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Учебно-методическое пособие

«Аспекты и трудности обучения финансово-экономическому переводу»
по дисциплине

«Практический курс устного последовательного перевода на международных конференциях»

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Аннотация

Учебно-методическое пособие предназначено для студентов всех форм обучения направлений 45.05.00 Лингвистика, 45.05.01 Перевод и переводоведение.

Настоящее учебно-методическое пособие содержит оригинальные тексты на английском и русском языках для письменного и устного перевода для студентов 4 курсов, предназначенных для студентов, обучающихся по направлению перевод и переводоведение. По каждому разделу даны упражнения, направленные на совершенствование навыков перевода финансов-экономических текстов

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Оглавление

ВВЕДЕНИЕ 4

Раздел 1. 4

MONEY AND FINANCE..4

Раздел 2 24

BANKS AND BANKING..24

Раздел 3 32

TEXTS..32

Использованная литература 46

ВВЕДЕНИЕ

Настоящее учебно-методическое пособие содержит оригинальные тексты на английском и русском языках для письменного и устного перевода. По каждому разделу даны упражнения, направленные на совершенствование навыков перевода финансов-экономических текстов.

Раздел 1: позволяет студентам ознакомиться с основными лексическими единицами по теме маркетинг и мировая экономика. Получить базовые знания по данной теме и совершенствовать переводческие навыки благодаря предложенным упражнениям.

Раздел 2: позволяет студентам ознакомиться с основными лексическими единицами по теме менеджмент. Получить базовые знания по данной теме и совершенствовать переводческие навыки благодаря предложенным упражнениям.

Учитывая содержательную сторону практических занятий, студенты после окончания курса «Финансово-экономический перевод» должны обладать следующими профессиональными компетенциями **практической деятельности:**

· имеет представление о моделях социальных ситуаций, типичных сценариях взаимодействия

· владеет методикой пред переводческого анализа текста, способствующей точному восприятию исходного высказывания ;

· владеет методикой подготовки к выполнению перевода, включая поиск ин- формации в справочной, специальной литературе и компьютерных сетях ;

· знает основные способы достижения эквивалентности в переводе и умеет при- менять имеет представление об этических и нравственных нормах поведения, основные приемы перевода ;

·владеет основами системы сокращенной переводческой записи при выполнении устного последовательного перевода.

РАЗДЕЛ 1.

MONEY AND FINANCE

Комплексная цель: ознакомить студентов с основными лексиче- скими единицами по теме деньги и финансы. Представить базовые зна- ния по данной теме и совершенствовать переводческие навыки благо- даря предложенным упражнениям.

Financial reporting

Maria Malone is the chief finance officer of a large international media company, based in the UK, with activities in television and publishing. She's talking to new trainees in the finance department:

'As with all companies, investors and analysts want to know how the company is being run and how their money is being used. Each year we produce an **annual report** with three key sets of figures:

- **profit and loss account**
- **balance sheet**
- **cashflow statement**

These are the three key **financial statements** in **financial reporting.**
They give the basic information about our **financial results.'**

The financial year

'Our **financial year** ends on March 31st, although other companies choose other dates. Soon after this, we publish **preliminary results,** or **prelims.** The **full report and accounts** are published a few months later. As a UK company, we also publish **interim results** or **interims** after the first six months of our financial year.'

*Note: US companies publish their results every **quarter.***

Shareholders, bondholders and lenders

'We use **shareholders'** money to operate and invest in the business. Some of the profit we make is paid out to them, usually in the form of **dividends** in relation to the number of **shares** that they each hold. Our shares are traded on the London **stock market.**

We also borrow money in the form of **bonds.** We pay percentage **interest** on those bonds and then later repay the **principal,** the amount of money originally lent to us. Our bonds are traded on **bond markets.** And we borrow money from banks in the form of **loans,** on which we also pay interest.

Of course, our shareholders, **bondholders** and **lenders** all take a keen interest in our accounts!

The results we publish can affect share prices: good results cause prices to rise, if the market believes the company is **undervalued.** However, poor results often cause a drop in share price, as investors feel the company is **overvalued.'**

Profit and loss account Accruals accounting Maria Malone continues:

'The **accruals principle** means that events in a particular **reporting period**, for example sales of goods or purchases of supplies, are recorded in that period, rather than when money is actually received or paid out; this may happen in a later period.'

Profit and loss

'The **profit and loss (P&L) account** records the money we make (or lose!) during a particular reporting period, using the accruals principle. In our case, our accounts record sales from books, magazines, television advertising, etc. during the period - this is the money received from sales, minus the labour and cost of materials used to produce them, which is called the **cost of goods sold (COGS)**.

Then we take away **selling and general expenses** - the costs related to making these sales - employees' salaries, rent for buildings, etc. There is also the cost of **depreciation** - this is not an actual sum of money paid out, but is shown in the accounts to allow for the way that machinery wears out and declines in value over time and will have to be replaced. This leaves us with our **operating profit**.

Then we subtract the **interest payable** on money we have borrowed in the form of bonds and bank loans. This gives the **profit on ordinary activities before tax**, or **pre-tax profit.**

Sometimes there are **exceptional items** to report, for example the cost of closing a particular operation, but fortunately this does not happen very often.

Of course, we pay tax on our profits and in the UK this is called **corporation tax.**

*Note: Sales are also referred to as turnover in BrE. The profit and loss account is called the **income statement** in the USA.*

Earnings

'From the **profit after tax,** also referred to as **earnings**, we usually pay **dividends** to shareholders, and you can see the figure for **dividends per share**. However, when business is bad, we may not do this - we may **omit, pass** or **skip the dividend**.

Naturally, we don't pay out all our profit in dividends. We keep some to invest in our future activities - these are **retained earnings**, or **reserves**.

You can look at profitability in terms of **earnings per share** (**EPS**), even if some of these earnings are retained and not paid out in dividends.'

Balance sheet

Assets

A company's **balance sheet** gives a 'snapshot picture' of its assets and liabilities at the end of a particular period, usually the 12-month period of its financial year. But the snapshot could be taken on any day of the year.
An **asset** is something that has value or the power to earn money for a business. Assets include:
1 current assets:

- **cash** at the **bank.**
- **securities:** investments in other companies.
- **stocks,** of **raw materials, unfinished goods** and **finished goods,** that are going to be sold.
- **debtors:** money owed to the company by customers.

2. **fixed** or **tangible assets:** equipment, machinery, buildings, land.
3. **intangible assets:** for example, **goodwill,** the value that the company thinks it has as a functioning organization with its existing customers, and in some cases **brands**, because established brands have the power to earn it money, and would have a value for any potential buyer of the company.

However, there are some things of value that are never shown on a balance sheet, for example the knowledge and skills of the company's employees.

Depreciation
Of course, some assets such as machinery and equipment lose their value over time because they **wear out** and become **obsolete** and out of date. Amounts relating to this are shown as **depreciation** or **amortization** in the accounts. For example, some computer equipment is **depreciated** or **amortized** over a very short period, perhaps as short as three years, and a charge for this is shown in the accounts. The value of the equipment is **written down** or reduced each year over that period and **written off** completely at the end. The amount that is shown as the value of an asset at a particular time is its **book value.** This may or may not be its **market value,** i.e. the amount that it could be sold for at that time. For example, land or buildings may be worth more than shown in the accounts because they have increased in value. Equipment may be worth less than shown in the accounts because its value has not been depreciated by a realistic amount.
Note: The terms 'depreciate' and 'depreciation' are usually used in the UK; 'amortize' and 'amortization' are more common in the USA.

Liabilities
A company's **liabilities** are its debts to suppliers, lenders, bondholders, the tax authorities, etc.
Current liabilities are debts that have to be paid

within a year, for example:

- **creditors:** money owed to suppliers etc.
- **overdrafts:** when the company spends more money than it has in its bank accounts.
- **interest payments** that have to be paid in the short term.
- **tax payable.**

Long-term liabilities are debts that have to be paid further into the future, for example long-term **bank loans** and **bonds.**

Shareholders' funds

When you deduct a company's **liabilities** (everything it owes) from its assets (everything it owns), you are left with **shareholders' funds.** In theory, this is what would be left for shareholders if the business stopped operating, paid all its debts, obtained everything that was owed to it and sold all its buildings and equipment.

Shareholders' funds as shown in a company's accounts includes: The **share capital** the shareholders have invested.

The profits that have not been paid out in dividends to shareholders over the years, but have been kept by the company as **retained earnings**, also called **reserves**.

Cashflow statement

Cash inflows and outflows

The **cashflow statement** shows money actually coming into and going out of a company in a particular period: **cash inflows** and **outflows.**

Types of cashflow

Net cashflow from operations is the money **generated by** the sales of the company's goods or services, minus the money spent on supplies, staff salaries, etc. in the period.

Net cashflow from investment activities is the result of:

- purchases of securities (bonds, shares, etc.) in other companies.
- money received from sales of securities in other companies.
- loans made to borrowers.
- loans repaid and loan interest paid by borrowers.
- purchases of land, buildings and equipment.
- sales of land, buildings and equipment.

Net cashflow from financing activities is the result of:

- money received through short-term borrowing.
- money repaid in short-term borrowing.
- money received through issuing new shares in the company.
- money received through issuing new bonds in the company.
- dividends paid to shareholders.

Adding and subtracting the figures above, the company calculates its **net cash position** at the end of the year. Investors check the cashflow statement to see how the company is obtaining and using its cash - how much it made from its operations, how much it has raised through new share issues, etc.

Note: 'Cashflow' can also be spelled with a hyphen and as two words.

Investment ratios

Clara Freeman is an analyst at a large investment bank:

'We can check the health of a company by looking at **investment ratios:** the relationship of one key figure to another. The performance of different companies in the same industry can also be compared by looking at the same ratios in each company.

One important ratio is **return on assets (ROA),** where we look at a company's profits for the year in relation to the value of its assets - its resources - to see how well managers are using those resources. If a company uses relatively few resources in relation to similar companies to generate a higher level of profits, we say that it is **sweating its assets.** But it may reach a point where it is not investing enough in new buildings, equipment, etc. There are limits to how far assets can be made to sweat!'

Return on equity

'Return on equity (ROE) measures how well a company's managers are using **shareholder's equity** to invest in activities and resources that generate profit for shareholders. For example, if in a particular year profit before tax is £50,000 and the company has shareholders' equity at that time of £500,000, it has ROE in that year of 10 per cent.

Like all ratios, this can be compared with figures from other companies, or for the same company from year to year. One figure by itself doesn't mean very much.'

Leverage

'To get a better return on equity, companies may borrow in the form of loans and/or bonds. The amount of a company borrows and the interest it pays on this in relation to its share capital is **leverage. Income leverage** is the amount of interest a company pays on its borrowing in relation to its operating profit. This can be expressed as a percentage: for example, a company that makes £80,000 in operating profit in a particular period and pays £20,000 in interest has leverage of 25 per cent. The relationship can also be expressed as a ration in terms of **interest cover** - the number of times it could pay the interest out of its operating profit - in this case, four times.

A company with a lot of borrowing in relation to its share capital or operating profit is **highly leveraged,** or, in British English only, highly geared. A company that has difficulty in making payments on its debt is **overleveraged.'**

*Note: leverage' is also called **gearing** in BrE.*

Shareholder value Yield

Clara Freeman continues:

'Investors look at the **yield** of a company's shares - the **dividend per share** that it pays out in relation to the share price. For example, a company whose shares are worth €20 and that pays a dividend of € 1 has a yield of 5 per cent. The dividend per share itself is calculated by dividing distributed earnings by the number of shares outstanding.

Those interested in immediate **income** look for **high-yield shares** - shares that pay out high dividends in relation to their prices. Others might accept **lower-yield shares** if they think the company's profits will grow over the coming years. These investors are looking for **growth,** increasing profits and **dividend payouts** in the future.

Price/earnings ratio

But companies do not pay out all their **earnings** - profits after tax - in dividends each period. Not all earnings are distributed to shareholders - companies keep some as **retained earnings**.

Investors want to know how well their money is working for them and one way of doing this is to look at the **earnings per share** (EPS). This is calculated by dividing the after-tax profit by the number of **shares outstanding** - the number issued and in existence.

For example, if a company has an after-tax profit of € 1 million and has four million shares outstanding, it has EPS of 25 cents.

They can also use the earnings per share to work out the **price/earnings ratio (PE ratio)** -this is the share price divided by the earnings per share. The company with EPS of 25 cents and a current share price of €5 has a PE ratio of 20.

This ratio gives an idea of how expensive a share is in relation to the profit the company is making. If investors are willing to pay for shares with a higher-than-average PE ratio, it may be because they expect the company to have higher-than-average profits growth in the future and they are thus willing to pay more for these higher predicted earnings.

Maximizing shareholder value

Shareholders in a company obviously want to maximize their **return on investment (ROI)**. They increasingly look at how the company is managed in terms of **shareholder value** -the total amount the shares they hold are paying out in dividends - and the increase in their value during the time that they hold them.

If a company's shareholders could get the same or better ROI by putting their money on deposit in a bank, they would not be too pleased with the company's managers. So, shareholders watch senior managers' decisions increasingly closely. A company may say that it wants **to maximize shareholder value** and use its assets and potential assets in the most profitable way. This implies key **strategic decisions** such as making the right **acquisitions**, and **divestment** of business units that do not make enough profit, even if they arc not actually loss-making.'

Accounting standards

Audits and their transparency

Every company appoints **auditors**, specialist external accountants who **audit** its accounts. The auditors approve them if they think they give **a true and fair view** of the company's situation. If not, they specify the **qualifications** they have about the accounts. If auditors do this, it certainly gets investors worried!

But auditors complain that there may be an **expectation gap** between what they are required by law to do and what clients and investors sometimes expect them to do -auditors say that they should not be expected to pick up every problem.

Following the scandal of Enron and other **corporate collapses** in the US, investors are increasingly worried about **accounting irregularities,** and they are demanding that auditors should be more strictly regulated - the authorities should **supervise** them more closely.

Regulators - government agencies checking that the law is applied - are demanding more **transparency:** they say audits should ensure that the company's accounts give a clear picture of its true financial situation.

They are particularly concerned with:

·**auditor rotation:** the principle that companies should be obliged to change their auditors regularly

·**conflict of interests**: some say that a company's auditors should not be allowed to do its consultancy work, for example giving tax advice or doing management consultancy.

International standards

In the UK, the way accounts are presented is governed by regulators such as the **Financial Reporting Council (FRC).**

In the US, they have the **Generally Accepted Accounting Principles (GAAP),** promoted by the **Financial Accounting Standards Board (FASB).**

People and institutions invest in companies worldwide. Therefore it's important for financial reporting to be in a form that means the same thing to people all over the world. That's why accountants worldwide are moving towards **International Financial Reporting Standards (BFRS).**

These standards will eventually be accepted by the **International Organization of Securities Commissions (IOSCO)** representing stock markets all over the world, including the all-important **Securities and Exchange Commission (SEC)** in the US. This will facilitate investment by allowing investors from every continent to understand the accounts of companies, and to trust them, wherever they are based.

Sales and costs

Sales describes what a business sells and the money it receives for it. Denise van Beek of Nordsee Marine is having a **sales meeting** with her **sales team:**

'Our **sales figures** and **turnover** (money received from sales) in the last year are good, with **revenue** (money from sales) of 14.5 million euros, on **volume** of 49 boats. This is above our **target** of 13 million euros. We estimate our **sales growth** next year at ten per cent, as the world economy looks good and there is demand for our products, so my **sales forecast** is nearly 16 million euros for next year. I'm relying on you!'

Here are some more uses of the word 'sale':

- **make a sale:** sell something
- **be on** sale: be available to buy
- **unit sales:** the number of things sold
- **Sales:** a company department
- A **sale:** a period when a shop is charging less than usual for goods
- **The sales:** a period when a lot of shops are having a sale

Costs

The money that a business spends are its **costs:**

- **direct costs** are directly related to providing the product (e.g. salaries).
- **fixed costs** do not change when production goes up or down (e.g. rent, heating, etc.).
- **variable costs** change when production goes up or down (e.g. materials).
- **cost of goods sold (COGS):** the variable costs in making particular goods (e.g. materials and salaries).
- **indirect costs, overhead costs** or **overheads** are not directly related to production (e.g. adminstration).

Some costs, especially indirect ones, are also called **expenses.**

Costing is the activity of calculating costs. Amounts calculated for particular things are **costings.**

Margins and mark-ups

Here are the calculations for one of Nordsee's boats:

- **selling price** = 50,000 euros
- **direct production costs** = 35,000 euros
- selling price minus direct production costs = **gross margin** = 15,000 euros
- **total costs** = 40,000 euros
- selling price minus total costs = **net margin, profit margin** or

mark-up = 10,000 euros
The net margin or profit margin is usually given as a percentage of the selling price, in this case 20 per cent.
The mark-up is usually given as a percentage of the total costs, in this case 25 per cent.

Share capital and debt
Capital is the money that a company uses to operate and develop. There are two main ways in which a company can **raise capital,** that is find the money it needs: it can use **share capital** or **loan capital,** from investors. These are people or organizations who **invest in** the company; they put money in hoping to make more money.
Share capital is contributed by **shareholders** who **put up money** and **hold shares** in the company. Each share represents ownership of a small proportion of the company. Shareholders receive periodic payments called **dividends,** usually based on the company's profit during the relevant period. Capital in the form of shares is also called **equity.**
A venture capitalist is someone who puts up money for a lot of new companies.
Loan capital
Investors can also lend money, but then they do not own a small part of the company. This is **loan capital,** and an investor or a financial institution lending money in this way is a **lender.** The company borrowing it is the **borrower** and may refer to the money as **borrowing** or **debt.** The total amount of debt that a company has is its **indebtedness.**
The sum of money borrowed is the **principal.** The company has to pay **interest,** a percentage of the principal, to the borrower, whether it has made a profit in the relevant period or not.
Security
Lending to companies is often in the form of **bonds** or **debentures,** loans with special conditions. One condition is that the borrower must have **collateral** or **security:** that is, if the borrower cannot repay the loan, the lender can take equipment or property, and sell it in order to get their money back. This may be an asset which was bought with the loan.

Success and failure
Cash mountains and surpluses
Predaco is a successful company. Over the years, it has **distributed some profits** or **earnings** to shareholders, but it has also kept profits in the form of **retained earnings** and built up its **cash reserves;** it is sitting on a **cash pile** or **cash mountain.** These reserves may be used for investment or to make **acquisitions:** to buy other companies.
Debt and debt problems
Here are some expressions that can be used to talk about a company's debts, or a country's foreign debts:

repayment servicing When a company repays its debt and\or interest on it; 'debt repayment' describes a particular amount repaid

debt **burden** A company's debt, especially when considered as a problem

crisis When a company has serious difficulty repaying its debt

rescheduling **restructuring** When a company persuades lenders to change repayment dates and terms

default When a company fails to make a debt repayment

Note:

to reschedule, restructure a debt; *to repay, default, service ON a debt*

Turnarounds and bailouts

Doomco is in financial trouble and it is being described as **sick, ailing** and **troubled.** They've called in a company doctor, Susan James, an expert in **turning round** companies. There may be a **turnaround** and Doomco may recover. But if there is no **recovery,** the company may **collapse** completely. Ms James is currently looking for another company to **bail out** Doomco by buying it. This would be a **bailout.**

Bankruptcy

If a company is in serious financial difficulty, it has to take certain legal steps.

In the US, it may ask a court to give it time to reorganize by **filing for bankruptcy protection** from **creditors,** the people it owes money to.

In Britain, a company that is **insolvent**, i.e. unable to pay its debts, may **go into administration,** under the management of an outside specialist called an **administrator.** If the company cannot be saved, it **goes into liquidation** or **into receivership. Receivers** are specialists who sell the company's assets and pay out what they can to creditors. When this happens, a company is **wound up,** and it **ceases trading.** A company in difficulty that cannot be saved **goes bankrupt.**

Mergers, takeovers and sell-offs Stakes and joint ventures

a stake
an interest a **in a company** The shares that one investor has in a
holding company

a majority **stake** **interest** **holding** When more than 50 per cent of the shares of a company are owned by one investor, giving them control over how it is run

a minority	**stake** **interest** **holding**	When an investor owns less than 50 per cent of the shares of a company

Two companies may work together in a particular area by forming an **alliance** or **joint venture;** they may remain separate companies, or form a new company in which they both have a stake.

Mergers and takeovers
General Oil and PP have announced they are going **to merge**. It will be the biggest ever **merger** in the oil industry.

***
Blighty Telecom is to split into two, and **demerge** its fixed-line and mobile businesses as part of on-going **restructuring**. The aim of the demerger is to cut debt by £10 billion. Ciments de France, the French building group, is **to acquire** Red Square Industries of the UK for 3.1 billion euros. This is a **friendly bid**, as RSI are likely to welcome it and agree to it. But the takeover comes only a year after RSI rejected a **hostile bid**, an unwanted one.

***
Abbot Bank is doing badly, and may become the victim of a **predator**. There were rumors of a possible takeover by Bullion, but it says it won't play the **white knight** for Abbot by coming to its defence. This leaves Abbot exposed to **acquisition,** and it may be **prey** to a big international bank. Abbot does have a **poison pill** however, in the form of a special class of shares that will be very expensive for a predator to buy.

Personal finance
Traditional banking
'I'm Lisa. I have an **account** at my local **branch** of one of the big **high- street banks**. I have a **current account** for writing cheques, paying by **debit card** and paying bills. It's a **joint account** with my husband. Normally, we're **in the black**, but sometimes we spend more money than we have in the account and we **go into the red**. This **overdraft** is agreed by the bank up to a maximum of £500, but we pay quite a high **interest rate** on it.
I also have a **deposit account** or **savings account** for keeping money longer term. This account pays us **interest** (but not very much, especially after tax!).
We have a **credit card** with the same bank too. Buying with **plastic** is very convenient. We **pay off** what we spend each month, so we don't pay interest. The interest rate is even higher than for overdrafts!
Like many British people, we have a **mortgage,** a loan to buy our house.'

New ways of banking

'My name's Kevin. I wasn't happy with my bank. There was always a queue, and on the **bank statement** that they sent each month they took money out of my account for **banking charges** that they never explained. So I moved to a bank that offers **telephone banking.** I can phone them any time to check my **account balance** (the amount I have in my account), **transfer** money to other accounts and pay bills.

Now they also offer **Internet banking.** I can **manage my account** sitting at my computer at home.'

Personal investing

Lisa again:

'We have a savings account at a **building society** which is going to be **demutualized** and turned into a bank with shareholders. All the members will get a **windfall,** a special once-only payment of some of the society's assets to its members.

We have some **unit trusts,** shares in **investment companies** that put money from **small investors** like me into different companies. My cousin in the US calls unit trusts **mutual funds.** I also pay **contributions** into a **private pension**, which will give me a regular income when I stop working. I've never joined a **company pension scheme** and the government **state pension** is very small!'

Financial centres are places where there are many banks and other **financial institutions.** London as a financial centre is called **the City** or **the Square Mile,** and New York is **Wall Street.**
Financial centres bring together **investors** and the businesses that need their investment. A **speculator** is an investor who wants to make a quick profit, rather than invest over a longer period of time.
Brokers, dealers and **traders** buy and sell for investors and in some cases, for themselves or the organizations they work for.

Stock markets

Heather Macdonald of Advanced Components:

'We needed more capital to expand, so we decided to **float** the company (sell shares for the first time) in a **flotation.** Our **shares** were **issued,** and **listed** (BrE and AmE) or **quoted** (BrE only) for the first time on the **stock market.** Because we are a UK-based company, we are listed on the London **stock exchange.**
Stock markets in other countries are also called **bourses.** Maybe when our company is really big, we'll issue more shares on one of the European bourses!'

Other financial markets

Other financial products include:

· **commercial paper:** short-term lending to businesses.
· **bonds:** longer-term lending to businesses and the government.
· **currencies (foreign exchange** or **forex):** buying and selling the money of particular countries.
· **commodities:** metals and farm products.

These are traded directly between dealers by phone and computer. Commodities are also traded in a **commodities exchange.** Shares, bonds and commercial paper are **securities,** and the financial institutions that deal in them are **securities houses.**

Derivatives

A **futures contract** is an agreement giving an obligation to sell a fixed amount of a security or commodity at a particular price on a particular future date.
An **options contract** is an agreement giving the right, but not the obligation, to buy or sell a security or commodity at a particular price at a particular future time, or in a period of future time.
These contracts are **derivatives**. Dealers guess how the price of the **underlying** security or commodity will change in the future, and use derivatives to try to buy them more cheaply.

Exercises

Task 1. Translate the sentences, fill in the gaps where necessary

1. The £120,000 for selling and expenses includes the salaries of the salesforce.
2. The £18,000 for depreciation represents an actual amount of money paid out to suppliers.
3. The company has a bank loan and\or is paying interest to holders of its bonds.
4. £57,000 for exceptional items is probably paid out every year.
5. The company has paid out more to shareholders this year than it has kept for future investment and\or future payouts.
6. They had lent too much and was left with a mountain of bad debts: £4,3 billion was ……………… (write off\ wrote off\ written off) last year.
7. Most highway building programs in the US are ………………….. (amortization\ amortize\ amortized) over 30 years or more.
8. The company reported a record income of €251,2 million, after a € 118 million ……………… (charge\ charged \ charges) for reduction in the ……………… (book value\ book values\ booked value) of its oil and gas properties.
9. Under the new law, businesses face five different ………………. (depreciate\ depreciation\ depreciations) rules for different types of

equipment.

10. The company reported a loss of £ 12.8 million, partly due to a special charge of £1,5 million to .... (write down\ wrote down\ written down) the value of its spare parts inventory.

Task 2. Translate in writing

1.В условиях рыночной экономики всякая денежная сумма способна приносить доход.
2.Если вы владеете акциями какой-либо компании и цены на эти ак- ции поднялись, то вы можете получить доход, продав эти акции.
3.Продать или купить акции можно на особом рынке – фондовом. 4.Цена акции колеблется, ее курс может падать и повышаться. Это
зависит от размеров прибыли, которую получает компания, и, следова- тельно, от дивиденда, который выплачивается по акциям, а также от банковской процентной ставки.
5.Предположим, цена на акции составляет $100. Если дивиденд по акциям равен $10, а рыночная ставка процента равна 10%, то 100-долла- ровая акция приносит доход в 10 долларов. Сумма наличными в 100 дол- ларов, помещенная (вложенная) в банк, тоже приносит доход в 10 долла- ров. Следовательно, цена на акции не изменится.
6.Если дивиденд повысится до 20 долларов, а процентная ставка останется неизменной (10%), то доход по акциям в этих новых условиях удвоится по сравнению с доходом от такой же суммы, помещенной в банк. Вполне естественно, что курс акции (цена на акции) удвоится.
7.Государство, выпуская в тяжелые времена облигации в качестве долговых обязательств, когда ему необходимо занять деньги у населения, гарантирует обратную выплату всей занятой суммы плюс накопленный процент.
8.Вы не имеете права на пособие по безработице, если вы никогда не работали.
9.Правительство выделило около 500000 долларов, чтобы спасти по- пулярный футбольный клуб.
10.Более высокая процентная ставка невыгодна для инвесторов, уже вложивших свой капитал в акции с фиксированным дивидендом, так как она означает для них большие потери.
11.Одна из причин спроса на деньги состоит в том, что люди нужда- ются в деньгах как в средстве обращения, то есть в удобном способе при- обретения товаров и услуг. Домашние хозяйства должны иметь доста- точное количество денег, чтобы делать покупки, платить по счетам и т. д. Предприятиям деньги нужны для оплаты труда, материалов, энергии и т. д. Необходимые для этих целей деньги называются спросом на деньги для сделок.
12.Другая причина, по которой люди держат деньги, вытекает из их функции как средства сбережения. Люди могут держать свои финансо- вые активы в различных формах, например: в виде акций, частных или

государственных облигаций или в деньгах. Отсюда, естественно, следует, что существует спрос на деньги, как на финансовые активы.

13.В узком смысле предложение денег состоит из двух элементов: на- личности, то есть металлических и бумажных денег, находящихся в об- ращении, и чековых (бессрочных) вкладов, то есть вкладов в коммерче- ских банках, различных сберегательных учреждениях, на которые могут быть выписаны чеки.

14.Для экономики плох как недостаток, так и избыток денег, так как первый ведет к снижению расходов во врем|я упадка, а последний – к обесценению денег и снижению их покупательной способности во время инфляции.

15.Денежный рынок объединяет спрос и предложение денег для определения равновесной ставки процента.

16.Равновесие денежного рынка устанавливается посредством изме- нения цен на облигации. С изменением цен на облигации процентные ставки меняются в обратном направлении. При равновесной ставке про- цента цены на облигации постоянны, а спрос и предложение денег рав- ны.

17.Уменьшение предложения создает временную нехватку денег на денежном рынке. Люди и учреждения пытаются получить больше денег путем продажи облигаций. Поэтому предложение облигаций увеличива- ется, что понижает цену на облигации и поднимает процентную ставку.

18.Увеличение предложения денег создает временный их избыток, в результате чего увеличивается спрос на облигации и цена на них стано- вится выше. Процентная ставка падает, и на денежном рынке восстанав- ливается равновесие.

19.Основополагающей целью кредитно-денежной политики является помощь экономике в достижении общего уровня производства, характе- ризующегося полной занятостью и отсутствием инфляции. Кредитно-де- нежная политика состоит в изменении денежного предложения с целью стабилизации совокупного объема производства, занятости и уровня цен. Более конкретно: кредитно-денежная' политика вызывает увеличение денежного предложения во время спада для поощрения расходов, а во время инфляции, наоборот, ограничивает предложение денег для огра- ничения расходов.

20.Существуют три основных средства кредитно-денежного контро- ля: операции на открытом рынке, изменение резервной нормы и измене- ние учетной ставки.

21.Операции на открытом рынке – наиболее важное средство контроля денежного предложения. Этот термин относится к покупке и продаже государственных облигаций центральным банком на открытом рынке, то есть к покупке и продаже облигаций коммерческим банкам и населению в целом.

22.При изменении резервной нормы меняется величина денежного мультипликатора и, следовательно, денежное предложение. В основе де-

нежного мультипликатора лежит тот факт, что резервы, потерянные од- ним банком, получает другой.
23.Подобно тому, как коммерческие банки взыскивают процентные платежи по своим ссудам, центральный банк взыскивает процентные платежи по ссудам, предоставленным коммерческим банкам. Такая став- ка процента называется учетной ставкой.
24.Снижение учетной ставки поощряет коммерческие банки к приоб- ретению дополнительных резервов путем заимствования у центрального банка.
25.Готовность банков давать ссуды на основе избыточных резервов периодически меняется, и в этом кроется причина государственного контроля за денежным предложением с целью обеспечить экономиче- скую стабильность.

Task 3. Match the words with their definitions

A) Bank
B) Income
C) Check
D) Loan
E) Debt
F) Budget
G) Diversify
H) Invest
I) Share
J) Interest
K) Profit
L) Risk
M) Credit card
N) Appreciate

1) An estimate, often itemized, of expected income and expense for a given period in the future
2) Monetary gain resulting from the employment of capital in any transaction
3) A card that identifies a person as entitled to have food, merchandise, services, etc., billed on a charge account
4) An institution for receiving, lending, exchanging, and safeguarding money and, in some cases, issuing notes and transacting other financial business
5) The financial gain (earned or unearned) accruing over a given period of time
6) To commit (money or capital) in order to gain a financial return
7) A written order, usually on a standard printed form, directing a bank to pay money
8) Any of the equal parts into which the capital stock of a corporation or company is divided
9) A sum paid or charged for the use of money or for borrowing money
10) The variability of returns from an investment
11) The temporary provision of money (usually with interest)
12) Something that is owed or that one is bound to pay to or perform for another
13) To acquire a variety of assets that do not

O) Annual Percentage Rate (APR)

tend to change in value at the same time

14) The annual rate that is charged for borrowing (or made by investing)

15) To increase in value

Task 4. As you know, native speakers of English tend to use a lot of phrasal verbs (sometimes called prepositional, multi-word verb, verbs) in everyday spoken English. Learn the following phrasal verbs by heart.

Spending Money -
lay out - to spend money, especially a large amount
splash out - to spend a lot of money on something you don't need, but is very pleasant
run up - to create a large debt
fork out, fork over - to pay for something, usually something you would rather not have to pay for.
shell out - to pay for something, usually something you would rather not have to pay for.
cough up - to provide money for something you do not want to
Having Just Enough Money -
get by - to have just enough money for your needs scrape by - to manage
to live on very little money **Helping Someone with Money** -
bail out - to help a person or organization out of a difficult situation
tide over - to help someone with money for a period of time until they have enough
Paying Debts -
pay back - to return money owed to someone pay off - to finish
paying all money that is owed **Saving Money** -
save up - to keep money for a large expense in the future put aside - to save
money for a specific purpose
Using Saved Money -
dip into - to spend part of your saved money
break into - to start to use money that you have saved
Here is a practice dialogue using some of the above vocabulary.

Well, last week I finally **dipped into** that money that I had been **putting aside** for the past year and a half. I decided that I should really enjoy myself so I **splashed out** and had a great meal at Andy's. Next, I went to Macys on Saturday and **laid out** $400 for that suit I'd told you about. Of course, I used a great deal of what I **had saved up** to **pay back** that bill I had **run up** on my Visa card. It feels great to finally have some money after all those years of **scraping by**. Thanks again for **tiding me over** during that long winter of '05. I don't think I would have **got by** without your **bailing me out**.Unfortunately, I also had to

cough up about $250 in insurance costs. Oh well, I guess **shelling out** the cash for those things is just as necessary as anything else...

Task 5. Translate in writing

Банковские накопления среднестатистического европейца в семь раз больше аналогичных накоплений среднего россиянина. В третьем квартале портфель средств жителей ЕС, размещенных на депозитах, составил 2091,2 трлн евро. Российский показатель в пересчете на европейскую валюту - 152 млрд. Это выводы агент- ства финансовой статистики StatBanker

Таким образом, в пересчете на одного гражданина Евросоюза сейчас приходится вклад на сумму в среднем 6378 евро, а без учета детей, пенсио- неров и инвалидов, сумма вклада вырастает до 14 313 евро.

Общий депозитный портфель европейских банков за год сократился на 8%. Вполне сопоставимые цифры зафиксированы и в России - сокращение вкладов на 7%.

Но сумма вклада, приходящаяся на одного гражданина РФ, в 6 раз меньше, чем у одного жителя ЕС, она составляет всего 1071 евро. Если же считать только россиян из экономически активной группы, то на каждого придется 2153 евро, то есть уже в 7 раз меньше, чем в Европе, констатируют «Новые известия».

При этом ставки в российских банках существенно выше европейских, что обеспечило положительную динамику вкладов во второй половине те- кущего года.

Средневзвешенная процентная ставка по депозитам, открытым в Евро- пе в сентябре, составляет всего 2,92% годовых. В России ставка достигает 9,25% в рублях и 5,35% в евро.

Но с учетом высокого инфляционного давления картина выглядит иначе. Эффективная ставка в ЕС в сентябре оставила 2,62%, в то время как в РФ - всего 1,15%.

Стоит напомнить, что по данным опроса Ромир, имеют возможность откладывать деньги и делают это только 52% россиян. То есть 48% наших соотечественников отношения к банковским вкладам попросту не имеют. Таким образом, реальное отставание значительной части российского населения от основной массы европейского еще больше.

Об этом свидетельствует и сопоставление среднедушевой месячного дохода в ЕС и РФ. Для европейца этот доход составляет $5,3 тыс., а у россия- нина - всего $600.

В то же время, положение обеспеченной прослойки населения, имею- щей вклады в банках вполне сопоставимо со среднеевропейским уровнем, а где-то, возможно, и превышает его.

MoneyTimes

Task 6. Translate in writing

Денежное обращение в России

Правительство Российской Федерации, встав на путь экономических реформ, столкнулось с серьезными экономическими и социально-поли- тическими трудностями. Экономический кризис выразился в резком со- кращении производства, значительной безработице и, как следствие, в снижении жизненного уровня широких слоев населения. В сфере денеж- но-кредитных отношений он проявился в затяжной и глубокой инфля- ции. Инфляция как социально-экономическое явление означает пере- полнение денежного обращения обесцененными деньгами, рост цен и перераспределение национального дохода в пользу государства, отдель- ных групп населения, которые обогащаются за счет спекулятивных опе- раций на товарном и денежном рынках. Возникновение и развитие ин- фляционных процессов в народном хозяйстве может быть вызвано как нарушением законов денежного обращения, неоправданным увеличени- ем денежной массы в обращении (инфляция спроса), так и повышением цен из-за роста издержек производства (инфляция издержек). Инфля- ция может поразить любую страну, где существуют товарно-денежные отношения. Глубина и длительность инфляционных процессов, сила их социально-экономических последствий зависят от состояния экономи- ки, развития товарно-денежных отношений в стране. Инфляция отража- ется на всех сферах социально-экономической жизни общества. Так как национальная валюта перестает выполнять или плохо выполняет свои функции, то она вытесняется иностранной валютой, товарами, различ- ными денежными суррогатами, что наносит народному хозяйству зна- чительный экономический урон: сдерживается развитие финансово- кредитных отношений в стране, средства из сферы производства уходят в сферу обращения, снижается эффективность государственного контро- ля за денежными потоками.

Радикальным способом стабилизации денежного обращения яв- ляются денежные реформы. Однако для их успешного проведения в стране должны быть созданы необходимые экономические и политиче- ские условия. Не имея объективных предпосылок для проведения де- нежной реформы, Правительство РФ для укрепления денежного об- ращения, снижения социально-экономической напряженности в стране предпринимало и предпринимает различные антиинфляционные меры. К ним относится прежде всего дефляционная денежно-кредитная поли- тика, направленная на относительное снижение денежной массы в об- ращении, что привело к резкому спаду производства, росту безработицы и хроническим неплатежам.

Task 7. Translate in writing

Why it's sexy to be a future accountant

I recently saw a student on a university campus wearing a T-shirt with the phrase 'Future accountant'. Given the profession's traditional image problem, must have been ironic, mustn't it?

Perhaps not. There are signs that accountancy is putting its traditional image problem behind it. Increasing numbers of graduates are applying to join the profession, motivated not just by the prospect of high salaries but also by a change in perception. Ironically, it is partly its association with the twenty-first century's biggest financial scandals of Enron and WorldCom that has made accountancy become, well, sexier.

At the forefront of this image makeover is the specialism of forensic accounting, with its suggestion of crime scene investigators and technicians in white coats. In reality, a forensic accountant's work is chiefly concerned with any investigation of financial data which will eventually be used in some form of litigation. Some of them work for law enforcement agencies gathering evidence to support fraud and bribery charges. Others are expert witnesses who testify on either side in financial dispute cases.

While it might not always be CSI Miami, forensic accountants do need to develop some special skills which relate to their roles as investigators. For instance, a forensic accountant's work can make them crucial figures in high- profile criminal cases like Enron so a confident manner in court can be helpful. In addition, a systematic and analytical mind is essential. For example, in a fraud case, they may need to search financial records thoroughly looking for patterns of similarities and coincidences that might indicate a cover-up. Imagination - not a characteristic traditionally associated with accounting - is also part of their skill set, as they dig deeper and try to get into the mind of suspected fraudsters.

Although the term forensic accounting is relatively recent, the importance of accountants in legal matters has a long history. The most famous case in which forensic accountancy has, provided the pivotal evidence was in the conviction of the notorious Chicago gangster Al Capone. While Capone's criminal activities had included murder, he was finally convicted on the apparently lesser charge of tax evasion. Elmer Irey, an official at the US Inland Revenue Service, believed that Capone's conviction could be obtained on the basis of a Supreme Court ruling that the income from organized criminal activity was also subject to taxation.

Task 8. Translate in writing

The International Monetary Fund (IMF)

The International Monetary Fund (IMF) works to foster global monetary cooperation, secure financial stability, facilitate international trade, promote high employment and sustainable economic growth, and reduce poverty around the world. Created in 1945, the IMF is governed by and accountable to the 187 governments of the countries that make up its near-global membership.

Fast Facts

Membership: 187 countries Headquarters:

Washington, DC

Executive Board: 24 Directors representing countries or groups of countries Staff: approximately 2,360 from 146 countries

Why the International Monetary Fund was created and how it works

The IMF, also known as the «Fund,» was conceived at a United Nations conference convened in Bretton Woods, New Hampshire, United States, in July 1944. The 45 governments represented at that conference sought to build a framework for economic cooperation that would avoid a repetition of the vicious circle of devaluations that had contributed to the Great Depression of the 1930s.

The IMF's responsibilities

The IMF's primary purpose is to ensure the stability of the international monetary system - the system of exchange rates and international payments that enables countries (and their citizens) to buy goods and services from each other. This is essential for sustainable economic growth, increasing living standards, and alleviating poverty. Following the crisis, the Fund is clarifying and updating its mandate to cover the full range of macroeconomic and financial sector policies that bear on global stability.

Surveillance of economies

To maintain stability and prevent crises in the international monetary system, the IMF reviews national, regional, and global economic and financial developments through a formal system known as surveillance. The IMF provides advice to its 187 member countries, encouraging them to adopt 49 policies that foster economic stability, reduce their vulnerability to economic and financial crises, and raise living standards. It provides regular assessment of global prospects in its World Economic Outlook and of capital markets in its Global Financial Stability Report, as well as publishing a series of regional economic outlooks.

Financial assistance

IMF financing is available to give member countries the breathing room they need to correct balance of payments problems. A policy program supported by IMF financing is designed by the national authorities in close cooperation with the IMF, and continued financial support is conditional on effective implementation of this program. To help support countries during the global economic crisis, the IMF has strengthened its lending capacity and has approved a major overhaul of how it lends money.

SDRs

The IMF issues an international reserve asset known as Special Drawing Rights that can supplement the official reserves of member countries. Members can voluntarily exchange SDRs for currencies among themselves.

Technical assistance

The IMF offers technical assistance and training to help member countries strengthen their capacity to design and implement effective policies. Technical assistance is offered in several areas, including tax policy, expenditure management, monetary and exchange rate policies, banking and financial system supervision and regulation, legislative frameworks, and statistics.

Resources

The IMF's resources are provided by its member countries, primarily through payment of quotas, which broadly reflect each country's economic size.

Governance and organization

The IMF is accountable to the governments of its member countries. At the top of its organizational structure is the Board of Governors, which consists of one Governor from each member countries. All Governors meet once each year at the IMF-World Bank Annual Meetings. Twenty-four of the Governors sit on the International Monetary and Finance Committee (IMFC) and meet twice each year. The day-to-day work of the IMF is conducted by its 24-member Executive Board; this work is guided by the IMFC and supported by the IMF's professional staff. The Managing Director is Head of IMF staff and Chairman of the Executive Board, and is assisted by three Deputy Managing Directors.

Task 9. Make sure you know these words and word combinations

бухгалтерское дело (работа); счет; отчет;бухгалтерское дело (про- фессия); бухгалтер; сделка, операция; провести сделку/операцию; фи- нансовый учет; кредитор; кредиторская задолженность; управленческий учет; аудит; аудитор; мошенничество; мошенник; мошеннический; вну- тренний аудит; внутренний аудитор; внешний аудит; независимый (внешний); манипуляции с бухгалтерской отчетностью; запас (товаров), инвентарь; должник, дебитор; дебиторская задолженность; книга пер- вичного (повседневного) учета; бухгалтерский журнал; бухгалтерская книга, гроссбух; номинальная бухгалтерская книга; учетный период, от- четный период; пробный баланс; балансовый отчет, бухгалтерский баланс; акционерный капитал; собственный капитал; акционерный капи- тал; нераспределенная прибыль; премия по акциям, эмиссионный до- ход; чистые активы, нетто-активы; основные средства, долгосрочные ак- тивы; оборотные средства, текущие активы; материальные активы; на- копленная амортизация; остаточная (чистая) балансовая стоимость (за вычетом накопленной амортизации); нематериальные активы; торговая марка, фирменное название; патент; патентовать; получить патент; вы- дать патент; торговая марка; собственный капитал, чистая стоимость компании; деловая репутация компании; долгосрочные обязательства; краткосрочные обязательства; текущие пассивы; отсроченный налог; от- чет о прибылях и убытках; отчет о доходах; некоммерческая организа- ция; отчет о доходах и расходах; остаток, избыток; дефицит, нехватка; товарооборот; себестоимость реализованной продукции; себестоимость продаж; валовая прибыль; коммерческие, общие и административные расходы; доход до уплаты налога на прибыль, процентов и амортизации; прибыль до уплаты процентов и налогов; чистая прибыль; итог; отчет о движении денежных средств (потоков); отчет о признанных прибылях и убытках.

РАЗДЕЛ 2

BANKS AND BANKING

Комплексная цель: ознакомить студентов с основными лексическими единицами по теме банки и банковское дело. Представить базо- вые знания по данной теме и совершенствовать переводческие навыки благодаря предложенным упражнениям.

Personal Banking

Current accounts

A current account is an account which allows customers to take out or **withdraw** money, with no restrictions. Money in the account does not usually earn a high **rate of interest:** the bank does not pay much for 'borrowing' your money. However, many people also have **a savings account** or deposit account which pays more interest but has restrictions on when you can withdraw your money. Banks usually send **monthly statements** listing recent sums of money going out, called **debits,** and sums of money coming in, called credits.

Nearly all customers have a **debit card** allowing them to make withdrawals and do other **transactions** at **cash dispensers**. Most customers have a credit card which can be used for buying goods and services as well as for borrowing money. In some countries, people pay bills with **cheques**. In other countries, banks don't issue **chequebooks** and people pay bills by **bank transfer**. These include **standing orders**, which are used to pay regular fixed sums of money, and direct debits, which are used when the amount and payment date varies.

Banking products and services

Commercial banks offer **loans** – fixed sums of money that are lent for a fixed period (e.g. two years). They also offer **overdrafts**, which allow customers to **overdraw** an account – they can have a debt, up to an agreed limit, on which interest is calculated daily. This is cheaper than a loan if, for example, you only need to overdraw for a short period. Banks also offer **mortgages** to people who want to buy a place to live. These are **long-term loans** on which the property acts as **collateral** or a guarantee for the bank. If the borrower doesn't repay the mortgage, the bank can repossess the house or flat – the bank takes it back from the buyer, and sells it. Banks exchange foreign currency for people going abroad, and sell traveller's cheques which are protected against loss or theft. They also offer advice about investments and private pension plans – saving money for when you retire from work. Increasingly, banks also try to sell insurance products to their customers.

E-banking

In the 1990s, many commercial banks thought the future would be in telephone banking and internet banking or e-banking. But they discovered that most of their customers preferred to go to **branches** – local offices of the bank – especially ones that had longer opening hours, and which were conveniently situated in shopping centres.

Task 1. Give equivalents to the following words and word combinations

Чековая книжка; осуществлять операцию; оплачивать счета банковским переводом; частная система пенсионного обеспечения; все больше и больше; местное отделение банка; торговый центр.

With no restrictions; monthly statement; sums of money going out; sums of money coming in; exchange foreign currency; have longer opening hours.

Task 2. Translate in writing

Дистанционное банковское обслуживание

Дистанционное банковское обслуживание (ДБО) (remote banking) – это предоставление возможности клиентам совершать банковские опе- рации, не приходя в банк, с использованием различных каналов теле- коммуникации. Часто используется также термин home banking, тракту- ющийся как ведение банковских операций на дому, как самостоятельная форма банковских услуг населению, основанная на использовании элек-тронной техники. Понятие ДБО несколько шире и включает в себя об- служивание как населения, так и юридических лиц, причем не только «на дому», но и в любом удаленном от банковского офиса месте, где имеется соответствующий канал связи.

Широкое внедрение ДБО началось за рубежом уже с начала 80-х гг. XX в. Вначале возникли системы предоставления банковских услуг по телефону, а в настоящее время наблюдается бум в развитии банковского обслуживания через Интернет. Идея создания интернет-банка возникла в США. Одной из причин его появления стало существовавшее там огра- ничение на открытие банками филиалов в других штатах. Так, в октябре 1995 г. был создан Security First Network Bank, который стал первым банком, освоившим этот вид услуг в Интернете. За ним последовал и британский банк Royal Bank of Scotland. Подобные банки могут обслужи- вать большую территорию при очень низкой себестоимости банковских услуг. С понятием ДБО тесно связаны также термины «электронный банк» (e-bank) и «виртуальный банк». Под электронным, или виртуаль- ным банком обычно понимают банк, не имеющий традиционного офи- са, а обслуживающий клиентов посредством телефона, Интернета и при необходимости – почты.

Commercial and retail banking

When people have more money than they need to spend, they may choose to save it. They **deposit** it in a bank account, at a **commercial** or **retail bank**, and the bank generally pays interest to the **depositors**. The bank then uses the money that has been deposited **to grant loans** – lend money to borrowers who need more money than they have available. Banks make a profit by charging a higher rate of interest to borrowers than they pay to depositors. Commercial banks can also **move or transfer money** from one customer's bank account to another one, at the same or another bank, when the customer asks them to.

Credit

Banks also **create credit** – make money available for someone to borrow – because the money they lend, from their deposits, is usually spent and so transferred to another bank account. The capital a bank has and the loans it has made are its **assets**. The customers' deposits are **liabilities** because the money is owed to someone else. Banks have to keep a certain percentage of their assets as reserves for borrowers who want to withdraw their money. This is known as the **reserve requirement**. For example, if the reserve requirement is 10%, a bank that receives a €100 deposit can lend
€90 of it. If the borrower spends the money and writes a cheque to someone who deposits the €90, the bank receiving that deposit can **lend** €81. As the process continues, the banking system can **expand** the first deposit of € 100 into nearly € 1,000. In this way, it creates credit of almost €900.

Loans and risks

Before lending money, a bank has to assess or calculate the risk involved. Generally, the greater the risk for the bank of not being repaid, the higher the interest rate they charge. Most retail banks have standardized products for personal customers, such as **personal loans**. This means that all customers who have been granted a loan have the same **terms and conditions** – they have the same rules for paying back the money. Banks have more complicated risk assessment methods for corporate customers – business clients – but large companies these days prefer to **raise** their own **finance** rather than borrow from banks. Banks have to find a balance between **liquidity** – having cash available when depositors want it – and different maturities – dates when loans will be repaid. They also have to balance yield – how much money a loan pays – and risk.

Task 1. Give equivalents to the following words and word combinations

Платить проценты вкладчикам; выдавать кредиты; сохранять опре- деленный процент активов в качестве резервов; оценивать или подсчи- тывать риски; находить баланс.

Deposit in a bank account; charge a higher rate of interest; transfer money from one customer’s bank account to another one; create credit; standardized products; raise their own finance.

Task 2. Translate in writing

Коммерческие банки

Коммерческие банки составляют основу современной банковской системы, которая, согласно действующему законодательству, включает в себя Банк России, кредитные организации, филиалы и представитель- ства иностранных банков. Банк, согласно действующему законодатель- ству, – это кредитная организация, которая имеет исключительное пра- во осуществлять в совокупности следующие банковские операции:

- привлечение во вклады денежных средств физических и юридиче- ских лиц;
- размещение этих средств от своего имени и за свой счет на услови- ях возвратности, платности и срочности;
- открытие и ведение банковских счетов физических и юридических лиц.

Банки являются особым типом финансовых посредников, перерас- пределяющих капиталы между их поставщиками и потребителями. Они характеризуются следующими существенными признаками. Во-первых, как и всякие финансовые посредники, они осуществляют двойной обмен долговыми обязательствами: банки выпускают свои собственные долго- вые обязательства, а мобилизованные на этой основе средства размеща- ют от своего имени в долговые обязательства, выпущенные другими. Двойной обмен обязательствами отличает банки от брокеров (дилеров), осуществляющих посредничество на финансовом рынке, не прибегая к выпуску собственных долговых обязательств. Во-вторых, банки форми- руют ресурсы на основе высоколиквидных и фиксированных по суммам обязательств – вкладов (депозитов). В-третьих, банки имеют высокий уровень «финансового рычага» (leverage), т.е. доли заемных средств в структуре пассивов. В-четвертых, банки обладают возможностью откры- вать и обслуживать расчетные и текущие счета и эмитировать безналич- ные платежные средства.

Потребительский кредит

Потребительскими кредитами обычно называют кредиты, предо- ставляемые населению. При этом кредиторами могут выступать банки, кассы взаимопомощи, кредитные учреждения, строительные общества и т.д. Ведущее место на рынке потребительских кредитов занимают ком- мерческие банки. Потребительский кредит направлен на удовлетворе- ние социальных потребностей граждан, таких как потребности:

- в собственном жилье (доме, квартире, комнате) и других объектах недвижимости (даче, участке, гараже);
- в приобретении товаров длительного пользования (мебели, элек- тронно-бытовой техники, автомобилей);
- в образовании, отдыхе, туризме, лечении.

Central banking

The functions of central banks

What are the main functions of central banks? Most countries have a central bank that provides financial services to the government and to the banking system. If a group of countries have **a common currency**, for example the euro, they also **share** a central bank, such as the European Central Bank in Frankfurt.

Some central banks are responsible for **monetary polic**y – trying to control the **rate of inflation** to maintain **financial stability**. This involves changing interest rates. The aim is to protect the **value of the currency** – what it will purchase at home and in other currencies. In many countries, the central bank **supervises and regulates** the banking system and the whole financial sector. It also collects financial data and publishes statistics, and provides financial information for consumers. In most countries, the central bank **prints** and **issues currency** – putting banknotes into **circulation**. It also participates in clearing cheques and **settling debts** among commercial banks.

The central bank and the commercial banks

How exactly does the central bank supervise the commercial banks? Commercial banks have to keep reserves – a certain amount of their deposits

– for customers who want to withdraw their money. These are held by the central bank, which can also change **the reserve-asset ratio** – the minimum percentage of its deposits a bank has to keep in its reserves. If one bank **goes bankrupt**, it can quickly affect the stability of the whole financial system. And if depositors think a bank is unsafe they might all try to withdraw their money. If this happens it's called **a bank run** or **a run on the bank**, and the bank will quickly use up its reserves. Central banks can act as **lender** of last resort, which means lending money to financial institutions in difficulty, to allow them to make payments. But central banks don't always bail out or rescue banks in difficulty, because this could lead banks to take risks that are too big.

Central banks and exchange rates

What about **exchange rates** with foreign currencies? Central banks manage a country's reserves of gold and foreign currencies. They can try to have an influence on the exchange rate – the price at which their currency can be **converted into** other currencies. They do this by **intervening on** the currency markets, and moving the rate up or down by buying or selling their currency. This changes the balance of supply – how much is being sold – and demand – how much is being bought.

Task 1. Give equivalents to the following words and word combinations

Предоставлять финансовые услуги государству; банковская система; контролировать уровень инфляции; финансовый сектор; повлиять на стабильность всей финансовой системы; помогать банкам, находящимся в трудном положении; конвертировать валюту.

Value of the currency; supervise and regulate the banking system; put banknotes into circulation; clearing cheques; settle debts among commercial banks; use up its reserves; take risks; balance of supply and demand.

Task 2. Translate in writing

Функции центральных банков

Старейшая функция центрального банка – функция монопольной эмиссии банкнот. Центральный банк, будучи представителем государ- ства, выполняет законодательно закрепленную за ним эмиссионную мо- нополию в отношении банкнот. Под эмиссией центрального банка пони- мается выпуск в обращение денег исключительно в наличной форме (банкнот и в некоторых случаях монет). Банкноты центрального банка являются неограниченно законным платежным средством (legal tender). Что касается монет, то в некоторых странах центральный банк также имеет монополию на их эмиссию, но обычно их чеканкой занимается министерство финансов (казначейство).

Центральный банк обычно имеет монополию на эмиссию бумажных денег на всей территории страны. Только в Великобритании сделано ис- ключение для Шотландии и Северной Ирландии. В Объединенном Ко- ролевстве крупнейшие коммерческие банки Шотландии и Северной Ир- ландии уполномочены осуществлять денежную эмиссию, но при этом выпускаемые ими банкноты должны на 100 % быть обеспечены депони- рованными в Банке Англии денежными средствами или его банкнотами. Некоторые особенности осуществления эмиссии имеются и в США. Фе- деральные резервные банки, входящие в Федеральную резервную систе- му США, имеют право выпускать новые банкноты и изымать из обраще- ния изношенные денежные знаки.

По традиции центральный банк является их хранителем в стране, выполняет функцию управления золотовалютными резервами. Цен- тральный банк непосредственно не работает с юридическими и физиче- скими лицами. Его клиенты – коммерческие банки. Являясь «банком банков», центральный банк хранит свободные денежные резервы ком- мерческих банков, служит расчетным центром банковской системы и предоставляет ей кредиты, в некоторых странах выступает органом банковского регулирования и надзора. Предоставляя кредиты нацио- нальным банкам, центральный банк выступает в роли кредитора по- следней инстанции. Центральный банк также осуществляет надзор и контроль над банками, чтобы поддержать надежность и стабильность банковской системы, защитить интересы вкладчиков и кредиторов. Цен- тральный банк также выполняет функцию банкира правительства, функцию денежно-кредитного регулирования и внешнеэкономическую функцию.

Task 3. Translate in writing

Banks have existed since the founding of the United States, and their operation has been shaped and refined by major events in U.S. history. Banking was a rocky and fickle enterprise, with periods of economic fortune and peril, between the 1830s and the early twentieth century. In the late nineteenth century, the restrained money policies of the U.S. Treasury Department, namely an unwillingness to issue more bank notes to eastern-based national banks, contributed to a scarcity of cash in many Midwestern states. A few states went so far as to charter local banks and authorize them to print their own money. The collateral or capital that backed these local banks was often of only nominal value. By the 1890s, there was a full-fledged bank panic. Depositors rushed to banks to withdraw their money, only to find in many cases that the banks did not have the money on hand. This experience prompted insurance reforms that developed during the next fifty years. The lack of a regulated money supply led to the passage of the Federal Reserve Act in 1913 (found in scattered sections of 12 U.S.C.A.), creating the Federal Reserve Bank System.

Even as the banks sometimes suffered, there were stories of economic gain and wealth made through their operation. Industrial enterprises were sweeping the country, and their need for financing was seized upon by men like J.P. Morgan (1837–1913). Morgan made his fortune as a banker and financier of various projects. His House of Morgan was one of the most powerful financial institutions in the world. Morgan's holdings and interests included railroads, coal, steel, and steamships. His involvement in what we now consider commercial banking and Securities would later raise concern over the appropriateness of mixing these two industries, especially after the Stock Market crash of 1929 and the ensuing instability in banking. Between 1929 and 1933, thousands of banks failed. By 1933, President FRANKLIN D. ROOSEVELT temporarily closed all U.S. banks because of a widespread lack of confidence in the institutions. These events played a major role in the Great Depression and in the future reform of banking.

In 1933, Congress held hearings on the commingling of the banking and securities industries. Out of these hearings, a reform act that strictly separated commercial banking from securities banking was created (12U.S.C.A. §§ 347a, 347b, 412). The act became known as the Glass-Steagall Act, after the two senators who sponsored it, Carter Glass (DVA) and Henry B. Steagall (D-AL). The Glass-Steagall Act also created the Federal Deposit Insurance Corporation (FDIC), which insures money deposited at member banks against loss. Since its passage, Glass-Steagall has been the law of the land, with minor fine-tuning on several occasions.

Despite the Glass-Steagall reforms, periods of instability have continued to reappear in the banking industry. Between 1982 and 1987, about 600 banks failed in the United States. Over one-third of the closures occurred in Texas. Many of the failed banks closed permanently, with their customers' deposits compensated by the FDIC; others were taken over by the FDIC and reorganized and eventually reopened.

In 1999, Congress addressed many concerns on many involved in the financial industries with the passage of the Financial Services Modernization Act, Pub. L. No. 106-102, 113 Stat. 1338, also known as the Gramm-Leach Act. The act rewrote the banking laws from the 1930s and 1950s, including the Glass-Steagall Act, which had prevented commercial banks, securities firms, and insurance companies from merging their businesses. Under the act, banks, brokers, and insurance companies are able to combine and share consumer transaction records as well as other sensitive records. The act went into effect on November 12, 2000, though several of its provisions did not take effect until July 1,2001. Seven federal agencies were responsible for rewriting regulations that implemented the new law.

Gramm-Leach goes beyond the repeal of the Glass-Steagall Act and similar laws. One section streamlines the supervision of banks. It directs the Federal Reserve Board to accept existing reports that a bank has filed with other federal and state regulators, thus reducing time and expenses for the bank. Moreover, the Federal Reserve Board may examine the insurance and brokerage subsidiaries of a bank only if reasonable cause exists to believe the subsidiary is engaged in activities posing a material risk to bank depositors. The new law contains many more similar provisions that restrict the ability of the Federal Reserve Board to regulate the new type of bank that the law contemplates. The Gramm-Leach Act also breaks down barriers of foreign banks wishing to operate in the United States by allowing foreign banks to purchase U.S. Banks.

The free dictionary
by Farlex

Task 4. Translate in writing

Виды банков

Виды банков разделяются по типу собственности, правовой органи- зации, функциональному назначению, характеру выполняемых опера- ций, числу филиалов, сфере обслуживания, масштабами деятельности.

Коммерческие банки выполняют расчетно-комиссионные и торгово- комиссионные операции, занимаются факторингом, лизингом, активно расширяют зарубежную филиальную сеть и участвуют в многонацио- нальных консорциумах (банковских синдикатах).

Инвестиционные банки (в Великобритании - эмиссионные дома, во Франции - деловые банки) специализируются на эмиссионно-учреди- тельных операциях. По поручению предприятий и государства, нуждаю- щихся в долгосрочных вложениях и прибегающих к выпуску акций и облигаций, инвестиционные банки берут на себя определение размера, условий, срока эмиссии, выбор типа ценных бумаг, а также обязанности по их размещению и организации вторичного обращения. Учреждения этого типа гарантируют покупку выпущенных ценных бумаг, приобретая и продавая их за свой счет или организуя для этого банковские синдика- ты, предоставляют покупателям акций и облигаций ссуды. Хотя доля инвестиционных банков в активах кредитной системы сравнительно не- велика, они благодаря их информированности и учредительским связям играют в экономике важнейшую роль.

Сберегательные банки (в США - взаимосберегательные банки, в ФРГ - сберегательные кассы) - это, как правило, небольшие кредитные учре- ждения местного значения, которые объединяются в национальные ассоциации и обычно контролируются государством, а нередко и при- надлежат ему. Пассивные операции сберегательных банков включают прием вкладов от населения на текущие и другие счета. Активные опера- ции представлены потребительским и ипотечным кредитом, банковскими ссудами, покупкой частных и государственных ценных бумаг. Сбере- гательные банки выпускают кредитные карточки.

Ипотечные банки - учреждения, предоставляющие долгосрочный кредит под залог недвижимости (земли, зданий, сооружений). Пассив- ные операции этих банков состоят в выпуске ипотечных облигаций.

В зависимости от того или иного критерия их можно классифициро- вать следующим образом.

По форме собственности выделяют государственные, акционерные, кооперативные, частные и смешанные банки. Государственная форма собственности чаще всего относится к центральным банкам. Капитал Банка России принадлежит государству. Подобная ситуация сложилась у центральных банков таких стран, как Германия, Франция, Великобрита- ния, Бельгия.

По законодательству большинства стран на национальных банковских рынках допускается функционирование иностранных банков. В ряде стран деятельность иностранных банков не ограничива- ется. В России для иностранных банков вводится определенный кори- дор, в рамках которого они могут разворачивать свои операции. В Рос- сии совокупный капитал иностранных банков не должен превышать 15%.

По правовой форме организации банки можно разделить на обще- ства открытого и закрытого типов, ограниченной ответственности.

По функциональному назначению банки можно подразделить на эмиссионные, депозитные и коммерческие.

По характеру выполняемых операций банки делятся на универсаль- ные и специализированные.

Виды банков можно классифицировать и по обслуживаемым ими отраслям. Это могут быть банки многоотраслевые и обслуживающие преимущественно одну из отраслей или подотраслей (авиационную, ав- томобильную, нефтехимическую промышленность, сельское хозяйство). В России преобладают многоотраслевые банки, что более предпочти- тельно с позиции снижения банковского риска. Вместе с тем в стране до- статочно представительна прослойка банков, созданных группой пред- приятий отраслей. Они обслуживают преимущественно потребности своих учредителей; у таких банков существенно возрастают риски невоз- врата кредитов.

По числу филиалов банки можно разделить на бесфилиальные и много филиальные.

Task 5. Make sure you know these words:

текущий счет; изымать, снимать (деньги); снятие со счета, выдача (денег); процент, проценты; платить проценты по кредиту; процентная ставка; сберегательный счет; сбережения; депозит, депозитный счет; вы- писка (со счета); отчет; дебет (расход; левая сторона бухгалтерской кни-ги); дебетовое сальдо; дебетовать, вносить в дебет; кредит (приход; пра-вая сторона бухгалтерской книги); кредитовое сальдо; кредитовать, за- писывать в кредит счета; дебетовая карта; банкомат; кредитная карта; чек; банковский перевод; постоянный заказ (постоянное поручение банку); прямой дебет, прямое дебетование; ссуда, заём, кредит; овер-драфт (перерасход); превысить кредит, допустить овердрафт; ипотека; гарантия, залог; имущество выступает залогом по кредиту; изымать за неплатеж; дорожный чек; телефонный банкинг; интернет-банкинг; фи- лиал, отделение; класть в банк, отдавать на хранение; вкладчик, депози- тор; коммерческий банк; розничный банк; предоставлять кредит; заем- щик; осуществлять перевод; активы, фонды; задолженность; пассивы, (долговые) обязательства; резервное требование; оценивать, определять величину чего-л.; оценка, определение стоимости; персональный кли- ент; персональный кредит, потребительский кредит; условия; оценка риска; корпоративный клиент; ликвидность; ликвидный; неликвидный; неликвидность; центральный банк; единая валюта; Европейский цен- тральный банк (ЕЦБ); денежно-кредитная (монетарная) политика; фи- нансовая стабильность; контролировать; выпускать, осуществлять эмис- сию, эмитировать; эмиссия; клиринг, безналичные расчеты между банками; погасить, выплатить долг; коэффициент резервных активов; массовое изъятие вкладов; кредитор последней инстанции; помогать, выкупать; помощь (финансовая), выкуп; золотовалютные резервы; ва- лютный курс, курс валюты.

РАЗДЕЛ 3

TEXTS

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BONDS

By Clifford W. Smith

Bond markets are important components of capital markets. Bonds are fixed-income securities – securities that promise the holder a specified set of payments. The value of a bond (like the value of any other asset) is the present value of the income stream one expects to receive from holding the bond. This has several implications:

1. Bond prices vary inversely with market interest rates. Since the stream of payments usually is fixed no matter what subsequently happens to interest rates, higher rates reduce the present value of the expected payments, and thus the price.
2. Bonds are generally adversely affected by inflation. The reason is that higher expected inflation raises market interest rates and therefore reduces the present value of the stream of fixed payments. Some bonds (ones issued by the Israeli government, for example) are indexed for inflation. If, for example, inflation is 10 per cent per year, then the income from the bond rises to compensate for this inflation. With perfect indexation the change in expected payments due to inflation exactly offsets the inflation-caused change in market interest rates, so that the current price of the bond is unaffected.
3. The greater the uncertainty about whether the payment will be made (the risk that the issuer will default on the promised payments), the lower the "expected" payment to bondholders and the lower the value of the bond.
4. Bonds whose payments are subjected to lower taxation provide investors with higher expected after-tax payments. Since investors are interested in after-tax income, such bonds sell for higher prices.

The major classes of bond issuers are the U.S. government, corporations, and municipal governments. The default risk and tax status differ from one kind of bond to another.

The U.S. government is extremely unlikely to default on promised payments to its bondholders. Thus, virtually all of the variation in the value of its bonds is due to changes in market interest rates. That is why analysts use changes in prices of U.S. government bonds to compute changes in market interest rates. Because the U.S. government's tax revenues rarely cover expenditures nowadays, it relies heavily on debt financing. Moreover, even if the government did not have a budget deficit now, it would have to sell new debt to obtain the funds to repay old debt that matures. Most of the debt sold by the U.S. government is marketable, meaning that it can be resold by its original purchaser. Marketable issues include Treasury bills, Treasury notes, and Treasury bonds. The major non-marketable federal debt sold to individuals is U.S. Savings Bonds. Treasury bills have maturities up to one year and are generally issued in denominations of $10,000. They are sold in bearer form – possession of the T-bill itself constitutes proof of ownership.
And they do not pay interest in the sense that the government writes a check to the owner. Instead, the U.S. Treasury sells notes at a discount to their redemption value. The size of the discount determines the interest rate on the bill. For instance, a dealer might offer a bill with 120 days left until maturity at a yield of 7,48 per cent. To translate this quoted yield into the price, one must "undo" this discount computation. Multiply the 7,48 by 120/360 (the fraction of the 360-day year) to obtain 2,493, and subtract that from 100 to get 97,506. The dealer is offering to sell the bond for $97,507 per $100 of face value.
Treasury notes and Treasury bonds differ from Treasury bills in several ways. First, their maturities generally are greater than one year. Notes have maturities of one to seven years. Bonds can be sold with any maturity, but their maturities at issue typically exceed five years. Second, bonds and notes specify periodic interest (coupon) payments as well as a principal repayment. Third, they are frequently registered, meaning that the government records the name and address of the current owner. When Treasury notes or bonds are initially sold, their coupon rate is typically set so that they will sell close to their face (par) value. Yields on bills, notes, or bonds of different maturities usually differ. Because investors can invest either in a long-term note or in a sequence of short-term bills, expectations about future short-term rates affect current long-term rates. Thus, if the market expects future short-term rates to exceed current short-term rates, then current long-term rates would exceed short-term rates. If, for example, the current short-term rate for a one-year Tbill is 5 per cent, and the market expects the rate on a one-year T-bill sold one year from now to be 6 per cent, then the current two-year rate must exceed 5 per cent. If it did not, investors would expect to do better by buying one-year bills today and rolling them over into new one-year bills a year from now.
Savings bonds are offered only to individuals. Two types have been offered. Series E bonds are essentially discount bonds; they pay no interest until they are redeemed. Series H bonds pay interest semi-annually. Both types are registered. Unlike marketable government bonds, which have fixed interest rates, rates received by savings bond holders are frequently revised when market rates change. Corporate bonds promise specified payments at specified dates. In general, the interest received by the bondholder is taxed as ordinary income. An issue of corporate bonds is generally covered by a trust indenture, which promises a trustee (typically a bank or trust company) that it will comply with the indenture's provisions (or covenants). These include a promise of payment of principal and interest at stated dates, and other provisions such as limitations of the firm's right to sell pledged property, limitations on future financing activities, and limitations on dividend payments.
Potential lenders forecast the likelihood of default on a bond and require higher promised interest rates for higher forecasted default rates. One way that corporate borrowers can influence the forecasted default rate is to agree

to restrictive provisions or covenants that limit the firm's future financing, dividend, and investment activities – making it more certain that cash will be available to pay interest and principal. With a lower anticipated probability of default, buyers are willing to offer higher prices for the bonds. Corporate officers must weigh the costs of the reduced flexibility from including the covenants against the benefits of lower interest rates.

Describing all the types of corporate bonds that have been issued would be difficult. Sometimes different names are employed to describe the same type of bond and, infrequently, the same name will be applied to two quite different bonds. Standard types include the following.

- Mortgage bonds are secured by the pledge of specific property. If default occurs, the bondholders are entitled to sell the pledged property to satisfy their claims. If the sale procedures are insufficient to cover their claims, they have an unsecured claim on the corporation's other assets.
- Debentures are unsecured general obligations of the issuing corporation. The indenture will regularly limit issuance of additional secured and unsecured debt.
- Collateral trust bonds are backed by other securities (typically held by a trustee). Such bonds are frequently issued by a parent corporation pledging securities owned by a subsidiary.
- Equipment obligations (or equipment trust certificates) are backed by specific pieces of equipment (for example, railroad rolling stock or aircraft).
- Subordinated debentures have a lower priority in bankruptcy than unsubordinated debentures; junior claims are generally paid only after senior claims have been satisfied.
- Convertible bonds give the owner the option either to be repaid in cash or to exchange the bonds for a specified number of shares in the corporation.

Corporate bonds have differing degrees of risk. Bond rating agencies (for example, Moody's) provide an indication of the relative default risk of bonds with ratings that range from "A" (the best quality) to "C" (the lowest). Bonds rated "B" and above are typically referred to as "investment grade". Below- investment-grade bonds are sometimes referred to as "junk bonds". Junk bonds can carry promised yields that are 3 to 6 per cent (300 to 600 basis points) higher than "A" bonds.

Historically, interest paid on bonds issued by state and local governments has been exempt from federal income taxes. Because investors are usually interested in returns net of tax, municipal bonds have therefore generally promised lower interest rates than other government bonds that have similar risk but that lack this attractive tax treatment. In 1991 the percentage difference between the yield on long-term U.S. government bonds and the yield on long-term municipals was about 15 per cent. Thus, if an individual's marginal tax rate is higher than 15 per cent, after-tax return would be higher from municipial than from taxable government bonds. Municipal bonds are typically designated as either general obligation bonds or revenue bonds. General obligation bonds are backed by the "full faith and
credit" (and thus the taxing authority) of the issuing entity.

Revenue bonds are backed by a specifically designated revenue stream, such as the revenues from a designated project, authority, or agency, or by the proceeds from a specific tax. Frequently, such bonds are issued by agencies that plan to sell their services at prices that cover their expenses, including the promised payments on the debt. In such cases the bonds are only as good as the enterprise that backs it. In 1983, for example, the Washington Public Power Supply System (nicknamed WHOOPS by Wall Street) defaulted on
$2.25 billion on its number four and five nuclear power plants, leaving bondholders with much less than they had been promised. Finally, industrial development bonds are used to finance the purchase or construction of facilities to be leased to private firms. Municipalities have used such bonds to subsidize businesses choosing to locate in their area by, in effect, giving them the benefit of loans at tax-exempt rates.

CORPORATIONS

By Robert Hessen Corporations are easy to create but hard to understand. Because corporations arose as an alternative to partnerships, they can best beunderstood by comparing these competing organizational structures.The presumption of partnership is that the investors will directly manage their own money, rather than entrusting that task to others. Partners are "mutual agents", meaning that each is able to sign contracts that are binding on all the others. Such an arrangement is unsuited for strangers or those who harbor suspicions about each other's integrity or business acumen. Hence the transfer of partnership interests is subject to restrictions. In a corporation, by contrast, the presumption is that the shareholders will not personally manage their money. Instead, a corporation is managed by directors and officers who need not be investors. Because managerial authority is concentrated in the hands of directors and officers, shares are freely transferable unless otherwise agreed. They can be sold or given to anyone without placing other investors at the mercy of a new owner's poor judgment. The splitting of management and ownership into two distinct functions is the salient corporate feature.To differentiate it from a partnership, a corporation should be defined as a legal and contractual mechanism for creating and operating a business for profit, using capital from investors that will be managed on their behalf by directors and officers. To lawyers, however, the classic definition is Chief Justice John Marshall's 1819 remark that "a corporation is an artificial being, invisible, intangible, and existing only in contemplation of law". But Marshall's definition is useless because it is a metaphor; it makes a corporation a judicial hallucination. Recent writers who have tried to recast Marshall's metaphor into a literal definition say that a corporation is an entity (or a fictitious legal person or an artificial legal being) that exists independent of its owners. The entity notion is metaphorical too and violates Occam's Razor, the scientific principle that explanations should be concise and literal.Attempts by economists to define corporations have been equally unsatisfactory. In 1917 Joseph S. Davis wrote: "A corporation is a group of individuals authorized by law to act as a unit". This definition is defective because it also fits partnerships and labor unions, which are not corporations. A contemporary economist, Jonathan Hughes, says that a corporation is a "multiple partnership" and that "the privilege of incorporation is the gift of the state to collective business ventures". Another, Robert Heilbroner, says a corporation is "an entity created by the state", granted a charter that enables it to exist "in its own right as a “person” created by law". But charters enacted by state legislatures literally ceased to exist in the mid-nineteenth century. The actual procedure for creating a corporation consists of filing aregistration document with a state official (like recording the use of a fictitious business name), and the state's role is purely formal and automatic. Moreover, to call incorporation a "privilege" implies that individuals have no right to create a corporation. But why is governmental permission needed? Who would be wronged if businesses adopted corporate features by contract?Whose rights would be violated if a firm declared itself to be a unit forthe purposes of suing and being sued, holding and conveying title to property, or that it would continue in existence despite the death or withdrawal of its officers or investors, that its shares are freely transferable, or if it asserted limited liability for its debt obligations?If potential creditors find any of these features objectionable, they can negotiate to exclude or modify them. Economists invariably declare limited liability to be the crucial corporate feature. According to this view the corporation, as an entity, contracts debts in "its" own name, not "theirs" (the shareholders), so they are not responsible for its debts. But there is no need for such mental gymnastics because limited liability actually involves an implied contract between shareholders and outside creditors. By incorporating (that is, complying with the registration procedure prescribed by state law) and then by using the symbols "Inc." or "Corp. ", shareholders are warning potential creditors that they do not accept unlimited personal liability, that creditors must look only to the corporation's assets (if any) for satisfaction of their claims. This process, known as "constructive notice", offers an easy means of economizing on transactions costs. It is an alternative to negotiating explicit limited-liability contracts with each creditor. Creditors, however, are not obligated to accept limited liability. As Professor Bayless Manning observes: "As a part of the bargain negotiated when the corporation incurs the indebtedness, the creditor may, of course, succeed in extracting from a shareholder (or someone else who wants to see the loan go through) an outside pledge agreement, guaranty, endorsement, or the like that will have the effect of subjecting non-corporate assets to the creditor's claim against the corporation". This familiar pattern explains why limited liability is likely to be a mirage or delusion for a new, untested business, and thus also explains why some enterprises are not incorporated despite the ease of creating a corporation.

Another textbook myth is that limited liability explains why corporations were able to attract vast amounts of capital from nineteenth-century investors to carry out America's industrialization. In fact, the industrial revolution was carried out chiefly by partnerships and unincorporated joint stock companies, rarely by corporations. The chief sources of capital for the early New England textile corporations were the founders' personal savings, money borrowed from banks, the proceeds from state-approved lotteries, and the sale of bonds and debentures. Even in the late nineteenth century, none of the giant industrial corporations drew equity capital from the general investment public. They were privately held and drew primarily on retained earnings for expansion. (The largest enterprise, Carnegie Brothers, was organized as a Limited Partnership Association in the Commonwealth of Pennsylvania, a status that did not inhibit its ability to own properties and sell steel in other states.)

External financing, through the sale of common stock, was nearly impossible in the nineteenth century because of asymmetrical information – that is, the inability of outside investors to gauge which firms were likely to earn a profit, and thus to calculate what would be a reasonable price to pay for shares. Instead, founders of corporations often gave away shares as a bonus to those who bought bonds, which were less risky because they carried underlying collateral, a fixed date of redemption, and a fixed rate of return. Occasionally, wealthy local residents bought shares, not primarily as investments for profit, but rather as a public-spirited gesture to foster economic growth in a town or region. The idea that limited liability would have been sufficient to entice outside investors to buy common stock is counterintuitive. The assurance that you could lose only your total investment is hardly a persuasive sales pitch.

No logical or moral necessity links partnerships with unlimited liability or corporations with limited liability. Legal rules do not suddenly spring into existence full grown; instead, they arise in a particular historical context. Unlimited liability for partners dates back to medieval Italy, when partnerships were family based, when personal and business funds were intermingled, and when family honor required payment of debts owed to creditors, even if it meant that the whole debt would be paid by one or two partners instead of being shared proportionally among them all. Well into the twentieth century, American judges ignored the historical circumstances in which unlimited liability became the custom and later the legal rule. Hence they repeatedly rejected contractual attempts by partners to limit their liability. Only near midcentury did state legislatures grudgingly begin enacting "close corporation" statutes for businesses that would be organized as partnerships if courts were willing to recognize the contractual nature of limited liability. These quasi-corporations have nearly nothing in common with corporations financed by outside investors and run by professional managers. Any firm, regardless of size, can be structured as a corporation, a partnership, a limited partnership, or even one of the rarely used forms, a business trust or an unincorporated joint stock company. Despite textbook claims to the contrary, partnerships are not necessarily small scale or short- lived; they need not cease to exist when a general partner dies or withdraws. Features that are automatic or inherent in a corporation – continuity of existence, hierarchy of authority, freely transferable shares – are optional for a partnership or any other organizational form. The only exceptions arise if government restricts or forbids freedom of contract (such as the rule that forbids limited liability for general partners).

As noted, the distinctive feature of corporations is that investment and management are split into two functions. Critics call this phenomenon a "separation of ownership from control". The most influential indictment of this separation was presented in “The Modern Corporation and Private Property”, written in 1932 by Adolf A. Berle, Jr., and Gardiner C. Means. Corporate officers, they claimed, had usurped authority, aided and abetted by directors who should have been the shareholders' agents and protectors. But Berle and Means' criticism over-looked how corporations were formed. The "Fortune 500" corporations were not born as giants. Initially, each was the creation of one or a few people who were the prime movers and promoters of the business and almost always the principal source of its original capital. They were able to "go public" – sell shares to outsiders to raise additional equity – only when they could persuade underwriters and investors that they could put new money to work at a profit.
If these firms had initially been partnerships, then the general partners could have accepted outside investors as limited partners without running any risk of losing or diluting their control over decision making. (By law, limited partners cannot participate in management or exercise any voice or vote, or else they forfeit their claim to limited liability.) A far different situation applies to corporations. Shareholders receive voting rights to elect the board of directors, and the directors, in turn, elect the officers. Conceivably, new shareholders could play an active role in managing these corporations. But, in fact, this happens only rarely.
When a corporation is created, its officers, directors, and shareholders usually are the same people. They elect themselves or their nominees to the board of directors and then elect themselves as corporate officers. When the corporation later goes public, the founders accept the possibility of a dilution of control because they value the additional capital and because they expect to continue to control a majority of votes on the board and thus to direct the company's future policy and growth. That the board of directors is dominated by "insiders" makes sense. The founders are the first directors; later, their places on the board are filled by the executives they groomed to succeed them. This arrangement does not injure new shareholders. As outside investors they buy shares of common stock because they discover corporations whose record of performance indicates a competent managerial system. They do not want to interfere with it or dismantle it; on the contrary, they willingly entrust their savings to it. They know that the best safeguard for their investments, if they
become dissatisfied with the company's performance, is their ability to sell instantly their shares of a publicly traded corporation. Berle and Means challenged the legitimacy of giant corporations when they charged that corporate officers had seized or usurped control from the owners – the shareholders. But their underlying premise was wrong. In reality, investors make choices along a risk-reward continuum. Bondholders are the most risk- averse; then come those who buy the intermediate-risk, non-voting securities (debentures, convertible bonds and preferred shares); and then the least risk- averse investors, those who buy common shares and stand to gain (or lose) the most.
Just as one may assume that investors know the difference between being a general partner and a limited partner, so too they know that shareholders in a publicly traded corporation are the counterparts of limited partners, trust beneficiaries, those who make passbook deposits in a bank, or those who buy shares in a mutual fund. All hope to make money on their savings as a sideline to their regular sources of income. To look askance at executives who supply little or none of the corporation's capital, as many of the corporation's critics do, is really to condemn the division of labor and specialization of function. Corporate officers operate businesses whose capital requirements far exceed their personal saving or the amounts they would be willing or able to borrow. Their distinctive contribution to the enterprise is knowledge of production, marketing, and finance, administrative ability in building and sustaining a business, in directing its growth, and in leading its response to unforeseen problems and challenges. But specialization – capital supplied by investors and management supplied by executives – should be unobjectionable as long as everyone's participation is voluntary.

Another technique used by critics to undermine the legitimacy of giant corporations is to equate them to government institutions and then to find them woefully deficient in living up to democratic norms (voting rights are based on number of shares owned, rather than one vote per person, for example). Thus shareholders are renamed "citizens", the board of directors is "the legislature", and the officers are "the executive branch". They call the articles of incorporation a "constitution", the by-laws – "private statutes" and merger agreements – "treaties". But the analogy, however ingenious, is defective. It cannot encompass all the major groups within the corporation.

If shareholders are called citizens or voters, what are other suppliers of capital called? Are bondholders "resident aliens" because they cannot vote? And are those who buy convertible debentures "citizens in training" until they acquire voting rights? A belabored analogy cannot justify equating business and government. Those who cannot distinguish between a government and a giant corporation are also unable to appreciate the significance of the fact that millions of people freely choose to invest their savings in the shares of publicly traded corporations. It is farfetched to believe that shareholders are being victimized – denied the control over corporate affairs that they expected to exercise, or being shortchanged on dividends – and yet still retain their shares and buy new shares or bid up the price of existing shares. If shareholders were victims, corporations could not possibly raise additional capital through new stock offerings. Yet they do so frequently.

Particular corporations can be mismanaged. They are sometimes too large or too diversified to operate efficiently, too slow to innovate, overloaded with debt, top-heavy with high-salaried executives, or too slow to respond to challenges from domestic or foreign competitors. But this does not invalidate corporations as a class. Whatever the shortcomings of particular companies or whole industries, corporations are a superb matchmaking mechanism to bring savers (investors) and borrowers (workers and managers) together for their mutual benefit. To appreciate the achievement of corporations, one has only to consider what the state of technology would be if workers or managers had to supply their own capital, or if industrialization was carried out under government auspices, using capital that was taxed or expropriated.

DEMAND

By David R. Henderson

One of the most important building blocks of economic analysis is the concept of demand. When economists refer to demand, they usually have in mind not just a single quantity demanded, but what is called a demand curve. A demand curve traces the quantity of a good or service that is demanded at successively different prices.

The most famous law in economics, and the one that economists are most sure of, is the law of demand. On this law is built almost the whole edifice of economics. The law of demand states that when the price of a good rises, the amount demanded falls, and when the price falls, the amount demanded rises. Some of the modern evidence for the law of demand is from econometric studies which show that, all other things being equal, when the price of a good rises, the amount of it demanded decreases. How do we know that there are no instances in which the amount demanded rises and the price rises? A few instances have been cited, but they almost always have an explanation that takes into account something other than price. Nobel Laureate George Stigler responded years ago that if any economist found a true counter-example, he would be "assured of immortality, professionally speaking, and rapid promotion". And because, wrote Stigler, most economists would like either reward, the fact that no one has come up with an exception to the law of demand shows how rare the exceptions must be. But the reality is that if an economist reported an instance in which consumption of a good rose as its price rose, other economists would assume that some factor other than price caused the increase in demand.

The main reason economists believe so strongly in the law of demand is that it is so plausible, even to noneconomists. Indeed, the law of demand is ingrained in our way of thinking about everyday things. Shoppers buy more strawberries when they are in season and the price is low. This is evidence for
the law of demand: only at the lower, in-season price are consumers willing to buy the higher amount available. Similarly, when people learn that frost will strike orange groves in Florida, they know that the price of orange juice will rise. The price rises in order to reduce the amount demanded to the smaller amount available because of the frost. This is the law of demand. We see the same point every day in countless ways. No one thinks, for example, that the way to sell a house that has been languishing on the market is to raise the asking price. Again, this shows an implicit awareness of the law of demand: the number of potential buyers for any given house varies inversely with the asking price.
Indeed, the law of demand is so ingrained in our way of thinking that it is even part of our language. Think of what we mean by the term *on sale.* We do not mean that the seller raised the price. We mean that he or she lowered it. The seller did so in order to increase the amount of goods demanded. Again, the law of demand. Economists, as is their wont, have struggled to think of exceptions to the law of demand. Marketers have found them. One of the best examples was a new car wax. Economist Thomas Nagle points out that when one particular car wax was introduced, it faced strong resistance until its price was raised from $.69 to $1.69. The reason, according to Nagle, was that buyers could not judge the wax's quality before purchasing it. Because the quality of this particular product was so important – a bad product could ruin a car's finish – consumers "played it safe by avoiding cheap products that they believed were more likely to be inferior". Many non-economists are skeptical of the law of demand. A standard example they give of a good whose quantity demanded will not fall when the price increases is water. How, they ask, can people reduce their use of water? But those who come up with that example think of drinking water, or using it in a household, as the only possible uses. Even for such uses, there is room to reduce consumption when the price of water rises. Households can do larger loads of laundry, or shower instead of bathe, for example. The main users of water, however, are agriculture and industry. Farmers and manufacturers can substantially alter the amount of water used in production. Farmers, for example, can do so by changing crops or by changing irrigation methods for given crops. It is not just price that affects the quantity demanded. Income affects it too. As real income rises, people buy more of some goods (which economists call normal goods) and less of what are called inferior goods. Urban mass transit and railroad transportation are classic examples of inferior goods. That is why the usage of both of these modes of travel declined so dramatically as postwar incomes were rising and more people could afford automobiles. Environmental quality is a normal good, which is a major reason that Americans have become more concerned about the environment in recent decades.
Another influence on demand is the price of substitutes. When the price of Toyota Tercels rises, all else being equal, demand for Tercels falls and demand for Nissan Sentras, a substitute, rises. Also important is the price of complements, or goods that are used together. When the price of gasoline rises, the demand for cars falls.

ENTREPRENEURSHIP

By Mark Casson

The term "entrepreneur", which most people recognize as meaning someone who organizes and assumes the risk of a business in return for the profits, appears to have been introduced by Richard Cantillon (1697 – 1734), an Irish economist of French descent. The term came into much wider use after John Stuart Mill popularized it in his 1848 classic, "Principles of Political Economy", but then all but disappeared from the economics literature by the end of the nineteenth century.

The reason is simple. In their mathematical models of economic activity and behavior, economists began to use the simplifying assumption that all people in an economy have perfect information. That leaves no role for the entrepreneur. Although different economists have emphasized different facets of entrepreneurship, all economists who have written about it agree that at its core entrepreneurship involves judgment. But if people have perfect information, there is no need for judgment. Fortunately, economists have increasingly dropped the assumption of perfect information in recent years. As this trend continues, economists are likely to allow in their models for the role of the entrepreneur. When they do, they can learn from past economists, who took entrepreneurship more seriously.

According to Cantillon's original formulation, the entrepreneur is a specialist in taking on risk. He "insures" workers by buying their products (or their labor services) for resale before consumers have indicated how much they are willing to pay for them. The workers receive an assured income (in the short run, at least), while the entrepreneur bears the risk caused by price fluctuations in consumer markets. This idea was refined by the U.S. economist Frank H. Knight (1885 –1972), who distinguished between risk, which is insurable, and uncertainty, which is not. Risk relates to recurring events whose relative frequency is known from past experience, while uncertainty relates to unique events whose probability can only be subjectively estimated. Changes affecting the marketing of consumer products generally fall in the uncertainty category.

Individual tastes, for example, are affected by group culture, which, in turn, depends on fashion trends that are essentially unique. Insurance companies exploit the law of large numbers to reduce the overall burden of risks by "pooling" them. For instance, no one knows whether any individual forty-year-old will die in the next year. But insurance companies do know with relative certainty how many forty-year-olds in a large group will die within a year. Armed with this knowledge, they know what price to charge for life insurance, but they cannot do the same when it comes to uncertainties. Knight observed that while the entrepreneur can "lay off" risks much like insurance companies do, he is left to bear the uncertainties himself. He is content to do this because his profit compensates him for the psychological cost involved. If new companies are free to enter an industry and existing companies are free to exit, then in the long run entrepreneurs and capital will exit from industries where profits are low and enter ones where they are high. If uncertainties were equal between industries, this shift of entrepreneurs and of capital would occur until profits were equal in each industry. Any long-run differences in industry profit rates, therefore, can be explained by the different magnitudes of the uncertainties involved.

Joseph A. Schumpeter (1883 – 1950) took a different approach, emphasizing the role of innovation. According to Schumpeter, the entrepreneur is someone who carries out "new combinations" by such things as introducing new products or processes, identifying new export markets or sources of supply, or creating new types of organization. Schumpeter presented a heroic vision of the entrepreneur as someone motivated by the "dream and the will to found a private kingdom"; the "will to conquer: the impulse to fight, to prove oneself superior to others"; and the "joy of creating". In Schumpeter's view the entrepreneur leads the way in creating new industries, which, in turn, precipitate major structural changes in the economy. Old industries are rendered obsolete by a process of "creative destruction." As the new industries compete with established ones for labor, materials, and investment goods, they drive up the price of these resources. The old industries cannot pass on their higher costs because demand is switching to new products. As the old industries decline, the new ones expand because imitators, with optimistic profit expectations based on the innovator's initial success, continue to invest. Eventually, overcapacity depresses profits and halts investment. The economy goes into depression, and innovation stops. Invention continues, however, and eventually there is a sufficient stock of unexploited inventions to encourage courageous entrepreneurs to begin innovation again. In this way Schumpeter used entrepreneurship to explain structural change, economic growth, and business cycles, using a combination of economic and psychological ideas.

Schumpeter was concerned with the "high-level" kind of entrepreneurship that, historically, has led to the creation of railroads, the birth of the chemical industry, the commercial exploitation of colonies, and the emergence of the multidivisional multinational firm. His analysis left little room for the much more common, but no less important, "low-level" entrepreneurship carried on by small firms. The essence of this low-level activity can be explained by the Austrian approach of Friedrich A. Hayek and Israel M. Kirzner. In a market economy, price information is provided by entrepreneurs. While bureaucrats in a socialist economy have no incentive to discover prices for themselves, entrepreneurs in a market economy are motivated to do so by profit opportunities.

Entrepreneurs provide price quotations to others as an invitation to trade with them. They hope to make a profit by buying cheap and selling dear. In the long run, competition between entrepreneurs arbitrages away price differentials, but in the short run, such differentials, once discovered, generate a profit for the arbitrageur. The difficulty with the Austrian approach is that it isolates the entrepreneur from the firm. It fits an individual dealer or speculator far better than it fits a small manufacturer or even a retailer. In many cases (and in almost all large corporations), owners delegate decisions to salaried managers, and the question then arises whether a salaried manager, too, can be an entrepreneur. Frank Knight maintained that no owner would ever delegate a key decision to a salaried subordinate, because he implicitly assumed that subordinates cannot be trusted. Uncertainty bearing, therefore, is inextricably vested in the owners of the firm's equity, according to Knight. But in practice subordinates can win a reputation for being good stewards, and even though salaried, they have incentives to establish and maintain such reputations because their promotion prospects depend upon it. In this sense, both owners and managers can be entrepreneurs. The title of entrepreneur should, however, be confined to an owner or manager who exhibits the key trait of entrepreneurship noted above: judgment in decision making. Judgment is a capacity for making a successful decision when no obviously correct model or decision rule is available or when relevant data is unreliable or incomplete. Cantillon's entrepreneur needs judgment to speculate on future price movements, while Knight's entrepreneur requires judgment because he deals in situations that are unprecedented and unique. Schumpeter's entrepreneur needs judgment to deal with the novel situations connected with innovation. The insights of previous economists can be synthesized. Entrepreneurs are specialists who use judgment to deal with novel and complex problems. Sometimes they own the resources to which the problems are related, and sometimes they are stewards employed by the owners. In times of major political, social, and environmental change, the number of problems requiring judgment increases and the demand for entrepreneurs rises as a result. For supply to match demand, more people have to forgo other careers in order to become entrepreneurs. They are encouraged to do so by the higher expected pecuniary rewards associated with entrepreneurship, and perhaps also by increases in the social status of entrepreneurs, as happened in the eighties. The supply of entrepreneurs depends not only on reward and status, but also on personality, culture, and life experience. An entrepreneur will often find that his opinion is in conflict with the majority view. He needs the self- confidence that, even though in a minority, he is right. He must be persuasive, however, without disclosing too much information, because others may steal his ideas. Such shrewdness must, moreover, be combined with a reputation for honesty, because otherwise no one will wish to lend money to him for fear of deliberate default.

In identifying profitable opportunities the entrepreneur needs to synthesize information from different sources. Thus, the Schumpeterian innovator may need to synthesize technical information on an invention with information on customer needs and on the availability of suitable raw materials. A good education combined with wide-ranging practical experience helps the entrepreneur to interpret such varied kinds of information. Sociability also helps the entrepreneur to make contact with people who can supply such information secondhand. For low-level entrepreneurship, education and breadth of experience may be less important because information is less technical and more localized. Good social contacts within the local community are more important here. Key information is obtained by joining the local church, town council, residents' association, and so on.

The culture of a community may be an important influence on the level of entrepreneurship. A community that accords the highest status to those at the top of hierarchical organizations encourages "pyramid climbing", while awarding high status to professional expertise may encourage premature educational specialization. Both of these are inimical to entrepreneurship. The first directs ambition away from innovation (rocking the boat), while the second leads to the neglect of relevant information generated outside the limited boundaries of the profession. According high status to the "self-made" man or woman is more likely to encourage entrepreneurship. There seems to be considerable inertia in the supply of entrepreneurs. One reason is that the culture affects the supply, and the culture itself changes only very slowly. Entrepreneurship is one of the major avenues of social and economic advancement, along with sport and entertainment. But the Horatio Alger myth that the typical entrepreneur has risen from rags to riches disguises the fact that as Frank Taussig and others have found, many of the most successful entrepreneurs are the sons of professionals and entrepreneurs. They owe much of their success to parental training and inherited family contacts. Thus, in most societies there is insufficient social mobility for entrepreneurial culture to change simply because of the changing origins of the entrepreneural elite. In any case, "self-made" entrepreneurs often adopt the culture of the elite, neglecting their business interests for social and political activities and even (in Britain) educating their children to pursue a more "respectable" career.

In the long run, though, changes can occur that have profound implications for entrepreneurship. In modern economies large corporations whose shares are widely held have replaced the family firm founded by the selfmade entrepreneur. Corporations draw on a wider range of management skill than is available from any single family, and they avoid the problem of succession by an incompetent eldest son that has been the ruin of many family firms. Corporations plan large-scale activities using teams of professional specialists, but their efficiency gains are to some extent offset by the loss of employee loyalty that was a feature of many family firms. Loyal employees do not need close supervision, or complex bonus systems, to make them work, because they are selfmotivated. Historically, family firms have drawn on two main sources of "cultural capital": the paternalistic idea that employees are adopted members of the founder's family, and the founder's own religious and moral values. The first is effective only within small firms.

A modern corporation that wishes to build up a family spirit must do so within its individual business units.

These units can then be bonded together by a unifying corporate culture

– the modern equivalent of the founder's system of values. The dissemination of corporate culture may be assisted by the charisma of the chairman or chief executive. This suggests that senior management in the modern corporation requires not only entrepreneurial skills, but also leadership skills, which means the ability to inspire trust and affection, rather than just fear, in subordinates. The need to combine entrepreneurial skills and leadership skills is, of course, universal, but its significance has increased as organizations have become larger and societies have abandoned traditional religions for secular values.

FREE MARKET

By Murray N. Rothbard

"Free market" is a summary term for an array of exchanges that take place in society. Each exchange is undertaken as a voluntary agreement between two people or between groups of people represented by agents. These two individuals (or agents) exchange two economic goods, either tangible commodities or non-tangible services. Thus, when I buy a newspaper from a newsdealer for fifty cents, the newsdealer and I exchange two commodities: I give up fifty cents, and the newsdealer gives up the newspaper. Or if I work for a corporation, I exchange my labor services, in a mutually agreed way, for a monetary salary; here the corporation is represented by a manager (an agent) with the authority to hire.

Both parties undertake the exchange because each expects to gain from it. Also, each will repeat the exchange next time (or refuse to) because his expectation has proved correct (or incorrect) in the recent past. Trade, or exchange, is engaged in precisely because both parties benefit; if they did not expect to gain, they would not agree to the exchange. This simple reasoning refutes the argument against free trade typical of the "mercantilist" period of sixteenth to-eighteenth-century Europe, and classically expounded by the famed sixteenth-century French essayist Montaigne. The mercantilists argued that in any trade, one party can benefit only at the expense of the other, that in every transaction there is a winner and a loser, an "exploiter" and an "exploited." We can immediately see the fallacy in this still-popular viewpoint: the willingness and even eagerness to trade means that both parties benefit. In modern game-theory jargon, trade is a win-win situation, a "positive-sum" rather than a "zero-sum" or "negativesum" game.

How can both parties benefit from an exchange? Each one values the two goods or services differently, and these differences set the scene for an exchange. I, for example, am walking along with money in my pocket but no newspaper; the newsdealer, on the other hand, has plenty of newspapers but is anxious to acquire money.

And so, finding each other, we strike a deal.

Two factors determine the terms of any agreement: how much each participant values each good in question, and each participant's bargaining skills. How many cents will exchange for one newspaper, or how many Mickey Mantle baseball cards will swap for a Babe Ruth, depends on all the participants in the newspaper market or the baseball card market – on how much each one values the cards as compared to the other goods he could buy. These terms of exchange, called "prices" (of newspapers in terms of money, or of Babe Ruth cards in terms of Mickey Mantles), are ultimately determined by how many newspapers, or baseball cards, are available on the market in relation to how favorably buyers evaluate these goods. In shorthand, by the interaction of their supply with the demand for them.

Given the supply of a good, an increase in its value in the minds of the buyers will raise the demand for the good, more money will be bid for it, and its price will rise. The reverse occurs if the value, and therefore the demand, for the good falls. On the other hand, given the buyers' evaluation, or demand, for a good, if the supply increases each unit of supply- each baseball card or loaf of bread – will fall in value, and therefore, the price of the good will fall. The reverse occurs if the supply of the good decreases. The market, then, is not simply an array, but a highly complex, interacting latticework of exchanges. In primitive societies, exchanges are all barter or direct exchange. Two people trade two directly useful goods, such as horses for cows or Mickey Mantles for Babe Ruths. But as a society develops, a step-by-step process of mutual benefit creates a situation in which one or two broadly useful and valuable commodities are chosen on the market as a medium of indirect exchange. Money, generally but not always made of gold or silver, is then demanded not only for its own sake, but even more to facilitate a reexchange for another desired commodity. It is much easier to pay steelworkers not in steel bars, but in money, with which the workers can then buy whatever they desire. They are willing to accept money because they know from experience and insight that everyone else in the society will also accept that money in payment.

The modern, almost infinite latticework of exchanges, the market, is made possible by the use of money. Each person engages in specialization, or a division of labor, producing what he or she is best at. Production begins with natural resources, and then various forms of machines and capital goods are sold to the consumer. At each stage of production from natural resource to consumer good, money is voluntarily exchanged for capital goods, labor services, and land resources. At each step of the way, terms of exchanges, or prices, are determined by the voluntary interactions of suppliers and demanders. This market is "free" because choices, at each step, are made freely and voluntarily.

The free market and the free price system make goods from around the world available to consumers. The free market also gives the largest possible scope to entrepreneurs, who risk capital to allocate resources so as to satisfy the future desires of the mass of consumers as efficiently as possible. Saving and investment can then develop capital goods and increase the productivity and wages of workers, thereby increasing their standard of living. The free competitive market also rewards and stimulates technological innovation that allows the innovator to get a head start in satisfying consumer wants in new and creative ways. Not only is investment encouraged, but perhaps more important, the price system, and the profit-and-loss incentives of the market, guide capital investment and production into the proper paths. The intricate latticework can mesh and "clear" all markets so that there are no sudden, unforeseen, and inexplicable shortages and surpluses anywhere in the production system. But exchanges are not necessarily free. Many are coerced. If a robber threatens you with "Your money or your life", your payment to him is coerced and not voluntary, and he benefits at your expense. It is robbery, not free markets, that actually follows the mercantilist model: the robber benefits at the expense of the coerced. Exploitation occurs not in the free market, but where the coercer exploits his victim. In the long run, coercion is a negative-sum game that leads to reduced production, saving, and investment, a depleted stock of capital, and reduced productivity and living standards for all, perhaps even for the coercers themselves.

Government, in every society, is the only lawful system of coercion. Taxation is a coerced exchange, and the heavier the burden of taxation on production, the more likely it is that economic growth will falter and decline. Other forms of government coercion (e.g. price controls or restrictions that prevent new competitors from entering a market) hamper and cripple market exchanges, while others (prohibitions on deceptive practices, enforcement of contracts) can facilitate voluntary exchanges. The ultimate in government coercion is socialism. Under socialist central planning the socialist planning board lacks a price system for land or capital goods. As even socialists like Robert Heilbroner now admit, the socialist planning board therefore has no way to calculate prices or costs or to invest capital so that the latticework of production meshes and clears. The current Soviet experience, where a bumper wheat harvest somehow cannot find its way to retail stores, is an instructive example of the impossibility of operating a complex, modern economy in the absence of a free market. There was neither incentive nor means of calculating prices and costs for hopper cars to get to the wheat, for the flour mills to receive and process it, and so on down through the large number of stages needed to reach the ultimate consumer in Moscow or Sverdlovsk. The investment in wheat is almost totally wasted.

Market socialism is, in fact, a contradiction in terms. The fashionable discussion of market socialism often overlooks one crucial aspect of the market. When two goods are indeed exchanged, what is really exchanged is the property titles in those goods. When I buy a newspaper for fifty cents, the seller and I are exchanging property titles: I yield the ownership of the fifty cents and grant it to the newsdealer, and he yields the ownership of the newspaper to me. The exact same process occurs as in buying a house, except that in the case of the newspaper, matters are much more informal, and we can all avoid the intricate process of deeds, notarized contracts, agents, attorneys, mortgage brokers, and so on. But the economic nature of the two transactions remains the same.

This means that the key to the existence and flourishing of the free market is a society in which the rights and titles of private property are respected, defended, and kept secure. The key to socialism, on the other hand, is government ownership of the means of production, land, and capital goods. Thus, there can be no market in land or capital goods worthy of the name. Some critics of the free-market argue that property rights are in conflict with "human" rights. But the critics fail to realize that in a free-market system, every person has a property right over his own person and his own labor, and that he can make free contracts for those services. Slavery violates the basic property right of the slave over his own body and person, a right that is the groundwork for any person's property rights over non-human material objects. What's more, all rights are human rights, whether it is everyone's right to free speech or one individual's property rights in his own home.

A common charge against the free-market society is that it institutes "the law of the jungle", that it spurns human cooperation for competition, and that it exalts material success as opposed to spiritual values, philosophy, or leisure activities. On the contrary, the jungle is precisely a society of coercion, theft, and parasitism, a society that demolishes lives and living standards. The peaceful market competition of producers and suppliers is a profoundly cooperative process in which everyone benefits, and where everyone's living standard flourishes (compared to what it would be in an unfree society). And the undoubted material success of free societies provides the general affluence that permits us to enjoy an enormous amount of leisure as compared to other societies, and to pursue matters of the spirit. It is the coercive countries with little or no market activity, notably under communism, where the grind of daily existence not only impoverishes people materially, but deadens their spirit.

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