MINISTRY OF HEALTH SERVICE
ZAPOROZHYA STATE MADICAL UNIVERSITY

Social disciplines department

Sidorenko S.V.

BASIS OF ECONOMIC THEORY:

Manual

for the higher medical school students

(full-time department)

Zaporozhya-2011

MINISTRY OF HEALTH SERVICE
ZAPOROZHYA STATE MADICAL UNIVERSITY

Social disciplines department

Sidorenko S.V.

BASIS OF ECONOMIC THEORY:

Manual

for the higher medical school students

(full-time department)

Zaporozhya-2011

BASIS OF ECONOMIC THEORY: Manual is for the students of higher medical schools (full-time department). Compiled by: Candidate of Philosophy, teacher of Social Discipline Department Sidorenko S.V. Zaporozhya: ZSMU, 2011.

Manual was recommended on the meeting of Social Discipline Department protocol №_______ 2011

Manual was confirmed of the central science methodical council resolution ZSMU protocol №_______ 2011

Reviewers:
Doctor of Economics, Professor, Dean of the Economic Faculty of the Yuriy Fedkovich Chernivtsy National University Nikiforov P.O.

Candidate of Philology, Associate professor of the Department of World Culture and Ukrainian Studies of the Zaporozhya State Madical University
Sidorenko O.V.

Lecturer of the Department of Foreign Languages of the Zaporozhya State Madical University Vasilyeva I.L.

Responsible for publication: head of Social Disciplines Department of the Zaporozhya State medical university, professor Zhadko V.A.

Fundamental goals of the text-book – to introduce beginning base of economic theory students to principles essential to understanding the basic economizing problem, specific economic issues, and policy alternatives available for dealing with them. Two fortunate by-products of this objective are an ability to reason accurately and dispassionately about economic matters and lasting interest in economics. As always, we present the principles and problems of economics in a straightforward, logical fashion.

CONTENT

1. An Introduction to subject "Basis of economic theory"…………………..4
2. Structure of the subject………………………………………………… ..6
3. Program on discipline "Basis of economic theory "………………………8
4. Presentation of the material………………………………………………9
5. Items for study……………………………………………………….....44
6. Reports' themes………………………………………………………..52
7. Literature…………………………………………………………………54

1. AN INTRODUCTION TO SUBJECT BASIS OF ECONOMIC THEORY

Human beings, those unfortunate creatures, are plagued with wants. We want, among other things, love, social recognition, and the material necessities and comforts of life. Our effotts to meet our material wants, that is, to improve our well-being or "make a living", are the concern of economics.

Diologically, we need only air, water, food, clothing, and shelter. But, in contemporary society, we also seek the many goods and services associated with a comfortable or affluent standard of living. Forrtunetely, society is blessed with productive resources – labor and managerial talent, tools and machinery, land and mineral deposits – which are used to produce goods and services. This production satisfies many of our material wants and occurs through the organizational mechanism called the economic system or, more simply, the economy.

The blunt reality, however, is that the total of all our material wants is many tames greater than the productivecapacity of our limited resources. Thus, the complete satisfaction of material wants is impossible. This unyielding reality provides our definition of economics: the social science concerned with the efficient use of limited or scarce resources to achieve maximum satisfaction of human material wants.

Although it may not be evident, most of the headline-drabbing issues of our time-inflation, unemployment, health care, social security, budget deficits, discrimination, tax reform, poverty and inequality, pollution, and government regulation and deregulation of business – are roolted in the one challenenge of using scarce resources efficiently.

Goal and tack of discipline:

- *Economic growth.* Produce more and better goods and services, or, more simply, develop a higher standard of living.
- *Full employment.* Provide suitable jobs for all citizens who are willing and able to work.
- *Economic efficiency.* Achieve the maximum fulfillment of wants using the available productive resources.
- *Price-level stability* Avoid large upswings and downswings in the general price level; that is, avoid inflation and deflation.
- *Economic freedom* Guarantee that business, workers, and consumers have a high degree of freedom in their economic activities.
- *Equitable distribution of income* Ensure that no group of citizens faces stark poverty while others enjoy extreme luxury.
- *Economic security* Provide for those who are chronically ill, disabled, handicapped, laid off, aged, or otherwise unable to earn minimal levels of income.
- *Balance of trade* Seek a reasonable overall balance with the rest of the world in international trade and financial transactions

Definitions of subject:

- Economics is the study of those activities that involve the production and exchange of goods;
- Economics analyzes movements in the overall economy – trends in prices, output and unemployment;
- Economics is the science of choice;
- Economics is the study of commerce among nations;
- Economics is the study of money, banking, capital and wealth.

Distinguishing features:

- Comprehensive Explanations at an Appropriate Level.
- Comprehensive Definition of Economics.

- Fundamentals of the Market System.
- Early Integration of Economics.
- Emphasis on Economic Growth.
- Emphasis on Economic Issues.

2. STRUCTURE OF THE SUBJECT

The basis of economic theory has five parts:

- Economics. Methodology. Basic economic problem.
- Types of economic Systems.
- Business. Management. Marketing.
- Money and Banking.
- Economy of Ukraine. World economy.

Forms of studies are:

- Prelections – 10 hours;
- Seminars – 10 hours;
- Self instruction – 30 hours.

№	Prelections and Seminars Themes	Prelections	Seminar	Self-instruction
	Part 1. Economics. Methodology. Basic economic problem.			
1.	Economics. Methodology. Basic economic problem.	2	1	5
	Part 2 Types of Economic Systems			
2.	Types of Economic Systems	2	3	5
	Part 3. Business. Management. Marketing.			
3.	Business. Management. Marketing.	2	2	5
	Part 4. Money and Banking.			
4.	*Money and Banking.*	2	2	5
	Part 5. Economy of Ukraine. World economy.			

5.	Economy of Ukraine. World economy.	2	2	10	
	Total	**10**	**10**	**30**	

2.1. STRUCTURE OF PRELECTIONS

№	Themes	Quantity of Hours
1.	Economics. Methodology. Basic economic problem.	2
2.	Types of Economic Systems	2
3.	Business. Management. Marketing.	2
4.	Money and Banking	2
5.	Economy of Ukraine. World economy.	2
	Total	**10**

2.2. STRUCTURE OF SEMINARS

№	Themes	Quantity of Hours
1.	Economics. Methodology. Basic economic problem.	2
2.	Types of Economic Systems	2
3.	Business. Management. Marketing.	2
4.	Money and Banking	2
5.	Economy of Ukraine. World economy.	2
	Total	**10**

2.3. QUANTITY SELF-INSTRUCTIONS

№	Themes	Quantity of Hours	Form of control
1.	Prepare for seminars, prelections, consults	10	seminars
2.	Creative work		
	1. The history of Economics.	2	Total of control
	2. The history of private property. Private ownership.	2	„-”
	3. Money and functions	2	„-”
	4. The Business cycle. Phases.	2	„-”

	5. The abject and subject of market.	2	„-”
	6. The business and law.	2	„-”
	7. The forms of the trade	1	„- ”
3.	An individual work of the students	5	„-”
4.	Test	2	„-”
	Total	**30**	

3. PROGRAM ON DISCIPLINE "BASIS OF ECONOMIC THEORY"

Theme 1. Economics. Methodology. Basic economic problem.

The nature and method of economics. History of Economic currents. Deductive and inductive methods. The goal and tack of economics. Functions of economics. Economic person. Economic world outlook. Moral hazard problem. Definitions of economics. Why study economics. Economic methodology. Theoretical economics. Policy economics. Microeconomics. Macroeconomics. The economics perspective. The economizing problem.

.Theme 2. Types of Economic Systems.

Economic Systems. Advantage and disadvantage of Economic Systems. Economic activity. Traditional, Market, Command and Mixed economies. Capitalism and socialism ideologies. Planned economy. Bureaucratic organization. Workers collectives. Market socialism. Goods and services. Factors of production. Forms of property. Household. Owner. Revenue. Standard of living. Law of price. Private property. Freedom of enterprise and choice. Self-interest. Competitions. Extensive use of technology and capital goods. Specialization. Surplus. Production costs. Private ownership. Markets and price. Equilibrium. Atomistic competition. Inflation. Fluctuation. Economic situation.

Theme 3. Business. Management. Marketing.

Business. Law and Trader. Initiative. Company Structure. Blue chip company. Business Entity. Enterprise. Corporation. Monopoly and oligopoly. Bilateral Monopoly. Extend respective markets. Market allocation. Found a company. Subsidiary company. Medium-sized enterprise. Retail outlet. Run a business. Staff. Promote oneself. Sales manager. Franchise. Management.. Theories and tendencies of management. Basic-management functions. Branding.

Marketing. Product Life Cycle. Advertisement. Subliminal advertising. Action advertising.

Theme 4. Money and Banking.

Money and its functions. Monetarism. Monetary multiplier. Monetary policy. Monetary rule. Money interest rate. Money income. Actions. Capital account. Capital goods. Money capital. Supply of many. The Money Market. Recent Developments in Money and Banking. Globalization of financial markets. Forms of stocks. Banking System. Functions of Banking System. Universal banks. Special banks. Forms of commercial banks. Hypothec. Deposits. Depts. Credits. Assets and liabilities. The Banking System of Ukraine. National banks of Ukraine. The Bank of England. The Federal Reserve System. Shady market.

Theme 5. Economy of Ukraine. World economy.

Economy of Ukraine. National income. National resources. National income accounting. State budget. State deficit. State dept. State system. Excise. Business cycle. Phases. International trade. Special economic zones. Specializations. Custom duty. Global scale. World economy. World price. World price. World Bank. World Trade Organization. European Union. North American Free Trade Agreement. Pacific Economic Cooperation forum. Exports. Imports. Embargoes. Tariffs. Quotas. Voluntary restrain agreement.

4. PRESENTATION OF THE MATERIAL

Theme 1. Economics. Methodology. Basic economic problem

Plan:

1. What does economics study?
2. Economic methodology.
3. The basic economic problem.

The economy is a part of every day lives. We spend much of our lives working to produce goods and services. We spend a good part of the remaining time consuming those goods and services. Even such simple things as reading, going to university, and lying on the beach can be described as economic activities.

What does economics study?

Economics - is the study of economies, the study what economists do. In general terms, economics is a social science concerned with using scarce resources to obtain the maximum satisfaction of the unlimited material wants of society. It studies the production, distribution, trade and consumption of goods and services. The aim of economics is to help people to obtain the greatest possible satisfaction or utility out of the resources at their disposal - to do the best they can with what they have.

The main questions that an economy must answer are the following:

- What to produce and in what quantities?
- How to produce?
- For whom to produce?

Why study economics?

Is studying economics worth time and effort? More than half a century ago John Maynard Keynes (1883-1946), one of the most influential economists of this century, said:

The ideas of economists and political philosophers, both when they are right and when they are right and when they are wrong, are more powerful than is commonly understood. Indeed the world is ruled by little else. Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist.

Most of the ideologies of the modern world have been shaped by prominent economists of the past – Adam Smith, David Ricardo, John Stuart Mill, Karl Marx, and John Maynard Keynes. And current world leaders routinely solicit the advice and policy suggestions of today's economists.

For example, the President of the USA benefits from the recommendations of his Council of Economic Advisers. The broad range of economic issues facing political leaders is suggested by the contents of the annual *Economic Report of the President.* Areas covered typically include unemployment, inflation trade, health care, pollution, discrimination, immigration, and education, among others.

2. Economic methodology.

Theoretical economics

All sciences are based on observable and verifiable behavior, realities, or fact. As a social science, economics examines the observable and verifiable behavior of individuals (consumers, workers) and institutions (business, government) engaged in the production, exchange, and consumption of goods and services.

Fact gathering about economic activity and economic outcomes can be a complex process. Because the world of reality is cluttered with innumerable interrelated facts, economists, like all scientists, must be highly selective in gathering information. They must determine which facts are relevant to the problem under consideration. But even when this sorting process is complete, the relevant information may at first seem random and unrelated. The economist thus seeks principles – generalizations about the way individuals and institutions behave. The processes of deriving principles is called **theoretical economics** or *economic analysis*

The role of economic theorizing or economic analysis is to systematically arrange facts, interpret them, and generalize from them. Principles and theories, the end result of economic analysis, bring order and meaning to facts by putting them in correct relationship to one another. As economist Kenneth Boulding states, “Theories without facts may be barren, but facts without theories are meaningless”.

FIGURE 1-1

POLICY ECONOMICS

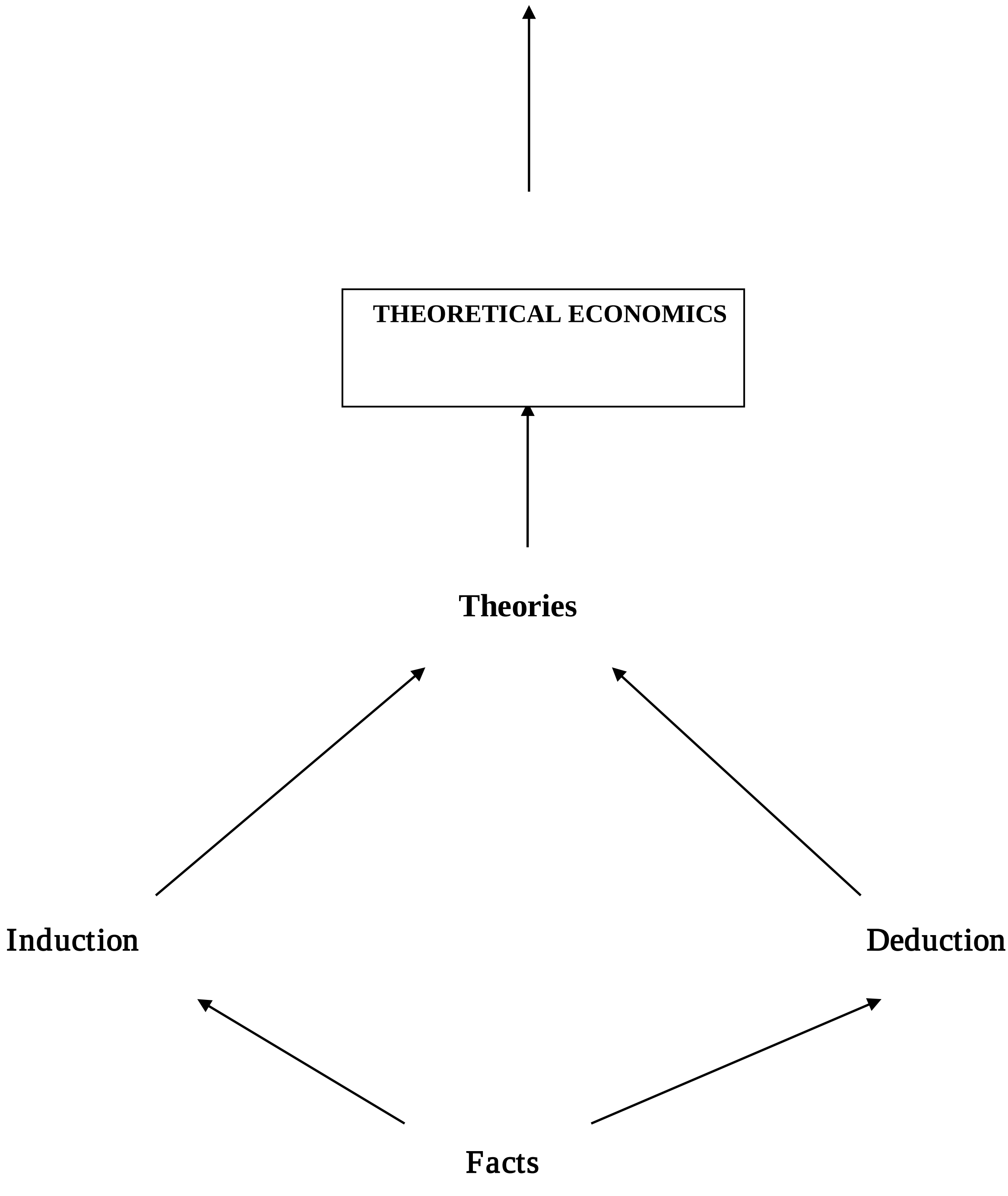


FIGURE 1-1. The relationship between facts, principles, and policies in economics. In analyzing problems or aspects of the economy, economists may use the inductive method, through which they gather, systematically arrange, and generalize from facts. Alternatively, they may use the deductive method, in which they develop hypotheses which are then tested against facts. Generalizations

derived from either method are useful not only in explaining economic behavior but also as a basis for formulating economic policies.

As seen in *Figure 1-1*, economists are as likely to move from theories to facts in studying economic behavior as they are to move from facts to theories. That is, economists use both **deductive** and **inductive** methods. Induction moves from facts to theory, from the particular to the general. In this approach, an accumulation of facts is arranged systematically and analyzed to derive the underlying principle. The left, upward arrow from "facts" to "theories" in the figure suggests the inductive method.

Usually, economists create generalizations though **deductions.** They draw on casual observation, insight, logic, or intuition to frame a tentative, untested principle called a hypothesis. For example, they may conjecture, based on "armchair logic," that consumers will buy more of a product when its price falls. To test this hypothesis, economists must subject it to systematic and repeated comparison with relevant facts. Do real-world data confirm an inverse relationship between price and the amount purchased? This testing process, sometimes called **empirical economics**, is implied by the right, downward arrow from "theories" to "facts" in *Figure 1-1.*

Deduction and induction are complementary, rather than opposing, techniques of investigation. A hypothesis formed by deduction provides guidelines for the economist in gathering and organizing factual data. Conversely, some understanding of factual, realworld evidence is required to formulate meaningful hypotheses. Economic **principles** and theories are meaningful statements about economic behavior or the economy. They are drawn from facts, while facts themselves help prove the validity of principles already established. Goods theories are supported by facts concerning how individuals and institutions actually behave in producing, and consuming goods and services. Since this fact may change in time, economists must continually check principles and theories against the shifting economic environment.

Several other points relating to economic principles are important to know.

Policy economics

The creation of policies to achieve specific goals is no simple matter.

Here are the basic steps in policymaking. Here are the basic steps in policymaking:

1. **State the goal**. The first step is to make a clear statement of the economic goal.
2. **Determine the policy options**. The next step is to formulate alternative policies designed to achieve the goal, and determine the possible effects of each policy.
3. **Implement and evaluate the policy which was selected**. After implementing the policy, we need to evaluate how well it worked. Only through unbiased evaluation can we improve on economic policy. Did a specific change in taxes or the money supply alter the level of employment to the extent predicted?

Macroeconomics

Macroeconomics examines either the economy as a whole or its basic subdivisions or aggregates such as the government, household, and business sectors. An **aggregate** is a collection of specific economic units treated as if they were one unit. Macroeconomics speaks of such economic measures as total output, total employment, total income, aggregate expenditures, and the general level of prices in analyzing various economic problems.

Microeconomics

Microeconomics looks at specific economic units. At this level of analysis, the economist observes the details of an economic unit, or very small segment of the economy. We measure the price of a specific product, the number of workers employed by a single firm, the revenue or income of a particular firm or household, or expenditures of a specific firm, government entity, or family.

Positive and Normative Economics

Both macroeconomics and microeconomics involve facts, theories, and policies. Each contains elements of positive economics and normative economics. Positive economics focuses on facts (once removed at the level of theory) and avoids value judgments. It tries to establish scientific statements about economic behavior. Positive economics deals with what the economy is actually like. Such factually based analysis is critical to good policy analysis.

In contrast, normative economics involves value judgments about what the economy should be like or what particular policy actions should be recommended to get it to be that way. Normative economics looks at the desirability of certain aspects of the economy. It underlies expressions of support for particular economic policies. Positive economics concerns what is, while normative economics embodies subjective feelings about what ought to be. Examples: Positive statement: "The unemployment rate in several European nations is higher than that in the United States". Normative statement: "European nations ought to undertake policies to reduce their unemployment rates". A second positive statement: "Other things equal, if tuitions in increased, enrollment at Gigantic State University will fall". Normative statement: "Tuition should be lowered at GSU so that more students can obtain an education". Whenever words such as "ought" or "should" appear in a sentence, there is a strong chance you are encountering a normative statement.

The basic economic problem

In studying economics, as in any other activity, we like to have some reason for exerting effort. We attend the theatre or go to a ball game because it in is enjoyable. We attend school to learn or to make it possible to have a job and earn a living. But why study economics? There may be a few people who would be willing to study economics purely for the enjoyment it brings. For most, however, learning economics is not 100 percent entertainment. We study economics because it is a required subject. Why is it required? The answer can be simplified to a single world-scarcity. **Scarcity** exists because people's wants and needs are greater than the resources to satisfy them. Thus people must choose how best to use their available resources to satisfy the greatest number of wants and needs.

Economists classify as needs those goods or services that are necessary for survival. Food, clothing, and shelter are basic needs. Wants are those goods or services that people consume beyond what is needed for survival. When people as the consumers are willing and able to buy desired things they present demand at the market.

At first you may find this hard to believe that human wants are unlimited. But if you spend a few minutes to write a list of the goods or services that you wouldn't mind having, you will understand that their purchase would put a millionaire in a financial bind. Of course, there is some level of income or standard of living where one would be completely satisfied. Suppose by some stroke of magic that you got all the items on your list. Would you be completely satisfied? Probably not – human nature being is what; we always seem to be a little dissatisfied with what we have. A new compact car may satisfy for a time, but we give admiring glances to a Mercedes or a WMF.

It is less difficult to understand the scarcity of our disposal. In recent years, attention has been drawn to the day when our nonrenewable natural resources, especially fuels, will be exhausted. It is important to realize that most resources, including land, labor, and capital are limited. The result is a limit to a country's productive capacity.

Since human wants are greater than resources to satisfy these wants, people must decide what they will produce and what they forgo. In other worlds, we are forced to make economic decisions. We must make these decisions (or, if you wish, economize) from the time we are aware of the world around us. But not all economic decisions involve money. The best example of a non- monetary economic decision is how we allocate our time. The student must decide if he or she will spend the evening studying mathematics or economics, or whether to devote time to study or leisure.

More traditional types of economic decisions involve activities of households and firms. For the households economic decisions must be made on how much money goes to housing, food, clothing, entertainment, transportation, and so forth. For the firms they must decide what items should produce. Should they produce a large number and sell at a law price or produce less and sell at a high price.

QUESTIONS

1. What are economic activities?
2. What does economics study?
3. What are the main questions that an economy must answer?
4. What are major economic goals?
5. What models do economists use to improve our understanding of the world?
6. When is economics said to be normative?
7. What is positive economics concerned with?
8. Identify each of the following as either a positive or a normative statement:

a. The high temperature today was 89 degrees.

b. It was too hot today.

c. The general price level rose by 4.4 percent last year.

d. Inflation eroded living standards last year and should be reduced by government policies.

8. What are two branches of economics?

Theme 2. TYPES OF ECONOMIC SYSTEMS

Plan:

1. Traditional Economy.

2. Command Economy.
3. Market Economy.
4. Mixed Systems.

1. Traditional Economy.

To an economist, economic society presents itself as a mechanism for survival. The survival of any society depends on its ability to provide food, clothing and shelter for people. Since these societies are also faced with scarcity decisions concerning **What, How** and **Whom** to produce must be made.

All societies have something else in common. They have an economic system or an organized way of providing for the wants and needs of their people. The way in which these decisions are made will determine the type of economic system they have.

In fact, in sprite of the appearance of great variety, it is possible to group these different economic structures into four broad categories. These basic types of economic organization are usually described as **Traditional, Market, Command** and **Mixed economies.**

In a society with **traditional economy** nearly all economic activity is the result of ritual and custom. Habit and custom also prescribe most social behavior. Individuals are not free to make decisions based on what they want or would like to have. Instead, their roles are defined. They know what goods and services will be produced, how to produce them, and how such goods and services will be distributed.

The basic economic problems do not arise as problems to be discussed and argued about. One follows the path that one was born to follow; a son follows in the footsteps of his father and uses the same skills and tools. **A caste system** provides a good example of the rigidity of a traditional society. **The production problems** are solved by using land as it has always been used and the worker carrying out the traditional skills according to his or her fixed place in social structure. **The distribution problem** is solved in a similar manner. There will be time-honoured methods of sharing out the produce of the harvest and hunt. The elders, the heads of families, the women and the children will receive shares according to ancient custom.

Traditional economic systems are usually found in the more remote areas of the world. Such systems may characterize isolated tribes or groups, or even entire countries. They are less common today than they were in earlier decades.

The traditional economic system is used by African tribes and was used by Native Americans. It is also found today in some parts of South America, Asia, and Africa. There, people still make clothing and shelter almost exactly the same way as they did in the past.

Typically, in a traditional economy, most of the people live in rural areas and engage in agriculture or other basic activities such as fishing or hunting. The goods and services produced in such a system tend to be those that have been produced for many years or even generations. They are produced as they always have been. In short, the questions of what the traditional society produces and how it is produced are determined by very slowly changing traditions.

Who gets to keep what is produced in such an economy?

Traditional solutions to the economic problems of production and distribution are encountered in primitive agricultural and pastoral communities. But, even in advanced countries, tradition still plays some part in determining how the economy works. We are familiar with industries in which it is customary, for the son to follow his father into a trade or profession, and in Britain equal pay for women did not obtain legal sanction until the 1970-s.

Most individuals live near a subsistence level: they have enough to sustain them but little than that. In some years, when the harvest is poor, some will not be able to subsist and will either leave the society or die. In better years, when the yield is high, they may be more than enough to allow subsistence. When such a surplus exists, it will be distributed traditionally. For example, the bulk of the produce might go to a tribal chief or large landholder, while the balance is distributed according to custom.

The main advantage of the traditional economy is that everyone has a role in it. This helps to keep economic life stable and community life continuous. **The main disadvantage** of the traditional economy is that it tends to discourage new ideas and even punishes people for breaking rules or doing things differently. So it tends to be stagnant or fails to grow over time.

2. Command Economy

Another method of solving the economic problems is also one which has a long history. This is the method of economic problems are worked out by some all-powerful authority which imposes its solutions on the population.

It is more usual to refer to the present-day command economies as planned economies although, strictly speaking, leaving the economy to run itself may be described as a kind of economic "plan". Nevertheless, in time with general usage, we shall use the term **"planned economy"** to refer to an economy which is subject to a high degree of direct centralized control.

It is important to note that no modern economy is without some elements of command. In all developed and most underdeveloped countries, even those described as capitalist, there is a large measure of government control. In the UK, for example, the government is the biggest business in the country.

Countries such as Cuba, North and China are examples of command economies. Groups of high-level technicians, made up of engineers, economists, computer experts and industry specialists known as "**planners**", advice political leaders who develop and implement a plan for the entire economy.

Essentially, it is the planners who decide what goods and services will be produced. It they want ship production expanded and mining operations cut back, they issue the orders to do so. If more food is needed, the planners might direct tractor production to be increased or fertilizers to be imported from the West. Those same plans might also encourage labour to remain on the farms and direct that transportation and storage facilities be made available to move and hold farm products.

How are goods produced in a command economy? The planners decide which products will be made. They decide where to locate a new truck assembly plant and whether the factory will use more labour or more modern machinery.

It is planners, too, with guidance from the country's political leadership, who will receive the goods and services produced by setting wage rates for wage rates, for everyone, as well as interest rates, profits and rents.

Although economic planning may be employed in societies where property is privately owned, it seems realistic to assume that a fully planned economy means in which all the important means of production are publicly owned. In socialist all land, housing, factories, power stations, transport systems and so on are usually **owned by the state.**

The logic of **public ownership** in these societies is based upon the desire for a more equitable distribution of income and wealth. Private ownership of property leads to great inequalities of wealth, and this, in turn means that the wealthier groups are able to exercise great economic power. Such a situation implies great inequalities of opportunity. The better-off members of society are able to use their greater wealth to obtain superior education, better health services, more effective training, and better business opportunities.

Although land and capital may be **owned collectively** rather than individually, it does not follow that control of these resources must be centralized. In some planned economics the **state keeps** a tight control on the use of economic resources and important economic decisions are taken by powerful central committees. This is described as bureaucratic organization, because the running of such an economy will require large numbers of planners and administrators to draw up and operate the national plan.

Alternatively, although the ultimate ownership of resources may be vested in the state, the control and day-to-day running of the farms, factories and shops may be handed over to cooperative groups of workers and consumers. These organizations are usually described as **"workers" collectives,** as opposed to the state enterprises which are controlled directly by the government.

The major advantage of a command system is that it can change direction drastically in a relatively short time. **The major disadvantage** of a command system is that it does not always meet the wants and needs of individuals.

The second disadvantage of a command system is the lack of incentives that encourage people to work hard. In most command economies today workers with different degree of responsibility receive similar wages. In addition, people seldom lose their jobs regardless of the quality of their work. As a result, there is tendency for some to work just hard enough to fill production quotas set by planners.

The command economy requires **a large decision-making bureaucracy.** Many clerks, planners and others are needed to operate the system. Most decisions cannot be made until a number of people are consulted, or a large amount of paper is processed. This causes production costs to increase and decision-making to slow down. Thus, a command system does not have the flexibility to deal with day-to-day problems.

3. Market Economy

In a market economy, the questions of **What, How** and **Whom** to produce are made by **individuals** and firms acting in their own best interests. In economic term a market is an arrangement that allows buyers and sellers to come together to conduct transactions.

The state plays little or no part in economic activity. Most of the people in the non-communist world earn and spend in societies which are still fundamentally market economies. **The market system** of economic organization is also commonly described as a **free enterprise or laissez – faire,** or **capitalist system.** We shall use all these terms to stand for a market economy. Strictly speaking the pure market of laissez-faire system has never existed. Whenever there has been some form of political organization, the political authority has exercised some economic functions (e.g. controlling prices or levying taxation). It is useful, however, to consider the way in which a true market system would operate because it provides us with a simplified model, and by making modifications to the model we can approach the more realistic situations step by step.

Since consumers like products with low prices and high quality, producers in market economy will try to supply such products. Those who make the best products for the lowest prices will make profits and stay in business. Other producers will either go out of business or switch to different products consumer can buy.

There are several other essential elements in a **market economy.** One of these is private property. By **"private property"** we mean the right of individuals and business firms to own the means of production.

4. Mixed Systems.

Pure capitalism and the command economy are extremes; real-world economies fall between the two. The U.S. economy leans toward pure capitalism, but with important differences. Government actively participates in the economy by promoting economic stability and growth, providing certain goods and services which would be underproduced or not produced at all by the market system, and modifying the distribution of income. In contrast to wide dispersion of economic power among many small units, as implied by pure capitalism, U.S. capitalism has spawned a number of very powerful economic organizations in the form of large corporations and labor unions. The ability of these power blocs to manipulate some markets to their advantage is a further reason for government involvement in the economy.

While the former Soviet Union historically approximated the command economy, it relied to some extend on market-determined prices and had some private ownership. Recent reforms in the former Soviet Union, China, and most of the eastern European nations have moved these economies toward more capitalistic, market-oriented systems. North Korea and Cuba are the best remaining examples of centrally planned economies.

But private ownership and reliance on the market system do not always go together, nor do state ownership and planning. For example, the fascism of Hitler's Nazi Germany has been dubbed authoritarian capitalism because the economy had a high degree of governmental control and direction but property was privately owned. In contrast, the present economic system of China might be called market socialism. It is characterized by extensive government ownership of natural resources and capital coupled with considerable reliance on free markets to organize and coordinate some parts of economic activity. The Swedish economy is also a hybrid system. Although more than 90 percent of Sweden's business activity is in private hands, government is deeply involved in redistributing income. Similarly, the capitalistic Japanese economy involves much planning and coordination between government and the business sector.

QUESTIONS

1. What does the survival of any society depend on?
2. What are all societies faced with?
3. What do all societies have in common?
4. What are the major kinds of an economic system?
5. Who makes most of What. How and Whom decisions in a command economy?
6. What does the command economy require?
7. Who answers the questions What, How and Whom to produce in a market economy?
8. Who will stay in busineness in a market economy?
9. What advantages does the market economy have?
10. What are the main features of the mixed economy?
11. Which term "mixed", "market" or "command" can be applied to most of the countries of Europe?

Theme3. Business. Management. Marketing.

Plan:

1. The business population. Legal forms of businesses.
2. Management.
3. Marketing.
4. Advertising.

1. The business population. Legal forms of businesses.

A **sole proprietorship** is a business owned and operated by one person. Usually, the proprietor (the owner) personally supervises its operation.

Advantages This simple type of business organization has two major advantages:

- A sole proprietorship is easy to organize; there is virtually no legal red tape or expense.
- The proprietor is his or her own boss and has substantial freedom of action. Since the proprietor's profit income depends on the enterprise's success, there is a strong and immediate incentive to manage the business efficiently.

Disadvantages The disadvantages of this form of business organization are several:

1. With rare exceptions, the financial resources of a sole proprietorship are insufficient to permit the firm to grow into a large enterprise. Finances are usually limited to what the proprietor has in the bank and to what he or she can borrow. Since proprietorships often fail, commercial banks are not eager to extend them credit.
2. Being in complete control of an enterprise forces the proprietor to carry out all management functions. A proprietor must make decisions concerning buying, selling, and the hiring and training of personnel, as well as producing, advertising, and distributing the firm's product. In short, the potential benefits of specialization in business management are not available to the typical small-scale proprietorship.

3. Most important, the proprietor is subject to unlimited liability. Individuals in business for themselves risk not only the assets of the firm but also their personal assets. If the assets of an unsuccessful sole proprietorship are insufficient to pay the firm's bills, creditors can file claims against the proprietor's personal property.

Partnership

The partnership form of business organization is a natural outgrowth of the sole proprietorship. Partnerships were developed to overcome some of the shortcomings of proprietorships. In a partnership, two or more individuals (the partners) agree to own and operate a business together. Usually they pool their financial resources and business skills. Similarly, they share the risks and the profits or losses.

Advantages What are the advantages of a partnership?

1. Like the sole proprietorship, it is easy to organize. Although a written agreement is almost invariably involved, there is not much legal red tape.
2. Greater specialization in management is possible because there are more participants.
3. Because there are several owners the odds are that the financial resources of a partnership are greater than those of a sole proprietorship. Partners can pool their financial capital and are usually somewhat better risks in the eyes of lending institutions.

Disadvantages Partnerships may have some of the shortcomings of the proprietorship and some of their own as well:

1. Whenever several people participate in management, the division of authority can lead to inconsistent policies or to inaction when an action is required. Worse, partners may disagree on basic policy.
2. The finances of partnerships are still limited, although they are generally superior to those of a sole proprietorship. But the

financial resources of three or four partners may still not be enough to ensure the growth of a successful enterprise.

3. The continuity of a partnership is precarious. Generally, when a partner dies or withdraws, the partnership must be dissolved and completely reorganized, which can disrupt its operations.
4. Unlimited liability plagues a partnership, just as it does a proprietorship. In fact, each partner is liable for all business debts incurred, not only as a result of each partner's own management decisions but also as a consequence of the actions of any other partner. A wealthy partner risks money on the prudence of less affluent partners.

Corporation

A corporation is a legal creation which can acquire resources, own assets, produce and sell products, incur debts, extend credit, sue and be sued, and perform the functions of any other type of enterprise. This "legal person" is distinct and separate from the individuals who own it. Hired managers operate most corporations.

Advantages The advantages of the corporate form of business enterprise have catapulted it into a dominant position in modern U.S. capitalism. Although corporations are relatively small in number, they are frequently large in size and scale of operations.

1. The corporation is by far the most effective form of business organization for raising financial capital. As this chapter's Last Word reveals, the corporation features unique methods of finance- the selling of stocks and bonds – which allow the firm to pool the financial resources of extremely large numbers of people. Financing via sales of stocks and bonds also provides advantages to the purchasers of these securities. Stocks are shares of ownership of a corporation. Bonds are promises to repay a loan, usually with a set rate of interest. Financing through stocks and bonds allows

households to participate in business and share the expected monetary reward without actively engaging in management. In addition, an individual can spread any risks by buying the securities of several corporations. Finally, it is usually easy for holders of corporate securities to sell those holdings. Organized stock exchanges simplify the transfer of securities from sellers to buyers. This "ease of sale" increases the willingness of savers to make financial investments in corporate securities. In addition, corporations have easier access to bank credit than other types of business organizations are better risks and are more likely to become profitable clients of banks.

2. Corporations have the distinct advantage of **limited liability.** The owners of a corporation risk only what they paid for their stock. Their personal assets are not at stake if the corporation cannot pay its debts. Creditors can sue the corporation as a legal person but cannot sue the owners of the corporation as individuals. Limited liability clearly makes it easier for the corporation to sell its stock.
3. Because of their advantage in attracting financial capital, successful corporations find it easier to expand the size and scope of their operations and to realize the benefits of expansion. They can take advantage of mass-production technologies and greater specialization in the use of human resources. While the manager of a sole proprietorship may be forced to share her or his time among production, accounting, and marketing functions, a corporation can hire specialists in each of these areas and achieve greater efficiency.
4. As a legal entity, the corporation has a life independent of its owners and its officers. Sole proprietorships and partnerships are subject to sudden and unpredictable demise, but legally at least, corporations are immortal. The transfer of corporate ownership through inheritance or the sale of stock does not disrupt the

continuity of the corporation. Corporations have permanence, lacking in other forms of business organization, which is conducive to long-range planning and growth.

Disadvantages The corporation's advantages are of tremendous significance and typically override any accompanying disadvantages. Yet there are drawbacks to the corporate form:

1. Some red and legal expenses are involved in obtaining a corporate charter.

2. From the social point of view, the corporate form of enterprise lends itself to certain abuses. Because the corporation is a legal entity, unscrupulous business owners sometimes can avoid personal responsibility for questionable business activities by adopting the corporate form of enterprise.

3. A further disadvantage of corporations is the double taxation of some corporate income. Corporate profit that is shared among stockholders as dividends is taxed twice – once as corporate profit and again as stockholders' personal income.

4. In sole proprietorships and partnerships, the owner of the real and financial assets of the firm also directly controls those assets. In large corporations in which ownership is widely diffused over tens or hundreds of thousands of stockholders, there is separation of ownership and control. That is, the people who own a corporation usually do not manage it – others are hired to do so.

2. Management.

The term management can have different meanings. You may not be able to define management exactly; it is a process involving certain functions and activities that managers must perform.

Management is a subject with **principles, concepts** and **theories.** A major purpose of studying the discipline of management is to learn and understand the principles, concepts, and theories of management and how to apply them in the process of managing. Management is the process undertaken by one person or more people to co-ordinate the activities of other people to achieve results not attainable by any person acting alone.

There are probably as many definitions of management as there are books on the subject. Many of the definitions are relatively concise and simplistic. For example, one early writer defined management as “knowing exactly what you want (people) to do, and then seeing that they do it in the best and cheapest way”. As you will see, management is a complex process, much more complex than the definition leads us to believe. Thus, we need to develop a definition of management that captures the true of its complexities and challenges.

Management is perhaps best understood from the viewpoint of systems theory. It suggests that organizations utilize four basic kinds of inputs or resources from their environments: human, monetary, physical, and information. Human resources include managerial talent and labour. Monetary resources are the financial capitals used by the organization to finance both ongoing and long-term operations. Physical resources include raw materials, office and production facilities, and equipment. Information resources are unable data needed to make effective decisions. The manager’s job involves combining and co-coordinating these various resources to achieve the organization’s goals.

A manager is someone whose primary activities are a part of the management process.

The process of management consists of certain **basic-management functions** such as: **planning, organizing** and **controlling,** linked together by **leading.** Planning determines what results the organization will achieve; organizing specifies how it will achieve the results; and controlling determines whether the results are achieved.

Throughout planning, organizing and controlling, managers exercise leadership.

Planning includes anticipating future trends and determining the best strategies and tactics to achieve organizational objectives.

Organization includes designing the organizational structure, attracting people to the organization (staffing), and creating conditions and systems that ensure that everyone and everything works together to achieve the objectives of the organization.

Leadership is getting others to work willingly and enthusiastically to achieve the objectives of the organization.

Control is a checking to determine whether or not ail organization is progressing toward its objectives, and taking corrective action if it is not.

In our society important work is done by individuals with such titles as production manager, marketing manager, restaurant manager, chairperson, dean, superintendent, ship captain, mayor, and governor. These individuals may work in different types of organizations with different purposes, but they all have one thing in common: they practice management. Furthermore, our society depends on the goods and services provided by the organizations these individuals manage.

Each of us is influenced by the actions of managers every day because we come into contact with organizations every day. Our experiences may be as students in a college, patients in a hospital, customers of business or citizens of a state. Whether we are satisfied with our experiences however depends greatly on the individuals who manage the organization. All organizations are guided and directed by the decisions of one or more individuals who are designated managers. Managers at different levels may work in various areas within an organization. In any given firm, there may be marketing, financial, operations, human resource, administrative and other kinds of managers.

A good manager must know about the industry the firm is in and all the technological, political, competitive, and social factors affecting that –industry. He or she must also understand the kind of people who work in the industry and what motivates them. Finally, a manager must be skilled in performing various managerial tasks, especially technical tasks, human relations tasks, and communications tasks.

The five skills you will need to develop your managerial potential are: verbal skills, writing skills, computer skills, human relations skills and technical skills.

Management then can be define as follows: Management is a set of activities, including planning and decision making, organizing, leading, and controlling, directed at an organization's human, financial, physical, and information resources, with aim of achieving organizational goals in an efficient and effective manner.

3. Marketing.

Marketing is a driving force in the modern economy. The American Marketing Association states that marketing is a process of planning, promotion, and distribution of goods and distribution of goods and services to create exchanges that satisfy individual and organizational objectives. This definition stresses the importance of beneficial exchanges that satisfy the objectives of both those who buy and those who sell.

For marketing to occur, at least four factors are required:

- two or more parties with unsatisfied needs;
- a desire and ability to meet them;
- a way for parties to communicate;
- something of value to exchange.

Having selected the target market consumer, the firm must take action and develop a complete marketing programmer to reach consumers by a combination of four levers often called the four P's or the marketing mix: **Product, Place, Promotion, and Price.** The marketing mix elements are called controllable factors because they are under the control of the marketing department in an organization. Environmental factors, also called uncontrollable variables, are largely beyond the organization's control. These elements include social, technological, economic, competitive, and regulatory forces. The **Product** area is concerned with the developing the "right" product for the target market. **Place** is concerned with all the decisions involved in getting the "right" product to the target market. A product is not much good to a consumer if it isn't available where and when it is wanted. **Promotion** deals with telling the target market about the "right" product. In addition to developing the "right" Product, Place, and Promotion, marketing managers must also decide the "right" **Price.** Is setting a price, they must consider the competition on the target market, the cost of the whole marketing mix, and the reaction to possible price.

The key concept of market selection and product planning is the **Product Life Cycle.** It predicts that any product pass through various stages between its life and death (introduction-growth-maturity-decline). So firm can make better marketing decisions if they find out where each of their products stands in its life cycle.

4. Advertising.

It is easy to say, "I am not influenced by adverts!" Everyone is influenced to a certain extent. There was recently some research on **subliminal advertising.** The world "coffee" was flashed onto the television screen. It happened so quickly that nobody was aware it had happened. For just a fraction of a second it registered on the viewer's subconscious. The result? A surprising number of people chose to make coffee at that precise moment. Of course, it could have been a coincidence but it was highly unlikely. Businesses need to advertise nobody would even learn of the existence of their **wares.** In business they spend billions on advertising, because for the typical manufacturer advertising is a form of insurance. Through advertising it is possible to soak up the surplus goods which have been produced. As a demand for a product **sags**, it can be stimulated.

Advertising is defined as the non-personal communication of information, usually paid for and usually **persuasive** in nature, about products or ideas by identified sponsors through various media.

Let's take this definition apart and analyze its components. Advertising is directed to groups of people, rather than to individuals, and is therefore non-personal. The groups, for example, might be teenagers who enjoy rock music or older adults who attend cultural events. In either case, advertising to these groups is not personal or face-to-face communication. Direct-mail advertising often attempts to personalize the message by inserting the receiver's name one or more times in the letter. But direct mail is still non-personal; a computer inserted the name. And the signature on the direct-mail advertisement is produced electronically.

Most advertising is paid for by sponsors. General Motors, Kmart, Coca-Cola, and the local supermarkets pay money to the media to carry the advertisements we read, hear, and see. But some ads are not paid for by their sponsors. The American Red Cross, United Way, and the American Cancer Society are only three of hundreds of organizations whose messages are **customarily** presented by the media at no charge as a **public service.**

Most advertising is intended to be persuasive – to win **converts** to a good, service, or idea. This is the area where advertising is often criticized. A company usually sponsors advertising to convince people its product will **benefit** them. Although it is illegal for advertisers to make untrue statements about their goods, services or prices, they still make their wares seem **unduly** attractive. They **pander** to our egos and our **vanity.** They create a demand which would not otherwise exist. Some ads, though, such as legal **announcements,** are intended merely to inform, not to persuade.

In addition to promoting **tangible** goods such as suits, soap, and **soft drinks,** advertising also helps sell the intangible services of bankers, **beauticians,** and bike repair shops. And increasingly, advertising is used to sell a wide variety of ideas – economic, political, religious, and social. It's important to note here that, **for the sake of simplicity,** in this text the term product refers to both goods and services.

For a message to be considered an advertisement, the sponsor must be identified. This seems obvious. Naturally, the sponsor usually wants to be identified – or else why pay to advertise? But a distinguishing characteristic between advertising and public relations is that certain public relations activities like publicity are normally not openly sponsored.

Advertising reaches us through various channels of communication referred to as the media. In addition to the traditional mass media – radio, television, newspapers and magazines – advertising also uses hoardings and billboards, which are an integral part of the urban landscape, as well as catalogues, circulars, sponsorship, skywriting, neon signs, product placement and endorsement, free samples and so on. The Internet is a new advertising medium.

As a marketing tool, advertising serves several functions:

- to identify and differentiate products;
- to communicate information about the product;
- to induce the trial of new products by new users and to suggest repurchasing by existing users;
- to stimulate a product's distribution;
- to increase product use;
- to build brand preference and loyalty;
- to lower the overall cost of sales.

Advertising may be classified by target audience (consumer, industrial), by geography (local, international), by medium (radio, newspaper, television), or by its function or purpose (product advertising, non-commercial advertising, action advertising).

What is an effective advertisement? It is one that attracts your attention. It is such an advertisement which keeps honest information about a product. It often has a clever and interesting picture or drawing, skilful use of colours. It is also put in the right place.

Apart from attracting your attention a good advertisement must hold your interest. What is more a really effective advertisement induces action. You simply go and buy this very product. In a word, a good advertisement sells the product.

QUESTIONS

1. What definitions of management do you know?
2. What are the four primary functions of management?
3. What should a good manager know?
4. What does the organizing function do?
5. What is meant by "control"?
6. What is meant by "verbal skills"?
7. What is marketing?
8. Who are prospective customers?
9. What are four factors for marketing to occur?
10. What is a target market?
11. What is the key concept of marketing selection and planning

Theme 4. Money and Banking.

Plan:

1. Money and its functions.
2. Banking.

1. Money and its functions.

Goods and services are exchanged for money and money is used to obtain other goods and services. Thus money is a medium of exchange. In many countries, the monetary system has been built on a base of precious metals such as gold and silver, but cowrie shells, salt and many other things can be, and have been, used as money. Now almost every society has a money economy based on coins and paper bills of one kind or another.

Although, as we see, anything can serve as money, as a practical matter the material should possess the following qualities:

- **Stability.** The value of money should be more or less the same today as tomorrow. In societies where value of money fluctuates (goes up and down) people will hoard it in the hope that its value will increase, or spend it immediately thinking it will be worth less tomorrow. Either action could be harmful to the economy.

- **Portability.** Modern money has to be small enough and light enough for people to carry. Bowling balls would not be a practical form of money.
- **Durability.** The material chosen has to have a reasonable life expectancy. For that reason most countries use a very high quality paper for their money.
- **Uniformity.** Equal denomination of money should have the same value. It's easy to see that if some quarters or dollar bills were worth more than others, things could be pretty confusing.
- **Divisibility.** One of the principal advantages of money over barter is its ability to be divided into parts. In other words, while making change for a dollar is easy, making change for a chicken is more difficult.
- **Reconcilability.** Money should be easily recognized for what it is and hard to copy. The quality if the paper and the engravings make paper money extremely difficult to counterfeit. We can also define money by what it does. So money serves as (1) a medium of exchange, (2) a measure of value, (3) a store of value, (4) a unit of account.
- **Money as a medium of exchange.** This is the simplest of the functions of money. Goods or services are exchanged for money and the money is used to obtain other goods and services. In a barter economy you must find someone who has what you want and wants what you have. In money economy people can sell what they have to anyone and use the money to buy what they want. Money, therefore, is the medium that enables exchanges to be made easily.
- **Money as a measure of value.** Since commodities are exchanged through the medium of money, their relative prices determine what one commodity is worth in terms of other commodity. A community's

valuation of this commodity or that will change as tastes and fashions change or as the community grows richer. The prices at which goods exchange for money and money exchanges for goods will reflect these changes. Money acts as a measure of value.

- **Money as a store of value.** All the early money commodities were very inadequate stores of value. Cattle or slaves might sicken and die. A good money material permits the possession of wealth the storing of value without loss. Of the modest forms of money, gold is still a very good store of value, but investments of one kind or another may make effective money substitutes as stores of value, since they yield an income which may offset the rising prices of other commodities.
- **Money as a unit of account.** If a man is in business, it is necessary for him to compute the values of the various stocks of goods that he possesses. These goods can be of different kinds and yet some common unit is needed in which to assess their value. Money, acting as a unit of account, can serve these purposes.

Currency is money in use in a country. Nowadays national currencies are considered to be as strong as the national economies which support are considered to be as strong as the national economies which support them. For example, today our Ukrainian currency "hryvnia" has value only because the Ukrainian government stands behind it.

2. Banking

The history of banking goes back thousands of years. The Babylonians performed many of the banking functions of today, taking deposits, engaging in foreign exchange, and issuing paper with the same function as checks. Over time, banks grew and prospered and became a vital part of the economy throughout the world.

The first bankers were goldsmiths. Several centuries ago, money consisted primarily of gold coins. Wealthy people found the amounts of gold they accumulated quite heavy. Looking around for safe places to store their wealth, people in medieval Europe thought of goldsmiths. Goldsmith made jewelry, gold statues, and other precious goods. Most goldsmiths were willing to store valuables for a small fee and issued receipts for the gold deposited with them. Buyers found it convenient to exchange these receipts instead of physically getting the gold, sellers were happy to take the receipts because they knew they could redeem them for gold whenever they wished. This was the beginning of checking accounts - the receipts issued by the goldsmiths were primitive demand deposits. Later on some goldsmiths found themselves in possession of large sums of money. Some of goldsmiths didn't want to keep money idle. They began to lend it at interest. At the same time the goldsmiths kept some part of money to meet possible withdrawals. It was an an early step in the development of banks.

Nowadays there are different banks. They may be classified according to different services they perform: (1) savings banks; (2) commercial banks; (3) investment banks; (4) trust companies.

Saving banks. These are institutions which accumulate savings on small accounts. They are also valuable sources of credit for businesses. Saving banks, as a rule, invest their funds in long-term credit instruments. That is why, most savings banks require their depositors to give notice before a withdrawal.

Commercial banks. In most countries commercials banks serve as a depository of funds and a source of credit. Today they are active in giving short-term loans to business. Commercial banks also deal in foreign exchange and letters of credit.

Investment banks. They do not accept checking deposits. They promote industry through the sale of large issues of stocks to investors.

Trust companies are such financial institutions which administer funds or property for the benefit of others. They serve as trustees for property or guardians of minors, or agents for stocks. In a world, they manage business in the interests of others.

Nowadays one can speak of a global banking system although banks, of course, continue to plan their local, more traditional roles opening and managing accounts, giving loans, and fulfilling all kinds of other operation to assist agriculture, industry and commerce.

Some of the basic terminology connected with banking includes interest rates (percentages that a bank earns by giving out loans), deposits, remittances, ets.

Out of the relatively new developments in banking is the industry of plastic cards. By issuing credit cards to individual clients and thus encouraging them to spend money, the banks tap the almost inexhaustible resources of the consumer sector.

QUESTIONS

1. Money and its functions.
2. Savings banks.
3. Commercial banks.
4. Investment banks.
5. Trust companies.

Theme 5. Economy of Ukraine. World economy.

Plan:

1. Economy of Ukraine.
2. World economy.

1. Economy of Ukraine

On August 24 1991 on the map of the world appeared a new independent state with a thousand-year-old history – Ukraine. To have an idea of Ukraine's economic potential, its resources, and define the scale of reforms which must be carried out let us acquainted with some objective data.

Ukraine is situated in the geographical centre of Europe. The country occupies a territory of 603.7 thousand sq kilometers. Ukraine's population is 47.6

million people. Occupying 0.45% of the globe's surface and being populated by 0.8 % of all earth's dwellers, Ukraine produces almost 5 % of the world's **output.** The country possesses a considerable economic, industrial and agricultural potential. It may be said to be an industrial-agricultural country, with 2/5 of people working in industry and about 1/5 working in agriculture. Most other Ukrainians have jobs in such service industries as education and health care.

Speaking about the industry of Ukraine, two branches should be mentioned as primary in importance. The machine-building is presently the largest branch of industry. It accounts for 1/3 of the national industrial output and employs about ¼ of Ukraine's workers. The Ukrainian machine-engineering industry manufactures diesel locomotives, railway cars, automobiles, tractors, missiles, sea and river vessels, as well as equipment for metallurgy, mining, textile industries, electric motors, and industrial robots. The country also supplies its domestics market with many household appliances, including refrigerators, washing machines, and TV-sets, among others. The ferrous metallurgy industry, centered in the Prydniprovya Economic Region, produces enough iron, cast iron, and steel to satisfy the needs Region produces enough iron, cast iron, and steel to satisfy the needs of the whole country, with more left over to export.

Mining occupies an important place in the economy of Ukraine. Speaking about Ukrainian mining, one thinks first of the coal mines of Donbas. But coal is not the only mineral mined in the Donetsk and Northeastern Economic Regions. They have rich mineral deposits and major industrial base with bias towards heavy industry. The Donetsk Basin contains plants producing zinc, plastics, soda and dyes. The area has the greatest concentration of power stations in Ukraine.

The Central, Podillya, Northwestern, Carpathian and Capital Economic Regions have supplies of metals and fuel, largest reserves of minerals and wood. But the top position is held by the sugar industry. Buses of the Lviv plant have won great popularity.

The Prychornomorya Economic Region is close to the sea. Its key sector is shipbuilding. Local factories produce machinery for the power industry, tractors and harvesters. There are many saline deposits for the chemical industry. Southern Ukraine is a large producer of grape wines, canned fruits and vegetables. Crimea has rich recreational resources.

Ukraine has always been associated with grain production. Grain harvests can be up to 50 million metric tons a year (Ukraine has long been referred to as "the bread basket of Europe"). That is natural because of the characteristics if the country's relief and climate. The territory of Ukraine is composed mostly of steppes and plains (over 95% of the land), and the country possesses 25% of all the black soil in the world. Another agricultural asset is the moderately continental climate with 300-600 millimeters of precipitation a year.

There are two main branches of agricultural production in Ukraine: crop production and animal husbandry. Crop production is the practice of growing and harvesting crops.

2. World economy.

The world is increasingly divided into trade blocks. The world's two most powerful economies, the United States and the European Union, have established links with neighboring countries and deny access to rivals. Other major trading countries, like the exporters in the Pacific Rim and big agricultural exporting nations, are creating looser trade groupings to foster their interests. The formation of free trade zones and blocks is one of the major issues facing the world economy. The main world's trade blocks are:

The European Union

The EU has become the most powerful trading block in the world with a GDP NOW exceeding that of the United States. Members: Austria, Belgium, Denmark, Finland, France, Germany, Greece, Ireland, Luxembourg, Netherlands, Portugal, Spain, Sweden, UK.

North American Free Trade Agreement (NAFTA)

The United States has linked with Canada and Mexico to form a free trade, and hopes to extend that to the rest of Latin America.

The ASIA – Pacific Economic Cooperation forum (APEC)

The APEC is a loose grouping of 21 countries who have agreed to facilitate free trade. Its members range from China and Russia to the United States, Japan and Australia, and accounts for 45% of world trade.

World trade is based on two considerations: the uneven distribution of economic resources among nations, and the fact that the efficient production of various goods requires particular techniques or combinations of resources.

The trade balance is computed as the difference between exports and imports: **Trade balance = exports-imports.**

On a global scale, imports must equal exports, since every good exported by one country must be imported by another.

Although the potential gains from world trade are perhaps clear, some producers have an interest in restricting international trade. Resistance to international trade arises from the fact that the imports mean fewer jobs and less income for some domestic industries. The means of restricting trade are many and divers.

Embargoes. The sure-fire way to restrict trade is simply to eliminate it. To do so, a country need only impose an embargo on exports or imports, or both.

Tariffs. One of the most popular and visible restrictions on trade is the tariff, a special tax imposed on imported goods. Tariffs, also called "custom duties" on imported goods make them more expensive to domestic consumers, and thus less competitive with domestically produced goods.

Quotas. Tariffs help to reduce the flow of imports by raising imports price. As an alternative barrier to trade, a country can impose quotas, restriction on the quantity of a particular good that may be imported.

Voluntary restrain agreement. The essence of these agreements is a promise to reduce the volume of trade: a "voluntary quota".

The World Trade Organization helps to promote free trade by persuading countries to abolish import tariffs and other barriers to open markets. The WTO was established in 1995 and numbers 144 countries with 30 more nations waiting to join.

QUESTIONS

1. Ukraine is an industrial-agricultural country, isn't it?
2. What are the main industries in Ukraine?
3. Which one is the largest?
4. What does machine-engineering produce?
5. What minerals are mined in this country?
6. What vegetables crops are grown in Ukraine?
7. How many economic regions is Ukraine divided into due to their natural and human resources, geographical position and historical development?

4. ITEMS FOR STUDY

1. Assume that a business firm finds its profit will be at a maximum when it produces *$40* worth of product A. Suppose also that each of the three techniques shown in the following table will produce the desired output.

Resource units required

Resource	*Price per unit of resource*	*Technique 1*	*Technique* 2	*Technique* 3
Labor	*$3*	5	2	3
Land	*4*	2	4	2
Capital	2	2	4	5
Entrepreneurial ability	2	4	2	4

a. With the resource prices shown, which technique will the firm choose? Why? Will production entail profit or losses? Will the industry expand or contract? When will a new equilibrium output be achieved?

b. Assume now that a new technique, technique 4, is developed. It combines 2 units of labor, 2 of land, 6 of capital, and 3 of Entrepreneurial ability. In view of the resource prices in the table, will the firm adopt the new technique? Explain your answer.

2. Choose the correct answer:

Market prices:

a. measure scarcity;

b. communicate information;

c. provide incentives;

d. all of the above.

3. Choose the correct answer. If the market price is below equilibrium, then:

a. there is excess;

b. there is excess supply;

c. consumers will want to raise the price;

d. firms will want to lower the price.

4. Match the definitions:

1. *Economy*	**a.** the production, distribution and sale of goods and services for a profit;
2. *Market*	**b.** the system by which a country's goods and services are produced and distributed;
3. *Business*	**c.** the activity of buying and selling goods and services, conducting transaction;
4. *Market economy*	**d.** an economic system in which major decisions concerning the allocation of resources is made by agencies of the government;
5. *Command economy*	**e.** economy that relies largely upon market forces to allocate resources and goods, and quantities of each, goods that will be produced;

6. *Traditional economy* — **f.** an economic system that allocates scarce resources according to custom.

5. Tick T (true) or F (false) sentences:

1. Marketing involves eight basic functions: buying, selling, transporting, financing, risk taking, and securing marketing information, storing, costing.
2. A single organization need not perform all of these functions; most often, some handled by manufacturers and others by resellers.
3. A supermarket performs the function of buying a variety of goods to make them available in different places.
4. A retailer handles the function of transporting these products to the supermarket.
5. Buying and selling are exchange functions.
6. Physical distribution functions are the activities required to get products to the customers who want them, including transporting and pricing goods.
7. Standardizations and grading ensure that products meet quality control standards.

6. Match the following terms with their definitions:

1. Top manager — a. managers beneath the levels of the hierarchy who are directly responsible for work of other managers below

2. Middle manager — b. managers at the lowest level in the hierarchy who are directly responsible for the work of operating employees.

3. First-line manager — c. managers at the very top levels of the hierarchy supervisors who are ultimately responsible for the entire organization.

7. What do you think about the following statements?

Business is not the art of having new ideas all the time. It is the art of using your new ideas sparingly, and in the right dosage, at the right moment.

(George Doriot, Harvard Business School)

Management, not bankers or stockholders, is the fundamental elements in industry. It is good management that draws credit that draws workers, that draws customers. Management is the permanent function of business

(Mary Parker Follent)

8. Match the following industries with the products they produce:

1. ferrous metallurgy	a. planes, spacecrafts, missiles
2. chemical industry	b. iron ore, silver, manganese ore, coal
3. machine engineering	c. chemicals, fertilizers, plastics, synthetic materials
4. mining industry	d. steel, iron, cast iron
5. automobile industry	e. locomotives, equipment for industries, ndustrial robots
6. food processing	f. motor vehicles, cars
7. cellulose paper industry	g. processed food products
8. aerospace industry	h. paper and paper products

9. Communicative situations:

Assume that you have just received your first scholarship. Describe how the concepts of scarcity and the need to make choice will affect the way in which you spend your money.

10.Explain: "Prices are the automatic regulator which tends to keep production and consumption in line with each other".

11.Discussion questions. In small groups of 3 or 4 students, discuss the following questions and try to formulate answers to them:

1. Is Ukraine's economy working efficiently? How do you know?
2. What aspects of the economy's operation are statistics available to show?
3. Do the indicators of the economic development in Ukraine have positive or negative dynamics?

12. Write an essay:

"The Economy of Ukraine in 50 Year's Time"

"EU and Ukraine: Striving for Closer Partnership"

"Economic Reforms to Be Implemented in Ukraine"

Explain:

12. What is the major issue facing the world economy?
13. What are the main trade blocks?
14. What is international trade?
15. What is the trade balance?
16. What is the WTO?

17. Group activities: get ready to the discussion, using the given situations:

1. Suppose lawyer can type faster than any secretary. Should the lawyer do her own typing? Can you demonstrate the validity of your answer?

2. Suppose we refused to sell goods to any country that reduced or halted its exports to us. Who would benefit and who would lose from such retaliation? Can you suggest alternative ways to ensure import supplies?

18. Tick T (true) or F (false) sentences:

1. The European Economic Community, or The Common Market, or the EEC was established in 1954 by the Treaty of Rome.

2. The original six member countries of the Community were Britain, West Germany, Belgium, Italy, Luxemburg, and the Netherlands.

3. The Community formed an enormous trading area of almost 250 million people, and accounted for two fifth of the world's trade.

4. All member countries contributed to a common budget for certain purposes, based on relative inflation, or GNP.

5. The EU economy is expected to grow further over the next decade as more countries join the union – especially considering that the new States are usually poorer than the EU average.

Explain:

19. What is production?

20. What are the aspects of production process?

21. How many stages are there in the production process of making products?

22. Explain the following statements:

a. Good economic policy requires good economic theory.

b. Generalization and abstraction are nearly synonymous.

c. Facts serve to sort out good and bad theories.

d. The other things equal assumption helps isolate key economic relationships.

23. Why is it significant that economics is not a laboratory science? What problems may be involved in deriving and applying economic principles?

24. Suppose the total demand for wheat and the total supply of wheat per month in the Kansas City grain market are as follows:

Thousands of bushels demanded	*Price per bushel*	*Thousands of bushels supplied*	*Surplus (+) or Shortage (-)*
85	$3.40	72	__________
80	3.70	73	__________
75	4.00	75	___________
70	4.30	77	___________
65	4.60	79	___________
60	4.90	81	___________

a. What is the equilibrium price? What is the equilibrium quantity? Fill in the surplus-shortage column and use it to explain why your answers are correct.

b. Graph the demand for wheat and the supply of wheat. Be sure to label the axes of your graph correctly. Label equilibrium price *P* and equilibrium quantity *Q.*

25. Discussion questions. Work in groups and discuss the following points:

- Time is money;
- Money is the root of all evil;
- Money is the guarantee of security;
- Every man has his price.

26. Suppose Continental Bank has the following simplified balance sheet and that the reserve ratio is 20 percent:

Assets (1) (2)	*Liabilities and net worth (1)(2)*
Reserves $22,000	*Demand deposits $ 100,000*
Securities 38,000	______________________________
Loans 40,000	________________________________

a. What is the maximum amount of new loans which this bank can make?

b. By how much has the supply of money changed? Explain.

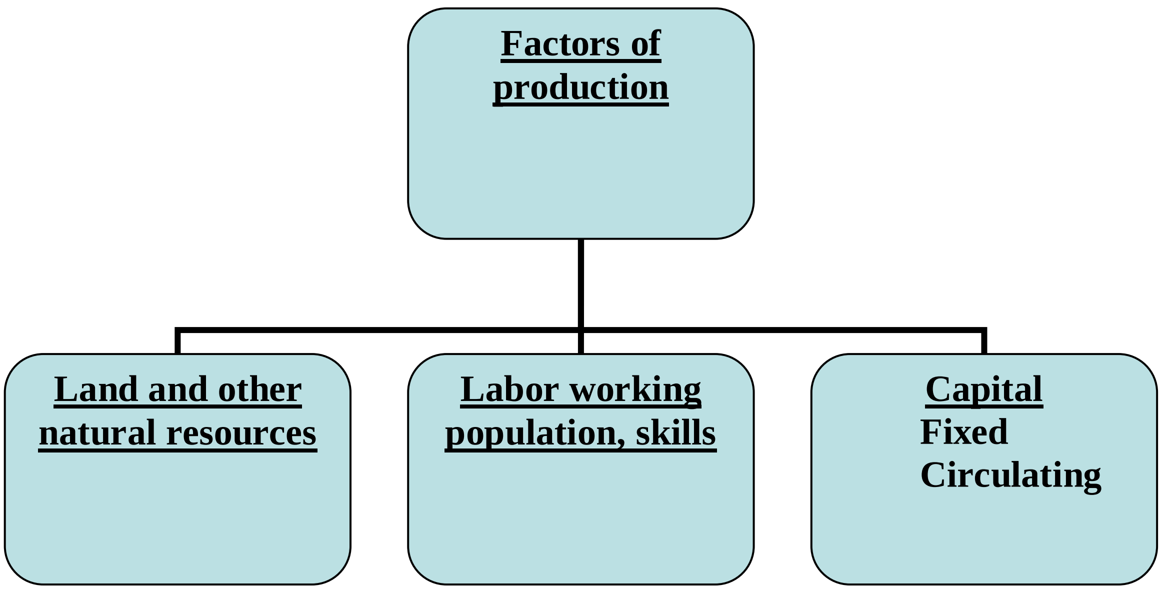
c. How will the bank's balance sheet appear after checks drawn for the entire amount of the new loans have been cleared against the bank? Show the new balance sheet in column 2.

27. When a commercial bank makes loans, it creates money; when loans are repaid, money is destroyed. Explain.

28. Why are commercial banks required to have reserves? Explain why reserves are an asset to commercial banks.

29. What is money is your opinion?

30. Answer the following questions



1. What are the factors of productions?
2. What do natural resources include?
3. What is rent?
4. What are the essential characteristics of land?
5. What is capital?

5. REPORTS' THEMES

1. Is the economics science?
2. The basic economic problem.
3. The economy of Ukraine.
4. Economics Indicators.
5. International trade.
6. The European Union.
7. Economic development of Great Britain.
8. Economic development of Nigeria.
8. Factors of production.
9. Demand.
10. Supply and price.
11. Market.
12. Monopoly and oligopoly.
13. Money and functions.
14. Banking.
15. What is the accounting?
16. What is auditing?
17. The Role of Computers in the medical Business.

18. Business etiquette.
19. Making the interview work. Application for a graduate trainee scheme.
20. Networking.
21. Researching the market.
22. Work/Life Balance.
23. What's in a contract?
24. What's in medical brand?
25. Advertising.
26. Managing the crisis.
27. Style house goes on-line.
28. The VAT man will be calling.
29. Is it worth registering?
30. From design to product.
31. Coopers is in financial trouble.
32. Pound or euro? Foreign exchange.
33. What is Pigouvian tax? Ethical investments are more popular than ever.
34. Getting to grips with exports.

5. LITERATURE

1. Microeconomics by Paul A. Samuelson and William D. Nordhaus McGraw – Hill, Inc. 1989 – 658 p.

2. Wikipedia encyclopedia, The Free Dictionary by Farlex, Inc.; 2005.

3. Bird, B. (1992) "The Roman God Mercury: An Entrepreneurial Archetype", Journal of Management Enquiry, vol. 1, no 3, September, 1992.

4. Business L. And Barney G. (1997) "Differences between entrepreneurs and managers in large organizations", Journal of Business Venturing, vol. 12, 1997

5. Cole, A. (1959) Business Enterprise in its Social Settings, Harvard University Press, Boston, 1959.

6. Collins, G. and More, D. (1970) The Organization Makers, Appleton – Centre – Crofts, New York, 1970.

7. Bauman Z. Glocalizacja, czyli komu Globalizacja, a komu lokalizacja // Studia socjol. – 1997. – Vol.7, №3. – P.53-69.

8.Hirst P., Thompson G. Globalization and the future of the nation state // Economy and society. – 1995. – Vol. 24, № 3. – P.408-422.

9. Lazarus N. Charting globalization // Race & class. – 1989/1999. – Vol. 40, №2/3. – P.91-109.

10. Economics: principles, problems, and policies / Campbell R. McConnell, Stanley L. Brue. – 14 th ed.

11. Mcmichael Ph. Globalization: Myths and realities // Rural and realities. – 1996. – Vol.1, №1. – P.25-55.

12. Perrot E. Panzer la mondialisation // Recherché de science religious. – 1998. – Vol.7, № 1. – P.15-40.

13. Nazarova T.V. Dictionary of General Business English Terminology. Moscow, 2002.

14. John Eastwood. Oxford Practice Grammar. Oxford University Press, 1999.

15. Lawrence W. Martin. Principles of Macroeconomics'.

16. W.W. Norton and Company. New York, London, 1993.

17. Leech Geoffrey, An A – Z of English Grammar and Usage, England? 2001

18. Swan Michael, Practical English Usage, Oxford University Press, 2003

19. Macmillan English Dictionary for Advanced Learners, 2002.

20. McClelland, D. The Achieving Society, Van Nostrand, Princeton NJ, 1961.

ADDITIONAL:

1. Плюхина З.А. Английский для бухгалтеров. - Москва, 2004
2. Португалов В.Д. Учебник по английскому языку. – Москва, 2003
3. Науменко Л.П. Business English Course. – Киев, 2004.

4. Ушакова В.Т., Синіцина Н.М. Ділова англійська мова для економістів. Навчальний посібник. – К., 2004.
5. Николаенко Т.Г. Тесты по грамматике английского языка. - Москва, 1997.
6. Карпусь И.А. Английский деловой язык. – К., 2003.
7. Шпак В.К. Англійська для економістів і бізнесменів. – К., 2004.
8. Рыжков В.Д. Менеджмент. Деловой английский язык. – Калининград, 1999.