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Cours et Exercices Destinés aux Etudiants
des Sciences Economiques, Commerciales et des Sciences de Gestion

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Economics

"Economics is the science of choice. It began with Aristotle but got mixed up with ethics in the Middle Ages. Adam Smith separated it from ethics, and Walrus mathematized it. Alfred Marshall tried to narrow it, and Keynes made it fashionable. Robbins widened it, and Samuelson dynamized it, but modern science made it statistical and tried to confine it again.

But the science won't stay put. It keeps cropping up all over the place. There is an economics of money and trade, of production and consumption, of distribution and development. There is also an economics of welfare, manners, language, industry, music, and art. There is an economics of war and an economics of power. There is even an economics of love.

Economics seems to apply to every nook and cranny of human experience. It is an aspect of all conscious action. Whenever decisions are made, the law of economy is called into play. Whenever alternatives exist, life takes on an economic aspect. It has always been so. But how can it be? It can be because economics is more than just the most developed of the sciences of control. It is a way of looking at things, an ordering principle, a complete part of everything. It is a system of thought, a life game, an element of pure knowledge.

Quote from Robert Mundell *Man and Economics* 1968.

Exercise N°01 : Answer the following questions from the text. Use your own words as possible

- 1- When did economics develop ?
- 2- What Is Economics?
- 3- Is there differences betewen economics in ancient thaight and modern ??
- 4- Did Classical economists assumed the existence of full employment equilibrium ?
- 5- What is the element which contributes to wealth in Smith's view ?

Exercise N°02 : For each of the following questions, select the best answer from the four supplied. Write the letter [A, B, C or D] of your chosen answer in the appropriate box on the answer sheet at the back of the booklet.

- The basic economic problem of scarcity arises because
 - A. needs are unlimited.
 - B. wants are unlimited.
 - C. goods are expensive, and no one wants to buy them.
 - D. it is hard to identify what to produce, how and for whom.

- Capital, as a factor of production, refers to
 - A. man made resources.
 - B. natural resources.
 - C. human resources.
 - D. entrepreneurs.

- Economic growth refers to
 - A. quantitative increase in GDP.
 - B. qualitative increase in GDP.
 - C. increase in revenue for the country.
 - D. decrease in revenue for the country.

- The main problem a less developed country faces is
 - A. the lack of advanced technology.
 - B. the slow population growth.
 - C. improved productivity
 - D. its high level of saving.

- The business sector exists to
 - A. make a profit for the customers.
 - B. provide employment for households.
 - C. produce goods and services to satisfy needs and wants.
 - D. provide specialized activity to employees.

Exercise N° 03 : Given below are nine common economic concepts. Also given are definitions for six of the concepts given. Write the concept which matches each definition in the box alongside the definition.

Specialization, Production, Exchange, Opportunity cost, Interdependence, Distribution, Scarcity, Economies of Scale, Choice

- The act of combining factors of production by firms to produce goods and services.
- The process of storing and moving products to customers often through wholesalers and retailers.
- A situation in which a society desires more output than is currently available.
- Broadly refers to the concentration of resources into the production of a particular good or service.
- The value of the next best foregone alternative
- A change in all factor inputs that leads to a more than proportional change in output.

Exercise N° 04 : Write an essay discussing the following idea (Choose only one work)

Work 1 : « Life is full of choices. People make many choices everyday. Choices often called decisions, vary in their difficulty »

Work 2 : « Economists assume that individuals act as they are motivated by self-interest and respond predictably to opportunities for gain ».

Production

The processes and methods used to transform tangible inputs (raw materials, semi-finished goods, subassemblies) and intangible inputs (ideas, information, knowledge) into goods or services. Resources are used in this process to create an output that is suitable for use or has exchange value.

A fixed input is an input whose quantity can't be changed. A variable input is an input whose quantity can be changed. In the short run, some inputs are fixed and some inputs are variable. In the long run, all inputs are variable.

Adam Smith in *The Wealth of Nations*(1776) wrote of a factory which made pins. He claimed that labor's marginal physical product would be increasing due to specialization. As more people (laborers) are added to production, each can specialize on a smaller part of the pin production process. With many workers, a firm will be able to take advantage of each worker's specific talents by letting them do what they are best at. By each worker doing only one specific task, tasks will be simplified and work will become less stressful. Tasks will be easier to learn and master. Consider the production function for pins given below where P is output of pins, T is tools used in the production process and L is laborers:

$$P = F(L,T) .$$

Exercise N°01 : Answer the questions below

- a. Discuss two factors currently influencing the rate of savings ?
- b. A change in demand, due to factors other than price is described as shift in demand curve, is false or true ; justify your answer ?
- c. What is meant by production? Define production function.
- d. What is meant by short run and long run? Explain the differences between fixed and variable inputs ?
- e. What are the unique characteristics about your business in this industry?
- f. What areas of your business do you think could become a competitive advantage?

Exercise N°02 : Find the right answer

In the short run, production is explained by

- a. The law of variable proportions
- b. The law of returns to scale
- c. Economies and diseconomies of scale
- d. The law of diminishing marginal utility.

Which of the following are not the assumptions made in constructing a Production Possibility Curve (PPC)?

- a. The economic resources available for use in the year are variable.
- b. The economic resources can be used to produce two broad classes of goods.
- c. Some inputs are better used in producing one of these classes of goods, rather than other.

When the total product curve is drawn in a figure that measures employment along the horizontal axis, it is a graph that shows that

- a. Minimum output attainable for each quantity of labor employed
- b. Maximum output attainable for each quantity of labor employed
- c. Point where profits are maximized for a firm
- d. Point where losses are minimized for a firm.

The additional product that results from the addition of one more worker is called the:

- a. Total product of labor
- b. Average product of labor
- c. Marginal product of labor
- d. Zero product of labor

Which of the following inevitably causes a shift in the market demand for workers with a certain skill?

- a. An increase in the demand for goods produced by these workers
- b. A decrease in tax rates on the income of these workers
- c. An increase in the equilibrium wages received by these workers
- d. An increase in the supply of these workers
- e. The creation of a federally subsidized program to train new workers

Suppose that the consumption of a certain product results in benefits to others besides the consumers of the product. Which of the following statements is most likely to be true?

- a. The demand for the product is price inelastic.
- b. A perfectly competitive industry will not produce the optimal quantity of the product.
- c. A perfectly competitive industry will not produce the product.
- b. Optimality requires that consumers of this product be taxed.

Exercise N°03 : Write an essay about the following statement

Work 01 : “The word production implies to us for all practical purposes as Creation of a Utility or Services.”

Work 02: “Production management is The Art of Managing the Production. It basically concerns itself with the conversion of inputs into outputs ».

Work 03: “According to Peter Drucker “Production is not the application of tools to materials but is the application of logic to work.”

Product Life cycles and sales strategy

One of the most important concepts in sales management and marketing is that of the product life cycle. This is a historical record of the life of a product showing the stage in its life the product has reached at a particular time. By identifying the stage that a product is in or may be heading towards, companies can formulate better marketing plans. All products have 'lives' in as much as they are created, sell with varying profitability over a period of time, and then become obsolete and are replaced or are simply no longer produced. A product's sale position and profitability can be expected to fluctuate over time and so, at each successive stage in the product's cycle, it is necessary to adopt different tactics.

The two main features of the product life cycle are unit sales and unit profit. The unit sales figures usually jump on introduction, as a response to heavy advertising and promotion, as customers buy the product experimentally. This is generally followed by a levelling off while it is evaluated — the length of this period depending on the use to which the product is put. Then, unit sales rise steadily through the growth to the maturity phase, when the product is widely accepted, and so on to a saturation level. By this time, competitors will have entered the market with their own version and, at this point, the sales team will have to work even harder to win additional sales. Eventually, the product's sales decline as better versions enter the market and competition becomes too strong. In retrospect, most firms know what happened to their products from launch to withdrawal. They can compile this information from the records of unit sales.

Unfortunately, unit sales are not the complete story as it is unit profit that is the decisive factor, although this is not always recorded accurately. It is this figure that sales management has to monitor, though, to ensure effective marketing strategy and produce effective profits.

At launch, the product is costed accurately on the basis of production costs plus selling costs. Initially these remain fairly stable, but, when the product is proven successful, competitors will bring out their own "copy-cat" products. With a competitor in the field, the original firm has to respond in order to maintain its market position. It can run special sales promotions, improve

deliveries, make more frequent sales calls and so on. Often the extra expenditure is not accurately charged to the product and the result is that, long before unit sales are noticeably failing, the unit profit has already fallen.

The product life cycle, then, presents a picture of what happened in the product's "lifetime", so how can this be used as an ongoing aid to management decision-making? Every sales manager has a chart on which the progress of sales is plotted and this can be used as a guide to the stage of development each product is currently in. An essential management skill is able to interpret sales results and draw in the stages as they occur. Deciding where each stage begins and ends can be a random exercise, though usually the stages are based on where the rate of sales growth or decline become pronounced.

Exercise N°1 : Choose the right answer

- 1- According to the text, the end of the product's life cycle is marked by
 - a sharp rise in production costs.
 - the product becoming outdated.
 - an increase in customer complaints.
 - less support from sales management
- 2- What does the writer say about sales management in the first paragraph?
 - companies should spend more time on their sales planning
 - there are more managers who need to improve their sales performance
 - most sales managers fail to recognize which stage a product has reached
 - the sales approach should change with each phase of the product cycle
- 3- According to the text, a greater sales effort is required for a product when
 - it is particularly innovative
 - the advertising budget has been cut
 - rival companies start to produce something similar
 - consumer interest switches to a new product category
- 4- In the 5th paragraph how can a company maintain its market position with a product?
 - by calculating the life cycle
 - by monitoring its competitors
 - withdrawing the product from the market
 - running special promotions
- 5- What does the writer mean by "product life cycle"?

- creating a marketing strategy of the product
- creating better versions of the product
- how long a product can last in the market
- statistical life of a product.

Exercise N°02 : Match the sectors on the right to sentences 1-5

1-In developing countries most people are usually employed in agriculture	A-primary sector
2-During the 21st century we expect to see a huge expansion in telecommunications	
3-Vehicle manufacturing has been an important industry in Western Europe	B-secondary sector
4 –The discovery of oil in the Far East resulted in a rapid increase in the standard of living for many people	
5- Service industriels, such as catering and hotels, often pay low wages	C- tertiary sector

Exercise N°03 : Answer these question

- a.What a competitive market is ?
- b.What determines the demand for a good in a competitive market ?
- c.What determines the supply of a good in a competitive market ?
- e.How supply and demand together set the price of a good and the quantity sold ?
- f.The key role of prices in allocating scarce resources in market economies ?

Supply and Demand

Any Economic Market is based on the interaction of 2 Forces.

- 1) Demand, that is, that is the Buyer or the Purchaser.
- 2) Supply, that is, the Seller.

The interaction of these two forces determines the outcome or performance of the Market, which is measured by: *PRICE AND QUANTITY*

A relationship can be demonstrated thus:



Basic Market theory or Supply and Demand Analysis is used to ‘Explain’ Market Performance.

In a market economy, individual consumers make plans of consumption and individual firms make plans of production based on the changes in market prices.

Economists use the term invisible hand to describe the frequent exchanges in the market because everyone (no matter consumer or producer) takes the market price as a signal on trade and makes exchanges with private property rights (defined and protected by laws).

The price system works in a market economy only if there is free choice within the market.

A “shift or change in the demand or supply” as a result of a change in a relevant “factor other” than the current price. This change represents a change in the entire demand or supply or a shift. Understanding the factors that shift the demand or supply help us specify and estimate a demand or supply equation and estimate the other factors’ elasticities

Exercise N°01 : Make an analysis to these questions

- a. How is price determined ?
- b. Explain the factors that make changes in Demand & Supply ?
- c. How do we distinguish a “change in quantity demanded or supplied” from a “change in demand or supply” ?
- d. What is the usefulness of calculating the consumer surplus for the manager ?
- e. Explain what determines whether the incidence of a tax is on the buyer or on the seller.

Exercise N°02 : Quiz

- a. The incidence of a sales tax will be more on the buyers of the product if
 - a. the price elasticity of demand is low
 - b. the price elasticity of demand is high
 - c. the income elasticity of demand is low
 - d. the cross elasticity of demand is high
- b. The incidence of a sales tax is most likely on the
 - a. buyers
 - b. sellers
- c. An “optimal tariff” is a tax on imported goods which have a high
 - a. price elasticity of demand
 - b. income elasticity of demand
 - c. price elasticity of supply
 - d. cross elasticity of demand
- e. If there is a rent supplement program:
 - a. rents will rise
 - b. the quantity of apartments available will fall
 - c. landlords will be hurt
- f. If there is a building subsidy program,
 - a. rents will rise
 - b. the quantity of apartments available will rise
 - c. landlords will be hurt
- g. In the case of agriculture, the demand for grain products is likely to be
 - a. relatively elastic
 - b. relatively inelastic
 - c. perfectly elastic
- h. In the case of agriculture, the supply of grain products is likely to be
 - a. relatively elastic
 - b. relatively inelastic
 - c. perfectly elastic

- i. In the case of agriculture,
 - a. the demand has shifted to the right more than the supply has shifted to the right
 - b. the demand has shifted to the right less than the supply has shifted to the right
 - c. the demand has shifted to the left more than the supply has shifted to the left
 - d. the demand has shifted to the left less than the supply has shifted to the left

- j. Because of what happened in question 8, the prices of grain products have
 - a. risen b. fallen c. stayed the same

- k. The market is telling farmers to
 - a. produce more b. expand their farms c. leave farming d. wait for better days

Exercise N°03 : Make a short analysis of these statements

Whenever the market price is above the equilibrium price, quantity supplied will be _____ than quantity demanded, there is a surplus in supply in the market, i.e. an excess supply.

Whenever the market price is below the equilibrium price, quantity demanded will be _____ than quantity _____, there is an excess demand in the market, i.e. a shortage in supply.

What is the difference between a shortage and scarcity in economics?

Exercise N°04 : Try to answer the question first. Then, check your answer in the reading.

Assume there is a well-defined geographic area of a city. The area is composed exclusively of apartments and is populated by low-income residents. The people who live in the area tend to stay in that area because (1) they cannot afford to live in other areas of the city, (2) they prefer to live with people of their

own ethnic group, or (3) there is discrimination against them in other areas of the city. Rents paid are a very high percent of peoples' incomes.

(1) Would the demand for apartments in this area be relatively inelastic or relatively elastic? State why.

(2) Would the supply of apartments in this area be relatively inelastic or relatively elastic? State why.

(3) Draw the demand and supply curves as you have described them, showing the initial equilibrium price and quantity. Label carefully.

(4) Now assume the government creates a rent supplement program. Under this program, the renter is required to pay 30% of income in rent. Any additional rent is paid by the government --- up to a limit. For example, a low-income person with an income of \$1,000 a month would be required to pay \$300 in rent (30%). If the rent is \$500, the other \$200 would be paid by the government. Analyze the results of this program. Show the changes on the graph and explain what will result. Who gains and who loses from this program?

(5) Instead, now assume that the government decides to provide a building subsidy to people who build apartments in this low-income area. A certain percent of their costs will be paid by the government. Analyze the results of this program. Show the results on the graph and explain what will result.

Microeconomics

Our entire life is a set of activities, which are making us a part of the world of economics.

On the one hand, we are continually faced with our own economic problems: what should I buy in the supermarket? Should I go to university, or should I try to find a job now? Should I go for a summer vacation, or should I work to earn some money for the university tuition?

On the other hand, we are affected by the local, national, and international economic issues: price increases, interest rate changes, etc.

So just what is economics about?

One does not need going to university to guess that economics is about economic problems. But which problems are economic? Is there anyone who does not have economic problems? Why do we have economic problems? Why is it impossible to solve all economic problems and live without them for the rest of our lives?

Economics tries to find the answers to all these questions. However, it will not give us a set of facts and theories to be memorized. Studying economics will give you a way of thinking about the economic problems. This means, that economics will offer us an organized way of identifying and analyzing economic problems. This is why we will try to organize and arrange the questions and the answers that we are looking for.

We study economics because we want to know how to make our lives better. This means, that we are interested in the impact of our decisions on our on life.

Microeconomics studies the impact of economic decisions on the individual households and firms. It is interested in the operation of individual markets for goods and services, where the prices of these goods and services are determined. For example, microeconomics studies the prices of gasoline, vegetable oil, chicken, transportation, etc. Microeconomic studies the markets for labor services, too. For example, it studies why football players are paid better than engineers, how the wages of doctors, and workers are determined, etc. All these issues affect our individual lives as households. At the same time, microeconomics studies the costs and the profits of the firms and how firms set the prices of goods and services that they buy and sell.

Exercise N°01 : Answer the questions

- a. What is the difference between economics ; microeconomics and macroeconomics ?
- b. What is an opportunity cost ?
- c. What is the basic problem that economics addresses?

Exercise N°02 : Check the right answer

Opportunity cost is best defined as:

- a. The opportunity to pay the lowest price for any productive resource.
- b. The amount of labor that must be used to produce one unit of any product.
- c. The opportunity to pay the lowest price for any consumer product.
- d. The amount of one product that must be given up to produce one more unit of another product.

Consumers ultimately determine the composition of output and the allocation of resources in a market economy. For example, Crystal Pepsi was a flop because consumers didn't like the product. This statement best describes the concept of:

- a. Political demand.
- b. Consumer sovereignty or dollar votes.
- c. "Supply creates its own demand."
- d. Market failure.

Which of the following is a not a type of private good?

- a. Tires
- b. Gasoline
- c. Cars
- d. I-4

Perestroika was a free-market plan devised by:

- a. The former Soviet Union
- b. The former Yugoslavia
- c. Poland
- d. None of the above
- e.

Market failure takes place when the free market fails

- a. To provide for private goods
- b. To provide for competitive goods
- c. An efficient price or market equilibrium output
- d. All of the above

- e. A surplus means that:
 - a. Quantity demanded exceeds quantity supplied and that prices are above equilibrium.
 - b. Quantity demanded exceeds quantity supplied and that prices are below equilibrium.
 - c. Quantity supplied exceeds quantity demanded and that prices are above equilibrium.
 - d. Quantity supplied exceeds quantity demanded and that prices are below equilibrium

Remember that demand and quantity demanded are not the same thing . If two goods are complements (like pizza and beer):

- a. They are consumed independently.
 - b. An increase in the quantity demanded of one will increase the demand for the other.
 - c. An increase in the demand for one will increase the demand for the other.
 - e. They are necessarily inferior goods.

Use your basic knowledge and your understanding of market structures to answer this question. Which of the following companies most closely approximates a firm in oligopoly?

- a. Subway Sandwiches
- b. Pittsburgh Plate Glass
- c. Ford Motor Company
- d. Orlando Utilities Commission

If an economy is operating on its production possibilities curve for consumer goods and capital goods, this means that:

- a. It is impossible to produce more consumer goods
- b. resources cannot be reallocated between the two goods.
- c. it is impossible to produce more capital goods.
- d. more consumer goods can only be produced at the cost of having to produce fewer capital goods

Exercise N°03 : Answer the following questions.

1. What goods should be produced?
2. How should the goods be produced?
3. For whom should the goods be produced?
4. How much of each good should be produced?
5. Who should produce them?
6. How should the goods be produced?
7. Who should share in the profits?
8. Should the government be involved in your business?
9. How should the government be involved?

Macroeconomics

Macroeconomics is the study of the economy as a whole and answers questions about rapid growth in income, inflation (changes in prices), why countries experience recessions and depressions and unemployment.

The state of the economy affects everyone. Therefore macroeconomic issues play an important role in both national and international political debate. In order to explain different economic phenomenon macroeconomists collect data on incomes, prices, unemployment and many other variables from different time periods and different countries. They then compare and analyse the data and develop macroeconomic theories and principles to explain economic events and to predict the future. Since macroeconomics is a young and imperfect science the principles should be applied with flexibility and creativity to meet changing circumstances.

Macroeconomics: discusses the behavior of aggregate economic Variables, such as total investment, total consumption, govt. expenditures and taxation, unemployment, inflation, economic growth..... etc.

The two branches are related, i.e. macro events affect micro areas & vice versa.

Macro issues: What does macroeconomics discuss?

I) Long term economic Growth:

1) What causes economic growth?

2) How do govt. Policies affect economic growth? Through:

a) Monetary policy, which regulates money supply and interest rates.

b) Fiscal policy, which regulates government expenditures and taxation.

II) Short term business cycles:

Are short term fluctuations in economic activity. To understand business cycles we must understand inflation and unemployment.

Exercise N°01: Answer these questions

- a. What Macroeconomists Study ?
- b. How Economists Think ?
- c. What determines the total production of goods and services?
- e. What determines the demand for goods and services?
- f. What brings the supply and demand for goods and services into equilibrium?
- g. What Macroeconomics Is All About?

Exercise N°02: Quiz

Which of the following events would increase employment and lower the price level in the United States?

- (A) Increase in consumption.
- (B) Increase in productivity.
- (C) Increase in the population.
- (D) Increase in exports.
- (E) Increase in the wage rate

An economy's bond rates are more apt to have an inverted yield curve when:

- (A) the economy's real output is increasing.
- (B) the economy is experiencing inflation.
- (C) the economy is exporting more.
- (D) the economy's price level is constant.
- (E) the economy is importing more.

In macroeconomics which of the following is not considered a real variable:

- (A) Labor
- (B) Capital
- (C) Money
- (D) Natural Resources
- (E) Productivity

In a flexible price aggregate demand - aggregate supply model, a decrease in demand is soon corrected by:

- (A) A discretionary increase in government purchases.
- (B) A decrease in prices and a decrease in wages.

- (C) A decrease in prices and an increase in wages.
- (D) An increase in interest rates.
- (E) An increase in productivity.

Which of the following combinations of fiscal policy and monetary policy would have the greatest probability of slowing inflation?

<u>Fiscal Policy</u>	<u>Monetary Policy</u>
(A) expansionary	expansionary
(B) contractionary	contractionary
(C) contractionary	expansionary
(D) expansionary	contractionary
(E) no change	contractionary

Which of the following will not shift the aggregate demand?

- (A) An increase in price level
- (B) An increase in consumption
- (C) An increase in government spending
- (D) An increase in exports
- (E) A decrease in imports

The largest component of GDP in Algeria is:

- (A) Consumption
- (B) Investment
- (C) Government Purchases
- (D) Exports
- (E) Imports.

Exercise N°03: Discuss the following questions in 80 words

1. What do economists mean when they state that a good is scarce?
2. Rationing ?
3. What does Economic analysis assume ?
4. The activists' view that the best policy is one of discretionary intervention into the macroeconomy is most consistent with which of the following views?

Exercise N°04: Write an essay

“The economy cannot merely rely on the private sector to solve economic problems. Every now and then, the public sector (government) must step in to ensure economic growth in the short run. With a more successful short run, a more prosperous long run will become more likely.”

Money

Money can be defined as any item that is portable, divisible, durable, and stable. Money serves three functions: a medium of exchange, a store of value, and a unit of account. The nation's money supply is often determined by two measures. M-1 includes liquid, or spendable, forms of money such as currency and various types of demand deposits. M-2 includes M-1 plus easily convertible forms of money such as time deposits, money market funds, and savings deposits. Credit also plays a role in the money supply.

Banks expand the money supply by taking in deposits and making loans. The overall supply of money is governed by several federal agencies that are responsible for ensuring a sound, competitive financial system. Money is a commodity accepted by general consent as a medium of economic exchange. It is the medium in which prices and values are expressed, as currency it circulates anonymously from person to person and country to country, thus facilitating trade, and it is the principal measure of wealth.

The subject of money has fascinated people from the time of Aristotle to the present day. The piece of paper labeled one dollar, 10 euros, 100 yuan or 1,000 yen is little different, as paper, from a piece of the same size torn from a newspaper or magazine, yet it will enable its bearer to command some measure of food, drink, clothing, and the remaining goods of life while the other is fit only to light the fire. Whence the difference? The easy answer, and the right one, is that modern money is a social contrivance. People accept money as such because they know that others will. This information, or common knowledge, makes the pieces of paper valuable because everyone thinks they are, and everyone thinks they are because in his or her experience they always have been accepted in exchange for valuable goods or assets. At bottom money is, then, a social convention, but a convention of uncommon strength that people will abide by even under extreme provocation. The strength of the convention is, of course, what enables governments to profit by inflating the currency. But it is not indestructible. When great increases occur in the quantity of these pieces of paper --- as they have during and after wars --- they may be seen to be, after all, no more than pieces of paper. The social arrangement that sustains money as a medium of exchange breaks down. People will then seek substitutes--like the

cigarettes and cognac that for a time served as the medium of exchange in Germany after World War II. New money may substitute for old under less extreme conditions. In many countries with a history of high inflation, such as Argentina, Israel, or Russia, people use the U.S. dollar to quote prices because the dollar has more stable value than the local currency, and they accept the dollar as a medium of exchange because it is well-known and more stable in purchasing power than local money.

Exercise N°01: Direct questions

1. Simply, what is the definition and functions of money?
2. What constitutes the supply of money?
3. What are the components of money demand?
4. How the equilibrium interest rate is determined in the money market?
5. What are the components of M-1? Of M-2?

Exercise N°02: Quiz

- A. The Characteristics of Money
 1. Portability
 2. Divisibility
 3. Durability
 4. Stability
 - B. The Functions of Money
 1. Medium of Exchange
 2. Store of Value
 3. Unit of Account
 - C. The Spendable Money Supply: M-1
 - D. M-1 Plus the Convertible Money Supply: M-2
 - E. Credit Cards: Plastic Money?
- The Changing Money and Banking System
- F. Deregulation
 - G. Interstate Banking
 - H. E-Cash.

Exercise n°03: Write an essay

- 1-Explain the roles of commercial banks, savings and loan associations, and non-deposit institutions in Algerian. financial system.

- 2- Do you think credit cards should be counted in the money supply? Why or why not? Support your arguments by using the definition of money.
- 3- Should commercial banks be regulated, or should market forces be allowed to determine the money supply? Why?

What is a Bank?

A bank is a business. Banks sell services - financial services such as car loans, home mortgage loans, business loans, checking accounts, savings accounts, certificates of deposit, and credit card services. Some people go to the bank in search of a safe place to keep their money. Others go to the bank seeking money for loans to buy houses or cars, start businesses, expand farms, or do any of the other things that require borrowing money.

Where do banks get the money to lend? They get it from all the people who open savings and other types of accounts. Banks act as a go between the people who save and people who need to borrow. If savers didn't put their money in banks, the banks would have little or no money to lend.

Your savings are combined with everyone else's savings to form a big pool of money. The bank uses that pool of money to make loans. The money doesn't belong to the bank's president, board of directors, or stockholders. It belongs to the depositors. That's why banks have a special obligation not to take big risks when they make loans.

Exercise N°01 : Answer the following questions

- a. What different accounts banks offer
- b. What checks are and how they work
- c. How did Banking Begin?
- d. Why are There so Many Different Types of Banks?
- e. What Types of Accounts do Banks Offer?
- f. What are Checks and How do They Work?
- g. What is Electronic Banking?
- h. What Happens to Your Money After You Deposit it in Your Bank Account?
- i. What is a bank and what kinds of banks are there?
- j. What kinds of accounts can you open at a bank?
- k. What is the difference between an ATM card, a credit card, and a debit card?
- l. Discuss how a bank earns money.
- m. Discuss what can cause a bank to fail.
- n. Who regulates the U. S. monetary system?.

Exercise N°02 :Quiz, answer these statement by true or false

1. A pawnshop offers loans to people starting their own business.
2. Opening a checking account requires completing a signature card.
3. A blank endorsement allows anyone to cash a check.
4. A "smart card" stores a person's bank balance right on the plastic card.
5. An outstanding check refers to one written on an account with a very low balance.

Marketing and Marketing Mix Strategy

Marketing means different things to different people. To the consumer, marketing may refer to the weekly food shopping trip to the supermarket. The farmer deals primarily with local farm product buyers and may associate marketing with the loading of hogs into the pickup for the trip to market or with the calling of local elevators to determine which is offering the highest price grains. In contrast, middlemen such as retailers, wholesalers and processors may view marketing as a process for gaining competitive advantage over market rivals, improving sales and profits and satisfying consumers.

The American Marketing as the performance of business activities that direct the flow of goods and services from producer to consumer or user.

J.H. Buck, a Unilever food marketing specialist, gave his organisation's definition of marketing as 'the planning and execution of all aspects and activities of products so as to exert optimum influence on the consumer to result in maximum long term profit'.

We will define a market as an arena for organizing and facilitating business activities and for answering the basic economic questions: what to produce, how much to produce, how much to produce and how to distribute production. A market may be defined by (1) a location (for example, the St. Louis market); (2) a product (for example, the grain market); (3) a time (for example, the May soybean market); or (4) a level (for example, the retail food market). The choice of market definition depends on the problem to be analysed. The most observable features of a market are its pricing and exchange processes. Markets join together the various components of the food industry: the farm supply sector, the farm sector, the food marketing system and national economies. The totality of the farm input, farm sector, the food marketing system and national economies. The totality of the farm input, farm production and food marketing processes is sometimes referred to as agribusiness.

Explain how the organization has to communicate with the customer through the strategic window. This can be achieved in a variety of ways ranging from spoken and written communications (advertising, selling, etc.) to more symbolic forms of communication (the image conveyed in the quality of the product, its price and the type of distribution outlet chosen). This is the function of the marketing mix. The point is that the elements of the marketing mix should

not be seen as individual entities, but as a set of interrelated entities which have to be set in conjunction with one another and in the context of the strategic window presented.

Positioning products in people's minds and making them attractive to market segments requires careful formulation of the marketing mix. Getting the right blend of the product, promotion price and distribution is essential to put the carefully carried out analysis into operation. The aim is to portray an image for the product or service that will match with how one wants the product to be visualized in people's minds, i.e. its positioning. Image is not only reflected in the promotional messages which are directed towards the market target but also in the pricing strategy, the mode of distribution and, of course, in the appearance of the product or service itself.

Topics that can be covered relate to the product as a complex entity, stressing the quality dimensions; product mix policy; distribution; pricing; and people, processes and physical evidence. Finally, there are strategic considerations to be taken into account with respect to marketing communications. This is a very complex area since there are several promotional methods and each requires detailed consideration of matters relating to qualitative marketing communications as well as, in the case of advertising, choice of media.

Exercise N°01: Questions for comprehension

- a. What are salient features of Marketing ?
- b. What are the principal Marketing Functions ?
- c. What are the principal element of Marketing Mix?
- d. What is the meaning of the Marketing?

Exercise N°02: QCM

1. In the definition of Marketing, the KEY phrase that best describes Marketing is:
 - a. The fact that it is a "Process"
 - b. That it is both "planning and executing"
 - c. That it serves to "create exchanges"
 - d. The satisfaction of "individual and organizational objectives"

2. Marketing is more than selling or advertising
 - a. True
 - b. False

3. Production and Marketing provide 5 kinds of utility. The one that is appropriate for a product that is intangible is:
 - a. Task utility
 - b. Possession utility
 - c. Place utility
 - d. Form utility

4. Which of the following is NOT one of the universal functions of marketing?
 - a. Buying
 - b. Transporting
 - c. Production
 - d. Standardization and Grading

5. The social process that directs an economy's flow of goods and services is:
 - a. Macro-marketing
 - b. Magnum-marketing
 - c. Micro-marketing
 - d. Magic-marketing

6. In a Planned economic system:
 - a. People in government decide who makes what goods
 - b. Business people decide who will make the goods
 - c. Consumers decide what goods will be made
 - d. Business and Consumers decide what goods will be desired and therefore made.

7. Marketing activities are criticized because:
 - a. "New" products are often not really new
 - b. Promoting unsafe products
 - c. Deceptive advertising

- d. All of the above
7. The evolutionary stage in which business could sell all it could produce is:
- a. Marketing department era
 - b. Production era
 - c. Sales era
 - d. Marketing company era
8. Which of the following is NOT one of the three elements of the Marketing Concept?
- a. Production mentality
 - b. Customer orientation
 - c. Focus on profit, not sales
 - d. Marketing integration with all areas of the firm
9. A key ingredient of the marketing management process is insightful, _____ marketing strategies and plans that can guide marketing activities.
- a. creative
 - b. measurable
 - c. macro
 - d. micro
 - e. niche
10. Effective marketing solves problems of:
- a. Discrepancies of Quantity
 - b. Discrepancies of Assortment
 - c. Spatial Separation
 - d. All of the above.

Exercise N°03 : Discuss the nature of marketing in algerian private enterprises

Insurance and Risk Management

Every organization is exposed to various risks. While many of them are pure risks like fire, explosion, chemical release etc., some of them are speculative. Pure risks are handled as operational and safety issues by professionals and finance personnel have to address the risks arising out of failure of above operational and safety measures. Together they need to ensure that the organization is able to withstand any risks or failure of systems and can continue its operations without much struggle. The Risk Management and Insurance Planning is required for any organization to review their risk management strategies and to opt for risk transfer measures like availing insurance cover etc. Many a times the coordination between the technical or operational departments and finance department is difficult and an unbiased study on technical risk management measures adopted and insurance practices followed will help the management of the organization to manage the risk effectively and profitably.

Risk management is a structured approach to managing uncertainty related to a threat, through a sequence of human activities including: risk assessment, strategies development to manage it, and mitigation of risk using managerial resources.

The strategies include transferring the risk to another party, avoiding the risk, reducing the negative effect of the risk, and accepting some or all of the consequences of a particular risk.

Some traditional risk managements are focused on risks stemming from physical or legal causes (e.g. natural disasters or fires, accidents, death and lawsuits). Financial risk management, on the other hand, focuses on risks that can be managed using traded financial instruments.

The objective of risk management is to reduce different risks related to a preselected domain to the level accepted by society. It may refer to numerous types of threats caused by environment, technology, humans, organizations and politics. On the other hand it involves all means available for humans, or in particular, for a risk management entity (person, staff, and organization).

Exercise N°01: Comprehension of the text

- a. What is Risk?
- b. What are the types of risks?
- c. How can we manage risk?

Exercise N°02: Write answers in margin beside question number for T-F and Multiple Choice.

1. The most common method of dealing with those risks facing an individual is probably risk retention.
2. The term "pure risk" describes a situation in which there is no chance of gain, but the possibility of loss or no loss only.
3. Insurers can partially eliminate morale hazard through the use of deductibles and other policy provisions which require the insured to bear a part of a loss.
4. The two fundamental characteristics of the insurance mechanism are transfer or shifting of risk and the sharing of losses on some equitable basis.
5. From the standpoint of the individual, insurance is a device in which a small certain cost is substituted for a large uncertain loss.
6. Insurance mobilizes funds for investment, since greater reserves must be maintained with insurance than would be the case if it did not exist.
7. Insurance cannot exist without a sufficiently large number of exposures to make losses predictable.
8. Through the law of large numbers and a reduction in uncertainty, insurers are able to charge each individual a premium that is less than the expected value of his or her loss.
9. Risk retention deserves serious consideration when the maximum loss potential is small.

10. The most important consideration in determining how to deal with a given risk is the potential severity of the loss and one's ability to bear it.
11. With a limited number of dollars available for the purchase of insurance, the sophisticated insurance buyer will spend these dollars to protect exposures in which the probability of loss is high.
12. The first step in the risk management process is identification of the risks facing the organization.
13. Social insurance programs place primary emphasis on social adequacy of benefits rather than on equity in cost and benefits.
14. The term "casualty insurance" is generally interpreted to include the fields of liability insurance, life insurance, accident and health insurance, and burglary and robbery insurance.
15. Public guarantee insurance programs are generally provided in connection with some aspect of regulation.

Exercise N°03: MULTIPLE CHOICE QUESTIONS

1. From the insured's perspective, the purchase of insurance is an example of
 - (a) avoidance.
 - (b) retention.
 - (c) transfer.
 - (d) loss prevention.
 - (e) combination.
2. Adverse selection is a term used to describe
 - (a) the choice of the wrong insurance to fit a specific need.
 - (b) an underwriting error on the part of an insurance company.
 - (c) the tendency of the poorer than average risks to seek insurance to a greater extent than do the better than average risks.
 - (d) a loss situation in which the chance of loss cannot be determined.

- (e) none of the above.
3. An insurer insures 1000 houses, with 10 expected losses and a standard deviation of 2. Other things being equal, the insurer may be 99% certain that the actual number of losses will be
- (a) 10.
 - (b) between 7 and 13.
 - (c) between 4 and 16.
 - (d) between 0 and 22.
 - (e) none of the above
4. The combination of a large number of exposure units by an insurer is important for the operation of insurance because:
- (a) it reduces uncertainty in the aggregate.
 - (b) it allows the insurer to make accurate predictions.
 - (c) it spreads losses among the members of the group.
 - (d) it makes the insurer's aggregate risk less than a summation of the risks of the individuals.
 - (e) all of the above.
5. For the insurance company, a meaningful measure of risk is
- (a) the probability that a loss will or will not occur.
 - (b) the possible deviation of actual from predicted results.
 - (c) the size of the population insured.
 - (d) the relationship of premium to average loss.
 - (e) none of the above.
6. Retention is the most appropriate treatment for a risk in which there is
- (a) a low probability and a high potential severity of loss.
 - (b) a low probability and low potential severity of loss.
 - (c) a high probability and high potential loss severity.
 - (d) no basis of calculating the probability.
 - (e) none of the above
7. The goal of risk management is to
- (a) minimize insurance expenditures.
 - (b) make certain that uninsured losses do not occur.

- (c) minimize the adverse effects of losses and uncertainty connected with pure risks.
- (d) get the best buys in the field of insurance.
- (e) eliminate financial loss.

8. There are three basic rules of risk management proposed in the text. The first and most important of these is

- (a) insure bigger risks, prevent the smaller ones.
- (b) don't risk more than you can afford to lose.
- (c) consider the odds.
- (d) don't risk a lot for a little.
- (e) consider insurance only as a last resort.

9. The risks most suited to treatment by the insurance mechanism are those in which there is

- (a) a high probability and a low severity.
- (b) a low probability and a high severity.
- (c) a high probability and a high severity.
- (d) a low probability and a low severity.
- (e) none of the above.

10. Regarding the purchase of insurance, the rule "consider the odds" suggests that you:

- (a) reserve insurance dollars for those exposures in which the probability of loss is high.
- (b) insure against losses that are most likely to occur.
- (c) protect against losses in which the probability is high first.
- (d) avoid trading dollars with insurers.
- (e) more than one of the above.

Exercise N°03 : Essay questions

1. Explain why pricing insurance products is more difficult than pricing computers ? Take as example the case of Algerian enterprises.

2. If competition between many insurance companies can keep rates from being excessively high, and good management will keep rates from being too low, why should insurance regulators have legal power to control rates on insurance products? Explain your answer

Management

The words ‘manage’ and ‘manager’ are derived from the Italian word maneggiare – to handle or train horses. But the activities of management and definition of the management function are diverse. Some key points of reference include:

- Henri Fayol provided the classic definition of management as a series of four key activities that managers must continually perform including, planning, organizing, directing and controlling.
- In *The Practice of Management*, Drucker defined management in terms of its being both a function and a social group. Drucker noted that “management is charged with making resources productive”, but he also saw it as fulfilling the needs of social justice
- The concept of the organization as a formal structure involves the supervision of employees directly in the production of goods or services (line management), whereas a staff manager supervises a service that is necessary to the organization but is not the organization’s core strategic or business activity.
- Sociological studies emphasize features of power and this relates to the control of work activities.
- ‘Organizational Behaviour’ is a term used to describe the behaviour of managers; these are individuals empowered to regulate and control the behaviour of others.

It is important to remember that although each of the five eras of management is distinctive, the history of management is an evolution. Classical thinking did not stop, nor did humanistic focus; instead, thinking was augmented by new research. The importance of contingency and situational thinking is that all historic approaches may be appropriate in certain situations. Management science is used in addition to other methods of problem solving. Understanding the variables of different situations is the management and leadership skill recognized today as being important. Judgment is the critical factor and may be replacing the need for rules, regulations, and procedures in some situations.

Exercise N°01 : Answer the questions

- a. What Is Strategy and Why Is It Important?
- b. What Makes a Strategy a Winner?
- c. What best describes the relationship among the four main functions of management?
- d. Which one of the following is NOT a key to harmony developed by Frederick W. Taylor?
- e. Under which category of management do supervisors, office managers, and foreman fall?
- f. Which management function requires managers to make decisions on the fourFundamental elements of objectives, actions, resources, and implementation?
- g. Identify the most important reason for having objectives?
- h. When businesses define their objectives in terms of customer satisfaction, requires them to translate customer satisfaction into meaningful areas and measures.
- i. Identify the term which refers to the process of using past and current information to predict future events, permitting managers to test the effect of a course of action.

Exercise N°02 : QCM

1. What best describes the relationship among the four main functions of management?
 - A. They are four separate and unrelated activities.
 - B. Organizing is usually the first function to occur, followed by the other three functions.
 - C. Controlling is usually a separate function from the other three functions.
 - D. Various combinations of the four activities usually occur simultaneously.
2. Which one of the following is NOT a key to harmony developed by Frederick W. Taylor?
 - A. Train people to do the job properly.
 - B. Reward successful performance by using an incentive pay system
 - C. Discover the one best way to do a job

- D. Increase the work pace to get the most out of your employees
3. Under which category of management do supervisors, office managers, and foreman fall?
- A. Middle-level management
 - B. First-line management
 - C. Top-level management
 - D. Intermediate management
4. Which management function requires managers to make decisions on the four fundamental elements of objectives, actions, resources, and implementation?
- A. Controlling
 - B. Planning
 - C. Organizing
 - D. Leading
5. Identify the most important reason for having objectives?
- A. To establish a credo
 - B. To formulate a practical vision
 - C. To help translate organization's broad social purposes into measurable terms
 - D. To formulate a uniform code of ethics for all units
6. When businesses define their objectives in terms of customer satisfaction, requires them to translate customer satisfaction into meaningful areas and measures.
- A. Organizing
 - B. Planning
 - C. Controlling
 - D. Leading
7. Identify the term which refers to the process of using past and current information to predict future events, permitting managers to test the effect of a course of action.
- A. Futuristic
 - B. Scenario construction

- C. Analysis
- D. Forecasting

8. What plan will the managers need to write:

- A. standing plan
- B. tactical plan
- C. strategic plan
- D. single-use plan

9. Identify an important physical characteristic that has been consistently associated with leadership.

- A. Adequate weight\
- B. Appropriate age
- C. Good health
- D. Energy level

10. According to Rensis Likert, what are the human aspect factors that successful leaders. Focus on when attempting to build effective teamwork?

- A. Considerate, employee-centered, supportive behavior
- B. Supportive, considerate, no punitive employee-centered behavior
- C. Supportive, lenient, diversity
- D. Supportive, considerate, educational background

Exercise N°03: Write an essay

- a. State the conditions that must be fulfilled to show that an employer may be held vicariously liable for the negligence of an employee.
 - The employee was acting in the course of his/her employment
 - The employee caused damage or injury by not fulfilling a common law duty of care.
- b. Outline management techniques which can encourage a positive attitude to health and safety in the workplace.
 - Communication
 - Employee involvement
 - Incentives
 - Leading by example
 - Performance appraisals.

Fiscal policy

Fiscal policy is the means by which a government adjusts its spending levels and tax rates to monitor and influence a nation's economy. It is the sister strategy to monetary policy through which a central bank influences a nation's money supply. These two policies are used in various combinations to direct a country's economic goals. Here we look at how fiscal policy works, how it must be monitored and how its implementation may affect different people in an economy.

Before the Great Depression, which lasted from Sept. 4, 1929 to the late 1930s or early 1940s, the government's approach to the economy was laissez-faire. Following World War II, it was determined that the government had to take a proactive role in the economy to regulate unemployment, business cycles, inflation and the cost of money. By using a mix of monetary and fiscal policies (depending on the political orientations and the philosophies of those in power at a particular time, one policy may dominate over another), governments are able to control economic phenomena.

Exercise N°01: Comprehension

1. Differentiate between expansionary and contractionary fiscal policy.
2. Recognize the conditions for recommending an expansionary or contractionary fiscal policy.
3. Explain expansionary fiscal policy and its effects on the economy and Federal budget.
4. Explain contractionary fiscal policy and its effects on the economy and Federal budget.
5. Give two examples of how built-in stabilizers help eliminate recession or inflation.
6. Explain the differential impacts of progressive, proportional, and regressive taxes in terms of stabilization policy.
7. Explain the significance of the “standardized budget” concept.

Exercise N°02: Quiz

1) The major source of federal tax receipts is

- A) personal income taxes.
- B) corporate income taxes.
- C) social insurance taxes.
- D) excise taxes.
- E) estate and gift taxes.

2) The largest category of government expenditures is

- A) purchases of goods and services.
- B) transfer payments.
- C) the salaries of government economists.
- D) debt interest.
- E) defense spending.

3) The classical economists believed that unemployment could not persist because

- A) the government would step in and stimulate the economy by increasing government spending.
- B) rising prices would make up for any deficiency in spending and make it profitable to rehire workers.
- C) falling wages would cause businesses to expand employment.
- D) unemployment benefits would eventually run out, and voluntarily unemployed workers would return to their jobs.
- E) workers would move abroad, reducing the unemployment ranks.

4) Keynes believed that if unemployment existed,

- A) it could not persist for very long.
- B) it would be automatically eliminated.
- C) it could be reduced by increasing the level of government spending.
- D) taxes should be increased in order to reduce the amount of spending in the economy.
- E) it was voluntary.

5) Keynesians are considered _____ economists, whereas the classical

economists are considered _____ economists.

- A) nonactivist; activist
- B) conservative; liberal
- C) laissez-faire; activist
- D) activist; nonactivist
- E) nonactivist; laissez-faire

Exercise N°03: Write an analysis of the two questions

1. Explain in detail how savings may lead to economic growth
2. Compare and contrast the effectiveness of monetary policy and the effectiveness of fiscal policy as a means to encourage saving. In your answer, you should provide a comprehensive understanding of:
 - what fiscal policy and monetary policy are
 - how each policy could be used to encourage saving which policy is likely to be more effective in encouraging saving

What is Economic Development?

For people all around the world living in poverty it is important that countries in South East Asia such as South Korea, Taiwan and China, as well as Brazil in South America recently have been able to get out of the poverty trap. They are not so many, but there is a group of countries that have essentially completed the transformation to become developed. I think, for countries in Africa such as the Gambia, it is relevant to raise questions about the extent to which they can learn from experience of the newly industrialized countries and if they are potential models for other countries to follow.

Another question arising is if economics can help us to better understand the process of development, which is extremely complex, and if economics also can become an efficient tool for shaping adequate development policies. Sometimes economists are criticized for being too narrow primarily focusing on the task to increase economic growth, even if it is empirical evidence that economic growth often increase inequality and, therefore, does not provide a sustainable solution for the poor. Furthermore, traditional neoclassical economics have been developed to deal with developed economies emphasizing market efficiency, while developing countries usually are lacking market institutions. Neoclassical economics concerns the determination of equilibrium, while transformation from a developing to a developed economy is characterized by disequilibrium processes and transactions out of (traditional) equilibrium.

In addition, with regard to understanding poverty and economic growth in Africa, it is extremely important to understand the influence of geography; the intersection of climate, ecology and economic activity is crucial. For example, since long, and in the Gambia, there has been a negative development of productivity in agriculture which has depreciated the situation of the poor both in the rural and urban areas. A policy breaking this trend must be based on analyses that can explain relations between poverty and environmental destruction, for instance, deforestation destructing the quality of the soil. It links up with the green revolution by including measures to increase the rate of technology diffusion that relies on scientific discoveries of hybrid seed varieties. In order to take account of the fact that poor countries differ from developed countries, development economics also draws on other sciences than economics.

When looking at the contribution by economic science, we should admit that before the neoclassical school became mainstream, the classical economists used the notion political economy instead of economics. This distinction is important when it comes to development economics, which stresses the role of institutions. Accordingly, contemporary theory in the field of development economics has sometimes pointed at poor governance as main cause of stagnation in developing countries. It should be an important task to examine this explanation of why poverty persists which cannot be done unless economic activity is viewed in its political context taking account of political institutions.

Exercise N°01: Answer the questions

- a. Why are some countries so poor, repressive, and violent?
- b. Why have some seen growing incomes and freedoms while others stagnate or decline?
- c. What is the root of state capacity, political participation, and other aspects of “political development”?
- d. What role has the West played in both failure and success, and what role (if any) should it play in future?
- e. How and why have transnational corporations (TNCs*) influenced economic development in developing countries during the Cold War and/or the Post-Cold War era? (*TNCs and MNCs (Multinational Corporations) are here considered as equivalent terms).
- f. How has industrialisation been promoted in Latin America, Sub-Saharan Africa and/or Asia, and why has it succeeded and/or failed
- g. Foreign Aid
 - (a) Some economists advocate a “big push” in foreign aid. What are the arguments used in favor of this approach? Discuss this view using a diagram.
 - (b) William Easterly has criticized the “big push” idea. Discuss his arguments against this view. In particular, Easterly has identified three problems with such top-down plans. What are they? Give examples for each.
 - (c) What are the 8 Millennium Development Goals? By what year should they be reached?

Exercise N°2: Quiz

1. A person who is primarily interested in the establishment of new wilderness areas would be considered a(n)

- a. ecologist.
- b. preservationist.
- c. restorationist.
- d. conservationist.

_____ 2. Natural capital includes all of the following *except*

- a. sunlight.
- b. air.
- c. water.
- d. soil.

_____ 3. All of the following illustrate exponential growth *except*

- a. the king who promised to double the number of grains of wheat he put on each successive square of a checkerboard.
- b. human population growth.
- c. driving 10 mph for one minute; then 20 mph for one minute; then 30 mph for one minute; then 40 mph for one minute.
- d. money in a savings account.

4. What is globalization?

- a. ability to travel worldwide
- b. new term for mass immigration
- c. world-wide integration of social, economic, and environmental change
- d. a satellite communications system

_____ 5. Sustainable development can be distinguished from economic development by its emphasis on

- a. meeting the needs of people.
- b. intergenerational equity.
- c. use of economic systems and earth's resources.
- d. setting limits on human population growth.

6. A resource that is too expensive to extract is said to be

- a. perpetual.
- b. economically depleted.
- c. ecologically depleted.

d. environmentally depleted.

- ___ 7. Which of the following is a non-metallic mineral resource?
- a. sand.
 - b. soil.
 - c. oil.
 - d. water.
- ___ 8. Which of the following statements *best* illustrates the tragedy of the commons?
- a. A factory pollutes a river as much as the law allows.
 - b. Some levels of pollution are life threatening.
 - c. Some activities harm the environment, but others do not.
 - d. Irrigated cropland can be ruined by salinization.
- ___ 9. On the outskirts of a municipality lies a forest on public property. A person applying the precautionary principle might suggest
- a. clear-cutting the forest to provide taxes for the town.
 - b. converting the natural woods to tree farms.
 - c. harvesting trees at their estimated sustainable yield.
 - d. harvesting trees below their estimated sustainable yield.
- ___ 10. All nonrenewable resources can theoretically be
- a. converted to nonmetallic minerals.
 - b. converted to renewable ones.
 - c. exhausted or depleted.
 - d. recycled or reused.
- ___ 11. When a resource is economically depleted, we can
- a. recycle or reuse existing supplies.
 - b. waste less.
 - c. develop substitutes.
 - d. all of these answers.

Inflation

WHAT IS INFLATION?

Simply put, inflation is a situation in the economy where, there is more money chasing less of goods and services. In other words, it means there is more supply/availability of money in the economy and there are less of goods and services to buy with that increased money. Thus goods and services command a higher price than actual as more people are willing to pay a higher value to buy the same goods. In this inflationary situation, there is no real growth in the output of the economy per se. It's simply more money chasing few goods and services.

THE BASIC TYPES OF INFLATION

Demand-Pull Inflation

Demand-pull inflation places responsibility for inflation squarely on the shoulders of increases in aggregate demand. This type of inflation results when the four macroeconomic sectors (household, business, government, and foreign) collectively try to purchase more output than the economy is capable of producing.

- In terms of the simple production possibilities analysis, demand-pull inflation results when the economy bumps against, and tries to go beyond, the production possibilities frontier. Then end result is inflation.
- In the more elaborate aggregate market analysis, demand-pull inflation results when aggregate demand increases beyond aggregate supply creating economy-wide shortages. As with market shortages, the price (or price level) rises. Then end result is inflation.

Cost-Push Inflation

Cost-push inflation places responsibility for inflation directly on the shoulders of decreases in aggregate supply that result from increases in production cost. This type of inflation occurs when the cost of using any of the four factors of production (labor, capital, land, or entrepreneurship) increases.

- In terms of the production possibilities analysis, this means that the production possibilities frontier is shrinking closer to the origin, causing it to bump down against the aggregate demand. Then end result is inflation.

- In the aggregate market analysis, aggregate supply decreases to less than aggregate demand creating economy-wide shortages. As with any market shortages, the price (price level) rises. Then end result is inflation.

Inflation is a phenomenon of continuous rise in the general price level of goods and services. Inflation is not a rise in the prices of one or just few goods, and it is also not a just one-time rise in the prices of most commodities. During inflationary periods, prices of few goods may fall, but prices of most goods rise.

Inflation can also be defined as a decline in the value or purchasing power of dollar. If the supply of dollar (money) rises faster than the supply of goods and services in the country, one would expect a decline in the value of dollar. Thus, an increase in money supply can be a reason of inflation. But, there may be other reasons too. If the demand for goods and services continuously rises faster than their supply, prices of goods and services shall rise too. This is called *demand-pull inflation*. On the other hand, a continuous fall in supply of goods and services or a continuous rise in cost of production pushes up the general price level. This is called *cost-push inflation*.

Exercise N°01 : Comprehension

- a. What are the causes of inflation ?
- b. What are the ways of measuring inflation?
- c. Is Inflation Good For The Economy?
- d. What are the costs of inflation?

Exercise N°02: Quiz

1. The asset market view of exchange rate determination says that the spot rate:
 - a. Should follow a random walk.
 - b. Is affected primarily by a nation's long-run economic prospects.
 - c. Both a and b.
 - d. Should be strongly affected by a nation's balance of trade.
 - e. Should be strongly affected by current relative income, relative prices, and relative interest rates.
2. The current international flow model of exchange rate determination says that the spot rate should:
 - a. Follow a random walk.

- b. Be affected primarily by a nation's long-run economic prospects.
 - c. Be strongly affected by a nation's balance of trade.
 - d. Be strongly affected by current relative incomes, relative prices, and relative interest rates.
 - e. Both c and d.
3. Governments intervene in the foreign exchange markets for all of the following reasons ***except*** to:
- a. Earn foreign exchange.
 - b. Reduce economic uncertainty.
 - c. Improve the nation's export competitiveness.
 - d. Reduce inflation.
 - e. Boost or lower the value of domestic currency.
4. Which of the following theories points to international business engagement as a natural stage in the evolution of new products from introduction to growth, maturity, and possible decline?
- a. Theory of comparative advantage.
 - b. Imperfect markets theory.
 - c. Product cycle theory.
 - d. Internalization theory
 - e. None of the above.
- 5) Every financial market has the following characteristic:
- A) It allows loans to be made.
 - B) It channels funds from lenders-savers to borrowers-spenders.
 - C) It allows common stock to be traded.
 - D) It determines the level of interest rates.
- 6) Which of the following can be described as involving direct finance?
- A) A corporation buys commercial paper issued by another corporation.
 - B) People buy shares in a mutual fund.
 - C) An insurance company buys shares of common stock in the over-the-counter markets.
 - D) A corporation takes out a loan from a bank.
 - E) None of the above.

7) Which of the following are securities?

- A) A share of Texaco common stock
- B) A Treasury bill
- C) A certificate of deposit
- D) Each of the above
- E) Only (a) and (b) of the above

8) Financial markets improve economic welfare because

- A) they allow funds to move from those without productive investment opportunities to those who have such opportunities.
- B) they allow consumers to time their purchase better.
- C) they weed out inefficient firms.
- D) they do each of the above.
- E) they do (a) and (b) of the above.

9. A relative high domestic inflation, other things being equal, would tend to cause the home currency to:

- a. Appreciate.
- b. Depreciation.
- c. Remain constant.
- d. Fluctuate within narrow bands.

10. A relative low home inflation, other things being equal, would tend to cause the home currency to:

- a. Appreciate.
- b. Depreciate.
- c. Remain constant.
- d. Fluctuate within narrow bands.

11. When the Fed intervenes in the foreign exchange markets while taking action to maintain the dollar money supply, it is said to use:

- a. Non-sterilized intervention.
- b. Sterilized intervention.
- c. Active intervention.
- d. Reactive intervention.

12. When the Fed intervenes in the foreign exchange markets without taking action to maintain the dollar money supply, it is said to use:
- Non-sterilized intervention.
 - Sterilized intervention.
 - Active intervention.
 - Reactive intervention.
 - Open market intervention

13. The following statement is true concerning a strong domestic currency except:

- Encourages more imports.
- Discourages more exports.
- Increases domestic competition.
- May induce lower unemployment.

14. Which of the following statement is true concerning a weak domestic currency?

- Encourages more imports.
- Discourages more exports.
- Increases domestic competition.
- May induce lower unemployment.

Exercise 03 : Analysis

1. Price inflation is a _____. In the general level of _____. This means that prices of goods and services _____ over some time, which in turn _____ the value of money, so consumers will be able to buy _____ for the same money.

2. Simple price index is used to measure the change in the price of _____ commodity. Composite price index measures the change in the price of _____ commodities.

3. How is consumer price index calculated?

4. What are the economic uses of the CPI?

5. What are the limitations of the CPI?

6. What are the economic effects of inflation?

7. Deflation is when consumer prices _____.

8. The three types of inflation are: a) _____, b) _____, c) _____.

9. Match column A with column B.

A	B
Cost-push inflation	Happens when the level of aggregate demand exceeds the level of supply in an economy
Demand-pull inflation	Happens as a result of changes in the monetary policy
Monetary inflation	Happens as a result of an increase in the cost of production or the cost of input into production

Unemployment

Unemployment (standard definition) includes all persons who during a specified reference period (e.g. one week) were: (i) without work, i.e. were not in paid employment or self-employment; (ii) currently available for work, i.e. were available for paid employment or self-employment during the reference period; and (iii) seeking work, i.e. had taken specific steps (registration at a public or private employment exchange; application to employers; checking at worksites, farms, factory gates, market or other assembly places; placing or answering newspaper advertisements; seeking assistance of friends or relatives; looking for land, building machinery or equipment to establish an own enterprise; arranging for financial resources; applying for permits and licenses; etc.) in a specified recent period (e.g. the last four weeks) to seek paid employment or self-employment. Persons without work and currently available for work, who had already made arrangements to take up paid employment or undertake self-employment activity at a date subsequent to the reference period, are to be considered unemployed, irrespective of whether or not they continued seeking work. Also regarded as unemployed are persons temporarily absent from their jobs with no formal job attachment, who were currently available for work and seeking work. In situations where the conventional means of seeking work are of limited relevance, where the labor market is largely unorganized or of limited scope, where labor absorption is temporarily inadequate or where the labor force is largely self-employed, a relaxed definition of unemployment can be applied, based on only the first two of the above-mentioned criteria (without work and currently available for work). Such a relaxed definition of unemployment can also be applied in the case of persons temporarily laid off without formal job attachment. The unemployment rate is the ratio of unemployed persons (numerator) to the economically active population or labor force (denominator), expressed as a percentage. Age-specific unemployment rates relate unemployed persons of a specific age group to the economically active population or labor force of the same age group. **Definition of: (United nations).**

According to the International Labor Organization (ILO), the unemployed is defined as those who, during the period mentioned, (1) have no job, (2) are able

to work at any time, and (3) are looking for jobs actively. Anybody who meets the three conditions at the same time may be called an unemployed person.

Where, the so-called "having no job" means the person is not employed to a paid job nor self-employed, "able to work at any time" means he can work on an employed or self-employed position with pay at any time during the standard period of the investigation data; and "actively looking for job" means he have taken certain steps to seek paid employed or self-employed job during the period. Such steps, for example, include registering at a public or private vocational service institution, applying to employers, seeking work places or markets, looking into the recruiting advertisements on newspapers, asking relatives and friends for assistance, and seeking equipment, collecting funds and applying for license for establishing enterprises.

Exercise N°01: Answer the questions

- a. What are the types of unemployment?
- b. Discribe the features of every type?

Exercise N°02: Answer all multiple choice questions

1. The three major macroeconomic problems are:
 - a. Debt, deficits, and taxation.
 - b. Unemployment, inflation and taxation.
 - c. Unemployment, falling production, and deficits.
 - d. Unemployment, falling production, and inflation.
2. Which of the following is NOT a direct consequence of unemployment?
 - a. Higher inflation.
 - b. Individual hardship.
 - c. Lost output and production.
 - d. All of the above are consequences of unemployment.
3. Which of the following types of unemployment is voluntary, where the person chooses to leave her job?
 - a. Cyclical unemployment.
 - b. Frictional unemployment.
 - c. Structural unemployment.
 - d. None of the above.

4. Lee lost her job because her employer moved his operations to China. Ramon resigned from his job to look for work closer to his family.
 - a. Lee's unemployment is cyclical and Ramon's is frictional.
 - b. Lee's unemployment is structural and Ramon's is cyclical.
 - c. Lee's unemployment is structural and Ramon's is frictional.
 - d. Lee's unemployment is frictional and Ramon's is structural.
 - e.
5. The labor force consists of all persons:
 - a. Who are working regardless of their ages.
 - b. Capable of working regardless of their ages.
 - c. 16 years of age and older who are working.
 - d. 16 years of age and older who are working or actively seeking work.
6. An unemployment rate of six percent means that six percent of the:
 - a. Labor force is voluntarily unemployed.
 - b. Labor force is involuntarily unemployed.
 - c. Labor force is out of work and actively seeking employment.
 - d. Population is out of work and actively seeking employment.
7. The natural rate of unemployment occurs when unemployment is:
 - a. Zero.
 - b. A level that includes only the frictionally and structurally unemployed.
 - c. A level that includes only the structural and cyclically unemployed.
 - d. A level that includes only the frictionally unemployed.
8. An economy experiences inflation when:
 - a. Prices are high.
 - b. Prices are increasing.
 - c. The purchasing power of money is increasing.
 - d. All of the above.
9. A person whose paycheck grows at 6% when the inflation rate is 4% would experience:
 - a. A decrease in money (nominal) income and in real income.
 - b. An increase in money (nominal) income and in real income.
 - c. A decrease in money (nominal) income and an increase in real income.

- d. An increase in money (nominal) income and a decrease in real income.
10. Which of the following is *most likely to be hurt by inflation*?
- a. The average retired person living on past savings.
 - b. The average lender.
 - c. The average wage-earner (worker).
 - d. Both a and b.

Exercise N°03 :

- a. Why you have been unemployed for so long ?
- b. How to represent yourself in an unemployment insurance hearing ?

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