the ... of satisfying customer needs ... .
2. What is the ‘marketing mix’? It consists of ‘the four P’s’: providing the customer with the right P ..., at the right P ..., presented in the most attractive way (P ...) and available in the easiest way (P ...).
3. What is ‘a product’? A product is not just an assembled set of components: it is something customers buy to ... a ... they feel they have. The ... and the ... of the product are as important as its specification.
4. What is ‘price’? The product must be priced so that it competes effectively with ... products in the same market.
5. What is ‘promotion’? The product is presented to customers through advertising (TV commercials, ..., etc.), packaging (design, ..., etc.), publicity, P.R. and personal selling.
6. What is ‘place’? Your product must be available to customers through the most cost-effective channels of ... . A consumer product must be offered to ... in suitable retail ..., or available on ... or by ... .

7. What is meant by S.W.O.T.? A firm should be aware of its S ... and W ... and the O ... and T ... it faces in the market place.
  8. Why are firms becoming more customer-oriented and less ...? Because new products must be created to meet the changing ... of customers' needs — a firm can't rely on the success of its existing ... of products. The customer and his or her needs must come ...!
2. ***What opportunities and threats does your firm face in the next 2–3 years?***



“Well, gentlemen, we’ve got a stunning new logo and a marvelous publicity campaign ready. We just need to come up with a product”.

#### ***4.1.1 Marketing background***

As defined by the committee on definitions of the American Marketing Association, marketing is “the performance of business activities directed toward and incident to, the flow of goods and services from producer to consumer or user”.

Today discovering demand, managing demand, and physically supplying demand constitute the three major divisions of marketing effort undertaken by many firms. Marketing management approached this status in the 1950’s when the General Electric Company enunciated a policy declaring that “marketing begins with the consumer”. By discovering and filling unmet wants, its marketing program was designed to produce what General Electric could sell because customers had certain unmet wants. Subsequently, having what you could sell instead of trying to “high pressure” customers into buying what you have required provided the use of marketing research and environment “scanning” of conditions affecting business.

The key concept of market selection and product planning is the Product Life Cycle. It predicts that any product pass through various stages between its life and death (introduction — growth — maturity — de-

cline). So companies can make better marketing decisions if they find out where each of their products stands in its life cycle.

## Vocabulary

**to define** — определять  
**performance** — выполнение, осуществление, работа  
**incident to** — присущий  
**to discover demand** — обнаруживать спрос  
**to supply** — снабжать, поставлять  
**to undertake** — предпринимать, брать на себя обязательства, функции

**wants** — потребности, желания  
**to require** — требовать, нуждаться  
**to provide** — обеспечивать  
**environment** — окружающая среда, окружение  
**to predict** — предсказывать  
**growth** — рост  
**maturity** — зрелость  
**decline** — упадок

## 4.2. Market Analysis

For a small business to be successful, the owner must know the market. To learn the market, you must analyze it, a process that takes time and effort. You don't have to be a trained statistician to analyze the market place nor does the analysis have to be costly.

Analyzing the market is a way to gather facts about potential customers and to determine the demand for your product or service. The more information you gather, the greater your chances of capturing a segment of the market. Know the market before investing your time and money in any business venture.

These questions will help you to collect the information necessary to analyze your market and determine if your product or service will sell.

	YES	NO
1. Do you know who your customers will be?	_____	_____
2. Do you understand their needs and desires?	_____	_____
3. Do you know where they live?	_____	_____
4. Will you be offering the kind of products or services that they will buy?	_____	_____
5. Will your prices be competitive in quality and value?	_____	_____
6. Will your promotional program be efficient?	_____	_____
7. Do you understand how your business compares with your competitors?	_____	_____



8. Will your business be conveniently located for the people you plan to serve? \_\_\_\_\_
9. Will there be adequate parking facilities for the people you plan to serve? \_\_\_\_\_

## Vocabulary practice

### 1. Read the following conversation.

Hugh is describing his role as marketing director of a holiday tour company.

*Susan:* What do you actually do?

*Hugh:* Well, I carry responsibility for the marketing activities, it actually includes a product planning role and a brochure production role. There is then an advertising role, which covers TV advertising, market research, public relations (PR).

*Susan:* So, you handle PR as well?

*Hugh:* Yes, yes.

*Susan:* Oh, I see.

*Hugh:* So it's a department of about fifty people, and functionally, that's what I do. Now, if you say, what am I responsible for, it is profit.

*Susan:* Oh, really? You're in charge of the profit center?

*Hugh:* Right. Well, there are two sides to the job. There is a budget, which covers advertising and cost of producing brochures, and that's the cost side. But each program has got a sales target in terms of number of holidays sold. So responsibility for achieving those targets is with me, or my department.

*Susan:* Yes.

*Hugh:* So, it's more accurate to say, it's a sale and a load factor that are important, which means that you've got to fill a certain proportion of the seats on every flight, to the level that you actually cover your costs.

*Susan:* Yeah.

*Hugh:* And that leads to profit.

*Susan:* Yes.

*Hugh:* But I mean, clearly if the marketing department puts the wrong program on sale, and it doesn't sell, that is going to be a major influence on the profit.

*Susan:* Yes.

*Hugh:* Now, that profit responsibility is actually shared with three other main-line directors who also control large areas of costs.

**2. Choose the best answer. (1)**

1. To handle something is:
  - a) to be involved with;
  - b) to take care of;
  - c) to manage or direct;
  - d) to deal with.
  
2. A sales target is:
  - a) a number of sales necessary to make a profit;
  - b) the number of sales that a firm expect to make;
  - c) a number of sales achieved by a firm in a particular period;
  - d) the maximum number of sales possible in a particular period.
  
3. A product line is:
  - a) a factory system in which products are put together while being carried slowly along the belt;
  - b) a factory system in which products are put together by computer – driven robots;
  - c) a group of goods or services offered by a company;
  - d) a particular service or type of goods offered for sale by a company.
  
4. A profit center is:
  - a) a department of a company that tries to find ways of increasing the company's profits;
  - b) a department of a company whose objective is to make profits;
  - c) the most profitable of all the activities of a company;
  - d) income received by a company after its costs have been earned back from sales.
  
5. Advertising is:
  - a) the practice for creating a good image for a firm;
  - b) the practice of creating good relations between a firm and members of the public;
  - c) a public notice or short film to let people know about product or firm;
  - d) the practice of creating and showing public notices and short films about products or firms.
  
6. A programme is:
  - a) a machine that processes information and does calculations;

- b) a group of related plans, activities or products;
  - c) a sum of money set aside for a particular purpose;
  - d) a notice or short film about a firm or one of its products.
7. To say something accurate is to say something more:
- a) clever;
  - b) informative;
  - c) true;
  - d) interesting.
8. A costing is:
- a) the money actually spent on a product;
  - b) the money calculated as needed when planning a product;
  - c) a statement of the price that will be charged for a job;
  - d) a demand for payment of the agreed price for a job.
9. To overprice a product is:
- a) to raise the price;
  - b) to charge too much;
  - c) to sell so much that demand exceeds supply;
  - d) to sell so little that supply exceeds demand.

**3. Here is a list of responsibilities of a marketing director. Tick (v) those he is responsible for and cross (x) the others.**

- |                             |                             |
|-----------------------------|-----------------------------|
| 1. Marketing.               | 6. Advertising.             |
| 2. Product planning.        | 7. Education and training.  |
| 3. Computer systems design. | 8. Market research.         |
| 4. Brochure production.     | 9. Public relations.        |
| 5. Accounting.              | 10. Reaching sales targets. |

**4. Read conversation 1 again. Note, which of the following statements is true (T) or false (F). (2)**

- 1. There are three main roles in Hugh's responsibility for marketing activities.
- 2. Hugh's main responsibilities are for TV advertising, market research and public relations.
- 3. Susan is surprised that Hugh has responsibility for a profit center.
- 4. Reaching sales targets is part of Hugh's profit responsibility.

5. "A load factor" means that a company must operate a minimum number of flights in order to make a profit.
6. The marketing department has put the wrong programme on sale it is not selling because it is overpriced.
7. The two sides of Hugh's job, that is controlling a cost center and controlling a profit center, are of equal importance.
8. There are three main-lines directors of the company.

**5. Ken has written an article for a trade newspaper based on his interview with Hugh. Here is a part of it. Fill in the missing words.**

Hugh Large is one of the most successful directors in the Holiday industry today. As Marketing Director of Peterson Holidays, he is \_\_\_\_\_ for \_\_\_\_\_ Peterson, the holidays which thousands of people enjoy every year.

Among his responsibilities is \_\_\_\_\_, ensuring both that there is \_\_\_\_\_ for new products that all the company's products are marketed \_\_\_\_\_.

His marketing \_\_\_\_\_ includes \_\_\_\_\_, using both TV and newspapers, and \_\_\_\_\_: he has to explain the company's policies activities to the public and sometimes its problems.

He is one of four \_\_\_\_\_ who decide the \_\_\_\_\_ each year, which covers the cost of advertising and of producing the \_\_\_\_\_ that describe the holidays, as well as cost of holidays themselves. But his main responsibility is not just controlling a \_\_\_\_\_, but ensuring that \_\_\_\_\_ are met and that the company makes a \_\_\_\_\_.

He has had a \_\_\_\_\_ on the impressively consistent profitability of a Peterson over the past five years.

## Vocabulary

**advertising** — реклама  
**brochure** — брошюра  
**budget** — бюджет  
**cost center** — отдел затрат  
**efficiently** — эффективно  
**main-line director** — директор, ответственный за основные направления деятельности компании  
**major influence** — основное влияние

**market** — рынок  
**market research** — изучение рынка  
**planning** — планирование  
**products** — товары, продукция  
**profit** — прибыль  
**public relations** — связь с общественностью  
**responsible** — ответственный  
**role** — роль, функция  
**targets** — цели

## **6. Translate into English.**

Хью Ладж — один из наиболее преуспевающих руководителей индустрии туризма. Как директор по маркетингу “Петерсон Холидейз” он отвечает за планирование услуг компании, это услуги по отдыху, которыми ежегодно с удовольствием пользуются тысячи людей.

В его обязанности входит изучение рынка: как обеспечение рынка для новых услуг, так и забота о том, чтобы все услуги компании были эффективно реализованы. Его деятельность по маркетингу включает как рекламу с использованием телевидения и газет, так и связи с общественностью, он должен объяснять широкой общественности основные направления деятельности компании, а иногда и ее проблемы.

Он входит в число четырех главных директоров, которые ежегодно принимают решения о бюджете, в который входит стоимость рекламы и выпуск брошюр, описывающих путешествия, а также их стоимость. Но его основная обязанность не сводится к управлению отделом затрат, он должен обеспечить реализацию всех намеченных целей и получение компанией прибыли. Его основная заслуга в том, что компания последние пять лет с удивительным постоянством работает с прибылью.

## **4.3. Marketing Strategy and Types of Markets**

Because marketing is so complicated — and so central to an organization’s success — a business should develop an overall plan, a marketing strategy for its products. The first step in plotting the strategy is to identify the particular group of customers most likely to buy and whose needs the firm aims to satisfy. The second step is to settle on the combination of ingredients to be used in the marketing program.

A central concern in marketing is the market — the group of people who might need or want your products and who would have the money to buy them. Let’s say that you have recently opened a stationery and office supply store in a suburban location and want to plan a marketing program. Your first step would be to examine your market.

Markets may be classified in two broad categories. The consumer market consists of individuals or households that purchase goods and

services for personal use. The industrial/organizational market is made up of enterprises that buy goods and services for resale to the consumer market or for their own operations. These two groups approach their purchases in different ways, and as a consequence, different techniques are required to reach them.

The design of products you sell, the hours you are open, and many other basic decisions would depend on which type of market you thought you could serve best.

You would find, of course, that either market for stationery and office supplies is large and diverse, composed of many different market segments, or subgroups with distinctive needs and interests. To avoid spreading your resources too thin, you would need to focus on specific target markets. You would want to learn what kinds of office supplies they are currently buying and why, what these customers might want in the future, and how your company could satisfy their needs. You would also want to know what your competitors had to offer this target group and how you could achieve a competitive advantage. This type of research would help you make better decisions about what items to stock in your store and how to promote and price them. You would learn how to satisfy the customer and stimulate desire for your products.

#### *SPECIAL TERMS*

**Marketing strategy:** Overall plan for marketing a product.

**Market:** People who need or want a product and who have the money and authority to buy it.

**Consumer market:** Population of individuals who buy goods or services for their personal or household use.

**Industrial/organizational market:** Customers who buy goods or services for resale or for use in conducting business.

**Market segments:** Groups of individuals or organizations within a market that share certain common characteristics.

**Target markets:** Specific groups of customers to whom a company wants to sell a particular idea, goods, or services.

## **4.4. Pricing**

“How much is it?” This question is repeated many times a day in stores around the world. It shows that consumers and organizations will buy many things if the price is right. One can design the finest prod-

ucts in the world, but if the price is perceived as too high or too low, the effort may be for nothing. Pricing decisions, therefore, should be completely integrated with product decisions, because price is part of the product offer, just as the package and the brand are. Price is one way in which the seller can differentiate his or her offer from those of competitors.

Every company must translate its own particular objectives into specific prices for specific products. Three methods for doing so are markup pricing, breakeven analysis, and market-based pricing. But before applying any of these three methods, a company should analyze its costs.

Two types of costs are associated with producing a product: fixed costs and variable costs. Fixed costs — including rent payments, utility bills, insurance premiums, and administrative expenses — are not affected by the number of products sold. Regardless of whether a company sells 10 units or 100 units, the rent on the building must be paid on time. Variable costs, on the other hand, do depend on the volume sold. They include raw materials, labor used in production, and supplies consumed in producing the product. The total cost of operating the business is the sum of the fixed and variable costs.

Different businesses have different cost structures. Airlines, for example, have high fixed costs and low variable costs. The cost of flying a plane is the same whether there are 3 passengers or 300. So the more seats the airline fills, the more money it makes. Businesses of this type are said to be “volume sensitive,” because their profits depend heavily on how much is sold. Other businesses with low fixed costs and high variable costs are said to be “price sensitive”. Their profits depend more on price than volume. Department stores, for example, can increase or decrease the stock they keep on the racks to match trends in demand. Although they have a certain amount of overhead to support, they are most concerned about getting a good price for their merchandise.

Department stores and other retailers often use the markup pricing method of setting prices. Markup is usually defined as the difference between the cost of an item and its selling price. In modern merchandising, firms generally express this difference in terms of the markup percentage.

### *SPECIAL TERMS*

**Fixed costs:** Business costs that must be covered no matter how many units of a product a company sells.

**Variable costs:** Business costs that increase with the number of units produced.

**Markup:** Amount added to the cost of an item to create a selling price that produces a profit.

**Markup percentage:** Difference, in percentage terms, between the cost of an item and its selling price.

## **4.5. Setting the price**

How are prices set? Through most of history, prices were set by buyers and sellers negotiating with each other. Sellers would ask for a higher price than they expected to receive, and buyers would offer less than they expected to pay. Through bargaining, they would arrive at an acceptable price.

Through most of history, price has operated as the major determinant of buyer choice. This is still true in poorer nations, among poorer groups, and with commodity-type products. However, nonprice factors have become relatively more important in buyer-choice behavior in recent decades. Yet price still remains one of the most important elements determining company market share and profitability.

Price is the only element in the marketing mix that produces revenue; the other elements represent costs. Yet many companies do not handle pricing well.

Companies handle pricing in a variety of ways. In small companies, prices are often set by top management rather than by the marketing or sales department. In large companies, pricing is typically handled by divisional and product-line managers. Even here, top management sets the general pricing objectives and policies and often approves the prices proposed by lower levels of management. In industries where pricing is a key factor (aerospace, railroads, oil companies), companies will often establish a pricing department to set prices or assist others in determining appropriate prices. This department reports either to the marketing department or top management. Others who exert an influence on pricing include sales managers, production managers, finance managers, and accountants.



**to set the price** — устанавливать цену  
**to bargain** — торговаться  
**to arrive at an acceptable price** — договариваться о приемлемой цене  
**to operate** — действовать  
**commodity** — товар  
**company market share** — доля компании в рынке  
**to produce revenue** — приносить доход  
**marketing mix** — составляющие маркетинга

**to set** — устанавливать  
**to approve** — одобрять, утверждать  
**to establish** — учреждать, основывать  
**to exert an influence** — оказывать влияние  
**costs** — расходы, издержки  
**appropriate prices** — подходящие цены  
**to handle** — *зд.* регулировать; держать в руках, управляться

## 4.6 Pricing objectives

One of the factors that has raised pricing to the top of the strategic planning process is the tendency of marketing managers to concentrate on short-run pricing strategies. Here is a list of some of the pricing objectives a firm might take. Note that some of them, such as «build traffic» and «help on the sale of weak items in the line», are short-run objectives. Often the competitive and internal corporate environments are such that short-run considerations dominate decision making. The economic environment today is so unstable that long-run considerations such as «growth» and «maximum long-run profits» are becoming more important. In fact, survival in the market has become a major goal for many firms.

Firms must establish realistic and measurable pricing goals if marketing strategy is to be effective. Some firms aim for a target return on investment. Firms such as General Motors, du Pont, Alcoa, and General Electric have set such goals. A specific target return objective enables these firms to determine a required level of profit. This, in return, helps in the setting of prices and other marketing mix variables.

### *Potential pricing objectives*

Survival

Maximum short-run profits

Maximum long-run profits

Growth

Build traffic (attract people to the store)

Maintain price-leadership

Discourage entrants

Avoid government investigation and control

Maintain loyalty of middlemen and get their sales support

Enhance image of the firm

Be regarded as «fair» by customers (ultimate)

Create interest and excitement about the item

Make a product «visible»

High return on investment

Share of the market

Meet competition

Help in the sale of weak items in the line

Some firms use market share as a pricing goal. In the past firms such as Sears, Exxon, and American Can had such a strategy. There was sometimes a measurable link between share of the market and return on investment, but that link was much less reliable in the economic environment of the 1980s. In the search of increased share of the market, firms might cut prices and hurt the profit margins.

Another pricing objective used extensively in the past is to meet competition. Companies such as Goodyear and National Steel have used such strategies. The steel industry, the tire industry, and many other fundamental industries in the United States are suffering greatly from such past practices. Many firms are going bankrupt, and the survivors are being forced to radically change their marketing strategies, including pricing.

Some firms set a *profit-maximization objective*, where the goal is to earn «as much as possible». Such a policy cannot usually be implemented over the long run because of competitive and government forces, but in the short run it can be quite effective. Suppose, for example, a firm has spent millions of dollars developing a new product that can be copied relatively easy, but for which the set-up time is 2 years or more. The firm could price its product as high as «traffic will bear,» hoping to get back all its research and development money and a reasonable profit return before competitors entered the market. As competition entered, the firm would probably shift to a more competitive pricing strategy, such as meeting competition.

Pricing objectives are based on a firm's overall objectives, the market segments being served, competition, market conditions, and many other variables. The basic overall objective is to establish mutually beneficial exchange relationships with selected target markets.

Pricing objectives should be influenced by other marketing decisions regarding product design, packaging, branding, and promotion. All these marketing decisions are interrelated.

## 4.7 Break-even analysis

One strategic decision marketing managers must make is whether or not to produce a product at all. Break-even analysis is one tool that helps in such decisions. It is used in both product and price decisions. **Break-even analysis** tells them whether the firm would be able to make money (or break even) at a particular price, given a certain sales volume.

Break-even analysis usually involves break-even charts that show total costs and total revenues. Marketers can develop a series of break-even charts to eliminate obviously unrealistic prices.

## 4.8 Pricing strategies

Let's say a firm has just developed a new product, such as video recorders. The firm has to decide how to price these recorders. One strategy would be to price the recorders high to recover the costs of developing the recorder and to take advantage of the fact that there are few competitors. A skimming price strategy is one in which the product is priced high to make optimum profit while there is little competition.

A second strategy, therefore, is to price the recorders low. This would attract more buyers and discourage others from making recorders because the profit is so low. This strategy enables the firm to penetrate or capture a large share of the market quickly. A penetration strategy, therefore, is one in which the product is priced low to attract more customers and discourage competitors. The Japanese successfully used a penetration strategy with videotape recorders.

### Some pricing terms

It is impossible to cover all pricing concepts in detail in this book. However, you should at least be familiar with the following terms:

1. *Adaptive pricing* allows an organization to vary its prices based on factors such as competition, market conditions, and resource costs. Rather than relying on one set price, the firm adjusts the price to fit different situations.

2. *Competition-oriented pricing* is a strategy based on what competitors are doing. It may be the opposite of pricing leadership.

3. *Cost-oriented pricing* is the strategy of setting prices primarily on the basis of cost. For example, retailers often use cost plus a certain markup, and producers use a system of cost-plus pricing.

4. *Customary pricing* means that most sellers will adapt the product to some established, universally accepted price such as the price for gum or candy bars. Notice that when the customary price goes up, almost all producers adjust their price upward.

5. *Demand-oriented pricing* is the strategy of setting prices on the basis of consumer demand rather than cost. Sometimes different prices are charged for different consumers (discriminatory pricing), as is the case with movie theatres (less for children), and drugstores (senior citizens get a discount).

6. *Market price* is that price that is determined by supply and demand and is not controllable by the seller. For example, farmers have a little control over the price they receive for grain or cattle. Market prices exist for many goods and services besides farm products.

7. *Pricing leadership* is the procedure by which all the competitors in an industry follow the pricing practices of one or more dominant firms. When one firm lowers or raises its prices, the others follow almost immediately. You may have noticed this tendency among oil companies and cigarette companies.

8. *Product-line pricing* is the procedure used to set prices for a group of products that are similar but are aimed at different market segments. For example, a beer producer might have a low-priced beer, (a popular-priced beer,) and a premium-priced beer.

9. *Target pricing* means that an organization will set some goal such as a certain share of the market or a certain return on investment as a basis for setting a price. Usually market conditions prevent a firm from establishing prices this way, but such goals do give some direction to pricing policies.

10. *Uniform pricing*, also known as a «single-price policy,» means that all customers buying the product (given similar circumstances) will pay the

same price. Although the most common policy in the United States, uniform pricing in many foreign markets, especially among private sellers.

## 4.9 Nonprice competition

In spite of the emphasis on the price in microeconomics theory, marketers offer competition product attributes other than price. You may have noted that price differences between products such as gasoline, cigarettes, candy bars, and even major products such as compact cars are often small, if there is any price difference at all. Very rarely you will see price used as a major promotional appeal on television. Instead marketers tend to stress product images and consumer benefits such as comfort, style, convenience, and durability.

Many organizations promote the services that accompany basic products rather than price. The idea is to make a relatively homogeneous product «better.» For example, airlines stress friendliness, promptness, more flights, better meals, and other such services. Motels stress «no surprises» or cable TV, swimming pools and other extras. Quite often the reason marketers emphasize nonprice differences is because prices are so easy to match. Few competitors can match the image of a friendly, responsive, consumer-oriented company.

### Definitions of the Key Terms.

**Break-even analysis** — tells the manager whether the firm will make money (or break even) at a particular price, given a certain sales volume.

**Skimming price strategy** — one in which the product is priced high to make optimum profit while there is little competition.

**Penetration strategy** — one in which product is priced low to attract more customers and discourage competitors.

**Odd pricing** — pricing items a few cents under a round price to make the product appear less expensive (\$9.98 instead of \$10).

**Price lining** — pricing products at certain set price rather than having separate prices for individual items.

**Markup** — selling price minus cost.

**Markup percentage** — markup in dollars in selling price.

## Vocabulary

Break-even analysis — анализ безубыточности	Markup percentage — наценка розничной торговли в %
Skimming price strategy — стратегия “снятия сливок”	Competition oriented pricing — установление цен на основе уровня поточных цен
Penetration strategy — стратегия сильного вхождения в рынок	Cost-oriented pricing — установление цен на основе ценности товаров
Odd pricing — стратегия введения непарной цены	Customary pricing — предлагаемая цена
Price lining — ценовая шкала	Demand-oriented pricing — установление цен на основе спроса
Markup — розничная цена	

### Comprehension questions:

#### 1. Prepare written answers to the questions

1. What are pricing objectives?
2. How are prices determined?
3. Is break-even analysis the only technique for price setting?
4. How do retailers set the prices?
5. Why is not cost an effective basis for pricing?

#### 2. Discussion questions: get ready with a short information, using the questions as a plan.

1. Look around at the different shoes that students are wearing. What product qualities were they looking for when they chose those shoes? What was the importance of price, style, brand name, manufacturer reputation, and color? Do different students buy shoes for different reasons?

2. For each of the following products discuss whether a marketer should emphasise price, location or word of mouth in his or her promotional campaign and explain why:

- a. Baby sitting;
- b. A resort motel;
- c. Bottled water;
- d. A dentist;
- e. A bank;
- f. A candy bar.

## 4.10. Give Benefits not Products

Successful marketers try to remain open and flexible, yet there is one unchanging maxim which they share: customers don't buy products; they seek to acquire benefits. Those few words hold the secret of many innovative organization's success. Customers do not buy a product for the product itself. Customers buy clean floors, not floor polish. They buy security, not insurance policies; high performance engines (or status), not Ferraris; better lubrication, not industrial cutting oil.

An innovative tool manufacturer realized, through the course of its relationship with its customers, that a major problem on the production floor was the time lost in changing abrasive discs. The company invested a great deal of time and money in seeking a solution, and invented a highly specialized system of binding grit to disc. The result was a new disc, which had a much longer life and could be removed and replaced much faster than the old type.

This gave the organization's customers the benefit of more efficient production time and better value for money.

The benefit at the last example served a dual purpose: it gives the customer the advantage of timesaving and cost-effectiveness and at the same time solved a traditional problem of changing discs. The "problem" in this case was a customer need, which had to be satisfied.

The concept of customer benefits shows the importance of an organization being oriented towards the customer, or market, rather than the product. The organization cannot afford to adopt a narrow view of its role by concentrating only on the product. An organization, for example, manufacturing adding machines in a marketing environment which is moving towards calculators will soon find itself and its product obsolete. It must consider what the benefits of its product are — in this case computing sums accurately and quickly — and make sure that it is providing that benefit better than any other organization. If a better or more cost-effective method of computing comes along, the customer will naturally be attracted to that product which incorporates those developments and can therefore provide increased benefits.

## Vocabulary

**to remain flexible** — оставаться гибкими

**maxim** — сентенция, крылатое выражение

**seeking a solution** — поиск решения

**efficient** — эффективный

**a dual purpose** — двойное предназначение

**cost-effectiveness** — эффективность издержек; достижение цели с минимальными затратами; коммерчески жизнеспособный

**obsolete** — устаревший, вышедший из употребления, изношенный

**accurately** — точно

### 4.11 PROMOTION

How do different organizations communicate with their various publics? Why is information so important? The answer is that the market system, the business system, and the world trade system all need an efficient two-way flow of information among producers, middlemen (for example, wholesalers and retailers), and consumers. That need has led to an explosive growth of computers to handle the information flow. Let's discuss the difference between *marketing communication and promotion*.

- **Marketing communication** is a two-way exchange of information between buyers and sellers. Organizations communicate with various publics. Listening is the key to marketing communications.

- **Promotion** is a one-way attempt of marketers (buyers and sellers) or persuade others to participate in an exchange relationship with them. Promoters *talk to* others.

Marketing communication is a dialogue, and involves talking with. Promotion is talking to. Both are necessary in successful marketing relationship, but the more *talking with* that occurs, the less *talking to* is necessary.

Successful marketers have learned that organizations have many «publics» that must be considered in a marketing program. The first «public» is the firm's employees. An internal marketing program is one designed to commit employees to the objectives of the firm. Like all marketing efforts, internal marketing begins with listening and being responsive to employees.

**A marketing communication system** consists of these three steps:

1. *Listening* to the various publics of an organization. This is called «marketing intelligence» and «marketing research».



2. *Responding* to that information by designing products and services that those publics want. This is called «corporate responsiveness».

3. *Promoting* the organization and its product to those publics to let them know that the firm is listening, is responding, and does have the desired products and services.

**Marketing intelligence** is a constant stream of information from many sources, many of them unplanned. It consists of compliments and complaints from customers, letters, comments by employees, conversations overheard in airports and millions of other bits and pieces of information packed up by the corporate executives, employees, and friends.

**Marketing research**, on the other hand, is the “formal gathering of data and information to learn about specific problems and issues. Marketing research data become part of marketing intelligence. The problem with marketing research as the source for marketing decision making is that research is done infrequently.

After an organization has listened to its publics, studied its internal records, and its policies and procedures to meet the desires of others, it is ready to promote. Pre-testing of promotional message helps assure the organization that the message will be effective. The elements a promotion manager uses to reach the public is called the promotion mix (see Figure 1).

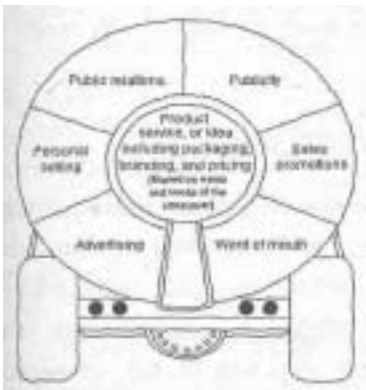


Figure 1.

The promotional mix. This figure shows that the product offer is the central focus of the promotional mix. The offer is based on consumer wants and needs. All of the communication elements are designed to promote the exchange of the product offer for something of value.

A promotion mix is some combination of promotional tools (for example advertising, personal selling, public relations, publicity, sales

promotion, a good product or service, word-of-mouth) that can be used to communicate to various publics.

Most companies develop a fixed attitude towards promotional expenditure which is often unrelated to its effectiveness.

Research indicates that the distinction between media or above-the-line expenditure (newspapers, magazines, radio, posters, television) and non-media or below-the-line methods (leaflets, point of sale catalogues, brochures, exhibitions, trade gifts) tends to be reflected in long and short term effects on sales; above-the-line expenditure resulting in long - term sales development and below-the-line in short - term changes.

Each public calls for a separate mix. For example, consumers are usually most efficiently reached through advertising. Large organizations are best reached through personal selling. To motivate people to buy now rather than later, sales promotion efforts such as coupons, discounts, special displays, premiums and so on may be used. Publicity adds support to the other efforts and can create a good impression among all publics.

**Sales promotion** consists of those marketing activities that stimulate consumer purchasing and dealer interest by means of such things as displays, shows and exhibitions, and contests (see Figure 2).

Those free samples of products that people get in the mail; the cents-off coupons that they clip out of the newspapers; the contests that various retail stores sponsor; and those rebates that have been so popular in recent years all are examples of sales promotion activities. Sales promotion programs supplement personal selling, advertising and public relations efforts by creating enthusiasm for the overall promotional program. Sales promotion activities also are directed at company employees (especially salespersons), wholesalers, retailers, and institutions such as schools and hospitals.

Sales promotions can be both internal and external. It is important to get employees enthusiastic about a sale as they are potential customers. The most important internal sales promotion efforts are directed at salespeople and other customer-contact persons such as complaint handlers and clerks. Sales promotion keeps sales people enthusiastic about the company through sales training; the development of sales aids such as flip charts, portable audio-visual displays, and movies; and participation in trade shows where salespeople can get deals. Other employees who deal with the public may also be given special training to make them more aware of company programs and integral part of the total promotional effort.

After enthusiasm is generated internally, it is important to get distributors and dealers involved so that they too become enthusiastic and will co-operate by putting up signs and helping to promote product.

After the company's employees and salespeople have been motivated with sales promotion efforts and middlemen are involved, the next step is to promote to final consumers using samples, coupons, cents - off deals, displays, store demonstrators, premiums, and other incentives such as contents', trading stamps and rebates. Sales promotion is an ongoing effort to maintain enthusiasm, so different strategies are used overtime to keep ideas fresh.

**Figure. 2**

### **Sales promotion techniques**

Displays ( store displays)	Lotteries
Contests (“You may have won 1 million”)	Audio-visual aids
Audio-visual aids	Catalogues
Samples (toothpaste, soap)	Demonstrations
Coupons (10 per.off)	Special events
Premiums (free glass when you buy a meal)	Exhibits
Shows (fashion shows)	Trading stamps
Deals (price reductions)	Portfolios for salespersons
Trade shows	Rebates (refunds from producers)
Bonuses (buy one, get one free)	

There are two ways to promote the movement of products from producers to the customers. The first is called a **push strategy**. In push strategy, the producer uses advertising, personal selling, sales promotion, and all other promotional tools to convince wholesalers and retailers to

stock and sell merchandise. If it works, consumers will then walk into the store, see the product and buy it. The idea is to push the product down the distribution system to the stores. One example of the push strategy is to offer dealers one free case of beer or soda for every dozen cases they purchase.

A second strategy is called a **pull strategy**. In a pull strategy heavy advertising and sales promotion is directed toward consumers. If it works, consumer will go to the store and order the products. The store owner will then order them from the wholesaler, who will order them from the producer. Products are thus pulled down through the distribution system.

**Word-of-mouth promotion** encourages people to tell other people about products they have enjoyed. Word-of-mouth is one of the most effective marketers do not use to full effectiveness. Anything that encourages people to talk favorably about an organization is effective word of mouth. Notice, for example, how stores use clowns, banners, music, fairs and other attention getting devices to create word of mouth. You can ask people to tell others about your product or even pay them to do so. Samples are another way to generate word of mouth. But the best way to generate word of mouth is to have a good product, provide good services, and keep customers happy.

## Vocabulary

**promotion** — продвижение

**promotion mix** — способы продвижения

**sales promotion** — стимулирование сбыта

**bonuses** — вознаграждения

**incentive** — стимул

**rebates** — возмещение

**pull strategy** — стратегия влияния на покупателей

**push strategy** — стратегия протекции, направленная на увеличение сбыта

**word-of-mouth promotion** — устное свидетельство в пользу товара

## 4.12. Advertising

Advertising is any paid form of nonpersonal presentation and promotion of products, services, or ideas by an identifiable individual or organization. It flourishes mainly in free-market, profit-oriented countries. It is one of the most important factors in accelerating the distri-

bution of products and helping to raise the standard of living. Advertising cannot turn a poor product or service into a good one. But what it can do — and does — is to create an awareness about both old and new products and services. So three main objectives of advertising are: (1) to produce knowledge about the product or service; (2) to create preference for it; and (3) to stimulate thought and action about it.

Most people do not understand the difference among promotional tool such as advertising, personal selling, publicity, and word-of-mouth. Advertising is limited to paid, non-personal communication through various media by organizations and individuals who are in some way identified in the advertising message. Word of mouth is not a form of advertising because it does not go through a medium, it is not paid for. Personal selling is face to-face communication and does not go through a medium; thus it is not advertising. Note also that advertising may be used by anyone, including non-profit organizations. Furthermore, advertising is different from propaganda in that the promoter is identified.

People have the false impression that advertising is not very informative. But the number one medium, newspapers, is full of information about products, prices, features, etc. Do you know that businesses spend more on direct mail than on radio and magazines? Direct mail (the use of mailing lists to reach an organization's most likely customers) is also very informative and a tremendous shopping aid for consumers. Each day consumers receive mini-catalogues in their newspapers or in the mail that tell them what is on sale, where, at what price, for how long, and more. Thus advertising is informative.

The public benefits greatly from advertising expenditures. First, we learn about new products, new features, sale items, and more. But we also benefit from free radio and TV and subsidized newspapers and magazines. In short, advertising not only informs us about products but pays for us to watch TV and get the news from magazines and newspapers. Figure 3 describes the advantages and disadvantages of various advertising media to the advertiser.

**Figure. 3**

**Above - the - line advertising**

Technique or medium	Cost effectiveness	Advantages	Disadvantages
TV	100	Users sight, sound and motion; reaches all audiences; high attention with no competition from other material. Widest coverage, maximum control, rapid impact.	High cost; short exposure time; takes time to prepare ads. Difficult to give technical information, evaluation. Difficult to plan.
Magazines	75	Can target specific audiences; very flexible, good for local marketing, good use of colour, long life of ad; ads can be clipped and saved.	Inflexible; ads often must be placed weeks before publication; cost is relatively high.
Press (national)	65	Good coverage of local markets; ads can be placed quickly; high consumer acceptance; ads can be clipped and saved; easy to plan.	Ads compete with the other features in paper; poor color ads get throw away with paper (short life span); limited impact.
Press (local)	80	Easy to plan, good coverage, relatively cheap.	Slow build up, poor for giving technical information.
Radio	60	Low cost; can target specific audiences; very flexible; good for local marketing.	People may not depend on listening to ads; on one sense, limited coverage.
Cinema	55	Color and movement.	Poor coverage; expensive.
Posters	25	Wide coverage; specific target.	Expensive, difficult to show benefits; slow to plan.

Direct mail		Specific target; can explain benefits; very flexible; ad can be saved.	Difficult to control, high cost; slow build up.
Exhibitions		High visibility; and repeat expensive exposures; needs careful planning.	Expensive; difficult to ensure target group.

### 4.12.1 Classes of advertising

Different kinds of advertising are used by various organizations to reach different «publics». Some major classes include:

*Retail advertising* - advertising to consumers by various retail stores such as supermarkets and shoe stores.

*Trade advertising* - advertising to wholesalers and retailers by manufacturers to encourage them to carry their products.

*Industrial advertising* - advertising from manufacturers to other manufacturers. A firm selling motors to automobile companies would use industrial advertising.

*Institutional advertising* - designed to create an attractive image for an organization. «We Care About You» at Giant Food is an example. «Virginia Is For Lovers» and «I love New York» are two institutional campaigns by government agencies.

**Advertisers.** Most companies that advertise extensively have advertising managers, or brand managers. Because these people help to coordinate the company's advertising program with its sales program and with the company's advertising agency, they must have aptitudes for both advertising and management.

**Media.** All media use salesmen to sell advertising space or broadcasting time. Media salesmen must be knowledgeable about business and skilled in salesmanship.

**Advertising agency.** A variety of specialists is required in an advertising agency because it develops advertising programs, prepares advertisements, and places them in media. Those interested in advertising research and fact gathering should know both statistics and consumer psychology. Competence in media planning and evaluation is essential for a career in media. The media buyer must identify and determine the most effective media in which to expose the advertising messages, and purchase space or time in these media.

Copywriting requires creative writing skills and ability to visualize ideas. The copywriter is a developer of advertising ideas and messages.

Layout, typography, and visualization are essential for those in art,

both for print advertising and for television commercials. Printproduction specialists must know printing, photoengraving, and typography.

Experience in “show business”, dramatics, photography, music, playwriting, and allied fields are excellent backgrounds for the television producer.

Besides, every agency needs the account executive to be a mediator between an advertiser and an agency who should have accountant background and managerial skills.

**Supplies and Special Services.** Positions similar to some of those already described are offered by the following services that support advertising: marketing research organizations, television and radio producers, film producers, art studios, photographers, producers of display materials, typographers, photoengravers, and product and package designers.

**Job prospects.** Opportunities for rapid advancement are generally greater in advertising than in most other industries. How rapidly a person moves up in responsibilities and pay is based largely on his own efforts, more than on age or length of employment. For women, opportunities in advertising — at least in advertising agencies and in retailing — tend to be greater than in most other business enterprises.

In general the rate of pay is comparable to that of business executives and professional men, such as physicians and lawyers in the same community.

## Vocabulary

**advertising** — реклама

**promotion** — продвижение, содействие, реклама

**identifiable individual** — конкретный человек

**free-market** — свободная экономика свободного рынка

**accelerating the distribution** — ускорение сбыта

**to raise the standard of living** — поднять жизненный уровень

**to create an awareness** — держать в курсе; сообщать

**to produce knowledge** — *зд.* создать информацию; распространять знания

**to create preference** — создать предпочтение

**media** — средства массовой информации

**to draw people** — привлекать людей

**to have aptitudes** — иметь способности, склонности

**evaluation** — оценка

**to purchase space or time** — покупать место или время

**copywriting** — подготовка материалов

**commercials** — телевизионные рекламные объявления, передачи

**lay-out** — макет

**typography** — полиграфия

**photoengraving** — фотоклише

**dramatics** — актерское мастерство

**playwrighting** — драматургия

**a mediator** — посредник



**to have an accountant background** — иметь бухгалтерское образование  
**rapid advancement** — быстрое повышение, продвижение, успех  
**to move up in responsibilities** — продвигаться по служебной лестнице, нести большую ответственность

**retailing** — розничная торговля  
**allied fields** — близкие, родственные сферы деятельности

### 4.13 Publicity

Publicity is one function of the public relations department. Publicity is any information about an individual, a product, or a organization that is distributed to the public through the media, and that is not paid for, or controlled by, the sponsor. You might prepare publicity release describing the new product and how it works and send it to the various media. Release of the news about the product will reach many potential buyers (and investors, distributors and dealers), and you will be on your way to becoming a wealth marketer.

Publicity is an effective complement to other tools of marketing promotion such as advertising, personell selling, and sales promotion.

Publicity often has several advantages over other marketing promotions, such as advertising. For example, publicity may reach people who would not read an advertising message. Publicity may be placed on the front page of the newspaper or in some other very prominent position. Perhaps the greatest advantage of publicity is its believability. When a newspaper or magazine publishes a story as news, the reader treats the story as news, and news is more believable than advertising. Of course, publicity is also much cheaper than advertising, because it is published free.

There are several disadvantages of publicity as well. The media do not have to publish a publicity release, and most are thrown away. Furthermore, the story may be altered so that it is not so positive. There is *good* publicity and *bad* publicity. Once a story has run, it is not likely to be repeated. Advertising, on the other hand, can be repeated as often as needed.

## Vocabulary

**public relations** — отдел общественного мнения

**publicity** — гласность

**personal selling** — индивидуальная презентация

**prospect** — поиск и оценка потенциальных покупателей

**pre-approach** — предварительная оценка и изучение потенциального покупателя

**approach** — подход к клиенту

**make presentation** — демонстрация товара

**answer objections** — ответ на замечания

**close sale** — осуществление операции

**follow-up** — проведение до конца работ по осуществлению операции

**promotion** — продвижение

**promotion mix** — способы продвижения

**advertising** — реклама

**sales promotion** — стимулирование сбыта

**bonuses** — вознаграждения

**incentive** — стимул

**rebates** — скидки, уступки

**pull strategy** — стратегия влияния на покупателей

**push strategy** — стратегия направленная на увеличение сбыта

**word-of mouth promotion** — данные в пользу товара

### 4.14. Product-Market Strategy

“Product-market strategy” is the term used to describe all the decisions, which the organization makes about its target markets, and the products it offers to those markets. The use of the word “strategy” is important, for it implies a chosen route to a defined goal and suggests long-term planning. This is quite different from “tactical” activities, which are used to achieve short-term objectives by gaining immediate results. Product-market strategy represents a decision about the current and future direction of the organization.

Product-market strategy must be developed in the most cost-effective manner, paying attention to cash flow and profitability requirements. To minimize costs at the outset, a sound marketing approach will usually attempt to increase profits and cash flow from existing markets. The following examples can help illustrate the total strategy at work.

**Market penetration.** Heinz revamped its marketing strategy to increase consumption of its tinned soups. This product was traditionally a winter purchase, but Heinz successfully promoted the idea of celery soup, drunk

hot or cold, as a suitable summer purchase. The product attributes of celery were linked with concepts of slimming and refreshment on summer days.

**Market development.** A British hotel chain opened up a new market by offering “Leisure Learning” weekends in its hotels.

**Product range extension.** A European breakfast cereal manufacturer brought out a new “variety” pack to appeal to young children who liked the freedom of choosing a new cereal each morning.

**Product development.** Manufacturers of digital watches soon combined the watch function with an alarm component. This not only attracted customers who liked the novelty of the idea, but seriously threatened the traditional watch market.

## Vocabulary

**to imply** — подразумевать

**long-term planning** — долгосрочное планирование

**profitability** — рентабельность

**cash flow** — оборот наличных денег

**sound approach** — правильный, здравый подход

**short-term objectives** — краткосрочные цели

**to gain** — получать, приобретать, выигрывать

**market penetration** — процент охвата рынка

**consumption** — потребление

**purchase** — покупка, покупать

**to revamp** — (*разг.*) починять, поправлять, модернизировать

## 4.15. Matching Products and Markets

Marketing has been defined as the process of matching organization’s resources with customer needs. The result of this process is a product. The need, therefore, for the organization to remain dynamic is obvious because the product is the only key to the organization’s solvency and profitability. No matter how else the organization runs itself cost-effectively and sensibly, if the product is not selling well, then the money simply will not be coming in. Company and consumer are interdependent.

Successful product management depends on the organization knowing how and if the current product range meets consumer and organizational objectives.

The most important attitude towards product management is to view the product as only one part of the marketing mix, which also includes price, place and promotion. In this way, the product is viewed as a variable, which can be adapted or even changed radically to meet a changing market. How it can be changed will depend on several factors within and outside the organization, including the organization's resources, market conditions and opportunities and competitive threats.

## Vocabulary

**to match** — соответствовать  
**solvency** — платежеспособность  
**resources** — средства, возможности, ресурсы  
**sensibly** — разумно  
**management** — управление  
**at the outset** — вначале  
**to run** — вести, организовывать дело  
**product management** — управление производством  
**current** — текущий, находящийся-

ся в обращении  
**range** — объем, ассортимент  
**promotion** — содействие продвижению, стимулирование, реклама  
**sales promotion** — стимулирование сбыта  
**variable** — изменчивый, непостоянный, переменная величина  
**opportunities** — благоприятные возможности  
**threat** — угроза

## 4.16. Branding

Products can be sold as unbranded commodities.

What is the power of brands? Would you buy unpackaged, unbranded breakfast cereal from a street-trader? Would you buy perfume as a present for a female relative if it came in an unlabelled brown bottle? Would you buy an anonymous microcomputer from an anonymous source? Branding saves us much time as consumers. A simple word or two comes to represent a wealth of associations. Consumers learn to place some reliance upon brand names when evaluating competing products. In services, too, branding can serve the consumer by offering consistent, identifiable services, which might reduce confusion and save on search time.

Marks & Spencer is the top brand in Britain according to a survey in 1988. It scored highest on awareness and on how highly regarded it was by members of the public. An interesting comparison is between Britain and Europe. Top brands across Europe are dominated by car manufacturers. In all cases it is the corporate identity that dominates.

There are several options in brand strategy. A company can sell under its own brand or under that of another company. In the latter case it is often a retailer's own label. In using the company's brand a choice will be needed between using a "family" brand name for all that firm's brands as opposed to giving each product an individual brand name.

Some companies attempt to obtain the benefits of both strategies by family branding and at the same time having several "sub-brands". Ford puts its name on all its cars, which also have individual brand names. The Lever subsidiary Birds Eye Walls is now creating sub-brands in frozen foods with Menu Masters and Captain Birds Eye. An alternative trend is seen in Reckitt and Colman's food and wine division, where strong brands in several product fields (Colmans mustard, Gales honey, Jiff lemon, Robinson's barley water, Moussec, Veuve du Vernay, Bulls Blood) are being brought under the umbrella of the corporate brand of Colmans of Norwich.

Table 3

**Survey of brand names:**

Top brands in Britain

1. Marks & Spencer
2. Cadbury
3. Kellogg
4. Heinz
5. Rolls-Royce
6. Boots
7. Nescafe
8. BBC
9. Rowntree
10. Sainsbury

Top brands in Europe

1. Mercedes
2. Philips
3. Volkswagen
4. Rolls-Royce
5. Porsche
6. Coca-Cola
7. Ferrari
8. BMW
9. Michelin
10. Volvo

## Vocabulary

**brand** — торговая марка фирмы

**unbranded commodities** — немаркированный товар

**reliance** — доверие

**to evaluate** — оценивать

**competing products** — конкурирующие товары

**to reduce confusion** — уменьшить путаницу, беспорядок, неразбериху

**subsidiary** — дочернее предприятие

**trend** — тенденция

**sub-brand** — подназвание, подмарка

## 4.17. Product Brands and Trademarks

In developing and managing products, companies must make decisions about branding, packaging, and labeling — three factors that affect the buyer's perception of the product. These elements are particularly important in consumer goods. Manufacturers of industrial products, are concerned about product identification. That is why branding ranks the first in the list.

A brand is a way of identifying a product through a unique name or design that sets the product apart from those offered by competitors. Tide, Oldsmobile, and Bic are brand names. McDonald's golden arches, the Jolly Green Giant, the Pillsbury doughboy, the AT&T globe, and the Prudential rock are brand symbols.

Brand names may be owned by producers of a product as well as by wholesalers and retailers. Sears Roebuck, for example, buys appliances from many manufacturers and sells all of them under its Kenmore brand. A&P, the supermarket chain, purchases canned fruits, jellies, rice, household cleaning products, and frozen foods from hundreds of different suppliers and offers them under the Jane Parker, A&P, and Ann Page brand names. Brands owned by national manufacturers are called national brands. Brands owned by wholesalers and retailers, such as Sears and A&P, are private brands.

As an alternative to branded products, some retailers also offer generic products, which are packaged in plain containers bearing only the name of the product. These products are most often standard rather than first quality. They cost up to 40 percent less than brand-name products because of lower quality, plain labels, and lack of promotion. Generic goods have found a definite market niche, as a look at your local supermarket shelves will demonstrate. However, sales of generics have declined since 1982, partly because inflation has moderated, partly because consumers are disappointed with the uneven quality, and partly because brand-name producers have fought back with cents-off coupons that reduce the generics' cost advantage.

Brand names and brand symbols may be registered with the United States Patent and Trademark Office as trademarks. A trademark is a brand that has been given legal protection so that its owner has exclusive rights to its use. Because a well-known name is a valuable asset and generates more sales than an unknown name, manufacturers zealously protect their trademarks. The Coca-Cola Company, for example, em-

employs 40 people whose job is to look out for improper use of the names Coke and Coca-Cola. Another danger is that the name will become so widely used that no longer qualifies for protection under trademark laws. This is precisely what happened to Parker Brothers when a federal court held that the name Monopoly has become a generic term. Other companies are now free to use the title without paying Parker Brothers a penny.

#### *SPECIAL TERMS*

**Brand:** Any name, term, sign, symbol, design, or combination of these that is used to identify the products of a firm and to differentiate them from competing products.

**National brands:** Brands owned by a manufacturer and distributed nationally.

**Private brands:** Brands that carry the label of a retailer or wholesaler rather than a manufacturer.

**Generic products:** Products of minimum quality in plain packaging that bears only the name of the item, not of its producer.

**Trademark:** Brand that has been given legal protection so that its owner has exclusive rights to its use.

## **4.18. Transportation**

For any business, the cost of transportation is normally the largest single item in the overall cost of physical distribution. It doesn't necessarily follow, however, that a manufacturer should simply pick the cheapest available form of transportation. When a firm chooses a type of transportation, it has to bear in mind its other marketing concerns — storage, financing, sales, inventory size, and the like. The trick is to maximize the efficiency of the entire distribution process while minimizing its cost. Transportation, in fact, may be an especially important sales tool. If the firm can supply its customers' needs more quickly and reliably than its competitors do, it will have a vital advantage. In addition, speedy delivery is crucial in some industries. A mail order distributor sending fruit needs the promptness of air freight. Thus it may be more profitable in the long run to pay higher transportation costs rather than risk the loss of future sales. On the other hand, a manufacturer shipping lingerie may be perfectly satisfied with slower (and cheaper) truck or rail transport.

Recent reports indicate that transportation management is one of the bright spots in productivity. Between 1990 and 1995, shippers saved a lot

on their freight costs. There are several reasons for the improvement, including better fuel prices, a shift away from heavy manufacturing, and deregulation of the transportation industry. Astute management and hard bargaining have also had something to do with it. For example, when General Motors decided to build a new loading facility in Lansing, Michigan, it pressured railroad officials to build a \$2 million track extension. Now finished cars move directly from the assembly line onto trains, eliminating the need to drive the cars to the parking lot where they used to sit — sometimes for days — before being shipped.

#### 4.19. “Cash and carry”

This group has stores all over world and trades under several different banners. Each banner usually runs its own independent promotion. However, all stores have to take part in corporate promotions for which the head office provides heavy media support.

The group has considerable experience with continuity promotions and is currently running a copper kitchenware program supported by daily contests on local radio. Store traffic has increased during the promotion.

The group feels that customer loyalty has slightly decreased in recent years. Continuity promotions are one way of encouraging loyalty. However, the group has some reservations about the results of such programs. Sales figures and customer count often decline again when a promotion finishes.

C&C stores feel that their customers generally read very little, but that they would buy attractively illustrated books for themselves or their children. They would, however, be unlikely to spend more than \$10 on a book.

C&C stores would agree to buy books centrally through head office if it was for a long-term promotion. Furthermore, every C&C Stores manager has a profit objective and would expect a percentage commission on book sales. Finally, they would not wish to be invoiced for unsold books.

Keys:

- |            |         |         |
|------------|---------|---------|
| 1) 1. — c) | 4. — b) | 7. — c) |
| 2. — b)    | 5. — d) | 8. — b) |
| 3. — c)    | 6. — b) | 9. — b) |
- 2) 1. t, 2. f, 3. t, 4. t, 5. f, 6. f, 7. t, 8. f.



## Список использованной и рекомендуемой литературы

1. *Brieger N.* Early Business contacts.
2. *Hollett V.* Business Objectives. — Oxford University Press, 1996.
3. *Rachman D. J., Mescon M. H.* Business Today. — 5th ed. — N. Y.: Random House Business Division, cop. 1996.
4. *Бизнес: Толковый словарь: Англо-русский.* — М.: ИНФРА-М, Весь мир, 1998. — 760 с.
5. *Богацкий И. С., Дюканова Н. М.* Бизнес-курс английского языка: Словарь-справочник. — К.: Логос, 1997.
6. *Хачатурова М. Ф.* Английский язык для деловых контактов. — К.: Аконит, 1997.
7. *Шевелева С. А., Стогов В. Е.* Elementary economics and business. Основы экономики и бизнеса. Москва, “Культура и спорт”, 1996

## Unit 5

### BANKING

#### БАНКОВСКОЕ ДЕЛО

- 5.1. Money (*Деньги*)
- 5.2. Current Accounts (*Текущие счета*)
- 5.3. Deposit Accounts (*Депозитные счета*)
- 5.4. Foreign Exchange (*Обмен валют*)
- 5.5. Credit Cards (*Кредитные карточки*)
- 5.6. Traveler's Cheques (*Дорожные чеки*)
- 5.7. Bank Loans (*Банковские кредиты*)
- 5.8. Importing and Exporting Money (*Импорт, экспорт денег*)
- 5.9. Bank Organization (*Организационная структура банка*)
- 5.10. New Services in Banking (*Новые услуги в банковском деле*)
- 5.11. Automatic Cash Dispensers (*Банкоматы*)
- 5.12. Depositing Money with a Bank (*Депозитные вклады в банк*)
- 5.13. Applications for Loans (*Обращение за кредитом в банк*)
- 5.14. Bank Investments (*Банковские инвестиции*)
- 5.15. Methods of Payment (*Виды платежей*)
  - 5.15.1. Bill of Exchange (B/E) (*Переводной вексель, тратта*)
  - 5.15.2. Documentary Letter of Credit (*Документарный аккредитив*)

## 5.1. Money

Money is used for buying or selling goods, for measuring value and for storing wealth. Almost every society has a money economy based on coins and paper bills of one kind or another. However this has not always been true. In primitive societies a system of barter was used. Barter was a system of direct change of goods. Somebody could exchange a sheep, for example, for anything in the market place that they considered to be of equal value. Barter, however, was a very unsatisfactory system because people's needs seldom coincided. People needed more practical systems of exchange and various money systems developed based on goods which members of society recognized as having value. Cattle, grains, shells, feathers, salt, elephant tusks and tobacco have all been used.

Precious metals gradually took over because they were portable, durable, recognizable and divisible into larger and smaller units of value. A coin is a piece of metal usually disk-shaped, which bears lettering, designs or numbers showing its value. Until the 18th and 19th centuries coins were given monetary worth based on the exact amount of metal contained in them, but most modern are based on face value — the value that governments choose to give them, irrespective of the actual content.

Most governments issue paper money in the form of bills, which are really ready to pay. Paper money is obviously easier to handle and much more convenient in the modern world.

Cheques and credit cards are being used increasingly and it is possible to imagine a world where money in the form of coins and paper currency will no longer be used.

The British currency is the pound sterling. In each pound there are 100 pence. Pounds are indicated by the symbol £ before the amount. Pence are indicated by the letter “p”. Five pounds is written therefore as £5, fifty pence as 50p. If one wants to combine the two, the “p” is dropped. For example, nine pounds and fifty seven pence is written as £9.57.

British currency uses both notes and coins: the one pound piece (£1); the fifty pence piece (50p); the twenty pence piece (20p); the ten pence piece (10p); the five pence piece (5p); the two pence piece (2p); the one pence piece (1p). Each coin has the date, it was minted, stamped on one side.

There are five denominations of notes. The lowest note in value is the £5 note, the highest is the £100 note. In between these, there is the £10, £20, and £50 note. Every note has a serial number to show when it was issued and a watermark to prevent forgeries (false notes).

## Vocabulary

**to mint coins** — чеканить монеты  
**forgery** — фальшивые деньги,  
поделка документов

**to handle** — обращаться, держать  
в руках

## 5.2. Current Accounts

There are different kinds of accounts. The most popular is the current account. A current account pays no interest but it has other advantages. Firstly, it enables people to keep their money in a safe place. Secondly, it allows them to withdraw it at any time. Thirdly, it provides them with a cheque book so that they do not have to carry a lot of cash.

To open a current account it is necessary to see the branch manager. He has to decide whether the applicant is likely to keep the account in credit (in the black). A current account holder can only overdraw with the manager's permission. The manager will therefore want to meet the applicant to get the necessary background information. For example, he will want to know the applicant's occupation and his place of work. He will also probably want a reference from his/her employer. If, after the interview, the manager is satisfied with the applicant, he will approve (agree to) the application, arrange for the applicant to be given a cheque book and arrange for a monthly statement to be sent to him/her.

## 5.3. Deposit Accounts

A deposit account is another popular kind of account. It has advantages over a current account. First of all, it is easier to open than a current account. There is no need to see the manager. A customer only has to fill in a form and then deposit the minimum amount of money required

by the bank. The customer is then given a passbook, which he must bring to the bank every time he wishes to withdraw or deposit money. The passbook is the customer's record of the account.

Secondly, a deposit account earns interest for the customer. The bank invests the money that the customer pays in and, in return, the bank pays the customer interest. The rate of interest in the U.K. is not fixed but it is usually between 5–10 %.

However, a deposit account has certain disadvantages too. In the U.K. at the moment the maximum a customer can withdraw in one day is £20. Another disadvantage is that the customer receives no chequebook and therefore he cannot pay bills so easily.

## 5.4. Foreign Exchange

In most countries it is possible to buy and sell currencies through the bank. Each day the head offices of banks announce the latest exchange rates. These rates are usually displayed on a board in each branch. The banks “buy high and sell low”.

The bank will sell, for example, to an Englishman going to Australia, \$2.00 for every £1. The bank will buy Australian dollars, for example, from a tourist at \$2.06 for every £1. The banks also charge a commission. In the UK it is usually 0.5 %.

However, foreign exchange is not an open market (unrestricted). You cannot go into a bank and buy as much as you want of any currency. The amount of currency that can be imported or exported is subject to each country's Exchange Regulations. Many countries want to import as much foreign currency as possible but strictly limit the export of their own currency.

### Vocabulary

**aptly** — соответствующим образом, быстро, легко, метко

**capital movements** — движение капитала

**claim** — требование, рекламация

**conclude** (v) — заключать

**conversion** — конверсия

**convertibility** — конвертируемость  
**current transactions** — текущие сделки

**dealer** — дилер, посредник

**dealings** — коммерческие сделки

**domiciliate** (v) — обозначать место платежа по векселю

**Eurodollar market** — международный евродолларовый рынок  
**excess funds** — избыточный капитал  
**foreign exchange** — иностранная валюта  
**money movements** — движение денег

**nonresident** — нерезидент  
**partial convertibility** — частичная конвертируемость  
**place** — размещать, выпускать на рынок  
**two-tier market** — двухъярусный валютный рынок

### 5.4.1. Foreign Exchange

International trade and more important international money and capital movements are, the basic of foreign exchange dealings. Take a simple example: if a Swiss exporter sells a machine to a Japanese buyer, to conclude the transaction, the yen which the Japanese businessman has available will have to be changed into Swiss francs, the currency sought by the supplier of the machine. Or if Continental banks want to place excess funds in the Eurodollar market rather than in their own domestic markets, they have to buy dollars against local currency. The observation of the French economist Gaetan Pirou, that foreign exchange deals spring from “the coexistence between the internationalism of trade and the nationalism of currencies”, thus aptly describes at least the oldest origin of this metier. Clearly, the day that sees the arrival of a single world currency will also witness the disappearance of foreign exchange business.

All claims to foreign currency and payable abroad, whether consisting of funds held in foreign currency with banks abroad, or bills or cheques, again in foreign currency and payable abroad, are termed foreign exchange. All these claims play a part in the relations between a bank and its customers. In the trading of foreign exchange between banks, which is the job of the foreign exchange dealer, only foreign currency held with banks abroad is concerned.

Foreign banknotes are not foreign exchange in the narrower sense. They can be converted into foreign exchange, however, provided they can be placed without restriction to the credit of an ordinary commercial account abroad. The exchange regulations of some countries do not allow this conversion of banknotes into foreign exchange, although the operation in reverse is nearly always permitted.

A currency, whether in foreign exchange or banknotes, is usually called convertible if the person holding it can convert it, in other words

change it freely into any other currency. A distinction needs to be made, however, between unrestricted convertibility and the various forms of partial convertibility. The Swiss franc, for example, is fully convertible whether the holder is resident in Switzerland or abroad and regardless of whether it is a matter of current payments or financial transactions.

Many countries, on the other hand, recognize only external or nonresident convertibility.

## Vocabulary Practice

### Tips for travelers

**Complete the sentences below, using these expressions: have to, don't have to, should, shouldn't, can't.**

- a) You ... keep a separate record of all your important documents when you go on an overseas trip.
- b) You ... show your passport when you change traveler's checks.
- c) You ... be able to speak a few words of the language of any country you visit.
- d) If you only take two bottles of spirits into Japan, you ... pay duty.
- e) You ... carry a lot of cash with you when you travel.
- f) If you want to take more than 200 cigarettes into the U.K., you ... pay duty.
- g) You ... bring illegal drugs through customs.
- h) You ... fly without travel insurance.

## 5.5. Credit Cards

Many banks now offer credit cards to their customers. Any customer can apply for a credit card. If the bank thinks the customer is a good risk, it will issue him with a card and inform him of his personal credit limit (maximum he can borrow).

For example, the bank might allow a customer a limit of £250 per month. This means that every month the customer can use his card to pay for £250 worth of goods and services or to borrow £250 in cash, traveler's cheques or foreign currency. It does not matter if the customer's bank account is empty when he spends or borrows the £250. The bank will cover him up (pay) to his credit limit.

At the end of the month the bank will send a statement to the customer. Provided the customer clears his account every month the facility will cost him nothing. He will have a month's credit free (pay all debts).

However, if the customer fails to clear his account every month he will be charged 2 % interest per month on the outstanding balance (the amount due).

This alternative form of money (credit) can become very expensive, therefore.

## **5.6. Traveler's Cheques**

When travelling abroad it is always wise to carry your money in travelers' cheques because cheques are protected against loss or theft. If your cheques are lost or stolen the issuing authority will refund your money (give back).

They are not only safe, they are also convenient. They are available in different denominations (amounts) and different currencies and they can be cashed at most banks throughout the world. Most shops, hotels and restaurants also accept them.

To obtain travelers' cheques you usually go to your bank. They can be paid for in cash or debited to your account. Large amounts, however, must be ordered in advance.

For the safety and convenience of travelers' cheques you are charged (have to pay) two commissions. An insurance commission (usually 1 %) when you buy them and an encashment commission (this varies) when you cash them.

They are very easy to use. When you collect them you sign each cheque once. The cashier may enter the amount with your passport. When you cash them you sign each cheque again. The cashier will usually ask to see your passport again too.

It is advisable to make a note of the serial numbers and denominations of your cheques in case they are lost or stolen. Keep this separate from the cheques.



## 5.7. Bank Loans

Recently banks have started to offer many new facilities (services) to their customers. There are new types of accounts, cheque cards, cash cards, credit cards, insurance cover, investment services (methods for the bank to invest your money for you).

However, (but) one of the most important services banks offer is that they lend money to the customers. The methods available for a customer to borrow from his/her bank and the rate of interest he/she is charged vary from country to country and bank to bank.

One way of borrowing is to overdraw (draw out more than you have in) on your account. This is useful if you only wish to borrow a small amount for a short time. The interest rate on overdrafts depends upon the bank rate (rate fixed by government). In the UK at the moment it is 12 % over the base rate, i.e. 23 % (that is).

Of course you can only have an overdraft with your manager's permission.

Another way is to arrange a "personal loan". A personal loan is for a short period of time, usually 3–5 years. Many people take out a personal loan, for example, to buy a car. Each month the customer makes a payment on the loan to the bank. The main advantage of a personal loan is that the interest rate is fixed. In the UK at the moment it is 19 %.

In many countries it is possible to borrow money for longer periods, e.g. up to 25 years. This is often necessary when buying a house or a business.

The interest rate on long-term loans depends upon the base rate. At the moment it is 1.25 % over the base (minimum lending rate). Of course, for both a personal loan and a long-term loan the bank requires some kind of security, e.g. shares.

All banks lend money.

An overdraft is an expensive way to borrow money.

The base rate is 11 %.

Long-term loans are cheaper than personal loans.

### Vocabulary

**to overdraw** — превысить кредит на банковском счету

**an overdraft** — превышение кредита

**interest rate** — процентная ставка по вкладам, счетам

**securities** — ценные бумаги

## 5.8 A LOAN AGREEMENT

### 5.8.1 Expenses, Fees

1. The borrower agrees, whether or not any of the transactions hereby contemplated and consummated (except where the said transactions are not consummated due to the Lender's default), to bear and pay reasonable expenses including but not limited to the legal fees incurred by the Lender in relation to the negotiation, preparation, modification and execution of this agreement (hereinafter called "the Documentation expenses"). The Borrower shall reimburse the Lender within thirty (30) days after receipt by the Borrower of the Lender's reasonably supported invoices for the Documentation Expenses. The amount of the Documentation Expenses to be reimbursed by the Borrower as the Documentation Expenses incurred during the period up to and including the Drawdown date shall not exceed One Thousand United States dollars (USD 1,000) as far as the expenses are imposed by Russia, United Kingdom and Japan.

2. If the borrower fails to pay when due any amount hereunder the Borrower shall pay upon demand with supported invoices such further amounts as shall be sufficient to cover the reasonable costs, the expenses, including reasonable legal fees, incurred by the Lender in enforcing any of its rights hereunder (Enforcement Expenses).

The Documentation Expenses and the Enforcement Expenses are hereinafter collectively referred to as "Expenses".

3. The Borrower shall bear all its own costs and fees including the legal fee for the Borrower's legal opinion.

4. As a management fee, the Borrower shall pay to the Lender the amount of Four Thousand ninety six point Zero Two United States Dollars (USD 4,096.02), hereinafter called "the Management Fee", within thirty (30) days signing this agreement, the Management Fee shall be nonrefundable.

### Vocabulary

**to contemplate** — рассматривать

**due to** — из-за

**due** — подлежащий оплате

**when due** — при наступлении срока

**to incur expenses (syn. to pay, to bear expenses, to cover)** — нести расходы

**to reimburse** — возмещать

**reimbursement** — возмещение

**invoice** — счет

**to exceed** — превышать

**to enforce** — осуществлять

**upon demand** — при первом требовании

**to refund** — возвращать

**non-refundable** — не подлежащий возмещению

## 5.8.2 Overdue Payments

If the Borrower fails to make any required payment with respect to the payment of the loan, payment of the Interest, payment of the Management Fee, or any other items payable under this Agreement on the date(s) due, all such overdue amounts shall bear interest, payable on demand, from and including the due date to and including the date of actual payment, at the rate of 2,375% per annum over and above the week, one month, three month or six month LIBOR determined on the due date(s) and from time to time thereafter for successive interest periods for as long as such amount remains unpaid, hereinafter called “the Overdue Interest”.

The applicable LIBOR shall be the arithmetic mean, rounded upward, if necessary to the nearest whole multiple of 1/16 of 1% of the relevant LIBOR for deposits in the United States Dollars as quoted on the Reuter’s monitor page “LIBO” as or about 11:00 a.m., London time on the due date(s) and thereafter for each successive Overdue Interest Period as defined below, on the second business day in London, England prior to the first day of each such Overdue Interest Period.

The lender shall in its discretion determine the interest period with respect to any overdue amount, Overdue Interest Period. The Overdue Interest shall be calculated on a 360 day year basis, by counting the actual number of days elapsed in that period.

Any payment made by the Borrower after such a failure shall be applied first to the Expenses and the Management Fee, then to repayment(s) of the Loan overdue.

### Vocabulary

**overdue (payment)** — просроченный, задержанный (платеж)

**payable** — подлежащий оплате

**actual** — фактический

**rate** — ставка

**at the rate of per annum** — из расчета в год

**to succeed** — следовать за

**successive** — последующий

**to apply** — применять

**applicable** — применяемый

### 5.8.3 Disbursement

1. For the purpose of the Loan provided in Article 2, the parties hereto agree that the disbursement shall be made directly to the Seller's bank account upon the Borrower's request.

The Borrower shall send the drawdown notice by telefax in the form of exhibit C attached hereto, the "Drawdown Notice". Such Drawdown Notice must be accompanied by the Seller's invoice.

The disbursement shall be made on the fifth business day after, not including, the Lender's receipt of Drawdown Notice.

The final Drawdown Date shall not be later than November 29, 200

2. In case any payment hereunder becomes due on a day which is not a business day, the payment shall be made on the next succeeding business day unless such next succeeding business days fall in the next calendar month, in which case the payment shall be made on the immediate business day. Business day means a day on which banks are open in London and New York for the type of business contemplated by this Agreement.

#### Vocabulary

**to disburse** — выплачивать  
**disbursement** — выплата денег в порядке погашения долга  
**to make disbursement** — производить выплату  
**invoice** — счет

**to become due** — наступать (о сроке платежа)  
**to contemplate** — рассматривать  
**drawdown notice** — сообщение о "выборке" (использовании) кредита  
**to succeed** — следовать

### 5.8.4 Events Of Default

The occurrence of any of the following events shall constitute the event of default (hereinafter called "the Event of default") hereunder;

1. If the Borrower fails to pay on the due date any sum which is expressed to be due and payable hereunder (unless such failure is due solely to technical reasons and does not last for a period of more than fifteen (15) days following the date of notice thereof from the Lender).

2. If the Borrower commits breach of or fails to observe any of its obligations or undertakings under this Agreement (other than 1.above) and such breach continues for thirty (30) days after notice thereof has been received by the Borrower from the Lender.

3. If any representation, warranty, resolution or transactions made by the Borrower in or pursuant to this Agreement or in any document or statement delivered or made pursuant hereto is or becomes incorrect in any material respect and, if subject to cure, is not cured within (15) days from the date of receipt by the Borrower of the notice given by the Lender of such incorrectness.

4. If the Borrower fails to pay within fifteen (15) days as from its stated maturity any indebtedness of the Borrower arising from any and all Letters of Credit, Letters of Guarantee and Loan Agreements with the Lender, the Lender's affiliates or subsidiaries, the Lender's parent company, Nisso Iwa Corporation, a Japanese corporation ("NIC") or NIC's affiliate or subsidiaries, and such failure does not result from the introduction of any law or instruments having the force of law in the country of the currency where the payment is to be made and making it unlawful or impossible for the Borrower to make such payment in such country.

5. If any order is made or an effective resolution is passed or analogous proceedings are taken for the liquidation or dissolution of the Borrower or if any event occurs which under the laws of Ukraine shall have an equivalent effect.

## Vocabulary

**occurrence of the event** — наличие (происшествие) случая

**default** — невыполнение условий кредитного соглашения: неспособность выплатить проценты или погасить кредит

**to fail to do** — не сделать

**to fail to observe** — не соблюдать

**due date** — дата наступления, срок платежа

**to be due** — наступать (о сроке платежа)

**to be due to** — происходить из-за

**payable** — подлежащий оплате

**hereunder** — under this Agreement

**thereof** — of that fact

**to commit a breach** — допускать нарушение

**undertaking (syn. obligation)** — обязательство

**resolution** — решение

**pursuant to** — в соответствии с

**if subject to cure** — при необходимости исправления (устранения)

**as from its maturity** — от срока оплаты

**to mature** — наступать сроку оплаты

**to arise from** — происходить (возникать) из-за

**affiliate** — филиал

**to take proceedings** — производить рассмотрение

**dissolution** — роспуск

**hereafter** — after it (the event)

**whereupon** — при этом

## 5.9 THE ROLE OF BANKS

The following story is going to explain the role of banks. In the past most societies used different objects as money. Some of these were valuable because they were *rare* and beautiful, others- because they could be eaten or used. Early forms of money like these were used to buy goods. They were also used to pay for marriages, *fines* and debts. But although everyday objects were extremely practical kinds of cash in many ways, they had some disadvantages, too. For example, it was difficult *to measure their value accurately, divide some of them into a wide range of amounts*, keep some of them for a long time, use them to make financial plans for the future. For reasons such as these, some societies began to use another kind of money, that is, *precious metals*,

People used gold, *gold bullion*, as money. Those were dangerous times, and people wanted a safe place to keep their gold. So they *deposited* it with *goldsmiths*, people who worked with gold *for jewellery* and so on and also had a *guarded vault* to keep it safe in. And when people wanted some of their gold to pay for things with, they went and *fetched* it from the goldsmith.

Two developments turned these goldsmiths into bankers. The first was that people found it a lot easier to give the seller a letter than it was to fetch some gold and then physically hand it over to him. This letter *transferred* some of the gold they had at the goldsmith's to the seller. This letter we would nowadays call a cheque. And, of course, *once these letters or cheques, became acceptable as a way of paying for goods*, people felt that the gold they had deposited with the goldsmith, was just as good as gold in their own pockets. And as letters or cheques, were easier to carry around than gold, and a lot less dangerous, people started to say that *their money holdings* were what they had with them plus their deposits. So a system of deposits was started. The second development was that goldsmiths realized they had a great deal of unused gold lying in their vaults doing nothing. This development was actually of greater importance than the first.

Now let's turn to the first *bank loan* ever and see what happened. A firm asked a goldsmith for a loan. The goldsmith realized that some of the gold in his vault could be lent to the firm, and of course he asked the firm to pay it back later with *a little interest*. Of course, at that moment *the goldsmith was short of gold*, it wasn't actually *his* gold, but he *reckoned* it was unlikely that everyone who had deposited gold with

him would want it back at the same time, *at any rate* - not before the firm had repaid him his gold with a little interest. He thought it safe enough.

To understand what actually happened in this simple *transaction* — consider the following table.

**Table 1.**

Goldsmiths as bankers			
		Assets	Liabilities
1. Old-fashioned goldsmith		Gold \$100	Deposits \$100
2. Gold lender		\$90+loan\$10	Deposits \$100
3. Deposit lender: Step 1		Gold\$100+loan\$10	Deposits \$110
4. Deposit lender: Step 2		Gold\$90+loan \$10	Deposits \$100

The first row shows what the goldsmith did before he made this loan. He had a hundred dollars of gold, which he *owed* to the people who had deposited it with him, so his *assets and liabilities* were the same. But when he lent, say, \$10 of gold to the firm, he actually had only \$90 of gold in his vault plus *the value of his loan*. His assets still *equaled* his liabilities, but he was going to get some interest.

It so happened that *the firm*, that took out the loan, *didn't really want to carry that \$10 of gold around, so it asked the goldsmith if, instead of actually taking the gold, it could be given a deposit*. The third row of Tabl. 1 shows what happened then. Although the goldsmith's assets and liabilities were the same, but *were then worth \$110*, not \$100. When the firm *wrote a cheque* for \$10, and that person came in to collect his \$10 worth of gold, the goldsmith's *assets failed*, but so did his liabilities (the fourth row of the table). The important point to notice here is that it made no difference to the goldsmith whether his *initial loan was* in actual gold or in a form of a deposit.

Now let's turn to the question of *reserves*. Reserves are *the amount of gold that is immediately available in the vault* to meet *depositors' demands*. People originally deposited \$100 of gold with the goldsmith. The goldsmith lent \$10, *leaving himself with \$90*. As a banker he *was relying on* the fact that not everyone would want their gold back at the same time. If they had done, he couldn't have paid out. His reserves of \$90 were not enough.

The goldsmith in the table has a 100% reserve ratio. *The reserve ratio* is the ratio of reserves to deposits. Once he has made his loan, he

has a 90% deposit ratio. This is a small risk with a small profit. How much *dare* he lend out in order to *make a profit through his interest charges!* *What are the risks involved?* Suppose the goldsmith took too much of a risk. He lent 80% of the gold he had. This *panicked* people. They *doubted* he could pay them all back, he *was bound to lose some of the gold* he had lent, so they rushed to get their gold back before it was too late. That was what we would now call *a run on the bank*, a financial panic. And *the financial panic* leads to exactly what people *fear*, the bank cannot pay them, *goes bankrupt*, and they go bankrupt as well.

## Vocabulary

**rare** — редкий

**finer** — штрафы

**to measure their value accurately** — точно измерить их стоимость (ценность)

**to divide into a wide range of amounts** — разделить на много частей (маленьких или больших)

**precious metals** — драгоценные металлы

**gold bullion** — золотой слиток

**to deposit with** — хранить, вкладывать

**a goldsmith** — золотых дел мастер

**worked with gold for jewellery** — делал золотые украшения

**a guarded vault** — охраняемое хранилище

**to fetch** — приносить, доставать

**to transfer** — переводить, передавать

**once these letters or cheques, became acceptable as a way of paying for goods** — как только (когда) эти письма, или чеки, стали приниматься при оплате товаров

**their money holdings** — деньги, которые им принадлежали, которыми они владели

**a bank loan** — банковская ссуда, заем

**a little interest** — небольшой процент

**the goldsmith was short of gold** — у мастера не было достаточно золота

**to reckon** — полагать, считать

**at any rate** — во всяком случае

**a transaction** — сделка

**to owe** — быть должным

**assets and liabilities** — активы и пассивы.

**the value of his loan** — стоимость ссуды, которую он дал

**to equal** — равняться, быть равным

**the firm didn't really want to carry that gold around, so it asked the goldsmith if, instead of actually taking the gold, it could be given**

**a deposit** — фирма не хотела держать золото при себе

(носить золото с собой) и вместо того, чтобы на самом деле его забрать, попросила мастера принять это золото на хранение в виде вклада

**(they) were worth \$110** — их стоимость составляла, они оценивались (имели ценность) в 110 долларов

**they were worth \$110** — их стоимость составляла, они оценивались (имели ценность) в 110 долларов

**(they) were worth \$110** — их стоимость составляла, они оценивались (имели ценность) в 110 долларов

**(they) were worth \$110** — их стоимость составляла, они оценивались (имели ценность) в 110 долларов

**(they) were worth \$110** — их стоимость составляла, они оценивались (имели ценность) в 110 долларов



**to write** (*syn. to draw, to issue, to make out*) **a cheque** — выписать чек

**his assets failed** — эд. его активы снизились

**to fail** — (о банках) обанкротиться

**initial loan** — первоначальная ссуда

**reserves** — резервы

**the amount of gold that is immediately available in the vault** — запасы (количество) золота, которое всегда находится (и может быть немедленно получено) в хранилище банка

**depositors' demands** — требования вкладчиков .

**leaving himself with \$ 90** — оставив себе только 90 долларов

**to rely on** — рассчитывать, надеяться на что-либо

**the reserve ratio** — резервная норма

**dare** — осмеливаться

**to make a profit through his interest charges** — получить прибыль за счёт платежа процентов

**What are the risks involved?** — Чем он рискует?

## 5.10 Modern banking

The goldsmith bankers were an early example of a *financial intermediary*.

**A financial intermediary** is an institution that specializes in *bringing* lenders and borrowers *together*.

**A commercial bank** borrows money from the public, crediting them with a deposit. The deposit is a liability of the bank. It is money owed to depositors. In turn the bank lends money to firms, households or governments wishing to borrow.

Banks are not the only financial intermediaries. *Insurance companies, pension funds,* and building societies also take in money in order to relend it. The crucial feature of banks is that some of their liabilities are used as a means of payment, and are therefore part of *the money stock*.

Commercial banks are financial intermediaries with a government license to make loans and *issue deposits*, including deposits against which cheques can be written.

Let's start by looking at the present-day UK banking system. Although the details vary from country to country, the general principle is much the same everywhere.

In the UK, the commercial banking system comprises about 600 registered banks, *the National Girobank* operating through post offices,

and a dozen *trustee saving banks*. Much the most important single group is the *London clearing banks*. The clearing banks are so named because they have a *central clearing house* for handling payments by cheque.

A **clearing system** is a set of arrangements in which debts between banks are settled by adding up all the transactions in a given period and paying only the net amounts needed to balance *inter-bank accounts*.

Suppose you bank with *Barclays* but visit a supermarket that banks with *Lloyds*. To pay for your shopping you write a cheque against your deposit at *Barclays*. The supermarket pays this cheque into its account at *Lloyds*. In turn, *Lloyds* presents the cheque to *Barclays*, which will *credit* *Lloyds'* account at *Barclays* and *debit* your account at *Barclays* by an equivalent amount. Because you purchased goods from a supermarket using a different bank, a transfer of funds between the two banks is required. Crediting or debiting one bank's account at another bank is the simplest way to achieve this.

However on the same day someone else is probably writing a cheque on a *Lloyds'* deposit account to pay for some stereo equipment from a shop banking with *Barclays*. The stereo shop pays the cheque into its *Barclays'* account, increasing its deposit. *Barclays* then pays the cheque into its account at *Lloyds* where this person's account is simultaneously debited. Now the transfer flows from *Lloyds* to *Barclays*.

Although in both cases the cheque writer's account is debited and the *cheque recipient's* account is credited, it does not make sense for the two banks to make two separate inter-bank transactions between themselves. The dealing system calculates the net flows between the member clearing banks and these are the settlements that they make between themselves. Thus the system of clearing cheques represents another way society reduces the costs of making transactions.

## **The Balance Sheet of the London Clearing Banks.**

*Table 2* shows the balance sheet of the London clearing banks. Although more complex, it is not fundamentally different from the balance sheet of the goldsmith-banker shown in *Table 1*. We'll begin by discussing the asset side of the balance sheet.

**Table 2. Balance Sheet of London Clearing banks**

Assets	£b	Liabilities	£b
Sterling: Cash Bills & market loans	2,9–34,7	Sterling: Sight deposits	54,1–59,9
Advances Securities	83,0–9,4	Time deposits CDs	8,1
Lending in other currencies	54,6–15,5	Deposits in other currencies	46.2
Miscellaneous assets		Miscellaneous liabilities	31
<b>TOTAL ASSETS</b>	<b>200,1</b>	<b>TOTAL LIABILITIES</b>	<b>200,1</b>

**Cash assets** are notes and coin in the banks' vaults. However, modern banks' cash assets also include their cash reserves deposited with *the Bank of England*. The Bank of England (usually known as the Bank) is **the central bank or banker** to the commercial banks.

Apart from cash, the other entries on the asset side of the balance sheet show money that has been lent out or used to purchase *interest-earning assets*. The second item, **bills and market loans**, shows *short-term lending in liquid assets*.

**Liquidity** refers to the speed and the certainty with which an asset can be converted back into money, whenever the asset-holders desire. Money itself is thus the most liquid asset of all.

The third item, **advances**, shows lending to households and firms. A firm that has borrowed to see it through a *sticky period* may not be able to repay whenever the bank demands. Thus, although advances represent the major share of clearing bank lending, they are not very liquid forms of bank lending. The fourth item, **securities**, shows bank purchases of *interest-bearing long-term financial assets*. These can be *government bonds* or *industrial shares*. Although these assets are traded daily *on the stock exchange*, so in principle these securities can be cashed in any time the bank wishes, their price fluctuates from day to day. Banks cannot be certain how much they will get when they sell out. Hence financial investment in securities is also illiquid.

The final two items on the asset side of the balance sheet show **lending in foreign currencies and miscellaneous bank assets**. Total assets of the London clearing banks were £ 200,1 billion. We now shall examine how the equivalent **liabilities** were made up.

Deposits are chiefly of two kinds: *sight deposits* and *time deposits*. Whereas **sight deposits** can be withdrawn on sight whenever the depositor wishes, a minimum period of notification must be given before **time deposits** can be withdrawn. Sight deposits are the bank accounts against which we write cheques, thereby *running down our deposits* without giving the bank any prior warning. Whereas most banks do not pay interest on sight deposits or *cheque (checking) accounts*, they can afford to pay interest on time deposits. Since they have notification of any withdrawals, they have plenty of time *to sell off some of their high-interest investments* or *call in some of their high-interest loans* in order to have the money to pay out deposits.

**Certificates of deposit (CDs)** are an extreme form of time deposit where the bank borrows from the public for a specified period of time and knows exactly when the loan must be repaid. The final liability items in *Tabl. 2* show deposits in foreign currencies, *miscellaneous liabilities*, such as cheques, in the process of clearing.

## Vocabulary

**a financial intermediary** — финансовый посредник

**to bring together** — соединять, сводить вместе

**insurance companies** — страховые компании

**pension funds** — пенсионные фонды  
**the money stock** — денежная масса, деньги в обращении

**to issue deposits** — открывать вклады

**the National Girobank** — *англ.* Национальный жиробанк

**trustee saving banks** — доверительные сберегательные банки

**London clearing banks** — лондонские клиринговые банки (банки - члены расчетной палаты)

**to debit** — дебетовать

**to credit** — кредитовать

**a central clearing house** — центральная расчетная палата

**inter-bank accounts** — межбанковские счета

**Barclays** — Барклайз банк (*Великобритания*)

**Lloyds** — Ллойдз банк (*Великобритания*).

**cheque recipient** — получатель чека

**cash assets** — денежные активы

**the Bank of England** — Банк Англии, Английский банк

**interest-earning** (*syn.* interest-bearing)

**assets** — активы, приносящие процентный доход

**bills and market loans** — векселя и рыночные займы

**short-term lending** — краткосрочное кредитование

**liquid** (*ant.* illiquid) **assets** — ликвидные активы

**liquidity** — ликвидность  
**advances** — ссуда в виде аванса  
**a sticky period** — трудный период  
**securities** — ценные бумаги  
**interest-bearing long-term financial assets** — долгосрочные финансовые активы, приносящие процентный доход  
**government bonds** — государственные облигации  
**industrial shares** — промышленные акции  
**the stock exchange** — фондовая биржа  
**miscellaneous bank assets** — прочее имущество банка

**sight deposit** — депозит до востребования; бессрочный вклад  
**time deposit** — срочный вклад  
**to withdraw** — отзывать (*вклад*)  
**to run down a deposit** — уменьшать вклад  
**cheque (checking) accounts** — текущий (чековый) счет  
**to sell off** — распродавать  
**call in high-interest loans** — требовать возврата займов (требовать уплаты процентов)  
**certificates of deposit** — депозитные сертификаты  
**miscellaneous liabilities** — прочие (другие) пассивы

### *Translate into English:*

1. О деятельности коммерческого банка можно судить (понять) с помощью балансового отчета, в котором активы равняются пассивам.

2. У коммерческого банка две основные функции - прием денежных вкладов и выдача ссуд.

3. Банкир преследует две противоречащие друг другу цели. Одна цель - прибыль. Коммерческие банки, как и другие предприятия, стремятся к прибыли. Поэтому они предоставляют кредиты и покупают ценные бумаги, правительственные облигации и акции компаний. Эти операции в балансе показаны как основные активы, приносящие доход коммерческим банкам. С другой стороны, коммерческий банк должен стремиться к безопасности. Для банков безопасность обеспечивается ликвидностью, в частности такими ликвидными активами, как наличность. Поэтому банкиры стремятся к балансу между осторожностью и прибылями.

4. Финансовые посредники - это институты, которые собирают сбережения населения и предоставляют их заемщикам. Финансовые посредники в общем виде могут быть разбиты на три группы - банковские, страховые и инвестиционные институты. Банковские институты состоят из коммерческих банков, сберегательных банков и др. Для них характерно принятие вкладов населения и организаций.

## 5.11. Importing and Exporting Money

Working abroad:

If you are going to work in a foreign country, you will have to make some arrangements about your money. These arrangements depend on how long you are going for:

Short stay: (e.g. 6 months) Salary paid in the country of residence (your home country).

Ask your manager to arrange an external account in the country of your work. This exempts (frees) you from local Exchange Control Regulations.

Salary paid in the country of work:

Ask your manager to find out about local E.C.Rs.

Long stay: Salary paid in country of residence:

(e.g. 3 years) Ask your manager to arrange to have a current account opened in the country of work. You can then sign a standing order payment which authorizes your manager in England to remit (to send) a certain amount to you each month by airmail transfer.

Salary paid in the country of work:

You will want to transfer money to your country of residence.

You can send it by:

1. Banker's Draft:

This is used to transfer money to an individual or to a company. The beneficiary (the person to whom you are sending money) can take it to any bank to receive payment. It is sent by mail.

2. Mail Payment Order:

This is also sent by airmail but it is sent directly to the beneficiary's bank.

3. Telegraphic Transfer Order:

This also goes to the beneficiary's bank but it goes by telex or cable.

It is therefore quicker, but more expensive.

Remember all these three means of transfer are subject to local E.C.Rs (Exchange Control Regulations).

## 5.12. Bank Organization

**compete, market, management, executive, organization, line, division, function, operate, responsible, report, board, branch, correspondent, capital**

### Vocabulary

#### Compete

**to compete in smth** — конкурировать, соревноваться в чем-либо  
**competition** — конкуренция  
**competitive pressure** — конкурентное давление  
**competitive advantage** — конкурентное преимущество  
**competitor** — конкурент  
*syn. rival*  
**to be competitive** — являться конкурентоспособным

#### Market

**market segmentation** — сегментация рынка  
**market niching** — поиски особо благоприятного положения на рынке (*для данной фирмы*)

#### Management

**effective management** — эффективное руководство чем-либо  
**top (senior) management** — высшее руководство  
*syn. heads of departments* — начальники отделов  
**management (managerial) personnel** — административно-управленческий персонал  
**managerial staff** — старший руководящий персонал  
*ant. staff* — служебный персонал, рядовые служащие  
**to manage** — управлять  
*syn. to run a bank*

#### Executive

**chief executive** — президент (*компании, банка*), директор  
**top executives** — руководители высшего звена  
**senior executive** — старший администратор, руководитель высшего ранга  
*syn. officer* — должностное лицо

#### Organization

**bank organization** — организационная структура банка  
**functional (line) organization** — функциональная (*линейная*) организационная структура

**staff organization** — организационная схема подчиненности  
**organization chart** — схема организационной структуры

## Line

**line of activity** — род, сфера деятельности  
**product line** — предметно-производственная специализация  
**line and staff** — линейный и (*функциональный*) штатный (*о руководящем персонале*)  
**line (operational) personnel** — персонал из подразделения, оперативные работники  
*ant.* **managerial personnel**  
**line division** — оперативное подразделение  
*syn.* **operative (operating) division**

## Division

**bank division** — управление банка  
**bank department** — отдел банка  
**line division** — линейное (*оперативное*) управление  
**to head a division (department)** — возглавлять управление (*отдел*)

## Function

**functions (pl.)** — должностные обязанности, функции  
**routine functions** — повседневные обязанности  
**staff functions** — функции центрального аппарата  
**marketing functions** — деятельность по обеспечению сбыта (*продажи*)  
**function (sing.)** — функция, назначение  
**deposit function** — банковская функция по приему депозитов  
**loan function** — функция по выдаче ссуд  
**to perform a function** — осуществлять функцию

## Operate

**to operate (intr.)** — действовать; производить операции  
**bank operation** — банковская операция  
*syn.* **transaction**  
**banking facilities** — банковские операции, банковские услуги  
**to monitor operations** — осуществлять контроль за операциями  
*syn.* **to control (supervise) operational activity**  
**operating (operative) divisions (departments)** — оперативные управления, отделы  
*syn.* **line divisions**  
**to realize (conduct) an operation** — осуществлять операцию

## Responsible

**to be responsible for smth** — отвечать за что-либо



**to accept responsibility for** — взять на себя ответственность за что-либо

### **Report**

**to report to smb** — отчитываться перед кем-либо, подчиняться кому-либо

### **Board**

**board of directors** — совет директоров: правление

**to be on the board** — быть членом правления

### **Branch**

**branch bank** — отделение банка

**branch office** — отделение (*компании*), филиал

*ant.* **head office** — головная контора

**branch banking** — система банков, имеющих филиалы

**branch network** — сеть филиалов (*отделений*)

**nation-wide network of branch offices** — сеть отделений банка по всей стране

### **Correspondent**

**correspondent banking** — система корреспондентских отношений

*syn.* **correspondent relationship**

### **Capital**

**to raise capital (funds)** — мобилизовывать капитал (*средства*)

## **Bank organization**

Banks are among the most important financial institutions. The way in which a bank is organized and operates is determined by its objectives. The first and most important function of a central bank is to accept responsibility for advising the government on the making of the country's financial policy, and then to see that it is carried out. The aim of commercial banks is to earn profit. Over the years banks have developed organizational forms, or structures, designed to perform these various roles and to supply the services their customers demand.

A commercial bank, which provides the same range of services year after year, is less likely to be successful. Successfully competing in the constantly changing global business environment requires market-driven strategies that are responsive to customers' needs and wants. Executives who do not recognize the changes occurring in the vast array of markets for products and services will not be able to cope with the unprecedented com-

petitive pressure in the market place. To improve competitive advantages they are drastically altering their business and marketing strategies, which may include downsizing, repositioning, market segmentation, market niching, altering the business portfolio, pricing, promotion and strategic alliances between companies. With the global increase in the number of competitors banks face in their major markets, more and more banking firms have become market-driven and more alert to the changing service demands of their customers and also to the challenges posed by the bank and nonbank competitors. This trend forced bank managers to become more concerned with service marketing activities and with profitability and growth.

Banks are usually organized to follow their functions and supply the services demanded by them as efficiently as possible. Moreover, because larger banks generally play a wider range of roles and offer more services, a bank's size is also a significant factor in determining how banks are organized. This can be seen most directly by looking at the typical organization chart for large versus small banks.

This bank, typical of hundreds of banks serving small and medium-size communities, is heavily committed to attracting small consumer-oriented deposits and making consumer installment small business loans. A bank like this is often called a retail bank opposed to a wholesale institution that concentrates mainly upon serving commercial customers and making large corporate loans.

The service operations of a small bank usually are monitored by a cashier and auditor working in the accounting division and vice-presidents heading up the bank's loan, fundraising, market and trust departments (if the bank offers trust services). The officers report to the senior executives of the firm, consisting of the board chairman, the president (who usually runs the bank from day to day), and senior vice-presidents, who are responsible for long-range planning and for assisting heads of the various departments in solving their most pressing problems. Senior management, in turn, reports periodically (at least once each month) to members of the board of directors – the committee selected by the shareholders to set a policy and oversee the bank's performance. There is often close contact between top management and the management and staff of each line division. Such banks present a relatively low-risk working environment, but with limited opportunities for rapid advancement or for the development of new banking skills. Nevertheless, such banks place the banker close to the customer and give bank employees the opportunity to see how their activities, especially in granting

loans, can have a real impact on the vitality and quality of the life in local communities. The organization chart of a large money bank is much more complex.

The large banks possess some potential advantages over small and medium-size banks. Because the largest institutions serve many different markets with many different services, they are better diversified both geographically and by product line, to withstand the risks of a fluctuating economy. They also possess the important advantage of being able to raise financial capital at relatively low cost and the professional expertise to focus that new capital on the most promising loans and business acquisitions.

The oldest and most common banking organizations in the United States are unit banks. They offer all of their services from one office though a small number of services (such as taking deposits or cashing checks) may be offered from limited-service facilities, such as drive-in windows, automated teller machines (ATM) and retail store point-of-sale (POS) terminals that are linked to the bank's computer system. Nowadays, however, most banks desire to open up new market areas and to diversify geographically in order to reduce the risk that comes from relying on a single office location for customers and income. The tendency in recent years has been for most banking institutions to become more complete organizations. When a bank begins to grow it usually adds new services and new facilities. With them come new departments and divisions to help the management more effectively to focus and control the bank's resources and service the most profitable customer segments.

Where law and regulations permit, the bank may form a branch banking organization. The full range of banking services is offered from several locations, including head office and one or more branch offices.

The existence of so many small banks and so many different kinds of banking organizations has created the need for strong interbank relations. Banks set up formal and informal relationships with each other through an extensive system of correspondent banking. The rapid geographic expansion and consolidation of banking units have reached well beyond boundaries of a single nation. The major banks establish extensive international operations not only by extending their branch network abroad but by establishing correspondent relations with foreign banks too.

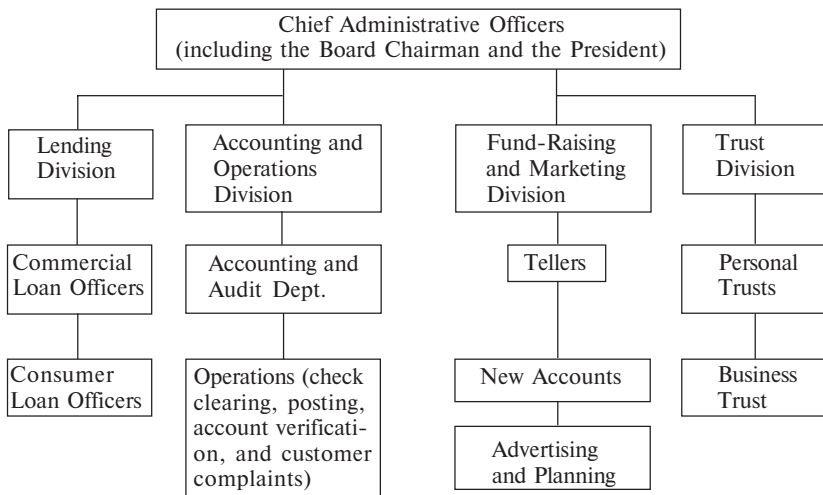


Fig. 8. Organization Chart for a Small Community Bank

## Vocabulary

**unit bank** (*am.*) — бесфилиальный банк

**commercial customer** — коммерческий потребитель, крупная фирма

**ATM** — банковский автомат, банкомат

**POS** — электронный компьютерный терминал, позволяющий клиентам банков осуществлять расчеты при помощи дебит-карточек

## Vocabulary practice

**Answer the following comprehensive questions based on the text.**

1. What does successful competition in the market of bank services presuppose?
2. What factors determine the bank's organization and operation?
3. What is characteristic of a small community bank (as opposed to a wholesale bank)?
4. What are the potential advantages of large banks?
5. What has given an impetus to branch banking organizations in recent years?

## 5.13. New Services in Banking

**banking, services, estate, realty, trust, indenture, covenant, administrator, fiduciary, mortgage, covenant, fiduciary, mortgage, letter of credit**

### Vocabulary

#### Banking

**retail banking** — операции банков с широкой клиентурой

**wholesale banking** — операции банков с крупными промышленными предприятиями

**banking business** — банковское дело; банковские операции

**banking services** — банковские услуги

*syn.* **bank services**

**banking facilities** — банковские услуги (*операции*)

**deposit banking** — депозитные операции банков

**banking institution** — учреждение банковского типа

*syn.* **financial institution** — кредитно-финансовое учреждение

**depository (thrift, savings) institution** — депозитное учреждение

**lending institution** — кредитное учреждение

*ant.* **institutional investor** — институциональный инвестор, небанковское кредитное учреждение

#### Service

**full service** — полный комплекс обслуживания

*syn.* **large service menu** — широкий выбор услуг

*syn.* **mix of services** — ассортимент (номенклатура) услуг

**service fee** — вознаграждение за услуги

**large (small) scale services** — услуги, предоставляемые банком крупным фирмам (*мелким фирмам и населению*)

**personal services** — услуги частным лицам

**commercial services** — услуги фирмам

**trust services** — трастовые услуги, доверительные услуги

**cash management services** — услуги по контролю и регулированию денежных операций (*в банке, фирме*)

**investment services** — услуги по управлению инвестициями

**agency services** — посреднические (*агентские*) услуги

**insurance services** — страховые услуги

**real estate services** — услуги по управлению недвижимостью по доверенности

## **Indent(ure)**

**under indenture** — по контракту

**Covenant** — договор (за печатью); отдельная статья договора

**to agree to a covenant** — прийти к соглашению по всем обязательствам, вытекающим из договора

**to adhere to a covenant** — придерживаться договоренностей

## **Trust**

**trust agreement** — договор об учреждении траста (обычно письменный)

**trust indenture** — контракт между держателем акций и компанией, их выпускающей

**trust deed** — доверенность на управление собственностью

**trust operations** — доверительные услуги (операции), трастовые услуги (операции)

**trust division (department)** — трастовое управление, траст-отдел

**trustor** — лицо, учредившее траст; доверитель

**trustee** — доверенное лицо, опекун; учреждение, распоряжающееся имуществом в пользу другого лица

**trustee under indenture** — доверенное лицо по облигационному займу

**to act as a trustee** — действовать в качестве доверенного лица

**to appoint (to designate) a trustee** — назначить доверенное лицо

## **Estate**

*syn.* **assets** — имущество, активы

**trust estate** — имущество, управляемое по доверенности

**estate settlement** — установление доверительной собственности на имущество, распоряжение всем имуществом клиента

## **Realty**

**realty company** — компания, занимающаяся операциями с недвижимым имуществом

*syn.* **real estate company**

**real estate** — недвижимое имущество

**real estate brokerage** — брокерские операции с недвижимостью

## **Administer**

**to administer an estate** — распоряжаться (*управлять*) имуществом  
*syn.* **to manage an estate**

**trust administration** — распоряжение (*управление*) собственностью на доверительной основе

**trust administrator** — опекун

**Fiduciary** (n); (attr.)

**fiduciary relationship** — имущественные отношения доверительного характера

**to act as a fiduciary** — действовать в качестве доверенного лица (*трастагента*)

**Mortgage**

**mortgage loan** — ссуда под недвижимость

*syn.* **real estate loan**

**real estate mortgage** — закладная под недвижимость

**to borrow on mortgage** — получать ссуду под залог недвижимого имущества

**to redeem a mortgage** — выкупать закладную

**to mortgage property** — закладывать имущество

**Letter of credit**

**to issue a letter of credit** — открыть аккредитив

*syn.* **to open a letter of credit**

**terms of a letter of credit** — условия аккредитива

**pay off**

**to pay off smb** — рассчитаться с кем-либо

**pay off bonds** — погасить облигации

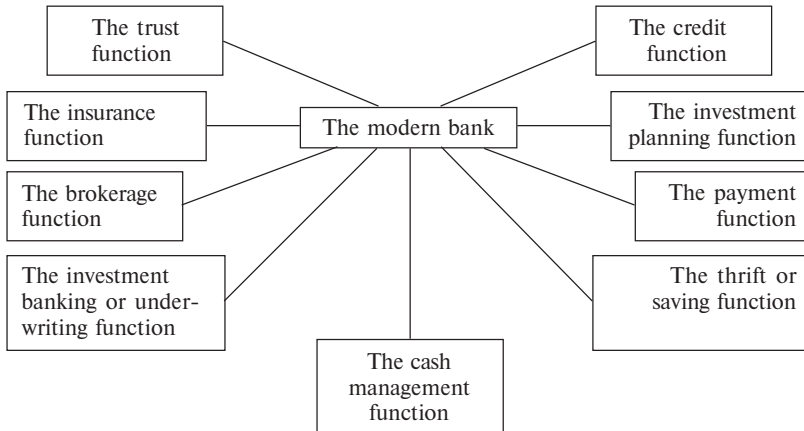
*syn.* **to retire a bond at maturity** — погашать облигацию по наступлению срока

**New services in banking**

Banks perform the widest range of functions (*see Fig. 9*) in the economy and consequently any modern full-service banking institution should provide the widest variety of services.

Banks may be defined as firms producing and selling financial services. Their success or failure hinges on their ability to identify the financial services of public demands, produce those services efficiently, and sell them at a competitive price. The service menu of banks does not remain unchanged as new services are constantly being introduced and developed by commercial banks. Many of them offer a combination of wholesale and retail banking. The former provides large scale services to the corporate sector. The latter mainly provides smaller scale services to the general public.

The 1990s ushered in an explosion of new service options. Many of the new services have simply been variations of traditional deposit and



*Fig. 9. Bank functions*

loan product. Other innovative services, however, have broken new ground and exposed bankers to all the uncertainty and risk associated with new product development.

Trust services are one of the most important and rapidly growing bank service areas today. Bank trust operations encompass the management of property and other assets owned by a bank customer and the administration of customer's security holdings and borrowings. In offering trust services the bank places itself as authorized agent between the marketplace and the customer, making investment and management decisions on the customer's behalf and dispensing fund when needed to cover the customer's obligations. A bank's trust operations are usually divided into three broad areas: (1) personal trust services, (2) business trust services, and (3) trust services to charities and nonprofit organizations. Each involves a fiduciary relationship between bank and customer — that is, a trust department acts to benefit its customers within those areas defined by contract (the trust agreement) between the bank (trustee) and the customer (trustor) covering a specified period of time.

Banks provide a wide range of trust services for individuals and families in the form of estate settlement, trust administration and agency services. Banks trust divisions act as agents for corporations and other businesses in a host of different ways. This may involve issuing securities on the business customer's behalf, paying dividends or interest owed



on any securities issued, reinvesting the dividends for securities holders who request that service and retiring the securities at maturity. Under the terms of the Federal Trust Indenture Act of 1939, any foreign or domestic corporation that issues securities to the general public in the United States must designate a trustee for the security issue to act as a fiduciary, representing the investors purchasing those securities. Trust departments also handle transfers of ownership of corporate stock, stock splits, and conversions of stock into debt, and they issue proxies and count votes in connection with annual stockholder meetings.

Today banks frequently serve as trustees under indenture, holding legal title to property securing a bond issue with the power to foreclose on and liquidate that property if the issue defaults. The bank as trustee must make sure all bond covenants agreed to by the issuing corporations are adhered to and that all required liens against the company's property are duly filed and recorded. The trust department will set up and manage a sinking fund, investing all monies that the bond issuer contributes to that fund periodically with the intent of eventually redeeming the bond issue.

The fiduciary activities of banks make a critical contribution to the functioning of the commercial paper market, where the unsecured, short-term notes of large corporations (both foreign and domestic) are traded. Bank trust departments keep records on which investors purchase commercial paper, see that any notes purchased are actually delivered to the investors involved, and pay of the holders of those notes on the maturity date. Even more important, banks issue letters of credit backstopping issuers of commercial paper in order to reassure investors that the bank will pay off a note issue if the borrowing corporation cannot do so. A bank's trust department will receive and hold any credit letters issued by other lending institutions and check to see that all the terms of those credit letters are being adhered to by borrowing companies. If necessary, the trust department will file for payment under the terms of a credit letter and disburse the collected funds to note holders.

Many banks today would like to offer real estate brokerage services to their customers, selling a home or commercial structure and then financing the sale. For generations banks have made loans to finance the construction of business facilities and private houses. While preferring to stick predominantly to short-term construction financing, banks have also taken on a limited volume of long-term commercial and residential real estate mortgages in which the mortgage property being a home or a commer-

cial structure. Mortgage loans are among the riskiest forms of bank credit, though they can be sold quite readily in the secondary market. Sometimes banks acquire realty companies in order to be able to offer a larger menu of financial services.

## Vocabulary

**to issue a proxy** — выдать полномочие на право голосования, доверенность

**to foreclose** — лишать права пользования

**a sinking fund** — фонд погашения задолженности, выкупной фонд

## Vocabulary practice

**1. Look at the words below, all of which are from this unit. Match the words with the correct definition from the list below.**

**fiduciary relationship, trustee, real estate, mortgage, estate, trust department, trustor, service, a letter of credit**

1. One's collective assets and liabilities \_\_\_\_\_.
2. An agreement between a bank and its customer in which the bank becomes responsible for the management of the customer's funds \_\_\_\_\_.
3. One who holds legal title to property in trust for the benefit of another person, and who is required to carry out specific duties with regard to the property \_\_\_\_\_.
4. One who creates a trust \_\_\_\_\_.

**2. Answer the following comprehensive questions based on the text.**

1. What is the bank? What factors determine the success of its operation?
2. What makes the 1990s a turning point in banking?
3. What do bank trust operations encompass?
4. What groups do the bank trust operations fall into?
5. What does the Federal Indenture Act of 1939 envisage?
6. What are the obligations of a bank acting as trustee under indenture?
7. What are letters of credit aimed at when they are issued by banks acting as fiduciaries to benefit their corporate customers?

## 5.14. Automatic Cash Dispensers

### **Barclays cash dispensers — a brochure**

Many customers see cash dispensers as a welcome alternative to making withdrawals at the counter. Here is an extract from a brochure, which Barclays Bank gives its current account holders to explain how their machines work.

### **Barclays cash dispensers**

#### **Quick and easy access to your account**

Barclays cash dispensers form part of a network of over 5,200 machines in the UK, enabling you to withdraw cash from any cash dispensers belonging to Barclays Bank, Lloyds Bank, The Royal Bank of Scotland and the Bank of Scotland.

Use of the Barclaybank network is free and our cash dispensers are operational night and day. So you can use them at any time you want.

And we are continuing to expand this network by installing cash dispensers in places which are most convenient for you; for example, supermarkets, motorway, service station, hotels, hospitals, company premises and airports.

Both our Barclays Connect and Barclaybank cards enable you to access your current account through the cash dispensers. If you would like to apply for a card, simply complete the attached application form and take or post it to your branch. Once your application is approved you should receive your card within 14 days.

Having successfully applied for a card, you will be given your own Personal Identification Number (PIN), known only to you and the Bank's central computing system. This number is used in conjunction with the card to obtain access to your current account or Barclaycard account.

No one else can access your account, as your PIN is known only to you. Your PIN is exclusively for your own use and must never be disclosed to anyone else.

#### **How does the cash dispenser work?**

We've made sure that all Barclays cash dispensers are quick and easy to use. So simple that it rarely takes more than a minute to complete your

transaction. Once you've put your card in, the machine gives you step-by-step instructions on how to use it.

The machine then returns your card, ready to use again whenever you need it.

If you are not quite sure how to operate the machine, just call into your local branch where they will be pleased to explain how it works.

### **How can I check the transactions I make?**

When you use a Barclays cash dispenser you can request an advice slip which records the date, the location and the amount of cash you have withdrawn. This information is also recorded on your bank statement which enables you to double-check the details, whichever type of machine you use.

### **What if I lose my card or have forgotten my PIN?**

If you lose your card or believe that your PIN is known to someone else, you must let the Bank know immediately. You can inform any Barclays branch during office hours or telephone the 24-hour number, Northampton (0604) 230230. Usage of the card will then be stopped immediately.

If you have forgotten your PIN, just contact your branch. They will be happy to instruct the computer system to remind you of your PIN or issue you with a new one. Please note that cards are occasionally retained by cash dispensers for one of the following reasons:

- they are out of date;
- an incorrect PIN has been punched three consecutive times;
- the Bank has been informed that the card is lost or stolen;
- you fail to respond, after 20 seconds, to a machine prompt asking if you want more time.

### **What are the charges for Barclays customers who use the cash dispensers?**

#### **What about your bank's customers?**

## 5.15. Depositing Money with a Bank

### Vocabulary

**active account** — активный депозитный счет

**accrue** (v) — накапливаться

**balance** (v) — сальдировать, подводить итог, закрывать счета

**cancel a cheque (Am. check)** (v) — аннулировать чек

**compound interest** — сложные проценты

**credit** (v) — кредитовать

**debit** (v) — дебетовать

**deposit** — вклад, депозит, задаток

**fund** — запас, резерв, фонд

**genuine** — подлинный, неподдельный

**insurance** — страхование

**insure against** (v) — страховать(ся) от

**interest on bank credits** — процент по банковскому кредиту

**joint account** — совместный счет

**ledger** — бухгалтерская книга, гроссбух

**liquid** — ликвидный

**maturity** — срок платежа

**notice** — извещение, уведомление

**outstanding** — 1) выпущенный в обращение; 2) не предъявленный к платежу, задолженный, просроченный

**overdraft** — овердрафт, превышение кредитного лимита

**overdraw** (v) — допускать овердрафт, превышать кредитный лимит

**passbook** — банковская расчетная книжка, депозитная книжка, сберегательная книжка

**per annum** — ежегодно, в год

**principal** — 1) номинал векселя; 2) капитал; 3) основной должник

**posting** — проводка

**rate of interest** — процентная ставка

**reconcile** (v) — выверять счет

**commission service charge (US)** — комиссионный счет

**term** — срок выполнения обязательств

**time certificate** — срочный сертификат

**transferable** — переводной

### Questions on the text:

1. Are service charges debited or credited to an account?
2. What happens when a cashier notices an overdraft on somebody's account?
3. What does a teller have to do before he/she cashes a check?
4. What advice would you offer to a customer who has some funds on hand?

5. Why is it profitable to deposit your funds for a specified term?
6. How is the interest on a savings account figured?
7. Which type of account is transferable?
8. How are customer's deposits protected?

### **Depositing Money with a Bank**

There are two general reasons for using a bank account. The first and most common is the convenience and safety provided by a current account at a bank. The second is that small and perhaps regular surpluses are available to be saved, and for this purpose a bank provides deposit accounts.

A deposit account will not offer a high rate of interest and would not be the best way to save large sums of money for any long period of time, but it is designed to make saving simple, convenient and safe. It is especially appropriate for those who may save small amounts from time to time without any planned regularity or for those who wish to save for a particular purpose in the immediate future, for example for annual holidays or for the purchase of a major item such as a car.

Most customers of a bank who have opened a deposit account will also have a current account and this makes the transfer of amounts of money from one to the other an easy matter. Regular payments into a deposit account can be made through a standing order to the bank that will automatically transfer the agreed amount according to your instructions. Other payments are made on standard forms but it is most convenient and provides a useful record if the depositor uses a paying in book. Interest is calculated every six months and added to the account. The rate of interest varies from time to time and is publicly advertised in any bank. Because the bank uses money deposited with them to lend to others it normally requires about seven days notice of intention to withdraw money from a deposit account, but unless there is a heavy demand for money they are not likely to insist on this and cash is often immediately available to those who wish to withdraw it. There is an assumption that such notice was given and you would lose seven day's interest on the money.

The increasing need for security and the use of computers in wage payments have combined to make it more common to have a bank account than to be without one. This kind of account is a current one and its most common use is a single regular payment in either a weekly wage or a monthly salary and regular payments out to meet the normal ev-

eryday expenses. Most payments are still made by cheque although the use of the standing order or the direct debit is becoming very common. It is normally expected that a current account will remain in balance and customers who regularly maintain an agreed minimum balance are often given the services of the bank without charge. In general, however, charges are made which vary with the size of the balance, the amount of use of the bank's services and the number of transactions. If the account is overdrawn, a further charge, which is the interest on the overdrawn amount, is also made.

Overdrafts are not permitted automatically and anything other than a small temporary overdraft would have to be by agreement with the bank manager. Such a facility is often useful particularly when there is a short term disbalance between income and expenditure. On the other hand, since money in a current account does not attract interest, it is not a good idea to maintain large cash balances, these would be better transferred to a deposit account or to an alternative form of saving.

### *Questions on the text*

1. What are the two main reasons for opening a bank account?
2. Which type of account is used by those who wish to save?
3. What kind of saving is this type of account most suited to?

## 5.16. Applications for Loans

### Vocabulary

**amortize** — 1) погашать долг в рассрочку; 2) обеспечивать постепенную выплату займа

**repaid by annual installments** — выплаченный в рассрочку

**appraise** (v) — оценивать, определять стоимость

**assets** — имущество, достояние, средства; активы, фонды, капитал

**fixed assets** — основные средства, основные фонды

**current assets** — текущие активы  
**balance sheet** — балансовый отчет

**chattel** — движимое имущество  
**chattel mortgage (US)** — ипотечный кредит

**clear** — осуществлять клиринг векселей, чеков; выплачивать по чеку клиента

**collateral security** — имущественное обеспечение, обеспечение ценными бумагами

**collateral** — обеспечение; залог; дополнительное обеспечение  
**debt** — долг, задолженность, обязательство  
**deed** — документ, скрепленный подписью и печатью  
**discount** (v) — 1) дисконт, учет векселей; 2) процент скидки, ставка учета, скидка  
**encumbrance** — закладная, долг, обязательство  
**equity** — 1) маржа; 2) доля акционера в капитале; 3) обыкновенная акция  
**estate** — имущество, состояние  
**estimate** (v) — 1) оценивать; 2) подсчитывать; 3) составлять смету  
**holding** — 1) владение акциями; 2) пакет акций  
**holdings** — вклады, авуары  
**indebtedness** — задолженность  
**installment** — 1) очередной взнос; 2) частичный платеж  
**legal charge** — законная плата

**liabilities** — денежные обязательства, пассивы  
**liquidate** (v) — ликвидировать, погашать  
**mortgage** — ипотека; залог; закладная  
**net value, net worth (US)** — чистая стоимость компании; собственный капитал  
**obligation** — долговое обязательство; облигация  
**pledge** (v) — закладывать, обязываться  
**property** — 1) собственность; 2) имущество  
**real estate (US)** — недвижимость  
**retire** (v) — погашать долговое обязательство  
**securities** — ценные бумаги, фонды  
**title** — право собственности  
**trust** — 1) траст, доверительный фонд; 2) кредит / давать в кредит  
**trust deed (US)** — акт учреждения доверительной собственности

## The text

Banks made their profits by lending the money which customers deposit with them to others who need it for personal or business reasons. Most people need more money than they have currently available at some time in their lives.

To be a borrower you must be a customer of the bank because the money will be lent to you through a bank account. There are two ways in which you may borrow. The first, and easy, is to spend more money than you have in your current account — to overdraw. The second and the normal way of borrowing larger amounts or for a long period of time is the loan.

If manager permits an overdraft on current account he is likely to set a limit to the size of the overdraft and may stipulate a date by which the account is back in credit. Businesses whose payments and receipts are often irregular will frequently need to use overdraft facilities and they



are often granted to private customers as well particularly when the manager knows that regular payments are made directly into the account.

If a loan is granted it will be a fixed sum immediately available for a fixed period of time. The principal and the interest on it may all become due for payment at the end of that period but for personal loans it is common to arrange that the loan and interest are repaid in equal regular installments over the period of the loan. A separate account is opened to record the repayments as they are made.

Whether you are seeking money for business or personal reasons there are a number of things that the manager will want to know before he is prepared to grant your request. The obvious facts will be amount that you seek and the arrangements for re-payment that you are able to suggest. You need to tell him something about the purpose of the loan, a business loan is likely to help you make profits out of which the loan can be repaid with interest and he will wish to judge for himself whether or not this is likely. Personal loans usually have to be repaid out of an income, which will not get any bigger and the manager will be particularly anxious to ensure that you are not being too optimistic. In deciding this he will be considerably assisted by his knowledge of you and his estimate of your character.

Sometimes people do not ask for enough money because they are anxious about the burden of the repayments. The manager will be wise enough to try and ensure that you will have sufficient amount of money to do what you want to do. Finally he will consider whether or not you really will be able to repay and what kind of security you can offer against the possibility that you do not repay. In the case of a business the manager may want to see well prepared, relevant documents such as profit and loss accounts and balance sheets for the most recent years. He would also ask about the expected return from the use of the money and want to see some figures upon which you have based your calculations. For a business good security might be one or more of the assets of the business whilst personal loans are often secured by such things as life insurance policies on which the bank is making regular payment for you or the deeds of your house.

### ***Questions on the text***

1. What are the two possible kinds of borrowings?
2. In what circumstances is an overdraft on current account permissible?

3. How are personal loans usually repaid?
4. Will you pay back more than you borrowed? What will the difference be?
5. What information will the manager require for a personal loan?
6. What information will he require for a business loan?
7. What other things will he take into account?
8. What will he need from you to make the loan safer for him?
9. What does a businessman mean by his expected rate of return?
10. Why might this be important to the bank manager?
11. What kind of things might you offer as collateral for a personal loan?

## Vocabulary

**rate of return** — 1) норма прибыли; 2) коэффициент окупаемости капиталовложений

**reconciliation** — приведение клиентом учета своих операций в соответствии с учетом банка; согласование, выверка

**revenues** — 1) доходы; 2) государственные доходы

**revenue bonds** — облигации, обеспечение доходами от определенного объекта

**share** — акция

**stock (US)** — акция

**speculative** — 1) спекулятивный; 2) рискованный

**tax-exempt** — не облагаемый налогом

**working capital** — оборотный капитал

**yield** — 1) доход по ценным бумагам; 2) доход в виде процентов на вложенный капитал

**yield interest (v)** — приносить процентный доход

### *Read the dialogue:*

*Board Member:* I notice that our cash and cash-in-banks has building up above the amount required by law.

*President:* I've had the same thoughts. And right now there is a new offering of municipal bonds that can be bought at a price that will yield 3.5 %.

*B. M.:* Are they general obligation bonds?

*P.:* Yes, they are. I prefer those to revenue bonds, don't you?

*B. M.:* I do. Does this issue have an AA rating?

- P.:* Yes. And they can be had in five to ten-year maturities. They're tax-exempt, you know.
- B. M.:* Do you think we might also buy some stocks to keep our portfolio well diversified?
- P.:* Well, we might. But stocks are much more speculative.
- B. M.:* Unless we stick to blue chip issue. They show less price fluctuation.

### ***Questions on the dialogue***

1. What problem is being considered by the President and the Board Member?
2. How can the bank invest its funds profitably at present?
3. Why does the President prefer to invest in general obligation bonds?
4. What does the President know about a new offering of municipal bonds?
5. Where else can they invest the bank's funds?
6. What sort of stocks are they going to invest in and why?

## **5.17. Bank Investments**

The investment policy of a bank is based upon the reconciliation of two conflicting aims. On the one hand the bank wants to make as much profit as it can and for this reason it must take the risks of lending money. On the other hand its funds belong to its depositors and must be available whenever they wish to make withdrawals.

There are two things that the bank must therefore do. First it must keep a proportion of its assets in the form of cash to meet demands. The amount that this needs to be varies very little from one bank to another or from one day to another and experience suggests that it is about six percent. As a cushion against unexpected demands a further proportion of funds is invested at low rates of return in highly liquid lending mostly to firms in the money and capital markets.

The second thing that the bank must do is to ensure that the investments it chooses are safe. This also means that they are relatively low yielding since high yields are associated with risk and with lending for long periods of time. Much of a bank's investment is in short and medium term government and local government bonds. They yield certain incomes and are readily saleable should the occasion demand.

Advances by a bank to its customers are the least liquids of their assets since there are few borrowers who could repay a loan at very short notice. However, they are also the most profitable of them yielding the highest rate of return. Advances to customers are likely to account for more than two thirds of the banks investment portfolio although this will vary on a day to day basis since overdrafts are the most common form of advance and are not immediately controllable by the bank.

In general banks do not lend to industry for long periods of time or for investment projects. They regard themselves as providing working capital rather than fixed capital.

### ***Questions on the text***

1. What two conflicting aims must a bank reconcile in its investment policy?
2. What must the bank do to be ready to meet demand for cash on the part of its customers?
3. Why does the bank prefer rather low yielding investments?
4. Which investments do usually yield high returns?
5. Which investments are hardly controllable by the bank? Why?
6. Why don't banks usually invest in industrial projects?

## Vocabulary Practice

### ***1. Find proper definitions:***

Terms	Definitions
1. Tax	a) the pattern of investments held by a bank
2. Yield	b) a government or local government security
3. Cash	c) the actual return from a particular investment
4. Bond	d) a unit of ownership in a company
5. Stock/share	e) a stock thought to be of highest quality
6. AA rating	f) money collected by a government for its support
7. Portfolio	g) the speed with which an investment can be redeemed for cash
8. Liquidity	h) coins and bills

**2. Using the words in brackets, explain the meaning of the following terms:**

1. Cash-in-banks (as a reserve, risk, withdrawals).
2. General obligation bonds (secured by, the property of a city, other unit of government).
3. Municipal bonds (for sale, a city or other unit of government, offered by).
4. Revenue bonds (revenues, repaid out of).
5. AA rating (a bond, a stock, the value of, a high estimate of).
6. Tax-exempt (tax obligation, free from).
7. Working capital (day to day, stock, cash, needs).
8. Fixed capital (machinery, buildings, long term).
9. High yield (good return, risk, long period of time).
10. Overdraft (current account, withdraw, exceed).

## **5.18 Money and the return it earns**

Fundamental to all financial markets is the idea of earning a return on money. Money has to work for its owner. Here are some of the *ways* it can do so:

1. You deposit \$1,000 with a bank, which pays you, say, 10 per cent a year interest. *In* other words, your \$1,000 of capital earns you \$100 a year, which is the return on your money. When you want your \$1,000 back you get \$1,000, plus any *accumulated interest*, not more or less. *Provided* your bank does not *go bust*, your \$1,000 of capital is not at risk, except from inflation, which may reduce its purchasing power each year.

2. You buy gold bullion to a value of \$1,000 because you think the price of gold will rise. If the price of gold has risen by 20% after a year, you can sell your gold for \$1,200. You have made a profit or a *capital gain*, of \$200 on your *capital outlay* of \$1,000. In other words you have a return of 20% on your money. If the price of gold fails to move, you've earned nothing because commodities like gold do not pay interest.

3. You use your \$1,000 to buy securities that are traded on a stock-market. Usually these will be **government bonds** (known as *gilt-edged securities* or *gilts* in the UK) or **ordinary shares** in a company. The

former always provide an income; the latter normally do not. Traditional gilt-edged securities pay *a fixed rate of interest*. Ordinary shares in companies normally *pay a dividend* from the profits the company earns. If the company's profits rise, the dividend is likely to be increased; but there is no guarantee that there will be a dividend at all. If the company makes losses, it may have *to cease* paying a dividend.

But when you buy securities that are traded on a stockmarket, the return on your \$1,000 is not limited to the interest or dividends you receive. The prices of these securities will also rise and fall, and your original \$1,000 investment accordingly becomes worth more or less. So you are taking the risk of capital gains or *capital losses*.

Suppose you buy \$1,000 worth of ordinary shares, which pay you a dividend of \$40 a year. You are getting a return or *dividend yield* of 4% a year on your investment (\$40 as a percentage of \$1,000). If after a year the market value of your \$1,000 of shares has risen to \$1,100, you can sell them for a capital gain of \$100 (or a 10% profit on your original outlay). Thus your *overall return* over a year consists of the \$40 income and the \$100 capital gain: a total of \$140 or a 14% overall return on your original \$1,000 investment.

Investors are generally prepared to accept much lower initial *yields* on shares than on fixed-interest stocks because they expect the income to rise in the future. Most investors in ordinary shares are seeking capital gains at least as much as income. Note that if you are buying a security, you are taking the risk that the price may fall whether it is a government bond or a share. But with the government bond the income is at least guaranteed by the government. With the share there is *a second layer of risk*: the company may not earn sufficient profits to pay a dividend.

**To summarize:** money can be deposited to produce an income; it can be used to buy commodities or goods, which are expected to rise in value; or it can be invested in stockmarket securities, which normally produce an income but show capital gains or losses as well. Of course, there are many variations on each of these items.

## Vocabulary

**an accumulated interest** — накопленный процент  
**provided** (*syn.* providing) — при условии

**to go bust** (*syn.* to go bankrupt) — обанкротиться  
**a capital gain** — доход от прироста капитала (*как результат роста*)

<p><i>рыночной стоимости активов, может быть получен при продаже активов)</i></p> <p><b>capital outlay</b> — капиталовложения</p> <p><b>gilt-edged securities</b> (gilts) — первоклассные (особо надежные) ценные бумаги (<i>долг, с золотым обрезом</i>)</p> <p><b>ordinary shares</b> — обыкновенные акции</p> <p><b>a fixed rate of interest</b> — фиксированная процентная ставка</p> <p><b>pay a dividend</b> — приносить дивиденд</p> <p><b>to cease</b> — прекращать</p>	<p><b>a capital loss</b> — капитальный убыток (<i>потери от понижения рыночной стоимости активов</i>)</p> <p><b>a yield</b> — доход по ценным бумагам (<i>особенно облигациям</i>)</p> <p><b>a dividend yield</b> — доход на акцию</p> <p><b>overall return</b> — общий, суммарный доход</p> <p><b>a second layer of risk</b> — дополнительный риск</p> <p><b>a layer</b> — слой</p>
---	--

## 5.19. The Demand for Money

The demand for money is the quantity of liquid assets people are willing to have in hand at any given moment. It depends on the income they gain and *the opportunity costs* connected with the interest rate. But why do people hold money at all?

Money is a stock It is the quantity of circulating currency and bank deposits held at any given time. Holding money is not the same as spending money when we buy a meal or go to the cinema. We hold money in order to spend it later.

The distinguishing feature of money is its use as a medium of exchange, for which it must also serve as a store of value. It is in these two functions of money that we must seek the reasons why people wish to hold it.

*The Transactions Motive for holding money.* In a monetary economy we use money to purchase goods and services and receive money in exchange for the goods and services we sell. Without money, making transactions by direct barter would be costly in time and effort. Holding money economizes on the time and effort involved in *undertaking transactions*. We need to hold money between receiving payments and making subsequent purchases.

How much money we need to hold depends on two things, the value of the transactions we wish to make and the degree of synchronization of our payments and *receipts*. We do not know how much \$100 will

buy until we know the price of goods. If all prices double, we will need to hold twice as much money to make the same transactions as before.

The demand for money is a demand for real money. We need a given amount of real money to undertake a given quantity of total transactions.

*The Precautionary Motive for holding money.* Thus far we have assumed that people know exactly when they will obtain receipts and make payments. But of course we live in an uncertain world. This uncertainty about *the precise timing* of receipts and payments gives rise to a precautionary motive for holding money. Suppose you decide to buy a lot of interest-earning bonds and try *to get by* with only a small amount of money holdings. You are walking down the street and *spot a great bargain* in a shop window. But you do not have enough money *to take advantage* immediately of this opportunity. By the time you have arranged for some of your interest-earning bonds to be sold off in exchange for money, the sale may be over. Someone else may have *snapped up* the video recorder on sale at half-price. This is the precautionary motive for holding money. In advance, we decide to hold money to meet *contingencies* the exact nature of which we cannot *foresee*.

Together, the transactions and the precautionary motives provide the main reasons for holding the medium of exchange. They are the motives most relevant to the benefits from holding money.

*The Asset Motive for holding money.* Suppose we forget all about the need to transact. We think of a wealthy individual or a firm deciding in which assets to hold wealth. At some distant date there may be a prospect of finally spending some of that wealth, but in the short run the objective is to earn a good rate of return.

Some assets, such as industrial shares, *on average* pay a high rate of return but are also quite risky. Some years their return is very high, but in other years it is negative. When share prices fall, shareholders can make a capital loss, which *swamps* any dividend payment to which they are entitled. Other assets are much less risky, but their rate of return tends to be much lower than the average return on risky assets. Since people dislike risk, they will not put all their eggs in one basket. As well as holding some *risky assets*, they will keep some of their wealth in safe assets. Although on average this *portfolio* will earn a lower rate of return, it will help avoid absolute *disaster* at hard times.

The asset motive for holding money arises because people dislike risk. People are prepared *to sacrifice* a high average rate of return to obtain a portfolio with a lower but more *predictable rate of return*.



## Vocabulary

**currency in circulation** — наличность в обращении

**the opportunity costs** — альтернативные издержки владения деньгами

**the transactions motive for holding money** — транзакционный мотив накопления денег (*категория кейнсианского анализа*)

**to undertake transactions** — проводить, совершать сделки

**receipts** — денежные поступления

**the precautionary motive for holding money** — мотив накопления денег на непредвиденные цели (*категория кейнсианского анализа*)

**the precise timing** — точное время

**to get by** — прожить, сводить концы с концами

**to spot** — *разг.* увидеть, заметить

**a great bargain** — хорошая вещь, которая предлагается по специальной (сниженной) цене; удачная покупка

**to take advantage of** — воспользоваться

**to snap up** — подхватить, перехватить

**contingencies** — случайности, непредвиденные обстоятельства

**to foresee** — предвидеть

**the asset motive for holding money** — мотив накопления денег в качестве активов (*категория кейнсианского анализа*)

**on average** — в среднем

**to swamp** — поглощать, сводить на нет

**risky assets** — неликвидные активы (*долгосрочные инвестиции и ссуды; ценные бумаги с колеблющимся курсом*)

**a portfolio** — портфель (*напр., ценных бумаг*)

**disaster** — бедствие, крах

**to sacrifice** — жертвовать, приносить в жертву

**predictable rate of return** — предсказуемая норма прибыли

## Vocabulary practice

### 1. Suggest the Russian equivalents

the distinguishing feature of money; in a monetary economy; the tune and effort involved in undertaking transactions; snapped up the video recorder on sale at half-price; the motives most relevant to...; a capital loss, which swamps any dividend payment to which they are entitled; will not put all their eggs in one basket; avoid absolute disaster at hard times; to sacrifice a high average rate of return; in the short run.

### II. Replace the parts in italics by synonyms

*gives rise to*; *to take advantage of* the opportunity; *to meet contingencies*; *to foresee*, a more *predictable* rate of return

### **III. Fill in gaps with the words and expressions from the text.**

1. The demand for money is \_\_\_\_\_ people are willing to have in hand at any given moment.
2. Holding money is not the same as \_\_\_\_\_ money, as we hold money in order to \_\_\_\_\_
3. It is in two main functions of money, that is, its use as a medium of and a store of \_\_\_\_\_, that we must seek the reasons why \_\_\_\_\_.
4. Without money, making transactions by \_\_\_\_\_ would be \_\_\_\_\_ in time and effort.
5. We need to hold money between \_\_\_\_\_ and \_\_\_\_\_.
6. How much money we need to hold depends on \_\_\_\_\_ we wish to make and the degree \_\_\_\_\_.
7. We need a given amount of \_\_\_\_\_ to undertake a given quantity of \_\_\_\_\_.
8. The uncertainty about \_\_\_\_\_ of receipts and payments gives rise to \_\_\_\_\_.
9. The precautionary motive for holding money is a decision to hold money to meet \_\_\_\_\_ the exact nature of which we cannot \_\_\_\_\_.
10. Together, \_\_\_\_\_ and \_\_\_\_\_ provide the main reasons for holding the medium of exchange as they are the motives \_\_\_\_\_ to the benefits from \_\_\_\_\_.
11. Some assets, such as \_\_\_\_\_, on average pay a high rate of return but are also \_\_\_\_\_.
12. When share prices fall, \_\_\_\_\_ can make \_\_\_\_\_, which \_\_\_\_\_ any dividend payment to which \_\_\_\_\_.
13. Since people dislike risk, they will not \_\_\_\_\_.
14. Although on average will earn a lower rate, of return, it will help avoid \_\_\_\_\_ at hard times.
15. People are prepared to sacrifice \_\_\_\_\_ to obtain a portfolio with a lower but \_\_\_\_\_ rate of return.

### **IV. Find in the text English equivalents for the following**

Наличность в обращении; денежные обязательства банка; текущий (чековый) счёт; путём непосредственного обмена; транзакционный мотив накопления денег; мотив накопления денег на непредвиденные цели; прожить на небольшие деньги; быть готовым к случайностям, непредвиденным обстоятельствам; получать доходы и производить платежи; мотив накопления денег

в качестве активов; портфель ценных бумаг

**V. Answer the questions**

1. What is the money supply?
2. What determines the demand for money?
3. What are the reasons for holding money? How do people hold their money?
4. Dwell on each motive for holding money.

## 5.20 Interest rates and bond prices

The change in interest rates has important implications for the stock market prices of bonds, which pay a fixed rate of interest: **fixed-interest securities**, of which the traditional gilt-edged securities issued by the government are the most familiar though companies also issue fixed-interest bonds. It works like this.

Gilt-edged securities are a form of IOU (I owe you) or **promissory note** issued by the government when it needs to borrow money. The government undertakes to pay so much a year in interest to the people who *put up the money* and who get the IOU in exchange. Normally the government agrees to *redeem* the stock at some date in the future, but to illustrate the interest rate mechanism it is easy initially to take an *ir-redeemable* or *undated stock*, which does not have to be repaid.

The original investors who lend the money to the government do not have to *hold on to* the IOUs. They can sell them to other investors, who then become entitled to receive the interest from the government. Suppose the government needs to borrow money at a time when investors would expect an 11% yield on a gilt-edged security. It offers \$11 a year interest for every \$100 it borrows. The investor is prepared to pay \$100 for the right to receive \$11 a year interest, because this represents an 11% return on his outlay.

Then suppose the interest rates rise to a point where an investor would expect a 12,5% return if he bought a gilt-edged security. He will no longer pay \$100 for the right to \$11 a year in income. He will only be prepared to pay a price that gives a 12,5% return on his outlay. The “right” price in this case is \$88, because if he pays only \$88 to receive \$11 a year in income, he’s getting a 12,5% return on his investment. So in the stock market the price of the gilt-edged security that pays \$11 a year interest will have to fall to \$88 before investors are prepared to buy it. The original investor who paid \$100 thus sees the value of his in-

vestment fall because of the rise in interest rates. Conversely, the value of his investment would have risen if interest rates had fallen.

**To summarize:** If interest rates on securities go down, bond prices or prices for securities go up, and *vice versa*.

## Vocabulary

**promissory note** — долговое обязательство

**put up the money** — вкладывать деньги

**to redeem** — погашать (ценные бумаги)

**irredeemable** — непогашаемые ценные бумаги

**undated stock** — ценные бумаги без указания даты погашения

**to hold on to** — сохранять что-либо, держаться за что-либо

**vice versa** — наоборот

## 5. 21 Inflation

**Inflation** is generally defined as *a persistent rise in the general price level with no corresponding rise in output*, which leads to a corresponding fall in the purchasing power of money.

In this section we shall look *briefly* at the problems that inflation causes for business and consider whether there are any *potential benefits* for an enterprise from an inflationary period.

Inflation *varies considerably in its extent and severity*. Hence, the consequences for the business community differ according to circumstances. *Mild inflation* of a few per cent each year *may pose few difficulties* for business. However, hyperinflation, which *entails enormously high rates of inflation*, can create almost *insurmountable* problems for the government, business, consumers and workers. In post-war Hungary, the cost of living was published each day and workers were paid daily so as to avoid the value of their earnings falling. Businesses would have experienced great difficulty in costing and pricing their production while the incentive for people to save would have been removed.

Economists argue *at length* about the causes of, and «cures» for, inflation. They would, however, recognize that *two general types of inflation* exist:

- \* *Demand-pull inflation*
- \* *Cost-push inflation*

### **Demand-pull Inflation.**

*Demand-pull inflation occurs* when demand for a nation's goods and services *outstrips* that nation's ability to supply these goods and services. This causes prices to rise generally as a means of limiting demand to the available supply.

An alternative way that we can look at this type of inflation is to say that it occurs when injections exceed withdrawals *and* the economy is already *stretched* (i.e. *little available labour* or factory space) and *there is little scope* to increase further its level of activity.

### **Cost-push Inflation.**

Alternatively, inflation can be of the *cost-push* variety. This takes place when firms face increasing costs. This could be caused by an increase in wages *owing to trade union militancy*, the rising costs of imported raw materials and components or companies pushing up prices *in order to improve their profit margins*.

## Vocabulary

**a persistent rise** — неуклонный, постоянный подъем

**with no corresponding rise in output** — не сопровождающийся подъемом производства

**briefly** — коротко, кратко

**potential benefits** — потенциальные выгоды

**varies considerably in its extent and severity** — бывает разной по длительности и остроте

**hence** — следовательно

**mild inflation** — мягкая, низкая инфляция

**may pose few difficulties** — особых проблем не представляет

**entails enormously high rates of inflation** — означает (ведет к) громадный рост инфляции

**insurmountable** — неисчислимы, колоссальные

**at length** — и сейчас

**to pull** — тянуть

**demand-pull inflation** — инфляция, вызванная превышением спроса над предложением, инфляция спроса

**to push** — толкать

**cost-push inflation** — инфляция, вызванная ростом издержек производства, инфляция издержек

**to occur** — происходить

**to outstrip** — обгонять, опережать, превосходить

**to stretch** — натягивать, напрягать

**little available labour** — мало рабочей силы

**there is little scope** — мало возможностей

**owing to trade union militancy** — благодаря воинственности профсоюзов

**in order to improve their profit margins** — чтобы увеличить прибыль (размеры прибыли)

## 5.22 The Money Market

The money market comprises the demand for money and the money supply. The equilibrium in the money market is such a state of balance when the demand for money from households and businesses is satisfied by the quantity of the money supplied. The equilibrium in the money market is reached by changing bond prices.

People can hold their wealth in various forms – money, bonds, *equities*, and property. For simplicity we assume that there are only two assets: **money**, the medium of exchange that pays no interest, and **bonds**, which we use to stand for all other interest-bearing assets that are not directly a means of payment. As people earn income, they add to their wealth. As they spend, they *deplete* their wealth. How should people divide their wealth at any instant between money and bonds to gain the best profits possible and not to incur losses?

There is an obvious cost of holding money. **The opportunity cost** of holding money is the interest one would have gained if he (she) had held bonds. It naturally follows that people will hold money rather than bonds only if there is a benefit to *offset* this cost, only if holding money is more profitable than holding bonds. It may only happen when interest rates on bonds are too low to make it profitable to hold bonds.

Suppose the money market is in equilibrium when the interest rate on interest-bearing assets (e.g. *Treasury bills* and other securities) is 6% and the amount of money demanded is \$200mln. Now suppose the interest rate goes down, say, to 4%. In this case interest-bearing assets are no longer profitable as they can't earn a sufficient return. Hence, the demand for money will rise and will lead to a temporary lack of money in the money market. If they lack money, households and businesses are likely to sell bonds they possess for cash. That will cause an increase in the bond supply, which lowers bond prices and rises interest rates on interest-bearing assets. With a higher interest rate the amount of money people are willing to have in hand will decrease again. *Consequently*, the money supply will adjust to a current demand to reflect a higher interest rate.

*Conversely*, the increase in the money supply creates its *temporary surplus*, which results in the demand for bonds and bond prices going up. The interest rate falls thus restoring balance in the money market, but at a new lower interest rate.

**I. Suggest the Russian equivalents**

Interest-bearing assets are no longer profitable; to sell bonds they possess for cash; the supply will adjust to the current demand; we use to stand for all other interest-bearing assets; the restoring balance

**II. Fill in the gaps with the words and expressions from the text.**

1. The money market comprises \_\_\_\_\_ and \_\_\_\_\_ .
2. The equilibrium in the money market is such \_\_\_\_\_ when the demand for the money from \_\_\_\_\_ is satisfied by the quantity of \_\_\_\_\_ .
3. The equilibrium in the money market is reached by \_\_\_\_\_ .
4. Money is the medium of \_\_\_\_\_ that \_\_\_\_\_ .
5. We use bonds to stand for all other \_\_\_\_\_ that are not directly \_\_\_\_\_ .
6. As people earn income, they \_\_\_\_\_ their wealth. As they spend, they \_\_\_\_\_ their wealth.
7. \_\_\_\_\_ of holding money is the interest one \_\_\_\_\_ if he (she) \_\_\_\_\_ bonds.
8. People will hold money rather than bonds only if holding money is \_\_\_\_\_ than holding bonds, that is when \_\_\_\_\_ on bonds are \_\_\_\_\_ to make it profitable to \_\_\_\_\_ .

**III. Find in the text English equivalents for the following**

Равновесие денежного рынка; временная нехватка (избыток) денег; иметь на руках; быть в равновесии; восстанавливать равновесие; достичь равновесия; активы(облигации), приносящие процентный доход; увеличивать богатство; исчерпывать (истощать) богатство; для простоты допустим, что; альтернативные издержки владения деньгами; компенсировать издержки

**IV. Answer the questions**

1. Explain in your own words the term “opportunity costs”. What is the opportunity cost of holding money?
2. What’s the equilibrium in the money market? How can it be reached?
3. How does the money market work?

## V. Translate

1. Для экономики плох как недостаток, так и избыток денег, так как первый ведет к снижению расходов во время упадка, а последний — к обесцениванию денег и снижению их покупательной способности во время инфляции.
2. Денежный рынок объединяет спрос и предложение денег для определения равновесной ставки процента.
3. Равновесие денежного рынка устанавливается посредством изменения цен на облигации. С изменением цен на облигации процентные ставки меняются в обратном направлении. При равновесной ставке процента цены на облигации постоянны, а спрос и предложение денег равны.
4. Уменьшение предложения создает временную нехватку денег на денежном рынке. Люди и учреждения пытаются получить больше денег путем продажи облигаций. Поэтому предложение облигаций увеличивается, что понижает цену на облигации и поднимает процентную ставку.
5. Увеличение предложения денег создает их временный избыток, в результате чего увеличивается спрос на облигации и цена на них становится выше. Процентная ставка падает, и на денежном рынке восстанавливается равновесие.

### 5.23 Markets and interest rates

For each type of investment and for many of their *derivatives* there is a market. There is a market in money in London. It is not a physical marketplace: dealings take place over the telephone, and the price the borrower pays for the use of money is the interest rate. There are markets in commodities. And there is a market in government bonds and company shares: *the stockmarket*. The important thing is that no market is entirely independent of the others. The *linking factor* is the cost of money (or the return an investor can get on money). If interest rates rise or fall there is likely to be a *ripple of movement through all the financial markets*. Money will *gravitate* to where it earns the best return, *commensurate with* the risk the investor is prepared to take and the length of time for which he can *tie up* his money. This is the most important mechanism in the financial sphere. As a **general rule**:

- The more money you have to invest, the higher the return you



can expect.

- The longer you are prepared to tie your money up, the higher the return you can expect.
- The more risk you are prepared to take, the higher return you can expect if all goes well.

In either type of market, the buyers and the sellers may deal direct with each other or they can deal through a *middleman* known as a *marketmaker*. If they deal direct, each would-be buyer has to find a corresponding would-be seller. If there is a marketmaker, a seller will sell instead to the marketmaker, who buys *on his own account* in the hope that he will later be able to find a buyer to whom he can sell at a profit. Marketmakers make a book in shares or bonds. They are prepared to buy shares in the hope of finding somebody to sell to or sell shares (which they may not even have) in the expectation of finding somebody from whom they can buy to balance their books. Either way, they make their living on the difference between the prices at which they buy and sell. Marketmakers (in practice there will normally be a number of them competing with each other) lend liquidity — *fluidity* — to a market. A potential buyer can always buy without needing to wait until he can find a potential seller. securities can readily be turned into a cash.

## Vocabulary

**derivatives** — производные  
**the linking factor** — связующий фактор, звено  
**a ripple of movement through all the financial markets** — движение, волнение на финансовых рынках  
**to gravitate** — стремиться  
**commensurate with** — соразмерный  
**to tie up** — вкладывать (капитал)

**a middleman** — посредник  
**a marketmaker** — “делатель рынка”; брокерская фирма, постоянно котирующая ценные бумаги, товар  
**on one’s own account** — на свой страх и риск; самостоятельно  
**fluidity** — подвижность

## Vocabulary practice

### I. Fill in the gaps with the words and expressions from the text

1. A market in money in London is not \_\_\_\_\_ : dealings take place \_\_\_\_\_ , and the price a borrower pays for \_\_\_\_\_ is \_\_\_\_\_ .

2. \_\_\_\_\_ is a market in government bonds and company shares.
3. If interest rates rise or fall there is likely to be \_\_\_\_\_ through all the financial markets.
4. Money \_\_\_\_\_ to where it earns the best return, \_\_\_\_\_ with the risk the investor \_\_\_\_\_ and the length of time for which he can \_\_\_\_\_ his money.
5. The more money you \_\_\_\_\_, the higher return you \_\_\_\_\_.
6. The longer you are prepared to \_\_\_\_\_, the higher the return \_\_\_\_\_.
7. The more risk you \_\_\_\_\_, the higher \_\_\_\_\_.
8. If the buyers and sellers deal direct, each \_\_\_\_\_ has to find a corresponding \_\_\_\_\_.
9. A marketmaker buys \_\_\_\_\_ in the hope that he will later be able to find a buyer to whom he can \_\_\_\_\_.
10. Marketmakers are prepared to buy shares \_\_\_\_\_ of finding somebody to sell or to sell shares \_\_\_\_\_ of finding somebody from whom they can buy to \_\_\_\_\_.
11. Marketmakers make their living on \_\_\_\_\_ at which they can buy to \_\_\_\_\_.
12. Marketmakers lend \_\_\_\_\_ to a market.

## II. Find in the text English equivalents for the following

рынок товаров; рынок акций; лежать в основе; перемещаться; вложить деньги; наибольшая прибыль, соизмеримая (соразмерная) с риском; посредник, известный как “создатель рынка”; потенциальный (2 варианта) покупатель и продавец; на свой страх и риск; в надежде (2 варианта)

## III. Answer the questions

1. What are different types of investment and what are the corresponding markets? Dwell on each item.
2. What is a marketmaker? How does he make the market?

IV. Add some more sentences of your own on inflation, the money supply and the demand for money, the money market etc.

## V. Translate

1. Вкладывая деньги в различные банки и инвестируя их в различные фонды, инвестор всегда преследует цель получить

- наибольшую прибыль, соизмеримую с риском.
2. Фондовая биржа — это посредник между потенциальными покупателями и продавцами государственных облигаций, акций компаний и других ценных бумаг.
  3. В основе любого рынка, в т.ч. рынка ценных бумаг, лежит принцип равновесия между теми, кто хочет продать, и теми, кто хочет купить акции.

## 5.24 Monetary Policy

Monetary policy is one of the main *instruments of macroeconomics*. It is based on the ability of the Central Bank to *control the money supply*, which leads to changes in interest rates and *the exchange rate*, and therefore in *the amount of the investment*, which influences directly the national output. This method of controlling the economy centers on *adjusting the amount of money in circulation* in the economy and so the level of spending and economic activity. Monetary policy was first employed as a means of control in the 1950s, but has been more widely used since the 1970s. The Central Bank plays a major role in *the implementation of the nation's monetary policy*. In some countries (for example, Germany) the Central Bank operates monetary police independent of government policy. However, the UK's Central Bank, the *Bank of England*, *implements* monetary policy *on behalf* of the government. Monetary policy has *three main aspects*:

- Controlling the money supply
- Controlling interest rates
- Managing the exchange rate

In this section we study the ways in which the Central Bank can ***control the supply of money*** in the economy. The aim of the authorities when controlling the money supply is to limit the amount borrowed, and hence spent, by businesses and individuals during an inflationary period. It is hoped in this way to limit the level of overall demand in the country and thus to remove or reduce inflationary pressure. During a recession monetary policy is aimed at increasing the money supply to encourage spendings. There are three most important instruments available to affect the money supply: *open market operations*, *reserve requirements* and *the discount rate*.

### 5.24.1 Open Market Operations.

Open market operations are the most important way of controlling the money supply. It refers to the Bank trading government bonds in the open market – that is when they are bought from and sold to commercial banks and individuals.

When the Bank sells government bonds in the open market, the Bank withdraws the money from the population and reduces the money supply. When the Bank buys government bonds in the open market, it increases the amount of money in circulation and hence the money supply.

### 5.24.2 Reserve requirements

To understand the way a central bank can influence the money supply we should consider the creation of money by commercial banks and in this connection introduce the money multiplier.

Banks have to hold the proportion of their assets as a reserve in case customers demand repayment of their deposits. This *required reserve* has to be in a liquid form, that is *easily convertible into cash*. Many banks indeed hold a significant proportion of this reserve as notes and coin either in their vaults or at the central bank. A *required reserve ratio (%)* is a minimum ratio of cash reserves to deposits that the central bank requires commercial banks to hold. Commercial banks can hold more than required *cash reserves* (this amount of money is called *excess reserves* and is used to create new money), but they cannot hold less. If their cash falls below the required amount, they must immediately borrow cash, usually from the central bank, to restore their required reserve ratio.

Commercial banks can make loans, i.e. they can create money and increase their excess reserves. Suppose somebody deposited \$100 with bank A. If a required reserve ratio is 20%, the bank has \$20 as required reserves and \$80 as excess reserves, which can be lent. If a borrower *draws a cheque* for this whole sum and deposits it with the bank B, then bank B gets \$80 as its assets. Bank B is to hold 20% of this sum (that is \$16) as required reserves. It means it has \$64 of excess reserves, which it can lend to somebody. The table below illustrates the process with banks C, D, E, etc. being involved.

**Table. The expansion of the money supply by a system of commercial banks**

Bank	Reserves and loans, \$	Required Reserves, \$	Excess Reserves, \$	Created money (the amount of money to lend), \$
Bank A	100,00	20,00	80,00	80,00
Bank B	80,00	16,00	64,00	64,00
Bank C	64,00	12,80	51,20	51,20
Bank D	51,20	10,24	40,96	40,96
Other banks	204,80	40,96	163,84	163,84
The total amount of the money created				400,00

The *money multiplier (m)* shows the maximum amount of *money*, which can be *created* by one dollar of excess reserves, the required reserve ratio given. The money multiplier is *inversely proportional* to the required reserve ratio, or

$$m = 1 / R, \text{ where}$$

m – a money multiplier

R – a required reserve ratio

So we can see that the larger the required reserve ratio is the smaller the money multiplier is; the less money can be created and the less the money supply is.

Now suppose the commercial banking system has \$1 million in cash and for strictly commercial purposes would normally *maintain* cash reserves equal to 5% of sight deposits. Since sight deposits will be 20 times cash reserves, the banking system will create \$20 million of sight deposits against its \$1 million cash reserves:

cash reserves \$1 million – 5%

sight deposits x – 100%

$$x = \$1 \text{ mln} \times 100\% : 5\% = \$20 \text{ mln.}$$

Suppose the Bank now *imposes a reserve requirement* that banks must hold cash reserves of at least 10% of sight deposits. Now banks can create only \$10 million sight deposits against their cash reserves of \$1 million. Thus a reserve requirement acts like a tax on banks by forcing them to hold a higher *fraction* of their total assets as bank reserves and a lower fraction as loans earning high interest rates.

Thus, when the central bank imposes a reserve requirement *in excess* of the reserve ratio that *prudent* banks would anyway have maintained, the effect is to reduce the creation of bank deposits, reduce the value of the money multiplier, and reduce the money supply. Similarly, when a particular reserve requirement is already *in force*, any increase in the reserve requirement will reduce the money supply.

### 5.24.3 The Discount Rate

The third instrument of monetary control available to the central bank is the discount rate.

The *discount rate* is the interest rate that the bank *charges* when the commercial banks want to borrow money.

Suppose banks think the minimum safe ratio of cash to deposits is 10%. Say their cash reserves are 12% of deposits. How far they dare let their cash reserves fall towards the minimum level of 10%?

Banks have to balance their interest rate they will get on extra lending with the dangers and costs involved if there is a sudden flood of withdrawers, which push their cash reserves below the critical 10% figure. This is where the discount rate comes in. Suppose market interest rates are 8% and the central bank makes it known it is prepared to lend to commercial banks at 8%. Commercial banks may as well *lend up to the hilt* and *drive their cash reserves down* to the minimum 10% of deposits. The banks are lending at 8% and, *if the worst comes to the worst* and *they are short of cash*, they can always borrow from the Bank at 8%. Banks cannot lose by lending as much as possible.

Suppose however that the Bank announces that, although market interest rates are 8%, it will lend to commercial banks only at *the penalty rate* of 10%. Now a bank with cash reserves of 12% may conclude that it *is not worth making the extra loans* at 8% interest that would drive its cash reserves down to the minimum of 10% of deposits. There is too high a risk that sudden withdrawals will then force the bank to borrow from the Bank at 10% interest. It will have lost money by making these extra loans. It makes more sense to hold some excess cash reserves against the possibility of a sudden withdrawal.

Thus, by setting the discount rate at a penalty level in excess of the general level of interest rates, the Bank can *induce* commercial banks *voluntarily* to hold additional cash reserves. Since banks have to hold more cash as reserves, the money multiplier is reduced, less money can be created and the money supply is lower.

- instruments of macroeconomics** — макроэкономические инструменты
- to control the money supply** — контролировать положение денег
- the exchange rate** — обменный (валютный) курс
- the amount of the investment** — размер капиталовложений
- adjusting the amount of money in circulation** — корректировать количество денег в обращении
- the implementation of the nation's monetary policy** — осуществление, проведение в жизнь национальной денежно — кредитной политики
- Bank of England** — Банк Англии (Английский банк). *The Bank of England is the UK's central bank/ Established in 1694, it plays a key part in implementing the governments' monetary policy. It ensures that interest rates are at level; desired by the government of the day and oversees the printing of notes and coin. It has wider responsibilities in managing the nation's debt and holding its reserves of foreign currency and gold. Thus, it holds responsibility for the country's monetary policy and its financial relations with other countries.*
- on behalf of** — от имени
- open market operations** — операции на открытом рынке
- reserve requirements** — резервные требования
- discount rate** — учетная ставка
- the money multiplier** — денежный мультипликатор
- required reserve** — требуемые резервы
- easily convertible into cash** — легко обратимый в наличные (напр., депозиты, ценные бумаги)
- a required reserve ratio** — требуемая резервная норма
- cash reserves** — кассовые резервы
- excess reserves** — избыточные резервы
- to draw** (*syn.* to write out, to make out, to issue) a cheque — выписать чек
- created money-созданные деньги
- inversely proportional** — (ant.directly proportional) — обратно пропорциональный
- to maintain** — поддерживать
- to impose a reserve requirement** — налагать (вводить) резервное требование
- fraction** — часть, доля
- in excess of smth** — сверх чего-либо
- prudent** — расчетливый, предусмотрительный
- in force** — в силе
- to charge** — назначать, начислять
- to lend up to the hilt** — *зд.* продолжать предоставлять ссуды
- up to the hilt** — полностью, целиком
- to drive their cash reserves down to** — довести (снизить) свои кассовые резервы до

## Vocabulary

**if the worst comes to the worst** — если случится самое худшее

**they are short of cash** — у них не хватает наличных денег

**the penalty rate** — повышенная ставка

**it is not worth making the extra loans** — не стоит предоставлять дополнительных займов

**to induce smb to do smth** (syn. to cause smb to do smth) — заставить кого-то сделать что-то

**voluntarily** — сознательно, осознанно

## Vocabulary practice

### I. Suggest the Russian equivalents

1.to restore their required reserve ratio; 2.maintain cash reserves to 5% of sight deposits; 3.create \$20 million of sight deposits; 4.a higher fraction of their total assets;5.a lower fraction as loans; 6.the interest rate that the Bank charges; 7.extra lending; impose a reserve requirement; 8.the dangers and costs involved; 9.prudent banks; 10.lend up to the hilt; 11.the minimum safe ratio of cash to deposits; 12.flood of withdrawals; 13.the Bank can induce banks voluntarily to hold additional cash reserves; 14.the required reserve ratio given

### II. Fill in the gaps with the words and expressions from the text

1.Monetary policy is a method of controlling the economy that centers on \_\_\_\_\_ the amount of money \_\_\_\_\_ in the country and so \_\_\_\_\_ and \_\_\_\_\_ .

2.In some countries the Central Bank operates monetary policy \_\_\_\_\_ government policy, but the UK's Central Bank implements monetary policy \_\_\_\_\_ the government.

3. Monetary policy has three main aspects: controlling \_\_\_\_\_ , controlling \_\_\_\_\_ , managing \_\_\_\_\_ .

4.The aim of the authorities when controlling the money supply is \_\_\_\_\_ , and hence \_\_\_\_\_ , by businesses and individuals during \_\_\_\_\_ .

5.It is hoped to limit the level of \_\_\_\_\_ in the economy and thus to remove or reduce \_\_\_\_\_ .

6. During a recession monetary policy is aimed at \_\_\_\_\_ to \_\_\_\_\_ spendings.



7. Open market operations refer to the bank trading government bonds \_\_\_\_\_, that is when they are bought from and sold to \_\_\_\_\_.
1. The three most important instruments \_\_\_\_\_ the money supply are \_\_\_\_\_, \_\_\_\_\_ and \_\_\_\_\_.
  2. When the Bank sells \_\_\_\_\_ in the open market, the Bank \_\_\_\_\_ the money from population and \_\_\_\_\_ the money supply.
  3. Bank the Bank buys government bonds in the open market, it \_\_\_\_\_ the amount of money \_\_\_\_\_ and hence \_\_\_\_\_.
  4. Banks have to hold a proportion of their assets \_\_\_\_\_ in case customers demand \_\_\_\_\_.
  5. The required reserve has to be \_\_\_\_\_, that is easily \_\_\_\_\_ into cash.
  6. \_\_\_\_\_ is a minimum ratio of \_\_\_\_\_ to \_\_\_\_\_ that the central bank requires commercial banks to hold.
  7. If cash of commercial banks \_\_\_\_\_ the required amount, they must immediately \_\_\_\_\_ cash, usually from \_\_\_\_\_, to restore their \_\_\_\_\_.
  8. Commercial banks can make loans, i.e. they can \_\_\_\_\_ and increase \_\_\_\_\_.
  9. The money the multiplier (m) shows \_\_\_\_\_, which can be created by one dollar of \_\_\_\_\_, the required reserve ratio \_\_\_\_\_.
  10. The money multiplier is \_\_\_\_\_ to the requires reserve ratio, it means that the larger \_\_\_\_\_ is the smaller \_\_\_\_\_ is; the less money \_\_\_\_\_ and the less \_\_\_\_\_ is.
  11. Since sight deposits will be 20 times cash reserves, the banking system will create \$20 million of \_\_\_\_\_ against its \$1 million \_\_\_\_\_.
  12. A reserve requirements acts like \_\_\_\_\_ by forcing them to hold \_\_\_\_\_ of their total assets as \_\_\_\_\_ and \_\_\_\_\_ as loans earning \_\_\_\_\_.
  13. When a central bank imposes a reserve requirement \_\_\_\_\_ the reserve ratio, the effect is to reduce \_\_\_\_\_, reduce \_\_\_\_\_, and reduce \_\_\_\_\_.
  14. When a particular reserve requirement is already \_\_\_\_\_, any increase in \_\_\_\_\_ will reduce \_\_\_\_\_.
  15. The discount rate is \_\_\_\_\_ that the Bank \_\_\_\_\_ when the commercial banks want \_\_\_\_\_.
  16. Banks have to balance \_\_\_\_\_ they will get on extra lending with \_\_\_\_\_ if their is \_\_\_\_\_, which push their cash reserves \_\_\_\_\_.
  17. Commercial banks may as well lend up \_\_\_\_\_ and \_\_\_\_\_ their cash reserves \_\_\_\_\_ to the minimum.

18. If the worst \_\_\_\_\_ and commercial banks \_\_\_\_\_, they can always \_\_\_\_\_ the Bank.

19. The Bank announces that it will lend to commercial banks only at \_\_\_\_\_.

20. If the Bank imposes a penalty rate, a commercial bank may conclude that \_\_\_\_\_ making the extra loans.

21. There is too high a risk that \_\_\_\_\_ will then force the bank to \_\_\_\_\_ the Bank at the penalty interest rate.

22. It makes more sense to hold \_\_\_\_\_ against the possibility of \_\_\_\_\_.

23. By setting the discount rate at \_\_\_\_\_ in excess of \_\_\_\_\_ of interest rates, the Bank can \_\_\_\_\_ commercial banks \_\_\_\_\_ to hold \_\_\_\_\_.

24. Since banks have to hold more cash reserves, \_\_\_\_\_ is reduced, less money can \_\_\_\_\_ and \_\_\_\_\_ is lower.

### III. Find in the text English equivalents for the following

1. от имени правительства; 2. кредитно-денежная политика; 3. для поощрения расходов; 4. операции на открытом рынке; 5. резервные требования; 6. кассовый резерв; 7. избыточные резервы; 8. требуемая резервная норма (уровень резервных требований); 9. создавать деньги; 10. денежный мультипликатор; 11. обратно пропорциональный; 12. сверх резервной нормы; 13. дисконтная (учетная) ставка; 14. повышенная ставка; 15. изымать деньги

## Vocabulary

**payment in advance** — авансовый платеж

**open account** — открытый счет

**Bill of Exchange** — переводной вексель, тратта

**Documentary Letter of Credit** — товарный аккредитив; документарный аккредитив

**cash with order** — 1) платежное поручение; 2) предъявительская тратта

**cash on delivery** — оплата наличными в момент поставки, наличный платеж

**remit** — переводить, перечислять деньги

**integrity** — целостность

**consignment** — 1) консигнация; 2) партия груза

## 5.25. Methods of Payment

*Read the text carefully concentrating on its contents and terminology:*

Compared to selling in the domestic market, selling abroad can create extra problems. Delivery generally takes longer and payment for goods correspondingly can take more time. So exporters need to take extra care in ensuring that prospective customers are reliable payers and that payment is received as quickly as possible.

In the first and in the last analysis, payment for exports depends on the conditions outlined in the commercial contract with a foreign buyer. As explained previously, there are internationally accepted terms designed to avoid confusion about cost and price.

The way exporters choose to be paid depends on a number of factors: the usual contract terms adopted in an overseas buyer's country, what competitors may be offering, how quickly funds are needed, the life of the product, market and exchange regulations, the availability of foreign currency to the buyers, and, of course, whether the cost of any credit can be afforded by the buyer or the exporter.

There are four basic methods of payment providing varying degrees of security for the exporter:

- 1) payment in advance;
- 2) open account;
- 3) Bills of Exchange;
- 4) Documentary Letter of Credit.

### 5.25.1. Payment in advance

Clearly the best possible method of payment for the exporter is payment in advance. Cash with order (CWO) avoids any risks on small orders with new buyers and may even be asked for before production begins. However, this form of payment is extremely rare in exporting since it means that an overseas buyer is extending credit to an exporter — when the opposite procedure is the normal method of trade.

Variations in this form of payment are cash on delivery (COD) where small value goods are sent by Post Office parcel post and are released only after payment of the invoice plus COD charges.

### 5.25.2. Open account

An exporter receives the greatest security of payment from cash with order or from cash on delivery. At the other extreme payment an open account offers the least security to an exporter. The goods and accompanying documents are sent directly to an overseas buyer who has agreed to pay within a certain period after the invoice date – usually not more than 180 days. The buyer undertakes to remit money to the exporter by an agreed method.

The open account method of payment is increasingly popular within the EEC because it is simple and straightforward. 70 percent of UK exports are paid for under open account terms. It saves money and procedural difficulties but the risk to the exporter is obviously greater. It is only successful if an exporter trusts the business integrity and ability of an overseas buyer, something that has probably been established through a sustained period of trading.

A variation of open account payment is the consignment account where an exporter supplies an overseas buyer in order that stocks are built in quantities sufficient to cover continual demand. The exporter retains ownership of the goods until they are sold, or for an agreed period of time, after which the buyer remits the agreed price to the exporter.

However, a large proportion of export contracts cannot be settled by payment in advance or by open account, particularly with sales outside the EEC. So parallel with the development of international trade throughout the world, the trading community has developed methods of payments which involve the transfer of documents for exported goods using the international banking system – with the aim of speedily settling export transactions at minimum risk to exporters and to overseas buyers.

## Vocabulary Practice

### **1. Answer the following questions:**

1. Why does selling abroad create extra problems as compared to selling in the domestic market?
2. What helps to avoid misunderstanding in payment for exports?
3. What factors does the choice of a method of payment depend on?
4. Which method of payment provides the best/greatest security for the exporter?

5. Why is payment in advance of order not frequently used in exporting?
6. Which method of payment offers the least security to an exporter?
7. If the open account method offers so little security to an exporter, why is it becoming more and more popular?
8. When does an exporter agree to deliver goods on open account?
9. How does the consignment account operate?
10. Besides payment in advance and by open account, what other methods of payment has the trading community worked out?

**2. Complete the following sentences on the basis of the information given in the text:**

1. The method of payment you adopt for each customer depends on many factors, such as ... .
2. The use of Incoterms in commercial contracts helps ... .
3. The choice of the method of payment is important as each of them provides ... .
4. Cash with order is highly satisfactory from the exporter's point of view, but the least ... .
5. Extending credit to an exporter by a foreign buyer is a ... .
6. It is quite safe to send small value goods by COD post as the goods are ... .
7. If you know your foreign customer well and have no reason to doubt his credibility, you may ... .
8. Under the open account agreement, the delivery of goods is not ... .
9. If you supply a foreign buyer with stocks of your product for payment after he has sold them, the goods ... .
10. You can speedily settle export transactions at minimum risk using ... .

**3. Test. Fill in the missing words:**

The method of obtaining payment of an export order is usually a matter ... negotiation ... the exporter and his buyer and will in many instances be governed ... the exporter's knowledge of the buyer and the buyer's financial standing. In deciding the terms ... payment to negotiate, the exporter may perhaps wish the degree ... security he obtains, the speed ... remittance and any additional costs involved.

In rare cases an exporter is able to persuade his buyer to pay 100 percent of the ... value before ... take place. It is quite common, however, for the buyer to make an ... payment of a percentage of the contract value upon ... of the contract with the balance being ... by one of the agreed methods.

Where the exporter has complete faith in the buyer he may be willing to trade on an ... account basis. This usually means that the buyer receives the ..., takes ... of the goods and thereafter makes ... to the exporter in accordance with previously agreed ... .

## Vocabulary

**bill of exchange** — переводной вексель, тратта

**payment on presentation** — платеж по предъявлению

**payment on demand** — платеж по требованию

**bearer** — предъявитель, держатель

**a bill drawn on** — вексель, выставленный на

**settlement** — заключение сделки

**sight draft** — 1) вексель на предъявителя; 2) тратта на предъявителя

**term draft** — срочная тратта

**tenor of the bill** — срок векселя

**due date** — срок погашения кредитного обязательства; срок платежа

**acceptance** — 1) принятие, акцепт, согласие на оплату; 2) акцептование векселя

**face of the bill** — номинал векселя

**forward a bill** — отправлять, посылать вексель

**collecting bank** — банк-инкассатор

**clean bill** — недокументированный вексель

**cash against documents** — платеж наличными против документов

**promissory note** — простой вексель, обязательство

**direct collection** — 1) прямая инкассация; 2) прямой денежный сбор

**reshipment** — перегрузка, перевалка

**recoup delay** — задержка окупаемости

**default** — невыполнение обязательств; неуплата

**notary** — нотариус

**notice of dishonour** — 1) уведомление о неакцептовании векселя; 2) уведомление о неуплате векселя

### 5.25.3. Bill of Exchange (B/E)

#### *Read the text below concentrating on its contents and terminology:*

An exporter can send a **bill of exchange** for the value of the invoice of goods for export through the banking system for **payment** by an overseas buyer **on presentation**. A bill of exchange is legally defined as “an unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to which it is addressed **to pay on demand** or at a fixed or determinable future time a certain sum of money, or to the order of a specified person, or to the **bearer**”.

In other words an exporter prepares a **bill** of exchange which is **drawn on** an overseas buyer, or even on a third party as designated in the export contract, for the sum agreed at **settlement**.

The bill is called a **sight draft** if it is made out payable at sight, i.e. “on demand”. If it is possible “at a fixed or determinable future time” it is called a **term draft**, because the buyer is receiving a period of credit, known as the **tenor of the bill**. The buyer signs an agreement to pay on the due date by writing an **acceptance** across the **face of the bill**.

By using a bill of exchange with other shipping documents through the banking system, an exporter can ensure greater control of the goods, because until the bill is paid or accepted by the overseas buyer the goods cannot be released. Conversely the buyer does not have to pay or agree to pay by some agreed date until delivery of the goods from the exporter.

An exporter can pass a bill of exchange to a bank in the UK. The UK bank **forwards the bill** to its overseas branch or to a correspondent bank in an overseas buyer’s country. This bank, known as the **collecting bank**, presents the bill to whomever it is drawn upon, for immediate payment if it is a sight draft, or for acceptance if it is a term draft. This procedure is known as a **clean bill** collection because there are no shipping documents required. Clean bill collections have become more popular, particularly in some European countries where the method is also used in internal trade. Also such collections provide more security than open account terms if there is some doubt about a buyer’s financial status.

However, it is more likely that bills are used in a documentary collection method of payment. In this case, an exporter sends the bill to the buyer through the banking system with the shipping documents, including the document of title to the goods, i.e. an original bill of lading.

The bank then releases the documents on payment or acceptance of the bill by the overseas buyer.

An exporter can even use the banking system for a **cash against documents** (CAD) collection. In this case only the shipping documents are sent and the exporter instructs the bank to release them only after payment by the overseas buyer. This method is used in some European countries whose buyers often prefer CAD to a sight draft if the exporter insists on a documentary collection for settlement of the export contract.

In all the methods of payment using a bill of exchange, a **promissory note** can be used as an alternative. This is issued by a buyer who promises to pay an exporter a certain amount of money within a specified time.

It is even possible to send the documents and bill of exchange directly to an overseas buyer's bank, by-passing the UK bank. This system of **direct collection** is widely supported by US banks, but it dispenses with the help of the UK bank whose aid can be invaluable if something goes wrong in the collection. For example, there could be excessive shipping delays so that a buyer may refuse to accept or pay a draft on presentation. In this situation the UK bank can act as the exporter's agent by arranging the warehousing of the goods on their **reshipment**, or even disposing them at auction to **recoup** any **outlay**.

An overseas buyer may deliberately **default** on a term bill or just go bankrupt. In either case the UK bank can arrange legal action or act on instructions to initiate protests, i. e. engage a **notary** public in the buyer's country to deliver a "**notice of dishonour**" to the defaulter, thus preparing a likely settlement in favour of the exporter if the matter has to go to court.

## Vocabulary Practice

### ***1. Complete the following sentences on the basis of the information given in the text:***

1. An exporter draws a bill of exchange on a foreign buyer means ... for ... .
2. The bill is called a sight draft if it is payable ... .
3. The bill is called a term draft if it is payable ... .
4. The tenor of the bill is ... .
5. To accept the bill means to ... .
6. A term draft does not have to be paid at sight but at ... .



7. The goods cannot be released to a foreign buyer until the bill ... .
8. The foreign buyer does not have to pay or accept the bill until the goods ... .
9. A clean bill collection means that ... .
10. A documentary bill collection means that ..., the most important of which is ... .
11. Under a documentary bill collection the bank ... on ... .
12. The foreign buyer cannot get hold of the goods unless he ... or ... .
13. If the exporter insists on immediate payment he ... .
14. A promissory note is issued by ... who in this way guarantees ... .
15. A direct collection means that ... .
16. The system of direct collection is supported by ..., but it involves a certain risk particularly when there is ... .
17. If the buyer refuses to accept or pay a draft on presentation, the exporter's bank ... .
18. To protest a draft means to ... .

**2. Explain the following terms and give your own examples:**

- Account —
- Bill —
- Cash —
- Collection —
- Date —
- Default —
- Draft —

**3. Test. Fill in the missing words:**

The bill of exchange is often used as a means of ... payment particularly for goods exported. The importer might, for example, ask to ... delivery of goods before paying for them. The exporter, on the other hand, will probably not wish to ... his control over the goods before obtaining ... or a legal undertaking from the ... to pay on a given future date. By use of the international ... system, a document of title and a bill of ..., the needs of both parties may be satisfied.

The exporter might ... a bill exchange on the buyer and pass it with the ... documents and ... instructions to a bank in the buyer's country, which would ... the bill of exchange to the buyer for immediate payment in the case of a ... bill or for acceptance in the case of a ... bill. Should the buyer refuse, the documents will not be ... and if the documents include a full set of ... of lading then the control of the relevant goods remains with the ... acting as ... agent for the exporter who thereby also retains ... of the goods.

#### **5.25.4. Documentary Letter of Credit**

*Read the text below concentrating on its contents and terminology:*

By sending documents through the banking system in documentary bills collections, both an exporter and an overseas buyer have some degree of security in completing the commercial contract. But a more secure method of carrying out the transaction is by a documentary letter of credit. This documentary letter of credit when transmitted through a bank, usually in the exporter's country, becomes the means by which the exporter obtains payment.

The necessary documents, correctly completed, are presented to a bank by the expiry date of the credit. In the terms of the credit are met an exporter can receive payment from a UK bank. The buyer is in effect providing the exporter with immediate payment in return for a guaranteed assurance from a reputable bank that the export documents required to deliver the goods have been completed to the bank's satisfaction.

Documentary credits may be revocable or irrevocable. A revocable letter of credit is rather rare nowadays because it means that the terms of the credit can be cancelled or amended by an overseas buyer at any time without prior notice to the exporter. Most letters of credit are irrevocable, which means that once buyer's conditions in the letter have been agreed by an exporter, they constitute a definite undertaking by the buyer's bank and cannot be revoked without the exporter's agreement.

UK banks advise letters of credit, i.e. on presentation of documents required in a letter of credit, they send them for collection and payment by the issuing bank of an overseas buyer. The letter of credit in this situation is only as good as the strength of the overseas bank involved. An exporter's advising bank undertakes no responsibility itself to pay the exporter.

Even better security is achieved if the irrevocable letter is confirmed by an advising bank in the UK. Then the UK confirming bank stands fully in place of the issuing bank abroad, and provided all the terms and conditions of credit are fulfilled by an exporter, payment is assured by the banking system without recourse, i.e. without further call on the exporter. So when an exporter has negotiated in the contract with the buyer for a confirmed irrevocable letter of credit then security of payment, as far as humanly possible, is achieved.

But whether or not credit is confirmed it is essential that the exporter checks the credit terms immediately to make sure they are compatible with the commercial contract made with the buyer. In dealing with documentary credits the bank is concerned only with the documents to be presented and not with the goods or services involved.

Documentary credits may provide for payment at sight or for acceptance of a term bill of exchange by either the issuing bank in a buyer's country or the correspondent bank in the UK.

## Vocabulary

**expiry date** — 1) истечение срока действия контракта; 2) истечение срока опциона

**the terms of the credit** — условия кредита

**revocable/irrevocable** — отзывной/безотзывной (вексель)

**cancel** — аннулировать

**amend** — вносить изменения, поправки

**advise a letter of credit** — авизовать аккредитив

**advising bank** — банк, производящий выплаты по аккредитиву

**confirming bank** — подтверждающий банк

**issuing bank** — эмитсионный банк

**compatible with** — совместимый, сочетаемый

**reimburse** — погашать (*кредит, задолженность и т. д.*)

**debit** — дебетовать, относить на дебет счета

## Vocabulary Practice

### 1. Answer the following questions:

1. Which method of payment provides the greatest security for the exporter?

2. Who provides the buyer with the assurance that the goods will be shipped in accordance with the terms of the contract?
3. Why are revocable letters of credit seldom used in foreign trade?
4. On what condition can an irrevocable letter of credit be cancelled?
5. Does an irrevocable letter of credit provide the exporter with assurance that he will be paid on shipment of goods under all circumstances?
6. To achieve better security who should a letter of credit be confirmed by?
7. What is the first duty of an exporter when he is advised about a letter of credit? Why?

**2. Complete the following:**

1. The expiry date is the date by which ... .
2. A revocable letter of credit means that ... .
3. An irrevocable letter of credit means that provided ... .
4. A confirmed irrevocable letter of credit is one confirmed by ... .
5. Payment is assured without recourse provided the exporter ... .

**3. Fill each blank in the text with the correct word or phrase. Choose from the following list. Use each item once only.**

<b>commission</b>	<b>issued</b>	<b>statement</b>	<b>credit rating</b>
<b>debited</b>	<b>outstanding</b>	<b>withdraw</b>	<b>credit transfer</b>
<b>in full</b>	<b>salaries</b>	<b>banker's draft</b>	<b>financial institutions</b>
<b>interest</b>	<b>slip</b>	<b>cash dispenser</b>	<b>standing order</b>

Banks offer many services to businesses and their customers. Here are some of the most common:

Many people now have a card which enables them to (1) \_\_\_\_\_ money from a (2) \_\_\_\_\_. You feed your card into the machine and key in your PIN (personal identification number) and the amount of money you want. If you have enough in your account, the money requested will be (3) \_\_\_\_\_ to you up to a daily limit. Your account is automatically (4) \_\_\_\_\_ for the amount you have drawn out.

Provided you have a sound (5) \_\_\_\_\_, you can get a credit card from a bank and other (6) \_\_\_\_\_. To obtain goods or services, you present your card and sign a special voucher. When it receives the voucher, the credit card company pays the trader (less a (7) \_\_\_\_\_ and then sends you a monthly (8) \_\_\_\_\_. Depending on the type of card you have, you will either have to pay (9) \_\_\_\_\_ or be able to pay part of what is owed and pay (10) \_\_\_\_\_ on the balance left (11) \_\_\_\_\_.

If you need to make fixed payments at regular intervals, e.g. for insurance premiums, you can arrange a (12) \_\_\_\_\_ (sometimes known as a bank-er's order) so that the bank will do this for you.

If you have several bills to pay, you can do this by (13) \_\_\_\_\_. You write one cheque for the total sum involved, fill in a (14) \_\_\_\_\_ for each bill and hand everything to the bank cashier.

The transfer system is also used by employers to pay (15) \_\_\_\_\_ directly into employees' bank accounts.

If you are dealing with a supplier for the first time, a (16) \_\_\_\_\_ may be used as payment. This is a cheque guaranteed by a bank and therefore it is not likely to 'bounce'.

### **Список использованной и рекомендуемой литературы**

1. *Андреева Т.* English for Banking Schools. — СПб., 1994.
2. *Ashley A.* A handbook of commercial correspondence. — 6th ed. — Oxford University Press, 1995.
3. *Дудкина Г., Павлова М.* Учебник английского языка для делового общения. — М., 1994.
4. *Ковтун Л. Г.* English for Bankers and Brokers, Managers and Market Specialists. — М., 1994.
5. *Миловидов В.* Английский язык для работников сферы международного бизнеса. — Тверь, 1995.
6. *Практический словарь делового английского языка.* — СПб., 1991.
7. *Самуэльян Н.* English for Banking. — М., 1995.
8. *Хачатурова М.* Английский язык для деловых контактов. — К.: Аконит, 1997.
9. *Шевелева С.* Оформление банковской корреспонденции на английском языке. — М., 1991.
10. *Шевелева С.* Учебное пособие по английскому языку для операционистов. — М., 1994.
11. *Воронцова И. И., Ильина А. К., Момджи Ю. В.* Английский язык для студентов экономических факультетов. Учебное пособие. Москва, 1999.
12. *Э. Дж. Долан, Б. И. Домненко* “Экономика: англ. рус. словарь-справочник” — М. Лазурь. 1994.

## *Unit 6*

### **FINANCE. FINANCE MANAGEMENT**

### **ФИНАНСЫ. ФИНАНСОВЫЙ МЕНЕДЖМЕНТ**

- 6.1. The role of finance.
- 6.2. A global view of finance.
- 6.3. Money.
  - 6.3.1. Functions of money.
  - 6.3.2. The supply of money.
- 6.4. The Foreign Exchange Market.
- 6.5. The Commor Market.
- 6.6. The Bank of England.
- 6.7. Budgets.
  - 6.7.1. The Budget in Great Britain.
- 6.8. Establishing financial control.
  - 6.8.1. Government Bonols versus corporate bonds.
- 6.9. The meaning of World Liquidity.
- 6.10. Quantitative and Foreign Exchange Restictions.
- 6.11. Main forms of Business Transactions.
- 6.12. Commodity and money Markets.
- 6.13. Exchanges.
- 6.14. National Expenditure in Great Britain.
- 6.15. Personal Income and Expenditure.
- 6.16. National Income of Great Britain.
- 6.17. Surplus or Deficit.
- 6.18. How banks work.
- 6.19. Bank Advances.
- 6.20. Auctions.
- 6.21. Recent Developments on the stock market.
- 6.22. The European Bank for Reconstruction and Development (EBRD) in Ukraine.

## 6.1. The role of finance

An accountant may be compared to a skilled laboratory technician who takes blood samples and other measures of a person's health and writes the findings on a health report (a set of financial statements). A financial manager for a business is the doctor who interprets the report and makes recommendations to the patient regarding changes that would improve health. Financial managers use the data prepared by the accountants and make recommendations to top management regarding strategies for improving the health (financial strength) of the firm.

A manager cannot be optimally effective at finance without understanding accounting. Similarly, a good accountant needs to understand finance. Accounting and finance, finance and accounting - the two go together like bread and butter.

As you may remember, financing a small business is a difficult but critical function if a firm expects to survive those important first five years. The simple reality is, the need for careful financial management is an essential, ongoing challenge a business of any size must face throughout its entire life. Financial problems can arise in any type of organization. Chrysler Corporation faced extinction in late 1970s due to severe financial problems. Had it not been for a government-backed loan of \$1 billion, Chrysler may have joined the ranks of defunct auto companies such as Packard. Similarly, obtaining start-up money for small businesses has rarely been harder than now. Bad real estate loans have siphoned off money that banks may have loaned to small businesses, and the recession has left little spare cash available for investments in small business. Three of the most common ways for any firm to fail financially are the following:

- 1. Undercapitalization (not enough funds to start with).**
- 2. Poor cash flow (cash in minus cash out).**
- 3. Inadequate expense control.**

## 6.2. A global view of finance

When you read the financial literature, you find that there are many articles about the difficulty of finding start-up funds for new businesses. You have read how venture capital firms are pulling back from making such loans; so are banks. In short, this is a very difficult time to get financing for a new business venture.

Think of how difficult it will be, therefore, for new business ventures in South Africa, Poland, Hungary, China, and other newly developing

countries to get financing. The risks are great, and the managerial expertise is sometimes limited. Yet the future growth of the whole world depends on the growth of entrepreneurship throughout the world.

What can be done to help the entrepreneurs of developing countries get the financing they need to start new ventures? One answer is for firms in developed countries to set up joint ventures with firms in developing countries. Such joint ventures will open new markets for the firms of developed countries and provide the financing needed by less developed countries (LCD's). Another answer is for venture capital firms to expand world wide. The risk may be great, but the potential for gain is just as great. Often, the capital needs of firms in less developed countries are relatively small. Sometimes \$1,000 is all that is needed. The government could promote such investment by giving tax breaks to those firms and individuals that provide capital for entrepreneurs in LDSs.

Everyone in the world needs to start thinking globally if we are to make optimum use of the world's resources, especially the world's land and labour resources. There is much productive talent waiting to be freed by the availability of capital (financing). By helping to provide start-up capital to farms and other businesses throughout the world, you and I, the business community, and non-profit organizations can do much to end hunger, poverty, and disease in the world.

### **6.3. Money**

Money is anything is commonly accepted as a means of paying for the goods and services individuals need and want. Money enables us to function in society and to have the thing we need to survive - things such as housing, food, clothing, transportation, heat and water.

Money has not always been the coins and paper bills known to us. Trough out history various things of value have been used as money. For example, in many parts of the ancient world, salt was used as money because it was rare and necessary to life. Among many early cultures, furs or pelts were used as money. Eventually valuable metals became the most common type of money; in fact, gold coins were used as money in the United States as recently as 1933.

*Currency*, which is dollar bills and coins, fits most of the definition of money. However, checks are accepted payment for purchases, and checking account deposits are considered money and not currency. To define money as currency would be considered too narrow for most economists.



### 6.3.1. Functions of money

Money has three basic functions. It serves as a medium of exchange, as a measure of relative value, and as a store of value.

As a *medium of exchange*, money enables two individuals to exchange without having to barter; that is the carpenter doesn't have to build a step for the grocer every time he wants a carton of milk. The carpenter can build steps or anything else for anybody, receive money for his services, and use the money to purchase milk from the grocer. The grocer can in turn use the money received from the carpenter and others to purchase a suit from the tailor.

As a *measure of relative value*, money allows two dissimilar items to be purchased on a similar bases. It is in terms of money that we think of value. How many cartons of milk should the grocer pay for a suit? If asked that question, you might ask, how much is a carton of milk worth? And how much is the suit worth? You would want to define the exchange in terms of the relative value of the two items and would use the value in dollars (money) to determine how many cartons of milk it should take to buy a suit. Money helps to think of different things in terms of a common value base.

As a *store of value*, money makes it possible for us to hold onto the value over time. If the grocer would have to hold the value of his milk in milk, he could not hold it for long because it would spoil. If he sells the milk and gets money for it, he can hold the money until he wishes to purchase something.

### 6.3.2. The supply of money

To measure the money supply, we measure the amount of money in the economy. However, what to measure is a problem. Should someone's home be considered money? After all, it can be sold for cash.

To understand the money supply you have to first understand the concept of liquidity.

**Liquidity** is simply a measure of how quickly an item can be converted to cash. Obviously the most liquid item is cash itself, since it does not need to be converted. However, many other items approach cash in liquidity because they function as cash in many transactions. These items include demand deposits, against which checks can be written or from which funds can be withdrawn; time deposits, from which funds can be withdrawn; and money market funds, which can be immediately sold for cash.

## 6.4. The Foreign Exchange Market

The Foreign exchange market enables companies, fund managers, banks and others to buy and sell foreign currencies, if necessary in large amounts. Capital flows arising from trade in goods and services, international investment and loans together create this demand for foreign currency. The sums involved are very large with estimated global turnover in all currencies currently in the region of \$880 billion each day. Typical wholesale deals are for amounts of \$1 mn — \$5 mn though much larger transactions are often done.

Foreign exchange trading may be for spot or forward delivery. Generally speaking, spot transactions are undertaken for an actual exchange of currencies (delivery or settlement) two business days later (the value date). Forward transactions involve a delivery date further into the future, possibly as far as a year or more ahead. By buying or selling in the forward market a bank can, on its own behalf or that of a customer, protect the value of anticipated flows of foreign currency from exchange rate volatility.

Unlike some financial markets, the foreign exchange market has no single location — it is not dealt across a trading floor. Instead, trading is via telephone, telex and computer links between dealers in different centers and, indeed, different continents. London is the world's largest foreign exchange center. Banks here trade around \$300 billion each day in foreign currencies.

London's leading position arises partly from the large volume of international financial business generated here — insurance, eurobonds, shipping, commodities and banking. London also benefits from its geographical location which enables us to trade not only with Europe throughout the day, but also with the US and the Far East, whereas their time difference makes it difficult for those two centers to trade with each other. When banks in London begin trading at 8 a.m. they can deal with banks in Tokyo, Hong Kong or Singapore whose trading day is just ending. From about 1 p.m. onwards, London banks can trade with banks in New York; before they close at 5 p.m. their counterparties may be in Los Angeles or San Francisco. The foreign exchange market trades 24 hours a day.

## The participants

Broadly speaking, there are three types of participants in the market: customers, banks and brokers. Customers, such as multinational corporations, are in the market because they require foreign currency in the course of their cross border trade or investment business. Some banks participate as market makers: that is their dealers will at all times quote buying or selling rates for currencies — dollars to the pound, D-marks to the dollar and so on. Other banks or corporations telephone them, ask for their rates, and may then buy or sell. The market makers earn a profit on the difference between their buying and selling rates, but they have to be ready to change their prices very quickly so that they avoid holding a depreciating currency, or being short of a rising currency. The third type of participants, the brokers, act as intermediaries between the banks. They are specialist companies with telephone lines to banks throughout the world so that at any time they should know which bank has the highest bid (buying) rate for a currency, and which the lowest offer (selling) rate. By telephoning a broker it should, therefore, be possible for banks to find the best dealing rate currently available. The broker does not deal on own account but charges a commission for the services.

## Vocabulary

**exchange market** — валютный рынок (*syn.* **foreign currency market**)

**loan** — заем, ссуда

**on loan** — займы

**turnover** — оборот

**turnover of capital** — оборот капитала; текучесть

**labour turnover** — текучесть рабочей силы

**spot transactions** — наличная сделка, сделка с немедленным расчетом, спотовая сделка

**capital flow** — приток капитала

**exchange rate volatility** — неустойчивость валютного (*обменного курса*)

**counterparty** — противная сторона (*syn.* **opposite, adverse**)

**crossborder trade** — международная торговля

**depreciating currency** — обесценивающаяся валюта

**intermediary** — посредник

## 6.5. The Common Market

When the negotiations for the setting up of the Common Market began, Britain was unable to find ways and means of joining. Instead, Britain and six other countries set up the European Free Trade Area with the idea that in the long run it would be possible to merge the two areas together into a Grand Free Trading Area as big and as important as the United States. Unfortunately there were no miracles inside the European Free Trade Area — and particularly the British economy under the Tories could show only a disposition to stagnate.

Those who referred to the German “miracle” overlooked the facts. First, the recovery in West Germany began well before the Common Market was set up. Secondly, West Germany during the early 1950’s had a large reserve army of unemployed, so that as recovery went on there was no shortage of labour and the German workers were not in a strong position to fight for their rights. Thirdly, West Germany received considerable investment of U.S. capital and the productive equipment, which had been destroyed during the war, was replaced by new and more productive equipment. By the early 1960’s the reserve army of unemployed had been largely absorbed and West Germany was not in much better case than Britain. The growth in production levelled off and the German workers began to demand better treatment.

Nevertheless, during the period in which Britain’s economy was stagnating there had been rapid growth in the Common Market economies. It was, therefore, quite natural that British monopoly capital should say “If you can’t beat it join it”. The British were told very often that Britain must join the Common Market (1) in order to expand the area of free trade, (2) so that she could have large-scale industry which would result from a very large market, (3) because British industry could not but benefit from association with the most rapidly growing economies in the Western world — growth by association as it has been called — and (4) because competition would be good for British industry and would compel modernization and rationalization.

The supporters of the join-at-all-costs movement failed to explain that:

- 1) the Common Market was a restrictive trading organization which aimed to erect a tariff barrier against the goods of other countries and was not in the last concerned with free trade;
- 2) that industry on a large scale (in the U.S., for example) does not necessarily guarantee success and that the joining together of eco-

nomies all with more or less the same problems does not solve them but might make them more difficult;

- 3) that the idea of “growth by association” was just a piece of economic nonsense, as has since been pointed out in many places; and
- 4) that in certain respects Britain was already suffering from competition so that there was hardly any need to go looking for more.

In any case, all the economic clap-trap was no more than a smoke-screen to cover up the real purpose of the purposed enlargement of the Common Market — namely, the construction of a more reliable organization for the political purposes.

## Vocabulary

**to set up** — учреждать

**European Free Trade Area** — Европейская зона свободной торговли

**in the long run** — в конечном счете

**to merge** — сливать(ся)

**to stagnate** — застаиваться, загнивать

**recovery** — оживление, восстановление

**well before** — задолго до

**shortage** — нехватка, дефицит

**investment** — вложение капитала, инвестиция

**largely** — главным образом

**to level off** — выравнивать(ся), снижать(ся)

**to expand** — расширять(ся)

## 6.6. The Bank of England

The Bank’s basic role is not very different from that of other central banks. Firstly it is the government’s banker, borrowing money for the state when required. Secondly, it is a banker to the other banks — arranging for free exchange between them and banks abroad, printing their banknotes (except in Scotland) and providing their reserve of money. But the Bank of England has other duties. It has to regulate Britain’s overseas investments. It has to enforce exchange control. And it has to act as custodian of the Sterling Area, holding balances on behalf of the other sterling countries.

The Bank’s largest service to the Government is to manage the National Debt, which occupies about two thousand people. It was the National Debt which brought the Bank into being: William III needed a million of pounds quickly, to raise money for his war against Louis

XIV, and was advised, very ingeniously, to borrow it from the public. In 1694 the Bank of England was established with a staff of seventeen clerks, to fix the loan. Since then, the Debt (it is usually given a capital D) has never looked back: governments have gone on using it to raise money quickly without waiting for taxes — particularly in war-time.

The Bank can influence the supply of money in three principal ways. First, it can adjust the operations and requirements of the National Debt. Secondly, it can bring pressure on the joint stock banks to restrict loans to their customers. Thirdly, it can wield its most controversial weapon, the Bank Rate — the rate of interest at which it lends money, and hence (by tradition) the interest rate of the joint stock banks to their customers — which affects the cost of borrowing all through the country. Every Thursday morning the Court considers Bank Rate, and at 11.45 a Bank official, accompanied by a stock exchange waiter, walks in his top hat from the Bank of England to the Stock Exchange — a journey which takes exactly two and a half minutes — enters the hall, gets up on a chair, and announces Bank Rate. From 1932 till 1951, which marked the era of “cheap money”, it was nearly always two percent. Since then it has been used by successive Conservative governments to control the rate of spending, oscillating between seven and three percent.

Who is really responsible for Britain’s monetary policy? The answer is characteristically obscure. For while the Bank retains the trappings of a joint stock company, as it once was, its reality is quite different — not primarily because of nationalization, but also because of the huge role of the Treasury, and the personal authority of the Governor.

The Treasury regards the Bank, more than any other parts of its empire, as a foreign tribe who must not be interfered with, and here the doctrine of indirect rule is very evident. The Court of the Bank, odd and unrepresentative though it is, is regarded as voicing “city opinion”, and the Governor is expected to carry the Court with him. Even the Labour party, though it nationalized the Bank, dreaded any kind of outright clash with Threadneedle Street\*, and the mystique of the City remains a powerful influence on Westminster. The British government is not alone in not wanting to interfere with the central Bank. The American Federal Reserve and the German Bundesbank can both openly contradict their government, but Britain prefers to keep the relationship obscure and concealed.

---

\* Threadneedle Street — улица, где находится Английский Банк.

**exchange control** — валютный контроль (ограничение)

**custodian** — хранитель, попечитель

**to hold balances** — держать деньги на счетах

**hire-purchase** — покупка или продажа в рассрочку

**to adjust** — регулировать

**joint-stock bank** — акционерный банк

**Court** — Совет директоров Английского Банка

**successive** — следующий один за другим

**governor** — управляющий банком

**run on** — наплыв

## 6.7. Budgets

A budget is a financial plan. Specifically, a budget sets forth management's expectations for revenues and, based on those financial expectations, allocates the use of specific resources throughout the firm. You may live under a carefully constructed budget of your own. A business operates in the same way. A budget becomes the primary basis and guide for financial operations in the firm.

Most firms compile yearly budgets from short-term and long-term financial forecasts. There are usually several budgets established in a firm:

- An operating budget
- A capital budget
- A cash budget
- A master budget

An **operating budget** is the projection of dollar allocations to various costs and expenses needed to run or operate the business, given projected revenues. How much the firm will spend on supplies, travel, rent, advertising, salaries, and so forth is determined in the operating budget.

A **capital budget** highlights the firm's spending plans for assets whose returns are expected to occur over an extended period of time (more than one year). The capital budget primarily concerns itself with the purchase of such assets as property, buildings, and equipment.

A **cash budget** is the projected cash balance at the end of a given period (for example monthly, quarterly). Cash budgets can be important guidelines that assist managers in anticipating borrowing, debt repayment, cash disbursements, and short-term investment expectations. Cash budgets are often the last budgets that are prepared.

A **master budget** ties in all the above-mentioned budgets and summarizes the proposed financial activities of the firm.

Clearly, financial planning plays an important role in the operations of the firm. This planning often determines what long-term investment to make, when specific funds will be needed, and how the funds will be generated. Once a company has projected its short-term and long-term financial needs and established budgets to show how funds will be allocated, the final step in financial planning is to establish financial controls.

### 6.7.1. The budget in Great Britain

The purpose of the Budget in Britain is not only to raise revenue to meet Government expenditure, but also to regulate the national economy.

The Budget is the main occasion each year on which the Exchequer Accounts are reviewed. On Budget Day, the Chancellor of the Exchequer presents a Financial Statement (commonly known as the Budget White Paper) which, besides giving details of the tax changes proposed in the Budget Speech, forecasts Government receipts and payments in the coming year and compares the outturn, or achievement, for the past 12 months (1st April to 31st March) with the previous Budget estimates.

Most Government receipts and payments are administered through two funds: the Consolidated Fund (or “above-the-line” accounts), which meets expenditure out of revenue, and the National Loans Fund (*Fig. 10*) (or “below-the-line” accounts), which conducts the bulk of the Government’s domestic lending.

Budget	
Consolidated Fund	
Revenue	
Expenditure	
Loans from the National Loans Fund	← (Line)
Receipts	
Payments	
<i>Fig. 10.</i>	

“Above-the-line” revenue is from taxation, custom and excise duties and taxes on motor vehicles.



On the expenditure side Government spending is in two parts: (1) the Consolidated Fund services, the main charge on which is National Debt Interest and Management; (2) Supply services which are financed by annual votes of Parliament. Approximately one-third goes to Defence and two-thirds to the Civil Services.

“Below-the-line” receipts are in two groups:

- 1) interest received on loans and
- 2) repayments of such loans by local authorities, nationalized industries and others.

“Below-the-line” payments consist mainly of loans to Local Authorities.

The bulk of the expenditure in the Budget goes on Supply services. These account for the day-to-day spending on goods and services and buildings by Government civil and defence departments, and include all defence expenditure, grants by the Government in support of the National Insurance Funds and local authority services (education, local health and welfare services, etc.), the National Health Service, agricultural subsidies, and most of the overseas aid programme. Estimates of this Supply expenditure have to be submitted to and voted by Parliament annually; they are published, in the Vote on Account, in advance of the Budget so that the expected total of Government spending for the year under Supply services will be known.

Some expenditures which have been authorized by legislation do not have to be voted annually by Parliament: these are called consolidated fund standing services. They are mainly the balance of the interest on the National Debt which is not offset by interest receipts on Government loans, and payments to the Government of Northern Ireland.

## Vocabulary

**to raise revenue** — получать государственные доходы

**Exchequer Accounts** — статьи расходов и доходов по бюджету

**Financial Statement** — финансовый отчет

**White Paper** — Белая книга (*правительственный документ*)

**Outturn = achievement** — исполнение бюджета

**Consolidated Fund** — консолидированный фонд

**National Loans Fund** — фонд национальных займов

**“Above-the-line”** — выше черты (*часть бюджета, расположенная выше черты; см. таблицу*)

“**Below-the-line**” — под чертой  
**Supply services = Government expenditure (spending)** — бюджетные ассигнования; государственные расходы на содержание вооруженных сил и государственного аппарата

**the Vote on Account** — вотиrowание бюджета  
**services** — уплата капитальной суммы или процентов (*по займам, облигациям*)  
**standing services** — постоянные платежи

## 6.8. Establishing financial control

**Financial control** means the actual revenues, costs, and expenses (including the cash flow projections) are periodically reviewed and compared with projections. Deviations can thus be determined and corrective action taken. Such controls provide feedback to help reveal which accounts, which departments, and which people are varying from the financial plans. Such deviations may or may not be justified. In either case, some financial adjustment to the plan may be made.

### 6.8.1. Government bonds versus corporate bonds

Businesses compete with government for the sale of bonds. Some local government municipal bonds are often tax-free bonds — meaning bondholders do not have to pay federal taxes on any interest earned from the bond. Bonds sold by the federal government are relatively risk free, because they are backed by the power of the government to tax us. The government makes the sale of corporate bonds more difficult by selling its own, more attractive, governments bonds. This is often referred to as the «crowding out» of corporate bonds. If a firm is unable to secure a long-term loan from a lender or issue bonds to investors, it often turns to the last alternative for long-term financing: equity capital.

Regardless of whether or not a new firm can obtain venture capital funds, there usually comes a time when even more funds are required. One way to the public to obtain needed funds is to sell ownership shares in the firm (called stock) to the public. If you look in the Money and Investing part of *The Wall Street Journal*, you will see thousands of small, medium, and large companies in every kind of industry listed, along with the current price of the firm’s stock. The widespread use of debt and equity is a way of obtaining capital.

**equities** (*syn.* ordinary shares, equity shares, ordinary stocks) — обыкновенные акции

**to deplete** — истощать, исчерпывать

**to offset** — возмещать

**Treasury bills** — казначейские векселя

**consequently** — следовательно, поэтому

**conversely** — наоборот

**temporary surplus** — временный избыток, излишек

## 6.9. The Meaning of World Liquidity

Increasing liquidity under the present system means increasing holdings of gold or pound. As far as gold is concerned the increase in the physical quantity of stocks can only be slow and may well become increasingly difficult, in South Africa anyway, due to exhaustion of the mines. The only other way to increase the capacity of gold to finance trade and payments would be to increase its price, or revalue it in terms of all other currencies.

While everyone had complete confidence in the world-wide acceptability of dollars and sterling, capitalist central banks were willing to keep some of their dollar and pound earnings in reserve instead of spending them. This was greatly to the advantage of Britain and America for it meant that they, unlike all other countries, could go on running deficits. The same obliging foreigners who have allowed the UK and the USA to run deficits are, however, free at any time to bring their dollar and sterling holdings to America and Britain and demand conversion into gold and foreign exchange.

For many years holders of sterling have been apprehensive because total world sterling balances have far exceeded the gold and foreign exchange reserves of Britain. In fact ever since the war Britain's short-term liabilities have stood at four times her reserves. It follows that if foreign holders start selling their pounds on a large scale the reserves cannot last long.

Similarly, holders of dollars are concerned about the extent of America's liabilities in relation to her reserves.

The "crisis of confidence" in the dollar and the pound then implies that holders of dollars and pounds are no longer confident that America and Britain can "pay up" when conversion of dollars and pounds is demanded. This is the central contradiction in the present system; liquidity can be increased only by holdings of dollars and pounds being increased but every increase in these holdings further weakens confidence in the dollar and the pound.

Since more liquidity is needed, and the present system isn't going to provide it, proposals for reform have naturally been made. Here are some of them:

(I) *Revaluation of gold.* An increase in the price of gold, doubling is the figure generally suggested, would enable existing and future gold stocks to finance a greater volume of trade and payments. While there are formidable technical problems involved here the basic problem is political. Gold-producing countries, and those holding large stocks of gold, would gain greatly from revaluation, while those with little gold in reserve (and this includes most of developing countries) would reap no immediate benefit. Suggestions that profiting countries would hand some of the profit to non-gold holders sound somewhat utopian.

(II) *Multiple reserve currencies.* Suggestions have been made that currencies of other advanced countries should be used as reserve currencies along with the dollar and the pound. It is clear that politically this just amounts to a demand that other leading capitalist countries should be given the same power and privileges as Britain and America.

(III) *More radical proposals.* These are embodied in the various schemes for creating completely new forms of reserves. Today a mere piece of paper, a banknote, is always acceptable as payment for goods and services and this is simply because any person accepting such a piece of paper is confident that he in turn can use it for making purchases. Similarly, new pieces of paper, let's call them international banknotes, issued say by the International Monetary Fund, could become means of settling international payments provided that everybody agrees always to accept them. Here then is an easy way to increase liquidity. But, as always, a political question is immediately raised; how should the international currency notes be distributed between countries? Some plans recommend giving them only to the advanced capitalist countries, others that they are given to the developing countries. However, if any such scheme is ever put into operation the key factor is likely to be that voting power in the IMF is very heavily weighed in favour of America and that the imperialist countries as a whole completely swamp the developing countries in terms of votes.

## Vocabulary

**liquidity** — ликвидность; ликвидные средства (*наличность и близкие к наличности активы*)

**revaluation** — переоценка стоимости активов в соответствии с изменением курсов валют или цен

**benefit** — выгода, польза, прибыль  
**to embody** — воплощать; осуществлять (*идею*); заключать в себе; объединять, заключать  
**provided that** — при условии, если только; в том случае, если

## 6.10. Quantitative and Foreign Exchange Restrictions

The commercial policy of a country is always closely connected with its foreign policy. This is reflected not only in the general trend of the foreign trade of the respective country, but also in the various restrictions it established in order either to hinder its imports or to promote its exports. The restrictions can influence the quantity of imported or exported goods, or they can affect prices, credits and even documents.

The most usual are the so-called quantitative and foreign exchange restrictions. They are actually nothing else than a system of import and export licences and a system of controlling foreign exchange holdings and allocations.

The practice of establishing restrictions varies from country to country and depends largely on the economic situation of the country, on its balance of trade and balance of payments, and also on the degree of its political and economic independence. Accordingly, in some countries restrictions are not too numerous and are not at all severe. On the other hand, there are countries where the system of restrictions is most elaborate and the restrictions are very severe.

*Licence System.* In a country where a Licence System has been established, goods can be imported and exported only on the basis of import and export licences.

*Foreign Exchange Restrictions.* Allocation of foreign exchange for payment for imported goods is sometimes a difficult problem. Again, the practice differs from country to country. In some countries, if an importer has been granted an import licence, he is thereby entitled also to an allocation of the corresponding amount of foreign exchange. But this is not always the case. Sometimes the importer must make a special application for the import licence and another for the allocation of foreign exchange. The authorities who allocate foreign exchange are often different from and independent of those who grant licences, and they can refuse the allocation irrespective of the fact that an import licence has been granted. On the other hand, the allocation of foreign exchange may sometimes replace the import licence.

Foreign exchange restrictions can also be of another nature. The necessary foreign exchange can be allocated, for instance, only on condition that payment for the goods is effected by a letter of credit, although the market conditions require sale on credit. Such a condition

is then unacceptable for the buyer. Or the banks in the country concerned can be ordered to refuse granting credits on purchases abroad or discounting foreign bills of exchange, etc.

The licence system and foreign exchange restrictions are two independent things, but their function is the same.

In the economics of international trade quotas are a method of protecting home industries from foreign competition or of reducing pressure on the balance of payments by limiting imports. For protection the quota is more certain than a tariff in its effects on the quantity of imports. Both will generally cause a rise in price in the home market for the imported goods. The object of the tariff is to raise the price of the import and reduce the demand for it; the object of the quota is to reduce the supply of the imported goods in the home market, so that its price will tend to rise. In both cases demand will be diverted towards the products of the home industry that competes with the import. When a tariff is used the Government gains revenue from the imported goods: an increase in price due to a quota is likely to benefit either the foreign producer or the domestic importer by raising revenue per unit sold. A government imposing quotas may be able to share in the gains by marketing the commodity itself. Alternatively, having imposed a limit on the quantity that may be imported, it may auction to the highest bidder the right to import the commodity.

In cartels and in international commodity agreements, a quota is a stated amount of output allocated to member firms or nations up to, which they are allowed to produce and sell. The purpose is usually to increase prices and profits or reduce fluctuations in them.

## Vocabulary

**holdings** — вклады, авуары  
**foreign exchange holdings** — запасы иностранной валюты  
**allocation** — 1) ассигнование; 2) выделенное количество  
**practice** — 1) практика, применение; 2) установленный порядок  
**thereby** — посредством этого  
**to be entitled to** — иметь право на что-л.

**a letter of credit** — аккредитив  
**sale on credit** — продажа в кредит  
**to grant a credit** — предоставлять кредит  
**to discount a bill of exchange** — учитывать вексель  
**per unit sold** — на единицу проданной продукции  
**alternatively** — с другой стороны, если же

## 6.11. Main Forms of Business Transactions

In foreign trade the character of business transactions is influenced by a large number of commercial, economic and political factors. Accordingly, the following forms of business transactions are to be distinguished:

- 1a. Individual exports or imports (as opposed to);
  - b. barter deals.
- 2a. Direct exports or direct imports (as opposed to);
  - b. indirect exports or indirect imports.
3. Re-exports and switch transactions.
4. Exports on consignment stocks.

1a. In foreign trade individual exports or individual imports are the most common form of business. They are carried out without regard to other transactions and without any connection with them. That is why they can be effected more quickly and with less expense than any other form of business.

1b. On the other hand there are parallel export and import transactions which are in some or other way bound to each other. These are called barter deals. They are more or less an exceptional or additional form of trade, which in normal commercial and political relations should not occur at all.

Barter deals fall into the following groups:

- a) compensation trade;
- b) reciprocal transactions;
- c) conditional (link up) transactions.

a. Compensations are in principle a reversion to the ancient form of barter. Goods are exchanged for goods, no money leaving the country. These transactions are resorted to where no trade agreements and payments agreements exist. They may also be effected in addition to the existing trade and payment agreements if the latter permit of so doing. They are usually concluded when normal trade stagnates, as during periods of crisis or war, or in postwar periods.

If there is more than one party to the transaction in either country, payment is effected within the country by the parties concerned in their own currency.

The price of the imports should equal the price of the exports. Transport charges, commission and other expenses are also refunded (reimbursed) in goods.

b. Reciprocal transactions are based on a trade agreement. They are effected if the quota for the goods in question has been prematurely exhausted (partly or altogether) or if the goods desired have not been included in the quota list. Such transactions are also concluded if the conditions of trade have changed during the validity of the trade agreement.

c. Conditional transactions are effected only between countries, which have concluded a trade agreement with one another.

2a. In direct exports the goods are exported straight to the country of consumption, in direct imports they are bought and imported straight from their country of origin.

2b. In indirect exports or imports exported or imported goods must pass through a third country.

3. Re-exports are business transactions in which goods are imported with the view of exporting them again, either unchanged or only slightly changed. Sometimes such transactions are effected without goods coming into the country of the re-exporter.

Subdeliveries may be considered as a form of re-export. (Certain machine parts are bought abroad and used to complete machines, which are afterwards exported).

**Switch transactions.** The essential difference between barter and switch is that in the latter, payment is received in clearing dollars rather than goods. Clearing dollars are the exchange currency used in bilateral payment agreements.

4. Goods are sometimes sold on consignment stock, i.e. goods (e.g. books, cars) are exported to a carefully chosen firm (consignee), which is then entrusted with their sale on behalf of the exporter and is remunerated by commission or by fixed margin of profit. The goods remain the property of the exporter till they are sold.

**Bilateral trade.** This occurs when each country attempts to balance its payments and receipts separately and individually with every other country. Such a system is very similar to barter. Its effect would be to reduce the total volume of trade of all countries taking part in it, since it would reduce the trade between each pair of countries to the lesser amount than one wished to purchase from the other. Multilateral trade is necessary if the total volume of world trade is to be raised to its maximum amount.



**individual exports (imports)** — экспорт (импорт) отдельных товаров

**switch transaction** — 1) производство расчетов в клиринговых долларах по внешнеторговым операциям при наличии двустороннего соглашения; 2) валютная операция по использованию блокированного счета

**consignment stock** — товар, отосланный на консигнацию

**consignee** — грузополучатель

**to effect** — осуществлять, производить

**to bind** — связывать (*обязательствами и т. п.*)

**conditional (link up) transaction** — сделка, обусловленная наличием соглашения

**reversion** — возвращение, возврат (*к чему-л.*)

**trade and payments agreement** — соглашение о товарообороте и платежах

**to refund** — возмещение расходов, возвращение денег

**to reimburse** — возвращать (*сумму*), возмещать

**prematurely** — преждевременно

**validity** — срок действия

**country of origin** — страна происхождения (*товара*)

**subdelivery** — субпоставки

**fixed** — твердый, установленный, зафиксированный

## 6.12. Commodity and Money Markets

The organization of the commodity markets varies considerably as each has developed a particular set of customs and traditions, which govern the dealing. They all have this in common — trade is conducted at wholesale level. A high standard of trading practice is guaranteed by trade rules, which are observed by all recognized brokers and the majority of the traders.

Most of the trading is done by private treaty much the same as on the floor of the Stock Exchange and the role of the commodity broker is somewhat similar to that of the stockbroker, though some deals are transacted directly between importer and dealers. The terms of business are normally on a “CIF forward” basis: this means that the price includes the cost of the goods, insurance and freight for which payment will usually be demanded against presentation of the shipping documents. Since in many cases these papers arrive well in advance of the actual goods, the old system of physical inspection of the commodity has largely disappeared. In its place, sales are conducted by sample or by description, which, in turn, depend on meticulous grading and agreed specifications.

Commodity prices are quoted either for prompt delivery (“spot”) or for delivery some months ahead (“forward”); and the price quotations vary for contracts according to the delivery date. A special term “Futures” (or “Terminal”) is an abbreviation of the more fully explanatory “Contract for Future Delivery”. These markets deal entirely in forward deliveries of merchandise at a specified future date.

Commodity prices tend to fluctuate; they are subject not only to changes in demand but often still more to changes in supply. The supply of a commodity may be affected by abundant or poor crops, by diseases, by increased acreage of cultivation, by strikes or by government action. The market is informed about such influences from day to day; it watches weather reports; crop estimates are published regularly and examined with great care; existing stocks and current consumption are compared and interest rates are taken into account. On all these facts and forecasts the market bases its calculations and operations, and the existence of a futures market tends to stabilize prices. This is how it works: if an actual or anticipated surplus causes a drop in prices, dealers will buy spot and thereby stem the fall; later when supplies become scarcer they will sell at a profit and thus prevent too steep a rise.

There is, of course, a good deal of guesswork and speculation in these transactions, e.g. an expected scarcity may not develop, in which case the dealer will lose on his purchase. But, whether he makes a profit or a loss, he has automatically performed a useful service to the market and to the community by ironing out excessive price fluctuations.

There is one overall limitation to futures markets: they can operate only in commodities which can readily be graded and accurately specified in standard qualities.

Naturally, the members of the commodity markets looked for protection against hazards, which might ruin them, and the markets have developed a technique, which provides it. This process is known as “hedging”. The principle behind a “hedge” is that of buying and selling forward at the same time, so as to offset adverse price movements; it is based on the relation between spot and future prices.

Money market is a financial center where foreign and inland bills of exchange, foreign currency, bullions and so on are bought and sold. A group of institutions in Great Britain, dealing in short-term lending and borrowing is called the Short Money Market. Long-term lending and borrowing are arranged in the Capital Market. The main institutions in the British money market are in the neighbourhood of Lombard street

and the Bank of England. They are joint-stock banks, the discount market, accepting houses, the bullion market and the foreign exchange market.

## Vocabulary

**commodity market** — товарный рынок

**at wholesale level** — *эд.* через оптовые каналы

**at a level** — на уровне

**at top level** — в верхах

**at the Ministers level** — на уровне министров

**to observe the rules** — соблюдать правила

**by private treaty** — по частному соглашению

**terms of business** — условия торговли (*сделки*)

**“CIF forward”** — сделка на срок на условиях сиф (*т. е. когда цена товара включает стоимость товара, фрахт и страхование*) (CIF = Cost, Insurance, Freight)

**shipping documents** — отгрузочные документы

**sales are conducted by samples or by description** — продажа совершается на основании образцов или описания товаров

**to quote a price** — назначать цену  
**“spot”** — наличный, продаваемый на месте (*товар*)

**spot business** — сделка на наличный товар, сделка “спот”

**delivery date** — дата поставки

**“futures”** — сделки на срок; товары, закупаемые или продаваемые на срок, фьючерсные

**“terminal”** — срочный контракт

**acreage of cultivation** — посевная площадь

**accurately** — точно. *Syn.* **precisely**  
**hedge** *бирж.* хедж (*срочная сделка, заключенная для страхования цены или прибыли*)

**bill of exchange** — вексель

**foreign bill of exchange** — иностранный вексель

**inland bill of exchange** — внутренний вексель

**bullion** — слиток золота или серебра

**bullion market** — рынок золота

**short money market** — рынок краткосрочного ссудного капитала

**capital market** — рынок долгосрочного ссудного капитала

**discount market** — учетный рынок

**accepting house** — финансовая фирма (*обычно частная компания*), финансирующая внутреннюю или внешнюю торговлю путем акцептования векселей

**primary commodities** — сырьевые товары. *Syn.* *primary produce*

**vis-a-vis** — *фр.* напротив; *эд.* по отношению к

**export earnings** — экспортная выручка

**commensurately** — пропорционально, соразмерно

**to recoup** — компенсировать, возмещать, откупать, удерживать часть должного

## 6.13. Exchanges

An exchange is an organized meeting of persons in a permanent appointed place with the aim of buying and selling. The trading there is governed by certain rules and is limited to members of the exchange, who are known as brokers. The two chief types of exchanges are the commodity exchange and the stock exchange.

Commodity exchanges (or produce exchanges) have been established in important cities of Great Britain, the U.S.A. and other countries for trading in cotton, wool, timber, wheat, hides and skins and other such commodities. In Great Britain there are, for example, the Coal Exchange, The Timber Exchange, the Home and Foreign Produce Exchange and others, of which the following are world known: the Metal Exchange, the Wool Exchange, the grain market in the Baltic Exchange; furs are sold in Beaver House, the diamond trade is centered in Hatton Garden, and tea and rubber have their home in Plantation House. This building also accommodates the London Commodity Exchange dealing with cocoa and coffee, sugar and spices, vegetable oils and jute.

Outside London there are two commodity markets in Liverpool: the Cotton Exchange and the grain market. In the U.S.A. the best-known are the Board of Trade in Chicago (corn), the New York Produce Exchange, the New York Cotton Exchange, the New York Coffee and Sugar Exchange.

Stock Exchanges are places where securities, stocks and bonds are sold and bought. The most famous stock exchanges are the Royal Exchange in London and the New York Stock Exchange.

The fluctuation of prices on exchanges influences to a great extent the prices of the various commodities on the world market.

The London Stock Exchange has a unique method of operation in that it divides its members into brokers and jobbers. The brokers do business with the public, but the jobbers do business only with brokers, and with each other. On the Stock Exchange the business of buying and selling shares is called dealing and a transaction is called a deal.

There is one other important word that we must explain at the outset; that is, market. Readers will be familiar with the word in the sense of a place where goods are bought and sold; we have cattle markets, corn markets, and so on. But the Stock Exchange markets consist of jobbers who deal only in certain lists of shares. Thus there is the rubber mar-

ket, the oil market, the gold fields market and so on. The industrial market deals in the shares of all markets, for jobbers confine themselves to one market, or even to a section of one market.

The reader of an English financial newspaper is often confused by the references to the various stocks and shares which are quoted in their columns. He finds that government stocks are called gift-edged (meaning that they are very safe). Trustee Stocks are so called because trustees are permitted by the law to invest in them. (A trustee is a person who administers an estate (money) on behalf of another. Money, which a trustee administers, is called a Trust Fund). Ordinary shares are called equity shares.

The gold mining companies of South Africa, which form an important feature of the share market, are called kaffirs. Stores mean retail departmental stores. The shipping, oil, mining, brewing and hotel industries are shown separately, and the rest of industry is included in the term industrials, which is, of course, the largest market of all.

A bull is a person who buys shares, which he hopes and believes, will rise. A bear is the reverse of a bull, i. e. one who sells shares for a fall.

## Vocabulary

**institution** — институт (*установление*), учреждение

**commodity (produce) exchange** — товарная биржа

**stock exchange** — фондовая биржа

**hides and skins** — шкуры и кожи

**to accommodate** — размещать

**to deal in** — торговать

**fluctuation** — колебание

**broker** — брокер, маклер, агент, посредник

**jobber** — спекулянт на фондовой бирже, профессиональный биржевик (*закрывающий сделки за собственный счет*)

**gift-edged securities** — “золото-обрезные” ценные бумаги, государственные ценные бумаги

**trustee stocks** — первоклассные ценные бумаги, в которые опекунам разрешается по закону помещать вверенные им капиталы

**equity** — обыкновенная акция, акция без фиксированного дивиденда

**retail** — розничный

**department store** — универсальный магазин

**brewing** — пивоварение

**bull** — бирж. “бык” (*спекулянт, играющий на повышение*)

**bear** — бирж. “медведь” (*спекулянт, играющий на понижение*)

## 6.14. National Expenditure in Great Britain

The National Expenditure items are summarized in three main groups:

- 1) consumer's expenditure;
- 2) public authorities' expenditure on goods and services;
- 3) gross fixed capital formation and increase in stocks.

Then come various adjustments: exports and income from abroad, less imports and income paid abroad; taxes on expenditure, less subsidies. The result is the "gross national product" for the year.

### **Consumer's Expenditure**

This item shows the expenditure on all kinds of consumer goods: on food, on drink and tobacco, on housing-rent, rates and repairs.

Since prices have been rising each year, the total consumer's expenditure has risen too. But of course the total includes the expenditure of the rich.

So the rising consumer's expenditure total does not mean anything like a similar increase in the quantity of actual goods and services bought, at least as far as working people are concerned.

### **Public Authorities' Expenditure**

This item covers their expenditure on goods and services only. It does not include, for example, the enormous tribute paid to the moneylenders as interest on the national debt, interest on Local Authority debts.

### **Capital Expenditure**

Gross fixed capital formation is usually given before charging depreciation of the existing capital, so that on this basis the net additions to fixed capital are calculated.

Only about a third of the gross fixed capital formation is for plant and machinery. The rest is for vehicles, ships and aircraft, dwellings and "other new buildings and works". The amount spent on this last item has been growing fast, which must largely be due to the erection of great new office blocks and hotels, which add nothing to the country's productive power.

What is not noticeable, too, is the fact that the "public sector", covering approximately 20 percent of industry, is year after year providing for about 40 percent of the gross fixed capital formation in Brit-

ain. The nationalized industries, partly from surplus value created in them and partly from borrowing, are contributing to the modernization of British industry to a greater extent than the “private sector”.

## Vocabulary

**expense account** — счет расходов  
**surplus value** — прибавочная стоимость

**but even as they stand** — но даже в том виде, в котором они (*цифры*) представлены

**national expenditure** — национальные расходы

**consumer's expenditure** — потребительские расходы

**gross fixed capital formation** — общий (валовой) рост основных средств

**total domestic expenditure** — общая сумма внутренних расходов

**adjustment** — уточнение, поправка, регулирование, приведение в соответствие

**tax on** — налог на

**incomes tax** — подоходный налог

**VAT = value-added tax** — НДС

**purchase tax** — налог на покупку

**excise tax** — акцизный сбор

**rent** — квартирная плата

**actual** — фактический

**moneylender** — заимодавец

**to lend money** — давать деньги  
в займы, ссужать

**to borrow money** — брать деньги  
в займы

**vehicle** — транспортное средство  
(*автомобиль, вагон и т. д.*)

**office block** — здание конторы

**productive power** — производительные силы

## 6.15. Personal Income and Expenditure

The sources of personal income are:

1. Labour, which includes all personal exertion: manual or mental, skilled or unskilled. The income from it accrues in the form of wages, salaries or fees for services performed. For most purposes the economist lumps all these forms of payment together and calls them wages.

2. Property, which includes land and capital in all forms. The income accrues in the form of rent (from land and buildings), interest (from loans), profits (from businesses other than limited liability companies Ltd.), or dividends (a share of the profits of limited liability companies).

3. Transfers: Labour and property incomes are received in exchange for the supply of productive factors (labour, land, capital) but some people receive incomes without supplying anything in return, e.g. pensions. These are called transfer incomes because the money is simply transferred to them without any exchange of goods or services taking place.

## Expenditure

It must be remembered that the customer's means (his income) are limited, but his ends (wants) are unlimited. As the consumer is unable to satisfy all his ends, he arranges them in a ladder of priority, known as the consumer's scale of preference. No two consumers will necessarily arrange their ends on the scale in quite the same order, but certain ends are more fundamental than others, and things like food, shelter and clothing are at the top of everybody's list. However, there are different kinds and qualities of food, shelter and clothing, so there will be room for a lot of differences between consumers even here.

On low incomes, a high proportion of the income will be spent on the basic necessities. As incomes rise, a smaller proportion will be spent on these and a larger proportion on less essential items.

## Vocabulary

**exertion** — усилие, напряжение

**to accrue** — 1) нарастать, накапливаться; 2) выпадать на долю; 3) происходить

**fee** — гонорар, единовременное вознаграждение, плата

**interest** *sing.* — проценты (*с капитала и т. п.*)

**dividend** — дивиденд

**transfer incomes** — перечисляемые доходы (*пенсии и т. д.*)

**end** — цель

**ladder of priority** — *зд.* степень важности, порядок очередности, первоочередность (*ladder* — *лестница*)

**list of priority** — список чего-л., составленный в порядке очередности; список первоочередных товаров

**consumer's scale of preference** — шкала очередности удовлетворения потребностей населения

**shelter** — кров, жилище

**are at the top of the list** — *зд.* являются предметом первой необходимости

**necessity** — *зд.* предмет первой необходимости. **Syn. essential goods = essentials**



## 6.16. National Income of Great Britain

In official statistics, the national income is built up of the estimated incomes of all individuals businesses, companies and landlords in the United Kingdom, plus net property income from abroad.

This gives the Gross National Product (G. N. P.).

From the total figure of the G. N. P. the estimated capital consumption (depreciation) is deducted, giving the figure of the net national income.

Of course, all estimates on this vast scale cannot pretend to be more than approximate; but in statistics issued by the monopoly capitalist state machine there are also deliberate steps taken to present a misleading picture of things.

For example, there is an item called “Income from Employment”. In addition to wages and salaries and “pay in cash and kind of the armed forces” it includes “Employers’ Contributions”.

This in fact is simply a form of taxation on the employers, not a gift to their employees. The amount should be added to profit, since all the figures (including wages and salaries) are given before taxation.

There is another item, which covers payments other than wages: pensions funds, compensation payments, and gratuities (no doubt including “golden handshakes” to directors).

### Vocabulary

**national income** — национальный доход

**landlord (landlady)** — домовладелец

**net property income** — чистый доход от собственности

**Gross National Product (G. N. P.)** — валовый национальный продукт

**capital consumption** — снашивание основного капитала

**depreciation** — амортизация, изнашивание

**approximate** — приблизительный

**taxation** — налогообложение

**gratuity** — денежный подарок, пособие

## 6.17. Surplus or Deficit

If expenditure should exceed revenue so that there was a deficit instead of a surplus, the deficit would be covered by an advance from the National Loans Fund and thus increases the amount that the Government had to borrow.

The nationalized industries, local authorities and other public bodies, need to borrow from year to year mainly to finance expenditure on capital projects such as the building of gasworks and power stations, schools, technical colleges and housing schemes. Most of this borrowing is met from the National Loans Fund, which also provides a source of credit within the central Government. Loans from this fund to meet capital expenditure of this sort do not have to be voted annually by Parliament, although the total sums that can be advanced to borrowers are usually limited by law. Repayments of, and interest on, these loans are paid into the National Loans Fund.

### The Budget and the National Economy

The original purpose of the Budget was to enable the Government to raise sufficient income to meet its expenditure in the same financial year. As the scale of Government expenditure and taxation increased, however, it was realized that both had an important influence on the general level of output and distribution of resources. In this respect it is part of the Budget's job to help bring about a balance between the total goods and services, which are likely to be available to the nation and the total claims, which are likely to be made on them.

Before the Budget, therefore, the Government forecasts the potential growth of output and of imports in the coming year and the growth of the demand for them, which is likely to arise from personal spending, spending by the Government and local authorities, investment and exports. If the situation revealed by the forecasts shows demand growing too slowly, it is open to the Government to take action to increase demand; for example, by reducing taxes in order to bring about an increase in the incomes and spending of individuals.

### Vocabulary

**surplus** — превышение доходов над расходами; активное сальдо

**expenditure** — расход

**revenue** — доход

**to exceed** — превышать

**advance** — повышение (*цен и т. п.*); ссуда; аванс; платить авансом; ссужать

**to bring about** — осуществлять; вызывать

**claim** — требование, претензия; рекламация

## 6.18. How banks work

Essentially, banks and other financial institutions such as trust companies, caisses populaires and credit unions provide:

1. A safe place to keep your money.
2. Services to help you manage your money.
3. Loans and mortgages.

It is important to realize that financial institutions do not just hold your money in a safe place. They make money by:

1. Investing your money, for which they pay you interest.
2. Lending you money, for which they charge you interest.
3. Providing you with credit, usually in the form of a credit card. The interest rate on credit cards on your unpaid balance is quite a lot higher than on a conventional loan.

### Vocabulary

**loan** — заем; ссуда

**on loan** — займы

**mortgage** — заклад; ипотека, закладная

**interest rate** — процентная ставка

**monetary policy** — денежно-кредитная политика

**interbank settlements** — межбанковские расчеты

**legal entity** — юридическое лицо

**private person** — физическое лицо

**assets** — актив(ы); авуары; имущество

**banking transaction** — банковская сделка; банковская операция

**authorized stock** — уставный капитал (*компании, банка*), *суп.* **registered capital, nominal capital**

## 6.19. Bank Advances

The latest figures issued by London's eleven clearing banks confirm the impression that bank lending has been levelling off over the past three months despite the apparent increase shown in April, and even without the government's latest restraints on credit. On this interpretation, the restraints may actually cut into bank lending once they take effect, instead of merely checking an undue rise in advances. In the four weeks to June 16 the level of advances outstanding remained virtually unchanged once seasonal influences have been set off against net repayments of £ 10 million by private borrowers. This bears out the trend of the two preceding months taken together; an increase of £ 73 million in advances in the four weeks to mid-April was wiped out almost exactly by repayments of £ 76 million the following month.

It now seems almost certain that the April figures were badly distorted because make-up day followed immediately after Easter and that the May figures simply corrected this distortion. Unfortunately, the April increase, following a sharp rise in March, prompted the authorities on April 29 to call for the maintenance of “special deposits” with the Bank of England equalling 1 percent of the clearing banks’ gross deposits. And a few days later came the official “request” that advance to private borrowers should not be allowed to rise more than 5 percent in the year to next March.

## Vocabulary

**check** — *зд.* контролировать, сдерживать, приостанавливать

**outstanding** — невыплаченный, непогашенный  
**make-up day** — день подведения итогов, баланса

## 6. 20. Auctions

Auctions are special form of market, on which demand and supply concentrate in one place. But whereas commodities dealt in on exchanges are divisible into a small number of well-recognized qualities, sales by auction are suitable for a quick disposal of commodities, which are either perishable or which are not gradable because of the large number of varieties. The buyer must, as a rule, first see and inspect the goods at the warehouse or take a sample, on the basis of which he then makes his bids at the auction sale. The goods are sold to him who makes the highest bid. In capitalist countries auctions are widely spread and for some commodities (wool, tea, fruit, etc.) they are almost the only method of sale.

Sales by auction are generally held at a specially reserved place several times a year or even oftener, according to the nature of the goods. The taking place of the auction is announced in public by special posters and in the press, together with the conditions of sale. These are very important, because they contain instructions and conditions concerning weights and measures, sampletaking, the lowest acceptable bid, terms of payment, duties of buyer and seller, etc. The sales are usually conducted by selling brokers or auctioneers, who may, however, act also as buying brokers for their customers. The goods can be sold *tel quel*, i.e. as they stand, or if necessary they can be divided into lots, each lot being characterized by a distinctive quality.

**sales by auction** — продажа с аукциона

**to dispose of** — *зд.* продать

**a disposal of** — продажа

**to take a sample** — взять пробу

**sample-taking** — взятие проб

**terms of payment** — условия платежа

**selling (buying) broker** — брокер по продаже (*покупке*)

## 6.21. Recent Developments on the stock market

The stock market being literally a market in the economic sense, the commodities in which it deals are subject to the classical laws of supply and demand, the pressure of demand and the availability of supply. Equities have been in demand because they entitle their owners to a share in the profits, which “the market” has been so far convinced are going to be made on an increasing scale.

But the divided income is not the main factor in the equity cult. The equity purchaser is really hedging against inflation, by obtaining the future right to an increased number of devalued £ s, hoping in this way also to protect his capital from the consequences of inflation. Of course, he might do this even better by investing in jewellery, old masters or real estate, and many do, but shares are more readily marketable.

On the supply side, the “flight from money” into equities has meant a technical shortage of product to meet the increased demand.

**so far** — до сих пор

**to hedge against inflation** — *зд.* страховать себя против инфляции (**to hedge** *бирж.* совершать срочную сделку для страхования цены или прибыли)

**£s = pounds (sterling)**

**old masters** — картины старых мастеров

**real estate** — недвижимое имущество

## **6.22. The European Bank for Reconstruction and Development (EBRD) in Ukraine**

The European Bank for Reconstruction and Development (EBRD) has become one of the leading investors in the private sector. Set up with the specific aims of assisting the transition towards a market economy, the Bank works with various partners. For example, the Bank works with foreign investors and local entrepreneurs, with the financial sector, and works to remove infrastructure bottlenecks, which hamper private sector development. It is succeeding in its endeavours.

The projects it finances include financial institutions, telecommunications, energy-saving, power generation, transport construction, manufacturing and agriculture.

The EBRD has been participating in Ukraine's development since December 1991 and it opened its office in Kiev in May 1993. With its key mandate of helping to foster the transition to an open market-oriented economy, the Bank has been keen to assist Ukraine in its initial steps towards independence, nationhood and the market system. But the Bank cannot work alone. It relies on the government to create the framework within which a market economy will prosper. As the Bank's President Jacques de Larosiere highlighted at the 1994 Annual Meeting in St Petersburg, "Structural reform requires a stable macro-economic framework and the control of inflation. The success of economic reforms (also) presupposes sustained effort and a coherent approach to implementation"; this has unfortunately not been the case in Ukraine until now. Things may be about to change. Since the recent election of President Kuchma, it appears that the tide is turning towards reform. The recent agreement with the IMF is testimony to this. With this new commitment to reform, the Bank in all its activities seeks to encourage the transition process.

Meeting the needs of private export-oriented industries and small and medium enterprises is important for the development of a vibrant local private sector. Recognizing this, the Bank has at the heart of its business strategy a strong emphasis on its activities in the financial sector. This is because an essential ingredient to the functioning of any efficient private sector must be a sound financial system. Without the basic financial infrastructure in place, transition cannot succeed.

The EBRD therefore works closely with domestic financial institutions. If conditions permit, the Bank takes an equity stake or commits long-term debt-financing to new or existing domestic banks. If long-term direct investments are not possible, the Bank seeks other means to support local businesses, while strengthening the domestic banking sector. In Ukraine, the Bank is currently working on a number of such projects. Furthermore, the Bank seeks to increase the availability of much needed equity finance for the local private sector by investing in various venture capital funds in the region.

## Vocabulary

**leading investor** — ведущий инвестор, вкладчик

**set up** — воздвигать; учреждать; основывать (*дело, предприятие*)

**to remove infrastructure bottlenecks** — устранять недостатки (*узкие места*) инфраструктуры

**endeavour** — попытка, старание, стремление

**benefit** — выгода, польза, прибыль

**to foster** — поощрять, благоприятствовать

**sustained effort and coherent approach** — длительное усилие и последовательный подход

**long-term debt financing** — долгосрочное финансирование долга

**venture capital** — “рисковый” капитал; капитал, вкладываемый в проекты с повышенным уровнем риска.

**I. Choose the best alternative to complete each sentence.**

1. If a company needs to raise a lot of money, it may \_\_\_\_\_ shares.  
a) put up;      b) issue;      c) supply;      d) purchase.
2. Pension \_\_\_\_\_ play an important role in the stock market.  
a) companies;    b) trusts;      c) societies;    d) funds.
3. As an ordinary shareholder, you are \_\_\_\_\_ to vote at the meeting.  
a) entitled;      b) titled;      c) nominated;    d) persuaded.
4. The share \_\_\_\_\_ which is made up of a cross-section of shares, reflects the general activity of the market.  
a) indication;    b) index;      c) measure;      d) indicator.
5. A \_\_\_\_\_ is someone who buys shares, expecting the market to rise.  
a) bear;          b) bull;        c) dog;          d) stag.
6. A \_\_\_\_\_ is a speculator who expects share prices to fall.  
a) bear;          b) bull;        c) dog;          d) stag.
7. A \_\_\_\_\_ is a person who buys new issues of shares hoping to sell them quickly at a profit.  
a) bear;          b) bull;        c) dog;          d) stag.
8. I've put part of the money into an instant \_\_\_\_\_ account.  
a) access;        b) excess;      c) exit;         d) entrance.
9. Bonds issued by the government are often known as \_\_\_\_\_.  
a) golds;         b) guilts;      c) gilts;        d) debits.
10. What kind of \_\_\_\_\_ can I expect on my investment?  
a) reward;        b) prize;       c) surplus;      d) return.
11. You should have as diversified a \_\_\_\_\_ of shares as possible.  
a) case;          b) file;         c) portfolio;    d) folder.
12. In real \_\_\_\_\_ the \$1,000 you invested would be worth \$5,000 today.  
a) words;         b) facts;        c) factors;      d) terms.
13. The higher the risk you \_\_\_\_\_, the more money you could make.  
a) take;          b) do;          c) make;         d) invest.
14. The market has been extremely \_\_\_\_\_ over the past few years.  
a) volatile;        b) wavering;    c) shocking;     d) moving.

As you did the exercise, did you make a note of these partnerships?

**stock market                      a return on an investment**

Look through the sentences again and underline any other word partnerships you find.

Check your answers:

1. b), 2. d), 3. a), 4. b), 5. b), 6. a), 7. d), 8. a), 9. c), 10. d), 11. c), 12. d), 13. a), 14. a).



## Список использованной и рекомендуемой литературы

1. *Mack A.* The Language of Business. A Course of English for Business People and Students of Commerce. BBC English by Radio & Television. Printed in Great Britain at the Bath Press. Avon., 1990.
2. *Rachman D. J., Mescon M. H.* Business Today. — 5th ed. — N. Y.: Random House Business Division, cop. 1987.
3. *Егорова А. М.* Теория и практика перевода экономических текстов с английского языка на русский. — 2-е изд. — М.: Междунар. отношения, 1994.
4. *Хачатурова М.* Английский язык для деловых контактов. — К.: Аконит, 1997.

## PSYCHOLOGY

### ПСИХОЛОГИЯ

- 7.1. What is Psychology? (*Что такое психология?*).
- 7.2. Decline in memory (*Ослабление памяти*).
- 7.3. Marital researches (*Исследование браков*).
- 7.4. Marital satisfaction (*Семейное благополучие*).
- 7.5. Differences in intelligence (*Различия в интеллекте*).
- 7.6. Behavioral changes (*Изменения в поведении*).
- 7.7. Retrospective and prospective memories (*Ретроспективная и касающаяся будущего память*).
- 7.8. Age-related changes (*Изменения, связанные с возрастом*).
- 7.9. Aging affects conversational skills (*Влияние возраста на разговорные навыки*).
- 7.10. Alzheimer's disease (AD) (*Болезнь Альцгеймера*).
- 7.11. A behavior genetic analysis (*Анализ генетически заложенного поведения*).
- 7.12. Natural disasters (*Природные катаклизмы*).
- 7.13. Hostility (*Враждебность*).
- 7.14. Insomnia complaints (*Жалобы на бессонницу*).
- 7.15. Hypnotic usage (*Употребление снотворных препаратов*).
- 7.16. Thinking aloud (*Мысли вслух*).
- 7.17. Interindividual differences with age (*Возрастные отличия между людьми*).
- 7.18. The impact of thinking aloud on decision-making performance (*Влияние мышления вслух на принятие решений*).
- 7.19. Word-finding problems (*Проблемы с подыскиванием слов*).
- 7.20. What is social Psychology? (*Что такое социальная психология?*).

## 7.1. What is Psychology?

Psychology is the science of behavior, the observable actions or reactions of people and other living organisms. The word “psychology” comes from Greek roots meaning “the study of soul or spirit”.

### 1. *The Scientific Approach.*

- A. **An Hypothesis** is a precise testable assumption regarding the relationship between variables. Scientists must state an hypothesis in such a way that it can be confirmed or disconfirmed. Hypotheses also must generate measurable results.
- B. **A Theory** is a set of interrelated hypotheses which summarizes existing **data**, or information, and predicts future observations. A theory is an attempt to explain a phenomenon and is devised from human imagination and from information currently known.
- C. **Subjects** are the participants in an experiment.

### Vocabulary

**science of behavior** — наука о поведении  
**soul** — душа  
**spirit** — дух  
**assumption** — предложение  
**attempt** — попытка  
**subjects** — субъекты, предметы  
**research** — исследование

**approach** — подход  
**behavior** — поведение  
**mental disorders** — умственные расстройства  
**nurture** — воспитание, обучение, питание  
**heredity** — наследственность

### 2. *The Beginnings of Experimental Psychology.*

**Experimental psychologists** are researchers who use scientific methods of experimentation to learn about fundamental psychological processes.

- A. **Wilhelm Wundt** was one of the first experimental psychologists and is credited with starting the first psychology laboratory.
  - 1. **INTROSPECTION**, a process used by Wundt in his laboratory in Leipzig, Germany, is a way of examining one’s own conscious experience through self-observation of one’s thoughts, feelings, and sensations.

2. **STRUCTURALISM**, the name of Wundt's approach to experimental psychology, is a system of thought that tried to analyze sensations and subjective experience into its basic building blocks.
- B. **Functionalism**, another psychological system of thought, focuses on how mental activity enables people to function and survive.
  1. **WILLIAM JAMES** and other supporters of the functionalist movement were opposed to structuralism because they felt consciousness could not be broken down into components as if it were a physical structure.
- C. **Behaviorism** is a system of thought which holds that only strictly observable phenomena are worthy of psychological study.
  1. **JOHN B. WATSON** is considered to be the "father" of behaviorism.

### 3. Other Areas in Psychology.

- A. **Physiological psychology** is concerned with the way the body functions and the effect of its activity on behavior.
- B. **Clinical psychology** is concerned with helping people who have mental disorders.
  1. **SIGMUND FREUD** began as a physician and experimental scientist, but later devoted himself to helping people with mental disorders. Using data collected from observed patients, he constructed a widely influential theory of personality.
- C. **Social psychology** is the study of how people think about, influence, and interact with each other.
  1. **WILLIAM McDOUGALL** stimulated interest in this branch of psychology with the publication of the first basic social psychology textbook in 1908.
  2. By the time **FLOYD ALLPORT** published the second basic text on the subject, social psychology had emerged as a lively branch of the study of behavior.
- D. **Developmental psychology** is the study of human growth and changes in behavior from conception to death.
  1. **JEAN PIAGET** was one of the most famous and influential researchers in developmental psychology.
  2. The **NATURE-NURTURE** issue deals with whether human growth results from interaction with others and with the physical world (nurture) or if the key to development is heredity (nature). Jean Piaget, as well as most developmental psychologists

today, believed that changes in behavior result from a combination of nurture and nature.

E. **Psychometric psychology** is the psychological speciality involved with developing, administering, and analyzing tests.

1. **JAMES McKEEN CATTELL**, an assistant to Wundt, was the first psychologist to suggest the term “mental tests”. He began using tests to assess how humans used mental ability to solve problems and survive.
2. **ALFRED BINET**, a French psychologist, developed useful and sophisticated tests to assess human intelligence.
3. **LEWIS TERMAN** carried forth Binet’s work to the United States at Stanford University.

#### 4. Research Strategies.

A. **Description** is the least sophisticated, but is a useful way to do research. There are several ways to carry out the process of description.

1. **NATURALISTIC OBSERVATION** consists of observing behavior in natural settings.
2. **ENUMERATION** consists of counting the number of times a particular event occurs.
3. **LONGITUDINAL STUDIES** examine the same kind of behavior or the same group of people over time, to detect changes or trends.
4. **CROSS-SECTIONAL STUDIES** compare subjects of different ages or groupings at the same time.
5. **CASE HISTORIES** are narratives about the experiences of specific individuals.

B. **Correlation** describes the relationship between two variables.

1. A **VARIABLE** is a measureable and changeable item.
2. Correlations range from  $-1.00$  to  $+1.00$ .
3. A **POSITIVE CORRELATION** means that as one variable increases, so does the other. The two variables change in the same direction.
  - a. A **PERFECT POSITIVE CORRELATION** equals  $+1.00$ .
4. A **NEGATIVE CORRELATION** means that as one variable increases, the other variable decreases.
  - a. A **PERFECT NEGATIVE CORRELATION** equals  $-1.00$ .
5. A correlation of zero means there is no linear relationship between the two variables.

6. Correlation does not imply causation. Two variables, A and B, may be correlated with each other, but that does not mean A caused the changes in B, or vice versa.

C. **Manipulation** is the most powerful tool available for determining causation. It involves changing the value of one variable and then measuring changes in another variable.

1. The *INDEPENDENT VARIABLE* is the one psychologists manipulate.
2. The *DEPENDENT VARIABLE* is the one affected by the manipulation. It is the measured response.
3. The *EXPERIMENTAL GROUP* represents the group of subjects exposed to the special manipulation of the independent variable.
4. The *CONTROL GROUP* is a set of subjects that experience the same background conditions as the experimental group, except the control group is not presented with the special manipulation of the independent variable.
5. *REPLICATION* means repeating experiments and achieving highly similar results when using a new sample of subjects.
6. *RANDOM SAMPLES* are chosen in such a way that all subjects have an equal chance of being selected to participate in the study. Random sampling is a good way to increase the odds that your *SAMPLE*, the set of individuals who participate in your study, is representative of the population being studied.
7. *DEMAND CHARACTERISTICS* are cues contained in the experimental environment which may alert the subject to what the experimenter “expects” of him or her. When subjects stop behaving naturally and begin acting to please researchers, data gathered from them are of no worth.
8. *DOUBLE-BLIND* experiments are recommended to reduce the effects of demand characteristics. In double-blind experiments, neither the subjects nor the experimental assistant are aware of the purposes of the experiment.

## 5. **Research Ethics.**

Psychologists work in compliance with several sets of guidelines to protect both human and animal subjects.

A. **THE AMERICAN PSYCHOLOGICAL ASSOCIATION (APA)**, a major professional organization, has put forth a set of principles which call on experimenters to protect subjects from physical or mental harm.

- B. **INFORMED CONSENT**, informing subjects in advance of procedures that may affect their willingness to take part in research and gaining subjects' consent in advance if experiments involve even slight risk, is required by APA guidelines.

## 6. *Debates About Behavior and Research.*

### A. *Body versus Mind*

1. *DUALISM* states that mind and body are two separate entities.
2. *MONISM* holds that mind is not an entity separate from the body, but rather that the brain and mind are one.

### B. *Applied versus Basic Research*

1. *APPLIED* research attempts to determine those aspects of psychology which can be used to benefit individuals immediately.
2. *BASIC* research investigates principles of psychology without concern for whether immediate application of the work can be made.

### C. *Individual versus Group Research*

1. Studies done with individuals are concerned with the particular person — for example, a case history.
2. Studies done with groups investigate the general patterns shown by a number of individuals.

## STUDY QUESTIONS

1. The person given credit for starting psychology as a separate discipline is:
  - a) Wilhelm Wundt;
  - b) Sigmund Freud;
  - c) John Watson;
  - d) William McDougall.
2. The system which focuses on how mental activity enables people to function and survive is called:
  - a) structuralism;
  - b) functionalism;
  - c) behaviorism;
  - d) gestaltism.
3. The area of psychology which would concern itself with studying the effects of aging on various psychological processes is:
  - a) clinical psychology;
  - b) social psychology;

- c) developmental psychology;
  - d) psychometric psychology.
4. John B. Watson is associated with which psychological system?
- a) structuralism;
  - b) functionalism;
  - c) behaviorism;
  - d) gestaltism.
5. The psychologist credited with developing one of the first useful tests to assess human intelligence is:
- a) Jean Piaget;
  - b) Alfred Binet;
  - c) Floyd Allport;
  - d) James McKeen Cattell.
6. The type of research study which compares subjects of different ages at the same time is called a \_\_\_\_\_ study:
- a) cross-sectional;
  - b) multi-stage;
  - c) case history;
  - d) longitudinal.
7. If you computed the correlation between two variables to be  $-1.11$ , you would conclude:
- a) as one variable is increasing, the other variable is decreasing;
  - b) both variables are increasing at the same rate;
  - c) both variables are decreasing at the same rate;
  - d) a mistake has been made in the calculations.
8. To reduce the effects of demand characteristics, \_\_\_\_\_ experiments are recommended:
- a) random sample;
  - b) replication;
  - c) correlational;
  - d) double-blind.
9. The experimenter wants to find out if playing music while students are taking an exam will increase their exam scores. The dependent variable is:
- a) the music;



- b) scores on the exam;
  - c) the material covered in the exam;
  - d) the amount of time the students have to take the exam.
10. The experimental and control groups are identical to each other except:
- a) the experimental group is measured on the dependent variable, the control group is not;
  - b) the experimental group receives the special manipulation of the independent variable, the control group does not;
  - c) the control group receives the special manipulation of the independent variable, the experimental group does not;
  - d) the control group receives the independent and dependent variables, the experimental group receives neither.
11. The viewpoint which considers the brain and the mind to be a single entity is called:
- a) monism;
  - b) dualism;
  - c) physiological psychology;
  - d) unidimensionality.

## 7.2. Decline in memory

Decline in memory performance appears to be one of the characteristic sequelae of aging. Early research on memory and aging concentrated on describing how memory changes with age. The consensus of decades of research is that although there may be age differences in short-term memory capacity, there are reliable age differences in sensory memory and in long-term memory. Documentation of these differences has resulted in a shift in emphasis from determining how memory changes with age to determining why memory changes. One approach to identifying the basis for age differences in memory performance is to determine why memory performance differs within age groups.

The behavior genetics paradigm has proven to be a powerful method for exploring individual differences. Behavior genetic methods can determine the relative influence on memory of genetic factors, shared environmental factors (i.e., factors shared by individuals reared in the same household), and nonshared environmental factors (i.e., factors specific to an individual). Memory aging is a characteristic of all mammalian species implying a biological basis to declines in memory with age. Applying the methods of

behavior genetics to the investigation of individual differences in memory will further our understanding of age differences in memory.

## Vocabulary

**sequelae** (*pl.*) — последствия

**consensus** — *зд.* выводы

**reared** — воспитанный

**mammalian species** — виды млекопитающих

**further** (*v*) — продвигать, способствовать

### Choose the best alternative.

Decline in memory performance ..... to be one of the characteristic sequelae of aging.

- a) occurs
- b) happens
- c) appears
- d) seems

2. Memory aging is a ..... of all mammalian species.

- a) property
- b) sample
- c) peculiarity
- d) characteristic

3. The ..... of decades of research is that there are reliable age differences in sensory memory.

- a) conclusion
- b) consensus
- c) consequence
- d) result

4. The behavior genetics paradigm has proven to be a ..... for exploring individual differences.

- a) strong tool
- b) basis
- c) powerful method
- d) argument

5. Early research on memory and aging ..... on describing how memory changes with age.

- a) focused
- b) concentrated
- c) worked
- d) spotted

## 7.3. Marital researches

For many people, marriage is the most intimate and enduring of all close relationships. Despite the fact that many marriages last for decades, most of the marital research in psychology has focused on relatively young couples and has been more concerned with marriages that dissolve than with marriages that stay together. Our own previous

marital research reflects these trends; we have studied couples who were primarily in the early stages of marriage and searched for factors that would predict their subsequent dissolution.

With estimates of divorce rates approaching two thirds of all new marriages, our research group has become increasingly interested in studying marriages that have managed to buck the odds and stay together over long periods of time, hoping to learn what these marriages are like and perhaps to discover some of the secrets to their longevity.

Here we describe the construction of a sample of couples in long-term marriages, recruited so as to represent a range of levels of marital satisfaction. These couples, some of whom are middle aged and others on the threshold of old age, have been married to each other for most of their adult lives. Our long-range plan is to follow these couples over time, studying them using methods we have developed with younger couples (i.e., direct observation of behavior in the laboratory and at home and assessment of emotion, problem solving, and physiology during marital interaction). We describe characteristics of these marriages derived from self-report data, contrasting husbands and wives, middle-aged and older couples, and relatively satisfied and dissatisfied marriages.

## Vocabulary

**enduring** — длительный, долгий  
**dissolve** — распадаться, растворяться  
**subsequent** — последующий  
**buck the odds** — эд. пережить трудности  
**longevity** — долговечность

**sample** — эд. модель, образец  
**recruited** — эд. отобранный  
**long-range plan** — план на перспективу  
**derived** — полученный, унаследованный

### Choose the best alternative.

1. For many people, marriage is the most ..... and enduring of all close relationships.

- |                |             |
|----------------|-------------|
| a) safe        | c) reliable |
| b) trustworthy | d) intimate |

2. Previous marital research reflects these .....

- |               |               |
|---------------|---------------|
| a) directions | c) biases     |
| b) trends     | d) tendencies |

3. The research group has become increasingly interested in studying marriages that have managed to ..... the odds and stay together over long periods of time.

- a) throw off
- b) cast away
- c) reject
- d) buck

4. Here we describe the construction of a sample of couples in long-term marriages, ..... so as to represent a range of levels of marital satisfaction.

- a) hired
- b) sacked
- c) recruited
- d) fired

5. Some couples are middle-aged and others on the ..... of old age, have been married to each other for most of their adult lives.

- a) threshold
- b) brink
- c) edge
- d) brim

6. The long-range plan is to follow these couples over time, studying them using methods we have ..... with younger couples.

- a) studied
- b) determined
- c) developed
- d) forecasted

7. Most of the marital research in psychology has focused on relatively young couples and has been more ..... with marriages that dissolve than with marriages that stay together.

- a) concerned
- b) practised
- c) predisposed
- d) met

## 7.4. Marital satisfaction

It was proposed and tested a mediational model linking the experience of retirement with marital satisfaction. The experience of retirement (financial strain, time structure, a sense of purposefulness, and interpersonal contacts) is held to predict marital satisfaction indirectly through its sequential effects on context-specific well-being (retirement-specific satisfaction with health, activities, and peers) and context-free well-being (depressive symptoms). Both this model and a revised model in which retirement satisfaction also exerted a direct effect on marital satisfaction were supported using structural equation modeling on data from 164 retirees (mean age = 69 years). An alternative model in which depressive symptoms assume a predictive rather than mediational role was not supported; cross-lagged regression analyses excluded the possibility that marital dissatisfaction resulted in depressive symptoms. The conceptual and practical implications of these findings are discussed.

## Vocabulary

**link** — связывать  
**marital satisfaction** — семейное благополучие  
**context-specific** — контекстуальный

**context-free** — неконтекстуальный  
**exert** — *зд.* вызывать, производить  
**mean** — средний  
**cross-lagged** — перекрестный

## 7.5. Alzheimer's disease (AD)

Alzheimer's disease (AD) often results in institutionalization of the patient at some point during its course. Although the memory problems of the disorder are its hallmark, it is more likely to be the behavioral or psychiatric problem that makes home care difficult, and in some cases impossible. Psychiatric problems are not uncommon in AD patients, and less striking behavioral and personality changes also occur. These less severe changes are important to understand, as they also contribute to caregiver burden.

There are substantial methodological hurdles in studying personality changes in dementing patients. The usual method in personality study, self-report, is not useful, and informants are required. Furthermore, assessment of premorbid personality and behavioral tendencies must be retrospective. These permit a number of biases. For example, dementia severity or premorbid personality might influence an informant's assessment of the patient's current personality or their recollection of premorbid characteristics. This is an important concern because of hypothesized relations between disease process and personality change.

## Vocabulary

**institutionalization** — госпитализация  
**hallmark** — наивысшее проявление, самый заметный признак  
**less severe** — не такие серьезные  
**caregiver** — тот, кто присматривает  
**hurdle** — препятствие, трудность

**dementing** — с умственными недостатками  
**premorbid** — предпатологический  
**premortal** — предсмертный  
**bias** — предвзятость, неверная оценка, необъективность  
**dementia severity** — тяжелые формы умственного расстройства

**Choose the best alternative.**

1. AD often results in ..... of the patient at some point during the course.

- a) isolation
- b) institutionalization
- c) solitude
- d) inspection

2. Although the memory problems of the disorder are its ....., it is more likely to be the behavioral or psychiatric problem.

- a) symptom
- b) indication
- c) sign
- d) hallmark

3. There are substantial methodological hurdles in studying personality changes in ..... patients.

- a) mad
- b) lunatic
- c) dementing
- d) pathological

4. These permit a number of .....

- a) distortions
- b) prejudices
- c) biases
- d) hurdles

5. These less ..... changes are important to understand, as they also contribute to caregiver burden.

- a) far-fetched
- b) inessential
- c) unimportant
- d) severe

**7.6. Behavioral changes**

Subtle behavioral changes have been suggested to be early indicators of AD. It also has been proposed that there is a predictable pattern of behavioral change associated with the progression of the disease. In a comparison of questionably demented, mildly demented, and normal elderly subjects, used factor analysis to identify four dimensions of personality and behavior on which changes occurred: (a) passive behaviors (consisting of descriptors like inactive, insecure, less cheerful, and less responsive), which occurred in 66 % of the mildly demented group, 50 % of the questionably demented group, and none of the normal elderly; (b) self-centered behaviors (self-centeredness, loss of concern for others, crude behavior, and loss of emotional control), which occurred in 34 % of the demented group, 31 % of the questionably demented group, and 4 % of the control; (c) agitated

behaviors (irritability and hyperactivity), which occurred in 30 % of the demented, 38 % of the questionably demented, and 5 % of the normal elderly; and (d) suspiciousness, which was generally rare and was found in only 5 % of the demented group. Overall, some kind of behavioral changes were described for 77 % of the mildly demented group, 62 % of the questionably demented group, and only 10 % of the control. The high incidence of change described in the questionably and mildly demented groups is consistent with the idea of personality change as an early marker for AD.

This study compared the way in which young and elderly adults cooperate to achieve a mutually acceptable reference. Pairs of young and elderly interlocutors performed a repeated referential communication task in which they were asked to converse about arranging complex figures in a particular order. With repetition of the task, both partners, regardless of age, needed fewer words and speaking turns to find mutually acceptable references. However, the older Ss were slower to benefit from the repetition and required more collaborative work to reach an agreement. The elderly were less likely to take previously shared information into account; they produced proportionally less requests for potential elaboration, and they were more likely to be idiosyncratic in their interpretation of the referents.

## Vocabulary

**subtle** — *зд.* незначительный, не-  
большой, тонкий  
**predictable pattern** — модель, схема,  
которую можно предвидеть  
**demented** — с психическими откло-  
нениями  
**insecure** — *зд.* неуверенный  
**less responsive** — с меньшей чув-  
ствительностью (*реактивностью*)  
**high incidence** — *зд.* большой процент

**marker** — признак, черта  
**reference** — взаимодействие  
**repeated referential communication  
task** — серия заданий по рефе-  
рентному общению  
**speaking turns** — языковые оборо-  
ты  
**Ss** — *сокр.* Subjects  
**referents** — *зд.* условные термины

## 7.7. Age-related changes

In the last 10 years, the linguistic skills of healthy, aging adults have received much attention. The general view emerging from the literature concerned with age-related changes in cognitive functioning is that language functions are the least likely of cognitive functions to deteriorate with age. Recent research studies, however, clearly showed that there

may be subtle but systematic changes in linguistic abilities with regard to both language comprehension and production.

With regard to discourse production, many recent studies examined changes in oral or written expression as a function of the normal aging process. In comparing the spontaneous language that older and younger people use for various tasks, these studies came to several general conclusions, including the following: (a) there is no effect of aging on the lexical variety of spontaneous speech; (b) there is an overall decline in elderly adults' spontaneous production of complex, multiply embedded sentences, and this age-related decline seems to be more precipitous for left-branching constructions.

## Vocabulary

**emerge from** — происходить от  
**cognitive functioning** — познавательная деятельность  
**deteriorate** — ухудшаться  
**subtle** — незначительный, небольшой  
**language comprehension and production** — способность понимать (*воспринимать*) язык и высказываться

**multiply imbedded** — с большим количеством вставок  
**precipitous** — крутой, быстрый  
**left-branching constructions** — побочные, дополнительные, вспомогательные конструкции

## 7.8. Retrospective and prospective memories

Consider the everyday tasks of looking up a telephone number and remembering it before dialing or trying to recall the name of someone to whom you have just been introduced at a party. These are tests of retrospective memory, which is traditionally investigated in the laboratory by presenting information that subjects are subsequently required to recognize or recall when prompted by the experimenter. In general, the elderly are significantly impaired on such tasks in comparison with the young.

Subjects in prospective memory tasks are required to execute a planned action at some point in the future. This corresponds to everyday activities such as remembering to remove a cake from the oven or to take medicine every 4 hr. To perform such tasks successfully, subjects must, when the time arrives, (a) remember that something has to be done, (b) remember what has to be done, (c) perform the task, and (d) remember later that it has been performed, so that it is not repeated.



Recent evidence suggests that the elderly are considerably less impaired on prospective memory tasks than on retrospective memory tasks in comparison with the young. A differential effect of aging is regarded as important in providing support for the recent suggestion that retrospective and prospective memories are qualitatively distinct aspects of memory.

## Vocabulary

**subsequently** — впоследствии  
**impaired on such tasks** — *зд.* имели трудности с выполнением таких заданий

**recent evidence** — недавно полученные данные

### Choose the best alternative

1. The elderly are ..... impaired on such tasks in the comparison with the young.

- a) essentially
- b) deeply
- c) sufficiently
- d) significantly

2. Subjects in prospective memory tasks are required to ..... a planned action at some point in the future.

- a) perform
- b) execute
- c) fulfil
- d) implement

3. This ..... to everyday activities such as remembering to remove a cake from the oven or to take medicine every 4 hours.

- a) relates
- b) corresponds
- c) conforms
- d) correlates

4. Recent evidence suggests that the elderly are considerably less ..... on prospective memory tasks.

- a) damaged
- b) impaired
- c) spoiled
- d) weakened

5. A differential effect of aging is ..... as important in providing support for the recent suggestion that retrospective and prospective memories are qualitatively distinct aspects of memory.

- a) considered
- b) regarded
- c) believed
- d) esteemed

## 7.9. Aging affects conversational skills

Despite the numerous studies recently devoted to language production in old age, very little is known about whether aging affects conversational skills. In everyday life, it is not unusual to notice that elderly people appear to have certain difficulties in grasping what is said to them within a conversational setting. Some of the elderly complain of difficulty following a conversation, and it is not unusual for certain individuals to ask for a more patient conversational partner who would allow more time for integration and response.

Most, if not all, of the psycholinguistic research concerned with the effects of aging on spoken language has been restricted to the study of monological forms of speech elicited by picture-description or narrative-production tasks. Such studies cannot inform us as to whether elderly people have any specific difficulty as partners in dialogical exchanges. From a psychological point of view, this might be seen as a rather severe limitation of the literature if one considers that conversation is the fundamental site of language use, even if much remains to be learned about how exactly conversation affects speaking and understanding processes. Therefore, the first aim of the present study was to compare the verbal performances of young and elderly subjects in a conversational setting.

### Vocabulary

**conversational setting** — эд. фраза, построение фразы  
**elicited by** — полученный путем

**severe limitation** — эд. серьезный недостаток, ограничение

## 7.10. Differences in intelligence

Following the recent work on the influence of intellectual speed on age differences in intelligence during middle and late adulthood, the major goal of the present study was to examine whether speed continues to be a main determinant of age-related variability in intelligence after the age of 70 years. On the basis of the speed hypothesis of cognitive aging, we expected that negative age differences in intelligence among old and very old adults would be mediated, to a large extent, by age differences in speed. A related aim of the study was to examine whether positive age gradients in crystallized cognitive abilities such as knowledge

continue to exist in old and very old age after controlling for age-related differences in speed.

Cognitive aging researchers generally agree that performance on many information-processing tasks assessing cognitive or perceptual process is slowed in old age. Proponents of the general slowing hypothesis of cognitive aging argue that this phenomenon is caused by a general decrease in processing rate with age. The reduction in rate is believed to affect most perceptual and cognitive processes and is regarded as the prime determinant of negative age changes in cognitive functioning during adulthood. Recent empirical evidence supporting the assumption of general slowing has come from meta-analyses of latency data examining the relation between mean latencies for groups of old adults and the mean latencies for groups of young adults.

Generally, it was found that a simple linear or curvilinear function explained a very high proportion of variance across a variety of different tasks.

## Vocabulary

**age-related** — связанный с возрастом

**speed hypothesis of cognitive aging** — гипотеза о возрастных изменениях скорости умственных операций

**cognitive ... perceptual processes** — процессы познания ... восприятия

**affect** — негативно влиять

**empirical evidence** — доказательства, полученные эмпирическим путем

**latency data** — данные о скорости психических реакций

**mean** — средний

## 7.11. A behavior genetic analysis

Behavior genetic methods can begin to address the question concerning underlying mechanisms. A behavior genetic analysis can determine the extent to which the genetic and environmental influences on two phenotypic traits are correlated. In other words, we can determine whether the correlation between memory and a related variable arises from a common genetic influence (e.g., common genes) or a common environmental influence.

The purpose of the present investigation was twofold. The first goal was to determine the relative influences of genetic and environmental influences on memory performance in a sample of older twins. The method and results of this univariate analysis are presented in the first section. Partitioning the variance in memory performance in this way associates memory with nonspecific genetic and environmental factors. The goal of the second stage of the analysis was to identify specific variables that mediate the overall genetic and environmental effects on memory by determining the extent to which relationships between memory and related variables arise from genetic and environmental influences.

## Vocabulary

**behavior genetic analysis** — генетический анализ поведения  
**in a sample of** — *зд.* на примере  
**univariate** — одновариантный, однотипный

**partition** — разбивать на части  
**mediate** — содействовать, выступать посредником, опосредовать  
**bivariate** — двухвариантный

## 7.12. Natural disasters

It has been suggested that natural disasters are among the most universally threatening life stressors. Not only disasters do induce life-threatening fears and physical injuries, but they also leave long-standing residual effects, such as damage to property and community disruption, that can be as psychologically disrupting as the actual event. Yet, not everyone who experiences a natural disaster develops psychological symptoms, suggesting that there are individual differences in responsiveness to such stressors. People bring to the disaster experience their own life histories, their own social and coping resources, and their own responsibilities and burdens. These factors play a role in understanding who is most vulnerable or resilient to postdisaster stress. As is true of any life stressor, the effects of a disaster also need to be understood in the context of the life course of the affected individual.

Several researches have addressed the influence of age on disaster recovery. The researchers who have specifically examined the consequences of disaster for older individuals have generally concluded that this population does suffer adverse physical and psychological effects.

**stressor** — стрессовый фактор, элемент

**induce** — вызывать

**residual effect** — остаточный эффект, пост-эффект

**disrupt** — обрывать, прерывать

**responsiveness** — чувствительность, уязвимость

**coping resources** — силы справиться с чем-то

**vulnerable** — уязвимый

**adverse** — негативный, неблагоприятный

## 7.13. Hostility

A recognition of the multifaceted nature of hostility suggests that the use of multiple measures of the construct will lead to experimental results that are more complete and, consequently, more theoretically useful. Therefore, the present study examines age differences among middle-aged and older adults in responses to a battery of instruments designed to measure several aspects of hostility. Measures of the cognitive (cynicism and suspiciousness), affective (anger and irritability), and behavioral (aggressiveness and expressiveness) components were included. The comprehensiveness of the measurement strategy was extended beyond the standard self-report measures of hostility by including a measure of hostility that was based on observations of the respondent's actual behavior during an interview.

The age range in this study did not extend to the age of the younger participants in the previous studies that had reported curvilinear relationships between hostility and age. Therefore, we did not expect to observe curvilinear age trends.

The psychological construct of hostility has become a focus of interest in health psychology because of mounting evidence that high levels of hostility have adverse implications for health, including coronary heart disease and mortality in both middle-aged and older adults. Although there are numerous definition of hostility, for present purposes we will define it as a negative orientation toward others that has cognitive, affective, and behavioral manifestations. The cognitive aspect of hostility is composed of negative beliefs about others, often described as cynicism and mistrust. The affective component includes emotions such as anger and disgust. The behavioral manifestations of hostility include various forms of antagonistic behavior, some of which can be expressed quite

subtly. Operationally, hostility has been measured with a wide variety of instruments that are often poorly intercorrelated, probably because they are assessing different aspects of the construct. Therefore, a complete understanding of hostility and the reasons for its impact on health requires multiple measures chosen to assess broad spectrum of the phenomena. The present study uses this strategy to better understand age differences in hostility among older adults.

## Vocabulary

**multifaceted** — многогранный  
**battery** — *зд.* набор, ряд  
**comprehensiveness** — комплексность, всеохватность  
**curvilinear** — *зд.* сложный, нелинейный, криволинейный  
**have adverse implications** — негативно влиять

**hostility** — враждебность, отчужденность  
**manifestation** — проявление  
**subtly** — почти незаметно  
**impact** — влияние  
**operationally** — на практике

## 7.14. Insomnia complaints

There is a dual problem in addressing the insomnia complaints of older adults. First, geriatric insomnia is particularly troublesome. Compared with insomnia in middle-aged persons, it is more common, more neglected by clinicians, and more refractory. Second, seniors consume disproportionately large amounts of hypnotic medication and are more vulnerable to their side effects than younger persons.

Insomnia prevalence in older people often exceeds 25 %, and these same surveys found a 30–50 % higher rate than in younger samples. Despite its common occurrence, efficient psychological treatments for geriatric insomnia have been slow to materialize. Our comprehensive review of psychological interventions for insomnia completed a few years ago strongly confirmed this conclusion. At that time, the salient literature contained 57 studies, only 3 of which focused on insomnia in seniors.

## Vocabulary

**hypnotic medication** — снотворные препараты  
**vulnerable** — уязвимый

**prevalence** — преобладание  
**salient** — основной, наиболее важный

## 7.15. Hypnotic usage

Morgan summarized the findings of 23 surveys of prescribed hypnotic usage in older adults. Of those living at home, 10–15 % consumed hypnotics, and this proportion nearly tripled among institutionalized elders. Compare these rates with the general population where it is found that 2,5 % resort to prescribed hypnotics. At all ages, tolerance to most hypnotics follows regular use, meaning medication therapeutic potency weakens over time. Eventually, the patient must consume maximum sleep medication dosages to maintain insomnia and avert worsening during withdrawal. This process has led to the incongruous circumstance of the formal creation of a sleep disorder named after its treatment, hypnotic-dependent sleep disorder (Diagnostic Classification Steering Committee, 1990).

Though hypnotic medication threatens negative side effects in all age groups (Institute of Medicine, 1979), the risks are elevated in older adults, and review panels advise caution in hypnotic treatment of geriatric insomnia (National Institutes of Health Consensus Development Conference, 1984, 1991).

### Vocabulary

**summarize** — обобщать  
**hypnotics** — снотворные препараты  
**triple** — вырасти в три раза  
**institutionalize** — госпитализировать

**tolerance** — зд. привыкание  
**therapeutic potency** — эффективность лечения  
**maintain** — зд. справляться с ...

## 7.16. Thinking aloud

Think-aloud protocols are self-reported verbal records of thoughts that pass through subjects' minds while performing cognitive tasks. Self-report methodologies using think-aloud protocols have been an important means for researchers to investigate the cognitive processing strategies of adults during problem-solving, decision-making, and judgement tasks. For example, Charness prompted young and old chess players to think aloud while choosing the best move. He reported that older adults engaged in more systematic, less redundant searches than their younger, similarly skilled counterparts. Although age and experience were confounded in their study, Hershey, Walsh, Read and Chulef (1990) relied

on results from think-aloud protocols and process tracing analysis to infer that experts, compared with novices, made a financial decision for a hypothetical young couple more quickly, in fewer steps, and in a more goal-directed manner. Sinnott (1984) used a think-aloud technique with older adults to examine their thought processes while solving ill-structured logic problems. She identified three age-related styles: a “youthful” style involving intense data gathering, learning, and bottom-up processing; a “mature” style incorporating data gathering and organization with bottom-up and top-down processing; and an “old” style characterized by little attention to data and top-down processing.

## Vocabulary

**think-aloud protocols** — “мысли вслух”

**cognitive tasks** — задания на проверку умственных функций, задач

**move** — (*шах.*) ход

**redundant** — чрезмерный, излишний

**data gathering** — поиск и сбор информации

**bottom-up** — снизу вверх

**top-down** — сверху вниз

## 7.17. Interindividual differences with age

The assertion that older people are more variable than younger adults is frequently seen in the literature, sometimes as a sort of axiomatic truth. Comments regarding increasing differentiation, or interindividual differences with age, occur in gerontology texts, in published proceedings of gerontological seminars, in various chapters in the most recent Handbook of the Psychology of Aging and in the primary literature, where they are generally presented with qualifications and with greater attention to the sources and importance of the differences. Bornstein and Smircina (1982) noted, however, that support for the assertion that increasing variability accompanies increasing age is not always evident in published reports and that variance differences are often not statistically tested. They called for examination of the phenomenon, and this study attempts to contribute to that examination.

There are numerous reasons why increasing differences among individuals might arise, including the following: the combined effects of individuals’ unique experiences over more years would produce increasing differences among them; genetically based differences would have



more time to be expressed and to cause individuals to diverge; and older people, somewhat freer of social constraints, would be more likely to choose their own courses of action.

## Vocabulary

**interindividual differences with age** — отличия между людьми в зависимости от возраста

**published proceedings** — опубликованные материалы

### 7.18. The impact of thinking aloud on decision-making performance

Although early studies on the decision-making performance of younger adults support the validity and reliability of think-aloud protocols, more recent studies document the specific impact of thinking aloud on decision-making performance. Fidler (1983) reported that thinking aloud did not affect decision outcomes or type or amount of information requested; however, he also found that significantly more time was spent making verbalized as opposed to silent decisions. More recently, Russo, Johnson, and Stephens (1989) reported that thinking aloud affected accuracy and response time in simple addition and gambling choice tasks. Thinking aloud may also alter choices by creating memory differences that influence subsequent decision-making outcomes. Because the completeness of subjects' verbalizations depends on conscious processing of information in local attention. Ericson and Simon (1984) suggested that college-age subjects under heavy cognitive loads may limit their verbalizations.

## Vocabulary

**validity** — действительность, обоснованность, валидность

**think-aloud protocols** — “мысли вслух”

**document** (*v*) — документально заверить

**affect** (*v*) — (*негативно*) влиять на  
**simple addition tasks** — задачи на простое арифметическое сложение

**gambling choice tasks** — задачи на выбор хода (*карты*) в азартной игре

**subsequent** — последующий

**verbalization** — словесное оформление

**under heavy cognitive loads** — при условии большой умственной нагрузки

## 7.19. Word-finding problems

Word-finding problems have also been reported in picture description tasks. Obler and Albert (1981) found an age-related increase in the use of indefinite terms, vague references, and circumlocutions when participants were describing a picture from the Boston Diagnostic Aphasia Exam. More recently, Cooper (1990) found a trend toward an age-related increase in the use of indefinite wording when participants were asked to describe three different pictures. It is not clear in either study, however, whether the use of indefinite wording was directly related to a word-finding deficit *per se*. It may be that older adults simply had perceptual problems that affected their identification of the objects in the picture. Nor is it clear from any of these reports whether the word retrieval problems experienced by older adults were associated with specific words, specific situations, or both.

Despite some interpretive problems, the literature generally is consistent with the idea that older adults have more difficulty finding words in discourse situations than do younger adults.

### Vocabulary

**word-finding problems** — проблемы с подбором слов

**indefinite terms** — *зд.* неконкретные понятия

**vague references** — нечеткие, неконкретные ссылки, толкования

**circumlocutions** — перефразирование

**trend** — тенденция

**per se** (*lat.*) — сам по себе, по существу, как таковой

**perceptual problems** — проблемы восприятия

**affect** — негативно влиять

**word retrieval problems** — проблемы с поиском слов

## 7.20. What is social Psychology?

1. According to a classic definition by Gordon Allport, social psychology represents “an attempt to understand how the thought, feeling, and behavior of individuals are influenced by the actual, imagined, or implied presence of others”. The core of this definition is that:
  - a) social psychology represents an attempt to understand social behavior;
  - b) social psychology studies social influences on behavior;

- c) social psychology studies thought, feeling, and behavior;
  - d) social psychology is interested in the imagined or implied as well as real presence of others.
2. The topics of obedience, conformity, and persuasion are central topics in social psychology because:
- a) they all deal with dramatic forms of social behavior;
  - b) they all deal with negative social behaviors;
  - c) they all deal with varieties of social influence;
  - d) they all deal with nonsocial influences on social behaviors.
3. Social psychologists study not only \_\_\_\_\_ but also \_\_\_\_\_.
- a) group-level explanations; individual-level explanations;
  - b) mediating variables; group-level explanations;
  - c) biological evolution; social classes and strata;
  - d) social influences on behavior; nonsocial influences on social behavior.
4. An anthropologist studies differences in aggressive behaviors in two tribes in New Guinea. She explains these differences in terms of the different cultures of the two tribes. Thus she accounts for differences in aggressiveness in terms of:
- a) group-level explanations;
  - b) individual-level explanations;
  - c) mediating variables;
  - d) the self.
5. In the mid-1980s the United States reported 8.5 homicides per 100,000 people, Canada reported 2.3, and Great Britain reported only .7. According to the text, these differences were likely due to:
- a) different racial groups in the three countries;
  - b) cultural and sociological factors;
  - c) biological factors;
  - d) different personality characteristics in the three groups.
6. If individual's unique heredity and physiology are used to explain his or her level of aggressiveness, this would constitute what kind of explanation?
- a) a group-level explanation;
  - b) an individual-level explanation;
  - c) mediating variables;
  - d) the self.

7. Physiological factors may help explain the observed fact that:
  - a) the Arapesh tribe of New Guinea is more peaceful than the Mundugumor tribe;
  - b) the United States has a much higher homicide rate than Great Britain;
  - c) males are on average more aggressive than females;
  - d) in the Soviet Union Azerbaijanis are hostile toward Armenians.
8. Social psychologists have intensively studied the role of television in fostering aggressive behavior. Viewing media violence would constitute what kind of explanation of aggressive behavior?
  - a) a group-level explanation;
  - b) an individual-level explanation;
  - c) a mediating variable;
  - d) the self.
9. Two kinds of explanatory variables studied intensively by social psychologists are:
  - a) culture and biological evolution;
  - b) personality traits and intelligence;
  - c) physiology and heredity;
  - d) the current social setting and attitudes.
10. Many topics central to social psychology deal with the influence of \_\_\_\_\_ on individuals' social behavior:
  - a) current situational pressures;
  - b) biological groups;
  - c) cultural groups;
  - d) heredity and physiology.
11. Research on conformity, persuasion, and group decision-making all focus on:
  - a) cultural influences on social behavior;
  - b) heredity and physiology;
  - c) the effects of personality traits on behavior;
  - d) the influences of current situational pressures.
12. Beliefs and attitudes, personality traits, and intelligence all are:
  - a) group-level explanations;

- b) individual-level explanations;
  - c) mediating variables;
  - d) feedback processes of the self.
13. Among the most studied mediating variables in social psychology are:
- a) instincts;
  - b) intelligence and abilities;
  - c) beliefs and attitudes;
  - d) drives.
14. \_\_\_\_\_ are evaluative responses directed at people or things.
- a) Beliefs;
  - b) Attitudes;
  - c) Emotions;
  - d) Schemas.
15. \_\_\_\_\_ comprise the cognitive information people hold about various people and things.
- a) Beliefs;
  - b) Attitudes;
  - c) Emotions;
  - d) Schemas.
16. A(n) \_\_\_\_\_ is a kind of mental model or theory that people hold; it contains the information we have about social groups and social settings.
- a) belief;
  - b) attitude;
  - c) emotion;
  - d) schema.
17. \_\_\_\_\_ are transient states of arousal and cognition that motivate and direct behavior, particularly in novel situations demanding quick action.
- a) beliefs;
  - b) attitudes;
  - c) emotions;
  - d) schemas.

18. \_\_\_\_\_ are stable dispositions that influence broad domains of behavior.
- a) Beliefs;
  - b) Emotions;
  - c) Personality traits;
  - d) Schemas.
19. Which of the following personality traits have been studied by social psychologists?
- a) locus-of-control;
  - b) authoritarianism;
  - c) self-monitoring;
  - d) all of the above.
20. Locus-of-control, authoritarianism, and self-monitoring are all \_\_\_\_\_ that have been studied intensively by social psychologists.
- a) beliefs;
  - c) attitudes;
  - d) personality traits;
  - e) schemas.
21. The personality traits most studied by social psychologists are those.
- a) affecting interpersonal relations and social behaviors;
  - b) dealing with the self;
  - c) derived from Freudian psychology;
  - d) that have biological causes.
22. The thoughts, feelings, and behaviors of greatest interest to social psychologists are \_\_\_\_\_ thoughts, feelings, and behaviors.
- a) social;
  - b) aggressive;
  - c) emotional;
  - d) self-directed.
23. The observable behaviors of greatest interest to social psychologists are:
- a) aggressive behaviors;
  - b) cognitive behaviors;
  - c) social behaviors;
  - d) emotional behaviors.

24. According to the “levels of explanation”, the “self” comprises:
- our current thoughts, feelings, and behavior;
  - mediating variables such as beliefs and attitudes;
  - feedback processes;
  - all of the above.
25. Williams James described the self as having two aspects. They are:
- self-esteem and self-consciousness;
  - beliefs and personality traits;
  - mediating variables and feedback processes;
  - the “me” and the “I”.
26. Suppose you feel about to “explode” because of frustrations at work, and as a result you decide to take a week’s vacation to “unwind.” In other words, you decide to change your environment in order to avoid an outburst of aggression. This decision process would illustrate:
- group-level explanations;
  - individual-level explanations;
  - mediating variables;
  - the feedback processes of the self.
27. You are a new freshman, and you receive “C’s” on the first three tests you take in your first-semester classes. You decide that the environment in the dorms is too distracting, and you therefore study in the library for your next three tests. You then receive “A’s.” Your decision to change your environment in order to improve your grades illustrates:
- group-level explanations;
  - individual-level explanations;
  - mediating variables;
  - the feedback processes of the self.
28. Why is the self studied in social psychology?
- because there are important links between the self and social behavior;
  - because the self often develops from social feedback;
  - because we present different images of ourselves to different social groups;
  - all of the above.

29. Social psychology differs from other related fields such as sociology, anthropology, and economics in that:
- it has its own preferred set of theoretical explanations;
  - it tends to focus on the individual as its unit of analysis;
  - it tends to prefer certain kinds of research methods, such as controlled experiments;
  - all of the above.
30. The classical anthropologist is more likely to employ \_\_\_\_\_, whereas the social psychologist is more likely to employ \_\_\_\_\_.
- individual-level explanations; group-level explanations;
  - naturalistic observation; controlled experimentation;
  - cognitive information-processing theories; learning theories;
  - all the above.
31. Which of the following is not one of the main functions of social psychological theories?
- to rule out explanations of behavior;
  - to organize empirical findings;
  - to focus and direct research;
  - to explain and predict social behavior.
32. Research on attraction shows that people tend to like others more when they hold similar attitudes, that people are more likely to be friends with people who live nearby, and that people tend to like attractive people more than unattractive people. Learning theories help explain these findings. Thus in this case learning theories serve which of the following main functions?
- to explain and predict social behavior;
  - to help organize empirical findings;
  - to focus and direct research;
  - to disprove other theories.
33. Which of the following is not one of four main theoretical perspectives in social psychology?
- developmental theories;
  - cognitive consistency theories;
  - attribution and cognitive information-processing theories;
  - exchange and equity theories.



34. Which of the following describe characteristics of the discipline of social psychology?
- a) It tends to focus on situational variables and on certain mediating variables such as beliefs and attitudes;
  - b) Social psychologists often prefer experimental studies, but they also frequently conduct correlational studies;
  - c) Social psychology comprises several varieties of applied research;
  - d) All of the above.
35. Except for some \_\_\_\_\_ all of the following theoretical perspectives in social psychology emphasize internal cognitive processes.
- a) learning theories;
  - b) cognitive consistency theories;
  - c) attribution and information-processing theories;
  - d) equity and exchange theories.
36. \_\_\_\_\_ are in a sense “content free”, and they describe basic processes that occur in all people (and in animals); they apply to many different kinds of social behavior.
- a) Learning theories;
  - b) Cognitive consistency theories;
  - c) Attribution and information-processing theories;
  - d) Equity and exchange theories.
37. Perhaps friendship and interpersonal attraction are partly a matter of operant conditioning—for example, we like and seek out people who are rewarding, and we dislike and avoid people who are punishing. This hypothesis would be consistent with which of the following theoretical approaches?
- a) learning theories;
  - b) cognitive consistency theories;
  - c) attribution and information-processing theories;
  - d) equity and exchange theories.

Keys: (1) 1a, 2b, 3c, 4c, 5b, 6a, 7d, 8d, 9d, 10b, 11a.  
(2) 1b, 2c, 3d, 4a, 5b, 6b, 7c, 8b, 9d, 10a, 11d, 12b, 13c, 14b, 15a, 16d, 17c, 18c, 19d, 20d, 21a, 22a, 23c, 24d, 25d, 26d, 27d, 28d, 29d, 30b, 31a, 32b, 33a, 34d, 35a, 36a, 37a.

## Список использованной и рекомендуемой литературы

1. *Buchanan L.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 4.
2. *Craik F.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 3.
3. *Cottman A. L.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 4.
4. *Fowler H. J.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 4.
5. *Fullerton J. P.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 3.
6. *Jennings N.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 2.
7. *Hartley G.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 2.
8. *Kausler G.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 4.
9. *Levenson A.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 3.
10. *Lippa R. A.* Test Items to Accompany Introduction to Social Psychology. Wadsworth Publishing Company. — Belmont, California Division of Wadsworth. Inc., 1990.
11. *Smith H.* Psychology and Aging. — Philadelphia: Acad. Press. USA. — 1993. — № 3.
12. *Wittig and Williams:* Psychology: An Introduction. Study Guide to Accompany. McGraw-Hill, Inc., 1984.

## SOCIOLOGY

- 8.1. Introducing sociology (*Введение в социологию*).
- 8.2. The science of sociology (*Социология как наука*).
- 8.3. Dynamics of social behavior (*Социальное поведение*).
- 8.4. Socialization (*Социализация*).
- 8.5. Social structure (*Структура общества*).
- 8.6. Deviance and social control (*Отклонения и социальный контроль*).
- 8.7. Collective behaviour and social movements (*Коллективное поведение и общественное движение*).
- 8.8. Social inequality. Social stratification (*Социальное неравенство. Разделение общества на классы*).
- 8.9. The changing shape of society (*Изменения в современном обществе*).
- 8.10. The family (*Семья*).

## 8.1. Introducing sociology

Sociology is a young science, still carving a place in universities and in the minds of the public. Our ideas are fresh, our researchers are energetic, and the future looks quite bright (D'Antonio, Howery, and Buff, 1989).

Sociology is the study of the groups and societies we build and how these affect our behavior. It is one of the family of social sciences, which includes psychology, anthropology, economics, and political science. Sociology faces the special challenge of explaining «the real world» that most of us take for granted.

On occasion, sociology is **accused** of being «nothing more than common sense». In some uses sociology does, indeed, confirm common sense. But often it does not. Furthermore, sociological analysis **reveals** the **flaws** in our commonsense views of the world. Our **perceptions** are often **distorted** by our previous experience, attitudes, and beliefs, and our images of reality are strongly influenced by the people around us. Common sense is itself a social phenomenon.

Much of our information about the world comes from the mass media. TV newscasts tell us the «who, what, where, and when» of an event, but rarely the «why». Sociologists **seek** to understand the underlying social reality: to make connections, to clarify the similarities between apparently dissimilar and isolated events, to go behind events to identify social forces, and to put facts into perspective. Analyzing the media is part of this process.

Sociological imagination is the ability to perceive connections between the society and times in which we live and our personal biographies.

Sociology **contributes** to an understanding of today's complex world by offering fresh ideas, challenging popular **myths**, identifying social problems, and designing solutions.

### Vocabulary

**accuse** — обвинять

**reveal** — обнаруживать, открывать

**flaw** — недостаток, изъян, дефект

**perception** — понимание

**distort** — искажать

**seek** — искать

**contribute** — делать вклад, вносить

**myths** — миф

### **1. Answer the questions.**

1. What is sociology?
2. What does the family of social sciences include?
3. What does the sociological analysis reveal?
4. Where does much of our information about the world come from?
5. What do sociologists seek to understand?

### **2. Continue the sentence.**

1. Sociology contributes to
2. Sociological imagination is
3. TV newscasts tell us
4. Sociology is accused to
5. Sociology is

## **8.2. The science of sociology**

Like other sciences, sociology is a **public enterprise** that uses agreed-upon procedures for minimizing errors and **bias** in establishing empirical **generalizations**. The role of theory in science is to offer general explanations that lead scientists to **pose** meaningful questions: the role of research is to establish facts and test theories.

All sociologists follow certain basic procedures in their research. Which particular method they employ depends on their interest and resources. *Experiments* are most useful in studying limited, clearly defined questions. They enable a researcher to isolate **independent** and **dependent variables** (usually through the use of *control* and *experimental groups*). But the laboratory setting may produce **artificial** results.

**Surveys** enable researchers to gather data on a large population and to quantify results for comparative purposes. But surveys measure only what people *say* they do and think, so the results may be superficial.

The **field study** allows a researcher to study behavior in its natural setting and to observe subtleties in attitudes and behavior. But only a small number of people can be studied by this method, and the researcher's presence may affect what subjects say and do.

*Historical studies* **permit** researchers to study rare, unpredictable, and long-term social phenomena, *and* to answer questions that depend on a particular social context. But collecting **essential**, accurate data may be difficult.

There have been three major theoretical orientations in sociology. *Functionalists* view society as a cohesive system composed of interrelated parts. They seek to explain the various parts of a social system in terms of the consequences (or functions) and to show how different parts are related to one another. Functionalists **emphasize** the need for social **equilibrium** and for consensus among members of a society. The main weakness of functionalism is its tendency to downplay the importance of power and social change.

*Conflict theorists* view society as held together not by consensus but by **constraint**. They seek to understand who benefits from existing social arrangements and how they **maintain** their position of power. These theorists see conflict and change as **inevitable** (and often **desirable**) elements of social life. The main weakness of conflict theory is its failure to explain social cohesion.

*Symbolic interactionists* focus on the patterns of everyday behavior, on the process of social interaction, and on how people's **definition** of a situation shapes their behavior. Symbolic interactions may study shared expectations, how people interpret their roles in the social drama, linguistic patterns, or unconscious knowledge.

Reexamination of classic works by functionalist and conflict theorists has led to new interest in the **impact** of social structure on behavior and on the role social actors play in creating social structure.

The relationship between theory and research is a dynamic one: Theories stimulate research, and research leads to new or **amended** theories. The research cycle promotes the continuous revision and rethinking of sociological findings.

## Vocabulary

**public enterprise** — общественный институт

**bias** — предубеждение, пристрастие

**generalization** — обобщение

**pose** — поза, ставить, создавать

**independent variables** — независимые переменные

**dependent variables** — зависимые переменные

**artificial** — искусственный, неестественный

**field study** — полевое исследование

**survey** — исследование, обзор

**permit** — разрешать

**essential** — необходимый

**emphasize** — подчеркивать

**equilibrium** — равновесие

**constraint** — ограничение

**maintain** — поддерживать

**inevitable** — неизбежный

**desirable** — желательный

**definition** — определение

**impact** — воздействие

**amend** — пересматривать

**1. Answer the questions.**

1. What is the role of theory in science?
2. How do sociologists employ methods in their research?
3. What are the experiments most useful for?
4. What do surveys enable researchers to?
5. What does the field study allow a researcher?
6. What do historical studies permit researchers to study?
7. What are the differences between three major theoretical orientations in sociology?

**2. Fill in blanks with proper words from the text.**

1. The role of theory in science is to offer \_\_\_ that lead scientists to pose\_\_\_; the role of research is to establish\_\_\_.
2. Experiments are most useful in studying \_\_\_.
3. Surveys enable researchers to gather data on a \_\_\_ and to quantify results for\_\_\_.
4. The field study allows a researcher to study behavior in its \_\_\_and to observe subtleties in\_\_\_.
5. Historical studies permit researchers to study \_\_\_ social phenomena, *and* to answer questions that depend on a \_\_\_ .

**3. Say, if it is right that.**

1. The role of theory in science is to offer general explanations.
2. Experiments enable a researcher to isolate independent and dependent variables, but the laboratory setting can not produce artificial results.
3. Surveys measure only what people do and think, and the results are superficial.
4. Collecting essential, accurate data may be difficult.
5. Functionalists view society as a cohesive system composed of interrelated parts.
6. Conflict theorists view society as held together not by consensus but by constraint.
7. Symbolic interactions may study shared expectations, how people interpret their roles in the social drama, linguistic patterns, or unconscious knowledge.

### 8.3. Dynamics of social behavior

Because humans adapt to their environments through learning, not by means of instincts, culture is **vital** to our species. A people's culture is their **entire** design for living, **transmitted** from generation to generation through learning. The basic elements of culture are: *beliefs* (shared ideas about how the world operates), *values* (shared standards), *norms* (rules for behavior), *technology* (knowledge and techniques for creating material objects), *symbols* (which express or **evoke** cultural meanings), and *language* (shared symbols and rules for combining them in meaningful ways). Language shapes the way we **perceive** the world, as well as the way we communicate our perceptions (the *Sapir-Whorf hypothesis*). All cultures have the same basic elements, but the differences among them can be **vast**.

A person who enters an unfamiliar cultural setting often experiences **culture shock**. One reason for the difficulty people have in **adjusting** to other cultures is *ethnocentrism*, the widespread belief that one's own culture is vastly superior to all others. The opposite of ethnocentrism is *cultural relativism*.

The integration of the varied and complex elements of culture is never perfect, so usually there is a gap between a people's *ideal culture* and their *real culture*. Real culture consists of patterned **evasions** of the ideal culture's norms, evasions that are accepted by most members of society. A **subculture** is a set of understandings and behaviors that distinguishes members of a regional, occupational, ethnic, or other groups from other members of society.

Functionalists see culture as maintaining the social system and meeting basic human needs. A branch of functionalism, cultural ecology, sees beliefs and practices as adaptations to the physical environment. Conflict theorists may view culture as serving the needs of the elite, or as a basis for revolutionary change. Some sociologists emphasize the power of culture over our thoughts and behavior; others emphasize the role we play in maintaining or changing culture. But most agree that we are both the products and producers of our culture.

No culture is static. Major **shifts** in cultural patterns may be caused by changes in the natural environment, contact with other cultures, or discovery and invention. A **cultural lag** may occur when adjustment to change is difficult.



**vital** — жизненный, насущный  
**entire** — весь  
**transmit** — передавать  
**evoke** — вызывать  
**perceive** — осознавать  
**vast** — обширный, громадный

**adjust** — приспособлять  
**evasions** — уклонение  
**shift** — перемена, сдвиг  
**cultural lag** — задержка культурного развития

### 1. Answer the questions.

1. What are the basic elements of culture?
2. When does a person experience culture shock?
3. What is a subculture?
4. How do functionalists see culture?
5. How do conflict theorists see culture?

### 2. Complete sentences using the verbs from the text.

1. Language \_\_\_ the way we \_\_\_ the world.
2. All cultures \_\_\_ the same basic elements, but the differences among them can be vast.
3. Real culture \_\_\_ of patterned evasions of the ideal culture's norms.
4. Most sociologists \_\_\_ that we \_\_\_ both the products and producers of our culture.
5. A person who \_\_\_ an unfamiliar cultural setting often \_\_\_ culture shock.

### 3. Say, if it is right that.

1. A people's culture isn't their entire design for living, transmitted from generation to generation through learning.
2. Language consists of shared symbols and rules for combining them in meaningful ways.
3. Ethnocentrism is the widespread belief that one's own culture is vastly superior to all others.
4. The opposite of ethnocentrism is egocentrism.
5. Functionalists see culture as serving the needs of the elite, or as a basis for revolutionary change.

## 8.4. Socialization

Our **identities**, understandings, and behavior are shaped by the life-long process of **socialization**.

For many years social scientists were divided into two camps: those who believed that our behavior is the product of nature (or genes), and those who saw our behavior as determined by **nurture** (or socialization). Today nearly all agree that nature and nurture interact. We must *learn* to be human and that what we learn depends on our cultural environment.

Freud saw socialization as a struggle between a **willful**, pleasure-seeking child and parents **intent** on proper behavior. *Personality* develops in stages, and consists of three parts: the *id*, the *ego*, and the *superego*. To some degree individuals are always at war with society, and with themselves.

Cooley and G. H. Mead stressed the role of symbolic interaction in the development of the *self*. Cooley introduced the concept of the *looking-glass self*. Mead held that children learn to take the role of the other in the play stage, and that they develop a generalized other in the game stage. The socialized «*me*» continues to provide direction for the spontaneous, impulsive «*I*».

Major *agents of socialization* include the *family* (which lays the foundation), *peers* (who introduce children to **egalitarian** relationships), *school* (which teaches children how to function in an impersonal organization), and *television* (which exposes children to a variety of messages, and perhaps creates a worldwide culture).

Socialization continues throughout the life cycle. Erikson held that the major issue for **adolescents** is the development of an identity. Current research indicates this does not necessarily involve storm and stress or alienation from parents. The timing of transitions to adulthood — a full-time job, independent residence, marriage, and parenthood — has become increasingly variable. Adulthood itself has changed. Fewer adults can plan to make lifelong **commitments** to an occupation or job, or to a single marriage and family. Whether role changes in adulthood are stressful depends on expectations and social supports. The social meaning of «old age» has also changed, as more people are healthy and active beyond retirement.

**identity** — личность, самосознание  
**nurture** — воспитывать, растить  
**willful** — своенравный, умышлен-  
 ный  
**intent** — сосредоточенный  
**peer** — ровесник, ровня

**egalitarian** — равноправный  
**issue** — вопрос, проблема  
**adolescent** — подросток  
**commitment** — преданность, обя-  
 зательство

### 1. Answer the questions.

1. How were social scientists divided?
2. How did Freud see socialization?
3. How does personality develop?
4. What do the major agents of socialization include?
5. How long does socialization continue?

### 2. Continue the sentences.

1. Our identities, understandings, and behavior are shaped by \_\_\_.
2. What we learn depends on \_\_\_ .
3. Freud saw socialization as \_\_\_ .
4. Cooley introduced the concept of \_\_\_ .
5. Mead held that \_\_\_ .
6. Major agents of socialization include \_\_\_ .
7. Erikson held that \_\_\_ .

## 8.5. Social structure

*Social structure* refers to the regular, predictable, **enduring** patterns that organize everyday interaction, social relationships, societies, and relations among societies.

Symbolic *interactionists* have focused on the patterns of everyday interaction; on how people arrive at a shared *definition of a situation*, what strategies they use in the presentation of self, and the underlying *norms of reciprocity*.

The structure of social relationships derives from shared **assumptions** about *statuses* (positions in society) and *roles* (cultural scripts for different positions). Members of a society are connected to one another not only through *role sets* but also through *networks* (webs of social contacts). Whereas participants in a network may have little in common, members

of a group interact regularly and feel a common identity. Some groups are *primary* (small and intimate), some *secondary* (“cool” and instrumental). Roles, networks, and groups are the basic building blocks of social structure.

The structure of society **derives** in part from population characteristics. In societies with small, homogeneous populations, social solidarity is based on similarity; in societies with large, heterogeneous populations, social solidarity depends on intergroup contacts and **overlapping** networks. *Social institutions* are the **backbone** of society. Each of the major institutions—the family, politics, economics, education, and religion—fills a specific need, but all are interrelated.

Relations among societies have changed over the course of human history. The evolutionary perspective traces the emergence of different types of societies (hunter-gatherers, horticultural villages, agrarian states, and industrial nations) to the impact of new technologies on social structure. The *world system* approach focuses on the economic links among noncommunist nations, and their social consequences.

## Vocabulary

**endure** — переносить, выстоять

**reciprocity** — взаимность, взаимодействие

**assumption** — предположение, принятие на себя

**overlap** — частично совпадать

**backbone** — позвоночник

**derive** — извлекать, получать

### 1. *Answer the questions.*

1. What does social culture refer to?
2. What have symbolic interactionists focused on?
3. What does the structure of social relationships derive from?
4. How do members of a group interact?
5. How does the structure of society derive from population characteristics?

### 2. *Correct the mistakes in these sentences.*

1. Symbolic interactionists have not focused on the patterns of everyday interaction.
2. Members of a society are connected to one another only through role sets.
3. Roles, networks, and groups are the basic building blocks of life.

4. In societies with large, heterogeneous populations, social solidarity does not depend on intergroup contacts and overlapping networks.
5. The evolutionary perspective traces the emergence of one society.

## 8.6. Deviance and social control

**Deviance** is a matter of social definition. What is considered deviant varies not only from culture to culture, but also according to the actor, the situation, and the audience. Social control—the **prevention** and correction of deviance—depends on both **formal** and **informal social controls**.

Whereas psychological theories of deviance focus on the reasons particular individuals commit particular deviant acts, sociological theories **emphasize** the social conditions that allow or even encourage deviant behavior. Four theories of deviance are offered. The first emphasizes a break in the ties that **bind** individuals to society; the second, the ways in which social structure produces deviance; the third, the cultural transmission of deviant behavior and attitudes; the fourth, the consequences of labeling certain behavior and people as deviant.

A crime is a **violation** of the law (and may or may not be considered deviant by most members of a society). There are four basic types of crime: «common» (violent and property) crime, white-collar crime, organized crime, and crimes without victims. Although the public tends to focus on «common crime,» white-collar crime and victimless crime, both often connected to organized crime, cost the nation much more, in terms of lives as well as dollars.

Analysis of the criminal justice system in the United States reveals that formal social controls operate in a selective way. Only about 50 percent of the crimes committed are reported to the police, and at each stage of the criminal justice process (arrest, trial, punishment) significantly fewer cases remain. Only a **fraction** of the people who commit crimes are ever imprisoned.

### Vocabulary

**deviance** — отклонение  
**prevention** — предотвращение  
**emphasize** — подчеркивать

**bind** — связывать, привязывать  
**violation** — нарушение  
**fraction** — часть, частица

**1. Answer the questions.**

1. How does deviant vary?
2. What is social control?
3. What do psychological theories of deviance focus on?
4. What do sociological theories emphasize?
5. Which theories of deviance are offered?
6. Which basic types of crime are there?
7. How do formal social controls operate?

**2. Fill in the blanks with proper words from the text.**

1. \_\_\_ is a matter of social definition.
2. \_\_\_ depends on both formal and informal social controls.
3. \_\_\_ theories of deviance are offered.
4. \_\_\_ is a violation of the law.
5. There are four basic types of \_\_\_ .
6. Only \_\_\_ of the crimes committed are reported to the police.
7. Only \_\_\_ who commit crimes are ever imprisoned.

## **8.7. Collective behaviour and social movements**

There are two sociological approaches to the study of **collective behavior**. Functionalists see mass departures from **convention** as a short **circuit** in the social system, and emphasize the spontaneous and emotional aspects of all collective behavior. **Collective action theorists** emphasize the real **grievances**, rational choices, and organization underlying social movements and revolutions in particular.

Smelser's functionalist theory holds that six **preconditions** must be met before people engage in collective behavior: *structural conduciveness*, *structural strain*, the emergence of a *generalized* belief about a source of **threat**, a *precipitating incident*, *mobilization* of participants for action, and a *breakdown of social control*.

**Riots** are of particular interest to students of collective behavior. Popular theories of the 1960s ghetto **uprisings** emphasized characteristics of the rioters (which were later disproved). Sociological theories emphasize group dynamics (the development of *emergent* norms) and changing social conditions (especially rising expectations and relative **deprivation**).

A social **movement** differs from other forms of collective behavior in three ways: it is longer lasting, more purposeful and goal-oriented, and more structured. Collective action theory begins with the assumption that **injustices** are built into every social system and collective

action is an ongoing feature of social life. According to Tilly, the development of a social movement depends on collective *interests*, preexisting and/or new *organizations*, the *mobilization* of a variety of resources, and above all, *opportunity*. The mobilization of people with disabilities illustrates the importance of organization and rising expectations. In some cases social movements result in social change, but in others they may delay change by scoring symbolic victories or by mobilizing opposition.

Revolutionary change calls attention to historical biases, which exist in all theories.

## Vocabulary

**convention** — условность  
**circuit** — цепь, турне  
**grievance** — жалоба  
**precondition** — предпосылка  
**conduciveness** — проводимость  
**strain** — напряжение, растяжение, нагрузка

**threat** — угроза  
**riot** — беспорядки, бесчинства  
**uprising** — восстание  
**deprivation** — нужда  
**injustice** — несправедливость

### 1. Answer the questions.

1. Which sociological approaches to the study of collective behavior are there?
2. Which preconditions must be met before people engage in collective behavior?
3. How does a social movement differ from other forms of collective behavior?
4. What does the development of a social movement depend on?
6. What do social movements result in?

### 2. Say, if it is right that.

1. There are four sociological approaches to the study of collective behavior.
2. Collective action theorists emphasize the spontaneous and emotional aspects of all collective behavior.
3. Smelser's functionalist theory holds that six preconditions must be met before people engage in collective behavior.
4. Riots are not of particular interest to students of collective behavior.
5. A social movement differs from other forms of collective behavior in five ways.

### 3. *Choose the correct form.*

1. Functionalists *see / sees* mass departures from convention as a short circuit in the social system.
2. Collective action theorists *emphasized / emphasize* the real grievances, rational choices, and organization underlying social movements and revolutions in particular.
3. Six preconditions must *to be / be* met before people engage in collective behavior.
4. A social movement *differs / different* from other forms of collective behavior.
5. Historical biases *exist / are existing* in all theories.

## 8.8. Social inequality. social stratification

A system of **social stratification** exists when social inequalities are institutionalized so that society is divided into layers or **social classes** whose occupants do not have equal access to social opportunities and rewards.

Most sociologists, for example, divide American society into six social classes. At one **extreme** is the upper class, which controls a major share of the nation's wealth. At the opposite extreme, more than 32 million Americans live below the federal **poverty line**, including many urbanites, women, children, and minority members. The black urban underclass is a recent phenomenon, brought about by the deindustrialization of cities and the combination of economic and racial **segregation** within cities. The consequences of poverty include shorter life **spans** and generally poor health, as well as greater **vulnerability** to economic swings.

The degree of **social mobility** varies from one society to another. In a **closed system**, like India's caste system, opportunities for **upward** mobility are almost nonexistent. In an **open system**, like the U. S. class system, equal opportunity for all is held as an ideal. In practice, however, social mobility is limited by such factors as race and sex. Upward mobility usually takes the form of small steps up the social ladder, not giant leaps «from rags to riches» — **structural mobility**, rather than individual success stories.

Why is social stratification so **pervasive**? Marx and Weber were pioneers in the analysis of social stratification. Marx emphasized the relations of production, and saw society as divided into opposing camps



of haves and have-nots. Weber argued that there are many gradations in a society and that **power** and **prestige** (or social **esteem**) can be as important as wealth in determining social positions. Functionalists maintain that society needs a system of unequal rewards to ensure that qualified people will fill important but demanding positions. Evolutionary theorists link stratification to technology. In the past, technological advances led to increases in social stratification, but this **pattern** has begun to **reverse** in modern industrial societies.

Recent history has produced a global system of stratification, dividing the world into rich and poor nations.

## Vocabulary

**social stratification** — разделение общества

**extreme** — крайность

**poverty line** — черта бедности

**segregation** — отделение, изоляция

**vulnerability** — подверженность, уязвимость

**span** — промежуток

**upward** — направленный вверх, движущийся вверх

**pervasive** — всеохватывающий

**esteem** — уважение, уважать

**pattern** — модель, образец

**reverse** — давать задний ход

### 1. Answer the questions.

1. When does a system of social stratification exist?
2. Most sociologists divide American society into six social classes, don't they?
3. How does the degree of social mobility vary?
4. How did Marx see society?
5. What did Weber argue?
6. What do functionalists maintain?
7. What do evolutionary theorists link stratification to?

### 2. Correct the sentences.

1. Social classes occupants have equal access to social opportunities.
2. More than 32 million Americans live above the federal poverty line.
3. The white urban underclass is a recent phenomenon.
4. Equal opportunity for all is held as the least ideal.
5. Ancient history has produced a global system of stratification, dividing the world into rich and poor nations.

## 8. 9. The changing shape of society

**Reliance** on formal organizations is one of the defining features of modern society. Factors that distinguish formal organizations from other groups include: **explicit** social structure, limited participation of members, emphasis on goals, dependence on technology, and relations with the environment.

Weber held that bureaucracy is a superior form of organization for large-scale tasks. His model or ideal type emphasized: a clear-cut division of labor, a clearly defined hierarchy authority, formal rules and regulations, impersonality and a clear line between the public and private spheres.

In reality, bureaucratic organizations have both a formal and an informal structure. Power tends to be concentrated at the top (Michels's Iron Law of Oligarchy). The disfunctions of bureaucracy include routinization, trained incapacity, depersonalization, **vested interests**, and a built-in tendency toward growth (as in Parkinson's Law).

Prominent alternatives to bureaucratic organization are collegial associations (*in* which all qualified members are seen as equals), the Japanese corporation (which offers lifetime employment, emphasizes collective performance and exhibits **holistic concern** for employees) and collectivist organizations (which are explicitly antibureaucratic).

Organizations influence, and are influenced by, their environment. Organizational ecologists have **revealed** the importance of social networks in the founding of organizations and the impact of social forces on the birth and death rates of organizations. Kodak and Apple illustrated two organizational extremes: the giant, **entrenched** bureaucracy and small, flexible innovator, respectively. In the early 1980s neither was very well adapted to a constantly changing environment. Two models for the future are flexible specialization (a **craft** model of production) and the post-entrepreneurial corporation (which combines elements of the small entrepreneurial and older, larger bureaucratic corporation).

### Vocabulary

**reliance** — зависимость  
**explicit** — явный, откровенный  
**vested interests** — личная заинтересованность  
**holistic concern** — полное обеспечение

**reveal** — обнаруживать, открывать  
**entrench** — укреплять(ся)  
**craft** — мастерство, ремесло

### **1. Answer the questions.**

1. What do factors that distinguish formal organizations from other groups include?
2. What did Weber hold about bureaucracy?
3. What structure do bureaucratic organizations have in reality?
4. What are prominent alternatives to bureaucratic organization?
5. What did Kodak and Apple illustrate?

### **2. Say, if it is right that.**

1. Reliance on formal organizations is one of the defining features of modern society.
2. Weber's model or ideal type emphasized: a clear-cut division of labor, a clearly defined hierarchy authority, formal rules and regulations, impersonality and a clear line between the public and private spheres.
3. Power tends to be concentrated at the bottom.
4. Japanese corporation offers lifetime employment, emphasizes collective performance and exhibits holistic concern for employees.
5. Organizational ecologists have revealed the impact of social forces on the birth and death rates of organizations.

## **8.10. The family**

Every known society has families. But the structure of the family (the number of **spouses** a man or woman may have and household composition) varies from culture to culture, and the functions the family performs have changed over time.

The changes in the family have not been as radical as many assume. Both the *extended family* of the past (several generations in one household) and the isolated *nuclear* family of the 1950s (a husband, wife, and their children, living alone with few ties to kin) were largely myths. Nevertheless, acceptance of alternative family forms is growing. The numbers of singles, single parents, and couples who decide not to have children have increased rapidly in recent years. The nuclear family is a statistical minority today.

Sociological analysis suggests that **courtship**, marriage, and parenthood are not as romantic as many people would like to believe. Most people say *they* marry for love, but research shows that love is highly selective. Most people marry someone with similar social characteristics

(the principle of homogamy). Exchange theory portrays courtship as an exchange of **assets** and liabilities in which people weigh the costs and benefits of a potential partner. Although people think of parenthood as a natural process, research indicates that the role of parents requires numerous **adjustments**. With wives working, the daily routine may become more **hectic**, but there is little evidence that two careers either **harm** or improve the quality of family life.

All families do not live happily ever after. Recent surveys have shown that **violence** in the family is more common than most people imagine, at all socioeconomic levels. Intimacy, privacy, cultural support for the use of force, and socialization all contribute to this social problem.

The *divorce rate* reached an all-time high in the United States in 1979 and the number of divorces involving children has grown. But the high rate of remarriage after divorce, and the number of **stepfamilies** indicate that people believe as strongly in the institution of marriage as they ever did.

The challenge for the future is **reconciling** traditional images of the family with nontraditional realities.

## Vocabulary

**spouse** — супруг(а)

**courtship** — ухаживание

**asset** — достоинство

**violence** — насилие

**adjustment** — регулирование, адаптация

**hectic** — суматошный, лихорадочный

**harm** — ущерб, телесное повреждение

**stepfamily** — сводная семья

**reconciling** — примирение

### 1. Answer the questions.

1. What does the structure of the family include?
2. What is an isolated nuclear family?
3. Why do most people say *they* marry?
4. What do people think of parenthood?
5. What have recent surveys shown about the violence in families?

### 2. Continue the sentences.

1. The functions the family performs
2. The nuclear family is
3. Exchange theory portrays courtship as

4. Although people think of parenthood as a natural process
5. The challenge for the future is **reconciling** traditional images of the family with

**3. Correct the sentences.**

1. Every known society has no families.
2. The nuclear family is a statistical majority today.
3. Many people marry someone with different social characteristics.
4. With wives working, the daily routine may become less hectic.
5. People don't believe in the institution of marriage.

## Список использованной и рекомендуемой литературы

1. *Archer M.* Sociology for One World // *Introducing Sociology*. — 1992. — №6.
2. *Becker H., Rau W.* Sociology in the 1990s // *Society*. 1992. — V.31(1).
3. *Dictionary of modern sociology*. — Totowa, New Jersey, 1969.
4. *Eisenstadt S. N.* Social differentiation and stratification. — Illinois, 1971.
5. *Giddens A.* Social theory and modern sociology. — Cambridge: Polity Press, 1987.
6. *Imber J.* The future of sociology: the editor's inaugural statement // *The American Sociologist*. — 1995. — V. 26(3).
7. *Kammayer K., Ritzer G., Yetman N.* Sociology experiencing changing societies. Boston, 1997.
8. *Spenser G.* The principles of sociology. — L., 1896.
9. *The student's companion to sociology / Ch. Bauard (Ced)*. — Oxford, 1997.

## Public Relations

### (Связи с общественностью)

- 9.1. What is PR? (*Что такое публик рилейнз?*).
- 9.2. The PR Industry (*PR Индустрия*).
  - 9.2.1. PR and marketing (*PR и маркетинг*).
  - 9.2.2. PR and advertising (*PR и реклама*).
  - 9.2.3. A PR consultancy. The best way to choose a PR consultancy (*PR Консультация*).
  - 9.2.4. What PR consultancies do (*Чем занимаются PR консультации*).
  - 9.2.5. Identifying your communications needs (*Определение коммуникационных потребностей*).
  - 9.2.6. PR and journalists (*PR и журналисты*).
  - 9.2.7. The PR industry growth (*Рост PR индустрии*).
- 9.3. Professional practices (*Профессиональная деятельность*).
  - 9.3.1. Job descriptions for people in PR (*Описание работы для консультантов PR*).
  - 9.3.2. Financial PR consultancies and registration (*Финансовые PR консультации и регистрация*).
- 9.4. Training, standards and people (*Обучение, нормы и люди*).
  - 9.4.1. PR people (*Люди, занимающиеся PR*).
  - 9.4.2. PR and gin and tonics and organising parties (*PR, джин-тоники и организация вечеринок*).
  - 9.4.3. Where most of the people in PR come from (*Откуда приходят люди в PR*).
  - 9.4.4. Specialist areas of PR (*Сферы, в которых работают PR специалисты*).
- 9.5. PR in practice (*PR на практике*).
  - 9.5.1. The role of Public Relations in the marketing mix (*Роль PR в составляющих маркетинга*).
- 9.6. Internal communication (*Общение внутри организации*).
  - 9.6.1. Some communication techniques (*Некоторые приемы общения*).
- 9.7. Community relations (*Общественные отношения*).
  - 9.7.1. Why bother? (*Зачем беспокоиться?*).

- 9.8. Financial Public Relations (*Финансовые PR*).
- 9.8.1. How to define financial PR (*Как определить финансовые PR*).
- 9.9. Corporate PR (*Корпоративные PR*).
- 9.10. In-house or consultancy (*Внутренний отдел или внешняя консультация*).
- 9.11. PR and Politics (*PR и политика*).
- 9.12. Central and local government (*Центральное правительство и местные власти*).
- 9.12.1. Access (*Доступность*).
- 9.13. Local government and government relations (*Связи с местными властями и правительством*).
- 9.13.1. Public affairs (*Государственные дела*).
- 9.13.2. Defining public affairs (*Определение государственных дел*).
- 9.14. Business to business PR (*PR между организациями*).
- 9.14.1. The customer rules (*Правила покупателя*).
- 9.14.2. How do you know it works? (*Как узнать, что работает?*).
- 9.14.3. The trade press (*Торговая пресса*).
- 9.14.4. Getting it right (*Правильно сделать*).
- 9.15. Public Relations for non-commercial organisations (*PR для некоммерческих организаций*).
- 9.16. Sponsorship (*Спонсорство*).
- 9.17. Environmental Public Relations (*PR и защита окружающей среды*).
- 9.18. Conclusion. Looking to the future. (*Заключение. Взгляд в будущее*).



## 9.1. What is PR?

**Public Relations** is the name given to the managed process of communication between one group and another.

Public Relations is the method of defining messages and communicating them to targeted audiences in order to influence a desired response.

In its purest form, it has nothing to do with marketing, advertising or «commercialism». It will, however, often promote one group's endeavours to persuade another group to its point of view — and it will use a number of different methods, other than (although often alongside) advertising, to achieve this aim.

Persuasion in Public Relations is perfectly justified in a democratic society, provided it is handled honestly, openly and professionally. All members of the Public Relations Consultants Association adhere to the Professional Charter in order to ensure that their clients and outside bodies (such as the media) act professionally in all respects.

While persuasion in Public Relations may be totally non-commercial (such as in work for charities or as in politics), an industry has grown up in the last 25 years, the main aim of which is either directly or indirectly commercial.

While many organisations employ in-house Public Relations executives, most will also at sometime employ a Public Relations consultancy whose role is to advise a client strategically in return for a fee and, in all probability, to support this by implementing a tactical programme at additional cost.

### Vocabulary

**endeavor** — попытка, старание, стремление; пытаться, прилагать усилия, стараться.

**to persuade** — убеждать, уговаривать

**in-house** — отдел, входящий в структуру организации

**fee** - гонорар, вознаграждение.

**consultancy** — внешняя консультация (независимых консультантов)

**to advise** — консультировать, советовать, извещать, уведомлять, сообщать.

**in return** — в ответ, в обмен на

**to support** — поддерживать, содействовать, способствовать

**to achieve** — достигать

**provided** — при условии; если только; в том случае, если.

**to justify** — объяснять, подтверждать

**to handle** — обходиться, обращаться, регулировать

**to adhere** — придерживаться, оставаться верным

**to ensure** — обеспечивать, гарантировать, ручаться  
**in all respects** — во всех отношениях

**charity** — милосердие, благотворительные организации  
**additional cost** — дополнительная стоимость, цена

## Vocabulary practice

**1. Find all the adverbs in the text and translate them.**

**2. Match the following verbs and adjectives with the adverbs you have found:**

to act.....

to advise.....

to justify.....

to handle.....

.....non-commercial

.....commercial

## 9.2. The PR industry

### 9.2.1. PR and marketing

Most PR firms claim their services are part of the marketing process in helping clients communicate to key groups in order to reach commercial goals. However, some PR firms, such as political lobbyists or charity workers, would claim they are more in the business of promoting a cause and developing an understanding.

### 9.2.2. PR and advertising

While it is true that PR firms and advertising agencies may go through the same processes in identifying clients' key messages at the planning stages; then the similarity ends. Advertising uses paid-for space or time in the media to convey a message, while media relations will only endeavour to inform or persuade journalists that a client's story or message is worth publishing as it will interest his or her readers.

As PR is more than media relations, another way of looking at this is that PR caters for all the other communications methods, other than advertising, within a total marketing programme.

Some PR firms and advertising agencies are jointly owned but in every case, both disciplines will want to co-operate together in serving the client.

Indeed, the most successful marketing programmes are those that effectively co-ordinate all the disciplines of advertising, PR, sales promotion, design and direct marketing.

**targeted audience** — запланированная, определенная аудитория слушателей

**to influence** — влиять

**a desired response** — желаемый ответ

**key group** — **главная, основная** группа

**to reach** — достигать

**lobbyist** — лоббист (завсегдагатай кулуаров конгресса, парламента, обрабатывающий его членов в пользу какого-либо законопроекта, журналист, добывающий информацию в кулуарах)

**to develop** — развивать, разрабатывать

**to promote** — продвигать, способствовать, содействовать распространению

**advertising agencies** — рекламные агентства

**to convey** — передавать, сообщать

**worth** — стоящий, заслуживающий

**to cater** — обслуживать посетителя, угождать

**sales promotion** — стимулирование сбыта

**direct marketing** — прямая продажа, непосредственный сбыт

### 9.2.3. A PR consultancy. The best way to choose a PR consultancy

The PR firms in the PRCA membership range from specialists in specific industry areas to broader-based firms who can call on wide expertise.

The PRCA Yearbook gives precise details of all members, including their specific expertise and current clients. This information is also available on a computer database through the PRCA Referral Service. Simply contact the PRCA for an application questionnaire and you will receive a free print-out of all consultancies matching your criteria.

The advantages of employing an external PR consultancy' as opposed to setting up an in-house department or "doing it yourself" include:

- access to a wider range of experience, talents, contacts and expertise;
- higher calibre executives for similar or lower outlay (as overheads are shared among consultancies' clients);
- easier and more flexible budgeting;
- a PR programme can be varied according to client and market demands, since consultancies are more flexible than in-house departments;
- ease of communication, as target media deal with consultancies on a day-to-day basis and contacts are therefore stronger;
- unique ability to handle special projects and peak loads;
- removal of burden of responsibility for communication from those within the client organisation who have other jobs to do and lack expertise;

- provision of honest, objective analysis and advice, unencumbered by internal politics;
- the value of a consultancy as a resource to be developed in conjunction with an established in-house PR department, providing a versatile extension of facilities and skills;
- Public — in cases of disaster the handling of information dissemination.

#### **9.2.4. What PR consultancies do**

It is impossible to provide a comprehensive list of the techniques and methods used by PR consultancies. They offer a very wide range of skills and experience and a selection of these would be brought to bear on any particular assignment.

Consultancy staff are drawn from a variety of sources: from journalism, law, education, industrial psychology, finance, industrial relations, market research, broadcasting, industry and research. Others begin their careers in PR and are trained within the business. While many specialise in certain fields and others undertake a broad range of activities, the one basic skill common to all is their ability to communicate effectively. Frankness, integrity and responsibility are also essential requirements for a PRCA consultancy.

Consultancies offer everything from detailed analysis of an organisation's communications requirements through advice on all levels to planning and implementation of communications programmes: liaison with the media, salesforce support, event management, crisis planning, lobbying, direct communications (receptions, seminars, exhibitions, etc), liaison with associations, corporate and in-house publications, sponsorship management, etc.

Among the areas in which public relations consultancies work are the following:

##### **Media relations**

The backbone of most PR programmes, media relations is a basic element of consultancies' day-to-day activity. Among consultancy skills in this area are: knowing exactly which journals, writers and broadcasters will be interested in particular items of information; understanding how these people actually work and what their needs are, fulfilling these needs, raising the profile of company products, services, personnel, etc.

Media relations today is a complex subject and the work which consultancies do “behind the scenes” in terms of, for example, off-the-record briefings, information gathering, creation and maintenance of contacts, analysis of media comment, etc. is vital to a well managed media relations programme.

### **Marketing**

This is an area in which PR consultancies have made a major impact in recent years — indeed some consultancies now prefer to call themselves advisers in marketing communications. While it is accepted that advertising, both above and below the line, fulfils an important function in creating and sustaining the image of a brand or company, it is being increasingly recognised that other communications techniques are often needed to complement this work and develop a more powerful marketing armoury. One area in which PR practitioners are particularly-effective is in their use of techniques on a strategic and tactical basis to communicate with specialised audiences which might be cost-effectively out of reach of other communications methods.

### **Financial PR**

Apart from disseminating information about the organisation’s financial affairs to specialists in the business circles, including journalists and investment analysts, PR consultants offering a financial service can provide valuable advice and assistance in such areas as takeovers, share floatations, shareholder relations, communication of financial information to employees, etc.

Changes in legislation have compelled companies to take the communication of financial information more seriously and there is an increasing appreciation of the need for skill and creativity in this respect. The PRCA introduced its own Investor Relations Code of Practice in 1991. Most companies using PR effectively recognise that financial public relations should be an integral part of — and not separate from — a total corporate communications programme.

### **Employee relations**

Employee relations has become one of the most critical areas in a company’s activities, and the effects of a breakdown in communications between shop floor and management are all too familiar. While the public relations industry is still developing its full potential in this area it has already shown dramatically what can be achieved by a smooth two-way traffic in information, and now has techniques at its disposal which

enable it to make an important contribution to achieving harmony and resultant productivity.

### **Community relations**

This is a broad area and incorporates such items as:

- advice on PR policies at local factory, branch or salesroom level
- liaison with local media
- assistance with integrating the company into its local community (special events, local business affairs, local charity work, work in the educational field, etc)
- recruitment and retirement programmes

Social issues, such as employment of minority groups, pollution, rationalisation of workforces, etc, can have marked effects on company operations and call for positive policies adapted to particular local conditions. Public relations consultants can advise on these and implement them.

### **Government relations**

This encompasses advice on and liaison with, government departments and officials (at local, national, EEC and international level) whose policies influence and affect the client's operations. Relations between industry and government have never been more vital, and there is a need for industry to maintain a well informed, constructive dialogue with government (which of necessity will mean lobbying MPs ensuring that they are properly briefed) and government agencies worldwide.

### **International PR**

One important task for many consultancies is that of reporting and interpreting developments in politics, economic and social affairs for their clients. This is to ensure that relevant client personnel are kept fully aware of the development of forces which might affect their operations. This role of the PR consultant, as a monitor and catalyst, frequently extends.

In addition, there are clients who wish to support their commitment to export by using a co-ordinated approach to PR, across international boundaries. This can involve anything from close liaison on the part of the PR consultancy with BBC External Services to promote a client's work to a particular country or region, to full-scale co-ordination of PR work on an international basis. Many consultancies have international links, partners, principals or subsidiaries overseas which can operate on behalf of domestic clients.

## **Future**

As would be expected in a growth industry other areas of involvement are being added, e.g. Issues Management, Crisis Management, Environmental, Sponsorship, etc.

### **9.2.5. Identifying your communications needs**

It is essential to decide in advance the objectives of any PR activity you wish to have undertaken on your behalf.

Are they:

- improved market penetration?
- better community relations?
- more effective industrial relations?
- liaison with government and its agencies?
- better communications with shareholders and the financial world?
- higher media profile for key personnel?
- alteration of certain specific attitudes?
- increased prestige?

Thus the purpose, content and target audience of the communication need to be established.

In addition, the means of communication between the client and the consultancy must be agreed - personnel involved, lines of authority, clearance procedures and so on.

It is also extremely useful if the approximate size of the budget available can be assessed at this stage. Consultancies are often simply given a set of objectives and asked to create a programme to achieve this, together with an accurate costing. This can waste valuable time and effort, as PR programmes cost anything from a few thousand pounds to over 500,000, and a consultancy needs to know the kind of budget available in order to select the most cost-effective techniques to recommend.

Once these criteria have been established, the selection of a consultancy can proceed effectively, as you have an idea of what you want to achieve, where and when it needs to be done and an idea of how much you believe you will need to spend and can afford.

### **9.2.6. PR and journalists**

Is PR only about influencing journalists? No. It started that way but has extended its scope since then to embrace communicating with a comprehensive range of audiences of which journalists — as opinion formers — are just one. Others include staff (management and workforce),

politicians, local and central government, shareholders, local communities, special interest groups, suppliers and distributors.

The PR skill is identifying the messages and relating them to the chosen audience in order to influence a positive response. Press releases to journalists are important but only one of many methods. Others can include organising seminars, presentations and exhibitions, publishing literature. . . and even one-to-one meetings.

PR's relationship with journalism is close, and they rely on each other professionally a good deal.

PRCA members recognise that unprofessional communications with the media can lead to frustration. It is the PRCA's aim to ensure that the correct conduct of our relationship with the media is maintained at all times by providing training and education for the staff of the members. However, like journalists, PR people will only succeed if they develop and maintain excellent relationships with their contacts.

Some journalists claim to dislike some PR people but this is to be expected in any close relationship. In reality, journalists rely on PR people as a source of many — if not most - of their «stories».

### 9.2.7. The PR industry growth

The PR industry, in the form of a network of contacts, has been in existence at least since the Romans. However, today's industry has grown because of commercial pressures for companies to get their messages across in the face of increasing competition from home and abroad.



Companies using PR find it effective and providing value-for-money, especially when communicating with specific audiences such as employees, shareholders or local communities.

This cost-effectiveness has stimulated the growth in PR. The levels of professionalism in the industry have also increased to aid that successful growth.

There has also been a recognition that advertising is most effective when aimed at customer communications (e.g. product promotions, etc.) leaving PR to address all the other key audiences, in addition to its product support role.



**to acquire** — приобретать, достигать, овладевать  
**comprehensive** — всесторонний, исчерпывающий, обстоятельный  
**experience** — опыт  
**call on** — взывать, апеллировать, обращаться  
**PRCA** — Ассоциация консультантов по связям с общественностью (учрежденная в 1969 г. в Великобритании)  
**wide** — широкий, обширный, разносторонний  
**to extend** — распространять, расширять, протягивать  
**to embrace** — охватывать, включать  
**local** — местный  
**central government** — центральное правительство  
**shareholders** — акционеры  
**community** — община, объединение, сообщество, жители микрорайона  
**supplier** — поставщик  
**distributor** — распространитель, продавец  
**to identify** — опознавать, устанавливать, отождествлять

**message** — сообщение, послание  
**to relate** — иметь отношение  
**to recognise** — узнавать, признавать, осознавать, одобрять  
**frustration** — разочарование, расстройство, крушение  
**conduct** — поведение, образ действий  
**to provide** — снабжать, обеспечивать, предоставлять  
**to succeed** — преуспевать, достигать цели  
**claim** — требование, претензия, утверждение, заявление  
**to expect** — ожидать, рассчитывать, предполагать  
**competition** — соревнование, состязание, конкуренция  
**value-for-money** — выгодное, приносящее деньги  
**scope** — границы, рамки  
**encumber** — загромождать, мешать, затруднять  
**versatile** — многосторонний, гибкий  
**floatation** — основание предприятия  
**liaison** — поддержка связи, взаимодействие

## 9.3. Professional practices

### 9.3.1. Job descriptions for people in PR

When a consultancy presents its credentials, you will normally find a resume of the executives working on the business. This will often show the diversity of experience which can be brought to bear on the task in

hand and which usually requires a selection of disciplines working in harmony. Some skills will involve journalism, but budgeting /financial, administration/ planning and research all play their part.

### 9.3.2. Financial PR consultancies and registration

Members engaged in any aspect of financial PR are required to conform to the PRCA code of investor relations which requires registration of their compliance and confidentiality policy. This register is logged with the PRCA, and those registered are required to uphold the code by designating a senior executive as a compliance officer.

## Vocabulary

**credentials** — верительные грамоты, рекомендации

**resume** — краткие анкетные данные, резюме

**diversity** — разнообразие, многообразие

**to require** — требовать, нуждаться

**to involve** — вовлекать, затрагивать, повлечь за собой

**skills** — умения и навыки, мастерство, искусство

**to engage** — занимать, вовлекать, нанимать

**to conform** — согласоваться, соответствовать, подчиняться

**compliance** — согласие, податливость, уступчивость

**confidentiality** — секретность, доверительность

## 9.4. Training, standards and people

The industry is well aware of the need to train its people continually. As an industry it spends increasing budgets on training — which has resulted in the birth of a new PR training industry.

The regular training workshop, “an introduction to public relations”, offers members the opportunity to ensure that all new recruits have, at least, a basic understanding of the practices, rules, laws and basic operation of the industry. This is then supplemented by regular tuition on particular aspects such as financial PR, print production, speech writing and so on.

### 9.4.1. PR people

PR people have high standards of achievement not only in providing clients with cost-effective professional services but also in adding value to their programmes by using both the experience and creative and innovative solutions.

In addition, the PRCA has embarked on a series of initiatives which formalise the standards they believe are essential. These include training schemes, educational papers, codes of conduct and business practice, and the encouragement to share and learn from each others experience through workshops and business award competitions.

### 9.4.2. PR and gin and tonics and organising parties

PR is no more about «gin and tonic» than any other industry or profession, although social skills are important when dealing with selected audiences, including journalists. However, the industry is much more



scientifically led today, with the latest communications techniques, computer technology, on-line databases and automated media monitoring and analysis processes at our disposal.

PRCA members provide training schemes for their staff to ensure high quality and consistent standards using these latest techniques.

Clients expect to see quantifiable returns for their PR investment, and members work with them to agree objectives and targets before starting work.

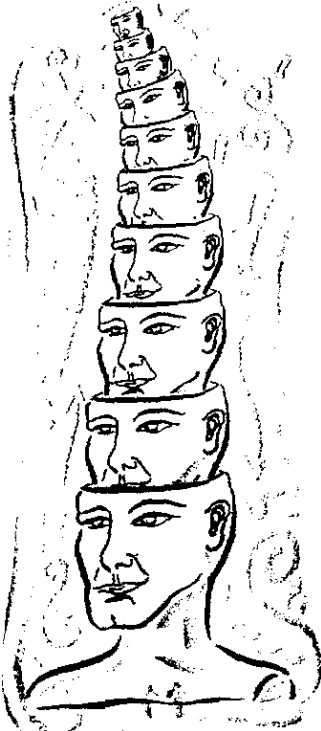
It is worth noting, that the «gin and tonic» label was coined by journalists in the early days of PR when practitioners did rely on wining and dining their «contacts». As journalists were inevitably on the receiving end, it is a (false) perception which has tended to stick.

### 9.4.3. Where most of the people in PR come from

There are no definitive records kept but many come from the following sources:

- graduates joining PR training schemes
- journalists «crossing the fence»
- marketing executives providing in-house PR
- in-house PR people moving to consultancy
- executives in advertising, marketing
- politicians, management consultants
- all sectors of business, and from other professions including doctors, lawyers, moving to PR.

### 9.4.4. Specialist areas of PR



Consultancies all offer media relations as their core «product» but PRCA members will also provide expertise in areas such as: investor relations, public affairs (lobbying), employee/industrial relations or community relations, crisis management, problem identification, product launches, corporate design or corporate campaigns that project an organisation as a whole.

In addition, some firms will offer «central services» such as design, publishing (e. g. newsheets etc.) video production, sponsorship and events management.

Others will cater for specialist industry sectors, either in the business to business or consumer sectors. These include health & medical, fashion, high-technology, travel and leisure.

## Vocabulary

**to uphold** — поддерживать, защищать, придерживаться  
**to designate** — назначать на должность  
**to embark on** — пускаться во что-либо, прибегнуть к чему-либо  
**workshop** — секция, семинар, симпозиум  
**quantifiable** — определяемое количество

**to agree** — соглашаться, договариваться  
**objectives and targets** — цели и задачи  
**perception** — восприятие, ощущение, понимание  
**to tend** — иметь тенденцию, склонность  
**to launch** — запускать, пускать в ход

## Vocabulary practice

### *Answer these questions.*

1. What is PR ?
2. What is the definition of the meaning of PR?
3. Is PR a part of marketing?
4. Is PR the same as advertising?
5. Why use a PR consultancy?
6. What do consultancies do?
7. What are the areas in which public relations consultancies work?
8. What is the best way to choose a PR consultancy?
9. Is PR only influencing journalists?
10. How has the PR industry grown over the years and why?
11. Do you have to agree job descriptions for people in PR?
12. Should financial PR consultancies be registered?
13. Are PR people professional?
14. What training is available?
15. Isn't PR all gin and tonics and organising parties?
16. When did they get this label?
17. Where do most of the PR people come from?
18. What specialist areas of PR exist?

### ☺ **Chose the best alternative to complete the sentence. (1)**

1. The task of the public relations department is to project the right..... of a company.  
**a. painting      b. image      c. picture      d. drawing**
2. When the product was launched they issued a press ..... to all the news agencies.  
**a. escape      b. issue      c. release      d. promotion**

3. According to the code of practice, a public relations officer should not knowingly ..... false information.  
**a. disseminate   b. dissociate   c. dispose   d. dissolve**
4. Some companies entertain journalists more ..... than others.  
**a. lasciviously   b. largely   c. leniently   d. lavishly**
5. The use of such things as logos and colour ..... helps to maintain a corporate identity.  
**a. schemes   b. systems   c. styles   d. fashions**
6. We need to liaise more with politicians and ..... servants if we want the government to agree to our plans.  
**a. official   b. polite   c. civil   d. civilian**
7. \$200,000 was ..... for the official opening of the new store.  
**a. set aside   b. brought about   c. set off   d. laid up**
8. Sponsorship can be an effective way of promoting .....towards an organisation.  
**a. will   b. goodwill   c. willingness   d. goodness**
9. At a press reception don't..... guests with irrelevant material.  
**a. overload   b. override   c. overtake   d. overcompensate**
10. The reception must be held at a convenient..... with good transport and parking facilities.  
**a. revue   b. venue   c. view   d. venture**
11. When making a presentation to a relatively small..... an overhead projector can be invaluable.  
**a. assistance   b. spectator   c. audience   d. congregation**
12. Within a large organisation a well-designed ..... journal is an effective method of internal communication.  
**a. in-house   b. home   c. household   d. plant**
13. Participating in local events, such as carnivals, is a good way of developing ..... relations.  
**a. common   b. commonplace   c. communal   d. community**

14. We used every ..... of communication to get our message across.  
**a. flow                      b. stream                      c. channel                      d. canal**
15. We have to highlight our strengths and ..... any weaknesses.  
**a. play up                      b. think through                      c. play down                      d. talk back**

## **9.5. PR in practice**

### **9.5.1. The role of public relations in the marketing mix**

Stated simply, the discipline of marketing is getting the right products (goods or services) in the right quantity at the right place at the right time — and making a profit out of the operation. So, what role does public relations play in the marketing operation? Separating out the marketing mix into its various components, a generally accepted definition is “the four Ps” — product, price, place and promotion.

The role of public relations in the marketing mix is simple communicate key messages to defined target audiences within the marketing chain to influence purchasing decisions. The same could be said of all marketing communications disciplines. The difference is one of third party endorsement. For example, if advertising is what a company says about itself, then public relations is what others say about the company. The difference between advertising and public relations lies between paying for media space versus the use of editorial with implied third party endorsement to inform and persuade. Of course public relations is much more than media relations and has a broader role than marketing communications.

Public relations can also be described as the management of reputation. A useful short summary of public relations which is recognised by the Institute of Public Relations founded in 1948 in the UK underlines this notion:

Public relations is about reputation - the result of what you do, what you say and what others say about you ... Public relations practice is the discipline which looks after reputation with the aim of earning understanding and support and influencing opinion and behaviour.

A more specific explanation of public relations in a broader context is provided in a report developed for the Department of Trade and Industry:

Inasmuch as reputation affects marketing, public relations has a key part to play in the marketing mix. It also can have a crucial role in communicating an organisation’s corporate objectives to key audiences

and may form an integral part of the management function, enhancing internal [employee] and external relationships. Good PR thus can make a significant contribution to a company's competitiveness and overall market position.

Public relations can assist in shaping the messages to be carried by word-of-mouth that constitutes one of the top three most common client concerns, with the power of retailer and own label brands, and customer loyalty and retention, coming first and second respectively.

Word-of-mouth can make or break a brand.

Gaining credibility through third party endorsement, public relations can:

- create a market environment;
- increase visibility and/or share of voice;
- inform/educate the consumer;
- influence the trade;
- support a salesforce;
- harness influentials/opinion formers;
- extend promotions;
- hype advertising;
- exploit sponsorship;
- manage issues;
- contain crises.

Any combination of these aims can be tackled through marketing communications public relations, but one must first understand the objectives of the organisation marketing the product.

the right PRODUCT	“The 4 Ps” at the right PRICE	in the right PLACE	with the right PROMOTION
physical product + <i>total package</i> , eg: • brand name • image • delivery • <i>after sales</i>	pricing strategies: • value for money • price = quality • stock it high/ sell it cheap	• distribution channels • dealer/ wholesaler/ retailer • salesforce/ national accounts • transportation	• advertising • sales promotion • public relations • direct marketing • exhibitions • incentives • sponsorship • packaging



Public relations in the marketing mix can complement other marketing disciplines being used; it can be used in isolation as the only marketing tool; or it can target a discrete audience quite separately “below the line”. It therefore is vital to understand the concept of integration with other marketing disciplines such as advertising and sales promotion, or running parallel campaigns separately which do not conflict with the “above the line” (paid-for media advertising) activity.

*For instance, public relations can be employed to promote an advertising campaign by launching it through editorial coverage. In order to do so, however, the campaign must have some element of newsworthiness, e.g. celebrity endorsement or an element of controversy. Public relations can also be used to extend an advertising campaign by taking a celebrity appearing in the advertisement and using him or her as a product model or spokesperson in editorial terms.*

## Vocabulary

**endorsement** — подтверждение, поддержка

**inasmuch as** — так как; ввиду того, что

**crucial** — решающий, критический

**to enhance** — увеличивать, усиливать, усугублять

**word-of-mouth** — устный

**concern** — забота, участие, отношение

**retention** — удерживание, удержание, сохранение

**to gain** — зарабатывать, добывать, добиваться, приобретать

**credibility** — доверие, правдоподобие, вероятность

**environment** — окружение, среда

**harness** — использовать, работать с напарником

**to tackle** — браться за решение,

**to complement** — дополнять, укомплектовывать

**discrete** — отдельный, разрозненный, абстрактный

**to run a campaign** — проводить кампанию

**celebrity** — знаменитый человек

## Vocabulary practice

☞ **The right choice of words can help to sell a product. See how many word partnerships you can find which create a favourable impression of the product.(2)**

**Match each word on the left with a word on the right. Use each word once only, write your answers in the boxes.**

### Set 1

- |                       |                    |
|-----------------------|--------------------|
| 1. <i>competitive</i> | a. <i>brochure</i> |
| 2. <i>delicious</i>   | b. <i>cleaning</i> |
| 3. <i>effortless</i>  | c. <i>details</i>  |
| 4. <i>finest</i>      | d. <i>fit</i>      |
| 5. <i>full</i>        | e. <i>flavours</i> |
| 6. <i>glossy</i>      | f. <i>quality</i>  |
| 7. <i>perfect</i>     | g. <i>rates</i>    |
| 8. <i>wide</i>        | h. <i>variety</i>  |

1	
2	
3	
4	
5	
6	
7	
8	

### Set 2

Now do the same with these words.

- |                           |                    |
|---------------------------|--------------------|
| 1. <i>forward-looking</i> | A. <i>brochure</i> |
| 2. <i>full-colour</i>     | b. <i>company</i>  |
| 3. <i>hard-wearing</i>    | c. <i>driving</i>  |
| 4. <i>highly-trained</i>  | d. <i>recipes</i>  |
| 5. <i>money-saving</i>    | e. <i>shoes</i>    |
| 6. <i>mouth-watering</i>  | f. <i>spray</i>    |
| 7. <i>ozone-friendly</i>  | g. <i>staff</i>    |
| 8. <i>stress-free</i>     |                    |

1	
2	
3	
4	
5	
6	
7	
8	

☛ Choose the best alternative to complete the sentence. Look up any words you don't know. (3)

- With effective advertising a company can become a ..... name.  
a. **house**      b. **household**      c. **housewife's**      d. **home**
- We need an effective campaign to ..... our new product range.  
a. **fire**      b. **set out**      c. **set off**      d. **launch**
- During the commercial ....., there was an advertisement for a new women's magazine.  
a. **break**      b. **breakage**      c. **pause**      d. **interval**
- The first thing an ad must do is ..... the reader's eye.  
a. **trap**      b. **catch**      c. **find**      d. **reach**
- We need a name for the product which will ..... to teenagers.  
a. **draw**      b. **attract**      c. **succeed**      d. **appeal**

6. They decided to do a mail ..... to get people interested in their holiday homes.  
**a. shot      b. shoot      c. trial      d. list**
7. All PR consultancies must obey the industry's .....  
**a. practice code   b. code of practice   c. practical code   d. code word**
8. Advertising on television is very expensive during ..... viewing hours.  
**a. peak      b. high      c. audience      d. big**
9. We did a lot of research to ensure that the advertisement would appeal to the ..... audience.  
**a. aim      b. arrival      c. goal      d. target**
10. Newspaper advertising ..... for 45% of the total.  
**a. accounted      b. counted      c. comprised      d. came**
11. Advertisers look at each newspaper's ..... figures before deciding where to place their advertisements.  
**a. circular      b. population      c. circulation      d. revenue**
12. As part of our service we provide ..... display material.  
**a. selling point      b. point-of-sale      c. appointed      d. salesmanship**
13. If you advertise at airports, you have a ..... audience.  
**a. captured      b. slave      c. captivated      d. captive**
14. She does the art work while I write the ..... for each advertisement.  
**a. copy      b. copies      c. copyright      d. media**

## 9.6. Internal communication

If staff do not know what they are doing and why, they are less likely to perform well. People do perform well, even when they expect the worst, if they are briefed in a timely and honest way. They are less likely to perform well if they are kept in the dark.

Equally important, good communication is a valuable motivator. Communication is the corporate glue that helps build teams, reinforces pride in working for a company and encourages people to work that bit harder to beat the competition.

Communication must be in line with strategy so that people have the right framework to work within. Communication in the competitive 1990s was the link between an organisation's compelling need for change and an employee's compelling need for security.

### **9.6.1. Some communication techniques**

Any attitude survey says that people want face-to-face communication. This may be admirable — but how practical is it? Some managers are very uncomfortable at communicating with their staff. They need coaching/training/encouraging to do so. Then there is the sheer difficulty of getting peripatetic managers to stay in one place long enough to give quality time to face-to-face communication. Neither of these challenges is insuperable, but they do need working on. Meanwhile there are other useful techniques to back up the desired one-to-one face-to-face communication.

Primary tools range from various forms of debrief such as team meetings and large gatherings where staff have the chance to listen to, and ask questions of, a senior manager, to facilitated focus group meetings that give staff the chance to provide feedback in a “safe” environment. Among the secondary tools to support the primary processes are articles in house journals, videos, audio-tapes (easy to listen to on the way to work), award schemes and surveys.

The point to make about both primary and secondary tools is that they are more about processes than products. They need to be tailored to the individual needs of not just the company but also the specific part of that company. And they need to adhere to the basic communication principles of timeliness, openness and honesty.

There is one final essential point to make about communication and it is this: communication is a shared resource. It is not, as some people think, something that is done to them. Nor is it, as some managers think, something that people do for them. The success or failure of communication rests with the whole organisation, with a little help from the person at the very top...

**likely** — вероятный, подходящий  
**to perform** — исполнять, выполнять, работать  
**timely** — своевременный  
**to reinforce** — усиливать, подкреплять  
**to beat** — побить, победить  
**compelling** — непреодолимый, вынужденный

**peripatetic** — странствующий  
**debrief** — расспрашивать, заслушивать отчет  
**to back up** — поддерживать  
**facilitate** — облегчать, способствовать, продвигать  
**feedback** — обратная связь  
**to tailor** — специально приспособивать, делать на заказ

## 9.7. Community relations

Community relations programmes have many definitions, cover varying objectives and are usually based on either a focused or scattergun approach. However, all professionally developed programmes have one thing in common — they are all designed to have a measurable impact on the overall perception of the company, by both its external and internal audiences — in other words, a measurable direct bottom line benefit.

This is achieved by utilising the professional skills of a public relations expert who is capable of demonstrating the achievable benefits of the community relations discipline and can highlight the added value of such a programme to a company's overall business objectives.

The need to link a company's community programme to its overall business objectives is a fundamental assumption. However, this is not always the case. In the past, patronage (defined as a donation where the company gets no direct benefit) and the "Chairman's wife syndrome" greatly influenced a community relations programme. But, following the recent recessionary period, when company budgets were squeezed, most companies now aim to maximise community programmes by adding value to — in many cases — a reduced budget by examining all community expenditure and devising strategies focused on maximising the benefits.

One consequence of this is that corporate philanthropic donations have decreased as marketing spend is concentrated on more proactive sponsorship activities.

A further trend is that companies are now realising the advantages of involving their employees in deciding how the community should be

supported and which activities will form the key focus areas. This creates opportunities for involvement, personal development, pride in helping the local community and increased morale, as employees feel that their contribution is valued, by both the company and the community.

The definition of community relations is a series of mutually beneficial business partnerships with one or more stakeholders, which enhance the company's reputation as a good corporate citizen. Partnerships can be on either a local, regional, national or international basis, but, the majority of community relations programmes are usually focused on either where the company's headquarters is located, or around one or more of its operational sites.

The stakeholders are represented by the company's target audiences (customers, media, suppliers, employees, trade unions, politicians, local government representatives, community organisations, key opinion formers, shareholders, educationalists, environmentalists) and it is vital for the long-term future of your company that they receive the correct messages and understand the reasons for/consequences of your actions.

### **9.7.1. Why bother?**

As companies develop more professional community programmes and communicate their policies to wider audiences, more and more shareholders are looking at the company's reputation, especially from an ethical viewpoint. This trend is slowly influencing institutional shareholders, proving that a good corporate reputation for serving the community can have a beneficial impact on the share price.

Furthermore, educational development ("from the cradle to the grave") concepts are now being developed to encompass the whole community, since a properly trained and developed workforce is seen as being crucial for any company's future. A community relations programme can benefit this development in two ways. The first is by education based sponsorships which create awareness in local schools and/or are linked to the national curriculum, which helps establish a company as a desirable employer with resultant potential recruitment opportunities. Secondly, they can provide opportunities for employees to develop their skills by working with local schools on schemes such as mentoring, work shadowing or mock interviewing.

A final reason is that a positive community involvement strategy is now being more widely acknowledged as a fundamental part of a business excellence programme. For instance, the influential European Foundation for Quality Management (EFQM) model has nine determinants for recognising assessing total quality management, one of which is the impact a company has on society.

Methods used in a community relations programme are usually based on combination of sponsorships, targeted donations, awards, hospitality, employee volunteering, use of facilities, seminars, and involves links with areas such as the arts, sport, education, the environment, occupational health and safety, charities, youths, senior citizens, the disadvantaged, disability, heritage and numerous other categories.

A company could work in partnership with the local community to discourage crime and encourage crime prevention initiatives, especially among its employees.

## Vocabulary

**assumption** — предположение, допущение

**scatter-gun** — вразброс, в разные стороны

**measurable** — измеримый

**perception** — восприятие, понимание

**bottom** — основание

**to highlight** — заострить внимание, выделить

**patronage** — покровительство, постоянная клиентура

**recession** — спад

**squeezed** — стесненный, ограниченный

**expenditure** — расход, трата

**to devise** — придумывать, изобретать

**stakeholder** — заинтересованный, тот, кто рискует

**to encompass** — окружать, охватывать

**mentoring** — наставничество

**mock** — учебный, предварительный

## 9.8. Financial public relations

The financial public relations industry is growing in size and role — driven by a demand for corporate transparency and a thirst for information about business. The media's appetite seems to have no limit. In the UK 10 national daily newspapers and 9 national Sunday papers regularly and increasingly cover business matters. There is also a multitude

of satellite, cable and terrestrial television channels, hundreds of radio stations and the result is ever growing coverage of corporate, industrial, business and consumer affairs.

The US does not have comparable national media with the exception of the key financial newspaper, the Wall Street Journal. However, the US does have very sophisticated business coverage on cable television, and a range of financial centres in addition to Wall Street in New York, notably Boston, Chicago and Los Angeles. Europe has not historically had a public market for equities of the same level of intensity as the UK, US and Japan. However, the stock markets in all the major European countries are growing rapidly and drawing closer to the UK and US model.

The financial media in Europe is still dominated to a great extent by the European editions of both the Financial Times, the Wall Street Journal and The Economist. As local markets grow, local media becomes more important as do the European-wide cable and business channels. The economies and stock markets of the Far East and the Pacific Rim are also becoming increasingly important to both companies and investors.

The rules and regulations of the world stock and bond markets, and the complexity of accountancy standards, inevitably make financial public relations a complicated speciality. The emphasis is on the basic communication skills and demonstrates how much financial public relations has in common with the rest of the communications industry.

Comments and examples concentrate chiefly on the UK and London market which is as sophisticated as any in terms of both the equity market and the financial media. Experience shows the same skills approach can be applied elsewhere in the world, even though the rules and regulations may differ considerably.

New areas for financial public relations specialists to tackle continue to arise. For example, there is a whole new sector developing to advise and support companies in their management of increasingly difficult and controversial annual general meetings.

There is also a significant specialist sector engaged in media relations for personal finance products. This clearly fits within the financial public relations world.



### 9.8.1. How to define financial public relation

At its most basic the scope of financial public relations can be defined in simple investment terms as: “all communications activity is based around the simple fact that money only has real value as an investment and that investors are people”.

Share buyers may be investing their own or other people’s money but in the end investment decisions are made on the basis of the quality of people. In a world of constantly moving money, the clear communication of objectives, achievements and potential is not an optional extra, it is an absolute necessity.

More specifically, the skills of financial public relations people are primarily focused on the need for publicly owned and listed companies to communicate consistently and positively with those that own them directly or indirectly, through the media or through analysts. The majority of the effort put into this specialist area of public relations surrounds the biannual issuing of results by companies.

For many millions of companies, large and small, around the world, the prosaic necessity of getting a proper understanding of their full year and half year figures is the most important part of any financial public relations strategy.

The hectic activity that surrounds major bids, deals and financial disasters is more dramatic, more newsworthy and more likely to be the subject of airport paperbacks, but it has as much to do with crisis management activity as it does with financial public relations. Happily for those who enjoy working in the financial public relations area, the opening up and deregulation of world stock markets and the freeing up of international capital has made merger and acquisition work a significant part of financial public relations, a situation that seems likely to remain for many years to come.

The basic task of real financial public relations, as opposed to the fizzy and more dramatic takeover bid, is a steady, long-term business dealing with a set calendar of events, the patient explanation of results, and what a company does and does not do.

As the majority of shareholders are the major stock holding institutions rather than individual shareholders, it has become accepted that shareholders are talked about in inanimate terms of “institutions” or “funds” or “computer programmes”. But even institutions are run and managed by mere mortals, and their computer programs written by

people with still a shred of humanity left: financial public relations has to recognise that the managers who populate the investment institutions are affected by everything they see, read or hear about a company, its management, its reputation and its products. Financial public relations could, therefore, be taken to cover any aspect of public relations for a commercial organisation. For large and truly international companies with a range of major businesses in their portfolio the presentation of each set of results requires a tremendous amount of careful hard-work and planning. Even a company that is closely followed and well known has to be very focused about the messages it puts out with results to ensure those who follow the company understand the full significance of the numbers.

In particular this involves very careful preparation of the presentation to be given to analysts. It is the views and the number crunching of the analysts that will influence the views of the other key audiences, including the financial press and the institutional shareholders.

Such presentations cannot be given in a vacuum and are prepared in response to feedback on what are the analysts' major concerns and areas of interest. By researching the analysts' concern in the period leading up to announcements the company can ensure it makes maximum use of the opportunity of its results presentations. The tightening of rules on selective disclosure of information has made set piece presentations even more important to a company's communications programmes. A company with a significant shareholding abroad goes to great lengths to teleconference its briefing to abroad so that analysts and shareholders there receive company comment and information at the same time as those at home.

It is pointless to give people detailed information if they do not have the necessary background knowledge about a company's activity and a famous company, as an international conglomerate, puts together a series of high quality teach-ins throughout the year on its core business areas. While these do not contain significant new information they are extremely popular with a company followers who are required to develop a real understanding of a range of companies in order to analyse the company accurately.

**equities** — обыкновенные акции, без фиксированного дивиденда  
**stock market** — фондовый рынок  
**bond market** — рынок ценных бумаг  
**accountancy** — бухгалтерское дело

**share** — акция  
**biannual** — выходящий два раза в год  
**bid** — заявка на торгах, предложение цены  
**merger** — поглощение, слияние

## Vocabulary practice

### ☛ Choose the best alternative to complete each sentence.(4)

1. A PR consultant must not inform organisation's financial affairs to specialists in the business circles.

- a. dissociate**   **b. disseminate**   **c. distort**   **d. dissolve**

2. PR consultants can provide advice and assistance in such areas as, share floatations, shareholder relations, communication of financial information to employees, etc.

- a. takeovers**   **b. stop-overs**   **c. turnovers**   **d. funds**

3. As an ordinary shareholder, you are ..... to vote at the meeting.

- a. entitled**   **b. titled**   **c. nominated**   **d. persuaded**

4. The share ..... which is made up of a cross-section of shares, reflects the general activity of the market.

- a. indication**   **b. index**   **c. measure**   **d. indicator**

5. The rules and regulations of the stock and bond markets, and the of accountancy standards make financial PR a complicated speciality.

- a. complexion**   **b. completion**   **c. complexity**   **d. complicity**

6. New areas for financial PR specialists to ..... continue to arise.

- a. tackle**   **b. deal**   **c. cope**   **d. involve**

7. There is a whole new sector developing to advise and support companies in their management general meetings.

- a. daily**   **b. monthly**   **c. weekly**   **d. annual**

8. Share may be investing their own or other people's money.  
**a. buyers      b. purchaser      c. customer      d. seller**
9. Bonds issued by the government are often known as .....  
**a. golds      b. guilts      c. gilts      d. debits**
10. What kind of ..... can people expect on their investment?  
**a. reward      b. prize      c. surplus      d. return**
11. You should have as diversified a ..... of shares as possible.  
**a. case      b. file      c. portfolio      d. folder**
12. In real ..... the \$1,000 you invested would be worth \$5,000 today.  
**a. words      b. facts      c. factors      d. terms**
13. The higher the risk you ..... the more money you could make.  
**a. take      b. do      c. make      d. invest**
14. The market has been extremely ..... over the past few years.  
**a. volatile      b. wavering      c. shocking      d. moving**

*Make notes of all partnerships.*

## **9.9. Corporate public relations**

The twin areas of corporate and financial communication are, in most people's view, inseparable. Corporate public relations and financial public relations are not merely close bedfellows, they are Siamese twins sharing the same vital activities.

Corporate public relations is usually defined as the reputation of the entire company, although more often it is the reputation of the head of a company rather than the entire body. It is not that the reputation of some obscure subsidiary cannot affect the much larger corporate body, more that the corporate reputation should be robust enough to cope with the ups and downs of individual parts. Corporate public relations is all about enabling a company to succeed and success cannot always be defined in simplistic financial terms.

The extremely high corporate reputation of British Airways in the UK, Europe and the US is based on several key factors: the contentment of its passengers with the quality of its product; the admiration of investors for its management; the financial performance of the company; and the strength of its share price. At different times the relative importance of these factors may vary a little but they are all essential.

It is one of life's universal truths — along with the fact that nobody thinks they are a bad driver — that most people, whatever their profession, regard themselves as a public relations expert. Fund managers giving companies tips on their public relations will probably be relieved to hear that public relations people seldom seek to give advice on fund management.

A company's corporate reputation and that of its management is the fundamental foundation upon which financial public relations is built up.

In the same way, the quality and reputation of a company's services and products cannot be isolated from its corporate image and the way it is seen by its financial audiences.

Financial public relations can, therefore, not be totally separated from the consumer and business-to-business public relations carried out by any company. The relative strength of a company's corporate brand, and the individual brands of its operating companies and products, depends on the type and strategic approach of a company. However, it is always a dangerous signal to any corporate and financial public relations operator when a subsidiary brand's or product's image dominates a company's corporate image among the key financial audiences.

Political and governmental affairs activity has also to be closely coordinated with financial public relations activity. All business and commercial industries are in some way affected by government, whether national, international or local. A company's public affairs activities often have a major effect on a company's financial stability and success, particularly as most governmental involvement with business involves taxation or, much more rarely, subsidy.

In addition, the privatisation of so many government-owned industries around the world has also created a powerful new set of pseudo-government figures known as the regulators.

Financial public relations probably differs less across international boundaries than most other branches of the communications industry: financial activity is not particularly affected by cultural differences. The greatest international diversity is in the area of regulation, governmental

intervention and state interference. As a result, although many companies are quoted on two or more stock exchanges around the world, every company still has a home base and a home stock market. However, each market has its own rules and regulations, and coordinating the financial public relations activity in different markets is a growing part of the job.

## Vocabulary

**bedfellow** — партнер

**obscure** — неизвестный, ничем не прославленный

**subsidiary** — дочерняя компания

**fund manager** — сотрудник финансовой организации, управляющий ее инвестициями

**figures** — зд. цена

### 9.10. In-house or consultancy?

There is a healthy obsession among public relations people to debate fruitlessly the relative merits of in-house or consultancy public relations people. Without doubt financial public relations is an area where professional knowledge and skills are needed by even the smallest quoted company in one form or another. That is what may come from a number of different sources principally from either in-house or consultancy public relations advisers.

The complexity and regulation in financial communication make it particularly important that there is someone around with the knowledge of both the company and the financial markets. Whether this expertise comes from in-house or consultancy is completely irrelevant. What does matter is the access that the adviser has to the top management of the company.

It is important to remember that the key description is “adviser”. It is an even bigger mistake in financial public relations than the rest of the communications industry for the communication experts to get between a company and its audiences. As well as being an adviser we may occasionally be an intermediary, but it is important to remember that the message is that of a company and its management, and that “good” public relations programmes are those that are effective, not those that are noticeable.

## 9.11. PR and Politics

Politics is a concept to interpret and try to understand the world around us. Our understanding therefore depends at least partly on how we define politics and political activity. Politics is the way in which we understand and order our social affairs. This applies especially to the allocation of scarce resources, and its underlying principles. It also involves the means by which some people or groups acquire and maintain a greater control over the situation than others. Thus politics is above all an activity – concerned with people’s social and material relationships, expressed in various ways in different places and continually changing through time. Clearly, therefore, politics is closely related to many other fields of knowledge, for example economics (material relationships), sociology (social relationships), geography (the spatial dimension) and history (the temporal dimension).

What distinguishes “political activity” from “politics” is action towards others. While people may think about politics, it is of no significance to anyone else, including the analyst of political life, until they act on their thoughts, whether verbally or physically. Political activity takes place only between certain individuals and groups that are publicly recognized as having an accepted right to behave in a certain way, and according to certain common recognized and enforceable rules. Groups and individuals without this legitimacy, or which act outside the rules as defined by the same public authorities, are deemed to be acting outside the arena of politics. The types of activities regarded as political are delimited by one set of interested parties and can be restricted to a particular set of economic and social arrangements, that is liberal democratic ones. The governmental authorities and political parties define their relations and activities as political. Political parties are organized groups of people who share a set of ideas about how the country should be governed and who work together to have members of their group elected in order to influence the governing of the country. When members of a political party form a majority in the government, they have a great powers to decide what kinds of laws will be passed. Presidents tend to appoint members of their party or supporters of their views of their party to executive branch positions. The study of politics today is the study of norms, institutions, structures and behaviour.

### *Chief Executives*

A certain amount of confusion is often generated by the interchangeable use of such concepts as ‘the executive’, ‘the state’ ‘the government’, because there are no universally accepted definitions of them. It would, therefore, be helpful to distinguish clearly between them. The state (otherwise often referred to as “the regime”) is the most inclusive of the terms and is understood to embrace all the main institutions of the system, including the judiciary, police and the military. “Government” is often reserved to describe the actions of the “government of the day”. It refers to a much smaller group of politicians who hold executive office temporarily ( following a coup d’etat, revolution, election or other succession process) as presidential appointees, or members of a majority party, coalition or military junta, and we shall use the concept in this sense. What is the difference between the executive and the government? The executive will be understood to refer to the body of government ministers together with permanent senior officials (bureaucrats) who are involved in basic decisions over what policy proposals to initiate and pursue and the priority to give them. Compared to states or executives, governments tend to be of short duration — state institutions often remain in existence for long periods and officials in the executive may have lifelong careers, while governments come and go (although some of their personnel may hold office in more than one government). Executives, at their apex, they may be single or collective. This means that the final decision-making responsibility is either formally concentrated in one person or, alternatively, in a collective body — a committee — like the Cabinet.

The Cabinet provides a good example of a collective executive in which all decisions must be agreed by the members. A combination of government secrecy and collective responsibility (the notion that an individual member must not disagree publicly with a Cabinet decision) have made it difficult to discover the extent to which cabinets are genuinely collective decision-making bodies, but a succession of leaks and memoirs has built up a picture of a committee in which genuine debate tends to be restricted to issues that come to assume major political importance for the government. More typically, it sits to give the final ye or nay to policies generated within the bureaucracy and the network of cabinet committees.



**scarce** — недостаточный, скудный  
**spatial** — пространственный  
**dimension** — измерение  
**to distinguish** — различать, отличать  
**legitimacy** — законность  
**to deem** — полагать, считать

**judiciary** — судьи  
**coup d'état** — государственный переворот  
**junta** — хунта  
**apex** — верх, вершина  
**yea or nay** — большинство “за” или “против”

## 9.12. Central and local government

Everyone is exposed to the workings of central and local government, though we may not always recognise it. Increasingly, non-elected bodies, trusts, quangos and so on are responsible for running what we consider to be public services, such as those associated with education, health and water.

It is this growing middle ground, especially between a directly accountable public sector and the newly privatised sector, which is causing public concern. Inevitably a spotlight has been cast on the way in which public money is spent and the way in which decisions are made. Such new bodies are in fact obliged to report to the centre in one way or another, but the transparency of their operations has been clouded.

It would be dangerous to identify current government departments or the make-up of the cabinet here, since changes can occur literally overnight. The press will usually identify the new shape of government or a shift in ministerial duties as a change occurs. There are also many reference books on the organisation of government, the infrastructure which supports it, such as the civil service, and the growing numbers of agencies and quangos which implement policy.

The role of central government, via the Parliamentary processes, remains constant — to legislate, regulate and levy taxes in order to pay for public services. The vast array of government services — either directly provided or indirectly through agencies or funding support — means that the government itself is the country's prime employer and a major customer.

A relatively recent development is to shift control of the activities government departments from “the centre”.

This growing regionalism aims to localise key government departments, providing a single point of contact for local businesses and councils. Regional issues in theory are more likely to be identified by this new network and fed into the government machine.

The major functions of local governments are to support the system of production by providing the necessary infrastructure in terms of roads, planning and technical education. They are responsible for the provision of services that relate to the quality of peoples' lives, and which thereby contribute further to supporting the production system, such as housing, education, libraries and museums. The third area of local government responsibility is the maintenance of order and social cohesion. Routine policing is the responsibility of local authorities.

## Vocabulary

**quango** — (квазиавтономная государственная организация) создаются тем или иным министром для выполнения задач общественного назначения и финансируются государством. Часть сотрудников — государственные служащие. Например: Комиссия по охране здоровья и труда, Служба консультации, примирения и арбитража.

**to legislate** — издавать законы

**to levy taxes** — взимать налоги, облагать налогами

**transparency** — прозрачность

**cohesion** — сплоченность

### 9.12.1. Access

Making contact with government has become an industry all of its own. There are numbers of lobbying companies which will claim as part of their services to have the right contacts or to effect the right introductions. A “dating agency” approach, or hosting a reception for example, will not alone be enough to make sound contacts to help further your case.

Research and making the right local/regional/national or even international connections will yield a more productive outcome — provided a number of key prerequisites are attended to:

- invest time in identifying the key influencing figures or parties;
- anticipate their attitude towards the issue; be ready to counter or bring in new areas for discussion;

- use your own influential figures to effect introductions;
- start at or near the top of the organisation to be targeted;
- use a senior in-house person to make contact and to lead the campaign;
- develop a good rapport with those outside the organisation who can help or advise you.

Meetings with ministers to discuss an issue will only rarely happen at the first attempt. They are busy people who will be protected from the demands of “outsiders”. Good links with the minister’s private office may assist in your efforts but others, like supportive MPs, may also help meanwhile by putting your case direct.

The likelihood is that meetings, when they can be arranged, will be with civil servants. Similarly, replies to letters sent to ministers will almost inevitably be drafted (and probably signed) by an official. This is not necessarily a bad thing. It gives a point of contact, a starting point for dialogue. Senior civil servants (Grade 5 or above) are best placed to assist.

The government has its own public relations officers too who act as spokespersons for departments and are part of the Government Information Service and are therefore at the centre of “official” government PR activity.

It is important to remember that civil servants are not political appointments — they are paid to serve the government of the day and they defend their right to impartiality vigorously.

Hence, their value in the public affairs process lies in their ability to interpret government thinking and policy; knowing how and with whom to work to convert it into action; acting as an informal sounding board; ensuring the government is well appraised of third party thinking and ultimately that the government machine works effectively.

Thus, achieving consensus is in the civil servants’ interests as much as that of their ministers or secretaries of state.

There is another figure in the process, that of the political or special adviser. They act in a (politically) advisory capacity to government ministers or leading spokespeople in the main political parties and are likely to harbour political aspirations.

They are not constrained by the same rules as mainstream civil servants and act as a conduit of information within the party and between its key political figures. On behalf of their political bosses, they are anxious to detect problems early and advise or deploy tactics to avoid confrontation and engineer the least damaging outcome.

## Vocabulary

**to yield** — приносить, давать  
**to anticipate** — ожидать, предвидеть, предвкушать  
**to counter** — парировать, противостоять, опровергать  
**to bring in** — вносить, вводить  
**attempt** — попытка  
**impartiality** — беспристрастие, справедливость  
**vigorously** — решительно, энергично  
**aspiration** — стремление, сильное

желание  
**constrained** — вынужденный, стесненный  
**on behalf of** — от имени, в интересах кого-либо  
**anxious** — сильно желающий, озабоченный  
**to deploy** — разблокировать, использовать  
**to avoid** — избегать, уклоняться, аннулировать

### 9.13. Local government and government relations

Issue advocacy is a narrower term than lobbying, which is more broadly used to include all private as well as public interests that seek to influence government. In other words, the term lobbying usually describes the activities of corporations and labour unions in defence of their economic interests, in addition to the championing by citizen groups of particular causes in which they may not have a vested economic interest.

Lobbying is every bit as much a part of the government process today as on-the-record rulemakings or public hearings. It is a vital part of the flow of information in the political process that keeps democracy alive.

Totalitarian regimes don't need lobbyists, because there's no opportunity for persons on the outside of government to affect the decisions made on the inside of the government. It's just the opposite with a democracy. Democracy as a form government means that the citizens of a nation should elect their officials and have a voice in making laws. The people have the right to determine who will be the leader of their nation, who will make the laws and what the laws will be. Information from the citizenry is crucial to enacting laws that reflect the will of the people and thereby maintain a vital democratic process.

At the same time, the public has a right to know, and the public should know, who is being paid how much by whom to lobby on what issues. That information keeps government officials accountable and provides the public with a realistic picture of the nature and scope of the influences being brought to bear on the government. Disclosure diminishes the power of the backroom and brings the forces of policymaking into the open. They cannot expect the public to have confidence in their actions unless they conduct their business more in the open.

The term “lobbying” has been the subject of many headlines recently, causing the conduct of people associated with or in public office to come under considerable scrutiny.

While the sometimes questionable activities of members of parliament (MPs) or Congress and others who are close to the corridors of power have attracted a great deal of media attention, it would be wrong to completely blur the expectations and respect for the system of democracy and government.

People working in the public service, be they officials, members of parliament or councillors, do endeavour to serve the needs of the electorate and local constituents.

They will obviously have affiliations and aspirations which need to be considered part of their own “manifesto” (be it personal or political), but many will have entered public life because they want to make a contribution to the welfare of the community at a national or local level. It is those in possession of this “power” who most frequently need to be the focus of public affairs campaigning.

Lobbyists work, for example, for expanded medical research, for protecting lakes and rivers, for improving highways, for maintaining the student loan program and for protecting religious freedom. Advocacy groups have helped pass legislation ranging from key civil rights protections to the deficit-reduction package that has finally balanced the federal budget.

### **9.13.1. Public affairs**

The more confrontational the opposing sides are on an issue, the more difficult that issue becomes to handle effectively. So the headlines mount, and reputations become enhanced or damaged as the best-laid plans for the organisation or the issue in question come under pressure.

Public affairs is not an exact science. But there are common approaches to consider in the public affairs process when looking to governments at central and local level for support.

Support will not be forthcoming without knowledge. Knowledge is derived from information via research and campaign planning.

Such knowledge will also need to be communicated, shared, debated and agreed upon if that essential ingredient to aid success — consensus is to be achieved among the parties involved.

Some would call that effective public relations. Others would prefer to define it as public affairs.

Whichever description applies, ensuring your organisation's or client's philosophy is enshrined in government and others' thinking is a crucial component of any organisation's success. It is this ability to understand and influence opinion which determines it.

### **9.13.2. Defining public affairs**

Public affairs is necessarily all-embracing, making definitions tortuous. However, at the heart of public affairs activity is the need to ensure that the organisation's aims, philosophy and motives are consistent, both in terms of the way in which the organisation acts with its external markets or target audiences and the way in which its own (i. e. internal) functions reflect the organisation's core objectives.

It is essential therefore to have a clear vision of what is trying to be achieved; what the strategic aims are; how that can be broken down into core areas for action; who the key audiences are; identifying the main messages for those groups of people, and the most effective way of achieving and maintaining contact with them.

Your client or employer may think that they have gone through this process. But as the professional adviser it is important that you appraise their objectives too because there is every opportunity that such a reappraisal will provoke new thinking or a different interpretation. And the over-arching strategy will need to be adjusted to take this into account.

In building up the strategy sufficient time should be given to reviewing and then revising the campaign, along the way ensuring the focus remains on the core objectives, and that the strengths and weaknesses are identified and acted upon. Importantly, scope should exist to ensure the intelligence gathered is harnessed and fed back into the information flow to ensure it influences future policy.

The range of activities expected of those involved in public affairs will entail the following types of activity in varying degrees:

- communicating with government;
- communicating with local authorities;
- media relations;
- community relations;
- advertising;
- issue management;
- investor relations;
- staff communications;
- corporate publications;
- conferences and seminars.

The overall aim in any campaign must be to build support for your cause, using as many influential outlets as possible and, especially, calling on the advocacy of others who will act as essential third party support. These are the beginnings of a sphere of concerted and coordinated action to support the strategy and the birth of consensus.

Once it starts to build pressure can be applied (though not necessarily always publicly) to ensure the issue at hand is brought to the attention of those who will ultimately be debating or creating policy, or taking the final decisions.

The ultimate target may be a change in legislation or a shift in attitude by those who are in a position to influence others. The democratic process allows plenty of opportunity to contact those at the heart of such activities, while the process of applying pressure can be orchestrated through robust media campaigning and/or a combination of the activities listed above.

## Vocabulary

**issue advocacy** — защита особых интересов

**on-the-record rulemakings** — разработка и прохождение законопроектов

**public hearings** — публичные слушания

**deficit-reduction package** — пакет законопроектов о сокращении бюджетного дефицита

**scrutiny** — тщательное рассмотрение

**to enact** — постановлять, предписывать

**affiliation** — установление связей, прием в члены

**aspiration** — стремление, сильное желание

**to blur** — запачкать, затуманить, запятнать, сделать неясным

**expectations** — виды на будущее

**contribution** — содействие, вклад, статья, сотрудничество

**welfare** — благосостояние, благотворительность

**forthcoming** — предстоящий, ожидаемый

**via** — через

**to enshrine** — хранить, лелеять

**consistent** — последовательный, согласующийся, стойкий

**concerted** — согласованный, по уговору

**ultimately** — в конечном счете, в конце концов

**robust** — крепкий, здоровый

**Disclosure** — The Lobbying Disclosure Act of 1995 — Закон об открытости лоббистской деятельности 1995 года (США)

## 9.14. Business to business public relations

There was a time — and not that long ago — when banks didn't have ATM machines located outside. When you wanted money out of your account you took your cheque book and “bank card” and joined the queue inside your nearest branch — usually in your lunch hour because that was the only chance you'd get in the days when they closed at three in the afternoon. If you didn't manage to make it on Friday you'd be reduced to buying something with a cheque and then taking it back an hour later with some feeble excuse so you could get a cash refund.

And it's not just ATMs that have revolutionised the way money is handled. Financial services, one of the most competitive areas, has been opened up beyond recognition by the development of telephone banking and insurance. It's suddenly a very different world out there.

But what's this got to do with business to business public relations? The answer is, quite a lot actually. For one thing it shows just what competition has done to push customer service higher and higher up the agenda until, for many firms, it becomes the number one driver of strategy. That's not just in financial services either; almost all companies are having to provide increased levels of customer service both to attract new buyers and maintain the loyalty of existing customers.

Second, it should get thoughts going about how much further things may change in the future. How many people waiting in that bank queue were dreaming of the day they'd just have to slot a bit of plastic into a machine and gain access to instant cash? How many motorists 30 years ago would have seen the day coming when they could simply call up a free number and get an instant quote for their motor insurance?



You'd have to say not many. But such things are now a reality. It's as if they've always been there. How many other things are yet to appear which will change existing worlds out of all recognition?

### **9.14.1. The customer rules**

The customers are now the rulers — and that goes for-business to business as much as for consumer markets. The business customer wants all the same things: better access to products and services; more competitive prices, better customer service; wider range and more choice; bespoke products; better sales follow-up; and a complaints handling process which is second to none. And they want it all by yesterday. If they don't get it they'll demand compensation.

Not only that, but in business there's a great deal more to think about. What effect will that story have on share prices? How will your own co-suppliers react when they hear all about that deal you've struck? Will confidence in your financial state suffer when the news leaks out? Will your customers start to look for an alternative supplier just in case you can't deliver? How are you going to attract the best, most motivated employees with nasty rumours and horrible stories about your employment practices floating around the trade press? All these things could become problems in business to business public relations.

Clearly if lip-service is paid to customer service not much will be achieved. There might be an impressive cuttings file in volume terms at least, but it'll largely be negative stuff. It goes without saying, therefore, that if the customer isn't offered what they want, public relations isn't really going to be of much use except in "putting the record straight" with enquiring journalists.

In many areas of business, customer service has become a marketing tool — one which is being lined up alongside issues like price and quality as a way of differentiating one company from another in marketplaces which are increasingly crowded. Even then, for every innovator there are soon half a dozen copycat competitors ready to erode their position. If you are going to make a big thing about service levels, you are going to have to get it right, and maintain and build customer perceptions of service. Public relations, naturally enough, is a valuable tool to help achieve that end, although in the business to business environment it's going to take more than just public relations to achieve your overall goals.

So, just what can business to business PR achieve? What are its limitations and how can you get the best out of it?

### **9.14.2. How do you know it works?**

One thing that needs to be clear from the start is measurement. It may be impressive to be able to hand over a bulging book of press cuttings to your managing director, but anyone who thinks that great media coverage equals a loyal and devoted customer base is travelling blind. Business to business trade press coverage can be a fickle thing and is unlikely to give a clear vision of just what customers think. Tracking results in the trade press and key issues will help to give an idea of trends, but you are going to have to assess customer perception really to have a clear idea of what they actually think. Tracking like this also helps to define your public relations goals. If you find out what they like and don't like you can then set about correcting false impressions and measure more accurately the results of your labours. It also ensures better targeting of your resources at exactly the issues which need addressing most of all.

Remember that Rome took longer than 24 hours to build. If big radical changes are planned look for key stages where various target measures can be set to assess the speed of change and adjust these as appropriate. It can become demoralised by a sudden succession of poor stories and very negative coverage. At times like those you need a sense of perspective and balance.

### **9.14.3. The trade press**

The trade press is worth taking a closer look at not least because in the specialist areas of business to business communications they incorporate a wide variety of styles and approaches, from the small, dedicated one person operations to the vast established "industry bibles".

The trade press is often a career starting point for many journalists and turnover in young staff is to be expected (one good reason for treating journalists on trade titles with the same respect as national writers is that you never know where they'll turn up next). This can cause problems for any public relations practitioner, since it constantly means you are having to get to know new faces and explain what your company is all about. On the other hand, the trade press is also full of highly experienced commentators with years of industry background who can pick

holes in the most seemingly well-reasoned and researched arguments with ease.

Bear in mind too that many national stories will start their lives in the trade press; don't try to comfort yourself that a story has "only" appeared in what you consider to be a minor trade title. If it catches the eye of a specialist correspondent then it might well be front page news in days - or on the radio that very evening. This can also work to your advantage, of course, in attracting potential national interest to a story which may have been passed by first time around, but which suddenly catches the eye from a different angle when seen again in the trade.

On that note, remember that all communications internally should also reflect the organisation's external position. There are many stories about occasions when journalists have picked up leads from staff newspapers left on buses or trains — even of one journalist who got his lead by reading a story over the shoulder of an employee who was travelling on the same underground train. It's vital, therefore, that internally the same story is being told as externally. This is also true the other way around. There is no point having a comforting story from the chief executive on the front page of the staff journal when the press have just got hold of a leaked memo that indicates the organisation is preparing to sack half the workforce while doubling the value of the chief executive's share options package.

#### **9.14.4. Getting it right**

So business to business communications need to be seamless, timely and have a goal that is measurable in more than just newspaper column inches or radio airtime.

Suppose the organisation has to make a difficult announcement, something that isn't going to go down too well or maybe an issue of potential embarrassment. What factors are going to make for success?

First, timing is going to be very important but it is rarely going to be absolutely right. All kinds of things can leap in to frustrate and overturn all best efforts to find the right time to tell the world the news (just as a major disaster can bury your important profit announcement on page four, a slow news day can take a minor incident and make it sound like the ultimate tragedy). In reality you can try to pitch it right, but you can't guarantee that time will be working with you — so it's not worth waiting for some bad news from someone else before releasing

your own bad news. It's a gamble and it's better not to gamble. Luck may help with timing, but can just as easily frustrate. On top of that, a really juicy story is going to be juicy even if it's a busy news day. It may slip down the list in terms of media interest, but someone will still run with it if they think the angle is right.

More crucial with difficult announcements is the speed with which you react and the force you are able to put behind your defence should that become necessary. In business to business dealings you should know in advance about most difficult issues and be able to plan for many contingencies. That's not to say that they'll always be easy to handle, but it does give time to plan, prepare and consider various scenarios.

Accidents do happen and market changes can be rapid, but, on the whole, business developments "emerge" and trends can be seen in advance. Here the trade press is usually first on the scene. Informed insiders in direct marketing knew that it was only a matter of time before the big name fast moving consumer goods (FMCG) manufacturers turned to below-the-line techniques to ensure and build brand loyalty. To those on national papers it was all something of a shock.

As part of this process lines of communication and who will communicate what should be clarified. It's often a good idea to have a single spokesperson available to handle the media. The more difficult the issue the more senior they should be, but this isn't a fixed rule and things may make you want to change this. It may be very hard on the individual concerned, but it is sometimes good to have the same face and name doing the work on television and radio. It can help focus arguments far better than having a series of people who change with every twist of the story.

A tip for those who might have to face a live broadcast interview is to draw up a list of no more than three or four key points you want to get across in advance of the event. Whatever happens in the interview, take every opportunity to get them across and try not to be side-tracked by the interviewer into other areas which are not relevant to your organisation. This technique will also help you to focus your energy and attention.

Whoever is used, they have to be prepared to act fast. When planning be prepared to have to react quickly — the situation may be very fluid, and likely to twist and turn as the media look for different angles. One minute you might be denying a rumour, the next second you could find that the journalist has a document in their hand and is hawking it

about and looking for a response. They won't wait for 12 hours while the board agree how to react and approve your statement. By that time something else will have happened. The risk then is that the story will run anyway with your own inability to react phrased by that telling statement "unavailable for comment" attached.

Know and exploit all available communications channels. Remember that a timely, well-argued letter to customers or shareholders backed up with a telephone helpline or an offer of further information can do a great deal to calm rumours and stop the media ever getting to a potentially problematic business change or development. Basically, use whatever communications techniques will work best to deliver the result. If an imaginative three-dimensional direct mailing piece to employees at their work addresses will get over the message then do it! Royal Mail did use a direct mail based campaign in an effort to boost service quality in one particular product — and the results were spectacular, both in terms of recall of the campaign messages and in the fact that the quality of service jumped dramatically. There is no reason to believe that the same techniques applied to other areas should not work equally well. For example, use imaginative posters, exhibitions or video — basically whatever will succeed best for the chosen targets.

One major water authority recently tested a number of communications techniques to see which worked best in getting across water saving messages to its customers. Press and radio worked well in terms of reaching a large number of people with a high impact. But what customers liked best was a simple letter which put across the facts and explained what they could do to help. Loudspeaker vans were the worst option of all. This company had no negative reactions to its campaign; indeed, it didn't need to impose drought restrictions and saved itself from the damaging reports which hit so many other water companies over the same period.

## Vocabulary

**bespoke products** — товары, сделанные на заказ  
**sales follow-up** — гарантийное обслуживание  
**complaints handling process** — рассмотрение рекламаций

**to leak out** — просочиться, стать известным  
**nasty rumours** — скверные, непристойные слухи, сплетни  
**lip-service** — пустые слова  
**negative stuff** — отрицательное содержание, чепуха

**copycat** — подражатель  
**to erode** — разъедать, вытравливать, разрушать  
**media coverage** — освещение в печати, по радио и т. д.  
**fickle thing** — непостоянная, ненадежная вещь

**to sack** — увольнять  
**contingency** — случайность, непредвиденное обстоятельство  
**seamless** — из одного целого  
**timing** — выбор (наиболее подходящего/удобного) времени, темп

## Vocabulary practice

☛ Many journalists who write about business like to use idiomatic expressions to make what they say more interesting to the reader. As some of these expressions occur regularly, it is important to understand them and note them down.

Complete each of the sentences with one of the words or phrases below. Use each item once only. (5)

carry the can

on the grapevine

thorny problem

a dawn raid

ride rough-shod

type-cast

fall by the wayside

ride the storm

undermine

hefty knock

rubber-stamp

wiped off

nose-dive

teething problems

woo

1. They attempt to ..... the housewife with special offers.
2. Despite ..... in the first few months, the new system has proved to be a great success.
3. He then turned to the ..... of appraisal interviews, a topic which he knew would be unpopular.
4. If you ..... over your opponents you should not be surprised if they take every opportunity to get their revenge.
5. She accuses some of the directors of trying to ..... her position in the company.
6. They had heard ..... that he was thinking of leaving.
7. They were left to ..... after the firm collapsed.
8. Luckily we were able to ..... until things had calmed down.
9. The pound took a ..... yesterday when the trade figures turned out to be much worse than anyone had expected.
10. Over \$17 million was ..... the value of the company after it was announced that they had made a substantial loss.
11. She's been ..... as a risk-taker but in fact she's usually a very cautious person.

12. The committee did little more than ..... the new policy.
13. Inevitably many new products ..... in the rush for profits.
14. They gained control of the company after ..... that caught the directors and the stock market completely by surprise.
15. The bad news caused the shares to ..... 65p to 85p.

**⊕ Complete each sentence with the correct colour. (6)**

1. His supervisor gave him a ..... look when he turned up late for the third time this week.
2. I must be on some kind of ..... list because I have a lot of difficulty getting credit.
3. We're waiting for the ..... light from head office to launch our publicity campaign.
4. Local residents protested when they heard a factory was going to be built in a ..... belt area.
5. I won't believe we've got the contract until I see it down in ..... and.
6. Among the ..... goods, washing machines are our best sellers.
7. There were several ..... faces when these so-called financial experts found that they had been tricked!
8. We need to cut through all the ..... tape and speed up the decision-making process.
9. That's a bit of a ..... area. It's difficult to say who exactly has responsibility for recruitment.
10. The company found itself several thousand pounds in the ..... after spending so much on improving its production line.
11. We lose millions in tax revenue every year because of the ..... economy.
12. They're looking for a ..... knight to help them fight the takeover bid.
13. Then, out of the ..... she offered me a job managing her new restaurant. You can imagine my surprise.
14. We have to roll out the ..... carpet for him as he's one of our best customers.
15. The ..... revolution has meant that food exports have increased dramatically in the past few years.
16. The Government intends to allocate more money to unemployment ..... spots.

## 9.15. Public relations for non-commercial organisations

Help the Aged works to improve the quality of life of older people in the United Kingdom and internationally, particularly those who are frail, isolated or poor.

A simple mission statement — quite straightforward. Worthy but unlikely to prompt newspaper headlines.

Elderly people seldom present the most exciting photo opportunities. The copy detailing their doings is rarely considered “sexy”. A grey-haired 60 year old pensioner is more likely to have been a victim of crime or an accident to justify her place on the front page, unless of course her name happens to be Sophia Loren or Brigitte Bardot.

So how does a charity working for elderly people keep itself at the forefront of public attention? How does Help the Aged raise \$40 million (1994/95 figures) and achieve a place in the coveted Charities Aid Foundation Top Ten league table for voluntary contributions?

The answer of course is that it is due to a combination of many different factors. A highly motivated workforce, supported by thousands of committed volunteers, is the key ingredient. But these internal strengths are complemented by external partnerships made with business and commerce, with statutory and other voluntary services.

Indeed Help the Aged’s partnership with companies provides countless illuminating case studies of PR activities.

The public relations activities and strategies of a charity such as Help the Aged do not differ greatly from those of a commercial company. What is interesting is that while there are some fundamental differences in terms of objectives — profits for a commercial company, fundraising for a charity — there are also some important similarities.

A charity like Help the Aged and a Top 100 company are both operating in a highly competitive environment. A charity public relations activities and those of major corporations both depend on “good stories, well told” which will benefit, in the case, the welfare of elderly people and, in the commercial world, the sales of a product:

The variety of Help the Aged’s work for elderly people provides plenty of opportunities for proactive public relations. But perhaps the major difference between a charity and a commercial company is the amount of reactive work one must anticipate.



If elderly people are in the news for any reason, one can expect a huge amount of media enquiries asking for our views. You have to plan ahead whenever you can — preparing a comment in anticipation of Budget proposals for example, or be ready with advice if the weather turns cold — or hot! You keep in touch with what is happening in Parliament to ensure you are aware of forthcoming legislation. When the government announces its proposals on long-term care, you should be ready to respond.

Help the Aged is a highly visible charity with strong local roots. This visibility provides plenty of opportunities for public relations and promotion. Shops on the nation's high streets and the mini-buses provided for groups all over Britain raise Help the Aged's profile at the local level where important fundraising activities take place. Project Fundraising Advice programmes, where people work in partnership with other groups and charities, provide plenty of strong local stories and raise local awareness of Help the Aged.

The same is true of innovative campaigns that the Charity runs. For example, the joint project with the Rural Development Commission, "Growing Old in the Countryside", focuses attention on a neglected area — the specific problems faced by elderly people in rural areas. Here is a classic case where we need to draw attention to the fact that the proportion of older people living in the countryside is actually greater than in urban areas, and refute the common perception that only city dwellers suffer from poverty and isolation.

Whether in town or country the Charity distributes free information and advice leaflets to older people and their carers, currently two million every year. The leaflets attract media coverage because of their value and accuracy. Help the Aged senior staff are always available for media interviews on these subjects and on important research papers which are published on crucial topics such as long-term care and safety in transport. Media training is just as important for a charity as it is for directors of commercial companies — these days everyone has to know the value of a "soundbite".

The number one enemy of charity public relations is undiluted worthiness. Help the Aged strongly believes in raising its public profile by emphasising the fun in fundraising. That is why the SportAge activities are so successful, with hundreds of activities and events every year. Like in any active public relations group, the generous support got from show-

business personalities is also welcomed. The membership of the Stage for Age reads like a Who's Who of the world of entertainment.

Sometimes an unexpected endorsement can have a big impact. For instance, who can calculate the value of Samantha Fox describing Help the Aged as “my favourite charity” in an off the cuff remark during the National Lottery draw on BBC1?

## 9.16. Sponsorship

The word “sponsorship” first entered the English language at the turn of the nineteenth century, when it was used in a novel to describe those called to stand and witness church baptisms. Like so many other words, it has now come to represent something entirely different in the modern world of business and brand promotion — but its impact has been equally uplifting.

Clearly, sponsorship and sponsors have moved along way from the Protestant interpretation nearly 200 years ago. The path was created primarily by a series of “patrons” who, during the Victorian age, devoted enormous time and resources to supporting causes that set them apart, both as individuals and as business entrepreneurs.

One of the most gifted and successful patrons of his illustrious generation was Sir Thomas Lipton, founder of the world-famous tea company that still bears his name. He was also the founder of what remains as the world's most prestigious and famous ocean racing event, now known as the America's Cup (so named after it was won at the first attempt by the American challenger off the Isle of Wight in 1851).

Sir Thomas was a true marketing genius who used his investment in an exciting new event to increase international awareness of his teas and expand the sales of his flourishing domestic grocery store chain. Just think what he might have achieved had his own yacht been successful in the choppy waters of the Solent!

Perhaps what Sir Thomas demonstrated most of all was a capacity to measure the level of risk involved (sinking boats and potential loss of life) against the degree of initiative required to deliver his main objective to put Lipton teas on the map of the world.

In fact, combining risk with initiative is a common factor not only among successful entrepreneurs of the past, but also, effective sponsorships of the future.

Sir Thomas was much more than simply a patron of ocean racing. He set out to gain commercial advantage from his investment and devised ways in which he could exploit the interest he created. His was a fresh approach that distanced him from numerous Victorian patrons of the arts.

Ironically, the origins of commercial sponsorship as we know it today are attributed to the arts. In 1931 the Philco company sponsored the Philadelphia Symphony Orchestra and established a trend that others were quick to follow.

But perhaps the boom period for sponsorship came 30 years later, when the tobacco companies found themselves increasingly restricted in the conventional areas of advertising and turned to sponsorship to create awareness for a growing number of different brands. It heralded the transformation of top class sport and entertainment, and set the blueprint for sponsorship for years to come. What marked the period for special attention was the extent of innovations introduced to distinguish one brand from another. Some visionary sponsorships, like the Rothmans Cricket Cavaliers, introduced a completely new dimension into the sport — in this case, Sunday cricket — that secured a commercial arrangement of mutual benefit.

At that time, sponsorship was seen simply as a cost-effective, legitimate alternative to traditional advertising; one that enabled the sponsor to stand out from the crowd and even shape the image it wished to portray; and one that gave the recipient sport a new status and source of income.

Today, sponsorship has its own rightful place in the marketing mix and is seen to offer specific benefits that neither advertising or public relations alone can deliver.

Most important of all, sponsorship can bond a company or brand closer to its ultimate markets and create a climate for sales success that is beyond any other form of promotion because it works at several levels — branding, corporate hospitality, staff relations, community relations and sales development.

In some areas, like motor racing — the most heavily sponsored sport in the world — sponsorship actually dictates the role of other marketing disciplines, and brings global prestige and awareness.

## 9.17. Environmental public relations

The last 20 years have seen a huge increase in public concern over environmental issues. Every day newspapers are full of stories with an environmental angle — holes in the ozone layer, diminishing fish stocks, endangered species, destruction of the rainforests, increases in radiation levels, pollution of rivers and so on. It seems that, as we get nearer to the turn of the century the entire human race is becoming more focused on the potential degeneration and ultimate destruction of the planet. Will future generations find us guilty of gross neglect and dereliction of our global duty? This is a question more and more people seem to be asking.

This sentiment is largely behind public outcry over two decisions taken in 1995 with major potential for impact on the environment — namely the resumption of nuclear testing by the French in the South Pacific and Shell's decision to sea-dump its disused Brent Spar oil rig.

The public determination to try and turn these decisions around by hitting those concerned in their pockets — by boycotting Shell petrol stations and refusing to buy French products — is another new phenomenon which corporations ignore at their peril when handling sensitive environmental issues. In Shell's case, it was certainly a prime mover in making the company swiftly review its policy. Meanwhile, the French government faced increasing flak from its own electorate, and an already struggling economy felt the backlash from overseas buyers, irate at what they considered to be an arrogant and entirely intransigent French stance on the issue.

Reflecting the increase in public environmental awareness, national governments are learning to address a wide range of environmental issues through the introduction of new legislation to cover areas as diverse as improved effluent pollution controls to the protection of endangered birds and animals. It is fair to say that there has been more environmental legislation passed by UK and European Community (EC) governments in the last ten years than in the previous century. And this shows no signs of letting up as the pressure to improve environmental standards increases.

With this background of heightened public awareness and ever-growing legislation, it is essential for every commercial enterprise to be clear where it stands on the environmental issues which may affect its operations. The less enlightened will do the legal minimum and justify a reluctance to go further by quoting the extra costs involved. More intelligent companies will embrace the issues, make bold decisions and seize the environmental opportunities to gain a competitive edge.

Public relations can play a vital role in the management process on two counts when dealing with environmental issues. First, it is the antenna which provides management with information and monitors changing public attitudes to relevant environmental issues. Second, it can provide the communications advice and skills necessary to actively present a company's environmental policy and actions to its target audiences.

However, just telling people may not be enough — as Brent Spar taught Shell. The comments of John Whybrew, corporate affairs director of Shell UK should be etched on the hearts of all public relations practitioners. He said, “What Brent Spar taught us is that being open isn't sufficient when you are dealing with a highly sensitive decision. You've got to make more effort to listen as well as explain'.

This sentiment is reflected in Shell's subsequent decision to invite suggestions from companies and the public to help dispose of the rig in a manner acceptable to the environment. It made a strong commitment to cooperate with Greenpeace whose (now acknowledged) misinformation, gladly regurgitated in the media, at first succeeded in making Shell's management lose face so spectacularly when it decided to abandon sea-dumping at very short notice.

What a pity that a process of public consultation wasn't embarked upon in the first place, scoring lots of brownie points with the public at the same time. By demonstrating awareness of public concerns, Shell could have at least been seen to have openly considered all the options, even if at the end of the exercise sea-dumping was scientifically shown to be the best means of disposal from an environmental point of view. It would have been much more difficult to mount a sustainable argument against the company in those circumstances.

## Vocabulary

**sentiment** — чувство, мнение

**outry** — протест

**resumption** — возобновление, продолжение

**rig** — буровая вышка, оборудование

**peril** — опасность, риск

**flak** — защитная

**backlash** — неблагоприятная реакция

**irate** — гневный, разгневанный

**intransigent** — непримиримый, не идущий на компромисс

**stance** — позиция

**effluent** — вытекающий, просачивающийся

**to etch** — гравировать

**to regurgitate** — хлынуть обратно, извергать

**brownie points** — объективы фотоаппаратов

## 9.18. Conclusion. Looking to the future

If one looks ahead to the future it is not unreasonable to assume that interest in the following environmental issues will intensify:

- More legislation from governments to reduce pollution, harmful emissions and landfill dumping coupled with more environmental protection measures.
- Stiffer implementation of “the polluter pays” principle including increased taxes and charges for landfill disposal.
- Growing pressure from environmental authorities and customers for newer pollution-free manufacturing technologies to reduce emission levels.
- A better informed and educated public, led by more well-organised and highly articulate pressure groups, eg Green-peace, Friends of the Earth etc.
- Growing demands from the consumer and possible tax incentives to invest in recycling initiatives, products and packaging. Consumer “boycotts” of products manufactured by environmentally insensitive companies are likely to increase.
- Improved monitoring (better technology and increased resources) to measure environmental performance of companies across a wide range of disciplines.
- Growing shareholder pressure on companies to demonstrate their environmental credentials by preparation and implementation of environmental policies. More emphasis to be devoted to these issues in company annual reports.
- Increased pressure on civil engineers and developers to defend new proposals for roads and civil engineering projects against charges of environmental damage.
- Constant media interest in all things environmental and exposure of poor performers by pressure groups. Publicity stunts to embarrass major polluters are likely to increase.

This list provides a daunting agenda of issues for the public relations practitioner to address. As stated earlier, those commercial enterprises which will succeed into the next millennium will be the ones that take heed of growing “environmentalism” and carefully consider where this is most likely to have an impact on their own operations.

Being ahead of the game by regularly auditing current practices — technology, emissions, wastage levels, packaging, recycling opportuni-

ties — is the only way forward. The real winners will be those who, like some of the examples quoted here, are able to combine an environmental plus with a business gain and successfully communicate this to target audiences.

Failure to keep abreast of growing environmental pressures and adapt accordingly will only result in a company being relegated to a second-class player in an increasingly educated and environmentally aware marketplace.

## Vocabulary

**daunting** — устрашающие, запугивающие

**heed** — внимание, осторожность

**to keep abreast of** — идти в ногу с, не отставать от

**to relegate** — переводить в низшую лигу, ссылать, относить

## Vocabulary practice

☉ Below you will see extracts from a presentation. You must complete each blank with a word or phrase from the list below. Use each item from the list once only. (7)

<b>Purpose</b>	<b>First of all,</b>	<b>up to date</b>	<b>at such short notice</b>
<b>Priorities</b>	<b>May I begin</b>	<b>to sum up</b>	<b>On the contrary,</b>
<b>Finally,</b>	<b>As you know,</b>	<b>as a whole</b>	<b>On the other hand,</b>
<b>Next,</b>	<b>In other words,</b>	<b>As far as</b>	<b>draw your attention</b>

1 ..... by welcoming you all, especially as this meeting has had to be called

2 .....

3 ..... ,our latest project has been the target of intense speculation in the media during the last few days, and the

4 ..... of this presentation is to bring you

5 ..... on what has been happening.

6 ..... , I'd like to refresh your memories as to the background to the project.

7 ..... , I'll give you a broad outline of what we've achieved so far.

8 ..... , I'll try to give an indication of what our

9 ..... will be over the next few months.

If I can **10**..... to the month of July, you will notice that there was an unexpected fall in overseas sales.

**11** ..... domestic sales are concerned, you can see that growth has been sustained.  
 If we look at the figures for Europe **12**..... and Germany in particular, we can see some quite encouraging trends.  
 We don't fear competition. **13**..... ,we welcome it.  
 We could open a branch there. **14**....., we may be better advised to look for a good agent to represent us.  
 This is a time when we must consider our options carefully. **15**....., we should not rush into making any decisions.  
 So, **16**..... then, don't believe everything the media tells you. We've had a few problems but the future looks bright.

**Answer the questions**

1. What is the role of PR in the marketing mix?
2. What is the difference between advertising and public relations?
3. What can public relations assist in shaping the messages?
4. What are the four Ps?
5. What are the word partnerships which create favourable impression of the product?
6. What is the role of internal communication?
7. What are some communication techniques?
8. Give the definition of community relations.
9. What can a community relations programme benefit?
10. What are methods used in a community relations proramme based on?
11. Give the definition of financial public relations. What is the basic task?
12. What is a twin area of financial communication?
13. Is it relevant whether the expertise comes from in-house or consultancy?
14. What is politics?
15. What distinguishes “politics” from “political activity”?
16. What are politlogical parties?
17. What is democracy?
18. Explain such concepts as ‘the executive’, ‘the state’, ‘the government’.
19. What is the role of central government?
20. What are the major functions of local governments?
21. What is the role of civil servants?



22. What does the term lobbying usually describe?
23. What do lobbyists work for?
24. What is public affairs?
25. What are the activities involved in public affairs?
26. What is business to business public relations?
27. Why are the customers the rulers?
28. What is the role of trade press?
29. What do Public relations do for non-commercial organisations?
30. What environmental issues are of current public concern? What environmental issues will intensify?

### **Translate**

**1.** Управляемый процесс общения одной группы людей с другой называется PR. **2.** PR содействует попыткам одной группы склонить другую группу к своей точке зрения. **3.** PR — это метод определения сообщений и передача их определенным, запланированным аудиториям, чтобы повлиять на желаемый ответ. **4.** Чтобы передать сообщение, реклама пользуется оплаченным местом и временем в средствах массовой информации. **5.** Самые успешные маркетинговые программы — это те, которые эффективно координируют рекламу, связи с общественностью, стимулирование сбыта, дизайн и непосредственный сбыт. **6.** PR — это создание коммуникативных стратегий и сообщений для передачи их целевой аудитории, чтобы создать благоприятные условия для своих клиентов. **7.** Консультации предлагают связи со средствами массовой информации как свой основной “товар”, однако члены Ассоциации Консультаций по связям с общественностью также предоставляют экспертизу в таких сферах, как связи с инвестором, лоббирование, производственные отношения, управление кризисом, определение проблемы, запуск товара на рынок, корпоративный дизайн и т. д. **8.** PR — это гласность, содействие продвижению на рынке, общественные отношения, реклама и создание общественного мнения. **9.** Лоббирование (общественные отношения) являются специализированной частью связей с общественностью, которое строит и поддерживает отношения с правительством, чтобы влиять на законодательство и применять его. **10.** Если реклама — это то, что компания говорит о себе, то PR — это то что, говорят о ней другие. **11.** Корпоративный имидж начинается с корпоративного логотипа. **12.** Логотип — это визуальная презентация, которая

ассоциируется с определенной организацией и используется как часть схемы корпоративной идентичности. **13.** Правила и инструкции всемирного фондового рынка и рынка ценных бумаг, запутанность бухгалтерских стандартов неизбежно превратили финансовые PR в сложную специальность. **14.** Вся коммуникативная деятельность основывается на том простом факте, что деньги имеют свою реальную ценность только как инвестиции и что инвесторы — это люди. **15.** Корпоративная репутация компании и ее руководства является основным фундаментом, на котором строятся финансовые PR. **16.** Сложность и регулирование в сфере финансовой информации делает особенно важным то, что всегда есть кто-то со знанием как конкретной компании, так и финансового рынка. **17.** Исходит ли экспертиза от внутреннего отдела организации или от независимой консультации — совершенно несущественно. **18.** Защита особых интересов — это более узкий термин, чем лоббирование. **19.** Термин «лоббирование» используется в более широком смысле и включает в себя попытки оказать влияние на правительство как в частных, так и в общественных интересах. **20.** Лоббирование включает деятельность корпораций и профсоюзов по защите своих экономических интересов, помимо деятельности не имеющих экономических интересов общественных групп, преследующих определенные цели. **21.** Кеннеди писал: «Многие лоббисты — квалифицированные технические специалисты, способные разъяснить сложные и трудные темы ясным и понятным языком. **22.** Лоббисты выполняют важную роль в законодательном процессе. **23.** Лоббисты работают над тем, чтобы расширить научные исследования в области медицины, обеспечить защиту озер и рек, улучшить автомагистрали, продолжить реализацию программы студенческих займов и обеспечить защиту свободы вероисповедания. **24.** Группы защиты особых интересов помогли принять различные законы — начиная от законов о защите основных гражданских прав и заканчивая пакетом законопроектов о сокращении бюджетного дефицита, который содействовал формированию сбалансированного федерального бюджета. **25.** Специалист в области PR а) консультирует на основе законов поведения человека; б) выявляет возможные тенденции и предсказывает их последствия; в) изучает общественное мнение, отношения и ожидания со стороны общественности, рекомендует необходимые меры для формирования мнения и удовлетворения ожидания.

**26.** PR отличаются от, скажем, бухгалтерии тем, что человек не может работать эффективно и в полную силу в организации, если он не верит в нее или в ее продукцию. **27.** Политика — это то, как мы понимаем и строим свои общественные отношения. **28.** Политика тесно связана с другими областями знаний: такими как экономика, социология, география и история. **29.** Правительственные органы и политические партии определяют свою деятельность как политическую. **30.** Установление контактов с правительством превратилось в самостоятельную индустрию.

**Keys:** 1) 1b, 2c, 3a, 4d, 5a, 6c, 7a, 8b, 9a, 10b, 11c, 12a, 13d, 14c, 15c.

2) Set1 1g, 2e, 3b, 4f, 5c, 6a, 7d, 8h. Set2 1b, 2a, 3e, 4g, 5h, 6d, 7f, 8c.

3) 1b, 2d, 3a, 4b, 5d, 6a, 7b, 8a, 9d, 10a, 11c, 12b, 13d, 14a.

4) 1b, 2d, 3a, 4b, 5b, 6a, 7d, 8a, 9c, 10d, 11c, 12d, 13a, 14a.

5) 1. woo; 2. teething problems; 3. thorny problem; 4. ride roughshod; 5. undermine; 6. on the grapevine; 7. carry the can; 8. ride the storm; 9. hefty knock; 10. wiped off; 11. type-cast; 12. rubber-stamp; 13. fall by the wayside; 14. a dawn raid; 15. nose-dive.

6) 1 black; 2 black; 3 green; 4 green; 5 black... white; 6 white; 7 red; 8 red; 9 grey; 10 red; 11 black; 12 white; blue; 14 red; 15 green; 16 black.

7) 1. May I begin; 2. at such short notice; 3. As you know; 4. pur pose; 5. up to date; 6. First of all; 7. Next; 8. Finally; 9. priorities; 10. draw your attention; 11. In other words; 12. to sum up.

## Список использованной и рекомендуемой литературы

1. *Aims and Activities.*— Public Relations Consultants Association.— London: Willow House, 1990.
2. *All you need to know about PR.* — Public Relations Consultants Association. — London: Willow House, 1991.
3. *Flower J.* Building your vocabulary efficiently. — England: Language Teaching Publications, 1990.
4. *Gregory A.* Public Relations in Practice. — The Institute of Public Relations. — London: Kogan Page, 1996.
5. *Selecting and employing a public relations consultancy.* — Public Relations Consultants Association. — London: Willow House, 1991.
6. *Ponton G., Gill P.* Introduction to Politics. — 3<sup>rd</sup> edn. — Oxford UK and Cambridge USA: Blackwell, 1995.

# Содержание

<i>Введение</i> .....	3
<i>Unit 1. Legal science: commercial and industrial law</i> ( <i>Правоведение: коммерческое и трудовое право</i> ) .....	5
<i>Unit 2. Bookkeeping and auditing accounting</i> ( <i>Бухгалтерский учет и аудит</i> ) .....	49
<i>Unit 3. Personnel management</i> ( <i>Кадровый менеджмент</i> ) .....	102
<i>Unit 4. Marketing. Economics and distribution management</i> ( <i>Маркетинг. Экономика и управление сбытом</i> ) .....	132
<i>Unit 5. Banking</i> ( <i>Банковское дело</i> ) .....	170
<i>Unit 6. Finance. Finance management</i> ( <i>Финансы. Финансовый менеджмент</i> ) .....	246
<i>Unit 7. Psychology</i> ( <i>Психология</i> ) .....	282
<i>Unit 8. Sociology</i> ( <i>Социология</i> ) .....	315
<i>Unit 9. Public Relations</i> ( <i>Связи с общественностью</i> ) .....	335

Практикум складається з 9 розділів з поясненнями до текстів, вправами для закріплення прочитаного матеріалу та засвоєння термінів. Зміст розділів розрахований на диференційований підхід до вивчення ділової англійської мови; добрано тексти різного ступеня складності.

Для студентів та широкого кола осіб, які бажають освоїти ділову англійську мову.

One of the most important ability that a non English speaking student of science needs is reading. Such ability is a crucial tool that aids the learning process. This Practice Book consists of 9 units with authentic multilevel texts, vocabulary notes to the texts and exercises to check the comprehension. Tasks include text of various complexity and activities, intended to engage the students in discussions; there are exercises to promote the active use of terms.

Meant for higher learners as well as for a wide range of people willing to master Business English.

Навчальне видання  
**ДІЛОВА АНГЛІЙСЬКА**

**Практикум**

**Бахов Іван Степанович**

**Гринько Олена Володимирівна**

**Вощніна Тетяна Іванівна та ін.**

*Навчально-методична розробка*

(Англ., рос. мовами)

Educational edition

**ENGLISH BUSINESS**

**Practice Book**

**Bakhov, Ivan S.**

**Gryn'ko, Olena V.**

**Voshchynina, Tetyana I. et al.**

*Educational and methodical manual*

(English and Russian)

Відповідальний редактор *М. В. Дроздецька*

Комп'ютерне верстання *Т. В. Кулік*

Оформлення обкладинки *І. С. Бахов*

Підп. до друку 18.04.03. Формат 60×84/16. Папір газетний. Друк офсетний.

Ум. друк. арк. 23,25. Обл.-вид. арк. 24,0. Тираж 15000 пр. Зам. № 3-0529

Міжрегіональна Академія управління персоналом (МАУП)

03039 Київ-39, вул. Фрометівська, 2, МАУП

*Свідоцтво про внесення до Державного реєстру  
суб'єктів видавничої справи ДК № 8 від 23.02.2000*

ДП “Експрес-Поліграф”

04080 Київ-80, вул. Фрунзе, 47/2

*Свідоцтво ДК № 247 від 16.11.2000*