

МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ

ЦЕНТРАЛЬНОУКРАЇНСЬКИЙ НАЦІОНАЛЬНИЙ
ТЕХНІЧНИЙ УНІВЕРСИТЕТ

КАФЕДРА ІНОЗЕМНИХ МОВ

Англійська мова
для студентів економічних спеціальностей:

*«FUNDAMENTALS OF ECONOMICS
AND BUSINESS ORGANIZATION»*

(електронне видання)

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Методична розробка: "FUNDAMENTALS OF ECONOMICS AND BUSINESS ORGANIZATION" має на меті покращення щодо підготовки студентів до самостійного читання, сприяти їх розумінню та вдосконаленню навичок здійснення перекладу оригінальної літератури на англійській мові в галузі економіки та бізнесу, а також закріпленню навичок усного мовлення. Система лексико-комунікативних вправ спрямована на свідоме практичне засвоєння мовних елементів фахового стилю. Тексти посібника добиралися з монографій і журнальних статей англійських і американських авторів і зазнали деяких змін та скорочень. Тематично пов'язані тексти призначені для аудиторного та самостійного навчального читання.

Призначена для аудиторної і самостійної роботи як на ступені бакалаврату, так і у відповідних групах магістерського ступеня.

До кожного тексту пропонуються запитання та завдання, які сприяють кращому розумінню обговорюваного матеріалу; вправи на переклад з української мови на англійську, що в комплексі з читанням, перекладом та обговоренням текстів сприяє розвитку комунікативної мовленнєвої компетенції студентів та забезпечує діяльнісно-орієнтований підхід до вивчення іноземної мови.

BUSINESS TRENDS AND ECONOMIC ENVIRONMENT

Тема I: WORLD ECONOMIC SYSTEMS

1. The Importance of Economics to Business.

Завдання 1. Прочитайте та перекладіть:

Any change in the economic or political system has a major influence on the success of the business system.. The world economic situation and world politics also have a major influence on business. Therefore, to understand business, one must also understand basic economics and politics. Most universities require students to take economics courses before they take business courses, because economic concepts are the basis for most business decision-making.

2. Key Words. Завдання 2. Прочитайте, запишіть та вивчіть:

real wages	реальна зарплата
equilibrium point	точка рівноваги
allocation	розміщення, розподіл
bargain (v.)	домовлятися
ultimate	кінцевий, останній
attain	досягти
impact (n.)	поштовх; вплив
prosperity	достаток, добробут; процвітання
price	ціна
surplus	надлишок
incentive	спонука
inequity	несправедливість
shortage	нестача
inequality	нерівність
quantity	кількість

3. Definitions of the Key Terms. Завдання 3. Прочитайте та перекладіть:

Economics -	the study of the allocations of scarce resources among competing individuals.
Factors of production -	land, materials, human labour, and capital.
Microeconomics -	the study of the behaviour of people and organizations in particular markets.
Macroeconomics -	the study of the nation's economy as a whole.
Real wages -	money wages divided by the price level.
Free market system -	system in which decisions about what to produce and in what quantities are decided by the market; that is, by buyers and sellers negotiating for goods and services.
Supply -	the quantity of products that manufactures or owners are willing to sell at different prices at a specific time.
Supply curve -	shows the relationship between price demanded and the quantity supplied.
Demand -	the quantity of products that people are willing to buy at different prices at a specific time.
Demand curve -	shows the relationship between quantity demanded and price.
Equilibrium point-	point at which supply and demand are equal.
Market price -	price determined by supply and demand.
Mixed economy -	an economy that combines free markets with some government allocation of resources.

4. Texts. Завдання 4. Прочитайте та перекладіть тексти:

Text 1: WHAT IS ECONOMICS?

Economics is the study of the allocation of scarce resources among competing individuals. You understand what it means to "economize" in your own life. It means we have to learn to "make do" because we do not have all that we want. The world is in a similar situation. There are factors of production (resources) available: land and natural resources, human labour, and capital (machines, tools, and buildings). Those resources are used to produce goods and services to satisfy our need for food, shelter, and clothing, and our other needs. The economic questions are: "Who decides how to allocate those resources?" and "How should they be allocated?".

Today, resource allocation in some countries is largely government controlled. Resource allocation may also be left to individual consumers, bargaining in the marketplace and trading goods and services. That is the nature of capitalist systems (for example, the United States and Canada). In between are systems that are based on private exchange and some government ownership. That is the nature of socialist systems (for example, Sweden and Denmark). Even socialist countries such as Norway rely mostly on private business for wealth. There are no pure capitalist or communist systems; all systems have some mixture of consumer choice plus government-controlled allocation.

Regardless of the system used, the ultimate goal of economics is to make optimum use of resources so that people can attain a good standard of living (that is, have homes, cars, clothes, and other tangibles) and enjoy a good quality of life (that is, education, health, a clean environment, and happiness).

Figure 1-1 shows the economic system and its ultimate goals.

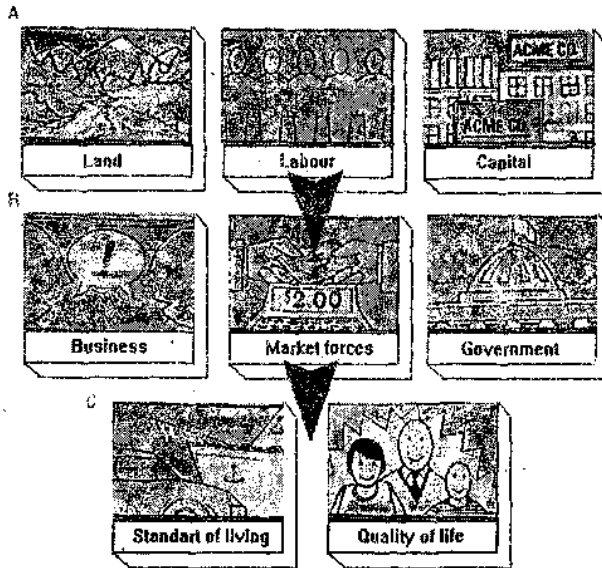


FIGURE 1-I, Economics in. action.

Economics studies how various resources, A, are best allocated, B, to produce the highest standard of living and quality of life, C, the inputs are known as the "factors of production".

Text 2: THE STUDY OF ECONOMICS

If you were to go through the course list in economics at most colleges, you would find courses in both macroeconomics and microeconomics. You would likely find other courses on the history of economic thought. The following sections define some basic terms in economics and give you some feel for what is covered in various economics courses.

Text 3: MACROECONOMICS

What causes one country to prosper and grow while other countries, with similar resources, remain poor ? What causes unemployment? How much of a country's wealth should be spent on government programs such as defence, welfare, and education?

These and other similar questions are the subject of macroeconomics. Macroeconomics is the study of the nation's economy as a whole. Macroeconomics can be a fascinating subject to study, because it looks at such important issues as whether or not taxes should be raised, the problems of inflation and depression, and much more.

Text 4: MICROECONOMICS

What happens to the price of corn when there is a drought in the Midwest? What happens to the supply of farm products when the government subsidizes farmers or keeps farm prices artificially low? What is the impact of income taxes versus value-added taxes on consumers? How does one determine the value of leisure time? These and other similar questions are the subject of microeconomics. Microeconomics is the study of the behaviour of people and organizations in particular markets. It looks at how prices are determined and how people and businesses respond to changes in the market (for example, changes in the demand for and supply of products).

Microeconomics can also be challenging to study because it teaches principles that can be used in everyday buying and selling transactions with others.

Text 5: EARLY ECONOMIC THOUGHT: MALTHUS (1766-1834)

Most early economists had no idea of how to make a country grow to be prosperous or to help people become healthy and happy. In fact, economics was once known as the "dismal science", because economists were so pessimistic. In England, for example, an economist named Thomas R. Malthus saw that most of his countrymen were starving. Poverty, hunger, and disease were the norm. Malthus felt conditions could only get worse,

because population was increasing geometrically (for example, 200, 400, 800) while food supplies were only slowly increasing. (He published this idea in 1798.) He anticipated more hunger and disease as a result. Today there are some people who feel Malthus was right, and it is just a matter of time before there are too many people in the world and too few resources.

Recently, economists have predicted that the world would run out of resources such as oil, water, and coal and that pollution would get worse and worse. They cite nations such as Mexico as their model of the future. Other writers are more optimistic and predict world prosperity. They feel that the population growth can be an asset. Their model of the future is the United States. Which predictions are correct? Nobody knows for sure, but we do know some strategies for creating prosperity. The basis for optimism began in 1776. What was needed was a social and political base for growth. That base was established in America.

Text 6: CAPITALIST ECONOMICS: ADAM SMITH (1723-1790)

The year was 1776. The Declaration of Independence stated that everyone had the right to life, liberty, and the pursuit of happiness. Certainly those early Americans felt they knew how to make a country prosper. They felt that the key was *freedom*, and they fought to get it. There was an economist who understood the American dream and helped shape it, even though he was not an American. His name was Adam Smith. He published his book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, in 1776, the same year that the Declaration of Independence was signed. Adam Smith, too, felt he knew what would cause a nation to prosper. Like the founding fathers of America, he believed in the power of freedom.

Adam Smith believed that people would work hard if they knew they could make a lot of money by doing so. He made the

desire for money the foundation of his theory. He pictured farmers working long hours growing food to sell locally and to other countries. He pictured business people working long hours to make shoes, tools, and other products to sell locally and internationally. As long as they were free to make as much money as they could, Adam Smith felt that farmers and business people would work long hours. The result, Smith believed, would be plenty of food to eat and products of all kinds available to buy. He said that people *trying to improve their own situation in life* would benefit society as a whole (like an invisible hand) by producing needed goods, services, and ideas. Adam Smith's invisible hand concept referred to the idea that countries would prosper as individuals within the country prospered, because the way to make money was to provide needed goods and services to others through trade. The invisible hand turns self-directed gain into social benefit.

Text 7: HOW FREE MARKETS WORK

A free market system is one in which decisions about what to produce and in what quantities are decided by the market, that is, by buyers and sellers negotiating prices for goods and services.

You and 1 and other consumers in the United States send signals to tell producers what to make, how many, in what colour, and so on. The way we do that is by going to the store and buying products and services. For example, if all of us decided we wanted more fish (rather than red meat), we would signal fishermen to catch more fish. The message is sent by the price. As the demand for fish' goes up, the price goes up as well, because people are willing to pay more. Fishermen notice this price increase and know they can make more money by catching more fish. Thus they have the incentive to get up earlier and fish later.

Furthermore, more people go fishing. These are people who previously could not make a profit fishing but now can because of the higher price. The kind of fish they go for depends on the kind of fish we prefer (requests in the store).

The same process occurs with all products. The price tells producers how much to produce. As a consequence, there is rarely a long-term shortage of goods in the United States. If anything were wanted but not available, the price would tend to go up until someone would begin making that product or sell the ones they already had, given free markets.

Text 8: HOW PRICES ARE DETERMINED

The previous discussion about supply, demand, and pricing is an important part of microeconomics. It illustrates the fact that prices are not determined by sellers. Rather, they are determined by buyers and sellers negotiating in the marketplace. A seller may want to receive \$10 a pound for fish, but the quantity demanded at that price may be quite low. The lower the price the fishermen: can charge, the higher the quantity demanded is likely to be. Many more people can and will buy fish at \$1 a pound than at \$10 a pound. How is a price determined that is acceptable "to both buyers and sellers? The answer is provided by understanding the economic concepts of supply and demand.

Text 9: SUPPLY

Supply refers to the quantity of products that manufacturers or owners are willing to sell at different prices at a specific-time. Generally speaking, the amount supplied will increase as the price increases. Economists usually show this relationship between quantity supplied and price on a graph. Figure 1-2 shows a simple supply curve. The price of an item in dollars is

shown vertically on the left of the graph. Quantity is given horizontally at the bottom of the graph. The various points on the graph indicate how many fish a fisherman would provide at different prices. For example, at a price of \$2, a fisherman would provide only two fish, but at \$8, he would supply eight fish. The line connecting the dots is a supply line or supply curve. It indicates the relationship between the price and the quantity supplied. All things being equal, the higher the price, the more fisherman will be willing to supply.

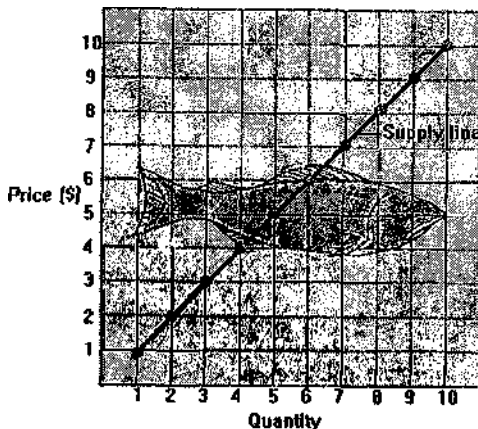


FIGURE 1-2. A simple supply line showing the quantity of fish supplied at different prices. The supply line rises from left to right. Think it through. The higher the price of fish goes (the left margin), the greater the quantity that fisherman will be willing to supply.

Text 10: DEMAND

Demand refers to the quantity of products that people are willing to buy at different prices at a specific time. Generally speaking, the quantity demanded will decrease as the price increases. Again, the relationship between price and quantity demanded can be shown in a graph. Figure 1-3 shows a simple

demand line. The various points on the graph indicate the quantity demanded at various prices, for example, at price of \$8, the quantity demanded is just two fish. But if the price were \$2, the quantity demanded would increase to eight. The line connecting the dots is a demand curve. It shows the relationship between quantity demanded and price.

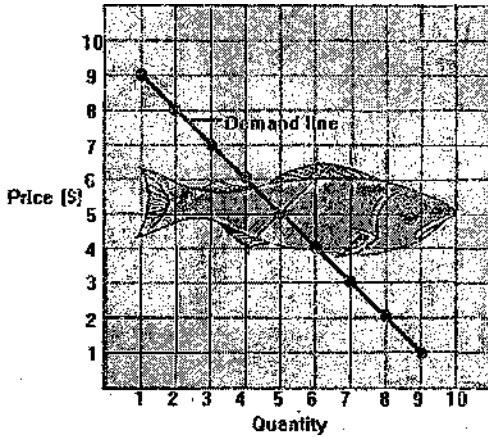


FIGURE 1-3. A simple demand line showing the quantity of fish demanded at different prices. The demand line falls from left to right. It is easy to understand why the higher the price of fish, the lower the quantity demanded. As the price falls, the quantity demanded goes up.

Text 11: EQUILIBRIUM POINT

It should be clear to you after reviewing the graphs that the key factor in determining supply and demand is price. Sellers prefer a high price and buyers prefer a low price, all other things being equal. If you were to lay the two graphs on top of one another, the supply line and the demand line would cross. At that crossing point, the quantity demanded and the quantity supplied would be equal. Figure 1-4 illustrates that point. At a price of \$5, the quantity demanded and the quantity supplied are equal. It is

known as the equilibrium point. That would become the market price. Market price, then, is determined by supply and demand.

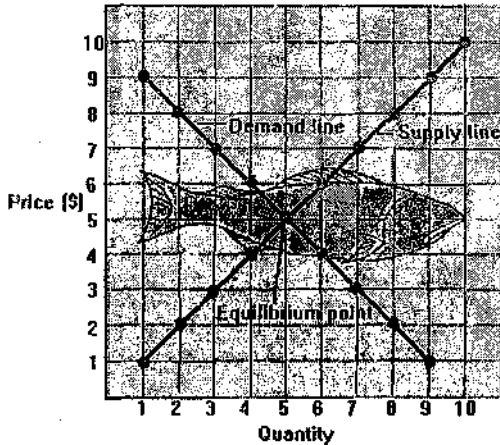


FIGURE 1-4,

What would happen if the seller moved his or her price up to \$6? The buyer would be willing to buy only four fish but the seller be willing to sell six fish. Similarly, if the price were cut to \$4, then buyer be willing to buy six fish, but sellers would be willing to sell only four. In a free market, prices will always tend toward the equilibrium price.

It is the interaction between supply and demand, then, that determines the market price in the long run. There is no need for government involvement or government planning. If surpluses develop, a signal is sent to sellers to lower the price. If shortages develop, a signal is sent to sellers to increase the price. Eventually supply will again equal demand if nothing interferes with market forces.

Text 12: WORLD MARKETS: SUPPLY AND DEMAND

Every day billions of consumers throughout the world are sending signals to millions of producers throughout the world

telling them what they want. The signal is sent by the price of various goods and services. The signals are sent very quickly, so that there should be a little delay in ending surpluses and shortages. In the real world, there are many interferences to the free exchange of goods and services among countries. Consequently, some countries have surpluses (for example, the USA has a surplus of many crops) and others suffer from scarcity (many countries do not have sufficient food). A free market system would seem to be the best system for improving the world's economic condition. Given the advantages of such a system, there must be offsetting disadvantages or else the world would be joined in one, united free market.

The interaction of quantity demanded and supplied at the equilibrium point. When we put supply and demand lines on one graph, we find that they interact at a price where the quantity supplied, and the quantity demanded are equal. This is therefore called the equilibrium point. In the long run, the market price will tend toward the equilibrium point.

Text 13: LIMITATION OF FREE MARKET SYSTEM

The free market system, with its freedom and incentives, was a major factor in creating the wealth that advanced countries now enjoy. It was truly an economic miracle. On the other hand, certain inequities seem to be inherent in the system. Rich people can buy almost everything that they need, and poor people often cannot. We shall explore how this happens and then we'll discuss what can be done about it.

Picture a market with ten buyers all willing to buy one unit of commodity (for example, a large steak), but with each person willing to pay a different price. Picture also ten sellers who are willing to sell, but at different prices.

Figure 1-5 shows how this market may look. As you can see, the price where supply equals demand (the equilibrium point) is at \$6. If the steaks were priced at \$6, there would be no excess supply nor any excess demand.

Equilibrium point

Price	\$11	\$10	\$9	\$8	\$7	\$6	\$5	\$4	\$3	\$2	\$1
Number willing to buy a steak at this price	0	1	2	3	4	5	6	7	8	9	10
Number willing to sell a steak at this price	10	9	8	7	6	5	4	3	2	1	0

FIGURE 1-5. The number of buyers and sellers at different prices.

At the price of \$6, there are some buyers who want steak, but are shut out by the market. All the buyers willing to pay from \$1 to \$5 (the majority) don't get what they want. Similarly, all the sellers who were willing to sell at prices from \$7 to \$11 are effectively shut out from the market. The market thus excludes buyers with too little money and sellers that cannot survive at low prices. Thus we have the situation in the United States where some poor people cannot afford enough food or adequate housing. The same thing is true with health care, clothing, and other goods and services. The wealthy seem to get all they need, and the poor get less than they need.

When people criticize these results, they are saying, in effect, that they do not approve of the price mechanism (free markets) as the means for allocating scarce resources. Remember, economics is the study of how to allocate scarce resources. The free market brought us prosperity, but it-brought inequality as well. It is the inequality that has caused much national and world tension.

In the search to create more equality in the United States the government has intervened in the free market system to create more social fairness and more even distribution of wealth. Let's review what other countries have done to allocate scarce resources. One alternative system is socialism. Socialism is an interesting contrast, because it is a combination of free market allocation and government allocation.

Text 14: THE SOCIALIST EXPERIMENT

The United States could be the economic model for the rest of the world. Adam Smith's free market economic principles are clearly a means to prosperity. How is it, then, that most Third World countries (mostly poor countries) have adopted socialism as their economic model ? This is an important question, because the answers spell out the future of American businesses. If free market capitalism is to expand world wide and create prosperity for all the world's citizens, capitalism will have to prove itself a better system overall.

What is capitalism's weak point? One answer is equality. Capitalism needs to meet the needs of *all* people, especially the poor, the sick, the old, and the unemployed. Socialist countries have tried to address these problems, but may go too far in letting government allocate resources. For example:

- In Denmark, two thirds of the population is sustained by the state. A breadwinner with a meaner salary pays at least 55% in taxes and marginal rates (rates for earning above a certain amount) of at least 60%. A plumber who charges \$20 for a job pays \$4 in sales taxes, \$5 in income tax, and \$8 for expenses, leaving him or her \$3.
- In Holland, there are almost as many inactive people (including retired) as there are private-sector workers. There is not much incentive to go back to work if you lose your job.

An unemployed worker gets 80% of his or her previous salary for 6 months and 75% for the next 2 years.

- In Sweden, the government benefits seem good. To minimize unemployment, the government pays \$5,25 per hour toward the wages of workers who would otherwise be laid off. Hospital care is just \$4 a day. Dental care for children is free. But, as they say, "There is no such thing as a free lunch". A manager earning around \$42,000 pays all but \$14,750 in national and local taxes. If that person were to get a raise, 85% of it would go to taxes! "In Sweden, the government keeps the salary and leaves you the tip - 15%," says the president of a Swedish firm.

One country that may have found the right balance between free markets and a fair distribution of income is Finland. Finland is about the size of California and has only 4.9 million people, yet it is eighth in the world for per capita output (\$10,440 per person). Finland did it, mostly by relying on private companies. Whereas government spending accounts for 62% of Sweden's economy and 58% of Denmark's, it is 36% of Finland's, which is less than the United States' 37%. Economic growth in Finland over the last 5 years is double that of the rest of Europe.

Text 15: EXPERIMENTING WITH A MIXED ECONOMY

The United States is not a purely capitalist nation. Rather, it has a mixed economy; that is, a combination of free markets plus government allocation of resources. As a mixed economy, the United States falls somewhere between a pure capitalist state and a socialist state. The degree of government involvement in the economy is a matter of some debate in the United States today. In 1986, the Congress proposed the largest change in the tax system since it was started. Top tax rates would be lowered, and rates for low income families cut to nothing. These changes

were proposed to simplify the tax codes and to stimulate the economy. The new tax code would discourage investment that were made to avoid taxes and encourage investments that promoted business growth.

The government has a great effect on the success of business in the USA and throughout the world. We shall explore many issues having to do with the government and the economy. Keep in mind that the foundation of the U.S. economy is capitalism. The government serves as a means to supplement that basic system and thus promote growth and greater equality. Changes in the tax codes will have a significant effect on the economy over the next few years.

5. COMPREHENSION QUESTIONS. Завдання 5. Підготуйте письмові відповіді на питання:

1. What is economics?
2. What is macroeconomics?
3. What is microeconomics?
4. What was the economic theory of Maithus?
5. What did Adam Smith state?
6. How does the free market system work ?
7. What are me mechanisms that control the free market?
8. What are supply and demand curves?
9. Does the free market satisfy everyone's needs?

6. DISCUSSION QUESTIONS. Завдання 6. Підготуйте коротку інформацію, використовуючи запитання як план:

1. Can you name any basic terms in economics and give feel for what is covered in various economic courses?
2. Can you explain how free markets work?
3. In what way are prices determined?
4. What is the significance of the equilibrium point?

5. What is the difference between microeconomics and macroeconomics? Which would be concerned with international trade fluctuations?
6. What kinds of economy can you name?

7. GROUP ACTIVITIES. Завдання 7. Підготуйтеся до бесіди, використайте задану ситуацію:

- I. Have the class divided into 3 groups. Each group should choose one of the following positions:
 1. Capitalist system of economy.
 2. Socialist system of economy.
 3. Mixed economy.

Discuss the position in your group and then present evidence for the position to the opposing group.

8. INDIVIDUAL WORK. Завдання 8. Проведіть самостійний аналіз та підготуйтеся до дискусії на задану тематику.

Interview a businessman who is dealing with microeconomics. Ask him:

- a) whether he is satisfied with his work;
- b) what is the essence of his job.

9. RELEVANT QUOTATION. Завдання 9. Прочитайте, перекладіть та поясніть такі вислови:

FRANKLIN PIERCE ADAMS (1881-1960):

Christmas is over and Business is Business (for the other 364 days).

ANONYMOUS:

When business is good it pays to advertise: when business is bad you've got to advertise.

A banker is a man who lends you an umbrella when the weather is fair, and takes it away from you when it rains.

In God we trust: all others must pay cash.

AUGUST BEBEL (1840-1913):

The nature of business is swindling.

CICERO (106-43 B.C.):

It is fortune, not wisdom, that rules man's life.

CONFUCIUS (551-478 B.C.):

He who will not economize will have to agonize.

CALVIN COOLIDGE (1872-1933):

The business of America is business.

After order and liberty, economy is one of the highest essentials of a free government. Economy is always a guarantee of peace.

Тема II: ECONOMIC ISSUES AFFECTING BUSINESS

1. Key Economic Issues. Завдання 1. Прочитайте та перекладіть:

To understand economic issues affecting business we shall have to discuss the concept of gross national product and productivity, explain four types of unemployment, describe two major causes of inflation and major inflation measuring indices, define recession, depression, stagflation, and supply-side economics, and explain monetary policy and its impact on business.

2. Key Words. Завдання 2. Прочитайте, запишіть та вивчіть:

<u>costs (n.)</u>	<u>витрати</u>
<u>cost (v.)</u>	<u>коштувати</u>
<u>revenue</u>	<u>дохід, прибуток</u>
<u>taxes</u>	<u>податки</u>
<u>refer</u>	<u>належати</u>
<u>average</u>	<u>середній</u>
<u>recession</u>	<u>спад</u>
<u>borrow</u>	<u>позичати</u>
<u>decrease (n.)</u>	<u>зниження, зменшення</u>
<u>eliminate</u>	<u>вилучати, усувати</u>
<u>predict</u>	<u>віщувати</u>
<u>spend</u>	<u>витрачати</u>
<u>increase (v.)</u>	<u>зростати, збільшуватись</u>
<u>occur</u>	<u>траплятись, ставатись</u>

3. Definition of the Key Terms. Завдання 3. Прочитайте та перекладіть:

Gross national product (GNP)-	the total value of a country's output of goods and services.
Net national product (NNP)-	the output of goods and services beyond that which is needed to replace worn-out machinery, equipment, and capital goods.
Productivity -	the total output of goods and services in a given period of time divided by work hours (output per work hour).
Inflation -	a general rise in the prices of goods and services over time.
Cost-push inflation -	refers to inflation caused by rising business costs.
Demand pull inflation -	refers to inflation caused by excessive demand for goods and services.
Consumer price index (CPI)-	measures changes in the prices of about 400 goods and services that consumers buy.
Producer price index -	measures changes in the prices businesses pay for goods and services over time.
Recession -	two consecutive quarters of negative growth in real GNP (GNP adjusted for inflation).
Depression -	a severe form of recession (see recession).
Stagflation -	stagnant economic conditions (no growth) combined with inflation.
Supply-side economics -	the policy of lowering taxes so that more money is invested in production, leading to an increase in production activity, causing a drop in unemployment.

- Monetary policy - the management of the amount of money placed into the economy by the government and the management of interest rates.
- Federal deficit- the difference between government revenue from taxes and government spending.
- National debt - the sum of money the government has borrowed and not paid back.
- Fiscal policy - government efforts to keep the economy stable by increasing or decreasing taxes or government spending.

4. TEXTS. Завдання 4. Прочитайте та перекладіть тексти:

Text 1: JOHN MAYNARD KEYNES, INTERVENTIONIST

John Maynard Keynes (pronounced *Canes*) was one of the economists who had a great influence on U.S. economic policy. It was he who advocated stabilizing the economy by the use of fiscal policy. That is, he thought that inflation could best be slowed by increasing taxes and/or lowering government spending. If unemployment got too high, he proposed cutting taxes and/or increasing government expenditures. Such a strategy is known as Keynesian economics and was a guiding philosophy in the U.S. for decades (and still is for many people).

Keynes' father was a lecturer in economics at Cambridge University. John Maynard began his studies at Cambridge (math and philosophy) and was encouraged to go into economics. Eventually he too became a lecturer at Cambridge.

He published his most famous book, *General Theory of Employment, Interest and Money*, in 1936. Until that time, American economic thinking was dominated by Adam Smith's *classical economics*. Smith felt that the economy would *automatically* function at full employment if

mere was minimal government intervention. The depression of the 1930s changed that view, and Keynesian economics took over.

Text 2: GROSS NATIONAL PRODUCT

Almost every discussion about a nation's economy is based on a concept called gross national product. The reason is obvious once you learn what GNP is.

Gross national product (GNP) is the total value of a country's output of goods and services in a given year. It is a measure of economic growth or decline.

When people discuss what share of the "economic pie" should go to government, they mean what percent of GNP should be spent on defence, welfare, education, and other government programs. Also, GNP gives business owners some measure of how the economy is functioning. If GNP is rising rapidly, the economy is said to be relatively strong. If GNP is stable or failing, the economy is said to be relatively weak (see Figure 2-1).

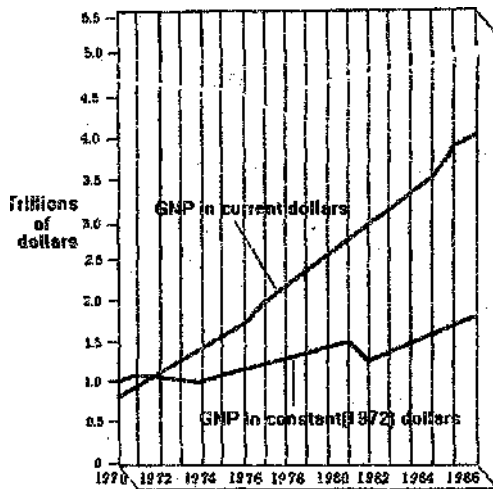


FIGURE 2-1. Gross national product (GNP), 1970-1986.

Although GNP is rising rapidly in dollar amounts, real growth

in constant dollars (less inflation) is slight. If an economy doesn't grow, money is not available for the increasing costs of defence, welfare, and social security. GNP is now around \$4 trillion. Since there are more people in the U.S. every year, if GNP does not grow, each of us will have less to spend.

Text 3: PRODUCTIVITY

Another term that is widely used in economic discussions is productivity. *Productivity is the total output of goods and services in a given period of time divided by work hours (output per work hour).* An increase in productivity means that the same amount of labour input is now able to produce more goods and services. The higher productivity is, the lower costs are in producing goods and services, and the lower prices can be. Therefore business people are eager to increase productivity.

Productivity is one of the major ingredients of capitalist growth. The word *capitalism* is based on the word *capital*. Capital refers to machinery and materials that are used on farms and in business to help workers produce more. At the beginning of the twentieth century in the United States, 1 out of 3 workers was needed to produce enough food to feed everyone and create some surplus for world use. Today less than 1 out of 20 workers can produce far greater quantities of food that contribute a much larger share of world production. What made the difference? The answer is that the use of tractors, chemical fertilizer, combines, silos, and other machines and materials (capital) raised farmer's *productivity*.

The increase in farm productivity was the basis for economic growth in the United States for years. The next revolution in productivity occurred in the manufacturing industry. The use of machines made mass production possible (that is, production of thousands of items such as shoes and cars by just a few workers). Again, it was capital that made such gains possible.

Now that we are in a third type of economy, a service economy, productivity is again an issue because service firms are so labour intensive. Machinery, not labour, increases productivity. Productivity in fanning and manufacturing have slowed so that annual increases in productivity are low in the United States (Figure 2-2). However, productivity is still increasing in those countries that are just now introducing machinery into their farms and factories.

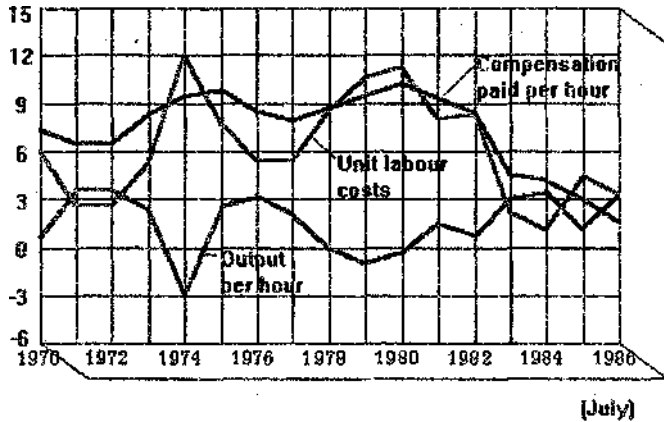


FIGURE 2-2. Productivity (output), hourly compensation, and unit labour costs: 1970 to 1984. Note that output has shown little gain over the 16-year period.

Text 4: THE ISSUE OF INFLATION

Another major concern of business and government in the early 1980s was inflation. Inflation basically refers to a general rise in the price level of goods and services over time. Inflation has gone over 10% early in the 1980s, and people were afraid it would go even higher. There are any causes of inflation, according to economists. Two of the most important are:

- Cost-push inflation. Cost-push inflation refers to the fact that business people raise prices when the costs of various factors

of production go up. For example, increase in the cost of labour, machinery, raw materials, etc., and credit necessitate higher prices.

- Demand-pull inflation. Demand-pull inflation refers to a condition in which buyers want to buy more goods and services than are available at the time. The demand for goods and services is related to the amount of money in the economy. If the supply of money increases faster than production increases, the result is inflation. This is called "too much money chasing too few goods".

Text 5: MEASURES OF INFLATION

Two of the more popular measures of price changes over time (inflation indicators) are the consumer price index (CPI) and the producer price index (PPI), also known as the wholesale price index. The consumer price index measures changes in the prices of about 400 goods and services that consumers buy. It measures the price of an average market basket of goods for an average family over time. Such an index gives a vivid picture of the effects of inflation on consumer prices. For example, goods and services costing \$ 264.50 in 1980 cost only \$ 116.30 in 1970 and a little less than \$80 in 1952.

The producer price index measures changes in the prices businesses pay for goods and services over time. Both the consumer price index and the producer price index are calculated monthly and published in business periodicals. The consumer price index is the most closely followed, because many companies and government programs base their salary and payment increases on it. Many people also follow the producer price index closely, because it usually indicates future consumer prices and is therefore a barometer of future inflation.

Text 6: INFLATION AND THE RULE OF "72"

No formula is more useful for understanding inflation than the rule of "72". Basically, the idea is to compute quickly how long it takes the cost of goods and services to double at various compounded rates of growth. For example, if houses were increasing in cost at 9% a year, how long would it take for the price of a home to double? The answer is easy to calculate. Simply divide the annual increase (9%) into 72 and you get the number of years it takes to double the price (8). If houses go up in price by 12%, it only takes 6 years to double in price ($72/12=6$), and so on. Of course, the same calculation can be used to predict how high food prices will be or the price of a car 10 years from now.

Let's go over an example of how you can use this formula. Let's say you wanted to buy a house for \$ 100,000 but found interest rates were so high that you would end up paying almost \$500,000 for the house after 30 years (assuming no money down),. It sounds as if you. would be paying way too much for the house, given the information so far. But. if you calculate how much the house may be worth after 30 years, you may change your mind. If housing prices increase 10% per year, prices will double every 7 years or so ($72/10 = 7.2$). In 30 years, then, the price will double about four times ($30/7 = 4.5$). Your \$ 100,000 house would then sell for about \$ 1,6 million in 30 years. Since you would have paid less than \$ 500,000, the home would be a good deal (assuming a 10% increase). What if the price only went up 6% a year ? Then the price would be what after 30 years ? It would double in 12 years, so it would double about 2.5 times in 30 years. In other words , it would be worth about \$600,000, still more than you paid for it.

It works in reverse, too. Let's say, for example, that someone tells you to buy real estate in Florida. He says, "I bought land for \$ 5,000 10 years ago and it's worth \$ 10,000 today. It doubled already, isn't that great ?"

Well, how did he do ? If something doubles in 10 years, that means they made about 7.2% per year compounded ($72/10 = 7.2$). That is less than a tax – free government bond earns. In short, that is not a good return, especially since the real estate salesperson takes part of the sale price.

Text 7: THE ISSUE OF RECESSION VERSUS INFLATION

A recession is defined as two consecutive quarters of negative growth in real GNP (GNP adjusted for inflation). When recession occurs, prices fall and businesses begin to fail. A recession has severe consequences for an economy: large unemployment, business failures, and an overall drop in living standards. For years (since 1930 when the Great Depression occurred), the government has put much of its effort into preventing another recession or depression. A depression is a severe recession.

Whenever business slowed or unemployment increased, the government pumped money into the economy to revive it.

The United States government now becomes concerned when inflation is in the range of 5% to 10%. However, these figures must be put in some perspective. In 1984 , inflation in Mexico was up to 70%; in Brasil it was 220%, in Israel 400% and in Argentina 500%. Inflation rates like these can destroy an economy and business. Such rates also set the stage for major revolutions.

In Germany, inflation rates in 1923 were unbelievable. The price of coffee or bread often doubled in an hour. At the height of the problem, a loaf of bred cost 200 billion marks. People had to carry baskets filled with money to buy groceries. Is it any wonder that Germany today is very concerned about inflation ?

Text 8: STAGFLATION AND SUPPLY-SIDE ECONOMICS

A new economic phenomenon occurred in the late 1970s and early 1980s. Inflation kept rising even though the economy was slipping into recession. This was an unexpected economic event that called for a new term. The word used was stagflation, or high unemployment and slow growth, combined with inflation. Thus two bad situations were occurring at once. To slow inflation, the government took money out of the economy. This slowed growth, plunging the economy into a deeper recession. Inflation finally came down, but there were still two bad situations: economic stagnation combined with high unemployment (above 10%).

Later in the 1980s, economic attention turned toward lowering the unemployment rate and getting the economy moving again. The money supply was increased and taxes were cut. By 1986, unemployment had fallen to below 7% while the economy picked up. The term used to describe the policy of lowering taxes so that more money would be invested in production, leading to an increase in production activity, causing a drop in unemployment was supply-side economics. In diagram form, supply-side economics looks like Figure 2-3. There remains much debate about the future of the United States economy as the government tries to keep employment high, inflation low, and business growing. Government stimulation of the economy in the mid-1980s could lead to inflation again in the late 1980s.

To fight inflation and recession, the government and the Federal Reserve Bank try to manage the economy. To understand the economic situation in the United States and the world today with regard to inflation, recession, unemployment, and other economic matters, you must understand the government's and the Federal Reserve Bank's roles. Two terms that are crucial to your understanding are: monetary policy and fiscal policy.

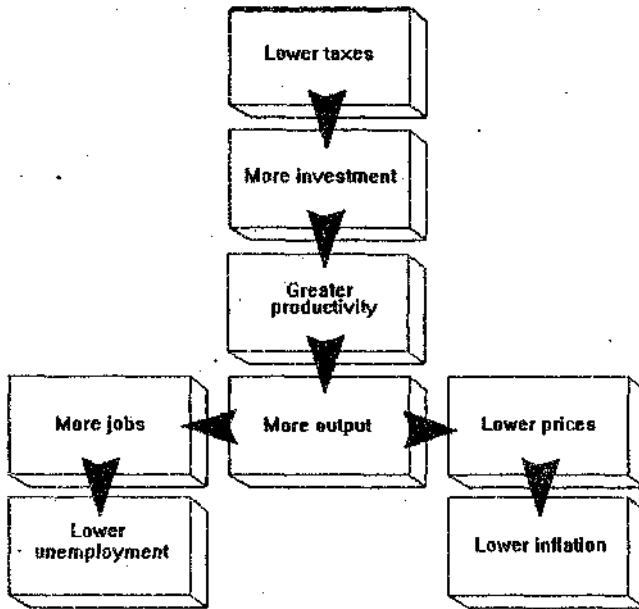


FIGURE 2-3. The theory of supply-side economics.

Text 9: THE ISSUE OF MONETARY POLICY

In learning about monetary policy, the first thing one must understand is the role of the Federal Reserve Bank (the Fed). The Fed is one of the sources of money; it can add or subtract money from the economy as it sees fit. For example, the Fed can simply produce more dollars or cut the amount it lends to banks, if it thinks one of those actions is warranted.

Managing the money supply is the responsibility of the Federal Reserve System. It operates independently of the President or Congress and has the goal of keeping the economy growing without causing inflation, it does that by trying to manage the money supply and interest rates . This process is called monetary policy .

A nation's monetary policy is the management of the money placed into the economy and the management of interest rates. Inflation is sometimes caused by having too much money in the economy. When that happens, the Fed cuts the money supply and increases interest rates. That makes less money available for spending and discourages businesses and consumers from borrowing money (because of high interest rates). When businesses find it hard to borrow money, they often cut back on production and lay off workers. This slows the economy and lowers inflation.

Text 10: TIGHT VERSUS LOOSE MONETARY POLICY

When unemployment gets too high, the Federal Reserve Bank may put more money into the economy and lower credit rates. This stimulates spending and encourages business growth, which leads to the hiring of more people.

When you read that the Fed "is loosening up on the money supply" or "lowering interest rates ", it means that the Fed is trying to stimulate the economy (that is increase consumer spending and increase business investment). A tight monetary policy is one in which the Fed is restricting the supply of money and increasing credit costs to lower inflation.

As you can imagine, such intervention into free markets has serious consequences for businesses. They watch the Fed very closely to see what the monetary policy is now and will be in the future.

Text 11: THE FEDERAL DEFICIT

Sometimes the Fed is forced to put more money into the economy than it planned. This happens, for example, when government spending exceeds the revenue from taxes.

The federal deficit (the difference between government revenue from taxes and government spending) is often corrected by increasing the supply of money, and that is inflationary. There is much concern about deficit spending throughout the 1980s, because government spending is exceeding revenue by as much as \$ 200 billion a year.. To understand this issue, we must turn to fiscal policy.

Text 12: THE ISSUE OF FISCAL POLICY

The term **fiscal policy** refers to government efforts to keep the economy stable by increasing or decreasing taxes and/or government spending. For many years, the government has tended to raise taxes to fund more and more social and defence programs. The government tried to cut spending to balance the budget (that is, make income equal spending). But such attempts were rather unsuccessful in that they merely cut the growth in spending rather than spending itself. Most people have no idea where their tax dollars go.

Text 13: TAXES AND SPENDING

A major issue in the 1984 political campaign concerned fiscal policy, especially taxes. Some candidates favoured increasing income taxes to pay for government programs. Others resisted increased taxes and called for less spending instead. Still others proposed a whole new tax system, a flat tax, that would greatly lower tax rates but increase government revenue by eliminating tax loopholes (strategies for avoiding taxes).

Some people felt that taxes should be raised just for the rich. They felt that rich people were not paying their fair share. The point is that people are divided in the United States over economic issues such as taxation and fiscal policy in general.

The problem is that government spending has exceeded government income for so long that the national debt (the sum of government money borrowed and not paid back) is \$2 trillion. That is about \$8,500 for every man, woman and child in the United States! To borrow money to pay the debt, the government goes to the same sources (banks) as business people do. Government bonds may be more attractive to these sources, and this can drive business people out of the credit market. Such a situation can hurt business and be inflationary. Most people feel that something must be done about the national debt before it becomes unmanageable.

Text 14: ECONOMIC MYTH: RICH PEOPLE DON'T PAY TAXES

The fairness issue in the U.S. tax structure has always been a major debate among politicians. The problem is that many people think that rich people do not pay any taxes; they use tax shelters to avoid them. Roger A. Freeman of the American Enterprise Institute tried to end such myths by publishing a pamphlet called "Tax Loopholes: The Legend and the Reality ". In the year of his study, there were 112 people with incomes over \$200,000 who did not pay any taxes! "Ah-ha!", the critics say. But that is not the end of the story. Those 112 represented only .07% of Americans reporting incomes over \$ 200,000, and they had good reasons for not paying. Some paid taxes in other countries and others had huge donations to charity or severe business losses.

The key point was that 99.3% of taxpayers reporting incomes of more than \$200,000 (15,323 people) did pay federal taxes, They paid an average of \$177,161, equal to 44% of adjusted gross income and 60% of taxable income. There were 621 people who made over %1 million that year. They paid an average of \$989,862 in taxes, equal to 46% of their adjusted gross and 65% of their taxable income. In short, rich people have paid a considerable share of taxes. Since then, the tax rate has been cut

to a maximum of 50% of taxable income. When that happened, rich people actually paid a larger share of the tax burden. The tax cut was made in 1981. This is how Forbes reported the results of that cut:

In 1982 the top 5% of taxpayers - those earning more than \$49,633 paid an average federal bite of \$21,354, just \$4 less than the year before. Their share of the load, however, went from 35% in 1981 to 36% in 1982, according to the foundation (Tax Foundation, Inc.),. Despite the economy (there was a recession that year),the foundation found almost 50% more millionaires; 5,512 reported income of a million or more in 1981, 8,203 in 1982. The millionaires average tax payment: \$844,339.

In short, "rich" people pay a good share of the total tax burden. Today, if all earnings and income in excess of \$50,000 were completely confiscated by the government, it would be enough to run the federal government for 1 week!

5. COMPREHENSION QUESTIONS. Завдання 5. Підготуйте письмові відповіді на питання:

1. What is gross national product (GNP)?
2. How can you define productivity ?
3. What are the major causes of inflation?
4. How is inflation measured ?
5. What happens in a recession or depression?
6. What is the opposite of a depression?
7. What is monetary policy?
8. What is fiscal policy?

6. DISCUSSION QUESTIONS. Завдання 6. Підготуйте коротку інформацію, використовуючи запитання як план:

1. How does the government manage economy using monetary and fiscal policies?

2. Can you discuss the concept of gross national product, net national product, and productivity?

3. In what way can the problem of unemployment be solved?

4. If one year in college costs \$9,000 today, how much will it cost when a 4-year-old goes to school 14 years from now, if college costs go up 10% a year?

7. GROUP ACTIVITIES. Завдання 7. Підготуйтеся до бесіди, використайте задану ситуацію:

1. Discuss the current economic issues of your country with your classmates.
2. A role-play situation which presents a press-conference. One group of students represents journalists and the second group are economists and businessmen.

8. INDIVIDUAL WORK. Завдання 8. Проведіть самостійний аналіз та підготуйтеся до інтерв'ю на задану тематику.

interview the head of the firm. Ask him:

1. What business is his firm going in for ?
2. How was the firm formed and what is the progress ?

9. RELEVANT QUOTATION. Завдання 9. Прочитайте, перекладіть та поясніть такі вислови:

ALEXANDER DUMAS (1824-1895):

Business? It's quite simple. It's other people's money.

JAMES A. GABFIELD (1831-1881):

Commerce links all mankind in one common brotherhood of mutual dependence and interests.

JAMES GRAHAMS (1765-1811):

Business is like oil. It won't mix with anything but business.

VOLTAIRE (FBIANQOIS-MARIE AROUET) (1694-1778):

Work banishes those three great evils, boredom, vice, and poverty.

THOMAS WOODROW WILSON (1856-1918):

Business underlies everything in our national life, including our spiritual life. Witness the fact that in the Lord's Prayer the first petition is for daily bread. No one can worship God or love his neighbour on an empty stomach.

BUSINESS FORMATION

Тема III: FORMS OF BUSINESS ORGANIZATION

1. Business Ownership Forms. Завдання 1. Прочитайте та перекладіть:

If you have read and studied forms of business organization then, you should be able to identify and explain the three basic forms of business ownership, describe the advantages and disadvantages of sole proprietorship, partnerships, corporations, discuss co-operatives and joint ventures.

2. Key Words. Завдання 2. Прочитайте, запишіть та вивчіть:

identify	визначати
ownership	власність
advantage	перевага, привілей
seek	шукати
profit (n.)	прибуток, зиск
co-owner	співвласник
retention	утримання
liability	відповідальність
involve	залучати, включати
property	власність
investment	капіталовкладення
commitment	зобов'язання
opportunity	можливість
shareholder	пайовик
stockholder	акціонер
benefit (n.)	користь, пожиток

3. Definitions Of The Key Terms. Завдання 3. Прочитайте та перекладіть:

Non-profit organization -	provides goods and services to the economic system, but does not have profit as an objective.
Sole proprietorship -	the ownership of an organization by one person
Partnership (general) -	a legal form of business with two or more owners.
Corporation -	a state-chartered legal entity with authority to act and have liability separate from its owners
Unlimited liability -	means that the owner's personal assets (e.g. home and car) are vulnerable to claims against the business; sole proprietors and general partners have unlimited liability.
Limited partner -	invests money in the business, but does not have any management responsibility or liability for losses.
General partner -	an owner (partner) who has unlimited liability and is active in managing the firm.
Limited liability -	means that the owners of a business are responsible for losses only up to the amount they invest.
Subchapter S corporation -	a hybrid, half-corporate, half-partnership entity that looks like a corporation, but is taxed like a partnership.
Co-operative -	an organisation owned by members/customers who pay an annual membership fee and share in any profits, if it is a profit-making organization.

Texts. Завдання 4. Прочитайте та перекладіть тексти:

Text 1: GETTING STARTED IN BUSINESS

Have you ever thought about starting your own business ? Do you think it would be too hard or too risky? Are you the type, who would prefer sailing on a big and placid lake? Are you the " go-for-it " white-water type? Or aren't you sure?

But how do you start a business? How much paperwork is involved? Is it better to own a business by yourself or take on partners? What are the advantages and disadvantages of different forms of business? That is what this chapter is about. There is no better way to learn about business than to start one - and now is as good a time as any. Even if you have no intentions of stalling a business, it is interesting to see what is involved.

Text 2: WHAT IS A BUSINESS?

A **business** is any organisation that seeks profit by providing goods and services to the economic system. A non-profit organization also provides goods and services to the economic system, but does not have profit as an objective. The United Way, the Catholic church, and the U.S. Army are examples of non-profit organizations. Business takes different forms, which we shall explore next.

Text 3: FORMS OF BUSINESS OWNERSHIP

People can form a business in several ways. They can begin a typing service out of their home, open a car-repair centre, start a new restaurant, or go about meeting other wants and needs of the community on their own. An organization that is owned, and usually managed, by one person is called a **sole proprietorship**. That is the most common form of business ownership (over 12 million firms).

Many people do not have the money, time, or desire to run a business on their own. They prefer to have someone else or some group of people get together to form the business. When two or more people become co-owners of a business, the organization is called a **partnership** (about 1.4 million firms).

Mr. Mintz of Tofu Time Inc. learned that there are advantages to creating a business that is separate and distinct from the owners. A legal entity that has an existence separate from the people who own it is called a **corporations**. There are only 2.8 million corporations in the United States (17% of all businesses), but they do 87% of the business .

There are many advantages to going into business by yourself. The fact that most people choose this form of organization indicates that the perceived advantages out-weight the disadvantages.

Text 4: SOLE PROPRIETORSHIPS

Advantages of Sole Proprietorships. There must be some major advantages to being a sole proprietor. After all over 12 million people in the United States have formed this kind of business. These are also the easiest kind of business for you to explore in your quest for, an interesting career. Other advantages are: ease of starting and ending the business, being your own boss, pride of ownership, retention of profit,, no special taxes.

Disadvantages of Sole Proprietorships. Not everyone is cut out to own and manager a business. Often it is difficult to save enough money to start a business and keep it going. Often the cost of inventory, supplies, insurance, advertising, rent, utilities and other expenses are simply too much to cover alone. There are other disadvantages of owning your own business, including the risk of losses, unlimited liability, difficulty in management, overwhelming time commitment.

Text 5: PARTNERSHIPS

Often, it is much easier to own and manage a business with one or more partners. (A partnership is a legal form of business with two or more owners).

There are many advantages of having one or more partners in a business. Some of the people who are enjoying the advantages of partnerships today more than ever before are doctors, lawyers, dentists, and other professionals. They have learned that it is easier to take vacations, stay home when they are sick, or relax a little when there are others available to help take care of clients.

Partnerships have more financial resources. Naturally, when two or more people pool their money and credit, it is easier to pay the rent, utilities, and other bills incurred by a business. There is a concept called limited partnership that is specially designed to help raise capital (money).

A limited partner invests money in the business but does not have any management responsibility or any liability for business losses. The agreement form necessary for a limited partnership is more complex than that needed for a simple partnership. (called a **general partnership**). For example, the agreement must mention the amount of money involved, the share of profits each person receives, and so on.

It is simply much, easier to manage the day-to-day activities of a business with carefully chosen partners. Partners give each other free time from the business, and provide different skills and perspectives. Many people find that the best partner is a spouse. That is why you see so many husband/wife teams managing restaurants, service shops, and other businesses.

But partnerships have disadvantages which we can enumerate: unlimited liability, division of profits, disagreements among partners, difficulty on initiating the business.

Text 6: CORPORATIONS

Although the word *corporation* makes people think of big businesses like General Motors, IBM, Ford, Exxon, GE, Westinghouse, and USX(formerly U.S. Steel), it is not necessary to be big in order to incorporate (start a corporation). Obviously, many corporations are big. However, incorporating may be beneficial for small businesses, also.

The purpose of forming a corporation is to get way from the disadvantages of sole proprietorships and partnerships. One of the more worrisome aspects of owning your own business or having a partner is the fear of losing everything you own if someone sues the business or the business loses a lot of money.

A corporation is a state-chartered legal entity with authority to act and have liability separate from its owners. What this means for the corporation's owners (stockholders) is that they are not liable for the debts or any other problems of the corporation beyond the money they invest. Owners no longer must worry about losing their house, car, and other property because of some business problem - a very significant benefit. A corporation not only limits the liability of owners, it enables many people to share in the ownership (and profits) of a business without working or having other commitments to it.

Text 7: ADVANTAGES OF CORPORATIONS

The concept of incorporation is not too difficult, even though the procedures for incorporating are often rather complex. Most people are not willing to risk everything to go into business. Yet, for businesses to grow and prosper and create abundance, many people would have to be willing to invest their money in business. The way to solve this problem was to create an artificial being, an entity that existed only in the eyes of the law. That artificial being is called a *corporation*. It is nothing more than a technique for

involving people in business at a minimal risk. Let's explore the advantages of such an entity:

1. **More money for investment.** To raise money, a corporation sells ownership (stock) to anyone who is interested. This means that millions of people can own part of major companies like IBM, Xerox, and General Motors. If a company sold 10,000,000 shares for \$ 50 each, it would have \$ 500 million available to build plants, buy materials, hire people, build products , and so on. Such a large amount of money would be difficult to raise any other way. So a major advantage of corporation is their ability to raise large amounts of money.

2. **Limited liability.** It bears repeating that a major advantage of corporations is the limited liability of owners. Corporations in England and Canada have the letters "Ltd." after their name, as in British Motors, Ltd. The Ltd. stands for **limited liability** and is probably the most significant advantage of corporations. Limited liability means that the owners of a business are responsible for losses only up to the amount they invest.

3. **Size.** That one word summarizes many of the advantages of corporations. Because they have large amounts of money to work with, corporations can build large, modern factories with the latest equipment. They can also hire experts or specialists in all areas of operation.

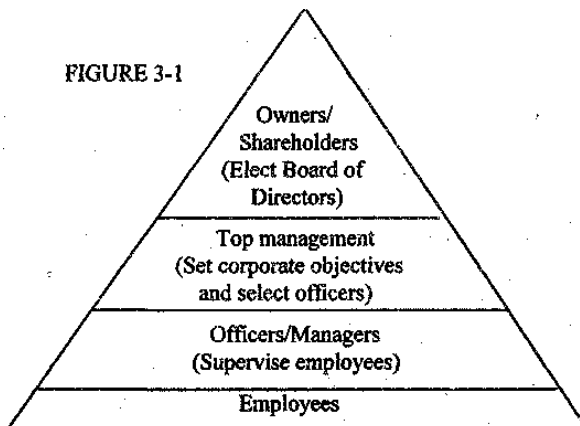
Furthermore, they can buy other corporations in other fields to diversify their risk. (What this means is that a corporation can be involved in many businesses at once so that if one fails the effect on the total corporation is lessened.) In short, a major advantage of corporations is that they have size and resources to take advantage of opportunities anywhere in the world. Corporations do not have to be large to enjoy the benefits of limited liability and more money for investment. Many doctors, lawyers, and individuals and partners in a variety of businesses have incorporated. Therefore, there many small corporations in the United States.

4. **Tax advantages.** Once a person, partnership, or group of individuals have incorporated, they often receive significant tax advantages. They can deduct expenses for automobiles, meals, trips, and much more from their taxes. They can reinvest profits into the corporation to postpone paying taxes, and more. One of the most important tax advantages is tax-free fringe benefits, such as retirement funds.

5. **Perpetual life.** Because corporations are separate from those who own them, the death of one or more owners does not terminate the corporation.

6. **Ease of ownership change.** It is easy to change the owners of a corporation. All that is necessary is to sell stock to someone else. This means that new **owners** can be brought in easily as well.

7. **Separation of ownership from management** Corporations are able to raise money from many different investors without getting their» involved in management. The corporate hierarchy looks like the pyramid presented on figure 3.1. It shows that the owners/shareholders are separate from the managers and employers. The owners elect a board of directors. The directors select the officers. They, in turn, hire managers and employees. The owners thus have some say in who runs the corporation, but no control.



Text 8: NONPROFIT CORPORATIONS

A non-profit corporation is a special type of corporation formed for charitable and other purposes. It does not seek profit. Such a corporation has many of the features of business corporations with the major exception of its tax status. Owners of a non-profit corporation can contact the Internal Revenue Service for forms to qualify for tax-exempt status.

The number of non-profit corporations is remarkable, running into the hundreds of thousands. In states such as Ohio and New York, over one third of all corporations with state charters are non-profit. In some towns and cities, over 50% of the property is tax exempt because it belongs to non-profit organizations such as churches and hospitals.

Text 9: DISADVANTAGES OF CORPORATIONS

There are so many sole proprietorships and partnerships in the United States that it is clear that there are real disadvantages to incorporating. Otherwise, more people would incorporate their businesses. Here are a few of the disadvantages:

1. **Initial cost.** Incorporation may cost thousands of dollars and involve expensive lawyers and accountants. It is a very important problem in this field. There are less expensive ways of incorporating in certain states but most people do not have the time or confidence to go through this procedure without the help of a lawyer.

2. **Paperwork.** The papers to be filed to start a corporation are just the beginning. Tax laws demand that a corporation prove all its expenses and deductions are legitimate. A corporation, therefore, must process many forms. A sole proprietor or partnership may keep rather casual accounting records; a corporation, on the other hand, must keep detailed records, the minutes of meetings, and more.

3. **Two tax returns.** If an individual incorporates, he or she must file both a corporate tax and an individual tax return. The corporate return can be quite complex.

4. **Size.** Large corporations sometimes become too inflexible and too tied down in red tape to respond quickly to market changes.

5. **Social security.** A corporation has a high social security and unemployment compensation burden; that is, it must contribute to these funds.

6. **Termination difficult.** Once a corporation is started, it's relatively hard to end.

7. **Double taxation.** Corporate income is taxed twice. First the corporation pays tax on income before it can distribute any to stockholders. Then the stockholders pay tax on the income (dividends) they receive from the corporation. States often tax corporations more harshly than other enterprises. Sometimes they levy special taxes that apply to corporations, but not to other forms of business.

Many people are discouraged by the costs, paperwork, and special taxes corporations must pay. Partners may feel that the hassles of incorporation outweigh the advantages.

Table 3-2 summarizes the advantages and disadvantages of the various forms of business organization.

BUSINESS TYPE ADVANTAGES DISADVANTAGES

BUSINESS TYPE	ADVANTAGES	DISADVANTAGES
Sale proprietor-Ship	<ul style="list-style-type: none"> • Easy to start • Pride of ownership • You keep all the profits • No special taxes • Easy to terminate • You are your own boss 	<ul style="list-style-type: none"> • Risk of loss • Unlimited liability • Tremendous time commitment • Few fringe benefits • Difficulty in management

General partnership	<ul style="list-style-type: none"> • More money to start and operate • Shared responsibility and easier to manage with diverse - skills Most of the benefits of sole proprietorships, except profits are shared 	<ul style="list-style-type: none"> • No backups • Limited growth • Higher taxes than corporations • Unlimited liability • Shared profits • Disagreements among partners • Difficult termination
Corporation	<ul style="list-style-type: none"> • More money to start and operate than any other form • Limited liability • Size results in diversified risk and economies of scale • Tax advantages • Perpetual life • Ease of ownership • Separate ownership 	<ul style="list-style-type: none"> • Initial cost • Paperwork • Two tax returns • Social security • Difficult termination . • Doable taxation • Size can be a disadvantage if it results in poor adaptability

Table (3-2). Summary of the advantages and disadvantages of various business forms.

Text 10: BANKRUPTCY

Starting any kind of business involves risks. Sometimes things do not work out and the business simply cannot pay its bills. Let's say, for example, that a business bought new inventory for the next season. Suddenly, the owners find that the bank refuses

to lend them more money or some similar catastrophe occurs. What can the owners do?

Bankruptcy is the legal procedure whereby a person or a business unable to meet financial obligations is relieved of debt by having the court divide its assets among its creditors.

The Bankruptcy Reform Act of 1978 in USA provides for less drastic measures: Chapter 11 requires that if 51% of the creditors, by dollar and number, agree to settle for a portion of what the company owes them, then the other companies must accept the deal made by the majority.

Chapter 11 enables a company to stay in business, make a new financial plan, sell its inventory, and survive. Eventually it may pay back its creditors, rehire employees, and make a profit. The alternative is to declare bankruptcy. In that case, the company, its creditors, employees, and stockholders (if any) all lose out. Thousands of Chapter 11 petitions are filed each year, offering struggling firms one more chance to succeed.

Text 11: HOW TO INCORPORATE

The process of forming a corporation varies somewhat from state to state. The *articles of incorporation* are usually filed with the secretary of state of the state in which the company incorporates. The articles contain the following information:

- The corporation's name
- The name of the people who incorporated it
- Its purposes
- Its duration (usually perpetual)
- The number of shares that can be issued, their voting rights, and any other rights the shareholders have
- The corporation's minimum capital
- The address of the corporation's office
- The names and addresses of the first directors

- The name and address of the person responsible for the corporation's legal services
- Any other public information the incorporators wish to include

In addition to the articles of incorporation listed, a corporation also has by-laws. These describe how the firm is to be operated from both a legal and managerial point of view. The by-laws include items such as:

- How, when, and where shareholders' and directors' meetings are held, and how long directors are to serve
- Directors' authority
- Duties and responsibilities of officers, and the length of their service
- How stock is issued
- Other matters, including employment contracts

Text 12: CORPORATE TYPES

You may find some confusing terms when reading about corporations. Here are a few of the more widely-used terms:

An ***alien corporation*** does business in the United States, but is chartered (incorporated) in another country.

A ***domestic corporation*** does business in the state in which it was chartered (incorporated).

A ***foreign corporation*** does business in one state, but is chartered in another; about one third of all corporations are chartered in Delaware because of its relatively attractive rules for incorporation. A foreign corporation must register in states where it operates.

An ***open corporation*** sells stock to the general public.

A ***closed corporation*** is one whose stock is held by a few people and is not available to the general public.

Text 13: SUBCHAPTER S CORPORATIONS

A **Subchapter S** corporation, called an S corporation, is a unique government creation that is a hybrid, half-corporate, half-partnership entity. It looks like a corporation, but is taxed like a partnership. Originally S corporations seemed much like regular corporations. They had shareholders, directors, and employees. They also had the benefit of limited liability and some real tax advantages over partnerships, including deductible fringe benefits for owners.

However, the Subchapter S Revision Act of 1982 in U.S. changed the rules. Now a Subchapter S corporation looks more like a partnership. It still has stockholders, directors, and officers, but fringe benefits of owners are no longer deductible.

The paperwork and details of Subchapter S corporations are similar to those of regular corporations. The best way to learn all the benefits is to go over the tax advantages and liability differences with a lawyer or accountant or both. The new tax laws being written make S corporations more attractive. The profits of such businesses are taxed as regular income, and that is now lower than corporate taxes.

Text 14: COOPERATIVES

Some people dislike the notion of having owners, managers, workers, and buyers as separate individuals with separate goals. They envision a world where people co-operate with one another more fully and share the wealth more evenly. These people have formed a different kind of organization that reflects their social orientation. Such an organization is called co-operative.

A **co-operative** is an organization that is owned by members/customers who pay an annual membership fee and share in any profits (if *it* is a profit-making organization). Often the members/customers work in the organization so many hours a month as part of their duties. Owners, managers, workers, and customers are all the same people. You may have a food co-operative near you.

If so, stop by and chat with the people and team more about this growing aspect of American trade.

There is another kind of co-operative in the United States, set up for different reasons. These co-operatives are formed to give members more economic power as a group than they would have as individuals. The best example is farm co-operatives. The idea at first was for farmers to join together to get better prices for their food products. Eventually, however, the organization expanded so that farm co-operatives now buy and sell fertilizer, farm equipment, seed, and other products needed on the farm. This has become a multibillion dollar industry'. The co-operatives now own many manufacturing facilities. Farm co-operatives do not pay the same kind of taxes that corporations do, and thus have an advantage in the marketplace.

To give you some idea of the sizes of farm co-operatives, let's look at Farmland Industries, Inc. Recently this co-operative, merged (joined) with FAR-MAR-CO to become a \$ 5 billion organization. Farmland Industries owns manufacturing facilities, oil wells and refineries, fertilizer plants, feed mills, and plants that produce everything from grease and paint to steel buildings. It also owns a network of warehouses, plus insurance, financial, and technical services for its 750,000 members.

There are over 7,500 more smaller co-operatives in the country, some of which do a billion dollars of business a year. As you can see, cooperatives are a major force in agriculture today.

Text 15: JOINT VENTURES

One of the latest trends in business is for two or more corporations (often from two different countries) to join together to accomplish some objectives, such as creating an international car. A **joint venture**, then, is an effort by two or more business firms to capture new markets through cooperation and shared investment risk. This enables world markets to benefit from the expertise of

all nation's business people working together. For example, General Motors in the United States joined with Toyota to assemble Chevrolet Novas in the United States. These agreements are known as joint ventures, and are taking place all over the world.

5. Comprehension Questions. Завдання 5. Підготуйте письмові відповіді на питання:

1. What are the various ways businesses are formed?
2. Which form of business is the most popular?
3. What does unlimited liability mean?
4. What does limited liability mean?
5. Why do people incorporate?
6. How do you form a corporation?
7. Are joint ventures successful?

6. Discussion Questions. Завдання 6. Підготуйте коротку інформацію, використовуючи запитання як план:

1. What would the United States be like without major corporations? What products would be hard to get? What would be the benefits? Now that you have read about sole proprietorships, partnerships, and corporations, which sounds like the best place for you to work? Why? Which calls for taking the most risks? Which would be the most fun or the most profitable? What part of your personality determines where you fit in best of all?

2. What is the role of owners (stockholders) in the corporate hierarchy?

3. There is an old saying "He doesn't have twelve years of experience; he has had one year's experience twelve times". What does this saying tell you about the managerial expertise of people selling their businesses?

7. Group Activities. Завдання 7. Підготуйтеся до бесіди, використайте задану ситуацію:

1. In groups of four or five decide which of the statements (a, b, c) given below best describe your collective viewpoint. After you reach a consensus, develop arguments in support of your group's position. Be prepared to defend your opinions to the entire class:

- a) It is better to be busy only in sole proprietorship business.
- b) It is better to be busy in 2 kinds of business: sole proprietorships and corporation.
- c) It is necessary to develop 3 kinds of business: sole proprietorships, partnerships and corporations.

8. Individual Work. Завдання 8. Проведіть самостійний аналіз та підготуйтеся до дискусії на задану тематику:

Interview the member of the corporation. Ask him about the advantages and disadvantages of being engaged in a corporation.

Тема IV. MANAGING A SMALL BUSINESS

1. The Backbone of the Economy. Завдання I. Прочитайте та перекладіть:

The small business community constitutes the single most important segment of free enterprise system. It accounts for forty-eight percent of our gross national product, more than half of the American labour force, and continues to be the major source of inventions and new jobs. Small business is truly the backbone of the American economy.

2. Key Words. Завдання 2. Прочитайте, запишіть та вивчіть:

account (for) -	нараховувати
entrepreneur -	підприємець
retail -	роздрібний
wholesale -	оптовий, гуртовий
supervise -	наглядати
accounting -	облік, рахівництво
failure -	невдача
expenses -	витрати
access -	доступ
employee -	службовець
assistance (aid) -	допомога
advice -	порада
assure -	забезпечувати
fee -	платня
invaluable -	Неоціненний
handle -	управляти, керувати
turnover -	обіг (товарів, засобів)

3. Definitions of the Key Terms. Завдання 1. Прочитайте та перекладіть:

Human resource management -	involves hiring, training, motivating, compensating employees, and establishing fringe benefits.
Certified public accountant (CPA) -	an individual who is certified by one of the states after passing a rigorous examination and meeting certain educational, moral, and job experience requirements.
Entrepreneur -	a person with entrepreneurial skills who is employed in a corporation to launch new products; such people take hands on responsibility for creating innovation of any kind in an organization.

Entrepreneurial team-	a group of experienced people from different areas of business who join together to form a managerial team with the skills needed to develop, make, and market new products.
Franchisee -	a person who buys a franchise (see franchise).
Franchise -	an arrangement whereby someone with a good idea for a business sells the rights to use the business name and sell its products or services in a given territory.
Franchiser -	a company that develops a product concept and sells others the rights to make and sell the products.
Small business -	one that is independently owned and operated, not dominant in its field of operation, and meets certain standards of size in terms of employees or sales.

4. Texts. Завдання 4. Прочитайте та перекладіть тексти:

Text 1: SMALL BUSINESS CATEGORIES

There are about five different classes of small business: (1) service businesses, (2) retail businesses, (3) construction firms, (4) wholesales, and (5) manufacturers. What kind of business would be the most attractive career choice for you? Let's review the industries:

1. *Service business.* You are already familiar with the services provided by dry cleaners, travel agencies, lawn-care firms, beauty parlours, and other services that cater to you and your family. In your career search, be sure to explore services such as hotels/motels, health clubs, amusement parks, income tax preparation organizations, employment agencies, accounting firms, rental firms of all kinds, management consulting, repair services (for example, computers, robots, VCRs), insurance agencies, real estate firms, stock brokers, and so on. There are many exciting careers available in such firms.

2. **Retail businesses.** You have only to go to a major shopping mall to see the possibilities in retailing. There are stores selling shoes, clothes, hats, skis, gloves, sporting goods, ice-cream, groceries, and more. Do any of these retail stores look like interesting places to work?

3. **Construction firms.** Drive through any big city and you will see huge cranes towering over an empty lot where major construction is taking place. Would you enjoy supervising such work? Visit some areas where construction firms are building bridges, roads, homes, schools, buildings, and dams. There is a feeling of power and creativity in such work that excites many observers. How about you? Talk to some of the workers and supervisors and learn about the risks and rewards of small construction firms.

4. **Wholesalers.** Have you ever visited a wholesale food warehouse, a wholesale jewelry centre, or similar wholesale firms? If not, you are missing an important link in the small business system, one with much potential. Wholesale representatives often make more money, have more free time, travel more, have more fringe benefits, and enjoy their jobs more than similar people in retailing. Check it out.

5. **Manufacturing.** Of course, manufacturing is still an attractive career for tomorrow's graduates. There are careers for designers, machinists, mechanics, engineers, supervisors, safety inspectors, and a host of other occupations.

There are thousands of small farmers who enjoy the rural life and the pace of farming. Small farms are usually not very profitable, but some that specialize in exotic crops do quite well.

Text 2: BUSINESS PLAN

It is amazing how people are eager to start a small business, but have only a vague notion of what they want to do. Eventually, they come up with an idea for a business and begin discussing the

idea with professors, friends, and other business people. It is at this stage that the entrepreneur needs a business plan. A business plan is a detailed written statement that describes the nature of the business, the target market, the advantage the business will have in relation to competition, and the resources and qualifications of the owner(s).

A business plan forces potential owners of small businesses to be quite specific about the products or services they intend to offer and to analyze the competition, the amount of money needed to start, and other details of operation. A business plan is also mandatory for talking with bankers or other investors. To prepare a thorough plan, a person would most likely need the assistance of a good accountant. In general, a business plan should include the following:

- 1 A brief description of the industry and a detailed explanation of the products or services to be offered.
- 2 A thorough market analysis that discusses the size of market, the need for the new product (service), and the nature of the competition.
- 3 A marketing plan that includes location, signs, advertising, and display.
- 4 An operating plan that includes a sales forecast, financial projections, accounting procedures, and personal requirements.
- 5 A comprehensive capitalization plan describing how much money the owner(s) is committing. Few banks or venture capital companies will support a new firm unless the owner (s) has a substantial financial commitment.
- 6 A description of the experience and expertise of the owner(s). This may include a resume, letters of recommendation, and financial statement.

Text 3: OUTLLINE OF A COMPREHENSIVE BUSINESS PLAN

Section 1 - Introduction. Begin with a two-page or three-page management overview of the proposed venture. Include a succinct

description of the business and discuss major goals and objectives.

Section 2 - Company background. Describe company operations to date (if any), potential legal considerations, and areas of risk and opportunity. Summarize the firm's financial condition and include past and current balance sheets, income and cash-flow statements, and other relevant financial records.

Section 3 - Management team. Include an organization chart, job descriptions of listed positions, and detailed resumes of the current and proposed executives. Managers should have expertise in all disciplines necessary to start and ran a business. If not, mention outside consultants who will serve in these roles and describe their qualifications.

Section 4 - Financial plan. Provide 5-year projections for income, expenses, and funding sources. Explain the rationale and assumptions used to determine the estimates. Assumptions should be reasonable and based on industry/historical trends. Make sure all totals add up and are consistent throughout the plan. If necessary, hire a professional accountant or financial analyst to prepare these statements.

Stay clear of excessively ambitious sales projections: rather, offer "best-case", expected, and "worst-case" scenarios. These not only reveal how sensitive the bottom line is to sales fluctuations but serve as good management guides.

Section 5 - Capital required. Indicate the amount of capital needed to commence or continue operations and describe how these funds are to be used. Make sure the totals are the same as to ones on the cash-flow statement. This area will receive a great deal of review from potential investors so it must be clear.

Section 6 - Marketing plan. Review industry size, trends, and the target market segment. Discuss strengths and weaknesses of the product or service and pricing compared to competition. Forecast sales in dollars and units. Outline sales, advertising,

promotion, and PR programs. Make sure the costs agree with those projected in the financial statements.

Section 7 - Location analysis. In retailing and certain other industries, the location of the business is one of the most important factors. Provide a comprehensive demographic analysis of consumers in the area of the proposed store as well as a traffic-pattern analysis and vehicular and pedestrian counts.

Section 8 - Manufacturing plan. Describe minimum plant size, machinery required, production capacity, inventory and inventory-control methods, quality control, plant personal requirements, etc. Estimates of product costs should be based on primary research.

Section 9 - Appendix. Include all marketing research on the product or service (off-the-shelf reports, article reprints, etc.) and other information about the product concept or market size.

Provide a bibliography of all the reference materials you consulted. This section should demonstrate that the proposed company won't be entering a declining industry or market segment.

Text 4: TIPS FROM A BANKER

Michael Celello is president of the People's Commercial Bank. He says that fewer than 10% of prospective borrowers come to a bank adequately prepared. He offers several tips to small business owners:

- 1 Pick a bank that serves businesses the size of yours and choose the bank carefully. If you are rejected by one bank, other banks can learn of your inquiry through credit bureau and turn you down also.
- 2 Have a good accountant prepare a complete set of financial statements as well as a business plan and personal balance sheet. If you come to the bank with an accountant and all the

necessary financial information, you increase your odds of getting a loan by 75%.

- 3 Make an appointment before going to the bank.
- 4 Demonstrate to the banker that you're a person of good character: civic-minded and respected in business and community circles.
- 5 Read The Wall Street Journal and other business publications so you can demonstrate industry knowledge and economic knowledge.
- 6 Ask for all the money you need and be specific. The banker may want to make separate loans for different needs with varying life expectancies.
- 7 Be prepared to personally guarantee the loan.

Text 5: ACCOUNTING

If you talk with small business owners, they are likely to say that the most important assistance they need in managing the business involves accounting. They may call it record keeping, for that is the foundation of accounting. A business person who sets up an accounting system early will save much grief later. Computers make record keeping 100% easier and enable a small business owner to follow the progress of the business (sales, expenses, profits) on a daily basis, if necessary. An inexpensive computer system can also help with inventory control, customer records, and payroll.

A good accountant is invaluable in setting up such systems and showing you how to keep the system operating smoothly. Many business failures are caused by poor accounting practices.

Text 6: FINANCE

The problem with most new, small businesses is that the entrepreneurs have more enthusiasm than managerial skills and

capital. The economic system in America is called capitalism for a reason. It is capital (money) that enables entrepreneurs to get started; buy needed goods, services, labour and buildings; and keep the business going. Some of the financial reasons cited by the Small Business Administration for failure are:

- starting with too little capital
- starting with too much capital and being careless in its use
- borrowing money without planning how and when to pay it back
- trying to do too much business with not enough capital
- not allowing for setbacks and unexpected expenses
- extending credit too freely.

Entrepreneurs, like most people, are not highly skilled at obtaining, managing, and using money. Inadequate capitalization or poor financial management can destroy a business even when the basic idea behind the business is good and the products are accepted in the marketplace.

Text 7: SOURCES OF FUNDS

One of the major problems of new entrepreneurs is misinformation and lack of information about capitalization and financial management. According to most sources, a new entrepreneur has several sources of capital: banks; finance companies; venture capital organization; government agencies such as the Small Business Administration, the Farmers Home Administration, the Economic Development Authority; and more. But the truth is that obtaining money from these sources is very difficult for most small businesses. The cost of drawing up documents, hiring accountants and lawyers, added to the psychological costs of being turned down by organization after organization, is too high for most entrepreneurs to bear.

Most small business owners, like the women who started

Parsley Patch, get their seed money from personal savings. Sometimes they turn to relatives and friends for backing, often including them in the business. Banks are another source, but they often charge a very high rate of interest, one most entrepreneurs feel they cannot afford.

Text 8: SMALL BUSINESS INVESTMENT COMPANIES.

The Small Business Investment Act recently celebrated its 25th anniversary. Since its passage, more than \$4.5 billion has been invested in approximately 60,000 **small business investment companies** (SBICs). Today, about 500 SBICs are providing seed money for new ventures. Cuts in federal capital gains taxes brought more money into such organizations in the early 1980s, as did the relaxation of pension fund regulations allowing them to invest in such ventures. Now there are billions of dollars in venture capital available for new firms. Such figures can be misleading, however, in that venture capital is pouring into some firms (for example, high-tech industries), but not others (for example, restaurants). Access to such money takes a good business plan. You can follow the ups and downs of venture capital availability in Inc. and Venture magazines.

Text 9: HUMAN RESOURCE MANAGEMENT

Human resource management is the job of hiring, training, motivating,– compensating, and establishing fringe benefits for employees. It is not easy to find good, qualified help, even when unemployment is high. It takes time and patience to train new employees, and turnover (employees quitting for various reasons) is usually very high. That means more hiring and more training. Also, absenteeism is often high. Employees sometimes come late and leave early. People get sick. Some must be fired. In

each case, the owner/manager is forced to take time away from operating the business to handle personal problems. Few consultants are available to handle such problems, either. That is why employee relations is such an important part of small business management. A dedicated, hard-working, honest, reliable work force is an invaluable resource and one that demands great attention. One way to get such a commitment from employees is to let them share in the profits. This is a common practice, as we shall see next.

Text 10: MOTIVATING EMPLOYEES

It is no surprise to find that 96% of the top growth companies listed by Inc. magazine share ownership and profits with their employees. We have noted that the two driving forces behind capitalism are freedom and incentives. Often, it is the incentive of ownership that encourages workers in organizations to work 60 or more hours a week. If you own your own car, you are more likely to wash it, polish it, and take good care of it, the researchers say. The same is true of companies. Those who have an ownership interest tend to be more careful, more involved, more committed.

A good example of employee involvement is that of Action Instruments, Inc., an electronics firm with sales of \$15 million. Jim Pinto, president of the firm, says, "The future of this company is to eliminate the difference between workers, managers, and owners by making them all capitalists. If you own a piece, if you feel a part of this, you do everything to increase productivity." Almost half of the company's 285 employees are shareholders. But Action goes beyond mere ownership. Action Instruments sends employees the equivalent of executive reports weekly, telling them about profits, shipments, and key bottlenecks. Furthermore, dress is casual, everyone goes by first name, and titles are not used.

What do the employees think? Ruth Valenti, an assembly line supervisor, says, "People feel at ease and do a better job. It's like I'm self-employed - everybody is.... It's like everybody has their own little business - yet we all work together." Turnover rate is less than half the norm for the industry. The idea is that the key to success in any corporation is people, and people need to be motivated. The best way to motivate people is to give them as much freedom as possible, and some incentive to work effectively and efficiently, such as partial ownership in the firm.

Text 11: COMPUTERS IN SMALL BUSINESS

Someone who has never managed a small business before is amazed at the paperwork involved. Just the tax information required would challenge most people's patience. On top of that there is the need for inventory control, order processing, billing, and more. The new, small computers are a real blessing for small businesses overwhelmed by paperwork. Computers can help with inventory control, order processing, accounts receivable, purchasing, payroll, general ledger accounting, production planning, sales forecasting, budgeting, and more. Computer technology changes almost daily, so selecting the best system is complicated at best. It is a good idea to have some outside assistance to help select an appropriate . system. A system that is too small or too large or that cannot handle the system problems of the business is a waste of time, money, and effort.

For some firms, the best idea might be to use a service bureau; that is, an organization that performs computer services for small businesses. The best way to know whether or not to buy a computer or use an outside service and what kind of computer to buy or service to hire is do a thorough survey of computer needs.

The time spent analyzing the business and implementing a computer system will pay off in huge dividends later. Everything

from inventory control to customer record keeping is much, much easier when the data is available on the computer. Most small business people do not have a computer system yet, and many are highly resistant to the idea. These traditional business people may find it hard to compete against more efficient new firms that use the latest technology to assist them in management.

Text 12: OUTSIDE ASSISTANCE

Small business owners have learned, sometimes the hard way, that they need outside consulting advice early in the process. This is especially true of legal, tax, and accounting advice, but may also be true of marketing, finance, and other areas. Most small medium-sized firms cannot afford to hire such experts as employees, so they must turn to outside assistance.

A good **certified public accountant** (CPA) is invaluable to a small business. He or she can help make decisions such as whether to buy or lease equipment and whether to own or rent the building. Help may also be provided for tax planning, financial forecasting, choosing sources of financing, and writing up requests for funds.

Other small businesses may give you an idea where to find a CPA experienced in small business. It pays to shop around for advice. CPAs provide a service and should be willing to answer questions, submit references, and otherwise show that they can help a business at a reasonable fee.

Another necessary and invaluable aid is a competent, experienced lawyer - one who knows and understands small businesses. Partners have a way of forgetting agreements unless the contract is written up by a lawyer and signed. Lawyers can help in a variety of matters including leases, contracts, protection against liabilities, and more. Again, it is wise to ask for references

and interview people until a personality as well as professional fit is made. Pay your CPA and lawyer a fee rather than offering them a share of profits.

Marketing decisions should be made long before a product is produced or stored opened. An inexpensive marketing research study may help determine where to locate, whom to select as your target market, and what would be an effective strategy for reaching those people. Thus a marketing consultant with small business experience is also valuable.

Two other invaluable experts are a commercial loan officer and an insurance agent. The commercial loan officer can help you design an acceptable business plan and give you valuable financial advice as well as loan you money when you need it. An insurance agent will explain all the risks associated with the small business and how to cover them most efficiently with insurance and other means.

Small business people tend to laugh when they hear how many consultants or "experts" they will need. They laugh because they don't have the money to hire such experts, and they wouldn't know what to ask if they could afford them. In fact, much of this expertise could come from one small-business consultant who knows marketing, accounting and some law.(It is wise to seek a lawyer, however, in any case.)

Often a local university has business professors who will advise small business people for a small fee. It also is wise to seek the counsel of other small business people. SCORE, the Service Corps of Retired Executives, is another good source of expertise. It is part of the Small Business Administration. In short, small businesses need expert outside assistance in areas such as accounting, finance, and legal matters, and such assistance should be obtained as soon as possible, before any major decisions are made, including whether the business should be started or not.

Text 13: THE SMALL BUSINESS ADMINISTRATION (SBA)

SBA has produced many publications to assist small business people in all areas of management. Funding , for the SBA is slated to be cut by 50% between 1986 and 1989. Nonetheless, you can get many of its booklets at your local library.

Many of the functions of the SBA are scheduled to go the Department of Commerce. Included is the **Service Corps of Retired Executive** (SCORE). This office provides consulting services for small businesses free (except for expenses). The SBA also sponsors volunteers from industry, trade associations, and education who counselled small businesses. They are called the Active Corps of Executives (ACE).

The **Small Business Institute** (SBI) arm of the SBA had an interesting program for college students. Colleges would join the program by contacting the local SBA office. Then students would counsel businesses, write up a report, and, if the report met SBA standards, the school received \$400.

The SBA also made direct loans to selected small businesses (for example, handicapped owners, Vietnam veterans, and other special cases), and guaranteed loans for small businesses with special problems with the bank.

Text 14: WHAT DOES IT TAKE TO BE AN ENTREPRENEUR?

Would you succeed as an entrepreneur? A list of attributes you would look for in yourself includes:

1. *Self-directed.* You should be thoroughly comfortable and thoroughly self-disciplined even though you are your own boss.
2. *Self-nurturing.* You must believe in your idea when no one else does, and be able to replenish your own enthusiasm.
3. *Action-oriented.* Great business ideas are not enough. The

most important thing is a burning desire to realise, actualise, and build your dream into reality.

4. *High energy level.* You must be emotionally, mentally, and physically able to work long and hard.

5. *Tolerant of uncertainty.* Successful entrepreneurs take only calculated risks (if they can help it). Still, they must be able to take some risks.

Some advice for entrepreneurs is as follows:

- Research your market, but do not take too long to act.
- Start your business when you have a customer.
- Try your venture as a sideline at first.
- Plan your objectives within specific time frames.
- Surround yourself with people who are smarter than yourself - including an outside board of directors.
- Do not be afraid to fail.
- Have a great accountant.

Text.15: INDIVIDUAL ENTREPRENEURS

May be you cannot meet all of these requirements now, but now you know what to shoot for. Entrepreneurship in the 1970s and early 1980s was wasted by a few dynamic *individuals*: Adam Osborne of Osborne Computers, Sirjang Lai "Juge" Tandon of Tandon Corporation, Steve Jobs of Apple Computers, and Lore Hays of Vector Graphic, Incorporated. All these companies were high-fliers at first, but got into trouble, and most are being ran by someone else now. The trend in the late 1980s is to develop entrepreneurial teams. What makes teams more effective than individuals?

Text 16: ENTREPRENEURIAL TEAMS

An *entrepreneurial team* is a group of experienced people from different areas of business who join together to form a managerial

team with the skills needed to develop, make, and market a new product. A team may be better than an individual entrepreneur because it combines creative skills with production and marketing skills right from the start. The team assures more co-operation and co-ordination among functions.

Text 17: FRANCHISES

Not everyone is cut out to be an entrepreneur, or an entrepreneur either. The personality called for is that of a risk-taker and innovator. Some people are more cautious or simply want more assurance of success. For them there is vastly different strategy for owning a business; that is, buying a franchise. Some entrepreneur has developed a winning product concept, and you can share in the dream by paying him or her for the right to use that concept by buying franchise rights. They have the energy and the drive of an entrepreneur, but they may not have the innovativeness. Entrepreneurships and franchising are thus complementary processes. The entrepreneur develops the idea and the franchisee implements it at the local level.

Basically, a **franchise** is an arrangement whereby someone with a good idea for a business sells the rights to use the business name and to sell the products or services in a given territory.

The **franchiser** (the company that developed the idea) may help you (*the franchisee*) find a place to locate the business; sell you (at low cost) signs, materials, and everything else you need to get started; teach you how to manage the business; and give you all kinds of help with promotion and other business-related problems. About one out of every three retailers is a franchise, so you shouldn't have much difficulty finding places to visit where you can get more information from franchise owner/managers.

Text 18: BENEFITS OF FRANCHISING

- Nationally recognised name and established reputation
- Help with finding a good location
- A proven management system
- Tested methods for inventory and operations management
- Training in all phases of operation
- Promotional assistance
- Periodic management counselling
- Proven record of success
- It's your business!

Text 19: DRAWBACKS OF FRANCHISING

- High initial franchise fee
- Additional fees may be charged for marketing
- A monthly percentage of gross sales may go to the franchiser
- Possible competition from other nearby franchisees
- No freedom to select decor or other design features
- No freedom to determine management procedures
- Many rules and regulation to follow

On the whole, the benefits outweigh the drawbacks for many people. That is why franchising is so popular today.

5. COMPREHENSION QUESTIONS. Завдання 5. Підготуйте письмові відповіді на питання:

1. What are the various classes of small businesses?
2. What does the "small" in-small business mean?
3. What goes into a business plan?
4. Should you do it all yourself?
5. How do I select a computer?
6. What is the difference between an entrepreneur and typical small business owner?
7. What does it take to be an entrepreneur?

8. What have modern entrepreneurs done to assure longer terms of management?
9. What is an entrepreneuring?
10. What is a franchisee?

6. Discussion Questions. Завдання 6. Підготуйте коротку інформацію, використовуючи запитання як план:

1. What hints would you give someone starting a small business?
2. What are advantages and disadvantages of being involved into a small business?
3. What traits of character can you train to become an entrepreneur?
4. Why is it important for laboratory people to follow their new product ideas through production and marketing?
5. What kind of questions might you ask before buying a franchise?

7. Group Activities: Завдання 7. Підготуйтеся до бесіди, використайте задану ситуацію:

While at the library, go to the reference section and find the Franchise Opportunities Handbook. or a similar listing of franchise opportunities. Glance through the listing looking for the cost of a franchise, the variety of franchises available, and other interesting information. If several people each write down two entries, the class will have enough information to give them a good feel for franchising opportunities. Deliver your entries before an audience and have a discussion.

8. Individual Work : Завдання 8. Проведіть самостійний аналіз та підготуйтеся до інтерв'ю на задану тематику:

Interview a businessman who is involved into entrepreneuring. Ask him about advantages and disadvantages of being an entrepreneur.

9. RELEVANT QUOTATION. Завдання 9. Прочитайте., перекладіть та поясніть такі вислови:

FRANCIS BACON (1561-1626):

Fortune is like the market, where many times, if you can stay a little, the price will fall.

APHRABEHN (1640-1689):

Money speaks sense in a language all nations understand.

WILLIAM BERNBACH (1911-1982):

The most powerful element in advertising is the truth.

CHARLES BROWER (1901):

There is no such thing as "soft sell" and "hard sell." There is only "smart sell" and "stupid sell."

(National Sales Executives Convention, May 20, 1958)

SPECIALIST VOCABULARY

A

access	доступ
account (for)	нараховувати
accounting	облік, рахівництво
advantage	перевага, привілей
advice	порада
allocation	розміщення, розподіл
assistance (aid)	допомога
assure	забезпечувати
attain	досягти
average	середній

B

bargain (v.)	домовлятися
benefit (n.)	користь, пожиток
borrow	позичати

C

commitment	зобов'язання
co-owner	співвласник
cost (v.)	коштувати
costs (n.)	витрати

D

decrease (n.)	зниження, зменшення
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E

eliminate	вилучати, усувати
employee	службовець
entrepreneur	підприємець
equilibrium point	точка рівноваги
expenses	витрати

F

failure	невдача
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fee

платня

H

handle

управляти, керувати

I

identify

визначати

impact (n.)

поштовх; вплив

incentive

спонука

increase (v.)

зростати, збільшуватись

inequality

нерівність

inequity

несправедливість

invaluable

неоціненний

investment

капіталовкладення

involve

залучати, включати

L

liability

відповідальність

O

occur

траплятись, ставатись

opportunity

можливість

ownership

власність

F

predict

віщувати

price

ціна

profit (n.)

прибуток, зиск

property

власність

prosperity

достаток, добробут;

процвітання

Q

quantity

кількість

R

real wages

реальна зарплата

recession

спад

refer
retail
retention
revenue

S

seek
shareholder
shortage
spend
stockholder
supervise
surplus

T

taxes
turnover

U

ultimate

W

wholesale

належати
роздрібний
утримання
дохід, прибуток

шукати
пайовик
нестача
витрачати
акціонер
наглядати
надлишок

податки
обіг (товарів, засобів)

кінцевий, останній

оптовий, гуртовий

KEY TERMS GLOSSARY

- Gross national product (GNP)- the total value of a country's output goods and services.
- Consumer price index (CPI)- measures changes in the prices of about 400 goods and services that consumers buy.
- Cost-push inflation - refers to inflation caused by rising business costs.
- Demand - the quantity of products that people are willing to buy at different prices at a specific time.
- Demand curve - shows the relationship between quantity demanded and price.
- Demand pull inflation - refers to inflation caused by excessive demand for goods and services.
- Depression - a severe form of recession (see recession).
- Economics - the study of the allocations of scarce resources among competing
- Equilibrium point - point at which supply and demand are equal.
- Factors of production - land, materials, human labour, and capital.
- Federal deficit - the difference between government revenue from taxes and government spending.
- Fiscal policy - government efforts to keep the economy stable by increasing or decreasing taxes or government spending.

Free market system -	system in which decisions about what to produce and in what quantities are decided by the market; that is, by buyers and sellers negotiating for goods and services.
Inflation -	a general rise in the prices of goods and services over time.
Macroeconomics -	the study of the nation's economy as a whole.
Market price -	price determined by supply and demand.
Microeconomics -	the study of the behaviour of people and organizations in particular markets.
Mixed economy -	an economy that combines free markets with some government allocation of resources.
Monetary policy -	the management of the amount of money placed into the economy by the . government and the management of interest rates.
National debt -	the sum of money the government has borrowed and not paid back. Net national product the output of goods and services beyond
(NNP)-	that which is needed to replace worn-out machinery, equipment, and capital goods.
Producer price index -	measures changes in the prices businesses pay for goods and services over time.
Productivity -	the total output of goods and services in a given period of time divided by work hours (output per work hour).
Real wages -	money wages divided by the price level.

- Recession - two consecutive quarters of negative growth in real GNP (GNP adjusted for inflation),
- Stagflation - stagnant economic conditions (no growth) combined with inflation.
- Supply - the quantity of products that manufactures or owners are willing to sell at different prices at a specific time.
- Supply curve - shows the relationship between price demanded and the quantity supplied.
- Supply-side economics - the policy of lowering taxes so that more money is invested in production, leading to an increase in production activity, causing a drop in unemployment.

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