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Рецензенти:
Царик О.М., доктор педагогічних наук, професор кафедри іноземних мов та інформаційно-комунікаційних технологій Західноукраїнського національного університету.
Баб'як Ж.В., кандидат педагогічних наук, доцент, завідувач кафедри української та іноземних мов Тернопільського національного технічного університету ім. І.Пулюя.

Відповідальний за випуск: Боднар О. І.

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Передмова

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TEXT 1: SCIENCE OF ECONOMICS AND THE FUNDAMENTAL ECONOMIC PROBLEM

Exercise 1. Read and translate into Ukrainian

Economics is the social science that studies how people satisfy seemingly unlimited and competing wants with the careful use of scarce resources. Economics is a broad subject that can be divided into two areas: *macroeconomics* and *microeconomics*.

Microeconomics is the branch of economics that tries to explain the behavior and decision-making of individuals and businesses. Like individuals, businesses must also make choices. They have to decide what to produce now, what to produce later, and what to stop producing. Societies and governments also must make choices about how to use their limited resources. **Macroeconomics** is the study of how these large groups make choices and is the branch of economic theory that deals with the economy as a whole.

People do not and cannot have enough income and time to get everything they want. Economists call this problem **scarcity**. Scarcity is the result of limited resources and unlimited wants. Scarcity is the basic economic problem of how to meet people's seemingly unlimited wants with scarce resources.

There is a difference between scarcity and shortages. Natural disasters can cause temporary shortages in food, energy, and other goods and services. Unlike shortages, scarcity is not temporary. Scarcity always exists because people have different and competing uses for resources, and at any one moment, there is only a certain amount of any one thing.

This basic problem affects almost every economic decision people make as buyers and as sellers. People's wants are unlimited but societies' resources are limited. When economists talk about people's unlimited wants, they are making a distinction between what people want and what they need. In economics, a **want** is something we would like to have but that is not necessary for survival, like a specific sneaker or particular type of house. A **need**, on the other hand, is a basic requirement for survival, such as food, clothing, and shelter. Since all resources are limited, everything that meets a need or a want has a **cost**. Even when it seems as if something is "free," someone has to pay to produce it. That cost is ultimately passed on to **consumers**. Economists use the term TINSTAAFL to describe this concept. It means There Is No Such Thing As A Free Lunch.

Because we live in a world of relatively scarce resources, we have to make careful economic choices about the way we use these resources. So the problem of scarcity forces every society to answer the basic questions of <u>what</u>, <u>how</u>, and <u>for whom</u> to produce.

The resources needed to produce goods and services are called **factors of production**. The four factors of production are land, labor, capital, and entrepreneurship. To economists, **land** is any natural resource not created by people.

Land includes water, animals, plants, minerals, and actual surface land —all things found in the natural world.

Labor is also a factor of production. Labor is the work that people do to produce goods and services. **Goods** are physical items that people can buy, such as books or clothes. **Services** are actions done by someone else that people can buy, such as house painting and babysitting.

Capital is another factor of production. Capital is the human-made goods used to make other goods and perform other services.

Capital, such as an assembly line, can increase productivity. Land, labor, and capital together greatly increase the value of a product. Think about which factors of production are needed to build a house.

It may be surprising that **entrepreneurship** is also a factor of production. Entrepreneurship is the ability of individuals to develop new products and businesses in order to make profits. Entrepreneurship requires initiative and willingness to take risks.

Some economists believe **technology** is the fifth factor of production. Technology is the use of science to create new products and new ways to produce and to distribute products. The four factors of production determine the **wealth** of countries and individuals.

TEXT 2: BASIC ECONOMIC CONCEPTS

Exercise 1. Read and translate into Ukrainian

Economic products command a price and satisfy wants and needs. Economic products include **goods** and **services**. A good is a tangible economic product that is useful, relatively scarce, and transferable to others. There are many types of goods. (**a capital good, a consumer good, durable and nondurable goods**). **Consumers** are the people who use, or consume, goods and services to satisfy their wants and needs.

Unlike a good, a **service** is an item that cannot be touched. A service is work or labor performed for someone else, such as the work performed by engineers, plumbers, or entertainers.

Value describes the monetary worth of a good or service as determined by the market. For a good or service to have value, it must be scarce and have utility. **Utility** is a product's ability to be useful and to provide satisfaction. People evaluate the utility of a particular good or service differently.

Economic growth is an increase in a nation's total output of goods and services over time. The most important influence of economic growth is productivity. **Productivity** is the measure of the amount of output of goods and services in a specific period of time. Productivity increases whenever more goods and services are produced with the same amount of resources. It is an increase in the circular economic flow.

When businesses or individuals have the desire, ability, and willingness to buy a product, they create **demand** for that product. Both the price and the amount of a certain good or services demanded at a specific time determine overall demand.

When the price of a good or service decreases, the quantity demanded increases. This is called the Law of Demand. The Law of Demand is a rule that states consumers will buy more of a product at a lower price and less of a product at a higher price.

Utility affects demand. **Utility** is the satisfaction consumers receive from a product. When consumers buy more than one of the same item, they receive additional satisfaction or usefulness from buying additional units of the product. The additional satisfaction is called marginal utility.

Elasticity is an economic measure that shows how a dependant variable, such as quantity demanded, responds to a change of an independent variable, such as price. One kind of elasticity is **demand elasticity**. It can be elastic, inelastic, or unit elastic. Demand is **elastic** when a change in price causes a significantly larger change in quantity demanded. This is when a **demand curve** shows a percentage change in quantity demanded that is greater than the percentage change in price. An elastic demand curve slopes gently downward from left to right. Fresh tomatoes are an example of a good that has elastic demand.

Demand is **inelastic** when a change in price causes a relatively small change in the quantity demanded. Demand is **unit elastic** when the percentage change in quantity demanded equals the percentage change in price.

Supply is the amount of a product offered for sale at all possible market prices. According to the Law of Supply, suppliers will offer more products for sale at higher prices than they will offer at lower prices. A change in quantity supplied is the change in amount offered for sale in response to a price change, or a movement along an individual or market supply curve. It is the interaction of both supply and demand that usually determines the final price of a product.

There are eight factors that affect supply. One is the **cost of resources**. Supply increases when there is a decrease in the cost of inputs such as labor, and there is a decrease when costs increase. Another factor is **productivity**. If workers work harder, output increases and the supply curve shifts to the right. If they do not work well, the curve shifts to the left. **New technology** is a factor because it usually causes supply to increase. Other factors include taxes and subsidies. **Taxes** are a cost of production, so supply decreases as taxes rise, and it increases as taxes fall. A **subsidy** is a payment by the government to encourage or protect a certain economic activity. It lowers production costs and leads to an increase in supply. Similar to consumers, producers have **market expectations** (the producers can expect their product's prices will rise or fall). **Government regulations** add to production costs and cause a decrease in supply. Relaxed regulations, however, lead to an increase. The **number of sellers** is a factor that only relates to the market supply curve. If more firms enter the market, supply increases, if they leave, supply decreases.

Supply elasticity is a measure of how the quantity supplied responds to a change in price. Supply is **elastic** if a price increase leads to a proportionally larger increase in production; **inelastic** if a price increase leads to a proportionally smaller increase in production; and **unit elastic** if a price increase leads to a proportional change in production. If a producer can quickly adjust to new prices, then supply is likely to be elastic. If it cannot, supply is likely to be inelastic. Unlike demand elasticity, the number of substitutes does not affect supply elasticity, and neither does the ability to delay purchases, nor the portion of consumers' income in relation to price.

TEXT 3: MICROECONOMICS

Exercise 1. Read and translate into Ukrainian

Microeconomics looks at the **behaviors** and activities of **individual households** and firms, the individual components that make up the whole economy; **hence**, the individual trees.

Microeconomics looks at the individual components on the economy, such as **costs of production**, **maximizing profits**, and the different market structures. Business firms are the **suppliers of goods and services**, and most firms want to make a profit; in fact, they want to maximize their profits. Firms must **determine the level of output** that will result in the greatest profits. Costs on production play a major role in determining this level on output. **Costs of production** include *fixed costs* and *variable costs*.

Fixed costs are costs that do not vary with the level of output, such as **rent** and **insurance premiums.**

Variable costs are costs that change with the level of output, such as **wages** and **raw materials**.

Therefore, ***total cost*** **equals** total fixed **costs** plus total variable costs ($TC = TFC + TVC$).

Marginal cost, which is the cost of producing on more unit of output, helps determine the level at which profits will be maximized. Marginal cost (MC) **measures** the change (D) in total cost when there is a change on **quantity** (Q) produced ($MC = DTC/DQ$). Firms must then decide whether they should produce additional quantities.

Revenue, the money a firm receives for the product it sells, is also a part of the **profit equation** because total revenue minus total costs equal profit ($TR – TC$ = profit).

Marginal revenue, which is the additional revenue that results from producing and selling one more unit of output, is also very important. As long as marginal revenue **exceeds** marginal cost, a firm can continue to maximize profits.

<u>There are four basic categories of market structures on which firms sell their products.</u>

Pure competition includes many sellers, a **homogeneous product**, easy entry and exit, and no **artificial restrictions** such as price controls. A pure competition market consists of a large number of buyers and sellers who exchange identical products; are able to act independently; are well-informed about the competition; and are free to enter into, conduct, or get out of business. Few markets meet all of these five conditions and yet perfect competition markets are ideal.

A monopoly is the opposite of pure competition and is characterized by a single firm with a unique product and **barriers to entry**. Products in this type of market are generally similar. Competitors, however, try to win sales through product differentiation by calling attention to the real or perceived differences between their products and competing products in the same industry. To make consumers believe that one product is better than a competitor’s, monopolistic competitors use nonprice competition, such as advertising, giveaways, or other promotions. A monopolistic competitor maximizes

profit by charging a higher price if they successfully convince consumers their product is better and different than another. There are four types of pure monopolies: natural, geographic, government, and technological. Natural monopolies occur when the government gives exclusive rights to companies that provide things like utilities. These companies are large and have many potential buyers, so they benefit from the economies of scale. A geographic monopoly occurs when a business is in a small and isolated market. Competitors do not enter the market since the potential profit is also small. A government monopoly is when the government itself provides goods or services (government patents and copyrights).

An oligopoly has few sellers, a homogeneous or a differentiated product, and barriers to entry such as **high start-up costs**. Where products are differentiated, non price competition occurs; that is, consumers **are persuaded** to buy products without **consideration of price**. An oligopoly exists when several sellers, who have some control over prices, dominate an industry. Companies set the prices on the basis of product differentiation instead of supply and demand. **Product differentiation** means consumers choose one product over another by the product's perceived or real value versus price alone. In an oligopoly, companies are interdependent. Whatever one company does, other companies follow. Sometimes businesses within an oligopoly hope to monopolize the market by acting together like one company. The businesses might decide to decrease production, which would create a shortage, increase demand, and raise prices. When businesses within an oligopoly work together, it is called a **cartel.** Cartels can control the prices, production, and distribution of their products. Cartels are illegal in the United States and punishable by heavy fines and even time in prison.

The fourth market structure is ***monopolistic competition***. It includes many sellers, differentiated products, easy entry and exit, and **non price competition**. In monopolistic competition, there are a large number of sellers who have similar products that are slightly different. This is the most common market structure in the United States. In this type of competition, each business has some control over prices.

TEXT 4. MACROECONOMICS

Exercise 1. Read and translate into Ukrainian

Macroeconomics is the study of the **behaviors** and activities of the economy as a whole; **hence**, the **forest**. Macroeconomics, the study of the behaviors and activities of the economy as a whole, looks at such areas as **the Federal Reserve System**, **unemployment**, **gross domestic product**, and **business cycles**.

The Federal Reserve System's most important function is to control **the supply of money in circulation**. **Monetary policies** made by the Federal Reserve System's **Board of Governors** have a **tremendous impact** on the total economy. These policies influence such factors as the amount of money member banks have available **to loan, interest rates**, and **the overall price level of the economy**. Three ways in which the Federal Reserve Board regulates the economy are by changing reserve requirements, changing **the discount rate**, and buying and selling **government securities**.

Macroeconomists also study *unemployment*, which simply defined is a very large **work force** and a small **job market**, to determine methods to control this serious economic problem. The U.S. Department of Labor **estimates** the level of unemployment in the economy by using results from monthly surveys conducted by **the Bureau on the Census**.

Unemployment means lost production for the economy and loss of **income** for the individual. One type on unemployment is **frictional unemployment**, which includes those people who are not employed because they have been **fired** or have **quit** their job. Cyclical unemployment follows the cycles of the economy. For example, during a **recession**, spending is low and workers are **laid off** because production needs are reduced. Structural unemployment occurs when a job is left **vacant** because a worker does not have the necessary skills needed or a worker does not live where there are available jobs. Home unemployment is due to seasonal factors; that is, employees **are hired** only during certain times of the year. To help **lessen** the problem of unemployment, the government can use its powers to increase levels of spending by consumers, businesses, and the government itself and by lowering taxes or giving tax incentives, which makes available more money with which **to purchase goods and services**. This in turn puts more laid-off workers back to work. The Federal Reserve System can also increase spending by lowering **interest rates**.

Total economic spending, which includes consumer, business, and government spending, determines the _______of the ***gross domestic product*** (GDP), which is the market value of all final products produced in a year's time. GDP is one of the most commonly used **measures of economic performance**. An increasing GDP from year to year shows that the economy is growing. The nation's policy makers look at past and present GDPs to formulate policies that will contribute to **economic growth**, which would result in a steady increase in the production on goods and services. If GDP is too high or growing too rapidly, inflation occurs. If GDP is too low or **decreasing**, on

increase in unemployment occurs. **Fluctuations** in total economic activity are known as **business cycles**, and macroeconomists are concerned with understanding why these cycles occur. Most unemployment and inflation **are caused by** these fluctuations.

There are four phases of the *business cycle:* **prosperity (peak), recession, trough,** and **recovery**. **The length and duration** of each cycle varies. From its highest point, prosperity, to its lowest point, trough, and these phases are marked by increases and decreases in GDP, unemployment, **demand for goods and services**, and **spending**.

TEXT 1: STARTING A BUSINESS

Exercise 1. Read and translate into Ukrainian

Business is an increasingly important activity throughout the world today.
How do people start a business? First, people think of ways to use their knowledge and abilities to provide a product or a service that fills a need or a want. These people are **entrepreneurs**. They are willing to take risks, make decisions, organize, and manage how the business operates. Dreams of big profits, being his or her own boss, or creating something motivate entrepreneurs. For instance, say that you are creative, good at making accessories, and love animals. You decide to start a business making special pet collars.

Once an entrepreneur has an idea, he or she has to turn it into a profit-making business. So your first step is to decide if you are going to be in business on your own, with a partner, or as a corporation. You also need to gather your factors of production. What materials or tools do you need to get started?

Entrepreneurs research the market in which they will sell their product, including potential consumers, competitors, and government regulations. Luckily, they can seek help from the Small Business Association, a small-business incubator, or even the Internet.

Every business must manage **four important areas** — expenses, record-keeping, advertising, and risk. Expenses, or cost of running a business, vary depending on the business.

For example, to produce pet collars, you might need materials (leather, fabric, buckles, rhinestones, pet tags, etc.) and tools (grommet kit, glue gun, scissors, etc.).You could buy materials only as you need them, or you could keep an inventory of extra supplies. Other expenses may include rent, insurance, taxes, utilities, and wages.

An efficient record-keeping system allows a business owner to track funds as they flow into and out of the business account. The receipts are the income that a business takes in from sales.

The receipts pay for expenses, including the owner's wage and all taxes. The remaining funds are the profit. Today, affordable computer software programs help to keep detailed records. The software can create reports that show profits and losses or net worth (the difference between what you own and what you owe). Accurate record keeping is also necessary to do your taxes. The government taxes your net business income, which is your total sales income minus any legitimate business expenses.

Consumers will learn about your product through advertising. When choosing how to advertise, consider both the cost and the type of consumer you are trying to reach. A good choice for your new pet-collar business might be to post flyers around your neighborhood. As the business grows, you might place an ad in a magazine or an online newsletter for pet owners.

All entrepreneurs take risks. When people start businesses, they might give up jobs, savings, or further education in the hopes of making more money in the future

through wages and profits. Of course, a business's success is not guaranteed. Each dollar and hour invested in a business must be recouped in sales.

Every business begins with a person who has an idea about how to earn money and the drive to follow through on the idea and to create a business organization. A business organization is an enterprise that produces goods or provides services. Most of the goods and services available in a market economy come from business organizations. The purpose of most business organizations is to earn a profit. They achieve this purpose by producing the goods and services that best meet consumers' wants and needs. In the course of meeting consumer demand, business organizations provide jobs and income that can be used for spending and saving. Business organizations also pay taxes that help finance government services.

There are three basic legal forms of business organization: sole proprietorships, partnerships, and corporations.

Proprietorship. A sole proprietorship is a business owned by one person. This form of organization gives the individual a means of controlling the business apart from his or her personal interests. Legally, however, the proprietorship is the same economic unit as the individual. The individual receives all profits or losses and is liable for all obligations of the business. Proprietorships represent the largest number of businesses in the United States, but typically they are the smallest in the size.

Partnership. A partnership is like proprietorship in most ways except that it has more than one owner. A partnership is not a legal entity separate from its owners; it is an unincorporated association that brings together the talents and resources of two or more people. The partners share the profits and losses of the partnership to another party, and, if necessary, the personal resources of each partner can be called on to pay the obligations of the partnership. In some cases, one or more partners limit their liability, but at least one partner must have unlimited liability. A partnership must be dissolved when ownership changes.

Corporations. A corporation is a business unit that is legally separate from its owners (the stockholders). The owners, whose ownership is represented by shares of stock in the corporation, do not control the operations of the corporation directly. Instead, they elect the board of directors, which appoints managers to run the corporation for the benefit of the stockholders. In exchange for limited involvement in the corporation's actual operations, stockholders enjoy limited liability. That is, their risk of loss is limited to the amount they paid for their shares. If they want, stockholders can sell their shares to other people, without affecting corporate operations. Because of this limited liability, stockholders often are willing to invest in riskier, but potentially more profitable, activities. Also, because ownership can be transferred without dissolving the corporation the life of the corporation is unlimited.

TEXT 2: SOLE PROPRIETORSHIPS

Exercise 1. Read and translate into Ukrainian

The most common form of business organization in the United States is the **sole proprietorship** or **proprietorship** — a business owned and run by a single individual. Because proprietorships are basically one-person operations, they comprise the smallest form of business and have the smallest fraction of total sales. They are also relatively profitable, as they bring in about one-fifth of the total profits earned by all businesses.

The sole proprietorship is the easiest form of business to start because it involves almost no requirements except for occasional business licenses and fees. Most proprietorships are ready for business as soon as they set up operations. You could start a proprietorship simply by putting up a lemonade stand in your front yard. Someone else could decide to mow lawns or open a restaurant. A proprietorship can be run on the Internet, out of a garage, or from an office in a professional building.

Advantages

As you have learned, a sole proprietorship is easy to start up. If someone has an idea or an opportunity to make a profit, he or she only has to decide to go into business and then do it. Management also is relatively simple. Decisions do not require the approval of a co-owner, boss, or other "higher-up." This flexibility means that the proprietor can make an immediate decision if a problem comes up. *A third advantage* is that the owner can keep the profits of successful management without having to share them with other owners. The owner also has to accept the possibility of a loss, but the lure of profits makes people willing to take risks.

Fourth, the proprietorship does not have to pay separate business income taxes because the business is not recognized as a separate legal entity. The owner still must pay individual income taxes on profits taken from the sole proprietorship, but the business itself is exempt from any tax on income.

Another advantage of the proprietorship is the psychological satisfaction many people get from being their own boss. These people often have a strong desire to see their name in print, have dreams of great wealth or community status, or simply want to make their mark in history.

A sixth advantage is that it is easy to get out of business. All the proprietor has to do is pay any outstanding bills and then stop offering goods or services for sale.

Disadvantages

The main disadvantage of a proprietorship is that the owner of the business has unlimited liability. This means that the owner is personally and fully responsible for all losses and debts of the business. If the business fails, the owner's personal possessions may be taken away to satisfy business debts.

A second disadvantage of a proprietorship is the difficulty of raising financial capital. Generally, a large amount of money is needed to set up a business, and even more may be required for its expansion. However, banks and other lenders are often reluctant to lend money to new or very small businesses. As a result, the proprietor

often has to raise financial capital by tapping savings, using credit cards, or borrowing from friends and family.

The size and efficiency of a proprietorship also are *disadvantages*. A retail store, for example, may need to hire several employees just to stay open during normal business hours. It may also have to carry a minimum inventory - a stock of finished goods and parts in reserve - to satisfy customers or to keep production flowing smoothly. Because of limited financial capital, the proprietor may not be able to hire enough personnel or stock enough inventory to operate the business efficiently.

A fourth disadvantage is that the proprietor often has limited managerial experience. The owner-manager of a small company may be an inventor who is highly qualified as an engineer but lacks the “business sense” or the time needed to oversee the growth of the company. This owner may have to hire others to do the types of work - manufacturing, sales, and accounting - at which he or she is not an expert.

A fifth disadvantage is the difficulty of attracting qualified employees. Because proprietorships tend to be small, employees often have to be skilled in several areas. In addition, many top high school and college graduates are more likely to be attracted to positions with larger, well established firms than small ones. This is especially true when larger firms offer fringe benefits - employee benefits such as paid vacations, sick leave, retirement, and health or medical insurance - in addition to wages and salaries.

A sixth disadvantage of the sole proprietorship is limited life. This means that the firm legally ceases to exist when the owner dies, quits, or sells the business.

TEXT 3: PARTNERSHIPS

Exercise 1. Read and translate into Ukrainian

A **partnership** is a business co-owned by two or more people, or “partners,” who agree on how responsibilities, profits, and losses will be divided. Forming a partnership might be a good business decision.

Like a proprietorship, a partnership is relatively easy to start. Because more than one owner is involved, formal legal papers called articles of partnership are usually drawn up to specify arrangements between partners. Although not always required, these papers state ahead of time how the expected profits (or possible losses) will be divided. The articles of partnership may specify that the profits be divided equally or by any other arrangement suitable to the partners. They also may state the way future partners can be added to the business, and the way the property of the business will be distributed if the partnership ends.

Partnerships are found in all kinds of businesses, from construction companies to real estate groups. However, they are especially widespread in the areas of professional and financial services law firms, accounting firms, doctors’ offices, and investment companies.

Types of Partnerships

There are several different types of partnerships: *general partnerships, limited partnerships, and limited liability partnerships***,** but they are all run in the same general way.

The most common form of partnership is a ***general partnership***, in which all partners are responsible for the management and financial obligations of the business. In a ***limited partnership***, at least one partner is not active in the daily running of the business. Likewise, the limited partner only has limited responsibility for the debts and obligations of the business.

Advantages

Like the sole proprietorship, *one advantage* of the partnership is its ease of startup. Even the costs of the articles of partnership, which normally involve attorney fees and a filing fee for the state, are minimal if they are spread over several partners. Ease of management is *another advantage*. Each partner usually brings a different area of expertise to the business: one might have a talent for marketing, another for production, another for bookkeeping and finance, and yet another for shipping and distribution. While partners normally agree ahead of time to consult with each other before making major decisions, partners generally have a great deal of freedom to make minor ones.

A third advantage is the lack of special taxes on a partnership. As in a proprietorship, the partners withdraw profits from the firm and then pay individual income taxes on them at the end of the year. Partners have to submit special schedules to the Internal Revenue Service detailing their profits from the partnership, but this is for informational purposes only and does not give a partnership any special legal status.

Fourth, partnerships can usually attract financial capital more easily than proprietorships. They are generally larger and have a better chance of getting a bank loan.

The existing partners could also take in new partners who bring financial capital with them as part of their price for joining.

A fifth advantage of partnerships is the more efficient operations that come with their slightly larger size. In some areas, such as medicine and law, a relatively small firm with three or four partners might be just the right size for the market. Other partnerships, such as accounting firms, may have hundreds of partners offering services throughout the United States.

A sixth and final advantage is that partnerships often find it easier to attract top talent than proprietorships. Because most partnerships offer specialized services, top graduates seek out stable, well-paying firms to apply their recently acquired skills.

Disadvantages

The main disadvantage of the general partnership is that each partner is fully responsible for the acts of all other partners. If one partner causes the firm to suffer a huge loss, each partner is fully and personally responsible for the loss. This is similar to the unlimited liability feature of a proprietorship, but it is more complicated because more owners are involved. As a result, most people are extremely careful when they choose a business partner. In the case of the limited partnership, a partner's responsibility for the debts of the business is limited by the size of his or her investment in the firm. If the business fails and debts remain, the limited partner loses only the original investment, leaving the general partners to make up the rest.

Another disadvantage is that the partnership, like the proprietorship, has limited life. When a partner dies or leaves, the partnership must be dissolved and reorganized. However, the new partnership may try to reach an agreement with the older partnership to keep its old name.

A third disadvantage is the potential for conflict between partners. Sometimes partners discover that they do not get along, so they have to either learn to work together or leave the business. If the partnership is large, these types of problems can easily develop, even though initially everyone thought they would get along.

TEXT 4: CORPORATIONS

Exercise 1. Read and translate into Ukrainian

Corporations are the third main kind of business organization. A corporation is a business owned by individuals, called shareholders or stockholders. The shareholders own the rights to the company's profits, but they face limited liability for the company's debts and losses. These individuals acquire ownership rights through the purchase of stock, or shares of ownership in the corporation.

For example, suppose a large company sells a million shares in the form of stock. If you bought 10,000 shares, you would own 1 percent of the company. If the company runs into trouble, you would not be responsible for any of its debt. Your only risk is that the value of your stock might decline. If the company does well and earns a profit, you might receive a payment called a dividend, part of the profit that the company pays out to stockholders.

A corporation that issues stock that can be freely bought and sold is called a public company. One that retains control over who can buy or sell the stock is called a private company. Corporations make up about 20 percent of the number of businesses in the United States, but they produce most of the country's goods and services and employ the majority of American workers.

A corporation, unlike a partnership or sole proprietorship, is a formal, legal entity separate from the individuals who own and run it.

Setting up a corporation involves more work and expense than establishing a sole proprietorship or partnership.

Corporations: Advantages and Disadvantages

The advantages of corporations often address the major disadvantages of sole proprietorships and partnerships. For example, corporations are more effective than either of the other business structures at raising large amounts of money. The key methods of raising money are the sale of stock and the issuing of bonds. A **bond** is a contract the corporation issues that promises to repay borrowed money, plus interest, on a fixed schedule. Also, unlike sole proprietorships and most partnerships, corporations provide their owners with **limited liability**, which means that the business owner's liability for business debts and losses is limited. Further, corporations have **unlimited life,** they continue to exist even after a change in ownership. Sole proprietorships and partnerships do not.

Most of the disadvantages of corporations are related to their size and organizational complexity. Corporations are costly and time-consuming to start up; they are governed by many more rules and regulations; and, because of the organizational structure, the owners may have little control over business decisions. Despite these drawbacks, corporations can be efficient and productive business organizations.

TEXT 5: COMPANY STRUCTURE

Exercise 1. Read and translate into Ukrainian

Most organizations have a hierarchical or pyramidal structure, with one person or a group of people at the top, and an increasing number of people below them at each successive level. There is a clear line or chain of command running down the pyramid. All the people in the organization know what decisions they are able to make, who their superior (or boss) is (to whom they report), and who their immediate subordinates are (to whom they can give instructions).

Some people in an organization have colleagues who help them: for example, there might be an Assistant to the Marketing Manager. This is known as a staff position: its holder has no line authority, and is not integrated into the chain of command, unlike, for example, the Assistant Marketing manager, who is number two in the marketing department.

Yet the activities of most companies are too complicated to be organized in a single hierarchy. Shortly before the First World War, the French industrialist Henry Fayol organized his coal-mining business according to the functions that it had to carry out. He is generally credited with inventing **functional organization**. Today, most large manufacturing organizations have a functional structure, including (among others) production, finance, marketing, sales, and personnel staff departments. This means, for example, that the production and marketing departments cannot take financial decisions without consulting the finance department.

Functional organization is efficient, but there are two standard criticisms. Firstly, people are usually more concerned with the success of their department than that of the company, so there are permanent battles between, for example, finance and marketing, or marketing and production, which have incompatible goals. Secondly, separating functions is unlikely to encourage innovation.

Yet for a large organization manufacturing a range of products, having a single production department is generally inefficient. Consequently, most large companies are decentralized, following the model of Alfred Sloan, who divided General Motors into separate operating divisions in 1929. Each division had its own engineering, production and sales departments, made a different category of car (but with some overlap, to encourage internal competition), and was expected to make a profit.

Businesses that cannot be divided into autonomous divisions with their own markets can simulate decentralization, setting up divisions that deal with each other using internally determined transfer prices. Many banks, for example, have established commercial, corporate, private banking, international and investment divisions.

An inherent problem of hierarchies is that people at lower levels are unable to make important decisions, but have to pass on responsibility to their boss. On solution to this is matrix management, in which people report to more than one superior. For example, a product manager with an idea might be able to deal directly with managers responsible for a certain market segment and for a geographic region, as well as the

managers responsible for the traditional functions of finance, sales and production, This is one way of keeping authority at lower levels, but it is not necessarily a very efficient one. Thomas Peters and Robert Waterman, in their well-known book In Search of Excellence, insist on the necessity of publishing authority and autonomy down the line, but they argue that one element-probably the product-must have priority; four-dimensional matrices are far too complex.

A further possibility is to have wholly autonomous, temporary groups or teams that are responsible for an entire project, and are split up as soon as it is successfully completed. Teams are often not very good for decision-making, and they run the risk of relation problems, unless they are small and have a lot of self-discipline. In fact they still require a definite leader, on whom their success probably depends.

TEXT 1: MANAGEMENT AND PLANNING

Exercise 1. Read and translate into Ukrainian

Global competition is literally changing how U.S. organizations are managed, both at home and abroad. Some of the factors that contribute to changes in management techniques are ever-advancing technology, shorter product life cycles, and high-speed communications. Time factors in all areas of business are getting shorter and shorter.

All of these changes add up to a new business environment that is forcing managers to replace old management styles with new ones. This new approach stresses constant, on-going communication, which, in turn, produces extremely high levels of employee involvement; flexible organizational structures that adapt to market changes; inspiring leadership at all levels; on-going staff-development programs; design-control procedures which are understandable and acceptable to everyone in the firm.

What we are talking about here is a shift in management values.

Although the old values of honesty, trust, and hard work are certainly still valid, to be truly effective, the new international manager must be a visionary who is able to convince everyone in the firm of the need to realize specific organizational objectives. Commitment is becoming a very important watchword in the business world.

Planning

The management of an international firm must utilize many of the planning methods. The managers of an international organization must be sure that their plans fit in with the distinct cultures of the member countries in which they are doing business. Company strategies must be planned and developed not only to fit the competition but also to account for the competitive playing field.

Long-term strategic planning is generally done worldwide; however, the length, amount of detail, and degree of flexibility of these strategic plans do vary. International companies as a whole need to think and plan on more of a long-term basis. Typically, U.S. firms plan three to five years ahead for short-term results, and their current losses to competitors are proof of the lack of effectiveness of this approach.

Thomas Mandel, a consultant at Business Future Program at SRI International in California, estimates that the demand for advice on how to plan and develop business strategies beyond the year 2000 is growing at a rate of 20 percent per year. The main reason for this growth, Mandel says, is that, «In such an unstable environment, people get anxious». The antidote to anxiety is long-term planning, which requires the cultivation of what one futurist calls «the art of conjecture».

The role of the government in a firm's planning process can also be a major factor to contend with in the business world. In countries such as India, the array of government regulations and **bureaucracies** is very large and must be considered in a foreign investor's planning process.

TEXT 2: ORGANIZING

Exercise 1. Read and translate into Ukrainian

The way in which managers organize U.S. companies so that they can compete successfully on a global basis is also going to require a major overhaul. The rate of change is accelerating so quickly that a U.S. organization must be designed to adjust and adapt to an alteration in the business environment very quickly and easily, regardless of its location. Organizing for this kind of change sometimes resembles total chaos rather than a nice, tightly controlled business operation.

Years ago, when a firm decided to compete on a global basis, management usually set up «clones» of itself in foreign countries. This style of international management is becoming quite obsolete because it fails to utilize all of the firm's capabilities worldwide.

The new international management model organizes all of the divisions of a company into one company worldwide. For instance, when Whirlpool Corporation purchased the $1 billion European appliance manufacturer N.V. Phillips in 1989, corporate management transformed the two companies into one large global firm. As a result, the new Whirlpool set the pace and the price structure for the global appliance industry.

However, new products may still need some variations to accommodate special local market needs worldwide. If product-development specialists from every country in the company are consulted, common basic models can be designed that utilize the best product technologies and manufacturing processes. For example, Whirlpool recently won a contest sponsored by a group of U.S. utility companies for developing a new, super-efficient, chlorofluorocarbon-free refrigerator. The developing of this new product was worldwide. The insulation technology from its Brazilian affiliates; and the manufacturing and design expertise from its U.S. affiliates.

The management of an international firm must also create a whole new organizational style that is extremely responsive to foreign customers, employees, and suppliers. This organizational style is becoming popular in the United States as well. For example, at the Campbell Soup plant in Maxton, North Carolina, virtually every employee has been trained in Deming's statistical process-control methods. The business then utilizes self-managed teams that meet with vendors and set their own schedules. These teams even propose capital expenditures, complete with internal rates of return. For example, one team was allowed to purchase a new $112,000 machine to process celery, which has a 30-percent rate of return; a 16-percent increase in productivity resulted in one year.

Obviously, international organizational structures must redesign their communication systems to reflect the decision-making process, with increased amounts of participation at all levels, increased flexibility to respond to rapid changes in the business environment, and instituted control procedures that vary from very loose to strict control. Perhaps the toughest job facing international managers is to realize that

they will have to manage differently in a foreign country if they are going to be as successful abroad as they are at home.

Every person in every country feels that his or her way of doing business is right. The only way to make the entire company more efficient is to show management why and how the company - and everyone in it - benefits from this new organizational style. To do this, top management must communicate with employees continuously and get them involved so they can see the results first-hand. There must also be financial incentives and other «rewards» to help encourage all employees and managers to reach for new goals.

TEXT 3: STAFFING

Exercise 1. Read and translate into Ukrainian

Staffing is a critical function of any organization. Management must realize that no matter where in the world their firm is doing business, competitors can **replicate** its technology, copy its products, **generate large sources of capital**, and even duplicate its marketing programs. The one true difference between competing firms is the quality of their **human resources**.

Top management is going to have to do a better job of selecting **highly skilled managers** and employees and developing them to their **utmost potential**. Only then will a firm be able to gain a true long-term competitive **edge**. When staffing **overseas**, the management of a firm must be aware of **the national labor laws**. For example, managers at Findley Adhesives, Inc., in Wauwatosa, Wisconsin, found the company was required to pay a Swedish employee three months **severance pay** after he was fired from its plant in Sweden.

The question of whether to send an American manager abroad or to hire a foreign national for the position can also be a difficult one. It is always helpful to have a manager **in charge of** a foreign business who is well-known to the **parent company**, but there usually is to price to be paid for this **arrangement**. Most firms must offer salary **incentives** and cost-of-living adjustments, which can be very expensive. The Allen Bradey Company estimates these costs at $200,000 per year. Also, about one-quarter of all managers who are sent abroad experience personal problems that cause them to cut short their **overseas assignments**. In a **recent survey** of 50 Fortune 500 firms, it was found that companies selected employees for assignments abroad on the basis of their technical expertise 90 percent of the time. However, the personal characteristics that show the highest success rate overseas are **cultural sensitivity, interpersonal skills, adaptability, flexibility, previous overseas experience,** and interest**.**

Hiring a native or a foreign national to run a company abroad is a good way to **acquire knowledge** about the local market in question. The main problem here is how to attract a competent national, especially if the firm is not very large or particularly well known. Despite this problem, many human-resource experts in international staffing agree that it is better for must firms to send only a few **expatriates** to develop local talent. This reduces costs and leads to fewer cross-cultural problems.

Finally, hiring foreign nationals may be quite difficult for American employers. Some countries require that a **certain percentage** of foreign nationals make up the **labor force** of an international firm. Some countries, like Russia, have labor shortages due to **declining birth rates**. Also, it is difficult to find trained or educated employees in some countries.

TEXT 4: LEADING AND CONTROLLING

Exercise 1. Read and translate into Ukrainian

Good leadership is an extremely important attribute if a business firm is going to be competitive, much less dominate foreign markets. First and foremost, the managers of the new international organization must realize that the particular leadership style that motivates employees to honesty commit themselves to the firm varies tremendously, depending on the culture of the foreign country. To generate this type of commitment, management must

• Know what style of leadership the employees expect and what style they are willing to accept. In France, for example, managers tend to be quite Napoleonic and discourage informal relations among employees. In contrast, Italian managers tend to be quite flexible and view informal employee networks as very important. German managers tend to «go by the book» and are usually quite regimented. Whatever management style is employed, it must be acceptable to the employees.

• Recognize that the type of employee-incentive system used in the United States is typically not as effective in Europe or Japan. Most employees in these countries feel that additional economic incentives, such as bonuses, are not as important as the provision of a good, stable place of employment that offers competitive salary and benefits packages.

• Encourage employees to accept participative management in the «right spirit». Employee participation in managerial decisions is essential only in some countries, including Japan, Sweden, and the United States. Managers should carefully suggest or request that employees help to implement a particular management approach and take an honest interest in their attitudes and views. Participative management can help to develop team spirit and make the solution to a problem everybody's idea.

The effectiveness of leadership is clearly shown in the case of Jaguar, the British automobile manufacturer. In the early 1980s, Jaguar was in trouble in the marketplace. Then Jaguar brought in new leadership in the form of a chief executive officer named John Egan.

In a desperate bid for survival, Egan went to the employees and explained the current problems at Jaguar and what management was planning to do to try and solve them. But most important, he asked for their help and their input. Egan established weekly briefings to keep communication channels open and used films to demonstrate to employees what problems customers and dealers were complaining about. He also cut back on the number of inspectors to try to show the employees that he had faith in their ability to solve these problems on their own. Finally, new bonus schemes linked to productivity were instituted as well as a new attitude on the part of managers toward the employees.

The results have been truly remarkable. Manager-employee relations are now very cordial. Today, Jaguar is the number-two selling European import, second only to Mercedes in the U.S. automobile market.

A new type of control system is required as a company becomes more and more involved in global competition. When faced with shorter product life cycles worldwide and other environmental changes, control in any country is eventually going to have to come from within the individual employees. Although the items that are most tightly controlled will vary, the basic control system is workable in most countries.

For example, at Nixdorf AG, a German computer manufacturer, lower-level managers are allowed to «wheel and deal» as they like as long as they stay within general corporate guidelines. As the head of their human-resource department puts it, «We are a strongly market-oriented company ... operating in a competitive environment that has extremely short time spans for decision making».

Managers at Nixdorf need and are given dome freedom to decide how much to pay a new employee, based on their need and the value of the person to the company. Also, managers are encouraged to take initiatives without fear of recrimination. One example of this occurred during the 1970s, when a group of managers and employees tried to design a new electronic learning system for the state-run school system. The project lost $2,5 million before it was shut down, but no jobs were lost because of the failure.

TEXT 1: THE CENTRALITY OF MARKETING

Exercise 1. Read and translate into Ukrainian

The formal study of marketing requires an understanding of its definition, evolution (including the marketing concept, a marketing philosophy and customer service), importance and scope and function.

Marketing is the anticipation, management, and satisfaction of demand through the exchange process. It involves goods, services, organizations, people, places and ideas.

The marketing process is not concluded until consumers and public **exchange** their money, their promise to pay, or their support for the offering of a firm, institution, person, place or idea. Exchanging must be done in a socially responsible way, with both the buyer and the seller being ethical and honest – and considering the impact on society and the environment.

Most management and marketing writers now distinguish between selling and marketing. The **"selling concept"** assumes that resisting consumers have to be persuaded by vigorous hard-selling techniques to buy non-essential goods or services. Products are sold rather than bought. The **"marketing concept"**, on the contrary, assumes that the producer's task is to find wants and fill them. In other words, you don't sell what you make; you make what will be bought. The marketing concept is a consumer- oriented, market-driven, value-based, integrated, goal-oriented philosophy for a firm, institution or person. As well as satisfying existing needs, marketers can also anticipate and create new ones (the markets for the Walkman, video games, personal computers). Although the marketing concept lets a firm analyze, maximize and satisfy consumer demand, it is only a guide to planning. A firm must also consider its strength and weaknesses in production, engineering and finance. Marketing plans need to balance goals, customer needs and resource capabilities. The impact of competition, government regulation and other external forces must also be regulated.

Marketers are consequently always looking for **market opportunities** – profitable possibilities of filling unsatisfied needs or creating new ones in areas in which the company is likely to enjoy a differential advantage, due to its distinctive competencies (the things it does particularly well). Market opportunities are generally isolated by **market segmentation**. Once a target market has been identified, a company has to decide what goods or service to order. It also means that the marketing concept has to be understood throughout the company, e.g. in the production department of a manufacturing company as much as in the marketing department itself. The company must also take account of the existence of competitors, who always have to be identified, monitored and defeated in the search for **loyal customers**.

Rather than risk launching a product or service solely on the basis of intuition or guesswork, most companies undertake **market research** (GB) or **marketing research** (US). They collect and analyze the information about the size of a potential

market, about consumers' reactions to particular product or service feature, and so on. Sales representatives, who also talk to customers, are another important source of information.

Once the basic offer, e.g. a product concept, has been established, the company has to think about **the marketing mix**, i.e. all the various elements of a marketing program, their integration, and the amount of effort that a company can expend on them in order to influence the target market. The best-known classification of these elements is **the "4 Ps": p**roduct, **p**lace, **p**romotion and **p**rice. Aspects to be considered in marketing products include quality, features (standard and optional), style, brand name, size, packaging, services and guarantee. Place in a marketing mix includes such factors as **distribution channels**, **location of points of sale**, **transport**, **inventory size**, etc. **Promotion groups** means together advertising, publicity, sales promotion, and personal selling, while price includes the basic list price, discounts, the length of the payment period, possible credit terms, and so on. It is the job of a product manager or a brand manager to look for ways to increase sales by changing the marketing mix.

It must be remembered that quite apart from consumer markets (in which people buy products for direct consumption) there exists an enormous producer or industrial or **business market**, consisting of all the individuals and organizations that acquire goods and services that are used in the production of other goods, or in the supply of services to others. Few consumers realize that **the producer market** is actually larger than **the consumer market**, since it contains all the raw materials, manufactured parts and components that go into consumer goods, plus capital equipment such as buildings and machines, suppliers such as energy and pens and paper, and services ranging from cleaning to management consulting, all of which have to be marketed.

Thus, we return to our definition of marketing as a process by which individuals and groups obtain what they need and want by creating and exchanging products and value with others. **Marketing** means working with markets to bring about exchanges for the purpose of satisfying human needs and wants.

TEXT 2: BASIC MARKETING CONCEPTS

Exercise 1. Read and translate into Ukrainian

The basic marketing concepts are needs, wants, demands, products, exchange, transactions, and markets.

The most basic concept underlying marketing is that of human needs. A **human need** is a state of felt deprivation. Human beings have many complex needs. They include basic *physical* needs for food, clothing, warmth, and safety; *social* needs for belonging and affection; and *individual* needs for knowledge and self-expression. These needs are not invented. When a need is not satisfied, a person will do one of two things - look for an object that will satisfy it or try to reduce the need. A second basic concept in marketing is that of **human wants** — the form taken by human needs as they are shaped by culture and individual personality. Wants are described in terms of objects that will satisfy needs. As a society evolves, the wants of its members expand and producers try to provide more want-satisfying products and services.

But people have almost unlimited wants and limited resources. Thus, they want to choose products that provide the most satisfaction for their money. When backed by buying power, wants become **demands.**

Human needs, wants, and demands suggest that there are products available to satisfy them. A **product** is anything that can be offered to a market for attention, acquisition, use, or consumption and might satisfy a need or want. The concept *of product is* not limited to physical objects. Anything capable of satisfying a need can be called a product. In addition to goods and services, products include *persons, places, organizations, activities,* and *ideas.* A consumer decides which entertainers to watch on television, which places to go on a vacation, which organizations to contribute to, and which ideas to support. To the consumer, these are all products. If at times the term *product* does not seem to fit, we could substitute such terms as *satisfier, resource,* or *offer.* All describe something of value to someone.

Exchange is the act of obtaining a desired object from someone by offering something in return. Exchange is only one of many ways people can obtain a desired object. For an exchange to take place, several conditions must be satisfied. There must be at least two parties, and each must have something of value to the other. Each party must also want to deal with the other party; each must be free to accept or reject the other’s offer. Finally, each party must be able to communicate and deliver.

These conditions simply make exchange *possible.* Whether exchange actually *takes place* depends on the parties’ coming to an agreement. In this sense, just as production creates value, exchange creates value. It gives people more **consumption possibilities.**

Whereas exchange is the core concept of marketing, a transaction is marketing’s unit of measurement. A **transaction** consists of a trade of values between two parties. A transaction involves at least two things of value, conditions that are agreed upon, a time of agreement, and a place of agreement. In a transaction, we must be able to say that A gives X to B and gets У in return. For example, you pay Sears $ 400 for a television set.

This is a classic **monetary transaction.** But not all transactions involve money. In a **barter transaction,** you might trade your old refrigerator in return for a neighbor's secondhand television set. A barter transaction can also involve services as well as goods — for example, when a lawyer writes a will for a doctor in return for a medical exam.

The concept of transactions leads to the concept of a market. A **market** is the set of actual and potential buyers of a product. A *labor market* consists of people who are willing to offer their work in return for wages or products. In fact, various institutions, such as employment agencies and job-counseling firms, will grow up around a labor market to help it function better. The *money market* is another important market that emerges to meet the needs of people so that they can borrow, lend, save, and protect money.

TEXT 3: THE MARKETING MIX

Exercise 1. Read and translate into Ukrainian

The marketing mix is one of the major concepts in modern marketing. We define the **marketing mix** as *the set of controllable marketing variables that the firm blends to produce the response it wants in the target market*. The marketing mix consists of everything the firm can do to influence the demand for its product. The many possibilities can be collected into four groups of variables known as «the four P's»: **product, price, place, and promotion.**

Product stands for the «goods-and-service» combination the company offers to the target market.

Price stands for the amount of money customers have to pay to obtain the product.

Place stands for company activities that make the product available to target consumers. A product reaches customers through a channel of distribution. A *channel of distribution* is any series of firms (or individuals) from producer to final user or consumer.

Sometimes a channel system is quite short. It may run directly from a producer to a final user or consumer. Often it's more complex, involving many different kinds of middlemen and specialists. And if a marketing manager has several different target markets, several channels of distribution might be needed.

Promotion stands for activities that communicate the merits of the product and persuade target customers to buy it.

Promotion includes personal selling, mass selling, and sales promotion. It's the marketing manager's job to blend these methods.

Personal selling involves direct communication between sellers and potential customers. It is usually face-to-face, but sometimes communication is over the telephone. Personal selling lets the salesperson adapt the firm's marketing mix to each potential customer. But it can be very expensive. Often this personal effort has to be blended with mass selling and sales promotion.

Mass selling is communicating with large numbers of customers at the same time. The main form of mass selling is *advertising* (any *paid* form of nonpersonal presentation of ideas, goods, or services by an identified sponsor). Publicity (any *unpaid* form of nonpersonal presentation of ideas, goods, or services) is another important form of mass selling.

Sales promotion refers to those promotion activities—other than advertising, publicity, and personal selling—that stimulate interest, trial, or purchase by final customers or others in the channel. This can involve use of samples, signs, catalogs, novelties, and circulars. Sales promotion specialists try to help the personal selling and mass selling people.

An effective marketing program blends all of the marketing mix elements into a coordinated program designed to achieve the company's marketing objectives by

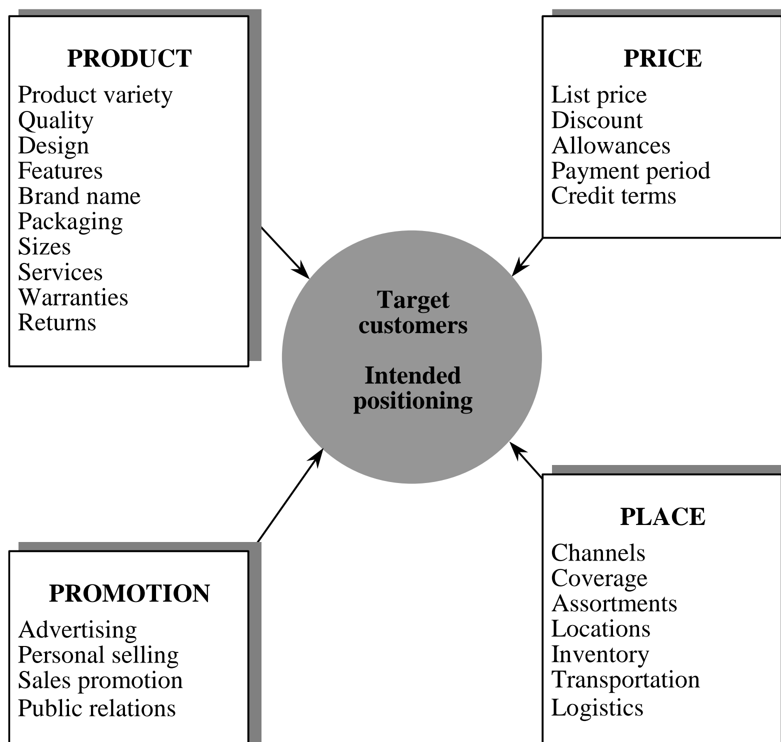
delivering value to consumers. One marketing expert suggests that companies should view the four Ps in terms of the customer's four Cs:

Thus, winning companies will be those that can meet customer needs economically and conveniently and with effective communication.

Four Ps	**FOUR CS**
Product	Customer needs and wants
Price	Cost to the customer
Place	Convenience
Promotion	Communication

When a marketing mix is being developed, all (final) decisions about the Ps should be made at the same time. That's why the four Ps are arranged around the customer (C) in a circle—to show that they all are equally important.

Let's sum up our discussion of marketing mix planning thus far. We develop a *Product* to satisfy the target customers. We find a way to reach our target customers' *Place.* We use *Promotion* to tell the target customers (and middlemen) about the product that has been designed for them. And we set a *Price* after estimating expected customer reaction to the total offering and the costs of getting it to them.



TEXT 4: MARKETING FUNCTIONS AND PERFORMERS

Exercise 1. Read and translate into Ukrainian

All people and organizations serve as consumers for various goods and services. By understanding the role of marketing, consumers can become better informed, more selective and more efficient.

There are eight basic marketing functions: **environmental analysis** and **marketing research**, **broadening the scope of marketing**, **consumer analysis**, **product planning**, **distribution planning**, **promotion planning**, **price planning** and **marketing management**.

Here are brief descriptions of the functions:

1. *Environmental analysis and marketing research* – monitoring and adapting to external factors that affect success of failure, such as the economy and competition; and collecting data to resolve specific marketing issues.
2. *Broadening the scope of marketing* – deciding on the emphasis on and approach to societal/ ethical issues and global marketing, as well as the role of the Web in a marketing strategy.
3. *Consumer analysis* – examining and evaluating consumer characteristics, needs and purchase processes; and selecting the group(s) of consumers at which to aim marketing efforts.
4. *Product planning* (including goods, services, organizations, people, places and ideas) – developing and sustaining products, product assortments, product images, brands, packaging and optional features; and deleting faltering products.
5. *Distribution planning* – forming logistical relations with distribution intermediaries, physical distribution, inventory management, warehousing, transportation, the allocation of goods and services, wholesaling and retailing.
6. *Promotion planning* – communicating with customers, the general public and others through some form of advertising, public relations, personal selling and/or sales promotion.
7. *Price planning* – determining price levels and ranges, pricing techniques, terms of purchase, price adjustments and the use of price as an active or passive factor.
8. *Marketing management* – planning, implementing and controlling the marketing program (strategy) and individual marketing functions; appraising the risks and benefits in decision making; and focusing on total quality.

Generally a firm should first study its environment and gather relevant marketing information. The firm must determine how to act in a socially responsible and ethical manner, consider whether to be domestic and/or global, and decide on the proper use of the Web. At the same time, the firm should analyze potential customers to earn their needs and select the group(s) on which to focus. It should next plan product offerings, make distribution decisions, choose how to communicate with customers and others and set proper prices. These four functions (in combination known as *the marketing mix*)

should be done in a coordinated manner, based on **environmental**, **societal**, and **consumer analysis**. Through marketing management, the firm's overall marketing program would be planned and carried out in an integrated manner, fine-tuning as needed.

Although many marketing transactions require the performers of similar tasks, such as being ethical, analyzing consumers and product, distribution, promotion and price planning. They can be enacted in many ways, such as a manufacture distributing via full-services from relying on telephone contacts by its sales force versus in –office visits to potential small-business clients by salespeople.

Marketing performers are the organizations or individuals that undertake one or more marketing functions. They include manufacturers and service providers, wholesalers, marketing specialists, and organizational and final consumers. Each performer has a distinct role. While responsibility for marketing tasks can be shifted and shared in various ways, basic marketing functions usually must be done by one performer or another. They can not be omitted in many situations.

Sometimes one marketing performer decides to carry out all, or virtually all, marketing functions, analyzing the market place, acting ethically, operating domestically and globally, having a detailed Web site, seeking various types of consumers, developing aerospace and related products, distributing products directly to customers, using its own sales force and placing ads in select media, and setting prices. Yet, for these reasons, o0ne performer often does not undertake all marketing functions.

TEXT 1: AN ACCOUNTING OVERVIEW

Exercise 1. Read and translate into Ukrainian

Accounting is frequently called the "language of business" because of its ability to communicate financial information about an organization. Various interested parties such as managers, potential investors, creditors, and the government depend on a company's accounting system to help them make informed financial decisions. An effective accounting system, therefore, must include accurate collecting, recording, classifying, summarizing, interpreting, and reporting of information on the financial status of an organization.

In order to achieve a standardized system, the accounting process follows accounting principles and rules. Regardless of the type of business or the amount of money involved, common procedures for handling and presenting financial information are used. Incoming money (expenditures) are carefully monitored, and transactions are summarized in **financial statements**, which reflect the major financial activities of an organization.

Two common financial statements are **the balance sheet** and **the income statement**. The balance sheet shows the financial position of a company at one point in time, while the income statement shows the financial performance of a company over a period of time. Financial statements allow interested panics to compare one organization to another and to compare accounting periods within one organization. For example, an investor may compare the most recent income statements of two corporations in order to find out which one would be a better investment.

People who specialize in the field of accounting are known as accountants. In the USA accountants are usually classified as public, private, or governmental. *Public accountants* work independently and provide accounting services such as auditing and tax computation to companies and individuals. Public accountants may earn the title of CPA (Certified Public Accountant) by fulfilling rigorous requirements. *Private accountants* work solely for private companies or corporations that hire them to maintain financial records, and governmental accountants work for governmental agencies or bureaus. Both private and governmental accountants are paid on a salary basis, whereas public accountants receive fees for their services.

Through effective application of commonly accepted accounting systems, private, public, and governmental accountants provide accurate and timely financial information that is necessary for organizational decision-making.

TEXT 1. MONEY. FUNCTIONS AND CHARACTERISTICS OF MONEY.

Exercise 1. Read and translate into Ukrainian

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

First of all you can't be sure that anyone will want what you've got to offer. You have to hope that you will be lucky and find someone who has what you want and that he or she wants what you have got. The second problem with bartering is that many goods do not hold their value. For example, you can not keep your milk for a few months and than barter it. Nobody will want it. After some time people realized that some goods held their value and were easy to carry around and to trade with. Examples were metals like cooper, bronze, gold and other useful goods like salt. These are examples of **commodity money.**

With commodity money, the thing used for buying goods has **inherent value**, for example, gold has inherent value because it is rare, beautiful and useful. Salt has inherent value because it makes food tasty. If you could buy things with a bag of salt, it meant you could keep a store of salt and buy things any time you needed them. In other words, commodity money can store value.

Using commodity money was much more convenient than ordinary bartering, but it still had **drawbacks**. One of these drawbacks is that commodity money often lacks **liquidity**. Liquidity refers to how easily money can circulate. This is obviously a limit to how much salt you carry around. This is another problem with commodity money: not everyone may agree on the value of the commodity which is used as money. If you live by the sea salt may not be so valuable to you. Money needs to be a good **unit of account**. In other words, everyone should know and agree of the value of a unit. This way money can be used to measure the value of other things. The solution is to create a kind of money that does not have any real **intrinsic value** but that represents value. This is called **fiat money**. The coins and notes that we use today are an example of fiat money. **Fiat money –** money, whose usefulness does not derive from its intrinsic value or convertibility to gold but from the government's order.

Notes don't have any inherent value – that they are just paper. However, everyone agrees that they are worth something. More importantly, their value is guaranteed by the government. This is the reason why pounds and dollars and the world's other currencies have value.

So anything that functions as a medium of exchange, as a standard of value, as a standard of deferred payment, or as extremely liquid store of wealth is considered money.

Money serves three functions:

1. Medium of exchange. We use money as a way of buying and selling things. Without money we would be bagged down in a system of barter. As a medium of exchange, money allows society to escape the complications of barter.
2. Store of value. Society finds it convenient to use the monetary unit as yardstick for measuring the **relative worth** of different goods and recourses. In the form of currency money can be used for future purchases and thus "stores" value. **Debt obligations** of all kinds are measured in terms of money.
3. Unit of account. Money lets us measure the relative values of goods and services. It acts as a unit of account because all products can be valued and accounted for in terms of money.
Under the Celts, some 2500 years ago, ancient Ireland had a simple agrarian economy. Instead of using coins, the cow was the unit of exchange. Modern money, in contrast, often takes the form of stamped metal or printed paper – U.S. dollars, British pounds, and Japanese yen – issued by governments. Theoretically, however, just about any object can serve as money if it is, **portable**, **divisible**, **durable**, **stable, uniform** and **recognizable**.
Portability. Some of the early forms of exchange such as gold and salt were heavy and bulky. They were not a practical form of money. Money must be easily transferred from buyer to seller. Modern money is light and easy to handle.
Divisibility. Modern currency is easily divisible into smaller parts each with a fixed value. A dollar, for example, can be exchanged for four quarters. More important, units of money can be easily matched with the value of all goods.
Durability. It refers to the lasting quality of money. Modern currency neither dies nor spoils, and if it wears out, it can be replaced. For example, foodstuffs can be used as a medium of exchange in a barter economy, but they can not be considered money, because they are not durable. Even if they are not eaten, they will eventually spoil and become worthless. For this reason most countries use a very high quality paper for their money.
Stability. The value of money should be more or less the same today as tomorrow. In societies where the value of money fluctuates the economy is badly affected.
Uniformity. This means that equal denominations of money should have the same value. For example, the National bank of Ukraine has the responsibility in our country to assure that money is uniform. This is an institution which issues paper currencies.
Recognizability. Money should be easily recognized for what it is and hard to copy.

A country's **money supply** is a total amount of money in an economy at a particular time. Money supply is divided into three monetary aggregates: **M1** – currency in circulation, checking accounts, travellers' cheques, very liquid money (narrow money supply); **M2** – M1 plus savings accounts and time deposits, less liquid money (broad money supply) and thirdly, **M3** – encompassing M2 plus, for example, savings bonds, Treasury Bill, repurchase agreements.

TEXT 2. BANKING. TYPES OF BANKS.

Exercise 1. Read and translate into Ukrainian

If you work you have probably got a bank account. You could keep the money you earn each month in a box under your bed, but it wouldn't be very sensible. One reason is that it's not very safe. If your house gets burgled, you'll loose everything you have saved. Another reason is that your money will loose value. As prices rise, the money in a box under your bed will be able to buy fewer and fewer things. Money in a **bank savings account**, however, will earn **interest**. The interest will help compensate for the effect of inflation. But banks are more than just safe places for your money. What other services do they offer?

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

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

Basically, banks make a living by changing interest on **loans**. When you make a deposit into a bank savings account, the bank pays you interest on that money. However, the rate they pay **savers** is less that the rate they charge **borrowers**. The extra money they make by charging interest on loans is where banks earn most of their money. For banks, interest is also a kind of security. Sometimes people do not pay back money they borrow. This is called **defaulting on a loan**. When someone defaults on a loan, the bank uses money, earned from interest to cover the loss. All this means that most of the money people have saved in the bank is not there at all. A small amount of the total savings is kept by the banks, so that customers can make withdrawals. The rest, however, is made available for loans. The amount that is kept is called the **reserve**. The reserve must be a certain percentage of all the savings received from customers – for example, 20 per cents. This figure is set by the central bank, and this is one of the ways that governments can control the amount of money, circulating in the economy.

Businesses that trade in money are called **commercial** or **retail banks**. They receive and hold deposits, pay money, according to customers' instructions, lend money, offer investment advice, exchange foreign currencies and so on. They make a profit from the difference (known as a spread of a margin) between the interest rates they pay to **lenders** or **depositors** and those they charge to borrowers.

Banks also create credit because the money they lend from their deposits, is generally spent (either on goods or services, or to settle debts), and in this way transferred to another bank account – often by way of a bank transfer or a cheque (check) rather than

the use of notes or coins – from where it can be lent to another borrower, and so on. When lending money, bankers have to find a balance between yield and risk, and between liquidity and different **maturities**. Basically, commercial banks – the ones where people can keep their savings in and to borrow from – borrow their money from the country's central bank. This is the national or government bank, and it has the power to set interest rates. The interest rate of central bank will influence the rates commercial bank set for their customers. When interest rates go up borrowing money becomes more expensive. When they go down, it becomes cheaper.

Merchant banks in Britain raise funds for industry on the various financial markets, finance international trade, issue and underwrite securities, deal with takeovers and mergers, and **issue government bonds**. They also generally offer stock broking and portfolio management services to reach corporate and individual clients. Investment banks in the USA are similar but they can only act as intermediaries offering advisory services and do not offer loans themselves. Investment banks make their profits from the fees and commissions they charge for their services.

A country's minimum interest rate is usually fixed by the central bank. This is the discount rate, at which the central bank makes secured loans to commercial banks. Banks lend to blue chip borrowers (very safe large companies), at the base rate or the prime rate; all other borrowers pay more, depending on their present and future solvency. Borrowers can usually get a lower interest rate if the loan is secured or guaranteed by some kind of asset, known as **collateral**.

In most financial centers, there are also branches of lots of foreign banks, largely doing Eurocurrency business. A **Eurocurrency** is any currency held outside its country of origin. The first significant Eurocurrency market was for US dollars in Europe, but the name is now used for foreign currencies held anywhere in the world (e.g. yen in the USA, DM in Japan).

Although, a central bank can determine the minimum lending rate for its national currency, it has no control over foreign currencies. Furthermore, banks are not obliged to deposit any of their Eurocurrency assets at 0 % interest with the central bank, which means that they can usually offer better rates to borrowers and depositors than in the home country.

TEXT 3. BANKING. TYPES OF BANKS.

Exercise 1. Read and translate into Ukrainian

Banking is the business of dealing in money and instruments of credit. Banks were traditionally differentiated from other financial institutions by their principal functions of making loans and collecting deposits but their services and activities have diversified over the years. The banking environment has become really competitive and most banks offer a wide range of financial services, not just basic banking. Now they invest in stock markets and provide counseling, deal with insurance and pension schemes etc. In a concentrated market environment only those survive, who offer all-round, highly-quality services.

In a variety of ways they change interest on loans, which has a higher rate than the interest they pay on deposits. The difference between these two rates is called **interest-spread**. Besides, banks make investments, trade with securities and foreign currencies. They also change fees and commissions for transactions and other customer services.

Banks act as **financial intermediaries** to the public and transmit the government's monetary policies.

A central bank is the official bank of a country Federal Reserve (the Fed) in the USA; the Bank of England (in the United Kingdom). Some of their functions are the same as those of commercial banks; on others they have an absolute legal monopoly. Their main functions are: 1) to monitor and regulate interest rates; 2) control the money supply in circulation; 3) issue and withdraw coins and bank notes; 4) keep a country's supply of foreign currency.

They are also responsible for the stability and value of the national currency and implement the country's monetary policy. They take deposits from other banks and from foreign governments sometimes for safekeeping their deposits and gold reserves. In most countries, inter bank payments pass through the central bank or through a clearing organ that reports to the central bank. They supervise the operation of other banks to ensure fair market behavior, impose rules, license their owners, and lend other banks funds as last resort in case of insolvency. Other banks borrow money from the central bank at a special interest rate called **the discount rate**. They can anticipate banking crises by detecting the signs. Central banks are usually autonomous or semi-autonomous entities. **The autonomous bank** is politically and financially independent, self-sustaining, it operates as a corporation. The country's autonomous central banks depend on mainly the Ministry of Finance because the ministry or the parliament allocates their budget. Such banks function as an economic adviser to the government.

Retail-banking provides services for the general public and small-scale businesses. They collect deposits, handle deposit and current accounts, make mortgages, give term loans, offer **overdraft facilities**, and operate **cash dispensers** and **night safe facilities**, transfer money and change foreign currency. They also issue **cash substitutes**: credit cards, cheque books and travellers' cheques. The other form of banks is merchant or

wholesale banks, specialize in services for the corporate sector like large- scale enterprises and governments. These banks deal with factory, leasing finance projects that have a promising recovery rate, assess the risk involved corporate advisory services.

For example, in the USA Glass-Steagall Act of 1934 enforced a strict separation between commercial banks and investment banks or stock broking firms. Yet, the distinction between commercial and investment banking has become less clear in recent years. Deregulation in the USA and Britain is leading to the creation of "financial supermarkets": conglomerates combining the services previously offered by banks, stockbrokers, insurance companies and so on. In some European countries (notably Germany, Austria, Switzerland) there always been universal banks combining deposit and loan banking with share and bond dealing and investment services.

TEXT 4. MONETARY POLICIES.

Exercise 1. Read and translate into Ukrainian

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

Monetarism stresses the importance of **stable monetary growth** to control **inflation** and stimulate **long-term economic growth**. A **concretionary monetary policy** works to tighten the money supply. It raises interest rates in the short run to slow consumer and business borrowing. It also shifts the aggregate demand curve to the left and lowers both real GDP and the price level. An expansionary policy works to increase the money supply. In the short run, it lowers interest rates to increase borrowing and shifts the aggregate demand curve right. This causes real **GDP** and the price level to rise. In the long run, however, **expansionary monetary policy** might increase inflation. Monetarists, therefore recommend that the money supply should grow at a slow but steady rate determined by the rates of growth of real GDP and productivity. The results of monetary policy may happen in the short run or only in the long run. It must also be used carefully because its short-run impacts are uncertain, and monetary policy is unable to reduce short-term unemployment.

People get loans from banks for all sorts of reasons, but the biggest loan most people take out is to buy a house. This kind of loan is called a **mortgage**. When interest rates increase, mortgages become more expensive. People who already have a mortgage will need to pay more on their repayments, and will have loss money to spend on other things. Fewer people will want to buy new houses and house prices will fall. In turn, home owners will feel less confident about their own wealth and will spend less. As a result, the economy slows down. A fall in interest rates will have the opposite effect on the house buying chain.

Consumers also buy other things using borrowed money. This is called **buying on credit**, and interest rates will also affect how much people spend on credit. Purchases made using credit cards are not a huge proportion of total spending in many countries. This means that interest rate changes have a big impact on consumer spending and the economy as a whole.

Companies too, are affected by interest rate changes. When interest rates are low, they feel more confident about investing in order to expend their business. Low interest rates will encourage them to take out loans in order to build factories, buy machines and increase production. All of this increases the size of national output. Again, higher interest rates will have the opposite effect. Finally, interest rates can have an effect on the amount of exports a country sells. This is because the **value of a currency** (the

exchange rate) often falls when the interest rate falls. When the value of a currency fall, a nation's products and services become cheaper for customers from other countries. This increases export sellers, and more money comes into economy. And, of course, a rise in interest rates will mean a rise in the exchange rate. This will reduce export sells, and reduce the total output of the economy.

So monetary policy means the government's control of a country's currency and its system for lending and borrowing money. Basically, it means to prevent currency **erosion** – keeping inflation low – to promote price stability and employment growth. A stable currency protects the **purchasing power** of the money, therefore defends the interests of enterprises and promotes the creation of wealth and leads to a higher standard of living. Stabilization policies are when the government changes its **tax policy** and monetary policy to prevent sudden movements in price levels or unemployment and when a country buys and sells their currency on Forex markets in order to control its value.