МІНІСТЕРСТВО ОСВІТИ ТА НАУКИ УКРАЇНИ

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**МЕТОДИЧНІ ВКАЗІВКИ**

до вивчення усних розмовних тем

з ділової англійської мови

для студентів IV курсу фаху “Міжнародна економіка”

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**RECOMMENDATIONS:**

In using the textual material one should at the outset carefully read and try to understand, using the dictionary where necessary. One should not try to translate every sentence into Russian rather one should try to understand the situation in which various expressions are used as well as to pay attention to the context. However, instances which the author considers hard to understand are pointed out. Having understood the meaning of an expression related to the topic the student learns it completely by heart with the articles, prepositions, verb – forms and so on.

In order to use a word, its form must first be learned; and making the new word part of one's vocabulary may require a great deal of practice to gain fluency in speech and rapid understanding. The emphasis therefore, should be on learning to use words rather than merely on grasping their meaning. One bit of general advice: fluency in language depends to a very large degree on the expression model that one may be able to think of in a specific situation. Sentence or utterances that one has learnt in connection with a specific situation are likely to suggest themselves again as models if you are in similar situation.

Sentences and utterances learned without being associated with anything are not likely to occur to you again. It is thus quite helpful and important to learn to associate utterances with situation.

One should, of course, get into the habit of thinking of possible foreign language utterances in situations in which one may find oneself.

O.G. Bratanich

**marketing** – a). the theory or practice of presenting, advertising and selling things; b). the division of a company that does this. **provide** – to make smth available for smb to use by giving or lending it. **utility** - the quality of being useful **possession** – the state of having, owning or controlling smth. **need** – circumstances in which smth is lacking on necessary, or which require smth to be done; a necessity. **anticipate** – to what is going to happen or what will need to be done and take action to prepare for it in advance. **function** – a special activity or purpose of a person or thing. **purchase** – the action or process of buying smth. **flow** – the flowing movement of smth; a continuous stream of smth. **accomplish** – to succeed in doing smth; to complete smth. successfully; to achieve smth.

**WHAT IS MARKETING?**

оral conversational topic еnglish text

When asked to define marketing, most people will say "to advertise a product" or "to sell a good". It's true that selling and advertising are parts of marketing, but there is much more. Marketing provides *utility* or the value that comes from satisfying human needs. Consumers use utility in many different circumstances in their everyday lives. For instance, we have the right to possess a product or service in exchange for money, which is called *possession* utility. Also, consumers use utility when they can buy a product or service when they want it, and also at a location where they would like to buy it. The former is called *time* utility and the latter is referred to *as place* utility. Production helps us to differentiate between what consumers want by providing form utility or a product produced, and *task* utility or a service given. Simply put, marketing provides time, place, and possession utility, and guides decisions about what goods and services should be produced to provide form utility and task utility. There are basically two different variants to defining marketing. *Micro-marketing* focuses on activities performed by an individual organization, and *macro-marketing* focuses on the economic welfare of a whole society. Both are important when trying to understand what is marketing. The first, micro-marketing, is the performance of activities that seek to accomplish an organization's objectives by anticipating customer or client needs and directing a flow of need-satisfying goods and services from producer to customer or client. Let's take a look at this definition. To begin with, marketing applies to both profit and non-profit organizations. All organizations have some kind or "audience" or "market" that they are trying to satisfy. The point is that all organizations need to practice good marketing techniques to accomplish their objectives and reach their goals. Furthermore, a very important goal of marketing is to identify customers' needs, and meet those needs the best way that organization knows how. If the marketing function has done this, than the product or service will assuredly sell itself In addition, marketing should focus on those needs that were identified, not with production. Marketing should anticipate those needs, and then determine the products or services to be developed. While this sounds like the marketing function leads business activity, this is false. Marketing should direct, not lead other business functions such as accounting, production, and financial activities toward the overall goals of the firm. Finally and most importantly, marketing builds a relationship with customers. A purchase does not mean the end of marketing related activities, on the contrary, it is only the beginning to a long, lasting relationship with customer, and should always look for ways to keep a customer coming back. As all marketers know and understand, it is easier and less costly to keep a customer once they have them, than it is to find them in the first place. This is why relationship marketing is so important. The second, macro-marketing, is a social process that directs an economy's flow of goods and services from producers to consumers in a way that effectively matches supply and demand and accomplishes the objectives of society. Here the emphasis is on the whole system, not the individual organization. Different producers in a society have different objectives, resources, and skills. Likewise, not all consumers share the same needs, preferences, and wealth. So, macro-marketing effectively helps to match supply differences with demand differences, while trying to accomplish a society's objectives. Thus, we can say marketing has two different definitions, dealing with two different levels of the economy.

**QUESTIONS**

1. What kind of utility do you know?
2. What is the difference between micro- and macro- marketing?
3. What is included in definition “marketing”?
4. What goal of marketing can you call as a very important one?
5. How does marketing build a relationship with customers?
6. How do both micro- and macro- marketing connect with two levels of economy?
7. What other business functions should marketing direct?
8. How could the producers foresee the consumers’ needs?
9. What is the main goal of marketing as a whole?

**marketing concept** – an idea for a product, especially a new one **marketing orientation** – when a business concentrates on designing and selling products that satisfy customer needs in order to be profitable **production-oriented business** – when a business bases its ability to make profits on the high quality of its product, rather than on customer’s needs **customer satisfaction** – a feeling of happiness or pleasure with what customer has got or what customer achieved **bottom-line** – the figure showing a company’s total profit or loss **trade-off** – a balance between two situations in order to get an acceptable result

MARKETING CONCEPT

What does the ***marketing concept*** mean? Simply put, it means that an organization aims all its efforts at satisfying its customers to achieve profit. Without satisfied customers, a company is without money, and is bankrupt. While this concept seems rather simple, it has not always been applied. This implies ***a production-oriented*** business or making whatever products are easy to produce and then trying to sell them. Firms interested in this method think of customers existing to buy the firm's output rather than of firms existing to serve customers and the needs of society. On the other hand, well-managed firms have replaced this production orientation with a ***marketing orientation.* This** means trying to carry out the marketing concept. Instead of just trying to get customers to buy what the firm has produced, a marketing-oriented firm tries to offer customers what they need. Three basic ideas are included in the definition of the marking concept: customer satisfaction, a total company effort, and profit, not just sales, as an objective. To begin with, customer satisfaction guides the whole system. Every business function is influenced by the customer the company is trying to satisfy. For instance, the finance department looks to purchase production equipment that will increase the quality of a product, and increase the overall position of the companies profit at the same time. Without customer satisfaction's influence each business function would be working separately toward different goals, thus operating individually and against total unity. Furthermore, teamwork among all managers of a firm is an essential element, because the output from one department may be the input to another. Sometimes departments tend to build walls around themselves in order to protect their own interests. This narrow way of thinking only leads to the customer not receiving enough attention, resulting in a breakdown of the marketing concept. By adopting the marketing concept all departments are provided with a guiding force. It acts as a philosophy for the whole organization, not just an idea that applies to the marketing department. Finally, profit is the bottom-line measure of the firm's success and ability to survive. It is the balancing point that helps the firm determine what needs it will try to satisfy with its total, however costly, effort. Sometimes it may cost more to satisfy some needs than any customers are willing to pay, or it may be much more costly to try to attract new customers than it is to build a strong relationship with-and repeat purchases from-existing customers. This is why firms use profit as the means for survival and success of the marketing concept. In addition, the marketing concept is related to social responsibility and marketing ethics. The marketing concept is so logical that it's hard to argue with it. Yet, when a firm focuses its efforts on satisfying some consumers, to achieve its objectives, there may be negative effects on society. This means that marketing managers should be concerned with social responsibility- a firm's obligation to improve its positive effects on society and reduce its negative effects. Being socially responsible sometimes requires difficult trade-offs. For example, if a firm produces a product that emits harmful chemicals that result in poor environmental standards, should the firm be responsible for the clean up? Also, should all consumers needs be satisfied? For instance, everyone knows that cigarettes cause serious health problems, so should a firm knowingly keeping producing them just because there is a demand for them? These questions and others help us look into how the marketing concept is applied to society.

**QUESTIONS**

1. What does the marketing concept mean?
2. What is the difference between production and marketing orientation?
3. Which orientation is more profitable for the firm? Why?
4. What basic ideas are included in the definition of the marketing concept? What is the most important of them? Why?
5. How can the work of the whole organization be influenced by adopting marketing concept?
6. How can we determine whether the firm is successful or not? What is the index of the firm’s success?
7. In what way is the marketing concept related to social responsibility?
8. Should marketing managers be responsible for the negative effects caused by the marketing concept on the society?
9. In what way should the marketing managers solve the problem of satisfying consumer’s needs and reducing the negative effects of the marketing concept at the same time?

**strategy** – the process of planning smth or carrying out a plan in a skilful way. **target** – an object that a person tries to hit in shooting practice or in certain sports. **price** – an amount of money for which smth may be bought or sold. **place** – a particular area or position; a natural or proper position for smth. **promotion** – advertising or some other activity intended to increase the sale of a product or service. **image** – a general impression that a person, an organization, a product, etc. gives to the public; a reputation. **distribution** – the way smth is shared out or spread over an area. **brand name** – the name given to a particular product by the company that produces it for sale. **public relations** – the work of presenting a goal image of an organization to the public, esp. by providing information.

**MARKETING STRATEGY**

***Marketing strategy*** planning means finding attractive opportunities and developing profitable marketing strategies. The marketing concept is the guiding force used when a firm develops the best strategy. There are two defining parts to a marketing strategy, the target market and the marketing mix. Both play a key role in the outcome of a firm's success in a marketing. A ***target market*** is defined as a fairly similar group of customers to whom a company wishes to appeal. When determining a target market, a firm must be very specific about whom they will target. Based on certain characteristics such as income, age, job, living habits, physical characteristics, etc. will a firm find the best group of customers and be the most successful in their efforts. Market-oriented firms use the target marketing approach while production-oriented firms use a mass marketing approach. ***Target marketing*** says that a marketing mix is tailored to fit some specific target customers. In contrast, mass marketing vaguely aims at everyone with the same marketing mix. ***Mass marketing*** assumes that everyone is the same, and considers everyone a potential customer, thus spending great amounts of wasted time and money to try and sell a product or service. A ***marketing mix*** is the controllable variables the company puts together to satisfy this target group. Using a marketing mix, a firm answers what, where, how, and how much. These are made up of the four Ps or product, price, place, and promotion

**PRODUCT = the goods or the service that you are marketing**

A 'product' is not just a collection of components. A 'total product' includes the **image** of the product, its design, quality and reliability - as well as its features and benefits. In marketing terms, political candidates and non-profit-making public services are also 'products' that people must be persuaded to 'buy' and which have to be 'presented and packaged' attractively. Products have a life-cycle, and companies are continually developing new products to replace products whose sales are declining and coming to the end of their lives.

**PRICE** = making it easy for the customer to buy the product

Pricing takes account of the value of a product and its quality, the ability of the customer to pay. the volume of sales required, and the prices charged by the competition. Too low a price can reduce the number of sales just as significantly as too high a price. A low price may increase sales but not as profitably as fixing a high, yet still popular, price.

As fixed costs stay fixed whatever the volume of sales, there is usually no such thing as a 'profit margin' on any single product.

**PLACE** = getting the product to the customer

Decisions have **to** be made about the channels of distribution and delivery arrangements. Retail products may go through various channels of distribution:

1 Producer —> end-users (the product is sold directly to the end-user by the company's sales force, direct response advertising or direct mail (mail order))

2 Producer —> retailers —> end-users

3 Producer —> wholesalers/agents —> retailers —> end-users

4 Producer —> wholesalers —> directly to end-users

5 Producer —> multiple store groups / department stores / mail order houses —> end-users

6 Producer —> market —> wholesalers —> retailers —> end-users

Each stage must add value to the product to justify the costs: the person in the middle is not normally someone who just takes their 'cut' but someone whose own sales force and delivery system can make the product available to the largest number of customers more easily and cost-effectively. One principle behind this is 'breaking down the bulk': the producer may sell in minimum quantities of, say, 10,000 to the wholesaler, who sells in minimum quantities of 100 to the retailer, who sells in minimum quantities of 1 to the end-user. A confectionery manufacturer doesn't deliver individual bars of chocolate to consumers: distribution is done through wholesalers and then retailers who each 'add value' to the product by providing a good service to their customers and stocking a wide range of similar products.

**PROMOTION** = presenting the product to the customer

Promotion involves the packaging and presentation of the product, its image, the product's brand name, advertising and slogans, brochures, literature, price lists, after-sales service and training, trade exhibitions or fairs, public relations, publicity and personal selling. Every product must possess a **'unique selling proposition'** (USP) -the features and benefits that make it unlike any other product in its market"

These four crucial variables are the foundation of the marketing strategy of any for profit or not for profit organization that uses the marketing concept and drives for success. The customer is not included in the marketing mix, but the customer is the target of all marketing efforts with the four Ps surrounding it. All four Ps are needed in a marketing mix. In fact, they should all be tied together. All four characteristics contribute to one whole. When a marketing mix is being developed, all decisions about the Ps should be made at the same time. That's why the four Ps are arranged around the customer, to show that they are all equally important. A marketing strategy sets a target market and a marketing mix. It is the overall scheme of a firms efforts in a market, however a marketing plan goes further. A marketing plan is a written statement of a marketing strategy and the time-related for carrying out the strategy. First, it details what marketing mix will be offered, to whom the strategy is directed toward, and for how long. Second, it forecasts what company resources, shown in costs, will be needed at what rate. Third, it determines what results are expected shown in sales and profits perhaps monthly or quarterly, customer satisfaction levels, and the like. The plan should also have some control features for whoever is carrying out the plan to see if things are going well or not. Having a plan greatly increases that the marketing strategy will succeed, and the customer will be satisfied.

# **QUESTIONS**

1. What does marketing strategy planning mean?
2. There are two defining parts of a marketing strategy: the target market and the marketing mix. How would you characterize them?
3. Why do they play a key role in the outcome of a firm’s success?
4. What components does marketing mix include and how can they influence the product’s position on the market?
5. What is the difference between definitions “marketing concept” and “marketing strategy”?
6. What channel of distribution do you think is more effective? Why?

**foreign exchange** – money in a foreign currency **currency** – the system of money used in a country **rate** – a fixed charge, payment or value **risk** – the possibility of meeting danger or of suffering harm or loss **to distinguish** – to recognise the difference between people or things **bond** – a certificate issued by a government or a company acknowledging that money has been lent to it and will be paid back with interest. **portfolio** – a set of investments owned by a person, bank, etc. **to convert** – to change from one form or use to another **equity** – the value of the shares issued by a company; the ordinary stocks and shares that carry no fixed interest **adverse** – not favourable, contrary, opposing, harmful

THE FOREIGN EXCHANGE AND CAPITAL MARKETS

The **foreign exchange market** is a market for converting the currency of one country into that of another country. An **exchange rate** is simply the rate at which one currency is converted into another. Without the foreign exchange market international trade and international investment on the scale that we see today would be impossible; companies would have to resort to barter. The foreign exchange market is the lubricant that enables companies based in countries that use different currencies to trade with each other.

The rate at which one currency is converted into another typically changes over time. Currency fluctuations can make seemingly profitable trade and investment deals unprofitable, and vice versa.

In addition to altering the value of trade deals and foreign investments, currency movements can also open or shut export opportunities and alter the attractiveness of imports. While the existence of foreign exchange markets is a necessary precondition for large-scale international trade and investment, the movement of exchange rates over time introduces many risks into international trade and investment. Some of these risks can be insured against by using instruments offered by the foreign exchange market, such as the forward exchange contracts

Thus, the foreign exchange market serves two main functions. The first is to convert the currency of one country into the currency of another. The second is to provide some insurance against foreign exchange risk, by which we mean the adverse consequences of unpredictable changes in exchange rates. To explain how the market performs this function, we must first distinguish among spot exchange rates, forward exchange rates, and currency swaps.

**SPOT EXCHANGE RATES**

When two parties agree to exchange currency and execute the deal immediately, the transaction is referred to as a spot exchange. Exchange rates governing such "on the spot" trades are referred to as spot exchange rates. The spot exchange rate is the rate at which a foreign exchange dealer converts one currency into another currency \// on a particular day.

**FORWARD EXCHANGE RATES**

The fact that spot exchange rates change daily as determined by the relative demand and supply for different currencies can be problematic for an international business. To avoid this risk, the **U.S.** importer might want **to** engage in a forward exchange. A forward exchange occurs when two parties agree to exchange currency and execute the deal at some specific date in the future. Exchange rates governing such future transactions are referred to as forward exchange rates. For most major currencies, forward exchange rates are quoted for 30 days, 90 days, and 180 days into the future.

**CURRENCY SWAP**

A currency swap is the simultaneous purchase and sale of a given amount of foreign exchange for two different value dates. Swaps are transacted between international businesses and their banks, between banks and between governments when it's desirable to move out of one currency into another for a limited period without incurring foreign exchange risk. A common kind of swap is spot against forward.

**THE INTERNATIONAL CAPITAL MARKET**

A capital market brings together those who want to invest money and those who want to borrow money. Those who want to invest money are corporations with surplus cash, individuals, and non bank financial institutions (e.g., pension funds, insurance companies). Those who want to borrow money are individuals, companies, and governments. In between these two groups are the market makers. Market makers are the financial service companies that connect investors and borrowers, either directly or indirectly. They include commercial banks and investment banks.

Commercial banks perform an indirect connection function. They take deposit from corporations and individuals and pay them a rate of interest in return. They then loan that money to borrowers at a higher rate of interest, making a profit from the difference in interest rates. Investment banks perform a direct connection function. They bring investors and borrowers together and charge commissions for doing so.

**EUROCURRENCY MARKET**

A Eurocurrency is any currency banked outside its country of origin. Eurodollars which , account for about two-thirds of all Eurocurrencies, are dollars banked outside or the United States. Other important Eurocurrencies include the Euro, the Euro-yen, and the Euro-pound. The term Eurocurrency actually a misnomer, since a Eurocurrency can be created anywhere in the persistent Euro-prefix reflects the European origin of the market. The Eurocurrency market is significant because it is an important, relative source of funds for international businesses. From small beginnings, this *is* mushroomed.

**THE INTERNATIONAL EQUITY MARKET**

There is no international equity market in the sense that there are international currency and bond markets. Rather many countries have their own domestic equity markets in which corporate stock is traded. The largest of these domestic equity markets are to be found in the United States, Britain, Japan, and Germany. Although each domestic equity market is still dominated by investors who are citizens of that country and companies incorporated in that country, developments are internationalising the world equity market. Investors are investing heavily in foreign equity markets as a means of diversifying their portfolios.

**THE INTERNATIONAL BOND MARKET**

Bonds are an important means of financing for many companies. The most common kind of bond is a fixed-rate bond. The investor who purchases a fixed-rate bond receives a fixed set of cash payoffs. Each year until the bond matures, the investor gets an interest payment and then at maturity he gets back the face value of the bond.

International bonds are of two types: foreign bonds and Eurobonds.Foreign bonds are sold outside the borrower's country and are denominated in the currency of the country in which they are issued.

**Eurobonds** are normally underwritten by an international syndicate of banks and placed in countries other than the one in whose currency the bond is denominated For example, a bond may be issued by a German corporation, denominated in U.S dollars, and sold to investors outside the United States by an international syndicate of banks. Eurobonds are routinely issued by multinational corporations, large domestic corporations, sovereign governments, and international institutions, they are usually offered simultaneously in several national capital markets, but not in the capital market of the country, nor to residents of the country, in whose currency they are denominated. Eurobonds account for the lion's share of international bond issues.

**QUESTIONS**

1. How would you explain the currency fluctuations?
2. What is the necessary precondition for large-scale international trade and investment?
3. The foreign exchange market serves two main functions. What is their essence?
4. What is the difference between spot exchange rate and forward exchange rate?
5. What are the main participants of swap operations?
6. What is the difference between commercial and investment banks?
7. What types are international bonds divided into?
8. How would you characterise foreign bonds and Eurobonds?
9. What is the principle of the international capital market activity?
10. Who is each domestic equity market dominated by?

**budget** – an estimate or plan of the money available to smb. and how it will be spent over a period of time **revenue** – income, esp. the total annual income of a state or an organisation **to approximate** – to estimate or calculate smth fairly, accurately **management** – the control and making of decision in a business or similar organisation **assumption** – thing that is thought to be true or certain to happen, but is not proved **forecast** – a statement that predicts smth with the help of information **flexible** – easily changed to suit new condition **objective** – a thing aimed at or wished for, a purpose **inventory** – a detailed list esp. of goods, furniture or jobs to be done **to compile** – to collect information and arrange it in a book, list, report, etc.

**BUDGETING IN BUSINESS**

A budget is a financial plan. Specifically, a budget sets forth management's expectationsfor revenues and, based on those financial expectations, allocates the use of specific resources throughout the firm. You may live under a carefully constructed budget of your own. A business operates in the same way. A budget becomes the primary basis and guide for financial operations in the firm.

Budgeting is the principle activity in the planning function that all managers of successful firms must do in order to meet desired results. Just as managers use forecasts to approximate income from sales, they must also forecast the future availability of major resources, including people, raw materials, energy, and money. Techniques for forecasting resources are the same as those employed to forecast sales: hunches, market surveys, time-series analysis, and econometric models. The only difference is that the manger is seeking to know the quantities and prices of goods that can be purchased rather than those to be sold. A very close relationship exists between budgeting as a planning technique and budgeting as a control technique. During the planning phase of management, firms forecast future allocations of resources for business activities. After the organization bas been engaged in activities for a time, actual results are compared with the budgeted (planned) results and may lead to corrective action. This is the management function of controlling.

The budgeting process is complex in nature, derived from the management's objectives for the organization to the final financial budgeted balance sheet formulated. Sales forecasts play a key role in the budgeting process. It consists of a forecast of quantities sold and forecast of dollar income expected. All other budgets are related to it either directly or indirectly. The production budget, for example, must specify the materials. labour, and other manufacturing expenses required to support the projected sales level. Similarly, the marketing expense budget details the costs associated with the level of sales activity projected for each product in each sales region. Administrative expenses also must be related to the predicted sales volume. The projected sales and expenses are combined in the financial budgets, which consist of pro forma financial statements,inventory budgets, and the capital additions budget.

Most firms compile yearly budgets from short-term and long-term financial forecasts. There are usually several budgets established in a firm:

* An operating budget
* A capital budget
* A cash budget
* A master budget

Forecast data are based on assumptions about the future. If these assumptions prove wrong, the budgets are inadequate. So the usefulness of financial budgets depends mainly on the degree to which they are flexible to changes in conditions. Two principle means exist to provide flexibility: variable budgeting and moving budgeting. Variable **budgeting** provides for the possibility that actual output changes from planned output. It recognizes that variable costs are related to output, while fixed costs are unrelated to output. Thus, if actual output is 20 percent less than planned output, it does not follow that actual profit will be 20 percent less than that planned. Rather, the actual profit varies, depending on the complex relationship between costs and output. Furthermore. **moving budgeting** is the preparation of a budget for a fixed period (say, one year), with periodic updating at fixed intervals (such as one month). For example, a budget is prepared in December for the next 12 months, January through December. At the end of January, the budget is revised and projected for the next 12 months, February through January. In this manner, the most recent information is included in the budgeting process. Premises and assumptions are constantly being revised as management learns from experience.

In addition, budgets can sometimes lead companies to overlook critical variables such as quality and customer service. Often, their decision-making process is based solely on numbers and dollars, and wrong moves can turn into lost profit. To combat this companies set up guidelines that include the necessity to plan first, budget later: budget for managers, not accountants: measure output, not input; and design budgets to protect against dispute between departments.

Budgets are an important activity crucial to a managers’ success in maintaining the bottom line of a company. Without them, it would be the equivalent to walking through a mine field without sight. Eventually, you're going to be blown out of the way by competing firms.

**QUESTIONS**

1. What is a budget and what is it based on?
2. Why do sales forecasts play a key role in the budgeting process?
3. What are the components of the budgeting process?
4. How many kinds of budgets do you know? What are they?
5. Describe the two principle means providing flexibility: variable budgeting and moving budgeting.
6. Is there any difference between a budget and a financial plan?
7. What is the importance of making a budget?

**to destock** – to cut or use stocks **to annualize** – to calculate over a period of year **to shrink** – to become smaller in amount, size, or value **to slide into recession** – to gradually start to experience decrease in economy and employment **economic** **slowdown** – time or period when economic development gets slow

**PROBLEMS OF EUROPEAN UNION**

Almost single-handed, French consumers, who in the third quarter of this year spent an annualised 5% more than in the previous three months, kept the euro area's economy afloat. Among the three largest economies, which account for 70% of euro-area GDP, only France looked healthy, growing by 0.5%. Italy managed just 0.2%; Germany's economy, poorly for a year, actually shrank. As a whole, the euro area grew by a mere 0.1%.

Do not expect the French to keep it up, though. Consumption fell by 0.4% in October, and rising unemployment will probably keep spending in check. Nor is anybody else likely to take up the running. The European Commission reckons that, of the ten euro-area economies for which it forecasts quarterly GDP, only Spain and Finland will grow by more than 0.25% in the fourth quarter. The odd two out, Greece and Luxembourg, may well do better, but all four together make up less than one-seventh of the euro area's GDP.

The three biggest economies, and with them the euro area as a whole, are probably now shrinking, along with America and Japan. Whether the euro area's contraction will last for more than one quarter is unclear. Yet even optimists expect only slow growth in early 2002.

The best hope for revival lies in a reversal of the forces that have aggravated the euro area's slowdown. Rising prices, first of oil and then of food, ate into real incomes and depressed spending. The prices of oil and other commodities have since fallen fast, and the effects of foot-and-mouth disease and BSE are due to drop out of the inflation figures. Some economists think that inflation, now 2.4%, will fall to 1% or less in 2002. As well as boosting real incomes, falling inflation (or the expectation of it) ought to create more room for the European Central Bank (ECB) to cut interest rates below today's 3.25%.

In both France and Germany, inventories were run down in the third quarter, so there is not much more destocking to be done. Germany's construction industry, in decline for two years and a huge drag on growth at the start of 2001, almost stopped shrinking in the third quarter. The euro's weakness against the dollar and the yen should help exports.

That's the good news. Much else is amiss, notably America's slide into recession. This has hurt exports, but it has not reduced the euro area's trade surplus, since imports have been squeezed just as hard. Indeed, says Dieter Wermuth of Tokai Bank in Frankfurt, Germany is seeing a "trade miracle": exports actually rose in the third quarter, while imports fell. The trade balance had a big positive effect on Germany's GDP figure; feeble domestic demand clobbered the total.

America's recession is feeding through to GDP in other ways. Weakening exports are knocking domestic demand, through lower orders to suppliers and cuts in investment. Second, European companies have become more exposed to America through foreign direct investment: the American affiliates of European multinationals doubled their sales in the 1990s, which are now equivalent to almost 9% of euro-area GDP. An American slowdown means less profit, less investment and lower employment—in Europe as well as in the United States.

Third, America's troubles are sapping Europe's confidence. That has been much clearer since September 11th: Germany's IFO index of business confidence dipped again in October, after plummeting in September. The link between spirits in the two big economic regions is more than a couple of months old. The European Commission says that, between 1995 and 2001, the correlation between confidence indices in the euro area and America has been almost 0.9, with America just eight or nine months ahead. Where American businesses and consumers lead, Europeans seem to follow closely behind.

On top of this, there are domestic weaknesses to worry about. Unemployment, which kept falling in the early stages of the downturn, is now expected to rise. The ECB has so far been slow to cut interest rates, and may remain slow in future. The scope for loosening fiscal policy, especially in Germany, is small: next year's deficit will probably be close to the limits set by the euro area's stability and growth pact, which Germany's finance minister is determined not to violate. Salvation in an American recovery, then? Not only. If rising inflation dragged Europe down, falling inflation should help pull it up. With luck, the fourth quarter will be as bad as it gets for the old continent. But don't bet on it; and expect a slow climb back up.

**QUESTIONS**

1. What is the annual growth rate of the euro-area?
2. Which are the three biggest economies of the euro-area?
3. What dynamics of inflation is expected in the current year?
4. Are European companies becoming more exposed to America? In what way?
5. What are domestic weaknesses of the major European economies?

BRITAIN AND THE EURO

JUST as public opinion is apparently warming to the idea of joining the euro, relations between Gordon Brown and the European Commission have soured. The cause of the dispute is a ticking-off from Brussels about the chancellor's fiscal plans. This is no ordinary disagreement. It goes to the heart of whether Britain can both join the euro and maintain the drive to improve public services.

At first sight, the row between Mr Brown and the commission looks more theatrical than real. The commission says that Britain is failing to meet the rules of the stability pact by planning to run a budget deficit. This runs counter to the pact's stipulation that member states—both in and out of the euro area—should keep their budgets "close to balance or surplus over the medium term". For the moment, that does not much matter, since fines can be levied only on euro members.

But if Britain were to join the euro, say in 2004, the stability pact would become

highly relevant. Up till now the main focus of debate on whether Britain could make a success of euro membership has been about monetary policy. The principal question that the chancellor's five tests seek to answer is whether Britain could live with interest rates set by the European Central Bank. Underlying this is the worry that the British economy differs so much from the rest of the European Union (EU)-for example, through a housing market especially responsive to changes in interest rates that a one-size-fits-all monetary policy will prove harmful.

The latest row, however, highlights a different question—whether a one-size-fits-all fiscal policy set in Brussels will prove damaging. One criticism of the pact is that it makes little sense for countries to limit their fiscal freedom now that they have surrendered control over interest rates and exchange rates within the euro area. That applies to any euro member state. But there are two particular reasons why Europe's stability pact could prove especially problematic for Britain.

The first is that Britain's public infrastructure is exceptionally run-down compared with the rest of Europe. Government investment is much lower as a proportion of GDP than in most European countries. After a long period of neglect, culminating in Labour's first term of office, there is an urgent need to remedy matters. That is why Mr Brown plans to double net public investment's share of GDP to 1.7% by 2003-04 and then to sustain this level of spending. He wants to finance most of the investment by borrowing, arguing that this is fairer than funding through taxation since it spreads the cost of works that will benefit people for many years to come. With debt now very low in relation to GDP, he maintains that borrowing to invest is also fiscally responsible.

But the European Commission is anxious to ensure that the EU as a whole reduces debt in relation to GDP by running balanced budgets or surpluses. A particular reason for this is concern about the future impact of Europe's ageing populations. This will lead to big increases in spending on pensions and health, resulting in likely deficits and higher debt. This could in turn undermine monetary union as the more heavily indebted countries lobby for inflationary policies to erode their debts. Hence the need to use the next ten or so years, before population ageing gathers momentum, to lower the public debt burden.

That policy may be legitimate for the EU as a whole, but not for Britain. This is the second way in which a one-size-fits-all fiscal policy creates a particular problem because of British exceptionalism. For one thing, Britain's debt is the third lowest in the EU as a share of GDP. More important, Britain does not face the same pressures to raise public pensions as other European countries, partly because population ageing will be less intense but also because big private schemes bear much more of the strain of pension provision, and they, unlike state pensions, are funded. Worries about the adequacy of pensions have led the British government to boost poorer pensioners' income, but this will not change the broad picture.

Over the next few years, then, there is a mismatch between Britain's need for higher investment and the euro area's need for lower debt. One way round this would be to interpret the stability pact more flexibly to meet the interests of individual member states. Treasury sources say that the commission has no monopoly of wisdom in interpreting the pact and criticise the commission for a narrow, legalistic approach. The chancellor will press Britain's case at the next meeting of finance ministers on February 12th, arguing that his budgetary projections are consistent with a prudent interpretation of the stability pact. The commission does not want a confrontation but fears that allowing one exception will open the door to special pleading by other countries.

If the stability pact were to become binding—as early membership of the euro would entail—then this will create real problems for Mr Brown as he tries to find the money to pay for improvements in the public services. He has already been preparing the ground for tax increases in this year's budget. But these would have to be a lot bigger—possibly as much as £10 billion—for Britain to comply with the pact.

Tony Blair wants Britain to join the euro. He also wants to rebuild the public services without upsetting taxpayers. Those two aims may be incompatible.

**to asses** – work out the (tax) to be paid by (someone) **ledger** – a book in which the accounts of a business are kept **accrued** – increased by being added to **to wade through** – read (something long or boring) **to forge** – make a copy of something written in order to deceive **compliance** – when someone obeys a law or rule, keeps an agreement

ACCOUNTING

Some people mistakenly think of accounting as a highly technical field which can be understood only by professional accountants. Actually, nearly everyone practices accounting in one form or another on an almost daily basis. Accounting is the art of interpreting, measuring, and describing economic activity. Whether you are preparing a household budget, balancing your checkbook, preparing your income tax return, or running General Motors, you are working with accounting concepts and accounting information.

Accounting has often been referred to as "the language of business." This language finds expression in profit and loss statements, balance sheets, budgets, investment analysis, and tax analysis. Accounting information is the means by which firms communicate their financial position to the providers of capital—investors, creditors, and government. It enables the providers of capital to assess the value of their investments, or the security of their loans, and to make decisions about future resource allocations. Accounting information is also the means by which firms report their income to the government, so the government can assess how much tax the firm owes. It is also the means by which the firm can evaluate its performance, control its internal expenditures, and plan for future expenditures and income. Thus it is no exaggeration to say that a good accounting function is critical to the smooth running of the firm.

Developing and communicating accounting information is the role of the business organization's accounting system.

Accounting — is the process of recording, classifying, reporting and analyzing financial data. And while the accounting requirements of every business vary, all organizations need a way to keep track of their money. Unfortunately, there's very little that's intuitive about accounting. Many small businesses hire accountants to set up and keep their books. Other companies use accounting software like QuickBooks, CheckMark Multi-Ledger and M.Y.O.B. Accounting and keep their accounting functions in house. Using a system of debits and credits, called double-entry accounting, accountants use a general ledger to track money as it flows in and out of a business. They record each financial transaction on a balance sheet, which provides a snapshot of a business's financial condition. Accountants record every financial transaction in a way that keeps the following equation balanced: Assets = Liabilities + Owner's Equity (Capital). Accounting is based on the periodic reporting of financial data. The basic accounting cycle includes: 1) Recording business transactions. Businesses keep a daily record of transactions in sales journals, cash-receipt journals or cash-disbursement journals. 2) Posting debits and credits to a general ledger. A general ledger is a summary of all business journals. An up-to-date general ledger shows current information about accounts payable, accounts receivable, owners' equity and other accounts. 3) Making adjustments to the general ledger. General-ledger adjustments let businesses account for items that don't get recorded in daily journals, such as bad debts, and accrued interest or taxes. By adjusting entries, businesses can match revenues with expenses within each accounting period. 4) Closing the books. After all revenues and expenses are accounted for, any net profit gets posted in the owners' equity account. Revenue and expense accounts are always brought to a zero balance before a new accounting cycle begins. 5) Preparing financial statements. At the end of a period, businesses prepare financial reports — income statements, statements of capital, balance sheets, cash-flow statements and other reports — that summarize all of the financial activity for that period.

International businesses are confronted with a number of accounting problems. One of these problems—the lack of consistency in the accounting standards of different countries.

Let's examine the problems arising when an international business with operations in more than one country must produce consolidated financial statements. These firms face special problems because, for example, the accounts for their operations in France will be in francs, in Italy they will be in lira, and in Japan they will be in yen. If the firm is based in the United States, it will have to decide what basis to use for translating all these accounts into U.S. dollars.

Accounting is shaped by the environment in which it operates. Just as different countries have different political systems, economic systems, and cultures, so they also have different accounting systems. In each country the accounting system has evolved in response to the demands for accounting information in that country.

Despite attempts to harmonize accounting standards by developing internationally acceptable accounting conventions a myriad of differences between national accounting systems still remain. These differences make it very difficult to compare the financial performance of firms based in different nations.

Due to the combined impact of the variables, very few countries have identical accounting systems. Notable similarities between nations do exist however, and three groups of countries with similar standards can be identified. One group might be called the British-American-Dutch group. Great Britain, the United States, and the Netherlands are the trend-setters in this group. All these countries have large, well-developed stock and bond markets where firms raise capital from investors. Thus these countries' accounting systems are tailored to providing information to individual investors. A second group might be called the Europe-Japan group. Firms in these countries have very close ties to banks, which supply a large proportion of their capital needs. So their accounting practices are geared to the needs of banks. A third group might be the South American group. The countries in this group have all experienced persistent and rapid inflation. Consequently they have adopted inflation accounting principles.

The diverse accounting practices have been enshrined in national accounting and auditing standards. Accounting standards are rules for preparing financial statements; they define what is useful accounting information. Auditing standards specify the rules for performing an audit—the technical process by which an independent person (the auditor) gathers evidence for determining if a set of financial accounts conforms to required accounting standards and if it is also reliable.

Substantial efforts have been made in recent years to harmonise accounting standards across countries. Perhaps the most significant body pushing for this is the International Accounting Standards Committee (IASC)

Other areas of interest to the accounting profession world-wide—including auditing, ethical, educational, and public-sector standards—are handled by the International Federation of Accountants (IFA).

By the mid-1990s the IASC had issued over 30 international accounting standards.

The main hindrance to the development of international accounting standards is that compliance with the IASC standards is voluntary; the IASC has no power to enforce its standards. Despite this support for the IASC and recognition of its standards is growing around the world.

**Five Great Tips for Keeping Your Bookkeeping Accurate**

**Sign All Your Own Checks** in a small business, people — especially full-charge bookkeepers — can bamboo/.le you too darn easily. By signing all the checks yourself, you keep your fingers on the pulse of your cash outflow. This practice can be a hassle — and you can't easily spend three months in Hawaii — you have to wade through paperwork every time you sign a stack of checks. Finally, if you're in a partnership, you should have at least a couple of the partners co-sign checks.

**Don't Sign a Check the Wrong Way** If you sign many checks, you may be tempted to use a John Hancock-like signature. Although scrawling your name illegibly makes great sense when you're autographing baseballs, don't do it when you're signing checks. A clear signature, especially one with a sense of personal style, is distinctive. A wavy line with a cross and a couple of dots is really easy to forge.

**Review Cancelled Checks Before Your Bookkeeper Does** Be sure that you review your cancelled checks before anybody else sees the monthly bank statement. A business owner can determine whether someone is forging signatures on checks only by being the first to open the bank statement and by reviewing each of the cancelled check signatures. If you don't examine the checks, unscrupulous employees — especially bookkeepers who can update the bank account records — can forge your signature with impunity. And they won't get caught if they never overdraw the account. Another point: If you don't follow these procedures, you will probably eat the losses, not the bank.

**Choose a Bookkeeper Who Is Familiar with Computers and Knows How to Do Payroll** Don't worry. You don't need to request an FBI background check. Just find people who know how to keep a checkbook and work with a computer. A bookkeeper who knows double-entry bookkeeping is super-helpful. But, to be fair, such knowledge probably isn't essential. I will say this, however: When you hire someone, find someone who knows how to do payroll - not just the federal payroll tax stuff but also the state payroll tax monkey business.

**Choose an Appropriate Accounting System** Cash-basis accounting is fine when a business's cash inflow mirrors its sales and its cash outflow mirrors its expenses. This situation isn't the case, however, in many businesses. A contractor of single-family homes, for example, may have cash coming in (by borrowing from banks) but may not make any money. A pawnshop owner who loans money at 22 percent may make scads of money even if cash pours out of the business daily. As a general rule, when you're buying and selling inventory, accrual-basis accounting works better than cash-basis accounting.

**QUESTIONS**

1. What is the expression of accounting as ‘the language of business’?
2. How can the government control tax discipline?
3. What is the essence of accounting?
4. What main operations does the basic accounting cycle include?
5. Why do accounting problems exist in international business? What problems do you know?
6. Name three groups of countries with similar accounting standards?
7. Give the definition of auditing and auditing standards?
8. What organizations are involved in harmonizing accounting standards?
9. Does Ukraine use national or international accounting and auditing standards?
10. What in your opinion is more important accounting or auditing? Give your reasons.

**tripartite** – having three parts of groups **to mint** – make coins **overdraft** – a situation in which you draw more money from a bank account than you have in it **merger** – joining of two commercial companies

**ENGLISH AND AMERICAN BANKS**

Today the English banking is a complicated tripartite system like a three-layer cake. The system is headed by the Bank of England.

This bank was established under a royal charter in 1694. The head of the Bank is Governor of the Bank appointed by me Queen on the recommendation of the Prime Minister. The Queen also appoints Deputy Governor and the Court of Directors, which consists of 16 directors.

The Bank of England is a central bank of a national bank. It controls the British banking system, issues banknotes and mints coins. It lends and borrows money for the government, manages the national debts and is in the control of the nation's gold reserve. The others two layers are:

* the commercial or joint stock clearing banks;
* specialized banking institutions such as the discount houses and merchant banks.

The commercial or joint-stock banks deal with the general public. The four large English commercial banks are known as the Big Four. They are Barclays, Lloyds, the Midland, and the National Westminster. Together they have upwards of 10,000 branches. Commercial banks render various services to companies and individuals. Some of the services are:

* to receive or accept from their customers the deposit or money;
* to collect and transfer money both at home and abroad against deposit and current accounts;
* to provide overdrafts to both personal and business customers;
* to lend loans to their customers;
* to exchange money;
* to supply economic information and to prepare economic reviews to be published;
* to make foreign exchange transactions, including spot transactions, forward transactions and swap transactions;
* to issue various banker's cards.

Merchant banks and discount houses deal only with special customers providing funds for special purposes. They accept commercial bills of exchange and offer quite a lot of commercial services. They provide advisory services about new issues of securities, mergers, take-overs and reorganizations. They also arrange financing for their customers and provide fund-management services.

Besides there is a big group of banks in the United Kingdom made up of foreign banks. All the major foreign banks are represented in the U.K. by subsidiary, branch, representative offices or consortium. They provide finance both in sterling and in other currencies and offer a wide range of financial services.

Lombard Street is the symbol of English banking. This is a place where the first bankers coming from Italy settled.

The English commercial banks have branches in all the major towns and a similar structure and mode of working is common to them all. The owners are the shareholders. At the outset they provide the necessary capital. They are all organised on the joint stock principle and are registered public companies.

The Chairman and Board of Directors are elected by the ordinary shareholders at the Annual General Meeting and are responsible for the efficient management of the bank. The Board is concerned with the over-all policy of the bank and the major decisions which put that policy into effect.

The Board will appoint a Managing Director who is directly responsible to them and a member of the Board. They will also appoint the most senior executives who in turn appoint the rest of the clerical staff who will be responsible in different capacities for the day to day running of the bank.

At the end of each business year the Directors recommend and the Annual General Meeting decides how much of the profit should be distributed to the shareholders as dividend, and how much should be retained in the business. In preparation for the Annual General Meeting, a bank publishes its Report and Accounts. These must be sent to every shareholder and are also available for anyone with an interest in the affairs of the bank. From the published accounts shareholders can easily determine the total profit the bank has earned and how much is available for distribution.

Federal Reserve System is the central banking system of the United States of America, set up by the Federal Government in 1913. On account of the vast area of the country, and the greater difficulties of travelling at that time, the country was divided into twelve Federal Reserve Districts, each with its own Federal Reserve Bank.

There are also twenty five branches of the Federal Reserve Banks to serve particular areas within each district. The activities of the Federal Reserve Banks are coordinated through the Federal Reserve Board of governors in Washington. The Board exercises general supervision over the Federal Reserve Banks.

The Federal Reserve Banks hold the reserves of the member banks, i.e. the commercial banks which are members of the Federal Reserve System. The FR Banks supply the member banks with currency if necessary and act to them as lenders by rediscounting bills. The Board determines the reserve requirements of the commercial banks. The Board too really determines discount-rates. The Board discount rate corresponds in nature to the English Bank rate, though the Federal Reserve Banks do not always have the same discount rate.

The Federal Reserve System, in collaboration with the Government of the U.S.A., determines monetary policy and, aided by the Federal Reserve Banks, carries it out.

All national banks must be members of the Federal Reserve System. Incorporated state banks including commercial banks, mutual savings banks, trust companies, and industrial banks, may also join the System.

Incorporated state banks are those which have a charter from the state to act as an individual.

Mutual savings banks are savings banks owned by their depositors. Industrial banks make loans for the purchase or manufacture of industrial products.

**QUESTIONS**

1. When was the bank of England established?
2. What are the layers of English banking system?
3. Name the services commercial banks render in England?
4. What can you say about foreign banks in England?
5. Who is elected and who is appointed in the English banks?
6. How can shareholders get the dividends?
7. What are specific features of the Federal Reserve System of the USA?
8. What are its functions as the central banking system of the USA?
9. In what way is the English bank connected with the FRS?
10. Describe types of American incorporated banks.

**contraction** - getting smaller or shorter **tremendous growth** – huge growth **afloat** – having enough money to operate and stay out of debt **fee** – a payment made for special service **street vendors** – persons who sell something in the street **refuge** – protection from troubles **to impoverish** – make poor **to lodge** – to place on the assets **lucrative** – bringing a good profit **to evade** – avoid (doing something) by cunning

**THE COMMERCIAL BANKS**

In the conditions of contracting output that dominated the first five years of Ukrainian independence any significant accumulation of capital into private hands could only be achieved by redistributing the already existing capital, be it productive assets or circulating money capital.

If the state's way of holding back the pace of economic dislocation and contraction was to subsidize the costs of heavy industry production and to print money in an effort to recoup these costs from the disposed income of consumers, the resulting inflationary spiral was also conducive to the diversion and private accumulation of social wealth by commercial banks.

Ukraine's biggest banks grew out of the reorganization of republic branches of the Soviet central banks in 1988-90. They lay the foundation for the National Bank of Ukraine (NBU) and several large banks serving key state industries. Small commercial banks also made an appearance in this period to serve the new private sector. In March 1991 the Verkhovna Rada adopted the Law on Banks and Banking, which called for their consolidation into a two tier system with the NBU as the central bank responsible for national currency issuance and clearing, foreign exchange and domestic interest rate policies, and a second tier of independent banks regulated by the NBU.

Three of the five big banks of the second tier - Prominvestbank, Ukrsotsbank and APB Ukraina were registered as shareholding companies in 1990, making them the property of specific state economic enterprises and government organizations.

But in 1993, when the Cabinet of Ministers resolved to put all the shares of state organizations under the control of the Ministry of Finance, these banks' boards of directors handed ownership rights over to new private companies and to named individuals working in the banks, the state enterprises and government organizations - i.e. to themselves as physical and juridical persons. By the end of 1994 two thirds of all the capital of Prominvestbank and 95% of that held by APB Ukraina and Ukrsotsbank were in private hands.

Between 1991 and 1993 the five largest independent banks - Ukreximbank and Oshchadbank in addition to the three cited above - took control of 90 percent of all banking services and 95 percent of all foreign currency operations in Ukraine. However, over the next three years to 1998 their share of banking services and operations decreased to 60 percent as a result of the tremendous growth of private commercial banks.

The banks accumulated money capital in several unorthodox ways. The directors of loss-making state enterprises lobbied the Verkhovna Rada and the Cabinet repeatedly and successfully for subsidies to keep them afloat. Part of the subsidies was channelled through their banks to finance domestic and foreign trade by their own and other private companies. The big banks' directors, representing substantial sectors of the economy, had privileged access to state officials that granted export and import licenses. The banks also got their credit from the National Bank of Ukraine at rates of interest that were far lower than the rate of inflation. Merely by exchanging the coupon credits into hard currency and waiting a few months before buying back enough coupons to repay the loan could the holder earn quite a few dollars. The big banks sold on some of their credits to the smaller, less well connected commercial banks for their use in money and commodity trade, and made an immediate profit from the inflated transaction fees and insurance premiums on the loans. From their own premises and through a network of thousands of franchised street vendors the banks additionally traded in foreign currencies with the population at large, who regularly sought refuge from inflation for their domestic currency earnings in the dollar and were then forced to sell them back as the cost of living spiralled upwards. Thus the wave of inflation which was impoverishing large numbers of people in these years provided a profitable environment for those who received state subsidies, credits and licenses to trade in their capacity as state enterprise managers and who then used them for private and corporate gain in their capacity as directors and shareholders of independent banks.

The government set out to stop the run on state funds from the National Bank and the state budget through to the commercial banks. State officials and enterprise managers with access to various funds (especially agricultural credit and conversion funds) from which they could make speculative earnings were investigated. Under the chairmanship of Viktor Yushchenko, the NBU changed the way it extended credit to the commercial banks from an "administrative division of resources" to credit auctions, and finally by offering state bonds.

In August 1998 the government banned the use of foreign currency as payment in the domestic retail and service sectors. The commercial banks were no longer permitted to hold foreign currencies on deposit, and were required to lodge them with the NBU instead.

The commercial banks developed into new areas when subsidies to state enterprises became more difficult to get and the sharp fall in the inflation rate eliminated the lucrative field for arbitrage. Around thirty banks went to the wall, mainly because they knew no other trade. But the remaining banks - indeed a continually growing number over the period to 1999 - were involved in serving the private sector, lending money to the government, and for the few biggest banks providing services to state sector institutions and programs. Services to the private sector included currency transactions, deposits and trustee operations, but perhaps even more importantly in the order of their commitments, the banks served the shadow economy by providing means to conceal capital, such as channels for capital flight abroad, off-record loans and foreign currency transactions. It was estimated in 1995 that around 40 percent of the total domestic monetary mass was circulating within the shadow economy, unaccounted and untaxed.

The commercial banks had lent the government 760m hryvnia by the first quarter 1999 through debt bonds. The government itself, however, had 540m hryvnia invested in the banks. Therefore the banks were lending the government its own money, and at high rates of interest. This field of activity was limited, and so the biggest five banks turned to the government to ask for preferential treatment in handling such financial operations as servicing the state enterprise budgets, targeted state investment programs, the Pension Fund and other social welfare schemes. In April 1998 the government effectively gave the monopoly on handling state finances to the NBU and to four commercial banks - Ukreximbank, APB Ukraina, Ukrsotsbank and Prominvestbank.

The Ukrainian banks worked mainly to extract a profit from money and commodity trade. Legislation impeded their capacity to mobilize investment. The public preferred to save its earnings if it could save - by buying dollars, consumer durable and building homes, rather than putting hryvniain bank accounts .Where possible, business owners and managers did not use the banking system in order to evade taxation, preferring instead to facilitate their activities with cash, debt and barter. Banks had very little capital resources of their own: a statutory fund of only $3-5 million, and in some cases less than was officially required. In the critical economic circumstances of contracting production, with the money supply very tight after 1994 as easy credits and subsidies dried up and interest rates matched inflation rates, businesses in Ukraine - both state owned and private - were in no position either to bank earnings or to borrow.

**QUESTIONS**

1. When did Ukrainian banking system begin to form?
2. Describe a two tier banking system?
3. What are the functions of the NBU?
4. Were the first Ukrainian banks state-owned or private? Why?
5. Explain the reasons of inflation during 1991-1993?
6. How do you understand the definition ‘go to the wall’? Did Ukrainian banks go to the wall? Why?
7. What do you know about shadow economy and its volume in Ukraine?
8. Is the NBU the only bank handling state finances?
9. What problems existed in Ukrainian banking system in 1998-2000? Have they been solved?
10. Compare the development of Ukrainian banks in 1989-1991 and 1998 and say if the situation has changed greatly since that time.

**transaction** – payment or the process of making one **evaluation** – careful consideration of smth to see how useful or valuable it is **cash receipt** – a written document showing that an amount in cash was paid **cash payments journal** – a book containing details/records of transactions in cash **credit sale** – a sale in which payment will be made in one payment sometime in the future or in smaller regular payments over a period of time **balance sheet** – a document showing a company’s financial position and wealth at a particular time **net** **sales** – money from a company’s sales in a particular period of time after taking off goods returned by customers, discounts, etc. **operating expense (**also **overhead expense)** – money that is spent on the general running of a business or organization, rather than money spent on producing goods or selling services **liability** – an amount of money owed by business to a supplier, lender **current ratio** – the relationship between the total amount that a business has in cash, in its bank accounts, and owed by customers, and the total amount that owes to suppliers **quick ratio** – a calculation of weather a business could pay its debts if sales stopped or slowed down **working capital (**also **operating capital)** – money used by a business to carry on production and keep trading.

**FINANCIAL STATEMENTS**

Good record keeping by a business is not only wise, but is required by many laws. Legal and financial questions may be raised by various agencies, banks, and employees. These questions can be accurately answered when written records of business proceedings are kept.

By recording daily **transactions,** the owner can learn from mistakes andavoid errors in the future. A recordof all the events that occur in a business permits **evaluation,** improvement, and a good chance for personal and financial success.

For a typical small business, it is suggested that the following records be kept: **cash receipts** and **cash payments journal,** record of **credit sales** (sales journal), record of purchases (purchases journal) **,** record of wages (payroll),operations statement (profit and loss statement or income statement), **balance sheet.** The results of operations and the present financial position of the firm are reflected in the income statement and the balance sheet. Management decisions must be weighed in terms of their effect on these two basic financial statements.

THE INCOME STATEMENT (the profit and loss statement or the operations statement). This statement is a summary of the income and expenses of the business. The income statement summarizes these facts for any period of time. Income statements may be made for a year, a month, a quarter, or a half-year. Some firms have weekly or daily income statements. Although many items appear on the income statement, the basic idea is very simple. The formula is: **NET** **SALES** minus COST OF GOODS equals PROFIT. Amount taken minus Amount paid out equals PROFIT.

With a larger business, expenses change the formula somewhat:

NET SALES minus COST OF GOODS SOLD equals GROSS PROFIT.

GROSS PROFIT minus EXPENSES (RENT, LIGHT, PHONE) equals NET PROFIT

In business there are two kinds of profit: GROSS PROFIT and NET PROFIT.

NET SALES minus COST of GOODS SOLD equals GROSS PROFIT GROSS PROFIT minus **OPERATING EXPENSES** equals NET PROFIT.

The operations statement is a summary of facts which have been recorded daily in the books of the business. No matter how complicated it may look, it is based on the following simple formulas:

GROSS PROFIT equals SALES minus COST OF GOODS NET PROFIT equals SALES minus COST OF GOODS AND EXPENSES.

The income statement might be compared to a "moving picture". It describes the business in action. It summarizes the results of past activities and gives hints of what the future holds. The final figure, net profit, is of the greatest importance. One might find, for instance, that even though sales had increased since last year, profits were less. The operations statement might show that expenses were too high, it might also show that the utilities increased or there was too much loss on bad debts. Once a problem area is identified, steps can be taken to correct it.

When applying for a loan, the bank may want to examine several operations statements. The bank is interested in how sales compare with expenses, how much inventoryis carried, and credit which is extended by the business. The owner is provided with information about the business from the operating statement. Profits earned over a period of time, department performance, inventory size, overhead costs, and many other items are shown on the statement.

THE BALACE SHEET. In contrast to the operations the balance sheet is a "still picture" of the business. ASSETS on one side are balanced against **liabilities** on the other. ASSETS include everything that is owned by the business. LIABILITIES are those amounts which the business owes.

The principle is the same regardless of the size of the business. It is expressed in the formula: ASSETS minus LIABILITIES equals NET WORTH or ASSETS equals LIABILITIES plus NET WORTH.

The figures for the balance sheet come from the records kept by the business. Each item on the balance sheet is based on facts that have been recorded daily in different ledger accounts. The records used for the operations statement are also used in preparing a balance sheet.

**CURRENT RATIO.** The assets are divided into current assets and fixed assets. The relationship between current assets and current liabilities is a prime measure of liquidity of any firm. Liquidity is the measure of ability to pay debts as they become due.

Current assets are assets that are in the form of cash or will convert into cash within 90 days. Current liabilities are those debts that will be due within one year. The relationship between current assets and current liabilities is called the current ratio. Sound financing demands that this ratio be at least 2 to 1. The current ratio is found by dividing the current assets by the current liabilities:

**QUICK RATIO.** This ratio is also known as the acid test of liquidity. It is the relationship between only the most liquid assets (cash and accounts receivable) and the total of the current liabilities. The conservative rule is that this ratio should be at least 1 to 1. In other words, cash plus receivables should equal or exceed the current liabilities.

**WORKING CAPITAL.** Working capital is the difference between current assets and current liabilities expressed in dollars.

THE PROPRIETORSHIP RATIO of owner's equity ratio is the relationship between the owner's investment in the firm and the total assets being used in the business. This ratio can be expressed as a ratio of owner investment to total assets or as a percentage of those assets.

There are many other ratios utilized in the analysis of business firm operations. Most small firms that maintain adequate current ratios, quick ratios, and working capital, proper inventories, and a 50 percent proprietorship ratio maintain sound financial structure.

TRADING ON EQUITY. In connection with owner investment, prospective business owners and managers should become familiar with the phrase "trading on equity". This phrase refers to the relationship between the creditor capital (liabilities) in the business and the owner capital. Trading on too thin an equity is a term used to describe owners who have too little of their own money invested compared with the creditor capital (liabilities) used to finance the business. A proprietorship ratio of 50 percent indicates that the owner or owners have invested half the value of the total assets used in the business. When this ratio falls below 50 percent, the outside creditors are supplying more of the firm's total capital needs than the owners are. This indicates, in most cases, that further capital will be more difficult to obtain either from current loans, sale of securities, or other investors. Such owners are truly trading on too thin an equity and probably need more investment capital of their own.

**QUESTIONS**

1. What records is a typical small business supposed to keep?
2. What is the income statement?
3. What kinds of profit in business do you know?
4. Would you name the formula to calculate gross profit and net profit?
5. What is the essence of the balance sheet?
6. What does each side of the balance sheet represent?
7. What in your opinion is the difference between current ratio and quick ratio?
8. What is proprietorship ratio?

**doggedly** – refusing to yield **to wedge** – push into a small or tight space **soubriquet** – cognomen, by-name **sophisticated** – complicated and refined; elaborate, subtle

ECONOMIC POTENTIAL OF UKRAINE

**Western Bound**

One of the four original republics, which formed the USSR in 1922, Ukraine is today edging closer to the West in its ambition to restore its economy and capitalise on its considerable assets.

Since the country declared unilateral independence 1990 and the collapse of the Soviet Union, it has doggedly ploughed on with the transition from centralised command economy to a free market economy. Since 1991 Ukraine has developed much closer relations with the West. In 1994 Ukraine renounced the nuclear weapons it had inherited from the USSR and it has since joined NATO's Partnership for Peace programme. It has also applied to become an associate member of EU, with the objective of full membership in the long run. Wedged in the south east corner of Europe, pressing down on the Black Sea and the Sea of Azov, Ukraine is in a strategic location as a link to western Europe and to the East. It is a large country of more than 50 million inhabitants - at 231.990 sq. miles the second largest in Europe - and it is rich in mineral resources, including oil, gas and coal.

**Economic Transition**

Ukraine has an extensive high-technology sector which it inherited from the USSR, a well-educated labour force. There are also vast fertile plains, with soil that is even richer than the prairies of North America, earning the country the soubriquet breadbasket of the Soviet Union".

Over the past 8 years the country has carried out extensive reforms to fulfil its potential, but it is still struggling with some of the difficulties of its transition to a market economy. Figures published recently by the Ukrainian National Statistics Committee confirm the current situation. They show a drop of 1.7% in GDP in 1998, with industrial and agricultural output down by 1.5% and 8.3% respectively, and inflation at 20%, double that of 1997. By contrast the trade balance was positive in 1998, with exports at $16.4 billion and imports at $16.1 billion, although both were some 13% lower than the year before.

The government has done much to liberalise economy since 1994, when they began the process of reform. Economy Minister Vasyil Rohovy explains: "We overcame hyperinflation that reached 1000% a year. We succeeded in achieving macroeconomic and financial stabilisation. We started the privatisation process and managed to speed it up. We established conditions for small and medium - size businesses. We also implemented monetary reform and introduced the national currency, the hryvnia, two years ago." Members of the government admit that more reforms are needed if they are attract more foreign investment and so develop the country's resources. They accept that there has to be less state regulation and a less punitive tax system. But they insist that they have been unable to overcome political opposition, particularly in the Ukrainian parliament. " I believe it is because 7 years is still a very short period for a country that for 70 years lived under Soviet control", says Serhiy Tyhypko, deputy prime minister and minister for economic reform. " I think it is just a matter of time before we have created the conditions necessary for investors."

Khlib Ukrainy (Bread of Ukraine), the state joint stock company responsible for grain products, is in the process of privatisation. Company chairman Heorhiy Omelchenko said that investors should not be afraid of investing in the construction of facilities.

**Space Pioneers**

Ukraine has great expertise in aircraft manufacture and space technology, developed when the country was at the centre of the Soviet space program.

On July 17 a Zenit 2 rocked was successfully launched. It carried into orbit an Ocean 0 Ukrainian-Russian satellite (6300 kg). It is designated for scientific purposes - to carry out scientific researches and observations of the earth's surface -in the interests of both Ukraine and other countries. A well-earned triumph of Ukrainian space scientists was achieved on 27 March when a three-stage Zenit rocket, designed and built by KB Uzhnoye of Dnipropetrovsk, was the first commercial launch from an ocean-based platform, and a successful demonstration of the potential of a new technology, orders for 8 more Zenit rockets have since been received. The successful launch has served to restore the reputation of Ukraine's Zenit rockets, which was dented when a land-launched Zenit 2 crashed in Sept 1998. The failure was later found to have been caused by a faulty, made on-board computer, made in Russia.

Space expertise is just one of the high-technology areas in which Ukraine is taken advantage of its scientific potential. The country has some 200.000 well-trained scientists, with advanced knowledge in a wide range of fields. In space matters ,Ukraine extensively co-operates with Russia and western countries.

**Computer Know-how**

Another area of rapid high-technology development is the personal and integrated computer industry, which has grown by leaps and bounds since the 1980s. The domestic market is still small, but Evheniy Utkin, president and chairman of the board of Kvazar Micro, which assembles and distributes them, expects sales to grow to 600.000 in 2003, compared with 200.000 in 2001.

"In my opinion, Ukrainian users are more sophisticated than those in Europe or eastern Europe because Ukraine has always been a technologically developed country, particularly in electronics," he says.

**Telecommunications Boom**

There is certainly great potential for the development of telecommunications in Ukraine, where the density of telephones is only 18 per 100 inhabitants, well below that of west European countries. Foreign investment was accepted in 1992, when two joint ventured were established: Utel and UMC.

Huns Wagenaar, chairman of Utel's Supervisory Board, says: " Ukraine needs to attract billions of dollars to improve and expand its networks. We are sure that the market will grow. But there is great uncertainty over the pace."

An important debate is under way in Ukraine over the future of Ukrtelecom, the state-owned telecommunications operator. The government wants to privatise the company, in the belief that in this way it can attract the investment needed for its development, but there is opposition in the parliament and the proposal was rejected there in December 1998. The government's aim is to sell 25 percent plus one share of Ukrtelecom to a strategic investor, while retaining a 51 percent share itself. But it cannot do this under existing legislation, because Ukrtelecom is on a list of 'strategic' companies which may not be sold off.

**Industrial Strength**

There is also considerable potential in heavy industry. Some of the world's best metallurgists, engineers and scientists are on tap, as well as skilled labour force. It is estimated there are enough coal reserves to last 300 years and, while old coal-burning power stations which pollute the atmosphere will be slowly phased out, the way ahead points to the construction of modern clean-burn power plants which produce little or no gas emissions.

The government, via the State Property Fund, is now planning to sell 26 percent of Nikopolskiy ferrous alloys plant, in which the government will retain a 50 percent stake until 2001.

One leading company which has successfully restructured and found new markets is Dneprospetsstal, which is a joint stock company 68 percent-owned by financial investors and 32 percent-owned by government. Having modernised its facilities, the company now exports 100.000 tonnes of rolled steel to Europe. "Although the European quota is 45.000 tonnes annually, we are bypassing the quota because it is high quality steel", says Hennadiy Kikyo, Dneprospetsstal chairman. " That is why European manufacturers are developing methods to fight us. They cannot declare antidumping because we sell it at European prices."

**From Stability to Progress**

On 24 August Ukraine celebrated the anniversary of its independence. Ukraine continues to progress toward market economy status. However, the time is fast approaching when it is no longer sufficient to speak of great potential alone. The coming year is arguably one of the most important in Ukraine's new history and recent stability suggests that it is up to the challenge.

**QUESTIONS**

1. Why does Ukraine try to entry different international organizations?
2. Can you say that Ukrainian economy is developing?
3. What are the results of reforms in Ukrainian potential development?
4. Is our country still a “space pioneer”? What do you know about successes of space industry of Ukraine?
5. If you were a computer company manager, what difficulties would you see in this area in Ukraine?
6. What kind of telephone do you have? What would you advise Ukrainian government to improve the situations with telecommunications?
7. Do you see a huge potential of Ukrainian heavy industry? Give examples from our town economy.
8. How can privatisation influence the Ukrainian economic potential?
9. Give the definition of damping prices. Do Ukrainian plants use them? In what spheres?
10. Do you consider the 24-th of August a great holiday? What about your parents and grandparents?

**List of the Topics**

1. What is marketing?
2. Marketing concept
3. Marketing strategy
4. The foreign exchange and capital markets
5. Budgeting in business
6. Problems of European union
7. Britain and the euro
8. Accounting
9. English and American banks
10. The commercial banks
11. Financial statements
12. Economic potential of Ukraine