

**МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
ЦЕНТРАЛЬНОУКРАЇНСЬКИЙ НАЦІОНАЛЬНИЙ
ТЕХНІЧНИЙ УНІВЕРСИТЕТ**

кафедра іноземних мов

АНГЛІЙСЬКА МОВА

“INTERNATIONAL MARKETING”

**Навчальний посібник для студентів 3 курсу факультету
обліку та фінансів спеціальності
292 «Міжнародні економічні відносини»**

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Навчальний посібник, призначений для студентів 3 курсу економічних спеціальностей денної та заочної форми навчання, містить текстові матеріали з тем «Теорія міжнародної торгівлі», «Теорія переміщення факторів виробництва».

Основна мета розробки – навчити студентів основним принципам та правилам роботи зі спеціальною англомовною літературою за фахом, розвивати стійкі навички читання та перекладу економічної літератури.

Навчальний посібник може бути використаний як для аудиторної роботи під керівництвом викладача, так і для самостійної позааудиторної роботи.

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Передмова

Навчальний посібник для розвитку навичок професійно-орієнтованого читання і усного мовлення призначений для студентів III курсу економічних спеціальностей і побудований відповідно до програми, яка передбачає навчання студентів вмінню працювати з іншомовною літературою за фахом, збагаченню словникового запасу і оволодінню навичками професійно-орієнтованого спілкування.

Всі розділи підпорядковані єдиній внутрішній структурі. Навчальний посібник містить добірку автентичних монологічних та діалогічних текстів англійською мовою за темами «Роль міжнародної торгівлі у сучасному світі», «Продуктивність праці та концепція порівняльної переваги», «Міжнародне переміщення факторів виробництва та теорія транснаціонального підприємства». Інформаційний блок з економічних теорій доповнюється текстами з викладенням реальних фактів і статистичних даних. Кожен текст супроводжується вправами по закріпленню активної лексики, формуванню і активізації навичок читання та розвитку іншомовної комунікативної компетенції професійного спрямування. Підсумкові завдання проблемного характеру, ділові ігри, завдання уроку вимагають активної самостійної підготовки та формують навички усного професійного спілкування. До кожного підрозділу включено англо - український тематичний термінологічний словник. Словник може бути використаний як інформативно-довідковий матеріал студентами всіх курсів економічних спеціальностей та аспірантами.

Мета даного навчального посібника – розширення та закріплення термінологічної лексики за фахом, розвиток навичок професійно-спрямованого читання, перекладу фахової літератури та спілкування.

Навчальний посібник розрахований для роботи зі студентами в аудиторії, для самостійної роботи студентів, а також може бути використаний для проведення атестаційних тестів і контрольних робіт.

Unit 1

INTRODUCTION

"The merchant has no country"

Thomas Jefferson (1743-1826)

Principal author of the Declaration of Independence.

Section A: The role of international economics in modern society

Section B: What is international economics about?

Learning Goals

After reading this unit, you will be able to:

- Distinguish between international and domestic economic issues.
- Discuss seven themes recurring in international economics.

Section A: The role of international economics in modern society

I. Working on the text

1. Reading

Read the following text:

The study of international economics has never been as important as it is now. At the beginning of the 21st century, nations are more closely linked through trade in goods and services, through flows of money, through investment in each other's economies than ever before. And the global economy created by these linkages is a turbulent place: Both policymakers and business leaders in every country must now take account of what are sometimes rapidly changing economic fortunes halfway around the world.

The years at the end of XX-th century have brought a steady sequence of upheavals in economic relations among countries. Newly industrializing developing countries have seized from developed countries an important share of the world market for manufactured exports: a booming international capital market has forged new links

among the world's financial centers but also raised new unease about global financial stability, some countries are realizing the hope of establishing market economies opened to international flows of commodities and capital, problems of international economic policy have assumed primacy and moved decisively to the newspapers' front pages of the most developed countries.

Recent general developments in the world economy raise concerns that have preoccupied international economists for more than two centuries, such as the nature of international adjustment mechanism and the merits of free trade compared with protection. As always in international economics, however, the interplay of events and ideas has led to new modes of analysis.

The study of international trade and money has always been an especially lively and controversial part of economics. Many of the key insights of modern economic analysis first emerged in eighteenth- and nineteenth-century debates over international trade and monetary policy. The world economy is more turbulent than it has been in many decades. Keeping up with the shifting international environment has become a central concern of both business strategy and national economic policy.

A look at some basic trade statistics gives the first view of the increasing importance of international economics to the most developed countries. At the end of the XX-th century hardly any discussion of domestic economic policy, be it antitrust, regulation, taxation, or labor issues, could ignore the role of international trade. If international economics has become crucial to the most developed countries, it is even more crucial to the other nations.

It is very important when the main concepts and methods of international economics are illustrated with applications drawn from the real world. The grand tradition of international economics; the nineteenth-century trade theory of David Ricardo and the even earlier international monetary analysis of David Hume remain quite relevant to the 21st century economy. At the same time, it is important to bring the analysis up to date. The field of international economics has been in a creative ferment in recent years, with new views emerging on such

issues as the political economy of trade policy, strategic trade policy, exchange rate determination, and the international coordination of macroeconomic policies.

Over the past decade the global economy threw up many new challenges, from the backlash against globalization to an unprecedented series of financial crises. Economists were able to apply existing analyses to some of these challenges, but they were also forced to rethink some important concepts. Furthermore, new approaches have emerged to old questions, such as the impacts of changes in monetary and fiscal policy.

2. Comprehension

Answer the following questions to the text:

1. Why is it very important to study international economics at the beginning of the 21st century?
2. What have newly industrializing developing countries seized from developed countries?
3. When did many of the key insights of modern economic analysis first emerge?
4. What concerns have preoccupied international economists for more than two centuries?
5. Which economic factors are nations more closely linked through?
6. What has become a central concern of both business strategy and national economic policy?
7. What shows the increasing importance of international economics to the most developed countries?

II. Vocabulary

1. Find in the text and translate the following words and word combinations:

steady sequence, upheavals in economic relations, seize, to forge new links, to assume primacy, to move decisively, to preoccupy, international adjustment mechanism, to raise concerns, key insights of modern economic analysis, shifting international environment, increasing importance, labor issues, grand tradition, remain quite relevant, creative ferment, lively and controversial part of economics, booming international capital market

2. Find in the text English equivalents for the following words and word combinations:

глобальна фінансова стабільність, позитивна якість вільної торгівлі, взаємодія подій, дебати стосовно міжнародної торгівлі, довкілля, бізнесова стратегія, внутрішня економічна політика, основна концепція, галузь міжнародної економіки, визначення валютного курсу, стратегічна торгова політика, міжнародна координація, промисловий експорт, відкритий для міжнародного потоку товару, нові види аналізу, грошово-кредитна політика, порівняно з протекціонізмом

3. Complete the sentences using words and word combinations from the box:

international flows of commodities, manufactured exports, modes of analysis, assumed primacy, a booming international capital market, controversial part of economics, international flows of money, turbulent, crucial, international monetary analysis

1. The nineteenth-century trade theory of David Ricardo and the even earlier ... of David Hume remain quite relevant to the modern world.
2. If international economics has become ... to the most developed countries, it is even more ... to the other nations.

3. The world economy is more ... than it has been in many decades.
4. Through international trade in goods and services, and ... , the economies of different countries are more closely linked to one another now than ever before.
5. The study of international trade and money has always been an especially lively and
6. A ... has forged new links among the world's financial centres.
7. Problems of international economic policy have ... and moved decisively to the newspapers' front pages of the most developed countries.
8. As always in international economics, however, the interplay of events and ideas has led to new
9. Newly industrializing developing countries have seized from developed countries an important share of the world market for
10. Developing countries are realizing the hope of establishing market economies opened to ... and capital.

4. Translate into English:

1. Останнім часом інтерес до проблем міжнародної економіки значно зріс, що, зокрема, помітно на прикладі України.
2. Міжнародна торгівля створює ринки для різних видів грошей.
3. Центральне місце в міжнародній економіці посідають чиста теорія торгівлі, теорія торговельної політики, теорія переміщення факторів виробництва.
4. На початку 21 століття нації набагато більш пов'язані через торгівлю товарів та послуг, через потоки грошей, через інвестиції в економіку одна одної.
5. Генеральною тенденцією світового економічного розвитку є рух до створення єдиного ринку товарів і послуг, капіталів, ресурсів, економічного зближення країн.

5. Match each word/phrase on the left with a definition on the right.

- | | |
|---------------------------|---|
| a. free trade | i. market which exists within a particular country. |
| b. global economy | ii. international trade that is free of government restrictions, for example in the form of import quotas or export subsidies. |
| c. domestic market | iii. economies of all the countries of the world considered as a whole. |
| d. global market | iv. the way in which big companies do business all over the World. |
| e. globalization | v. a market for something that exists throughout the world. |

6. Define the terms:

challenge

regulation

policymakers

taxation

antitrust

developed countries

III. Dialogue

Read the dialogue below, sum up its content and act it out:

International trade

A: Perhaps you could summarize for our listeners the points you've made so far, Ian. You started by telling us what free trade is.

B: Right, I defined it as a situation in which goods come into and out of a country without any controls or taxes. Countries which truly believe in free trade try to liberalize their trade, that's to say, they take away barriers to trade, they remove things which stop people trading freely. They have open borders and few controls of goods at customs.

A: OK, then you gave several examples of barriers to trade.

B: Yes, I said that there are two main barriers: tariffs and subsidies. Tariffs are taxes on imported goods; so that the imports cannot compete so well against domestic products. Subsidies are money paid to domestic producers so that they can sell their goods more cheaply than foreign competitors. Tariffs and subsidies are barriers to trade because when people are given a choice, generally they will buy the cheapest product.

A: You mentioned other barriers, less important ones, perhaps.

B: Uh huh. I talked about quotas, which limit the quantity of a product which can be imported, and I discussed other restrictions on trade, such as expensive licenses for importers, which add greatly to costs; and regulations relating to documents which a company must have to export its goods to certain countries - the documents can be very complicated and difficult to complete, so they slow down trading.

A: I asked you if free trade was always a good thing.

B: And I answered, in principle, yes, it is a good thing, it's beneficial to the countries.

A: Why?

B: Countries which open their markets usually have a policy of deregulation, that is to say, they free their companies to compete in markets, without government control or subsidies. Because of this,

consumers in free trade areas are offered a wider range of high-quality products at lower prices. People in those areas can move to the most productive parts of economy and get better jobs with higher wages or salaries. OK?

A: So why do so many countries protect their industries and not allow free markets?

B: I gave three reasons, if you remember. Firstly, some people say, why should we practice free trade if other nations compete unfairly? For example, dumping is fairly common in international trade. When companies dump goods in overseas markets, they sell goods at very low prices, usually for less than it costs the company to produce the goods. Companies can usually only do that when they are heavily subsidized by their governments. Secondly, many people believe that strategic industries must be protected. These are industries that are very important to the economy: steel, power, communications, and so on. In the United States, many Americans think that the steel industry should be protected against cheap imports from Brazil and other countries. If the US depends too much on foreign-made steel, they argue, this could be bad in a time of war. Finally, some say that in developing countries, industries need to be protected until they're strong enough to compete in world markets. This is the infant industry argument: certain industries have to be protected until they can stand on their own feet, as it were.

My final point was that throughout the world, there is a trend towards liberalizing trade and removing trade barriers. The most successful economies tend to have open markets, and most of their industries have been deregulated.

Essential vocabulary

adjustment	урегулювання, погодження, узгодження
antitrust policy	антимонопольна політика, антитрестівська політика
application	заявка, заява, використання
to boom	зростати, досягати великого успіху, процвітати
controversial	суперечливий, дискусійний
crucial	вирішальний
~ to	важливий для
domestic	внутрішній
to emerge	з'являтись
flow	потік, наплив, приплив
commodity ~	потік товару
~ of capital	рух капіталу, перелив капіталу (між галузями і країнами)
~ of money	потік грошей
manufactured export	промисловий експорт
mode	порядок, форма, вид, метод, спосіб
~ of analysis	вид аналізу
monetary policy	грошова-кредитка політика, грошова політика
regulation	норма, правило, норматив, регламентування, регулювання
relevant	відповідний
taxation	оподаткування
turbulent	буремний, бурхливий, неспокійний
upheaval	переворот

Section B: What is international economics about?

I. Working on the text

1. Reading

Read the following text:

International economics uses the same fundamental methods of analysis as other branches of economics, because the motives and behavior of individuals and firms are the same in international trade as they are in domestic transactions. When a bottle of Spanish wine appears on a London table, the sequence of events that brought it there is not very different from the sequence that brings a California bottle to a table in New York - and the distance traveled is much less! Yet international economics involves new and different concerns, because international trade and investment occur between independent nations. Spain and the United Kingdom are sovereign states; California and New York are not. Spain's wine shipments to the United Kingdom can be disrupted if the British government sets a quota that limits imports; Spanish wine can become suddenly cheaper to British wine drinkers if the foreign exchange value of Spain's peseta falls against that of Britain's pound sterling. Neither of these events can happen within the United States, where the Constitution forbids restraints on interstate trade and there is only one currency.

The subject matter of international economics, then, consists of issues raised by the special problems of economic interaction between sovereign states. Seven themes recur throughout the study of international economics: the gains from trade, the pattern of trade, protectionism, the balance of payments, exchange rate determination, international policy coordination, and the international capital market.

Everyone knows that some international trade is beneficial - nobody would suggest that Norway should grow its own oranges. Many people, however, are skeptical about the benefits of trading for goods that a country could produce for itself. Shouldn't Americans buy American goods whenever possible to help save U.S. jobs? Probably the most important insight in all of international economics is the idea

that there are *gains from trade* - that is, that when countries sell goods and services to one another, this is almost always to their mutual benefit. The range of ' circumstances under which international trade is beneficial is much wider than most people appreciate. The benefits limited to trade in tangible goods: international migration and international borrowing and lending are also forms of mutually beneficial trade, the first a trade of labor for goods and services, the second a trade of current goods for the promise of future goods. The invisible forms of trade yield gains as real as trade that puts fresh fruit from Latin America in Toronto markets in February.

Economists cannot discuss the effects of international trade or recommend changes in government policies toward trade with any confidence unless they know their theory is good enough to explain the international trade that is actually observed. Thus attempts to explain the *pattern of international trade* - who sells what to whom - have been a major preoccupation of international economists.

If the idea of gains from trade is the most important theoretical concept in international economics, the seemingly eternal battle between free trade and protection is its most important policy theme. Since the emergence of modern nation-states in the sixteenth century, governments have worried about the effect of international competition on the prosperity of domestic industries and have tried either to shield industries from foreign competition by placing limits on imports or to help them in world competition by subsidizing exports. The single most consistent mission of international economics has been to analyze the effects of these so-called protectionist policies - and usually, though not always, to criticize *protectionism* and show the advantages of freer international trade.

The record of a country's transactions with the rest of the world is called the *balance of payments*. Explaining the balance of payments and diagnosing its significance is a main theme of international economics. It emerges in a variety of specific contexts: in discussing international capital movements, in relating international transactions to national income accounting and in discussing virtually every aspect of international monetary policy.

One of the key differences between international economics and other areas of economics is that countries have different currencies. It is usually possible to convert one currency into another, but relative prices of currencies may change over time, sometimes drastically.

The study of *exchange rate determination* is a relatively new part of international economics, for historical reasons. For much of the past century, exchange rates have been fixed by government action rather than determined in the marketplace. The analysis of international monetary systems that fix exchange rates remains an important subject, some of the world's most important exchange rates fluctuate minute by minute and the role of changing exchange rates remains at the center of the international economics story.

The international economy comprises sovereign nations, each free to choose its own economic policies. Unfortunately, in an integrated world economy one country's economic policies usually affect other countries as well. Differences in goals between countries often lead to conflicts of interest. Even when countries have similar goals, they may suffer losses if they fail to coordinate their policies. A fundamental problem in international economics is how to produce an acceptable degree of harmony among the international trade and monetary policies of different countries without a world government that tells countries what to do.

While cooperation on international trade policies is a well-established tradition, *coordination of international macroeconomic policies* is a newer and more uncertain topic. Economists formulated at all precisely the case for macroeconomic policy coordination, attempts at international macroeconomic coordination are occurring with growing frequency in the real world.

In any sophisticated economy there is an extensive capital market: a set of arrangements by which individuals and firms exchange money now for promises to pay in the future. The growing importance of international trade since the 1960s has been accompanied by a growth in the *international capital market*, which links the capital markets of individual countries.

International capital markets differ in important ways from domestic capital markets. They must cope with special regulations that many countries impose on foreign investment; they also sometimes offer opportunities to evade regulations placed on domestic markets.

Some special risks are associated with international capital markets. One risk is that of currency fluctuations: If the euro falls against dollar, U.S. investors who bought euro bonds suffer a capital loss - as the many investors who had assumed that Europe's new currency would be strong discovered to their horror. Another risk is that of national default: A nation may simply refuse to pay its debts (perhaps because it cannot), and there may be no effective way for its creditors to bring it to court. The growing importance of international capital markets and their new problems demand greater attention than ever before.

2. Comprehension

Answer the following questions to the text:

1. What are the motives and behavior of individuals and firms in international trade and in domestic transaction?
2. What is the subject matter of international economics?
3. Is international trade beneficial?
4. How have governments tried to shield industries from foreign competition?
5. What is the balance of payment?
6. What do differences in goals between countries often lead to?
7. What has accompanied the growing importance of international trade since 1960s?
8. Do international capital markets differ from domestic capital markets?
9. What risks are associated with international capital markets?

II. Vocabulary

1. Find in the text and translate the following words and word combinations:

motives and behavior of individuals, domestic transaction, sequence of events, interstate trade, new and different concerns, occur, foreign exchange value, Britain's pound sterling, borrowing, lending, preoccupation, to place limits on import, consistent mission of international economics, significance, virtually, drastically, to fix, determined in the market place, differences in goals, to have similar goals, to suffer losses, acceptable degree of harmony, growing frequency, a set of arrangements, to evade regulations, to bring to court.

2. Find in the text English equivalents for the following words and word combinations:

встановлювати квоту, порушувати, обмежувати імпорт, забороняти обмеження на торгівлю, економічна взаємодія, координація міжнародної політики, позичати, рекомендувати зміни в політиці стосовно торгівлі, захистити промисловість, надавати дотацію експорту, призводити до конфлікту інтересів, коливання обмінного курсу, супроводжуватись ростом ринку капіталу, відмовляти сплачувати борги.

3. Complete the sentences using words and word combinations from the box:

Differences in goals, only one currency, interstate trade, independent nations, branches of economics, domestic transactions, international migration, balance of payment, suffer losses, an acceptable degree of harmony, exchange rate, sovereign nations

1. The international economy comprises each free to choose its own economic policies.
2. Some of the world's most important ... fluctuate minute by minute and the role of changing ... remains at the centre of the international economics story.
3. A fundamental problem in international economics is how to produce ... among the international trade and monetary policies of different countries without a world government that tells countries what to do.
4. Even when countries have similar goals, they may ... if they fail to coordinate their policies.
5. The record of a country's transactions with the rest of the world is called the ... and international borrowing and lending are also forms of mutually beneficial trade.
6. International economics uses the same fundamental methods of analysis as the other ..., because the motives and behavior of individuals and firms are the same in international trade as they are in
7. International trade and investment occur between
8. The Constitution of the United States forbids restraints on ... and there is.... 3.10 between countries often lead to conflicts of interest.

4. Translate into English:

1. Кожна нація може вільно вибирати свою власну економічну політику.
2. Але в інтегрованій світовій економіці економічна політика однієї країни звичайно впливає на інші країни також.
3. Торговельний баланс - це співвідношення між сумою цін товарів, що вивезені певною країною, або групою країн, і сумою цін товарів, ввезених ними за певного періоду.
4. Міжнародна економіка використовує ті ж самі методи аналізу, що й інші галузі економіки, тому що мотиви і поведінка індивідуумів та фірм в міжнародній торгівлі такі самі, як і при проведенні внутрішніх трансакцій.
5. З розвитком міжнародної торгівлі її структура і форми ускладнюються.

5. Match each word/phrase on the left with a definition on the right.

- | | |
|------------------------------|--|
| a. protectionism | i. the difference between the amount of the money a country pays for its imports and the amount it receives for its exports. |
| b. exchange rate | ii. failure to pay a debt at the right time. |
| c. default | iii. a system of import duties and exchange and other controls that protects producers in the home country against competition from foreign producer. |
| d. balance of payment | iv. the price at which one currency can be exchanged for another currency. |
| e. currency | v. money system in use in a country. |

6. Define the terms:

sovereign	statesinteraction
independent nations	tangible goods
value	beneficial

III. Dialogue

Make up your own dialogue using the following expressions and word- combinations:

- the subject matter of international economics
- exchange rate determination
- the pattern of trade
- international monetary system
- international policy coordination
- conflict of views
- battle between free trade and protection
- international capital market

Essential vocabulary

balance of payment	платіжний баланс, рух капіталів, сальдо розрахунків за торгівлю товарами і послугами
beneficial	корисний, вигідний
benefit	перевага, привілей, пільги, вигоди, зиск, прибуток
mutual ~	взаємовигода
capital market	ринок капіталу
confidence	впевненість
consistent	стабільний, послідовний
to cope with	справлятися
currency	грошовий обіг, валюта, гроші
to convert ~	конвертувати валюту

debt	борг, заборгованість, позиковий капітал, кредит, позика
default	порушення зобов'язань за договором, дефолт, невиконання зобов'язань, неплатіж, несплата
to evade	уникати, ухилятися
exchange rate	валютний курс, обмінний курс
foreign exchange	валюта, іноземна валюта, тверда валюта
gains from trade	здобуток від торгівлі
income accounting	обмін доходу, обчислення доходу
interaction	взаємодія
invisible trade	невидима торгівля
losses	збитки
pattern	стан, співвідношення, схема, структура, модель
~ of trade	структура торгівлі
prosperity	процвітання, розквіт
protectionism	протекціонізм
quota	квотування
to recur	повторюватись, траплятись знову, спадати на думку
relative prices	відносні ціни
restraint	стримування, обмеження
shipment	вантаження, посадка, відправлення товару
sophisticated	досвідчений, складний, той, що знаходиться на рівні сучасних вимог
to subsidize	надавати дотацію, субсидію
tangible	відчутний, доступний, матеріальний, реальний, речовий
~ goods	реальні блага
value	цінність, ціна, вартість, значення
yield	дохідність цінного паперу, рівень дохідності, дохід на капітал
to yield	приносити
~ gains	приносити дохід

PROBLEMS

1. Canada and Australia are (mainly) English-speaking countries with populations that are not too different in size (Canada's is 60 percent larger). But Canadian trade is twice as large, relative to GDP, as Australia's. Why should this be the case?
2. A century ago, most British imports came from relatively distant locations: North America, Latin America, and Asia. Today, most British imports come from other European countries. How does this fit in with the changing types of goods that make up world trade?

Supplementary reading

The Losses from Nontrade

1. Words you may need:

to endeavor (AmE) - старатися, намагатися, прагнути

to deprive - позбавляти, відбирати, не допускати

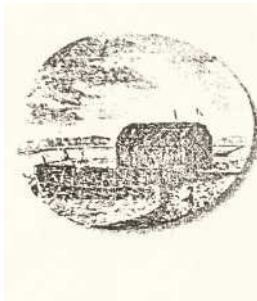
depredation - пограбування, розкрадання, вторгнення

smuggling - контрабанда

to repeal - анулювати, скасовувати, відмовлятися

II. Read and translate the text:

In discussion of the gains from trade which is considered a "thought experiment" we can compare two situations: one in which countries do not trade at all, another in which they have free trade. It's a hypothetical case that helps us to understand the principles of international economics, but it does not have much to do with actual events. After all, countries don't suddenly go from no trade to free trade or vice versa. Or do they?



As economic historian Douglas Irwin has pointed out, in the early history of the United States the country actually did carry out something very close to the thought experiment

of moving from free trade to no trade. The historical context was as follows: At the time Britain and France were engaged in a massive military struggle, the Napoleonic Wars. Both countries endeavored to bring economic pressures to bear: France tried to keep European countries from trading with Britain, while Britain imposed a blockade on France. The young United States was neutral in the conflict but suffered considerably. In particular, the British navy often seized U.S. merchant ships and, on occasion, forcibly recruited their crews into its service.

In an effort to pressure Britain into ceasing these practices, President Thomas Jefferson declared a complete ban on overseas shipping. This embargo would deprive both the United States and Britain of the gains from trade, but Jefferson hoped that Britain would be hurt more and would agree to stop its depredations.

Irwin presents evidence suggesting that the embargo was quite effective: Although some smuggling took place, trade between the United States and the rest of the world was drastically reduced. In effect, the United States gave up international trade for a while.

The costs were substantial. Although quite a lot of guesswork is involved, Irwin suggests that real income in the United States may have fallen by about 8 percent as a result of the embargo. When you bear in mind that in the early 19th century only a fraction of output could be traded—transport costs were still too high, for example, to allow large-scale shipments of commodities like wheat across the Atlantic— that's a pretty substantial sum,

Unfortunately for Jefferson's plan, Britain did not seem to feel equal pain and showed no inclination to give in to U.S. demands, fourteen months after the embargo was imposed, it was repealed. Britain continued its practices of seizing American cargoes and sailors; three years later the two countries went to war.

III. Role-play the following situation:

1. Real income in the United States has fallen by about 8 percent as a result of embargo.

2. A meeting of senior officials is called to resolve the problem.
 Group A: officials who support the embargo.
 Group B: officials who suggest repealing the embargo
3. Each group prepares separately for the meeting. Then hold the meeting as one group. The agenda is as follows:
 - a) Why are some officials resisting the embargo?
 - b) Practical suggestions for improving the situation.
 - c) What can be learned from this experience to manage such situation more effectively in the future?

IV. Discussion/Writing

1. Can you give an example of some other historical context illustrating moving from free trade to nontrade?
2. What are the advantages of trade?
3. Country D refuses to trade with the outside economic world. Discuss the situation.

Unit 2

LABOR PRODUCTIVITY AND COMPARATIVE ADVANTAGE

“One nation might profitably import goods from another even though the importing country could produce that item for less than the exporter” David Ricardo (1772-1823)

Classical champion of free trade, developed a concept we now call the principle of comparative advantage

Section A. The concept of comparative advantage.

The Ricardian model

Section B. Misconceptions about comparative advantage

Learning Goals

After reading this unit, you will be able to:

- Explain how the Ricardian model, one of the model of international trade illustrates the principle of comparative advantage.
- Refute common fallacies about international trade.

Section A: The concept of comparative advantage

I. Working on the text

1. Reading

Read the following text:

Countries engage in international trade for two basic reasons, each of which contributes to their gain from trade. First, countries trade because they are different from each other. Nations, like individuals, can benefit from their differences by reaching an arrangement in which each does the things it does relatively well. Second, countries trade to achieve economies of scale in production. That is, if each country produces only a limited range of goods, it can produce each of these goods at a larger scale and hence more efficiently than if it tried to produce everything. In the real world, patterns of international trade reflect the interaction of both these motives. As a first step toward understanding the causes and effects of trade, however, it is useful to look at simplified models in which only one of these motives is present.

Some tools help to understand how differences between countries give rise to trade between them and why this trade is mutually beneficial. The essential concept in this analysis is that of comparative advantage.

On Valentine's Day, 1996, which happen to fall less than a week before the crucial February 20 primary in New Hampshire, Republican presidential candidate Patrick Buchanan stopped at a nursery to buy a dozen roses for his wife. He took the occasion to make a speech denouncing the growing import of flowers into the United States, which he claimed were putting American flower growers out of business. And it is indeed true that a growing share of the market for winter roses in the United States is being supplied by imports flown in from South America. But is that a bad thing?

The case of winter roses offers an excellent example of the reasons why international trade can be beneficial. Consider first how hard it is to supply American sweethearts with fresh roses in February. The flowers must be grown in heated greenhouses, at great expense in terms of energy, capital investment, and other scarce resources. Those resources could have been used to produce other goods. Inevitably, there is a trade-off. In order to produce winter roses, the U.S. economy must produce less of other things, such as computers. Economists use the term opportunity cost to describe such trade-offs: The opportunity cost of roses in terms of computers is the number of computers that could have been produced with the resources used to produce a given number of roses.

Suppose, for example, that the United States currently grows 10 million roses for sale on Valentine's Day, and that the resources used to grow those roses could have produced 100,000 computers instead. Then the opportunity cost of those 10 million roses is 100,000 computers. (Conversely, if the computers were produced instead, the opportunity cost of those 100,000 computers would be 10 million roses.)

Those 10 million Valentine's Day roses could instead have been grown in South America. It seems extremely likely that the opportunity cost of those roses in terms of computers would be less than it would be in the United States. For one thing, it is a lot easier to grow February roses in the Southern Hemisphere, where it is summer in February rather than winter. Furthermore, South American workers are less efficient than their U.S. counterparts at making sophisticated goods such as computers, which means that a given amount of resources used in computer production yields fewer computers in South America than in the United States. So the trade-off in South America might be something like 10 million winter roses for only 30,000 computers.

This difference in opportunity costs offers the possibility of mutually beneficial rearrangement of world production. This rearrangement of production, with the United States concentrating on computers and South America concentrating on roses, increases the

size of world's economic pie. Because the world as a whole is producing more, it is possible in principle to raise everyone's standard of living.

The reason that international trade produces this increase in world output is that it allows each country to specialize in producing the good in which it has a comparative advantage. A country has a comparative advantage in producing a good if the opportunity cost of producing that good in terms of other goods is lower in that country than it is in other countries.

In this example, South America has a comparative advantage in winter roses and the United States has a comparative advantage in computers. The standard of living can be increased in both places if South America produces roses for U.S. market, while the United States produces computers for the South American market. *Trade between two countries can benefit both countries if each country exports the goods in which it has a comparative advantage.*

This is a statement about possibilities, not about what will actually happen.

In the real world, there is no central authority deciding which country should produce roses and which should produce computers. Nor is there anyone handing out roses and computers to consumers in both places. Instead, international production and trade is determined in the marketplace where supply and demand rule.

A model of international trade was originally developed by the British economist David Ricardo, who introduced the concept of comparative advantage in the early nineteenth century. This approach, in which international trade is solely due to international differences in the productivity of labor, is known as the **Ricardian model**.

Ricardian model is the simplest model that shows how differences between countries give rise to trade and gains from trade. In this model labor is the only factor of production and countries differ only in the productivity of labor in different industries.

In the Ricardian model, countries will export goods that their labor produces relatively efficiently and import goods that their labor

produces relatively inefficiently. In other words, a country's production pattern is determined by *comparative advantage*.

While some of the predictions of Ricardian model are clearly unrealistic, its basic prediction - that countries will tend to export goods in which they have relatively high productivity - has been confirmed by a number of studies.

2. Comprehension.

Answer the following questions to the text:

1. Why do countries engage in international trade?
2. How does the case of winter roses in the United State illustrate the benefits of international trade?
3. What do economists describe using the term *opportunity cost*?
4. What is the connection between world production and everyone's standard of living?
5. What possibility does difference in opportunity cost offer?
6. When does country have a comparative advantage in producing a good?
7. What model did David Ricardo develop?
8. What does Ricardian model show?

II. Vocabulary

1. Find in the text and translate the following words and word combinations:

engage in international trade, benefit from their differences, to achieve economies of scale, hence, to reflect the interaction of motives, causes and effects of trade, at a larger scale, to give raise to trade, at a great expence, in terms of energy, size of world's economic pie, conversely, heated greenhouses, to take an occasion, relatively well, it seems extremely likely that, to produce computers instead, currently grow for sale, to produce less of other things, where supply and demand rule, put out of business

2. Find in the text English equivalents for the following words and word combinations:

обмежений асортимент товарів, бути менш ефективним, певна кількість ресурсів, відносно ефективно, виключно завдяки міжнародній різниці в продуктивності праці, структура виробництва країни, модель була первісно розроблена, місце ринку, центральна влада, відносно неефективно, взаємовигідне перегруповання світового виробництва, спрощена модель, піднімати стандарти життя кожного, зростаюча доля ринку, в реальному світі, виробляти кожний з цих товарів

3. Complete the sentences using words and word combinations from the box:

increase in world output, capital investment, some tools, benefit, differences, limited range of goods, marketplace, factor of production, basic prediction, opportunity cost, comparative advantage

1. British economist David Ricardo introduced the concept of ... in the early nineteenth century.
2. A country has a comparative advantage in producing a good if the ... of producing that good in terms of other goods is lower in that country than it is in other countries.
3. The ... of Ricardian model - that countries will tend to export goods in which they have relatively high productivity - has been confirmed by a number of studies.
4. In this model labor is the only ... and countries differ only in the productivity of labor in different industries.
5. International production and trade is determined in the ... where supply and demand rule.
6. If each country produces only a ... , it can produce each of these goods at a larger scale and hence more efficiently than if it tried to produce everything.
7. Nations, like individuals, can ... from their ... by reaching an arrangement in which each does the tilings it does relatively well.

8. ... help to understand how differences between countries give rise to trade between them.
9. The flowers must be grown in heated greenhouses, at great expense in terms of energy, ... and other scarce resources.
10. The reason that international trade produces this ... is that it allows each country to specialize in producing the good in which it has a comparative advantage.

4. Translate into English:

1. Основи теорії міжнародної торгівлі були розроблені видатними класиками англійської теоретичної економіки Адамом Смітом і Давідом Рікардо.
2. Нам доводиться відмовлятися від випуску певного виду товару, щоб забезпечити випуск іншого.
3. Д.Рікардо ввів принцип порівняльної переваги, який ґрунтується на тому, що сукупний обсяг випуску продукції буде більшим тоді, коли кожен товар буде вироблятися тією країною, у якої альтернативні витрати нижчі.
4. Порівняльна перевага за Д.Рікардо залежить тільки від відносної продуктивності країн і є передумовою міжнародного обміну, який вигідно здійснювати обома країнам.
5. Згідно з теорією відносних переваг Д.Рікардо, країна має спеціалізуватись на виробництві товару, який вона може виробляти з порівняно меншими витратами ресурсів.

5. Match each word/phrase on the left with a definition on the right.

a. gains

i. amount of something that a person or thing produces.

- | | |
|---------------------------------|---|
| b. comparative advantage | ii. financial advantages that a company gets when it produces large quantities of products. |
| c. output | iii. idea that the highest world production of all kinds of goods and services will be reached if each country or region puts most of its effort into producing the things which it is best fitted to produce. |
| d. economies of scale | iv. in economic theory, the cost of something that one decided not to take opportunity to buy. |
| e. opportunity cost | v. to get or obtain something wanted. |

6. Define the terms:

share	sophisticated
scarce resources	productivity
counterparts	demand

III. Dialogue

1. Read the dialogue below, sum up it content and act it out: The principle of comparative advantage

A: It's amazing!

B: What's amazing?

A: We had an assignment the other day to discover how much we depend on foreign trade.

B: What's so amazing about that?

A: I found that my clock radio was made in Japan, my slippers came from Taiwan, my robe from India, my comb was made in Mexico, my sweater was from Scotland and my shoes from Italy.

B: And I want to treat you to the hot chocolate made by a Swiss company out of cocoa beans from Ghana and sweetened with sugar from Ecuador.

A: I see that we are all dependent upon the goods and services from other countries, and imports have risen steadily almost every year in the past.

B: But why do countries trade with each other?

A: Trade among nations takes place for the same reasons that it does within a nation; to obtain goods and services that a region could not produce itself, or to obtain them at lower cost than they could be produced for at home. This is explained by *the principle of comparative advantage*.

B: But I've heard that some countries put up barriers to trade and what is the reason for that?

A: Despite the advantage of international trade, most nations have erected artificial barriers to that trade. These barriers are usually in the form of tariffs or quotas.

B: And how are the payments made in international trade?

A: Imports must be paid for in a currency that is acceptable to the seller. In order to facilitate these transactions, there is a market for the currencies of all trading nations. The selling price of one nation's currency in term of the currencies of other nations is known as its "exchange rate". Exchange rates fluctuate in accordance with the laws of supply and demand.

Essential vocabulary

arrangement	домовленність, приготування
to reach an ~	досягти домовленості
comparative advantage	порівняльна перевага
counterpart	колега, партнер (по переговорах), особа, яка посідає рівночінну посаду
to denounce	засуджувати
economies of scale	економія в результаті зростання масштабів виробництва, ефект масштабу, економія масштабу
hand out	роздавати
opportunity cost	альтернативні витрати
output	обсяг виробництва, реалізована продукція, виробництво, готова продукція
productivity of labor	продуктивність праці
range	серія, ряд, сфера, діапазон, асортимент, колекція
~ of goods	асортимент товарів
rearrangement	перестановка, перегрупування, переробка, перебудова
scarce resources	дефіцитні ресурси, незначні ресурси
term	період, строк, термін, <i>pl.</i> умови
on ~	на умовах
in ~	мовою, в термінах, з точки зору; у
trade off	розумінні того, що стосується компроміс, поступлення

Section B:

Misconceptions about comparative advantage

I. Working on the text

1. Reading

Read the following text:

When two countries specialize in producing the goods in which they have a comparative advantage, both countries gain from trade. *Comparative* advantage must not be confused with *absolute* advantage: it is comparative, not absolute advantage that determines who will and should produce a good.

The Ricardian one-factor model is the simplest of all models of international trade and of course this model is far too simple to be a complete analysis of either the causes or the effects of international trade. Although comparative advantage is a simple concept, experience shows that it is a surprisingly hard concept for many people to understand (or accept). Indeed, Paul Samuelson - the Nobel laureate economist who did much to develop the models of international trade has described comparative advantage as the best example he knows of an economic principle that is undeniably true yet not obvious to intelligent people.

There is no shortage of muddled ideas in economics. Politicians, business leaders and even economists frequently make statements that do not stand up to careful economic analysis. For some reason this seems to be especially true in international economics. Several common misconceptions about the meaning of comparative advantage and the nature of the gains from free trade appear frequently in public debate about international economic policy and even in statements by those who regard themselves as experts. Three misconceptions in particular have proved highly persistent and simple model of comparative advantage can be used to see why they are incorrect.

Productivity and competitiveness

Myth 1: Free trade is beneficial only if your country is strong enough to stand up to foreign competition. This argument seems extremely plausible to many people. Some economists criticized the case for free trade by asserting that it may fail to hold in reality: “What if there is nothing you can produce more cheaply or efficiently than anywhere else, except by constantly cutting labor costs?” they worried.

The problem with these commentators’ view is that they failed to understand the essential point of Ricardo’s model, that gains from trade depend on ***comparative*** rather than ***absolute*** advantage. He is concerned that your country may turn out not to have anything it produces more efficiently than anyone else - that is, that you may not have absolute advantage in anything.

It is always tempting to suppose that the ability to export a good depends on your country having an absolute advantage in productivity. But an absolute productivity advantage over other countries in producing a good is neither a necessary nor a sufficient condition for having a *comparative* advantage in that good. In our one-factor model the reason why absolute productivity advantage in an industry is neither necessary nor sufficient to yield competitive advantage is clear: *The competitive advantage of an industry depends not only on its productivity relative to the foreign industry; but also on the domestic wage rate relative to the foreign wage rate.* A country’s wage rate, in turn, depends on relative productivity in its other industries. For example, Portugal has low productivity in producing, say, clothing as compared with the United States, but because Portugal’s productivity disadvantage is even greater in other industries it pays low enough wages to have a comparative advantage in clothing all the same.

The pauper labor argument

Myth2: Foreign competition is unfair and hurts other countries when it is based on low wages. This argument, sometimes referred to as the **pauper labor argument**, is a particular favorite of labor unions seeking protection from foreign competition. People who adhere to this belief argue that industries should not have to cope with foreign industries that are less efficient but pay lower wages. This view is widespread and has acquired considerable political influence. In 1993 Ross Perot, a self-made billionaire and former presidential candidate, warned that free trade between the United States and Mexico, with its much lower wages, would lead to a “great sucking sound” as U.S. industry moved south.

Let us get the model stated. Suppose that there are two countries. One of them we call Home and other we call Foreign. Each of these countries has one factor of production (labor) and can produce two goods, wine and cheese. In our example Home is more productive than Foreign in both industries and Foreign’s lower cost of wine production is entirely due to its much lower wage rate. Foreign’s lower wage rate is, however, irrelevant to the question of whether Home gains from trade. Whether the lower cost of wine produced in Foreign is due to high productivity or low wages does not matter. All that matters to Home is that it is cheaper *in terms of its own labor* for Home to produce cheese and trade it for wine than to produce wine for itself.

This is fine for Home, but what about Foreign? Isn’t there something wrong with basing one’s exports on low wages? Certainly it is not an attractive position to be in, but the idea that trade is good only if you receive high wages is our final fallacy.

Exploitation

Myth 3: Trade exploits a country and makes it worse off if its workers receive much lower wages than workers in other nations. This argument is often expressed in emotional terms. For example, one columnist contrasted the \$2 million income of the chief executive officer of the clothing chain The Gap with the \$0.56 per hour paid to the Central American workers who produce some of its merchandise. It can seem hard-hearted to try to justify the terrifyingly low wages paid to many of the world's workers.

If one is asking about the desirability of free trade, however, the point is not to ask whether low-wage workers deserve to be paid more but to ask whether they and their country are worse off exporting goods based on low wages than they would be if they refused to enter into such demeaning trade. And in asking this question one must also ask, *what is the alternative?*

Abstract though it is, our numerical example makes the point that one cannot declare that a low wage represents exploitations unless one knows what the alternative is. In that example, Foreign workers are paid much less than Home workers, and one could easily imagine a columnist writing angrily about their exploitation. Yet if Foreign refused to let itself be "exploited" by refusing to trade with Home (or by insisting on much higher wages in its export sector, which would have the same effect), real wages would be even lower.

The columnist who pointed out the contrast in incomes between the executive at The Gap and workers who make its clothes was angry at the poverty of Central American workers. But to deny them the opportunity to export and trade might well be to condemn them to even deeper poverty.

2. Comprehension.

Answer the following questions to the text:

1. What does comparative advantage determine?
2. What misconception is connected with productivity and competitiveness?
3. How did some economists criticize the case for free trade?
4. What is the pauper labor argument?
5. Why is the pauper labor argument considered to be fallacy?
6. What misconception is connected with exploitation and why is it considered to be wrong?

II. Vocabulary

1. Find in the text and translate the following words and word expressions:

Undeniably true, muddled ideas in economics, careful economic analysis, one - factor model, surprisingly hard, to accept concept, obvious, common misconception, public debate, pauper labor argument, adhere to this belief, to cope with foreign industries, argue that, a self - made billionaire, to warn, complete analysis, simple concept, Nobel laureate economist, incorrect, seems extremely plausible, essential point of Ricardo's model, neither necessary nor sufficient, to yield competitive advantage, domestic wage rate, entirely due to, all that matters, clothing chain, desirability of free trade.

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

Шукати захисту, іноземна конкуренція, менш ефективний, платити нижчу заробітну платню, поширена думка, набувати значного політичного впливу, колишній кандидат, приймати концепцію, продуктивність, витримувати іноземну конкуренцію, постійно зменшувати витрати на оплату праці, залежить скоріш

від порівняльної ніж від абсолютної переваги, здатність експортувати, наполягати на вищій зарплатні, бідність.

3. Complete the sentences using words and word combinations front the box:

absolute productivity advantage, essential point, free trade, foreign competition, widespread, fallacy, exploitation, merchandise, chief executive officer, wage rate.

1. Foreign's lower cost of wine production is entirely due to its much lower
2. One columnist contrasted the \$2 million income of the ... of the clothing chain The Gap with \$0,56 per hour paid to the Central American workers who produce some of the
3. One cannot declare that a low wage represents ... unless one knows what the alternative is.
4. The idea that trade is good only if you receive high wages is
5. This view is ... and has acquired considerable political influence.
6. Pauper labor argument is particular favorite of labor unions seeking protection from
7. Some economists criticized the case for ... by asserting that it may fail to hold in reality.
8. This is the ... of Ricardo's model.
9. But ... over other countries in producing a good is neither a necessary nor sufficient condition for having a comparative advantage in that good.

4. Translate into English:

1. Д.Рікардо вивів закон, згідно з яким основою для виникнення, розвитку міжнародної торгівлі є виключно відносна різниця у витратах виробництва благ, незалежно від абсолютної величини цих витрат.

2. Інколи деякі політики, бізнесмени і навіть економісти роблять заяви, які не ґрунтуються на ретельному економічному аналізі.
3. В публічних дебатах по міжнародній політиці час від часу з'являються помилкові концепції відносно порівняльної переваги і здобутку від вільної торгівлі.
4. Деякі коментатори, що вважають себе експертами, не розуміють основної суті моделі Рікардо - здобуток від торгівлі залежить скоріш від порівняльної ніж абсолютної переваги.
5. Проста модель порівняльної переваги може бути використана для пояснення помилковості деяких концепцій.

5. Match each word/phrase on the left with a definition on the right

- | | |
|---------------------------------|---|
| a. merchandise | i. something that treats people unfairly by using their work or ideas for its own advantage and giving them very little in return. |
| b. factors of production | ii. the price or reward of labor considered as one of the factors of production. |
| c. exploitative | iii. an official limit on the minimum or maximum number that is allowed. |
| d. quota | iv. a formal word for goods that are bought, sold, or traded. |
| e. wage | v. the things that industry needs in order to produce a particular product, such as land, workers, and capital. |

6. Define the terms:

misconception	alternative
absolute advantage	to export goods
sufficient	demanding trade

III. Dialogue

Make up your own dialogue using the following expressions and word- combinations:

- | | |
|-------------------------|---------------------------|
| - common misconceptions | - unfair competition |
| - public debate | - to hurt other countries |
| - foreign competition | - to exploit a country |
| - country's wage rate | - worse off |

Essential vocabulary

absolute advantage	абсолютна перевага
to accept	приймати, погоджуватися, реагувати
to acquire	придбавати, набувати, опанувати
to assert	стверджувати, відстоювати
to base	базувати
competitiveness	конкурентоспроможність
to condemn	засуджувати, засудити, забракувати
to cope with	справлятися
to cut	знижувати, зменшувати
demanding	вимогливий, важкий, відповідальний
to exploit	експлуатувати
exploitation	експлуатація
fallacy	помилка, хибність, помилковість
irrelevant	не стосуватись, не мати відношення, недоречний, непотрібний, некорисний
to justify	виправдовувати, обґрунтовувати

labor (AmE)	праця, робота, робітники
~ costs	витрати на оплату праці, витрати на персонал
~ union	професійна спілка
merchandise	товари
misconception	невірне розуміння, непорозуміння, невірне уявлення
muddle	безлад, плутанина
pauper	бідняк, жебрак; той, що отримає і живе на допомогу по бідності
plausible	правдоподібний, ймовірний, можливий, пристойний
self - made	зобов'язаний всім самому собі; той, що досягує успіху власними зусиллями
shortage	нестача, дефіцит
stand	стояти, знаходитись, розташовуватися, простоювати, витримувати, терпіти
stand up to	витримувати
tempting	принадний, спокусливий
to turn	обертати, змінювати напрям
~ out	виявлятись
undeniably	безперечно, незаперечно
unfair competition	несумлінна конкуренція
view	вид, краєвид, погляд, думки, судження, мета, задум
wage rate	ставка зарплати
worse off	бідніше

PROBLEMS

1. Home has 1,200 units of labor available. It can produce two goods, apples and bananas. The unit labor requirement in apple production is 3, while in banana production it is 2. What is the opportunity cost of apples in terms of bananas?
2. "Chinese workers earn only \$0.75 an hour; if we allow China to export as much as it likes, our workers will be forced

down to the same level. You can't import a \$10 shirt without importing the \$0.75 wage that goes with it." Discuss.

Supplementary reading

Comparative Advantage in Practice.

1. Words you may need:

slugger - (бейсбол) сильний відбиваючий гравець

pitcher - (бейсб.) пітчер, нападаючий

outfield - (бейсб.) дальня частина поля

batter (batsman) - (бейсб.) гравець з битою, відбиваючий м'яч

payoff - виплата, винагорода

II. Read and translate the text:

Everyone knows that Babe Ruth was the greatest slugger in the history of baseball. Only true fans of the sport know, however, that Ruth also was one of the greatest *pitchers* of all time. Because Ruth stopped pitching after 1918 and played outfield during all the time he set his famous batting records, most people don't realize that he even could pitch. What explains Ruth's lopsided reputation as a batter? The answer is provided by the principle of comparative advantage.

As a player with the Boston Red Sox early in his career, Ruth certainly had an *absolute* advantage in pitching. According to historian Geoffrey C. Ward and filmmaker Ken Burns:

In the Red Sox's greatest years, he was their greatest player, the best left-handed pitcher in the American League, winning 89 games in six seasons. In 1916 he got his first chance to pitch in the World Series and made the most of it. After giving up a run in the first, he drove in the tying run himself, after which he held the Brooklyn Dodgers scoreless for eleven innings until his teammates could score the winning run... In the 1918 series, he would show that he could still handle them, stretching his series record to 29 2/3 scoreless innings, a mark that stood for forty-three years. The Babe's World Series



pitching record was broken by New York Yankee Whitey Ford in the same year, 1961, that his teammate Roger Maris shattered Ruth's 1927 record of 60 home runs in a single season.

Although Ruth had an absolute advantage in pitching, his skill as a batter relative to his teammates' abilities was even greater: His *comparative* advantage was at the plate. As a pitcher, however, Ruth had to rest his arm between appearances and therefore could not bat in every game. To exploit Ruth's comparative advantage, the Red Sox moved him to center field in 1919 so that he could bat more frequently.

The payoff to having Ruth specialize in batting was huge. In 1919 he hit 29 home runs, "more than any player had ever hit in a single season," according to Ward and Bums. The Yankees kept Ruth in the outfield (and at the plate) after they acquired him in 1920. They knew a good thing when they saw it. That year, Ruth hit 54 home runs, set a slugging record (bases divided by at bats) that remains untouched to this day, and turned the Yankees into baseball's most renowned franchise.

III Role - play the following situation:

1. You are members of Red Sox authorities. Hold a meeting to discuss what action to take on the following issues:
 - a. Babe Ruth has an absolute advantage in pitching and his skill as a batter relative to his teammates abilities is even greater.
 - b. Babe's teammate Roger Maris shattered Ruth's record.
 - c. As a pitcher Ruth has to rest his arm between appearances and therefore cannot bat in every game.
2. Work out your objectives, priorities, strategy and tactics.
3. Identify options with different risks and discuss their strengths and weaknesses.
4. Finally suggest ways in which you could improve the team's efficiency.

IV Discussion / Writing

1. If you were Babe Ruth what action you would take?
2. Can you discuss some other case, illustrating comparative advantage in practice?

Unit 3

INTERNATIONAL FACTOR MOVEMENTS

"Share our similarities, celebrate our differences"

M. Scott Peck, American author

Section A: The Theory of Multinational Enterprise

Section B: Multinational Firms in Practice

Learning Goals

After reading this unit, you will be able to:

- Understand theories that explain the existence of multinational firms and the motivation for foreign direct investment across economies.

Section A: The Theory of Multinational Enterprise

I. Working on the text

1. Reading

Read the following text:

The basic necessary elements of a theory of multinational firms can best be seen by looking at an example. Consider the European operations of American auto manufacturers. Ford and General Motors, for example, sell many cars in Europe, but nearly all those cars are manufactured in plants in Germany, Britain and Spain. This arrangement is familiar, but we should realize that there are two obvious alternatives. On one side, instead of producing in Europe the U.S. firms could produce in United States and export to the European market. On the other side, the whole market could be covered by European producers such as Volkswagen and Renault. Why, then, do we see this particular arrangement, in which the *same* firms produce in *different* countries?

The modern theory of international enterprise starts by distinguishing between the two questions of which this larger question is composed. First, why is a good produced in two (or more) different

countries rather than one? This is known as the question of **location**. Second, why is production in different locations done by the same firm rather than by separate firms? This is known, for reasons that will become apparent in the moment, as the question of **internalization**. We need a theory of location to explain why Europe does not import its automobiles from the United States; we need a theory of internalization to explain why Europe's auto industry is not independently controlled.

The theory of location is not a difficult one in principle. It is, in fact, just the theory of trade. The location of production is often determined by resources. Aluminum mining must be located where the bauxite is, aluminum smelting near cheap electricity. Minicomputer manufacturers locate their skill-intensive design facilities in Massachusetts or northern California and their labor-intensive assembly plants in Ireland or Singapore. Alternatively, transport costs and other barriers to trade may determine location. American firms produce locally for European market partly to reduce transport costs; since the models that sell well in Europe are often quite different from those that sell well in the United States, it makes sense to have separate production facilities and to put them on different continents. As these examples reveal, the factors that determine a multinational corporation's decisions about where to produce are probably not much different from those that determine the pattern of trade in general.

The theory of internalization is another matter. Why not have independent auto companies in Europe? We may note first that there are always important transactions between multinational's operations in different countries. The output of one subsidiary is often an input into the production of another. Or technology developed in one country may be used in others. Or management can usefully coordinate the activities of plants in several countries. These transactions are what tie the multinational firm together, and the firm presumably exists to facilitate these transactions. But international transactions need not be carried out inside a firm. Components can be sold into an open market, and technology can be licensed to other firms. Multinationals exist because it turns out to be more profitable to carry out these

transactions within a firm rather than between firms. This is why the motive for multinationals is referred to as “internalization”.

We have defined a concept, but we have not yet explained what gives rise to internalization. Why are some transactions more profitably conducted within a firm rather than between firms? Here there are a variety of theories, none as well- grounded either in theory or in evidence as our theories of location. We may note two influential views, however, about why activities in different countries may usefully be integrated in a single firm.

The first view stresses the advantages of internalization for technology transfer. Technology, broadly defined as any kind of economically useful knowledge, can sometimes be sold or licensed. There are important difficulties in doing this, however. Often the technology involved in, say, running a factory has never been written down; it is embodied in the knowledge of a group of individuals and cannot be packaged and sold. Also, it is difficult to the prospective buyer to know how much that knowledge is worth - if the buyer knew as much as the seller, there would be no need to buy! Finally, property rights in knowledge are often hard to establish. If a European firm licenses technology to a U.S. firm, other U.S. firms may legally imitate that technology. All these problems may be reduced if a firm, instead of selling technology, sets about capturing the returns from the technology in other countries by setting up foreign subsidiaries.

The second view stresses the advantages of internalization for vertical integration. If one firm (the “upstream” firm) produces a good that is used as an input for another firm (the “downstream” firm), a number of problems can result. For one thing, if each one has a monopoly position, they may get into a conflict as the downstream firm tries to hold the price while the upstream firm tries to raise it. There may be problems of coordination if demand or supply is uncertain. Finally, a fluctuating price may impose excessive risk on one or another party. If the upstream and downstream firms are combined into a single “vertically integrated” firm, these problems may be avoided or at least reduced.

The economic theory of organizations - which we are talking about when we try to develop a theory of multinational corporations - is still in its infancy. This is particularly unfortunate because in practice the multinationals are a subject of heated controversy - praised by someone for generating economic growth, accused by others of creating poverty.

2. Comprehension.

Answer the following questions to the text:

1. What is known as the question of location?
2. What is known as the question of internalization?
3. What is location of production often determined by?
4. Why do American firms produce locally for the European market?
5. Why is the motive for multinationals referred to as “internalization”?
6. Why are some transactions more profitably conducted within a firm rather than between firms?
7. What is technology transfer?
8. What is vertical integration?

II. Vocabulary

1. Find in the text and translate the following words and expressions:

familiar, obvious alternatives, particular arrangements, to consider, to distinguish between something, to compose, rather than, smelting, skill-intensive design facilities, labor-intensive, to produce locally, reveal, to facilitate transactions, it turns out, to carry out transactions, to refer to as, to conduct more profitably, to be integrated, economically useful knowledge, to be involved in, to be embodied in, legally imitate technology, to capture the returns, “upstream” firm, “downstream” firm, uncertain demand and supply, to generate economic growth, to create poverty, to be praised by somebody.

2. Find in the text the English equivalents for the following words and word combinations:

очевидний, підлягати незалежному контролю, визначати, боксит, альтернативно, зменшувати транспортні витрати, виробничі потужності, пов'язувати, визначити концепцію, впливова думка, підкреслювати переваги, управляти фабрикою, перспективний покупець, важко встановити, скорочувати витрати, фактори виробництва, угода, перешкоди для торгівлі, обсяг виробництва, розташування, дочірнє підприємство, виробляти товар, передача технології, утримувати ціну, уникати проблем, майнове право, дохід, видавати ліцензію, звинувачувати, законно, угода.

3. Complete the sentences using words and word combinations from the box:

output, transport costs, to get into conflict, to raise the price, demand or supply, heated controversy, upstream firm, downstream firm, theory of internalization, technology transfer, vertical integration, multinational enterprise.

1. The modern theory of ... starts by distinguishing between the two questions of which this larger question is composed.

2. A model where the management of a company owns other companies in the production process and the firm controls a number of successive stages in the supply of a product is an example of... .
3. The first view stresses the advantages of internalization for
4. We need ... to explain why Europe's auto industry is not independently controlled.
5. If the ... and ... are combined into a single "vertically integrated" firm, these problems may be avoided or at least reduced.
6. In practice multinationals are a subject of... - praised by some for generating economic growth, accused by others of creating poverty.
7. There may be problems of coordination if ... is uncertain.
8. If each has a monopoly position, they may ... as the downstream firm tries to hold the price down while the upstream firm tries
9. Alternatively ... and other barriers to trade may determine location.
10. The ... of one subsidiary is often an input into the production of another.

4. Translate into English:

1. Стрижень теорії інтерналізації становить положення про заміну міжнародних ринкових трансакцій внутрішньо-корпоративними трансакціями.
2. Розміщення продукції часто визначається ресурсами.
3. Транспортні витрати і інші перешкоди для торгівлі можуть визначати розташування компаній.
4. Якщо обидві компанії займають монопольне положення, вони можуть конфліктувати між собою.
5. Технологія, розроблена в одній країні може бути використана в іншій.

5. Match each word phrase on the left with a definition on the right.

- | | |
|--------------------------------|---|
| a. vertical integration | i. the study and use of scientific methods in industry. |
| b. internalize | ii. the passing of a right of ownership from one person or organization to another. |
| c. multinational | iii. to make for one's own products the material and parts used in their manufacture, instead of buying them in from outside supplier. |
| d. transfer | iv. a company that has branches or owns companies in many different countries. |
| e. technology | v. the merging of two or more companies involved in different aspects of the same business. |

6. Define the terms:

manufacturer	to license
familiar	advantage
assembly plant	prospective buyer

III. Dialogue

1. Read the dialogue below, sum up it content and act it out: Meeting in the multinational company

Barbara: I think I've covered everything in detail. Now I'd just like to summarize. You have a choice of two sites for your new European distribution centre: the Birmingham Business Park, here in the U.K.; or the Polderdijk Business Park near Amsterdam. These are the main

issues: First, transport. Amsterdam is on mainland Europe, and that's an advantage. But both cities have large international airports and good road and rail links. Second, cost. The Birmingham site is much cheaper. Finally, communication. Your company language is English, so Birmingham is better from that point of view. Are there any questions?

Charles: Could you remind us how much the grant from the U.K. Government is?

Barbara: Yes, £300,000. The details are in your files.

Charles: Thank you very much, Barbara. You've given us a very clear idea of the advantages and disadvantages of each site. Now we have to make a choice. Bob, what do you think?

Bob: Well, I think that the main issue is transport. Amsterdam is nearer to our markets in Europe. I think we should choose Amsterdam.

Charles: Uh, huh. Ann?

Ann: Bob has a point, but transport isn't the only issue here. Birmingham is cheaper: wages are lower, taxes are lower, and we'll get a grant from the U.K. Government.

Bob: But transport costs are higher from Birmingham. And it takes longer to reach our markets in the south - Italy and Spain for example.

Barbara: That's true, but Birmingham has a large international airport, and there are good road and rail links with Europe.

Charles: Barbara, how long does it take lorries to drive from Birmingham to, say, Rome or Madrid?

Barbara: Less than 48 hours.

Charles: Let us look at the other issue: communication.

Ann: Everyone uses English in Transglobal. English is the company language, so it makes sense to

Bob: But the Dutch - sorry to interrupt, Ann - the Dutch speak excellent English.

Barbara: That's true, Bob, but don't forget that you already have a sales office in U.K.

Charles: But sales and distribution are separate operations.

Ann: Maybe, but I still think it makes sense to locate the distribution centre here.

Bob: I'm afraid I disagree there, Ann. For a distribution centre you need good transport. And from the point of view of transport, Amsterdam is the better choice.

Charles: Shall we take a short break now and continue the discussion afterwards?

after the break:

Charles: Well, it's been a fantastic year. Turnover is up 18% on last year.

That's 6% over budget. And profits are up by 8%. It's a tremendous achievement and all of you can take credit for that. Well done, and thank you. I've really enjoyed this sales conference. It's been great to see all the old faces again - looking younger than ever - and it's been great getting to know the new representatives. I'd like to thank Bob Davis and his team for organizing the conference. They've done a splendid job. Bob, would you come up here? Well done. Congratulations.

Finally, I have two announcements to make. First of all, as you know, we're going to open a new distribution centre in Europe. We've decided to locate it in Birmingham. We hope it will open in May next year. Secondly, the announcement you are all waiting for. The winner of the Transglobal Employee of the Year award. This year the prize is a holiday for two in the Seychelles. It was a very difficult decision. There were many candidates for the prize: Daniel Conway, Ron

Jacobs, Jean Robertson, Kevin Lester, and many more. But the winner this year is someone who works here in the U.K.... and someone you all know very well — Ann Richards! Well done.

Ann: Well, thank you. Thank you very much.

Essential vocabulary

assembly plant	складальний завод
barriers to trade	перешкоди для торгівлі
controversy	дискусія, суперечка
heated ~	палка дискусія, палка суперечка
downstream	потоки від материнської компанії до дочірньої; кредит, наданий дочірній компанії материнською
evidence	доказ, факти
to be in evidence	мати місце, бути звичайним, поширеним
infancy (of person)	дитинство
(of movement, firm)	період становлення
inputs	виробничі фактори, фактори виробництва, задіяні ресурси
internalization	інтерналізація
legally	законно
to license	видавати ліцензію, давати дозвіл
location	розміщення, розташування, місце розташування
multinational enterprise	транснаціональне підприємство
output	обсяг виробництва, реалізована продукція, готова продукція
price	ціна, курс цінних паперів
to hold down the price	утримувати ціну
to raise the price	піднімати ціну
fluctuating price	хитка, мінлива ціна
production facilities	виробничі фонди, виробничі потужності

property right	майнове право
property in knowledge	право власності на знання
to reduce costs	скорочувати витрати
return	дохід, дохідність, прибуток
to set about	приступати
subsidiary	дочірнє підприємство, дочірня компанія, філія, підприємство, що контролюється материнською компанією
technology transfer	передача технології
well-grounded	досвідчений, обізнаний з чимось

Section B: Multinational Firms in Practice

1. Reading

Read the following text:

Multinational firms play an important part in world trade and investment. For example, about half of U.S. imports are transactions between "related parties." By this we mean that the buyer and seller are to a significant extent owned and presumably controlled by the same firm. Thus half of U.S. imports can be regarded as transactions between branches of multinational firms. At the same time, 24 percent of U.S. assets abroad consist of the value of foreign subsidiaries of U.S. firms. So U.S. international trade and investment, while not dominated by multinational firms, are to an important extent conducted by such firms. Multinational firms may, of course, be either domestic or foreign-owned. Foreign-owned multinational firms play an important role in most economies and an increasingly important role in the United States. Table 3-1 shows how the percentage of U.S. workers employed by foreign-owned firms has increased over the past quarter-century both in economy as a whole and in manufacturing especially.

Table 3-1 Employment by Foreign-Owned Firms in the United States		
Year	As Percent of Total Nonfarm Employment	As Percent of Manufacturing Employment
1997	1,5	3,8
2002	4,2	14,6

Although comparable statistics do not exist, it turns out that the real exception among major economies is Japan, which has little foreign ownership. This is not because of overt legal restrictions: On paper, foreigners are free to open plants in Japan and buy Japanese companies, with only a few exceptions. But cultural obstacles, such as the unwillingness of many Japanese to work for foreign companies, and perhaps also red-tape barriers thrown up by bureaucrats have prevented large-scale operation of foreign-based multinationals.

The important question, however, is what difference multinationals make. With only a limited understanding of why multinationals exist, this is a hard question to answer. Nonetheless, the existing theory suggests some preliminary answers.

Notice first that much of what multinationals do could be done without multinationals, although perhaps not as easily. Two examples are the shift of labor-intensive production from industrial countries to labor-abundant nations and capital flows from capital-abundant countries to capital-scarce countries. Multinational firms are sometimes the agents of these changes and are therefore either praised or condemned for their actions (depending on the commentator's point of view). But these shifts reflect the "location" aspect of the theory of multinationals, which is really no different from ordinary trade theory. If multinationals were not there, the same things would still happen, though perhaps not to the same extent. This observation leads international economists to attribute less significance to multinational enterprise than most lay observers.

Notice, too, that in a broad sense what multinational corporations do by creating organizations that extend across national

boundaries is similar to the effects of trade and simple factor mobility; that is, it is a form of international economic integration. By analogy with the other forms of international integration, we would expect multinational enterprise to produce overall gains but to produce income distribution effects that leave some people worse off.

These income distribution effects are probably mostly effects *within* rather than *between* countries.

To sum up, multinational corporations probably are not as important a factor in the world economy as their visibility would suggest; their role is neither more nor less likely to be beneficial than other international linkages.

2. Comprehension

Answer the following questions to the text:

1. What is meant by "related parties"?
2. What is role of foreign-owned multinational firms in most economies?
3. How has the percentage of U.S. workers employed by foreign-owned firms changed over the past quarter-century?
4. What has prevented large-scale operation of foreign-based multinationals in Japan?
5. What does the "location" aspect of the theory of multinationals reflect?
6. What activity of multinational corporation is similar to the effects of trade and simple factor mobility?

II. Vocabulary

1. Find in the text and translate the following words and word combinations:

to be regarded as, related parties, to a significant extent, presumably controlled, to get nervous about smth, domestic firm, to be dominated by, to compare the role, large-scale ownership, to be proud of cultural

independence, to confirm, sharp increase, substantial foreign ownership, comparable statistics, to be free to do smth, shift of labor-intensive production, labor-abundant nations, capital - scarce country, beneficial

2. Find in the text the English equivalents for the following words and word combinations:

вітчизняна компанія, вартість, пов'язана сторона, активи, прихований зміст, виявляти, висвітлювати, власність іноземних фізичних і юридичних осіб, культурні перешкоди, підтверджувати, перешкоджати, пропонувати попередню відповідь, потік капіталу, фактор мобільності, національні кордони, відвертий, перестановка, загальний прибуток, перестановка, різке зростання, розподіл доходів

3. Complete the sentences using words and word combinations from the box:

legal restrictions, get nervous, “related parties”, manufacturing workers, investment, transactions, foreign - owned, red-tape barriers, cultural obstacles, simple factor mobility, condemned, praised, trade

1. Multinational firms are sometimes the agents of these changes and therefore either... or... for their actions.
2. In a broad sense what multinational corporations do by creating organizations that extend across national boundaries is similar to the effect of... and....
3. ,such as the unwillingness of many Japanese to work for foreign companies and perhaps also ... thrown up by bureaucrats have prevented large-scale operation of foreign - based multinationals.
4. Multinational firms may, of course, be either domestic or... .
5. Thus half of U.S. imports can be regarded as ... between branches of multinational firms.
6. Multinational firms play an important part in world trade and...

7. France is country proud of its cultural independence, but as long ago as 1985 more than a fifth of French... were employed by foreign firms.
8. About half of U.S. imports are transactions between...
9. Americans are not used to the idea of working for foreign - owned companies and sometimes ... about implications of rising foreign ownership.
10. Japan has little foreign ownership and this is not because of overt...

4. Translate into English:

1. Транснаціональні корпорації мають значний вплив на світову торгівлю і інвестиції.
2. Половину імпорту США можна розглядати як трансакції між філіалами транснаціональних корпорацій.
3. Компаніям різних країн вигідно налагоджувати партнерські відносини на міжнародному рівні.
4. Найбільш розвинені країни перетворюються на транснаціоналізовані країни.
5. Транснаціональні компанії США з кожним роком будуть мати все більш можливості для завоювання економічного простору за межами країни.

5. Match each word/phrase on the left with a definition on the right.

- | | |
|------------------------------|---|
| a. investment | i. the theoretical situation when man's wants are fully met. |
| b. transaction | ii. the right to hold a thing entirely as one's own, including complete and permanent control over it. |
| c. subsidiary company | iii. a single business deal, esp. a sale or purchase by the business. |

d. ownership

iv. a company of which more than half the share-capital is owned by another company called either a holding company or a parent company.

e. abundance

v. the act of using money to obtain income or profits.

6. Define the terms:

foreign-owned firm

international economic integration

legal restrictions

mobility

capital-scarce countries

assets

III. Dialogue

Make up your own dialogue using the following expressions and word-combinations:

- world trade and investment

-capital-abundant countries

- foreign subsidiaries

-capital-scarce countries

- labor-abundant nations

-to extend across national boundaries

- industrial countries

-income distribution effect

Essential vocabulary

abundant

багатий

assets

активи, фонди, майно

capital flow

потік капіталу

to condemn

засуджувати

to confirm

підтверджувати

foreign ownership

власність іноземних фізичних і юридичних осіб

to illuminate

висвітлювати, роз'яснити, пояснити

implication	висновок, причетність, прихований зміст
income distribution	розподіл доходів
legal restrictions	встановлені законом обмеження
linkage	тісні союзи, тісні зв'язки
overall gain	загальний прибуток
overt	відвертий
part	учасник, сторона
related ~	пов'язана сторона, афілійована особа
preliminary	попередній, завчасний
red-tape barriers	бюрократичні перепони
shift	переміна, перестановка, зміна
value	вартість, цінність, величина, важність
visibility	видимість

PROBLEMS

1. The quantity of direct foreign investment by the United States into Mexico has increased dramatically during the last decade. How would you expect this increased quantity of direct foreign investment to affect migration flows from Mexico to the United States, all else being equal?
2. Which of the following are direct foreign investments, and which are not?
 - a. A Saudi businessman buys \$ 10 million of IBM stock.
 - b. The same businessman buys a New York apartment building.
 - c. A French company merges with an American company; stockholders in the U.S. company exchange their stock for shares in the French firm.

Supplementary reading

• Case Study

Immigration and the U.S. Economy

1. Words you may need:

surge - приплив, різкий стрибок

to spur - спонукати

fraction - невелика частина

gap - проміжок, розходження

1. Read and translate the text:

During the 20th century, the United States has experienced two great waves of immigration. The first, which began in the late 19th century, was brought to an end by restrictive legislation introduced in 1924. A new surge of immigration began in the mid-1960s, spurred in part by a major revision of the law in 1965. There is also a rising number of illegal immigrants; the U.S. government estimates their number at 200,000 to 300,000 per year.

In the period between the two great waves of immigration, immigrants probably had little effect on the U.S. economy, for two reasons. First, they were not very numerous. Second, the immigration laws allocated visas based on the 1920 ethnic composition of the U.S. population; as a result, immigrants came mainly from Canada and Europe, and so their educational level was fairly similar to that of the people already in the United States. After 1965, however, immigrants came primarily from Latin America and Asia, where workers, on average, were substantially less educated than the average American worker.

The accompanying table illustrates this effect by showing the ratio of immigrants to native-born workers by education level in the years 1980 and 1990. As you can see from the table, the ratio of immigrants to native-born rose in all categories, but by far the largest increase occurred among workers who had not completed high school.

Thus immigration, other things being the same, tended to make less-educated workers more abundant and highly educated workers scarcer. This suggests that immigration may have played a role in the widening wage gap between less and more educated workers over the same period.

However, this cannot have been the whole story. Despite the effects of immigration, the fraction of U.S. workers without a high school education dropped over the decade, while the fraction with a college education rose. So overall, educated workers became more abundant, yet their relative wage still increased—probably as a result of technological changes that placed an increasing premium on education.

	Immigrants as Percent of Native- Born Workers, 1980	Immigrants as Percent of Native- Born Workers, 1990	Change, 1980-1990
High school dropouts	12.2	26.2	14.0
High school	4.4	6.1	1.7
Some college	5.8	6.9	1.1
College	7.5	9.7	2.2

Task

As economists hold an informal meeting. Consider the advantages and disadvantages of immigration. Then decide what are the ways in which government activities may affect the immigration process.

II. Discussion/ Writing

1. Imagine the situation when there is no immigration.
2. Why do people move long distances from one country to another?

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