English for Business and Finance

SZAKMAI IDEGENNYELVI KOMMUNIKÁCIÓ (PÉNZÜGY) ANGOL NYELVEN

BAN2109	Gazdasági alapismeretek	The Basics of Economy

Nyíregyházi Egyetem

Összeállította, a feladatokat és a szószedetet írta:

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Nyíregyháza

2013

Contents

Foreword

The present compilation of business-oriented texts and exercises aims to introduce students to the basics of business and finance in English. The level of readings and tasks has been designed for students at B2-C1 level.

The backbone of the material is provided by the "Economics" section of the free internet course material taken from www.boundless.com. All sources have properly been indicated.

Each chapter is designed in a similar way.

Before the readings, some KEYWORDS that are necessary to know and to understand the reading itself are highlighted.

The LANGUAGE EXERCISE after the texts have a two-fold aim: they endeavour to broaden the student's grammar and vocabulary and consolidate the key concepts of the readings. The exercises are made up of "true or false" exercises, matching tasks, gap-filling exercises and tasks which build vocabulary through presenting nouns, verbs and adjectives derived from the same stem. Finding synonyms helps students to enlarge their word stock and make them think about the delicate shades of meaning that make a word differ from its synonym. The most traditional type of exercise is perhaps the translation section.

Apart from "traditional" grammar and vocabulary exercises, the tasks also include a THINK ABOUT IT section, which aims to evoke the student's thoughts and ideas in connection with some aspects of the reading.

At the end of the sections, VIDEO materials explain and/or elaborate on some topics of the readings. The transcripts of video materials will be distributed in class.

Each chapter concludes with a REVISION section.

The material concludes with an English-Hungarian GLOSSARY.

1. The Basics of Economics; Some Fundamental Concepts

Make sure you know these words before reading the text

to allocate, limited resources, scarcity, demand, supply, trade-off, labour, capital, entrepreneur, distribution, value, voluntary

Economics is the study of how society allocates scarce resources to the production of the goods and services it desires.

Example

- Robinson Crusoe is stranded on a desert island.
- He can spend his time fishing or searching for coconuts.
- He knows that every hour he spends fishing will produce two fish, and every hour he spends finding coconuts will produce three coconuts.

Economics deals with the way he allocates finite resources - in this case, his time - to best fulfil his needs, which are coconuts and fish.

1. Scarcity as a Fundamental Economic Problem

Scarcity is the fundamental economic problem of unlimited human demand for goods and services in a world of limited resources. This means that society has insufficient productive resources to fulfil all of society's wants and needs. Scarcity is the reason that not all of society's goals can be pursued simultaneously. The resources used to produce one good cannot be used to produce a second good at the same time. Therefore, any decision to produce more of one good requires making fewer alternative products.

This trade-off means that some goods and services for which there is a demand will not be produced, as society values using its resources for other purposes more highly. Every society, therefore, is confronted with decisions *about which goods and services to produce and which to forego.* Of those goods it produces, society must decide how much to make of each.

Finally, the goods and services that people want must be made by workers (labour), machines (capital), and raw materials (land), in addition to the talents of entrepreneurs. Since these resources are limited, society must decide how to allocate them.

2. Allocating Resources

Economics is the study of how society **allocates** these scarce resources to the production of the goods and services it desires. Ideally, the resources are allocated to their highest valued uses. Singers will be best suited to produce songs, not car repairs, while society would benefit more from mechanics that repair cars instead of making music. In addition, productive economies will find ways to improve available resources (such as educating workers), as doing so will result in an increased capacity to produce the goods and services society wants. Finally, imaginative businesses will find ways to use and combine various kinds of resources in order to maximize production.

So, the study of economics principally explores the following fundamental questions:

- What goods and services should society produce? Producers decide what to produce based on demand.
- For whom should the goods be produced? This depends on the consumers' ability and willingness to pay for the goods or services.
- How should society produce these goods and services? Producers determine the most profitable way to produce the goods/services.
- When should the goods be produced?

3. Different kind of Economic Systems

Historically, these questions have been answered differently by different societies.

In some cases, cultural traditions guide individual behaviour. For example, the ***caste system*** in India was used to control how goods and services were produced there for a long time, as Indians were restricted to specific occupations based on their caste.

A second approach to organizing production and distribution is the use of a central authority, usually the government. In this type of system, often referred to as a ***command economy***, government bureaucrats determine the answers to the fundamental questions, issuing production quotas for suppliers and regulations about production methods. Communist China before 1978 or Eastern European countries before 1989 were organized this way.

Finally, voluntary interaction among the members of society is another alternative. In this type of system, usually referred to as ***capitalism***, the key questions are answered by individuals making choices freely, relatively unbound by the forces of tradition and government.

In most cases, societies rely on a mix of tradition, command, and voluntary interaction. These systems are called *mixed economies*.

(Source: https://www.boundless.com/economics/welcome-to-economics/fundamentals-of-economics/introduction-to-economics/)

Key Points

Economics evaluates how individuals, households, businesses, and society allocate, use and obtain limited resources.

Economists study how decisions are made: work habits, spending habits, savings and investment habits. Economists also focus on external forces or other trends that influence the way people, households and society make decisions.

Since resources are limited, individuals, households and societies cannot always obtain everything they want. **Scarcity** governs the choices of how best to use these resources; do they choose A, B, or C? An allocation method is therefore necessary.

4. Macro vs. Microeconomics

Microeconomics deals with the small-scale activities such as that of the individual or company. Microeconomics deals with markets, supply, demand, consumption theory, price theory, customer decisions, production, competition, monopolies, even game theory, and so on.

Macroeconomics is a branch of economics that focuses on the behaviour and decision-making of an economy as a *whole*.

Macroeconomists study aggregated indicators such as GDP, unemployment rates, and price indices to understand how the whole economy functions and develop models that explain the relationship between such factors as national income, output, consumption, unemployment, inflation, savings, investment, government spending, and international trade.

THINK ABOUT IT

1. Do we live in the world of scarcity, or rather, bounty?

2. How do you think the decisions about allocating resources should be made in a society?

3. What kind of investments should enjoy priority in a society (or in the world)?

4. What is more important: production or services? Again, what is more important: working or studying?

5. Which is better: centralised command economy or capitalism based on free enterprise?

 LANGUAGE EXERCISE

I. True or false?

1. Scarcity means that people can produce more of any kind of goods in several fields at the same time.

2. Every society has to give up the enjoyment of certain goods or services because of limited resources.

3. Whether goods can be sold is determined only by how many factories can produce of them.

4. China today has a controlled, state-regulated, bureaucratic command economy.

5. Economies where control and initiative are both present are called mixed economies.

II. Match the words and the definitions

1. capital, 2. demand, 3. economics, 4. goods, 5. labour, 6. quotas, 7. scarcity, 8. trade

a.~~,~~ That which is produced, then traded, bought, or sold, and finally consumed. _____________

b.~~,~~ An inadequate amount of something; a shortage. _____________

c.~~,~~ Buying and selling of goods and services on a market. _____________

d.~~,~~ In economics, these are limits placed on the quantity of goods entering a country (import) or leaving a country (export). _____________

e.~~,~~ Wealth in the form of money or property, used or accumulated in a business by a person, partnership, or corporation. _____________

f.~~,~~ The amount of a good or service that consumers are willing to buy at a particular price. _____________

g.~~,~~ The study of resource allocation, distribution and consumption; of capital and investment; and of management of the factors of production. _____________

h.~~,~~ Workers collectively; the workforce; the working class. _____________

III. Fill in the gaps with the appropriate words.

capital, demand, economics, goods, labour, quotas, scarcity, trade

1. Bilateral ……………………… means the exchange of goods and services between two countries.

2. Left-wing people supporting social solidarity usually vote for ……………………… parties.

3. The main task of an entrepreneur is to find out whether there is enough ……………………… for a particular type of goods.

4. The two main types of exchange that can take place on the market is selling ……………………… and services.

5. To protect its labour force, the USA introduced strict annual immigration ……………………… for foreigners.

6. To start a business, it is advisable to have a sufficient amount of ………………………

7. University students who would like to become experts at finance, business management, investment, etc. study ………………………

8. What motivated John to start a language school was the ……………………… of such institutions in the area.

IV. Provide the suitable word forms.

NOUN	VERB	ADJECTIVE
	to limit	
	to produce	
decision		
	to improve	
occupation		
		mixed

V. Choose synonyms for the following words from the list below.

to obtain:

to limit:

scarcity:

to improve:

fundamental:

1. to acquire, 2. to advance, 3. basic, 4. to boost, 5. to curb, 6. central, 7. dearth, 8. to develop, 9. crucial, 10. to enhance, 11. to get, 12. elementary, 13. insufficiency, 14. to gain, 15. lack, 16. key, 17. to narrow, 18. to receive, 19. rareness, 20. to restrict, 21. to restrain, 22. to reduce, 23. shortage, 24. to take, 25. want, 26. to upgrade, 27. vital

VI. Translate the following text

A közgazdaságtan olyan alapvető kérdésekkel foglalkozik, mint a forrásokkal való gazdálkodás, és a kereslet és kínálat viszonya. A gazdaság legfőbb problémája, hogy a szinte határtalan kereslet és a szűkös erőforrások hogyan egyeztethetők össze egy kompromisszumos megoldással. A társadalomnak el kell döntenie, hogyan osztja el a meglévő forrásokat, és ebben milyen irányító szerepet játszik. A két végpont a központosított, utasításokon alapuló gazdaság (ahol egy párt vagy kormány megmondja, miből mennyit kell előállítani) és a szabadkereskedelmen és a szabad vállalkozáson alapuló gazdaság. A kettő természetesen keveredhet egymással.

VIDEO – On the Chinese Economy (09 August 2013, 0:56 min)

(Source: http://www.youtube.com/watch?v=8rJWB45KEYs)

REVISION

1. In your own words, give a definition of economics.

....

2. Why does "scarcity" crop up as a problem in economics?

....

3. What are the effects of scarcity?

....

4. How can a society handle this problem?

....

5. Compare the economies of China and the United States of America.

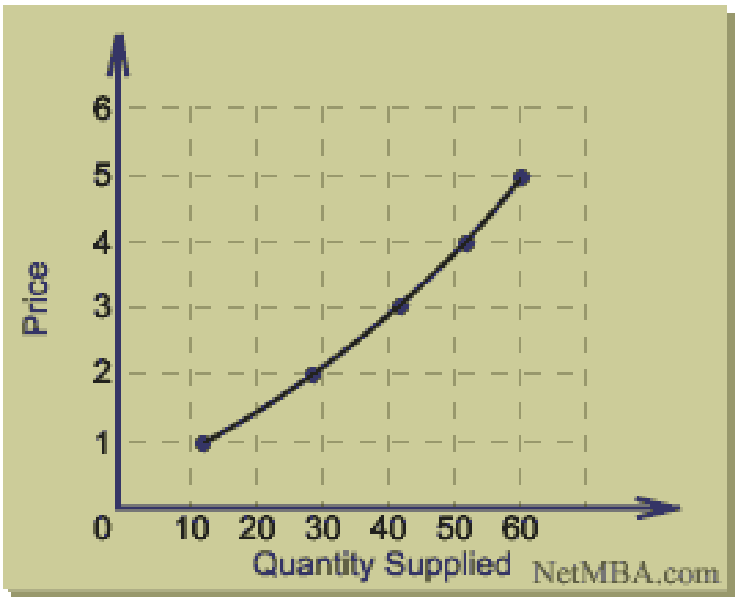
....

2. Microeconomics (1): Supply

Make sure you know these words before reading the text:

supply, supplier, curve, schedule, to induce, to affect, inputs, constant, expectations, to be directly proportional to sg.

Supply is the amount of some product that producers are willing and able to sell at a given price, with all other factors being held constant.



Supply Schedule

P	Q_s
$1.00	0
$1.50	5
$2.00	10
$2.50	15
$3.00	20
$3.50	25
$4.00	30

Example

A computer manufacturer will only produce 1,000 computers if the price is $100, but will increase production to 20,000 computers if the price of a computer rises to $400.

Supply is the amount of some product that producers are willing and able to sell at a given price. Supply is usually represented as a supply curve showing the relationship of price to the quantity of product that businesses are willing to sell.

The Supply Curve

The relationship of price and quantity supplied can be exhibited graphically as the supply curve. The curve is generally positively sloped. The curve depicts the relationship between two variables only: price and quantity supplied. All other factors affecting supply are held constant. However, these factors are part of the supply curve and are present in the intercept or constant term.

A **supply schedule** is a table which shows how much one or more firms will be willing to supply at particular prices. It assumes that all other factors, such as prices of **input goods**, are held constant.

Factors Affecting Supply

Innumerable factors could affect a seller's willingness or ability to produce and sell a good. Some of the more common factors are:

<u>Price of goods</u>:

The basic supply relationship is between the price of a good and the quantity supplied. Although there is no "law of supply", the relationship is generally positive or direct: *an increase in price will induce and increase in the quantity supplied*.

<u>Price of related goods</u>:

For purposes of supply analysis, *related goods refer to goods from which inputs are derived to be used in the production of the primary good*. For example, Spam is made from pork shoulders and ham. Both are derived from pigs. Therefore pigs would be considered a related good to Spam. In this case, the relationship would be negative or inverse. If the price of pigs went up, the supply of Spam would decrease (supply curve shifts up or in) because the cost of production would have increased.

A related good may also be a good that can be produced with the firm's existing factors of production. For example, a firm produces leather belts. The firm's managers learn that leather pouches for smartphones are more profitable than belts. The firm might reduce its production of belts and begin production of cell phone pouches based on this information.

Finally, *a change in the price of a joint product will affect supply*. For example, beef products and leather are joint products. If a company runs both a beef processing operation and a tannery, an increase in the price of steaks would mean that more cattle are processed which would increase the supply of leather.

<u>Conditions of production</u>:

The most significant factor here is the *state of technology*. If there is a technological advancement in the production of a good, the supply increases. Other variables may also affect production conditions. For instance, for agricultural goods, *weather* is crucial for it may affect the production outputs.

<u>Expectations</u>:

The expectations of sellers concerning future market conditions can directly affect supply. If the seller believes that the demand for his product will sharply increase in the foreseeable future, the firm may immediately increase production in anticipation of future price increases.

<u>Price of inputs</u>:

Inputs include land, labour, energy, and raw materials. If the price of inputs increases, the supply curve will shift in as sellers are less willing or able to sell goods at existing prices. For example, if the price of *electricity* increased, a seller may reduce his supply because of the increased costs of production. The seller is likely to raise the price that the seller charges for each unit of output.

<u>Number of suppliers</u>:

The market supply curve is the horizontal summation of the individual supply curves. *As more firms enter the industry, the market supply curve will shift out and drive down prices*.

<u>Government policies and regulations</u>:

Government intervention can have a significant effect on supply. Government intervention can take many forms including environmental and health regulations, hour and wage laws, taxes, electrical and natural gas rates, and zoning and land use regulations.

This list is not exhaustive. All facts and circumstances that are relevant to a seller's willingness or ability to produce and sell goods can affect supply. For example, if the forecast is for snow, retail sellers will respond by increasing their stocks of snow sleds, skis, winter clothing, or bread and milk.

(Source: https://www.boundless.com/economics/principles-of-supply-demand/introduction-to-supply-demand/what-is-supply/)

Key Points

The **supply curve** is a graphical representation of the relationship between prices and quantity supplied. It is generally positively sloped.

The **supply schedule** represents the same information - the quantity supplied at a given price - in table form.

Many factors affect the amount supplied at a given price. Some examples are the price of inputs, the expectations of suppliers about the future, and existing technology.

THINK ABOUT IT

1. Does the supply curve or supply chart always show a direct relationship between the quantity and the price? (Think, for instance, of house prices now in Hungary.)

2. Can the supply curve be positively slanted infinitely? Might there be a point where the curve flattens?

3. Taking a very simple example, which factors do you think affects the supply of bread?

4. In what ways can government intervention affect supply? (e.g. if the government reduces the price of electricity.)

5. In a global perspective, the supply of which natural resources do you think are sustainable and which are unsustainable?

LANGUAGE EXERCISE

I. True or false?

1. Supply is directly proportional to price. _______

2. The supply curve is always positively slanted, even if the price of input goods are not constant. _______

3. The rise of the price of a certain good curbs the supply of that product. _______

4. If the price of inputs rises, then supply will be reduced. _______

5. In capitalism, governments cannot affect supply. _______

II. Match the words and the definitions

1. demand 2. goods 3. input 4. intervention 5. labour 6. market 7. output 8. supply

a.~~,~~ One of many varieties of systems, institutions, procedures, social relations and infrastructures whereby parties engage in exchange. ____________

b.~~,~~ Production; quantity produced, created, or completed. ____________

c., Something fed into a process with the intention of it shaping or affecting the outputs of that process. ____________

d.~~,~~ That which is produced, then traded, bought, or sold, and finally consumed. ____________

e.~~,~~ The action of interfering in some course of events. ____________

f.~~,~~ The amount of a good or service that consumers are willing to buy at a particular price. ____________

g.~~,~~ The amount of some product that producers are willing and able to sell at a given price, all other factors being held constant. ____________

h.~~,~~ Workers collectively; the workforce; the working class. ____________

III. Fill in the gaps with the appropriate words.

demand, goods, input, intervention, labour, market, output, supply

1. …………………… prices are shaped by the interaction of supply and demand.

2. A good company produces …………………… for which there is sufficient demand.

3. Due to the drought in the southern part of the country, the …………………… of watermelon dramatically fell.

4. If the price of …………………… or raw materials (also called ……………………) increases, that affects the …………………… as well.

5. In the summer there is an increased …………………… for sunglasses and ice cream.

6. The value of the national currency dropped so drastically that immediate government …………………… was needed.

IV. Provide the applicable word forms. The Hungarian equivalents are given.

NOUN	VERB	ADJECTIVE
supply		
product / produce*		
	to relate	
	to affect	
	to increase	
intervention		----
		exhaustive

* produce (n.): termény, termés

V. Choose synonyms for the following words from the list below.

to produce:

to intervene:

to increase:

to supply:

to affect:

1. to augment, 2. to butt in, 3. to change, 4. to come up with, 5. to create, 6. to deliver, 7. to enlarge, 8. to expand, 9. to generate, 10. to influence, 11. to intercede, 12. to have an effect on, 13. to intensify, 14. to interfere, 15. to meddle, 16. to modify, 17. to manufacture, 18. to multiply, 19. to produce, 20. to satisfy, 21. to step in, 22. to raise, 23. to yield (2x)

VI. Translate the following text

A kínálat és a kereslet egyensúlya határozza meg a piaci árakat. Általában a kínálat és a termék ára egyenes arányban áll egymással, ami egy kínálati táblázatban vagy kínálati görbén ábrázolható. A kínálat és az ár akkor van egyensúlyban, ha a ráfordítás nem befolyásolja jelentősen az árat. A kínálatra számos tényező lehet hatással, mint például a ráfordítás, az időjárás, más piaci szereplők, az eladó elvárásai vagy a többi piaci szereplő. A kormányzat beavatkozása is jelentősen hat a kínálatra, vagy pozitív vagy negatív irányban.

VIDEO – Excess Supply Damping UK House Prices (23 March 2012) (3:09 min)

(Source: http://www.youtube.com/watch?v=Q53e5XalBaU)

REVISION

1. What is supply?

....

2. What is the relationship between supply and price?

....

3. How can supply be exhibited graphically?

....

4. How do the conditions of production affect supply?

....

5. What about inputs? What about government intervention?

....

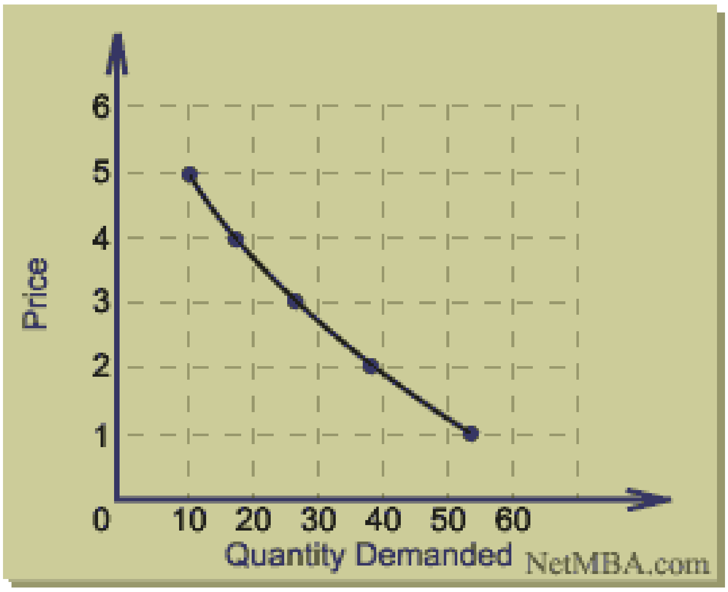
3. Microeconomics (2): Demand

Make sure you know these words before reading the text

demand, inverse, disposable, complement, substitute, preference, to encourage, equilibrium

What is Demand?

Demand is the desire to own anything, the ability to pay for it, and the willingness to pay during a specific period.



Demand Schedule

P	Q_d (thousands)
$140	0
$120	5
$100	10
$80	15
$60	20
$40	25
$20	30
$0	35

Demand

In economics, demand refers to how much of a product or service is desired by buyers. The quantity demanded is the amount of a product people are willing to buy at a certain price. The relationship between price and quantity demanded is known as the demand relationship.

Economists record demand on a demand schedule and plot it on a graph as a demand curve that is usually downward sloping. The downward slope reflects the relationship between price and quantity demanded: as price decreases, quantity demanded increases. In principle, each consumer has a demand curve for any product that he or she would consider buying.

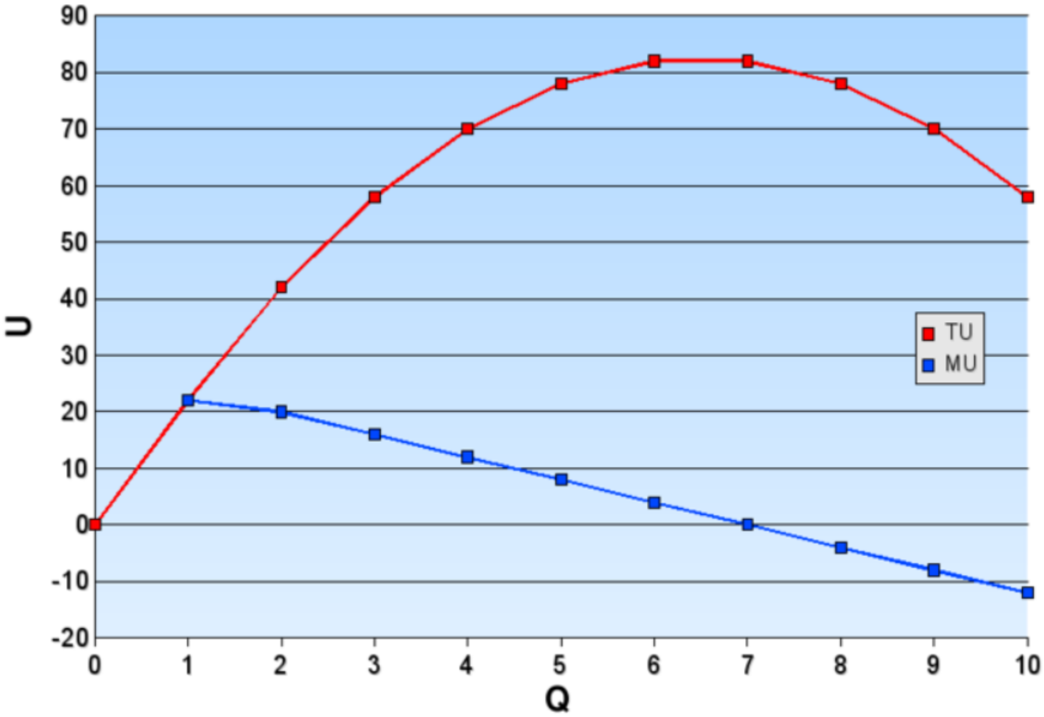
The consumer's demand curve is equal to the *marginal utility* (benefit) curve. When the demand curves of all consumers are added up, the result is *the market demand curve* for that product. If there are no externalities, the market demand curve is also equal to the *social utility* (benefit) curve.

Marginal Utility

"Marginal" in this expression means slight, seemingly unimportant, "marginal" change, starting at some baseline level, which might lead to greater changes. Utility means gain, something being beneficial for the individual.

The theory of marginal utility (MU) deals mainly with consumption habits. It claims that for some time, the gain or satisfaction of the consumer is directly proportional to the quantity of goods consumed, but after a time, reaching zero marginal utility and the maximum of total utility, it starts to decline. This is called the **law of diminishing marginal utility**.

A person should produce or purchase an additional item when the marginal utility exceeds the marginal cost.



Example

There is a cake in front of you. You start eating it. After the first slice, you feel great and your level of satisfaction is high. After the second slice, you might still be satisfied and feel the same. This might go on until the third (fourth, fifth…) slice, when there comes a point when you feel "full." This is the point of *zero marginal utility* (you cannot feel any better) and *maximum total utility*. If you ate, let us say, the last slice of cake, it would be bad for you and you would not gain anything with it. This is the point where MU begins to go below zero.

Exceptions to the General Rule

This concept suggests a uniform steady decline of marginal utility, but that may not always be the case. There can be situations in which one might gain more utility from consuming a later unit of a good than from earlier consumption. If you are going on a date, for example, getting one ticket to a concert will have some utility but the second arguably has more because it enhances the value of the first.

Generally these exceptions occur when what is being consumed is a component of a larger whole. While utility may increase for a period, **there is usually a "tipping point"** where afterwards marginal utility decreases. Getting a third ticket for your date will have low marginal utility than the second.

Factors Affecting Demand

Innumerable factors and circumstances could affect a buyer's willingness or ability to buy a good. Some of the more common factors are:

<u>Good's own price</u>:

The basic demand relationship is between potential prices of a good and the quantities that would be purchased at those prices. Generally, the relationship is *negative,* meaning that an increase in price will induce a decrease in the quantity demanded. This negative relationship is embodied in the downward slope of the consumer demand curve. The assumption of a negative relationship is reasonable and intuitive. If the price of a new novel is high, a person might decide to borrow the book from the public library rather than buy it. Or if the price of a new piece of equipment is high a firm may decide to repair existing equipment rather than replacing it.

<u>Price of related goods</u>:

Related good can be complements or substitutes.

A *complement* is a good that is used with the primary good, that which is tied to the primary good. Examples coffee and paper cup, car and car insurance, car and fuel. The price of the complement and demand for the original good have an *inverse* relationship, so if the price of the complement goes up, the quantity demanded of the other good goes down. (If the price of fuel goes up, fewer people are likely to buy new cars – theoretically.)

The other main category of related goods is *substitutes*. They are often homogeneous goods. Substitutes are goods that can be used in place of the primary good - for example, hotdogs and hamburgers, or a hamburger from Burger King or McDonald's. The price of the substitute and the demand for the good in question have a *direct* relationship. If the price of the substitute goes down the demand for the good in question goes down. (If the price of one brand of cellphone drops, the other cellphone will be harder to sell, so its price will also drop.)

<u>Personal Disposable Income</u>:

In most cases, the more disposable income (income after tax and receipt of benefits) you have the more likely you are to buy.

Tastes or preferences:

The greater the desire to own a good the more likely you are to buy the good. There is a basic distinction between desire and demand. Desire is a measure of the willingness to buy a good based on its intrinsic qualities. Demand is the willingness and ability to put one's desires into effect. It is assumed that tastes and preferences are relatively constant.

Consumer expectations about future prices and income:

If a consumer believes that the price of the good will be higher in the future he is more likely to purchase the good now. If the consumer expects that his income will be higher in the future the consumer may buy the good now. In other words positive expectations about future income may encourage present consumption.

Population:

If the population grows this means that demand will also increase for a good. If the good is a basic commodity it will lead to a higher demand.

This list is not exhaustive. All facts and circumstances that a buyer finds relevant to his willingness or ability to buy goods can affect demand. For example, a person caught in an unexpected storm is more likely to buy an umbrella than if the weather were bright and sunny.

What Affects Supply and Demand?

In a competitive market, at the optimum equilibrium price, the quantity demanded by consumers will equal the quantity supplied by producers.

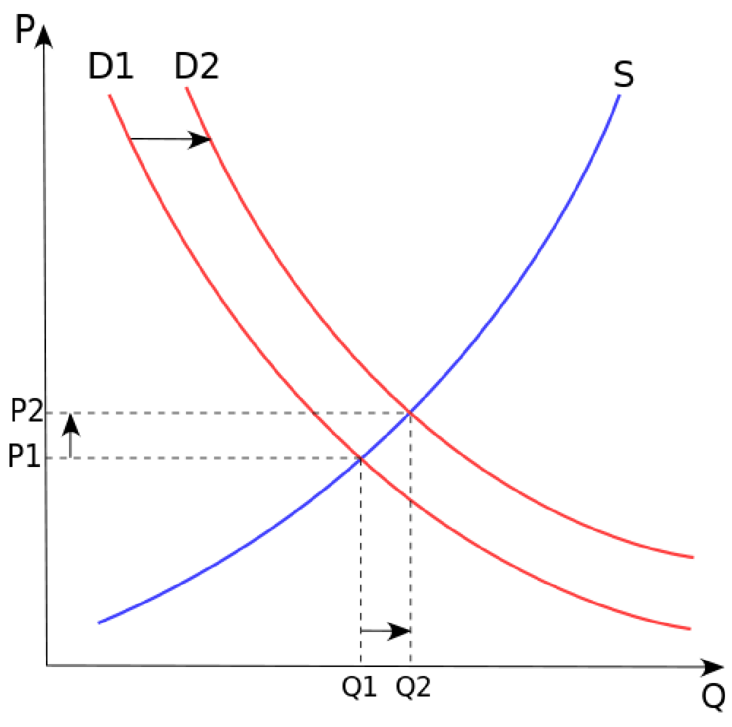


fig. 1

Supply and Demand

The price P of a product is determined by a balance between production at each price (supply S) and the desires of those with purchasing power at each price (demand D). The diagram shows a positive shift in demand from D1 to D2, resulting in an increase in price (P) and quantity sold (Q) of the product.

(Source: https://www.boundless.com/economics/principles-of-supply-demand/introduction-to-supply-demand/what-is-demand/)

Example

When people go to the market to buy fruit, their decision how much to buy of which fruit will depend, among other factors, on the price of each kind of fruit. If apples are cheap, people will buy them in large quantities, if they are expensive, people will buy fewer of them. If we look at the price of apples and record the quantities sold at the given price, we will get a diagram as shown in fig 2.

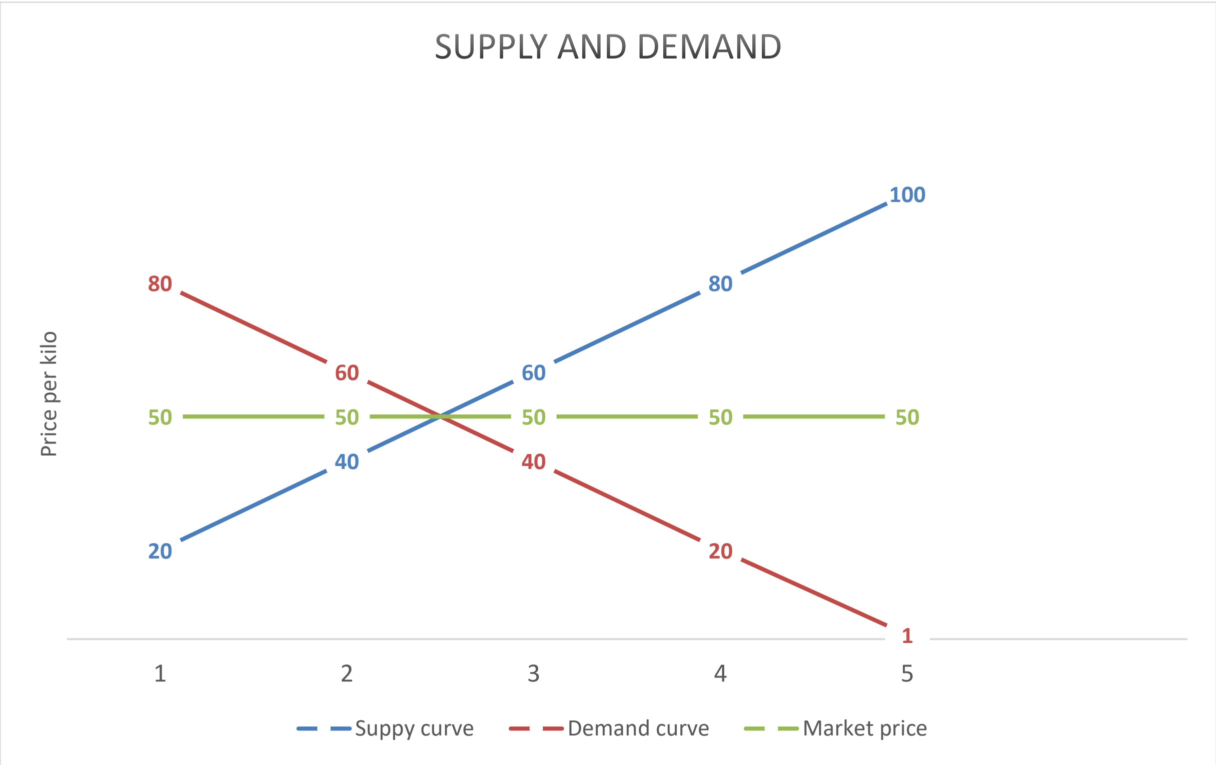


fig. 2

Which means that when apples were sold at Ft 800 a kilo, people only bought a kilo of them. And, as prices declined, people bought more and more apples. At the price of Ft 200, the quantity demanded rose to 4 kilos. This inverse relationship between price and quantity is shown in a typical demand curve.

If we look at the market from a suppliers' point of view, we will realise that they will be willing to place more goods on the market when prices are high, and less when they are low. At a price of Ft200 a kilo, producers are willing to sell only one kilo, but at Ft800, four kilos will be available.

If we now draw this second line, the supply curve, in the demand diagram, we can see that the two curves meet where about 2.5 kilos are sold at around Ft500 a kilo. This will be the market price and this is roughly how a free market works. The diagram is often referred to as the **Marshallian Cross** (after Alfred Marshall, a famous economist [1842-1924]).

(Source: Radványi-Görgényi: *English for Business and Finance. Haladó üzleti és pénzügyi nyelvkönyv*. Budapest: Akadémiai, 2008, p. 28.)

Key Points

Demand can be represented graphically, as a line with price on the y axis and quantity demanded on the x axis. This is the *demand curve*.

It can also be represented in a table, known as a *demand schedule*.

Price and demand almost always have an *inverse relationship*. As the price of a good goes up, the demand goes down.

There are many factors other than price that influence demand. Some examples are tastes and preferences, disposable income, and the price of related goods.

HOMEWORK

A Mini Case. You have a stand at the market and you have been selling raspberries at Ft 500 a kilo. They cost you Ft 200 per kilo. The market is still open for an hour and a half but it has started raining. You have 80 kilos on hand, and by tomorrow, the raspberries will be unsalable. With customers scarce, you estimate that your demand for raspberries will be like this:

Price (Ft):	400	300	250	200	150	100
Quantity (kg):	20	30	40	50	70	80

What price would you charge to maximise profits? Explain your decision.

Use the following expressions: to multiply, to deduce, "x" multiplied by "y" equals "z"; "x" deducted from "y" equals "z".

(Source: Radványi-Görgényi: *English for Business and Finance. Haladó üzleti és pénzügyi nyelvkönyv*. Budapest: Akadémiai, 2008, p. 28.)

THINK ABOUT IT

1. Can you mention other complements and substitutes that affect demand? (e.g. car – fuel; hotdog – hamburger).

2. Let us return to the example in marginal utility, the cake. Draw a graph, representing on axis “x” the quantity of consumed cake, and total utility on axis “y”. Draw another graph, but this time representing on axis “y” marginal utility. When is marginal utility zero?

3. Can you give other examples for marginal utility? Imagine yourself shopping. What do you buy and what do you decide not to buy? Why?

4. Can you apply this theory in more abstract ways? (e.g. factories, businesses, markets, professions etc.)

5. Marginal utility refers to rational buyers. Are we always rational consumers?

LANGUAGE EXERCISE

I. True or false?

1. The demand curve is usually positively sloped. _______

2. The market demand curve is the sum of the individual buyers’ demand curve. _______

3. The ratio of marginal utility and the quantity of the consumed product is always the same. _______

4. Total utility is directly proportional to marginal utility. _______

5. The prices of both the complement and the substitute are directly proportional to the price of the good in question. _______

II. Match the words and the definitions

1. assumption, 2. commodity, 3. complement, 4. consumer, 5. demand, 6. intrinsic, 7. marginal, 8. substitute, 9. utility

a. An individual who trades money for goods. ________________

b. Anything movable (a good) that is bought and sold. ________________

c. Innate, inherent, inseparable from the thing itself, essential. ________________

e. Of, relating to, or located at or near a margin or edge; also figurative usages of location and margin (edge). ________________

f. One that takes the place of another; a replacement. ________________

g. Something that completes, makes up a whole, or brings to perfection. ________________

h. The ability of a commodity to satisfy needs or wants; the satisfaction experienced by the consumer of that commodity; usefulness. ________________

i. The act of taking for granted, or supposing a thing without proof; a supposition; an unwarrantable claim. ________________

j. The amount of a good or service that consumers are willing to buy at a particular price. ________________

III. Fill in the gaps with the appropriate words.

assumption, commodity, complement, consumer, demand, intrinsic, marginal, substitute, utility

1. An ideal …………………………………. never buys more than he or she needs.

2. Green political parties used to be ………………………….. fifty years ago but they are becoming more and more significant.

3. In the summer, the ………………………….. for gloves and boots is relatively small.

4. Many people have always doubted the ………………………….. of conferences on world peace.

5. Successful language learning is only possible when vocabulary ………………………….. learning grammar rules.

6. Sugar, milk, bread or meat are basic …………………………..

7. The ………………………….. is that if the buyer feels the price of a good will go up, he or she will not buy that item.

8. Those who start learning Chinese are driven by a strong ………………………….. motivation to get to know that culture.

9. When you cannot buy pork, beef might be a good …………………………..

IV. Provide the applicable word forms. The Hungarian equivalents are given.

NOUN	VERB	ADJECTIVE
	to expect	
assumption		
complement		
consumer		
		marginal
	to substitute (sg. for sg.)	
utility		
	to prefer	

V. Find antonyms (words meaning the opposite) for the words in the chart, using the words below.

supply, crucial, extrinsic, seller, uselessness, certainty

consumer	
assumption	
demand	
marginal	
intrinsic	
utility	

VI. Translate the sentences using the words in Exercise V.

Ami a vevőnek jó, az nem feltétlenül kielégítő az eladónak.

....

Egy ház lényegi, valódi értéke alapvetően különbözhet a szubjektív, külső értékétől.

....

Ez egy központi jelentőségű probléma, amelyet egyes jelentéktelen politikai erők megpróbálnak a maguk javára felhasználni.

....

....

A kereslet és a kínálat egyensúlya sohasem állandó.

....

Ez nem feltételezés, ez tényeken alapuló bizonyosság.

....

VII. Translate the following text

Az áru mennyisége és az ára a kereslet szempontjából fordított arányban állnak. Ez azt jelenti, hogy minél több áru van a piacon, az annál kevesebbet ér. Lehet, hogy az áru valódi értéke magasabb, de ha túlkínálat jelentkezik, akkor az eladó csak veszteséggel tudja eladni az árucikket. Természetesen a kereslet sem növekedhet a végtelenségig. Egy idő után a vevő nem tud hasznot hajtani abból, hogy egy újabb egységet vesz. Ez a határhaszon elmélete. A teljes haszon az első egység elfogyasztása után a maximális, de ha a határhaszon eléri a csúcsot, akkor a teljes haszon nullára csökken. Számos tényező befolyásolja még a keresletet, például a kapcsolódó árucikkek ára, a vevő várakozásai, a rendelkezésre álló jövedelme vagy az ízlése.

GRAMMAR POINT

I. Similar Words. Write the Hungarian meaning next to the words.

to affect – effect ………………………………………………………………………...

influence – affluence ……………………………………………………………………

complement – compliment ……………………………………………………………...

capital – capitol …………………………………………………………………………...

economic – economical …………………………………………………………………

principle – principal ……………………………………………………………………

to expect – to accept ……………………………………………………………………

II. Stress in nouns and in verbs

In words that are written the same, usually the *noun* is stressed on the first syllable, and the *verb* on the second. Sometimes the pronunciation also changes.

<u>*NOUN – VERB*</u>

<u>*in*</u>crease – to in<u>*crease*</u>

<u>*de*</u>crease – to de<u>*crease*</u>

<u>*im*</u>port – to im<u>*port*</u>

<u>*ex*</u>port – to ex<u>*port*</u>

<u>*con*</u>flict – to con<u>*flict*</u>

<u>*re*</u>bel – to re<u>*bel*</u>

<u>*pr*</u>esent – to pre<u>*sent*</u>

<u>*re*</u>cord – to re<u>*cord*</u>

<u>*re*</u>fuse – to re<u>*fuse*</u>

<u>*sub*</u>ject – to sub<u>*ject*</u>

HOMEWORK

I. Fill in the gaps with the appropriate words.

affect; effect; influence; affluence; complement; compliment; capital; capitol; economic; economical; principle; principal; accept

1. ………………………… development depends largely on people willingness to consume.

2. A key ………………………… of economics is that the more goods there are on the market, the lower their price is.

3. A motivating teacher must have a good ………………………… on students.

4. An ………………………… way of using paper is if you print on its both sides.

5. In the early 1950s the number of television sets in the UK began to expand along with rising …………………………

6. The team needs players who ………………………… each other.

7. The ………………………… of Japan is Tokyo.

8. The ………………………… called Johnny into his office and told him off.

9. The ………………………… of the global crisis are immeasurable.

10. The ………………………… is the meeting place of the US congress.

11. The global crisis has ………………………… Hungary as well.

12. The producers usually ………………………… people to buy more and more products.

13. You have to ………………………… the fact that you cannot shut out advertisements from your life.

14. It is a great …………………………… to be asked to do that job.

II. Practice the pronunciation of these word pairs.

The increase in prices is called inflation.

The price of electricity has been increased.

The decrease of prices is commonly called deflation.

The government has just decreased the price of central heating.

The difference between a country's import and export give the balance of trade.

Hungary imports, among others, banana, and exports wheat and corn.

Ethnic conflicts break out from time to time in various parts of the world.

These conflicting views are hard to match.

Teenagers are generally rebels who rebel against their parents.

Sue gave me a very nice present for Christmas – another pair of warm gloves.

May I ask Mr Williams to present his views on the financial reforms?

The year 1997 was marked by a record crop in Argentina.

Everything what you say will be recorded in the minutes.

He refused to talk to me about the problems in the office.

Refuse collectors are on strike again in Naples.

A British subject has to subject himself or herself to British laws.

VIDEO – “Rising Demand” for Child Bulletproof Backpacks in US (21 Dec 2012) (0:57 min)

(Source: http://www.youtube.com/watch?v=bfbUIOxmubI)

REVISION

1. What is demand?

....

2. What is the relationship between demand and the quantity of products?

....

3. What is marginal utility?

....

4. What is the relationship between total utility and marginal utility?

....

5. How does the price of related goods affect demand?

....

6. What is the difference between complements and substitutes?

....

7. What does the so-called Marshallian Cross describe?

....

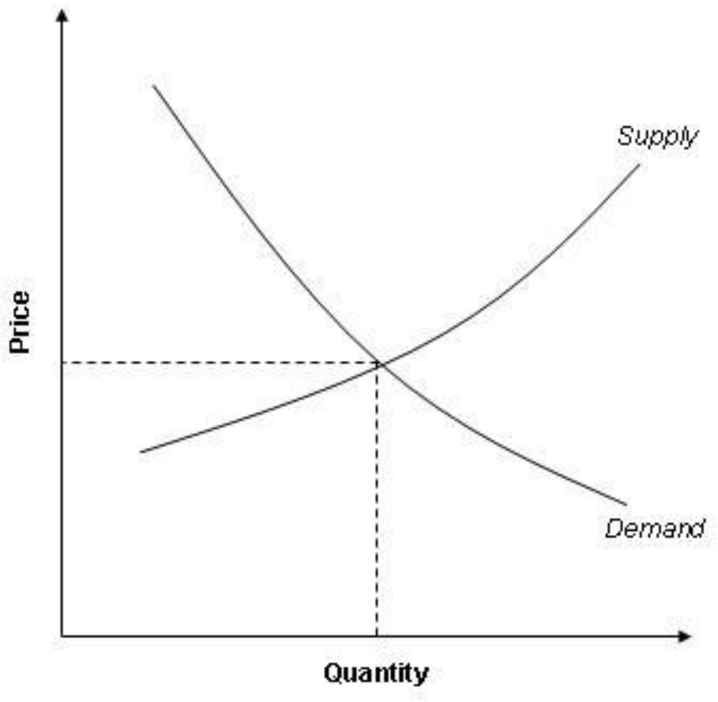
4. Microeconomics (3): Consumer Surplus and Producer Surplus

Make sure you know these words before reading the text

inferior, surplus, optimal, ceiling, equilibrium, elasticity, discrimination

1. Giffen Goods and Veblen Goods

For the vast majority of goods and services, an increase in price will lead to a decrease in the quantity demanded. There are two exceptions to this general rule.



Veblen Goods

Veblen goods are expensive **luxury products**, such as designer handbags and high-end cars. In these rare circumstances, decreasing the price actually decreases the demand for the good. The reason for this is because part of the value of the good is exclusivity. These items are status symbols and lowering the price diminishes the status.

Veblen goods are named after American economist Thorstein Veblen, who first identified conspicuous consumption as a mode of status-seeking (i.e., keeping up with the Joneses) in *The Theory of the Leisure Class* (1899).

Giffen Goods

Giffen goods are another example where rising prices can lead to increased demand for a product. Giffen goods are very rare and are defined by three characteristics:

- It is an **inferior** good, or a good for which demand decreases as consumer income rises,
- There must be a lack of substitute product,
- The good must constitute a substantial percentage of the buyer's income, but not such a substantial percentage of the buyer's income that none of the associated normal goods are consumed.

The term "Giffen goods" was coined in the late 1800s, named after noted Scottish economist, statistician, and journalist Sir Robert Giffen. The concept of Giffen goods focuses on a low income, non-luxury products that **have very few close substitutes**. Giffen goods can be compared to Veblen goods which similarly defy standard economic and consumer demand theory but focus on luxury goods.

Robert Giffen observed that the poor in Ireland still bought **potato** even when its price went up. The paradox is easy to solve. Since potato was seen as an essential product, the poor bought more of it even when its price increased because they could not substitute it (for example with meat or bread).

In this sense, Giffen goods are not “normal” goods. Naturally, this paradox only affects certain consumer groups and goods with a certain price level.

2. Consumer Surplus

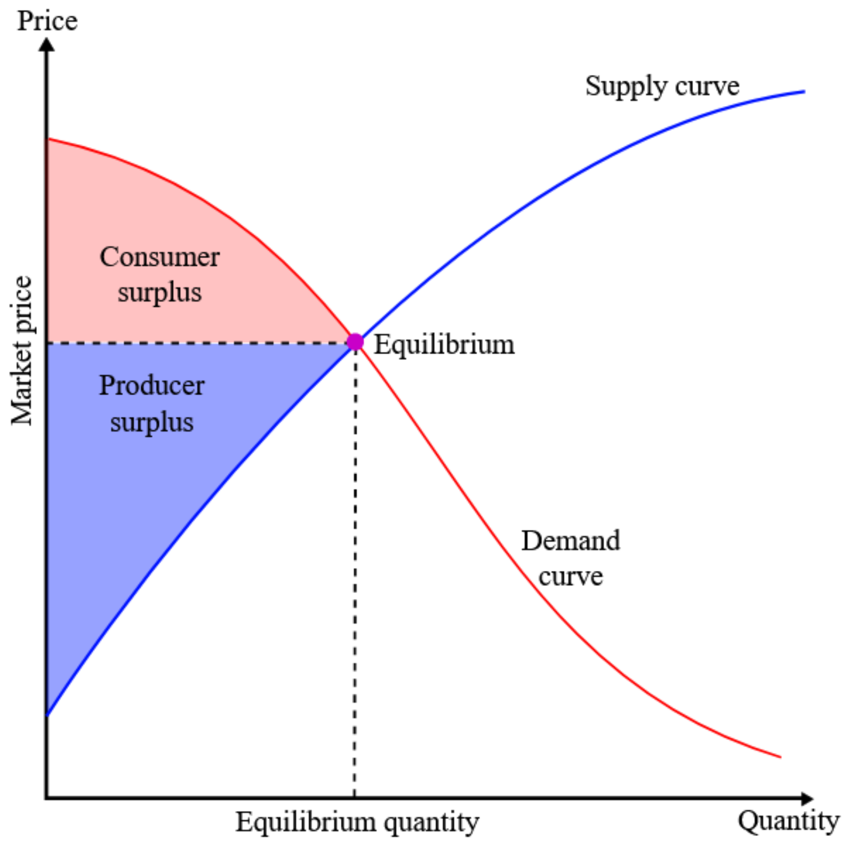
Consumer surplus is the difference between the maximum price a consumer is willing to pay and the actual price they do pay.

If a consumer would be willing to pay more than the current asking price, then they are getting more benefit from the purchased product than they spent to buy it. Consumer surplus plus producer surplus equals the total economic surplus in the market.

This chart graphically illustrates consumer surplus in a market without any monopolies, binding price controls, or any other inefficiencies. The price in this chart is set at the **Pareto optimal. This means that the price could not be increased or decreased without one of the parties being made worse off.**

The consumer surplus, as marked in red, is bound by the y-axis on the left, the demand curve on the right, and a horizontal line where y equals the equilibrium price. This area represent the amount of goods consumers would have been willing to purchase at a price higher than the Pareto optimal price. Generally, the lower the price, the greater the consumer surplus.

Consumer surplus, as shown highlighted in red, represents the benefit consumers get for purchasing goods at a price lower than the maximum they are willing to pay.



Take a very simple example: you are willing to pay 100 euros for a pair of shoes. The market price is 80 euros. You “gain” 20 euros by not spending it. That is your consumer surplus.

Of course, producers want to gain more of the pink area in the chart. There are certain techniques of **price discrimination** for that. For example,

- selling greater quantities at a reduced price (you buy more, you pay less), or
- identifying certain target groups and selling the same good cheaper for them (kids, retired persons), or
- assembling “packages” in which items would cost more separately.

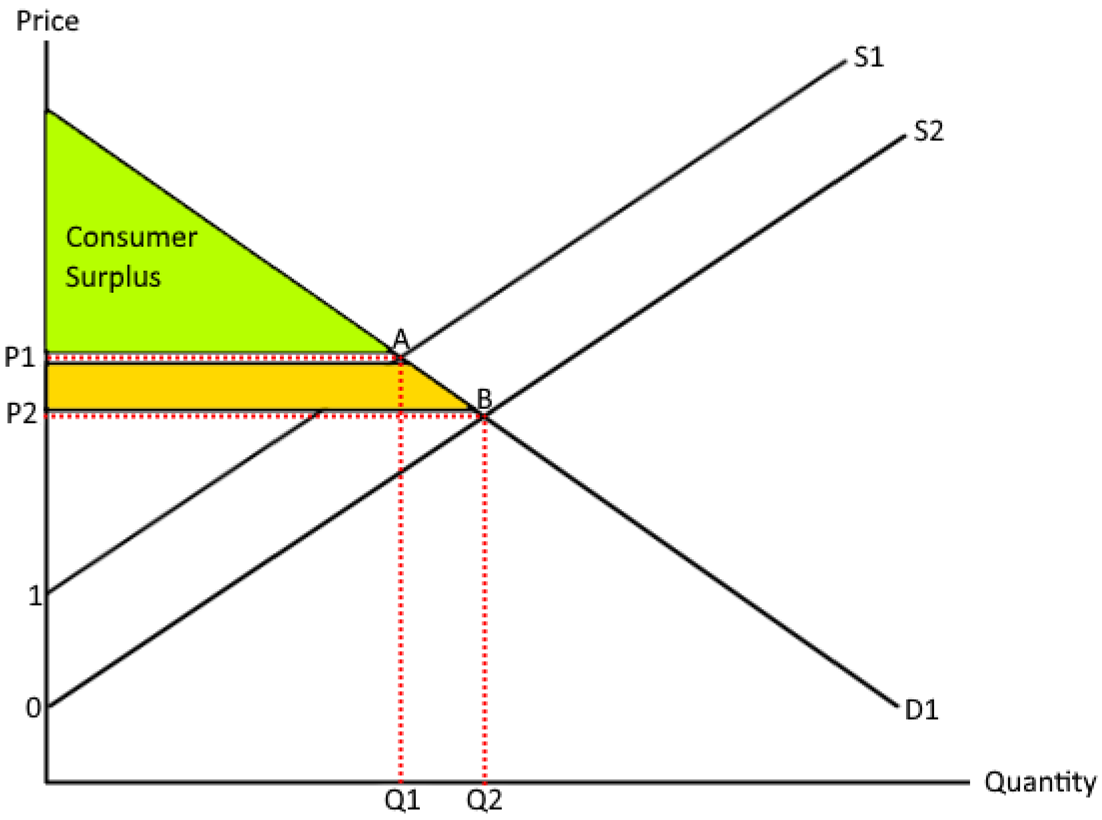
Another way to define consumer surplus in less quantitative terms is as **a measure of a consumer's well-being**. Some goods, like water, are valuable to everyone because it is a necessity for survival. But the utility, or "usefulness," of most goods vary depending on a person's individual preferences. Since the utility a person gets from a good defines her demand for it, utility also defines the consumer surplus an individual might get from purchasing that item.

Key Points

- On a supply and demand chart, consumer surplus is bound by the y-axis on the left, the demand curve on the right, and a horizontal line where y equals the current market price.
- Another way to define consumer surplus in less quantitative terms is as a measure of a consumer's well-being.
- An individual's customer surplus for a product is based on the individual's utility of that product.

Impacts of Price Changes on Consumer Surplus

Consumer surplus is defined, in part, by the price of the product. Recall that the consumer surplus is calculating the area between the demand curve and the price line for the quantity of goods sold. Assuming that there is no shift in demand, **an increase in price will therefore lead to a reduction in consumer surplus, while a decrease in price will lead to an increase in consumer surplus**.



Consumer Surplus: *An increase in the price will reduce consumer surplus, while a decrease in the price will increase consumer surplus*.

(It does not matter if price decrease happens because of an outward shift in supply or an inward shift of demand.)

To take the shoes example once again, if you are willing to pay 100 euros for one pair and the market price drops to 60 euros from 80 euros, you "gain" 20 euros more. So your consumer surplus increases.

Below is a scenario that illustrates how changes in price can affect consumers' surplus. It is important to note that any shift from the good's Pareto optimal price will result in a decrease in the total economic surplus.

- The total economic surplus equals the sum of the consumer and producer surpluses.

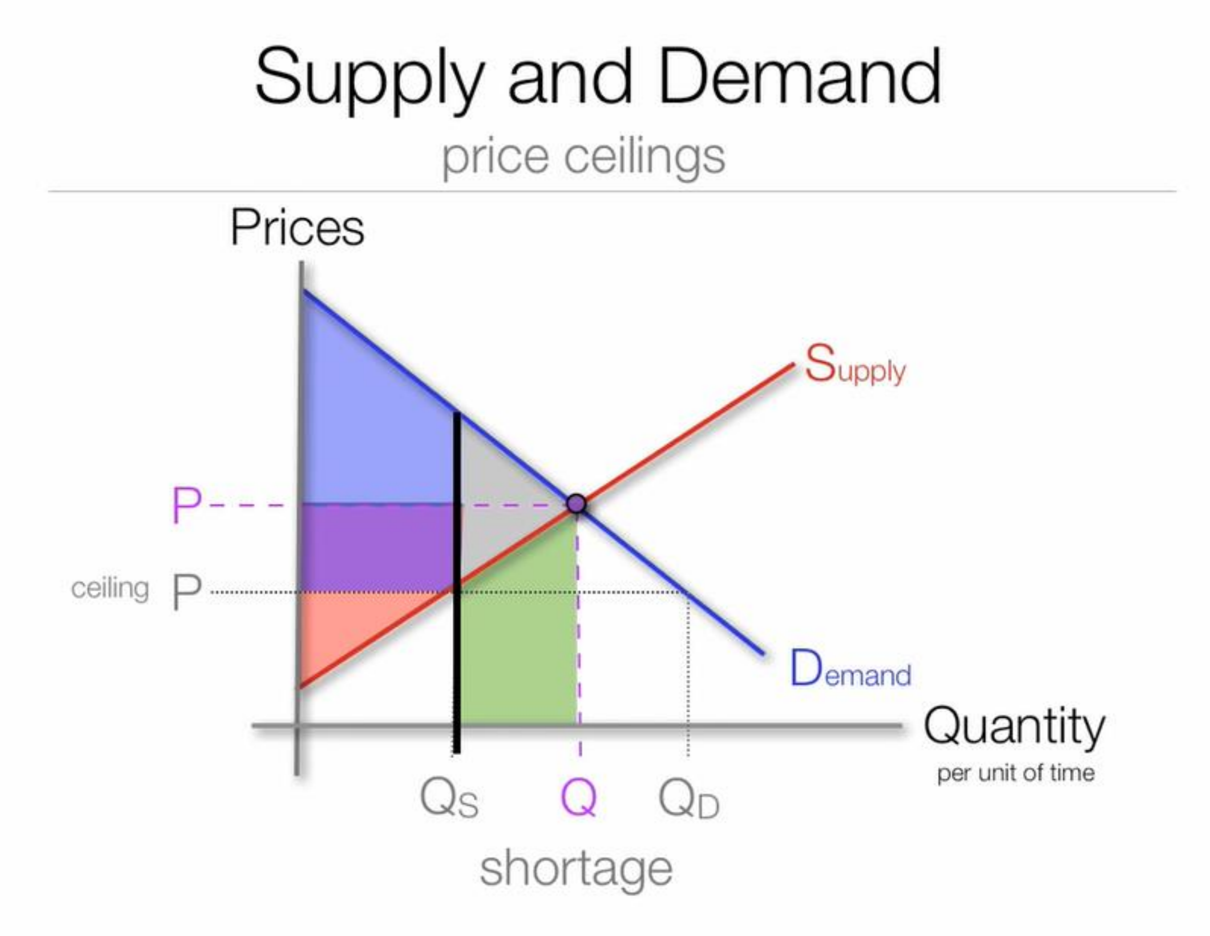
Price Ceiling

A price ceiling is usually a government-imposed price level **below** the market price.

A binding price ceiling is one that is **lower than the Pareto efficient market price**. This means that consumers will be able to purchase the product at a lower price than what would normally be available to them. It might appear that this would increase consumer surplus, but that is not necessarily the case.

For consumers to achieve a surplus they have to be able to purchase the product, which means that producers have to make enough to be purchased at a price. If a good's price drops below the market equilibrium for whatever reason, manufacturing the product will be less profitable for the producers.

So while more consumers will want to purchase the product because of its low price, they will not be able to. This means the market will have a **shortage** for that good. This shortage will create a **deadweight loss**, or **a market wide loss of efficiency and value** that neither producer nor consumers obtain.



Qs = Quantity supplied

Qd = Quantity demanded

Grey area: deadweight loss: producers not benefiting because they are not able to buy, even if they could pay for the goods, and producers not benefiting because they are not willing to sell.

Green area: those individuals that used to have the product but no longer have it (can't buy it).

Purple area: shift of surplus from producer to consumer, that is, individuals who benefit from the price ceiling. You can see that consumer surplus here "eats" most of producer surplus.

In a practical example, if the market price is $10 at 10 items, a $6 price ceiling will cause the producer surplus to drop from 40 to 10, the consumer surplus to rise from 50 to 57.5, and a total of 22.5 deadweight loss will be generated, and it causes a 9-item shortage (from 5 to 14).

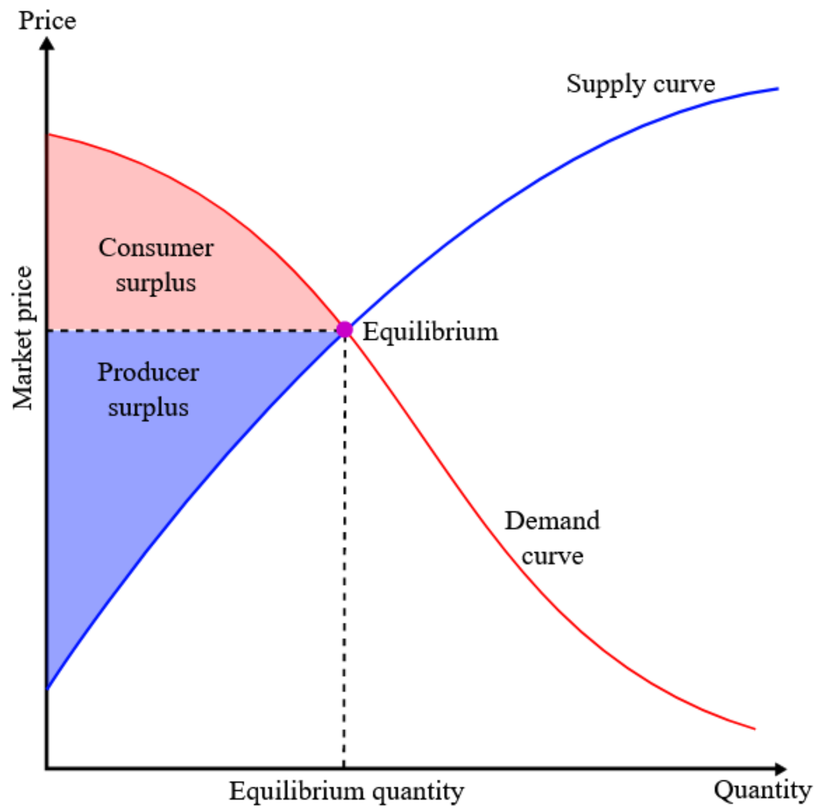
Key Points

- Consumer surplus will only increase as long as the benefit from the lower price exceeds the costs from the resulting shortage.
- Consumer surplus always decreases when a binding price floor is instituted in a market above the equilibrium price.
- The total economic surplus equals the sum of the consumer and producer surpluses.
- Price helps define consumer surplus, but overall surplus is maximized when the price is Pareto optimal, or at equilibrium.

3. Defining Producer Surplus

Producer surplus is the difference between the amount producers get for selling a good and the amount they want to accept for that good. In simple terms, this is the "gain" or profit of the producer.

For instance, a producer might want to sell 1 item at price P, but if they can sell 3 items at price 3P, the difference between 3P and P will be the producer surplus.



Impact of Changing Price on Producer Surplus

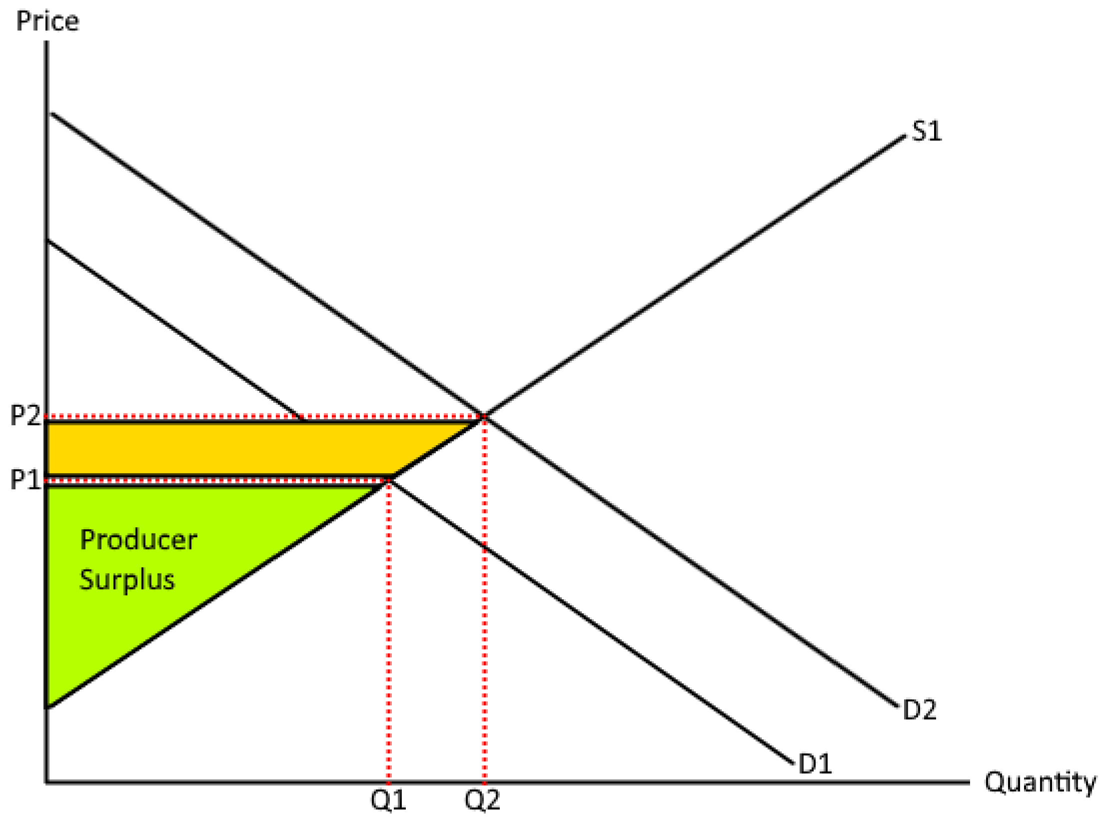
Producer surplus is affected by changes in price, the demand and supply curve, and the price elasticity of supply.

Changes in the equilibrium price are directly related to producer surplus, other things equal. As the equilibrium price increases, the potential producer surplus increases. As the equilibrium price decreases, producer surplus decreases.

Shifts in the demand curve are directly related to producer surplus. If demand increases, producer surplus increases. If demand decreases, producer surplus decreases. (Logically, if fewer people buy the product, profit will be less.)

Shifts in the supply curve are directly related to producer surplus. If supply increases, producer surplus increases. If supply decreases, producer surplus decreases. (Logically, if there is not enough goods to buy, profit will be less.)

Price elasticity of supply is inversely related to producer surplus. If supply is completely elastic, it is drawn as a horizontal line, and producer surplus is zero. If supply is completely inelastic, it is shown as a vertical line, and producer surplus is infinite.

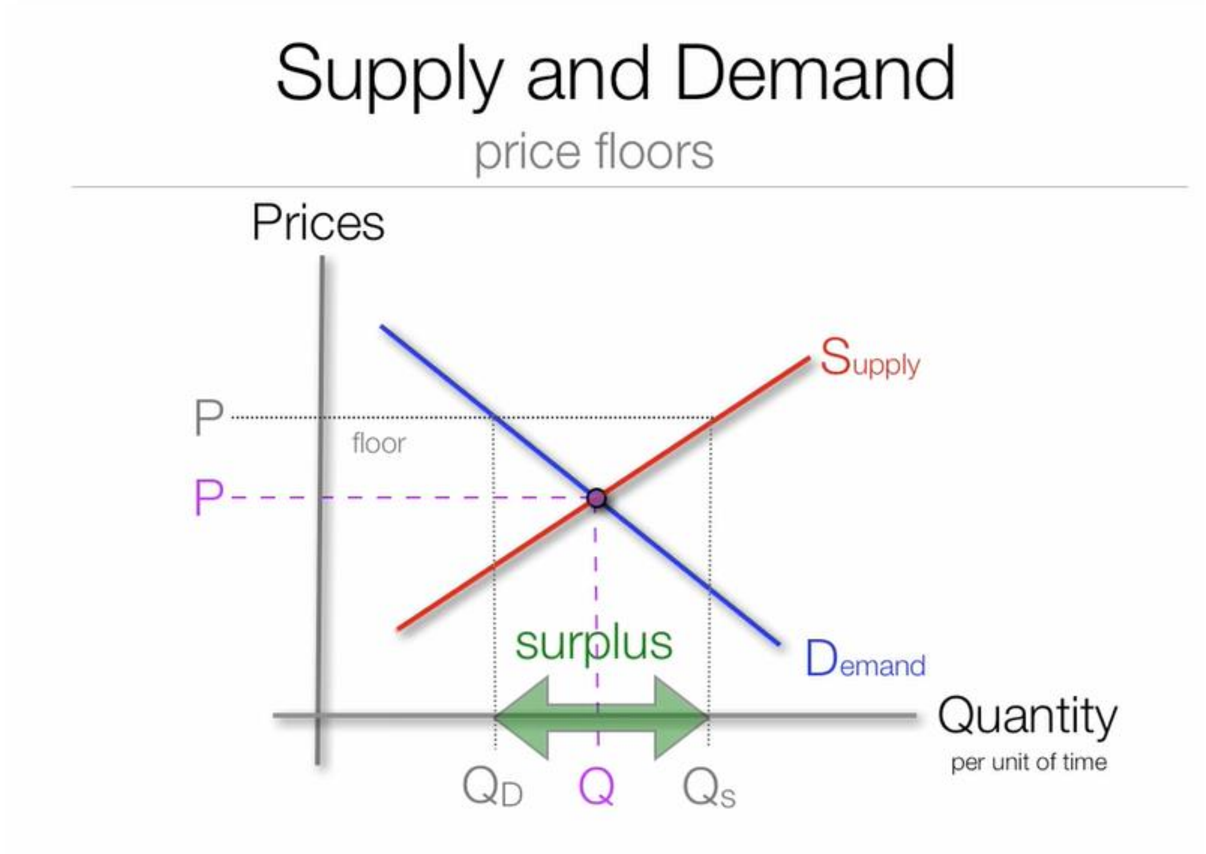


Price Floor

When a price floor is set above the equilibrium (market) price, consumers will have to purchase the product at a higher price, and producers cannot sell it at a lower price.

Therefore, fewer consumers will purchase the product because some will decide that the utility they get from the good is not worth the price. The result will be **surplus**.

Necessarily, this reflects a drop in consumer surplus, and the producer surplus "eats" the consumer surplus. But the deadweight loss can even be more significant, depending on the slope of the demand and supply curves.



Key Points

- Producer surplus can be thought of as the extra money, utility, or benefits the producer receives by selling a product at a price that is higher than its minimum acceptable price.
- The minimum acceptable price for producers is represented by the supply curve.
- Graphically, producer surplus is the shaded region just above the supply curve, but below the equilibrium price level.
- When a price floor is introduced, producer surplus increases and takes away much of the consumer surplus.

THINK ABOUT IT

1. Can you think of kinds of Giffen goods other than potato?

2. What do you think is on the other side in the Supply-Demand curve (right of the equilibrium price and quantity)?

3. Can you think of other types of price discrimination?

4. What do you think of price ceilings now (in Hungary, in 2023)?

5. Have you ever meet the phenomenon of price floors? If yes, how and where?

LANGUAGE EXERCISE

I. True or false?

1. Giffen goods are inferior goods.

2. Price change and consumer surplus are directly related. (If one goes up, the other goes up.)

3. Price change and producer surplus are directly related. (If one goes up, the other goes up.)

4. The result of a price ceiling is surplus.

5. The result of a price floor is shortage.

II. Match the words and the definitions

1. ceiling, 2. discrimination, 3. elasticity, 4. equilibrium, 5. inferior, 6. optimal, 7. surplus

a.~~,~~ Poorer in quality, of lower rank, less important ____________

b.~~,~~ More than is needed. ____________

c.~~,~~ The best or most effective in a particular situation. ____________

d.~~,~~ The upper limit, usually related to money. ____________

e.~~,~~ A state of balance. ____________

f.~~,~~ The ability to stretch or change. ____________

g.~~,~~ The practice of treating other people, companies or products in a different way (usually in an unfair way). ____________

III. Fill in the gaps with the appropriate words.

1. ceiling, 2. discrimination, 3. elasticity, 4. equilibrium, 5. inferior, 6. optimal, 7. surplus

1. The practice of _________________________ often implies treating other people or companies as _______________________, that is, having worse characteristics than others.

2. The introduction of price floors in capitalist economy often leads to _________________, that is, unsalable goods, while price ___________________ results in shortage.

3. The committee worked for months to find the ______________________ solution.

4. This bacteria attacked the dog's ear, causing him to lose his sense of __________________________.

5. As the skin grows older, it loses its ____________________________.

IV. Provide the suitable word forms.

NOUN	VERB	ADJECTIVE
discrimination		
	---	inferior
surplus	---	
		optimal
elasticity	---	

V. Choose synonyms for the following words from the list below.

equilibrium:

optimal:

inferior:

surplus:

shortage:

1. balance, 2. best, 3. dearth, 4. deficit, 5. excess, 6. flawless, 7. ideal, 8. leftover, 9. lesser, 10. remaining, 11. scarcity, 12. secondary, 13. stasis, 14. substandard, 15. symmetry

VI. Translate the following text

Kétféle „abnormális” áru létezik, amelyek esetében nem igazak a kereslet és kínálat törvényei. Az egyik a Giffen-áruk, a másik a Veblen-áruk. Mindkettő esetében az ár növekedésével együtt nő a kereslet is, de más okok miatt. Az előbbieket jellemzően szegények fogyasztják, és alsóbbrendű javak (nehezen helyettesíthetők), az utóbbiakat pedig a nagyon gazdagok, és luxustermékek.

A mikroökonómia alapvető fogalmai a fogyasztói többlet, illetve a termelői többlet. Minkettő azt a „hasznot” írja le, amelyet a fogyasztó realizál, ha olcsóbban veszi meg a terméket annál, amit arra maximálisan szánt, illetve amit a termelő hajt be, ha drágábban adja a terméket, mint az a minimum ár, amelyért még hajlandó lenne odaadni. Mindkét sáv „határa” a piaci ár. Ha viszont beleavatkoznak a piaci árba kívülről, akkor ún. holtteher-veszteség keletkezik (elveszett fogyasztói és termelői többlet). A maximált ár esetében hiány lép fel, a minimálár esetében eladhatatlan többlet, amely torzítja a normális piaci működést.

VIDEO – Food price caps in Britain? (29 May 2023) (2:11 min)

(Source: https://www.youtube.com/watch?v=I27alsLuHFk)

REVISION

1. What is the difference between Giffen goods and Veblen goods?

2. What is consumer surplus?

3. What is producer surplus?

4. How do price changes affect them?

5. How do price floors and price ceilings affect them?

5. Key Topics in Macroeconomics (1): Circulation and Aggregate Demand

Make sure you know these words before reading the text

aggregated, indicator, consumption, deferred, securities, commodities, fungible items, coincident, assets, appreciation, depreciation

Defining Macroeconomics

Macroeconomics is a branch of economics that focuses on the behaviour and decision-making of an economy as a *whole*. Microeconomics deals with the small-scale activities such as that of the individual or company.

1. Macroeconomics: Circular Flow of the Economy

Macroeconomics simplifies the complexities of the trading activities in an economy by distilling actions to primary participants and tracing the circular flow of activity between them.

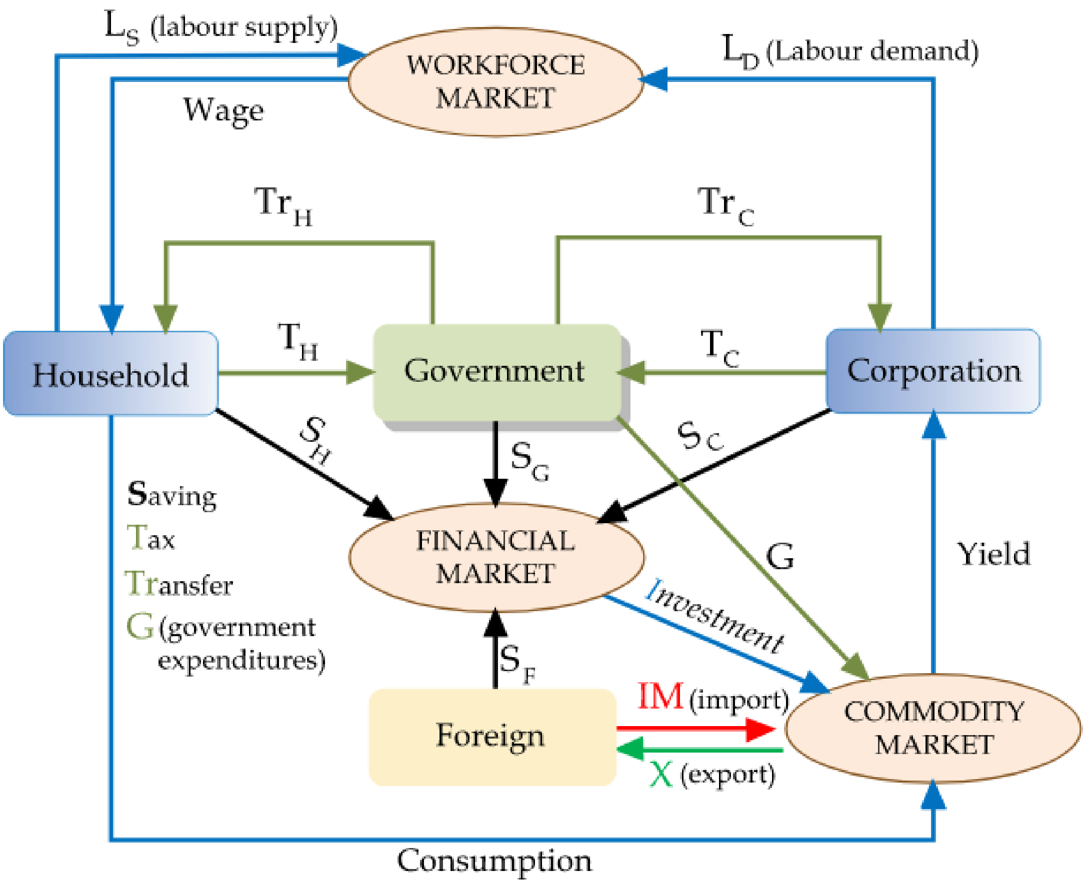
Indicators

Macroeconomists study aggregated indicators such as GDP, unemployment rates, and price indices to understand how the whole economy functions and develop models that explain the relationship between such factors as national income, output, consumption, unemployment, inflation, savings, investment, government spending, and international trade.

These variables taken as a whole comprise a grouping of variables that are referred to as *economic indicators*.

These indicators, which are classified as leading, lagging and coincident relative to their predictive capability, in combination with one another provide economists with a directional attribution for the economy.

Circulation in Macroeconomics



Macroeconomic Study

While macroeconomics is a broad field of study, there are two areas of research that are especially well publicized in the media: the evaluation of the business cycle and the growth rate of the economy. As a result, macroeconomics tends to be widely cited in discussions related to government intervention in economic expansion and contraction, as well as, with respect to the evaluation of economic policy.

Though macroeconomics encompasses a variety of concepts and variables, but there are three central topics for macroeconomic research on a national level: output, unemployment, and inflation. Outside of macroeconomic theory, these topics are also extremely important to all economic agents including workers, consumers, and producers.

Key Points

Macroeconomists study aggregated indicators such as GDP, unemployment rates, and price indices to understand how the whole economy functions.

Macroeconomists develop models that explain the relationship between such factors as national income, output, consumption, unemployment, inflation, savings, investment, government spending and international trade.

Though macroeconomics encompasses a variety of concepts and variables, but there are three central topics for macroeconomic research on the national level: output, unemployment, and inflation.

2. Consumption versus Saving and Investment

Money can either be consumed, invested, or saved (deferred consumption or investment).

There are three choices that market actors can make with their money.

1) They can consume it by spending it on goods and services. For example, buying a movie ticket is spending money on consumption.

2) They can also invest money by lending it to a company or project with the hope of getting back more money in the future.

3) Finally, they can save it by putting it in a bank account (or keeping cash under the bed). Savings is essentially deferred consumption or investment; it is intended for use in the future.

In order to understand the effects of aggregate decisions of consumption, savings, and investment, we must look at *aggregate demand (AD).* AD is the total demand for final goods and services in the economy at a given time and price level. It specifies the amounts of goods and services that will be purchased at all possible price levels and is the demand for the gross domestic product of a country.

Components of Aggregate Demand

It is often cited that the aggregate demand curve is downward sloping because at lower price levels a greater quantity is demanded. While this is correct at the microeconomic, single good level, at the aggregate level this is incorrect. The aggregate demand curve is downward sloping but in variation with microeconomics, this is as a result of three distinct effects:

1) the wealth effect, 2) the interest rate effect and the 3) exchange-rate effect.

Basically individuals will consume or purchase more when they feel wealthier or have access to inexpensive funding. The **wealth effect** is specifically related to the value of **assets**; market participants will adjust consumption in-line with their perception of the *appreciation* or *depreciation* of held assets (a home; equity investments, etc.).

The **interest rate effect** has to do with access to inexpensive funding, which provides an incentive to increase current period expenditures.

The **exchange-rate effect** has to do with expenditure decisions related to imports or foreign related expenditures, as the exchange rate is perceived to be favourable to the domestic currency, expenditures on foreign items or imports will increase.

<u>Consumption, Savings, and Investment</u>

Aggregate demand met by the market is spending, be it on consumption, investment, or other categories.

Spending is related to income:

Income – Spending = Net Savings

Rearranging:

Spending = Income – Net Savings = Income + Net Increase in Debt

In words: what you spend is what you earn, plus what you borrow: if you spend $110 and earned $100, then you must have net borrowed $10; conversely if you spend $90 and earn $100, then you have net savings of $10, or have reduced debt by $10, for net change in debt of –$10.

For the economy as a whole, aggregate savings is greater than or equal to investment, which is usually in the form of borrowed funds available as a result of savings. Through investment spending, savings influences aggregate demand.

Consumption and investment are components of GDP but saving is not. Increased savings indirectly reduces GDP.

US Savings Rate: Savings have declined in the US on aggregate since the 1980s, which means that the proportion of income spent on consumption and investment increased.

Key Points

Aggregate demand is the total demand for final goods and services in the economy at a given time and price level.

Aggregate demand is downward sloping as a result of three consumption sensitivities: wealth effect, interest rate effect and foreign exchange effect.

Spending is related to income: Income – Spending = Net Savings.

For the economy as a whole, aggregate savings is equal to investment, which is usually in the form of borrowed funds available as a result of savings.

(Source: https://www.coursesidekick.com/economics/study-guides/boundless-economics/key-topics-in-macroeconomics)

THINK ABOUT IT

1. Which macroeconomic indicators do you hear about the news most often? Can you recall what is in the news about them?

2. Economists often talk about growth indicators. Do you think economy always needs to grow?

3. Out of the three options (spending, saving, investing), which do you think is the most favourable one? What does it depend on?

4. Do you sometimes borrow money? On what conditions?

5. Why do you think savings indirectly reduces GDP?

LANGUAGE EXERCISE

I. True or false?

1. Macroeconomics deals with economic decision-making as seen within a system.

2. A coincident indicator means that the predictions about that indicator were not right.

3. Investment is deferred consumption.

4. The demand curve is negatively sloped.

5. Savings is not a component of GDP.

II. Match the words and the definitions

1. aggregated, 2. appreciation, 3. assets, 4. coincident, 5. consumption, 6. deferred, 7. depreciation 8. indicator.

a.~~,~~ Combined into a single group or total. _____________

b.~~,~~ A sign that shows that something exists or is true; or that makes something clear. _____________

c.~~,~~ The amount used, eaten or drunk, or the act of using, eating or drinking sg. _____________

d.~~,~~ Delayed until a later time. _____________

e.~~,~~ Happening at the same time. _____________

f.~~,~~ A useful or valuable quality, skill, person, possession, property belonging to a person or company, organisation. _____________

g.~~,~~. (In finance) Increase in value or price. _____________

h.~~,~~ The process of losing value. _____________

III. Fill in the gaps with the appropriate words.

1. aggregated, 2. appreciation, 3. assets, 4. coincident, 5. consumption, 6. deferred, 7. depreciation 8. indicator.

a. For the purpose of this study, household purchase records of fresh produce, in general reported weekly, were ___________________ into quarterly data.

b. Housing permits are a good ___________________ of the health of an economy.

c. Since most of these goods have to be imported, they are omitted from the further food production/food _______________________ comparison.

d. The committee's decision on the takeover bid has been __________________ until September.

e. His birth was ________________________ with the end of the war.

f. A company's ________________ include cash, investment, special knowledge or copyright material.

g. Expenses include ______________________ of equipment as well as business insurance.

h. New funds are generated by the ________________________ of our assets.

IV. Provide the applicable word forms. The Hungarian equivalents are given.

NOUN	VERB	ADJECTIVE
indicator		
consumption		
		deferred
appreciation		
		coincident

V. Choose synonyms for the following words from the list below.

aggregated: ____

deferred:

____

consumption: ____

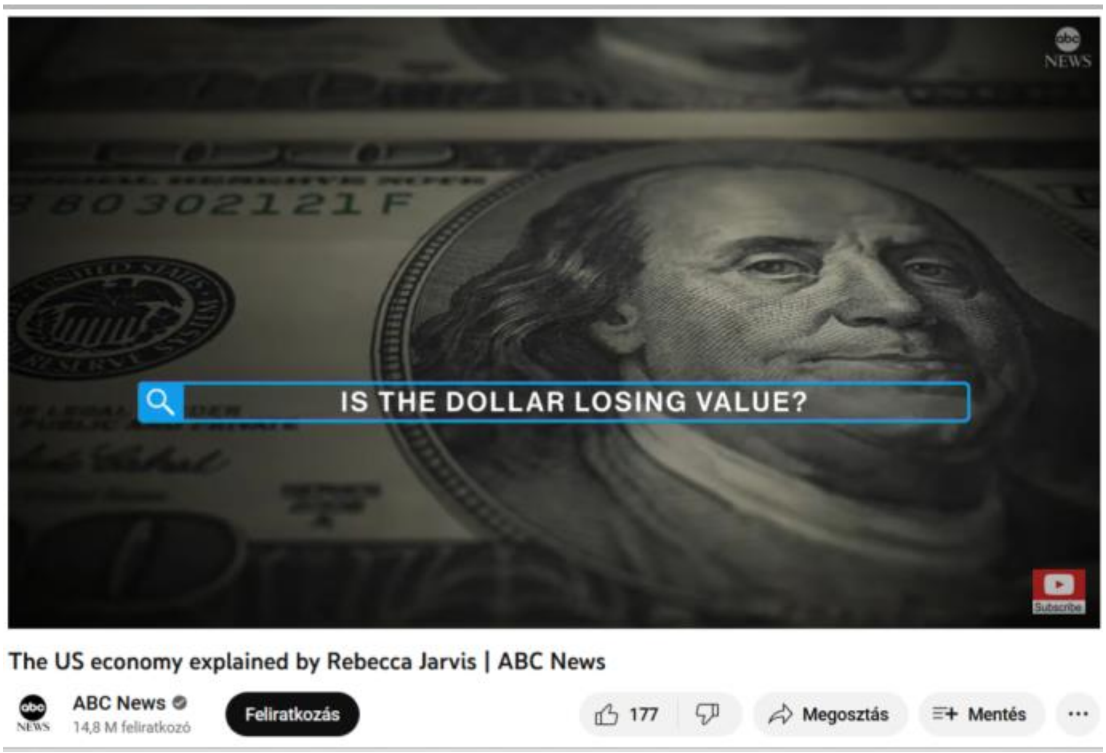
assets: ____

1. accumulated 2. adjourned 3. belongings 4. burning 5. capital 6. collected 7. combined 8. cumulative 9. delayed 10. devouring 11. equity 12. expenditure 13. on hold 14. postponed 15. property 16. protracted 17. resources 18. use

VI. Translate the following text

A mikro- és makroökonómia közötti fő különbség, hogy az előbbi az egyének vagy a vállalkozások szintjén foglalkozik az üzleti viselkedésekkel és döntéshozatallal, míg az utóbbi a gazdasági és pénzügyi rendszer szintjén teszi ugyanezt. A makroöonómiai rendszer tulajdonképpen egy körkörös áramlás a kormány, a pénzpiacok, a munkaerőpiac, az árupiac, a háztartások, a vállalkozások és a külföldi gazdaságok között. A makroökonómia összesített gazdasági mutatókat tanulmányoz, mint pl. a GDP, munkanélküliségi ráta vagy infláció. A pénzzel alapvetően három dolgot lehet tenni: fogyasztani, befektetni vagy megtakarítani. Mindez az úgynevezett összesített keresletbe csatornázódik be. A megtakarítás egyfajta elhalasztott fogyasztás vagy befektetés.

VIDEO – The US Economy Explained by Rebecca Jarvis (23 November 2021, 2:29 min)



(Source: https://www.youtube.com/watch?v=lrNPi0jwV50)

REVISION

1. In your own words, give a definition of macroeconomics.

....

2. Name the actors in the macroeconomic cycle.

....

3. What routes can money follow in a macroeconomic cycle?

....

4. What is aggregate demand?

....

5. How do consumption, investment and saving affect GDP?

....

6. Key Topics in Macroeconomics (2): The Business Cycle, Monetary and Fiscal Policies

 **Make sure you know these words before reading the text**

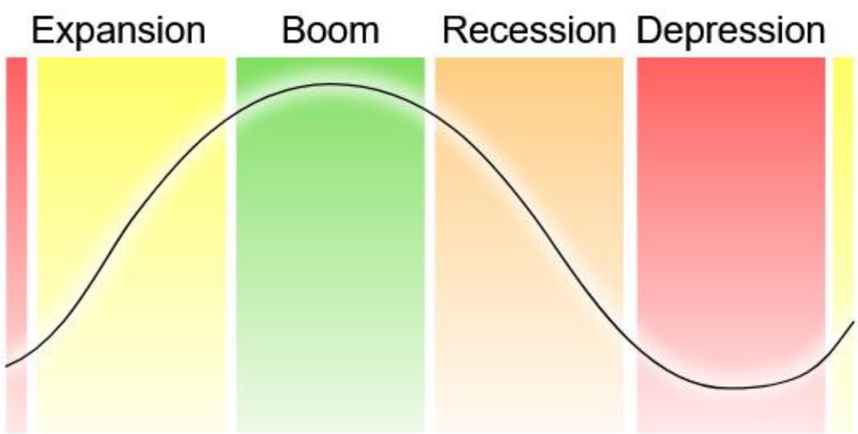
fluctuation, recession, expansion, contraction, trough, peak, overheated, adjusted

1. The Business Cycle: Definition and Phases

The term business cycle refers to economy-wide fluctuations in production, trade, and general economic activity.

<u>The Business Cycle</u>

The term "business cycle" (or economic cycle or boom-bust cycle) refers to economy-wide **fluctuations** in production, trade, and general economic activity. From a conceptual perspective, the business cycle is the upward and downward movements of levels of GDP (gross domestic product) and refers to the period of expansions and contractions in the level of economic activities (business fluctuations) around a long-term growth trend.



Business Cycles: The phases of a business cycle follow a wave-like pattern over time with regard to GDP, with expansion leading to a peak and then followed by contraction leading to a trough.

Business cycles are identified as having four distinct phases: expansion, peak, contraction, and trough.

An expansion is characterized by increasing employment, economic growth, and upward pressure on prices.

A peak is realized when the economy is producing at its maximum allowable output, employment is at or above full employment, and inflationary pressures on prices are evident. (Why?)

Following a peak an economy, typically enters into a correction which is characterized by a contraction, growth slows, employment declines (unemployment increases), and pricing pressures subside.

The slowing ceases at the trough and at this point the economy has hit a bottom from which the next phase of expansion and contraction will emerge.

Recessions

A recession is a business cycle contraction; a general slowdown in economic activity.

In economics, a recession is a business cycle contraction; a general slowdown in economic activity. Macroeconomic indicators such as GDP (Gross Domestic Product), employment, investment spending, capacity utilization, household income, business profits, and inflation fall, while bankruptcies and the unemployment rate rise.

Recessions generally occur when there is a widespread drop in spending (an adverse demand shock). This may be triggered by various events, such as a financial crisis, an external trade shock, an adverse supply shock, or the bursting of an economic bubble.

Recessions and panic

Recessions are characterized as periods of fear and uncertainty; historically they also were a time of widespread panic. However, as confidence in the central bank and federal government increased, though fear and uncertainty remain, panic-conditioned "runs" as depicted in the photo below have become an element of the past.

Attributes of Recession

A recession has many attributes that can occur simultaneously, these include: **declines** in: component measures (economic indicators) of economic activity (GDP) such as:

- consumption,
- investment,
- government spending,
- and net export activity.
- These indicators in turn, reflect underlying **drivers** such as
- employment levels and skills,
- household savings rates,
- corporate investment decisions,
- interest rates,
- demographics,
- and government policies.

Causes of Recession

Under ideal conditions, a country's economy should have the household sector as net savers and the corporate sector as net borrowers, with the government budget nearly balanced and net exports near zero. When these relationships become imbalanced, recession can develop within a country or create pressure for recession in another country. Policy responses are often designed to drive the economy back towards this ideal state of balance.

Most mainstream economists believe that recessions are caused by **inadequate aggregate demand** in the economy, and favour the use of expansionary macroeconomic policy during recessions.

<u>Policy Responses to Recession</u>

Strategies preferred for moving an economy out of a recession vary depending on which economic school the policymakers follow:

1) **Demand-side** economists may suggest expansionary monetary or fiscal policy. They want to boost aggregate demand. Fiscal policy is enacted by the government, monetary policy by the central bank.

> Expansionary, or loose policy is a form of macroeconomic policy that seeks to encourage economic growth. Expansionary policy can consist of either monetary policy or fiscal policy (or a combination of the two). It is part of the general policy prescription of **Keynesian** economics, to be used during economic slowdowns and recessions in order to moderate the downside of economic cycles.

Expansionary policy is intended to boost business investment and consumer spending by **injecting money into the economy** either through direct government spending or increased lending to businesses and consumers or tax cuts that leave more money with the people.

2) **Supply-side** economists may suggest tax cuts to promote business capital investment. In general, the aim is to increase the money supply in the economy. For instance, the central bank may lower the benchmark rate, so it is worth borrowing money and it (theoretically) stimulates the economy.

However, when interest rates reach the boundary of an interest rate of zero percent (zero interest-rate policy) conventional monetary policy can no longer be used and government must use other measures to stimulate recovery.

A severe (GDP down by 10%) or prolonged (three or four years) recession is referred to as an **economic depression**, although some argue that their causes and cures can be different. As an informal shorthand, economists sometimes refer to different recession shapes, such as V-shaped, U-shaped, L-shaped, and W-shaped (or double-dip) recessions.

Key Points

Business cycles are identified as having four distinct phases: expansion, peak, contraction, and trough.

Business cycle fluctuations occur around a long-term growth trend and are usually measured by considering the growth rate of real gross domestic product.

Macroeconomic indicators such as GDP (Gross Domestic Product), employment, investment spending, capacity utilization, household income, business profits, and inflation fall, while bankruptcies and the unemployment rate rise.

Most mainstream economists believe that recessions are caused by inadequate aggregate demand in the economy, and favour the use of expansionary macroeconomic policy during recessions.

Strategies favoured for moving an economy out of a recession vary depending on which economic school the policymakers follow.

2. Managing the Business Cycle

When the economy is not at a steady state, the government and monetary authorities have policy mechanisms to move the economy back to consistent growth.

They do this by two different means:

Fiscal policy: Government policy that attempts to influence the direction of the economy through changes in government spending or taxes.

Monetary policy: The process by which the central bank, or monetary authority manages the supply of money, or trading in foreign exchange markets.

Policy Responses

When the economy is not at a steady state and instead is at a point of either **overheating** (growing too fast) or **slowing**, the government and monetary authorities have policy mechanisms, fiscal and monetary, respectively, at their disposal to help move the economy back to a steady state growth trajectory. If the economy needs to be slowed, these policies are referred to as **contractionary** and if the economy needs to be stimulated the policy prescription is **expansionary**.

1) Expansionary Policy

Expansionary fiscal policy involves government spending exceeding tax revenue, and is usually undertaken during recessions. Fiscal authorities will increase government spending in order to revive the economy.

Expansionary monetary policy relies on the central bank increasing availability of loanable funds. As the supply of loanable funds increases, the interest rate is expected to decrease and thereby increase the desire to borrow funds for consumption and investment purposes.

2) Contractionary Policy

Contractionary fiscal policy is opposite of the action taken in an expansionary purpose, and occurs when government spending is lower than tax revenue.

Similarly, contractionary monetary policy is the opposite of expansionary monetary policy and occurs when the supply of loanable funds is limited, to reduce the access and availability to relatively inexpensive credit.

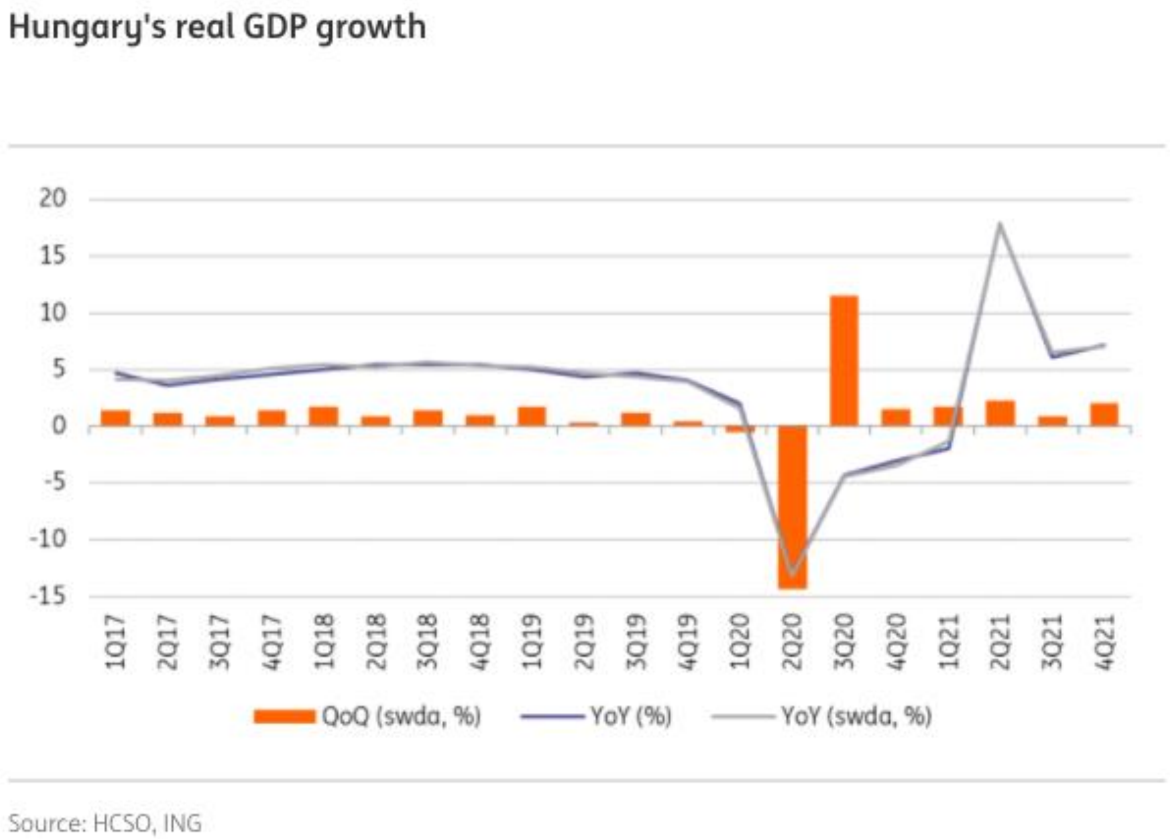
Central banks can increase the prime interest rate to "slow down" the flux of loanable funds, reducing money supply, checking consumption and reducing inflation. (For instance, the prime rate in Hungary grew from 0.6% in July 2021 to 18% in October 2022 in order to reduce inflation pressures.)

Long Run Growth

Long run growth is the increase in the market value of the goods and services produced by an economy over time.

It is conventionally measured as the percentage of increase in real gross domestic product, or **real GDP**.

Growth is usually calculated in real terms: it is **inflation-adjusted** to eliminate the distorting effect of inflation on the price of goods produced.



(SWDA = seasonally and working-day adjusted)

In economics, *economic growth* or *economic growth theory* typically refers to growth of potential output, which is production at full employment.

Policymakers strive for steady, continued, and consistent growth because it is predictable and manageable for both policymakers and market participants. Over long periods of time even small rates of growth, like a 2% annual increase, have large effects.

For example, the United Kingdom experienced a 1.97% average annual increase in its inflation-adjusted GDP between 1830 and 2008. In 1830, the GDP was £41,373 million. It grew to £1,330,088 million by 2008 (in 2005 pounds). A growth rate that averaged 1.97% over 178 years resulted in a 32-fold increase in GDP by 2008.

Long-run growth rates

Growth in GDP can be significant, especially when annual growth rates are fairly consistent.

The large impact of a relatively small growth rate over a long period of time is due to the power of compounding. A growth rate of 2.5% per annum leads to a **doubling** of the GDP within 29 years, while a growth rate of 8% per annum (an average exceeded by China between 2000 and 2010) leads to a doubling of GDP within 10 years. Therefore, a small difference in economic growth rates between countries can result in very different standards of living for their populations if this small difference continues for many years.

Note: an easy way to approximate the doubling time of a number with a constant growth rate is to use the ***Rule of 72****. Divide 72 by the percentage annual growth rate to get a rough estimate of the number of years until the number doubles. For example, at a 10%, divide 72 by 10 to get a doubling time of 7.2 years. The actual doubling time is 7.27 years, so the rule of 72 is a good rough approximation.*

Key Points

If the economy needs to be slowed, enacted policies are referred to as being contractionary and if the economy needs to be stimulated the policy prescription is expansionary.

Central banks use monetary policy measures to facilitate consistent economic growth, while the government uses fiscal policy.

The government policy measures are referred to as fiscal policy.

Growth is usually calculated in real terms, meaning that it is inflation -adjusted to eliminate the distorting effect of inflation on the price of goods produced.

Policymakers strive for continued and consistent growth.

The large impact of a relatively small growth rate over a long period of time is due to the power of compounding.

A small difference in economic growth rates between countries can result in very different standards of living for their populations if this small difference continues for many years.

(Source: https://www.coursesidekick.com/economics/study-guides/boundless-economics/key-topics-in-macroeconomics)

THINK ABOUT IT

1. Do you think expansions must necessarily be followed by contraction periods?

2. What other causes of recession can you name other than financial crisis, an external trade shock, an adverse supply shock, or the bursting of an economic bubble?

3. How do you think a financial panic occurs and grows?

4. What are the dangers of expansionary macroeconomic policy (in general, government interference into the economy)?

5. Check in the news what measures the Hungarian government is using to combat inflation.

LANGUAGE EXERCISE

I. True or false?

1. In a business cycle, a boom is followed by a depression period.

2. A peak phase is favourable for all actors of economy.

3. In a recession period, consumption and investment slacken.

4. Most economists believe recessions are caused by a defect in aggregate supply.

5. Monetary policy is implemented by the government.

II. Match the words and the definitions

1. adjusted 2. contraction, 3. expansion, 4. fluctuation, 5. overheated, 6. peak, 7. recession, 8. trough

a.~~;~~ A situation in which prices, levels or interest rates go up and down. _____________

b.~~;~~ A period when the economy of a country is not doing well. _____________

c.~~,~~ The increase of something in size, importance, or number. _____________

d.~~,~~ The fact of something becoming smaller or shorter or less in amount. _____________

e.~~,~~ A long, narrow container without a lid holding water or food for farm animals; figuratively: a low point in a regular series of highs and lows. _____________

f.~~,~~ The highest point. _____________

g.~~,~~. When strong feelings are expressed (in a debate) or when something is working too fast. _____________

h.~~,~~ Changed, corrected slightly to make it more effective or suitable. _____________

III. Fill in the gaps with the appropriate words.

1. adjusted 2. contraction, 3. expansion, 4. fluctuation, 5. overheated, 6. peak, 7. recession, 8. trough

a. TV channel executives called the drop in viewing figures a "short-term ____________________".

b. The economy of Niger has been struggling with long-term _________________________ since 2000.

c. The ____________________ of NATO has caused significant tensions in the past few months.

d. Cold causes the ______________________ of metal.

e. Investing small amounts regularly is a good way of smoothing out the ___________s and _____________s of the stock market.

f. Peak periods usually run the risk of an ______________________ economy.

g. For statistical purposes, the growth of average wages must be inflation-_________________.

IV. Provide the applicable word forms. The Hungarian equivalents are given.

NOUN	VERB	ADJECTIVE
fluctuation		
recession		
expansion		
contraction		
		adjusted

V. Choose synonyms for the following words from the list below.

fluctuation: ____

recession: ____

expansion: ____

contraction: ____

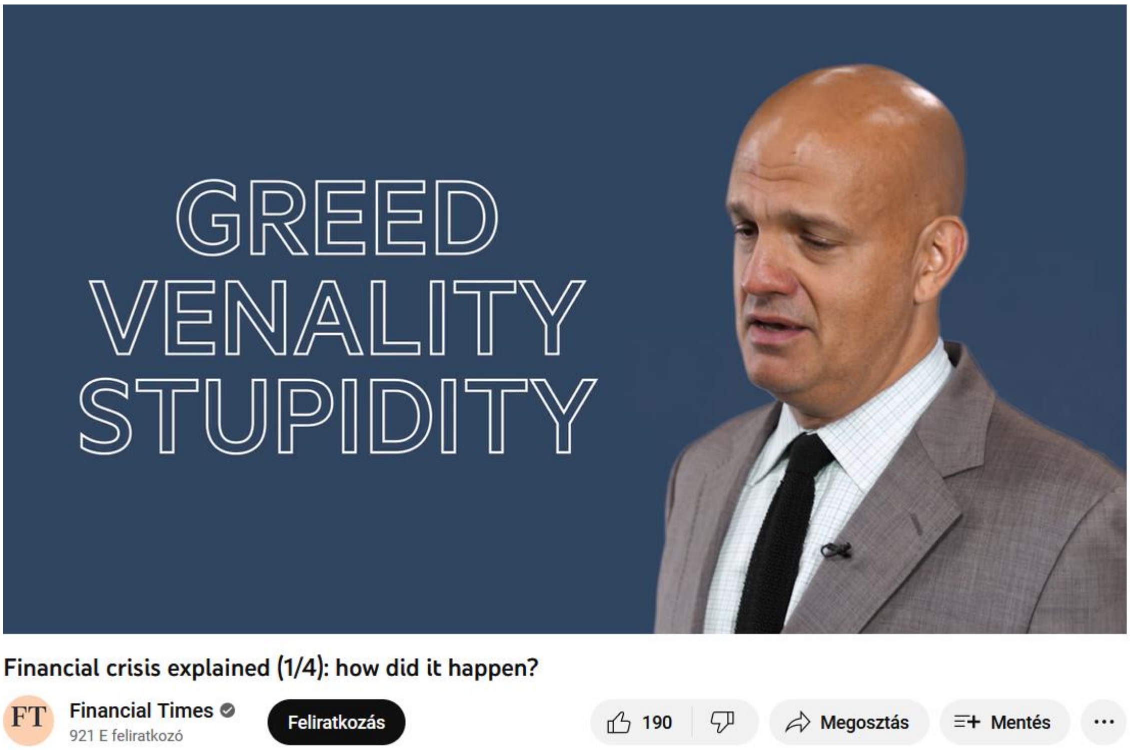
adjusted: ____

1. adapted 2. altered 3. corrected 4. decline 5. deflation 6. depression 7. enlargement 8. extension 9. fixed 10. increase 11. narrowing 12. oscillation 13. stagnation 14. reduction 15. see-saw 16. shrinkage 17. slump 18. spread 19. updated 20. varying 21. wavering

VI. Translate the following text

A termelés, a kereskedelem és az általános gazdasági tevékenységekben bekövetkezett fluktuációkat (hullámzásokat) az ún. üzleti ciklus írja le. Ennek négy része van: a bővülés, a csúcspont, a korrekció vagy szűkülés időszaka, majd a mélypont, melyet általában újból bővülés követ. Ha a visszaesés tartós, recesszióról beszélünk. Ilyenkor visszaesés mutatkozik a fogyasztásban, a beruházásokban, az állami költekezésekben és az exportban, de persze nő a munkanélküliség, csökkennek a háztartások megtakarításai, stb. Az általánosan elfogadott elmélet szerint a recessziót az összesített kereslet elégtelen volta okozza. A recessziót a kormányok és jegybankok változatos fiskális és monetáris eszközökkel igyekeznek korrigálni, például felpörgetik a lassú, vagy „hűtik" a túlfűtött gazdaságot. Úgy tartják, hogy a tartós, alacsony növekedés a legkedvezőbb. Már évi 2 százalékos GDP-növekedés a GDP megduplázódásához vezet 36 éven belül.

VIDEO – The financial crisis of 2008 – how did it happen? (13 September 2018) (2:13 min)



(Source: https://www.youtube.com/watch?v=DJvjGDxyCEA)

REVISION

1. In your own words, give a definition of the business cycle.

....

2. What are the main causes of recession?

....

3. How do governments treat the problem of recession?

....

4. What is the difference between demand-side and supply-side treatments?

....

5. How can governments treat the problem of overheated economy?

....

7. Inflation

Make sure you know these words before reading the text

inflation, deflation, stagflation, velocity, money supply, investment, liquidity, trap, purchasing power, medium of exchange, unit of account, cash, fixed rate bond, monetary policy

Inflation is a rise in the general level of prices of goods and services in an economy over a period of time.

Example

A product that cost only 5¢ in 1886 would be priced about $1.30 in 2012. This is due to a general increase in prices and not limited to the soft drink industry.

***Inflation** is a rise in the general level of prices of goods and services in an economy over a period of time*. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, *inflation also reflects an erosion in the purchasing power of money*, which is a loss of real value in the internal medium of exchange and unit of account in the economy.

Unless an individual's income grows at the same rate as inflation, a person's income will buy less after inflation than before. In addition, people who hold cash or fixed rate bonds will see the value of those eroded, a concept known as the inflation tax.

Inflation's effects on an economy are various and can be simultaneously positive and negative.

The negative effects of inflation include a decrease in the real value of money and other monetary items over time, uncertainty over future inflation (discouraging investment and savings), and shortages of goods if consumers begin hoarding out of concern about future price increases.

Positive effects include ensuring that central banks can adjust nominal interest rates (intended to mitigate recessions) and encouraging investment in non-monetary capital projects.

Economists generally agree that high rates of inflation and *hyperinflation* are caused by an **excessive growth of the money supply**. Views on which factors determine low to moderate rates of inflation are more varied. *Low or moderate inflation* may be attributed to fluctuations in real demand for goods and services or changes in available supplies, as well as growth in the money supply.

However, the consensus view is that a long and sustained period of inflation is caused by the money supply growing faster than the rate of economic growth. Most mainstream economists favour a low and steady rate of inflation. The task of keeping the rate of inflation low and stable is usually given to monetary authorities (central banks).

(Source: https://www.boundless.com/economics/welcome-to-economics/the-economy-as-a-whole/inflation/)

HOMEWORK

1. Look up the history of the Hungarian hyperinflation of 1946. How many pengős were worth one forint?

2. What other cases of hyperinflation do you know? When and where did they occur and what were their consequences?

3. Choose two products that you regularly buy and try to find out how much their price has gone up in the past 5 years.

4. Find data for the average rate of inflation and wage increase in Hungary in the past 5 years. How much has the real wage increase been?

Unemployment and Inflation - A Short-run Trade-off

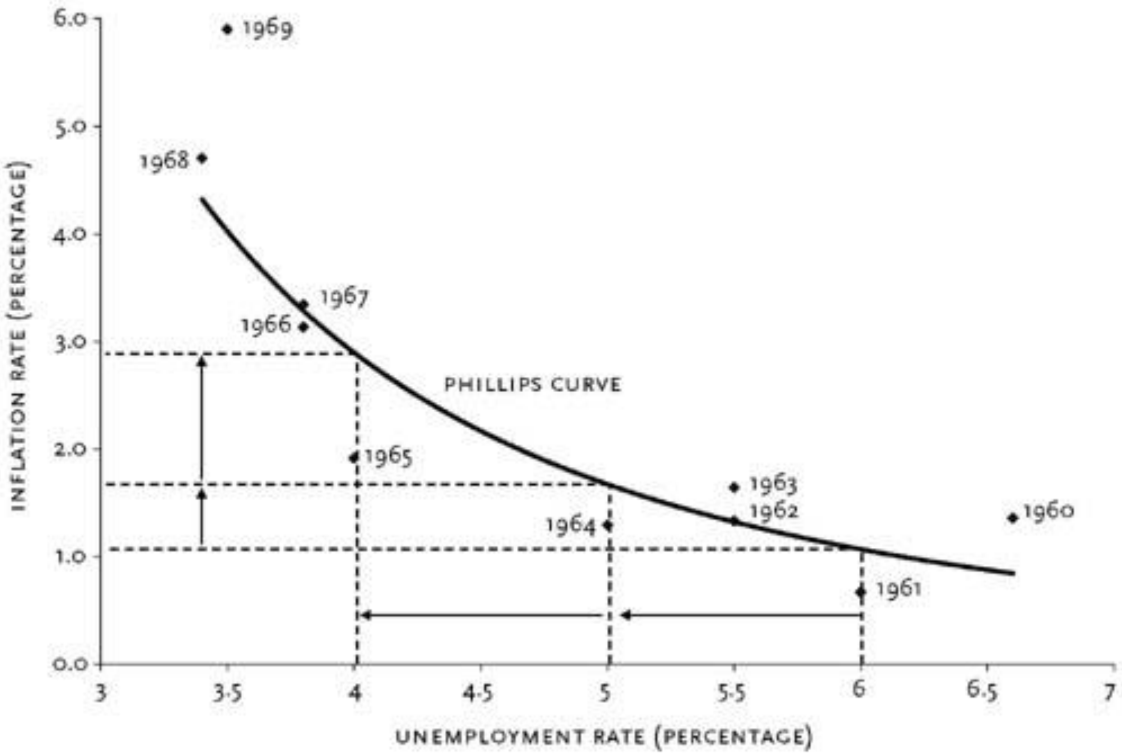
In the short-run, policymakers face a trade-off between two undesirable alternatives: inflation and unemployment.

Examples

The Lawson Boom which occurred in the UK in the late 1980s exemplified the short-run trade-off between employment and inflation. During this time, tax cuts, increasing house prices which, along with lower interest rates and high consumer confidence, caused the UK to experience rapid economic growth. By the end of 1989, unemployment had been halved (from more than 3,000,000). With it, however, came a rise in inflation.

Unemployment and Inflation - A Short-Run Trade-off

Most economists believe that, in the short-run, policymakers face a trade-off between two undesirable alternatives: inflation and unemployment. **The Phillips Curve** shows that historically, there has been an inverse relationship between unemployment and inflation; whenever unemployment has been low, inflation has been high, and vice versa. Further, most policies used to lower unemployment, like those used during recessions, risk increasing the level of inflation. On the other hand, policies to lower inflation will likely increase the unemployment rate. One example is adjusting the national interest rate. Lowering the interest rate encourages businesses to expand, hiring more employees, but also can also lead to a higher money supply and therefore inflation.



Although this relationship is different in the long-run, it is often the short-run about which policymakers are most concerned. Even some economists, such as John Maynard Keynes, argue that short-run variables matter more than long-run ones, as in the long-run "we are all dead."

In addition, fluctuations that are caused by supply factors as opposed to demand factors do not always produce the inverse relationship exhibited by the Philips Curve. In the 1970s, for example, shocks in the price of oil led to both **high inflation and high unemployment, a scenario called *stagflation***. In this case, inflation and unemployment have a direct relationship, as opposed to an inverse one. Stagflation is particularly difficult to remedy for policymakers.

(Source: https://www.boundless.com/economics/welcome-to-economics/the-economy-as-a-whole/unemployment-and-inflation-a-short-run-tradeoff/)

Key Points

The United States has never experienced *extreme inflation*, but periods of high inflation have posed threats to growth at various points in history.

Inflation can be caused by *an increase in the velocity of money* (that is, money being spent more quickly) or an increase in the overall *money supply*.

Economists generally favour low and steady inflation because it encourages investment and prevents *liquidity traps*.

A **liquidity trap** is a situation in which the central bank lowers the interest rate close to zero but this fails to stimulate the economy because investors prefer to keep money in cash rather than investing it, because they might even lose money due to the very low interest rates.

Key Points

Policy interventions, such as monetary injections to increase the quantity of money have several short-term effects on the economy. Specifically, they can decrease unemployment, but increase inflation.

Historically, unemployment and inflation have had an inverse relationship which is modelled by the Philips Curve.

Policy-makers must face a trade-off when deciding whether to pursue policies to address inflation and unemployment.

THINK ABOUT IT

1. Increased velocity of money or increased money supply can cause inflation. What other causes of inflation can you think of?

2. What can be the effects of inflation?

3. If money supply exceeds the goods that can be purchased, the result will be inflation. Why?

4. Unemployment and inflation are inversely proportioned (in the short run). Why?

5. Statistics are often misleading. If they show that average rate of inflation is, say, 5%, what does that mean?

6. According to KSH, in the second quarter of 2013, the unemployment rate was 10.3% and the inflation rate in July 2013 was 1.8%. What do you attribute these figures to?

LANGUAGE EXERCISE

I. True or false?

1. An increase in money supply prevents inflation. __________

2. In the case of a liquidity trap, the interest rate is very low. __________

3. If the growth of an individual's income is higher than the inflation, the purchasing power of his or her money is also higher. __________

4. According to most economists, every form of inflation is dangerous. __________

5. If the inflation grows, unemployment also grows in most cases. __________

II. Match the words and the definitions

1. capital, 2. currency, 3. hyperinflation, 4. inflation, 5. interest, 6. liquidity, 7. medium of exchange, 8. monetary, 9. money supply, 10. purchasing power.

a. A very high rate of inflation. ________________

b. An increase in the general level of prices or in the cost of living. ________________

c. An intermediary used in trade to avoid the inconveniences of a pure barter system, such as money. ________________

d. Availability of cash over short term: ability to service short-term debt or readily available access to cash. ________________

e. Money or other items used to facilitate transactions. ________________

f. Of, pertaining to, or consisting of money. ________________

g. The amount of goods and services that can be bought with a unit of currency or by consumers. ________________

h. The price paid for obtaining, or price received for providing, money or goods in a credit transaction, calculated as a fraction of the amount or value of what was borrowed. ________________

i. The total amount of money (bills, coins, loans, credit, and other liquid instruments) in a particular economy. ________________

j. Wealth in the form of money or property, used or accumulated in a business by a person, partnership, or corporation; material wealth used or available for use in the production of more wealth. ________________

III. Fill in the gaps with the appropriate words.

capital, currency, hyperinflation, inflation, interest, liquidity, medium of exchange, monetary, money supply, purchasing power

1. An extremely serious …………………………… struck Hungary in 1946.

2. If there is more money in circulation than the value of goods – that is, if …………………………… exceeds productivity – the result will be inflation.

3. If you put $1,000 in the bank on an …………………………… rate of 5%, you will get $1,050 back (before tax) after a period of one year.

4. IMF stands for International …………………………… Fund.

5. One of the best long-term investments is an investment in human …………………………

6. The first …………………………… in human history were shell, precious stones, ivory and other rare and valuable objects.

7. The low rate of investments due to a very low level of interest rate is called …………………………… trap: there is no money in economy.

8. The official …………………………… of the United States is the dollar.

9. When you get a pay rise, you also have to keep in mind the current level of …………………………… because it might exceed the rise in your pay.

IV. Provide the applicable word forms. The Hungarian equivalents are given.

NOUN	VERB	ADJECTIVE
	to cost	
	to encourage	
	to favour	
		nominal
attribute		
	to adjust	
authority		

V. Find antonyms (words meaning the opposite) for the words in the chart, using the words below.

real value; slow; decrease; deflation; long-term

inflation	
increase	
nominal value	
short-term	
rapid	

VI. Match the words below with the synonyms in the chart.

1. to adjust, 2. wage, 3. power, 4. real, 5. velocity

genuine, positive, true	
energy, force, strength	
to adapt, to fix, to harmonise	
speed, rate, tempo	
payment, reward, salary	

VII. Use the words in Exercises V and VI to translate the sentences below.

Ha egy pénzösszeg növekedésének nominális értékéből levonjuk az inflációt, akkor a növekedés reálértékét kapjuk meg.

…………………………………………………………………………………………………...

…………………………………………………………………………………………………...

Sokszor nehéz kompromisszumot találni a hosszú- és rövidtávú célok között.

…………………………………………………………………………………………………...

Ha rendkívül gyorsan nő az infláció, akkor hiperinflációról beszélünk.

…………………………………………………………………………………………………...

Egy országban a központi bank szabályozza az irányadó kamatlábat.

…………………………………………………………………………………………………...

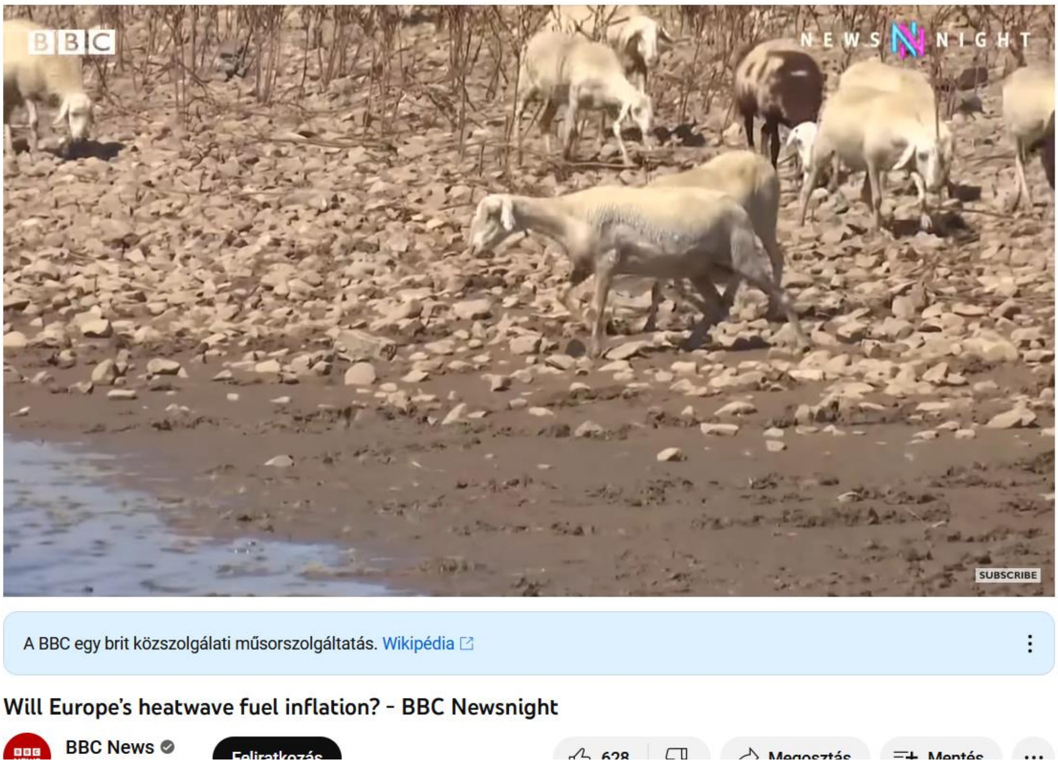
A pénzforgalom nagy sebessége inflációt gerjeszt. Ez összefügg a bérek emelkedésével is.

………………………………………………………………………………………………...

VII. Translate the following text

A termékek és szolgáltatások ára elkerülhetetlenül nő. Ezt hívják inflációnak. Oka, hogy a pénz mint elszámolási egység és csereeszköz nem stabil, és értékét számos tényező befolyásolja. Sem a túl magas, sem a túl alacsony infláció nem kedvez a gazdaságnak. Az előbbi elszabadult, hiperinflációhoz vezethet, az utóbbi pedig likviditási csapdához. Ha a forgalomban lévő pénz mennyisége meghaladja az általa vásárolható áruk és szolgáltatások értékét, akkor infláció keletkezik, azaz a pénz vásárlóereje csökken. A legkedvezőbb az alacsony, de nem tartós infláció. A munkanélküliség is hat az inflációra, mégpedig a legtöbb elmélet szerint fordított arányosság áll fenn a kettő között, amit az úgynevezett Philips-görbével lehet szemléltetni. Különösen veszélyes a stagfláció, amikor magas munkanélküliséget magas infláció kísér.

VIDEO – Will Europe’s Heatwave Fuel Inflation? (3:30 min)



(Source: https://www.youtube.com/watch?v=IpM8_M6ktsg)

REVISION

1. What is inflation? What is deflation? What is hyperinflation? What is stagflation?

....

2. What causes inflation? List at least 3 reasons.

....

3. What is the liquidity trap?

....

4. What is the relationship between unemployment and inflation?

....

5. Is inflation always bad for the economy?

....

8. Taxation (1): Consumption Taxes

Make sure you know these words before reading the text

tax, revenue, efficiency, corporate tax, property tax, excise tax, tax equity, fiscal policy, to subtract, exemptions, deductions

The Decision to Tax

The primary purpose of taxation is to raise revenue for the government, rather than influence behaviour.

Taxation plays a large role in the economy, and different taxes have different effects on taxpayers. For the most part, the purpose of taxation is to raise revenue rather than to influence behaviour. Economists tend to focus on two aspects of taxation: the efficiency of a given tax; and tax equity, regarding which members of a society pay the tax.

There are many different types of taxation in most countries, such as taxes on: income, capital gains, interest, dividends, property, estates, and corporate profit. In the USA, the Internal Revenue Service (IRS) is responsible for the collection of taxes. In the United Kingdom, Her Majesty’s Revenue and Customs (HMRC) does the same.

Most debates about the income tax today revolve around three issues: the appropriate overall level of taxation; how graduated, or "progressive," the tax should be; and the extent to which taxation should be used to promote social objectives.

Over the years, lawmakers have introduced various *exemptions and deductions* from the income tax to encourage specific kinds of economic activity. Most notably, taxpayers are allowed to subtract from their taxable income any interest they must pay on loans used to buy homes.

Similarly, the government allows lower- and middle-income taxpayers to shelter certain amounts of money from taxation that they save in special Individual Retirement Accounts (IRAs) to meet their retirement expenses and to pay for their children's college education.

(Source: https://www.boundless.com/economics/taxation-and-the-tax-system/loss-of-economic-efficiency-due-to-taxation/the-decision-to-tax/)

Types of Taxes (1): Consumption Taxes

A tax is a fee charged ("levied") by a government on a product, income, or activity.

One of the most important uses of taxes is to finance public goods and services. Since *public goods and services* do not allow a non-payer to be excluded, or allow exclusion by a consumer, there cannot be a market in the good or service. Public goods include fresh air, knowledge, national defence, flood control systems, and street lights. Therefore, they need to be provided by governments that tend to finance themselves largely through taxes. Two important categories of taxes are ad valorem taxes and excise taxes.

Ad valorem literally means "in proportion to the value." An **ad valorem tax is charged based on the value of the good being sold**. As the price of a good rises, the amount of the tax rises at a proportionate rate. Perhaps the most common example of an ad valorem tax is the *sales tax (value-added tax, VAT)*. Many states charge a certain percentage on all sales.

For example, if a state has a 6% sales tax and a consumer purchases $100 worth of goods from a store, the consumer will be charged $106 total. If the consumer purchases $200 worth of goods, the total bill would be $212 because an ad valorem tax is based on the value of goods purchased. It increases when a consumer increases the amount of merchandise that is purchased.

An excise tax is a tax on ***each item sold*** and thus is based on volume rather than the price of the good. Excise taxes are paid to the government by the suppliers of goods. The suppliers typically build this tax into the price of a good and charge an equivalent amount to the purchaser of the good, which effectively passes the tax along to the consumer.

A common example of an excise tax is the tax charged on alcoholic beverages. Liquor, beer, and wine are all taxed based on the number of units purchased. In Indiana, for example, wine is taxed at the rate of $0.47 per gallon.

Though the producer adds a tax to the price of the good increasing the price the consumer pays, the consumer does not necessarily pay the full tax. It is important to understand that a tax is usually paid by both the producer and the consumer of a good. ***This is called tax incidence.*** *Tax incidence is the manner in which the burden of a tax is shared among participants in a market*.

(Source: https://www.boundless.com/economics/taxation-and-the-tax-system/taxation/types-of-taxes/)

Key Points

In studying the effectiveness of taxes, economists focus on the *efficiency* of taxes, and the *equity* of taxation, which looks at who pays the taxes.

Most countries have many taxes including those on income, payroll, corporate, and property taxes.

Debates about the income tax today focus on three issues: the appropriate *overall level* of taxation; how "*progressive*," the tax should be; and the extent to which taxation should be used to *promote social objectives*.

Key Points

Taxes are often added to goods sold. How the payment of the tax is split between the buyer and seller is called the tax incidence.

Ad valorem literally means "in proportion to the value." An *ad valorem tax* (or VAT, value added tax) is charged based on the value of the good being sold.

An *excise tax* is a tax on each item sold and thus is based on volume rather than the price of the good.


THINK ABOUT IT

1. Which is better: "progressive" taxation or "flat" taxation? In progressive taxation systems, the more someone earns, the more he or she pays. In the flat taxation system, everyone pays the same amount of taxes (e.g. 20% of the income).

2. What about property tax? Should, for example, owning a house be taxed?

3. What about luxury tax? Should "luxury goods" be taxed?

4. Should single people or families without children pay an extra tax?

5. Do you agree with the system of exemptions and deductions? For instance, tax allowance for two or more children?

6. Is it fair if the government wants to raise its revenues by raising VAT? What should be taxed more: income (labour) or consumption?


LANGUAGE EXERCISE

I. True or false?

1. Tax equity means that every member of the society pays an equal amount of tax. ________

2. Taxpayers (in the USA) can reduce their income tax by the interest they pay after loans on their homes. ________

3. In the case of ad valorem tax (VAT) you pay after the number of items you buy. ________

4. In the case of excise tax, you pay after the number of items you buy. ________

5. In the case of tax incidence, the producer and the buyer pay the consumption tax together.

____

II. Match the words and the definitions

1. efficiency, 2. interest, 3. property, 4. tax, 5. deduction, 6. exemption, 7. retirement, 8. burden

a. A piece of real estate, such as, a parcel of land. _________________

b. Money paid to the government other than for transaction-specific goods and services.

____

c. Something that is carried; a responsibility, or duty. _________________

d. The act of freeing someone from his or her obligations to which others are subject.

____

e. The act of subtraction. _________________

f. The extent to which a resource, such as electricity, is used for the intended purpose; the ratio of useful work to energy expended. _________________

g. The price paid for obtaining, or price received for providing, money or goods in a credit transaction, calculated as a fraction of the amount or value of what was borrowed.

____

h. Withdrawal from one's occupation, business, or office. _________________

III. Fill in the gaps with the appropriate words.

efficiency, interest, property, tax, deduction, exemption, retirement, burden

1. ………………………… rates have been cut by 0.25% by the central bank.

2. Citizens can lower their taxes by certain ………………………… and …………………………

3. Land or house are called immovable …………………………

4. Old people no longer working receive a………………………… benefit.

5. The ………………………… of the company has decreased: it can only produce 450 cars a day instead of last year's 500 cars.

6. The government levies ………………………… in order to cover its expenses.

7. Theoretically, everyone has to contribute to the ………………………… of financing a country.

IV. Provide the applicable word forms. The Hungarian equivalents are given.

NOUN	VERB	ADJECTIVE
interest*		
	to exempt	
deduction		
influence		
		progressive
	to excluded	
	to promote	

* interest = kamat / érdekeltség

V. Choose synonyms for the following words from the list below.

beverage: ______________________________

proportionate: ______________________________

to purchase: ______________________________

objective (n.): ______________________________

to levy: ______________________________

1. aim, 2. balanced, 3. to burden, 4. to buy, 5. to charge, 6. end, 7. equal, 8. drink, 9. duty, 10. fair, 11. to impose, 12. to get, 13. goal, 14. even, 15. levy, 16. liquor, 17. to place, 18. tax, 19. to put on, 20. purpose, 21. to obtain, 22. tariff, 23. toll, 24. to shop,

VI. Translate the following text

Az állam bevételei elsősorban az állampolgárok adóiból számolnak. Nagy vonalakban kétféle adót különböztetünk meg: fogyasztási és jövedelem típusú adókat. Számos probléma merül fel az adórendszerekkel kapcsolatban, például, hogy mennyire igazságosak, a társadalom mely rétegeire milyen hatással vannak, mennyire progresszívek, és hogy mennyire segítik elő a társadalmi célok megvalósulását. Beszélhetünk általános forgalmi adóról, termékadóról, jövedelemadóról, vagyonadóról és társasági adóról. A forgalmi adó esetében az adó egyenesen arányos a termék árával. A termékadó esetében pedig az árucikk mennyiségével arányos (tehát minden egység után egy meghatározott összeget kell fizetnie a fogyasztónak). Elvben a gyártó fizeti meg a termékadót, de a gyakorlatban a gyártó azt vagy annak egy részét beépíti a termék árába, és így áthárítja a vevőre.

VIDEO – How Does VAT Work? (22 February 2013) (1:46 min)

(Source: http://www.youtube.com/watch?v=fmAbBu7VQjQ)

REVISION

1. Why does the state levy taxes?

....

2. What are the dilemmas surrounding the tax system?

....

3. What is the difference between progressive and flat taxation?

....

4. What are the two main types of taxes?

....

5. What is the difference between VAT and excise tax?

....

6. How can someone reduce the taxes he or she pays?

....

9. Taxation (2): Individual Taxes

Make sure you know these words before reading the text

retail, lease, to rent, poll tax, engage in, refrain from, taxable income, gross income, retirement plan, health saving plan, pay-as-you-earn (PAYE), tax refund, fair market value, estimated, tax evasion, tax haven

Individual Taxes

These taxes may be imposed on the same *income, property, or activity*, often without offset of one tax against another. Taxes may be based on property, income, transactions, importation of goods, business activity, or a variety of factors, and are generally imposed on the type of taxpayer for whom such tax base is relevant.

Direct Versus Indirect Taxes

Individual taxes can generally be defined as either *direct* or *indirect*. A direct tax is one imposed upon an individual person or on property, as opposed to a tax imposed upon a transaction. In U.S. constitutional law, direct taxes refer to poll taxes and property taxes, which are based on simple existence or ownership. Indirect taxes, such as sales or value-added tax, are imposed only when a taxable transaction occurs. People have the freedom to engage in or refrain from such transactions, whereas a direct tax is typically imposed upon an individual in an unconditional manner.

Individual Tax Categories

Income Tax

Personal income tax is generally the largest source of tax revenue in most countries. Taxes based on income are imposed at the state level and sometimes local levels. Income tax is levied on the total income of the individual, less deductions, *reducing an individual's taxable income*. The tax system allows for personal exemptions, as well as certain "itemized deductions." For example, in the US, these include:

- Medical expenses (over 7.5% of adjusted gross income)
- State and local income and property taxes
- Interest expense on certain home loans
- Gifts of money or property to qualifying charitable organizations, subject to certain maximum limitations
- Losses on non-income-producing property due to casualty/theft
- Contribution to certain retirement or health savings plans
- Certain educational expenses

Income tax is often collected on a *pay-as-you-earn basis* (i.e.~~,~~ withholding taxes from wages). Small *corrections* are usually made after the end of the tax year. These corrections take one of two forms: *payments* to the government by taxpayers who have not paid enough during the tax year; and government ***tax refunds*** for those who have overpaid.

Payroll Tax

Payroll taxes are imposed on employers and employees and on various compensation bases. These include income tax, social security and Medicare taxes, and unemployment taxes.

Sales Tax

Sales tax is an indirect tax levied on the state level, including taxes on retail sale, lease and rental of goods, as well as some services. Many cities, counties, transit authorities, and special purpose districts impose an additional local sales tax. Sales tax is calculated as the purchase price times the appropriate tax rate. Tax rates vary widely by jurisdiction from less than 1% to over 10%. Nearly all jurisdictions provide numerous categories of goods and services that are exempt from sales tax or taxed at a reduced rate.

In addition to sales tax, excise taxes are imposed at the federal and state levels on ~~a~~ goods, including alcohol, tobacco, tires, gasoline, diesel fuel, coal, firearms, telephone service, air transportation, unregistered bonds, etc.

Property Tax

Most jurisdictions below the state level impose a tax on interests in real property (land, buildings, and permanent improvements). Property tax is based on the fair market value of the property. A fair market value is the estimated value of the property. The amount of tax is determined annually based on the market value of each property on a particular date.

Estate Tax

The estate tax is an excise tax levied on the right to pass property at death. It is imposed on the estate, not the beneficiary. The taxable values of estates are the fair market value.

(Source: https://www.boundless.com/finance/financial-statements-taxes-and-cash-flow/tax-considerations/individual-taxes/)

Key Points

A direct tax is one imposed upon an individual person or on property, as opposed to **an indirect tax** that is imposed upon a transaction.

Income tax is levied on the total income of the individual, less deductions and credits.

Sales tax is levied on the state level on retail sale, lease, and rental of many goods, as well as some services.

Property tax is levied on interests in real property (land, buildings, and permanent improvements).

Estate tax is an excise tax levied on the right to pass property at death.

THINK ABOUT IT

1. What do you think should get more emphasis in taxation: indirect or direct taxes?

2. In your opinion, is the present system of flat taxation (16%) in Hungary fair?

3. Should properties (land, house, and other immovable properties) be taxed?

4. Is it fair to levy interest tax after fixed rate bonds?

LANGUAGE EXERCISE

I. True or false?

1. A direct tax is imposed on what you "have" rather than what you "do." __________

2. Everyone has to pay an estate tax if he or she has a house or land. __________

3. Net income is gross income minus taxes and deductions. __________

4. Certain items may reduce the income tax. __________

5. The fair market value is the price at which a property is sold. __________

6. "Pay-as-you-earn" means you only get the net sum of your salary. __________

II. Match the words and the definitions.

1. cumulative, 2. fair market value, 3. market value, 4. liable, 5. unconditional, 6. medical, 7. jurisdiction

a., An estimate of the market value of a property. ___________________

b., Under obligation, debt or responsibility owed to someone. _________________

c., Increasing or enlarging by successive addition. _________________

d., Relating to the study or practice of medicine. _________________

e., The territorial range of authority or control. _________________

f., The total value of a company, merchandise, product, etc. as traded in the market.
____

g., Without condition or limitation; absolute. _________________

III. Fill in the gaps with the appropriate words.

cumulative, fair market value, market value, liable, unconditional, medical, jurisdiction

1. From the age of 18 to 35, he was ……………………………… to military service: he had to spend two years in the army.

2. Outside this ………………………………, other rules apply for property taxation.

3. Prevention is always better than ……………………………… treatment.

4. The enemy was completely defeated and therefore was forced to accept ……………………………… surrender.

5. A punishment that is imposed with greater severity upon a repeat offender is called a ……………………………… punishment.

6. These kinds of houses had been sold for $130,000 in the area, so the ……………………………… of our home was also estimated to be the same sum of money, but actually we managed to sell the house for $150,000, so the ……………………………… was higher.

IV. Provide the applicable word forms. The Hungarian equivalents are given

NOUN	VERB	ADJECTIVE
	to engage (in)	
	to retire	
ownership		
		subjected
compensation		
	to determine	

V. Choose synonyms for the following words from the list below.

building: ______________________________

direct: ______________________________

property: ______________________________

reduced: ______________________________

employee: ______________________________

1. construction, 2. cut down, 3. estate, 4. hand, 5. downsized, 6. explicit, 7. home, 8. house, 9. land, 10. lessened, 11. edifice, 12. premises, 13. open, 14. staff member, 15. ownership, 16. straight, 17. worker

VI. Group the expressions according to tax types

1. built in the price, 2. beneficiary, 3. buildings, 4. correction, 5. death, 6. employer & employee, 7. net salary, 8. fair market value, 9. item, 10. itemized deductions, 11. land, 12. lease, 13. Medicare expenses, 14. proportionate, 15. real estate, 16. retail, 17. social security, 18. rental, 19. taxable income, 20. tax incidence, 21. tax refund, 22. to pass on property, 23. value, 24. VAT

Ad valorem tax	Excise tax	Income tax	Payroll tax	Sales tax	Property tax	Estate tax

VII. Translate the following text

Az adók másik nagy csoportja az egyéni adók (szemben a fogyasztási adókkal). Az egyéni adókat jövedelemre, tulajdonra vagy tevékenységre vetik ki. A közvetlen adók egyéni szinten, illetve tulajdonra kerülnek kivetésre, a közvetett adók pedig tranzakciókra. Az egyéni adókon belül beszélhetünk jövedelemadóról, járulékokról, illetékről, ingatlanadóról és öröklési adóról. A jövedelemadót és a járulékokat a bruttó bérből vonják le. A jövedelemadó-alap bizonyos tételekkel csökkenthető. Az adóév végén bizonyos korrekciókra kerül sor: vagy az adózó fizet az adóhatóságnak, vagy adóvisszatérítést kap.

VIDEO – Tax Evasion – Tax Havens – The Great Scam (21 Nov 2012) (3:45 min)

(Source: http://www.youtube.com/watch?v=wxW8GP59Sq8)

REVISION

1. What is the difference between direct and indirect taxes?

....

2. What types of individual taxes can you mention?

....

3. What is deduced from the gross salary?

....

4. What is itemized deduction and tax refund?

....

5. What is the difference between income tax and payroll tax?

....

6. What is the difference between property tax and estate tax?

....

10. International Trade (1): Import and Export

Make sure you know these words before reading the text

trade, comparative, absolute, advantage, entity, domestic, interest, free trade, to prevail

Import or Export?

Whether to import or export a good is based on the domestic price of a good versus the international price of the good.

What determines if a country will import a good or export it? Since the costs of production vary across countries, the same good will be sold for different prices in different places. If a country imports or exports a good will depend on the price that domestic producers charge compared to producers in the rest of the world.

Countries such as China, that can produce textiles at a lower cost and sell them at a lower price than the rest of the world, will export textiles.

Countries such as the United States, whose producers have higher costs and must charge higher prices for textiles than the rest of the world will import them.

If you take a look at any number of goods that you use on a daily basis, such as your laptop, pencil, shoes, food, you will recognize that they are all made in different countries. A good number of these foreign goods come from trade. It is in many country's interest to engage in trade, because according to the principle of **comparative advantage**, international trade benefits all countries by allowing each nation to specialize in what they are good at.

The idea of a **comparative advantage** starts out rather simple and is in fact quite intuitive.

If one entity (a country, a region, or individual) can produce a good at a lower cost than a second given entity, and if the second entity can produce some other good at a lower cost than the first entity can produce them, then clearly it would be advantageous for the first entity to trade the relatively cheaper good for the second entity's relatively cheaper good. In this way both entities gain from trade.

(Source: https://www.boundless.com/economics/international-trade/factors-for-the-exchange-of-goods-and-services/import-or-export/)

Specialization

Countries specialize in the industries and products in which they maintain a comparative advantage.

The Classic Example of David Ricardo

The goods that one consumes and uses every day, such as laptops, pencils, shoes, and food are produced in many different countries. Some of the goods are produced abroad, but they are available domestically as a result of international trade. The famous economist, **Adam Smith** (1723-1790) realised that society benefits when workers and other resources specialize in the production process. In his theory of *comparative advantage*, **David Ricardo** (1772-1823) extended this concept.

Ricardo first described the theory of comparative advantage in his 1817 book *On the Principles of Political Economy and Taxation* in an example involving England and Portugal. In Portugal, it was possible to produce both wine and cloth with less labour than it would take to produce the same quantities in England. Thus, **Portugal had the absolute advantage** in the production of both products. At first glance, it would seem to make sense for Portugal to produce both wine and cloth.

[FIGURE 1] RICARDO'S "COMPARATIVE ADVANTAGE"

Minimum Labor Hours Required for Production		
	Commodity	
	Cloth	Wine
Portugal	90	80
England	100	120

Portugal: 11.25% less working hours needed to produce wine (90 > 80)

England: 20% more working hours needed to produce wine (100 >120)

That means if 90+80 (= 170) hours are spent in Portugal to produce 1 + 1 units, why not redirect cloth workers to wine production and use only 160 hours to produce 2 units of wine (and save 10 working hours)?

The same is true of England: why spend 220 hours to produce 1 + 1 unit, when 200 hours could be used only for cloth production, producing 2 units and saving 20 working hours?

So, *the relative costs* of producing wine and cloth were different in the two countries. England required more workers to produce each unit of wine than it did to produce each unit of cloth.

In other words, England only had to sacrifice small quantities of wine to produce more cloth. The opposite was true for Portugal.

Therefore, Ricardo reasoned that ***England should specialize in producing cloth and Portugal in producing wine*. England could then trade the cloth for wine**. England would get more wine and sacrifice less cloth through trade than if it had produced both products on its own. Conversely, Portugal could trade wine for cloth and obtain more cloth while sacrificing less wine than in the absence of trade.

Ricardo concluded that free trade (international trade without trade barriers) should prevail because all countries benefit from it in the end.

(Source: https://www.boundless.com/economics/international-trade/chapter-introduction--11/specialization--2/)

Key Points

Comparative advantage is critical to understanding modern international trade theory.

The theory of comparative advantage explains why it can still be beneficial for two entities to trade if one entity has a lower relative cost of producing all goods.

Key Points

International trade allows goods that are produced abroad to be sold in a particular country's domestic market. Whether a country exports or imports goods depends on whether or not it has a comparative advantage.

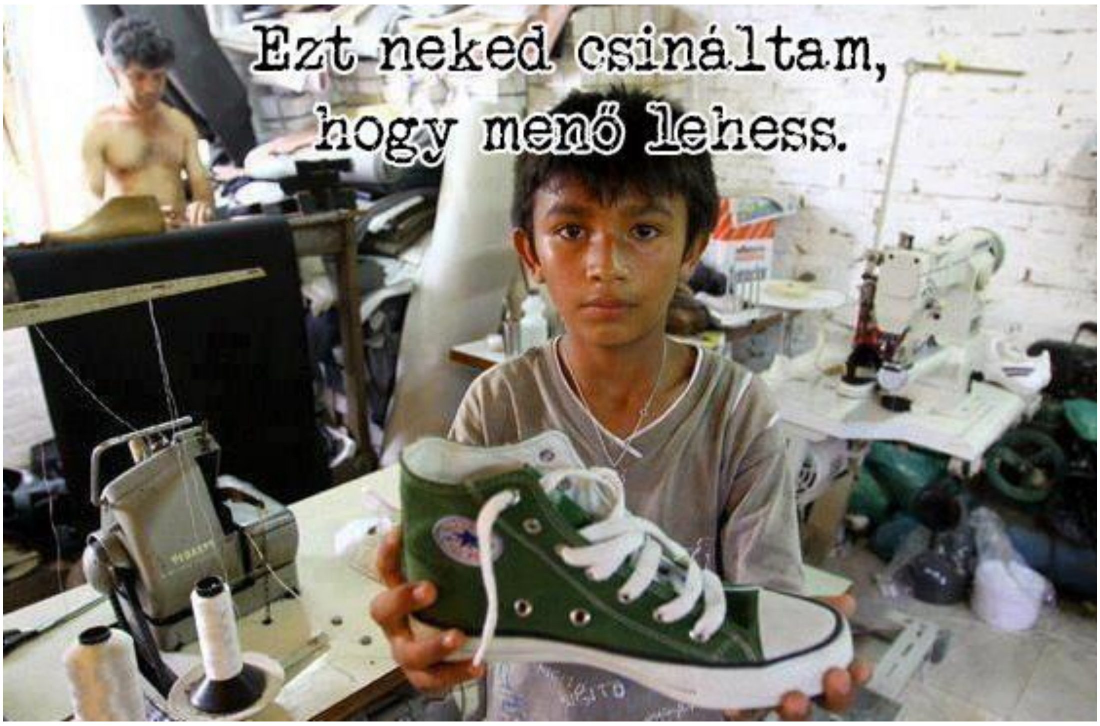
If a country specializes in producing the good in which they have the comparative advantage, society will benefit.

Free trade (international trade without trade barriers) is very important, as all countries benefit from it in the end.

THINK ABOUT IT

1. Check five items that you have (electronic equipment, clothes, or any other object) and check where they were made. Why were they made in those countries?

2. What do you think about the following picture? Do you agree with its “message”?



3. Was Ricardo right, after all, in creating the theory of comparative advantage? Where can be a mistake in his theory?

4. What other factors should be taken into consideration when talking about specialisation and the international division of labour?

HOMEWORK

You have two countries: Orlandia (OR) and Andana (AND). Both produce apples and shoes. The workers of each country spend the following amount of time (minutes) producing one apple and one pair of shoe:

	OR	AND
Apple (1)	25 minutes	50 minutes
Shoe (1 pair)	100 minutes	300 minutes

You can see that Orlandia has the *absolute advantage* of producing apples and shoes, because it can produce these items in less time and more effectively. Imagine that the workers of

Orlandia work 400 minutes a day, while the labourers of Andana work 1,200 minutes a day (because they are less effective). How many apples and shoes do each country produce a day?

Now, how can production be made more effective? What is going to happen in the long run (according to Ricardo's model)? Pay attention to the ratio of numbers as well.

LANGUAGE EXERCISE

I. True or false?

1. If a country produces an item at a lower cost, it will export it. __________

2. Country "A" exchanges the good it can produce cheaper for good "B" the other country can produce more expensively. __________

3. Only the exporting country gains from the transaction. __________

4. In Ricardo's example, Portugal had absolute advantage in both products, but comparative advantage only in one of them. __________

5. Ricardo's theory of comparative advantage automatically leads to the idea of free trade. __________

II. Match the words and the definitions

1. free trade, 2. theory, 3. entity, 4. comparative, 5. domestic (2x), 6. advantage, 7. sacrifice

a. Benefit, profit, gain, favourable position. ___________________

b. Estimated by comparison; relative. ___________________

c. Forfeiture of something highly valued for the sake of one considered to have a greater value or claim. ___________________

d. International trade free from government interference, especially trade free from tariffs or duties on imports. ___________________

e. Of or relating to the family or household, or a country's internal affairs. ___________________

f. Something that exists as a particular and discrete unit. ___________________

g. The branch of a science or art consisting of its explanatory statements, accepted principles, and methods of analysis, as opposed to practice. _________________

III. Fill in the gaps with the appropriate words.

free trade, theory, entity, comparative, domestic (2x), advantage, sacrifice

1. "……………………… flights" means travelling by air within the country.

2. China used the European financial crisis to its own ………………………

3. GDP stands for Gross ……………………… Product.

4. Giving him my old T-shirts was not a really big ………………………

5. He did ……………………… -ly well at the exam; he was better than some of the group, but not the best.

6. He did not care too much about ………………………, he valued practice much more.

7. One of the basic values of the EU is ……………………… between the member countries.

8. Persons and corporations are equivalent ……………………… under the law.

IV. Provide the applicable word forms. The Hungarian equivalents are given.

NOUN	VERB	ADJECTIVE
		domestic
		comparative
	to compete	
	to specialize	
	to avail oneself of	
	to sacrifice	
benefit		

V. Choose synonyms for the following words from the list below.

benefit: ____

barrier: ____

competition:
____

trade: ____

free: ____

1. advantage, 2. barter, 3. boundary, 4. unconstrained, 5. border, 6. contest, 7. deal, 8. gain, 9. exchange, 10. help, 11. frontier, 12. liberal, 13. limit, 14. profit, 15. race, 16. open, 17. rivalry, 18. struggle, 19. permitted, 20. transaction, 21. unfettered

VI. Translate the following text

Ha egy állam a többi országhoz viszonyítva olcsóbban (és hatékonyabban) tud előállítani egy terméket, akkor azt kiviszi, tehát exportálja más országba. Ellenben ha egy ország olcsóbban tud hozzájutni egy termékhez, mint ha otthon megtermelné, akkor azt nyilván importálni fogja. Ezzel mindkét állam jól jár. Az országok közötti hatékony kereskedés előfeltétele a szabadkereskedelem, tehát a vámok és illetékek (*customs and tariffs*) eltörlése. Az export és import fejlődése során az egyes országok szakosodnak egy-egy termék előállítására. Ebben kulcsszerepet játszik a versenyelőny, illetve a komparatív előny fogalma. Ez utóbbi azt jelenti, hogy az ország azt a terméket fogja gyártani, amit a leghatékonyabban (a legolcsóbban, a legkevesebb idő alatt) tud előállítani, és lemond arról a termékről, amelyet nem tud hatékonyan gyártani. Az első terméket exportálja, a másodikat importálja.

VIDEO – Party Over for China’s Export Miracle (10 September 2012) (2:25 min)

(Source: http://www.youtube.com/watch?v=i9Ii8egZNps)

REVISION

1. What drives import and export?

....

2. What is comparative advantage?

....

3. What is the difference between absolute and comparative advantage?

....

4. What enhances import and export the best?

....

5. What is specialization?

....

11. International Trade (2): the Balance of Trade

Make sure you know these words before reading the text

deficit, surplus, balance, output, balance of payments, current account, capital account, expansion, assets, money laundering, evading taxes, smuggling, debit, credit, double-entry accounting, assets, liabilities, debt trap

1. Summary of trade deficit, balance of trade and trade surplus

The balance of trade is the difference between the monetary value of exports and imports in an economy over a certain period.

Measuring the Balance of Trade

The balance of trade is identical to the difference between a country's output and its domestic demand, or the difference between what goods a country produces and how many goods it buys from abroad. This does not include money re-spent on foreign stock, nor does it factor in the concept of importing goods to produce for the domestic market.

Measuring the balance of trade can be problematic because of problems with recording and collecting data. As an illustration of this problem, when official data for all the world's countries are added up, exports exceed imports by almost 1%, making it appear as though the world is running a positive balance of trade with itself. This cannot be true, because all transactions involve an equal credit or debit in the account of each nation. The discrepancy is widely believed to be explained by transactions intended to launder money or evade taxes, smuggling, and other visibility problems. However, for developed countries, accuracy is likely.

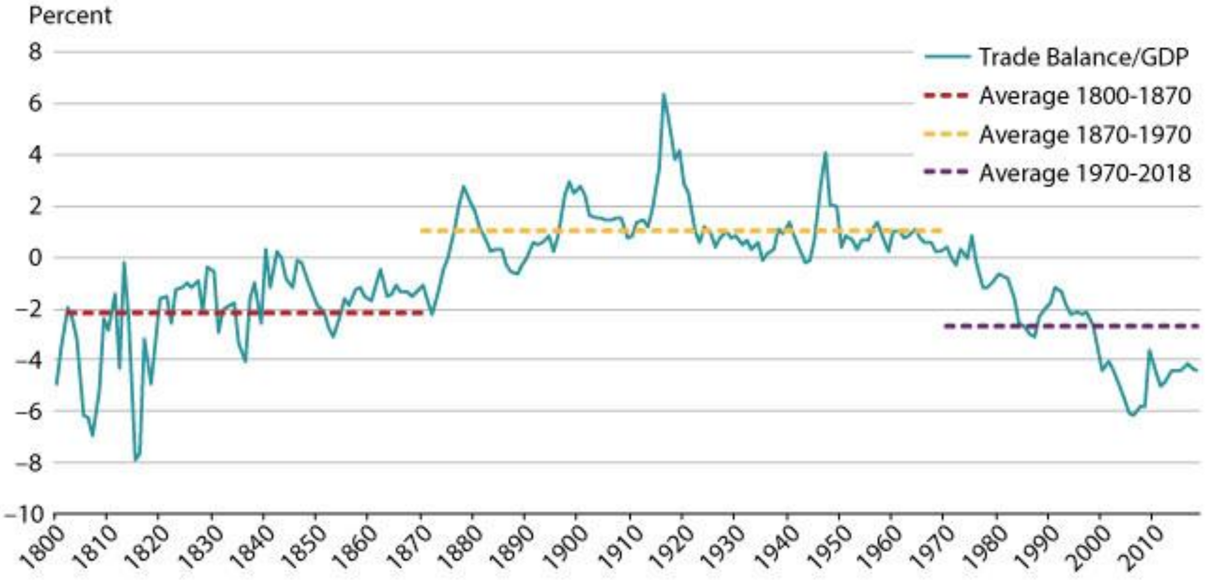
Examples

Since the mid-1980s, the United States has had a growing deficit in tradable goods, especially with Asian nations (China and Japan). The U.S. has a trade surplus with nations such as Australia. The issue of trade deficits can be complex. Trade deficits generated in tradable goods such as manufactured goods or software may impact domestic employment to different degrees compared to trade deficits in raw materials.

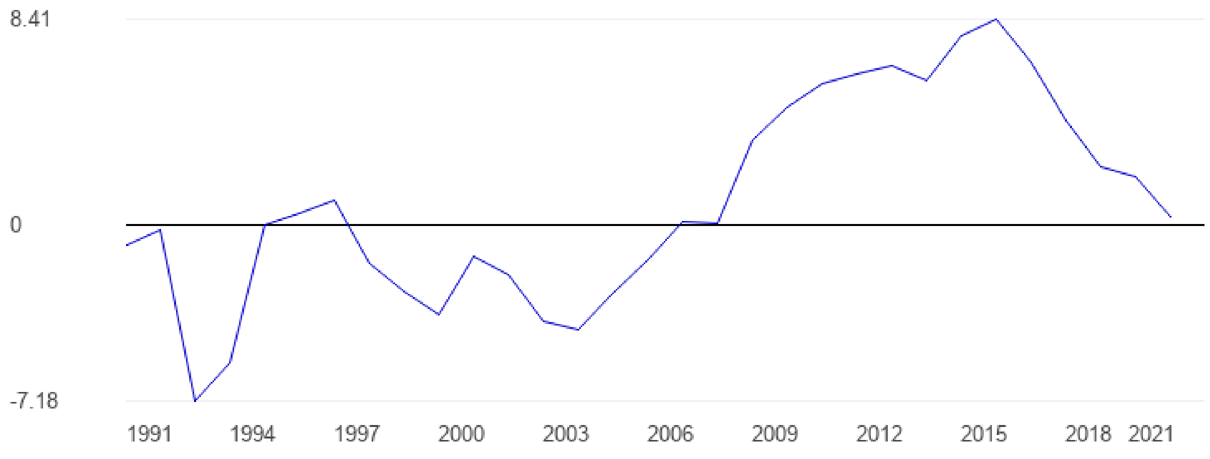
Economies such as Canada, Japan, and Germany which have savings surpluses, typically run trade surpluses. China, a high growth economy, has tended to run trade surpluses.

(Source: https://www.boundless.com/economics/introduction-to-macroeconomics/international-movement-of-goods-and-capital/summary-of-trade-deficit-balance-of-trade-and-trade-surplus/)

Figure 1
U.S. Goods Trade Balance to GDP



SOURCE: Bureau of Economic Analysis, World Trade Historical Database, Measuring Worth, and authors' calculations.



(Source: https://www.theglobaleconomy.com/Hungary/Trade_balance/)

The Balance of Payments

A clear distinction must be made between a country's **balance of trade** (BoT) and **balance of payments (BoP)**. The balance of payments records *all* the financial transactions between the home country and other countries, including payments for visible goods. Thus the trade balance is only part of the balance of payments, which records two broad groups of transactions: **the current account and the capital account**.

The BoT is part of the Current Account. The capital account records the movements of capital (investments) abroad and from abroad, the central bank's reserve account, plus international grants and loans.

(Source: Radványi – Görgényi: *English for Business and Finance: Haladó üzleti és pénzügyi nyelv*könyv. Bp: Akadémiai, 2008., p. 60)

For the sake of clarity, this is how it looks, very broadly, in table form:

BALANCE OF PAYMENTS

I. Current Account	**II. Capital Account**
1. Balance of Trade a. Import (Credit entry (-)) b. Export (Debit entry (+)) 2. Factor Income Balance: international investment positions (regular repayments, dividends from loans and investments *in the future*).	1. Investments (capital movements) abroad and from abroad 2. Reserve Account (the central bank buying and selling of its own currency) 3. International grants and loans

The "Balance of Payments" is called "balance", because, theoretically, any current account surplus will be balanced by a capital account deficit of equal size (or vice versa). There is also a "balancing item", which accounts for statistical errors. Thus,

- current account + capital account ± balancing item = 0

The Balance of Payments is based on the principle of **double entry accounting**. This means that an entry has to be made twice: once when they actually happen, and secondly when they are paid for. For example, that if I buy a computer, that is an addition to my assets. If I pay for it 8 days later, until I pay, the sum I spent on it appears as negative in the "credit" column in my account. When I pay, I enter the sum, my money is less, and the account is zero. Conversely, when I sell a computer, my assets decrease, and when I get money for it, but my liabilities ("demand") increase, because someone owes me that money.

There are five lines where we can follow the movements of goods and capitals. Each movement means different changes (increase or decrease) in different columns:

	Debit (Tartozik)	**Credit (Követel)**
Assets	Increase	Decrease
Expenses	Increase	Decrease
Liabilities	Decrease	Increase
Income/Revenue	Decrease	Increase
Equity/Capital	Decrease	Increase

(Source: http://en.wikipedia.org/wiki/Double_entry_accounting)

To get back to the computer example, let us see what happens.

(1) I have **bought** a computer.

I owe money to the seller (Debit).

My assets increase.

My liabilities (that which I “demand”) decrease.

My income decreases. My expenses increase.

And my capital or equity decreases.

(2) I have **sold** a computer.

I demand money from the buyer (Credit).

My assets decrease.

My liabilities increase.

My income increases.

My expenses decrease.

And my capital or equity increases.

If **the Balance of Payments** is in surplus (more than zero), it means that that more foreign currency came to the country than left it. It is seen in the increase in the Reserve Account of the central bank. If the BoP is in deficit (this is the more frequent case), the opposite happens. If the latter is the case in the long run, there is a danger of the balance-of-payments-crisis ("debt trap"). The country has to get foreign loans, the repayment of which burdens the Balance of Payments. Import and export (trade) falls, and it may lead to the monetary and economic collapse of a country.

Key Points

A positive balance is known as a **trade surplus** if it consists of exporting more than is imported.

A negative balance is referred to as a **trade deficit** (importing more than is exported).

The trade balance is identical to the difference between a country's output and its domestic demand, or the difference between what goods a country produces and how many goods it buys from abroad.

THINK ABOUT IT

1. Is it always a problem if a country imports a lot of goods?

2. What are visible goods and invisible goods?

3. When you work and you get salary for it, what happens in the Credit/Debit chart?

4. What are the dangers of the decreasing Reserve Account?

5. Why is it important for the central bank to be independent of the government?

HOMEWORK

1. Check Hungary's latest figures regarding the Balance of Trade, the Current Account, the Capital Account and the Balance of Payments. (For instance: https://tradingeconomics.com/hungary/indicators)

2. What kind of trends do these figures indicate? How do they reflect the government's policy?

 LANGUAGE EXERCISE

I. True or false?

1. The BoT is in deficit if a country exports more than it imports. __________

2. The BoT is in deficit if a country imports more than it exports. __________

3. Investments form part of the Current Account. __________

4. The Balance of Payments records all the financial transactions between the home country and other countries. __________

5. The sum of the Current Account and the Capital Account is always above zero. __________

II. Match the words and the definitions

1. debt, 2. smuggling, 3. money laundering, 4. tax evasion, 5. deficit, 6. surplus, 7. exchange rate, 8. incentives

a. A situation wherein, or amount whereby, spending exceeds government revenue. ____________________

b. An incentive is something that motivates an individual to perform an action. ____________________

c. Concealing the source of illegally gotten money. ____________________

d. Intentional avoidance of tax payment usually by inaccurately declaring taxable income. ____________________

e. That which remains when use or need is satisfied, or when a limit is reached; excess ____________________

f. The rate at which one currency can be exchanged for another, usually expressed as the value of the one in terms of the other. ____________________

g. The state or condition of owing something to another. ____________________

h. To import or export without paying lawful customs charges or duties. ____________________

III. Fill in the gaps with the appropriate words.

debt, smuggling, money laundering, tax evasion, deficit, surplus, exchange rate, incentives

1. ………………………………… is extremely widespread in the case of excise goods such as beverages and cigarettes.

2. Every transaction is strictly checked in banks to prevent …………………………………

3. Great efforts have been made and austerity measures have been introduced to reduce the national …………………………………

4. High tax rates often force companies to commit …………………………………

5. I managed to change euro to forint at an ………………………………… of Ft300/Euro.

6. In the economic boom of the early 2000s, the US experienced budget …………………………………

7. Small companies would barely survive without government …………………………………

8. When the state has less income than spending, a budget ………………………………… arises.

IV. Provide the applicable word forms. The Hungarian equivalents are given

NOUN	VERB	ADJECTIVE
	to evade	
	to launder	---
balance		
account		
budget		
	---	austere

V. Match the antonyms (words meaning the opposite).

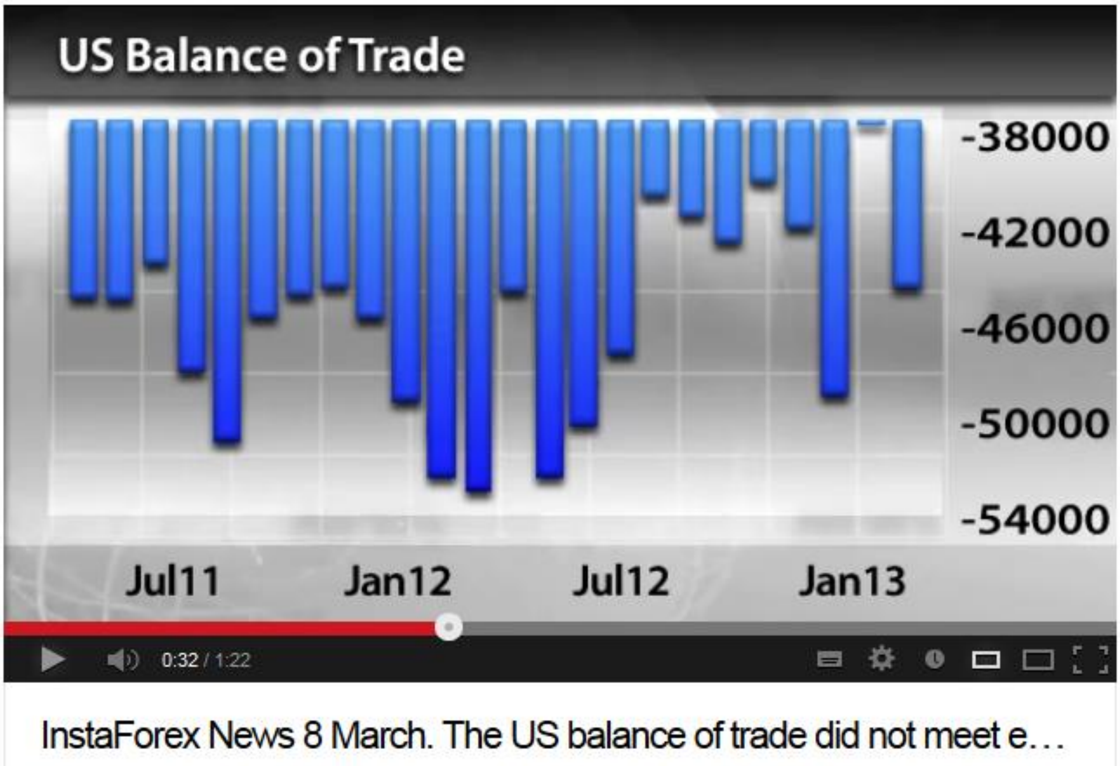
prevention; expense; manufactured goods; deficit; foreign

surplus	
incentive	
income	
domestic	
raw material	

VI. Translate the following text

Egy ország gazdaságának a fejlettségét jól mutatja a kereskedelmi mérlege. Ha ez a mérleg többletet mutat, akkor az adott ország többet exportál, mint importál. Ha a mérleg hiányt mutat, akkor az import mértéke meghaladja az exportot. A jól fejlett gazdaságok, mint például az Egyesült Államok, nem szorulnak rá az exportra, így a kereskedelmi mérlegük általában deficites. A kereskedelmi mérleg része a folyó fizetési mérlegnek. A folyó fizetési mérleg az éppen aktuális pénzügyi folyamatokat jeleníti meg, és a tőkemérleg egyensúlyozza. A folyó fizetési mérleg és a tőkemérleg együtt adja a fizetési mérleget, amelynek az egyenlege elméletileg mindig nulla. A fizetési mérleg is a kettős könyvelés elvén működik. A tranzakciókat egyszer a tényleges megtörténtekor, másodszor pedig a teljesítéskor kell rögzíteni, a „tartozik” és a „követel” oszlopokban. A fizetési mérleg tartós hiánya súlyos gazdasági válságba lökhet egy országot, és megszorító intézkedések bevezetésére lehet szükség.

VIDEO – The US Balance of Trade Did Not Meet Expectations (8 March 2013) (1:12 min)



(Source: http://www.youtube.com/watch?v=4qt8C1KNDUM)

REVISION

1. Define and compare the following terms: Balance of Trade, Current Account, Capital Account, Reserve Account, Balance of Payments.

....

2. What is the basic principle of double-entry bookkeeping?

....

3. What describes the BoT of exporting and importing countries?

....

4. What is the relationship of the Current Account and the Capital Account?

....

5. What does it mean if the Balance of Payments is in deficit?

....

12. Measuring the Output of the Economy: GDP, Budget Deficit and Public Debt

Make sure you know these words before reading the text

Gross Domestic Product, to measure, standard of living, real income, indicator, black market, budget deficit, government (national or public) debt, security, government bond, bill, supranational institutions, to redeem bonds, denominated in a currency

1. GDP as an Indicator of Standard of Living

Gross domestic product refers to the market value of all final goods and services produced within a country during a given period.

GDP per capita is the gross domestic product divided by the country's population. It is not a measurement of the standard of living in an economy; however, it is often used as such an indicator on the rationale that all citizens benefit from their country's increased economic production. Similarly, GDP per capita is not a measure of personal income. GDP may increase while real incomes for the majority decline.

The major advantage of GDP per capita as an indicator of standard of living is that it is measured

- *frequently*,
- *widely*, *and*
- *consistently*.

It is measured frequently in that most countries provide information on GDP on a quarterly basis (every 3 months), allowing trends to be seen quickly.

It is measured widely in that some measure of GDP is available for almost every country in the world, allowing for country-to-country comparisons.

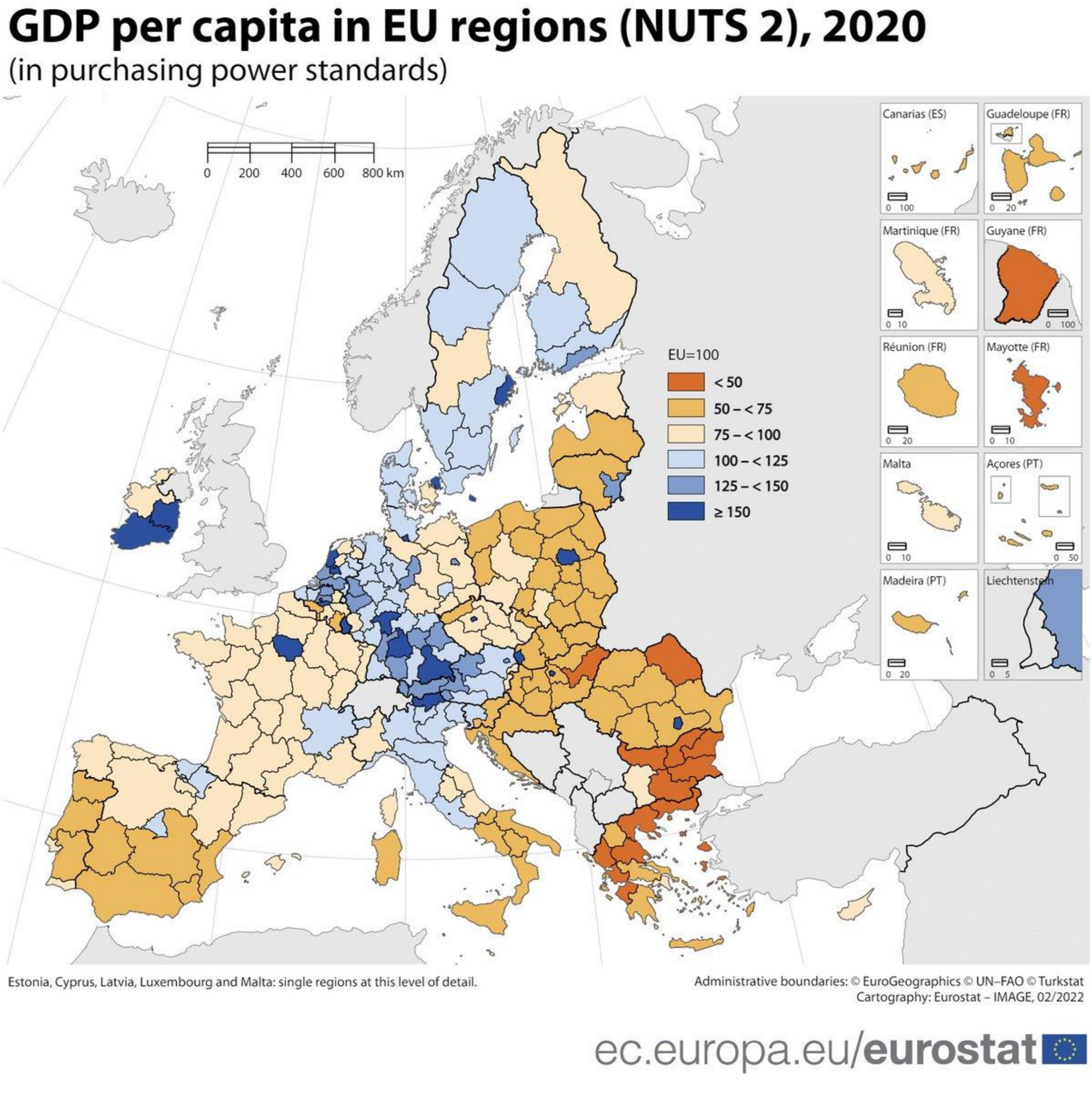
It is measured consistently in that the technical definition of GDP is relatively consistent among countries.

(Source: https://www.boundless.com/economics/measuring-a-nation-s-output-and-income/measuring-gross-domestic-product/gdp-as-an-indicator-of-standard-of-living/)

Some transactions are not so easily measured, and are, thus, not included in GDP. The first category of these transactions is **home production**. If an individual builds his own deck, repairs his own car, prepares his own dinner, or cleans his own house, the service that the individual provides himself or his family is economic activity and has some value to the economy as a whole. However, it is pretty much impossible to assign a monetary value to these actions, and, thus, they are not included in GDP.

The second category of transactions that are not included in GDP are **illegal transactions**. These transitions include things like the buying and selling of illegal drugs, prostitution, smuggling operations, black markets in pirated movies and music, etc. It is very difficult for the government to keep track of the number and size of these transactions because, due to their illegality, the individuals involved in these transactions do everything they can to keep the government from knowing about them.

(Source: https://www.boundless.com/economics/measuring-a-nation-s-output-and-income/measuring-gross-domestic-product/what-s-included-within-gdp/)



GDP per capita in the EU (as of 2020)

2. Impact from Budget Surpluses and Deficits in Government

A budget deficit means that the government has spent more than taxes raised; a surplus means the government spent less than tax revenue.

Impact from Government Budget Deficits

The budget deficit is the amount by which a government's spending ***exceeds*** income over a particular period of time. Also called simply "deficit," or "budget deficit," it is the opposite of budget surplus.

Governments try to raise money in order to balance the budget. Therefore they borrow money from people or from investors. This is the government debt.

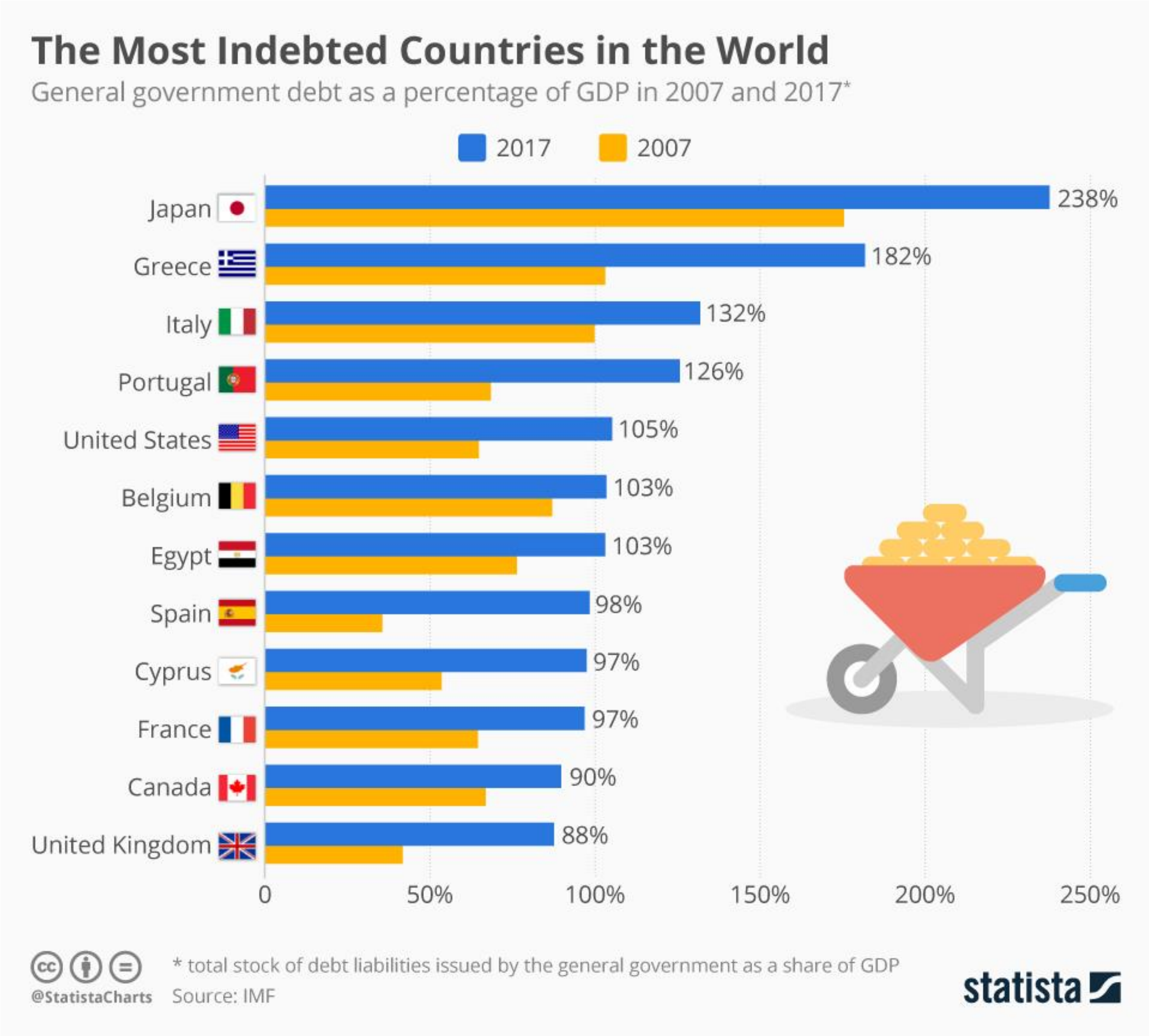
Government debt (also known as public debt, national debt, or sovereign debt) is money (or credit) owed by a central government. It is often measured in percentage of GDP.

As the government draws its income from much of the population, government debt is an indirect debt of the taxpayers. Government debt can be categorized as internal debt, owed to lenders within the country, and external debt, owed to foreign lenders. Governments usually borrow by

(1) issuing securities, government bonds, and bills.

Less creditworthy countries sometimes (2) borrow directly from supranational institutions (such as the IMF or the World Bank). The interest rate in the latter case is lower than in the case of market financing.

Public Debt in Some Countries in % of GDP (as of 2017)



Government and Sovereign Bonds

A **government bond** is a bond issued by a national government. Such bonds are often denominated in the country's domestic currency. Most developed country governments are prohibited by law from printing money directly, that function having been relegated to their central banks. However, central banks may buy government bonds in order to finance government spending, thereby monetizing the debt.

Bonds issued by national governments in foreign currencies are normally referred to as **sovereign bonds**. Investors in sovereign bonds denominated in foreign currency have the additional risk that the issuer may be unable to obtain foreign currency to redeem the bonds.

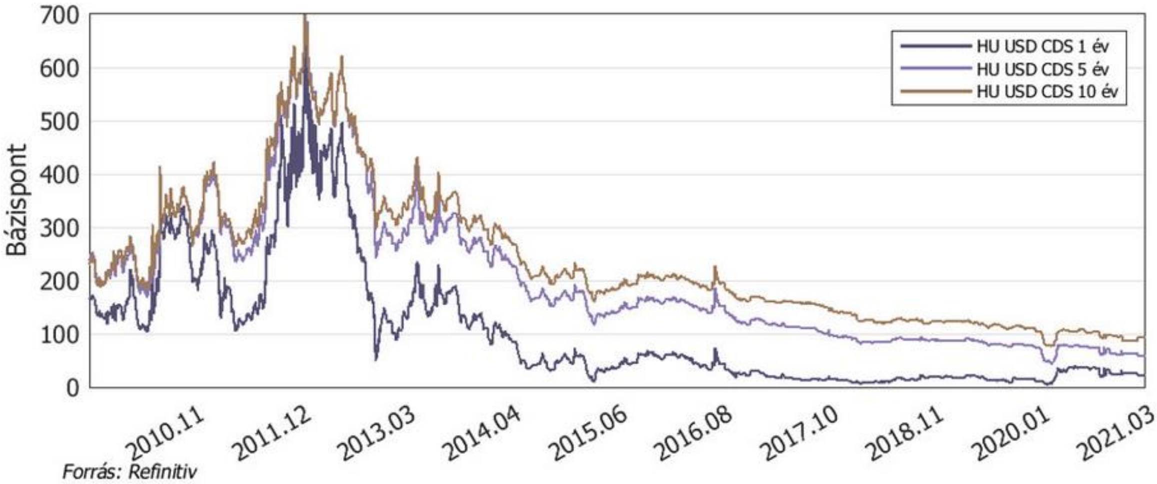
(Source: https://www.boundless.com/political-science/economic-policy/economic-policy/the-public-debt/)

The so-called **CDS fee or CDS spread** (CDS: credit default swap) is used to indicate how risky a country is in terms of selling government bonds. For example, if a US private pension fund decides to raise money by buying Hungarian government bonds, first it looks at the CDS fee of the given country. The number indicates how much more interest the central bank of the foreign country has to pay in exchange for the risk. For instance, the current CDS fee of Hungary is 317 base points, which means 3,17%. This is the amount of interest Hungary has to pay *above* the usual interest rate to be able to sell its bonds. Here are the figures of some countries:

10-year CDS spreads	2013	2023
Norway	14	28
Sweden	16	26
Germany	26	28
UK	36	36
Bulgaria	114	150
Ireland	143	43
Romania	206	317
Hungary	**317**	**243**
Ukraine	841	N/A
Argentina	2,441	1,468
Greece	23,389	197

(Source: ttp://www.dbresearch.com/servlet/reweb2.ReWEB?rwnode=DBR_INTERNET_EN-PROD$NAVIGATION&rwobj=CDS.calias&rwsite=DBR_INTERNET_EN-PROD)

5. ábra: A magyar szuverén CDS-felárak alakulása



Forrás: Refinitiv

(Source: https://www.portfolio.hu/gazdasag/20210520/orszagkockazatok-a-vilagban-veget-ert-a-cds-felar-viragkora-483680)

Balancing the Budget

The public perception of balanced budget is when there is neither a budget deficit or a budget surplus – when revenues equal expenditure – particularly by a government. More generally, it refers to when there is no deficit, but possibly a surplus. A cyclically balanced budget is a budget that is not necessarily balanced year-to-year, but is balanced over the economic cycle, running a surplus in boom years and running a deficit in lean years, offsetting over time.

Balanced budgets, and the associated topic of budget deficits, are a debated point within academic economics and politics. The mainstream economic view is that having a balanced budget in every year is not desirable, while in lean times with budget deficits it is desirable. The US federal government has generally run a deficit since the late 1960s, and the topic of balanced budgets has been a consistent topic of debate.

Crowding Out

In economics, crowding out is any *reduction in private consumption or investment that occurs because of an increase in government borrowing*. If an increase in government spending and/or a decrease in tax revenues leads to a deficit that is financed by increased borrowing, then the borrowing *can increase interest rates, leading to a reduction in private investment*.

There is some controversy in modern macroeconomics on the subject, as different schools of economic thought differ on how households and financial markets would react to more government borrowing under various circumstances.

The weakening of fixed investment and other interest-sensitive expenditure counteracts to varying extents the expansionary effect of government deficits. More importantly, a fall in fixed investment by business can hurt long-term economic growth of the supply side, i.e., the growth of potential output.

The negative effects on long-term economic growth that occur when private fixed investment are crowded out can be moderated if the government uses its deficit to finance productive investment in education, basic research, and the like. The situation is made worse, of course, if the government wastes borrowed money.

(Source: https://www.boundless.com/economics/financial-economics-and-the-financial-system/loans/impact-from-budget-surpluses-and-deficits-in-government/)

THINK ABOUT IT

1. How could a country prevent increasing its national debt?

2. Looking at the chart on public debt, why do you think North Korea's figure is almost negligible, while that of Japan is over 200%?

3. Hungary has officially finished its talks with the IMF and does not wish to borrow money from it. How do you see this decision?


LANGUAGE EXERCISE

I. True or false?

1. The GDP per capita figure is an indicator of the standard of living. ________

2. Home production and illegal transactions are not part of GDP. ________

3. The governments finance the budget deficit by printing money. ________

4. Borrowing from international monetary organisations is usually cheaper than issuing government bonds. ________

5. The CDS fee indicates the interest rates of government bonds. ________

6. Deficit in the budget is not a problem in itself if it occurs in just one year. ________

7. Increased government borrowing may lead to the increase of interest rates and the decrease in private consumption and investment. ________

II. Match the words and the definitions

1. standard of living, 2. consistent, 3. illegal, 4. black market, 5. risk, 6. supranational, 7. boom

a. A time of economic prosperity. ___________________

b. Being above nations or countries. ___________________

c. Being in agreement with itself, coherent, uniform. ___________________

d. Prohibited by law. ___________________

e. A level of material comfort as measured by the goods, services, and luxuries available to an individual, group, or nation. ___________________

f. The illegal business of buying or selling goods or currency in violation of restrictions such as price controls or rationing; a place where these illegal operations are carried on.

____

g. The possibility of suffering harm or loss; danger. ____________________

III. Fill in the gaps with the appropriate words.

standard of living, consistently, illegal, black market, risk, supranational, boom

1. Buying Greek government bonds carries huge ……………….…..……… nowadays.

2. In post-communist countries, the ……………….…..……… is generally low, but rising.

3. In the period of the economic ……………….…..……… of the 2000s, the US had budget surplus.

4. It is very important to measure economic figures ……………….…..………, with the same methods.

5. Purchasing cigarettes from smugglers in the ……………….…..……… is totally ……………….…..………

6. The EU or the IMF are ……………….…..……… organisations.

IV. Provide the applicable word forms. The Hungarian equivalents are given.

NOUN	VERB	ADJECTIVE
		frequent
pirate		
	to exceed	
	to redeem	
cycle		
		sensitive

V. Create antonyms for the following words.

desirable	e.g. **un**desirable
consistent	
personal	

possible	
legal	
believable	
trustworthy	
normal	
necessary	

VI. Translate the following text

Egy ország fejlettségének fontos mérőszáma az egy főre jutó nemzeti össztermék. Ez ugyan önmagában nem méri az életszínvonalat, de mivel gyakran, széles körben és következetesen mérik, az egyes országok adatait össze lehet hasonlítani egymással. A GDP-be nem tartoznak bele az otthoni tevékenységek és az illegális tranzakciók. Egy ország gazdasági helyzetének másik fontos mérőszáma a GDP százalékában kifejezett költségvetési hiány. Mivel egy ország rendszerint többet költ, mint amennyit adókból beszed, költségvetési hiány lép fel. Ennek ellensúlyozása céljából az ország hitelt vesz fel. Ez az államadósság. Hitelt vehet fel magánszemélyektől és befektetésektől, amelyek értékpapírt, államkötvényt vagy kincstárjegyet vesznek, vagy kérhet hitelt nemzetközi szervezetektől is. A hitelek kockázatát a CDS-felár fejezi ki. Hosszabb távon az állam eladósodottsága a kamatok emelkedéséhez, a fogyasztás és a beruházások visszaeséséhez vezet.

VIDEO – Cutting Loose: Hungary Pays Off IMF Debt, May Eye EU Exit (18 August 2013) (3:11 min)

(Source: http://www.youtube.com/watch?v=BzToBNKVwBs)

REVISION

1. What is Gross Domestic Product?

....

2. What is not included in GDP?

....

3. How do countries balance the budget deficit?

....

4. How is public debt measured?

....

5. What is CDS spread?

....

6. What are the effects of long-term debts?

....

GLOSSARY

English – Hungarian

Note: verbs (to + infinitive) can be found under letter T.

A

adjusted	kiigazított
Ad Valorem Tax	általános forgalmi adó, ÁFA
aggregated	összesített, halmozott
appreciation	értéknövekedés
assets	vagyontárgyak, eszközök (mérlegben)

B

balance	mérleg
balance of payments	fizetési mérleg
balance of trade	kereskedelmi mérleg
barrier	akadály
basic commodities	alapvető élelmiszerek
bill	kincstárjegy
black market	feketepiac
bond	kötvény
budget deficit	költségvetési hiány

C

capital	tőke
capital account	tőkeszámla
cash	készpénz
CDS spread (CDS fee)	CDS felár
ceiling	plafon
coincident	egyidejű, egyszerre megjelenő
command economy	központosított tervgazdaság
commodities	áruk
comparative advantage	viszonylagos előny
competitive advantage	versenyelőny
complement	kiegészítő termék
constant	állandó
consumer	fogyasztó
consumption	fogyasztás
contraction	összehúzódás, zsugorodás
corporate tax	társasági adó
current account	folyó fizetési mérleg / folyószámla
current accounts balance	folyó fizetési mérleg

curve	görbe (diagramban)
customs	vám

D

debt trap	adósságcsapda
deductions	levonás (adóból)
deferred	elhalasztott
deficit	hiány
demand	kereslet
denominated (in a certain currency)	jegyzett (egy bizonyos valutában jegyzett)
depreciation	értékcsökkenés
disposable	rendelkezésre álló
distribution	elosztás
domestic	hazai
double-entry accounting	kettős könyvelés

E

elasticity	rugalmasság
entrepreneur	vállalkozó
equilibrium	egyensúly
equity	méltányosság / részvénytőke
estate tax	örökösödési adó
exchange rate	árfolyam
excise tax	jövedéki adó
exemptions	adó alóli mentesség
expansion	terjeszkedés, bővülés

F

fair market value	becsült piaci érték
figures	adatok
fiscal paradise	adóparadicsom
fixed rate bond	fix kamatozású kötvény
fluctuation	hullámzás, ingadozás
free trade	szabadkereskedelem
fungible items	felcserélhető termékek

G

GDP (Gross Domestic Product)	bruttó nemzeti össztermék
GDP per capita	egy főre eső bruttó nemzeti össztermék
goods	áru(k)
government bond	államkötvény
government debt	államadósság

gross income	bruttó jövedelem

H

health savings plan	magán-egészségpénztári előtakarékosság
Her Majesty's Revenue and Customs (HMRC)	adóhivatal (az Egyesült Királyságban)

I

IMF (International Monetary Fund)	Nemzetközi Valutaalap
incentives	ösztönzők
income	jövedelem
indicator	mutatószám
inferior	alacsonyabbrendű
income tax	személyi jövedelemadó
inputs	ráfordítás
interest	érdek
interest	kamat
interest rate	kamatláb
Internal Revenue Service (IRS)	adóhivatal (az USA-ban)
intrinsic value	belső (lényegi) érték
investment	befektetés

L

labour	munka, munkaerő
lease	bérbeadás/bérbevétel
liabilities	kötelezettségek (mérlegben)
liquidity	likviditás (a rendelkezésre álló források)
loan	kölcsön

M

marginal utility	határhaszon
market price	piaci ár
medium of exchange	csereeszköz
money laundering	pénzmosás
money supply	a forgalomban lévő pénz mennyisége

N

national debt	államadósság
negatively sloped	ereszkedik (görbe)

O

on the rationale that	abból a megfontolásból, hogy
overheated	túlfűtött, túlpörgetett

P

payroll tax	fizetésből levont járulékok és adók
peak	csúcspont
pirated movie	kalózkiadásban terjesztett film
poll tax	egyénekre vagy háztartásokra a jövedelemtől függetlenül kivetett „fejadó”
positively sloped	emelkedik (görbe)
preference	előny(ben részesítés)
produce	termény
product	termék
property tax	ingatlanadó
public debt	államadósság
purchasing power	vásárlóerő

Q

quantity	mennyiség

R

raw material	nyersanyag
real income	reáljövedelem
recession	visszaesés
rent	bérlet
reserve account	devizatartalék
resources	források
retail	kiskereskedelem
retirement plan	magánnyugdíj-előtakarékosság
revenue	állami bevétel

S

scarcity	szűkösség, hiány
security	értékpapír
services	szolgáltatások
short-run	rövidtávú
smuggling	csempészet
social objectives	társadalmi célok
standard of living	életszínvonal
substitute	helyettesítő termék

supplier	gyártó
supply	kínálat
supranational institutions	nemzetközi szervezetek
surplus	többlet

T

tariffs	illeték
tax	adó
tax evasion	adóelkerülés
tax haven	adóparadicsom
tax refund	adóvisszatérítés
taxable income	adóalap (fizetésé)
to adjust	kiigazít/hozzáigazít
to affect	befolyásol
to allocate	hozzárendel
to be directly proportionate to	egyenes arányban áll
to be inversely proportionate to	fordított arányban áll
to charge	felszámít (árat)
to encourage	bátorít
to impose	kivet (adót)
to induce	előidéz
to levy	kivet (adót)
to purchase	megvásárolni
to redeem (bonds)	visszaváltani (kötvényt)
to subtract	kivon, levon
trade balance	kereskedelmi mérleg
trade-off	kompromisszum
trough	vályú / mélypont

U

unit of account	elszámolási egység

V

value	érték
Value Added Tax, VAT	általános forgalmi adó, ÁFA
velocity	sebesség (a pénzforgalom sebessége)

W

willingness	hajlandóság
willingness to pay	fizetési hajlandóság