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FOREWORD

“English for Economic Studies” is designed mainly to meet the needs of the students of economic faculties and of all the others who are interested in studying business and the basics of economics in English.

The aim of the book is to teach the students to read and analyse the professional literature, to give them the fundamental economic terminology for its further utilization in business practice and to help them enrich their economic culture.

This book comprises eight basic chapters and each chapter is accompanied by many other sub-chapters. Each new theme contains the vocabulary item presented in the following way: business and economic terms in English are given with their translation into Romanian and Russian. In some cases they are also followed by the explanation of their meanings in English. The meaning of the general English words is presented through their English equivalents, so that the students should guess their translation themselves.

The texts are presented in a comprehensible form. They are followed by numerous exercises which give students the opportunity to test their understanding and put the newly acquired vocabulary to active use. The modern methods such as simulation, roleplay, problematization and case study are designed to provide the students with an interesting and lively way of learning different economic topics in English and of developing their critical thinking. There are also introduced exercises for individual work making students study more profoundly the topics they are interested in.

We hope that this book will be a useful work tool for the career education of the students. It should help them master English for Specific Purposes and use it in their future profession.

The Authors

CUVÎNT ÎNAINTE

Notele de curs “English for Economic Studies” sunt o lucrare elaborată cu scopul de a satisface necesitățile studenților de la facultățile economice, precum și a altor persoane care sunt intereseate în studierea business-ului și bazelor economiei în limba engleză.

Dezideratul acestei lucrări este de a-i învăța pe studenți să citească și să analizeze literatura de specialitate, de a-i înzestra cu terminologia economică de bază pentru folosirea ulterioară a acesteia în sfera de afaceri și de a-i ajuta să îmbogățească cultura lor economică.


Textele în lucrarea dată sunt prezentate într-o formă accesibilă. Ele sunt urmate de o varietate de exerciții care dau studenților posibilitatea de a testa comprenșiunea și de a folosi activ lexiciul nou studiat. Metodele moderne precum: simularea, jocul de rol, problematizarea și studiul de caz sunt introduse pentru a le oferi studenților posibilitatea de a însuși diferite teme economice în limba engleză într-un mod destul de interesant și de a dezvolta gândirea lor critică. Sunt incluse și exerciții pentru lucrul individual menite să aprofundeze cunoștințele studenților.

Sperăm că lucrarea dată va fi un uninstrument de lucru util în pregătirea profesională a studenților, le va ajuta să însușească limba engleză pentru scopuri specifice pentru a o folosi în viitoarea lor profesie.

Autorii
1. **ECONOMICS**

“Economics is not about things and tangible material objects; it is about men, their meanings and actions”

--- Ludwig Von Mises ---

**Learning objectives:**
1. Distinguish the main economic systems
2. Understand the definition of business, its risks and rewards
3. Evaluate the chances of starting and operating a business in the Republic of Moldova

**Study and Learn the Words:**

<table>
<thead>
<tr>
<th><strong>English</strong></th>
<th><strong>English equivalents</strong></th>
<th><strong>Romanian</strong></th>
<th><strong>Russian</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>shares</td>
<td></td>
<td>acțiuni, titluri de valoare</td>
<td>акции</td>
</tr>
<tr>
<td>free enterprise</td>
<td></td>
<td>inițiativă liberă</td>
<td>частное предпринимательство</td>
</tr>
<tr>
<td>theme park</td>
<td>a large park where people go to enjoy themselves and where much of the entertainment is connected with one subject: e.g. A western-style theme park</td>
<td></td>
<td></td>
</tr>
<tr>
<td>executive</td>
<td></td>
<td>manager of a company</td>
<td></td>
</tr>
<tr>
<td>shareholder</td>
<td></td>
<td>acționar</td>
<td>акционер</td>
</tr>
<tr>
<td>management</td>
<td>the people who run and control an organization</td>
<td></td>
<td></td>
</tr>
<tr>
<td>competition</td>
<td></td>
<td>concurență</td>
<td>конкуренция</td>
</tr>
<tr>
<td>by-product</td>
<td>a thing that happens as a result of sth else</td>
<td>produs secundar</td>
<td>побочный продукт</td>
</tr>
<tr>
<td>raw materials</td>
<td></td>
<td>materie primă</td>
<td>сырьё</td>
</tr>
<tr>
<td>to furnish</td>
<td>a aprovisiona</td>
<td></td>
<td>предоставить</td>
</tr>
<tr>
<td>to process</td>
<td>a preluca</td>
<td></td>
<td>перерабатывать</td>
</tr>
<tr>
<td>tangible goods</td>
<td></td>
<td>bunuri materiale</td>
<td>материальные товары</td>
</tr>
<tr>
<td>legal advice</td>
<td></td>
<td>consultație juridică</td>
<td>юридическая консультация</td>
</tr>
<tr>
<td>automatic</td>
<td></td>
<td>cutie de viteză automată</td>
<td>автоматическая коробка передач</td>
</tr>
<tr>
<td>transmission</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>power seats</td>
<td>seats whose position can be changed automatically</td>
<td></td>
<td></td>
</tr>
<tr>
<td>remote-control</td>
<td></td>
<td>telecomandă</td>
<td>дистанционное управление</td>
</tr>
<tr>
<td>side mirror</td>
<td></td>
<td>oglinda laterală</td>
<td>боковое зеркало</td>
</tr>
<tr>
<td>stick shift</td>
<td></td>
<td>cutie de viteză manuală</td>
<td>ручная коробка передач</td>
</tr>
<tr>
<td>to go rough</td>
<td>not to go well (about business)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>sales revenue</td>
<td></td>
<td>venit din vânzări</td>
<td>доход от продаж</td>
</tr>
</tbody>
</table>
There are four types of economic systems:

1) **Traditional economy** is one in which economic behaviour is based primarily on tradition, custom and habit. It is characteristic of primitive societies.

2) **Command/planned economy** is one in which some central authority or state determines economic behaviour. Such type of economic system was in the former USSR.

3) **Market economy** is one in which markets play a dominant role in taking economic decisions process. It is characteristic of the Western European countries.

4) **Mixed economy** is one in which both free markets and governments have significant effects on the allocation of resources and the distribution of income. This type of economic system is characteristic of the USA, Japan and other highly industrialized countries.

Perhaps the most important characteristic of American business is the freedom of individuals to start a business, to work for a business, to buy or sell ownership shares in a business, and to sell a business outright. Within certain limits imposed mainly to ensure public safety, the owners of a business can produce any legal product or service they choose and sell it at any price they set. This system of business, in which individuals decide what to produce, how to produce it, and at what price to sell it, is called **free enterprise**.

The American system of free enterprise ensures, for example, the right of Walt Disney to start an entertainment company, to hire an assortment of artists, and to experiment in developing theme parks. Their system gives the current executives at Disney and its shareholders the right to make a profit from the company's success, it gives Disney's management the right to compete with 20th Century Fox, and it gives movie-goers the right to choose between films produced by the two companies and many others. Competition like that between Disney and 20th Century Fox is a necessary and extremely important by-product of free enterprise. Because many individuals and groups can open businesses, there are sure to be a number of firms offering similar products. But a potential customer may want only one such product—say, a Jeep Cherokee or a Chevrolet S-10 Blazer—and not be interested in purchasing both. Each of the firms offering similar products must therefore try to convince the potential customer to buy its product rather than a similar item made by someone else. In other words, these firms must compete with each other for sales. Business **competition**, then, is essentially a rivalry among businesses for sales to potential customers. In free enterprise, competition works to ensure the efficient and effective operation of the business. Competition also ensures that a firm will survive only if it serves its customers well.
1.1. Business

Business is the organized effort of individuals to produce and sell, for a profit, the goods and services that satisfy society's needs. No person or group of persons actually organized American business as we know it today. Rather, over the years individuals have organized their own particular businesses for their own particular reasons. All these individual businesses, and all the interactions between these businesses and their customers, have given rise to what we call American business.

A person who risks his or her time, effort, and money to start and operate a business is called an entrepreneur. To organize a business, an entrepreneur must combine four kinds of resources: material, human, financial, and informational. Material resources include the raw materials used in manufacturing processes, as well as buildings and machinery. Human resources are the people who furnish their labour to the business in return for wages. The financial resource is the money required to pay employees, purchase materials, and generally keep the business operating. And information is the resource that tells the managers of the business how effectively the other resources are being combined and utilized.

Businesses are generally of three types. Manufacturing businesses (or manufacturers) are organized to process various materials into tangible goods, such as delivery trucks or towels. Service businesses produce services, such as haircuts or legal advice. And some firms—called middlemen—are organized to buy the goods produced by manufacturers and then resell them. For example, the General Electric Company is a manufacturer that produces clock radios. These products may be sold to a retailing middleman, which then resells them to consumers in its retail stores. Consumers are individuals who purchase goods or services for their own personal use rather than to resell them.

All three types of businesses may sell either to other firms or to consumers. In both cases, the ultimate objective of every firm must be to satisfy the needs of its customers. People generally don't buy goods and services simply to own them; they buy products to satisfy particular needs. People rarely buy an automobile solely to store it in a garage; they do, however, buy automobiles to satisfy their need for transportation. Some of us may feel that this need is best satisfied by an air-conditioned BMW with stereo cassette player, automatic transmission, power seats and windows, and remote-control side mirrors. Others may believe that a Ford Taurus with a stick shift and an AM radio will do just fine. Both products are available to those who want them, along with a wide variety of other products that satisfy the need for transportation.

When firms lose sight of their customers' needs, they are likely to find the going rough. But when the businesses that produce and sell goods and services understand their customers' needs and work to satisfy those needs, they are usually successful.

In the course of normal operations, a business receives money (sales revenue) from its customers in exchange for goods or services. It must also pay out money to cover the various expenses involved in doing business. If the firm's sales revenue is greater than its expenses, it has earned a profit. So profit is what remains after all business expenses have been deducted from sales revenue. A negative profit, which results when a firm's expenses are greater than its sales revenue, is called a loss.

The profit earned by a business becomes the property of its owners. So in one sense profit is the return, or reward, that business owners receive for producing goods and services that consumers want.

Profit is also the payment that business owners receive for assuming the considerable risks of ownership. One of these is the risk of not being paid. Everyone else—employees, suppliers, and lenders—must be paid before the owners. And if there is nothing left over (if there is no profit), there can be no payments to owners. A second risk that owners run is the risk of losing
whatever they have put into the business. A business that cannot earn a profit is very likely to fail, in which case the owners lose whatever money, effort, and time they have invested. For business owners, the challenge of business is to earn a profit in spite of these risks.

Verb collocations:
To run a business = to be in charge of a business (e.g. to run a hotel, to run a store)
To run a newspaper = to be the chief editor of a newspaper
To run a test = to do a test
To run a risk = to risk
To run a temperature = to have a temperature that is higher than normal.

Use the above phrases of words in your own sentences.

WORD STUDY
The word **BUSINESS** has several meanings. Depending on the meaning this word can be countable or uncountable.

*It is uncountable when it refers to:*
- the activity of making, buying, selling or supplying goods or services for money.
  Syn.: trade, commerce.
  E.g. big business, small business, to do business, to go into business
- the work that is part of your job.
  E.g. to be away on business.
- something that concerns a particular person or organization, their responsibility.
  E.g. It is my business to organize the exhibition.
- a matter, an event, a situation
  E.g. the business of the day.

*It is countable when it refers to:*
- a commercial organization such as a company, shop or factory.
  E.g. to have several businesses.

I. VOCABULARY PRACTICE
A) Find the words in the text that are synonyms of:
1. to buy = 
2. to persuade= 
3. to employ= 
4. to go bankrupt= 
5. to produce= 
6. intermediary= 
7. fundamental goal= 
8. businessman= 
9. to provide sb with sth= 
10. merchandise=

B) Find in the text English equivalents for the following:
1. Economie de piață/рыночная экономика
2. Economie mixtă/смешаная экономика
3. Economie planificată/плановая экономика
4. A vinde la un preț/продавать по цене
5. Furnizor/поставщик
6. Creditor/кредитор
7. A nu avea success, a merge prost (despre afaceri)/не иметь успеха, идти плохо (о делах)
8. A satisface necesitățile clienților săi/удовлетворять нужды своих клиентов
II. COMPREHENSION
Give answers to the following questions:
1. What economic system is characteristic of the Republic of Moldova?
2. What is the most important characteristic of American business?
3. What is the important by-product of free enterprise?
4. What is business and who organized the modern American business?
5. What resources must be combined in order to start a business? What do you think, what kind of resources is of greatest importance nowadays? Give your reasons.
6. What types of businesses do you know? To your mind, what type is widespread in our Republic and why?
7. What is the ultimate objective of every firm? Do you agree with it?
8. What is profit and what is a loss? In your opinion, if the firm’s expenses are equal to its sales revenue, can such firm still function or not?
9. What risks are assumed by businessmen?
10. Do you agree or disagree with the statement: “Life, in general, is a risky business”?

III. What is the usual antonym to these words?
1) to sell 7) to fire
2) producer 8) intangible goods
3) to wholesale 9) to prosper
4) profit 10) to gain
5) borrower 11) to add (e.g. 2+5)
6) employer 12) failure

IV. DISCUSSION
1. Is it easy or difficult to start and operate a business in our Republic?
2. What does one need in order to start his/her own business and to be a successful entrepreneur?
Choose out of these 3 most important things and give your reasons:
- business knowledge
- courage
- leadership
- financial support
- tremendous drive (= a very strong desire to do sth)
- impertinence
- true entrepreneurial spirit
- brilliant ideas
- communication skills
- patience
3. If you had a chance to start a business, in what sphere would you like to work?
1.2. The Economics of Business

Learning objectives:
1. Grasp the economics and economy concepts
2. Analyze Adam Smith’s view about self-interest pursued by private individuals
3. Recognize the four main features of laissez-faire capitalism
4. Comprehend how the 3 basic economic questions are answered in the free-market economy

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>to decide on sth</td>
<td>to choose</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to stem from</td>
<td>a izvorî din</td>
<td>произходить</td>
<td></td>
</tr>
<tr>
<td>to argue</td>
<td>to prove</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to pursue</td>
<td>a urmări</td>
<td>преследовать</td>
<td></td>
</tr>
<tr>
<td>capital goods</td>
<td>mijloace de producție</td>
<td>средства производства</td>
<td></td>
</tr>
<tr>
<td>to derive sth from</td>
<td>to get sth from sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>crucial (adj)</td>
<td>important</td>
<td></td>
<td></td>
</tr>
<tr>
<td>umpire</td>
<td>arbitrator</td>
<td>arbitră</td>
<td>третейский судья</td>
</tr>
<tr>
<td>conflicting</td>
<td>interpretare contradictorie</td>
<td>противоречивое толкование</td>
<td></td>
</tr>
<tr>
<td>interpretations</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to intent on one’s interest</td>
<td>to give all your attention to sth that interests you</td>
<td></td>
<td></td>
</tr>
<tr>
<td>orderly economic system</td>
<td>organized economic system</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to cast “dollar votes”</td>
<td>to make one’s choice by paying dollars</td>
<td></td>
<td></td>
</tr>
<tr>
<td>going price</td>
<td>present, current price</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to ease off on production</td>
<td>to reduce production</td>
<td></td>
<td></td>
</tr>
<tr>
<td>interest</td>
<td>dobândă, procent</td>
<td>процент</td>
<td></td>
</tr>
<tr>
<td>supply of sth</td>
<td>offer</td>
<td>ofertă; aprovizionare</td>
<td>предложение; снабжение</td>
</tr>
<tr>
<td>demand for sth</td>
<td>cerere</td>
<td>спрос</td>
<td></td>
</tr>
<tr>
<td>conversely (adv)</td>
<td>invers</td>
<td>наоборот</td>
<td></td>
</tr>
<tr>
<td>hence (adv)</td>
<td>as a result</td>
<td></td>
<td></td>
</tr>
<tr>
<td>welfare</td>
<td>bunăstare</td>
<td>благосостояние, благополучие</td>
<td></td>
</tr>
<tr>
<td>counterproductive (adj)</td>
<td>having the opposite effect to the one which was intended</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to put forth an idea</td>
<td>to suggest an idea</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Read the following text and do the exercises given after it

Economics is the study of how wealth is created and distributed. By wealth we mean anything of value, including the products produced and sold by business. "How wealth is distributed" simply means "who gets what."

According to economic theory, every society must decide on the answers to three questions:
1. What goods and services—and how much of each—will be produced?
2. How will these goods and services be produced? (That is, who will produce them and which resources will be used to do so?)
3. For whom will these goods and services be produced? (This is the question "Who gets what?")

The way in which a society answers these questions determines the kind of economic system, or economy, that society has chosen. In the United States, their particular answers have provided them with a mixed economy, which is based on laissez-faire capitalism, or private enterprise. Their free enterprise business system is the practical application of this economic system.

**Laissez-Faire Capitalism**

Laissez-faire capitalism stems from the theories of Adam Smith, a Scot. In 1776, in his book *The Wealth of Nations*, Smith argued that a society's interests are best served when the individuals within that society are allowed to pursue their own self-interest. Smith believed that each person should be allowed to work toward his or her own economic gain, without interference from government. In doing so, each person would unintentionally be working for the good of society as a whole. And society would benefit most when there was the least interference with this pursuit of economic self-interest. Government should therefore leave the economy to its citizens. The French term *laissez faire* implies that there shall be no interference in the economy; loosely translated, it means "let them do" (as they see fit).

The features of laissez-faire capitalism are:

**Private Ownership of Property** Smith argued that the creation of wealth (including products) is properly the concern of private individuals, not of government. Hence the resources that are used to create wealth must be owned by private individuals. Economists recognize three categories of resources: land, labor, and capital, also known as the factors of production. *Land* includes the land and the natural resources on and in the land. *Labour* is the work performed by people. *Capital* includes financial resources, buildings, machinery, tools, and equipment that are used in an organization's operations. We have referred to these resources as material, human, and financial resources, and we shall continue to do so. Today, business people use the term *capital* to mean both capital goods and the money needed to purchase them.

Smith argued further that the owners of the factors of production should be free to determine how these resources are used. They should also be free to enjoy the income and other benefits that they might derive from the ownership of these resources.

**Economic Freedom** Smith's economic freedom extends to all those involved in the economy. For the owners of land and capital, this freedom includes the right to rent, sell, or invest their resources and the right to use their resources to produce any product and offer it for sale at the price they choose. For workers, this economic freedom means the right to accept or reject any job they are offered. For all individuals, economic freedom includes the right to purchase any good or service that is offered for sale by producers. These rights, however, do not include a guarantee of economic success. Nor do they include the right to harm others during the pursuit of one's own self-interest.

**Competitive Markets** A crucial part of Smith's theory is the competitive market composed of large numbers of buyers and sellers. Economic freedom ensures the existence of competitive markets, because sellers and buyers can enter markets as they choose. Sellers enter a market to earn profit, rent, or wages; buyers enter a market to purchase resources and products. Then, in a free market, sellers compete for sales and buyers compete for available goods, services, and resources.
This freedom to enter or leave a market at will has given rise to the name free-market economy for the capitalism that Smith described.

**Limited Role of Government** In Smith's view, the role of government should be limited to providing defense against foreign enemies, ensuring internal order, and furnishing public works and education. With regard to the economy, government should act only as rule maker and umpire. As rule maker, government should provide laws that ensure economic freedom and promote competition. As umpire, it should act to settle disputes arising from conflicting interpretations of its laws. Government, according to Adam Smith, should have no major economic responsibilities beyond these.

**What, How and For Whom in the Free-Market Economy**

Smith's laissez-faire capitalism sounds as though it should lead to chaos, not to answers to the three basic economic questions. How can millions of individuals and firms, all intent only on their own self-interest, produce an orderly economic system? One response might be simply, "They can and they do." Most of the industrialized nations of the world exhibit some form of modified capitalist economy, and these economies do work. A better response, however, is that these millions of individuals and firms actually provide very concrete and detailed answers to the three basic questions.

**What to Produce?** This question is answered continually by consumers as they spend their dollars in the various markets for goods and services. When consumers buy specific products, they are casting "dollar votes" for these products. These actions tell resource owners to produce more of this product and more of the capital goods with which the product is manufactured. Conversely, when consumers refuse to buy a product at its going price, they are voting against the product, telling producers to either reduce the price or ease off on production. In each case, consumers are giving a very specific answer concerning a very specific product.

**How to Produce?** The two parts of this question are answered by producers as they enter various markets and compete for sales and profits. Those who produce for a particular market answer the question "Who will produce?" simply by being in that market. Their answer, of course, is "We will."

Competition within various markets determines which resources will be used. To compete as effectively as possible in the product markets, producers try to use the most efficient (least-cost) combination of resources. When a particular resource can be used to produce two or more different products, then producers must also compete with each other in the market for that resource. And, if the price of one needed resource becomes too high, producers will look for substitute resources—say, plastics in place of metals. The resources that will be used to produce are those that best perform their function at the least cost.

**For Whom to Produce?** In a market economy, goods are distributed to those who have the money to purchase them. This money is earned by individuals as wages, rents, profit, and interest—that is, as payment for the use of economic resources. Money is therefore a medium of exchange, an artificial device that aids in the exchange of resources for goods and services. The distribution of goods and services ("who gets what") therefore depends on the current prices of economic resources and of the various goods and services. And prices, in their turn, are determined by the balance of supply and demand.
I. VOCABULARY PRACTICE
Find antonyms (1-7), synonyms (8-14) in the text to the following words and phrases:
1. public (adj)                         8.  answer
2. to prohibit                          9.  profit
3. rarely                                    10. at wish
4. to accept a job                       11. to secure
5. to do good                           12. to resolve conflicts
6. to spend money                     13. replacement
7. exactly translated                     14. to help

II. COMPREHENSION
A) Give words to the following definitions:
1. The system through which a society answers the 3 economic questions __________
2. The study of how wealth is created and distributed __________
3. An economic system characterized by private ownership of property, free entry into markets, and absence of government interference __________
4. Capital goods and the money needed to purchase them __________
5. The right to buy any good or service that is offered for sale by producers __________
6. A place in which buyers and sellers of a good or service meet __________
7. Land, labour and capital __________
8. An economic system in which individuals and firms are free to enter and leave markets at will __________
9. A person who settles disputes arising from conflicting interpretations of some official acts __________
10. An artificial device that aids in the exchange of resources for goods and services __________

B) Answer the following questions:
1. What economic system is there in the USA?
2. Speak about the history of Laissez-faire capitalism. What are its features?
3. What does the right of private property entitle the owner to do?
4. What is land, labour and capital?
5. What is economic freedom? What does it mean for the owners of land and capital, for workers and for all individuals?
6. What are competitive markets?
7. What is the role of government in this economic system?
8. What are the 3 economic questions that every society must answer in order to set up an economic system?
9. What economy do most of the industrialized nations of the world exhibit?
10. Who answers the questions “What to produce?” ‘How to produce?”’, and “For whom to produce?”

III. WORD STUDY
There is a set of words related to the word economics. In a table we can show them like this:

<table>
<thead>
<tr>
<th>econom</th>
<th>y</th>
</tr>
</thead>
<tbody>
<tr>
<td>icies</td>
<td></td>
</tr>
<tr>
<td>ic</td>
<td>al</td>
</tr>
<tr>
<td>ic</td>
<td>ly</td>
</tr>
<tr>
<td>ist</td>
<td></td>
</tr>
</tbody>
</table>
Each word has a different use. Try to put the right word in the blanks in these sentences:

1. Smith and Keynes are two famous ____________________ .
2. Students at the Academy of ________________ Studies are studying ____________ .
3. We sometimes call a person’s work his _______________ activity.
4. People should be very ________________ with the money they earn.
5. The __________ system of a country is usually called the national _______________.
6. Don’t be ________________ with the truth. I want to know all the facts of this event.
7. Old people in our country live very ________________ .

FOR YOUR INFORMATION

Adam Smith was born in Kirkcaldy, Scotland, in 1723. In school he proved himself a good scholar as he studied the usual subjects of the period – English, Latin, Greek, history, and arithmetic. At 14, along with other boys of the same age, he entered Glasgow University, and in 1740 went on to Oxford.

Throughout his student years he encountered many ideas and individuals that would prepare him for the eventual writing of his important work: *An Inquiry into the Nature and Causes of the Wealth of Nations*. In it he brought together the economic concepts and theories that established the basis of modern economics.

Smith’s main argument was that the general welfare of society is best promoted by allowing individuals to pursue their own self-interest within the law, because this alone is “capable of carrying on the society to wealth and prosperity.” People should be able to do so through voluntary and mutually beneficial exchanges in free markets, with limited regulation by government officials: “Every individual … intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention.”

Smith also believed that any attempt by government to force the economy beyond this “system of natural liberty” is counterproductive.

Because of the original ideas Smith put forth in his works, he is considered the founder of classical economics.

Checking for Understanding

1. What did Smith mean when he referred to an “invisible hand” that guides people’s economic choices?
2. List three examples in which a person’s pursuit of his or her own self-interest might benefit society as a whole.

IV. DEBATE

“Every man, as long as he does not violate the laws of justice, is left perfectly free to pursue his own self-interest”

*Adam Smith*

Which of the 2 points of view concerning Adam Smith’s famous statements about self-interest do you adhere to? Form two teams. Each team should set forth as many arguments as possible to defend their statements.
Adam Smith’s statements regarding self-interest are actually statements about greed. The capitalist economic system is effective only because of the greedy behaviour of individuals who are concerned with their own “self-interest”.

Smith did not feel self-interest and selfishness were the same, and people are wrong to believe that they are. Smith meant that it is only natural that every person tries to better his own condition. Also, one person’s gain is not necessarily obtained at the other person’s expense.

V. FOCUS ON GRAMMAR
Fill in prepositions where necessary
1. According ____ economic theory, every society must decide ____ the answers ____ 3 questions.
2. The American particular answers have provided them ____ a mixed economy based ____ private enterprise.
3. Government should leave the economy ____ its citizens.
4. Entrepreneurs can produce any product and offer it ____ sale ____ the price they choose.
5. Buyers and sellers can enter ____ a market and leave it ____ will.
6. When consumers refuse to buy a product ____ its going price, they are voting ____ the product.
7. The distribution of goods and services depends ____ the current prices of economic resources.
8. If a product is sold ____ high price, the demand ____ this product decreases.

1.2.1. Planned Economies

Learning objectives:
1. Comprehend how the 3 basic economic questions are answered in planned economies
2. Differentiate between market economy and planned economies
3. Understand what every operating economy represents in reality

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>at least</td>
<td></td>
<td>cel puțin</td>
<td>по крайней мере</td>
</tr>
<tr>
<td>to some degree</td>
<td></td>
<td>în oarecare măsură</td>
<td>в той или иной степени</td>
</tr>
<tr>
<td>utilities</td>
<td></td>
<td>servicii publice</td>
<td>коммунальные услуги</td>
</tr>
<tr>
<td>real property</td>
<td></td>
<td>proprietate imobiliară</td>
<td>недвижимость</td>
</tr>
<tr>
<td>projected needs</td>
<td></td>
<td>planned needs</td>
<td></td>
</tr>
<tr>
<td>professed aims</td>
<td></td>
<td>aims that have been publicly made known</td>
<td></td>
</tr>
<tr>
<td>waste</td>
<td></td>
<td>devastare</td>
<td>разорение</td>
</tr>
<tr>
<td>to advocate</td>
<td></td>
<td>to propagate, to sustain</td>
<td></td>
</tr>
<tr>
<td>to set prices</td>
<td></td>
<td>to establish prices</td>
<td></td>
</tr>
<tr>
<td>to fare</td>
<td></td>
<td>a o duce</td>
<td>поживать</td>
</tr>
<tr>
<td>to outweigh</td>
<td></td>
<td>a depăși</td>
<td>перевешивать</td>
</tr>
</tbody>
</table>
static (adj) not changing or developing

to attain a atinge, a ajunge la достигать

subsidy subvenție, subsiul субсидия

to wind up (wound, wound) to stop running a company and close it completely a recurge la прибегнуть к

to resort to staff personnel

unemployment şomaj безработица

debt datorie долг

on behalf of sb on behalf of sb din partea cuiva от имени кого-л.

utmost care great care

Read the following text and do the exercises given after it

The two other economic systems that contrast sharply with the capitalism of Adam Smith are socialism and communism. These systems are sometimes called planned economies because the answers to the three basic economic questions are determined, at least to some degree, through centralized government planning.

Socialism In a socialist economy, the key industries are owned and controlled by the government. Such industries usually include transportation, public utilities, communications, and those producing important materials such as steel. (In France, the major banks are nationalized, or transferred to government control. Banking, too, is considered extremely important to a nation's economy.) Land and raw materials may also be the property of the state in a socialist economy. Depending on the country, private ownership of real property (such as land and buildings) and smaller or less vital businesses is permitted to varying degrees. People usually, may choose their own occupations, but many work in state-owned industries.

What to produce and how to produce it are determined in accordance with national goals, which are based on projected needs, and the availability of resources—at least for government-owned industries. The distribution of goods and services is also controlled by the state to the extent that it controls rents and wages. Among the professed aims of socialist countries are the equitable distribution of income, the elimination of poverty and the distribution of social services such as medical care to all who need them, smooth economic growth, and elimination of the waste that supposedly accompanies capitalist competition.

Britain, France, Sweden, and India are democratic countries whose mixed economies include a very visible degree of socialism.

Communism If Adam Smith was the father of capitalism, Karl Marx was the father of communism. In his writings (during the mid-nineteenth century), Marx advocated a classless society whose citizens together owned all economic resources. He believed that such a society would come about as the result of a class struggle between the owners of capital and the workers they had exploited. All workers would then contribute to this communist society according to their ability and would receive benefits according to their need.

Today North Korea is generally considered to have communist economy. Almost all economic resources are owned by the government in this country. The basic economic questions are answered through centralized state planning, which sets prices and wages as well. In this planning, the needs of the state generally outweigh the needs of its citizens. Emphasis is placed on the production of capital goods (such as heavy machinery) rather than on the products that consumers might want, so there are frequent shortages of consumer goods. Workers have little choice of jobs, but special skills or talents seem to be rewarded with special privileges. Various groups of professionals (bureaucrats, university professors, and athletes, for example) fare much better than, say, factory workers. Communist economies
were in the former USSR, China, Cuba, former Yugoslavia. Nowadays all these countries have market economies, some of them are in the period of transition to the market one.

The so-called communist economies actually seem to be far from Marx's vision of communism, but rather practice a strictly controlled kind of socialism. There is also a bit of free enterprise here and there. For example, in the former Soviet Union, the farmers' markets (rinki in Russian) not only were allowed but were also essential to the nation's food supply. However, like all real economies, these economies are neither pure nor static. Every operating economy is a constantly changing mixture of various idealized economic systems. Some evolve slowly; others change more quickly, through either evolution or revolution. And, over many years, a nation, such as Great Britain, may move first in one direction—say, toward capitalism—and then in the opposite direction. It is impossible to say whether any real economy will ever closely resemble Marx's communism.

I. VOCABULARY PRACTICE

A) Explain in English the meaning of the following phrases:
   1. to contrast sharply
   2. the key industries
   3. public utilities
   4. banks are nationalized
   5. smooth economic growth
   6. to change through either evolution or revolution

B) Find in the text English equivalents for the following:
   1. În dependenţă de ţară/в зависимости от страны
   2. Avere imobiliară/недвижимость
   3. Într-o măsură oarecare/в той или иной степени
   4. Ramurile industriei care aparţin statului/отрасли промышленности, принадлежащие государству
   5. În concordanţă cu scopurile statului/в соответствии с целями государства
   6. Printre scopurile proclamate/среди провозглашённых целей
   7. Distribuirea echitabilă a venitului/справедливое распределение дохода
   8. Lichidarea devastării, care ipotetic însoteste concurenţa capitalistică/ликвидация разорения, которое предположительно сопровождает капиталистическую конкуренцию
   9. Mijloace de producţie/средства производства
   10. Deficitul frecvent al mărfurilor de larg consum/частый дефицит товаров широкого потребления.

II. COMPREHENSION

A) Answer the following questions:
   1. Why are socialism and communism sometimes called planned economies?
   2. Who owns the key industries in a socialist economy?
   3. Does private ownership of property exist in a socialist economy?
   4. Where can people work in socialist countries?
   5. Who controls the distribution of goods and services in a socialist society?
   6. What economies do Britain, France, Sweden and India have?
   7. Who was the father of communism and what did he advocate?
   8. What countries are considered to have communist economies?
   9. Who answers the 3 economic questions in a communist society?
10. Do the so-called communist economies correspond to Marx’s vision of communism?

11. What does every operating economy represent in reality?

B) Read the text more carefully and mark the statements with TRUE or FALSE

1. Planned economy is an economy in which the answers to the 3 basic economic questions are given by private individuals.

2. The key industries of any country are transportation, utilities, communications, and banking.

3. What to produce and how to produce it in a socialist economy depends on the availability of resources.

4. One of the professed aims of socialist countries is the distribution of social services to all who have money to pay for them.

5. India is a social democratic country.

6. In a communist society there is a slogan „Everybody will contribute according to their ability and will receive according to their need”.

7. In a communist society prices and wages are set by the state.

8. Workers in a communist economy can choose any job they like.

9. Land and raw materials may belong to the state in a socialist economy.

10. There is no free enterprise in planned economies.

11. In a communist economy capital goods are produced in larger quantities than consumer goods.

12. In the real world no economy attains „theoretical perfection”.

III. Match the words in column A with their definitions in column B

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. subsidy</td>
<td>a) The state of a company which is unable to pay its debts and has to be wound up.</td>
</tr>
<tr>
<td>2. overstaffing</td>
<td>b) Inability to find a job</td>
</tr>
<tr>
<td>3. unemployment</td>
<td>c) A component of the market forces which when it prevails makes prices of goods rise.</td>
</tr>
<tr>
<td>4. supply</td>
<td>d) A payment by a government to producers of certain goods to enable them to survive in a difficult economic situation.</td>
</tr>
<tr>
<td>5. demand</td>
<td>e) Rights over property</td>
</tr>
<tr>
<td>6. ownership</td>
<td>f) Employment of personnel in excess of the real necessities</td>
</tr>
<tr>
<td>7. bankruptcy</td>
<td>g) A component of the market forces which when it prevails makes prices of goods fall</td>
</tr>
</tbody>
</table>

IV. Fill in the gaps with the words from the list at the end of the text

A market economy is based on private ...(1) in contrast to planned economy where ...(2) ownership prevails. In a free market economy efficiency is the key word, while on the other hand planned economy most likely leads to ...(3). In a free market economy inefficient businesses go ...(4), whereas in a planned economy businesses are ...(5), thus allowing them to survive in spite of their non-satisfactory economic performance. This enables the latter type of economy to resort to ...(6), that is employing more personnel than actually required. Market economy leads to high ...(7) of goods and services, while on the other hand planned economy will not focus on offering high quality goods and services to ...(8). This is due to the fact that in the latter type of economy there is actually no ...(9), as there are ...(10) monopolies and therefore the options of customers are severely restricted. On the other hand in a market economy companies freely ...(11) for a larger ...(12) share, and are thus forced to be efficient and ...(13) staff according to real necessities and ...(14) their resources with utmost care.
Bankrupt; compete; competition; customers; inefficiency; manage; state; overstaffing; ownership; quality; market; employ; government; subsidized.

V. On the basis of the above text complete the table giving the characteristic features of 2 types of economic systems, the first one has already been done for you

<table>
<thead>
<tr>
<th>Market economy</th>
<th>Planned economy</th>
</tr>
</thead>
<tbody>
<tr>
<td>private ownership</td>
<td>state ownership</td>
</tr>
<tr>
<td></td>
<td></td>
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<td></td>
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<td></td>
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<td></td>
</tr>
</tbody>
</table>

VI. Match the following 3 definitions with the words: Capitalism, Socialism, Communism.

1. An economic system in which everyone has an equal right to a share of a country’s wealth and the government owns and controls the main industries.
   __________________

2. An economic system in which the state controls the means of producing everything on behalf of people.
   __________________

3. An economic system in which a country’s businesses and industry are controlled and run for a profit by private owners rather than by government.
   __________________

VII. DISCUSSION
Give extensive answers to the following questions:
1. What are the professed aims of a socialist economy?
2. Do you know the countries in which poverty does not exist?
3. Is it ever possible to eliminate poverty in our country completely or is it something unreal?

VIII. DEBATE
Work in groups. Do you agree or disagree with the following statements? Give your reasons:
1. The rich cannot exist without the poor.
2. The state has an obligation to take care of homeless and poor people.
3. The only thing that can remove poverty is sharing.
4. Poverty is not just being without food. It is the absence of affection.
1.3. Supply, Demand, Price and Competition

**Learning objectives:**
1. Comprehend how supply and demand determine the price
2. Characterize the four forms of competition
3. Analyze the possible advantages and disadvantages of competition both for the customers and for the sellers

**Study and Learn the Words:**

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>to affect</td>
<td>to influence</td>
<td></td>
<td></td>
</tr>
<tr>
<td>bushel</td>
<td>a unit for measuring grain, fruit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>shift</td>
<td>change</td>
<td></td>
<td></td>
</tr>
<tr>
<td>inflation</td>
<td>a general rise in the prices of goods and services</td>
<td>inflație</td>
<td>инфляция</td>
</tr>
<tr>
<td>generic product</td>
<td>not using the name of the company that made it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>brand name</td>
<td>the name given to a product by the company that produces it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bayer</td>
<td>the name of a famous pharmaceutical company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>warranty</td>
<td>guarantee</td>
<td></td>
<td></td>
</tr>
<tr>
<td>recession</td>
<td></td>
<td>recesiune, criză</td>
<td>экономический спад</td>
</tr>
<tr>
<td>to follow suit</td>
<td>to follow an example</td>
<td></td>
<td></td>
</tr>
<tr>
<td>wariness</td>
<td></td>
<td>precauțiune, prudență</td>
<td>омотрительность, осторожность</td>
</tr>
<tr>
<td>scrutiny</td>
<td>cercetare, verificare</td>
<td>внимательный</td>
<td>наблюдение, исследование</td>
</tr>
<tr>
<td>loan</td>
<td></td>
<td>împrumut, credit</td>
<td>заём, ссуда</td>
</tr>
</tbody>
</table>

**WORD STUDY**

_to rise, to raise, to arise_

The verb *to rise* (*rose, risen*) is used **without object**. It means to move from a lower to a higher position:

E.g. She rose from the chair.
Gas rose in price.
Unemployment is rising.

The verb *to raise* **must have an object** and it means to lift sth to a higher position or to increase it:

E.g. She raised her eyes from her work.
Government has raised taxes.

_to raise money = to collect money_

The verb *to arise* (*arose, arisen*) means **to happen, to occur, to start to exist**.
E.g. A new crisis has arisen.

Now complete the following sentences with the 3 studied verbs. Use them in the appropriate tenses.
1. Our supplier ___________ the price of electric equipment.
2. If any misunderstandings ___________ I’ll let you know.
3. The prices of raw materials ___________ recently.
4. The management of the company decided ___________ the salaries.
5. It will be necessary ___________ money if we want to extend the business.
6. We keep them informed of any changes as they ___________.
7. This book ___________ many important questions.
8. Several new industries ___________ in the town.
9. Those who agree are asked ___________ a hand.
10. Profits ___________ last year by 25%.

Read the following text and do the exercises given after it

The **supply** of a particular product is the quantity of the product that producers are willing to sell at each of various prices. Supply is thus a relationship between prices and the quantities offered by producers, who are usually rational people, so we would expect them to offer more of a product for sale at higher prices and to offer less of the product at lower prices.

The **demand** for a particular product is the quantity that buyers are willing to purchase at each of various prices. Demand is thus a relationship between prices and the quantities purchased by buyers, who are rational people too, so we would expect them to buy more of a product when its price is low and to buy less of the product when its price is high. This is exactly what happens when the price of fresh strawberries rises dramatically. People buy other fruit or do without and reduce their purchases of strawberries. They begin to buy more strawberries only when prices drop.

**Forms of Competition**

A free-market system implies competition among sellers of products and resources. Economists recognize four different degrees of competition, ranging from ideal competition to no competition at all. These are pure competition, monopolistic competition, oligopoly, and monopoly.

**Pure (or perfect) competition** is the complete form of competition. It is the market situation in which there are many buyers and sellers of a product, and no single buyer or seller is powerful enough to affect the price of that product. The above definition includes several important ideas:
- there is a demand for a single product;
- all sellers offer the same product for sale;
- all buyers and sellers know everything there is to know about the market;
- the market is not affected by the actions of any one buyer or seller.

In pure competition the sellers and buyers must accept the going price. But who or what determines the price? Actually, everyone does. The price of each product is determined by the actions of all buyers and all sellers together, through the forces of supply and demand. It is this interaction of buyers and sellers, working for their best interest that Adam Smith referred to as the “invisible hand” of competition.

Neither sellers nor buyers exist in a vacuum. What they do is interact within a market. And there is always one certain price at which the quantity of a product that is demanded is exactly equal to the quantity of that product that is produced. Suppose producers are willing to supply 2 million bushels of wheat at a price of $5 per bushel and that buyers are willing to purchase 2 million bushels at a price of $5 per bushel. In other words, supply and demand are in balance, or in equilibrium, at the price of $5. This is the "going price" at which producers
should sell their 2 million bushels of wheat. Economists call this price the equilibrium price or market price. Under pure competition, the market price of any product is the price at which the quantity demanded is exactly equal to the quantity supplied.

In theory and in the real world, market prices are affected by anything that affects supply and demand. The demand for wheat, for example, might change if researchers suddenly discovered that it had very beneficial effects on users' health. Then more wheat would be demanded at every price. The supply of wheat might change if new technology permitted the production of greater quantities of wheat from the same amount of acreage. In that case, producers would be willing to supply more wheat at each price. Either of these changes would result in a new market price. Other changes that can affect competitive prices are shifts in buyer tastes, the development of new products that satisfy old needs, and fluctuations in income due to inflation or recession. For example, generic or "no-name" products are now available in supermarkets. Consumers can satisfy their needs for products ranging from food to drugs to paper products at a lower cost, with quality comparable to brand name items. Bayer was recently forced to lower the price of its very popular aspirin because of competition from generic products.

Pure competition is only a theoretical concept. Some specific markets may come close, but no real market totally exhibits perfect competition. Many real markets, however, are examples of monopolistic competition. Monopolistic competition is a market situation in which there are many buyers along with relatively many sellers who differentiate their products from the products of competitors and it is very easy to enter into this market. The various products available in a monopolistically competitive market are very similar in nature, and they are all intended to satisfy the same need. However, each seller attempts to make its product somewhat different from the others by providing unique product features — an attention-getting brand name, unique packaging, or services such as free delivery or a "lifetime" warranty.

Product differentiation is a fact of life for the producers of many consumer goods, from soaps to clothing to personal computers. Actually, monopolistic competition is characterized by fewer sellers than pure competition, but there are enough sellers to ensure a highly competitive market. By differentiating its product from all similar products, the producer obtains some limited control over the market price of its product.

An oligopoly is a market situation (or industry) in which there are few sellers (2-8). Generally these sellers are quite large, and sizable investments are required to enter into their market. For this reason, oligopolistic industries tend to remain oligopolistic. Examples of oligopolies are the American automobile, industrial chemicals, and oil refining industries.

Because there are few sellers in an oligopoly, each seller has considerable control over price. At the same time, the market actions of each seller can have a strong effect on competitors' sales. If one firm reduces its price, the other firms in the industry usually do the same to retain their market shares. If one firm raises its price, the others may wait and watch the market for a while, to see whether their lower price tag gives them a competitive advantage, and then eventually follow suit. All this wariness usually results in similar prices for similar products. In the absence of much price competition, product differentiation becomes the major competitive weapon.

A monopoly is a market (or industry) with only one seller. Because only one firm is the supplier of a product, it has complete control over price. However, no firm can set its price at some astronomical figure just because there is no competition; the firm would soon find that it had no sales revenue, either. Instead, the firm in a monopoly position must consider the demand for its product and set the price at the most profitable level.

The few monopolies in American business don't have even that much leeway in setting prices because they are all carefully regulated by government.
Most monopolies in America are *public utilities*, such as we find in electric power distribution. They are permitted to exist because the public interest is best served by their existence, but they operate under the scrutiny and control of various state and federal agencies.

I. VOCABULARY PRACTICE

A) Match the words with their definitions

<table>
<thead>
<tr>
<th>1. to range from A to B</th>
<th>a) the act of taking goods to the people who have ordered them</th>
</tr>
</thead>
<tbody>
<tr>
<td>2. beneficial</td>
<td>b) the amount of freedom you have in order to do sth in the way you want to</td>
</tr>
<tr>
<td>3. recession</td>
<td>c) to continue to have sth</td>
</tr>
<tr>
<td>4. packaging</td>
<td>d) to vary from one thing to another</td>
</tr>
<tr>
<td>5. warranty</td>
<td>e) a person or company that provides goods or services</td>
</tr>
<tr>
<td>6. to retain</td>
<td>f) having a helpful or useful effect</td>
</tr>
<tr>
<td>7. supplier</td>
<td>g) a written agreement in which a company selling sth promises to repair or replace it if there is a problem with it within a particular period of time</td>
</tr>
<tr>
<td>8. leeway</td>
<td>h) a difficult time for the economy of a country when there is less trade and more people are unemployed.</td>
</tr>
<tr>
<td>9. scrutiny</td>
<td>i) materials used to wrap goods that are sold in shops</td>
</tr>
<tr>
<td>10 delivery</td>
<td>j) careful and thorough examination</td>
</tr>
</tbody>
</table>

B) Find antonyms in the text to the following words:

1. supply
2. generic product
3. customer
4. to be reluctant to do sth
5. deflation
6. to reduce the price
7. to ban

II. COMPREHENSION

A) Mark the statements with TRUE or FALSE and correct the false ones

1. Monopoly is a form of competition.
2. There is no product differentiation in pure competition.
3. All sellers offer the same product for sale in monopolistic competition.
4. American automobile industry is an example of pure competition.
5. Product differentiation is a fact of life for the consumers of many goods.
6. A monopolist can set any price he/she wants.
7. In oligopoly there can be 6 sellers.
8. There are more sellers in monopolistic competition than in pure competition.
9. Because of competition from generic products many famous companies are forced to lower the prices of their brand-name products.
10. Oligopolists usually offer similar prices for similar products.

B) Choose the best variant (in some cases 2 variants are possible)

1. Competition offers consumers choices in
   a) price           c) style
   b) quality         d) all of the above
2. In order for competition to exist there must be
   a) many products
   b) 2 or more companies in the same business
   c) 2 or more companies in different businesses
d) profits

3. An oligopoly exists when the control of the goods and services is in the hands of
   a) 1 large company
   b) several small companies
   c) 2 big companies in the same business
   d) 10 sizable companies

4. Many real markets are examples of
   a) monopoly
   b) oligopoly
   c) monopolistic competition
   d) pure competition

5. By differentiating his product the producer obtains
   a) many consumers
   b) control over price
   c) profit
   d) monopoly

6. Product differentiation is characteristic of
   a) monopoly
   b) oligopoly
   c) monopolistic competition
   d) pure competition

7. Barriers to enter the market are characteristic of
   a) monopoly
   b) oligopoly
   c) monopolistic competition
   d) pure competition

III. DISCUSSION
1. Comment on the statement: „Business competition encourages efficiency of production and leads to improved product quality”.

2. List the possible advantages and disadvantages of competition for both consumers and producers.

3. What kind of competition is there in the market of mobile communication in our country?

4. Give examples of monopolies in our country. Why are monopolies prohibited in some countries?

IV. CASE STUDY
Read the following text and answer the questions

Business Philosophy at the J.M. Smucker Company

„With a name like Smucker’s, it has to be good”. Based on Smucker’s recent success and growth in the jam, jelly, preserves and marmalade industry, it would be hard for anyone to doubt that statement. The total jam and jelly sales for Smucker’s is over $1 billion a year. By first chasing and then surpassing jelly giants Kraft, Inc. And Welch’s, Smucker’s now has a 37 percent share of the total jam and jelly market and is the leading manufacturer in the industry.

The J.M. Smucker Company, based in Orrville, Ohio, is a family-run operation. In 1897 Jerome Monroe Smucker decided to bring in extra income by making apple cider and apple butter from old family recipes. On the same property where today’s modern factory now stands, Jerome carefully monitored the quality of his products, personally signing the paper tied over each container of apple butter. Now, at all of Smucker’s ten plants around the country, a devotion to quality remains a key element of Smucker’s business.

Soon after Jerome began his business, other members of the Smucker family became involved. They took most of their earnings and poured them back into the company. In 1969 the Smucker family decided to take their company public. They retained 30% of the stock, selling 25% to institutions and pension funds and the rest to individual investors.

Paul Smucker (the chief executive and grandson of the founder) and his sons are not taking their number-one position in the jam and jelly market for granted. They know they must fend off foreign jam companies, as well as variety of domestic competitors. Smucker’s
must also respond to the new waves of health awareness and calorie consciousness in the USA, as well as changes in consumers’ tastes.  

Part of the Smucker’s strategy for keeping on top is the introduction of new products. Recently, Smucker’s has had a number of successful new entries into the market. „Simply Fruit“, a fruit with no preservatives or artificial flavours and no extra sugar added, has been well received. Smucker’s is also happy with the sales of its Fresh Pack Strawberry Preserves, available for only a few weeks each year.

The Smuckers pride themselves on innovations of all kinds. Smucker’s, sensing the coming of a trend, was the first company in the jam and jelly industry to print nutritional information on individual product label. It was the first company to use re-sealable lids on its jars. Smucker’s even has a special „invention group” that gets together to discuss ideas. All ideas, no matter how outrageous, are encouraged. All negative comments in these meetings are prohibited.  

Quality, integrity, and customer relations make up the foundation of Smucker’s company philosophy. Quality comes first, earnings and sales growth come after. Paul Smucker personally writes thank-you notes to all new shareholders. He also suggests that they tell a friend to try Smucker’s products.

Smucker’s refuses to purchase advertising time during any television show that contains violence or sex scenes. It wants to maintain its wholesome, old-fashioned image. Smucker’s also pays for full-time federal government inspectors to monitor the entire jam and jelly manufacturing process. Because of this, Smucker’s is the only company to carry the Agricultural Department’s top U.S. Grade A designation on all its products.

**COMMENTARY:**

Preserve (n) = a type of jam made by boiling fruit with a large amount of sugar  
To chase = to catch up with sb  
To surpass = to become better than sb else  
Apple cider = a drink made from the juice of apples that does not contain alcohol  
Plant = factory  
Earnings = the profit the company makes  
To pour sth into sth = to provide a large amount of money for sth  
To take the company public = to start selling shares of the company on the stock exchange  
To fend off = to defend or protect yourself from competitors who are attacking you  
Preservative (n) = a substance used to prevent food from decaying  
Outrages (adj) = very unusual and slightly shocking  
Integrity = the quality of being honest  
Wholesome (adj) = good for your health  
Grade A designation = having the status of offering the best quality

**Questions:**

1. What is the business that the J.M. Smucker Company is in? Can such business be profitable in our country?  
2. How many plants of this company function and where are they situated?  
3. How much percent of shares did this company sell to individual investors?  
4. Economists recognize 4 different degrees of competition. In which type of competitive situation does Smucker’s participate?  
5. What is the Smucker’s strategy for maintaining the leading position in the industry?  
6. What are the major components of Smucker’s business philosophy that have helped this organization survive for so many years?  
7. Why has Smucker’s been able to compete against jelly giants such as Kraft and Welch’s?
2. ENTERPRISE

"No enterprise can exist for itself alone. It ministers to some great need, it performs some great service, not for itself, but for others; or failing therein, it ceases to be profitable and ceases to exist"
Calvin Coolidge

Learning objectives:
1. Define the word enterprise
2. Recognize different types of enterprises

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>enterprise</td>
<td>a list of all the objects, furniture in a particular</td>
<td>intreprindere</td>
<td>предприятие</td>
</tr>
<tr>
<td></td>
<td>organization; stock</td>
<td>inventar</td>
<td>инвентарь</td>
</tr>
<tr>
<td>inventory</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>incorporeal</td>
<td>rights to intangible property</td>
<td>drepturi exclusive</td>
<td>исключительные права</td>
</tr>
<tr>
<td>rights</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to render</td>
<td>to offer services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>registered</td>
<td>capital social</td>
<td></td>
<td>уставной капитал</td>
</tr>
<tr>
<td>capital</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>title to</td>
<td>the legal right to own sth, esp. land or property; the</td>
<td></td>
<td></td>
</tr>
<tr>
<td>sth</td>
<td>document that shows you have this right</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to assign sth</td>
<td>to give sb sth that they can use</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to dispose of</td>
<td>a dispune de ceva</td>
<td></td>
<td>распоряжаться чем-л</td>
</tr>
<tr>
<td>sth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>national</td>
<td>a citizen of a particular country</td>
<td></td>
<td></td>
</tr>
<tr>
<td>sole</td>
<td>proprietorship</td>
<td>întreprindere</td>
<td>индивидуальное предприятие</td>
</tr>
<tr>
<td>proprietorship</td>
<td></td>
<td>individuală</td>
<td></td>
</tr>
<tr>
<td>partnership</td>
<td>parteneriat, asociere</td>
<td></td>
<td>партнёрство, товарищество</td>
</tr>
<tr>
<td>corporation</td>
<td>societate pe acţiuni</td>
<td></td>
<td>акционерное общество</td>
</tr>
<tr>
<td>taxable (adj)</td>
<td>impozabil, supus impozitării</td>
<td></td>
<td>подлежащий налогообложению</td>
</tr>
<tr>
<td>surplus</td>
<td>an amount that is extra or more than you need</td>
<td></td>
<td></td>
</tr>
<tr>
<td>trade union</td>
<td>an organization of workers that exists to protect their</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>interests, improve conditions of work</td>
<td>sindicat</td>
<td>профсоюз</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to be exempt</td>
<td>a fi eliberat, scutit de ceva</td>
<td></td>
<td>освобождаться от чего-л</td>
</tr>
<tr>
<td>from sth</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>solely (adv)</td>
<td>only, exclusively</td>
<td></td>
<td></td>
</tr>
<tr>
<td>headquarters</td>
<td>sediu principal</td>
<td></td>
<td>штаб-квартира, главный офис</td>
</tr>
<tr>
<td>branch office</td>
<td>filială, sucursală</td>
<td></td>
<td>филиал</td>
</tr>
<tr>
<td>subsidiary</td>
<td>compania-fiică</td>
<td></td>
<td>дочерняя компания</td>
</tr>
<tr>
<td>enterprise</td>
<td>consiliu de administrație</td>
<td></td>
<td>совет директоров</td>
</tr>
<tr>
<td>board of</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>directors</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>legal entity</td>
<td>persoană juridică</td>
<td></td>
<td>юридическое лицо</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
to vest sb with sth  | to make sb the legal owner of property | a dota cu proprietate | наделять имуществом
---|---|---|---
power of attorney  | the right to act as the representative of sb in business; a document that gives sb this right | procură, împuternicire | доверенность, полномочие
promoter  | a person who has founded an organization | fondator | учредитель
charter  | a written statement of the principles and aims of an organization | cartă | устав
core business  |  | obiect de activitate principal | основной вид деятельности компании

corporate raid  | the process of buying a large number of shares in a corporation and then using voting rights to replace top executives, downsize operations, or liquidate the company | raid al corporației | рейдерство
to enhance  | to increase |  |
to take sth over  | to gain control of a company by buying its shares |  |

Read the following text and do the exercises given after it

The general terms for the organizations that produce and sell goods and services are business, enterprise, company, firm (US corporation). The word concern is used mainly to refer to a large organization.

An enterprise is a property complex used for performing entrepreneurial activity. It comprises all types of property used for this activity including:

1. plots of land
2. buildings and constructions, highway transportation facilities and rail facilities
3. equipment
4. inventory
5. raw materials
6. products
7. debts
8. incorporeal rights (company name, trademark, service mark).

The enterprise is an independent economic entity based on professionally organized workforce, capable of manufacturing products demanded by consumers using capital goods available. So, it uses economic resources for producing goods and rendering services for the purpose of satisfying social needs. The enterprise is an institution which creates the wealth of a country and from which this wealth is distributed among all people in a society. Regardless of its size, an enterprise, after it is registered by the state authorities, opens an account with a bank and becomes legally autonomous. Like people, enterprises bear certain names. Usually
enterprises are named after their owners (“Ford”, “Christian Dior”, “Nina Ricci”) or their names reflect the type of their economic activity (“Moldcell”, “Gazprom”, “General Motors”).

An immense amount of enterprises in each country implies their classification according to the following criteria:

1) By type of primary profit-generating activity enterprises are classified into: industrial, agricultural, commercial, service, investment, insurance enterprises and others.

2) By the source of origin of the registered capital enterprises are classified into:
   a) public enterprises – they are owned by the government. They don’t have the title to the property available, but only exercise the control right;
   b) private enterprises – they belong to private individuals;
   c) mixed enterprises – they contain both public and private capital. Here the government assigns the patrimony to the enterprise which has the title to the property. The government cannot freely dispose of the enterprise’s property, it has the right to dispose of the shares that belong to it in the enterprise;
   d) enterprises with foreign investments – they can either belong entirely to a foreign investor or have a mixed capital invested both by a foreigner and a national.

3) By number of employees enterprises are classified into:
   a) small enterprises – they have less than 100 employees;
   b) medium-sized enterprises – between 100 and 500 employees;
   c) large-scale enterprises – their staff exceeds 500 employees.

This classification differs from country to country: in our Republic, for example, there are microenterprises (they employ less than 20 people), small enterprises (they have 20 – 75 employees) and large-scale enterprises (the number of their employees exceeds 75 people).

4) By form of business ownership enterprises may be:
   a) sole proprietorships;
   b) partnerships;
   c) corporations.

5) By the objective of the company’s activity there are:
   a) commercial enterprises – these are for-profit organizations which exist to earn and redistribute taxable wealth to employees and shareholders. They are run for the benefit of their owners.
   b) non-commercial enterprises – these are non-profit organizations (abbreviated as NPOs, also known as a not-for-profit organizations). They do not distribute their surplus funds to owners or shareholders, but instead use them to help pursue their goals. Examples of NPOs include charities, trade unions, and educational and public arts organizations. They are in most countries exempt from income and property taxation and exist solely to provide programs and services that are of self-benefit.

Medium-sized and large-scale enterprises usually have headquarters, branch offices and subsidiary enterprises.

**Headquarters or head office** is the location of the central administrative office of the company or enterprise. It is an office where top management of the enterprise, board of directors, secretariat and other important management departments are located. The head office of a company deals with coordinating the regional offices and developing the global strategy for running the business.

**Branch office** (from Latin *filialis*) is an economically autonomous subdivision of a legal entity which is situated somewhere other than the firm's main office location and exercises all or any part of the main office’s functions including the functions of the regional offices. Branch offices are not legal entities. They are vested by the legal entities that have founded
them and operate on the basis of the adopted regulations. Branch managers are appointed by the legal entity and act on the power of attorney basis.

**Subsidiary enterprise** is an enterprise set up as a legal entity by another enterprise called **holding** (the parent company or promoter) by means of transferring part of its property under the operating control of the former. The promoter of the subsidiary enterprise adopts the organization charter, appoints its manager and exercises another kind of proprietary rights in relation to this subsidiary. So, the holding is a “parent company” and subsidiaries are “sister companies” to each other. Together, the holding and its subsidiaries form a **group** (e.g. a newspaper group). A large group is called a **giant**.

Generally, a firm starts by producing one good or service, called **core business**. As the company gets bigger, it also produces other different products. A group containing a lot of different companies in different businesses is a **conglomerate** (e.g. a media conglomerate). As companies grow, they may also expand geographically. At present, many companies are **multinational** with manufacturing plants and trading locations in several countries worldwide.

**I. VOCABULARY PRACTICE**

A) Find synonyms (1-5), antonyms (6-10) in the text to the following words and phrases:

1. staff =
2. constitution =
3. to be released from sth =
4. founder =
5. factory =
6. public enterprise
7. small enterprise
8. shortage
9. tax-exempt
10. headquarters

B) Find in the text English equivalents for the following:

1. marca deservirii/знак обслуживания
2. compania-fiică/дочерняя компания
3. drepturi de proprietar/правомочия собственника
4. organizaţia de binefacere/благотворительная организация
5. persoană juridică/юридическое лицо
6. cetăţean al țării date/гражданин данной страны
7. activitatea, care aduce profit/деятельность, приносящая прибыль
8. mijloace de producţie/средства производства

**II. COMPREHENSION**

Give answers to the following questions:

1. What is an enterprise?
2. What are the criteria according to which enterprises are classified?
3. What is the similarity and difference between a public enterprise and a mixed one?
4. How are enterprises classified in the Republic of Moldova according to the number of employees?
5. What is the difference between commercial and non-commercial enterprises?
6. What is the similarity and difference between a branch office and a subsidiary enterprise?
7. What is the difference between a group and a conglomerate?
8. What is a multinational company?
III. Match the types of businesses with their definitions

<table>
<thead>
<tr>
<th>Type of business</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Financial businesses</td>
<td>a) deliver goods and individuals from location to location, generating a profit on the carriage costs</td>
</tr>
<tr>
<td>2. Information businesses</td>
<td>b) generate profit from the selling, renting, and development of properties, homes, and buildings</td>
</tr>
<tr>
<td>3. Industrial companies</td>
<td>c) generate profit through investment and management of capital</td>
</tr>
<tr>
<td>4. Real estate businesses</td>
<td>d) offer intangible goods or services and typically generate a profit by charging for labor or other services provided to government, other businesses, or consumers</td>
</tr>
<tr>
<td>5. Retailers</td>
<td>e) produce public services, such as heat, electricity, or sewage treatment, and are usually government chartered</td>
</tr>
<tr>
<td>6. Service businesses</td>
<td>f) generate profits primarily from the resale of intellectual property and include movie studios, publishers and packaged software companies</td>
</tr>
<tr>
<td>7. Transportation businesses</td>
<td>g) produce products from raw materials or component parts, which they then sell at a profit</td>
</tr>
</tbody>
</table>

IV. DISCUSSION

1. What qualities are needed for a manager of an enterprise in order to make the enterprise function more efficiently and have a bigger profit?
2. Which enterprise is easier to manage: a small or a large-scale one? Give your reasons.
3. Which enterprises are more profitable: public or private ones?
4. Give examples of public enterprises in your country. What effect do you think privatization would have on these organizations and on the services they provide?
5. What do you know about corporate raid? What methods are used by corporate raiders?
6. Give examples of enterprises with foreign investments in your country. What is your point of view concerning the fact that foreigners acquire our national enterprises?
7. Why do so many non-profit organizations exist in our today’s world where everybody pursues the goal of making profit? The institution in which you are studying - is it a commercial or non-commercial organization?

V. Complete the text below with the following words:
   Board, buys, enhance, friendly, launch, persuade, poison pill, sell, white knight, hostile

A firm that wants to take over another company can (1)___ a raid, that is, it simply (2)___ a large quantity of shares of the target company in the stock market. A “dawn raid” consists of buying shares early in the morning, before the market has time to notice the increasing price. This will immediately (3)___ the share price, and may (4)___ a sufficient number of shareholders to (5)___, for the raider to take control of the target company.

If a raid is not successful, a predator can make a takeover bid: a public offer to the company’s shareholders to buy their shares at a particular price during a particular period. A (6)___ takeover has the consent of the directors of the target company; a (7)___ takeover bid is one undertaken against the wishes of the (8)___ of directors. Defence against a hostile takeover includes the (9)___ - a protective action taken to repel a raider, such as spending all the company’s cash reserve, in order to make it less attractive. If such measures do not work, the company attempts to find a (10)___ - another buyer whom they prefer.
3. FORMS OF BUSINESS OWNERSHIP

“That business does not prosper which you transact with the eyes of others”
Sir Roger L’Estrange

Learning objectives:
1. Define the three most common forms of business ownership: sole proprietorship, partnership, and corporation
2. Be aware of the advantages and disadvantages of sole proprietorships
3. Grasp the unlimited liability concept
4. Analyze how the sole proprietorships function both in the USA and in the Republic of Moldova

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>instance</td>
<td>particular example, case</td>
<td>a constitui, a reprezinta, a se cifra la</td>
<td>составлять</td>
</tr>
<tr>
<td>to account for</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>corner grocery</td>
<td>a small shop that sells food and other things, esp. the one situated near people’s houses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>catering services</td>
<td>the work of providing food and drinks for meetings or social events</td>
<td></td>
<td></td>
</tr>
<tr>
<td>appliance store</td>
<td></td>
<td>magazin de electrocasnice</td>
<td>магазин бытовой техники</td>
</tr>
<tr>
<td>to seek sth</td>
<td>to ask sb for sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>income tax</td>
<td></td>
<td>impozit pe venit</td>
<td>подоходный налог</td>
</tr>
<tr>
<td>to get one’s hands on sth</td>
<td>to find or get sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>unlimited liability</td>
<td>răspundere nelimitată</td>
<td>неограниченная ответственность</td>
<td></td>
</tr>
<tr>
<td>assets</td>
<td></td>
<td>active, avere</td>
<td>актива, имущество</td>
</tr>
<tr>
<td>to seize</td>
<td>to take sth using force</td>
<td></td>
<td></td>
</tr>
<tr>
<td>continuity</td>
<td></td>
<td>continuitate, succesiune</td>
<td>преемственность</td>
</tr>
<tr>
<td>mortgage loan</td>
<td>a credit for which only real estate is pledged</td>
<td>credit ipotecar</td>
<td>ипотечный кредит</td>
</tr>
<tr>
<td>to be incapacitated</td>
<td>to be unable to live or work normally</td>
<td></td>
<td></td>
</tr>
<tr>
<td>on occasion</td>
<td>sometimes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>janitor</td>
<td>caretaker</td>
<td></td>
<td></td>
</tr>
<tr>
<td>expertise</td>
<td>cunoștințe, indemânare</td>
<td>знание дела, компетенция</td>
<td></td>
</tr>
<tr>
<td>to quit</td>
<td>to leave one’s job</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Read the following text and do the exercises given after it

The three most common forms of business ownership in the United States are the **sole proprietorship**, **partnership**, and **corporation**. In terms of ownership, corporations are generally the most complex, and sole proprietorships are the simplest. In terms of organization, however, all three usually start small and simple. Some, like IBM, grow and grow.

### 3.1. Sole Proprietorships

A **sole proprietorship** is a business that is owned (and usually operated) by one person. Sole proprietorship is the oldest and simplest form of business ownership, and it is the easiest to start. In most instances, the owner (the *sole* proprietor) simply decides that he or she is in business and begins operations. Some of the largest of today's corporations, including Ford Motor Company, H.J. Heinz Company, and J.C. Penney Company, started out as tiny sole proprietorships.

There are more than twelve million sole proprietorships in the United States. They account for more than two-thirds of the country’s business firms. Sole proprietorships are most common in the retailing, agriculture, and service industries. Thus the specialty clothing shop, corner grocery, and television repair shop down the street are likely to be sole proprietorships.

Most of the advantages and disadvantages of sole proprietorships arise from the two main characteristics of this form of ownership: simplicity and individual control.

#### Advantages of Sole Proprietorships

**Ease and Low Cost of Formation and Dissolution** No contracts, agreements, or other legal documents are required to start a sole proprietorship. Most are established without even an attorney. A state or city license may be required for certain types of businesses, such as restaurants or catering services, that are regulated in the interest of public safety. But beyond that, a sole proprietor does not pay any special start-up fees or taxes. Nor are there any minimum capital requirements.

If the enterprise does not succeed, or the owner decides to enter another line of business, the firm can be closed as easily as it was opened. Creditors must be paid, of course. But the owner does not have to go through any legal procedure before hanging up an "Out of Business" sign.

**Retention of All Profits** All profits earned by a sole proprietorship become the personal earnings of its owner. This provides the owner with a strong incentive to succeed—perhaps the strongest incentive—and a great deal of satisfaction when the business does succeed. It is this direct financial reward that attracts many entrepreneurs to the sole proprietorship form of business.

**Flexibility** The sole owner of a business is completely free to make decisions about the firm's operations. Without asking or waiting for anyone's approval, a sole proprietor can switch from retailing to wholesaling, move a shop's location, or open a new store and close an old one. A sole owner can also respond to changes in market conditions much more quickly than the operators of other forms of business. Suppose the sole owner of an appliance store finds that many customers now prefer to shop on Sunday afternoons. He or she can make an immediate change in business hours to take advantage of that information (provided that state laws allow such stores to open on Sunday). The manager of one store in a large corporate chain may have to seek the approval of numerous managers before making such a change.
Furthermore, a sole proprietor can quickly switch suppliers to take advantage of a lower price, whereas such a switch could take weeks in a more complex business.

Possible Tax Advantages The sole proprietorship's profits are taxed as personal income of the owner. Thus a sole proprietorship does not pay the special state and federal income taxes that corporations pay. (As you will see later, the result of these special taxes is that a corporation's profits are taxed twice. A sole proprietorship's profits are taxed only once.) Also, recent changes in federal tax laws have resulted in higher tax rates for corporations than for individuals at certain income levels.

Secrecy Sole proprietors are not required by federal or state governments to publicly reveal their business plans, profits, or other vital facts. Therefore, competitors cannot get their hands on this information. Of course, sole proprietorships must report certain financial information on their personal tax forms, but that information is kept secret by taxing authorities.

Disadvantages of Sole Proprietorships

Unlimited Liability Unlimited liability is a legal concept that holds a sole proprietor personally responsible for all the debts of his or her business. This means there is no legal difference between the debts of the business and the debts of the proprietor. If the business fails, the owner's personal property—including house, savings, and other assets—can be seized (and sold if necessary) to pay creditors.

Unlimited liability is thus the other side of the owner-keeps-the-profits coin. It is perhaps the major factor that tends to discourage would-be entrepreneurs from using this form of business organization.

Lack of Continuity Legally, the sole proprietor is the business. If the owner dies or is declared legally incompetent, the business essentially ceases to exist. In many cases, however, the owner's heirs take over the business and continue to operate it, especially if it is a profitable enterprise.

Limited Ability to Borrow Banks and other lenders are usually unwilling to lend large sums to sole proprietorships. Only one person—the sole proprietor—can be held responsible for repaying such loans, and the assets of most sole proprietors are fairly limited. Moreover, these assets may already have been used as the basis for personal borrowing (a mortgage loan or car loan) or for short-term credit from suppliers. Lenders also worry about the lack of continuity of sole proprietorships: Who will repay a loan if the sole proprietor is incapacitated?

The limited ability to borrow can keep a sole proprietorship from growing. It is the main reason why many business owners change from the sole proprietorship to some other ownership form when they need relatively large amounts of capital.

Limited Business Skills and Knowledge Managers perform a variety of functions (including planning, organizing, and controlling) in such areas as finance, marketing, human resources management, and operations. Often the sole proprietor is also the sole manager—in addition to being a salesperson, buyer, accountant, and, on occasion, janitor.

Even the most experienced business owner is unlikely to have expertise in all these areas. Consequently, the business can suffer in the areas in which the owner is less knowledgeable, unless he or she obtains the necessary expertise by hiring assistants or consultants.

Lack of Opportunity for Employees The sole proprietor may find it hard to attract and keep competent help. Potential employees may feel that there is no room for advancement in a firm whose owner assumes all managerial responsibilities. And when those who are hired are ready to take on added responsibility, they may find that the only way to do so is to quit the sole proprietorship and either work for a larger firm or start up their own business.
I. VOCABULARY PRACTICE
A) Find in the text the words that are synonyms of:
1. very small                       6. to lure
2. lawyer                                7. to change from sth to sth
3. proprietor                      8. to stop
4. promotion                   9. very important, essential
5. stimulus                           10. responsibility

B) Match the words on the left with their definitions on the right

| 1. contract | a) the ability to change very quickly in order to suit new conditions |
| 2. license  | b) money that is lent to sb by a bank or another financial organization |
| 3. tax on sth | c) a person who helps or supports sb in their work |
| 4. start-up fee | d) money that you have saved, especially in a bank |
| 5. flexibility | e) an official written agreement between two parties |
| 6. business hours | f) money that you pay in order to set up a new business |
| 7. dissolution | g) the profit that a company makes |
| 8. heir | h) an official document that shows that permission has been given to do, own or use sth |
| 9. assistant | i) the act of officially ending a business |
| 10. savings | j) the hours in a day that a shop or company is open |
| 11. loan | k) money that you have to pay to the government |
| 12. earnings | l) a person who has the legal right to receive sb’s property and continue the work after their death |

C) Find in the text English equivalents for the following:
1. atelierul pentru reparaţia televizoarelor/мастерская по ремонту телевизоров
2. a lua decizii/принимать решения
3. a cere aprobarea managerului/спрашивать разрешения менеджера
4. a achita un împrumut/выплатить заём
5. a reacţiona la schimbările în condiţiile de piaţă/реагировать на изменения в рыночных условиях
6. viitor antreprenor/будущий предприниматель
7. un credit pe termen scurt/краткосрочный кредит
8. magazin de electrocasnice/магазин бытовой техники
9. a se folosi de informaţia/воспользоваться информацией
10. a-şi asuma răspunderea adăugătoare /взять на себя дополнительную ответственность

II. COMPREHENSION
A) What do these numbers in the text refer to?
   3; 1; 2/3; 12; 2; 5.

B) Choose the item that best completes each sentence
   1. Most United States businesses are
      a) corporations
      b) partnerships
      c) sole proprietorships
   2. Unlimited liability means that the owner
      a) has unlimited ability to borrow
      b) must be liable for his/her company debts
      c) cannot be held responsible for his/her company debts
3. All the following are advantages of a sole proprietorship EXCEPT
   a) the owner is only answerable to himself/herself
   b) there is no requirement to submit profit accounts
   c) the possibility to have competent employees
4. If a sum of money was lent to a sole proprietorship, the responsibility to repay the loan is assumed
   a) by the owner himself/herself
   b) by the owner’s family members
   c) by the owner’s staff
5. The major factor that discourages from starting up a sole proprietorship is
   a) limited ability to borrow
   b) unlimited liability
   c) limited business knowledge
6. Employees don’t want to work for a single owner because
   a) they are given too many responsibilities
   b) they are not paid as they deserve
   c) they don’t have the chance to be promoted.

III. Fill in the gaps with the appropriate words whose parts of speech are given in brackets in order to facilitate your task

1. There are ________ advantages of sole proprietorships. (Numeral)
2. It is ________ and relatively ________ to start and end such form of business. (Adjectives)
3. All the ________ go to the owner of business. (Noun)
4. The sole proprietor is free ________ ________ ________ about everything what refers to his/her firm. (Verb + Noun)
5. The sole proprietor pays ________ the tax on his personal income. (Adverb)
6. The single owner is sure that competitors ________ nothing about his/her business plans, profits or other vital facts. (Verb)

IV. Now describe the disadvantages of a sole proprietorship using just one sentence for each of them.

V. DISCUSSION
1. What is a start-up fee for a would-be sole proprietor in our country?
2. Try to analyze the advantages and disadvantages of a sole proprietorship by putting them on the scales. To your mind, what pan outweighs – the one with advantages or another one with disadvantages? Give your reasons.
3. Goldman is a student whose father owns and operates the local TV repair shop. Goldman says he does not want to follow in his dad’s footsteps, and he adds: “A sole proprietor is the sole owner of a business, but the business really owns the owner”. What does he mean by these words?

VI. INDIVIDUAL WORK
   Be ready to speak on the sole proprietorships in our country and draw a comparison between the American and our national sole proprietorships.
VII. FOCUS ON GRAMMAR
Comparative and Superlative Degrees

A) Complete the sentences using a comparative form; the first one has been done for you
1. It’s too noisy here. Can we go somewhere quieter?
2. This coffee is very strong. I like it a bit ____________
3. The hotel was very cheap. I expected it to be _______________
4. I was surprised how easy it was to get a loan. I thought it would be _______________
5. You are standing too near the camera. Can you move a bit _______________ away?

B) Use the superlative degree and underline the correct variant
1. (large) company in the world is (Royal Dutch Shell, Vodafone, Toyota Motor).
2. (expensive) country to live in is (Russia, Japan, Norway).
3. (tall) building in Europe is in (Germany, France, Great Britain).
4. (USA, India, China) has (large) population.
5. (high) waterfall in the world is in (South Africa, USA, Venezuela).

3.2. Partnerships

Learning objectives:
1. Define the word partnership
2. Know different types of partners within a partnership and distinguish between a general and a limited partner
3. Comprehend the importance of the articles of partnership
4. Be aware of the advantages and disadvantages of a partnership

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>to translate</td>
<td>to change sth into a different form</td>
<td></td>
<td></td>
</tr>
<tr>
<td>receipt</td>
<td>intrare, venit</td>
<td>приход</td>
<td></td>
</tr>
<tr>
<td>to pool</td>
<td>a uni, a pune în comun</td>
<td>объединять</td>
<td></td>
</tr>
<tr>
<td>real estate</td>
<td>avere imobiliară</td>
<td>недвижимое имущество</td>
<td></td>
</tr>
<tr>
<td>personal estate</td>
<td>avere mobilă</td>
<td>движимое имущество</td>
<td></td>
</tr>
<tr>
<td>to incur debts</td>
<td>a face datorii</td>
<td>влезть в долги</td>
<td></td>
</tr>
<tr>
<td>prospective partner</td>
<td>would-be partner</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to file</td>
<td>a depune, a prezenta</td>
<td>предоставить</td>
<td></td>
</tr>
<tr>
<td>to draw up</td>
<td>a întocmi</td>
<td>составлять</td>
<td></td>
</tr>
<tr>
<td>secretary of state</td>
<td>șeful cancelariei al statului</td>
<td>заведующий канцелярией штата</td>
<td></td>
</tr>
<tr>
<td>the terms of the partnership</td>
<td>condițiile parteneriatului</td>
<td>условия партнёрства</td>
<td></td>
</tr>
<tr>
<td>to list</td>
<td>a face o listă</td>
<td>предоставить список</td>
<td></td>
</tr>
<tr>
<td>to spell out</td>
<td>to explain sth in a clear way</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to maintain accounts</td>
<td>a ține contabilitatea</td>
<td>вести бухгалтерию</td>
<td></td>
</tr>
</tbody>
</table>
Read the following text and do the exercises given after it

The major disadvantages of a sole proprietorship stem from its one-person control—and the limited amount that one person can do in a workday. One way to reduce the effect of these disadvantages is to have more than one owner. Multiple ownership translates into more time devoted to managing, more management expertise, and more capital and borrowing ability.

**Partnership is an association of two or more persons to act as co-owners of a business for profit.**

There are approximately 2 million partnerships in the United States. They account for about $370 billion in receipts. However, this form of ownership is much less common than the sole proprietorship or the corporation. In fact, partnerships represent only about 10 percent of all American businesses.

Although there is no legal maximum, most partnerships have only two partners. (However, most of the largest partnerships in accounting, law, and advertising have many more than two partners.) Often a partnership represents a pooling of special talents, particularly in such fields as law, accounting, advertising, real estate, and retailing. Also, a partnership may result from a sole proprietor taking on a partner for the purpose of obtaining more capital.

**Types of Partners**

All partners need not be equal. Some may be fully active in running the business, whereas others may have a much more limited role.

**General Partners** A **general partner** is one who assumes full or shared operational responsibility of a business. Like sole proprietors, general partners are responsible for operating the business. They also assume unlimited liability for its debts, including debts that have been incurred by any other general partner without their knowledge or consent. The law requires that every partnership have at least one general partner. This is to ensure that the liabilities of the business are legally assumed by at least one person. General partners are active in day-to-day business operations, and each partner can enter into contracts on behalf of all the others. Each partner is taxed on his or her share of the profit—in the same way a sole proprietor is taxed. (The partnership itself pays no income tax.) If one general partner withdraws from the partnership, he or she must give notice to creditors, customers, and suppliers to avoid future liability.

**Limited Partners** A **limited partner** is a person who contributes capital to a business but is not active in managing it; his or her liability is **limited** to the amount that he or she has invested. In return for their investment, limited partners share in the profits of the firm.

Not all states in the USA allow limited partnerships. In those that do, the prospective partners must file formal articles of partnership. They must publish a notice regarding the limitation in at least one newspaper. And they must ensure that at least one partner is a general partner. The goal of these requirements is to protect the customers and creditors of the limited partnership.
The Partnership Agreement

Some states require that partners draw up *articles of partnership* and file them with the secretary of state. Articles of partnership are a written agreement listing and explaining the terms of the partnership. The articles generally describe each partner's contribution to, share of, and duties in the business. They may outline each partner's responsibility—who will maintain the accounts, who will manage sales, and so forth. They may also spell out how disputes will be settled and how one partner can buy the interests of another.

Advantages of Partnerships

**Ease and Low Cost of Formation**  Like sole proprietorships, partnerships are relatively easy to form. The legal requirements are often limited to registering the name of the business and purchasing whatever licenses are needed. It may not even be necessary to consult an attorney, except in states that require written articles of partnership. However, it is generally a good idea to get the advice and assistance of an attorney when forming a partnership.

**Availability of Capital and Credit**  Partners can pool their funds so that their business has more capital than would be available to a sole proprietorship. This additional capital, coupled with the general partners' unlimited liability, can form the basis for a good credit rating. Banks and suppliers may be more willing to extend credit or grant sizable loans to such a partnership than to an individual owner.

This does not mean that partnerships can easily borrow all the money they need. Many partnerships have found it hard to get long-term financing simply because lenders worry about enterprises that take years to earn a profit. But, in general, partnerships have greater assets and so stand a better chance of obtaining the loans they need.

**Retention of Profits**  As in a sole proprietorship, all profits belong to the owners of the partnership. The partners share directly in the financial rewards. Thus they are highly motivated to do their best to make the firm succeed.

**Personal Interest**  General partners are very much concerned with the operation of the firm—perhaps even more so than sole proprietors. After all, they are responsible for the actions of all other general partners, as well as for their own.

**Combined Business Skills and Knowledge**  Partners often have complementary skills. If one partner is weak in, say, finances, another may be stronger in that area. Moreover, the ability to discuss important decisions with another concerned individual often takes some of the pressure off everyone and leads to more effective decision making.

**Possible Tax Advantages**  Like sole proprietorships, partners are taxed only on their individual income from the business.

Disadvantages of Partnerships

**Unlimited Liability**  Each general partner is personally responsible for all debts of the business, whether or not that particular partner incurred those debts. General partners thus run the risk of having to use their personal assets to pay creditors. Limited partners, however, risk only their original investment.

**Lack of Continuity**  Partnerships are terminated in the event of the death, withdrawal, or legally declared incompetence of any one of the general partners. However, that partner's ownership share can be purchased by the remaining partners. In other words, the law does not automatically provide that the business shall continue, but the articles of partnership may do so. For example, the partnership agreement may permit surviving partners to continue the business after buying a deceased partner's interest from his or her estate. However, if the partnership loses an owner whose specific skills cannot be replaced, it is not likely to survive.

**Effects of Management Disagreements**  The division of responsibilities among several partners means the partners must work together as a team. They must have great trust in each
other. If partners begin to disagree about decisions, policies, or ethics, distrust may cloud the horizon. Such a mood tends to get worse as time passes – often to the point where it is impossible to operate the business successfully. To reduce disagreements, a number of issues can be settled when forming the partnership.

Frozen Investment It is easy to invest money in a partnership, but it is sometimes quite difficult to get it out. This is the case, for example, when remaining partners are unwilling to buy the share of the business that belongs to the partner who is leaving. To prevent such difficulties, the procedure for buying out a partner should be included in the articles of partnership.

In some cases, a partner must find someone outside the firm to buy his or her share. How easy or difficult it is to find an outsider depends on how successful the business is.

I. VOCABULARY PRACTICE
A) Explain in English the meaning of the following phrases:
   1. to incur debts
   2. partnerships find it hard to get long-term financing
   3. to stand a better chance of doing sth
   4. to be highly motivated to do one’s best
   5. distrust may cloud the horizon
   6. to have a good credit rating
   7. to have complementary skills
   8. frozen investment

B) Find in the text synonymous phrases to the following:
   1. to conclude a contract
   2. to give big loans
   3. to be reluctant to purchase sth
   4. to inform lenders
   5. to leave a partnership

C) In each horizontal group underline the odd word (which does not belong to the group of synonyms)

| 1. partner | sole proprietor | owner | master |
| 2. heir    | successor       | legatee | legator |
| 3. profit  | income          | revenue | receipt |
| 4. dispute | difference      | discharge | disagreement |
| 5. capital | investment      | fund | mortgage |
| 6. to found | to establish   | to form up | to put up |
| 7. liable  | answerable      | languorous | responsible |
| 8. dissolution | cancellation | disjunction | termination |
| 9. extension | property       | estate | ownership |
| 10. expertise | explanation   | experience | competence |

II. COMPREHENSION
A) Answer the following questions:
   1. What is a partnership?
   2. What is the legal maximum of co-owners in a partnership?
   3. What are the two main types of partners and what is the difference between them?
   4. How is each partner taxed?
   5. What must the general partner do if he wants to withdraw from a partnership?
   6. What are the articles of partnership and what do they describe?
7. What are the similarities and the differences between advantages and disadvantages of a sole proprietorship and partnership?

8. Why is it sometimes difficult to get your money out of business when you want to withdraw from a partnership?

B) Mark the statements with TRUE or FALSE and correct the false ones
1. A partnership can consist only of limited partners.
2. Partnerships are the least popular form of business ownership.
3. Partnerships are taxed twice.
4. The status of a general partner is equal to the status of a limited partner.
5. A partnership can comprise no more than 4 partners.
6. The share in the profit of a partner depends on the size of his/her capital investment.
7. The problem sharing in a partnership leads to more effective decision making.
8. If a partnership fails, the debts are paid with the personal assets of both general and limited partner.

III. DISCUSSION
1. If you had a chance to start a business, would you like to be a sole proprietor or to work in a partnership?
2. When forming a partnership what kind of partner would you like to be – a general or a limited one? Give your reasons.
3. What do you think about family business when all the partners are family members? Would you form a partnership with your spouse or any other close relative? What conflicts may arise in such a partnership?
4. To your mind, compatibility between partners – is it important or not so much?
5. If you were looking to start a business as a partnership, what traits would you look for in potential partners? Draw up a list of five traits and give a brief explanation for each. Be sure to take the advantages and disadvantages of partnerships into consideration.

IV. FOCUS ON LANGUAGE
The word ACCOUNT

Match the meaning of the words in bold with their definition in the right

<table>
<thead>
<tr>
<th>Number</th>
<th>Sentence</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The consulting company has won 2 new accounts in Singapore</td>
<td>a) represents</td>
</tr>
<tr>
<td>2.</td>
<td>On no account should these products be released before they are checked.</td>
<td>b) on credit</td>
</tr>
<tr>
<td>3.</td>
<td>Labour accounts for 45% of the manufacturing costs.</td>
<td>c) because of</td>
</tr>
<tr>
<td>4.</td>
<td>Mrs Baker is our regular customer and she may buy on account.</td>
<td>d) for themselves</td>
</tr>
<tr>
<td>5.</td>
<td>By all accounts, we will benefit greatly if we are going to expand next year.</td>
<td>e) big customers</td>
</tr>
<tr>
<td>6.</td>
<td>Agents buy and sell on their own account.</td>
<td>f) explain</td>
</tr>
<tr>
<td>7.</td>
<td>I cannot account for this unexpected decrease in sales.</td>
<td>g) consider</td>
</tr>
<tr>
<td>8.</td>
<td>Our development project has to be adjusted on account of the shortage of personnel.</td>
<td>h) under no circumstances</td>
</tr>
<tr>
<td>9.</td>
<td>Our solicitor has received a detailed account of all our new customers’ business deals.</td>
<td>i) report</td>
</tr>
<tr>
<td>10.</td>
<td>A good manager should take the good performance of his employees into account.</td>
<td>j) people say</td>
</tr>
</tbody>
</table>
V. SIMULATION
Imagine that you have a partnership with your best friend. A serious conflict arose between you due to his/her dishonest behaviour towards you. Right now you don’t have the money to buy his/her share of business and you don’t want to sell your share to him/her because your business is rather profitable. What would you do in this situation?

VI. TRANSLATION
1. Asociatul meu a făcut datorii fără știrea mea și acum eu trebuie să le achit.
   Мой партнер влез в долги без моего ведома и теперь мне придается их выплачивать.
2. Înainte de a forma parteneriatul eu m-am consultat cu avocatul meu.
   Прежде чем создать партнерство, я проконсультировался со своим адвокатом.
3. Uneori este destul de dificil să te retragi din parteneriat.
   Иногда бывает очень трудно выйти из партнёрства.
4. Eu și asociatul meu am hotărât să punem în comun capitaluri pentru a primi un credit mai mare de la bancă.
   Мой партнер и я решили объединить наш капитал, чтобы получить более весомый кредит в банке.

VII. WRITING
American business leader John D. Rockefeller said, “A friendship founded on business is a good deal better than a business founded on friendship.” What do you think he had in mind? Write a brief paragraph agreeing or disagreeing, with reference to partnerships.

VIII. ROLEPLAY
Work in pairs. Imagine that you are a sole proprietor and you own a restaurant. You want to offer 30 percent partnership to your chef. Discuss with him the terms on which you are going to start a mutually profitable business. Use the following questions:
- How will the profits be divided between partners?
- Who will approve payments and sign checks?
- Will profits be poured back into business or distributed to partners?
- Which employees will report to which partners?
- How will the responsibilities be divided between partners?
- What happens if one partner is dissatisfied with the way another partner handles a particular responsibility?
- How much time will each partner be required to devote to business?
- If the business goes rough, how will the partners decide whether to give up or to try to turn it around?
- How will the conflicts be settled? Will they be ended by deferring to the partner with the most expertise in the matter or by a neutral expert third party?

IX. INDIVIDUAL WORK
Be ready to speak on the form of business ownership as partnership in our country and draw a distinction between the American form and our national one.
3.3. CORPORATIONS

**Learning objectives:**

1. Define such form of business ownership as *corporation*
2. Comprehend how a corporation is formed, who owns it, and who is responsible for its operation
3. Be aware of stockholders’ rights
4. Recognize the basic structure of a corporation

**Study and Learn the Words:**

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>to derive from sth</td>
<td>to come or develop from sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to plague</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>restraint</td>
<td>restrictie, limita</td>
<td>ограничение</td>
<td></td>
</tr>
<tr>
<td>to hinder</td>
<td>a impiedica</td>
<td>мешать, препятствовать</td>
<td></td>
</tr>
<tr>
<td>binding on sb (adj)</td>
<td>care angajează din punct de vedere juridic</td>
<td>обязательный с юридической точки зрения</td>
<td></td>
</tr>
<tr>
<td>to issue stock</td>
<td>a emitte actiuni</td>
<td>выпускать акции</td>
<td></td>
</tr>
<tr>
<td>return</td>
<td>income</td>
<td></td>
<td></td>
</tr>
<tr>
<td>the nation</td>
<td>the USA</td>
<td></td>
<td></td>
</tr>
<tr>
<td>lenient (adj)</td>
<td>indulgent, îngăduitor</td>
<td>снисходительный</td>
<td></td>
</tr>
<tr>
<td>to entitle sb to sth</td>
<td>to give sb the right to do sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>common stock</td>
<td>actiuni obisnuite, ordinare</td>
<td>простые акции</td>
<td></td>
</tr>
<tr>
<td>preferred stock</td>
<td>actiuni privilegiate</td>
<td>привилегированные акции</td>
<td></td>
</tr>
<tr>
<td>claim on sth</td>
<td>pretentie, drept</td>
<td>претензия, право</td>
<td></td>
</tr>
<tr>
<td>issue proxy</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>to set a goal</td>
<td>a stabili un scop</td>
<td>поставить цель</td>
<td></td>
</tr>
<tr>
<td>to develop a plan</td>
<td>a elabora un plan</td>
<td>разработать план</td>
<td></td>
</tr>
<tr>
<td>to trade</td>
<td>a comercializa</td>
<td>торговать</td>
<td></td>
</tr>
<tr>
<td>corporate officer</td>
<td>a person who is in a position of authority in a corporation</td>
<td>functionar al corporației</td>
<td>служащий корпорации</td>
</tr>
<tr>
<td>chairman</td>
<td>președinte al companiei</td>
<td>председатель правления</td>
<td></td>
</tr>
<tr>
<td>treasurer</td>
<td>financial manager</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to carry out a strategy</td>
<td>a realiza o strategie</td>
<td>реализовать стратегию</td>
<td></td>
</tr>
<tr>
<td>to report to sb</td>
<td>to be responsible to smb</td>
<td>a fi în subordinea cuiva</td>
<td>подчиняться кому-л, давать отчёт</td>
</tr>
<tr>
<td>majority stockholder</td>
<td>a stockholder who has the largest number of shares</td>
<td></td>
<td></td>
</tr>
<tr>
<td>stockbroker</td>
<td>agent de schimb (pentru actiuni)</td>
<td>биржевой маклер, брокер</td>
<td></td>
</tr>
<tr>
<td>to raise capital</td>
<td>to collect money</td>
<td></td>
<td></td>
</tr>
<tr>
<td>legal person</td>
<td>persoană juridică</td>
<td>юридическое лицо</td>
<td></td>
</tr>
<tr>
<td>natural person</td>
<td>persoană fizică</td>
<td>физическое лицо</td>
<td></td>
</tr>
</tbody>
</table>
unless if not
to recruit to find new employees for a company
in effect de fapt в сущности, в действительности
perpetual (adj) eternal, interminable
 corporate veil confidențialitatea companiei корпоративная конфиденциальность
fraud escrocherie мошенничество 

Read the following text and do the exercises given after it

The advantages of a partnership over a sole proprietorship derive mainly from the added capital and expertise of the partners. However, some of the basic disadvantages of the sole proprietorship also plague the general partnership. Unlimited liability and restraints on capital resources and borrowing, for example, can hinder a partnership's growth. A third form of business ownership, the corporation, succeeds in overcoming some of these disadvantages.

**Corporation** is an artificial person created by law, with most of the legal rights of a real person. These include the right to start and operate a business, to own or dispose of property, to borrow money, to sue or be sued, and to enter into binding contracts. Unlike a real person, however, a corporation exists only on paper.

There are more than 3.2 million corporations in the United States. They comprise only about one-fifth of all businesses, but they account for more than nine-tenths of all sales revenues and more than three-quarters of all business profits.

**Corporate ownership:** The shares of ownership of a corporation are called its **stock**. The people who own a corporation's stock—and thus own part of the corporation—are called its **stockholders**, or sometimes its shareholders. Once a corporation has been formed, it may sell its stock to individuals. It may also issue stock as a reward to key employees in return for certain services, or as a return to investors (in place of cash payments).

A **close (private)** corporation is a corporation whose stock is owned by relatively few people and is not traded openly (that is, in stock markets). A person who wishes to sell the stock of such a corporation generally arranges to sell it privately, to another stockholder or a close acquaintance.

An **open (public)** corporation is one whose stock is traded openly in stock markets and can be purchased by any individual. Most large firms are open corporations, and their stockholders may number in the millions. For example, AT&T is owned by more than 3 million shareholders.

**Forming a corporation**

The process of forming a corporation is called **incorporation**. The people who actually start the corporation are its **incorporators**. They must make several decisions about the corporation before and during the incorporation process.

**Where to Incorporate** A business is allowed to incorporate in any state it chooses. Most small and medium-sized businesses are incorporated in the state where they do the most business. However, the founders of larger corporations, or of those that will do business nationwide, may compare the benefits provided to corporations by various states. Some states are more hospitable than others, and some offer low taxes and other benefits to attract new firms. Delaware is acknowledged as offering the most lenient tax structure. A huge number of firms (more than 75,000) have incorporated in that state, even though their corporate headquarters may be located in another state.
An incorporated business is called a **domestic corporation** in the state in which it is incorporated. In all other states where it does business, it is called a **foreign corporation**. Sears, Roebuck, for example, is incorporated in New York, where it is a domestic corporation. In the remaining forty-nine states, it is a foreign corporation. A corporation chartered by a foreign government and conducting business in the United States is an **alien corporation**. Volkswagen, Sony, and Toyota are examples of alien corporations.

**The Corporate Charter** Once a "home state" has been chosen, the incorporators submit **articles of incorporation** to the secretary of state. If the articles of incorporation are approved, they become the firm's corporate charter. A **corporate charter** is a contract between the corporation and the state, in which the state recognizes the formation of the artificial person that is the corporation. Usually the charter (and thus the articles of incorporation) includes the following information:

- Firm's name and address
- The incorporators' names and addresses
- The purpose of the corporation
- The maximum amount of stock and the types of stock to be issued
- The rights and privileges of shareholders
- How long the corporation is to exist (usually without limit)

Each of these key details is the result of decisions that the incorporators must make as they organize the firm—before the articles of incorporation are submitted. Let us look at one area in particular: stockholders’ rights.

**Stockholders' Rights** There are two basic kinds of stock. Each type entitles the owner to a different set of rights and privileges. The owners of **common stock** may vote on corporate matters, but their claims on profit and assets are subordinate to the claims of others. All common stock owners receive dividends but the amount of these dividends depends on the profitability of the company. The owners of **preferred stock** usually do not have voting rights, but their claims on profit and assets take precedence over those of common-stock owners. Preferred stock often pays a lower profit return than common stock dividends but that return is fixed and guaranteed.

Perhaps the most important right of owners of both common and preferred stock is to share in the profit earned by the corporation. Other rights include **pre-emptive rights** - the rights of current stockholders to purchase any new stock that the corporation issues before it is sold to the general public; examining corporate records; voting on the corporate charter; and attending the corporation's annual stockholders' meeting, where they may exercise their right to vote.

Because common stockholders usually live all over the nation, very few actually attend the annual meeting. Instead, they vote by proxy. A **proxy** is a legal form that lists issues to be decided and requests that stockholders transfer their voting rights to some other individual or individuals. The stockholder registers his or her vote and transfers his or her voting rights simply by signing and returning the form.

**Organizational Meeting** As the last step in forming a corporation, the original stockholders meet to elect their first board of directors. (Later, directors will be elected or re-elected at the corporation's annual meetings.) The board members are directly responsible to the stockholders for the way they operate the firm.

**Corporate structure**

**Board of Directors** The **board of directors** is the top governing body of a corporation, and, as we noted, directors are elected by the shareholders. A corporation is an artificial person. Thus it can act only through its directors, who represent the corporation’s owners. Board members can be chosen from within the corporation or from outside it.
Directors who are elected from within the corporation are usually its top managers—the president and executive vice presidents, for example. Those who are elected from outside the corporation are generally experienced managers with proven leadership ability and/or specific talents that the organization seems to need. In smaller corporations, majority stockholders may also serve as board members.

The major responsibilities of the board of directors are to set company goals and develop general plans (or strategies) for meeting those goals. They are also responsible for the overall operation of the firm.

**Corporate Officers** A corporate officer is appointed by the board of directors. The chairman of the board, president, executive vice presidents, and corporate secretary and treasurer are all corporate officers. They help the board make plans, carry out the strategies established by the board, and manage day-to-day business activities. Periodically (usually each month), they report to the board of directors. And once each year, at an annual meeting, the directors report to the stockholders. In theory, then, the stockholders are able to control the activities of the entire corporation through its directors.

I. VOCABULARY PRACTICE
A) Find in the text synonyms (1-6) and antonyms (7-12) to the following:
1. restriction 7. natural person
2. to possess 8. to lend
3. aim 9. from within (the company)
4. power of attorney 10. publicly
5. to achieve a goal 11. tiny (adj)
6. whole (adj) 12. to forbid

B) Choose the correct meaning of the following words:
1. *to hinder* means:
   a) to be very common at a particular time;
   b) to make it difficult for sth to happen;
   c) to understand the core of the situation.
2. *to sue* means:
   a) to bring an action against sb;
   b) to bring sth into force;
   c) to bring the matter forward.
3. *lenient* means:
   a) generous and friendly;
   b) using strong pressure;
   c) not as strict as expected.
4. *to submit* means:
   a) to draw up a document;
   b) to present a document;
   c) to sign a document.
5. *to attend* means:
   a) to be present at an event;
   b) to guess sth from an available information;
   c) to send sb a message.
II. COMPREHENSION
A) Give words to the following definitions:
1. A large business company -
2. A person who owns shares of a company -
3. The process of forming a corporation -
4. A contract between the state and the corporation which gives the latter the legal status -
5. A group of people who have power to make decisions and control a corporation -
6. A legal document through which a shareholder gives the authority to some other individual to vote instead of him -

B) Answer the following questions:
1. What is the difference between a close and an open corporation?
2. Who are incorporators?
3. Why have most American companies incorporated in Delaware? What do you know about this state?
4. What is the difference between domestic, foreign and alien corporations?
5. What information does the corporate charter include?
6. What rights do stockholders have?
7. In your opinion, what type of stock – common or preferred do the stockholders prefer to buy and why?
8. What does it mean to vote by proxy?
9. Arrange the following persons according to the hierarchy of corporate structure:
   a) corporate officers
   b) stockholders
   c) workers
   d) board of directors.
   To your mind, can a corporation be effectively controlled under such a system of levels?
10. What are the primary responsibilities of a corporation’s board of directors?

C) Mark the statements with TRUE or FALSE and correct the false ones
1. The incorporators are the primary shareholders of the corporation.
2. A corporation chartered by a foreign government in the USA is called a foreign corporation.
3. All stockholders of a corporation have the right to vote at the company’s Annual Meeting.
4. The chairman of the board is a corporate officer.
5. Most large firms in the USA are close corporations.
6. Stockholders may also serve as members of the board of directors.
7. A corporation may comprise no more than 1 million shareholders.
8. Board members are chosen only from within the corporation.

III. DISCUSSION
1. If you were a majority shareholder, would you elect yourself to be on the board of directors or you would prefer not to be involved in running the company and just sit around and receive dividends? Give your reasons.
2. Imagine you have $1,000 to invest. Would you buy preferred stock or common stock? Why?
Advantages of Corporations

Learning objectives:
1. Know advantages and disadvantages of a corporation
2. Grasp the limited liability concept

Read the following text and do the exercises given after it

**Limited Liability** One of the most attractive features of corporate ownership is limited liability. Each owner’s financial liability is limited to the amount of money she or he has paid for the corporation’s stock. This feature arises from the fact that the corporation is itself a legal being, separate from its owners. If a corporation should fail, creditors have a claim only on the assets of the corporation, not on the personal assets of its owners.

**Ease of Transfer of Ownership** Let us say that a shareholder of a public corporation wishes to sell his or her stock. A telephone call to a stockbroker is all that is required to put the stock up for sale. There are usually willing buyers available for most stocks, at the market price. Ownership is transferred automatically when the sale is made, and practically no restrictions apply to the sale and purchase of stock.

**Ease of Raising Capital** The corporation is by far the most effective form of business ownership for raising capital. Like sole proprietorships and partnerships, corporations can borrow from lending institutions. However, they can also sell stock to raise additional sums of money. Individuals are more willing to invest in corporations than in other forms of business because of the limited liability that investors enjoy and because of the ease with which they can sell their stock.

**Perpetual Life** Because a corporation is essentially a legal “person,” it exists independently of its owners and survives them. Unless its charter specifies otherwise, a corporation has perpetual life. The withdrawal, death, or incompetence of a key executive or owner is not cause for the corporation to be terminated. Sears, Roebuck, incorporated almost a century ago, is one of the nation’s largest retailing corporations, even though its original owners, Richard Sears and Alvah Roebuck, have been dead for decades.

**Specialized Management** Typically, corporations are able to recruit more skilled and knowledgeable managers than proprietorships and partnerships. This is because they have more available capital and are large enough to offer considerable opportunity for advancement. Within the corporate structure, administration, human resources, finance, sales, and operations are placed in the charge of experts in these fields. For instance, the Bechtel Group hired Caspar Weinberger, former Secretary of Defense.

Disadvantages of Corporations

**Difficulty and Expense of Formation** Forming a corporation can be a relatively complex and costly process. The use of an attorney may be necessary to complete the legal forms and apply to the state for a charter. Charter fees, attorney’s fees, the costs of stock certificates and required record keeping, and other organizational costs all add up. These payments can amount to thousands of dollars for even a medium-sized corporation. The costs of incorporating, in both time and money, discourage many owners of smaller businesses from forming corporations.

**Government Regulation** Most government regulation of business is directed at corporations. A corporation must meet various government standards before it can sell its stock to the public. Then it must file many reports on its business operations and finances with local, state, and federal governments. In addition, the corporation must make periodic
reports to its stockholders about various aspects of the business. Also, its activities are restricted by law to those spelled out in its charter.

**Double Taxation** Unlike sole proprietorships and partnerships, corporations must pay a tax on their profits. Then stockholders must pay a personal income tax on profits received as dividends. As a result, corporate profits are taxed twice—one as corporate income and again as the personal income of stockholders.

**Lack of Secrecy** Because open corporations are required to submit detailed reports to government agencies and to stockholders, they cannot keep their operations confidential. Competitors can study these required corporate reports and then use the information to compete more effectively. In effect, every public corporation has to share some of its secrets with its competitors.

### I. VOCABULARY PRACTICE

Find in the text English equivalents for the following:

1. A revendica proprietatea corporației/претендовать на собственность корпорации;
2. A expune acțiunile pentru vânzare/выставить акции на продажу;
3. Doar dacă în carta corporației nu este prevăzut altceva/если только в уставе корпорации не предусмотрено иное;
4. A corespunde standartelor de stat/соответствовать государственным стандартам;
5. Activitățile stipulate în carta corporației/деятельность, оговоренная в уставе корпорации;

### II. COMPREHENSION

Match the words with their definitions

| 1. limited liability | a) the effective management committee of a corporation |
| 2. lending institutions | b) if the company fails, creditors have a claim on the personal assets of its owners |
| 3. stockbroker | c) the highest position on a company’s board of directors |
| 4. unlimited liability | d) if the company goes bankrupt, the shareholders cannot be asked to pay more than the nominal value of their shares |
| 5. dividend | e) banks, insurance companies, building societies |
| 6. management | f) a person who buys and sells stocks for other people |
| 7. chairman | g) an amount of the profits that a company pays to its shareholders |
| 8. board of directors | h) the people who run and control an organization |

### III. Complete the table with the appropriate words describing the pluses and minuses of the corporation status. (Figures denote the number of words)

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Limited (1)</td>
<td>1. Its profits are (2)</td>
</tr>
<tr>
<td>2. Unlimited (1)</td>
<td>2. Difficult and (2)</td>
</tr>
<tr>
<td>3. Unlimited ability (1)</td>
<td>3. Its activities are controlled by (1)</td>
</tr>
<tr>
<td>4. Ability to recruit (2)</td>
<td>4. Impossibility to keep its (2)</td>
</tr>
<tr>
<td>5. Lack of difficulty in (2)</td>
<td></td>
</tr>
</tbody>
</table>
IV. FOCUS ON GRAMMAR
Complete the sentences using an adjective from box A and a preposition from box B

<table>
<thead>
<tr>
<th>A</th>
<th>B</th>
</tr>
</thead>
<tbody>
<tr>
<td>similar</td>
<td>of</td>
</tr>
<tr>
<td>interested</td>
<td>with</td>
</tr>
<tr>
<td>critical</td>
<td>for</td>
</tr>
<tr>
<td>good</td>
<td>about</td>
</tr>
<tr>
<td>responsible</td>
<td>from</td>
</tr>
<tr>
<td>serious</td>
<td>at</td>
</tr>
<tr>
<td>satisfied</td>
<td>to</td>
</tr>
<tr>
<td>binding</td>
<td>in</td>
</tr>
<tr>
<td>different</td>
<td>on</td>
</tr>
</tbody>
</table>

1. Could you tell me who is ___________________________ customer complaints?
2. My current job is very ____________________________ my previous one.
3. Last month the company’s sales dropped dramatically. This is only __________________________ a slump registered 5 years ago.
4. Our shareholders are greatly ________________ the profit and loss account we publish twice a year.
5. The chairman opened the meeting by saying he was __________________________ the progress made.
6. The press were __________________________ the company because staff training had not improved.
7. My manager is __________________________ firing 2 people.
8. Tom was appointed as president of our corporation because he is very __________________________ leading and motivating people.
9. The contract comes into force on the day of its signature and is __________________________ both parties.

REVISION

Learning objectives:
1. Understand the basic differences among the 3 forms of business ownership
2. Give arguments for their choice of the most advantageous form of business ownership

I. Fill in the gaps with the necessary words

Businesses are organized in different ways. When there is one owner, the company is called a …(1) proprietorship. If two or more people associate to form a company they make up a …(2). In both these organizations the …(3) supply the capital and as a rule they assume the management of the organization. They also have …(4) liability and are entitled to take possession of all the profits the company makes and all …(5) are borne by them.

On the other hand there are limited …(6) companies. Such types of companies are either …(7) or public. The former type involves that the public has not …(8) to the company, the shares are sold to a restricted number of people. …(9) are the parts into which the assets of a company are divided. The owners of the company are …(10) and they hold shares in proportion with the …(11) they invested in the company. The management of limited liability company is entrusted to a …(12) of directors elected by the …(13) at the Annual Meeting. A shareholder who cannot attend the meeting may vote by …(14).
The shareholders are entitled to the ...(15) made by the company and therefore receive ...(16). When a stockholder is offered additional stock in advance of public it means that he has a ...(17) right.

II. What is the usual antonym to these words?
1. general partner and
2. common stock and
3. private corporation and
4. short-term financing and
5. formation and
6. to borrow and
7. employer and
8. profit and

III. Complete the following chart:

<table>
<thead>
<tr>
<th>Characteristics</th>
<th>Sole proprietorship</th>
<th>Partnership</th>
<th>Corporation</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The number of owners</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Organizational documents</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. Taxes paid</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Liability</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. Ability to borrow</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Government control</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. The most widespread form of doing business</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>8. The most profitable form of doing business</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

FOR YOUR INFORMATION

A limited liability company (LLC) or, more rarely, a company with limited liability is a flexible form of business enterprise that blends elements of partnership and corporate structures. It is a legal form of business company that provides limited liability to its owners. It is a hybrid business entity having certain characteristics of both a corporation and a partnership or sole proprietorship (depending on how many owners there are). The primary characteristic an LLC shares with a corporation is limited liability, and the primary characteristic it shares with a partnership is the availability of pass-through income taxation. It is often more flexible than a corporation and it is well-suited for companies with a single owner. Owners of an LLC are called members. There is no maximum number of members. There are also permitted “single member” LLCs, those having only one owner. It is important to understand that limited liability does not imply owners are always fully protected from personal liabilities. Courts can and do pierce the corporate veil of LLCs when some type of fraud or misrepresentation is involved, or under certain situations where the owner uses the company as an "alter ego." A few types of businesses generally cannot be LLCs, such as banks and insurance companies.

Moldovan legislation contemplates LLC as Societate cu Răspundere Limitată, abbreviated "SRL." It includes member-founders and other non-founder members, (minimum one
member-founder and maximum total of 50 members), at least one of them must be the founder of the company, but all of the 50 could be also founders.

<table>
<thead>
<tr>
<th>Sole Proprietorship (AE)</th>
<th>Intreprindere Individuală (I.I.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sole trader (BE)</td>
<td>Індивідуальне підприємство (ІП)</td>
</tr>
<tr>
<td>Limited liability company (LLC)</td>
<td>Societate cu Răspundere Limitată (SRL)</td>
</tr>
<tr>
<td>Open corporation, open joint-stock-company, Public limited company (Plc)</td>
<td>Societatea pe acţiuni de tip deschis Открытое акционерное общество (ОАО)</td>
</tr>
<tr>
<td>Close corporation, closed joint-stock company, Private limited company (Ltd)</td>
<td>Societatea pe acţiuni de tip închis Закрытое акционерное общество (ЗАО)</td>
</tr>
</tbody>
</table>

What kind of organization might each of these be – a SP, a partnership, an LLC, a Plc or an Ltd?

1. A small corner grocery.
2. A firm of solicitors.
3. A large commercial bank.
4. A publishing house.
5. A television company.

IV. DISCUSSION

1. What kind of organization would you like to work for (as an employee) in the future?
2. Do you expect to have one immediate boss or to be part of a team?
3. Would you like to work for an organization where managers and workers are treated as equals or in a company in which there are status symbols such as big offices and company cars for senior staff? Give your reasons.
4. In American corporations employees are offered a considerable opportunity for promotion. What are the chances to advance in our Moldavian corporations, say from a simple worker to a member of the board?
5. If you were to start a business, which ownership form would you use? What factors might affect your choice of ownership form?

V. SIMULATION

Imagine finding yourself in the following situation: you are an executive vice president in a corporation A, which is not very successful. Another big corporation-competitor B wants to take over the corporation you work in. They propose you to give away all the secret financial information and for this they promise you the position of the chairman of the board. Besides you will be offered 3% of corporation’s shares. What would you do in this situation?

VI. FOCUS ON LANGUAGE

Fill in to run or to do in the following sentences:

1. I ……… freelance work in my spare time.
2. I ……….. my own company from home.
3. My friend …………… an agency for computer programs.
4. What do you …………… for a living?
5. Who ……………. the business when you are away?
6. I have been ……………. business with this French firm for 2 years.
7. The business doesn’t……………. itself, you know!
8. The college ………. language courses for foreign students.
9. Our van ………. on diesel.
10. The car was ……………. 90 miles an hour.
4. MONEY

“Money represents the sixth sense that makes it possible for us to enjoy the other five”

Learning objectives:
1. Define the money concept
2. Enumerate the demands for money
3. Know the functions and important characteristics of money

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>to trade sth for sth</td>
<td>to exchange sth that you have for sth that sb else has</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to go on the spree</td>
<td>a petrece, a avea chef</td>
<td>кутить</td>
<td></td>
</tr>
<tr>
<td>provided that</td>
<td>cu condiția că</td>
<td>при условии</td>
<td></td>
</tr>
<tr>
<td>necessities</td>
<td>articol de primă necesitate</td>
<td>предметы первой необходимости</td>
<td></td>
</tr>
<tr>
<td>commodity money</td>
<td>banii-marfă</td>
<td>товарные деньги</td>
<td></td>
</tr>
<tr>
<td>currency</td>
<td>valuta, monedă</td>
<td>валюта, деньги</td>
<td></td>
</tr>
<tr>
<td>lifeblood</td>
<td>sursă, putere de viață</td>
<td>источник</td>
<td></td>
</tr>
<tr>
<td>shelter</td>
<td>casă, adâpost</td>
<td>кров</td>
<td></td>
</tr>
<tr>
<td>transaction</td>
<td>transacție, afacere</td>
<td>сделка, дело</td>
<td></td>
</tr>
<tr>
<td>for a “rainy day”</td>
<td>pentru zile negre</td>
<td>на чёрный день</td>
<td></td>
</tr>
<tr>
<td>bank account</td>
<td>cont bancar</td>
<td>банковский счёт</td>
<td></td>
</tr>
<tr>
<td>precaution</td>
<td>prevedere, precauție</td>
<td>предосторожность, предусмотрительность</td>
<td></td>
</tr>
<tr>
<td>demand</td>
<td>necesitate, trebuință</td>
<td>потребность</td>
<td></td>
</tr>
<tr>
<td>yardstick</td>
<td>standard, criterion</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to assign value to sth</td>
<td>to price sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>in terms of money</td>
<td>exprimați în bani</td>
<td>в денежном выражении</td>
<td></td>
</tr>
<tr>
<td>yard</td>
<td>unit for measuring length, equal to 0.9144 of a meter</td>
<td>iard</td>
<td>ярд</td>
</tr>
<tr>
<td>pound (abbr. lb)</td>
<td>unit for measuring weight, equal to a 0.454 of a kilogram</td>
<td>livră</td>
<td>фунт</td>
</tr>
<tr>
<td>to hold on to sth</td>
<td>to keep sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>savings account</td>
<td>cont de economii</td>
<td>сберегательный счёт</td>
<td></td>
</tr>
<tr>
<td>to accommodate purchases</td>
<td>to make purchases</td>
<td></td>
<td></td>
</tr>
<tr>
<td>odd amounts</td>
<td>sume impare</td>
<td>нечётные суммы</td>
<td></td>
</tr>
<tr>
<td>even amounts</td>
<td>sume cu soț</td>
<td>чётные суммы</td>
<td></td>
</tr>
<tr>
<td>denomination</td>
<td>valoare</td>
<td>достоинство (монеты)</td>
<td></td>
</tr>
<tr>
<td>multiples</td>
<td>multiplu</td>
<td>кратные</td>
<td></td>
</tr>
<tr>
<td>handled (adj)</td>
<td>folosit, uzat</td>
<td>использованный, изношенный</td>
<td></td>
</tr>
<tr>
<td>to counterfeit</td>
<td>a falsifica, a contraface</td>
<td>подделывать</td>
<td></td>
</tr>
<tr>
<td>to be uneasy about sth</td>
<td>to be unsure about sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>genuine (adj)</td>
<td>authentic, real, not a copy</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
The word **money** is uncountable and is used with the verb in singular:
E.g. How much **money** is there in my account?

Idioms with **Money**: match the meaning of the words in bold with their definition in the right.

| 1. **For my money**, he is one of the best financiers in our company. | a) very rich |
| 2. People in our Republic pay **good money** to visit Paris. | b) accurate |
| 3. His prediction was right **on the money**. | c) in my opinion |
| 4. He will win the competition for the contract, I’d **put money on it**. | d) I’m sure about it |
| 5. There is no such thing that he can’t afford, because he is **made of money**. | e) a lot of money |

Here are some sayings about money. Comment on them in pairs:
- *Money makes the world go round*
- *Money is the root of all evil*
- *Time is money*
- *The only way to double your money is to fold the banknotes and put them into your pocket*
- *Money talks*
- *Easy come, easy go*

**Read the following text and do the exercises given after it**

### 4.1. What is Money?

Money is considered to be one of the greatest inventions of humanity along with the alphabet and wheel. Its role in a society’s life is still very important. As Shakespeare wrote: “Gold makes white out of black and a hero out of a coward”. So what is money?

Money is anything used by a society to purchase goods and services or resources. The members of the society receive money for their products or resources; then they either hold that money or use it to purchase other products or resources, when and how they see fit.

Before money was in general use, people traded goods and services for other goods and services. This system of the exchange of goods and services without the use of money is called barter system. For example, one family may raise vegetables and herbs on a plot of land; and another may weave cloth. To obtain food, the family of weavers trades cloth for vegetables, provided that the farming family is in need of cloth.

The trouble with barter is that the two parties in an exchange must need each other’s product at the same time, and the two products must be roughly equal in value. It may work well when few products, primarily the necessities of life, are available. But even very primitive societies soon developed some sort of money to eliminate the inconvenience of trading by barter.

Over the years, different groups of people have used all sorts of objects as money – whale’s teeth, stones, beads, seashells, salt, furs, tobacco, copper crosses, and such metals as gold and silver. Such items are known as commodity money.

The first coins made of gold and silver appeared in China in the IX century BC. Alexander the Great (356-323BC) was the first emperor who engraved his image on the coin of his empire. Later almost all the other monarchs followed suit.

The use of paper money began in the early XVII century. Today, the most commonly used objects are metal coins and paper bills, which together are called currency.
Money has been called "the root of all evil." It has also been described as the "lifeblood of commerce." But however you may look upon it, money remains in great demand. Many economists give three main reasons, or demands, for money:

1. The need for money for payment of wages, rents, debts, and the costs of food, clothing, and shelter. This type of need is called a transaction demand. The money is needed for transactions of daily life. The transaction demand is the strongest among lower income people. They need almost all their money for the necessities of life. People with higher incomes can set aside part of their income for investments and savings.

2. The need for money for expenses that may arise in the future. The money is set aside for a “rainy day,” usually in a bank account; it is not usually invested in long-term or risky projects since the money must be at hand when needed. The demand for this “rainy day” money is called a precautionary demand. It is held as a precaution in the event of future needs.

3. The need for money for investment purposes. People may want to invest money in business, land, buildings, or antiques. These investments are risky. But people who invest in them are using their money to earn money. The demand for this money is called investments demand. There is always a chance of losing money in such investments. When the demand for money is for very risky projects, it is called a speculative demand.

**The Functions of Money**

We have already noted that money aids in the exchange of goods and services for resources. And it does. But that’s a rather general way of stating money’s function. Let us look at three specific functions of money in any society:

1. **Money Serves as a Medium of Exchange** A medium of exchange is anything that is accepted as payment for products and resources. This definition looks very much like the definition of money. And it is meant to, because the primary function of money is to serve as a medium of exchange. The key word here is accepted. As long as the owners of products and resources accept money in an exchange, it is performing this function. Of course, these owners accept it because they know it is acceptable to the owners of other products and resources, which they may wish to purchase. For example, the family in our earlier example can sell their vegetables and use the money to purchase cloth from the weavers. This eliminates the problems associated with the barter system.

2. **Money Serves as a Measure of Value** A measure of value is a single standard or “yardstick” that is used to assign values to, and compare the values of, products and resources. Money serves as a measure of value because the prices of all products and resources are stated in terms of money. It is thus the “common denominator” that we use to compare products and decide which we shall buy. Imagine the difficulty you would have in deciding whether you could afford, say, a pair of shoes if it were priced in terms of yards of cloth or pounds of vegetables—especially if your employer happened to pay you in toothbrushes.

3. **Money Represents a Store of Value** Money that is received by an individual or firm need not be used immediately. It may be held and spent later. Hence money serves as a store of value, or a means for retaining and accumulating wealth. This function of money comes into play whenever we hold on to money—in a pocket, a cookie jar, a savings account, or whatever. Value that is stored as money is affected by fluctuations in the economy. One of the major problems caused by
inflation is a loss of stored value: as prices go up in an inflationary period, money loses value. Suppose you can buy a Sony stereo system for $1,000. Then we may say that your $1,000 now has a value equal to the value of that system. But let us suppose that you wait a while and don’t buy the stereo immediately. If the price goes up to $1,100 in the meantime because of inflation, you can no longer buy the stereo with your $1,000. Your money has lost value because it is now worth less than the stereo.

Important Characteristics of Money

To be acceptable as a medium of exchange, money must be fairly easy to use, it must be trusted, and it must be capable of performing its functions. Together, these requirements give rise to five essential characteristics:

**Divisibility** The standard unit of money must be divisible into smaller units to accommodate small purchases as well as large ones. American standard is the dollar, and it is divided into one-hundredths, one-twentieths, one-tenths, one-fourths, and one-halfs through the issuance of coins (pennies, nickels, dimes, quarters, and half-dollars, respectively). These allow people to make purchases of less than a dollar and of odd amounts greater than a dollar.

**Portability** Money must be small enough and light enough to be carried easily. For this reason, paper currency, is issued in larger denominations—multiples of the standard unit. Five-, ten-, twenty-, fifty-, and hundred-dollar bills make our money convenient for almost any purchase.

**Stability** Money should retain its value over time. When it does not (during periods of high inflation), people tend to lose faith in their money. They may then turn to other means of storing value (such as gold and jewels, works of art, and real estate). In extreme cases, they may use such items as a medium of exchange as well. They may even resort to barter.

**Durability** The objects that serve as money should be strong enough to last through reasonable usage. No one would appreciate (or use) dollar bills that disintegrated as they were handled or coins that melted in the sun.

**Difficulty of Counterfeiting** If a nation’s currency were easy to counterfeit—that is, to imitate or fake—its citizens would be uneasy about accepting it as payment. Even genuine currency would soon lose its value, because no one would want it. Thus the countries that issue currency do their best to ensure that it is very hard to reproduce.

I. VOCABULARY PRACTICE

A) Find in the text the words that are synonyms of:

1. on condition that= 6. to rise=
2. problem= 7. worn-out (adj)=
3. necessity= 8. to forge=
4. to help= 9. difficult=
5. outright (adv)= 10. banknote=

B) Explain in English the meaning of the following phrases:

1. to be roughly equal in value
2. to come into play
3. to be in great demand
4. to be at hand
5. to follow suit
6. to be fairly easy to use sth
7. to last through reasonable usage
C) Give English equivalents
1. mijloc de schimb/средство обмена
2. măsurare a valorii/мера стоимости
3. numitor comun/общий знаменатель
4. lot de pămînt/участок земли
5. conservarea valorii/сохранение стоимости
6. banknotele se emit în valoarea mai mare/денежные купюры выпускаются большим достоинством
7. a-și pierde încrederea/потерять веру
8. proprietatea imobiliară/недвижимость
9. moneda veritabilă/подлинные деньги
10. oameni cu un venit mai scăzut/люди с более низким доходом.

II. COMPREHENSION
A) Give answers to the following questions:
1. What is money and what do you know about its history?
2. What is barter and what is the trouble with it?
3. What is commodity money and who used this money?
4. Why do people need money?
5. Name the functions of money and characterize them.
6. Enumerate the characteristics of money. Which one seems the most appealing to you and why?
7. Why should the standard unit of money be divided into smaller units? Associate the following coins with the Moldavian ones:
   a) a penny –
   b) a nickel –
   c) a half-dollar –
   d) a quarter –
   e) a dime –
8. Why is paper money issued in larger denominations?
9. When do people tend to lose faith in their money? What do they do in this case?
10. What do people usually do with handled or deteriorated bills or coins?
11. Why do issuers of currency make it very hard to be reproduced?
12. Money counterfeiting – is it a criminal or a civil case? What happens to counterfeiters according to the appropriate articles of law in our country? Do you agree with the punishment stipulated in these articles?

B) Find in the text the words to the following definitions:
1. coins and paper money ______________________
2. the means of exchanging sth for sth without using money ______________________
3. the necessity to save money for a time when you will really need it ______________
4. anything that is accepted as payment for products and resources ______________________
5. the quality of being steady and not changing in any way ______________________
6. a means for retaining and accumulating wealth ______________________

III. DISCUSSION
1. What role does money play in your life?
   For instance, you have been offered 2 jobs:
   I) a part-time, attractive, low-paid job
   II) a full-time, dirty (from the ethical point of view), rather well-paid job
   What would you choose and why?
2. If you possessed a large amount of money, what would you do with it? Choose out of
the following 3 items that would characterize your actions concerning your money. Give your
reasons. Use the following structure: If I possessed a large amount of money I would …
- put it under the mattress
- buy a lottery ticket
- visit a casino
- deposit it in a bank
- buy gold
- invest it in my own business
- buy a Van Gogh painting
- buy shares of a corporation
- invest it in real estate
- go on a spending spree

3. How much money do you need to consider yourself to be a rich person? Is it
possible to earn this sum of money in an honest way in our Republic?
4. When you see a person for the first time, can you detect whether the person is rich,
with average income, or poor. If yes, than how?
5. Can everything be bought with money?
6. What would be the consequences of a world without money? Would there be no
poverty? Could we use a barter system instead?

IV. FOCUS ON GRAMMAR

Fill in prepositions
1. Our company decided to trade our services ______ the products of our
commercial partners.
2. The trouble _____ wax is that it melts _____ the sun.
3. Money eliminates the problems associated ______ the barter system.
4. I bought his share of business ______ $20,000.
5. When people lose faith ____ their money, they may resort _____ barter.

4.2. The Supply of Money: M₁, M₂, M₃

Learning objectives:
1. Grasp the money supply concept
2. Differentiate between a demand deposit and time deposit
3. Study the lexicon of public and personal finance

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>money supply</td>
<td></td>
<td>ofertă monetară</td>
<td>предложение денег, денежная масса</td>
</tr>
<tr>
<td>demand deposit</td>
<td></td>
<td>depozit la vedere</td>
<td>вклад до востребования, бессрочный вклад</td>
</tr>
<tr>
<td>checking account on demand</td>
<td>current account</td>
<td>cont curent</td>
<td>текущий счёт</td>
</tr>
<tr>
<td>to withdraw money from an account</td>
<td>a retrace bani de pe cont</td>
<td>снимать деньги со счёта</td>
<td></td>
</tr>
<tr>
<td>automated teller machine (ATM)</td>
<td>cash dispenser</td>
<td>bancomat</td>
<td>банкомат</td>
</tr>
<tr>
<td>term</td>
<td>translation</td>
<td>translation</td>
<td>translation</td>
</tr>
<tr>
<td>-----------------------------</td>
<td>------------------------------</td>
<td>------------------------------</td>
<td>------------------------------</td>
</tr>
<tr>
<td>time deposit</td>
<td>depozit la termen</td>
<td>срочный вклад</td>
<td></td>
</tr>
<tr>
<td>near-monies</td>
<td>aproape bani</td>
<td>почти деньги</td>
<td></td>
</tr>
<tr>
<td>securities</td>
<td>hîrtii de valoare</td>
<td>ценные бумаги</td>
<td></td>
</tr>
<tr>
<td>measure (M)</td>
<td>agregat monetar</td>
<td>денежный агрегат</td>
<td></td>
</tr>
<tr>
<td>interest-bearing (adj) which brings interest</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>fare</td>
<td>money that you pay to travel by means of transport</td>
<td></td>
<td></td>
</tr>
<tr>
<td>fine</td>
<td>money that you pay as punishment for breaking a law or rule</td>
<td>amendâ</td>
<td>штраф</td>
</tr>
<tr>
<td>bonus</td>
<td>extra money added to your salary as a reward</td>
<td>premiu</td>
<td>премия</td>
</tr>
<tr>
<td>premium</td>
<td>money that you pay for an insurance policy</td>
<td>prima de asigurare</td>
<td>страховой взнос</td>
</tr>
<tr>
<td>fee</td>
<td>money that you pay for professional advice or services</td>
<td></td>
<td></td>
</tr>
<tr>
<td>royalties</td>
<td>money that is paid to the author of a book or to the composer of a piece of music, each time that is sold or performed</td>
<td>drept de autor, onorariu</td>
<td>авторский гонорар</td>
</tr>
<tr>
<td>deposit</td>
<td>1) money that is paid into a bank account 2) money that is given as the first part of a larger payment</td>
<td>1) depozit 2) arvon</td>
<td>1) банковский депозит 2) задаток</td>
</tr>
</tbody>
</table>

Read the following text and do the exercises given after it

How much money is there in the USA? Before we can answer that question, we need to redefine a couple of concepts:

A **demand deposit** is an amount that is on deposit in a checking account. It is called a *demand* deposit because it can be claimed immediately—on demand—by presenting a properly made-out check, withdrawing cash from an automated teller machine, or by transferring money between accounts.

A **time deposit** is an amount that is on deposit in an interest-bearing savings account. Savings institutions generally permit immediate withdrawal of money from savings accounts. However, they can require written notice prior to withdrawal.

Time deposits are not immediately available to their owners, but they can be converted to cash easily. For this reason, they are called **near-monies**.

**Money Supply** is the total amount of money that exists in the economy of a country at a particular time.

The **M₁ supply of money** consists only of currency and demand deposits. By law, currency must be accepted as payment for products and resources. Checks are accepted as payment because they are convenient, convertible to cash, and generally safe.

The **M₂ supply of money** consists of M₁ (currency and demand deposits) plus certain specific securities and small-denomination time deposits. Another common definition of money — **M₃** — consists of M₁ and M₂ plus large time deposits of $100,000 or more. The definitions of money that include the M₂ and M₃ supplies are based on the assumption that time deposits are easily converted to cash for spending.
So, there are at least three measures of the supply of money. (Actually, there are other measures as well, which may be broader or narrower than M1, M2, and M3.) So the answer to our original question is that the amount of money in the United States depends very much on how we measure it.

I. COMPREHENSION

A) Mark the statements with TRUE or FALSE and correct the false ones

1. The amount of money that exists in the economy of a country depends on how the money is measured. **TRUE**
2. A time deposit is an amount that is on deposit in a checking account. **FALSE**
   - A time deposit is an amount that is on deposit in a savings account.
3. Demand deposit is money that you have on your cash card. **FALSE**
   - Demand deposit is money that you can withdraw from your current account.
4. Time deposits are also called near-monies because they can be easily converted into cash. **FALSE**
   - Time deposits are also called nearly-monies because they can be easily converted into cash.
5. There are only 3 measures of the supply of money. **FALSE**
   - There are at least three measures of the supply of money.
6. The interest on money in a checking account is lower than the interest on money in a savings account. **FALSE**
   - The interest on money in a checking account is lower than the interest on money in a savings account.

B) Complete the following formulae: Money supply in the USA:

\[ M_1 = \]
\[ M_2 = \]
\[ M_3 = \]

C) Compare it with the Money supply in Moldova:

\[ M_0 = \text{cash} \]
\[ M_1 = M_0 + \text{demand deposits in national currency} \]
\[ M_2 = M_1 + \text{time deposits in national currency} \]
\[ M_3 = M_2 + \text{time deposits in foreign currency} \]

II. Study the text and be ready to comment on it

**PERSONAL FINANCE:** Employees may receive the money they have earned as weekly **wages** in cash (if they are blue-collars), or as monthly **salary** in a current account (if they are professionals). In the latter case, the **current account** (U.S. **checking account**) is where they pay in their earnings and from where they withdraw money to pay their everyday **bills**. Holders can withdraw their money with no restrictions, but they receive little **interest**. The bank sends them a **bank statement** telling them how much money is in their account. They can also give an instruction to the bank to pay fixed sums of money to certain people at stated times by a **standing order**. People can also withdraw from their current account more money than they actually have in it. It means that they overdraw their account. Generally, people avoid having an **overdraft** because in the end they will pay a lot of interest to the bank.

People may also **save up** money. They open a **savings account** where they deposit any extra money that they have and only take it out when they intend to spend it on something special. When they invest money in a **deposit account** (U.S. **time account**), the customers receive a high rate of interest but withdrawals require prior notice. If they want to buy their own house, which is a big investment, they may take a **bank loan** for which they must leave a **pledge**. If the bank grants them this loan, they have a **mortgage**.

When you purchase in a shop, you may pay **in cash** or **by credit card**. In some shops it is possible not to pay **outright**, but **on credit**. If you buy **in bulk** you may be offered a
discount. With such goods as cars, refrigerators or furniture, you may pay the full amount or you may pay in installments.

PUBLIC FINANCE: People, the disadvantaged ones in particular, may receive some money from the government as well, as a form of social security. For instance, the government pays out pensions, unemployment benefits, disability allowances, child allowance, and grants and scholarships to help students pay for studying.

In order to be able to redistribute some money, the government has to form the budget first and cover its expenses according to its fiscal policy. The government levies the money it needs from citizens through various taxes. Income tax is the tax collected on individuals’ wages and salaries. Inheritance tax is levied on what people inherit from others as a legacy.

III. Which words in the text given in bold are defined below? Give their translation
1. money which is in the form of coins and banknotes _________________
2. an amount of money you receive weekly in return for labour _________________
3. extra percentage paid on a loan ______________________________
4. a fixed amount which is paid monthly to workers of higher rank _________________
5. the amount of money borrowed from a bank greater than that which is in your account _______________________
6. loan to purchase property, used as security for this loan _______________________
7. a piece of paper that shows how much you owe sb for goods and services _________
8. a guarantee for a loan _____________________________________________
9. an account with a higher rate of interest but requiring notification in advance for withdrawing the funds __________________________________________
10. an account with low interest but with no restrictions for withdrawal _____________
11. money paid by the state to a person when he/she retires _______________________
12. money given by the government to students for their education ___________________
13. money paid to people that are made redundant ____________________________
14. money paid to people with a handicap _________________________________
15. money received from someone in his/her will ____________________________

IV. Find in the text from exercise II English equivalents for the following:
1. extras de cont/выписка со счёта;
2. dispoziţie de plată/инструкция об уплате;
3. suma trasă din cont fără acoperire/превышение кредита;
4. a plăti în numerar/платить наличными;
5. a plăti în rate/платить в рассрочку;
6. a vinde pe credit/продавать в кредит;
7. a plăti pe loc/оплатить сразу;
8. a cumpăra în vrac/покупать в большом количестве.
V. Group the following words under the headings:

*Salary, bill, mortgage, debt, tax, fare, fine, bonus, fee, dividend, instalment, legacy, rent, premium, subsidy, deposit, royalties*

<table>
<thead>
<tr>
<th>MONEY TO RECEIVE</th>
<th>MONEY TO PAY</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

VI. Fill in the blanks with some of the words from the left column
1. All the workers in our firm get a Christmas _____________ of $200.
2. Farmers are waiting for the new _________________ to help them grow cereals.
3. As her book was a best-seller, she got substantial _________________.
4. After their uncle’s death they each received a ________________ of $25,000.
5. The _________________ the shareholders received were quite significant since their company fared well last year.

VII. Fill in the blanks with some words from the right column
1. He paid a high ______________ for his insurance policy against the loss of his voice.
2. We made a ______________ of 25% to be sure that the shop will not sell the furniture we liked so much.
3. How much is the ______________ from the airport to the Hilton Hotel?
4. You have to pay a ______________ for breaking the speed limit.
5. I bought a fridge, which I have to pay back in six monthly ________________ of $100 each.

VIII. WORD STUDY

The word **cash** is uncountable: *How much cash do you have on you?*

Choose the correct definition for the following vocabulary items that are formed with the word *cash*. Use the explanatory dictionaries.

1. **cash flow** is
   a) the conversion rate between currencies;
   b) money which is immediately available;
   c) movement of money into and out of business.

2. **petty cash** is
   a) small denomination coins;
   b) money held in a business to cover small expenses;
   c) pocket money given to children.

3. **cash dispenser** is
   a) someone who spends money;
   b) machine in or outside a bank from which you can get money with a card;
   c) device used to sort out money.
4. **cash register** is
   a) machine used in shops to record the money;
   b) a special book where you keep the record of money coming in and getting out;
   c) person who records money in a bank.

5. **cash-and-carry** is
   a) method to pay for the transport of goods;
   b) large shop where goods are paid at cheaper prices and removed by customers;
   c) money you receive for delivering the goods.

6. **cash cow** is
   a) animal bred to be sold;
   b) part of business that brings enough profits;
   c) someone you can cheat to get undue money.

7. **cash discount** is
   a) reduction in a price if you pay immediately;
   b) reduction of the sum of money you owe;
   c) reduction in a price if you buy goods in bulk.

8. **cash desk** is
   a) a table in which you keep money;
   b) a television company office that deals with monetary issues;
   c) place in a shop where you pay for goods that you have bought.
5. BANKING

“A bank is a place where they give you an umbrella in good weather
and ask for it back when it starts to rain”
Fobert Frost

5.1. Modern Banking

Learning objectives:
1. Describe the modern banking system
2. Know the main duties of a Central Bank

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>Federal Reserve System</td>
<td></td>
<td>sistemul băncilor</td>
<td>Федеральная резервная система</td>
</tr>
<tr>
<td>financially sound</td>
<td>reliable from the financial point of view</td>
<td></td>
<td></td>
</tr>
<tr>
<td>input</td>
<td>sth that you put into work to make it succeed</td>
<td></td>
<td></td>
</tr>
<tr>
<td>output</td>
<td>the result of the performed work</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to charge interest</td>
<td>a cere procente</td>
<td>начислять проценты</td>
<td></td>
</tr>
<tr>
<td>to oversee</td>
<td>to supervise</td>
<td>a supraveghea</td>
<td>наблюдать</td>
</tr>
<tr>
<td>loanable funds</td>
<td>money that can be given on a loan to people</td>
<td></td>
<td></td>
</tr>
<tr>
<td>interest rate</td>
<td>rata dobînzii</td>
<td>процентная ставка</td>
<td></td>
</tr>
<tr>
<td>discount rate</td>
<td>rată de scont</td>
<td>учётная ставка</td>
<td></td>
</tr>
<tr>
<td>to be in trouble</td>
<td>to have problems</td>
<td></td>
<td></td>
</tr>
<tr>
<td>auditor</td>
<td>a person who officially examines the business and financial records of a company</td>
<td>auditor</td>
<td>аудитор</td>
</tr>
<tr>
<td>to prevent</td>
<td>to stop sth from happening</td>
<td></td>
<td></td>
</tr>
<tr>
<td>clerical worker</td>
<td>office worker</td>
<td></td>
<td></td>
</tr>
<tr>
<td>teller</td>
<td>cashier</td>
<td>casier de bancă</td>
<td>кассир (в банке)</td>
</tr>
<tr>
<td>business year</td>
<td>accounting year, fiscal year</td>
<td>an de gestiune</td>
<td>отчётный год</td>
</tr>
<tr>
<td>financial statement</td>
<td>a summary of a firm’s revenues and expenses during a specified period of time</td>
<td>raport financiar</td>
<td>финансовый отчёт</td>
</tr>
<tr>
<td>undivided profit</td>
<td>retained profit</td>
<td>profit neredistribuit</td>
<td>нераспределённая прибыль</td>
</tr>
</tbody>
</table>

Read the following text and do the exercises given after it

In the USA, in every locality no matter how small it is, there is a church and a bank. Americans who are considered to be rather religious people go to church to maintain and accumulate their “spiritual wealth”. And they go to the bank to keep and accumulate their material wealth.

The modern banking system includes three groups of financial institutions:
• the central bank;
• commercial banks;
• other specialized financial institutions that include both banking and non-banking 
organizations.

The central bank, which depending on the country may be called the State Bank or the 
National bank (as in our country), bears the name of the Federal Reserve System in the USA, 
In a way it is the bank for all the other banks in a country. It oversees the banking system. 
The central bank may be owned and controlled by the government or it may have 
considerable political independence. There are three common duties that all central banks 
perform: holding reserves, assuring stability of the banking and monetary systems, and 
lending money to commercial banks and the government. 

**Holding Reserves** Central banks are sometimes called reserve banks. Commercial banks lend only a part of their funds to individuals and businesses and keep the rest in reserve. The central bank holds these reserves to influence the amount of loanable funds banks have available. This allows the central bank to control the money supply. 

**Assuring Stability** The central bank also acts to assure stability in the national banking and monetary systems. For example, it is one of the banking regulatory agencies that regulate and supervise commercial banks to make sure that they act in ways that serve the interests of depositors and of the economy. Also, it controls the way money is issued and circulated. 

**Lending Money** The final duty of the central bank involves one of the primary functions of all the banks - it lends money. Its lending practices are unlike those of other banks, however. It does not seek to make a profit through lending, and it serves private banks and the government rather than individual customers and businesses. The interest rate that the Central Bank charges from the commercial banks is called the *discount rate*. 

In the USA the **Federal Reserve System** (or simply "the Fed") is the government agency responsible for regulating the United States banking industry. It was created by Congress on December 23, 1913. Its mission is to maintain an economically healthy and financially sound business environment in which banks can operate. The Federal Reserve System is controlled by the seven members of its Board of Governors, who meet in Washington, D.C. Each governor is appointed by the president and confirmed by the Senate for a fourteen-year term. The president also selects the chairman and vice chairman of the board from among the board members for four-year terms. These terms may be renewed. 

The Federal Reserve System includes twelve Federal Reserve District Banks, which are located throughout the United States, as well as twenty-five branch-territory banks. Each Federal Reserve District Bank is actually owned—but not controlled—by the commercial banks that are members of the Federal Reserve System. 

The Fed controls the money supply and prevents the economy from crisis. Its most powerful tool in controlling the money supply is the reserve requirement. It is the percentage of all deposits that a bank must keep on hand at the bank or on deposit with the Fed. If the Fed requires banks to keep 20% of all funds on deposit, then they can loan out the other 80% to individuals and companies. 

The Fed also sells and buys government securities. When it buys them, it increases the money supply by putting more money in circulation. By selling government securities, the Fed decreases the money supply. 

The Fed also insures deposits in case of bank failure. The Federal Deposit Insurance Corporation (FDIC) requires the banks to give customers information about their asset quality, capital and earnings. This prevents people from doing business with banks that are in trouble. 

The name "commercial" appeared in the XVII century when banks generally served the commerce. The first banks were founded in the Italian republics, then in Amsterdam and
London. They appeared as simple merchants that traded money. Nowadays the banks have a universal character. Very often they are called financial „department stores” rendering services to the industrial, agricultural, commercial and other enterprises.

A **commercial bank** is a privately owned profit-making organization that accepts deposits, makes loans, and provides related services to its customers. So, it is a financial middleman with a government licence granted by the Central Bank that specializes in bringing lenders and borrowers together. Like other businesses, the bank’s primary goal—its purpose—is to earn a profit. Its inputs are money in the form of deposits, for which it pays interest. Its primary output is loans, for which it charges interest. If the bank is successful, its income is greater than its expenses, and it will show a profit. As banks deal with money belonging to individuals and other firms, they must conform to state banking regulations and are subject to unannounced inspections by Central Bank’s auditors.

In the USA there are over 14,000 commercial banks, this large number resulting from a law that prevents most banks from operating in more than one state. Most of the banks are small, so that American banking is dominated by the large “money centre” banks such as Chase Manhattan and the Bank of America.

### I. VOCABULARY PRACTICE

**A) Find in the text the words that are synonyms of:**

1. instrument =
2. to look for =
3. to supervise =
4. profit =
5. intermediary =
6. aim =
7. bankruptcy =
8. trade =
9. to comply with =
10. to be situated =

**B) Find in the text English equivalents for the following:**

1. a asigura stabilitatea sistemului monetar/обеспечить стабильность денежной системы;
2. a da în împrumut/выдавать в кредит;
3. a preveni criza economici/предотвратить кризис экономики;
4. a pune banii în circulație/пускать деньги в обращение;
5. hîrtii de valoare de stat/государственные ценные бумаги;
6. mediu de afaceri sănătos din punct de vedere financiar/экономически здоровая деловая среда;
7. termenul postului poate fi prelungit/должностной срок может быть продлён;
8. a fi supus unei înspectări neanunțate/подвергаться неожиданной инспекционной проверке;
9. a spori oferta monetară/увеличивать денежную массу;
10. comercianții care vindeau și cumpărau bani/торговцы, которые продавали и покупали деньги.

### II. COMPREHENSION

**Mark the statements with TRUE or FALSE and correct the false ones**

1. The central bank is the most important financial institution in the banking system of a country.
2. Central banks render their services to legal and natural persons.
3. The central bank of the US is the Bank of America.
4. Commercial banks own Federal Reserve District Banks, which are not under their control.
5. The Fed increases the money supply by selling government securities.
6. The Fed insures depositors in case the banks go bankrupt.
7. Central banks are subordinate to commercial banks.
8. Commercial banks are called „department stores” because they offer different kinds of banking services to any type of enterprise.
9. Commercial banks charge interest on the money they lend and pay interest on the money they borrow.
10. A commercial bank is an intermediary between the government and the public.

III. FOCUS ON GRAMMAR

A) Fill in prepositions
1. I want to open an account ______ your bank.
2. You have only $100 ______ your account.
3. Don’t borrow money ______ this bank. They charge very high interest _____ a loan.
4. When you paid the hotel bill, did you pay _____ cash or _____ credit card?
5. Banks also make their profits ______ the fees and commissions they charge ______ their services.
6. Yesterday the Dresdner Bank announced an interest rate increase ______ 0.5%.
7. Because some customers can’t afford to pay _____ cash, businesses sell goods and services _____ credit.

B) Choose the correct form of the verb
1. She ... the bank to check her account.
   a) has just phoned;   b) just phoned;   c) just has phoned;   d) phones just.
2. When the secretary entered Mr.Black ... to foreign businessmen.
   a) spoke;   b) was speaking;   c) has spoken;   d) had spoken.
3. Our director ... the prices now.
   a) are discussing;   b) was discussing;   c) discusses;   d) is discussing.
4. This firm ... Model A-5 for 4 years before they started producing Model A-6.
   a) produced;   b) had been producing;   c) has been producing;   d) was producing.
5. He ... $100,000 in Swiss bank account last spring.
   a) deposited;   b) had deposited;   c) has deposited;   d) was depositing.
6. I am awfully tired because I ... all day.
   a) was working;   b) had been working;   c) have been working;   d) have worked.

IV. READING

Read the dialogue in parts and answer the questions given after it

Student: Who really owns the bank?
Banker: The stockholders own it. At first, they put up the necessary capital and were granted a charter from the government.
S: Are the members of the board of directors stockholders?
B: Oh, yes. They are chosen by the other stockholders to operate the bank.
S: And the board hires the president and the vice-president to manage it?
B: That’s right. They, in their turn, appoint the treasurer, tellers and other clerical workers who are responsible for the day to day running of the bank.
S: I suppose most of your work has to do with checking and savings accounts and making loans.
B: Yes, but we invest money too. Planning the bank’s investments is also very important. On the one hand, the bank must use the funds wisely to make a profit and, on the other hand, funds must be available for depositors to withdraw when they wish to do so.

S: Do you divide all the profits among the stockholders?

B: Not all of them. At the end of each business year the Directors recommend and the Annual General Meeting decides how much of the profit should be distributed to the shareholders as dividends, and how much should be retained in reserve accounts.

S: I think it is rather difficult. And how are all the shareholders informed about the decisions of the AGM?

B: Here’s a copy of our last published financial statement. You see, the reserves are shown here as surplus and undivided profits. All the accounting information of our bank is made public, either in economic press or on our website, so it is available to anyone who is interested in the affairs of our bank.

Questions:
1. What form of business ownership does a commercial bank represent?
2. Who owns the bank?
3. How does a bank start?
4. Who chooses the board of directors and who hires the employees?
5. What are the bank’s main activities?
6. How are the profits distributed?
7. How are the stockholders kept informed about the bank’s operation?

V. CRITICAL THINKING

How do you understand the following procedure and its effect on the economy of a country:
When the central bank decreases the reserve requirement, the money supply goes up, the interest rate falls down and economic activity increases.

VI. FOCUS ON LANGUAGE

Choose the correct word for each sentence

1. She works for an advertisement/advertising agency.
2. How will the increase in interest rates affect/effect your sales?
3. My bank manager has agreed to borrow/lend me another $2000.
4. We’ve had to cancel/postpone the meeting until next Monday.
5. My plane was delayed/postponed by an hour due to computer failure.
6. Before coming here, I studied economics/economy at university.
7. I am interested/interesting in your buildings projects in the Middle East.
8. She applied for a job/work as a personnel officer.
9. The cost of life/living has gone up again.
10. Please send precise measurements/measures when ordering.
11. We expect prices to raise/rise by at least 5%.
12. We only exchange goods if you produce a receipt/recipe.
13. I must remember/remind the boss about that meeting this afternoon.
14. Can you say/tell the difference between these two products?
15. The company is extremely sensible/sensitive to any criticism.
16. There’s some more paper in the stationery/stationary cupboard.
5.2. Types of Financial Institutions

Learning objectives:

1. Distinguish between banking and non-banking organizations
2. Understand the differences between commercial banks and other financial institutions in the banking industry

Study and Learn the words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>to trade in sth</td>
<td>to buy and sell things</td>
<td>a comercializa</td>
<td>торговать чем-л</td>
</tr>
<tr>
<td>Savings and Loan association (S&amp;L)</td>
<td></td>
<td>asociatia de economii si imprumut</td>
<td>сберегательно-заёмная ассоциация</td>
</tr>
<tr>
<td>trust company</td>
<td>organization which acts as a fiduciary, trustee or agent for individuals and businesses in the administration of trust funds, estates and custodial arrangements</td>
<td>companie de trust</td>
<td>трастовая компания</td>
</tr>
<tr>
<td>trustee</td>
<td></td>
<td>1) membru al consiliului de conducere</td>
<td>1) член правления</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2) persoana imprumutnicita</td>
<td>2) доверительное лицо</td>
</tr>
<tr>
<td>to become effective</td>
<td>to come into force</td>
<td>a intra in vigoare</td>
<td>вступать в силу</td>
</tr>
<tr>
<td>to stand for</td>
<td>a inseemna</td>
<td></td>
<td>означать</td>
</tr>
<tr>
<td>government bonds</td>
<td>obligatiuni de stat</td>
<td></td>
<td>государственные облигации</td>
</tr>
<tr>
<td>conservative investments</td>
<td>investiti moderate</td>
<td></td>
<td>умеренные инвестиции</td>
</tr>
</tbody>
</table>

Read the following text and do the exercises given after it

Financial institutions are businesses that trade in money. They have different rights, different powers and obligations. The most familiar financial institutions are commercial banks, savings and loan associations, credit unions, mutual savings banks and other organizations that perform banking functions.

Mainly, banks fall into two main categories: retail banks and wholesale banks. Retail banking refers to banks which offer services to individual customers, while wholesale banks deal with corporations. The most obvious type of retail bank is the commercial bank.

Commercial banks, which include trust companies, savings banks and industrial banks, have traditionally rendered a wide range of services. Today they are specialized in helping business and making investments. In some countries (as in our Republic, for example) there are banks that combine the services offered by retail banks with those supplied by wholesale banks. These are called universal banks.

Savings and Loan Associations A savings and loan association (S&L) is a financial institution that primarily accepts savings deposits and provides home-mortgage loans. Originally, they were permitted to offer their depositors only savings accounts. But since Congress passed the Depository Institutions Deregulation and Monetary Control Act, which became effective on January 1, 1981, they have been able to offer interest-paying checking
accounts (NOW accounts) to attract depositors. A NOW account is an interest-bearing checking account. (NOW stands for Negotiable Order of Withdrawal.)

**Credit Unions** A credit union is a financial institution that accepts deposits from, and lends money to, only those people who are its members. Usually the membership is composed of employees of a particular firm, people in a particular profession, or those who live in a community served by a local credit union. Some credit unions require that members purchase at least one share of ownership, at a cost of about $5 to $10. Credit unions generally pay higher interest than commercial banks and S&Ls, and they may provide loans at lower cost. Credit unions are regulated by the Federal Credit Union Administration.

**Mutual Savings Banks** A mutual savings bank is a bank that is owned by its depositors. Located primarily in the northeastern part of the United States, mutual savings banks accept deposits and lend money for home mortgages. The approximately 375 mutual savings banks in the USA have no stockholders. Their profits are distributed to depositors. They operate much like S&Ls and are controlled by state banking authorities.

**Organizations That Perform Banking Functions** There are three types of financial institutions that are not actually banks but that are nevertheless involved in various banking activities to a limited extent.

**Insurance companies** provide long-term financing for office buildings, shopping centers, and other commercial real estate projects throughout the United States. They also invest in corporate and government bonds. The funds used for this type of financing are obtained from policyholders' insurance premiums.

**Pension funds** are established by employers to guarantee their employees a regular monthly income upon retirement. Contributions to the fund may come either from the employer alone or from both the employer and the employee. Pension funds earn additional income through generally conservative investments in certain corporate stocks, corporate bonds, government securities, and real estate developments.

**Brokerage firms** offer combination savings and checking accounts that pay higher-than-usual interest rates (so-called money-market rates). Many people switched to these accounts when their existence became widely recognized to get the higher rates. In the last few years, however, banks have instituted similar types of accounts, hoping to lure their depositors back.

Any financial organization has both internal and external customers. These are considered to become clients as soon as their relationship with the bank or any other financial institution is reliable and long lasting. All the bank departments and their staff are internal customers to each other. The external customers comprise natural and legal persons, i.e. individuals, private and state companies as well as the government.

**I. VOCABULARY PRACTICE**

Find in the text English equivalents for the following:

1. banca ce oferă servicii persoanelor juridice/банк, работающий с юридическими лицами;
2. a oferi credite la o rată mai redusă/предоставлять ссуды по низшей ставке;
3. prima de asigurare/страховой взнос;
4. la ieşire la pensie/при выходе на пенсию;
5. hîrtii de valoare de stat/государственные ценные бумаги;
6. credit ipotecar/ипотечный кредит;
7. a se îndrepta spre/переметнуться;
8. deţinător de poliţă/держатель полиса;
II. COMPREHENSION
A) Give answers to the following questions:
1. What are financial institutions?
2. What is the difference between retail and wholesale banking?
3. Give the definition of a commercial bank. How do banks earn most of their profit?
4. What is a Savings and Loan Association? What did they offer to their depositors originally and what do they offer now? What is a NOW account?
5. What is a Credit Union? Who can become its member? What do some credit unions require?
6. What is a mutual savings bank? What are the similarities and differences between a mutual savings bank and S&L?
7. What other financial institutions do you know?
8. How do insurance companies obtain their funds? Give examples of insurance companies in our country. What are their functions?
9. What are pension funds established for? How do they get the money to be paid out to pensioners?
10. What accounts are offered by brokerage firms? Do we have brokerage firms in our country?
11. What is the difference between internal and external customers of a financial organization?

B) Mark the statements with TRUE or FALSE and correct the false ones
1. Retail banks work with natural persons.
2. Universal banks deal with all types of customers.
3. A NOW account is an interest-bearing savings account.
4. If you want to buy a flat but you don’t have money, you can apply to S&L.
5. Credit Unions are less advantageous than commercial banks.
6. Mutual savings banks in the USA have a corporate status.
7. Insurance companies, pension funds and brokerage firms are non-banking organizations.
8. There is an intense competition between brokerage firms and banks to attract depositors.

III. Match the remarks with the responses in the following dialogue between Dick and Sally, two university lecturers:

D: Hello, Sally!
S: ......................................................................................................................
D: Not bad. And how are you doing?
S: ......................................................................................................................
D: Oh, I think I can help you. Haven’t you heard about the credit union that we formed?
S: ......................................................................................................................
D: It was a great idea! The members of our department pooled their money and now anyone can apply for a loan if necessary.
S: ......................................................................................................................
D: Of course you may. As a rule, a credit union consists of members of a specific group, such as university employees. And we belong to the same university.
S: ......................................................................................................................
D: Well, we require a minimum deposit – something about 250 dollars. And our credit union pays a higher interest rate than many other financial institutions pay on similar accounts.
S: …………………………………………………………………………………
D: I do.
S: …………………………………………………………………………………

1. Why, no! Could you tell me what it is?
2. Fine! Then I’ll have my car repaired pretty soon!
3. Hi, Dick! Happy to see you again. How are things with you?
4. Great! And how much do I have to pay?
5. I’ve a problem, you know. I’ve just wrecked my new automobile. Had an accident. And I need money to have it repaired.
6. And may I join the union?
7. That also sounds good. And who manages the pool?

IV. With a partner think of different ways of completing the following sentences:
   1. If I want to save up my money, I can …………………………………………..
   2. The best way to invest money ……………………………………………………
   3. I can borrow money from……………………………………………………
   4. I can’t afford to……………………………………………………………...
   5. I like to spend my money on ……………………………………………………

V. FOCUS ON LANGUAGE

Make and do collocations
Make is used for constructive and creative actions.
Do is used with unspecified actions and to talk about work.

A) Group the following words under the headings do or make:
Business, suggestions, progress, a job, mistakes, the accounts, a duty, the typing, an appointment, efforts, damage, a service, a complaint, trade, an apology, a trip, a profit, research, a loss, a decision, favour, shopping, a speech, a choice, a test, money, a report, friends/enemies, an investment, harm, good, right/wrong, one’s best, exercises, a promise, a good impression, an experiment, a will.

<table>
<thead>
<tr>
<th>TO DO</th>
<th>TO MAKE</th>
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<tbody>
<tr>
<td></td>
<td></td>
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</tbody>
</table>

B) Complete the sentences using one of the expressions in Exercise A in the correct form
1. He _____________________ by introducing the new rules to see how employees are going to follow them.
2. She decided to _____________________ in buildings projects.
3. The customer _____________________ to the hotel manager about the bad service.
4. Some women are forced to ____________________________ between family and career.

5. Could you __________________________ , please? Could you give me a lift to the airport?

6. My uncle died without __________________________ and it was very difficult for our family to sort out his money.

7. I like to keep fit, so I __________________________ every day.

8. An accountant is a person who ______________________________ .

9. He __________________________ on economic situation in our country and presented it at the conference.

10. A research scientist is a person who ______________________________ .

VI. Fill in the blanks with suitable words from those listed at the end of the text

The mutual savings bank - _____(1) - is one of the oldest _____(2) institutions in the USA. This financial organization is owned by its _____(3) and is operated for their sole _____(4) . Unlike commercial banks, MSBs don’t have _____(5) . In the past in these institutions there were formed Boards of _____(6) . Those were business people that served without _____(7) . Later, many MSBs decided to sell stock in order to raise additional _____(8) . Nowadays, all the profits of a MSB belong entirely to its savers and _____(9) and are distributed in proportion to the _____(10) they do with the institution.

Borrowers, depositors, business, Trustees, MSB, capital, savings, pay, benefit, stockholders.

5.3. Services Provided by the Financial Institutions

Learning objectives:

1. Be able to identify the primary services provided by commercial banks and other financial institutions

2. Evaluate the importance of banks to the economy of a community

Study and Learn the words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>array</td>
<td>mulţime</td>
<td>съставление</td>
<td>множество</td>
</tr>
<tr>
<td>payroll</td>
<td>a list of people employed by a company showing the amount of money to be paid to each of them</td>
<td>stat de plată</td>
<td>платёжная ведомость</td>
</tr>
<tr>
<td>balance</td>
<td>sold</td>
<td>сальдо, остаток</td>
<td></td>
</tr>
<tr>
<td>savings passbook</td>
<td>carnet de depuneri</td>
<td>сберегательная книжка</td>
<td></td>
</tr>
<tr>
<td>to shop for a loan</td>
<td>to compare different terms on which loans are given by different financial institutions in order to choose the best for yourself</td>
<td></td>
<td></td>
</tr>
<tr>
<td>collateral</td>
<td>pledge</td>
<td>cauţiune, garanţie, gaj</td>
<td>залоговое обеспечение</td>
</tr>
</tbody>
</table>
credit card | a small plastic card that you can use to buy goods and services and pay for them later | cartea de credit | кредитная карта
---|---|---|---
debit card | a plastic card that can be used to take money directly from your bank account when you pay for sth | cartea de debit | дебитовая карта
cash card | ATM card | | |
working capital | the money that is needed to run a business | capital circulant | оборотный капитал
spread | the difference between the rates of interest | | |

Read the following text and do the exercises given after it

If it seems to you that banks and other financial institutions are competing for your business, you're right. That is exactly what is happening. Never before have so many different financial institutions offered such a tempting array of services to attract customers. The financial services provided by the banking industry are the following:

1. Demand deposits
2. Time deposits
3. Loans
4. Electronic transfer of funds
5. Financial advice
6. Trust services
7. Certified checks
8. Safe-deposit boxes

The three most important banking services are accepting deposits, making loans, and providing electronic funds transfers.

**The Deposit Side of Banking** Firms and individuals deposit money in checking accounts (demand deposits) so that they can write checks to pay for purchases. A check is a written order for a bank or other financial institution to pay a stated dollar amount to the business or person indicated on the face of the check. Today, most goods and services are paid for by check. Most financial institutions charge an activity fee (or service charge) for checking accounts. It is generally somewhere between $5 and $10 per month for individuals. For businesses, monthly charges are based on the average daily balance in the checking account and on the number of checks written.

Savings accounts (time deposits) provide a safe place to store money and a very conservative means of investing. The usual passbook savings account earns about 5.5 percent in commercial banks and S&Ls, and slightly more in credit unions.

A depositor who is willing to leave money with a bank for a set period of time can earn a higher rate of interest. To do so, the depositor buys a certificate of deposit (CD). A certificate of deposit is a document stating that the bank will pay the depositor a guaranteed interest rate for money left on deposit for a specified period of time. The interest rate paid on CD depends on how much is invested and for how long. Depositors are penalized for early withdrawal of funds invested in CDs.

**The Lending Side of Banking** Commercial banks, savings and loan associations, credit unions, and other financial institutions provide short- and long-term loans to both individuals and businesses. Short-term loans are those that are to be repaid within one year. For businesses, short-term loans are generally used to provide working capital that will be repaid with sales revenues.
Long-term business loans have a longer repayment period—generally three to seven years but sometimes as long as fifteen years. They are most often used to finance the growth of a firm.

Most lenders prefer some type of collateral for both business and personal long-term loans. Collateral is real or personal property (stocks, bonds, land, equipment, or any other asset of value) that the firm or individual owns and that is pledged as security for a loan. For example, when an individual obtains a loan to pay for a new automobile, the automobile is the collateral for the loan. If the borrower fails to repay the loan according to the terms specified in the loan agreement, the lender can repossess the collateral pledged as security for that loan.

Repayment terms and interest rates for both short- and long-term loans are arranged between the lender and the borrower. For businesses, repayment terms may include monthly, quarterly, semiannual, or annual payments. Repayment terms (and interest rates) for personal loans vary, depending on how the money will be used and what type of collateral, if any, is pledged. Borrowers should always "shop" for a loan, comparing the repayment terms and interest rates offered by competing financial institutions.

Electronic Transfer of Funds

The newest service provided by financial institutions is electronic banking. An electronic funds transfer (EFT) system is a means for performing financial transactions through a computer terminal. Present EFT systems can be used in several ways:

1. **Automated teller machines (ATMs):** An ATM is an electronic bank teller—a machine that provides almost any service a human teller can provide. Once the customer is properly identified, the machine can dispense cash from the customer's checking or savings account or can make a cash advance charged to a credit card. Most ATMs can also accept deposits and provide information about current account balances. ATMs are located in bank parking lots, supermarkets, drugstores, and even filling stations. Customers have access to them at all times of the day or night.

2. **Point-of-sale (POS) terminals:** A POS terminal is a computerized cash register that is located in a retail store and connected to a bank's computer. Here's how it works. You select your merchandise. At the cash register, you pull your debit card through a magnetic card reader and enter your four-to-seven-digit personal identification number ("PIN code"). A central processing center notifies a computer at your bank that you want to make a purchase. Next, the bank's computer immediately deducts the amount of the purchase from your checking account. Then, the amount of the purchase is added to the store's account. Finally, the store is notified that the transaction is complete, and the cash register prints out your receipt. Notice the difference between a debit card and a credit card. With a debit card, money is deducted immediately from your account. A credit card transaction, on the other hand, involves a short-term loan made to you by the bank or credit card company. The use of POS terminals has two advantages. First, you don't have to write a check to pay for your merchandise. Second, the retailer doesn't have to worry about nonpayment because the money is withdrawn from your account immediately.

Our Moldovan banks offer such cards as Maestro and Visa card. The usage of cards is one of the most modern and convenient non-cash payment means. All our payment cards are designed to be convenient for us. The Maestro card is a valid payment card issued to private customers only. One can use it for the non-cash settlement of services or goods. It is also used for withdrawing cash at bank counters and at ATMs. The Visa card can be used worldwide for transactions at electronic devices only.
I. VOCABULARY PRACTICE
A) Find English equivalents for the following:
1.  safeurile bancare/банковские ячейки;
2.  pe suprafața cecului/на лицевой стороне чека;
3.  proprietate mobilă/движимое имущество;
4.  a lăsa în gaj/отдавать в залог;
5.  locul parcării/место стоянки автотранспорта;
6.  stațiune de alimentare a mașinilor/заправка;
7.  registru de casă împrumăt cecul/кассовый аппарат выбивает чек.
8.  achitarea serviciilor sau mărfurilor prin virament/оплата услуг или товаров по безналичному расчёту.

B) Match the verbs with their definitions

| 1. to repossess | a) to make sth valid for a further period of time |
| 2. to penalize  | b) to give out sth to people |
| 3. to renew     | c) to provide money for a project |
| 4. to lure      | d) to introduce a system |
| 5. to institute | e) to give information about sth |
| 6. to withdraw  | f) to take back property or goods from sb who cannot pay for them. |
| 7. to repay     | g) to make sb pay a fine for breaking a rule |
| 8. to finance   | h) to make sb be interested in sth |
| 9. to dispense  | i) to take money out of a bank account |
| 10. to notify    | j) to pay back the money you have borrowed from sb |

II. COMPREHENSION
A) Give answers to the following questions:
1.  What are the 3 most important banking services?
2.  What is a check? Do we have something like this in our country?
3.  What is a certificate of deposit? What does the interest rate paid on CD depend on?
4.  What kinds of loans are provided by the financial institutions? What is the difference between these loans?
5.  What is a collateral?
6.  How are the repayment terms and interest rates for loans arranged? How do you understand the expression that „Borrowers should always shop for a loan”?
7.  What is an EFT and how it can be used?
8.  Have you ever used an ATM and a POS terminal? Did you have any problems or not? What do you think about EFT system?
9.  What is the difference between a debit card and a credit card?
10. What are the types of plastic cards that our citizens can use?

B) Mark the statements with TRUE or FALSE and correct the false ones
1.  In order to be able to write a check one must deposit his/her money in a checking account.
2.  Banks don’t charge fees for their services.
3.  Depositors can freely withdraw funds invested in CDs whenever they wish to.
4.  If you want to take a long-term loan you must present a collateral to the bank.
5.  You can use the services of the POS terminal with a credit card.
6.  ATMs work round the clock.
IV. Match the column A with the column B

<table>
<thead>
<tr>
<th>A</th>
<th>Banking services</th>
<th>B</th>
<th>Definitions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. trust services</td>
<td>a)</td>
<td>a company pays salaries to its employees through the bank that transfers people’s money on their ATM cards.</td>
<td></td>
</tr>
<tr>
<td>2. safe-deposit boxes</td>
<td>b)</td>
<td>the bank gives you money to use for different purposes, on which you pay interest.</td>
<td></td>
</tr>
<tr>
<td>3. financial advice</td>
<td>c)</td>
<td>an arrangement by which a bank has legal control of money or property that has been given to a person until he/she reaches a particular age.</td>
<td></td>
</tr>
<tr>
<td>4. demand deposit</td>
<td>d)</td>
<td>the bank keeps your valuables, securities or important documents in its vault.</td>
<td></td>
</tr>
<tr>
<td>5. loans</td>
<td>e)</td>
<td>the bank keeps your money, pays you a little interest on it, and you can withdraw this money whenever you need it.</td>
<td></td>
</tr>
<tr>
<td>6. payroll service</td>
<td>f)</td>
<td>bank managers consult you about different issues connected with investing money, concluding financial transactions and others.</td>
<td></td>
</tr>
</tbody>
</table>

IV. Match each statement of potential customers to the financial service needed

ATM card, insurance policy, personal loan, overdraft facilities, standing order, mortgage, high-interest deposit accounts, foreign currency, business loan, SWIFT transfer.

1. “I want my bills to be paid monthly” ________________________________
2. “How can I get money when the bank is closed?” _______________________
3. “I need some cash when I arrive in Cairo” ____________________________
4. “I’d like to buy a new house” ____________________________________
5. “I may be in debt next month” ____________________________________
6. “I want to save and get a good return on my money” __________________
7. “I want to guard my house against damage” _________________________
8. “I want to send $5000 to my son in Tokyo as quickly as possible” _______
9. “I want to renovate my house” ___________________________________
10. “I am going to buy equipment for our new office” ____________________

V. INDIVIDUAL WORK
Use the additional sources on banking system in the Republic of Moldova to answer the following questions:
1. What do you know about the National Bank of Moldova?
2. What commercial banks are there in our country? What services do they offer to their clients?
3. Is banking a profitable activity in our country? What proves it?
4. Are banks important to the economy of a country or people can do without them?

VI. Join correctly the words in column A with the words in column B

<table>
<thead>
<tr>
<th>A</th>
<th></th>
<th>B</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. commercial</td>
<td>a) firm</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. certificate</td>
<td>b) deposit</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. demand</td>
<td>c) advice</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. cash</td>
<td>d) bank</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. credit</td>
<td>e) card</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. brokerage</td>
<td>f) rate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. financial</td>
<td>g) of deposit</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
VII. DISCUSSION
1. Do you often go to the bank? What banking services do you use?
2. If you had a pretty sum of money, would you deposit it in a bank? If yes, then in what currency (in the national or in the foreign one) and in what bank (in the savings bank (Banca de Economii) or in another commercial one)? Give your reasons.
3. For instance, you would like to buy a house or anything else which is also a big investment, but you don’t have the money for it, would you apply to a bank for a loan? Substantiate your answer.
4. Is it easy or difficult to obtain a bank loan in our Republic? Is it possible to get a bank loan without a collateral?

VIII. Complete the dialogue
A bank manager and his client are talking about opening an account with the bank. Complete the client’s part in the following dialogue. The first remark has been done for you

Client: Good afternoon!
Bank Manager: Good afternoon! What can I do for you?
C.: ..................................................................................................................
BM.: What kind of account would you like to open – a checking or a savings one?
C.: ..........................................................................................................
BM.: Well, you know that time deposits are not immediately available to their owners. For what period would you like to deposit your money?
C.: ..........................................................................................................
BM.: For this period the interest rate is lower than for one-year term.
C.: ..........................................................................................................
BM.: It depends on how much you are going to deposit and in what currency.
C.: ..........................................................................................................
BM.: For this we give an annual interest rate of 9%. If it suits you, you can buy the certificate of deposit.
C.: ..........................................................................................................

IX. ROLEPLAY
Work in pairs. Imagine that your partner is a bank manager and you are a client who wants to take a personal long-term loan. Make up a dialogue using the studied vocabulary.

X. Match the words with their definitions

<p>| | | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8. bank</td>
<td>h) register</td>
<td></td>
</tr>
<tr>
<td>9. interest</td>
<td>i) union</td>
<td></td>
</tr>
<tr>
<td>10. debit</td>
<td>j) loan</td>
<td></td>
</tr>
</tbody>
</table>

1. deposit a) a written order for a bank to pay out the money
2. credit union b) a computerized cash register that is located in a store and connected to a bank’s computer
3. S&L c) an amount paid for the use of money
4. NOW account d) money that is placed in a bank account by a customer
5. certificate of deposit e) a guarantee for a loan
6. check f) a financial institution that mainly handles savings accounts and makes loans to home buyers
7. interest g) difference between interest rate paid by a bank to its depositors and the rate it charges from its borrowers
<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>8. POS terminal</td>
<td>h) a document which insures that the depositor will be paid a guaranteed interest rate for the deposited money</td>
</tr>
<tr>
<td>9. collateral</td>
<td>i) a financial institution formed by workers in the same organization that serves only its members</td>
</tr>
<tr>
<td>10. spread</td>
<td>j) a checking account that earns interest</td>
</tr>
</tbody>
</table>

**XI. Fill in the gaps with the words given at the end of the text**

Banks fall mainly into two categories: ... (1) and wholesale banks. Retail banking refers to banks which offer services to ... (2) customers, while wholesale banks deal mainly with corporations.

The most obvious type of retail bank is the commercial bank. Commercial banks receive money on deposit, pay money according to customers’ ... (3), negotiate loans, buy and sell foreign exchange. They make a ... (4) from the ... (5), i.e. the difference between the interest rate paid to account holders and the interest rate charged to borrowers.

There are different types of accounts opened with commercial banks. ... (6) accounts have no restrictions as concerns the withdrawal of funds. However, the rate of interest is rather ... (7). On the other hand ... (8) accounts offer a higher rate of interest, but withdrawals are restricted by the fact that the ... (9) has to keep the funds for a specified period in the bank account or must ... (10) his withdrawal decision some time in advance.

... (11) are offered to customers in need of funds and are conditional upon the supplying of ... (12) by borrowers. Besides loans banks offer ... (13) to their customers, which means that people who have an account with the bank are allowed to draw more money from their account than there actually is in it.

The customers can use certain banking products. Thus banks can pay regular bills for their clients, according to the instructions of the latter, this instrument being called ... (14) order. Irregular payments can be made by ... (15) from cheque books the banks make available to their customers. When a customer needs cash he can withdraw it from an automatic cash ... (16) by means of a cash card.

In Britain a merchant bank is a wholesale bank. It offers services to ... (17) such as the raising of ... (18) on various financial markets, the financing of international trade, the issuing of ... (19), investment advice. In the USA similar services are made available by investment banks, which, however, do not offer loans.

**XII. TRANSLATION**

**Translate into English**

**Certificatul bancar de depozit.**

Certificatul bancar de depozit este un document, care atestă că Dvs ați depus o anumită sumă de bani pe depozit, și pe care o puteți schimba pe bani după expirarea unei perioade anumite de timp. Puteți să dispuneți de certificatul bancar de depozit la dorința Dvs. De exemplu, să-l dăruieți cuiva la ziua lui de naștere. Acesta va fi întradevăr un cadou reușit. Cu siguranță, des vă aflați în situația, cănd trebuie să felicitați pe cineva din rude sau prieteni, dar aveți o problemă cu alegerea cadoului. Certificatul bancar de depozit în această situație este indispensabil.

Pe lângă aceasta, certificatul bancar de depozit poate fi vândut și în schimb puteți să primiți banii înainte de termen fără pierderea dobânzii.

Deci, certificatul bancar de depozit este un hîrtie de valoare emisă de către bancă și se prezintă în calitate de o alternativă a depozitului bancar. Certificatul bancar de depozit poate fi transferat de la o persoană la alta spre deosebire de contul bancar obișnuit.

---

**Companies, standing, low, spread, overdrafts, retail, depositor, securities, cheque, collateral, individual, funds, time, dispenser, notify, checking, profit, instructions, loans.**
Депозитный сертификат.

Депозитный сертификат – это документ, который свидетельствует о том, что вы положили определённую сумму денег на депозит, и которую по истечении определённого срока можно обменять на деньги. Банковским сертификатом вы можете распоряжаться по своему усмотрению. Например, подарить на день рождения. Это будет действительно удачный подарок. Наверняка, вы нередко сталкиваетесь с ситуацией, когда нужно поздравить кого-нибудь из родных или друзей, а с выбором подарка у вас проблема. Банковский сертификат в этой ситуации незаменим.

Кроме того, банковский сертификат можно продать и получить вложенные деньги досрочно, без потери процентов.

Таким образом, банковский сертификат – это ценная бумага, которая выпускается банком и выступает в качестве альтернативы банковскому депозиту. Банковский сертификат может передаваться от одного человека другому, в отличие от привычного нам счёта в банке.
6. SECURITIES MARKETS

„Emotions are your worst enemy in the stock market”
Don Hays

6.1. How Securities Are Bought and Sold

Learning objectives:
1. Understand how securities are bought and sold in the primary and secondary markets
2. Distinguish between a securities exchange and an over-the-counter market
3. Be aware of how the New York Stock Exchange functions

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>stock</td>
<td></td>
<td>pachet de acțiuni</td>
<td>пакет акций</td>
</tr>
<tr>
<td>bond</td>
<td>bon (de tezaur),</td>
<td>obliгаtiune</td>
<td>облигации, бонь</td>
</tr>
<tr>
<td></td>
<td>obligațiune</td>
<td></td>
<td></td>
</tr>
<tr>
<td>stockbroker</td>
<td>agent de bursă</td>
<td></td>
<td>брокер</td>
</tr>
<tr>
<td>primary market</td>
<td>piată primară</td>
<td></td>
<td>первичный рынок</td>
</tr>
<tr>
<td>secondary market</td>
<td>piată secundară</td>
<td></td>
<td>вторичный рынок</td>
</tr>
<tr>
<td>to be satisfied</td>
<td>to be convinced</td>
<td></td>
<td></td>
</tr>
<tr>
<td>that…</td>
<td>that…</td>
<td></td>
<td></td>
</tr>
<tr>
<td>mutual fund</td>
<td>societate de investiții cu capital variabil</td>
<td>инвестиционная компания открытого типа</td>
<td></td>
</tr>
<tr>
<td>gross proceeds</td>
<td>venit brut</td>
<td></td>
<td>валовый доход</td>
</tr>
<tr>
<td>commission</td>
<td>comision, remiză</td>
<td></td>
<td>комиссионное вознаграждение</td>
</tr>
<tr>
<td>securities</td>
<td>bursa de valori,</td>
<td></td>
<td>фондовая биржа</td>
</tr>
<tr>
<td>exchange</td>
<td>piată a efectelor de schimb</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to handle</td>
<td>to trade in sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>over-the-counter</td>
<td>piată neoficială a</td>
<td></td>
<td>рынок незарегистрированных</td>
</tr>
<tr>
<td>market</td>
<td>efectelor de schimb,</td>
<td></td>
<td>ценных бумаг</td>
</tr>
<tr>
<td></td>
<td>piată extrabursieră</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to be listed</td>
<td>to be quoted=to be</td>
<td>a fi cotat</td>
<td>котироваться (на бирже)</td>
</tr>
<tr>
<td></td>
<td>given a market price</td>
<td></td>
<td></td>
</tr>
<tr>
<td>tangible assets</td>
<td>active materiale</td>
<td></td>
<td>материалные активы</td>
</tr>
<tr>
<td>earnings</td>
<td>the profit that a</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>company makes</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to redeem</td>
<td>a răscumpăra</td>
<td></td>
<td>выкупать</td>
</tr>
<tr>
<td>CEO (Chief</td>
<td>top manager of a</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Executive</td>
<td>company</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Officer)</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Read the following text and do the exercises given after it

To purchase a sweater, you simply walk into a store that sells sweaters, choose one, and pay for it. To purchase stocks, bonds, and many other investments, you have to work through a representative—your stockbroker. In turn, your broker must buy or sell for you in either the primary or secondary market.
The Primary Market

The primary market is a market in which an investor purchases financial securities (via an investment bank or other representative) from the issuer of those securities. An investment bank is an organization that assists corporations in raising funds, usually by helping sell new security issues.

For a large corporation, the decision to sell securities is often complicated, time-consuming, and expensive. There are basically two methods. First, a large corporation may use an investment bank to sell and distribute the new security issue. This method is used by most large corporations that need a lot of financing. If this method is used, analysts for the investment bank examine the corporation's financial condition to determine whether the new issue is financially sound and how difficult it will be to sell the issue. If the analysts for the investment bank are satisfied that the new security issue is a good risk, the bank will buy the securities and then resell them to the bank's customers—commercial banks, insurance companies, pension funds, mutual funds, and the general public. The investment bank generally charges 2 to 12 percent of the gross proceeds received by the corporation issuing the securities. The size of the commission depends on the quality and financial health of the corporation issuing the new securities and the size of the new security issue. The commission allows the investment bank to make a profit while guaranteeing that the corporation will receive the needed financing.

The second method used by a corporation trying to obtain financing through the primary market is to sell directly to current stockholders. Usually, promotional materials describing the new security issue are mailed to current stockholders. These stockholders may then purchase securities directly from the corporation.

The Secondary Market

After securities are originally sold through the primary market, they are traded through a secondary market. The secondary market is a market for existing financial securities that are currently traded between investors. Usually, secondary-market transactions are completed through a securities exchange or the over-the-counter market.

Securities Exchanges A securities exchange is a marketplace where member brokers meet to buy and sell securities. The securities sold at a particular exchange must first be listed, or accepted for trading, at that exchange. Generally, securities issued by nationwide corporations are traded at either the New York Stock Exchange or the American Stock Exchange. The securities of regional corporations are traded at smaller regional exchanges. These are located in Chicago, San Francisco, Philadelphia, Boston, and several other cities. The securities of very large corporations may be traded at more than one of these exchanges. Securities of American firms that do business abroad may also be listed on foreign securities exchanges—in Tokyo, London, or Paris, for example.

The largest and best-known securities exchange in the United States is the New York Stock Exchange (NYSE) (also called the “Big Board”), located on the famous Wall Street. It handles about 70 percent of all stock bought and sold through organized exchanges in the United States. The NYSE lists approximately 2,250 securities issued by more than 1,500 corporations, with a total market value of $3 trillion. The actual trading floor of the NYSE, where listed securities are bought and sold, is approximately the size of a football field. A glass-enclosed visitors' gallery enables people to watch the proceedings below, and on a busy day the floor of the NYSE can best be described as organized confusion. Yet, the system does work and enables brokers to trade an average of more than 160 million shares per day.

The frequently seen electronic display boards mounted on the walls of the exchange were first installed in 1966 along with radio pagers. A highly technical wireless data system
increasing the speed in which trades were executed was introduced in 1996. This allows for trading to be done with hand-held laptop – these are computers carried by the floor traders.

Today the exchange opens at 9:30 AM and closes at 4:00 PM.

Before a corporation's stock is approved for listing on the New York Stock Exchange, the firm must meet five criteria:

1. annual earnings before taxes are $2.5 million
2. shares of stock held publicly – 1 million
3. market value of publicly held stock - $9 million
4. number of stockholders owning at least 100 shares is 2,000
5. value of tangible assets - $18 million

When companies first list on the NYSE, often the company’s CEO or other official is invited to ring the opening bell in the Trading Floor. Ringing the bell, which signals the start and close of the trading day, is part of the NYSE’s rich heritage and is considered an honour.

The second largest stock exchange in the USA is the American Stock Exchange(AMEX). It is located in Manhattan and has about 500 full members and 400 associate members. AMEX operates in much the same way as NYSE, but smaller companies may qualify for listing. It handles about 10 percent of U.S. stock transactions, and regional exchanges account for the remainder.

The over-the-counter market (OTC) sells and buys unlisted securities, often of smaller companies, outside of the organized securities exchanges. About 5,000 brokers of OTC are scattered all over the country. They trade unlisted stocks and bonds by phone and keep in contact with each other. The largest volume of over-the-counter stocks are quoted on the National Association of Securities Dealers Automated Quotations (NASDAQ) - a national market system which merged with the American Stock Exchange in 1998.

I. VOCABULARY PRACTICE
A) Find synonyms (1-5) and antonyms (6-10) in the text to the following:
1. shares 6. simple
2. to help 7. to forbid
3. profit 8. to purchase
4. to collect money 9. time-saving
5. notebook 10. cheap

B) Find in the text English equivalents for the following:
1. piaţa primară a hîrtiilor de valoare/первичный рынок ценных бумаг;
2. noua emisiune a hîrtiilor de valoare/новая эмиссия ценных бумаг;
3. a fi sigur din punct de vedere financiar/быть надежным с финансовой точки зрения;
4. a face un profit/получать прибыль;
5. materialele publicitare sunt trimise prin poşta a hîrtiilor de valoare/рекламные материалы посылаются акционерам по почте;
6. a urmări desfăşurarea evenimentelor ce au loc jos/наблюдать за происходящим внизу;
7. a corespunde criteriilor/соответствовать критериям;
8. comerciant al sâlii operaţionale la bursă/торговец операционного зала биржи.
C) Match the words with their definitions

| 1. bonds    | a) a person who buys shares in a company in the hope of making a profit |
| 2. securities | b) an amount of money that is charged for providing a particular service |
| 3. analyst  | c) a statement of the current value of stocks |
| 4. broker   | d) a company that offers a service to people by investing their money in various different businesses |
| 5. mutual fund | e) a type of security – issued either by a company or by government – bearing a fixed interest every year, which is redeemed after a stated period |
| 6. commission | f) a person who can advise investors and buy and sell shares for them |
| 7. investor | g) the general term for all stocks, shares and bonds |
| 8. quotation | h) a person whose job involves examining facts in order to give an opinion of them and to forecast the possible result |

II. COMPREHENSION

A) Answer the following questions:

1. Whose services must one use in order to buy securities?
2. What types of securities markets do you know? Give the definition of a primary market.
3. What is an investment bank?
4. What are the two methods used by large corporations when they decide to sell a new security issue? Why do some corporations choose the second method?
5. What is a secondary market?
6. What is a securities exchange? What is the necessary condition for the securities to be sold at a particular exchange?
7. What is the largest and best-known securities exchange in the USA? Describe it. What do you know about its history?
8. What are the criteria that a corporation must meet in order to sell its stock on the NYSE?
9. How much percent of U.S. stock transactions do the following exchanges handle?
   - the NYSE _______
   - the American Stock Exchange _______
   - regional exchanges _______
10. What is an over-the-counter market?

B) Mark the statements with TRUE or FALSE and correct the false ones

1. One can purchase securities without using the services of a stockbroker.
2. A new security issue can be sold only in the primary market.
3. Most large corporations that need a lot of financing sell their securities directly to current stockholders.
4. The customers of the investment bank are mutual funds, commercial banks, insurance companies, pension funds and different natural persons.
5. The investment bank buys the corporation’s securities only if they are financially sound.
6. The investment bank charges 2 to 20% of the corporation’s gross proceeds.
7. The securities of regional corporations are traded at either the NYSE or the American Stock Exchange.
8. An American company that does business in France can trade its securities both at the NYSE and at the securities exchange in Paris.
9. Brokers trade an average of more than 160 million shares per day at the American Stock Exchange.
10. At the over-the-counter market there are traded securities that are not accepted for trading at securities exchanges.

III. DISCUSSION
1. It is thought that the best way to invest your money is to buy securities. Do you agree or disagree with it?
2. The job of a financial analyst is to evaluate the financial standing of a corporation and to forecast whether its shares are a good risk or not. To your mind, is it easy or difficult to do this job? What qualities must a good analyst possess?
3. Your corporation has issued new securities. In what market are you going to sell them? What decision would you take: to sell these securities through an investment bank or directly to your current shareholders? Substantiate your answer.
4. You are a shareholder and you want to sell your shares. In what market are you going to sell them?
5. In your opinion, what do the Americans prefer: to buy shares at a securities exchange or in the over-the-counter market? Give your reasons.

IV. FOCUS ON LANGUAGE
Business idioms

Fill in the gaps with a suitable prepositional phrase from the list below:

On closer inspection, on order, on holiday, on approval, on condition, on paper, on schedule, on behalf of, on display, on the phone, on the spot, on business, on loan, on request.

1. You will find our new product ________________ at our showroom.
2. We have a sales engineer ________________ who can fix the fault this week.
3. The goods arrived ________________.
4. We have had the goods ________________ for 3 months, but they haven’t arrived yet.
5. We accepted delivery of the goods as undamaged, but ________________ we found that 5 of the components are unusable.
6. I spoke to him ______________ last week about this.
7. We can have the goods for 4 weeks ________________. We can return them or pay for them.
8. He traveled to England ______________ but managed to do a little sightseeing while he was there.
9. I’m afraid Mr Smith is ______________ till the end of the month – can I help you?
10. We can offer you the job ______________ that you start work on the first of the next month.
11. The candidate doesn’t look very good ______________ but she is very impressive in person.
12. You can’t keep it permanently, but you may have it ______________ till the end of the month.
13. She signed the letter ______________ her boss.
14. Let us not waste time and act ______________.
6.2 The Role of the Stockbroker

Learning objectives:
1. Analyze the role of the stockbroker and how they fulfill their goals
2. Comprehend the mechanics of a stock transaction
3. Differentiate between a full-service broker and a discount broker
4. Understand how commission is charged for trading stocks
5. Garasp a share index concept

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>discretionary order</td>
<td></td>
<td>instrucțiune discreționară (de a cumpăra orice titlu de valoare)</td>
<td>поручение, согласно которому брокер может действовать по своему усмотрению</td>
</tr>
<tr>
<td>to lease</td>
<td>to use or let sb use sth in exchange for rent or regular payment</td>
<td>cost, preț</td>
<td>цена</td>
</tr>
<tr>
<td>commodity</td>
<td>goods</td>
<td></td>
<td></td>
</tr>
<tr>
<td>option</td>
<td>the right to buy shares in a company on some future date at a pre-arranged price</td>
<td>opțiune</td>
<td>опцион, сделка с премией</td>
</tr>
<tr>
<td>to boom</td>
<td>to grow rapidly, to become successful</td>
<td></td>
<td></td>
</tr>
<tr>
<td>speculator</td>
<td></td>
<td>jucător la bursă</td>
<td>игрок на бирже</td>
</tr>
<tr>
<td>blue chip</td>
<td></td>
<td>acțiune cu capitalizare bursieră foarte mare</td>
<td>акция с наименьшим инвестиционным риском</td>
</tr>
<tr>
<td>floating</td>
<td></td>
<td>lansarea pentru prima dată a acțiunilor unei firme</td>
<td>первоначальный выпуск акций</td>
</tr>
<tr>
<td>equities</td>
<td></td>
<td>acțiuni obişnuite</td>
<td>простые акции</td>
</tr>
<tr>
<td>rights issue</td>
<td></td>
<td>acordarea către acționari a dreptului de a cumpăra noi acțiuni la un preț avantajos</td>
<td>предоставление акционерам права покупать акции по более выгодной цене</td>
</tr>
<tr>
<td>bonus issue</td>
<td></td>
<td>acțiuni distribuite acționarilor în locul dividendului cuvenit</td>
<td>акции, полученные акционерами вместо дивидендов</td>
</tr>
<tr>
<td>par value=face value, nominal value</td>
<td>the value that a share in a company had originally</td>
<td></td>
<td></td>
</tr>
<tr>
<td>merger</td>
<td></td>
<td>fuziune</td>
<td>слияние</td>
</tr>
<tr>
<td>derivative deal</td>
<td>a deal connected with plagiarism</td>
<td></td>
<td></td>
</tr>
<tr>
<td>chaser</td>
<td>a drink that you have after another of a different kind</td>
<td></td>
<td></td>
</tr>
<tr>
<td>portfolio</td>
<td>a set of securities owned by a particular person</td>
<td>portofoliu al titlurilor de valoare</td>
<td>портфель ценных бумаг</td>
</tr>
</tbody>
</table>
An account executive (or stockbroker) is an individual who buys or sells securities for clients. (Actually, account executive is the more descriptive title because account executives handle all securities—not only stocks. Most also provide securities information and advise their clients regarding investments.) Account executives are employed by stock brokerage firms, such as Merrill Lynch, Dean Witter Reynolds, and Prudential-Bache Securities. To trade at a particular exchange, a brokerage firm must be a member of that exchange. For example, the NYSE has a limited membership of 1,366 members, or "seats," as they are often called. Membership on the NYSE is called a “seat” because until 1871 members sat in assigned chairs during the calls of stocks. In the early 1800s, a seat cost $25. Today the price of membership is more than $2 million. Seats are sold or leased by their current owners rather than being bought directly from the NYSE.

**The Mechanics of a Transaction** Once an investor and his or her account executive have decided on a particular transaction, the investor gives the account executive an order for that transaction. A **market order** is a request that a stock be purchased or sold at the current market price. The broker's representative on the exchange's trading floor will try to get the best possible price, and the trade will be completed as soon as possible.

A **limit order** is a request that a stock be bought or sold at the price that is equal to or better (lower for buying, higher for selling) than some specified price. Suppose you place a limit order to sell General Dynamics common stock at $49 per share. Then the broker's representative sells the stock only if the price is $49 per share or **more**. If you place a limit order to buy General Dynamics at $49, the representative buys it only if the price is $49 per share or **less**. Limit orders may or may not be transacted quickly, depending on how close the limit price is to the current market price. Usually, a limit order is good for one day, one week, one month, or good until canceled.

Finally, it is possible for investors to place a discretionary order. A **discretionary order** is an order to buy or sell a security that lets the broker decide when to execute the transaction and at what price. Financial planners advise against using a discretionary order for two reasons. First, a discretionary order gives the account executive a great deal of authority. If the account executive makes a mistake, it is the investor who suffers the loss. Second, financial planners argue that only investors (with the help of their account executive) should make investment decisions.

**Commissions** Brokerage firms are free to set their own commission charges. Like other businesses, however, they must be concerned with the fees charged by competing firms. **Full-service brokers**—those that provide information and advice as well as securities-trading services—generally charge higher fees than **discount brokers**, which buy and sell but may offer less advice and information to their clients.

On the trading floor, stocks are traded in round lots. A **round lot** is a unit of 100 shares of a particular stock. An **odd lot** is fewer than 100 shares of a particular stock. Brokerage firms generally charge higher per-share fees for trading in odd lots, primarily because several odd lots must be combined into round lots before they can actually be traded.
Commissions for trading bonds, commodities, and options are usually lower than those for trading stocks. The charge for buying or selling a $1,000 corporate bond is typically $10. No matter what kind of security is traded, the investor generally pays a commission when buying and when selling. Payment for the securities and for commissions is generally required within five business days of each transaction.

It is important to remember that a broker has two goals: to help investors achieve their financial objectives and to promote his or her own interests and those of the brokerage firm.

If shares in a particular company become more popular, the share price will rise. This can happen when the economy is booming or the company’s profits have increased for whatever reason.

People active in buying and selling shares on the stock market are known as speculators and fall into three categories:

- **Bulls** buy shares expecting prices to rise
- **Bears** sell shares expecting prices to fall
- **Stags** buy newly issued shares in the expectation that prices will rise, then sell them in the hope of making a quick profit.

The stock market of each country has one or more share indices. A share index is a representative group of shares chosen as a barometer of the movement of the market as a whole. This is useful for investors wishing to see how well their shares are doing compared with the rest of the market. Examples of share indices include:

- **FTSE 100**: the 100 largest companies listed on the British stock exchange;
- **Dow Jones Industrial Average**: consists of 30 leading industrial companies in the USA;
- **NIKKEI 300**: the top 300 shares on the Japanese stock market;
- **CAC 40**: the 40 largest companies listed on the stock exchange in Paris.

I. VOCABULARY PRACTICE

Choose the correct meaning of the following words according to the context:

1. **to cancel** means:
   a) to stop paying attention to sth:
   b) to say that you no longer want to continue with an agreement that has been legally arranged;
   c) to change from one thing to another.

2. **to decide on a transaction** means:
   a) to choose the best possible transaction;
   b) to form an opinion about the transaction;
   c) to publicly tell people about the transaction.

3. **to trade** means:
   a) to buy and sell things;
   b) to rent things;
   c) to resell things.

4. **primarily** means:
   a) shortly;
   b) particularly;
   c) mainly.

5. **option** means:
   a) the freedom to choose what you want to do;
   b) the right to buy shares on some future date;
   c) the instruction what to do.

6. **bear** means:
a) a bitter alcoholic drink made from malt and flavoured with hops;
b) a heavy wild animal with thick fur and sharp claws;
c) a person who sells shares hoping to buy them back later at a lower price.

II. COMPREHENSION
Answer the following questions:
1. Who is a stockbroker and what services does he provide? What is the difference between an account executive and a stockbroker?
2. Where does an account executive work?
3. Describe the mechanics of a stock transaction. What orders can an investor give to his account executive?
4. List the advantages and disadvantages of each order both for the investor.
5. What is a commission and who charges it?
6. What is the difference between a full-service broker and a discount broker?
7. How are stocks traded on the trading floor? Why do brokerage firms charge higher per-share fees for trading in odd lots?
8. When is the payment for the securities and for commissions due?
9. What goals does a broker have?
10. Who are speculators? What does their activity include?

III. Fill in the blanks with the words given at the end of the exercise
In order to … (1) capital companies …(2) shares or stocks and offer them for …(3) to the public. When it is the first time that a company does it, this is called … (4) a company.

Shares of important companies are … (5) on the Stock Exchange. A stock exchange is a … (6) where stocks and shares are … (7). It performs an important economic function in a country’s economy by … (8) buyers and sellers together. A company that cannot meet all the … (9) for being admitted on the stock exchange has to transact its shares on the … (10) market.

The value of a share as written on the share certificate is its … (11) value. This could be significantly different from the market … (12) at a given moment, which is influenced by supply and … (13) for the shares under consideration.

There are different types of shares. … (14) are common shares. Those shares whose holders are paid a fixed dividend before any other type of shares are called … (15). Shares of very secure companies with a minimal risk are … (16). Sometimes companies want to raise extra capital and issue new shares offering them to their shareholders at a lower price than their market value. This is known as a … (17) issue. If companies resort to offering new shares to shareholders instead of payment of dividends this is called … (18) issue.

Value, market, bringing, blue chips, rights, sale, traded, equities, requirements, raise, listed, preferred, bonus, issue, par, over-the-counter, floating, demand.

IV. FOCUS ON GRAMMAR
Fill in prepositions where necessary
1. To purchase securities one must act ….. a stockbroker.
2. An investment banking firm assists …….. corporations …….. raising funds.
3. The size ..... the commission depends ..... the financial health ..... the corporation.
4. The most obvious reason ..... selling its own securities is to avoid the investment bank’s commission.
5. The securities sold ….. a particular exchange must first be accepted …… trading ……. that exchange.
6. Brokers advise ……. their clients regarding investments.
7. Once the investor has decided ……. a particular transaction he gives ……. the broker an order … that transaction.
8. Brokerage firms must be concerned …the fees charged …….competing firms.
9. Usually the stockbroker acts entirely ….. his own interest.

V. DISCUSSION
1. If you were an account executive would you take discretionary orders from your clients? Give your reasons.
2. In your opinion, what order do most investors prefer to give to their brokers?
3. If you were an investor would you give a discretionary order to your account executive? Substantiate your answer.
4. To your mind, a stockbroker – is it a well-paid job or not?

VI. INDIVIDUAL WORK
Make a report on the securities exchange in our Republic and identify the role of the stockbroker.

VII. FOCUS ON LANGUAGE
Rather than endlessly repeating the words rose and fell, financial journalists use a large number of verbs and phrases to describe the movements of security prices.
Classify the following sentences, according to whether you think the underlined verb or expression means:

A to rise after previously falling
B to rise a little
C to rise a lot
D to fall a little
E to fall a lot

1. Boeing stocks rocketed after rumours of a forthcoming merger with another leading aircraft manufacturer.
2. The Dow-Jones index crashed after continuing rumours about the President’s health.
3. Exxon stocks shot up after a new deal to pump Siberian natural gas was announced.
4. The Footsie rallied in London in the afternoon, gaining 30 points in late trading.
5. In Paris, the CAC-40 plummeted, after the trade unions called for a three-day general strike next week.
6. Leading shares were slightly weaker in Tokyo, the NIKKEI losing 6 points.
7. Most shares were a little stronger in Milan this morning, when the exchange reopened after yesterday’s public holiday.
8. Procter&Gamble stocks plunged after it was revealed that the company had lost over $100 million as a result of a derivative deal.
VIII. Match the remarks with the responses in the following dialogue between Mitch Low, a personal investor and John Rayton, his broker:

M: Hi, John. Is there anything new on the big board?
J: …………………………………………………………………
M: Will that continue long? Should I sell some of that stock?
J: …………………………………………………………………
M: Not at all. I’ve just been thinking about the crash. I lost a lot then.
J: …………………………………………………………………
M: No, I’d rather not have computers with a Pepsi chaser.
J: …………………………………………………………………
M: You think so? How much is a PepsiCo lot?
J: …………………………………………………………………
M: Okay, let it be a market order, then.
J: …………………………………………………………………
M: Fine. All the best.

1) Oh, wait a minute. There is something going on. Let me see. Oh, PepsiCo is up by six points. Would you like to buy some of its stock?
2) Good. Let’s get down to business.
3) Well, not very much. The Dow Jones is about the same, although IBM and Apple went down three points.
4) It’s $3,200 and it seems to be rising.
5) Don’t worry Mitch, things like this happen too often to pay any attention to. You are not a bear either, eh?
6) On the contrary. The more diversified your portfolio is, the better. The computer industry might crash, the drink makers - never, at least in America.

IX. CASE STUDY

Imagine that you have $100,000 and you want to invest it in a company in the most profitable way. You have to choose one of the companies that perform the following activities: (only you have to bear in mind that your money will help the company to extend its operations)

- emitting a large quantity of carbonic acid (CO₂) into atmosphere
- making donations to political parties
- manufacturing weapons
- producing nuclear energy
- selling alcohol
- selling tobacco
- testing cosmetic products on animals
- relocating production to countries with lower labour costs

Are you going to listen to your broker’s advice or you can take the decision yourself?
Which of the following activities would cause you to rule out a company as a possible investment?

X. Underline the correct word

1. Being a doctor is very demanding. Furthermore/However, it is a job in which there is no room for mistakes.
2. Exercising helps us keep feet. Nevertheless/Moreover, it can be lots of fun.
3. Driving to work can be convenient. *On the other hand/Similarly*, finding a place to park can be a problem.
4. Living in a foreign country can be very difficult. *In contrast/Furthermore* one can often feel lonely and homesick.
5. Going on holiday is a great way to relax. *Similarly/Nevertheless*, taking short trips at the weekend can also be enjoyable.
6. Cities are noisy. *Also/In contrast*, the countryside is quiet.
7. Living on your own teaches you to be independent. *Also/However*, it helps you to become more responsible.
7. MANAGERIAL FINANCE

“Finance is an art that makes money go from person to person until it disappears”

French proverb

7.1. The Purpose of Managerial Finance

Learning objectives:
1. Define “managerial finance”
2. Identify short-term and long-term financing needs

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>owner’s equity</td>
<td>equity capital</td>
<td>capital propriu, aport în numerar</td>
<td>собственный капитал, собственные средства</td>
</tr>
<tr>
<td>venture</td>
<td></td>
<td>acţiune riscantă</td>
<td>рискованное предприятие</td>
</tr>
<tr>
<td>over the long run</td>
<td>over the long term</td>
<td>în cursul timpului îndelungat</td>
<td>в течение долгого времени</td>
</tr>
<tr>
<td>cash flow</td>
<td></td>
<td>flux de numerar</td>
<td>движение наличных средств</td>
</tr>
<tr>
<td>to run out of sth</td>
<td>to use up or finish a supply of sth</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to trim expenses</td>
<td>to cut expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>evenly (adv)</td>
<td>in a smooth, regular or equal way</td>
<td></td>
<td></td>
</tr>
<tr>
<td>facilities</td>
<td>buildings, services, equipment</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to look to sth</td>
<td>to consider sth and to rely on it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>unanticipated expenses</td>
<td></td>
<td>cheltuieli neprevăzute</td>
<td>непредвиденные расходы</td>
</tr>
<tr>
<td>speculative production</td>
<td></td>
<td>producerea mărfii, care nu este asigurată cu comenzii</td>
<td>производство продукции, не обеспеченной заказами</td>
</tr>
<tr>
<td>materials and supplies</td>
<td></td>
<td>materie primă și materiale</td>
<td>сырьё и материалы</td>
</tr>
<tr>
<td>inventory costs</td>
<td></td>
<td>cheltuieli de depozitare</td>
<td>складские расходы</td>
</tr>
<tr>
<td>business expansion</td>
<td>extinderea întreprinderii</td>
<td></td>
<td>расширение предприятия</td>
</tr>
<tr>
<td>to expand</td>
<td>a (se) extinde, a (se) lârgi, a(-și) mări volumul</td>
<td></td>
<td>расширять(ся), увеличивать(ся) в объёме</td>
</tr>
<tr>
<td>outmoded (adj)</td>
<td>no longer fashionable or useful</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to work out</td>
<td>to plan or think of sth; to calculate</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
WORD STUDY

to expand, to extend

The verb to expand (1) means to become greater in size, number or importance and is used without object:

E.g. Metals expand when they are heated.
Our business is expanding rapidly.

The verbs to extend and to expand (2) mean to make sth greater in size, number or importance, so they must have an object:

E.g. There are plans to extend the no-smoking area.
There are plans to expand the local airport.
We have decided to expand our business.

The verb to extend also means to make sth last longer and to make a business, an idea cover more areas or operate in more places:
E.g. The American consulate has extended my visa.
The company plans to extend its operations into Europe.

Now complete the following sentences with the above-mentioned verbs and use them in the appropriate tenses.

1. The school is ______________ the range of subjects taught.
2. Careful maintenance can ______________ the life of your car by several years.
3. A child’s vocabulary _____________ through reading.
4. We have ______________ the business by opening two more stores.
5. The number of unemployed people is ______________ rapidly.

Read the following text and do the exercises given after it

Finance is important in every business. Decisions made by managers throughout the enterprise have financial implications. No business can be started without raising the funds to begin operations. How much money is needed for the business? Who will invest equity money in the new venture? How much debt is needed and from whom can it be borrowed? Must decisions be made by management to allocate the enterprise’s resources profitably? What is the expected rate of return on an investment? Does an investment’s expected profit justify its risk? What effect will management decisions probably have on the value of the enterprise? All these and more are issues involved in managerial finance.

Managerial finance, sometimes called financial management, involves decisions within enterprise. The basic goal of managerial finance is to maximize the wealth of an enterprise’s owners over the long run. In the proprietorship and partnership forms of business organization, this means increasing the owners’ equity. In the corporation, this means increasing the market price of the corporation’s common stock shares.

Financial management begins with the creation of a financial plan. The plan includes timing and amount of funds and the inflow and outflow of money.

The financial manager develops and controls the financial plan. He also forecasts the economic conditions, the company’s revenues, expenses and profits.

The financial manager’s job starts and ends with the company’s objectives. He reviews them and determines the funding they require. The financial manager compares the expenses involved to the expected revenues. It helps him to predict cash flow. Cash flow is the
movement of money into and out of an organization. The available cash consists of beginning capital plus customer payments and funds from financing.

The financial manager plans a strategy to make the ending cash positive. If cash outflow exceeds cash inflow, the company will run out of cash. The solution is to reduce outflows. The financial manager can trim expenses or ask the customers to pay faster.

Money is needed both to start a business and to keep it going. The original investment of the owners, along with money they may have borrowed, should be enough to get operations under way. Then, it would seem that income from sales could be used to finance the firm's continuing operations and to provide a profit as well.

This is exactly what happens in a successful firm. But sales revenue does not generally flow evenly. Both income and expenses may vary from season to season or from year to year. Temporary funding may be needed when expenses are high or income is low. Then, too, special situations, such as the opportunity to purchase a new facility or expand an existing facility, may require more money than is available within a firm. In either case, the firm looks to outside sources of financing. In this situation, the financial manager chooses either short-term or long-term financing techniques.

**Short-term financing** is money that will be used for a period of one year or less and then repaid. A firm might need short-term financing to pay for a new promotional campaign that is expected to increase sales revenue.

Although there are many short-term financing needs, two deserve special attention. First, certain necessary business practices may affect a firm's cash flow and create a need for short-term financing. The ideal is having sufficient money coming into the firm, in any period, to cover the firm's expenses during that period. But the ideal is not always achieved. For example, a firm that offers credit to its customers may find an imbalance in its cash flow. Such credit purchases are generally not paid until thirty or sixty days (or more) after the transaction. Short-term financing is then needed to pay the firm's bills until customers have paid theirs. An unexpectedly slow selling season or unanticipated expenses may also cause a cash-flow problem.

A second major need for short-term financing that is related to a firm's cash-flow problem is inventory. Inventory requires considerable investment for most manufacturers, wholesalers, and retailers. Moreover, most goods are manufactured four to nine months before they are actually sold to the ultimate customer. As a result, manufacturers that engage in this type of speculative production often need short-term financing. The borrowed money is used to buy materials and supplies, to pay wages and rent, and to cover inventory costs until the goods are sold. Then, the money is repaid out of sales revenue. Wholesalers and retailers may need short-term financing to build up their inventories before peak selling periods. Again the money is repaid when the merchandise is sold.

**Long-term financing** is money that will be used for longer than one year. Long-term financing is obviously needed to start a new business. It is also needed for executing business expansions and mergers, for developing and marketing new products, and for replacing equipment that becomes outdated or inefficient.

At the end of the fiscal year the financial manager reviews the company's financial status and plans the next year's financial strategy.

I. VOCABULARY PRACTICE
A) Find in the text English equivalents for the following:
1) finanțare pe termen scurt/ краткосрочное финансирование
2) finanțare pe termen lung/ долгосрочное финансирование
3) rata așteptată de recuperare a investițiiei/ ожидаемая норма окупаемости капиталовложения

– 94 –
4) sursele de finanțare din exterior/ внешние источники финансирования
5) capital inițial/ начальный капитал
6) a rămâne fără numerar/ остаться без наличных средств
7) campanie publicitară/ рекламная кампания
8) cheltuieli neprevăzute/ непредвиденные расходы
9) consumator final/ конечный потребитель
10) perioada de vîrf a vîzărilor/ рекордный период продаж

B) Find antonyms in the text to the following:
1) inflow -
2) to minimize -
3) fashionable -
4) to increase expenses –
5) lent -
6) downsizing of an enterprise -
7) consumer -
8) permanent -
9) to sell -
10) loan capital -

II. COMPREHENSION
A) Answer the following questions:
1. What issues are involved in managerial finance?
2. What is the basic goal of managerial finance?
3. What does financial management begin with?
4. What does the job of a financial manager entail?
5. What exactly happens with finance in a successful firm?
6. When does a firm look to outside sources of financing?
7. How is short-term financing different from long-term financing?

B) Enumerate the needs for financing. The first one has been done for you

<table>
<thead>
<tr>
<th>Short-Term Financing</th>
<th>Long-Term Financing</th>
</tr>
</thead>
<tbody>
<tr>
<td>- to get operations under way</td>
<td>- to start a new business</td>
</tr>
</tbody>
</table>

C) Match the words with their definitions

*Long-term financing, available cash, short-term financing, financial plan, owner’s equity, inventory, cash flow, financial management, financial strategy.*

1. All those activities that are concerned with obtaining money and using it effectively.
2. The movement of money into and out of an organization.
3. Money that will be used for longer than one year.
4. Money that will be used for a period of one year or less and then repaid.
5. Money invested in a business, which shows one’s share of the ownership.
6. The beginning capital, customer payments and funds from financing.
7. A supply of goods that is available for sale.
8. A summary of a company’s financial needs or goals for the future and how to achieve them.
9. Practices a firm adopts to pursue its financial objectives.
III. SUBSTITUTIONAL DRILL

Statement: The financial manager begins by reviewing corporate objectives to determine the funding they require.

Example: starts with
The financial manager starts with reviewing corporate objectives to determine the funding they require.
1. decide on 2. need 3. financial officer 4. money 5. goals 6. working out

IV. READING

Read the dialogue between Jack Williams, a financial manager and the President of the corporation who are talking about the results of the financial year and answer the questions given after it

Pres: Now, Jack, and how about the inflow of funds this year?
Jack: Actually, we made a good start in January by selling a large amount abroad. However, we still had to ask the bank for more loans.
Pres: Not bad. Let’s pass on to the sales in spring.
Jack: In March we made 35% of this year’s income. Due to the advertising campaign in winter we made rapid progress in March and April, and it still continues now.
Pres: And now briefly about our expenses, please, Jack.
Jack: Ads took 2% of the total income, a little more than usual, but it proved to be worthwhile, as you know. We spent more on salaries and wages but the results were also worth the expenses - we worked out some new items that would sell. Rent and taxes as usual, and we spent less than usual on transportation and inventory. Eventually, cash inflow exceeded cash outflow.
Pres: And what shall we do with the new money?
Jack: Now I am looking for a reliable investment that will pay a satisfactory rate of interest. And I’m also thinking of expanding our advertising program.
Pres: That’s good. As far as I can see, your role in the company is rapidly changing. You’re very good at strategic planning. They say you are a financial miracle worker, and I hope you will very soon rise to the top of the corporate ladder.
Jack: It’s very kind of you, Mr. President, I’m just trying to do my best.

Questions:
1. Is Jack Williams a good financial manager? What proves it?
2. Did the company look to outside sources of financing? What were they?
3. What is the major technique that helps this company prosper?

V. ROLEPLAY

Work in pairs. Imagine that your company is running out of cash. Make up a dialogue between the President of the company and the financial manager who are trying to look to ways of improving the existing situation.

VI. DISCUSSION

1. What qualities are needed for a good financial manager? How can they be acquired?
2. Is finance important in every business? Give your reasons.
7.2. Sources of Short-Term Financing

**Learning objectives:**
1. Distinguish between secured and unsecured sources of short-term financing
2. Characterize each type of short-term financing
3. Describe the relative advantages and disadvantages of different types of short-term financing

**Study and Learn the Words:**

<table>
<thead>
<tr>
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<th><strong>English equivalents</strong></th>
<th><strong>Romanian</strong></th>
<th><strong>Russian</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>emergency</td>
<td>a sudden serious situation which needs immediate action to deal with it</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to back</td>
<td>to secure with collateral</td>
<td></td>
<td></td>
</tr>
<tr>
<td>promissory note</td>
<td></td>
<td>cambia obișnuită</td>
<td>долговое обязательство, простой вексель</td>
</tr>
<tr>
<td>commercial paper</td>
<td></td>
<td>cambia comercială de scurtă durată</td>
<td>краткосрочный коммерческий вексель</td>
</tr>
<tr>
<td>draft</td>
<td>bill of exchange</td>
<td>cambie, trată</td>
<td>переводной вексель, тreta</td>
</tr>
<tr>
<td>invoice</td>
<td>a document listing the goods and services and the price for them</td>
<td>factură</td>
<td>счёт-фактура</td>
</tr>
<tr>
<td>compensating balance</td>
<td>a balance that remains in the bank account of the person who has taken a loan from this bank</td>
<td>suma de garanție</td>
<td>гарантийная сумма</td>
</tr>
<tr>
<td>gradually (adv)</td>
<td>step by step, little by little</td>
<td></td>
<td></td>
</tr>
<tr>
<td>drawer</td>
<td>the person who makes out the draft</td>
<td>tragator</td>
<td>трассант, лицо, выставляющее вексель</td>
</tr>
<tr>
<td>drawee</td>
<td>a person who is requested to pay the draft</td>
<td>tras</td>
<td>трассат, лицо, на которое выставлен вексель</td>
</tr>
<tr>
<td>credit standing</td>
<td></td>
<td>solvabilitate, situația financiară (a unei companii)</td>
<td>кредитоспособность, финансовое положение (фирмы)</td>
</tr>
<tr>
<td>maturity date</td>
<td></td>
<td>scadență</td>
<td>дата наступления срока платежа</td>
</tr>
<tr>
<td>to discount a draft</td>
<td>to sell the draft to a bank for its face value less interest</td>
<td>a sconta o cambie</td>
<td>произвести учёт векселя</td>
</tr>
<tr>
<td>accounts receivable or receivables</td>
<td></td>
<td>conturi de încasat, creanțe</td>
<td>счета к получению, дебиторская задолженность</td>
</tr>
<tr>
<td>salable (adj)</td>
<td>marketable, that can be sold</td>
<td></td>
<td></td>
</tr>
<tr>
<td>floor planning</td>
<td></td>
<td>creditarea capitalului circulant</td>
<td>кредитование оборотного капитала</td>
</tr>
<tr>
<td>appliance dealer</td>
<td>a person who buys and sells household appliances</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to owe sth to sb</td>
<td>a fi dator cuiva</td>
<td>быть должным кому-л</td>
<td></td>
</tr>
<tr>
<td>to be due</td>
<td>a fi scadent</td>
<td>подлежать оплате</td>
<td></td>
</tr>
<tr>
<td>to advance</td>
<td>to pay in advance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>factor or factoring company</td>
<td>a firm that specializes in buying other firms' accounts receivable</td>
<td>compania de factoring</td>
<td>факторинговая компания по финансированию счетов к получению</td>
</tr>
<tr>
<td>----------------------------</td>
<td>----------------------------------------------------------------</td>
<td>-----------------------</td>
<td>------------------------------------------------------------</td>
</tr>
<tr>
<td>to collect</td>
<td>to obtain the money that sb owes you</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Read the following text and do the exercises given after it

The seasonal financial needs of a company may be covered by short-term sources of funds. Businesses spend these funds on salaries and for emergencies. The outside sources of short-term funds are divided into secured and unsecured ones. **Unsecured financing** is financing that is not backed by collateral. A company seeking unsecured short-term capital has several options: they include **trade credit, promissory notes, bank loans, commercial papers and commercial drafts**.

About 85% of all US business transactions involve some form of **trade credit**. When a business orders goods and services, it doesn’t normally pay for them. The supplier provides them with an invoice requesting payment within a settled time period, say thirty days. The usual repayment period is 30 to 90 days. During this time the buyer uses goods and services without paying for them.

A company can use the trade credit as a source of savings. A typical trade arrangement is 2/10, net 30. If a buyer pays within 10 days instead of 30, he gets a 2% cash discount. The savings a buyer obtains can be used as a source of short-term funds.

A **promissory note** is a written pledge by a borrower to pay a certain sum of money to a creditor at specified future date. Suppliers that are uneasy about extending trade credit may be more willing to offer credit to customers that sign promissory notes. Unlike trade credit, however, promissory notes usually provide that the borrower pay interest.

Commercial banks lend money to their customers by direct **unsecured loans**. Only customers with an excellent credit rating can get these loans. They usually repay them within a year’s time. Banks also lend money by setting up **lines of credit**. The line of credit is a prearranged short-term loan. It is the amount a customer can borrow without making a new request, simply by notifying the bank. A bank that offers a line of credit may require that a compensating balance be kept on deposit at the bank. This balance may be as much as 20% of the line-of-credit amount. The bank may also require that every commercial borrower pay off completely its line of credit at least once each year and not use it again for a period of 30 to 60 days. This second requirement ensures that the line of credit is used only to meet short-term needs and that it doesn’t gradually become a source of long-term financing.

**Commercial paper** is short-term promissory notes issued by large corporations. Commercial paper is secured only by the reputation of the issuing firm; no collateral is involved. It is usually issued in large denominations, ranging from $5,000 to $100,000. Corporations issuing commercial paper pay interest rates slightly below those charged by commercial banks. Thus, issuing commercial paper is cheaper than getting short-term financing from a bank.

A **commercial draft** is a written order requiring a **customer** (the **drawee**) to pay a specified sum of money to a **supplier** (the **drawer**) for goods or services. It is often used when the supplier is unsure about the customer's credit standing. The draft would be completed as follows:

1. The draft form is filled out by the drawer. The draft contains the purchase price, interest rate, if any, and maturity date.
2. The draft is sent by the drawer to the drawee.
3. If the information contained in the draft is correct and the merchandise has been received, the drawee marks the draft "Accepted" and signs it.
4. The customer returns the draft to the drawer. Now the drawer may:
   - hold the draft until maturity;
   - discount the draft at its bank;
   - use the draft as collateral for a loan.

If a business cannot obtain enough capital via unsecured short-term financing, it must put up collateral to obtain the additional financing it needs. Almost any asset can serve as collateral. However, inventories and accounts receivable are the assets that are most commonly used for short-term financing.

**Loans Secured by Inventory** Normally, marketing intermediaries and producers have large amounts of money invested in finished goods or merchandise inventories. In addition, producers carry raw materials and work-in-process inventories. All three types of inventory may be pledged as collateral for short-term loans. However, lenders prefer the much more salable finished goods to the other inventories.

A special type of secured financing called **floor planning** is used by automobile, furniture, and appliance dealers. **Floor planning** is a method of financing where the title to merchandise is given to lenders in return for short-term financing. The major difference between floor planning and other types of secured short-term financing is that the borrower maintains control of the inventory. As merchandise is sold, the borrower pays the lender a portion of the loan. To ensure that the lender is repaid a portion of the loan when the merchandise is sold, the lender will occasionally check to ensure that the collateral is still in the borrower's possession.

**Loans Secured by Receivables** Accounts receivable are amounts that are owed to a firm by its customers. They arise primarily from trade credit and are usually due in less than sixty days. It is possible for a firm to pledge its accounts receivable as collateral to obtain short-term financing. A lender may advance 70 to 80% of the dollar amount of the receivables.

Sometimes a company might sell its accounts receivable to a special financial broker: a **factoring company** or a **factor**. The factor immediately pays the firm cash, usually 50 to 80% of the face value of the accounts receivable. When customers make the payments on the firm’s accounts, the money goes directly to the factor. The factor’s profit is thus the difference between the face value of the accounts receivable and what the factor has paid for them. Even though the selling firm gets less than face value for its accounts receivable, it does receive needed cash immediately. Moreover, it has shifted both the task of collecting and the risk of nonpayment to the factor, which now owns the receivables.

**I. VOCABULARY PRACTICE**

**A) Find synonyms (1-5), antonyms (6-10) in the text to the following:**

1. to look for =
2. collateral =
3. financial health =
4. to have debts =
5. date of payment =
6. reluctant
7. lender
8. drawer
9. secured loan
10. debtor

**B) Find in the text English equivalents for the following:**

1. credit comercial/ коммерческий кредит
2. linia de credit/ кредитная линия
3. a achita (datoria)/ покрыть (долг)
4. rata dobînzii/ процентная ставка
5. producția în proces de lucru (nefinisată)/ незавершённое производство
6. valoare nominală/ номинальная стоимость
7. risc de neachitare/ риск неплатежа
C) Choose the correct alternative to complete each sentence

1. When you possess something, you can say you………………… it.
   a) owe  b) own  c) owner
2. If you have to repay someone, you…………………… money.
   a) owe  b) own  c) yield
3. Taking money that has to be repaid is to…………………
   a) borrow  b) lend  c) steal
4. Letting someone else use some of your money for a certain period of time is to…………………
   a) borrow  b) lend  c) credit
5. The amount of money lent is a ……………………
   a) debit  b) debt  c) loan
6. The person who has borrowed money is a ……………………
   a) creditor  b) debtor  c) owner
7. Another word for a lender is a/an…………………….
   a) creditor  b) debtor  c) owner
8. The income received by someone who lends money is……………
   a) dividends  b) interest  c) interests
9. The money needed to start a company is called …………
   a) aid  b) fund  c) capital
10. Another word for to finance sth is to …………
    a) fund  b) credit  c) charge

II. COMPREHENSION

A) Answer the following questions:
1. How is unsecured financing different from secured one?
2. How important is trade credit as a source of short-term financing? How does trade credit differ from other kinds of unsecured short-term financing?
3. What companies can get unsecured loans?
4. What is the line of credit? What are the bank’s requirements for it?
5. What is the difference between commercial paper and commercial draft?
6. When do most lenders require collateral for short-term financing?
7. What collateral can be used for short-term financing?
8. What is the difference between floor planning and other types of secured short-term financing?
9. What are accounts receivable?
10. Explain how factoring works. Of what benefit is factoring to a firm that sells its receivables?

B) Mark the statements with TRUE or FALSE and correct the false ones
1. It is possible to obtain short-term financing without pledging a collateral.
2. Suppliers that are uneasy about extending credit may be less reluctant to offer credit to customers that sign promissory notes.
3. By trade credit a customer can also save money.
4. A promissory note is an unsecured type of short-term financing, which doesn’t imply any cost for the buyer.
5. The line of credit is a loan that can be repaid within several years.
6. Commercial paper is more advantageous for the customer than a simple bank loan.
7. Any firm can issue commercial papers.
8. A commercial draft is used when the customers cannot prove that they have a good financial standing.
9. The draft is filled out by the buyer.
10. The drawee accepts the draft only after he has received the goods.
11. Raw materials, work-in-process inventories and finished goods may be pledged as collateral for long-term loans.
12. By floor planning you get short-term financing when you have transferred the right to own the goods to your creditor but have reserved the right to control these goods.
13. Accounts receivable are amounts that are owed by a firm to its customers.
14. The firm usually sells its receivables to the factor on condition that the latter buys them for their nominal value.

C) Match the words with their definitions

Unsecured financing, trade credit, promissory note, commercial paper, commercial draft, accounts receivable, floor planning, factor

1. A written order requiring the customer to pay a specified sum of money to the supplier.
2. Short-term promissory notes issued by large corporations.
3. Financing that is not backed by collateral.
4. A written pledge by a borrower to pay a certain sum of money to a creditor at a specified future date.
5. A payment delay that a supplier grants to its customers.
6. Amounts that are owed to a firm by its customers.
7. A method of financing where the title to merchandise is given to lenders in return for short-term financing.
8. A firm that specializes in buying other firms' accounts receivable.

III. SUBSTITUTIONAL DRILL

Statement: When the company wants to borrow a large amount of money or has an unsatisfactory credit rating, it pledges collateral to back up the loan.

Example: the firm
When the firm wants to borrow a large amount of money or has an unsatisfactory credit rating, it pledges collateral to back up the loan.

1) sum 4) needs 7) is known for 10) bad
2) cash 5) credit 8) if 11) support capital
3) puts up 6) obtain 9) big

IV. DISCUSSION
1. What is easier to obtain - secured or unsecured short-term financing? Why?
2. Why would a lender offer unsecured loans when he could demand collateral?
3. How do the firms build up savings by using trade credit? Why would a supplier offer both trade credit and cash discounts to its customers?
4. Have you ever bought goods on credit? When do people decide to buy goods in this way? What shops offer such services? What is the usual interest rate charged by them?

5. List the advantages and disadvantages of buying a computer or notebook on credit?

<table>
<thead>
<tr>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
</tbody>
</table>

6. To your mind, is factoring a profitable business?

V. Fill in the gaps with the necessary words

Most short-term financing is ____ (1), that is, no collateral is required. Sources of unsecured short-term financing include trade ____ (2), promissory ____ (3) issued to suppliers, unsecured ____ (4) loans, commercial paper and ____ (5). Sources of secured short-term financing include loans that are backed by ____ (6) or accounts receivable and the outright sale of receivables to ____ (7). Trade credit is the ____ (8) expensive source of short-term financing: there is no interest charge. The cost of financing through other sources generally depends on the credit ____ (9) of the firm that requires the financing. ____ (10) is generally the most expensive source of secured short-term financing.

7.3. Sources of Long-Term Financing

Learning objectives:
1. Differentiate between equity financing and debt financing
2. Evaluate the advantages and disadvantages of equity financing and debt financing from the corporation’s standpoint

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>assembly line</td>
<td>production line</td>
<td></td>
<td></td>
</tr>
<tr>
<td>equity financing</td>
<td></td>
<td>finanțarea prin capital propriu</td>
<td>финансирование за счёт собственного капитала</td>
</tr>
<tr>
<td>debt financing</td>
<td></td>
<td>finanțarea prin resurse împrumutate</td>
<td>финансирование за счёт заёмных средств</td>
</tr>
<tr>
<td>registered bond</td>
<td></td>
<td>obligațiune nominală</td>
<td>именная облигация</td>
</tr>
<tr>
<td>coupon bond</td>
<td></td>
<td>obligațiune la purtător</td>
<td>облигация на предъявителя</td>
</tr>
<tr>
<td>to clip a coupon</td>
<td>to cut a coupon out of a bond using scissors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>insolvent (adj)</td>
<td></td>
<td>insolvabil, incapable de a plăti</td>
<td>неплатежеспособный</td>
</tr>
<tr>
<td>to omit</td>
<td></td>
<td>a negligența, a desconsidera, a omită</td>
<td>пренебречь</td>
</tr>
<tr>
<td>to foresee</td>
<td>to predict</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
When a business needs funds to construct a new assembly line or to do extensive research and development which may not begin to bring in revenues for several years, short-term financing wouldn’t work. In this case, business will need long-term sources of funds.

**Sources of long-term financing** vary with the size and type of business. If the business is a sole proprietorship or partnership, equity capital is acquired by the business when the owner or owners invest money in the business. For corporations, **equity-financing** options include the sale of stock and the use of profits not distributed to owners. The available **debt-financing** options are the sale of corporate bonds and long-term loans.

A long-term loan is a loan that has a maturity of from 1 to 10 years. Within this period of time the firm pays interest on the debt. Sometimes the lender protects its financial position by requiring that the company obtains the lender’s permission before taking on any additional long-term debt. If the loan is particularly risky, the lender may even require the firm to limit or eliminate dividends to stockholders.

If the firm wants to be free of lender’s restrictions, it may issue bonds. Governments issue government bonds. Corporations issue corporate bonds which may be secured or unsecured. A **corporate bond** is a corporation’s written pledge that it will repay a specific amount of money, with interest. It includes the interest rate and the maturity date and also has spaces for the amount of the bond and the bond owner’s name. An individual or firm buys a bond generally through a securities broker. The method used to pay bondholders their interest depends on whether they own registered or coupon bonds. A **registered bond** is a bond that is registered in the owner’s name by the issuing company. Interest cheques for registered bonds are mailed directly to the bondholder. A **coupon bond**, sometimes called a **bearer bond**, is a bond whose ownership is not registered by the issuing company. To collect interest on a coupon bond, bondholders must clip a coupon and then redeem it by following procedures outlined by the issuer. At the maturity date, the bond owner returns the bond to the corporation and receives cash equaling its face value. Maturity dates for bonds generally range from 15 to 40 years after the date of issue. In the event that the interest is not paid or the firm becomes insolvent, bond owners’ claims on the assets of the corporation take precedence over stockholders.

A corporation can issue different types of bonds. A **debenture bond** is a bond that is backed only by the reputation of the issuing corporation. It is difficult to find investors who are willing to buy bonds which are not backed up by collateral. Only huge corporations can successfully issue debentures.

To make its bonds more appealing to investors, however, a corporation may issue mortgage bonds. A **mortgage bond** is a corporate bond that is secured by various assets of the issuing firm.

The corporation can also issue convertible bonds. A **convertible bond** can be exchanged, at the owner’s option, for a specified number of shares of the corporation’s common stock. If the price of the company’s common stock is going up, the investors can profit from conversion. Convertibility makes the bond issue more attractive to potential investors. And the corporation itself can gain in two ways by issuing convertible bonds. They usually carry a
lower interest rate than nonconvertible bonds. And once a bond owner converts a bond to common stock, the corporation no longer has to redeem it.

If the company’s managers want to avoid increasing the company’s debt obligations, they turn to equity financing. In the case of corporations, equity capital is provided by stockholders who buy shares in the company. There are at least two reasons why equity financing is attractive to large corporations. First, the corporation need not repay money obtained from the sale of stock, and it need not repurchase the shares of stock at a later date. Thus equity financing does not have to be repaid.

A second advantage of equity financing is that a corporation is under no legal obligation to pay dividends to stockholders. A *dividend* is a distribution of earnings to the stockholders of a corporation. Investors purchase the shares of stock of many corporations primarily for the dividends they pay. However, for any reason (if a company has a bad year, for example), the board of directors can vote to omit dividend payments. Earnings are then retained for use in funding business operations. Thus a corporation need not even pay for the use of equity capital. Of course, the corporate management may hear from unhappy stockholders if expected dividends are omitted too frequently.

As you already know, there are two types of stock: common and preferred.

Money that is acquired through the sale of common stock is essentially cost-free, but few investors will buy common stock if they cannot foresee some return on their investment. If the corporation goes bankrupt, the common stockholders have a claim on its assets. But in reality, if the corporation dissolves the common stockholders seldom receive much because the claims of creditors, bondholders and preferred stockholders take priority over those of the common stockholders. Another difference between common and preferred stock is that the dividend to be paid on a share of preferred stock is known before the stock is purchased. It is stated, on the stock certificate, either as a percentage of the par value of the stock or as an amount of money. The *par value* of a stock is an assigned money value that is printed on the stock certificate. Preferred stock can be converted into common stock.

Most large corporations distribute only a portion of their after-tax earnings to shareholders. The remainder, the portion of a corporation's profits that is not distributed to stockholders, is called *retained earnings*. Retained earnings are reinvested in the business. Because they are undistributed profits, they are considered a form of equity financing. Most small and growing corporations reinvest almost all of their earnings in the business. Stockholders don't actually lose because of this. Reinvestment tends to increase the value of their stock while it provides essentially cost-free financing. More mature corporations may distribute 40 to 60 % of their after-tax profits as dividends. Corporations with very stable earnings often pay out as much as 80 to 90 % of what they earn.

I. VOCABULARY PRACTICE

A) Find synonyms (1-6), antonyms (7-12) in the text to the following:

1. nominal value =
   7. equity financing
2. undivided profits =
   8. loan capital
3. to remove =
   9. debenture bond
4. unable to pay =
   10. common stock
5. to take priority =
   11. to be paid for
6. alluring =
   12. bearer bond

B) Find in the text English equivalents for the following:

1. profit după impozitare/ прибыль после налогообложения
2. obligațiune fără gaj/ облигация без обеспечения
3. acțiuni obișnuite/ простые акции

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4. emitentul titlurilor de valoare/ эмитент ценных бумаг
5. deţinător de obligaţiuni/ держатель облигаций
6. a stinge o obligaţiune/ погашать облигацию
7. a răscumpără acţiuni/ выкупать акции
8. utilizarea capitalului propriu/ использование собственного капитала
9. corporaţia în creştere/ растущая корпорация
10. a revendica proprietatea corporaţiei/ претендовать на собственность корпорации

II. COMPREHENSION
A) Answer the following questions:
1. When does a business need long-term sources of funds?
2. What do the sources of long-term financing depend on? In what way is equity capital acquired by a business?
3. What is a long-term loan?
4. How can a lender protect its financial position?
5. What does a company do if it wants to be free from the lender’s restrictions?
6. What is a corporate bond?
7. How are bondholders paid their interest?
8. What is the bond’s maturity date?
9. What is the difference between a debenture bond and a mortgage bond?
10. What does a convertible bond entitle bondholders to? How can both bondholders and corporations benefit from conversion?
11. What is the difference between debt financing and equity financing?
12. Why is equity financing attractive to large corporations?
13. What is dividend? Do the companies always pay dividends?
14. What kinds of stock do you know? Describe their advantages and disadvantages.
15. What are retained earnings? What benefits do stockholders obtain from it?

B) Match the following words with their definitions:

Dividend, common stock, preferred stock, par value, retained earnings, corporate bond, maturity date, registered bond, coupon bond, debenture bond, mortgage bond, convertible bond, convertible preferred stock.

1. A bond whose ownership is not registered by the issuing company.
2. The portion of a business profits that is not distributed to stockholders.
3. Preferred stock that may be exchanged at the stockholder’s option for a specified number of shares of common stock.
4. An assigned money value printed on the face of a stock certificate.
5. Stock whose owners may vote on corporate matters but whose claims on profit and assets are subordinate to the claims of others.
6. A distribution of earnings to the stockholders of a corporation.
7. A bond that is registered in the owner’s name by the issuing company.
8. A corporate bond that is secured by various assets of the issuing firm.
9. A bond that can be exchanged for a specified number of shares of the corporation’s common stock.
10. A corporation’s written pledge that it will repay a specified amount of money with interest.
11. Stock whose owners usually do not have voting rights but whose claims on profits and assets have precedence over those of other stock owners.
12. A bond backed only by the reputation of the issuing corporation.
13. The date on which the corporation is to repay the borrowed money.

III. SUBSTITUTIONAL DRILL

Statement: If the price of the stock remains steady or is going down, the investors can hang on to their bonds.

Example: when
When the price of the stock remains steady or is going down, the investors can hang on to their bonds.

1. bondholders 3. value 5. their debentures 7. keep
2. decreases 4. may 6. stable 8. assets

IV. Complete the following chart:

<table>
<thead>
<tr>
<th>Questions:</th>
<th>Stocks</th>
<th>Bonds</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. How are the owners of these securities called?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. What do they represent for the corporation?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3. What is paid to the owners of these securities?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>4. Do they have a maturity date?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. The owners of which securities have their claims on the corporation’s assets satisfied first?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>6. Which securities are more advantageous for the corporation from the financial point of view?</td>
<td></td>
<td></td>
</tr>
<tr>
<td>7. Which securities are safer for the investor?</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

V. Complete the sentences below with either of the adjectives in the following pairs:

developing-developed interesting-interested boring-bored emerging-emerged challenging-challenged promising-promised

1. a. The economic problems of the .................. countries have been quite serious over the last decade.
   b. The .................. countries have decided to increase their aids for the countries in the third world.

2. a. The lecturer gave a(n)........................presentation and the audience applauded warmly.
   b. All the .................. parties can apply for those academic grants.

3. a. What a(n)..........................performance! I think we’d better leave right now.
   b. He was so........................by his daily program that he decided to take a short leave.

4. a. The......................markets offer new opportunities to the overseas investors.
   b. The image.....................on the screen was very clear.

5. a. The......................competitor has launched a new version in an attempt to counteract our success.
b. The business environment will stimulate the expansion of economy.

6. a. He did not get the benefits despite his repeated claims.
   b. She was very excited when she got that job.

VI. Match the expressions with their definitions. Use the explanatory dictionaries.

<table>
<thead>
<tr>
<th>Expressions</th>
<th>Explanations</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Daylight robbery</td>
<td>(a) Paying off one’s debts</td>
</tr>
<tr>
<td>2. In the black</td>
<td>(b) The account is overdrawn</td>
</tr>
<tr>
<td>3. In the red</td>
<td>(c) The account is in credit</td>
</tr>
<tr>
<td>4. To be broke</td>
<td>(d) When something is extremely expensive</td>
</tr>
<tr>
<td>5. To break even</td>
<td>(e) Only just managing to cope financially</td>
</tr>
<tr>
<td>6. To come into money</td>
<td>(f) Putting money aside for any unforeseen circumstance or emergencies</td>
</tr>
<tr>
<td>7. To cost an arm and a leg</td>
<td>(g) Making a lot of money from something</td>
</tr>
<tr>
<td>8. To have a finger in the pie</td>
<td>(h) Being absolutely without funds</td>
</tr>
<tr>
<td>9. To make ends meet</td>
<td>(i) Having a financial interest in something</td>
</tr>
<tr>
<td>10. To line one’s pocket</td>
<td>(j) Inheriting money</td>
</tr>
<tr>
<td>11. To save up for a rainy day</td>
<td>(k) Exaggerated costs</td>
</tr>
<tr>
<td>12. To settle up</td>
<td>(l) Making neither a profit nor a loss</td>
</tr>
</tbody>
</table>

Now answer the following questions:
1. Have you ever encountered a daylight robbery?
2. Have you ever been in the red and how did you settle up?
3. Do most of the people in our country make the ends meet or they line their pockets?
4. Have you ever bought something that cost an arm and a leg?
5. If your business was breaking even, would you give it up or carry on?
8. ACCOUNTING

“Accounting is the language of business”

8.1. Accounting and Accountants

**Learning objectives:**

1. Know what accounting is and what accountants do
2. Make the difference between accounting and bookkeeping
3. Be able to understand the categories of accountants

**Study and Learn the Words:**

<table>
<thead>
<tr>
<th><strong>English</strong></th>
<th><strong>English Equivalents</strong></th>
<th><strong>Romanian</strong></th>
<th><strong>Russian</strong></th>
</tr>
</thead>
<tbody>
<tr>
<td>to trace back to sth</td>
<td>to find the origin or cause of sth</td>
<td>a-st lua originea</td>
<td>восходить, брать начало</td>
</tr>
<tr>
<td>accounting</td>
<td></td>
<td>contabilitate</td>
<td>бухгалтерский учёт</td>
</tr>
<tr>
<td>bookkeeping</td>
<td></td>
<td>contabilitate</td>
<td>бухгалтерский учёт</td>
</tr>
<tr>
<td>auditing</td>
<td></td>
<td>audit, revizie</td>
<td>аудиторство, проверка</td>
</tr>
<tr>
<td>to be concerned with</td>
<td>to give attention to</td>
<td>a se ocupa de</td>
<td>затрагивать, иметь касательство</td>
</tr>
<tr>
<td>journal</td>
<td></td>
<td>registru contabil</td>
<td>учётный регистр</td>
</tr>
<tr>
<td>account book</td>
<td>ledger</td>
<td>cartea de evidenţă</td>
<td>бухгалтерская книга</td>
</tr>
<tr>
<td>double entry</td>
<td></td>
<td>metoda dublei</td>
<td>метод двойной записи</td>
</tr>
<tr>
<td>to part with sth</td>
<td>to give sth to sb else</td>
<td></td>
<td></td>
</tr>
<tr>
<td>voucher</td>
<td></td>
<td>document de plată</td>
<td>денежный</td>
</tr>
<tr>
<td>financial records</td>
<td></td>
<td>justificativ</td>
<td>оправдательный документ</td>
</tr>
<tr>
<td>assets</td>
<td>these are what a company owns</td>
<td>active</td>
<td>активы</td>
</tr>
<tr>
<td>liabilities</td>
<td>these are what a company owes</td>
<td>pasive</td>
<td>пассивы</td>
</tr>
<tr>
<td>annual account</td>
<td>annual report</td>
<td>raport anual</td>
<td>годовой отчёт</td>
</tr>
<tr>
<td>accurate (adj)</td>
<td>precise</td>
<td>precis</td>
<td>точный</td>
</tr>
<tr>
<td>up-to-date (adj)</td>
<td>modern</td>
<td>modern</td>
<td>современный</td>
</tr>
<tr>
<td>record keeping</td>
<td></td>
<td>evidenţa contabilă</td>
<td>ведение учёта</td>
</tr>
<tr>
<td>economic entity</td>
<td>an organization for which separate</td>
<td>subiect economic</td>
<td>экономический субъект</td>
</tr>
<tr>
<td></td>
<td>accounts are kept</td>
<td></td>
<td></td>
</tr>
<tr>
<td>to disguise</td>
<td></td>
<td>a denatura, a deforma</td>
<td>искажать, представлять в ложном свете</td>
</tr>
<tr>
<td>overheads</td>
<td>indirect costs</td>
<td>cheltuieli de regie</td>
<td>накладные расходы</td>
</tr>
<tr>
<td>to allocate</td>
<td></td>
<td>a aloca, a repartiza</td>
<td>распределять</td>
</tr>
<tr>
<td>balance sheet</td>
<td>a summary of a firm’s assets,</td>
<td>bilanţ contabil</td>
<td>балансовый отчёт</td>
</tr>
<tr>
<td></td>
<td>liabilities and owners’ equity</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>accounts at a particular time</td>
<td></td>
<td></td>
</tr>
<tr>
<td>tax bill</td>
<td></td>
<td>suma de impozite</td>
<td>сумма взимаемых налогов</td>
</tr>
<tr>
<td>means (is used both in sg.</td>
<td>a means</td>
<td>mijloc, cale</td>
<td>средства, способ</td>
</tr>
<tr>
<td>and in pl.)</td>
<td>two means</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Accounting is the process of systematically collecting, analyzing, and reporting financial information. Because of its great value, business owners have been concerned with financial information for hundreds of years. The first book of accounting principles was written in 1494, by an Italian monk named Paciolo. Luca Paciolo (1445 – 1515) was a maths master, but he became internationally famous for his above mentioned work.

The evolution of accounting has led to the appearance of accounting profession. The word “accountant” (a person who does the accounts) appeared in the XV century. In 1448 the king of imperial Rome, Maximilian I named in the capacity of the first accountant Christofer Stechter. From then onwards accountancy is considered to be a profession.

In the second half of the XVII century France became the most powerful country in the world and its accounting predominated in Europe. In the XIX century accounting became a science. Under the market economy conditions the accounting is called a language of business, carrying out one of the most important functions of management.

Accounting in the United States can be traced back to the establishment of the American Institute of Certified Public Accountants (AICPA) in 1887. By the early 1900s, accounting instruction was offered (but was optional) at many colleges and universities. Today, accounting courses are required for virtually every type of business degree.

Many people confuse accounting with bookkeeping, but there are important differences between the two. Accounting is a complex activity that includes bookkeeping, auditing.

Bookkeeping is concerned mainly with recording every purchase and sale made by a company, first in the journals, then in the account book or ledger. These ‘books’ record all transactions as double entry: a value both received and parted with. Debits or payments made are entered on the left-hand side of an account, credits or payments received are entered on the right-hand side. All the documents (invoices and receipts) related to transactions are known as vouchers and have to be retained for internal or external auditing. Nowadays many companies use computer-stored information instead of the classical ledger.

Accounting as performed in the Accounting Department of companies refers mainly to financial records, income and expenditure, valuing assets. The role of this department within a company is primarily concerned with two key areas related to managing the flow of financial resources through the company, namely managerial accounting and financial accounting.

The Managerial Accountant provides the management of the company with all the information necessary in the decision-making process, controls credits and sales ledger, calculates product costs (cost accounting) and is concerned with planning the finances for the coming year, that is budgeting.

The Financial Accountant is concerned with how money is raised and how it is used by the company, stocks control, purchase ledger, petty cash and payroll. Besides payroll, the administrative tasks include payroll deductions (national insurance, taxation, etc.), pension scheme contributions, staff expenses (company’s car petrol costs, etc.) and many others. But the two main concerns of financial accounting are financing (the on-going provision of cash for the business) and financial reporting (the preparation of annual accounts or end-year accounts).

Thus, accounting deals with the entire system for providing accurate and up-to-date financial information. To become an accountant, an individual must undergo years of training and gain a great deal of practical experience.

Bookkeeping, on the other hand, is the routine, day-to-day record keeping that is a necessary part of accounting. Bookkeepers are responsible for obtaining the financial data.
that the accounting system processes. Accounting system cannot operate without good, accurate bookkeeping but a bookkeeper can generally be trained within a year or so.

Auditing is the activity of checking a company’s account books, financial statements and accounting procedures by other independent accountants than those who prepared the accounts. These accountants are called auditors and their duty is to inform the shareholders about their findings. Auditors are required to control the accounts and decide if they give a true and fair view of the company’s financial situation. Their job is necessary, because some accountants use tricks and present a false image of the financial position of the company, which is called a “creative accounting”.

Classification of Accountants

Accountants are people who are trained and experienced in the methods and systems of accounting. They are generally classified as private accountants or public accountants.

A private (or nonpublic) accountant is an accountant who is employed by a specific organization. A medium-sized or large firm may employ one or several private accountants to design its accounting system, manage its accounting department, prepare the variety of reports required by management or by law, and provide managers with advice and assistance. Private accountants provide their services only to their employers.

Smaller and medium-sized firms that don’t require full-time accountants can hire the services of public accountants. A public accountant is an accountant whose services may be hired on a fee basis by individuals or firms. Public accountants may be self-employed, or they may work for accounting firms. Most accounting firms include on their staffs at least one certified public accountant (CPA), an individual who has met state requirements for accounting education and experience and has passed a rigorous three-day accounting examination. This exam is prepared by the American Institute of Certified Public Accountants and covers accounting practice, accounting theory, auditing, and business law. State requirements usually include a college accounting degree and from 1 to 3 years of on-the-job experience. Certification as a CPA brings both status and responsibility. Only an independent CPA can officially verify the financial contents of a corporation’s annual report and express an opinion regarding the acceptability of the corporation’s accounting practices.

The information supplied by accounting is in the form of quantitative data, primarily financial in nature, and is concerned with economic entities. An economic entity may be an individual; a business, such as a grocery store or a car dealership or a steel plant, that strives to make a profit; or a nonprofit organization, such as a hospital or a school or a government agency, that has as its goal the providing of service in an effective and efficient manner. Every entity, regardless of its size or purpose, must have a means of keeping records of its economic activities and measuring how well it is accomplishing its goals.

I. VOCABULARY PRACTICE
A) Find synonyms (1-6), antonyms (7-12) in the text to the following:

1. to date back to sth = 7. compulsory
2. to mix sth up = 8. part-time
3. exact = 9. employed by a company
4. practically = 10. debit
5. to check = 11. out-of-date
6. to gather data = 12. interesting

B) Find in the text English equivalents for the following:

1. în calitate de primul contabil/ в качестве первого бухгалтера
2. de atunci/ с тех пор
II. COMPREHENSION

A) Give answers to the following questions:
1. What is accounting? How is it called under the market economy conditions?
2. When did the first book of accounting principles appear? Who wrote it and at what age?
3. What do you know about modern accounting in the USA?
4. What is the difference between accounting and bookkeeping? Do we have this difference in our country?
5. Who are auditors? Why is their job so important?
6. Who are accountants? How are they classified?
7. Who is a private accountant? What are his duties?
8. Who is a public accountant?
9. Who is a CPA? What examination should he pass? What does it cover?
10. What is an economic entity?

B) Mark the statements with TRUE or FALSE and correct the false ones
1. Nowadays, if you want to obtain a business degree, you have to study accounting.
2. Accounting and bookkeeping are two different fields of study.
3. Double entry means that a transaction is entered in the ledger as both a debit and a credit.
4. Debits are payments received and are entered on the right-hand side of an account.
5. Vouchers are documents that support each entry in a ledger.
6. Private accountants may be self-employed.
7. Only CPAs can work as auditors.
8. Only commercial organizations must keep records of their economic activities.

C) Finish the following sentences:
1. Bookkeepers are responsible for ……………
2. Certification as a CPA brings both ……………
3. To become an accountant an individual must ……………
4. Smaller and medium-sized firms that ……………
5. An important function of auditors is ……………

III. Match the words with their definitions
A) accounting, B) bookkeeping, C) private accountant, D) public accountant, E) CPA, F) managerial accounting, G) cost accounting, H) financial accounting, I) auditing, J) “creative accounting” (“window dressing”).

1. An accountant who is employed by a specific organization.
2. An individual who has met the state requirements for accounting education and experience and has passed a rigorous three-day accounting examination.
3. Providing cash for the business and preparing annual accounts or end-year accounts.
4. An accountant whose services may be hired on a fee basis by individuals or firms.
5. Writing down the details of transactions (debits and credits).
6. Keeping financial records, recording income and expenditure, valuing assets and liabilities.
7. Preparing budgets and other financial reports necessary for management.
8. Inspection and evaluation of accounts by a second set of accountants.
9. Using all available accounting procedures and tricks to disguise the true financial position of a company.
10. Working out the unit cost of products, including materials, labour and all other expenses.

IV. Match the remarks with the responses in the following dialogue between an accountant and a tax inspector:

TI: You are an accountant? Does that mean you spend your time writing down credits and debits, and adding up columns of figures all day? Can’t be very exciting.
A: ..............................................................
TI: So what do accountants do?
A: ..............................................................
TI: You mean the shareholders?
A: ..............................................................
TI: So you prepare reports for managers?
A: ..............................................................
TI: And the cost of the accounts department!
A: ..............................................................
TI: You mean what they do in front of shops?
A: ..............................................................
TI: Ah, now that’s interesting…
A: ..............................................................
TI: Not at all. As a matter of fact, I’m a tax inspector…

1. Ha! Now you are going to ask me to tell you how you can pay less tax.
2. No, managerial accountants do, but I work in cost accounting. We have to work out the real cost of each item the company makes, which means finding a way to allocate all the overheads to different products.
3. No, not only. Managers always need help of accountants. They need financial statements and budgets, and cash-flow projections, and so on, to measure the success of what they’ve done, and to make decisions about allocating resources for future projects.
4. Of course. But like I said we are necessary. And useful. Haven’t you heard of “window dressing”?
5. Sure, but it’s also another name for what some people call “creative accounting” – making a company’s financial situation look as good as possible in the balance sheet, and so on. It’s not very legal but it happens. The accountants in my firm also have lots of wonderful ways of reducing our tax bill.
6. That’s bookkeeping. Not quite the same thing.
7. Well, accountants record cash-flows, and the value of assets and liabilities, and they calculate profits and losses. But it’s not just writing down numbers. We are really in the business of supplying people with information.
V. DISCUSSION
1. What particular skills must a good accountant possess?
2. Is the job of an accountant a risky one or not? If yes, then what risks are run by accountants?
3. “A good accountant is the one who knows how to cook the books” (= to do “creative accounting”). Do you agree or disagree with it? What is your attitude towards “creative accounting”? Why do all private firms practice such illegal methods?
4. Do you agree or disagree with the point of view that in order to become a professional a person must know not only theory but also gain a lot of practical experience? What is more important - theory or practice?

VI. WORD STUDY
There is a set of words related to the word accounting. In a table we can show them like this:

| account | ing | ant | ancy | able |

Each word has a different use. Try to put the right word in the blanks in these sentences:

1. I would like to open an ________________ with your bank.
2. In our firm there are two ________________.
3. My sister is the professional in the field of ________________.
4. Every employee in our company should present annual ________________ of the work they perform.
5. Politicians are ultimately ________________ to the voters.
6. ________________ is my profession and I like it.

VII. Read these accounting jokes and say how accountants are portrayed
1. An accountant is having a hard time sleeping and goes to see his doctor: “Doctor, I just can’t get to sleep at night”.
   “Have you tried counting sheep?”
   “That’s the problem – I make a mistake and then spend three hours trying to find it”.

2. An accountant visited the National History Museum. While standing near the dinosaur he said to his neighbour: “This dinosaur is two billion years and ten months old”.
   “Where did you get this exact information?”
   “I was here ten months ago and the guy told me that the dinosaur is two billion years old”.

3. A patient was at her doctor’s office after undergoing a complete physical exam. The doctor said: “I have some very grave news for you. You only have six months to live”.
   The patient asked: “Oh, doctor, what should I do?”
   The doctor replied: “Marry an accountant”.
   “Will that make me live longer?” asked the patient.
   “No”, said the doctor “but it will seem longer”.

4. - What’s an extroverted accountant?
   - One who looks at your shoes while he’s talking to you instead of his own.
VIII. Insert the following words into the gaps:

<table>
<thead>
<tr>
<th>reporting managers</th>
<th>public situation view process</th>
<th>record to control</th>
</tr>
</thead>
</table>

Accounting is the _____(1) of collecting, analyzing and ___(2) financial information. Bookkeeping is essentially _____(3) keeping that is a necessary part of the overall accounting process. A _____(4) accountant is employed by a medium-sized or large firm to operate its accounting system and _____(5) accounting information. A _____(6) accountant performs these functions on a fee basis for various individuals or firms. Accounting information is used primarily by ____ (7), but it is also of interest to creditors, stockholders, and government agencies. Auditors are required ___(8) the accounts and decide if they give a fair ____ (9) of the company’s financial ____ (10).

8.2. The Balance Sheet

Learning objectives:

1. Understand the accounting equation
2. Know how to read and interpret a balance sheet

Study and Learn the Words:

<table>
<thead>
<tr>
<th>English</th>
<th>English equivalents</th>
<th>Romanian</th>
<th>Russian</th>
</tr>
</thead>
<tbody>
<tr>
<td>accounting equation</td>
<td></td>
<td>ecuație de bilanț</td>
<td>балансовое уравнение</td>
</tr>
<tr>
<td>weighing machine</td>
<td></td>
<td>cîntar, balanță</td>
<td>весы</td>
</tr>
<tr>
<td>liquidity</td>
<td></td>
<td>lichiditate</td>
<td>ликвидность</td>
</tr>
<tr>
<td>current assets</td>
<td></td>
<td>active curente</td>
<td>краткосрочные, текущие активы</td>
</tr>
<tr>
<td>marketable securities</td>
<td></td>
<td>titluri de valoare negociabile</td>
<td>легкореализуемые ценные бумаги</td>
</tr>
<tr>
<td>allowance for doubtful accounts</td>
<td></td>
<td>corecții la creață dubioase</td>
<td>поправка на сомнительные долги</td>
</tr>
<tr>
<td>notes receivable</td>
<td></td>
<td>cambii spre recepționare</td>
<td>векселя к получению</td>
</tr>
<tr>
<td>merchandise inventory</td>
<td></td>
<td>stocuri de mărfuri</td>
<td>товарные запасы</td>
</tr>
<tr>
<td>prepaid expenses</td>
<td></td>
<td>cheltuieli plătite în avans</td>
<td>расходы будущего периода</td>
</tr>
<tr>
<td>fixed assets</td>
<td></td>
<td>active pe termen lung</td>
<td>долгосрочные активы</td>
</tr>
<tr>
<td>depreciation</td>
<td>a decrease in value of property through wear, deterioration, or obsolescence</td>
<td>amortizare, uzură</td>
<td>амортизация, износ (основных средств)</td>
</tr>
<tr>
<td>to apportion the cost</td>
<td>to divide and distribute costs</td>
<td>a distribui, a împărți costurile</td>
<td>распределять расходы</td>
</tr>
<tr>
<td>to allot</td>
<td>to give, to distribute</td>
<td></td>
<td></td>
</tr>
<tr>
<td>intangible assets</td>
<td>assets that have no real existence</td>
<td>active nemateriale</td>
<td>нематериальные активы</td>
</tr>
<tr>
<td>to confer sth on smb</td>
<td>to give smb a particular honour or right</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Read the following text and do the exercises given after it

A balance sheet (or statement of financial position) is a summary of a firm's assets, liabilities, and owners' equity accounts at a particular time, showing the various money amounts that enter into the accounting equation.

The accounting equation is a simple statement that forms the basis for the accounting process: Assets = liabilities + owners' equity

Assets are the things of value that a firm owns. They include cash, inventories, land, equipment, buildings, patents, and the like.

Liabilities are the firm's debts and obligations—what it owes to others.

Owners' equity is the difference between a firm's asset and its liabilities—what would be left over for the firm's owners if its assets were used to pay off its liabilities.

The balance sheet must demonstrate that the accounting equation does indeed balance. That is, it must show that the firm's assets are equal to its liabilities plus its owners' equity. The balance sheet is prepared at the end of the accounting period, which usually covers one year. Most firms also have balance sheets prepared semiannually, quarterly, or monthly.

The word “balance sheet” corresponds to the notion of “weighing machine” with two scales that must always be in balance and it derives from the word “bi” – two and “lanx” – scale of the balance.

The specifics of the balance sheet in the Republic of Moldova is that it is composed of two parts: the left side is called assets and the right side is called liabilities.

In the USA the BS has only one section and the assets, liabilities and owners’ equity follow this order:

Assets

In the USA on a balance sheet, assets are listed in order, from the most liquid to the least liquid. The liquidity of an asset is the ease with which it can be converted into cash.

Current Assets Current assets are cash and other assets that can be quickly converted into cash or that will be used within one year. Because cash is the most liquid asset, it is listed
first. Following that are *marketable securities*—stocks, bonds, and so on—that can be converted into cash in a matter of days.

Next are the firm's receivables. Its *accounts receivable or debtors*, which result from the issuance of trade credit to customers, are generally due within sixty days. However, a firm may expect that some of these debts will not be collected. Thus it can reduce its accounts receivable by a *5% allowance for doubtful accounts*. The firm's *notes receivable* are receivables for which customers have signed promissory notes. They are generally repaid over a longer period of time.

*Merchandise inventory* represents the value of goods that are on hand for sale to customers. These goods are listed as current assets because they will be sold within the year. For a manufacturing firm, merchandise inventory can also represent raw materials that will become part of a finished product or work in process that has been partially completed but requires further processing.

*Prepaid expenses* are current assets that have been paid for in advance but not yet used. An example is *insurance premiums*. They are usually paid at the beginning of the policy year for the whole year. The unused portion (say, for the last four months of the policy year) is a prepaid expense.

*Fixed Assets* Fixed assets are assets that will be held or used for a period longer than one year. They generally include land, buildings, and equipment.

The values of fixed assets are decreased by their *accumulated depreciation*. *Depreciation* is the process of apportioning the cost of a fixed asset over the period during which it will be used. The amount that is allotted to each year is an expense for that year, and the value of the asset must be reduced by that expense.

*Intangible Assets* Intangible assets are assets that do not exist physically but have a value based on legal rights or advantages that they confer on a firm. They include patents, copyrights, trademarks, and goodwill. By their nature, intangible assets are long-term assets. They are of value to the firm for a number of years.

*Goodwill* is the value of a firm's reputation, location, earning capacity, and other intangibles that make the business a profitable concern. Goodwill is not normally listed on a balance sheet unless the firm has been purchased from previous owners.

### Liabilities and Owners’ Equity

The firms' liabilities are separated into two groups—*current and long-term*—on the balance sheet. These liability accounts and the owners’ equity accounts complete the balance sheet.

*Current Liabilities* A firm’s current liabilities are debts that will be repaid within one year. *Accounts payable or creditors* are short-term obligations that arise as a result of making credit purchases.

*Notes payable* are obligations that have been secured with *promissory notes*. They are usually short-term obligations, but they may extend beyond one year. Only those that must be paid within the year are under current liabilities. Many companies also list *salaries payable* and *taxes payable* as current liabilities. These are both expenses that have been incurred during the current accounting period but will be paid in the next accounting period. Such expenses must be shown as debts for the accounting period in which they were incurred.

*Long-Term Liabilities* Long-term liabilities are debts that need not be repaid for at least one year.

*Owners’ Equity* For a sole proprietorship or partnership, the owners’ equity is shown as: assets - liabilities. In a partnership, each partner's share of the ownership is reported separately by each owner's name. For a corporation, the owners' equity (sometimes referred to
as shareholders' equity) is shown as the total value of its stock plus retained earnings that have accumulated to date.

Nota Bene

The word Assets is translated as active/активы, the word Liabilities is translated as passive/пассивы, however both in Romanian and Russian passive/пассивы are equal to obligațiuni / обязательства + capital propriu / собственный капитал, which is in English liabilities + owners’ equity.

I. VOCABULARY PRACTICE
A) Find antonyms in the text to the following:
1. to own 6. current liabilities
2. accounts payable 7. used
3. notes receivable 8. disequilibrium
4. fixed assets 9. loss-making
5. tangible assets 10. distributed profit

II. COMPREHENSION
A) Match the words with their definitions

Assets, liabilities, owners’ equity, balance sheet, liquidity, current assets, marketable securities, notes receivable, prepaid expenses, fixed assets, depreciation, intangible assets, accounts payable, notes payable.

1. The ease with which an asset can be converted into cash.
2. Assets that have been paid for in advance but not yet used.
3. Receivables for which customers have signed promissory notes.
4. Stocks, bonds, and so on—that can be quickly converted into cash.
5. The things of value that a firm owns.
6. Cash and other assets that can be quickly converted into cash or that will be used within one year.
7. A summary of a firm’s assets, liabilities, and owners’ equity accounts at a particular time.
8. The difference between a firm’s asset and its liabilities.
9. What the firm owes to others.
10. Assets that will be held or used for a period longer than one year.
11. Sort-term obligations that may extend beyond one year.
12. Short-term obligations that arise as a result of making credit purchases.
13. Assets that do not exist physically but have a value based on legal rights or advantages that they confer on a firm.
14. Process of apportioning the cost of a fixed asset over the period during which it will be used.

B) Mark the statements with TRUE or FALSE and correct the false ones
1. The balance sheet must demonstrate that assets are equal to liabilities plus owners’ equity.
2. The American balance sheet starts with cash and ends with the total value of the stock plus retained earnings.
3. Merchandise inventory is more liquid than marketable securities.
4. Patents, trademarks and goodwill are short-term assets.
5. Goodwill is listed on the balance sheet only if the firm has been bought from previous owners.
6. If a firm buys goods on credit, it has accounts receivable listed on the balance sheet.
7. Notes receivable are customers’ debts secured with promissory notes.
8. Salaries payable are salaries that have been paid to employees in advance.

### III. DISCUSSION
1. Is there any difference between a balance sheet used in the USA and a balance sheet used in our country? If yes, then what are the differences?
2. Take the balance sheet of any Moldovan firm and present it in English.
3. What can be said about a firm whose owners’ equity is a negative amount? How could such a situation come about?

### IV. Complete the text with the following words:
assets, balance sheet, cash, company, cash held at bank, creditors, debtors, depreciation, liabilities, lists, owes, owns, statement, valuation

Every year a company will draw up a 1) ____ to see how it stands financially. This document consists of two 2) ___ and is called a 3) ___. One list will contain all the things the company 4) ____ . These are its 5) ___ . The other list consists of the things the company 6) ___ and these are its 7) ___.

Every item has to be valued. One item will be the amount of 8) ___ the company has on its premises and another will be the amount standing on the bank account. This is called 9) ___. Some items can be valued exactly, but others can only be given an approximate 10) ___. Machinery or equipment, for instance, suffers from „wear-and-tear” and gradually loses its value. This process of losing value is assumed over a period of time and it is called 11) ___. Other assets include 12) ___. This item is the total amount owed by customers. Among liabilities there are 13) ___, that is the total amount owed to suppliers. When the balance sheet is drawn up, the 14) ____ will be able to see how things are going.

### V. FOCUS ON GRAMMAR
A) Insert prepositions:
1. Merchandise inventory represents the value of goods that are ……. hand for sale to customers. 2. The balance sheet must show that the firm's assets are equal ……. its liabilities plus its owners' equity. 3. The firms' liabilities are separated ……. two groups ……. the balance sheet. 4. Long-term liabilities are debts that need not be repaid for ….. least one year. 5. The amount that is allotted …. each year is an expense for that year, and the value of the asset must be reduced …. that expense. 6. Marketable securities can be converted ……. cash ……. a matter of days. 7. The balance sheet is prepared ……. the end of the accounting period, which usually covers one year.

B) COMPLEX VERBS
Put the suitable verb in each gap to form a complex verb with the adverbial particle **off**: to cut(2 times); give; go; keep; pay; run; see; switch; take; turn; write.

1. As the debtor has gone bankrupt, the creditor will have to … off the debt. 2. The plane …. off at 10 and two hours later it landed. 3. The bombs … off. 4. The fire has …. off a tremendous heat. 5. While speaking on the phone with an important client I was …. off. 6. Her father … her off without a penny. 7. I am trying to … off fatty food, as I want to lose
weight. 8. Could you … me off three copies of the document? 9. …off the radio, please, I can’t concentrate on my work if it is on. 10. Don’t …off the light. I am afraid of darkness. 11. My friends came to the airport to …. me off. 12. The ship’s crew were … off as soon as they returned from the cruise.

VI. Group the following under the appropriate headings:

property, patents, stocks and shares, corporate bonds, goodwill, creditors, equipment, taxes payable, copyright, notes receivable, mortgages, trade marks, buildings, certificates of deposit, production plants, vehicles, debts due to trade, loan capital, semi-finished goods, insurance premiums, salaries payable.

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>LIABILITIES</th>
</tr>
</thead>
<tbody>
<tr>
<td>debtors</td>
<td>creditors</td>
</tr>
</tbody>
</table>
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