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имени Александра Григорьевича и Николая Григорьевича Столетовых»

Л.Д. Ермолаева

FINANCE

(Финансы)

Учебное пособие по английскому языку



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Рецензенты:

Кандидат филологических наук, доцент, зав. кафедрой профессиональной
языковой подготовки
Владимирского юридического института Федеральной службы исполнения
наказаний
А.В. Подстрахова

Кандидат филологических наук, доцент кафедры иностранных языков
Владимирского государственного университета имени Александра
Григорьевича и Николая Григорьевича Столетовых
Н.А. Камайданова

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Учебное пособие направлено на развитие навыков чтения и устной речи на основе переработки информации оригинальных текстов и системы тренировочных упражнений.

Современная методика обучения чтению и устной речи делают пособие актуальным и доступным для использования в качестве основного материала на занятиях по английскому языку для студентов специальностей «Финансы и кредит» и «Бухгалтерский учет», обучающихся по программе подготовки бакалавров и магистров в неязыковом вузе.

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ПРЕДИСЛОВИЕ

Предлагаемое Вашему вниманию учебное пособие предназначено для использования в учебном процессе студентами специальностей «Финансы и кредит» и «Бухгалтерский учёт» на завершающем этапе обучения иностранному языку в неязыковом вузе.

Пособие ставит своей целью подготовить студентов к чтению оригинальной литературы по указанной тематике. Оно включает следующие темы: «Финансовый менеджмент», «Бухгалтерский учёт», «Финансовые отчёты», «Банковская и финансовая системы», «Инвестиции, риск и управление рисками», «Страховой бизнес», «Рынки ценных бумаг».

В пособии использованы современные материалы из оригинальных английских и американских источников с учётом их познавательной ценности и актуальности.

Пособие состоит из 5 глав, включающих 12 тематических циклов-уроков, в каждый из которых входит 2-3 текста как для изучающего, так и для ознакомительного и просмотрового чтения. Каждый цикл имеет тематический список слов и выражений для активного усвоения и понимания текстов для изучающего чтения, предтекстовых и послетекстовых упражнений к ним, которые предусматривают работу с терминологическим словарём пособия, а также проверку понимания прочитанного. Тексты на ознакомительное и просмотровое чтение также снабжены упражнениями на выработку навыков общения и понимания текстов.

PART I
UNIT 1. FINANCIAL MANAGEMENT

Reading 1

1. Work in groups and discuss these questions:

- a. What do you think the objectives of a financial department usually are?
- b. Are there financial departments only in profit-making organizations?

2. Read the following pairs of words of the same root and translate them.

- a) To arrange – arrangement, to equip – equipment, to pay – payment, to ship – shipment, to manage – management, to govern – government.
- b) To form – formation, to produce – production, to reflect – reflection, to fix – fixation, to computerize – computerization.

3. Find the Russian equivalents in the right column for the English words and word combinations in the left column.

- | | |
|---------------------------------|--|
| 1) favorable terms | a) заказать партию деталей |
| 2) to put funds to use | b) оборудование долговременного пользования |
| 3) to be used to capacity | c) выгодные условия |
| 4) durable production equipment | d) оплачивать счета за электричество |
| 5) to build up inventories | e) создать товарно-материальные запасы |
| 6) to pay electric bills | f) убедиться |
| 7) to make sure | g) использовать денежные ресурсы |
| 8) to order a batch of parts | h) полностью использовать производственные возможности |

Text 1. Financial Management

Finance is the process of getting the **funds** a firm needs and putting them to use. The financial manager's job is **to arrange for** the firm to get the funds it needs on favorable terms and to make sure they are used effectively. This job must be done not only in businesses but also in **not-for-profit firms** and units of government.

It is likely that the firm would need new equipment for production new products or the firm's general equipment was already being used to capacity or the firm's office staff would need new computers and filing cabinets. **Durable** production equipment like this is called **fixed capital**.

But funds to buy fixed capital would not be the only fund. A firm would also need funds to build up **inventories**. Inventories are a form of capital. First, the firm would have to buy parts and materials to make the products. As it began production, it would have to pay workers. It would also have to pay electric **bills** to run the machines. These payments would be reflected in a growing inventory of finished and partly finished goods. The funds a firm needs for all of these uses, from the time the first **batch** of parts is **ordered** until the finished goods are **shipped** and paid for, are known as working capital. All firms need both fixed and **working capital**.

4. Find the words and word combinations in the text that mean the same as the words and word combinations below:

current capital	to raise capital	to be loaded
advantageous conditions	to be certain	long-lasting equipment
to operate machines	Inventory	the first lot of parts
government organizations		

5. Speak on the following on the basis of the text:

1. What are the duties of a financial manager?
2. What is meant by fixed capital? (Give two or three examples).
3. What do inventories include?
4. Why do firms need working capital?

Reading 2

6. Give the Russian equivalents for the following English word combinations using the vocabulary at the end of the unit:

Crucial factor, receipts and expenses, capital purchases, long lead time, to quote rates, flows of costs, to result in large changes, to compare budgets with flows of funds, to foresee different circumstances, to carry out plans correctly, to be alerted for corrective actions.

7. Match up the words and expressions in the box with the definitions given below.

<i>lead time</i>	<i>to quote a rate</i>	<i>interest rate</i>	<i>circumstances</i>	
<i>working capital</i>	<i>to be alerted to</i>	<i>fixed capital</i>	<i>accounting</i>	<i>revenue</i>

- a. The return from property or investment.
- b. The process of capturing, processing, and communicating financial information.
- c. Capital in the form of durable structures, machinery, and equipment.
- d. To be ready to do something.

- e. Funds used to pay for labor and materials between the time when production is begun and the time when finished goods are shipped and paid for.
- f. Conditions affecting a person or something, especially financial conditions.
- g. The money a loan pays as a percentage.
- h. To state the price of something.
- i. The time needed to perform an activity (i.e. to manufacture or deliver something).

Text 2. Financial Planning and Control

The financial manager's duties include planning for the use of both fixed and working capital. The **crucial** factor in planning the use of working capital is the **timing** of **receipts** and **expenses**. The firm must plan to have enough working capital available **to cover costs** from the time production is begun until the customer pays for the product.

As a firm grows, machines wear out, and technology changes, firms need new buildings, equipment, computers, and other kinds of fixed capital. Many kinds of fixed-capital **purchases** have long **lead times**. These long lead times mean that it is crucial to include financial planning in the firm's strategic planning process.

There are many possible sources of funds for a firm, including **revenue** from sales of its product, investments by its owners, and loans. The financial manager must plan ahead in order **to tap** the best source of funds for each need at the time when it is needed.

Good planning is required not only to have funds when they are needed but also to get them at the lowest cost. Getting funds at the lowest cost is more than a matter of finding the bank **quoting** the lowest **rates** today. It is partly a matter of **fitting** the sources of funds to the purposes for which they will be used. It is partly a matter of balancing sources of funds. And it is partly a matter of timing selling **stock** when the stock market is booming, not **borrowing** when **interest rates** are high, and so on.

Controlling is a key job of all managers. It is especially important for financial managers. Profits are a small amount that is left over after large **flows of costs** are **subtracted** from large flows of revenues. Financial managers must watch costs and revenues closely, since small changes in either can result in large changes in **profits**.

Budgets are one of the tools of financial control. A good system of financial controls constantly compares budgets with actual flows of funds. When they don't **match**, it is a **sign** that **circumstances** have changed in ways that were not **foreseen** in the plan, or that plans are not being carried out correctly. In either case, managers **are alerted** to the need for corrective action.

Accounting is another subject of financial control. The purpose of accounting is to **keep track** of sources and uses of funds and to give an accurate picture of the firm's financial state at all times.

8. Complete the following sentences which summarize the text above.

1. One of the most important functions of the financial manager is
2. Every firm must have enough working capital for
3. Long lead time requires to include

4. One of the sources of funds is revenue from
5. Good planning also means to get funds
6. Getting funds at the lowest cost is often the matter
7. Financial managers must control costs and revenues because
8. If budgets don't match flows of funds it means that
9. Accounting watches sources and uses of funds in order to give

Reading 3

9. Match each word in A with its synonym in B.

A. Proprietor, to report to, liaison, to be in charge of, in contrast, major, implication, authority, concern, to affect.

B. To influence, unlike, to be answerable to, interest in, power, meaning, to take care of, link, owner, main.

10. Find the English equivalents in the right column for the following Russian words and word combinations in the left column.

- | | |
|--------------------------------------|-----------------------------|
| 1. смотреть за пределы | a) to draw on funds |
| 2. главный подчинённый | b) to affect flows of funds |
| 3. предлагать новую торговую марку | c) on their own |
| 4. внутренние обязанности | d) key officer |
| 5. главное должностное лицо | e) to make decision |
| 6. принимать решение | f) internal concerns |
| 7. самостоятельно | g) to bring out a new brand |
| 8. влиять на потоки денежных средств | h) key subordinate |
| 9. использовать денежные средства | i) to look outward |

11. Study the difference between some American job titles and the British ones. These are the equivalents.

USA	G.B.
President	Chairman
Chief Executive Officer (CEO)	Managing Director
Vice President	Director
Vice-president Finance	Finance Director
Financial Controller	Accountant
Director (e.g. Personnel Director)	Manager (e.g. Personnel Manager)
Accounts department	Accounting department

12. Read the text and then decide whether the statements following it are true or false.

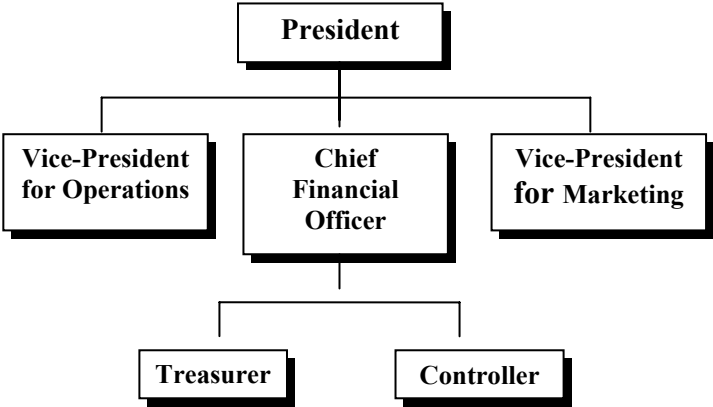
Text 3. Financial Managers

In a small business, the **proprietor** takes care of finance along with all the other management tasks. A more complex division of labor is found in large corporations. Not all corporations divide up the work of financial management in the same way, but the structure shown in the picture is typical.

The **chief financial officer (CFO) reports to** the president and has equal rank with the heads of marketing, **operations**, and other major **departments**. The CFO is often given the title of vice-president for finance. The CFO **is in charge of** all financial activities and act as **liaison** with the heads of marketing and operations and any other managers who **draw on** the corporation's funds.

The CFO has two **key subordinates**. The first of these is the **treasurer**. The treasurer's job is to manage the firm's cash, **securities** and credit policy. He or she acts as liaison with financial institutions such as banks and securities markets.

The second key officer who reports to the CFO is the **controller**. The controller is in charge of accounting and, usually, financial planning and budgeting. In contrast to the treasurer, who **looks outward** toward the financial markets, the controller's focus is on **internal concerns**.



The CFO, the treasurer, and the controller are not the only people in the organization who **make financial decisions**. In fact, all business decisions have financial **implications**. A marketing manager's decision to **bring out** a new **brand** and to spend money on **advertising** for it **affects** flows of funds into and out of the organization. So does a personnel manager's decision to introduce a new system of **merit pay**. So does a production manager's decision to close a plant. When decisions like these involve large sums, they are made in direct consultation with the CFO.

Small financial decisions may be made independently by marketing or production managers. In a multi-plant firm, local plant managers may be given **authority** to make some financial decisions on their own.

In fact that all business decisions affect the firm's finance also means that financial managers need to learn something about all aspects of the firm's operations. This is one of the reasons that finance is so often **a route** to the top in the corporate world.

1. All corporations divide up the work of financial management in the same way.
2. Vice-president for finance has somewhat a lower rank in comparison with the heads of other major departments.
3. The Treasurer watches the financial market and serves as a link with financial institutions.
4. The Controller is responsible for financial planning, budgeting, and credit policy.
5. All financial decisions which involve financial expenditure even of small amounts are made by CFO.
6. In order to make a right financial decision the financial manager should have the idea of all firms operations.

13. Summarize the process of financial management in a typical large firm on the basis of the figure in the text (7-8 sentences) .

14. Choose the right form of the verb.

1. Currently our company a new financial plan.
a) develops b) is developing c) has been developing

2. The company costs before the customer paid for the product.
was covering b) had covered c) covered
3. These machines by the time new ones are purchased.
a) will have worn out b) will wear c) will be wearing
4. Usually firms funds from some sources.
a) get b) are getting c) have got
5. The firm already these funds for purchasing raw materials.
a) spent b) has spent c) had spent
6. Last year this bank the lowest interest rate.
a) was quoting b) had quoted c) quoted
7. Budgets actually flows of funds if circumstances don't change.
a) matched b) will have matched c) will match
8. Personnel department a new system of merit pay since the
beginning of the year.
a) has been introducing b) introduced c) had introduced
9. He took the position of Vice-president for finance after he as
Financial Controller for 5 years.
a) worked b) had been working c) was working

15. In pairs or groups discuss the following questions.

1. What is management?
2. Is it an instinct or a science, a set of skills or techniques that can be taught?
3. What are the duties of a financial manager?
4. Which four of the following qualities do you think are the most important for a financial manager?

- a) *being friendly and sociable*
- b) *being logical, rational, and analytical*
- c) *being able to communicate with people*
- d) *being competent: knowing one's job perfectly*
- e) *being able to motivate and inspire people*
- f) *having good ideas*
- g) *being highly educated and knowing a lot about the world*
- h) *being decisive: able to make quick decisions*
- i) *being authoritative: able to give orders*
- j) *being prepared to work 50 to 60 hours a week*

5. Are there any qualities that you think should be added to this list?

6. Which of these qualities can be acquired? Which must you be born with?

Essential words and phrases

Accounting	– бухгалтерский учёт
Advertizing	– реклама
To affect	– влиять, наносить ущерб
To be alerted to	– быть готовым, быть бдительным
To arrange for	– организовывать, устраивать, договариваться
Authority	– полномочие
Batch	– партия, серия, группа
A bill	– счёт к оплате
(To) borrow(er)	– занимать, заёмщик
To bring out a new brand	– предлагать новую торговую марку
To be in charge	– руководить

Chief financial manager	– управляющий финансами
Circumstances	– обстоятельства
Concern	– забота, интерес, обязанность
Controller	– главный бухгалтер контролёр
Costs	– расходы, затраты
To cover costs	– покрыть расходы
Crucial	– решающий, критический
To draw on	– использовать, привлекать (средства)
Durable	– длительного пользования
Expenses	– расходы, издержки
To fit to	– соответствовать, отвечать требованиям
Fixed capital	– основной капитал, основные средства
Flow	– поток
To foresee	– предвидеть
(To) fund	– капитал, деньги, ресурсы, финансировать заёмными средствами
Implication	– смысл, значение
Interest rate	– процентная ставка
Internal	– внутренний
Inventories	– материально-производственные запасы
To keep track	– отслеживать

Key subordinates	– основные подчинённые
Lead time	– время выполнения заказа, время освоения новой продукции
Liaison	– связь, связующее звено
To look outwards	– смотреть за пределы
To make decision	– принимать решение
To match	– соответствовать
Merit pay	– премия, доплата, надбавка
Non-for-profit firm	– некоммерческая организация
Operations department	– операционный отдел
To order	– заказ, заказывать
Profit	– прибыль
Proprietor	– собственник, владелец
(To) purchase	– покупка, покупать
To quote	– назначать цену, процентную ставку
Rate	– тариф, норма, ставка
Receipt	– денежное поступление, доход, квитанция
To report to	– подчиняться
Revenue	– доход, выручка
Route	– путь, маршрут
Securities	– ценные бумаги
To ship	– отправлять, погрузить
Sign	– признак, знак
Stock	– акция, запас

To subtract	– вычитать
To tap a source	– использовать источник
Timing	– распределение по времени, срокам, координация
Treasurer	– управляющий финансами, заведующий финансовым отделом
Unit	– организация, подразделение
Working capital	– оборотный капитал

UNIT 2. USES OF FUNDS

Reading 1

1. Read and translate the pairs of words of the same root.

- a) to manage – manager, to own – owner, to supply – supplier, to use – user, to hold – holder, to save – saver, to produce – producer, to collect – collector, to purchase – purchaser, to pay – payer, to receive – receiver
- b) reason – reasonable, to receive – receivable, to pay – payable, value – valuable, to count – countable, to compare – comparable, purchase – purchasable, to manage – manageable, to acquire – acquirable.

2. Find the Russian equivalents in the right column for the English word combinations in the left column.

- | | |
|-------------------------------|---|
| 1) purchase of raw materials | a) ужесточать политику кредитования |
| 2) to meet operating expenses | b) давать (приносить) ликвидные активы |
| 3) reduction of liabilities | c) превратить вводные ресурсы в законченные изделия |

- | | |
|---|---|
| 4) outside the firm | d) иметь что-то в наличии для последующего использования |
| 5) checking account balance | e) закупка сырьевых материалов |
| 6) to count inventories as current assets | f) сократить потребности в оборотном капитале |
| 7) to have something available for use | g) за пределами компании |
| 8) to convert inputs into finished goods | h) сокращение (уменьшение) задолженности |
| 9) to yield liquid assets | i) покрыть общефирменные расходы |
| 10) just in-time-production | j) считать товарно-материальные запасы как текущие активы |
| 11) to cut working-capital needs | k) своевременное производство |
| 12) to tighten credit procedure | l) баланс текущего счёта |

Text 1. Managing Assets

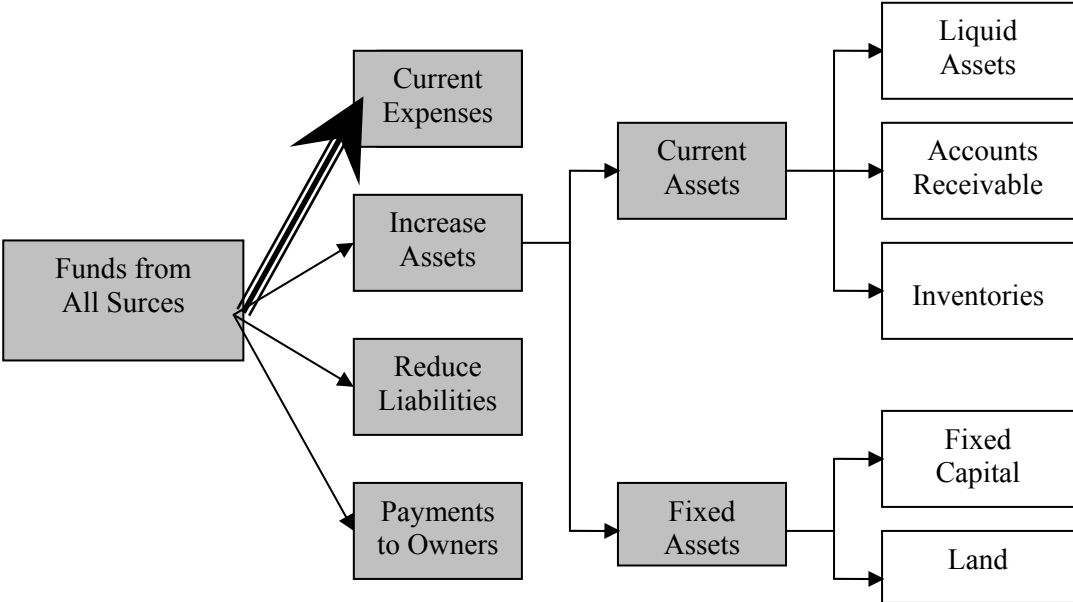
As funds come into the firm from sales and other sources, financial managers must decide how to use them. **Operating expenses** – purchases of raw materials, parts, and **supplies**; payment of wages and salaries, interest, **utility bills**, and **taxes** – are the biggest use of funds for most firms. As the figure shows, any **surplus** funds left over after operating expenses have been met can be used in one of three ways: for increasing assets, **reduction** of **liabilities**, or payments to **owners**.

- *Increasing assets.* A firm's assets are all the things of **value** that it owns and that are **owed** to it. Cash payments **due** from customers,

inventories, equipment, buildings and land are assets. Any increase in assets is a use of funds.

- *Reduction of liabilities.* A firm’s liabilities include everything that it owes to parties outside the firm. They include bank loans, payments due to suppliers, and taxes.

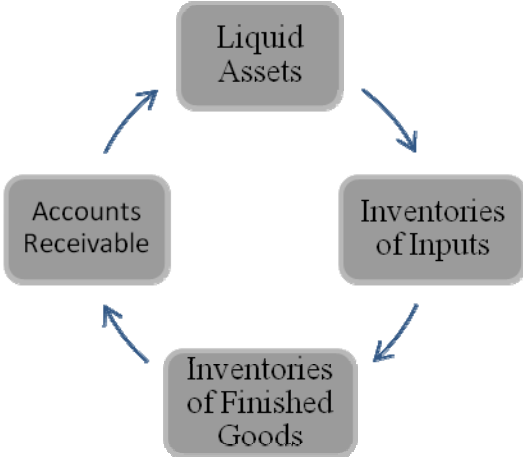
- *Payments to owners.* In proprietorships and **partnerships**, all funds left over after increasing assets or reducing liabilities belong to the owners. In a corporation, funds that the firm does not **retain** for its own uses are paid out to **shareholders** as dividends.



Current assets are assets that the firm expects to hold for a year or less. They fall into three groups. First, there are **liquid assets**. These include coins and **paper currency**, **checking account balances** and other kinds of bank deposits, and certain kinds of securities. Second, there are **accounts receivable**. These are sums owed to the firm by customers who have bought on credit. Third, there are inventories of **inputs** and finished

products. Since most inventories are used and sold within a year, they are **counted** as current assets.

The main reason for holding current assets is to have them available for use as working capital. Working capital is not a type of asset. Instead, the funds, used as working capital, move through the cycle. Liquid assets are used to buy inputs; the inputs are **converted** into finished goods; the goods are sold on credit, creating accounts receivable; and accounts receivable are collected, **yielding** liquid assets.



It is important to economize on the use of working capital. Any funds that are not needed for working capital could be used to pay off liabilities, thereby **saving** interest costs. They could also be used to buy fixed capital or paid out as **income** to owners.

One way to cut working-capital needs is through better inventory management. Material requirements planning and **just in-time-production** systems are two ways of doing this.

Another way to cut working-capital needs is to reduce accounts receivable by **tightening** credit procedures. In order to control costs while

offering credit to their customers, some firms sell their accounts receivable to collection specialists called **factors**. The factors pay less than the full **face value** of the accounts receivable they buy. **In return** they offer **immediate** cash.

A third way to cut working-capital costs is through better cash management. This refers to managing liquid assets in a way that produces the maximum possible income. For example, coins and paper currency produce no interest income, but **short-term** government securities, **certificates of deposit**, and a type of **overnight loan** called a **repurchase agreement**, do produce interest income.

Fixed assets are those that a firm expects to hold for more than a year. These include fixed capital (buildings and equipment) and natural resources (land, mineral resources, and so on).

One of the duties of financial managers is to decide when to use available funds **to acquire** fixed capital instead of adding to current assets, reducing liabilities, or making payments to owners. In making this kind of decision, the financial manager must **compare** the cost of the new capital with the added revenue or cost savings that it will produce

The process of deciding what fixed capital to acquire is called **capital budgeting**. Such decisions are complex because the **benefits** of **added** fixed assets usually come in over a period of years.

3. Find the words in the text which mean the following:

- a) sums owed to a firm by customers;
- b) assets that a firm expects to hold for a year or less;
- c) current account;

- d) to produce as a result, profit, interest, etc.;
- e) to get or to buy something;
- f) the process of deciding what fixed capital to acquire;
- g) arranging for inventories to be delivered to the assembly line just in time to be used;
- h) without delay or instant;
- i) to keep strict control;
- j) a stockholder.

4. Answer the following questions to the text.

1. What do operating expenses include?
2. What three purposes can any surplus funds be used for?
3. What do current assets include?
4. Why must any firm hold current assets?
5. How could any funds that are not needed for working capital be used?
6. What are two ways of better inventory management?
7. Why do some firms sell their accounts receivable to factors?
8. In what way can better cash management produce the maximum possible income?
9. What do fixed assets include?
10. What must the financial manager compare while making decision to acquire or not fixed capital?
11. Why is the decision to acquire or not fixed capital a complex process?

5. On the basis of the text and the figures speak on the following topics:

1. Four main ways of spending funds coming into the firm from all sources.
2. Three groups of current assets.

3. The cycle through which working capital moves.
4. Three ways of cutting working-capital needs.
5. Fixed assets and complexity of making decision whether to acquire or not fixed capital.

6. Translate the sentences paying attention to the forms of the verbs.

1. Raw materials have already been purchased.
2. After operating expenses had been met surplus funds were used for payment dividends.
3. We hope this batch of finished goods will have been sold by the end of the month.
4. At the present moment the question what fixed capital to acquire is being decided.
5. The benefits of added fixed assets will be got only in two years.
6. Some corrections in the financial plan were being made for a whole week.
7. Last year he was promoted to the post of Financial Director.
8. While marketing plan was being designed the financial department was waiting for it to be ready to start working on its own planning.
9. Some changes have already been made in capital budgeting.

Essential words and phrases

Accounts receivable	– счёт дебиторов, счета к получению, дебиторская задолженность
To add	– добавлять
To acquire	– покупать, приобретать

Benefit	– прибыль, выгода
Capital budgeting	– бюджетирование капиталовложений, составление смет капиталовложений
Certificate of deposit	– депозитный сертификат
Checking account balance	– баланс текущего чекового счёта
To compare	– сравнивать
To convert	– превращать
To count	– считать
Current assets	– текущие активы
(To) due	– подлежащий выплате, заплатить причитающуюся сумму
Face value	– номинальная стоимость
Factor	– фактор, факторная компания
Immediate	– безотлагательный, немедленный, непосредственный
Income	– доход
Input	– вложения, затраты, вводные ресурсы
In return	– в обмен, в ответ,
Just in-time-production	– своевременное производство
Liabilities	– обязательство, задолженность, пассивы
Liquid assets	– ликвидные активы, быстрореализуемые средства
Operating expenses	– общекорпоративные расходы
Overnight loan	– однодневная ссуда

To owe	– быть должным
(To) own(er)	– владеть, собственник
Paper currency	– бумажные деньги
Partnership	– партнёрство, товарищество
To reduce	– уменьшать
Reduction	– уменьшение, сокращение
Repurchase agreement	– соглашение о покупке ценных бумаг с последующим выкупом через сутки
To retain	– сохранять, удерживать
(To) save(er)	– экономить, сберегать, вкладчик
Shareholder	– акционер
Short-term	– краткосрочный
Supplier	– поставщик
Supplies	– вспомогательные материалы, ресурсы
Surplus	– излишек, избыток
(To) tax	– налог, облагать налогом
To tighten	– сжимать, ужесточать процедуру, контроль
Utility bill	– счёт за коммунальные услуги
Value	– ценность, стоимость
To yield	– давать, приносить доход

UNIT 3. SOURCES OF FUNDS

Reading 1

1. Translate the following pairs of words paying attention to the prefix – “un”.

Profitable – unprofitable, secured – unsecured, real – unreal, certain – uncertain, successful – unsuccessful, pledged – unpledged, limited – unlimited, economic – uneconomic, durable – undurable, available – unavailable, mortgaged – unmortgaged, funded – unfunded.

2. Match words and word combinations in A with their synonyms in B.

A. To choose, a corporation, real estate, household, to repay, secured, willingness, to save money, a share, to raise funds, institution, to tap sources, to go into debt, common, to turn to.

B. Wish, a firm, to select, to refer to, usual, to get into debt, real property, family, to return money, guaranteed, to draw on sources, a part or portion, organization, to collect money, to store up money.

3. Find the Russian equivalents on the right for the English word combinations on the left.

- | | |
|-----------------------------------|------------------------------------|
| 1) interest-earning liquid assets | a) выступать в качестве посредника |
| 2) long-term sources | b) акционерное финансирование |
| 3) a set return | c) компания, приносящая прибыль |
| 4) to pledge certain property | d) работать в убыток |
| 5) to fail to repay the loan | e) не погасить ссуду |
| 6) to pay back the loan | f) заложить какое-то имущество |

7) to operate at a loss	g) постоянная прибыль
8) a profitable firm	h) в обмен на обещание
9) to act as an intermediary	i) долгосрочные источники финансирования
10) equity financing	j) ликвидные активы, приносящие доходы в виде процентов
11) in return for a promise	k) погасить ссуду

Text 1. Sources of Funds

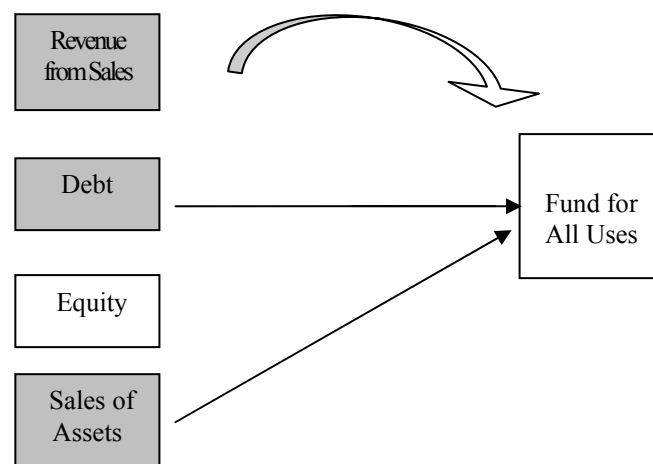
Choosing among uses of funds is only half of the job of financial management. The other half is choosing among sources of funds. In a small firm this is one of the many tasks of the owner, in a large corporation, it is part of the treasurer's job.

The first of the major sources of funds and the largest for most firms is revenue from sales of goods and services. In a **profitable** firm this source is enough to cover all costs, with some left over. Many firms need to draw on other sources as well, however. If the firm is operating at a loss, it will need some source of funds besides sales in order to cover current costs. Even if it is operating at a profit, the surplus of revenue over costs may not be enough for the purchases of assets, reduction of liabilities, and payments to owners. If the firm wants to tap sources of funds other than sales revenue, it can turn to one of the following.

- *Debt financing.* The firm can get funds for any use by going into debt. The term debt refers to any process by which the firm gets cash or some other asset **in return** for a promise to pay an **agreed-upon** sum plus

interest. **Borrowing** from banks and making purchases on credit are example of debt finance.

- *Equity* financing. If the firm does not want to go into debt, it can **raise funds** from owners. This is known as **equity financing**. Owners who **contribute** equity capital are not promised a **set return**. Instead, they get a **share** of future profits, if any, and a voice in the management of the firm.
- *Sales of assets*. Some firms hold interest-earning liquid assets in addition to working capital. These assets can be sold to raise funds when needed. Buildings, equipment, **real estate** that a firm no longer needs can also be sold to raise funds.



Sources of funds can also be viewed along the following **dimensions**.

- *Short-term versus long-term*. **Short-term sources** are those that provide funds for a year or less. **Long-term sources** provide funds for more than a year.
- *Secured versus unsecured*. The borrower **pledges** certain property to the **lender** to guarantee payment, the debt is said to be **secured**. The property that is pledged is called **collateral**. A **mortgage loan** is a common form of secured debt; if the borrower fails to repay the loan, the lender takes over

the property used as collateral. Debt that is backed only by the borrower's **willingness** and ability to repay is said to be **unsecured**.

- *Source of funds.* All funds except revenue from current sales come from someone's savings. Sometimes **households** invest their savings in firms directly, as when the owner of a small business buys new equipment for the firm, or when a person buys stock in a corporation. In other cases, people put their **savings** into institutions like banks that act as **intermediaries** between **savers** and borrowers.

4. Match up the words on the left with the definitions on the right.

- | | |
|---------------------|---|
| 1. to lend | a. a long-term loan secured by land or buildings |
| 2. to pledge | b. members of a group of assets that include coins and paper currency, bank deposits, and certain kinds of securities |
| 3. equity financing | c. debt that is backed only by the borrower's willingness and ability to repay |
| 4. collateral | d. rights to land and buildings |
| 5. secured debt | e. settled by mutual consent |
| 6. real estate | f. property that is pledged as a guarantee for repayment a debt |
| 7. agreed upon | g. debt for which repayment is guaranteed by pledging a certain property to the lender |
| 8. unsecured debt | h. any process by which a firm raises funds in return for a share in its ownership and management |
| 9. mortgage | i. to give or hold as security for a payment |
| 10. liquid assets | j. to let out money at interest |

5. According to the text, are the following sentences TRUE or FALSE?

If they are false, say why.

1. Choosing among sources of funds is the second part of the treasurer's job.
2. In a profitable firm revenue from sales is not enough to cover all costs.
3. Sometimes firms operating at a profit tap sources of funds other than sales revenue.
4. Debt-financing is getting cash or some other asset in return for a promise to pay settled sum plus interest.
5. Owners who invest equity capital are promised a set return and get a share of future profits.
6. Interest-earning liquid assets are part of working capital and cannot be sold by a firm.
7. The difference between short-term sources and long-term sources is duration of time for which they provide funds.
8. Debt that is backed by the borrower's willingness to repay is called a secured debt.
9. If the borrower is not able to repay the loan the lender takes over his property.
10. Corporations raise funds when people buy stock from them.
11. People with savings act as intermediaries between banks and borrowers.

6. *Speak on the following:*

- a) *What sources of funds the financial managers have at their disposal according to the figure in the text.*
- b) *What types of debt exist according to their duration and guarantee of repayment.*

Reading 2

7. Translate the following English word combinations referring to the vocabulary at the end of the unit.

Common form of unsecured short-term debt; bargaining power; to extend extra trade credit; to keep a checking account; to deposit cash register receipt; to be familiar with something; to ask for collateral for a loan; a prime rate; to have good credit ratings; to give written promise; to be not always the case; to supply funds to a firm; to use unsecured lines of credit; a set maturity date; to pay interest at an agreed-upon rate; to issue convertible bonds; common stock; to draw on their own savings; to go public; to raise stock's value.

8. Four major types of debt are referred to in the following text. Look through the text and say which they are.

Text 2. Choosing Among Sources of Funds

Financial managers have to take many factors into account in choosing among sources of funds. First, we will cover unsecured short-term debt, then secured short-term debt, then long-term debt, and finally equity.

Trade Credit. The most common form of unsecured short-term debt is trade credit. **Trade credit** means purchases on credit goods for resale or materials to be used in production.

Trade credit is widely used by **wholesalers, retailers,** and manufacturers. It tends to be more important for small firms than for large ones. The reason is that large firms often have better **credit ratings**, more **bargaining power** with banks, and greater **access** to other sources of funds.

In times when credit is hard to get, large firms often **extend** extra trade credit to smaller customers in order to keep their business.

Unsecured bank loans. Unsecured bank loans are a second major source of short-term funds. Firms usually get unsecured loans from the bank where they keep **checking accounts**, deposit their daily **cash register receipts**, and so on. A bank that **is familiar** with a firm's way of doing business and knows that it is **creditworthy** need not ask for collateral for each and every loan. The interest rate at which large banks make short-term loans to their most creditworthy customers is known as the **prime rate**.

Large firms with very good credit ratings are often able to borrow short-term funds from other nonfinancial firms, **insurance** companies, and even individuals, as well as from banks. In return for these unsecured short-term loans, they give written promises to repay that are known as **commercial paper**.

Secured short-term debt, in which current assets are used as collateral for loans, is another common source of funds. One might expect secured short-term loans to be less costly than unsecured loans because they present less risk to the lender, but this **is not** always **the case**. For one thing, secured loans require more paper work than unsecured loans because specific assets must be pledged to the lender. Also, lenders are willing **to supply** funds to creditworthy firms without collateral, so that in practice, secured loans are used more often by firms that do not have good credit ratings or have used up their unsecured **lines of credit**.

Firms that need funds for more than a year can use several kinds of long-term debt. The most important of these are **bonds** and **mortgages**.

A bond is a promise to repay a certain sum on a set **maturity date** and, in the meantime, to pay interest at an agreed-upon rate. Maturity dates are commonly ten to thirty years from the date of issue, but longer and shorter terms are possible. The interest payments are usually made twice a year, and are fixed for the life of the bond.

Bonds may be secured or unsecured. Secured bonds are backed by pledges of items of fixed capital, such as factory buildings. Unsecured bond, called **debentures**, are backed only by the firm's ability to repay. Sometimes firms issue **convertible bonds**. These can be exchanged for the shares of the firm's **common stock** at a stated price, usually higher than the stock's price at the time when the bond is issued.

A mortgage is a long-term loan secured by land or buildings. Mortgages are the main way of financing houses, apartments, and commercial developments. Owners of small businesses often raise funds with mortgages on their own houses as well as on their business property. Mortgage lenders may be banks, insurance companies, or other financial firms.

Equity financing include all funds that are contributed by owners of the firm. The sources of equity funds for a new firm depend on its form of organization. **Proprietorships** and **partnerships** draw on the savings of their owners, who are also the firm's managers. Corporations raise equity funds by selling stock sometimes to the firm's founders and managers, and sometimes to the public.

As a firm grows, there are three ways in which it can raise more equity funds. First, the owners can contribute more. Proprietors or partners

can put more funds into the firm from their personal savings. New shares of stock can be sold to a corporation's present shareholders.

Second, the firm can bring in new owners. A proprietorship can become a partnership or corporation. A partnership can incorporate or bring in new partners. And a corporation can issue new shares of stock, selling them to people who are not among its present shareholders. (When a closely held corporation offers to sell stock to anyone who is willing to buy it, it is said to be "**going public**").

Third, the firm can obtain equity funds by keeping some of its profits for reinvestment. Profits that are held for reinvestment rather than being paid out to shareholders as dividends are known as **retained earnings**. Using retained earnings as a source of funds does not increase the number of shares in the corporation. However, because each share represents part ownership of a firm with more total capital than before, retained earnings tend to raise the stock's **value**.

9. Find words and expressions in the text that mean nearly the same.

To bring in new partners producer to prolong current account, security or guarantee the amount received by no means to be held as security unsecured bond so invest to publish or to put forth stock cost

10. Match the words to make word partnerships from the text.

- | | |
|-----------------|---------------------|
| 1. creditworthy | a. trade credit |
| 2. to extend | b. savings of owner |
| 3. to supply | c. short-term debt |
| 4. secured | d. company |

- 5. the interest
- 6. to draw on
- 7. to go
- 8. to raise

- e. funds
- f. public
- g. the stock's value
- h. payments

11. Complete the table on the basis of information you derived from the text.

<p>I. Trade credit</p> <p>1. Trade credit means</p> <p>2. It is mostly used by, because</p>	<p>II. Unsecured bank loans</p> <p>1. Firms usually get this loan from</p> <p>2. The bank does not ask for collateral when</p> <p>3. Large firms may borrow short-term funds from</p>
<p>III. Secured short-term debt</p> <p>1. In secured short-term debt current assets</p> <p>2. Secured loans require more</p> <p>3. In practice secured loans are used more often by</p>	<p>IV. Long-term debt</p> <p>1. A bond may be defined as</p> <p>2. In contrast to secured bonds, unsecured bonds</p> <p>3. Convertible bonds can be exchanged for</p> <p>4. A mortgage can be defined as</p> <p>5. Mortgages are used for</p>
<p style="text-align: center;">V. Equity financing</p> <p>1. In proprietorships and partnerships the sources of equity funds are, and corporations raise equity funds by</p> <p>2. The first way to raise equity funds for firm's development is</p> <p>3. Second, the firm can</p> <p>4. Third, the firm can hold</p>	

12. Summarize the text on the basis of the completed table.

13. Choose the right form of the verb in the bracket in the Active or Passive Voice.

1. Currently the firm (is operating/is being operated) at a loss.
2. After all costs (had covered/ had been covered) some funds left.
3. If the right sources of funds (are chosen/will be chosen) the company will do well.
4. I (have put/put) excess money into my current account.
5. After the borrower (failed/had failed) to repay the loan, his property (was taken/took over) by the lender.
6. Equity funds (have been raised/have raised) by selling stock.
7. Some profits (were reinvested/had been reinvested) in new machinery last year.

14. Translate the following sentences and explain the meaning of modals.

1. The required information could be obtained if you have access to Internet.
2. I don't doubt you must have received an accurate picture of the financial position of the company.
3. I suspect revenues must have been falling for at least a month.
4. It could have been a coincidence but it was unlikely.
5. We will have to select some other source of funds.
6. Without doubt credit terms must be changed.
7. Without doubt credit terms must have been changed.

8. According to the contract he was to pledge some property to guarantee repayment.
9. Convertible bonds can be exchanged for shares.
10. You needn't phone him, he is already here.
11. You needn't have phoned them, the money has already been transferred to their account.

Essential words and phrases

Access to	– доступ к
In addition to	– кроме, помимо
Agreed-upon	– согласованный, решённый
To back	– обеспечивать, гарантировать
Bargaining power	– рыночная власть, позволяющая отстаивать свои интересы
Bond	– облигация
Cash	– наличные деньги
Cash register receipt	– кассовая выручка
Not to be the case	– не всегда так
Checking account	– чековый, текущий счёт
Collateral	– обеспечение
Commercial paper	– коммерческая бумага
Common stock	– обыкновенная акция
To contribute	– вкладывать
Convertible	– конвертируемый
Credit rating	– оценка кредитоспособности
Creditworthy	– кредитоспособность

Debenture	– облигация (не обеспеченная закладной)
Debt financing	– финансирование за счёт заёмных средств
Dimension	– сторона, аспект, характер, параметр
Equity financing	– финансирование путём выпуска акций
To extend	– продлевать, пролонгировать
To be familiar with	– быть знакомым, знать
To fail	– оказаться не в состоянии
To go public	– стать компанией открытого типа
A household	– семья, хозяйство
Insurance	– страхование
Intermediary	– посредник
(To) issue	– выпуск, выпускать, выдавать
Item	– предмет, пункт, позиция
Lender	– заимодавец, кредитор
Lines of credit	– кредитование в определённых пределах
Long-term	– долгосрочный
Mortgage	– закладная
Mortgage loan	– ссуда под недвижимость
Maturity date	– дата погашения
To operate at a loss	– работать в убыток
To pledge	– отдавать в залог
Prime rate	– базисная ставка процента
Profitable	– прибыльный
To promise	– обещать
Property	– имущество, собственность

Proprietorship	– единоличная собственность
To raise funds	– привлечь средства
Real estate	– недвижимость
To repay	– возвращать, отдавать долг
Retailer	– розничный торговец
Retained earnings	– нераспределённая прибыль
Saving	– сбережение
Secured	– обеспеченный, гарантированный
Set return	– твердый, постоянный доход, прибыль
Share	– доля, акция
Source	– источник
To supply	– снабжать, обеспечивать
Trade credit	– коммерческий кредит, дебиторская задолженность
Unsecured	– необеспеченный, негарантированный
Wholesaler	– оптовый торговец
Willingness	– готовность, желание

PART II

UNIT 1. ACCOUNTING, THE LANGUAGE OF FINANCE

1. Useful language. Read the following numbers.

<u>Years</u>							
1984	nineteen eighty-four						
2006	two thousand and six						
<u>Currencies</u>							
£3.15	three pounds fifteen						
\$7.80	seven dollars eighty						
€250	two hundred and fifty euros						
¥125	one hundred and twenty-five yen						
<u>Decimals</u>							
16.5	sixteen point five						
17.38%	seventeen point three eight percent						
0.185	(nought/zero) point one eight five						
<u>Bigger numbers</u>							
3,560	<table style="border-collapse: collapse; width: 100%;"> <tr> <td style="border-right: 1px solid black; padding: 0 10px;">three thousand five hundred</td> <td style="padding: 0 10px;"> </td> <td style="padding: 0 10px;">and sixty(BrE)</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 0 10px;"></td> <td style="padding: 0 10px;"> </td> <td style="padding: 0 10px;">sixty(AmE)</td> </tr> </table>	three thousand five hundred		and sixty(BrE)			sixty(AmE)
three thousand five hundred		and sixty(BrE)					
		sixty(AmE)					
598,347	<table style="border-collapse: collapse; width: 100%;"> <tr> <td style="border-right: 1px solid black; padding: 0 10px;">five hundred</td> <td style="padding: 0 10px;"> </td> <td style="padding: 0 10px;">and ninety-eight thousand, three hundred and forty seven (BrE)</td> </tr> <tr> <td style="border-right: 1px solid black; padding: 0 10px;"></td> <td style="padding: 0 10px;"> </td> <td style="padding: 0 10px;">ninety-eight thousand, three hundred forty seven (AmE)</td> </tr> </table>	five hundred		and ninety-eight thousand, three hundred and forty seven (BrE)			ninety-eight thousand, three hundred forty seven (AmE)
five hundred		and ninety-eight thousand, three hundred and forty seven (BrE)					
		ninety-eight thousand, three hundred forty seven (AmE)					
1,300,402	<table style="border-collapse: collapse; width: 100%;"> <tr> <td style="border-right: 1px solid black; padding: 0 10px;">one million three hundred thousand, four hundred</td> <td style="padding: 0 10px;"> </td> <td style="padding: 0 10px;">and two (BrE) two (AmE)</td> </tr> </table>	one million three hundred thousand, four hundred		and two (BrE) two (AmE)			
one million three hundred thousand, four hundred		and two (BrE) two (AmE)					

1m	one/a million (1,000,000)	
3bn	three billion (3,000,000,000)	
\$7.5bn	seven point five billion dollars	
€4,78m	four hundred	and seventy-eight million euros (BrE) seventy-eight million euros (AmE)

2. Translate into Russian the following groups of words of the same root.

To negotiate-negotiation-negotiator; to state-statement; to supply-supplier; to perform-performance-performer; to use-user-useful-usefulness; to invest-investment-investor; distinct-distinction-distinctly; to decide-decision-decisive; (to) judge-judgement; to govern-government-governmental; to communicate-communication.

3. Match the terms on the left with the definitions on the right.

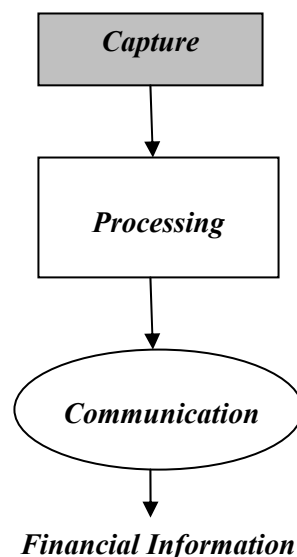
- | | |
|--------------------------|--|
| 1) bookkeeping | a) the level of output at which total revenue equals total costs |
| 2) managerial accounting | b) a compulsory payment of a percentage of income, property value, etc. |
| 3) financial accounting | c) the book of final entry in which a record of debits, credits and all money transactions is kept |
| 4) accounting | d) the branch of accounting that is concerned with reporting financial information to parties outside the firm |
| 5) Ledger book | e) preparing budgets and other financial reports necessary for management |

- | | |
|---------------------|--|
| 6) tax | f) writing down the details of transactions (debits and credits) |
| 7) tax accounting | g) keeping financial records, recording income and expenditure, valuing assets and liabilities and so on |
| 8) break-even point | h) calculating an individual's or a company's liability for tax |

Text 1. The Process of Accounting

Accounting is a kind of data processing. Like all data processing, it can be divided into three phases: **capture**, processing, and communication.

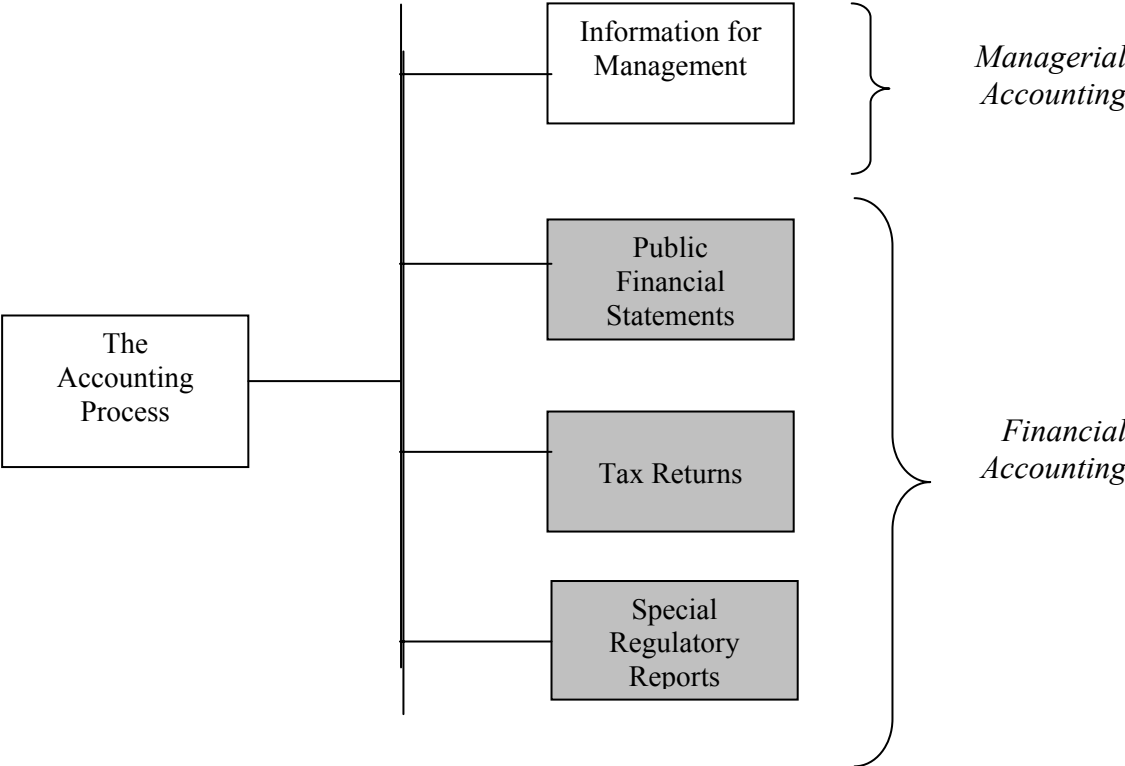
The data capture phase of accounting is called **bookkeeping**. Some people specialize in bookkeeping without performing other accounting functions. Others perform the full range of accounting functions, including bookkeeping.



Today accountants and bookkeepers use sophisticated computer programs instead of **ledger books**. Computers are especially helpful in the

data processing phase. In the processing phase of accounting, raw financial data are **turned into** useful information. This information is communicated in several forms to users both inside and outside the firm. Reports and data of many kinds go to the firm’s managers. Financial statements are made public for use by investors, customers, **suppliers**, unions, and others. **Tax returns** are **filed with** federal, state, and local governments. Finally, special reports are sent to government regulatory agencies.

A **distinction** is often made between managerial accounting and financial accounting. Managerial accounting **is concerned with** providing information to be used within the firm. Financial accounting, on the other hand, is concerned with reporting information to outside users.



Managerial accounting plays a role in almost every area of business decision making. However, few decisions can or should be made on the basis of accounting information alone. **Break-even charts** should be viewed as a **supplement** to judgment and experience in **setting prices**. And

labor negotiations require the skills of a poker player as well as the skills of a financial analyst.

The products of financial accounting are of three kinds.

- **Financial statements.** These statements list assets and liabilities, and profits or **losses**.

- Tax returns. Tax accounting is a specialty in itself. The government's rules for preparing tax returns often differ from the rules used to prepare financial statements.

- Reports to regular agencies. Regulated firms like banks, **utilities**, and railroads have to file detailed reports with the agencies that regulate them. Some regulations, such as those governing pension funds, apply to all firms.

Each type of statement must be prepared according to the rules set by law and by accounting profession itself. Accountants have **to fit** the rules **to** specific cases. Often the rules allow more than one way of reporting information, so that the accountant must choose the method that best **suits the firm's needs**.

4. Find the words in the text which mean the following:

to be involved or interested in some matter

something added

giving or receiving information

a sheet giving information in the form of diagrams, tables, etc; also a graph

official organization

a rule or law

all wage-earning workers

a company providing the service of gas, water, etc

an opinion or estimate

data collection

a row or series

a special interest or work

5. Discuss these questions.

1. What three phases is accounting divided into? What is done at each stage?
2. What is the difference between bookkeeping and accounting?
3. What are the advantages of using computers instead of Ledger Books?
4. What are the criteria of dividing accounting into two groups: managerial accounting and financial accounting?
5. What are the products of financial accounting?
6. What does the preparation of each type of statement depend on?

6. Choose the proper modal and translate the sentences into Russian.

1. This statement (had to/must) be prepared two days ago.
2. Generally accountants (should/were able to) fit the rules to specific cases.
3. This decision (must have been/should be) made in a hurry.
4. The firm (will have to/was able to) file the report with the bank by the end of the next month.
5. It's a pity that this statement has not been accepted. The accountant (should have chosen/ought to choose) another way of reporting information.

6. You (could have helped/might help) her in preparing tax returns last year.
7. These figures (might have been/may be) used in the previous report.
8. Accountants (are to/may) prepare statements according to the rules set by law.
9. The staff of the financial department (are to meet/might meet) in the office of Vice-President of Finance at 5 p.m.
10. When he was a trainee he (was not able to/needn't) prepare reports for the government regulatory agency.

7. We use the first conditional when the expected outcome of a situation is very likely, and the second conditional when the outcome is less certain or more imaginary.

Example:

If you order now, we will give you a discount.

If the government found some extra money, we would be prepared to create a subsidiary in your country.

Choose the correct verbs in the brackets to complete these sentences.

1. If you (are/will be) more attentive, you (will not make/don't make) mistakes in the statements.
2. If you (were/would be) more attentive, you (would not make/don't make) mistakes in statements.
3. If you (try/would try) once more, you (will succeed/would succeed) in learning this operation.
4. If you (tried/were trying) once more you (would succeed/will succeed) in learning this operation.

5. If he (does/did) his best, he (will graduate/graduated) with honors.
6. If he (did/will do) his best, he (would graduate/graduated) with honors.
7. (Would/does) it help you if we (sent/send) the regulations in time?
8. If you (are not giving/don't give) us a new credit, we (will have/had) to find a new supplier.
9. If you (will join/joined) an association of producers, we (would get/will get) a better price for our product.

Essential words and phrases

To apply to	– применяться к
Bookkeeping	– счетоводство, бухгалтерия
Break-even chart	– график безубыточности
Communication	– передача информации, данных
To be concerned with	– заниматься чем-либо
Capture	– сбор информации
Distinction	– различие
Experience	– опыт
To be filed with	– представить, заполнить налоговую декларацию
Financial statement	– финансовый отчёт
Judgment	– решение, оценка
Ledger book	– бухгалтерская книга
To list	– вносить в список
Loss	– убыток
Negotiations	– переговоры, ведение переговоров

A regular agency	– официальное учреждение, организация
Regulation	– предписание, распоряжение
Report	– отчёт
To report	– докладывать, сообщать, отчитываться
To set price	– назначать цену
To suit smth	– удовлетворять требованиям, подходить, соответствовать
Supplement	– дополнение
Tax return	– налоговая декларация
To turn into	– превращаться
Utilities	– коммунальные предприятия

UNIT 2. THE BALANCE SHEET

Reading 1

1. Translate into Russian the following words and word combinations.

Retained earnings, to put funds into, at a given point in time, accounting equation, borrowed funds, to be equal to, to exceed liabilities, to collect accounts receivable, to redeem bonds, to subtract from assets, a way of defining equity.

2. Match up the terms on the left with the definitions on the right.

- | | |
|------------------|---|
| 1) balance sheet | a) capital; the difference between assets and liabilities |
|------------------|---|

- | | |
|------------------------|---|
| 2) accounts receivable | b) the payment of all obligations and the conversion of all assets into cash for apportionment (распределение) among the owners of a business |
| 3) accounts payable | c) everything of value owned by a firm |
| 4) liquidation | d) the ownership interest in a company |
| 5) assets | e) the sums owed by a firm to its suppliers |
| 6) equity | f) the sums owed to a firm by its customers |
| 7) net worth | g) a financial statement summarizing the firm's assets, liabilities and net worth at a point in time |

3. Match words and word combinations in A with their synonyms in B.

A. To be called, to give a way, to put into, relationship, to put stress, to remain, to be equal, to exceed, to redeem, to define, to subtract;

B. To go or be beyond, to determine, to give accent to, connection, to pay off, to be left over, to give a manner, to be referred to, to take away, to contribute to.

Text 1. The Accounting Equation

Assets, we said, are all the things that a firm owns or that are owed to it. Liabilities are all the things that it owes. **Owner's equity** refers to funds that a firm's owners have put into it, either directly or through retained earnings.

A firm's **balance sheet** is a financial statement that lists its assets, liabilities, and owners' equity at a given point in time. The balance sheet is based on a logical **relationship** that can be written as

$$\textit{Assets} = \textit{liabilities} + \textit{owner's equity}$$

This is known as the **accounting equation**.

The accounting equation is just a statement of the fact that all of a firm's assets have to come from somewhere. The firm may buy them with borrowed funds, which show up on the right-hand side of the equation as liabilities, or it may get them with funds contributed by owners (sales of stock, retained earnings, and so on), which show up as owner's equity.

Sometimes it is useful to write the accounting equation in another way. If assets and liabilities are placed on the same side of the equation, it becomes

$$\textit{Assets} - \textit{liabilities} = \textit{owner's equity}$$

This form of equation puts more stress on the fact that owners' equity is equal to the amount by which assets **exceed** liabilities. Suppose a firm turned all of its assets into cash, that is, sold its plant and inventories, collected its accounts receivable, and so on. Suppose it then used the cash to pay off all of its liabilities, that is, paid its **accounts payable** and bank loans, **redeemed** its bonds, and so on. This is called **liquidation**. When all the liabilities were paid, whatever was left would belong to the owners. This form of accounting equation gives us a way of **defining** equity. Owners' equity in a firm is the sum that remains after liabilities have been subtracted from assets. This sum is often called the firm's **net worth**.

4. Fill in blanks in the following sentences with the proper words and word combinations from the text.

1. The funds that a firm's owners contribute to it are called
2. shows a logical relationship of assets, liabilities and owners' equity.
3. Owners' equity equals minus liabilities.
4. When a firm pays all its liabilities this operation is called
5. When we liabilities from assets we get net worth.

5. Answer the following questions to the text.

1. What do assets include?
2. What about liabilities?
3. How does a firm get owner's equity?
4. What is the balance sheet?
5. What form does accounting equation acquire when stress is put on the fact that owner's equity is equal to the amount by which assets exceed liabilities?
6. What is meant by the term liquidation?
7. What remains after liabilities have been subtracted from assets?

Reading 2

6. Read the text carefully and answer the following questions.

1. What two parts does a typical balance sheet consist of?
2. What items does each part include?
3. What items come under the heading of current events?
4. What does subtracting of total liabilities from total assets give?

Text 2. A Typical Balance Sheet

We see now where the balance sheet gets its name. When assets are listed in a column on the left-hand side and liabilities and equity are listed in a column on the right, the **totals** of the two columns must balance.

On the asset side of the balance sheet liquid assets (cash and securities), accounts receivable, and inventories come under the heading of current assets.

Balance Sheet for 3M Company		December 31, 2002	
<i>Assets</i>		<i>Liabilities and Owner's Equity</i>	
Current assets		Current liabilities	
Liquid assets	\$ 150	Accounts payable	\$ 324
Accounts receivable	1108	Short-term debt	301
Inventories	1529	Other current liabilities	580
Other current assets	128		-----
	-----	Total current liabilities	\$1205
Total current assets	\$2915	Long-term debt	340
		Other long-term liabilities	421
Fixed assets	2214		-----
Other long-term assets	385	Total liabilities	\$1966
	-----	Owner's equity	3548

Total assets	\$5514	Total liabilities plus equity	\$5514

Fixed assets (property, plant, and equipment) come next. A small amount of other assets **bring** the total **up** to \$5514 million.

On the other side of the balance sheet, liabilities are listed first. Short-term liabilities include accounts payable, short-term debt, and others. Among the others are wages and salaries earned by employees but not yet paid to them and **income taxes** payable to the government within the

current year. The firm also had \$340 million in long-term debt and \$421 million in other long-term liabilities.

3M's total liabilities come to \$1966 million. Subtracting them from the total assets of \$5524 million yields \$3548 million in owner's equity. This is how much 3M's shareholders would have left to divide up **in the event** of a liquidation in which all assets were sold at the **values** shown on the balance sheet and all liabilities were paid out of the **proceeds**.

7. Match the words to make word partnerships.

- | | |
|------------|----------------|
| 1. income | a. year |
| 2. assets | b. liabilities |
| 3. current | c. assets |
| 4. total | e. liquidation |
| 5. fixed | f. tax |

8. Read the text again and match the word partnerships in exercise 7 to their definition.

- a) the conversion of assets into cash to divide it up among the owners of a business
- b) levy based upon the income earned by individuals and certain corporations
- c) something that a firm expects to hold for more than a year including fixed capital and land
- d) year that now is in progress
- e) the whole sum of debt of a business or an individual

Reading 3

9. Read and translate the following groups of words of the same root:

Ease–easily–easiness; creative–to create-creator-creativity; to withdraw-withdrawal; equal-equally-equality; to replace-replacement; to follow-follower; to enter-entry; simple-simply-simplicity; to produce-producer-production-productive-productivity; to add-addition-additional-additionally.

10. Match words and word combinations in A with their synonyms in B.

- A.** To keep track, to upset, to give rise, to withdraw, amount, to go up, to go down, the same, transaction;
- B.** A deal, to lower, a sum, to take back, to rise, to result in, to break, to watch, equal.

Text 3. Double-Entry Bookkeeping

One of the most useful features of the balance sheet is the **ease** with which it can be used **to keep track** of changes in assets, liabilities, and owner's equity.

Changes in the balance sheet are made according to the principle of **double-entry bookkeeping**. This principle, in use for over five hundred years, states that the accounting equation must continue to hold each time a change is made. To keep the equation from being **upset**, each **transaction** must **give rise** to two new **entries** on the balance sheet; hence the term double-entry bookkeeping.

We can see how double-entry bookkeeping works by using a simple example. One fine spring day Carl, an office worker, decides that it would be nicer to spend the summer selling cookies from a pushcart on the

sidewalk in front of his office than sitting at a desk inside. He decides to start a business, which we will call Carl’s Cookie Cart.

Starting up. The next day Carl **withdraws** \$1000 from his bank account and put it into the firm as its **starting capital**. This **creates** two entries on the balance sheet, an asset of \$1000 in cash and owner’s equity of \$1000. At that moment, the balance sheet looks like this.

Assets		Liabilities and Owner’s Equity	
Cash	\$1000	Liabilities	\$ 0
	-----	Owner’s equity	1000

Total assets	\$1000	Liabilities plus owner’s equity	\$1000

The lesson: When owners put capital into a firm, assets and owner’s equity increase by **equal amounts**.

Going into production. Carl takes his \$1000 and goes shopping. First, he spends \$800 on a used pushcart. Next he goes to the supermarket and spends \$100 on flour, eggs, chocolate chips, shortening, sugar, baking powder, vanilla, and salt. With these ingredients he bakes 500 cookies. When he hit the street the next morning, his balance sheet looks like this.

Assets		Liabilities and Owner’s Equity	
Cash	\$ 100	Liabilities	\$ 0
Inventory	100	Owner’s equity	1000

Fixed assets	800		

Total assets	\$1000	Liabilities plus owner’s equity	\$1000

Once again, each transaction is entered twice. When the cart is bought, fixed assets go up by \$800 and current assets go down by the same amount. When ingredients for the cookies are bought, cash drops for another \$100 and inventories go up by \$100. The lesson: One asset can be exchanged for another of equal value without upsetting the accounting equation.

The first day in business. Carl’s 500 cookies cost 20c each to make. He prices them at 30c, allowing 50 percent **markup** over cost. By the end of the day he has sold all of the cookies and has **taken in** \$150 in cash. On his way home he stops by the supermarket to buy another \$100 **worth** of ingredients with which **to replace** his inventory. By the time he gets home, his balance sheet looks like this.

Assets		Liabilities and Owner’s Equity	
Cash	\$ 150	Liabilities	\$ 0
Inventory	100	Owner’s equity	1050

Fixed assets	800		

Total assets	\$1050	Liabilities plus owner’s equity	\$1050

Again the principle of double-entry bookkeeping has been **followed**. Carl’s first day profit added \$50 to his firm’s total assets. In order not **to violate** the accounting equation, this \$150 has to be balanced by an entry somewhere on the balance sheet. The proper entry is an increase in owner’s

equity. The lesson: If assets increase while liabilities **remain** constant, owner's equity increases by the same amount.

11. Find the words in the text which mean the following:

- a. To provide an equivalent for;
- b. The amount by which the price of a product is raised above the cost;
- c. To take as a model or to imitate;
- d. Fail to observe;
- e. A thing written down;
- f. To go on being;
- g. A record of business transactions.

12. Answer the following questions.

1. Why is it convenient to use the balance sheet?
2. What principle is double-entry bookkeeping based on?
3. What happens with assets and owner's equity when owners put capital into business?
4. What will happen with owners' equity if assets increase while liabilities remain constant?

13. Discussion. Turn to the balance sheet given for Carl's Cookie Cart. Beginning from that point, show how each of these transactions would be recorded on the balance sheet.

- a. *Carl decides that his used pushcart isn't good enough anymore. He finds a new one that costs \$2000. The dealer gives him a trade-in of \$800 on the old cart. Carl raises the other \$1200 with a short-term unsecured bank loan. What does his balance sheet look like now?*

b. One day Carl bakes 500 cookies, as usual, at a cost of \$100. He hits the street with his inventory, but before he has sold a single cookie a violent thunderstorm strikes. The storm blows away the umbrella from his cart, and all the cookies are ruined by the rain. What effect does this have on each side of the balance sheet?

Reading 4

14. Find the Russian equivalents in the right column for the English word combinations in the left column.

- | | |
|--|--|
| 1) income statement | a) определённые продукты |
| 2) gradual wearing out | b) чистый расход на выплату процентов |
| 3) extended period | c) валовая прибыль |
| 4) cost of goods sold | d) доход до вычета налога |
| 5) obsolescence of fixed assets | e) закупочная цена |
| 6) purchase price | f) общие и административные расходы |
| 7) gross profit | g) устаревание основных средств |
| 8) general and administrative expenses | h) себестоимость реализованной продукции |
| 9) specific products | i) длительный период |
| 10) net interest expense | j) постепенный износ |
| 11) income before tax | k) отчёт о доходах |

Text 4. A Typical Income Statement

An **income statement** for 3M Company is shown in the figure. The balance sheet of this company gave its financial position at a single point in

time, December 31, 2002. The income statement, in contrast, covers an **extended** period – in this case, all of 2002. All **amounts** are in millions of dollars.

The first line of the income statement is **labeled net sales**. This gives the total value of the products sold by the firm during the year, minus any **items** that were returned for credit.

The next line is labeled **cost of goods sold**. This includes all costs that can be **attached to** specific products, including parts, materials, **labor**, and so on. It also includes **depreciation**. Depreciation is the cost of the **gradual wearing out** or **obsolescence** of fixed assets. For example, suppose a spot welder that costs \$4000 is used to make one of 3M’s products. This machine is expected to wear out after five years. Each year, one fifth of the purchase price, or \$800, is included as a cost on the income statement. For 3M, total depreciation costs in 2002 were \$325 million. Net sales minus cost of goods sold is called **gross profit**.

<i>Income Statement for 3M Company, 2002</i>	
Net sales	\$6601
Minus cost of goods sold	3881

Gross profit	\$2720
Minus selling, general, and administrative expenses	1672

Operating income	\$1048
Minus net interest expense	34

Income before taxes	\$1014
Minus income taxes	383

Net income profit	\$ 631

Source: 3M Company, Annual Report, 2002, p. 32.

The next item on the income statement is labeled “**selling, general and administrative expenses.**” These include all **marketing costs** and all costs that cannot be **assigned to specific** products, for example, the pay of top managers. Some of 3M’s \$325 million of depreciation is included in this line: this reflects depreciation of such items as office equipment. Gross profit minus these expenses equals **operating income.**

Net interest expense is the next line on the income statement. This item includes interest payments on all of 3M’s long- and short-term debt. It is a net figure because it has been **adjusted to** account for interest payments and other investment income received by 3M during a year. Operating income minus net interest expense gives **income before tax**, also called profit before tax.

The next line of the statement shows the taxes that 3M owes on its income. When these are subtracted, the result is net income or profit. When business people say, “Keep your eye on the bottom line,” they mean, “Pay attention to net income,” which **appears** on the bottom line of the income statement.

15. Match up the terms on the left with the definitions on the right.

income statement	gross profit minus cost that cannot be assigned to specific products (selling, general, and administrative expenses)
gross profit	operating income minus net interest expense (or plus net interest expense)
depreciation	the total value of the products sold by the firm after deductions of any items that were returned for credit

cost of goods sold	the reduction in value of a fixed asset during years it is in use
net sales	the difference between sales and the cost of goods sold (labor, material, factory, overhead)
income before tax	all costs that can be assigned to particular products, including parts, materials, labor and so on
operating income	summary of a firm's revenue and costs over a given period of time

16. Match words and word combinations in A with their synonyms in B.

- A.** Obsolescent, contrast, gradual, to attach to, fixed assets, particular, to label, to extend, to adjust, depreciation, income statement, share assets;
- B.** To assign to, specific, to name, non-current assets, amortization, to prolong, being out of date, difference, profit and loss account, little by little, owners' equity, to become suited or fit.

17. Complete the following sentences which summarize the text.

1. An income statement is an account of a firm's
2. Net sales show the total value of the products
3. The cost of sold goods includes all expenses for the production of
4. When cost of goods sold is deducted from net sales
5. We get operating income when selling, general and administrative expenses are
6. The item named net interest expense includes
7. If we deduct net interest expense from operating income
8. When taxes are subtracted from income before tax

18. We can combine two or more nouns and one noun is used as an attribute. Match each noun in column 1 to two of the nouns in column 2 to make partnerships.

<i>Column 1</i>	<i>Column 2</i>		
1. business	a. equation	b. cards	c. plan
2. income	a. tax	b. statement	c. partnership
3. interest	a. rate	b. labor	c. payment
4. investment	a. return	b. income	c. liaison
5. office	a. worker	b. equipment	c. markup
6. labor	a. negotiations	b. technology	c. force
7. company	a. budget	b. profits	c. route
8. credit	a. item	b. card	c. discovery
9. tax	a. rate	b. liability	c. investment
10. costs	a. expenses	b. reduction	c. assets

19. Complete the sentences with the present simple or the present continuous.

1. a) This year we (try) to cut our expenses for R&D.
 b) Each company always (keep track) of all changes in assets, liabilities and owners' equity.
2. a) Companies (use) different sources for raising funds.
 b) At the moment the human resource department (look for) a new accountant executive.
3. a) L'Oreal (sell) cosmetics to consumers around world.
 b) This year L'Oreal (invest) over £180m in R&D.
4. a) The marketing department always (keep) within its budget
 b) Because the company made a loss last year, the marketing department (try) to reduce costs.

20.Discussion. *We have not yet seen an income statement for Carl's Cookie Cart. Suppose that Carl is able to sell cookies on 100 days during the year. He sells an average of 500 cookies a day. Ingredients cost 20¢ per cookie, and the cookies are sold for 30 ¢ each. Carl puts down \$200 of depreciation on his cart as a general expense. Interest on his loan for the year is \$150. Carl is not incorporated, so he figures taxes at his personal tax rate, which is 35 percent.*

Arrange this information in the form of an income statement for the 100-day period, using 3M's income statement. (Note that in Carl's case depreciation is considered a general expense rather than a cost of goods sold. What's Carl's gross profit? Operating income? Income before tax? Net income?)

Essential words and phrases

Accounting equation	– бухгалтерская сбалансированность, бухгалтерское тождество
Accounts payable	– кредиторская задолженность, счета к оплате
To adjust	– скорректировать, урегулировать
Amount	– сумма, величина
To appear	– появляться
To assign to	– распределять, предназначать, передавать
To attach to	– приписывать

To balance	– равняться
Balance sheet	– баланс, балансовый отчёт
To bring up	– приводить, дополнять, изменять в соответствии с новыми данными
Cost	– затраты, издержки, расходы – цена, стоимость, себестоимость, актив
Cost of goods sold (syn. cost of sales)	– себестоимость реализованной продукции, себестоимость продаж
To define	– определять
Depreciation	– износ, обесценивание, амортизация
Double-entry bookkeeping	– учёт по системе двойной записи
Entry	– бухгалтерская запись, проводка, занесение
Equal	– равный
To exceed	– превышать
To follow	– соблюдать, придерживаться
General and administrative expenses	– общие и управленческие расходы
To give rise	– дать повод, иметь результатом
Gradual	– постепенный
Gross profit	– валовая прибыль
Income statement	– отчёт о доходах
Income tax	– подоходный налог
Interest expenses	– расходы на выплату процентов
In the event of	– в случае
Item	– запись, проводка, статья в счёте, баланс

To keep track	– прослеживать
To label	– обозначить, записать
Labor	– рабочая сила
Marketing expenses	– торговые расходы
Markup	– повышение цены
Net	– чистый, без вычетов, чистая прибыль
Net sales	– чистая выручка (сумма поступлений от продаж минус зачётные статьи, например, возвраты, торговые скидки, транспортные расходы)
Net worth	– чистый капитал, акционерный капитал
Obsolescence	– устаревание
Operating income	– операционная прибыль, прибыль от ведения операций
Proceeds	– поступления, выручка, доходы
To put stress	– делать упор, акцент
Relationship	– соотношение
To remain	– оставаться
To replace	– пополнить, восстановить
Selling expenses	– торговые расходы
Starting capital	– начальный, стартовый капитал
To take in	– собрать, выручить
Total	– сумма, итог
Transaction	– операция, проводка
(To) upset	– нарушать, нарушение
To violate	– нарушать

To wear out	– изнашиваться
To withdraw	– снимать со счёта
Worth	– стоимость, цена

UNIT 3. INTERPRETING FINANCIAL STATEMENTS

Reading 1

1. Fill in the gaps in the text with the best word.

Text 1. Financial Comparisons

Financial statements have many users. Managers use them to (1) the firm's **performance** relative to that of other firms and **to pinpoint** problems that need actions. Lenders, such as banks and bondholders, use them to (2) the risk of lending to a firm. Stockholders use them to decide how much a share of a firm's stock is worth. And regulatory agencies use them for such purposes as deciding whether to allow a (3) to increase the rates it charges its customers.

For each of these purposes, more is needed than a single balance sheet or income statement. Most of the numbers in financial statements **take on meaning** only when they are (4) with other numbers. Three kinds of comparisons are used in (5) financial statements.

* *Comparisons with other years.* Are the firm's sales and profits rising? If so, at what rate? Is owner's equity growing? What is the trend in earnings per share? Has the ratio of debt to equity risen or fallen? Trends like these often are more important than (6) numbers.

* *Comparisons with other firms.* Are the firm’s sales down while its competitors’ sales are rising? Or are the firm’s sales down only a little while those of competitors have (7) a lot? It clearly makes a difference. One case would indicate weak management in a strong market situation, (8) the other would indicate strong management doing the best it could in a weak market situation.

Comparisons with other items on the balance sheet or income statement.* Often it is useful **to restate information (9) some common base, such as sales or total assets. For example, a series of income statements, each with all items stated as a percentage of sales, might show an (10) trend in general and administrative expenses. This might indicate the problem such as (11) to control staff salaries.

- (1) a) evaluate b) state c) define d) show
- (2) a) increase b) gauge c)lend d) use
- (3) a) company b) enterprise c) utility d) agency
- (4) a) reduced b) retained c) compared d) discussed
- (5) a) converting b) understanding c) interpreting d) assuming
- (6) a) appropriate b) stock c) code d) absolute
- (7) a) indicated b) dropped c) suited d) provided
- (8) a) whereas b) as c) in order to d) which
- (9) a) in return b) in terms of c) in spite of d) according to
- (10)a) new b) straight ward c) modern d) upward
- (11)a) regulation b) failure c) equation d) willingness

Reading 2

2. Translate the following groups of words of the same root.

Efficient-efficiently-efficiency, profit-profitable-profitability, solvent-solvency, meaning-meaningful, to accept-acceptable-acceptance, measure-measurement-measurable, expense-expensive-expensively, to attract-attractive-attractiveness, to invest-investor-investment, to compare-comparison-comparatively.

3. Translate the following words and word combinations into Russian.

Commonly used ratios, to measure performance, to measure solvency, current liabilities, according to, debt-to-equity ratios, to have bearing on, to be acceptable for, to take into account, profitability measure, a related ratio, to yield the ratio.

4. Find the English equivalents in the right column for the following Russian words and word combinations in the left column.

- | | |
|--|-----------------------------------|
| 1) коэффициент оборачиваемости запасов | a) leverage |
| 2) оплатить краткосрочные задолженности | b) to be meaningful |
| 3) прибыль на акционерный капитал | c) return on assets |
| 4) коэффициент текущей ликвидности | d) to have bearing on |
| 5) платёжеспособная компания | e) inventory turnover ratio |
| 6) иметь влияние на | f) a solvent company |
| 7) соотношение собственных и заёмных средств | g) to meet short-term liabilities |
| 8) привлечь акционерный капитал | h) return on equity |

9) иметь значение, смысл

i) current ratio

10) прибыль на общую сумму активов

j) to attract equity capital

Text 2. Ratio Analysis

Many financial comparisons are based on **ratios**, such as the ratio of sales to inventory or that of debt to equity. Ratios make it easy to see trends and compare a firm's **performance** with industry norms. The most commonly used ratios are those that **measure solvency, efficiency, and profitability**. Let's look at some examples of each.

Measuring solvency. A firm is said to be solvent if it can get the cash it needs to meet its short-term liabilities as they **come due**. One of the most commonly used measures of solvency is the **current ratio**. This is the ratio of all current assets – liquid assets, accounts receivable, and inventories – to current liabilities. According to the balance sheet of 3M Company it had current assets of \$2915 million and current liabilities of \$1205 million at the end of 2002. Its current ratio was thus 2.4 to 1. A firm is considered solvent on this measure if its current ratio is 2 to 1 or above.

A related ratio is that of debt to equity. The **debt-to-equity ratio** is equal to total debt divided by owners' equity. This is really more a measure of **leverage** than a measure of solvency, since it includes both short- and long-term debt. However, it **has some bearing on** solvency, since a low debt-to-equity ratio makes it easier for a firm to borrow to meet its short-term cash needs. In 2002, 3M's debt-to-equity ratio was 0.08 to 1. A ratio higher than 1 to 1 would make a firm a risky borrower.

Measuring efficiency. Some ratios are used to measure a firm's efficiency. One such ratio is that of sales to inventory, called the **inventory**

turnover ratio. This ratio varies widely from one industry to another. It is **meaningful** only when compared with industry norms. Taking the sales figure of \$6601 million from 3M's income statement (page ...) and dividing it by the inventory figure of \$1529 million from its balance sheet yields the ratio of 4.3 to 1. This is **acceptable** for a manufacturing firm.

Measuring profitability. The final use of ratios is to measure a firm's profitability. The most important are those that compare profit to the capital invested in a firm.

One such measure is **return on equity (ROE)**. This is found by dividing net income by owner's equity. For 3M, ROE was 17.8 percent in 2002. ROE is a very important ratio for investors – it shows how much is available for dividends and reinvestment each year for each dollar of equity capital they put in. Unlike many other ratios, ROE can be meaningfully compared across industry groups. Industries with a higher than average ROE tend to grow and attract new equity capital. It is harder to attract capital to industries with a lower than average ROE, and such industries tend to **shrink**.

Another profitability measure is **return on assets (ROA)**. This is found by dividing net income plus interest expense by total assets. ROA is a more general measure than ROE in that it **takes into account** funds from all sources, both debt and equity. For 2002, 3M's ROA was 12 percent.

5. Find in the text words or word combinations that mean the following:

- a) the result of dividing current assets by current liabilities;
- b) a firm's ratio of total debt to total equity;
- c) the ability of a firm to pay off its short-term liabilities;

- d) the ratio of total debt (short-term and long-term) to owners' equity;
- e) to have tendency to decrease;
- f) the ratio of sales to inventory;
- g) to become payable as previously arranged;
- h) net income expressed as percentage of owners' equity;
- i) net income plus interest expense expressed as percentage of total assets.

6. Find the answers to the following questions in the text.

1. Why are financial comparisons used in the accounting?
2. What are the most widely used ratios?
3. When is a firm considered to be solvent?
4. What is a measure of the firm's solvency?
5. What is the debt-to-equity ratio equal to?
6. Why is it considered to be more a measure of leverage than a measure of solvency?
7. Why does this ratio have some bearing on solvency?
8. What is one of the ratios that is used to measure a firm's efficiency?
9. How can the inventory turnover ratio be found?
10. What are measures of a firm's profitability?
11. How can return on equity be found?
12. Why is return on equity very important for investors?
13. How can return on assets be calculated?
14. Why is it a more general measure than ROE?

7. Speak on the following:

- a) A firm's solvency;
- b) The debt-to-equity ratio as a measure of leverage;

- c) Determining a firm's efficiency;
- d) Return on equity as one of the measures of a firm's profitability;
- e) Return on assets as another profitability measure;

8. Choose the appropriate form of the infinitive in the brackets and translate the sentences.

1. Managerial accounting provides information (to use/to be used) within the firm.
2. Today accountants are likely (to use/to be used) computers instead of ledger books.
3. Accounting is known (to divide/to be divided) into three phases: capture, processing, and communication.
4. I am sorry (to lose/to have lost) the annual report.
5. There are many sources of funds (to raise/to be raised) by a firm.
6. Do you remember (to have been called/to be called) by the customer yesterday?
7. We can't afford (to be increased/to increase) the budget for the production department.
8. I can't remember (to have made/to make) any changes in the balance sheet.
9. One of the principles (to observe/to be observed) in accounting is accounting equation.
10. The company has too many branches (to keep track/to have kept track) of their financial activities.
11. He regrets not (to present/to have presented) the income statement in time.
12. He was the last (to come/to have come) to the budget meeting.

Essential words and phrases

Acceptable	– приемлемый, подходящий
Bearing	– отношение, значение
To come due	– наступать (о сроке оплаты)
Current ratio	– коэффициент текущей ликвидности, квота оборотных средств (отношение оборотных средств к краткосрочным обязательствам)
Debt-to-equity ratio	– отношение заёмных средств к собственному капиталу
Efficiency	– производительность, удельная эффективность
To evaluate	– оценивать
Failure	– недостаток, провал
To gauge	– измерять, проверять
To interpret	– объяснять, толковать
In terms of	– в переводе на, в исчислении, в единицах, в показателях
Item	– запись, проводка, статья в счёте, балансе
Inventory turnover ratio	– коэффициент оборачиваемости запасов
To lend	– ссужать, давать займы
Leverage	– соотношение собственных и заёмных средств
(To) measure	– мера, показатель; измерять
To be meaningful	– иметь значение, смысл
Performance	– работа, функционирование
To pinpoint	– точно определять или указывать

Profitability	– прибыльность
Ratio	– соотношение, коэффициент
To restate	– повторно изложить
Return on assets	– фондорентабельность, прибыль на общую сумму активов
Return on equity	– коэффициент отдачи акционерного капитала, прибыль на акционерный капитал
To shrink	– сокращаться
Solvency	– платёжеспособность
To state	– изложить
Stock	– запас, акция
To take into account	– учитывать, принимать во внимание
To take on meaning	– осмысливаться, приобретать значение, смысл
Upward	– вверх
Whereas	– в то время как

PART III

UNIT 1. BANKING AND THE FINANCIAL SYSTEM

Reading 1

1. Find the Russian equivalents for the English word combinations in the left column.

- 1) to put surplus funds to work а) ликвидироваться в результате банкротства

- | | |
|--|---|
| 2) units of government | b) взимать с заёмщиков проценты |
| 3) on the whole | c) банкротство компании |
| 4) to have strong points | d) постоянный поток вкладов |
| 5) to lend a large amount | e) передать средства |
| 6) from the saver's point of view | f) стоит заплатить за |
| 7) to be worth paying for | g) с точки зрения вкладчика |
| 8) to commit funds | h) одолжить большую сумму денег |
| 9) a steady stream of deposits | i) иметь сильные стороны |
| 10) failure of a firm | j) в целом |
| 11) to charge borrowers an interest rate | k) заставить излишние средства работать |
| 12) to be wiped out by a failure | l) правительственные учреждения |

2. Match words and word combinations in A with their synonyms in B.

- A.** A household, surplus funds, a steady stream, saver, to aid, disaster, failure, to avoid, to absorb, to wipe out, to suit needs;
- B.** Continuous flow, depositor, a family, to help, catastrophe, bankruptcy, to keep away from, to take in, to destroy, to match needs, excess money.

Text 1. The Structure of the Financial System

The finance is the process of getting and putting to use the funds that a firm needs to do its business. The financial system is the network of institutions through which firms, households, and units of government get the funds they need and put surplus funds to work.

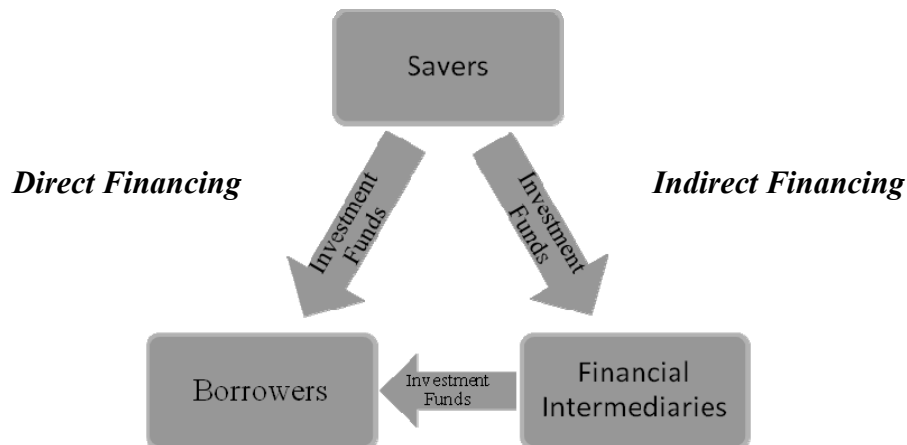
Any financial unit is considered to be a saver if it earns more than it spends and a borrower if it spends more than it earns. Some households are savers and some are borrowers, but on the whole, households earn more than they spend. Thus, they serve as a source in the financial system. Likewise, some firms and some units of government are savers while others are borrowers, while on the whole, business and government sectors spend more than they save.

Two **pathways** connect savers and borrowers: direct financing and indirect financing. Direct financing is the process in which a user of funds gets them directly from savers. Corporations use direct financing when they sell stocks and bonds to the public. Units of government use direct financing when they sell bonds and other securities.

Indirect financing is the process in which a user of funds gets them from an intermediary, such as a bank, which in turn gets them from savers. Banks and other institutions that **aid** in this process are known as financial intermediaries.

Direct financing has its strong **points**. It is **suitable** for savers who want the risks and potential **rewards** of ownership. It is also suitable for savers who have large amounts of funds to lend. From the saver's point of view, direct financing is a bit like buying goods directly from the factory.

For many savers, though, indirect financing is a better way to put funds to work. The role of financial intermediaries in the financial system is a bit like that of wholesalers and retailers in the distribution of goods: they provide services that their customers believe **are worth** paying for.



One service that banks and other financial intermediaries provide is matching the size and **terms** of borrower's needs with those of savers. For example, suppose a borrower needs a twenty-year \$100000 loan to buy a building. It would not be easy to find one saver who was willing **to commit** such a large block of funds for such a long time. But there are always many savers looking for a chance to put small amounts of funds to work for short periods. A bank can gather a steady **stream** of short-term deposits from such savers and use them to make large, long-term loans to suit borrowers' needs.

A second service that financial intermediaries provide is reducing the risk to savers. In any business loan there is some risk that the borrower will not be able to repay. If a household were to place all of its savings in a loan to a single firm, **failure** of that firm would be a **disaster** for the household. But a bank makes loans to many firms using funds gathered from many depositors. A few of the loans will not be repaid. But the bank can **absorb** these losses by **charging** borrowers a slightly higher interest rate than the rate it pays to depositors. Depositors are happy **to accept** the lower interest rate **in return** for **avoiding** the risk that all their savings will be **wiped out** by a single business failure.

3. Find sentences characterizing the following:

- a) the purpose of the financial system;
- b) the case when a corporation uses direct financing;
- c) the role of financial intermediaries in indirect financing;
- d) the primary service of banks and other financial intermediaries;
- e) the second service provided by banks;
- f) the way the bank covers its losses when they occur;
- g) the reason why depositors agree to accept a lower interest rate offered by banks.

4. Each sentence is the answer to a question. Make the question with the interrogative word suggested.

Model: *The financial system is a network of financial institutions. (What)*

What is meant by the financial system?

- 1. A financial unit is considered to be a saver if it earns more than it spends. (*When*)
- 2. On the whole households serve as a source in the financial system. (*What*)
- 3. Units of government get direct financing by selling bonds and other securities. (*How*)
- 4. If a user gets funds from an intermediary the financing is called indirect. (*Why*)
- 5. Direct financing is suitable for savers who want to lend large amounts of funds. (*Who for*)
- 6. The role of banks is like that of wholesalers and retailers in the distribution of goods. (*What like*)

7. To make large long-term loans a bank can gather a steady stream of short-term deposits. (*How*)
8. Banks can cover losses by slightly increasing an interest rate. (*How*)
9. Depositors agree to be paid the lower interest rate at banks for avoiding the risk of losing all their savings. (*Why*)

5. *Speak on the following:*

- a) the purpose of existence of financial systems in the countries;
- b) the difference between savers and borrowers;
- c) direct financing;
- d) indirect financing;
- e) the services of banks and other financial intermediaries.

Reading 2

6. *Discuss these questions before you read the text.*

1. What do we mean by financial intermediaries?
2. What kinds of services do commercial banks offer in your opinion?

7. *Read the text and answer these questions.*

1. What are two ways the insurance groups make profits by?
2. What three groups of risks do insurance companies protect against?
3. In what way do mutual funds meet the needs of every investor?

Text 2. Financial Intermediaries

Financial intermediaries come in many sizes and kinds. They fall into three main groups: the banking group, the insurance group, and the investment group.

The banking group. The banking group is made up of all financial intermediaries that accept deposits from the public. The most important members of this group are commercial banks. Commercial banks accept checking and other deposits from firms and households and make many kinds of loans, including long- and short-term loans to business firms.

The insurance group. The insurance group includes two **related** kinds of firms. The first are insurance companies. These collect charges, called premiums from firms and households. In return they offer financial protection against certain risks. Life insurance pays benefits to policyholder's **dependents** in the event of his or her death. Fire insurance pays for damage **caused** by fire. **Casualty insurance covers** theft, accident, illness, and other risks. The insurance group also includes pension funds. These collect payments from working people and pay them an income after they **retire**.

Insurance companies and pension funds are sources of funds for investment because people make payments to them before they receive benefits from them. As funds come in, they are put to work earning interest. Members of the insurance group buy corporate bonds and stocks. They also buy government securities and make **mortgage loans**. The greater the interest earned from these investments, the greater the benefits that can be paid out. Profit-making insurance companies use some of their investment income to pay dividends to their shareholders. However, some insurance companies and pension funds are run on a **non-for-profit basis**. All of their income, after **allowing for** administrative costs, is paid out in benefits.

The investment group. The most important members of the investment group are **mutual funds**. These sell shares to individuals and

use the proceeds to buy stocks, bonds, and government securities. Earnings from these investments are passed along to the share holders after a small **service fee** has been deducted. There are mutual funds **tailored to** the needs of every investor. Some buy risky stocks with high growth prospects. Others buy the stocks of firms that are known for paying consistent dividends **over time**. Some buy corporate bonds, others government bonds. All of them offer investors a chance to own a share of a large professionally chosen **pool of securities**. The investor does not have to choose the securities and can make payments and **withdrawals** in fairly small amounts.

8. Use these words or phrases from the text to answer questions below.

<i>Insurance company</i>	<i>mutual fund</i>	<i>pool</i>
<i>dependent</i>	<i>benefit</i>	<i>mortgage loan</i>

Which word or phrase...:

1. usually leads to buying property, which serves as a security for the loan? -----
2. refers to a financial intermediary that collects premiums from individuals and firms, and, in return, offers financial protection against certain risks? -----
3. means a person who relies on someone else for support? -----
4. refers to payments made by an insurance company? -----
5. means combination of resources, funds, etc., for some common purpose? -----
6. refers to a trust or corporation which is formed to invest the funds it obtains from shareholders? -----

9. Complete the following sentences to summarize the text.

1. Financial intermediaries fall into
2. The services of commercial banks are
3. Insurance companies offer financial protection against risks in return
.....
4. As insurance companies and pension funds are sources of funds for
investment they
.....
5. Profit-making insurance companies use some of their investment income
.....
6. Members of the investment group sell shares to individuals and
7. Earnings from the investments of this group are passed
8. The investors of this group have a chance

10. Identify objective or subjective infinitive constructions in the following sentences and translate them into Russian.

1. This investment proved to have brought him a great benefit.
2. Shareholders consider the failure of the firm to have been caused by improper management.
3. The firm seems to be hardly keeping on the float.
4. This economist is sure to be remembered for development of some financial strategies.
5. Some points of his report on investment policy changes appeared to have been interpreted incorrectly.

6. Vice-President for Finance recommended the budget for production department to be increased by 20%.
7. Accounts department is considered to be an important source of information for management.
8. Board of Directors wants the company's proceeds to be used for buying government securities.
9. The government was reported to have raised the interest rate to combat inflation.
10. They don't mind a small service fee to be deducted from their earnings.

Essential words and phrases

To absorb	– поглощать, распределять
To accept	– принимать
(To) aid	– помощь; помогать
To avoid	– избегать
To allow for	– выделять средства на
(To) cause	– причина; быть причиной, вызывать что-либо
(To) charge	– плата, взнос; взыскивать, взимать
To commit	– передавать, вовлекать
To cover	– страховать, покрывать
Dependent	– иждивенец
Disaster	– бедствие, несчастье, катастрофа
Group	– группа, организация
Mutual fund	– взаимный фонд (открытый инвестиционный фонд)

Not-for-profit	– не коммерческий
Over time	– со временем, по прошествии длительного времени
Profit-making company	– коммерческая компания
Pathway	– мосток, путь
Point	– пункт, элемент, сторона
Pool	– пул, объединение, сумма
Related	– связанный, родственный
To retire	– уходить на пенсию
Reward	– вознаграждение, поощрение
Service fee	– плата за услуги
Stream	– поток
Suitable	– подходящий, пригодный, удовлетворяющий требованиям
To tailor for	– приспособлять, рассчитывать на
Terms	– условия, сроки, показатели
Unit	– подразделение, учреждение
To wipe out	– уничтожать, ликвидировать
Withdrawal	– снятие, изъятие
To be worth	– стоит что-либо делать

UNIT 2. MONEY AND THE BANKING SYSTEM

Reading 1

1. Read the text and answer these questions.

1. What two kinds of financial assets serve as money?
2. In what two forms does money exist?
3. In what two forms does "Plastic money" come?

Text 1. What Is Money?

Money is an asset that serves three functions. First, it serves as a means of payment. People accept money in payment for goods and services because they know that others accept it in turn. In a barter system, each party to an exchange must have something that the other party needs. With money, needs are **matched** more easily. The electrician can pay the dentist to fill a tooth; the dentist can use the money to hire the plumber to fix a drain; the plumber can pay a doctor to cure a stomachache, and so on.

The second function that money serves is as a **store** of value. In a barter system, a dentist who was paid with eggs or tomatoes would have to eat them before they spoiled. If the dentist is paid with money, the money can be saved and used to buy fresh eggs and tomatoes at any time.

Finally, money serves as a **unit of account**. In a barter system, it would be hard to **keep financial records**. Money simplifies financial record keeping. Income, assets, and liabilities can all be stated **in terms of** different units of money.

Today two kinds of financial assets serve as money: currency (coins and bills) and checking deposits at banks and **thrift institutions**. Checking deposits make up bigger part of the **total money supply** than coins and

paper currency. Checking deposits serve all three of the functions of money, just as currency does. They are a means of payment: by writing a check, you can **transfer** part of the balance in your checking account to the seller. They are a store of value: you can deposit your paycheck in your checking account and spend the money when you need to. And the money in your checking account serve as a unit of account.

These days many people carry “plastic money” – the handy VISA cards, MasterCard and other all-purpose **charge cards**. ‘Plastic money’ comes in two forms – credit cards and debit cards. They look much alike and, from consumer’s point of view, are used in much the same way, but they serve different functions.

Credit cards, which are the more **common** of the two, are a quick way of getting bank loan. Suppose you go into a gas station to buy \$20 worth of gas and pay for it with your VISA card. By signing the **credit card slip**, you do two things. First, you ask your bank for a loan of \$20. Second, you ask your bank to send the amount of the loan to the gas station. Later, your bank will send you a bill and you will repay the loan. The **transaction** is then complete.

The use of a debit card at a point-of-sale terminal linked to the bank’s computer causes the bank to move funds from the customer’s account to the merchant’s account. Debit cards can also be used where there is no point-of-sale terminal. In this case the transfer of funds does not take place until the merchant sends the debit card slip to the bank.

2. Match up the verbs and nouns below to make common collocations.

repay	a check
sign	a transaction
deposit	needs
transfer	money
keep	record keeping
simplify	records
accept	balance
match	loan
complete	credit card slip
write	paycheck

3. Find the words and expressions in the text which mean the following:

- a) depository organization;
- b) anything used as a medium of exchange;
- c) a card which guarantees payment for goods and services purchased by the customer, who pays back the bank at a later date;
- d) a written order to a bank to pay the amount of money stated;
- e) a reserve;
- f) to conduct financial reports;
- g) a plastic card used by a customer to instruct a bank to transfer funds from the customer's checking account to that of a merchant;
- h) an amount of money circulating in the economy of the country.

4. Speak on the following.

1. Why people need money.
2. Two kinds of financial assets.
3. The difference between a credit card and a debit card.

5. Choose the word that best completes each sentence.

1. Building ... lend money to people who want to buy houses, taking a mortgage of the property deeds (ипотечное свидетельство) until the loan is repaid.
A. companies B. associations C. societies
2. A bank will sometimes give you a loan if someone is prepared to stand as your guarantor, agreeing to ... the loan if you fail to do so.
A. resurrect B. repay C. resign
3. Persons are described as ... when they cannot meet their liabilities.
A. bankrupt B. affluent C. dishonest
4. Before you ... a cheque for more than you have on your account you must apply for an overdraft.
A. withdraw B. withhold C. draw
5. The Bank of England is a ... bank and acts as banker for the government and the other banks.
A. data B. central C. local
6. When the payee signs on the back of a cheque it is described as indorsement and can then be ... to another person.
A. debited B. charged C. transferred
7. If you wish to ... a large sum from your bank the branch manager may require authorization from his Head Office.
A. receive B. convey C. borrow
8. The banker is expected to treat any information he has in regard to his customer's ... affairs as confidential.
A. private B. domestic C. financial

9. A customer who ...his overdraft limit will have to pay additional bank charges as well as interest on the excess.

- A. uses B. exceeds C. loses

6. Rewrite the passage filling in the blanks from the list of words below.

Most customers of a bank have current (or cheque) accounts. Interest is not paid on these accounts but withdrawals can be made by cheque. The other type of bank account is the deposit or savings account. Interest is paid on this account but notice (уведомление) of is required.

Banks lend money to their customers in two ways. They grant loans or overdrafts. Loans are for a fixed sum and has to be paid on the whole borrowed. Another name for a loan is an advance.

In to loans to businesses, banks also personal loan. By contrast, by means of an overdraft it is possible for cheques to be drawn in of the sum standing to the customer's in the current account.

Interest is paid only on the actual amount overdrawn.

If customers wish to buy items such as new cars or double glazing for their houses they may the bank manager for a loan or overdraft. Providing they have their accounts satisfactorily in the past and the amounts involved are in keeping with their the manager will normally oblige.

<i>income</i>	<i>withdrawal</i>	<i>excess</i>	<i>approach</i>
<i>amount</i>	<i>interest</i>	<i>addition</i>	<i>grant</i>
<i>credit</i>	<i>conducted</i>	<i>surplus</i>	<i>then</i>

Reading 2

7. Find the Russian equivalents in the left column for the English words and word combinations.

- | | |
|---------------------------------------|------------------------------------|
| 1) равняться пассивам | a) deposit rate |
| 2) организовать офис | b) to process checks |
| 3) соответствующие пассивы | c) net worth |
| 4) выплачивать деньги по требованию | d) to write a check on the account |
| 5) предъявить чек | e) to lend out a large amount |
| 6) приносить процентный доход | f) to yield interest |
| 7) ссудить крупную сумму | g) to present check |
| 8) выписать чек для списания со счёта | h) to pay the money out on demand |
| 9) акционерный капитал | i) matching liabilities |
| 10) обрабатывать чеки | j) to set up an office |
| 11) ставка по депозитам | k) to be equal to liabilities |

Text 2. The Balance Sheet of a Simple Bank

The financial position of a bank, like that of any other firm, can be shown by means of a balance sheet. As usual, assets are listed on the left-hand side of the balance sheet and liabilities and owner's equity on the right-hand side. Following the accounting equation, assets are equal to liabilities and owner's equity.

Setting up a bank. Let's begin by looking at a bank that has just been started. As a model, we will use the Wolf Greek Bank in the town Wolf Greek, Idaho. Bill Winchester starts the bank with \$10,000 of his own

savings. The \$10,000 buys a used mobile home, which Bill **sets up** as the bank’s office. The day the bank opens for business, its balance sheet looks like this:

Assets		Liabilities and Owner’s Equity	
Fixed assets	\$10,000	Liabilities	\$ 0
		Owner’s equity	10,000
	-----		-----
Total assets	\$10,000	Liabilities plus owner’s equity	\$10,000

Accepting a deposit. The first customer to walk into Bill’s bank is Edith Bender. She brings in \$1000 in currency that she has been keeping in her cookie jar because there was no bank in town. She deposits the \$1000 in an account that will allow her to write checks and will yield interest at a 6 percent annual rate. At that point Bill’s balance sheet looks like this:

Assets		Liabilities and Owner’s Equity	
Cash	\$ 1,000	Liabilities:	
		Checking deposits	\$ 1,000
Fixed assets	10,000	Owner’s equity	10,000
	-----		-----
Total assets	\$11,000	Liabilities plus owner’s equity	\$11,000

Following the principle of double-entry bookkeeping, Edith’s deposit has created two entries on Bill’s balance sheet. First, the bank has a new asset in the form of \$1000 cash. Second, it has a **matching liability** in the

form of Edith’s deposit. Deposits appear on a bank’s balance sheet as liabilities because the bank must pay the money out on **demand**, either to the depositor or to any person who presents a check that Edith writes against the money in her account.

Making a loan. Bill does not yet have a source of income. The next customer to come into the bank solves this problem. Roger Kahn, the owner of Roger’s Grocery comes in to ask for a loan. Bill looks at his books to decide how much he can lend to Roger. The bank has \$1000 in cash, but it would not be safe to lend out the whole amount. Edith might write a check on her account at any time, and Bill will need cash in **reserve** to pay the check. On the other hand, it seems unlikely that Edith will withdraw the whole \$1000 any time soon. Bill decides that it will be safe to lend \$800 to Roger and keep \$200 in reserve. Roger agrees to pay 12 percent interest on the loan and walks out of the bank with the \$800. Now Bill’s balance sheet looks like this:

Assets		Liabilities and Owner’s Equity	
Reserves (cash)	\$ 200	Liabilities	
Loans	800	Checking deposits	\$ 1,000
Fixed assets	10,000	Owner’s equity	10,000
	-----		-----
Total assets	\$11,000	Liabilities plus owner’s equity	\$11,000

Making the loan has not changed Bill’s total assets, liabilities, or net worth. It has, however, traded a nonearning asset for one that pays 12 percent interest. In the coming year Bill will receive \$96 in interest on the \$800 loan to Roger and will pay \$60 to Edith as interest on her account.

The \$36 difference is income to the bank. Of course, the bank will also have costs – heat for the trailer, the clerical costs of **processing checks** and loan payments, and so on. But if Bill gets enough deposits, makes enough loans, and controls his costs, he will be able to make a profit.

What makes it possible for banks to earn profits is the fact that they keep as reserves only a fraction of what they take in from depositors. The rest is lent back out at an interest rate higher than the rate paid on deposits. The difference between the rate paid on deposits and the rate received on loans covers the bank's costs and, if the bank is properly managed, leaves enough for its owners to make a profit. This way of doing business is called **fractional-reserve banking**.

8. Find words and word combinations in the text which mean the following:

- a) to make a profit
- b) equal liability
- c) on requirement (claim)
- d) place from which profit is gotten
- e) involving no risk
- f) to subject checks to a special process
- g) commerce
- h) appropriately

9. Answer the following questions.

1. What principle do banks follow in their activities?
2. How can the financial position of a bank be identified?

3. If a person deposits money into account what does that allow him to do?
4. Who must a bank pay the money out on demand?
5. What influences the amount to be lent by a bank?
6. Why do banks keep as reserves a fraction of all deposits?
7. How do banks make profits?

10 .Discussion. *Turn to the last balance sheet for Bill's Wolf Creek Bank.*

Starting at that point, enter the following transactions on the bank's balance sheet:

- a) *Carl Cramer deposits \$5000 in a savings account. List the savings account separately from checking accounts under the heading of liabilities. Make the matching change on the left-hand side of the balance sheet.*
- b) *Bill keeps \$1000 of Carl' deposit as reserves. No one applies for a loan right away. In order to put the remaining \$4000 of Carl' deposit to work earning interest, Bill buys \$4000 worth of government bonds. Update the balance sheet.*
- c) *Edith Bender come into the bank and withdraws \$50 from her account. Update the balance sheet.*

11. Here are ten questions which a bank manager asks someone who wants an overdraft. Write down or say each one preceding it with "He wanted to know"

Example: Why do you want an overdraft?

He wanted to know why I wanted an overdraft.

1. Do you have a regular income?

2. Would you prefer a personal loan?
3. Why do you need personal loan?
4. Are you in regular employment?
5. Have you any outstanding debts?
6. When do you propose to pay it back?
7. Would you rather have a personal loan?
8. Could you provide any security?
9. Is your general financial position sound?

12. Act out the dialogue in pairs and then try to retell it in reported speech.

Miss Posit (M.P.) – bank manager Mr. Moore (M.M.) – a customer

M.P. Do seat down, Mr. Moore

M.M. Thank you. (He sits down)

M.P. Now Mr. Moore, the situation like this. Your account is in the Red.

M.M. Pardon.

M.P. In the red.

M.M. I'm sorry. I don't understand.

M.P. In the Red. Overdrawn.

M.M. Overdrawn. No, I am sorry. I've never heard this word before in my life.

M.P. It's very simple, Mr. Moore. It means that you've taken more money out of the bank than you've put in.

Reading 3

13. Read the text and choose one of the titles that best matches the text.

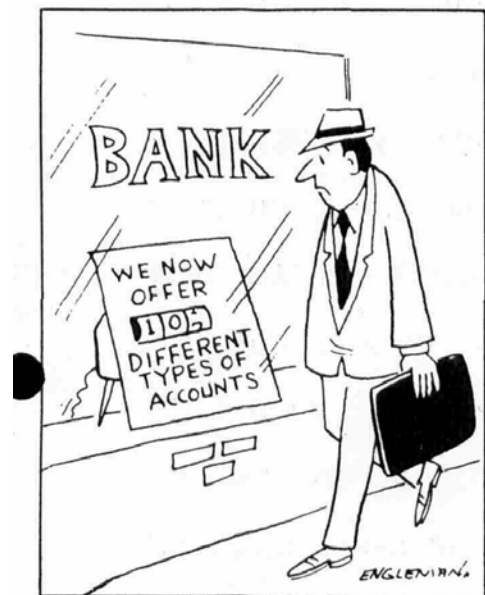
1. Some advice to survive in the competitive business.
2. Falling barriers to competition in US.
3. Government restrictions protect banks from competition.
4. Management of interest rate risks.
5. The 1980 Act put banks in more direct competition.

Text 3. Falling Barriers to Competition in US

In the past, banks and thrift institutions were limited in terms of the services they could offer, the areas in which they could operate, and the interest rates they could pay on deposits. These restrictions protected them from competition with one another and with other financial intermediaries.

Now regulations in all of these areas are changing.

**Product competition.* In the past only commercial banks could offer checking accounts. Then, in 1980, the Monetary Control Act gave thrifts the right to compete with banks by offering checking accounts of their own. At the same time, the act put banks and thrifts in more direct competition for loans allowing them to make more consumer and business loans.



**Interest competition.* Before 1980, regulations limited the rates that could be paid on deposits. The Monetary Control system phased out the old

interest rate ceilings and allowed banks and thrifts to compete for depositors on an equal footing.

**Geographic competition.* Banks and thrifts have long been protected against interstate competition. The Monetary Control Act removed these limits on interstate banking. Some banks have been allowed to take over banks or thrifts outside their home states when a takeover seemed to be the only way to prevent a failure and a suitable in-state buyer could not be found. Banks have also set up offices outside their home states that make loans, conduct international business, and do almost everything except accept deposits. Finally, many banks have used the mails to solicit deposits and credit card business outside their own states.

Surviving in the competitive business of banking is a big challenge. The following advice should be offered:

**The banks that survive will be those that learn how to innovate.* Innovations that make full use of computers and telecommunications are among the most important.

**Banks have to manage interest rate risks.* They have to make more use of loans that have variable interest rates to avoid the danger that a rise in interest rates will leave them with low-yielding loans at a time when they are forced to pay higher rates on deposits.

**Banking has to attract the most ambitious and hard-hitting managers.* The high-risk, high-reward world of banking will place a premium on managers with energy, creativity, and vision.

**Banks have to use such strategies as market segmentation and product differentiation to attract more customers.*

*Bank managers should do some careful strategic planning to decide just what type of banking their firm can do best.

14. Choose the best way of finishing each statement on the basis of what you have read.

1. Before 1980 US government limited banks' activities in terms of:
 - a) usage of innovations,
 - b) low-yielding loans;
 - c) the service they could offer;
 - d) a market segmentation.
2. According to the text the reason for taking over banks is:
 - a) conducting international business;
 - b) probability of failure and availability of suitable in-state buyer;
 - c) setting up a new office;
 - d) protecting against interstate competition.
3. Banks have to manage interest rate risks because:
 - a) the old interest rate ceilings were phased out;
 - b) of limitations in terms of areas in which they could operate;
 - c) of competing with one another;
 - d) of danger of leaving with low-yielding loans.
4. Evidence suggests that when banks differentiate their products they:
 - a) attract more customers;
 - b) survive in the competitive business;
 - c) increase its market segment;
 - d) all of the above.
5. Branch offices set up by banks outside their home states could offer:
 - a) making loans,

- b) accepting deposits;
- c) preventing firms' failures;
- d) payment interest rates on deposits.

15. Speak on one of the following topics:

- a. The problems banks and thrifts in US faced before 1980 Act.
- b. What kinds of competitions banks and thrifts are involved in.
- c. Prerequisites for surviving in the business of banking.

16. Translate the sentences paying attention to the forms and functions of gerund.

1. After being approved by the president the plan was returned to the finance department.
2. There is no possibility of our lengthening credit terms.
3. Some people don't like being asked their opinions.
4. They raised the interest rate without evaluating the risk of leaving with low-yielding loans.
5. I am still angry at his having broken an agreement.
6. He was accused of not having followed the instructions.
7. The problem is not worth discussing.
8. The clients were informed about their bank having been taken over by a bigger one.
9. Don't you mind our having changed the conditions of the contract?

17. Choose the proper forms of the gerund and translate the sentences.

1. The finance department doesn't object to credit conditions ...
 - a) having been relaxed, b) being relaxed, c) relaxing

2. He apologized to the managing director for not ... present at the meeting.
a) being, b) having been, c) being been
3. There is no hope of interest rate ... to combat inflation.
a) having been raised, b) raising, c) being raised
4. The customer complained of ... poorly.
a) serving, b) being served, c) having been served
5. I am surprised at your not ... to give you statement on your account.
a) having required, b) having been required, c) requiring
6. The bank succeeded in ... more customers.
a) having attracted, b) attracting, c) being attracted
7. I don't remember ... to the Treasurer.
a) introducing, b) being introduced, c) having been introduced
8. The building society insists on regular payments ... every month.
a) being made, b) having made, c) making

Essential words and phrases

Challenge	– сложная задача, проблема
Charge card	– кредитная карточка
Charge slip	– бланк для регистрации покупки с записью на счёт покупателя
Demand	– требование, спрос
To force	– заставлять, принуждать
Fraction	– доля, элемент
Fraction-reserve banking	– система фракционных (частичных) резервов в банковском деле
To keep financial records	– вести финансовый учёт

Matching	– соответствующий
Money supply	– денежная масса, сумма денег в обращении, количество денег
To phase out	– ликвидировать, убрать
To place premium	– делать ставку на
To process check	– обрабатывать чек
Product differentiation	– индивидуализация продукта
Reserve	– резерв, запас
To set up	– основывать, учреждать, открывать
To solicit	– добиваться, искать
To state	– формулировать, излагать
Store	– хранилище
To survive	– выживать
To take over	– поглощать, брать на себя ведение дел
To transfer	– переводить
Thrift institution	– депозитное учреждение
Unit of account	– единица счёта

PART IV

UNIT 1. INVESTMENT INCOME

Reading 1

1. If you possess a large amount of money, what are advantages and disadvantages of the following?

- *putting it under the mattress*
- *buying a lottery ticket*

- *taking it all to Las Vegas or Monte Carlo*
- *putting it in a bank*
- *buying gold*
- *buying a Van Gogh painting*
- *investing in property or real estate*
- *buying bonds*
- *buying shares*

2. Match each word in A with its synonym in B.

A. A share, to drop, securities, worthless, growth, certain, nominal value, gain, to go under, to guess, fair

B. Stocks, face value, income, to bankrupt, to suppose, acceptable, increase, determined, to fall, valueless, a stock

Text 1. Why Own Stocks and Bonds?

Many households own stocks and bonds. Intermediaries like pension funds, insurance companies, and **mutual funds** are also big holders of these securities. In financial circles, individuals or households that own securities are known as individual investors, and financial intermediaries that own securities are known as **institutional investors**. Both types of investors own securities as a source of income. For both, there are two kinds of income from stocks and bonds: investment income and speculative income.

Investment income is the return from holding a stock or bond that is bought at a **fair price**. In the case of a bond, it takes the form of periodic interest payments plus repayment of the **face value** on a certain date (on which the bond "matures"). In the case of a stock, it takes the form of

dividends plus the increase in the price of each share that results from the firm's growth. Depending in part on their tax situation, some investors prefer shares in firms that pay large dividends while others prefer shares in fast-growing firms with high retained earnings. A stock or bond is priced fairly when the expected income per dollar invested in it is about the same as that expected from similar stocks or bonds of other firms.

Speculative income is the **return** from holding a stock or bond whose price increases more than is expected. For example, early in 2002, a big firm was on the **brink** of bankruptcy. At one time the price of its stock fell as low as \$3.75 per share. To the surprise of many people, however, the firm **fought off** the worst of its problems. By year's end its stock was trading at \$11.50 a share. An investor who bought stock at \$3.75 when most people thought the firm was about **to go under** and sold it later at \$11.50 would have earned a speculative income of \$7.75 a share. Of course, if the firm had gone under, as it might well have, its stock would have become worthless. The same investor would then have had a speculative loss of \$3.75 a share.

Speculative income can be earned on bonds as well as stocks. The reason is that bond prices rise when interest rates fall, and fall when interest rates rise. A person who buys bonds at a low price when interest rates are high and resells them at a higher price after interest rates have dropped earns a speculative **gain** as well as the interest income the bond pays while it is held.

There are two ways to earn income as a speculator. One is simply by **guessing** right when there is no way of knowing whether the price of a stock or bond will go up or down. The other way to earn income as a speculator is to buy and sell stocks or bonds on the basis of information that other investors do not have.

3. Find words or word combinations in the text which mean the following:

- a) a proportion of the annual profits of a limited company paid to shareholders;
- b) a company that spreads investors' capital over a variety of securities;
- c) financial organizations such as pension funds and insurance companies which own most of the shares of all leading companies;
- d) a person who uses the information not known to the public to make a profit out of buying and selling shares;
- e) a state of being insolvent: unable to pay debts;
- f) after-tax profits that are held by a corporation for reinvestment rather than being paid out as dividends;
- g) net income expressed as a percentage of owners' equity.

4. Fill in the blanks in the following sentences with the proper word or word combination from the box.

*retained earnings, brink, gain, institutional,
mutual funds, guess, matures, goes under*

- 1. ... are big holders of stocks and bonds.
- 2. When the bond ... its face value is repaid to the holder.

3. When the firm ... its stock becomes worthless.
4. Some investors prefer to buy shares in fast-growing firms with high... .
5. When the firm is on the ... of bankruptcy the price of its stock falls.
6. When a person buys bonds at a low price and then resells them at a higher price he earns a speculative
7. One of the ways to earn speculative income is to ... whether the price of a stock will rise.
8. ... investors are financial intermediaries that own securities.

5. Speak on the following:

1. What types of investors use securities as a source of income.
2. What forms investment income takes in the case of a bond and in the case of a share.
3. How speculative income can be earned.

6. Read the dialogue of Richard Mahoney, a Vice-President with J.P.Morgan and Co. in New York with the interviewer and then answer the questions following the dialogue.

Richard Mahoney: Generally speaking, bonds are obligations that are issued by companies and governments that are in essence promises to pay individuals or other investors – providers of funds – and they generally provide for a fixed rate of interest, that is a fixed repayment schedule, and a date in the future at which the money will be returned. They're different, for example, from stocks, which have an uncertain future pay-off,

depending on a company's performance, and no final maturity date, so long as the company remains active and solvent.

Interviewer: What's J.P.Morgan's role in the bond market? Are you organizing the sale of bonds on behalf of companies, or are you also buying bonds on behalf of investors?

Richard Mahoney: J.P.Morgan has many roles in the bond market. We work with companies and governments to help them issue bonds, that is borrow money for their purposes. We also have many investor clients who are purchasing bonds for their own investment portfolios, and those investor clients would be individuals, they would also be pension funds who make investments on behalf of their members for their retirement monies. They would also be mutual funds which, in the United States, have become a very popular form of investment for individuals and constitute a very large source of savings in the country.

Interviewer: For investors, what are the advantages of bonds as opposed to other ways of investing money?

Richard Mahoney: For investors, bonds represent an investment that, generally speaking, carries a moderate degree of risk. And investors like to hold a diversified portfolio of investments, some with very very low risks, for example, government securities, where the risk of non-payment or default is very very low, whereas other

parts of their portfolios would be considered much higher risk, namely investments in stocks, so bonds provide, generally speaking, a more moderately ... an asset that has a moderate level of risk, although there are some bonds that are more, more safe than others, and that depends on the quality of issuer. Investors can obtain a return on their bond investments by holding them to maturity. These investors are usually characterized as long-term investors or buy-and-hold investors, and they would receive their return over time by receiving periodic interest payments, usually twice a year, in most structures, and then upon the maturity of the bond, getting their principal back.

The advantage of trading bonds, for an investor, and how an investor would realize their gains is through the price **appreciation** that may accrue to a bond during the time at which...during the time at which the investor would hold it. For example, the price of a bond is directly related to the level of interest rates in the economy. If I could use a simple example, if you purchased a bond today, that bond, let's say, would have a price of one hundred. Bonds are denominated based on values of one hundred. If interest rates were to increase, that means that the investor community demands a higher price for lending their money. As a result the amount that you could invest a dollar today would yield a higher return than the value yesterday. Meaning that the bond you

bought yesterday is worth slightly less, so perhaps it's worth ninety-nine. If you were to sell that bond you would then have lost one point. On the other hand, however, if interest rates fall, the value of that bond that you purchased yesterday increases. So that an investor over time may realize that bonds that were purchased today have a higher value, as a result of how interest rates have moved. They could be sold, that capital gain is similar to the gain that you would see from a share investment or a real estate investment or other things, and would be added to whatever interest you had earned over the life of holding that bond.

1. What is the difference between stocks and bonds, in terms of income and repayment?
2. What are the three types of investor clients mentioned?
3. Mahoney gives examples of types of investments that generally carry very low, moderate, and higher risk. What are they?
4. What causes bonds to appreciate or depreciate in price?

Reading 2

7. Find the English equivalents for the following Russian words and word combinations in the right column.

1) diversified portfolio	а) компания с высокой мерой финансового риска
2) to make good on	б) выполнять обязательства
3) primary securities market	с) избегать риска
4) previously	д) первичный рынок ценных бумаг

5) to view	е) предъявлять иск на недвижимость
6) to eliminate	ф) понижать доходы
7) to depress profits	г) расплачиваться
8) to claim on assets	h) устранять
9) to avoid risk	і) раньше
10) to meet obligations	ј) рассматривать
11) highly leveraged firm	к) портфель различных ценных бумаг

Text 2. Risk and Return

The line between speculation and investment is not a sharp one, since there is some risk in any investment. The difference is that an investor **views** the risk as a necessary **evil**, whereas a speculator views it as an opportunity. But for most people risk is something to be avoided, and some securities are by their nature less risky than others. For example:

*Bonds are less risky than stocks. The reason is that interest on bonds must be paid before any dividends are paid to stockholders. Also, bondholders have the first **claim** on any assets that are left if the firm fails.

*Short-term bonds are less risky than long-term bonds. The reason is that the closer the maturity date of the bond, the less the danger that a rise in interest rates will cause its price to fall and the lower the danger the firm could fail before the bond is paid off.

*Government bonds are safer than corporate bonds. State and local governments rarely fail **to make good on** their bonds, and the risk that the federal government will fail to meet its obligations is effectively zero.

*Other things equal, stocks in highly leveraged firms are riskier than those in firms with less leverage.

Because most investors prefer less risky securities, other things being equal, the riskier ones must pay a higher return to attract buyers.

For any type of security, risk can be reduced by investing in more than one firm. This is called **diversification**. The set of securities that an investor owns is called a portfolio. An investor with stocks and bonds issued by a number of firms is said to have a **diversified portfolio**.

Diversification does not **eliminate** all risks. Events that affect the economy as a whole – **recessions**, high interest rates, and so on – may depress the profits and stock prices of all firms. But most advisers recommend a diversified portfolio. People with only small amounts of savings to invest can get the benefits of diversification by buying shares in a **mutual fund** that buys stocks and bonds in a broad range of firms. That brings us to the markets in which stocks and bonds are bought and sold. These fall into two groups. There is the **primary securities market** – the set of institutions through which newly issued securities are sold to investors. And there are a number of **secondary securities markets**. These are institutions through which investors can buy and sell **previously** issued securities.

8. Answer the following questions about the text.

1. What is the difference between speculation and investment?
2. Why are bonds less risky than stocks?
3. What is the reason why short-term bonds are less risky than long-term bonds?
4. In buying what bonds is risk effectively zero?

5. How can risk be reduced?
6. What is a diversified portfolio?
7. Why doesn't diversification eliminate all risks?
8. How can people with small amounts of savings to invest get the benefits of diversification?

9. Explain in your own words what is meant by:

- a) a diversified portfolio;
- b) highly leveraged firms;
- c) a mutual fund.

10. Read (listen to) the dialogue about three different types of bonds and answer the following questions.

1. When would companies be interested in issuing floating rate notes?
2. When would investors be interested in buying floating rate notes?
3. When would investors be interested in buying convertible bonds?
4. What is another word for 'floating'?
5. What kind of investor (ordinary or speculative) would be interested in buying junk bonds?

Richard Mahoney: Floating rate notes became quite popular as interest rates around the world were deregulated. There was a time in the banking system when interest rates were regulated at fixed levels and most people chose to borrow at a fixed rate of interest. Today we have many options that a borrower can choose for the way in which they will raise money. One of them is through a

floating rate note, and like its name suggests, the interest rate on that bond is variable. It is usually indexed to a particular reference rate, such as the **prime rate**, which varies from time to time, or something called LIBOR, which is the London Inter-Bank Offered Rate, so that a holder of those notes would see the interest that they received vary over time, depending on the levels of interest rates in the market place.

A convertible bond is a type of bond that has features of both a traditional bond, as well as a stock. Convertible means that the bond is exchangeable for equity or stock, provided certain conditions are met. When a convertible bond is initially issued it looks like an ordinary bond, it pays a fixed interest rate, it has a final maturity date, but it also has a feature that permits the holder **to redeem** it for shares in the borrower, should certain conditions prevail, and normally those conditions are related to the price of the company's equity, the general level of interest rates.

Junk bonds are simply another name, the popular name, if you will, for high-yield securities. They are the bonds that are issued by companies that are seen to have a very risk of default. You can think of the securities issued by the US Treasury, the US

Government, as being at the other end of the risk spectrum, seen as **virtually immune** from the risk of default. Junk bonds are at the other end of the risk spectrum, where there is seen a considerable chance of default, but as a result, investors are paid a premium to hold those securities because of their risk.

11. Translate the sentences paying attention to the forms and functions of participles.

1. Being informed about issuing new shares the mutual fund decided to buy a certain amount of them.
2. The bonds having matured, the holder was repaid their face value.
3. Having been obtained incidentally the information was used by the speculator for buying stocks.
4. The information obtained by the stockbroker was sold to the speculator.
5. Being very busy he was not able to take the visitor.
6. Money permitting, we'll invest it in the mutual fund.
7. Having earned a speculative gain the person decided to buy shares of another company.
8. Recession having affected the economy of the country, stock prices of many companies fell.
9. Buying stocks and bonds issued by a number of companies an investor reduces the risk of losing his money.

12. Choose the proper form of the participle.

1. Companies (*having wished/wishing*) to raise more money for expansion can, sometimes, issue more shares.

2. The question (*having been discussed/discussed*) at the meeting yesterday concerned the price of stocks issued.
3. Records of sales (*keeping/being kept*) by an accountant department is an important source of information for management.
4. (*Having collected/having been collected*) the information was studied carefully.
5. Top management approved the prices (*proposing/proposed*) by lower-level management.
6. Another external factor (*being affected/affecting*) the company's price decisions, is competitors' prices.
7. (*Having sold/selling*) new shares first to the existing shareholders the company offered the rest ones to the other members of the public.
8. The price (*quoted/having been quoted*) at any time on the stock exchange may differ radically from its nominal value.

Essential words and phrases

Brink	– край, грань
Claim	– претензия, притязание, иск
To depress	– понижать, подавлять
Diversification	– диверсификация, вложение капитала в различные виды ценных бумаг
Diversified portfolio	– портфель различных видов ценных бумаг
To eliminate	– устранять, исключать
Evil	– зло

To fail	– становиться банкротом
Fair price	– взаимовыгодная, взаимоприемлимая цена
To fight off	– избавиться
Gain	– прибыль, доход
To go under	– разоряться
To guess	– догадаться
Institutional investors	– институциональные инвесторы, учреждения-вкладчики
To make good	– компенсировать, расплачиваться, возмещать
To mature	– подлежать погашению или оплате
To pay off	– расплачиваться, рассчитываться
Primary securities market	– первичный рынок ценных бумаг
Recession	– спад, замедленное развитие
Secondary securities market	– вторичный рынок ценных бумаг
To view	– рассматривать
Worthless	– ничего не стоящий, не имеющий никакой ценности

UNIT 2. THE SECURITIES MARKETS

1. Match words or word combinations in A with their synonyms in B.

A. Full, to commit funds, to will, to switch, to raise capital, to handle the sale, placement, proceeds, to turn over to, to misjudge; to determine wrongly, income, to hand over to, location or arrangement, to trade, to

collect money, to wish, full, to commit funds, to will, to switch, to raise capital, to handle the sale, placement, proceeds, to turn over to, to misjudge;

B. to determine wrongly, income, to hand over to, location or arrangement, to trade, to collect , to invest capital, to change, entire.

Text 1. The Primary Market and Stock Exchange

Corporations that do not have enough retained earnings to finance all of their investment plans **raise** much of the **capital** they need by selling securities. A firm that wants to sell securities can do so in one of two ways.

First, a firm can sell securities directly to investors. For example, corporations often give their shareholders the right to buy newly issued stock before it is offered to the public. A firm may also try to find one large investor like a pension fund, or a few such investors, that are willing to buy the whole issue. Such a sale is called **a private placement**. Private placements are fairly common for bonds, but less so for stock.

Very often firms do not **handle the sale** of new securities themselves. Instead, they turn to intermediaries known as **investment bankers**. Investment bankers offer a number of services. At a minimum, the investment banker gives advice to the issuer and acts as an agent in selling the securities. It may use its contacts to make a private placement. Or it may simply do the best it can to sell the securities to the public, turning the **proceeds** over to the issuer after taking a commission.

More often, the investment banker is asked **to underwrite** the new issue. An **underwriter** buys a whole issue of securities and sells them to the public. The advantage to the issuer is an agreed-upon price for the

securities. The underwriter hopes to make a profit by selling the stocks or bonds at a higher price than it pays for them. However, it also risks making a loss if it **misjudges** the demand for the securities or if market conditions change before they can all be sold.



“Mrs. Liscombe? We are from the S.E.C. As you undoubtedly know, the stock market dropped 21.5 points last Thursday because of a rumor that interest rates are going up. We have traced that rumor to you, Mrs. Liscombe, and we are here to request that you keep your perceptions to yourself.”

When a firm issues a large stock of securities, no single investment banker may want to accept the risk of underwriting it. In such cases a syndicate is formed to sell the securities. One member acts as the **lead underwriter**, but all the members agree to buy part of the issue.

Once they have been sold, stocks and bonds do not need to stay in the hands of those who bought them first. Suppose, for example, that a relative gave you 100 shares of Delta Airlines stock to help pay for your college education. You can't pay your **tuition bill** with the shares themselves; you need cash. To make **the switch** from stocks to cash, you turn to a secondary securities market. These markets enable people to sell securities that they own but no longer want to hold, while others can buy the securities of firms that are not issuing new bonds or shares of stock.

Secondary markets are not a source of funds for firms or units of government. They move funds and securities from one investor to another. Even so, they are a key part of the financial system. Without a secondary market, people would be much less willing to buy securities when they are issued. It would be hard, for example, to sell twenty-five-year bonds if they could be sold only to people who were willing **to commit** funds for the full period. But in a financial system with active secondary markets, people are willing to buy such bonds because they know they can change their minds if they need to.

The best-known secondary securities markets are the **stock exchanges**. These are places where **stockbrokers** who represent buyers and sellers of securities meet to arrange trades for their clients. Stockbrokers, like the wholesale brokers are agent intermediaries. They **set up** purchases and sales among their clients without **taking title** to the securities being traded.

2. Find the words or expressions in the text which mean the following:

- 1) the dealer in stocks and shares operating on the stock exchange;
- 2) an investment banker or syndicate which buys a whole issue of securities from a firm and sells them to the public;
- 3) a financial intermediary that collects payments from working people and pays them an income after they retire;
- 4) a place where brokers who represent buyers and sellers of securities meet to arrange trades for their clients;
- 5) a statement of charges for education;
- 6) to obtain a right for ownership;
- 7) the sum derived from a sale, venture.

3. Find sentences in the text characterizing the following:

- 1) reason why companies raise the capital by selling securities;
- 2) the notion what the private placement is;
- 3) the way investment bankers obtain their profits (after selling the securities to the public);
- 4) the notion of underwriting;
- 5) the reasons of making losses incurred by underwriters;
- 6) the case when a syndicate of underwriters is formed;
- 7) what opportunities secondary securities markets give people;
- 8) the functions of stockbrokers on the stock exchange.

4. Answer the following questions about the text.

1. In what two ways can a firm sell its securities?
2. What services do investment bankers offer?

3. What is the advantage of underwriting for issuer?
4. How do underwriters make their profits?
5. Why can't secondary markets be considered as a source of funds for companies and units of government?
6. Who acts on behalf of buyers and sellers on the stock exchange?

5. Translate the following passage into Russian in a written form and then give it a title.

The Stock Exchange is a highly sensitive market and stock prices fluctuate in response to a wide variety of pressures. Speculators should always be looking to the future and attempting to anticipate events. For example, businesses are independent to a large extent and will be affected by the general economic climate. Orders for ships lead to orders for steel which in turn leads to money in the pocket of shipbuilders and steelworkers to buy television sets and carpets. Conversely, the closing of a motor assembly plant causes a fall in the sale of beer which increases the number of redundancies, this time in the breweries.

Speculators pay attention when the Chancellor of the Exchequer introduces his Budget. This is the time when tax rates are changed, future government spending patterns are declared and the effect of the changes on their securities can be gauged.

The government also promotes its policies through the Bank of England, perhaps using the government broker to conduct open market operations. Government stocks are sold when the government wants to reduce the supply of money. This will pressurize the banking system to raise interest rates with the effect of reducing inflation. The government

broker buying government stocks will have the opposite effect, lowering interest rates and reducing unemployment.

All these things will affect the price of shares on the Stock Exchange, as will the fact that some political parties are seen as more sympathetic to business interests. Prices will be particularly sensitive at the time of parliamentary elections.

6. Case study: Ethical investments:

Imagine that a relative, who knows very little about finance, asks you to invest \$10,000 for her in a portfolio of investments, but insists that she only wants her money invested in 'wholly ethical companies'.

Which of the following activities would cause you to rule out a company as a possible investment?

- Emitting a large quantity of CO₂ into the atmosphere
- Factory farming
- Making donations to political parties
- Manufacturing weapons
- Marketing powdered baby milk in countries without pure water supplies
- Not recognizing trade unions
- Paying low wage levels in developing countries
- Producing nuclear energy
- Selling alcohol
- Selling tobacco
- Relocating production to countries with lower labor costs
- Testing cosmetic products on animals
- Trading with oppressive regimes

7. Complete the sentences with the correct auxiliary and translate them into Russian.

1. Funds ... be available for a purchase at the vital moment.
a) may not b) must not c) should not
2. A maxim (принцип) which ... be followed by all investors is to buy at the bottom and sell at the top.
a) might b) need c) should
3. The Board of Directors a mixture of cash and their own shares to the shareholders.
a) seems to have offered b) should have offered c) must have offered
4. Artificial demand for these shares have been created by a group of wealthy backers.
a) are likely to b) must c) should
5. I'm worried that if we don't meet the deadline, we ... lose this client.
a) will b) can c) are likely
6. Sales ...very likely to continue to rise this summer.
a) should b) are c) will
7. There is no doubt about it any more. The planning authority ...agree to our request.
a) definitely won't b) is likely to c) probably
8. They ... be doing well because they have just closed down two of their subsidiaries.
a) mustn't b) shouldn't c) can't
9. Quoted shares ... be acquired by anyone who is prepared to pay market price for them.
a) needn't b) can c) had to

Essential words and phrases

To commit	– быть приверженным
To handle the sale	– производить продажу
Investment bankers	– инвестиционный банк
To misjudge	– недооценить, неправильно оценить
Private placement	– индивидуальное размещение (ценных бумаг)
To raise capital	– мобилизовать капитал
To set up	– снабжать, обеспечивать
Stock broker	– биржевой маклер
Stock exchange	– фондовая биржа
(To) switch	– переходить, поменять, перевести
To take title	– получить право
Tuition bill	– счёт за обучение
To underwrite	– надписывать, гарантировать размещение ценных бумаг на рынке
Underwriter	– надписатель

PART V

UNIT 1. RISK AND RISK MANAGEMENT

1. Translate into Russian the groups of words of the same root.

Certain-certainly-certainty; to speculate-speculative-speculator; to lose-loss-lost; to absorb-absorption-absorbing; to avoid-avoidance; to save-safe-safely; profit-profitable-profitability; to rob-robbery; to expose-exposure; to

prevent-prevention-preventive; to accept-acceptable-acceptance,; to cover-coverage; to predict-prediction.

2. Find the English equivalents for the following Russian words and word combinations in the right column.

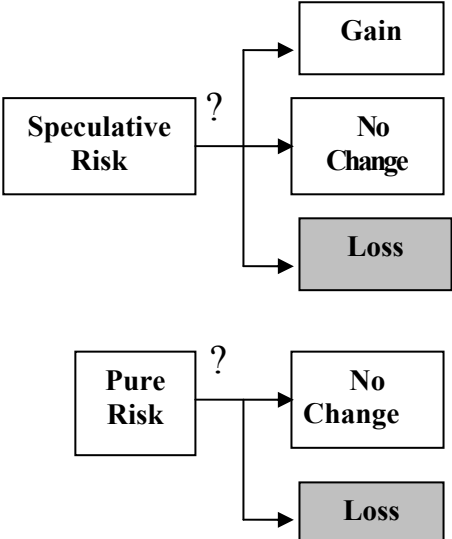
- | | |
|---|---------------------------------|
| 1) контролировать риски | a) to suffer losses |
| 2) предпринимать затраты-эффективные меры | b) to cause loss |
| 3) имеющий смысл | c) to handle risks |
| 4) откладывать средства | d) to expose to risk |
| 5) подвергаться риску | e) to deal with |
| 6) вести дела | f) to set aside funds |
| 7) быть причиной убытка | g) worthwhile |
| 8) понести убытки | h) to take cost-effective steps |

Text 1. Types of Risks and Methods of Risk Management

Risk means **uncertainty** about a possible loss. There are several ways to classify risks. It is common, for example, to distinguish speculative risk from **pure risk**. A speculative risk is one that involves the chance of a **gain** as well as a chance of a loss. Buying a lottery ticket or a share of stock is a speculative risk. A pure risk, on the other hand, involves only the chance of a loss. The chance of an airplane crash is a pure risk.

Pure risks can be grouped by type of loss. A personal risk is one that causes direct loss to a person – risks to life and health and the risk of the loss of one’s job are examples. A property risk is one that affects people indirectly through **destruction**, theft, or loss of the use of property. Finally,

a **liability risk** is the risk of financial loss when a firm's or a person's actions cause personal or property loss to someone else.



Risk management is the task of reducing the costs connected with risk. This means more than just keeping losses to a minimum. Losses are costly, but taking steps to keep them from happening is costly too. A good risk manager balances these two kinds of costs in planning how best to deal with a risky world. This means choosing among four methods of managing risk: **avoidance**, loss prevention and control, insurance, and **absorption**.

The first method of risk management is to avoid the risk. For a firm, it might mean **taking** a product **off** the market, even though it does the job well when used safely. Risk avoidance is an effective way to cut losses. The problem is that in avoiding the risks of some activities one also avoids the benefits. Firms that avoid new products because they might be risky **cut** themselves **off** from markets that might be profitable.

Losses caused by risky activities can often be either prevented or controlled. To prevent a loss means to keep it from happening; to control it means to limit the damage if a loss does occur. A gas station owner might try to prevent loss from **robbery** by keeping the office well lit after dark. But since there is a chance that even a well-lit station will be robbed, losses can be controlled by limiting the amount of cash kept in the office.

Even when all **cost-effective** steps are taken to avoid, prevent, and control losses, some will occur. A balanced risk management program therefore almost always includes insurance. Insurance is a process in which a group of people who are **exposed** to the same kinds of risks place funds in a **pool** from which members who suffer losses are compensated.

The final method of risk management is to absorb the risk, that is, to accept the risk of loss without **spreading** it by means of insurance. A person or firm may decide to absorb risks for two reasons.



First, there are cases in which other methods of risk management are not worth the cost. This is often the case with risks that have only a small chance of taking place. For example, most people absorb the risk of being hit by a meteor **rather than**, for example, living near the North or South Pole, where fewer meteors strike. Absorption is also the best way **to handle**

risks that involve small losses. For example, many people who drive old clunkers don't find it **worthwhile** to buy collision insurance.

Large firms may have a second reason to absorb risks. They may be able to practice self-insurance, a process in which an organization that is exposed to many risks of the same kind **set aside** funds from which to cover any losses that result. For example, the owner of a big fleet of taxis could **predict** a certain number of accidents a year and set aside a fund for making the repairs. This would save some of the costs of dealing with an insurance company.

3. Choose the word which best completes each sentence.

1. The risk which involves the chance of profit is called
a) speculative risk b) personal risk c) liability risk
2. When a firm's activities cause property loss to someone it is
a) liability risk b) risky world c) risk to life
3. A risk manager should among four methods of managing risk.
a) select b) distinguish c) decide
4. The disadvantage of risk might be cutting the benefits.
a) involvement b) management c) avoidance
5. To limit the damage if a loss takes risk method is used.
a) involve b) control c) spread
6. To keep the loss from happening means its
a) taking off b) compensating c) prevention
7. If risks have a small chance of happening, a risk manager chooses the method of risk
a) absorption b) avoidance c) handling

4. Answering the following questions speak on the main points of the text.

1. How are risks commonly distinguished?
2. What three groups are pure risks divided into?
3. What are the four methods of managing risks?
4. What examples can you give of people's avoidance of risks?
5. Why is risk avoidance not the whole answer to risk management?
6. What is meant by preventing a loss?
7. How can losses be controlled? (Give your own examples)
8. Why does risk management always include insurance?
9. What is insurance?
10. In what cases risk absorption method used?

5. Complete the sentences with 'll, 'd, won't, or wouldn't on the basis of the rules given in the box.

We use the first conditional when we think the expected outcome of a situation is very likely.

*If we **increase** sales, we **'ll make** a profit.*

*If we **delay**, we **'ll be** too late.*

We use the second conditional when the outcome is less certain or is imaginary.

*If we **reduced** our costs, we **'d be** in a stronger position.*

*If we **increased** our spending, we **'d be** in serious financial difficulties.*

The third conditional is used to speculate about consequences of events that happened or began to happen in the past.

*If I **had known** the work was going to take so long, I **wouldn't have started** it before the weekend.*

*If there **hadn't been** a spelling mistake in the letter of credit, the order **would have** arrived on time.*

1. If I were you, I look for a more reliable supplier.
2. I'm sure we ... get this contract unless we offer a lower price.
3. We ... have to look for another supplier if you were able to dispatch immediately.
4. If you can't deliver this week, we ...have to turn to another supplier.
5. I think that if you offer them some concessions they ... do the same.
6. If you didn't offer such good terms, we ... do business with you.
7. What discount ... you offer us if we decided to spend 1 million with you?
8. If we improved the payment terms, ... you consider buying from us?
9. If we join an association of producers, we ... get a better price for our product.

6. Match these sentences halves.

- | | |
|--|--|
| 1. If you hadn't improved your delivery terms, | a) ... we'd offer a 5% cash discount. |
| 2. If you gave us a discount of 10%, | b) ...we would have closed your account. |
| 3. If your payment is overdue, | c) ... we would place a firm order. |
| 4. If they had made a lower bid last month, | d) ... we would have accepted it immediately. |
| 5. If I had foreseen the extent of the damage, | e) ...we would have found a new supplier. |
| 6. If you paid late, | f) ... we'll offer a 5% cash discount. |
| 7. If they pay within 30 days, | g) ... we would have checked all our insurance policies. |

8. If your payment had been overdue, h) ... we'd have to close your account.
9. If they bothered to pay promptly, i) ... we'll have to close your account.

Essential words and phrases

Absorption	– поглощение, распределение
To avoid	– избегать, уклоняться
Avoidance	– уклонение
Cost-effective	– затраты-эффективный
To cut off	– уходить, прекращать
To deal with	– заниматься, иметь дело с
Destruction	– разрушение
To distinguish	– различать
To expose	– подвергать
Gain	– доход, прибыль
To handle risk	– контролировать риск
Liability risk	– ответственный риск
Pool	– фонд
To predict	– прогнозировать, предсказывать
Prevention	– предотвращение
Pure risk	– чистый риск
Rather than	– предпочтительнее
Robbery	– ограбление
To set aside	– откладывать (деньги)

To spread	– распространять, распределять
To take off	– убирать, снимать
Uncertainty	– неопределённость, ненадёжность
Worthwhile	– стоящий

UNIT 2. THE INSURANCE BUSINESS

Reading 1

1. Match up words and word combinations in A with their synonyms in B.

A. to amount to, to refund, goal, to make up, extra, association, network, to seek, in the event of, total, to take on, in order to.

B. For the purpose of, to assume, whole, in case of, to try to get, a system, fellowship or partnership, additional, to compensate, to repay, aim, to be equal to.

2. Match the following words and definitions.

- | | |
|-----------------------------|---|
| 1) to suffer a loss | a) a combination of resources |
| 2) mutual insurance company | b) a trip to a place and back to the starting point |
| 3) margin | c) the business of insuring against losses |
| 4) solvent | d) a place where business is carried on by brokers |
| 5) surplus | e) able to pay all one's debts |
| 6) exchange | f) a quantity over and above what is needed and used |
| 7) insurance | g) provision for error (increase) |
| 8) a round trip | h) an insurance company that is owned and controlled by its policyholders |
| 9) a pool of funds | i) to experience damage |

Text 1. The Structure of Insurance Business

All insurance companies have two sources of income: premiums paid in by the policyholders whose risks the company insures, and investment income earned on the pool of funds that have been paid in as premiums but not yet paid out **to cover** losses. They also have two types of costs: the cost of claims paid to policyholders who suffer losses, and other expenses, including the cost of administration and marketing.

Stockholder-owned companies. Many insurance companies are ordinary corporations. They issue stock and are owned and controlled by the stockholders. The goal of such firms is to earn a profit for their owners. This can be done only if premiums plus investment income **amount to** more than total claims plus operating costs. If costs exceed income, claims must still be paid, and the stockholders **suffer a loss**. Stockholder-owned firms are the main type of property and **liability insurance company**.

Mutual insurance companies. **Mutual insurance companies** are a type of cooperative. They are owned and controlled by their policyholders. Like stockholder-owned companies, they must have enough income to cover their costs in order to remain solvent, but their profits and losses are **handled** in different ways. The most common method is to set premiums high enough to cover claims and expenses, with a **generous margin** for error. At the end of each year, the **surplus** is **refunded** to policyholders as a dividend. Less often, mutual companies charge a premium that is just high enough to cover normal claims and expenses. If claims are higher than expected, the company has the right to charge policyholders an extra amount **to make up** the difference. Mutual insurance companies are the main type of life insurance company.

Lloyd's associations. A Lloyd's association is a third way of offering insurance. It is a **network** of insurers who accept risks through a central **exchange**. The best known of these associations is Lloyd's of London. Lloyd's of London is not an insurance company **in the ordinary sense**. Instead, it is much like a stock exchange. A person who wants to be insured by Lloyd's of London contacts a broker, who in turn **seeks** to place the insurance with some of the 1800 members of Lloyd's. To handle large risks, the members form syndicates of as many as 200 or 300 members. For example, a shipowner might get \$10 million worth of **coverage** for a **round trip** by an oil tanker from a syndicate of 200 members, each of which receives half of one percent of the premium and must pay \$50,000 of the claim in the event of a total loss. Lloyd's of London has strict rules to make sure that its members are able to cover the risks they **take on**.

Government insurance agencies. Many government agencies also provide insurance. The Federal Insurance Corporation insures savers against the risk of bank failure. Federal agencies provide crop and flood insurance. Some government agencies offer true insurance. They collect premiums, pool the funds, and pay claims out of the pool.

3. Complete the following sentences to summarize the text.

1. All insurance companies have two sources of income: ...
2. Insurance companies have two types of expenses such as ...
3. The stockholder-owned companies earn profits for their stockholders if ...
4. Mutual insurance companies handle their profits and losses by ...
5. If claims are higher than expected a mutual insurance company...
6. A Lloyd's association is a network of insurers ...

7. A person who wants to be insured by Lloyd's of London ...
8. Government insurance agencies provide ...

4. Choose the word which best completes each sentence.

1. The life fund is a pool of money into which all the premiums are paid and from which all are eventually paid out.
a) loans b) savings c) benefits
2. The greater the risk or the chance of it happening, the ...will be the premium needed to cover it.
a) higher b) lower c) cheaper
3. The ... date is the date in the future when the policy comes to an end.
a) fixed b) official c) maturity
4. Insurance makes trading easier by ... a variety of risks.
a) eliminating b) describing c) ensuring
5. Risks must be ... before they can be insurable.
a) understood b) unexpected c) calculable
6. It can be ...with reasonable accuracy how many houses in Britain will be destroyed by fire next year.
a) predicted b) indicated c) emphasized
7. When a householder is calculating the value of his house for ... insurance purposes, he or she should deduct the value of the land.
a) life b) marine c) fire

Reading 2

5. Translate the groups of words of the same root into Russian.

To except-exception-exceptional; similar-similarity; to exceed-excess-excessive-excessively; to require-requirement-required; accurate-

accurately-accuracy; to intend-intention-intent; to occur-occurrence; to determine-determination-determinative; to agree-agreement-agreeable.

Text 2. The Concept of Insurable Risk

Insurance companies take on many kinds of risks – fire, shipwreck, sudden death, illness, and many more. They do not take on risks of all kinds, however. With few **exceptions**, they do not insure speculative risks. Even among pure risks, some are insurable and some are not. Ideally, an insurable risk has six **traits**: (1) many similar units are exposed to the risk; (2) the loss is accidental; (3) the loss can be measured; (4) the loss is not catastrophic; (5) the chance of loss can be calculated; and (6) the premium must not be excessively high.

Many similar units. An insurable risk should be one that many similar units are exposed to. Risks of fire, illness, burglary, and so on all **fit** this **requirement**. When many similar units are exposed to a risk, the insurance company can use the **law of large numbers to predict** losses with great accuracy. Unique events, by contrast, usually are not insurable.

Accidental loss. Normally only accidental losses can be insured. Suppose a firm offered insurance against house **fire set** by owners. Only people who intended to burn down their houses would buy such insurance, so the concept of **pooling risks** would not apply. There are, however, a few exceptions to the rule that only accidental losses are insurable. For example, many life insurance policies cover the risk of suicide if the policy has **been in force** for a year or more.

Measurable loss. Insurable losses must be measurable, meaning that it must be possible **to determine** whether a loss has actually occurred and,

if so, how great the loss is. Events like fire, death, robbery, and most illnesses meet this requirement. In the case of life insurance, no attempt is made to measure how great the loss is. Instead, the amount to be paid is **agreed upon** when the policy is bought.

No catastrophic loss. A catastrophic loss is one that affects a large number of policyholders at the same time. Such losses cannot be insured because they do not follow the rule that the few who suffer the loss are paid out of the pool of funds paid in by the many who do not suffer the loss.

Calculable chance of loss. For a risk to be insurable, it should be possible to calculate the chance of a loss. This calculation is made easier if many similar people or firms are exposed to the same risk. That is not the only requirement, however. Some events are so rare that it is hard to calculate the chance of their **occurring**, even though many people are exposed to the risk. For example, it is impossible to calculate the chance that a volcano will erupt.

Reasonable premium. The final trait of an insurable risk is that the premium is reasonable. If the premium required is almost as great as the loss, or even exceeds it, no one will buy the insurance.

Insuring uninsurable. The concept of insurable risk is not absolute. In some cases it is possible to buy insurance when one of the six factors that we have listed is not present. Lloyd's of London is famous for insuring unique risks. In one case it insured NBC television against the risk that the United States would **pull out** of the 1980 Moscow Olympics. When the United States did pull out, Lloyd's paid NBC \$80 million. Lloyd's is able to insure such risks because it spread them among syndicates with many members.

The members **offset** losses with profits on policies for other unique risks where no loss takes place.

6. Find words or expressions in the text which mean the following:

Characteristic, to determine, to meet requirements, to think (to assume), to make burn, to be in full strength, to take place (to happen), to arrive at understanding, not expensive, to distribute, to compensate for, a happening.

7. Match the meanings given below to the words in the box.

Underwriter, premium, claim, insurer, insured, comprehensive, syndicate, broker, catastrophe

1. Something which would cause an insurance company substantial losses.
2. The payment made to the insurance company when the proposal is accepted.
3. What needs to be made when a loss is incurred.
4. The organization which provides insurance cover.
5. The person who has an insurance policy – also called the policy holder.
6. The type of policy which offers cover against a variety of risks.
7. A group of underwriters at Lloyd's of London.
8. Someone who advises and arranges policies that are offered by many different companies.
9. Another name for the insurer.

8. Match up the half-sentences below.

1. If the chance of loss can be calculated a) ... by distributing them among syndicates.
2. Measurable risk means b) ... if the premium is not reasonable.

- | | |
|---|---|
| 3. If someone's policy has been in force at least for a year | c) ... because too many people may suffer the loss. |
| 4. The insurance company can predict Losses with great accuracy | d) ... both parties agree upon the amount to be paid. |
| 5. When the life policy is bought | e) ... that it is possible to determine how great the loss is. |
| 6. Catastrophe losses are not insurable | f) ... a person may insure himself against the risk of suicide. |
| 7. No one will buy the insurance | g) ... if many similar parts are exposed to risk. |
| 8. In some cases Lloyd's insures some uninsurable risks | h) ... the risk is considered to be insurable. |

9. Read and translate the telephone conversation and do the task following it.

Julie Shaw is an insurance executive in the fire insurance department of Coldstream Insurance PLC. She is presently dealing with a 'phone call from Harry Cartwright, a Dorset farmer whose outbuildings were damaged by fire last night. His farm was gutted and two of his three wooden cowsheds were badly damaged.

JULIE: Fire department.

HARRY: I'd like to speak to someone about a fire I had last night at my farm.

JULIE: Do you have a policy with Coldstream?

HARRY: I do. That's why I'm phoning you now.

JULIE: Alright, sir. Could you give me the number of the policy.

HARRY: It's FM 768543 B88.

JULIE: Can you give me a moment while I look up your records in the computer Are you Mr Catwright ... Harold Cartwright at Crane Swyre's Head?

HARRY: That's right.

JULIE: You say you've had a fire. Can you tell me what happened?

HARRY: Well, we woke up in the night to find the bam blazing. We managed to get the cattle out of the cowsheds, then the fire spread.

JULIE: This policy doesn't cover the livestock.

HARRY: I realize that.

JULIE: Do you have the policy in front of you?

HARRY: Yes.

JULIE: Can you refer to Schedule One?

HARRY: Yes, yes, I'm looking at it.

JULIE: Can you confirm that the items we're referring to are the outbuildings number one to four.

HARRY: That's right. Only we managed to save the cowshed ... number three on the schedule.

JULIE: No damage?

HARRY: Well, it's badly scorched (опалить).

JULIE: Do you know how the fire started Mr Cartwright?

HARRY: Not really. It's an open barn and with this warm dry weather it can get very hot. It could have been internal combustion. But we've had a fire raiser in the area. Old Joe Connel lost a couple of haystacks last month and that was deliberate.

JULIE: If there's any question of arson, the policy will have to be notified.

HARRY: I realize that ... but there's no way I can tell.

JULIE: Alright. I'll send you a claim form right away. Incidentally, I'm Julie Shaw. If you have any difficulties in completing a claim form let me know.

HARRY: Thank you for your help. Goodbye.

JULIE: Goodbye Mr. Cartwright.

Following on from the previous telephone conversation, Julie Shaw has now sent a brief letter to the policy holder together with an accompanying claim. You are asked to complete the claim form from the following information:

Crane Farm consists of a farm house and four out buildings, all of which are covered by Coldstream Insurance PLC Policy No.FM 768543 B88. The premium of \$4,000, due on 1st January last was paid on that date and the amount of cover is \$300,000 for the buildings and \$50,000 for farm equipment and machinery. The sole owner of the farm is Harold Cartwright.

Harry's wife woke him in the early hours of Friday last because of sounds of distress coming from the cowsheds. When they looked through the window they saw the barn on fire. Even as they watched the blaze was spreading to the cowsheds and they rushed downstairs with their son and daughter to see what could be done.

While Harry's wife and daughter led the dairy cattle to safety, he and his son concentrated on putting out the fire in two of the cowsheds.

Two young calves were unfortunately killed before they could be helped.

The roof of one of the cowsheds was totally destroyed, while the walls of both buildings were badly damaged.

They gave up any attempt to save the barn which was razed to the ground before the fire engines arrived.

In one of the cowsheds, a milking machine, which cost \$1,200 when it was purchased eighteen months ago, was severely damaged.

**Coldstream Insurance plc Goldhawk House,
Vale Road, London NW6 5JT**

Telephone 071 242 2000 Fax 071 242 3000

Date:

Mr H Cartwright

Crane Farm

Swyre's Head

Dorset BH12 5HA

Dear Mr Cartwright

Fire Policy FM768643 B88

In response of your telephone call this afternoon I am enclosing a claim form for you to complete. As soon as you return the form I will arrange for a loss adjuster to visit the farm to evaluate the losses you have incurred and discuss the scope of cover afforded under the terms of your policy.

Yours sincerely

Ms Julie Shaw

Coldstream Insurance plc Goldhawk House,
Vale Road, London NW6 5JT

CLAIM FORM

First name(s)..... Surname

Address.....

.....Postcode.....

Policy Number

Type of Insurance

Please describe fully the events giving rise to the claim:

Please advise the steps you have taken to mitigate the losses:

Please give a complete list of assets lost or damaged as a results of these events:

Description	Date of purchase	Original cost (£s)	Estimated cost of replacement*(£s)	Estimated extent of damage (£s)

*Please submit two competitive estimates for each asset.

Signature of policy holder:.....Telephone

.....Home.....Work.....

10. Find the Russian equivalents for the following English expressions in the right column.

- | | |
|------------------------------------|---|
| 1) to miss a certain trait | a) учитывать моральный риск |
| 2) to hold a mortgage on | b) пройти медицинское обследование |
| 3) to fake a loss | c) подверженность ограблению |
| 4) to collect a claim | d) отказать в заявлении на страховку |
| 5) to drive a premium high | e) реагировать повышением премий |
| 6) to take a chance | f) отказаться от страховок |
| 7) to involve big policies | g) фактические убытки |
| 8) actual losses | h) задействовать страховки на крупные суммы |
| 9) to drop policies | i) воспользоваться возможностью |
| 10) to respond by raising premiums | j) повысить премию |
| 11) to reject an application | k) получить деньги по страховке |
| 12) exposure to robbery | l) сфабриковать убыток |
| 13) to take a physical exam | m) держать закладную на |
| 14) to allow for moral hazard | n) не иметь определённого признака |

Text 3. Other Factors that Affect Insurability

The six traits define an insurable risk. If anyone of them is missing, risk management through private insurance becomes difficult if not impossible. Other factors also can make private insurance difficult or impossible.

Insurable interest. For one thing, the buyer of an insurance policy is expected to have an insurable interest in the risk. This means that the policy holder must suffer if the loss takes place. Thus, a family can buy fire insurance on its own house, and so can a bank that holds a mortgage on the house. But a person cannot buy insurance on a neighbor's house or on the life of a movie star in the hope of **collecting** if a loss occurs.

Moral hazard. As we have seen, to be insurable a risk must be accidental. However, there is a chance that a policyholder will **fake** a loss in order to collect a claim. The owner of an apartment building that cannot be rented at a profit might burn down the building to collect insurance. This possibility is known as moral hazard. Insurance companies must **allow for** moral hazard when setting premiums. All policyholders are forced to pay more in order to cover losses caused by the dishonest few. In some cases moral hazard may drive the premium so high that the risk becomes uninsurable. Fire insurance on buildings in run-down urban areas is hard to buy for just this reason.

Morale hazard. **Moral hazard** is a matter of dishonesty. But insurance companies also face the risk that policyholders will become careless or take extra chances because they know they are insured. This is known as morale hazard. Would you be more careful about locking your car if you were not insured against the risk of theft. Insurance companies say that the answer to such questions is yes, at least for many people. When big policies are involved – such as fire insurance for an office building – the company may insist on certain loss control measures in order to reduce morale hazard.

Adverse selection. A final problem is **adverse selection**. This refers to the fact that people who are more likely than average to suffer a loss also are more likely to buy insurance. Suppose that an insurance company finds that one gas station out of one hundred is robbed in an average year, and sets the premium on this basis. Owners of gas stations in bad parts of town will think the premium is a **bargain**. Fewer owners of gas stations in safe parts of town will **sign up**. As a result, actual losses will be more than 1 in 100. If the company **responds** by raising its premium, station owners will **drop** their **policies** until only the most crime-prone stations are left in the program. If adverse selection cannot be limited, the risk may become uninsurable.

Underwriting. The insurance industry's chief weapon against adverse selection is **underwriting**. In the insurance world, this means classifying potential policyholders into groups according to risk, setting premiums for the groups based on the degree of risk, and **rejecting** applications that exceed certain levels of risk. In the case of robbery insurance for gas stations, an **underwriter** for one company might decide to base its premium on a 1-in-100 chance of loss. He or she would check each application and reject from those stations that were judged to be above-average risks. A second company might set a higher premium and would thus be willing to sell policies to stations with greater exposure to robbery.

Selective underwriting can be found in every area of insurance. For example, life insurance companies classify applicants by age in setting premiums. They often charge lower premiums to nonsmokers than to smokers of a given age, and they often try to avoid high-risk cases by requiring applicants **to pass a physical exam**.

11. Find the words or expressions in the text which mean the following.

- a) a state of affairs in which a policy holder will suffer if a loss takes place;
- b) the danger that a policyholder will fake a loss in order to collect a claim;
- c) in insurance, classifying potential policyholders into groups on the basis of risk;
- d) the fact that people who are more likely to suffer a loss also are more likely to buy insurance;
- e) the danger that a policyholder will allow a loss to take place through carelessness;
- f) anything that helps to avoid high-risk cases in life insurance;
- g) anything illegal that some people do to collect a claim.

12. Answer the following questions about the text.

1. How can you interpret the fact that companies require a policyholder to have an insurable interest in the risk?
2. What factors make some kinds of insurance costly or even impossible?
3. What is the difference between moral hazard and morale hazard?
4. What does adverse selection refer to?
5. What may adverse selection lead to?
6. How can adverse selection be avoided?
7. What does underwriting involve?
8. How can selective underwriting be realized in life insurance?

13. Find opposites for the words highlighted in the following passage and synonyms for the words in italics.

Lloyd's of London

Lloyd's is a unique insurance market. Almost anything can be insured, from fleets of ships and aircraft to supertankers and jumbo jets.

While these risks are derived from the marine insurance for which Lloyd's is **famous**, risks of every conceivable description can be covered. Lloyd's underwriters deal with burglary cover, loss of profits through fire, and motor insurance, etc. One in six private motorists in Britain is **covered** by Lloyd's policies.

Lloyd's underwriters also have a reputation for insuring the more unusual risks such as *injury* to a concert pianist's hands or a winetaster's palate.

Lloyd's is not a company. It has no shareholders and there is no corporate liability for risks insured there. The underwriters, operating in syndicates, **accept** insurance risks for their personal profit or loss. They are liable to the full extent of their *private* fortunes to meet their insurance *commitments*.

Lloyd's underwriters do not have contact with members of the public. Business is taken to them by *accredited* insurance brokers who negotiate the best possible terms for their clients. The brokers may choose to place the business with one or other of the syndicates, or with an outside insurance company.

When Lloyd's brokers receive requests for insurance cover, they make out 'slips' – folded sheets of paper setting out the risks to be covered. They then *approach* one of the underwriters expert in the particular type of cover. The premium rate is then negotiated and, if the broker thinks the rate might be **better**, a second underwriter is approached.

An underwriter who accepts the contract signs the slip thereby taking a *proportion* of the risk for the syndicate. Having established the premium rate for the risk, and armed with this 'lead', the broker will now approach

other syndicates to get their **acceptance** for the remaining portion of the business. As each underwriter accepts the business on behalf of a syndicate the slip is signed, indicating percentage of the risk the syndicate is *prepared* to cover.

The relationship between broker and underwriter is based on good faith, and the underwriter knows that the broker will have disclosed all the material facts honestly and fairly. In return the underwriter will assume liability for claims as soon as the signature has been added.

The history of Lloyd's goes back to the late seventeenth century. Edward Lloyd encouraged ships' captains and merchants to meet in his coffee house, and out of their conversations arrangements were made to insure their ships and cargoes.

14. Complete each of the following sentences with one of the words given in the box.

<i>Cargoes</i>	<i>major</i>	<i>proportion</i>	<i>broker</i>
<i>cover</i>	<i>commitment</i>	<i>risk</i>	<i>signature</i>

1. Once a Lloyd's underwriter has added a ... signature to the 'slip' the contract is bound to be honored.
2. The relationship between the ... and the underwriter is based on good faith.
3. Both goods and ... can be insured at Lloyd's.
4. The underwriter accepts the ... on behalf of the syndicate.
5. Each syndicate will accept an agreed ... of the risk.

6. The broker will try to get ...for their clients at the lowest possible premiums.
7. The ... of motorists in Britain are covered by a Lloyd's insurance policy.
8. There is no limit to the extent of the underwriters' liability to meet their ... under the policy.

Essential words and phrases

Adverse selection	– неблагоприятный отбор
To allow for	– принимать во внимание, учитывать
To amount to	– составлять сумму, равняться
Bargain	– выгодная сделка, договорённость
Collecting	– взыскивание
To cover	– покрывать, страховать
Coverage	– покрытие
To determine	– определять
To drop policies	– прекратить страховаться
Exception	– исключение
Exchange	– биржа
To fake	– фабриковать, подделывать
To fit requirements	– удовлетворять требованиям
To be in force	– действовать, оставаться в силе
To handle	– регулировать, контролировать
The law of large numbers	– закон больших чисел
Liability insurance company	– акционерная страховая компания
To make up	– возмещать, компенсировать
Margin	– прибыль

Moral hazard	– моральный риск, моральная опасность (риск, связанный с недобросовестным поведением застрахованных людей)
Morale hazard	– моральная опасность, проистекающая из безразличия застрахованного к возможности возникновения ущерба
Mutual insurance company	– страховая компания на взаимных началах (вместо акционерного капитала имеет паевой капитал)
Network	– сеть
To occur	– иметь место, происходить
To offset	– компенсировать, возмещать
In the ordinary sense	– в обычном смысле слова
To pass a physical exam	– пройти медицинское обследование
Pooling risk	– вероятность риска
To predict	– предсказывать, прогнозировать
To pull out	– выходить из
Reasonable	– приемлемый, достаточный
To refund	– возвращать, возмещать
To reject	– отклонять
To respond	– реагировать
Round trip	– путешествие туда и обратно
To seek	– искать, стремиться
To sign up	– застраховаться
To suffer loss	– нести ущерб, убыток

Surplus	– излишек, избыток, нераспределённая прибыль
To take on	– брать на себя
Trait	– характерная черта, особенность
Underwriter	– андеррайтер
Underwriting	– андеррайтинг, процесс принятия страхового риска, включающий отбор, исключение и классифика- цию рисков, определение ставок страховой премии, процесс рассмотрения предложений на страхование

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