

## II. GUIDANCE FOR INDIVIDUAL WORK

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Individual work consists of preparation to group trainings, working with a necessary literature, preparation to control works and to the examination. While preparing to group trainings a student has the opportunity to check up the level, answering a question for self-control. The separate constituent of individual work is a comment of the newspaper articles which relate to the corresponding theme.

*Debate Activities.* Many topics in economics involve the possible effects of economic policy enacted by government, such as whether increasing the minimum wage will raise wages for low-income workers or result in higher unemployment among such people. A survey of economics teaching methods suggests teachers assign small groups of students to examine each side of an issue, presenting their findings and arguments in a debate format. Each student group will have a limited amount of time to present its side, after which the instructor can open the floor to comments and questions by other students. This method not only engages students with economics content but helps them improve their oral communication skills.

*Writing Assignments.* Written assignments improve student understanding of economics course material and develop critical thinking skills. They suggest assigning students to choose some economic puzzle and apply economic theory to explain it. The article cites such economic puzzles as why child safety seats are required in cars but not on airplanes, or why brides buy expensive wedding dresses they will wear only once while grooms often rent cheap tuxedos they could potentially wear more than once.

*Learning Games.* Simulations and games can also stimulate student interest in economics course material. Examples of such simulations include a budgeting game in which each student has a hypothetical amount of money to use for furnishing an apartment or meeting monthly expenses. This simulation applies mathematics skills and illustrates the economic principle of using limited resources – in this case, money – and setting priorities to meet needs and wants.

## QUESTIONS FOR SEMINARS

### 1. EVOLUTION OF ECONOMIC THOUGHT

**Check yourself, have you acquired these terms and categories:** economy, political economy, economics, mercantilism, physiocrats, classical, neoclassical school, Marxism, Keynesianism, monetarism, neoliberalism, institutionalism, laissez faire.

**Check yourself, are you conscious about contribution made by these economists for current theme:** Aristotle, A. de Montchrestien, F. Quesnay, A. Smith, D. Ricardo, J. Mill, K. Marx, A. Marshall, J. M. Keynes, M. Friedman, F. Hayek, T. Veblen, J. Galbraith, M. I. Tuhon-Baranovsky, E. Slutsky.

#### **Questions for self-control:**

1. Will it be the same answer to the question: «When and where has the economic thought appeared?» and «When and where has economic theory appeared?»

2. Who is called the first economist and who is the father of the term «the economy»?

3. Ancient Greek philosophers defined economy as the science of housekeeping. Comment on it.

4. In which ethical norms by Aristotle and how was the division into «economy» and «chrematistic» initiated?

5. Who and when introduced the term «political economy»? Why didn't this term originate in ancient Greece, in spite of Greek origin?

6. Why was the sphere of circulation the object of research for mercantilists?

7. Are there any views of mercantilists in modern policy of the Ukrainian Government? And what's for the other countries?

8. Who introduced the position of economic science that society is controlled by objective natural laws?

9. What is the contribution of the school of physiocrats to further evolution of the economic theory?

10. What is the reason of replacing the term «political economy» by the term «Economics» in Western literature in the late nineteenth-early twentieth century?

11. What are the economists' argues about today?

#### **Homework (express your ideas in written form):**

1. Views of which economic school did Onegin share? What's about his father? What are your arguments?

2. Paul Anthony Samuelson wrote about M. Allais, famous french Nobel Laureate in economy: «He is a rich source of original and independent discoveries ... If the first Allais's works were written in English, the development of economic theory would have gone in a different direction». Comment on it, please.

## **2. OBJECT AND METHOD OF ECONOMIC THEORY**

**Check yourself, have you acquired these terms and categories:** the process of labor, labor, the subject of labor, means of labour, means of production, the productive forces, productiv relations, needs, goods, non-economic and economic benefits, economic resources, land, capital, entrepreneurial skills, alternative cost, institutional factors, economic categories, economic laws, method, an empirical, statistical, positive, normative, functional methods, the method of scientific abstraction, materialist dialectic, analysis, synthesis, induction, deduction, ceteris paribus.

**Check yourself, are you conscious about contribution made by these economists for currant theme:** A. Smith, A. Marshall, K. Marx, D. Ricardo.

### **Questions for self-controll:**

1. Can you give a brief answer to the question: «What is economic theory about?»?
2. How do you understand Marshall's words: «Any summary of economic affairs promotes delusion (except, probably, my statement)»?
3. Why is the person the primary productive force?
4. Was Robinson the subject of productive relations, remaining alone on remote island?
5. Recall the fairy tale «Kolobok». Name the economic resources which are applied there.
6. What does the famous expression «Free cheese is only in the mousetrap» mean?
7. How do you understand the expression from economic point of view «From two evils choose the least»?
8. What economic categories can be attributed to the expression «Paris is worth a messa?»
9. Describe the alternative choice facing the pupil, who wants to get high points at the exam on political economy.
10. Energy of falling water is used in operation of the hydroelectric power station. Is it true that the costs for building it consist only of expenditures for equipment, salary and transportation?

11. Vasia wanted to go to the sea, but his parents sent him to the village to grandmother till the end of the summer. Whether economic science studies this phenomena?

12. What are the similarities and the differences between the law of supply and demand and law of gravity?

13. If you entrust academic-physicis to organize construction of nuclear reactor, it will be done in the best way. And the world has such experience. But if the economist is assigned to rule the country, it will be hardly successful. Can you explain this fact?

14. Comment on the title of the article: «The President's orders and the Prime Minister's threats had influenced the economy: rising prices slowed down».

15. How do you understand uncertainty, probability in economic development?

16. «The economy should be economical». What method of economic thinking does the famous politician apply without its understanding?

17. Explain the expression: «Science requires both inductive and deductive method, the same as the person needs both legs for walking».

18. «The law of the minimum wage is the main cause of unemployment». «The Government is obliged to raise the minimum level of remuneration regularly». With what expression do you agree? What methods are used here?

19. «Inflation in Ukraine». How should you analyze this specific question, guided by dialectical, positive and normative methods?

20. According to Marshall, economist should have three major intellectual qualities – perception, imagination, intelligent reasoning. Please, comment on it.

**Homework (express your ideas in written form):**

1. Retell «The tale of the fisherman and the goldfish» by A. S. Pushkin, using the language of political economy (using the economic terms and categories).

2. Try to guess who is the author of these words: «Making the theory without data is a huge mistake. Ignorant people try to customize the facts under the theory instead of basing it on the available facts»? This is a favorite hero of Sir Arthur Ignatius Conan Doyle . What method did he use? Is this the method of economic science? Please, give the examples.

**3. SOCIO-ECONOMIC STRUCTURE OF SOCIETY. ECONOMIC SYSTEMS**

**Check yourself, have you acquired these terms and categories:** means of production, the superstructure, socio-economic formation,

civilization, the «new economy», natural economy, the division of labor, productivity, autarkeia, specialization, cooperation, economic systems: traditional, market, central-planned and mixed, Homo oeconomicus, invisible hand, rational hedonism, Homo institutus, Homo soveticus, property, a bunch of property rights, the specification of ownership rights, privatization.

**Check yourself, are you conscious about contribution made by these economists for current theme:** K. Marx, L. Morgan, A. J. Toynbee, W. Rostow, A. Smith, J. Bentham, F. Liszt, M. Weber, P. J. Proudhon, R. Coase.

**Questions for self-controll:**

1. How can we correlate to the concept of «civilization» and «socio-economic formation»?
2. What is the criterion for determining of the stages of social development according to the civilizational approach?
3. Why did natural economy exist so long?
4. How does the traditional market and central-planned economy solve the problem of limited resources?
5. Does the ban of beer sales to persons under 21 in some US states violates the principle of laissez faire?
6. Why are Fascist regimes less strong than Communist?
7. Why does the market economy produce something that can be sold, and the central-planned economy – something that can be produced?
8. According to F. Hayek, it's incorrectly, that we must choose between a system where each person receives what he deserves and system, where the fate of a person is determined by the case. In fact, it is the choice between a system, where distribution is carried out by several people, and a system, where the distribution depends, at least partially, from personal abilities and partly from unforeseen circumstances. What does it mean?
9. According to Kennet Migout, «Capitalism is what people are engaged in, if you leave them alone». Please, comment on it.
10. What are the fundamental fails of market economy which make it imperfect system?
11. How would Aristotle call the person which was identified by Smith as «Homo economicus»?
12. For the question «Who are you?» the pole responds: «I am a pole, I am Catholic». As for ukrainians, they often say: «I am a father, mother, son, daughter». Why is it so?
13. Please, comment on Voltaire`s words: «When it refers to money, everyone is confessing the same religion».

14. How do you think, what model of human behavior illustrates the Ukrainian economic mentality in the best way?

15. Is the private property an inevitable attribute of the market economy? Why?

16. How does the private property differ from the public?

17. Why is the number of whales decrease, though the number of chicken, pigs, cows increase?

18. The pioneers often collected the scrap. Now it's not so. Why?

19. According to K. Marx, private property separates people: everyone cares only about herself/himself and indifferent to the needs of society. On the contrary, public property unite the people, instead of the mercenary lead there is pursuit of public welfare. Can you express some counter-arguments?

**Hometask (express your ideas in written form):**

1. According to Seligman, «Simplified understanding of Homo economicus cannot be considered as useful concept. In today's complicated society, person is not considered to be so reasonable, so self-serving, as the classic thought, and he is not so instant counter, like a billiard player according to Friedman». Please, comment on it.

2. What does weak specification of property rights lead to (according to the novel «The twelve chairs» by I. Ilf and E. Petrov)?

## **4. COMMODITY FORM OF ORGANIZATION OF PUBLIC PRODUCTION: GOODS AND MONEY**

### **4.1. GOODS**

**Check yourself, have you acquired these terms and categories:** economic and uneconomic benefits, goods (commodities), consumer and exchange value, cost, concrete and abstract labor, socially necessary labor costs, marginalism, marginal utility.

**Check yourself, are you conscious about contribution made by these economists for current theme:** K. Marx, K. Menger, W. Jevons, L. Walras, G. Gossen, J. Mill, J.-B. Say, A. Marshall, M. I. Tuhun-Baranovsky.

**Questions for self-controll:**

1. Can the benefit be not a commodity? Can the commodity have a consumption value and haven't exchange value? What conditions must be for it?

2. Can we say that the more labor is spent, the more is the value of the goods?

3. Three groups of producers produce the same goods. I group produces 500 units and spends 3 hours on the manufacture of one product. II group produces 300 units, and spends 4 hours on the manufacture of one product. III group respectively – 600 units and 5 hours. Find the working time, which is socially necessary for manufacturing of 1 unit, if the public needs are equal to 1,400 units.

4. Why are economic benefits limited?

5. What economic concept characterizes more precisely the opinion of W. Shakespeare: «The things are neither good nor bad by themselves, but only by our assessment» (Hamlet, the Prince of Danish)?

6. Everything that legendary King Midas touched, transformed into gold. The King began to pray to take this gift of God away very quickly. Why? What economic concept is illustrated in this ancient legend?

7. Why do people prefer fast food, even knowing about its harm?

8. Are there any exemptions of diminishing utility law?

9. Last-year-snow has zero cost. When snow is removed from the city, we are talking about it specific price. What does this price consist of? How do you think, what is an alternative price of it?

10. How would you comment on the paradox by Smith: «Water has such a small price but it is so necessary for people's life because you cannot live without it, while diamonds have such a high price which are completely unnecessary»?

11. Is it possible that the total utility of goods increases, and marginal utility of this benefit at the same time decreases. Please, name examples of negative marginal utility.

12. «The less we love a woman, the more she likes us». Does this expression characterize the problem of economic benefits' value definition?

### **Hometask (express your ideas in written form):**

How can the product without consumption value become really valuable? (by the novel «Cabbages And Kings» by O. Henry)?

## **4.2. MONEY**

**Check yourself, have you acquired these terms and categories:** barter, simple, full, general form of value, measure of value, means of exchange, means of accumulation, means of payment, global money, the bill, liquidity, Fisher's equation, inflation, deflation, the plastic cards: debit, credit, dollarization.

**Check yourself, are you conscious about contribution made by these economists for current theme:** K. Marx, P. Samuelson, G. Galbraith, J. Hicks, I. Fisher, A. Marshall, T. Gresham, N. Kopernik.

**Questions for self-controll:**

1. Explain, how are the contradictions of barter solved with money appearance?

2. How do you understand the liquidity of the commodity? What is the value of liquidity?

3. The English colonists who settled in the New World, brought some pounds, shillings, and pence with themselves. Number of colonists was less than the number of indians who used shells (of particular kind – vampus). How did the exchange take place in this society?

4. How do you understand the phrase «Nature created little gold, but people made it really rare»?

5. Why barter is harmful for the economy?

6. What is the function of money, in case of:

a) the purchase of the goods in credit,

b) purchases in cash,

c) paying the debt

d) store money in the bank,

e) setting prices for the goods?

What functions of money are broken by speculation?

7. Analyze a situation when money is being used:

– as a mean of exchange, but not as a measure of value;

– as a measure of value, but not as a mean of exchange;

– as a mean of exchange, but not as a mean of accumulation.

8. What function of money can be lost in a situation of inflation first and foremost?

9. What is the danger of the «dollarisation» phenomenon?

10. Can you give an example of the state, which does not have its own currency, and uses national currency of another country in the internal commodity-money circulation? What are the advantages and disadvantages of such economic decision?

11. What determines the real value of banknotes today:

a) the cost of the paper on which it is printed;

b) the value of gold;

c) the cost of labor which is spent on its printing;

d) cost of goods and services which we can be bought with the help of it?

12. What is the difference between the circulation of money and the circulation of goods? How much money can the sphere of circulation absorb?



13. Does this fact contradict Gresham's law: dollars squeezed out rubles from circulation at the beginning of the 1990s?

14. What economic measures can overcome inflation?

15. In the work «The Economic Implications of the Treaty of Versailles (1919)» Keynes wrote: «If our goal is really to bring Central Europe to misery, I dare to predict that vengeance will make us wait not for a long time». Did the predictions by Keynes come true?

16. Traveling abroad, you can use cash, cards, and travelers' cheques. Analyze the pros and cons of each way of money export abroad.

**Hometask (express your ideas in written form):**

1. What is the social nature of inflation (by the novel «Three Comrades» or «Black Obelisk» by Erich Paul Remark)?

2. According to Beecher «Money is like snow. If snow drifts are on the roads, no one can pass». Comment on it. Analyze the opposite situation when money in circulation is less than required.

**5. MARKET: ITS ESSENCE AND REGULARITY OF FUNCTIONING**

**Check yourself, have you acquired these terms and categories:** a market, subjects of a market, the infrastructure of a market, exchange, demand, supply, equilibrium, dumping, conjuncture, marketing.

**Check yourself, are you conscious about contribution made by these economists for current theme:** A. Marshall, A. Cournot, W. Jevons, L. Walras, P. Samuelson, R. Coase.

**Questions for self-controll:**

1. Women, going to the market, understand what the market is. Does their understanding match your expectations of the market? Evaluate the statement critically: «The market is a place where the goods are bought and sold». Why has the term «market» so many definitions? List them and explain.

2. There are the following functions of the market in one of the economical dictionaries: coordination, identify deficits, allocation, and consideration of prospects. Try to explain them.

3. Is there a difference between markets of shoes, clothes, food, travel services, teachers of the French language, machine tools, real estate, stocks, and currencies? What is the criteria of markets' differentiation?

4. Consider the difference between two types of market relationships:

- a) the effect of price on the volume of supply and demand;
- b) the impact of supply and demand on market prices.

Draw appropriate graphics.

5. Studies show that people are easily «bought» on the trick with price ended by nine. People believe that \$ 2.99 – it's less than \$ 3.00. And best of all this focus triggeres when replacement of zero for nine leads to a change in the left figure. Comment the results of studies using the categories of the topic.

6. How will the price for chicken meat be affected by following events:

- a) the spread of bird flu;
- b) the introduction of import quotas for imported chicken;
- c) rise in beef price;
- d) fall in feed corn price?

7. How will the following events affect the oil market?

- a) abnormally warm winter;
- b) growth of oil production in Russia;
- c) rumors about future war with Iran;
- d) hurricanes that hit USA.

8. How will the following events affect the market of drugs?

- a) educational programs about the impact of drugs;
- b) drug legalization;
- c) increasing punishment for selling and consumption of drugs;
- d) increase in the standard of living.

9. If demand is reduced, and supply is increased, what will happen with the equilibrium price and quantity?

10. Can you imagine a situation when the demand and supply curves don't intersect in case of positive values for the quantity of goods?

11. Consider each of the following definitions of prices:

- a) Price is the monetary expression of goods' value.
- b) Price is a monetary evaluation of utility.
- c) Price is a compromise between demand and supply.

What aspects of important market categories are emphasised in these three definitions?

12. How can we cope with the increase of real estate prices? Propose your decisions, using categories of the topic and graphics.

13. It is believed that Product placement (when the product of a certain brand is not advertised directly but is used by characters of moovies or TV programs as a necessary entourage) is a very effective way to influence on an audience. Comment please, using the category of the topic.

**Homework (express your ideas in written form):**

Describe and analyze your decision to get a higher economic education (with the help of market terminology). What price and non-price factors influenced on it? Complete analysis with graphical models.

**6. FACTORS OF PRODUCTION**

**Check yourself, have you acquired these terms and categories:** factors of production, labor-intensive, capital-intensive, resource-, energy-intensive, technology-intensive industry, wages, rent, interest rate, profit, capital, labor force, prime accumulation of capital, constant and variable capital, added (surplus) value, the absolute and relative added (surplus) value, the degree of exploitation, circulation of capital, fixed and circulating capital, capital consumption, moral and physical obsolescence, production function, marginal productivity.

**Check yourself, are you conscious about contribution made by these economists for current theme:** K. Marx, A. Smith, D. Ricardo, J. Clark.

**]Questions for self-control:**

1. Give examples of capital-intensive and labor-intensive industries.
2. How to build dams more effectively: using a lot of manual labor and a small number of machines or vice versa? Why will the answer be different for different countries?
3. Choose the variant of technology, which provides minimum costs of resources:

Types of resources	Price of the resource per unit	Resource requirements for technology		
		I	II	III
Labor	3	5	2	3
Land	4	2	4	2
Capital	5	2	4	5
Entrepreneurial ability	2	4	2	4

Assume that price of labor increases from 3 to 5 per unit. What combination of factors is the best now? But the problem is not over. What question has to be answered in order to maximize the profit?

4. It was advanced 80 million crowns in production building, 120 million – for the purchase of machines, tools, equipment; 15 million – for the purchase of raw materials; 5 million – for fuel; 30 million crowns –

for hiring of labor force. Calculate the cost of constant, variable, fixed and circulating capital. What factors determine the division of capital into constant and variable, fixed and circulating?

5. According to the researches of Swiss Bank UBC, the average resident of Kiev must work 84 minutes to buy one hamburger «Big Mac», while for Tokyo resident it is sufficient to work for 10 minutes, Warsaw residents – 44, and Moscow – 30 minutes. How can you comment on it, basing on this theme?

6. Why the capitalist economy is called so?

7. What is the difference between Marxist and neoclassical approaches in identifying the source of capital growth?

8. What turns some benefit into a capital?

a) the appearance, the physical nature of this benefit;

b) our subjective attitude to the utility of the benefit;

c) an objective market price of the good;

d) the way of usage of this benefit:

– in accordance with the law;

– by passing the current legislation.

9. Based on this theme, how can you comment on the proverb «the baby is without an eye with seven nannies»?

10. «Knowledge is the only factor of production that is not a subject of the law of diminishing marginal productivity». Give evidences to support this thesis of John Clark.

### **Homework (express your ideas in written form):**

Read Chapter 24 of the first volume of «Capital» and «Preface to a separate publication in the 24th chapter of «Capital» by Karl Marx» by I. Franko (Franko. Works in 20 volumes. V. XIX). Can the situation of what happened in Ukraine during the 1990s be considered as prime accumulation of capital? What are its peculiarities?

## **7. EMPLOYMENT AND WAGES**

**Check yourself, have you acquired these terms and categories:** wage, nominal and real, hourly and piece-wage, trade unions, the organic composition of capital, social force, the marginal productivity, substitution effect, income effect, human capital, investment in human capital, Lorenz curve, Gini coefficient, the middle class, netocracy.

**Check yourself, are you conscious about contribution made by these economists for current theme:** D. Ricardo, T. Malthus, K. Marx, M. Tuhun-Baranovsky, T. Schultz, G. Becker, M. Lorenz, K. Gini.

**Questions for self-controll:**

1. What is the difference between market of goods and labor market? What is the specificity of the labor force unlike the other goods?

2. If the average salary in the country increased by 15 %, while the price level increased by 20 %, what can be said about the change of real income for this time?

3. Give the arguments in favor of demographic concepts of Malthus and against it.

4. Today the most popular faculties for applicants are juridical and economical. How can this be explained? Why are not philological and historical, as it have been before?

5. How did the regime of cancellation of registration affect the labor market? In what way conversion of MIC reflected on the market of specific types of work?

6. Prices for personal computers fell. What would happen with wage of programmers as a result of it?

7. Why are there much less domestic servants (housekeepers) in USA than in India, though USA is richer country?

8. What process is characterized by the shift of the Lorenz curve to the left (right)? Does it adequately reflect the distribution of income between people (giving the dependence of the amount of income from number of families, but not people)?

9. What are the disadvantages of the slogan «For the same work – equal pay» in market economy?

10. Women on average receive lower wages than men of the same age. How does economic theory explain this phenomenon? Why does the income of men and women increase with age?

11. To what economic, social and political effects might lead in future growing degree of income differentiation of Ukrainian citizens?

12. Some governments provide economic help for workers to move to those areas which have a shortage of labor to stimulate the economic growth. How does it change the situation on the labor market?

13. Explain what trade unions are guided by when they insist on:

- the introduction of high immigration barriers;
- establishing of high import tariffs.

14. There are significant differences in the duration of working time in different countries. The americans work more than 1900 hours per year, the

Germans – less than 1600, the British – almost 1700. How, in your opinion, can it be explained?

**Hometask (express your ideas in written form):**

Translate into a language of political economy (using economic terms and categories) the chapter «The Political Economy of the sixth century» by the novel of M. Twain «A Connecticut Yankee in King Arthur's Court».

## **8. THEORIES OF THE INTEREST AND ANNUITIES**

**Check yourself, have you acquired these terms and categories:** capital, material, monetary, human, investments, indicators of stock and flow, time preferences, loan capital, interest rate, discounting, credit, land ownership, land use, economic rent, land rent, differential (I, II), absolute, monopolistic rent, renting, land price, mortgage lending.

**Check yourself, are you conscious about contribution made by these economists for current theme:** D. Ricardo, K. Marx, E. fon Bem-Bawerk, I. Fisher, J. Keynes.

**Questions for self-control:**

1. What definitions of capital can you give?
2. What are the differences of capital from other factors of production?
3. In the subtitle of the book by I. Fisher «The theory of interest» it goes: «... is determined by impatient desire to spend money and capital investment opportunities». Explain what it means. What economic category can be used to explain it?
4. Give two conditions of capital formation on the example of Robinson's economy. What distinguishes the formation of capital today?
5. Determine the future value of the current contract for tuition after a year under 15 %, 20 %. How much money do you need to invest today to get 5000 UAH in a year under 15 %, 20 %?
6. What will you choose: to get 10 thousand UAH now or 20 thousand UAH in 5 years? What information do you still need to answer?
7. In what way does the inflation affect the interest rate?
8. Assume that two countries have identical production from a technical point of view. Why can they have absolutely different levels of interest rate during their historical development?
9. Why is mortgage lending profitable to commercial banks and construction companies?
10. Who is interested in the maximum prolongation of rent – the landowner or leaser?

11. Is private ownership for land the obligatory condition to overcome the crisis in agricultural production? How is it associated with the development of mortgage lending?

12. Why are there very few Gas stations in the central part of the city? The station owner could make good money in places with such intense movement.

13. Formulate main objectives of land reform in Ukraine.

14. Imagine that you buy a flat at the price of 40 thousand dollars, you take a 10 thousand loan with payments for 5 years at the interest rate of 15 %. How much does the house cost for you?

**Hometask (express your ideas in written form):**

1. You undoubtedly know the best examples of Ukrainian literature in which social tragedy of society, dominated by private land ownership, is brightly painted (for example, «The Land» by O. Kobylianska). But today we believe that market economy is impossible without private property. What are your thoughts?

2. Recently Ukraine has faced the problem of free sale and land procurement. It goes about the most important element of formation of the market system. What arguments would you use in discussions with opponents of Law of free land procurement? What actions would you propose to prevent stratification of the peasantry and the purchase of land by monopolies? Why is there different attitude to the problem of private ownership of land in different regions of Ukraine?

## **9. ENTREPRENEURIAL ACTIVITY. THEORY OF INCOME**

**Check yourself, have you acquired these terms and categories:** entrepreneur, manager, entrepreneurial ability (skills), entrepreneurship, business, commerce, speculation, arbitrage, franchising, venture capital firms, profit, explicit, implicit costs, accounting, economic costs, bookkeeping, economical, normal profit, the firm, transaction costs, diversification, small business, personal ownership, partnership, (corporation), stock, open and closed corporation.

**Check yourself, are you conscious about contribution made by these economists for current theme:** Ri. Cantillon, A. Smith, D. Ricardo, J. Say, K. Marx, A. Marshall, W.r Sombart, J. Schumpeter, R. Coase.

**Questions for self-controll:**

1. Why did, in your opinion, the interpretation of the term «entrepreneur» change over time? Are the concepts of «owner» and «entrepreneur» identical?

2. What is the difference between businessman and manager? What are their main functions and features?

3. Why are the categories of «speculation» and «arbitrage» distinguished? Classify such cases:

a) the purchase of wheat in areas with high yields and resale in areas where crop failures occurred because of weather conditions;

b) the purchase of sugar at low prices in October to resale it in April next year at a higher price.

4. What is the difference between approaches to the term «speculation» in the West and in the post-Soviet countries? What are the economic causes of prejudice that happened in our society?

5. What distinguishes profit from the income of other resources?

6. What is the fundamental difference between the functions of accountant and economist?

7. The owner of firm, who has productive premises and needed equipment, decides to start his own business – to produce cat food. The cost of raw materials is EEK 3,000 per month, the cost of fuel and electricity – 750 crowns. Salary of workers – 4000 crowns. Depreciation of equipment – 1250 crowns. Expected income is 11,000 EEK a month. Help the owner to decide whether opening the firm, taking also into account that he is offered the post of manager with a salary of 1500 EEK per month, the premises can be leased for 1600 EEK, and equipment – for 500 EEK per month.

8. How do the concepts of «firm» and «the market» relate?

9. What determines the optimum size of firms in terms of the institutional approach?

10. Which organizational form, in your opinion, is more expedient for enterprises that set themselves the following objectives:

a) to create a bank;

b) to organize the mediating office of employment-delivery;

c) to create an industrial complex for extraction and enrichment of ores of nonferrous metals;

d) to make and sell handmade wool?

11. What type of company more precisely characterizes the motto of the three musketeers?

12. Why is the economic activity of small business the object of the constant support of the government in developed countries?



13. What caused high «mortality» of small businesses?
14. As you know, corporations can be open and closed. What form should be preferred in terms of market economic system and why?
15. What factors, in your opinion, let the company be profitable,
  - in developed market economies;
  - in modern Ukrainian economy.

**Homework (express your ideas in written form):**

Read «An Autobiography» («A career of manager» in Russian translation) by Lee Iacocca. Can we consider him as an entrepreneur in Shumpeter's understanding? What attracted your attention to the American way of doing business?

## **10. SHARE CAPITAL. MARKET OF SECURITIES**

**Check yourself, have you acquired these terms and categories:** issuer, securities, stocks, bonds, dividends, nominal shares, bearer shares, preference shares, the controlling stake (kit, set), holding, techno-structure, securities market: primary, secondary, shares' rate, nominal value, unorganized market, the organized market, Stock exchange, broker, dealer, listing, stock indexes, speculation, cash operations, term operations, inside information, «bull», «bear».

**Check yourself, are you conscious about contribution made by these economists for current theme:** J. Galbraith.

**Questions for self-controll:**

1. Why the owner of securities is called an investor? Can he always be called so?
2. Corporation decided to pay no dividends, to spend all profits to the development of production. Management Board believed that it must increase the stock price, because investing in the development means dividend growth in the future. But the rate of company's shares on the stock market decreased. Why did this happen?
3. How does the Gulf War affect the stock price of companies that produce wool?
4. What are the reasons of stock exchange appearance?
5. It is clear that the win of one participant is compensated by losses of other participants of the stock exchanges. But there are teams that specialize in games with securities and they live on the income from these operations. Is there a violation of equal probabilities of winning and losing law?

6. Compare the game on the stock exchange with the game in the casino. What do they have in common and how do they differ?

7. In the spring you decided that potato harvest this year will be significantly lower than usually, so prices are much higher than suggested by most people. Do you need to buy or sell the September futures on buying potatoes at current prices?

8. In January stock trading participant held two futures: bought 100 tons of wheat with delivery in September at a price 300 dollars per ton and for sale of the same grain in December at 315 dollars. In fact, prices in September were 270 dollars, in December – \$ 330. How can we evaluate this commercial operation?

9. «Bear», playing on the stock market, makes an agreement with a customer to sell him 100 shares at the rate of 10 crowns per share. After some time, the stock price falls to 8 crowns. Does the «bear» win or lose in this case and what is the amount of win or loss?

10. What explains the fact that registered shares were primarily legalized with the revival of Ukrainian market economy («Citizens may be usually the owners of registered shares»)?

**Homework (express your ideas in written form):**

1. The father of former US President Kennedy was a very successful stock exchange player. Together with other stock exchange players he bought a pack of cheap shares of young companies to whom no one paid attention before him. Then he traveled over the country and sold and bought shares for himself. Why did he do it?

2. According to J. de la Vega, «Stock exchange is a collection of all good and all the false, the trial stone of all careful and grave of all too bold, the treasury of useful things and focus of disaster». Comment on it.

## **11. MONOPOLY AND COMPETITION**

**Check yourself, have you acquired these terms and categories:** competition, price and non-price competition, concentration and centralization of capital, concentration of production, merges and absorption, perfect and imperfect competition, pure monopoly, cartel, syndicate, trust, concern, conglomerate, natural, artificial and short-term monopoly, financial-industrial groups, monopolistic competition, oligopoly, duopoly, bilateral monopoly, monopsony, oligopoly, market segmentation, market niche, voilents, patients, commutators, explorents, antitrust laws.

**Check yourself, are you conscious about contribution made by these economists for current theme:** A. Smith, K. Marx, R. Gilferding, V. I. Lenin, E. Chamberlain, J. Robinson.

**Questions for self-controll:**

1. When and how do the monopolies arise?
2. What of the following criteria for the size of the corporation is the best indicator of market power? And why?
  - a) the largest amount of sales;
  - b) the value of financial assets;
  - c) the amount of net income;
  - d) the number of employees.
3. Determine the type of market structure in the following situation:
  - a) car production in Ukraine (Russia);
  - b) farmers who grow wheat in US;
  - c) companies that sew women's clothing in Ukraine;
  - d) military production in Ukraine;
  - e) specific services – «hard drinking cure» (advertisement in a newspaper);
  - f) grandmothers who sell carrots from their gardens.
4. For which type of market is the use of such methods of position strengthening and increasing of profit level common?
  - a) manipulating with the number of offered goods and prices;
  - b) the organization of cartels;
  - c) leadership in prices;
  - d) trademarks;
  - e) reducing costs, improving quality.
5. What danger does the monopoly bring?
6. Can the monopolist produce as many products as he wishes and sell it for any price?
7. Barriers to enter the restaurant business are lower than in air business. Why?
8. Can the firm have power over the market, being not a pure monopoly?
9. What type of market is present in the novel «Dead Souls» by M. V. Hohol (Chichikov's bussiness)?
10. What methods of competition does entrepreneur apply when he:
  - directs his efforts to reduce production costs;
  - improves the quality of the product?
11. Monopoly is opposite to competition. So, why is monopolistic competition called in such a way?
12. As a head of a large company that holds a monopolistic position in the production of soft drinks try to give evidence against the adoption of

competition legislation. And as a chairman of the antimonopoly regulation give arguments in favor of the adoption of antitrust laws.

13. What is a market niche? Give examples.

14. What is a difference between tactical and strategic decisions in competition? Give examples.

15. Determine types of firms:

a) «Tandy computer» – a company that produces large electronic machines and expensive personal computers. Features of its products are exceptional reliability that is especially important in difficult natural conditions, in terms of continuous technology, in banking.

b) When a firm «McDonalds» searched franchisors for its first restaurant in Japan and South Korea, it was risky because of an unusual American food system service that does not match the Eastern tradition. But the risk was justified.

c) «Big Three» of US car corporations tried to make an expensive sports car (like «Porsche» or «Ferrari») for a long time. Marketing theory argues that the availability of this product improves the overall image of the company. But they haven't achieved success. Only «Ford», abandoning its own development, has acquired British manufacturer of «Jaguars».

d) A small American company produces envelopes. It is competitive due to the individualization of production: it has information about its customers, knows when customers' stock of envelopes comes to an end and reminds them about it, even doesn't forget to greet the wife of the director with birthday.

**Hometask (express your ideas in written form):**

1. What may prevent monopoly to hold its position in the market except antitrust laws (by the novel of O. Henry «The Trust That Has Burst»)?

2. Watch the movie or read the book by Terry Pratchett «Going postal» (translated as «Опочтарение» into Russian). Determine the type of competition, enumerate methods of competing.

**12. PLAYING ON A MACROLEVEL**

**Check yourself, have you acquired these terms and categories:** macroeconomics, social reproduction, simple, expanded, narrowed reproduction, I and II subdivisions of social production, conditions of sales, primary, secondary, tertiary sector, accumulation, aggregate social product, final product, national income, the system of national accounts, GDP, GNP, national wealth.

**Check yourself, are you conscious about contribution made by these economists for current theme:** F. Quesnay, K. Marx, V. Leontiev.

**Questions for self-control:**

1. What is the essence of the reproduction at the macro level?
2. Explain why is the problem of sales not so actual within individual reproduction as in the analysis of social reproduction?
3. The product has such structure:  
I.  $4800\ c + 2400\ v + 2400\ m = 9600$ .  
II.  $4400\ c + 2200\ v + 2200\ m = 8800$ .  
What is the type of reproduction? Prove.
4. What is the essence of accumulation?
5. Choose the correct answer and explain your choice.  
During comparing of the GDP in different countries the following requirements should be fulfilled:
  - a) the sectoral structure of compared countries must be the same;
  - b) the method of GDP calculating must be the same;
  - c) the structure of exports and imports of the countries compared must be the same;
  - d) the structure of GDP of compared countries must be the same.
6. What is the difference between GDP (GNP) and ASP? What are their common features?
7. What index is the best for evaluating of results of national economy? Why?
8. Try to persuade skeptics-Marxists that services should be considered in the results of the national economy.
9. Should we consider officials' service in the results of the national economy?
10. The owner of a small business hired his daughter and stopped to pay the previous accountant. His daughter works for free. How will it affect the value of GDP?
11. Will the GDP change if a man marries his housekeeper (*ceteris paribus*)?
12. How can national wealth be determined? Try to evaluate the components of national wealth in Ukraine.

**Hometask (express your ideas in written form):**

- 1 What influence had the law of prevailing growth of production of the means of production for the policy of the CPSU?
2. Try to describe the ratio of the three main sectors of economy in different countries.

*Table 12-1*

**Structure of GDP in different countries in 2011 (%)**

Countries	Sectors of economy		
	Agriculture	Industry	Services
Afghanistan	31	23	46
Albania	19	23	58
Angola	10	64	26
Azerbaijan	6	66	28
Belarus	10	42	48
Brazil	5	28	67
Brunei	1	72	27
Bulgaria	6	31	63
Burkina Faso	35	28	37
CAR	54	13	33
China	10	47	43
Congo	46	22	32
Cuba	5	20	75
Czech Republic	2	37	61
Denmark	1	22	77
Egypt	14	37	49
Equatorial Guinea	3	94	3
Ethiopia	46	11	43
Finland	3	28	69
France	2	19	79
Germany	1	31	68
Greece	3	18	79
Hungary	5	31	64
India	17	26	57
Israel	2	21	77
Italy	2	25	73
Japan	1	27	72
Kazakhstan	5	40	55
Kuwait	0	68	32
Liberia	71	12	17
Luxemburg	0	14	86
Moldova	14	20	66
Monaco	0	11	89
Norway	1	42	57
Poland	4	33	63
Portugal	2	23	75
Qatar	0	71	29
Romania	7	41	52
Russia	4	37	59
Rwanda	34	18	48
Saudi Arabia	2	68	30
Sierra Leone	57	8	35
Singapore	0	26	74
Somalia	60	7	33

*Continued table 12-1*

South Korea	3	40	57
Spain	2	27	71
Sweden	2	27	71
Turkey	9	27	64
Turkmenistan	12	54	34
UAE	1	57	42
UK	1	20	79
Ukraine	9	31	60
USA	1	20	79

3. Analyze the given data.

*Table 12-2*

**Expenditures for tourism (billion USD)**

Rating	Country	Years			
		2008	2009	2010	2011
1.	Germany	91.0	81.2	78.1	84.3
2.	USA	80.5	74.1	75.5	79.1
3.	China	36.2	43.7	54.9	72.6
4.	UK	68.5	50.1	50.0	50.6
5.	France	41.1	38.4	38.5	41.7
6.	Canada	27.2	24.2	29.6	33.0
7.	Russia	23.8	20.9	26.6	32.5
8.	Italy	30.8	27.9	27.1	28.8
9.	Japan	27.9	25.1	27.9	27.2
10.	Australia	18.4	17.6	22.2	26.9

*Table 12-3*

**Income from tourism (billion USD)**

Rating	Country	Years			
		2008	2009	2010	2011
1.	USA	110.4	94.2	103.5	116.3
2.	Spain	61.6	53.2	52.5	59.9
3.	France	56.6	49.5	46.6	53.8
4.	China	40.8	39.7	45.8	48.5
5.	Italy	45.7	40.2	38.8	43.0
6.	Germany	39.9	34.6	34.7	38.8
7.	UK	36.0	30.1	32.4	35.9
8.	Australia	24.7	25.4	29.8	31.4
9.	Macao	16.9	18.1	27.8	...
10.	Hong Kong	15.3	16.4	22.2	27.2

### **13. ECONOMIC GROWTH**

**Check yourself, have you acquired these terms and categories:** economic development, economic growth, the index of GDP growth, rate of GDP growth, human development index, «crystals of development», extensive and intensive types of economic growth, factors of economic growth, labour productivity, Cobb-Douglas function, labour-intensive, capital productivity, capital intensity, capital-labor ratio, multiplier, accelerator, «vicious cycle of poverty», «sustainable development», the Kyoto protocol.

**Check yourself, are you conscious about contribution made by these economists for current theme:** H. Cobb, P. Douglas, R. Solow, H. Sinher, R. Prebisch.

#### **Questions for self-controll:**

1. Explain the difference between economic growth and economic development. Can economic growth hinder economic development?
2. What are the sources of economic growth?
3. Amazon GDP grew from 520 billion tugriks in 2012 to 546 billion in 2013 tugriks. At that time the population increased from 208 to 210 million. Calculate the rate and level of economic growth and GDP per capita.
4. Can you imagine a situation when some members of the society lose from economic growth?
5. GDP has doubled. Does this mean that the standard of living has improved twice?
6. You know that people use key statistical indexes for calculating of the HDI and «crystal of development». What other indicators should be taken into account to determine integral parameters and make conclusion about the level of development?
7. How can we explain the preservation of absolutist monarchies in the Persian Gulf from the economic point of view?
8. The number of employees in the company decreased by 20 % and output increased twice. How has labor productivity changed?
9. Cost of productive funds increased from 2 to 2.5 million, and output over the same period increased from 2.2 million to 3 million. How has efficiency of funds changed?
10. Compare the advantages and disadvantages of extensive and intensive type of economic growth.
11. Which of the following factors can be attributed to the extensive, and what – to intensive growth?
  - a) increase of the quality of raw materials;



- b) expansion of production areas;
- c) increasing of capital;
- d) reducing of the cost of fuel;
- d) reducing of material consumption;
- e) increasing investment by remaining of the existing level of technology.

12. How does the productivity of labor and capital change under extensive and intensive types of economic growth?

13. What caused extensive type of growth in the USSR?

14. What is the correlation between a multiplier and accelerator?

15. Is there a limit in economic growth? What are its benefits and costs?

**Homework (express your ideas in written form):**

1. Italian traveler, who visited England in 1497, was extremely surprised by English peasants. While Italian states were the most developed and dynamic in Europe, England left a sad impression. Italian thought that British farmers were very lazy, and as a result decided to convert arable land to pastures because sheep required much lower labor costs. Although the experience of developed countries at that time testified that people should give preference to agriculture, growing and selling the grain. Comment on this situation, basing on the main terms of topics.

2. Explain the meaning of formulas «growth without development» and «economic development without growth».

## **14. ECONOMIC CYCLES**

**Check yourself, have you acquired these terms and categories:**

Economic cycle, cyclic recurrence, cycle phases: expansion, reduction, trough, recovery, recession, depression, «bubbles», small, medium cycles, «long waves», structural, environmental, financial, systematic crisis.

**Check yourself, are you conscious about contribution made by these economists for current theme:** W. Jevons, K. Marx, J-B. Say, S. Sismondi, M. Tuhán-Baranovsky, J. Keynes, J. Kitchyn, M. D. Kondratiev, J. Schumpeter, A. Hansen, P. Samuelson.

**Questions for self-control:**

1. What is the relationship between cyclical market economy and its growth and development?

2. Why did market economy have no economic crisis until 1825?

3. Each phase of the cycle is characterized by certain features. Make a table by the following features: load capacity, unemployment, income, sales, and prices.

*Table 14-1*

Characteristics	Phases			
	Recovery	Expansion	Reduction	Trough
Mood	optimistic	skeptical	pessimistic	depressive

4. How does the number of students who drop the institute and employ in the professional army change during the recession? Why?

5. What is difference between the crisis of overproduction and the imbalance between supply and demand for a commodity in particular market?

6. Why is each of these persons interested in learning trends of GDP changing:

- a) businessman;
- b) advisor of president;
- c) member of parliament;
- d) student of our university?

7. When are the most favorable conditions for the election campaign: at the beginning of recovery, the highest point of expansion, beginning of the reduction, in mid-recession?

8. What theory of the cycles seems most convincing to you? Why?

9. Does economic crisis have some rational grain despite its destructive force?

10. It is clear when the government is concerned about the economic recession. But why are the most governments concerned about too high economic growth and they even try to slow it down?

11. When did countercyclical regulation begin to be used and what is it?

12. Describe the crisis of 90-ies years in Ukraine.

**Hometask (express your ideas in written form):**

1. How does the economic crisis affect the entrepreneurs and employees (households)? Compare their costs (by «Car King» by E. Sinclair).

2. Comment on the cyclislicity of market economy.

*Table 14-2*

**GDP Dynamics**

Years	Rate of growth (%)		
	USA	EU	Japan
1999	4,7	2,8	-0,2
2000	4,1	3,9	2,3
2001	1,1	2,0	0,4

*Continued table 14-2*

2002	1,8	0,9	0,3
2003	2,5	0,7	1,7
2004	3,5	2,0	2,4
2005	3,1	1,8	1,3
2006	2,7	3,4	1,7
2007	1,9	3,0	2,2
2008	-0,3	0,3	-1,0
2009	-3,1	-4,3	-5,5
2010	2,4	1,9	4,5
2011	1,8	1,5	-0,7
2012	2,2	-0,4	1,6

### 3. Analyse the crisis and future development

*Table 14-3*

#### **GDP of Ukraine**

<b>Growth rate, %</b>		<b>Growth rate, %</b>	
1991	-8,7	2002	5,2
1992	-9,9	2003	9,6
1993	-14,2	2004	12,1
1994	-22,9	2005	2,7
1995	-12,2	2006	7,3
1996	-10,0	2007	7,9
1997	-3,2	2008	2,3
1998	-1,7	2009	-14,8
1999	-0,2	2010	4,1
2000	5,9	2011	5,2
2001	9,2		

## **15. STATE REGULATION OF ECONOMY**

### **Check yourself, have you acquired these terms and categories:**

Laissez faire, «night watchman», «football referee», keynesianism, monetarism, rational expectations theory, supply economy, neoliberalism, Freiburg school, public choice theory, institutionalism, «market failure» public goods, external effects (externalities), asymmetric information (internalities), Coase theorem, «government failure», fiscal and monetary policy, direct and indirect methods of regulation.

**Check yourself, are you conscious about contribution made by these economists for current theme:** A. Smith, K. Marx, J. Keynes, M. Fridmen, R. Lucas, F. Hayek, W. Eucken, L. Erhard, G. Buchanan, R. Coase.

**Questions for self-control:**

1. «Doctrines, which were radical few decades ago, became conservative in our time». Do you agree with this statement? Give examples or exceptions.

2. Name economic schools, whose adherents believed that the state:

a) should intervene in the economy;

b) should not intervene.

Why are the representatives of the second current more numerous?

3. How did J. Keynes prove the necessity of governmental regulation?

4. What points of view about the place of government in a market economy are dominant nowadays?

5. In some countries, where people apply the idea of partnership between business and government, private prisons are built. How can this be explained?

6. Supporters of state noninterference in economic life put a rhetorical question: «How can the government fix the errors of the market, if it makes its own?» What do they mean?

7. What benefits should citizens get from the market and which must be provided by the state?

a) bread;

b) bridges;

c) dwellings;

d) parking;

e) control of the aircraft;

f) education;

g) medical care;

h) postal services.

Explain your choice.

8. Negative externalities (e.g. pollution) are often associated with the production, but they can also be caused by consumption. Explain how alcohol consumption can lead to negative externalities.

9. Which of two slogans are more suitable for the Western Europe?

– «Market – as necessary, plan – as far as possible».

– «Market – as far as possible, plan – as necessary».

Perhaps, you remember the author of these expressions.

10. What determines the specificity of state regulation of the economy in each country?

**Hometask (express your ideas in written form):**

1. «We can not ask «invisible hand» to do our dirty work for us» no more (E. Carr). «This island is almost entirely composed of coal and fish. Only organizational genius of bureaucrat can simultaneously create a

shortage of coal and fish in UK» (A. Bevan). Comment on these statements. Which do you agree with?

2. What do you think we need to do in order to make apples disappear in Ukraine? Just drop the barbaric ideas. We shouldn't be barbarians and there is no need to cut down trees. Nothing complicated to invent. It's enough to create a Ministry of apples and apples will disappear from the shelves» (V. Pinzenik.) How do you understand this expression?

## **16. FINANCIAL SYSTEM AND FINANCIAL POLICY OF THE STATE**

**Check yourself, have you acquired these terms and categories:** finance, financial system, public finances, corporate finance, state budget, fiscal federalism, taxes, direct tax and indirect taxes, value added tax (VAT), excise, duty, solid, proportional, progressive and regressive taxation rates, Laffer's curve, budget deficit, budget profit, public debt, external and internal debt.

**Check yourself, are you conscious about contribution made by these economists for current theme:** A. Smith, A. Betz Laffer

### **Questions for self-control:**

1. Why is differentiation of functions between the state and local financial systems necessary?

2. What is the role of budget in market economy?

3. What role is played by tax system in economy regulation?

4. Give tax definitions:

a) progressive, regressive and proportional;

b) direct and indirect.

Define a type of each of the following taxes existing in Ukraine: income tax, profit tax, VAT, excise.

5. Is it correct that any indirect tax is, as a rule, the regressive? What is the benefit to the government from these taxes?

6. What consequences can be expected under transition from the progressive to proportional taxation system?

7. «It is impossible even to give a present – a tax is collected», – citizens are indignant. How is it possible to explain existence of such a tax from the point of view of state interests?

8. What consequences will happen if land tax increase?

9. Is the budget deficit dangerous? Is it possible to say that deficit-free budget means healthy economy?

10. Can a big public debt result in bankruptcy of the state as a whole?

11. What are the reasons of a public debt of Ukraine?

- in the sixties (public debt of the USSR);
- in the eighties (public debt of the USSR);
- in the nineties;
- nowadays.

Is there any difference in these reasons?

11. What is the danger of faster growth of public debt over GDP?

**Homework (express your ideas in written form):**

1. Comment on this table.

Table 16-1

**Structure of system of the taxation, (%)**

Types of tax	Countries				
	USA	Germany	England	Sweden	Ukraine
Direct taxes including:	57	32,8	47,4	44,3	40,7
on profit of enterprises and organizations	8,8	2,8	9,3	6,3	27,7
the profitable tax	36,3	27,3	27,4	35,2	9,1
property tax	11,1	2,7	10,5	2,8	0,3
other direct taxes	0,8	–	0,2	–	3,6
Indirect taxes including:	17,9	27,8	34,7	24,3	30,5
value added tax (VAT)	7,9	17,3	19	15,1	25,8
specific excises	7,7	9,4	14,1	8,6	2,3
other indirect taxes	2,3	1,1	1,6	0,6	2,4
assignments on the social insurance	25,1	39,3	17,7	29,1	26,7
Other collections of taxes	–	0,1	0,2	2,3	2,1
In general	100	100	100	100	100

## 17. SYSTEM OF WORLD ECONOMY ORGANIZATION. INTERNATIONAL ECONOMIC RELATIONS

**Check yourself, have you acquired these terms and categories:** globalization, centripetal, centrifugal tendencies of development, export, import, protectionism, absolute and comparative advantages, Heckscher-Ohlin theorem, Leontief's paradox, theory of national competitive advantages, «a national diamond», customs duties, quotas, embargo, trade and payments balance, loan capital and industrial capital, direct investment and portfolio investments, offshore zones, TNC (Trans National Corporation), brain drain.

**Check yourself, are you conscious about contribution made by these economists for current theme:** A. Smith, D. Ricardo, E. Heckscher, B. Ohlin, P. Samuelson, V. Leontiev, M. Porter.

**Questions for self-controll:**

1. What is the globalization? Choose correct answer:
  - a) deleting of borders between the countries;
  - b) emergence of global, universal problems;
  - c) capture of the power over the whole world by certain countries;
  - d) distribution of any public processes all over the world;
  - e) loss of cultural originality by the countries;
  - e) the word which people use to show the education.
2. It is possible to consider Bologna Process as one of aspects of globalization? Comment on it.
3. Cheap iron rails Lincoln was sujested to buy in Great Britain to complete transcontinental railroad. He answered: «If we buy rails in Great Britain, we will receive rails, and they will receive our money. But if to make them here, we will have both: rails and money «. Do you agree with such reasons?
4. According to the data provided in the table, define what goods the country A should trade with B. What theory do you use?

*Table 17-1*

Countries	Expense of working hours, hours per ton	
	Bananas	Nail
Country A	40	20
Country B	60	80

5. What theory can explain export of computers from the USA, clothes from Taiwan, wheat from Canada?
6. There is much arrable land per capita in Russia. But it imports foodstuff. Does this fact disprove Heckscher–Ohlin theorem?
7. What is better for the country: when export exceeds import or visa versa?
8. Using the provided data, make the payment balance of Amazonia:

*Table 17-2*

Export of the weapon	2 mln dollars
Export of oil	6 mln dollars
Import of grain	5 mln dollars
Income from foreign tourism in Amazonia	6 mln dollars
Money transfers of foreigners from Amazonia	2 mln dollars
Purchase of stocks of private corporations in France	6 mln dollars
Gold purchase from foreign citizens	1 mln dollars

9. The government intends to balance the balance of payments which has too considerable positive balance. Estimate such measures from the point of view of their suitability for achievement of a goal set:

- export stimulation by means of subsidies;
- decrease in the import duties within EU.

10. The French government protects domestic movies from expansion of Hollywood, reducing quantity of the American movies in program schedules to a minimum, calling it «Cultural exclusiveness». Whether is it possible to consider this as an example of protectionism? Whether it contradicts the principles of the pure competition?

11. Is the expression «the repatriated capital» clear to you? (Cyprus, Virgin Islands).

12. Using supply and demand laws, prove that labor inflow from developing countries allows the developed countries to lower the average level of a salary, to increase profit of corporations and gross domestic product.

13. How do you understand the expression «liberalization of foreign trade»? What is the monopoly of foreign trade?

14. Give benefits and shortcomings of protectionism and free trade. Give historical examples, when carrying out of protectionist policy was very opportunely.

15. When are TNC the most beneficial form of business?

16. What is the export of the capital and migration of capital? What are the main reasons of export of the capital abroad?

17. What is the outflow of capital abroad? Is it necessary to stop it from Ukraine?

18. What features does the international migration of labor have in modern conditions?

**Homework (express your ideas in written form):**

1. Read «The petition of producers of candles» by F. Bastia. What position is protected by the author? What are the main arguments of his opponents?

2. How do you understand the expression «From marketplaces to placeless markets»? Comment on it.

**18. INTERNATIONAL MONETARY SYSTEM**

**Check yourself, have you acquired these terms and categories:** exchange rate, convertibility, golden standard, gold parity, Bretton Woods system, Jamaican system, fixed and floating exchange rates, purchasing-power parity, devaluation, revaluation, intervention.



**Questions for self-controll:**

1. Can the price of all currencies increase at the same time?
2. Nobel award on economy in 2011 was 10 million of Swedish krona. Is it possible to calculate this sum in UAH?
  - 1 Swedish krona = 0,856 Danish krone
  - 1 Canadian dollar = 5,804 Danish krone
  - 1 Chinese yuan = 0,159 Canadian dollars
  - 1 Swiss franc = 6,702 Chinese yuans
  - 100 Swiss francs = 852,1 UAH.
3. How will currency devaluation and revaluation affect the balance of payments?
4. Japanese often complain that the modern rate of yen is overestimated. Why did Japanese come to such conclusion? What is meant when talking about overestimated currency rates? How to calculate true value of one currency comparatively others?
5. How was the balance of payments set under such conditions?
  - a) golden standard;
  - b) Bretton Woods system;
  - c) floating exchange rates.
6. Let's assume that demand for dollars grows in the Ukrainian currency market. How should this event reflect on exchange rate of hryvnia?
  - a) at fixed rates;
  - b) at floating rates.

What reasons could promote changes in demand for dollars? What are the onsequences for exporters and importers? (Present a situation graphically).
7. How can increase and decrease of an exchange rate influence on:
  - a) consumers;
  - b) enterprises which use imported raw materials and equipment;
  - c) enterprises which export their production;
  - d) enterprises which compete with imported goods in domestic market?
8. Investigate the dynamics of hryvnia's exchange rate (to the currances of western countries). How do these changes influence foreign trade of Ukraine? Can NBU slow down this process?
9. What is the first reaction of the currency market on introductions of duties on imported goods from the USA?
10. Why are frequent changes of exchange rates undesirable for economy?
11. What are the advantages of aggregated regional currencies (euro)?
12. Some economists urge to return to the fixed exchange rates. Try to adduce their arguments. What economic schools do they belong to?

**Hometask (express your ideas in written form):**

1. Comment on a remark of Mrs Prisms from O. Wilde's play «The Importance of Being Earnest»: «Cecily, you will prepare political economy in my absence. It is possible to let out the chapter about falling of rupee. It is too topical. Even financial problems have a drama resonance».

2. Comment on the data. What currency regimes does the NBU use?

Table 18-1

**Average currency rate**

Official rate (UAH to 100 USD)		Official rate (UAH to 100 USD)	
1996	183	2004	531,92
1997	186,17	2005	512,47
1998	244,95	2006	505,00
1999	413,04	2007	505,00
2000	544,02	2008	526,72
2001	537,21	2009	779,12
2002	532,66	2010	793,56
2003	533,27	2011	796,76

3. Comment on the data.

Table 18-2

**Big Mac Index 2012**

Country	Big Mac prices in local currency	Big Mac prices in dollars*	Implied PPP of the dollar	Actual dollar exchange rate January 11th 2012	Under (-)/ over (+) valuation against the dollar (%)
United States	\$ 4.20	\$ 4.20	–	–	–
Argentina	Peso 20.0	\$ 4.64	4.77	4.31	10
Australia	A\$ 4.80	\$ 4.94	1.14	0.97	18
Brazil	Real 10.25	\$ 5.68	2.44	1.81	35
Britain	£ 2.49	\$ 3.82	1.69§	1.54	-9
Canada	C\$ 4.73	\$ 4.63	1.13	1.02	10
Chile	Peso 2,050	\$ 4.05	488	506	-3
China	Yuan 15.4	\$ 2.44	3.67	6.32	-42
Colombia	Peso 8,400	\$ 4.54	2001	1852	8
Costa Rica	Colones 2,050	\$ 4.02	488	510	-4
Czech Republic	Koruna 70.22	\$ 3.45	16.73	20.4	-18
Denmark	DK 31.5	\$ 5.37	7.50	5.86	28
Egypt	Pound 15.5	\$ 2.57	3.69	6.04	-39
Euro area	€ 3.49	\$ 4.43	1.20	1.27 §§	6
Hong Kong	HK\$ 16.5	\$ 2.12	3.93	7.77	-49
Hungary	Forint 645	\$ 2.63	153.67	246	-37
India	Rupee 84.0	\$ 1.62	20.01	51.9	-61
Indonesia	Rupiah 22,534	\$ 2.46	5369	9160	-41

Continued table 18-2

Israel	Shekel 15.9	\$ 4.13	3.79	3.85	-2
Japan	Yen 320	\$ 4.16	76.24	76.9	-1
Latvia	Lats 1.65	\$ 3.00	0.39	0.55	-29
Lithuania	Litas 7.8	\$ 2.87	1.86	2.72	-32
Malaysia	Ringgit 7.35	\$ 2.34	1.75	3.14	-44
Mexico	Peso 37	\$ 2.70	8.82	13.68	-36
New Zealand	NZ\$ 5.10	\$ 4.05	1.22	1.26	-4
Norway	Kroner 41	\$ 6.79	9.77	6.04	62
Pakistan	Rupee 260	\$ 2.89	61.95	90.1	-31
Peru	Sol 10.0	\$ 3.71	2.38	2.69	-12
Philippines	Peso 118	\$ 2.68	28.11	44.0	-36
Poland	Zloty 9.10	\$ 2.58	2.17	3.52	-38
Russia	Rouble 81.0	\$ 2.55	19.30	31.8	-39
Saudi Arabia	Riyal 10.0	\$ 2.67	2.38	3.75	-36
Singapore	S\$ 4.85	\$ 3.75	1.16	1.29	-11
South Africa	Rand 19.95	\$ 2.45	4.75	8.13	-42
South Korea	Won 3,700	\$ 3.19	882	1159	-24
Sri Lanka	Rupee 290	\$ 2.55	69.09	113.9	-39
Sweden	SKr 41	\$ 5.91	9.77	6.93	41
Switzerland	SFr 6.50	\$ 6.81	1.55	0.96	62
Taiwan	NT\$ 75.0	\$ 2.50	17.87	30.0	-40
Thailand	Baht 78	\$ 2.46	18.58	31.8	-41
Turkey	Lira 6.60	\$ 3.54	1.57	1.86	-16
UAE	Dirhams 12	\$ 3.27	2.86	3.67	-22
Ukraine	Hryvnia 17	\$ 2.11	4.05	8.04	-50
Uruguay	Peso 90	\$ 4.63	21.44	19.45	10

## 19. REGULARITY OF TRANSITIONAL ECONOMIES

**Check yourself, have you acquired these terms and categories:** transition economy, traditional transitional economy, the new transitional economy, bifurcation point, emargin Markets, the command (central-planned) economy, planning, budget constraint, the fixed prices, deficit, hidden inflation, involuntary savings, compulsion to labour, shadow market, evolutionary way, «shock therapy».

**Check yourself, are you conscious about contribution made by these economists for currynt theme:** L. von Mises, J. Kornai.

### Questions for self-controll:

1. Why do transitional processes appear in any society objectively?
2. How are the questions «what?», «how?», «for whom?» answered in USSR?

3. «Beer is sold only to the members of trade union» – why does the state act so?

4. What prevents drawing up the ideal plan for all the country?

5. In a national economy of two countries with different economic systems:

– there is an increase in demand for jeans;

– the invention of new technology allows to expand production of pocket calculators.

Explain, how in market and command economy:

– a coordination of production and demand is executed;

– what makes producers increase the supply?

6. Explain the thesis of János Kornai formulated in the 70th years: «In the capitalist countries there is always money deficit and surplus of goods, and in the socialist countries – goods deficit and surplus of money». Why is the first case much better?

7. The economy of USSR was constructed on the principle of the besieged camp – everything we can make by ourselves. What economic principles and laws were not used and what are the consequences?

8. According to one of western businessman, «capitalism is when everyone can open his own shop; the communism is when nobody can open his own shop; the socialism is when only I can open my own shop». Comment on this aphorism.

9. What is the main difference between private owner and the director of the state enterprise? How can this distinction affect their activity?

10. What are strong points and weaknesses of «The Chinese way» to market economy?

11. The heavy industry in country is presented only by several enterprises, 80 % of labor forces are occupied in the agriculture, the main items of export are coffee and bananas. What way of transition from command system to the market one (evolutionary or radical) should the government choose?

12. How is it possible to explain the fact that transformation in many of the postcommunist countries began with liberalization of the prices?

13. Why do the economic transformations usually start with the development of banking system?

14. How do you understand the concept «market-fobiya», «market-latriya»?

15. What are the specific features of Ukrainian transitional economy in comparison with other countries?

**Homework (express your ideas in written form):**

1. F. Hayek called his work about a socialist way of development «The road to slavery». Why do all attempts to create the society on the principles of equalization (by recipes of utopians) inevitably lead to emergence of dictatorship and violence over people from the side of the state?

2. According to some economists, it is possible to determine three stages of capitalism development: mercantilism, liberalism and imperialism. The leading role is played by the trade, industrial and financial capital. Comment on this situation considering features of transition period in Ukrainian economy.

## **20. ECONOMIC ASPECTS OF GLOBAL PROBLEMS**

**Check yourself, have you acquired these terms and categories:** global problems: economic backwardness, demographic, privisional, natural, ecological resources.

**Check yourself, are you conscious about contribution made by these economists for current theme:** T. Malthus , J. Galbraith , C. de Rouvroy.

**Questions for self-control:**

1. What global problems are major today?
2. What global problems would be solved by your descendants?
3. Understanding of the concept «poverty» can significantly differ in different countries. Are any international standards possible?
4. According to the data of the World bank, the share of poor people in the world was insignificantly reduced for the last decades. However the absolute number of poor people even grew. Comment on it.
5. Most of all poor people live in the Southern Asia. On the second place stand the countries of Africa to the South of Sahara, on the third – the countries of Eastern Asia. How can you explain it?
6. According to estimates of some economists, there are more than 180 million children which don't receive necessary food on a planet. It is offered to oblige world business cominity to care about them. Despite humanity of such idea think of 3 arguments against this offer.
7. How is it possible to leave «a vicious circle of poverty»?
8. Economists estimate environment, as well as others benefits, from the point of view of satisfaction of people's needs. Comment on it.

9. What price does the mankind pay for environmental pollution?
10. What changes can you offer to improve ecological legislation?

**Homework (express your ideas in written form):**

«Hypertrophied social inequality turns masses of children from poor families into «social dynamite», brakes to economy, cultural and moral development of the country». Events of the last years repeatedly gave the grounds for similar conclusions. Comment on it.