

Business English

Vysoká škola ekonomie a managementu

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Business English

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Preface

The book of Business English you are holding in your hands is a treasure for those who want to acquire knowledge of facts and English vocabulary referring to the basic spheres of business that you cannot avoid while working in international companies and institutions. In fact, it is everything you need to know to survive in the world of business where you often have to react and act in a wide range of situations you inevitably encounter in your job no matter if you work for an insurance company or for an airliner. You can use this survival kit not only when getting ready for your Business English lessons and tests at VŠEM, but also when you need to prepare yourself for an interview in an international company, when your boss requires you to write an Annual Report in English, when you are supposed to show a new colleague from abroad around your company or train somebody to use IT equipment, when you feel you need some education concerning your rights at work and the ways to enforce them, when you need to set an account in a bank abroad - among other useful things! And there is no need to worry - there is not even one boring paragraph in the book. You are actually going to have a lot of fun while studying this book!

Each of the ten chapters in this textbook consists of six main parts - a short introduction giving you a hint about what you are going to learn about, a summary of the goals of the chapter, a nice starting point, a funny text comprising all the facts and useful information concerning the given topic, a list of the most important vocabulary and a final multiple choice exercise verifying that you have got familiar with the terms and issues discussed in the chapter. Please note that British English is used and American equivalents are given for some basic expressions. You can find lots of references to specialized literature and internet links containing information about certain topics you might want to study in detail. The book is designed for both Czech and foreign students. The first group of readers may be delighted about the possibility to have a look at the Czech Republic in the big picture, i.e. as a member of the European Union, a part of the post-Soviet block and the rest of the world, while the other group may enjoy the book for its great hints on how things work in the Czech Republic regarding law or business environment.

So do not wait and jump right in!

1 The Economy

Did You Think Your Life Was Easier Than the Togolese Bushpeople's?

Introduction

It's quite unusual to start a book with an exercise, but let's do it! Close your eyes and say what you imagine when you hear the term "money"!

So what was it? Perhaps just your wallet and the "green papers"? Or "that weird thing forcing me to work instead of sleeping"? Well, if that's the case, you should expect a big surprise hidden for you in this chapter! You're simply going to be astonished by the picture of what we call "money" given by economics as a science.

Having defined money - the phenomenon that is often falsely considered the most important thing determining the quality of our lives, you're going to discover how the economy actually works. You're going to see that the basic platform where the economy actually "happens" is called "market" and then explore its actors. As part of that, you're going to become a Togolese bushman or bushwoman, a governor or governess of the Central Bank, and even a member of the Czech government for a while! Do expect your teacher to ask you lots of questions even before you actually start doing section 1.2 comprising exercises!

While going through this chapter, you should bear in mind that understanding the discussed topics is important for your personal orientation in today's world, because - whether you want it or not - we all live according to certain economic principles that determine our lives to a great extent!

Goals

The goal of this chapter is to achieve your ability to read and understand economic news, define and discuss the most common economic phenomena and work with a few graphs showing the very basic interactions in the economy.

A Warm Starter

Think about the following: would you like the Czech Republic to adopt Euro or is it better to keep our own currency? Consider the following aspects:

- possible rise in prices;
- the Central Bank would have to fully cede its monetary policy to the European Central Bank;

- domestic exporters and importers might suffer depending on the “strength” of Euro and the Central Bank wouldn’t be able to help them;
- the Eurozone’s vulnerability showed when Greece revealed its debts in 2010 and the Euro slumped while dragging down all other Eurozone members

... and count the advantages and disadvantages of exchanging the good old Czech crown for Euro.

Then try to define gross domestic product! It’s a term you can hear every day on the radio and in television, so say what you actually think it is! Then compare with the definition given later on in this chapter.

1.1 Let’s See What It’s About!

Money is a drag you’ve been forced to think of every day since your teenage years! And there’s a whole bunch of people who can only think of money whenever they hear any word relating to the economy. So let’s start with this term that is so important to most people today. Only then we’re going to move on to what actually happens in the market and why the job of a Minister of Finance is so unpleasant these days.

1.1.1 Money & Politics - The Dirty Combination

Economists define money as follows:

Money is the means of payment or medium of exchange; in our economy, money consists of currency and checking accounts with which households and businesses pay for things. Money facilitates exchange. When everyone trusts and accepts money as payment for goods and debts, trade is facilitated.

Paul A. Samuelson & William D. Nordhaus

It’s obvious that **money** can virtually be anything: ordinary stones, silver, gold, cows, or currencies. Believe it or not, in the suburbs of Lomé, the capital of the African country of Togo, it’s hens. And in the countryside of northern Togo it’s peanuts. Yes, you haven’t been dreaming - it’s peanuts. Local people living in those areas have never even seen the “green papers”. How’s that possible? Well, when a community is closed enough and trade takes place only within its borders, its members can use anything that is generally trusted and accepted as the **means of payment!** Where the community finds nothing meeting this condition of **general trust and acceptance**, **barter exchange** exists. I.e. people simply pay for their “shopping” with anything they have after **bargaining an adequate price** with the **seller**.

In modern societies that we also could call “economically **developed countries**” or “the rich North”, money has a few functions. Firstly, it’s the **medium of exchange**, as we have described above. Secondly, it serves as an **accounting unit**, i.e. people can use it to express the price of goods and services. And finally, we use money to **store wealth**. Why can’t the so called “developed societies” use their own means of payment? Wouldn’t it be great if countries rich in gold could use gold and countries rich in coal could use coal? No way! These societies are a part of **the globalized world** and they need to realize trade with other societies and other countries. Once **globalization** hits the countryside of Togo, peanuts will no longer serve as the means of payment in the local communities. They will have to accept the Togolese **currency**¹, or even US dollars or Euros to realize trade. Actually, globalization is the cause why there is a **general tendency to unify currencies**. Even though all currencies recognized by the central banks of the individual countries are **convertible** (of course, except the rare cases where **hyperinflation** forces the central bank to **condemn the currency as non-convertible** like in Zimbabwe in 2008), **conversion charges** and **transaction costs** connected to using different currencies make governments try to unify their moneys at least with their neighbouring countries. The European Union has been in that process ever since 1992 when **Euro** as the **common currency** was established by **the Maastricht Treaty**. However, not everyone agrees that this unification of currencies in the European Union was just a logical result of the efforts to minimize transaction costs and **boost trade** at times of globalization. Even Helmut Kohl used to say that “If monetary union doesn’t exist, there can be no political union.”² Professor Josef Šíma, the expert of the Liberal Institute in Prague, thinks that this and similar statements mean that politicians need the common currency as an instrument to **exercise political power**. Well, long discussions could arise here, but there are some simple facts you need to take into account when forming your opinions on this issue. First of all, you should know that already the so called **Maastricht Criteria** or **Euro Convergence Criteria** do limit the member countries in exercising their **economic policies**. The **inflation rate** can only be 1,5 percent higher than it is in **the three best-performing member states**. The **ratio of the government deficit to gross domestic product (GDP)** can’t be higher than 3%. The **ratio of the government debt to GDP** can’t be higher than 60%. Member

¹ Just for those who didn’t notice the definition of the term „currency” while reading the definition of money - currency is a form of money:-)

² The citation and the following thoughts were published in „Sjednocování Evropy - O hledání evropské identity a zneužití myšlenky Evropy bez hranic”, page 78, written by prof. ing. Josef Šíma, PhD. If you can’t speak Czech, please refer to The Role of a Uniting Europe in the International System by Werner Kaltefleiter where you can find a great discussion on this topic.

countries are obliged to join the **exchange-rate mechanism (ERM)** set by the **European Central Bank (ECB)**. The **interest rate** can be maximum 2 percent higher than is the average in the three member states having the lowest inflation rates. Well, nobody respects these criteria anyway, so why should we talk about them? Because they may be used to **enforce certain political steps in exchange for** tolerating the desperate economic behavior of some governments whose **debt far exceeds the 60% limit!** In 2009, **the government debt to GDP ratio** of Italy was approximately 115%! In case of Belgium, the seat of all the great EU institutions, it was 97%. Portugal and Germany scored around 75% and the United Kingdom 68%. The Netherlands, the country where the Maastricht Criteria came to life, scored 62%!³ Well, we probably don't even want to hear the answer to the intrusive question "why are there rules that nobody respects and that sometimes can't be respected?" if we don't want to be disappointed by the pragmatic thinking of the European politicians. Is the "healthy economy" and **price stability** (which is given as an official reason of the existence of the Maastricht Criteria) really what politicians have on their minds? It's up to you to study and build your own opinion about the famous **monetary union** the Czech Republic intends to join! But don't fall in despair and remember: if you don't like the problematic system of trade, political **corruption, extortionary behaviour** of the rich and the world where money often is the thing people are willing to kill for, you may always move over to Togo - there should be enough peanuts to feed one poor European!

1.1.2 Why Does It Cost Fifty Instead of Ten?

Before answering this peculiar question, we need to sum up a few basic facts that you must understand. At first, let's see what the "economy" is! Among other meanings, the Merriam-Webster Dictionary gives the following definition:

Economy is the structure or conditions of economic life in a country, area, or period.

Merriam-Webster Dictionary

And what explores how the economy works is the science called "economics".

Economics is the study of how societies use scarce resources to produce valuable commodities and distribute them among different people.

Paul A. Samuelson & William D. Nordhaus

³Go to <https://www.cia.gov/library/publications/the-world-factbook/rankorder/2186rank.html> to see the full list of countries ranked by government debt to GDP ratio.

What are these “**scarce resources**”? Well, they’re everything you might need for producing goods, i.e. **land**, **labour** and **capital**. However, all these resources are **limited in quantity**. Therefore they are **rare** or scarce. You should remember the term “**scarcity**”, because it’s actually the very basic reason for the existence of the economy as a form of life of society. If resources weren’t scarce, you wouldn’t have to work. You could take anything you want whenever you see it. You would never have to **economize on** anything. You would never have to **budget**. However, this planet’s resources are scarce! Land is scarce, as the surface of the Earth is limited. Labour is scarce, as there is only a certain number of people in productive age. Capital is scarce, as the amount of money we have at our disposal is always limited even if we are rich. Even the air we breathe and the water we drink are scarce. Why would otherwise the mayor of the poor industrial town of Ostrava shout at the government that they don’t invest enough to make its air breathable? Why would we otherwise pay even for tap water? Unfortunately, almost everything on Earth is scarce - because we have to pay for almost everything and almost everything is **owned by** someone. Yes, we all remember the crazy attempt of the communists to simply cancel **private ownership**. However, people found out that when everything belongs to everyone, nobody cares about anything and nobody may own and do what they want⁴. In the Czech Republic, it took the communists long forty years to make people completely fed up with that which resulted in the 1989 Velvet Revolution. Nevertheless, forty years are better than living in communism forever. Anyway, today everyone knows that the communists wanted to create a state where “everything would be enough for everyone” and they tried to persuade people they could make it. However, it was all just a big lie and people noticed that their **cost of living** was no way getting higher. In fact, it was **the desperate economic situation** and the billions of crowns owed to the Soviet Union and friends of “the Big Brother” that made the communists step down in 1989 with no great resistance, because they no longer

⁴ However, the presented point of view is not the only one, although it is widely accepted in the academic community around the world (see the publications named below). Today, you may hear quite often in the streets that „everything was better in communism” and “everybody steals today” and “everybody wants just money, the family doesn’t matter anymore”. Usually, it’s the older generation that often brings up this idea. In general, people want thus to express that they are disgusted by the negative side of freedom and capitalism. For example, they complain that nowadays people only head for money and that the institution of family is of much lower value than in communism. And they may be right! When people couldn’t travel abroad and their activities were controlled by the state, they spent much more time at home with their families than they do today! It’s up to you to read about the communist past and the reality people used to live in. Then count the advantages and disadvantages and make your own conclusion!

knew how to solve the economic problems the country had⁵. Only after **the Velvet Revolution**, the true **condition of the economy** was **revealed to the public** and people learned that the motto just **sent the country deep in the red**. But let's go back to **the law of scarcity** that makes our lives as it is no matter if it's acknowledged by the state or if communist politicians try to deny it. This law simply says the very basic principle of the world we live in: if you want something that is owned by someone else, you must pay for it!

And the space where using the scarce resources in order to produce goods actually happens is the **market**. It's where all the **trade** and production and thus the economy itself happens! Let's see the scientific definition of the market:

A market is a mechanism by which buyers and sellers of a commodity interact to determine its price and quantity.

Paul A. Samuelson & William D. Nordhaus

So why does your chocolate cost fifty and not ten?? Because **the market** has **set the price of** fifty! Yes, so powerful is the market - it can **dictate the price** of your chocolate! Let's talk about **the mechanism of setting prices**. Imagine that you're living in a very little village in the countryside of Togo where there are just two huts - yours and Kokou's family's. Your family grow wool and Kokou's family need to buy some from you so that they can make a blanket to cover themselves with when the temperature drops down to just 35 degrees during the rain periods. So Kokou usually needs 1 bucket of wool and he buys it at the beginning of every rain period for 1 bucket of peanuts. He represents the **demand in the market**. What do you think would happen if you **reduced the price to** half a bucket of peanuts for one bucket of wool? Kokou would certainly want to buy more than 1 bucket of wool! Maybe even three in order to make more blankets and have more comfort! Let's employ your fantasy and logical thinking a bit! This is your task:

⁵ If you want to learn more about the way the communists led our country in terms of the economy, you may refer to a great number of publications dealing with this issue. For Czech students, one of the most suitable publications might be *Hospodářské důsledky sovětské okupace Československa 1968–1991* by Jaromír Lojín. For students from abroad, the most suitable ones could be *Sozial- und Wirtschaftsgeschichte Europas im 20. Jahrhundert* by William H. Hubbard and Gerald Ambrosius and *Communist economics in Russia* by Bruno Sergi. It is strongly recommended that you read some of these publications, because explaining why the Czech nation is still far behind the "Western Europe" in terms of the cost of living is simply beyond the scope of this textbook.

1. Draw a graph with the **vertical line** representing the price of wool (= number of buckets of peanuts) and the **horizontal line** representing the quantity of wool (= number of buckets of wool) demanded by Kokou.
2. Now mark the situations before and after the **fall in the price** of wool.
3. Then join the two spots with a line.

Congratulations, you have just constructed the **demand curve**! You can see that **the curve slopes downward**. It's because of **the law of downward-sloping demand**:

When the price of a commodity is raised (and other things are held constant), buyers tend to buy less of the commodity. Similarly, when the price is lowered, other things being equal, quantity demanded increases.

Paul A. Samuelson & William D. Nordhaus

Don't hate our friends Nordhaus and Samuelson! It's not their fault that it works like that! Instead of making them guilty of something that's not their fault, try to think why they included the formulations "and other things are held constant" and "other things being equal" in their definition! Imagine that Kokou's wife delivered a baby or that the rain periods became much longer. What would happen?? Well, Kokou would need more blankets and thus more wool! Unlike the preceding case of a **fall in the price** of wool and the subsequent **shift along the curve**, an **external factor** (i.e. other than the price of wool) causing an **increase in demand** for wool would **shift the whole curve to the right**. This principle explains why you should mention that "other things are held constant" while talking about shifts along the curve and it is valid in case of the supply curve as well. If you want to understand it perfectly, you must refer to the Bible of economics written by the above mentioned friends of ours called Economics.

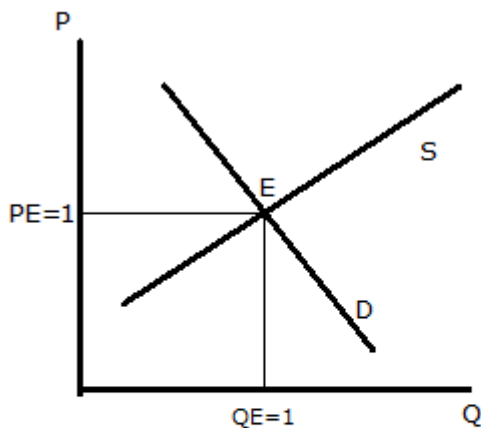
Let's construct the **supply curve** now! Imagine yourself! What will you do if the price of wool jumps up to 2 buckets of peanuts per 1 bucket of wool? What a silly question!!! Of course, you will happily grow more wool and increase your supply to perhaps 5 buckets of wool in order to earn more buckets of peanuts! Let's draw this!

1. Draw a graph with the **vertical axis** representing the price of wool (= number of buckets of peanuts) and the **horizontal axis** representing the supplied quantity of wool (= number of buckets of wool).
2. Now mark the situations before and after the **rise in the price** of wool.
3. Then join the two spots with a line.

Great! You've drawn the supply curve!

Apparently, you haven't killed each other so far, so we may assume that your **supply satisfies** Kokou's **demand** and that having bargained carefully, you **succeeded in setting a price** that is **satisfactory** for both of you. I.e. you have been living in the

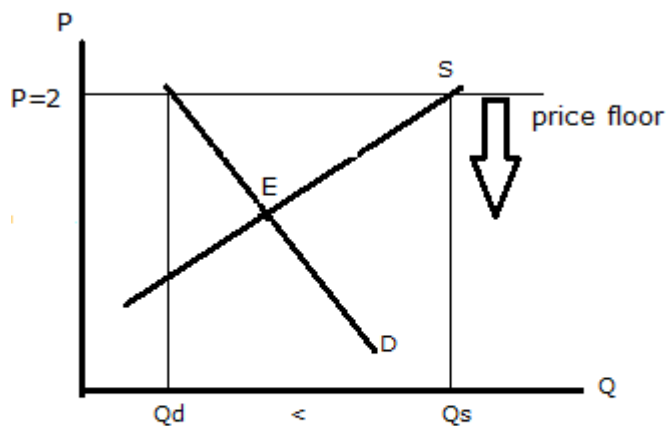
blessed state of being called “the **market equilibrium**” or “**equilibrium of demand and supply**”: 1 bucket of wool is sold by you and bought by Kokou at the **equilibrium price** of 1 bucket of peanuts. Supply and demand are **balanced**. We can see this situation when we draw the supply and demand curves into one graph and mark the point where **the two curves intersect each other**. It’s point E and it’s **at the intersection of the supply and demand curves**.



Picture 1.1: A great deal!

Source: Samuelson, P.A., Nordhaus, W.D.:
Economics, McGraw-Hill, 1992; own drawing
and example situation

Actually, **the market is always heading towards its equilibrium**. Imagine that some nomadic tribe comes in your village and its members want to sell wool to Kokou. However, they want to earn a lot of peanuts and they **set the price of wool at the level of 2** buckets of peanuts per 1 bucket of wool. Do you think that Kokou will be willing to pay 2 buckets of peanuts for 1 bucket of wool? Never! He will rather go to you hoping that you haven’t increased the price or to a neighbouring village to get some or he will kill his only cow to get the leather to cover himself with. In any case, Kokou won’t buy any wool from that tribe. The wool market will **be in surplus** because **the quantity of wool supplied will exceed the quantity of wool demanded**. Graph 2 shows the situation of a **price floor**:



Picture 1.2: Too much wool!

Source: Samuelson, P.A., Nordhaus, W.D.:
Economics, McGraw-Hill, 1992; own drawing
and example situation

The tribe will subsequently **be lowering the price** until point E is reached again. Or they might also leave your village and try to find one where the inhabitants are willing to buy 1 bucket of wool **at the price of 2** buckets of peanuts. It fully corresponds with the definition of the market equilibrium given by the two loved friends of ours:

The equilibrium price and quantity come at the level where the amount willingly supplied equals the amount willingly demanded. In a competitive market, this equilibrium is found at the intersection of the supply and demand curves. There are no shortages or surpluses at the equilibrium price, there is no tendency for the price to rise or fall.

Paul A. Samuelson & William D. Nordhaus

We have seen that when Kokou is required to pay 2 buckets of peanuts for 1 bucket of wool by a tribe visiting his village, he will probably go to you or to some other neighbours to get wool. Simply said, he will jump over to the **competitors** - if there are some, of course. If you're not living in the village and if there are no neighbours offering wool, Kokou will **HAVE TO** buy it from the nomadic tribe no matter whether he likes their price or not. If Kokou really needs to make blankets for his family and has at least some peanuts, he will buy wool from that tribe. In such situation, he will have no other choice! As a **single supplier** of wool in the area of Kokou's village, that tribe is actually be a **monopoly**! Is Kokou satisfied in this area where the nomadic tribe **has a monopoly over the whole wool market**? No way! He is forced to pay more than **under competition**! Actually, the nomadic tribe has an **absolute control over the price** while having to respect only one rule: the goods must be **affordable** for the **target consumers**. We can say that such **market structure** reduces Kokou's **satisfaction** and

therefore it is **inefficient**. This is the reason why monopoly falls into the category called "**imperfect competition**". Another example of a similar injustice is **oligopoly**. Imagine that there is you, the nomadic tribe and the neighbours who all have wool to sell. The poor Kokou has no other choice than wait for **the price decision** of the three sellers. Of course, such situation is still better than in the preceding case, because the sellers can't set the price as high as a monopoly can. There is SOME competition, but **price agreements** (illegal in developed countries) and **barriers preventing other sellers from entering the market** make it very reduced. If there are a lot of sellers offering similar products, the competition increases significantly! Such market structure is called **monopolistic competition**. Imagine that Kokou may suddenly choose one of twenty local sellers to buy wool from! What a luck! Each seller's wool **is of a different quality, prices vary** and newcomers have only **little problem entering the market**. Actually, the competition makes it impossible for the sellers to set the price too high, because they know there are a lot of other ones for which the customer may betray them. We're not going to talk about "**perfect competition**". It's a theoretical case where the product is totally **homogenous** and there are so many sellers that neither them, nor the consumer may **influence the price**. So **the price doesn't change with the quantity demanded**, i.e. the demand curve is horizontal. Remember that the **monopoly power** can be measured by the **Lerner index** ranging from 0 representing perfect competition to 1 representing an absolute monopoly.

1.1.3 The Job Nobody Wants - Minister of Finance

You might be finding that job prestigious or attractive at this stage but let's see what your opinion will be like at the end of this chapter! Here are just a few examples of the decisions every Minister of Finance must make. How would you decide about the following issues if you were in that position?

The very first one concerns the **labour market**: should there be **a minimum wage set by law** (i.e. a legislated **minimum wage floor**) or not? Just try to imagine the graph illustrating supply and demand and consider that we're talking in terms of labour instead of wool! Logically, the price is actually the wage now and the quantity represents **the number of hours worked**. It's a very easy analogy to the surplus of wool! Simply said, setting a minimum wage will **cause unemployment to rise**, i.e. the offered number of hours worked will be higher than the employers' demand! So what would you do? Would you rather choose to protect people with low education and **insufficient qualifications** from **falling into poverty** because of very low wages or would you set a minimum wage and cause unemployment to increase???

Another intrusive question might be: at times of an **economic slowdown** (imagine that it's the year 2008), would you rather **pour money into the economy** or would you **increase taxes** and tell the nation to starve in order to **keep public debt within reasonable limits**? At times when the economy was **at its peak**, your decision-making was probably quite easy! But what would you do right now **at the very bottom**? What would be your **economic policy** in a situation like that??? Would you try to **aim for a balanced budget** or would you give it up and **allow a deficit** so that people don't starve? Jan Švejnar, the Czech professor at the University of Michigan, says that in case of the post-Soviet **economies in transition** such as the Czech Republic, it's better to **pump money into the economy** because people don't have enough **savings** to cover the **financial gap** caused by governmental attempts to economize on **family allowances, unemployment compensation** and other expenditures. He thinks that such attempts might make a significant number of people fall into poverty. On the other hand, the so called developed economies should **cut their expenditures** as much as possible and try to increase their **revenues**. Why is it exactly the other way around? Nobody knows. Only the future will show whether the decision of the Czech and other politicians was right or wrong. Which way would you go???

The third question is: what **tax policy** would you **introduce**? Imagine that **the economy is expanding**, the GDP is growing, the **level of prices** is increasing (i.e. there is **inflation**) only at the desired level of 3 % per year, the unemployment is also at the desired level of 5 percent (which is generally considered to be the "**natural level of unemployment**"). Would you choose to impose a **progressive tax** or **flat tax**? And how much should the tax be if you want to prevent **tax evasion**? A difficult decision to make! The rich probably won't like progressive tax and the poor will **go on strike** if you choose flat tax. In fact, no matter which tax system you choose, somebody will be angry! If you **levy** high **direct taxes**, employees will kill you because it will lower their **net income**. If you increase **indirect taxes**, especially the **value added tax**, owners of businesses will kill you. If you increase **consumption tax**, cigarette addicts and alcoholics will kill you. Which death is better for you? The one executed by alcoholics or by angry owners of small businesses? It's up to you!

Another question: what if the GDP has been falling **for two consecutive quarters**, the inflation has been negative (i.e. there has been **deflation** because all producers are forced to reduce prices **due to the fear of loss of customers**), **imports** have been **hugely exceeding exports** because foreign business partners are **facing bankruptcy** (i.e. there is **a huge trade deficit**), businesses have already started **downsizing**, and the economy is thus simply **slumping into recession**? And what if the **economic downturn** continues for more than two consecutive years or there is **a decline in real GDP** (i.e. **GDP without the influence of inflation**) exceeding ten percent and the

economy is thus falling into a **depression**??? Well, a depression may seem to be a rather archaic term, but it did really happen back in 1929 when **the Wall Street crashed** and **the US GDP fell down by** 33 percent during the next four years. It may sound archaic, but we weren't far from that during the **financial crisis** of 2008 when the irresponsible US laws that allowed risky and speculative behaviour of financial managers who started the innocent **chain of bankruptcies, bank failures, economic uncertainty**, GDP downturn and **rise in unemployment** all over the world. Fortunately, this financial crisis only caused recession in some countries and didn't turn into depression. But what would you do if you were the Czech Minister of Finance in 2008? Would you panic or would you try to stay calm **counting on** the healthy condition of the Czech banks?? And what if you had to be the **governor of governess of the Czech Central Bank**? You need to realize that the task of central banks is to **keep an adequate amount of cash in the economy** and to keep a stable and suitable level of inflation. Would you **meet the demands** of social democratic and communist politicians and pump money into the economy while risking a subsequent **jump in inflation** that might **present a serious problem** in a few years???

And finally: would you **introduce state subsidies** for agriculture just like almost all your EU **counterparts**? Isn't it a bit strange when the state takes money from the **tax payers** and **subsidizes** agriculture? Yes, agriculture is a poor sector of the economy. But do you think that people care whether they spend 10 crowns more on milk or on taxes? What would you do for agriculture?

Enough questions! It's not just the decision whether to lead the Czech Ministry of Finance or the Czech Central Bank that you should earn in this chapter. There is one more issue we need to discuss! It's the **gap in the cost of living** between "the rich North" and "the poor South". Let's see which **economic indicators** can **provide us with relevant economic information** concerning the individual regions or countries. First of all, it's the GDP:

Gross domestic product is the total output produced inside a country during a given year. It contrasts with gross national product (GNP), which is the output produced by factors owned by the country.

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Do you think that GDP is an indicator giving us any information about the cost of living of the individuals living in the country in question? Of course not! GDP tells us the **value of goods and services** produced **independently of the number of citizens**. Therefore in 2009, Russia had a higher GDP than South Korea. But does it mean that the cost of living in South Korea was lower than in Russia? No way! But Russia's GDP was higher thanks to

the enormously bigger number of citizens it had **in comparison with** South Korea. Therefore we use **GDP per capita** when we want to compare the cost of living. Believe it or not, **the International Monetary Fund** (IMF) says that measured by GDP, Russia was the 12th country in the world while South Korea **ranked 15th**. According to GDP per capita, **Russia was in the 59th place** and South Korea ranked 36th. In general, we may say that African countries **rank at the very bottom** according to GDP per capita. In 2009, the poorest country in the world was Burundi with only 164 dollars per capita per year. The richest one was Luxembourg with 105,918 dollars per capita per year⁶. The difference is incredible! Some governments try to help the poor countries by **allocating money for** the so called **development aid**. Also, **the United Nations** spend billions of dollars every year in order to reduce the gap between the rich and the poor. But do you think it's effective to give money to someone who doesn't know how to spend it and who has no idea how to earn even one dollar themselves? Some people say that these governments and organizations give money to the **developing countries** purely in order to **gain power over** their **mineral resources** and other natural treasures. People who hate the United Nations and especially **the World Trade Organization** say that their behaviour is **exploitative** and that they make the developing countries dependent on their money so that they may **require concessions concerning** natural resources of the countries. Considering the fact that the most generous **donors** in both these organizations, as well as in the IMF and **the World Bank** are the United States and other countries belonging to the richest ones in the world, the development aid of all these organizations might be slightly suspicious. Nigeria and other **oil kingdoms** such as Iraq could be an example. Do you think that it's the **interests of the donors** or the interests of the developing countries what **prevails** in what we nicely call "**poverty alleviation**"?⁷ And do you think that the great **technology boom** we witnessed in the past two decades is an advantage or a disadvantage for the developing economies? **The Organization for Economic Cooperation and Development** (OECD) says that economies in today's world are "**knowledge-based**" meaning that their success depends on the amount of information and the **grade of technology** they can use. Do you think that developing countries will ever **be able to compete with** developed countries? And that the Togolese bushpeople will use computers one day? And the last three questions:

⁶ The source of these figures is World Economic Outlook Database of the IMF. The data refer to the year 2009.

⁷ However, in order to be able to defend your opinions on this issue and to form them at all, you should study some literature representing both points of view! If that interests you, do your own research and you will soon find a whole list of publications dealing with this issue. You might start with the book called Business, Government, Society by Arthur A. Goldsmith who has been known as a professor of University of Boston and thanks to his work for the United Nations.

do we actually need the developing countries to develop and why? Why can't they just **develop at their own pace** just as we did?? And is the effort of the rich countries to make the developing countries developed in line with the principle of **sustainable development**? I.e. what would we do if the developing countries started to produce as much waste as we do? Unfortunately, as a Minister of Finance, you would have to answer even these last questions while discussing the budget line called "development aid" with your mates in the government!

So - would you like to be a Minister of Finance? Or rather an ordinary tax payer? Or would you prefer to be Kokou and live in the countryside of Togo? Remember: if you have no car, nobody can steal it and you can't have an accident. If there are no jobs, you don't have to look for one. If your only job is to grow enough vegetables on the field surrounding your own hut for your own family, you don't have to live on family allowances and unemployment compensations. And, most importantly, if there is no door in your hut, you can never lose your keys! Whose life is easier? Kokou's or yours?

1.2 Think About It and Practice It!

1. Come to the front and draw the following economic situations **ALONG WITH** the appropriate explanation for your classmates:
 - demand curve
 - supply curve
 - market equilibrium
 - the government has set a minimum wage by law
2. Having the illustrations in front of your eyes, explain why:
 - Why does the demand curve slope downward?
 - Why does the supply curve slope upward?
 - What does it mean when we say that the market has come to its point of equilibrium?
 - What is the result of setting a minimum wage by law?
 - What causes shifts along the demand and supply curves?
 - Give at least 3 examples of what could shift the whole demand curve to the right (i.e. demand is growing) and draw that situation!
 - Give at least 3 examples of what could shift the supply curve to the left (i.e. supply is decreasing) and draw that situation!
3. This exercise really is from life! You have studied the example of a surplus in the market resulting from the price set higher than the equilibrium price. Now think of this! After the Velvet revolution, the Czech government knew that people didn't have money for "commercial" rents and legislated a rental ceiling for rents. I.e. the

government set a price that was lower than the equilibrium price, because all people with average income would otherwise have become homeless. Draw this situation in a graph! Then look at the quantity of flats demanded and supplied! Do you understand now why there is still such a shortage of flats in the Czech Republic?

4. Try to think of an example of a monopoly in the Czech Republic or abroad say:
 - what you think is its monopoly power using the Lerner index and why
 - whether you think that monopolies should be banned and why
 - whether you think that monopolies could be banned or that they simply must exist in certain areas of production - explain your opinion
5. Describe the symptoms of:
 - an economic recession
 - an economic depression
6. What's the difference between a recession and a simple economic downturn? How can you tell these two categories apart? Even though you answered the question in the preceding exercise right, try to answer this one, too, although it's similar. Realizing the difference clearly may help you stay calm when you hear the word "recession" in the media because it usually means just an economic downturn.
7. Discuss in groups of four people and then present your opinions to your classmates:
 - Who actually wants to make developing countries more developed? Is it us or the local people in developing countries and why?
 - Do you think that a Togolese family who have been happily living in the bush for centuries would be happier if they could use computers?
 - Do you think it's good to build roads in Togo in order to make the infrastructure for trade and thus destroy the last pieces of nature on Earth? Who wants trade? Is it us, the corporations from the rich parts of the world wanting to buy wool and oil fields in order to raise their profits or the Togolese families who have been living on their own crops for generations?
 - Do you think that governments should allocate money for development aid or rather for helping their own homeless and poor people to get out of poverty?
8. Discuss this question: what could governments do to make their economic policies corresponding with the principle of sustainable development? Where could they allocate more money instead of some other expenses?
9. Fill in the gaps using the expressions below:
 - Pavel (45 years, Ostrava): "I don't believe the government really want to help the Czech people survive the economic _____. Obviously, they have no idea what the life of average people is about. They seem to be ignoring the fact that thousands of people of my age are _____ their jobs, as companies just need to get rid of them

and lay them _____. Their management use the “uncertain” or “worsening” financial _____ to explain what they do. What a lie! In our company, all _____ who are older than forty years got _____. The management are misusing the fact that young _____ who desperately need to gain some initial work experience accept virtually any contract of _____. In my opinion, the _____ does nothing to protect older employees against this _____ discrimination. The worst thing is that the only ones making _____ that way are the management of the company while _____ young people!

profit, notice, age, condition, staff, exploiting, off, state, graduates, losing, downturn, employment,

- Renata (26 years, Prague): “I really believe that the _____ ought to lower social allowances. Above all, _____ compensation needs to be _____ by at least sixty percent. It is obvious that those who seriously look for a _____ can always find one. Unfortunately, the rest steal the _____ of taxpayers. I personally love my job and spend _____ hours at work every day. Honestly, I can’t see absolutely no reason why I should work to pay for someone else’s never-ending holiday. The company I work for takes away four thousand crowns a month from my _____ to pay my _____ insurance. It doesn’t make sense at all! I’ll most probably never _____ even one crown of that sum of money. I’m never sick and I’m not planning to ever go on maternity leave.”

job, salary, unemployment, cut, social, long, see, government, money

- (Ladislav, 65 years old, Most): “When I was young I used to _____ as a hospital assistant. My job was writing descriptions of x-rays scans. However, when I turned 55 I developed _____ because of the regular exposure to radiation. I’ve _____ on disability pension since then. Last year the government decided to cut all social _____ including disability pensions. In addition to that, my _____ found my physical condition good enough to _____ part-time. That’s how I lost a half of my disability pension. Since then, I’ve been struggling to survive. The

rent of my Prague single-room _____ is five thousand a month and my disability pension is exactly the same amount now. Before the budget cuts I used to get two thousand _____ in state allowances. But last year I was told I was no longer eligible for this state aid. As a matter of fact, I've got no _____ for food. Moreover, no one's going to give me a job. Even healthy _____ of my age are jobless today. Companies always send me the same reply to my application letters: that the job would be too difficult for _____.

money, allowances, been, me, flat, work, doctors, people, crowns, sick, work

10. Work in groups of three. Referring to the preceding exercise, one of you is going to be Ladislav, another one Pavel, and the last one Renata. Discuss the following topics and give your opinions on the following topics. Once all three members of your group have come to a conclusion, write down the answers and then present them along with a proper explanation.

Imagine a situation of an economic downturn in the Czech Republic threatening to turn into a recession!

- What should the government do to keep the poorest people in the Czech Republic alive?
- Should the minimum wage be increased or decreased?
- Should people with higher salaries pay higher taxes than the poor?
- Who will be earning money for pensions in the future, if the birth rate falls down because of lack of state money for families?
- Do employers exploit young people who have no previous work experience?
- What should the government do to raise employment?
- Do you consider cutting down social allowances to be the right way to save money?
- Finally, what would you do as the Minister of Social Affairs?

Key Words

accounting unit

barter exchange

bottom of the economic cycle

budget expenditure

budget line

budget revenues

central bank

competitor

consumption tax

conversion charges