

**MINISTRY OF HIGHER AND SPECIAL  
SECONDARY EDUCATION  
TASHKENT FINANCIAL INSTITUTE**

**Foreign languages department**

***“English for financial affairs”***

**teaching aids**

**Tashkent 2017**

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Ушбу *“English for financial affairs”* mavzusidagi o‘quv qo‘llanmada ingliz tilidagi moliya sohalarida keng qo‘laniladigan alohida atamalar va iborlarni o‘zlashtirishga mo‘ljallangan. Qo‘llanmada ingliz tilidagi manbalardan olingan matnlar va ulardagi lug‘at boyligini o‘zlashtirish uchun kerakli bo‘lgan mashqlar jamlangan. Ushbu mashqlar talabalarning amaliy mashg‘ulotlari va mustaqil ishlarini tashkil etishda samarali vosita hisoblanadi.

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## **Preface**

*“English for financial affairs” is designed for third year students. The book covers 8 units in the areas Economy and finance with different vocabulary, lexical, grammar activities, writing assignments. The articles are challenging but either overly complex or too long. At the end of each article there is a glossary containing definitions of difficult or unfamiliar words.*

*The text seeks to enhance students’ analytical skills. Since reading comprehension is the necessary prerequisite to critical analyses, one of the purposes of this book is to improve reading comprehension by intensive as well as extensive reading.*

*Students begin each chapter by previewing the material before moving on to reading comprehension exercises that analyse main ideas, major points and specific details.*

*Vocabulary acquisition is encouraged through exercises centering on difficult words as well as commonly used idioms and expressions. Each unit also includes discussion questions and writing assignments. This book includes the list of the glossary.*

*The text, which is learner centered, focuses on reading as an interactive process involving reader, writer and text and implement the integrated skills approach to English language learning.*

## **So'zboshi**

Taqriz uchun taqdim etilgan *“English for financial affairs”* mavzusidagi o'quv qo'llanmada ingliz tilidagi moliya sohalarida keng qo'laniladigan alohida atamalar va iborlarni o'zlashtirishga mo'ljallangan. Qo'llanmada ingliz tilidagi manbalardan olingan matnlar va ulardagi lug'at boyligini o'zlashtirish uchun kerakli bo'lgan mashqlar jamlangan. Ushbu mashqlar talabalarning amaliy mashg'ulotlari va mustaqil ishlarini tashkil etishda samarali vosita hisoblanadi.

Bundan tashqari, qo'llanmada har bir matnni o'qib tushunish uchun yangi so'zlar ro'yxati va mavzuga oid bilimlarni mustahkamlashga yo'naltirilgan amaliy

mashqlarni o'z ifodasini topgan. Mavzularga oid yangi so'zlar turli xil topshiriqlarda takrorlanib keladi va talabalarining ular asosida o'z fikrlarini bayon etishlariga imkon beradi. Berilgan savollar va vazifalar matnlarning mazmunini chuqurroq anglashga va yangi so'zlarni eslab qolishga ko'maklashadi. Matnlar mazmuni ingliz tilidagi moliyaviy sohaga oid so'z va iboralar bilan birga talabalarga zamonaviy bank tizimlari hamda ularning vazifalari haqida ham ma'lumot beradi.

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# Unit 1

## Multinationals

### Preparation

1. What is a multinational company?
2. Which multinationals have subsidiaries in your own country?
3. Why do the governments of some countries encourage multinationals to set up production or sales facilities in their midst while others discourage this type of foreign investment?

The term ‘multinational’ is used for a company which has **subsidiaries** or sales facilities throughout the world. Another expression for this type of business enterprise is ‘global corporation’. Many of these giant organizations are household names such as Coca Cola, Heinz, Sony, Hitachi, IBM, Akzo and General Motors. Companies like these control **vast** sums of money and they operate in countries with widely differing political and economic systems.

Looking back into history, we can find two main reasons for the development of multinationals. Firstly, when companies found that their national markets had - become **saturated**, they realized that they could only increase profits by setting up subsidiaries abroad. Secondly, if a country set up trade barriers – usually tariffs or quotas – against a company’s products, then the only alternative for the company was to establish a factory or sales organization in the country concerned.

More recently, **the economic boom** of the 1960s led to a rapid growth of **globe-trotting** enterprises. In the highly industrialized countries rising incomes attracted the multinationals; in the developing countries, the availability of cheap labour **lured** many companies into building new factories and assembly plants.

In earlier times, most countries gave the multinationals a ‘red carpet’ welcome because they saw such foreign investment as creating much-needed employment, stimulating the business sector generally, and possibly earning foreign currency if the company’s

products were exported. More recently, however, the tide has turned against the multinationals. They are now **viewed** by many with suspicion; once heroes, they are now **villains** on the international business stage.

Tension between host country and multinational is inevitable in many cases because multinationals do **pose** a threat to national sovereignty. The multinational is big and rich. It often operates in industries which are difficult to enter and of vital national importance, e.g. the computer, chemical and automobile industries. Most important of all, the main objective of the multinational is to organize its activities around the world so as to maximize global profits and global market shares. Each subsidiary is part of an international network of **affiliates**. These all interact with each other. Each part serves the whole. The centre controlling the network – the multinationals' headquarters - is not under the control of the host government. It is frequently thousands of miles away from these subsidiaries. To illustrate this principle of interaction between affiliates, we can take the example of the Canadian company, Massey Ferguson. It can make tractors in the USA for sale in Canada that contain British engines, French **transmissions** and Mexican axles: all products of the company's subsidiaries. IBM is another company which is transnational in **scope**. A typical 360-series computer may include components from four or five countries.

Increasingly, in recent years, governments have had to ask themselves whether multinationals are harming their national interests. In highly industrialized countries, a major source of worry has been that these foreign giants will take over smaller companies and gradually dominate an important industry. If this happens, vital decisions affecting the economic interests of the country may be taken in **boardrooms** thousands of miles away from that country. The danger of this kind of domination is perfectly **exemplified** by a controversial takeover which occurred in France. In 1966, the French computer company Machines-Bull had 66% of its **stock** bought up by General Electric. This meant in effect that France no longer had its own computer industry. As a result, the French government felt bound to set up its own data processing and computer concern which cooperated closely with the German company Siemens and the Dutch company Philips. Undoubtedly, governments are uneasy when



they feel that decisions affecting plants and employment in their countries are being made by remote control. Furthermore, unions often feel that their **bargaining** power is weakened when they have to deal with people operating from remote decision centres. Developing countries, in particular, have become concerned about their dependence on foreign investment in key sectors of their economy. They have become aware that foreign **subsidiaries** often take most of their profits out of the country rather than reinvest them in the company. Sometimes, the flow of **funds** causes disastrous **fluctuations** in the exchange rates of their currencies. Certain countries have accused the multinationals of political interference. Another strategy used by governments is to limit the amount of profits that a foreign subsidiary may **repatriate** in a given period. Arguing against multinationals, critics cry in **shrill** tones that these organizations engage in anti-competitive activities, insensitively shut down plants, **make** huge **bribes** to gain contracts, interfere politically, destabilize currencies, underpay their workers and so on. Those speaking for the defence see these corporations almost as international agencies, promoting peace, providing better, cheaper products, and bringing much needed resources, expertise and employment to the host countries.

### Language Notes

<i>Household names:</i>	names familiar to almost everyone.
<i>Economic:</i>	note the different meanings of <i>economic</i> and <i>economical</i> . Examples: 'The economic situation of our country is good.' (Material prosperity) She is an economical housewife.' (Not wasteful, thrifty)
<i>Set up</i>	a company sets up or establishes subsidiaries/factories/plants abroad.
<i>Economic boom</i>	a sudden increase in business activity. When business activity declines sharply, the term used is <i>slump</i> .
<i>Red carpet welcome</i>	: more usually 'to give someone the red carpet

	<p>treatment'. To</p> <p>welcome warmly and to give lavish hospitality. Presidents and Prime Ministers, when travelling abroad, are usually given the red carpet treatment.</p>
<i>Scope</i>	range, e.g. 'The scope of his thesis is very wide'
<i>Took over</i>	<p>: took control of. In this context, note the phrase <i>takeover bid</i>, i.e. an offer</p> <p>by one company to buy the stock of another and so control it, e.g. 'Company X made a takeover bid for Company Y.'</p>
<i>Domestic market</i>	home market. Contrast this term with a company's <i>foreign</i> or <i>overseas</i> markets.
<i>Bought up</i>	the sense of <i>up</i> is <i>all</i> or <i>as much/many as possible</i>
<i>Bound to</i>	an obligation to.
<i>Concerned about</i>	worried about. Note the difference in meaning between: <i>concerned about</i> (worried about), <i>concerned in</i> (involved in). Examples: 'I am concerned about my health.' 'He was concerned in many financial ventures.'
<i>Classic case</i>	perfect example.
<i>Critics</i>	a critic is a person who criticizes or judges someone or something. He writes criticism.
<i>Interfere</i>	interfere <i>in</i> someone's business or affairs, but interfere <i>with</i> something.
<i>Expertise</i>	expert knowledge. <i>Know-how</i> is an alternative

	expression.
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### A Comprehension

1. What are some of the main characteristics of multinational companies?
2. Host countries used to look upon the multinationals as ‘heroes’. Why?
3. The writer describes the OECD guidelines to multinationals as a *gentlemanly* attempt to regulate their activities. Why does he use the word *gentlemanly* and what tone does he employ?
4. Multinationals have been described as having an organic structure. In what sense is this an appropriate expression for the way they are organized?
5. What point is the writer trying to make when discussing the case of SKF’s Italian affiliate RIV?
6. Complete this sentence. The French government felt it had to set up its own data processing and computer concern because .....
7. Multinationals have been accused of decision-making by *remote control*. What does this phrase mean? State briefly some of the problems that can arise from this practice.
8. Some governments have begun to insist that foreign companies can only operate in their country on a joint venture basis. What can be gained and lost by such a policy towards foreign investment?

### B Vocabulary

**1. Find an appropriate word for each blank space. In all sections the initial letter of each word is provided.**

- a) Most multinational companies are vast enterprises with networks of s..... or a..... throughout the world. Originally they expanded overseas because trade barriers such as t..... and q..... had been set up against their goods.
- b) When incomes are rising and business is thriving , in other words, when there is an e..... b..... in a country, a multinational may decide to establish a subsidiary there.

Later, however, the government of the country may only allow the company to operate on a j..... v..... basis, in which case it will compel the company to reduce its s..... to a fixed percentage. It could even restrict the subsidiary by allowing only a fixed proportion of profits to be r.....

c) The OECD code gave g..... on how multinationals should behave. None of its provisions were l..... e....., and therefore some say it lacked legal teeth.

d) A factory whose production resources are not being fully utilized is said to be suffering from o..... .

## 2. Complete each sentence using an appropriate form of the word in *italics*.

Example:

*profit* This is one of our most *profitable* product lines.

a) *enterprise* What we need at the moment is an ..... manager.

b) *differ* The two products look, taste and feel the same. It is impossible to ..... between them.

c) *basis* She needs more experience, but ..... she is a first-class buyer.

d) *tension* When I asked for an increase in salary, the atmosphere here became somewhat .....

e) *threaten* The leaking of the results of our market survey poses a serious ..... to company security.

f) *rich* The oil ..... of certain Arab states are known to all.

g) *market* Our sales director doubts whether this ingenious but complex toy is really .....

h) *worry* The lack of job opportunities for young people is very .....

i) *decision* Hesitant! Vacillating! Never making up his mind! What an..... chairman.

j) *remote* It is not ..... possible that I shall become head of this department.

k) *intrusion* A good chairman in a meeting should not be too .....

l) *involve* Unfortunately, our ..... in this deal has now become public knowledge.

m) *strategy* This area is of great ..... importance in our promotional campaigning.

**3. Circle the number next to the most appropriate answer.**

a) When a market becomes *saturated* :

1. it allows a new company to enter easily and quickly.
2. it offers no potential for a company to develop its sales.
3. it immediately begins to attract foreign investment.

b) *Globe-trotting enterprises* are those which:

1. prefer to operate in foreign markets rather than domestic ones.
2. seek to expand their business activities by setting up organizations abroad.
3. believe that greater profits are to be earned abroad than in their own countries.

c) The best definition of a *developing country* is that:

1. it is at a very high level of economic and social development.
2. it is still in the process of becoming a highly industrialized nation.
3. it is still at a stage well below its maximum economic potential.

d) One difference between a *conglomerate* and an *affiliate* is that the former:

1. usually has a more complex organization and engages in diverse business activities.
2. is always more stable financially and more profitable.
3. is a large organization which only engages in international trading.

e) If multinationals *insensitively shut down plants* :

1. they have no intention of compensating the workers of these plants.
2. they make such decisions without consulting the government of the host country.
3. they pay little attention to the interests of those in the host country.

**C Language Practice**

**1. Use the groups of words in their given order and make meaningful sentences.**

Example:

Many/these corporations/household names/Heinz, Coca Cola

- Many of these corporations are household names such as Heinz and Coca Cola.

- a. Companies/national markets/become saturated/often decide/subsidiaries abroad
- b. Economic boom/1960s/led/rapid growth/multinational activity.
- c. In earlier times/multinationals/considered/heroes/but now/view/suspicion.
- d. Many countries/only allow/foreign investment/joint-venture basis.
- e. Some people regard multinationals/threat/national sovereignty.
- f. Some developing countries/concerned/dependence/foreign investment/ key sectors/economy.
- g. ITT/American conglomerate/accused/interfering/political affairs/Chile.
- h. The principle/interaction/well exemplified/company/Massey Ferguson.

**2. Rewrite each of the following groups of sentences as one complex sentence.**

**Do not use *and*, *but* or *because*. Make any necessary changes or additions.**

Example:

Multinationals should be prevented from bribing government officials. A code should be devised to achieve this aim. This is vital.

- *It is vital that a code should be devised to prevent multinationals from bribing government officials.*

- a) Multinationals were once considered heroes. They are now regarded as villains. This is somewhat surprising.
- b) Foreign companies may have good intentions. They may have bad intentions.

Their activities will inevitably be closely scrutinized by host governments.

c) General Electric bought up the French company Machines-Bull. France no longer had a computer industry. This worried many Frenchmen.

d) SKF took over the Italian company RIV. It immediately started feeding RIV with export orders. The aim was to help the Italian company recover financially.

e) Governments are not happy about decisions being made by remote control. These decisions often affect plants and employment. Unions also are not pleased. They fear their power may be weakened.

## **D Oral Work**

### **1. 1. Role Play**

A television broadcasting organization has invited *a small group of multinational executives* to participate in a panel discussion. They are to start the ball rolling by speaking in support of the following debating theme:

‘Multinationals are, on balance, a force for good in the world and strong restrictions on their activities are unnecessary.’

*A critical studio audience* has been assembled to challenge the views of the executives.

*A neutral chairman* will guide the discussion. *An eminent politician* will listen to the debate, sum up at the end, and choose the most effective group – executives or studio audience.

*A studio manager* will organize the debaters and will have the right to speak when necessary.

Enact this television debate.

### **2. Discussion Topics**

a) What are the advantages of working for a large multinational company rather than for an organization which operates in one country only?

b) Choose two or three world-famous multinational companies operating in your country. What kind of reputation does each of them enjoy? Could the ‘image’ of any company be improved?

## **E Writing Exercises**

1. ‘Multinational companies may possibly have some part to play in the economic life of underdeveloped and developing nations. It is highly doubtful, however, that in developed, highly industrialized countries, these companies bring enough benefits to offset their harmful activities.’

Discuss this statement, illustrating your arguments with examples.

2. A foreign magazine specializing in current affairs has asked you to send a short article about a multinational company which operates in your country. Write this article, including any information that you think might interest the foreign reader in the country concerned.

## Glossary :

<i>subsidiaries</i> <i>saturated</i> <i>affiliates</i> <i>funds</i> <i>villains</i> <i>exemplified</i> <i>shrill</i>	<i>pose</i> <i>economic</i> <i>transmissions</i> <i>fluctuations</i> <i>globe-trotting</i> <i>scope</i> <i>conglomerate</i>	<i>boom</i> <i>bargaining</i> <i>lured</i> <i>boardrooms</i> <i>repatriate</i> <i>entrepreneurs</i> <i>stock</i> <i>make bribes</i>
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## UNIT2

### Bribery- an inevitable evil?

#### Preparation

1. Graft; payola; slush money; speed money (India); dash (Nigeria); shakedown. What do you think all these words and phrases have in common?
2. What kinds of bribes are offered in the business world? Can such payments be classified in any way?
3. Is bribery in business inevitable or can it be eliminated?

Students taking business courses are sometimes a little surprised to find that lectures on business ethics have been included in their syllabuses of study. They often do not **realize** that, later in their careers, they may **be tempted** to **bend** their **principles** to get what they want; perhaps also they are not fully aware that bribery in various forms is on the increase in many countries, and in some, this type of corruption has been a way of life for centuries.

In dealing with the topic of business ethics, some lecturers ask students how they would act in the following situation: suppose you were head of a major softdrinks company and you want to **break into** a certain overseas market where the growth potential for your company is likely to be very great indeed. During **negotiations** with government officials of this country, the Minister of Trade makes it clear to you that if you offer him a substantial bribe, you will find it much easier to get an import license for your goods, and you are also likely to avoid bureaucratic delays', as he puts it. Now, the question is: do you pay up or stand by your principles? It is easy to talk about having high moral standards, but, in practice, what would one really do in such a situation? Some time ago the British car manufacturer, British Leyland, was accused of operating a 'slush fund', and of other questionable practices such as paying agents and purchasers with **padded commissions**, offering additional discounts and making payments to numbered bank accounts in Switzerland. The company rejected these **allegations** and they were later withdrawn. Nevertheless, at this time, there were people in the motor industry in Britain who were prepared to say



in private: 'Look, we're in a wheeling-dealing business. Every year we're selling more than a £1,000 million worth of cars abroad. If we spend a few million greasing the palms of some of the buyers, who's hurt? If we didn't do it, someone else would'.

It is difficult to **resist** the impression that bribery and other questionable payments are on the increase. Indeed, they seem to have become a fact of commercial life. To take just one example, the Chrysler Corporation, third largest of the US motor manufacturers, disclosed that it made questionable payments of more than \$2.5 million between 1971 and 1976. By making this **revelation**, it joined more than 300 US companies who had admitted to the US Securities and Exchange Commission that they had made **dubious** payments of one kind or another- bribes, facilitating payments, extra discounts, etc. - in recent years. For discussion purposes, we can divide these payments into three broad categories. The first category consists of substantial payments made for political purposes or to secure major contracts. For example, the US conglomerate ITT (International Telephone and Telegraph Corporation) offered a large sum of money support of a US presidential candidate at a time when it was under investigation for possible violations of the US anti-trust law. This same company, it was revealed, was ready to finance efforts to overthrow the Marxist government of Chile whose President was Salvadore Allende.

The second category covers payments made to obtain quicker official approval of some project; to **speed up the wheels of bureaucracy**. An interesting example of this kind of payment is provided by the story of a sales manager who had been trying for some months to sell road machinery to the Minister of Works of a Caribbean country. Finally, he hit upon the answer. Discovering that the minister was a bibliophile, he bought a rare edition of a book, slipped \$20,000 within its pages, then presented it to the minister. This man examined its contents, then said: "I understand there is a two-volume edition of this work". The sales manager, who was **quick-witted**, replied: ' My company cannot afford a two volume edition, sir, but we could offer you a copy with an appendix!' A short time later, the deal was approved.

The third category involves payments made in countries where it is traditional to pay people to facilitate the passage of a business deal. Some Middle East countries would be included on this list, as well as certain Far Eastern countries. The payments may be made by a foreign company to ensure a tender is put on a selective contract list or the company may pay so that an import license for essential equipment is approved. Sometimes an expensive gift may be necessary to soften up a government official.

The Minister of Health of that nation then ordered that each **phial** be opened for inspection, thereby destroying the whole shipment. Is it possible to formulate a code of rules for companies, which would outlaw bribery in all its forms? The International Chambers of Commerce (ICC) favours a code of conduct, which would ban the giving and seeking of bribes. This code would try to distinguish between commissions paid for real services and padded fees.

## Language Notes

<i>Taking business courses</i>	a person takes, follows or goes on a course of study. <i>Break into a market:</i> one could also say get a foothold in.
<i>Stand by your principles</i>	stick to or maintain your high standards of behaviour.
<i>Slush fund</i>	a fund used to make illegal or questionable payments. Slush is literally melting- often dirty- snow.
<i>Padded commissions</i>	commissions which are in excess of the normal or 'going' rate.
<i>Greasing the palms</i>	paying bribes.
<i>Clinch a deal</i>	conclude a deal successfully
<i>On the take</i>	receiving bribes
<i>Square with</i>	reconcile; equate with

### A Comprehension

1. What purpose do lectures have in asking students the question about the softdrinks company?
2. What argument might someone in the British motor car industry use to justify the giving of bribes?
3. Why was the US company ITT criticized for making a large financial contribution to a political campaign?
4. The Minister of Works of the Caribbean country did eventually award the contract to the sales manager. What finally persuaded him to do this?
5. Explain briefly the difference of opinion existing within the International Chambers of Commerce about how the organization should deal with bribery.

### B Vocabulary

1. Complete each group of sentences using an appropriate form of the word in *italics*.

#### *Ethics*

- a) Giving a bribe to secure a contract would be considered ...by an honest businessman.
- b) When working under pressure, someone might find it hard to do what is ... correct.

#### *Corrupt*

- a) ...can in some countries become the normal ingredient of an aggressive sales policy.
- b) Some officials will under no circumstances accept bribes. They are... .
- c) He was charged with ... accepting unauthorized payments. *Moral*

### *Approve*

- a) Securing official ...for the import of goods can be costly in some countries.
- b) Tenders for contracts have to be submitted in the ...form.
- c) Many authorities express public ...of bribery, yet do little to try to stamp it out.
- d) The goods will be sent to you on ... .

### *Temp*

- a) To many people, the offer of a country house would be very ... .
- b) Most people experience the ...to act against their principles.

### *Admit*

- a) It is, ..., difficult to know the right course to follow in certain situations.
- b) An ...fact at his trial was that he had offered a bribe.

## **1. Supply any appropriate word for each blank space.**

In many countries, it is common to pay someone to ease the passage of a business ... . For a company ...into these markets for the first time, the ...to use bribery is very great indeed. In many cases, the company will have to pay inflated ...to an agent or make other such payments if an order is to be ... . Later, there will be the routine handout to make sure the consignment of goods is ... through customs. Although an international business community like the ICC can give guidelines to companies, it cannot ...bribery by its own efforts. It is up to governments in those countries where bribery is ...to help stamp out this ... by bringing in laws against corruption and making sure these are ... .

## **2. Circle the letter next to the most suitable interpretation.**

- a) Those who are tempted to bend their principles: (1.4)
  - (i) generally are people without any principles.
  - (ii) usually change their principles according to circumstances.
  - (iii) rather unwillingly make some kind of compromise.
- b) If you are in a wheeling-dealing business, (1.27) you should expect:
  - (i) to be involved in deals worth millions of pounds.
  - (ii) to have frequent and extensive disputes with dealers.
  - (iii) to work fast under pressure to get results.
- c) Speeding up the wheels of bureaucracy (1.59) will probably:
  - (i) reduce administrative delays for a company.
  - (ii) involve many contacts with official machinery.
  - (iii) mean greater interference by government officials.
- d) When a tender is put on a selective contract list: (1.76)
  - (i) a company gains an advantage over some of its competitors.
  - (ii) no other company is allowed to bid for the contract.

- (iii) a company is almost certain to be awarded the contract.
- e) Industry is caught in a web of bribery.(1.105) This statement implies that:
  - (i) bribery is widespread and difficult for a businessman to avoid.
  - (ii) almost everyone in industry is engaged in taking bribes.
  - (iii) anyone entering industry will almost certainly be corrupted.

## **C Language Practice**

### **1. Make sentences from these notes.**

- a) Argued; bribery; widespread; industry; many countries.
- b) Businessmen; used to; payments; customs officers; ensure; goods; rapidly.
- c) Many companies; USA; admitted; bribes; large; contracts.
- d) Some governments; pressure; foreign companies; donations; political purposes.
- e) US company ITT; unsuccessful; attempt; finance; overthrow; Marxist regime; Chile.
- f) The International Chambers of Commerce; proposed; council; set up; administer; code.

### **2. Forming complex sentences: rewrite each of the following groups of sentences as one sentence. Do not use *and*, *but* or *because*. Make any other necessary changes.**

- a) Many enterprises have to choose between giving in to extortion or not doing business. They are usually willing to pay bribes to stay in the market. This should surprise no one.
- b) Some Middle East governments are worried about their image abroad. They have decided to investigate the conduct of certain agents. The commissions of these agents are said to be excessive.
- c) The ICC recognizes that political contributions are usually legitimate. It also realizes that these may sometimes be used as bribes. It argues that governments should make laws to ensure such payments are recorded.
- d) Many people are pessimistic. The ICC is convinced bribery can be limited. Companies must be willing to disclose details of questionable payments they are asked to make.

### **3. Complete these sentences by supplying the appropriate prepositions.**

- a) The ICC drew ...a report in which it put ...proposals to limit the growth of bribery.
- b) The report, while acknowledging it was impossible to stamp ...the practice entirely, laid ...certain principles of conduct for businesses.
- c) In the USA, people say that since the business community has failed to come ... its own code, the government should step... ..

d) The British, backed up ... ..many other countries, were in favour of legal enforcement of the code; others could not go ... .. with this idea. It is uncertain which side will eventually back ... .. and offer some kind of compromise.

### Glossary:

<i>Realize</i> <i>be tempted</i> <i>bend</i> <i>principles</i> <i>break into</i>	<i>negotiations</i> <i>padded commissions</i> <i>allegations</i> <i>resist</i>	<i>revelation</i> <i>dubious</i> <i>speed up the wheels of</i> <i>bureaucracy</i> <i>quick-witted</i> <i>phial</i>
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## UNIT 3

### National Stereotypes

#### Preparation

1. People often say such things as 'Italians are good lovers' or 'Englishmen are cold-blooded'. What other generalizations of this nature can you think of?
2. Do these generalizations serve any useful purpose? If so, what?
3. What do foreigners say about your own national character?

We are repeatedly warned to beware of generalizations yet, paradoxically, it seems that the human mind cannot resist categorizing people and things. We love to 'pigeon-hole', to make order out of a universe that frequently seems to us confusing and even **chaotic**. Nowhere is this tendency more evident than in our willingness to generalize about nationalities. We create national stereotypes and **cling tenaciously** to our **prejudices**. To illustrate this point, we shall take a look at the findings of a survey carried out by the market research firm, Parkland Research Europe. This organization carried out a detailed study of European attitudes by questioning 185 business executives, lawyers, engineers, teachers and other professional people from seven European countries. These were: Germany; France; Britain; Switzerland; Italy; the Netherlands; Belgium. The resulting publication, Guide to National Practices in Western Europe, gave some idea of what Europeans think of each other, it revealed many widely-held **stereotypes**, but also came up with a few surprises. In the chart below, some of the data from this survey is summarized.

#### Parkland Findings

<b>GERMANS</b>	Liked themselves best of all. Most Europeans agreed that the Germans had the highest proportion of good qualities. They considered themselves very tolerant, but nobody else
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	did. They saw themselves as fashionable. Others found them 'square'.
<b>FRENCH</b>	Not really admired by anyone except the Italians. Other Europeans found them conservative, withdrawn, <b>chauvinistic</b> , brilliant, superficial, <b>hedonistic</b> . Also, not very friendly. The French agreed on the last point !
<b>BRITISH</b>	Mixed reactions. Some found them calm, reserved, open-minded, trustworthy; others deemed them hidebound, <b>insular</b> and superior. Everyone was unanimous that the British had an excellent sense of humour. The British most admired the Dutch.
<b>SWISS</b>	Showed considerable <b>lucidity</b> and powers of self-analysis. Saw themselves as serious, trustworthy, but too money-minded and suspicious. Most Europeans agreed. The Swiss liked the Germans best.
ITALIANS	Generally considered by everyone to be lazy and untrustworthy, and the Italians agreed! Most also found them to be <b>vivacious</b> , charming, hospitable and noisy. The Italians admired the French and the Dutch. Hardly anyone loved the Italians except the FRENCH.
<b>DUTCH</b>	Most admired people in Europe — except by their neighbours — the Belgians. Everyone agreed that the Dutchs are hard-working, <b>thrifty</b> , good-natured, tolerant and business-minded. The Netherlands, however, was not considered a good place to live in.
<b>BELGIANS</b>	Least admired in this group. They see themselves as easy-going and <b>diligent</b> workers. Other Europeans consider them undisciplined and narrow-minded — and <b>lousy</b> drivers!

As a follow-up to this study, businessmen were asked to imagine they were setting up a multinational company. They had to choose a national for the positions of president, managing director, chief cashier, public relations officer for skilled and unskilled labour.

The Germans came out of this exercise smelling of roses! They were universal choice for the top jobs, and also first choice for skilled workers. The Italians were

relegated to the unskilled jobs; the French received massive support for the lightweight public relations post. From theory, we turn to practice. We will conclude this topic by giving some examples of how national characteristics can affect business behaviour. We take as our source a study made recently by two British journalists of the problems encountered when Germans work in Britain and vice versa. The German characteristics of industry and punctuality were illustrated by the example of a German executive who was appointed to the head of a specialist department of his company's branch in London. While he arrived at his office every morning on the **dot**, his senior employees rarely rolled up much before 10 a.m. For several weeks, harsh words were exchanged and tempers became more and more **frayed**. Finally, however, the German realized that his subordinates frequently worked on until eight or nine in the evening. They were doing certain work in the evening which he did early in the morning. Since most of the company's business was with the US, this kind of work schedule made sense. Eventually, the German changed his working hours — much to his wise wife's displeasure! A British executive working in Germany found that he had to **modify** his employment policies because of the German liking for system and formality. He told the investigating reporters, 'A number of the German people we have employed have complained that we did not have a comprehensive enough policy manual'. He met the problem by spelling out in company **recruitment** advertising that employees had to have an understanding and liking for the British way of life. During interviews, he warned prospective employees that they would have to work in a much less formal environment than they were used to. Their colleagues would call them by their Christian names and expect this practice to be **reciprocated**, they would work on their own initiative and junior employees especially would probably have more responsibility than their counterparts in German companies. Finally, the executive stressed that employees would be expected to make decisions based on a 'common sense' interpretation of the company's policy guidelines rather than operate on the principle that 'if it's not in the book, it can't be done'. The policy of this executive had certainly paid off since, with this approach to recruitment, staff turnover had been reduced significantly.

## Language Notes

<i>Paradoxically</i>	in a self-contradictory way/conflicting with what seems to us to be reasonable.
<i>The human mind</i>	the article is used with a countable noun in this case to indicate a whole class — the minds of all human beings.
<i>Nowhere is this tendency</i>	not the <i>inversion</i> of normal sentence order because the word 'nowhere' begins the sentence
<i>Prejudices</i>	irrational beliefs. A person is prejudiced

	against another person.
<i>Carried out a detailed study</i>	a person <i>carries out</i> a study/survey/some research
<i>The data</i>	collective plural. We say: the data was significant.

## A Comprehension

1. What reason is suggested by the author for our inherent tendency to generalize?
2. Which two words in paragraph 2(1. 10-18) sum up what the Parkland survey was all about?
3. In the exercise involving the setting-up of a multinational company, which nationality appeared to do best and which worst?  
Give reasons for your answers.
4. The writer discusses the problem of a German executive working in London. Why was it sensible of this man's employees to work such unusual hours?
5. For what reason did the British executive in Germany have to modify his employment policies?
6. Summarize as briefly as possible the new approach the British executive had to use?

## B Vocabulary

**1. The colloquial and figurative expressions in this exercise are either in the text itself or could have been used in connection with it. Try to explain what each expression means.**

- a) We love to *pigeon-hole* things.
- b) The report *came up with* a few surprises.
- c) The Germans came out of the exercise *smelling of roses*.
- d) He met the problem by *spelling out* that employees had to understand the British way of life.
- e) The policy of this executive has entirely *paid off*.
- f) Several people in the survey considered their countrymen to be *broadminded*.
- g) The *big wheel* in our company is of German nationality.
- h) When the employees *rolled up* at 10 a.m., the boss almost hit the roof.
- i) German executives like to *go by the book*, British ones often prefer to *play it by ear*.
- j) A friend of mine likes to entertain us by *doing take-offs* of different national types.

**2. Tick (✓) the word or phrase in each group which is closest in meaning to the one selected from the text.**

Example:

*Repeatedly*

sometimes

constantly ✓

occasionally



a) <i>Chaotic</i> totally disordered rather frightening completely unintelligible	b) <i>Tenaciously</i> firmly blindly stupidly	c) <i>Square</i> (German section) untidy tasteless conservative
d) <i>Chauvinistic</i> (French section) excessively patriotic very arrogant too vain	e) <i>Unanimous</i> (British section) certain convinced agreed	f) <i>Vivacious</i> (Italian section) romantic talkative lively
g) <i>Thrifty</i> (Dutch section) cheerful economical generous	h) <i>Lousy</i> (Belgian section) average selfish bad	j) <i>Light-weight</i> poorly-paid undemanding simple
k) <i>Speculates</i> wonders argues suggests	l) <i>Shrewd</i> profound astute tough	m) <i>Frayed</i> tired worn excited
i) <i>Relegated</i> consigned to appointed to offered	n) <i>Made sense</i> was reasonable was profitable was economical	

## Language Practice

**1. Rewrite each of the groups of sentences as one sentence. Do not use *and*, *but*, *because* or *so*, but make any other necessary changes.**

a) We have just bought the Parkland guide. Now we can find out what Europeans think of each other.

b) His employees turned up late every morning. He was furious with them. He decided to have a serious talk with them.

c) I have two Swiss people staying at my house. I do not consider either of them to be money-minded. I do not find them excessively serious.

d) Some Europeans consider the Italians to be dishonest. I recently visited Italy. I found them completely trustworthy.

e) The British have their faults. They also have their qualities. They have an excellent sense of humour. They are famous for this throughout the world.

f) I worked for a multinational based in Holland. I learned to admire the Dutch. I like their good nature and tolerance.

- g) We generalize about nationalities. When we do this, we often show prejudices. These are deeply-rooted in us. Their origins are obscure.
- h) We tried to pick nationalities for each post. We were obviously unfair to those we omitted. We were probably generous to some we selected.

## **2. Complete these sentences**

- a) The Germans have a reputation ..... making good beer and the French are famous ..... their wine.
- b) The English take pleasure ..... talking about their bad weather. Indeed, they almost take pride ..... it.
- c) The Japanese show great respect ..... old people and are sensitive..... their needs.
- d) Some people accuse the British ..... feeling superior ..... other nationalities.
- e) Many people are prejudiced ..... minority-groups in their country.
- f) Some people are envious ..... the North American's standard of living.
- g) The Italians are said to be experts ..... making ice-cream.
- h) The Japanese are fond ..... eating raw fish and the French are mad.....snails. .
- i) The Italians are universally admired ..... their rich artistic tradition.
- j) A sense of humour is not peculiar..... the British.
- k) A passionate temperament is characteristic ..... Mediterranean people.
- l) Ernest Hemingway, the American writer, believed the Spanish are obsessed..... death.

## **D Oral Work**

### **1. Argue for or against the following debating themes:**

- a) 'By creating national stereotypes, we perpetuate racial disharmony.'
- b) 'The practice of making jokes at the expense of particular nationalities (e.g. Irish jokes or Polish jokes) is highly undesirable.'

### **2. Here are five subjects which are important to most human beings:**

#### ***Money, Business, Family, Love, Education***

Choose one group of nationalities from the list below, then compare and contrast the three nationalities you have chosen, limiting your comments to the topic areas given above:

- a) The Russians; the Chinese; the British
- b) The Japanese; the Indians (India); the Americans (USA)
- c) The French; the Italians; the Greeks
- d) The Germans; the Swedes; the Spanish
- e) The Saudi Arabians; the Iranians; the Brazilians
- f) The Australians; the British; the Canadians
- g) The Thais; the Indonesians; the Japanese

## **E Writing Exercises**

### **1. Report assignment**

First of all, compose a chart showing which nationalities are represented in your class, and the numerical strength of each.

When you have done this, interview *one* member of the class and find out what stereotyped impressions he or she has of the nationalities appearing in your chart.

Finally, write a short report, including the chart, in which you will present the various attitudes held by your colleague. At the end of the report, comment on the impressions you have received.

2. Assuming that there is such a thing as 'a national character', write a critical analysis of the good and bad points of your own countrymen.

3. Choose a country you admire and analyze the character of its people.

## Glossary

<i>cling tenaciously</i> <i>prejudices</i> <i>stereotypes</i> <i>parkland finding</i> <i>chauvinistic</i> <i>hedonistic</i> <i>insular</i> <i>chaotic</i> <i>thrifty</i>	<i>Lucidity</i> <i>diligent</i> <i>lousy</i> <i>dot</i> <i>frayed</i> <i>modify</i> <i>recruitment</i> <i>reciprocated</i>
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## Unit 4

### Swiss Banking Secrecy

#### Preparation

1. What kind of reputation do Swiss banks have internationally?
2. What are 'numbered accounts'? Why do people use them?
3. Should a government department be able to force a bank to disclose details of a depositor's financial transactions?

Since the early 1930s, Swiss banks had **prided** themselves on their system of banking secrecy and numbered accounts. Over the years, they had successfully withstood every challenge to this system by their own government who, in turn, had been frequently urged by foreign governments to reveal information about the financial affairs of certain account holders. The result of this policy of secrecy was that a kind of **mystique** had grown up around Swiss banking. There was a widelyheld belief that Switzerland was **irresistible** to wealthy foreigners, mainly because of its numbered accounts and bankers' **reluctance** to ask **awkward** questions of depositors. Contributing to the mystique was the view, carefully **propagated** by the banks themselves, that if

this secrecy was ever given up, foreigners would fall over themselves in the rush to withdraw money, and the Swiss banking system would virtually collapse overnight. To many, therefore, it came like a bolt out of the blue, when, in the summer of 1977, the Swiss banks announced they had signed a five-year pact with the Swiss National Bank (the Central Bank). The aim of this agreement was to prevent the improper use of the country's bank secrecy laws, and its effect was to **curb** severely the system of secrecy. A headline in a British newspaper at that time **aptly** summed up the general view: *Numbered accounts' days are numbered*. The new code which the banks had agreed to observe made the opening of numbered accounts subject to much closer **scrutiny** than before. The banks would be required, if necessary, to identify the origin of foreign funds going into numbered and other accounts. The idea was to stop such accounts being used for **dubious** purposes. Also, the banks agreed not to **facilitate** in any way capital transfers from countries which had introduced laws to restrict the transfer of capital abroad. Finally, they agreed not knowingly to accept funds resulting from tax evasion or from crime. The pact represented essentially a **tightening** up of a banking rules. Although the banks agreed to end relations with clients whose identities were unclear or who were performing improper acts, they were still not obliged to inform on a client to anyone, including the Swiss government. To some extent, therefore, the principle of secrecy had been maintained.

What eventually **persuaded** the banks to allow restrictions to be placed on their **cherished** system of secrecy and numbered accounts? To answer this question, we will take a historical perspective and look back at events leading up to this significant change in banking policy.

The solid foundation of the system was provided by the Swiss bank secrecy law of 1934. This made it a **penal** offence to provide information about a bank's clients without their explicit authorisation, unless a court ordered otherwise. At that time, the law was designed to protect Jewish and other account holders in Germany against informers. The Nazi authorities had **imposed stiff** penalties, including capital punishment, for anyone transferring money abroad, and they were in the habit of sending agents into Switzerland to track down the **assets** of German Jews and others intending to flee the Nazi regime. The Swiss Parliament placed banking secrecy under the protection of the law after a Gestapo agent **seduced** a young woman employee and obtained the identities of some depositors. Unfortunately, some banks began to abuse the protection afforded by this law. Critics both inside and outside the country, frequently accused them of irregular practices. Some said the banks were **havens** for smuggled currency and that they provided a shield for tax evasion. A socialist Member of Parliament claimed that banking secrecy had helped Switzerland to become a *nation of receivers of stolen goods*. It was also believed that ransom money from a number of kidnappings in Italy was paid into Swiss banks in the southern Swiss canton of Ticino, located near the Swiss-Italian border.

About three years ago, the National Bank started talks with the Swiss Bankers' Association (85% of the commercial banks belong to this) to persuade the banks to be less tight-lipped about their operations and more forthcoming with information. It had to give up the attempt because the Association carried out a **vigorous** publicity

campaign, complaining that the mere rumour of less secrecy had already caused foreigners to withdraw funds.

What unquestionably pushed – some say **stampeded** – the Swiss banks into limiting secrecy was the huge financial scandal involving the Credit Suisse: one of Switzerland's 'big three' banks. The **notoriety** of the affair badly **tarnished** the Swiss banks' image of stability and honesty. The scandal came to light when the Credit Suisse bank revealed that the manager of one of its major branches in Chiasso, near the Italian border, had been involved in secret, unauthorized deals. These had resulted in **gigantic** losses to the bank. Some estimated the eventual figure might reach \$300 million or more. The manager of the bank, Ernest Kuhrmeier, and an assistant, were said to have channelled about two billion dollars (\$500 million) illegally into a Liechtenstein company, Texon Finanzanstalt. The manager had a **stake** in this company. The money used had come into the bank, over a fifteen-year period, from Italians who had **hoarded** lire, then wanted to convert their currency into stronger Swiss francs.

Kuhrmeier had apparently offered these depositors Swiss credit guarantees for their investments without telling Head Office, and then he had got Texon to reinvest the money in Italian companies dealing in plastics, wine and other such products. Most of these enterprises had folded up. When it became known in banking circles that Texon's investments were disastrous, the Swiss banking community put pressure on Credit Suisse to make a clean **breast** of everything.

Bankers feared that confidence in the entire banking system would be undermined. When the scandal was **disclosed**, it made headlines internationally. Almost immediately, there followed a radical shake-up of the Credit Suisse organization, both at Chiasso and at head office where the chief executive was replaced. The National Bank and two other major commercial banks offered to lend Credit Suisse

the money to cover its losses, but the bank turned down the offer. It was confident it could cover all the Chiasso guarantees.

An important result of the Credit Suisse fiasco was that the Swiss banks were forced to tighten their rules and formalize their behaviour regarding banking secrecy. As we have already mentioned, pressure to reform the system had been building up for years. It needed this **debacle** to tip the banks towards reform. The Swiss Director General of the National Bank was undoubtedly right when he stated publicly that Switzerland's status as a banking centre was based not on numbered accounts, but on the social and economic stability of the country.

## Language notes

**Line 1** *Prided themselves on*: we pride ourselves *on* something. Note however: take pride *in* and be proud *of*.

**Line 16** *A bolt out of the blue*: a great surprise or shock. A 'bolt' is literally a discharge of lightning. An alternative for this expression is: *It came as a bombshell* .....

**Line 24** *The new code..... agreed to observe*: people ‘observe’ or ‘comply with’ a code, rules, regulations etc.

**Line 40** *Cherished system*: a system which the banks value highly.

**Line 61** *Havens*: these are literally ‘harbours’ or ‘places of refuge’.

**Line 64** *Receivers of stoled goods*: people who buy stolen goods

**Line 75** *Stampeded*: a stampede occurs when a group of animals flee in panic for some reason, e.g. fire or the presence of other dangerous animals.

**Line 78** *Notoriety*: fame, but in a bad sence.

**Line 109** *Fiasco*: shameful episode or event.

**Line 113** *Debacle*: similar in meaning to *fiasco*, a disastrous event.

## A Comprehension

1. Why had the Swiss banks and the government frequently clashed over the years?
2. *Numbered accounts’ days are numbered*. Explain the meaning of this headline published at the time of the pact.
3. Why could one say that the new code did not entirely destroy the banks’ traditional system of secrecy?
4. Some people accused the banks of being ‘havens for smuggled currency’. What exactly did they mean?
5. What protection did the 1934 Bank Secrecy Law give to customers of banks?
6. How did the manager of the Credit Suisse bank in Chiasso finance his Liechtenstein company?
7. What costly mistake did that particular manager make?
8. What was the most important consequence of the Credit Suisse scandal?

## B Vocabulary

**1. Explain the meaning of the expressions in *italics* which are either in the text or were used by people referring to the topic.**

- a) If secrecy were lost, foreigners would *fall over themselves* to withdraw money.
- b) It came *like a bolt out of the blue* when the Swiss banks announced their pact.
- c) The National Bank asked the commercial banks to be less *tight-lipped* about their operations.
- d) The manager was said *to have a stake* in a Liechtenstein company.
- e) Most of the Italian companies *folded up*.
- f) When a banking scandal occurs, the bank concerned tries to *play down* its importance.
- g) People put pressure on Credit Suisse to *make a clean breast* of everything.
- h) After the scandal, there was a *shake-up* of the Credit Suisse organization.
- i) Some well-off Italians like to *salt away* money in neighbouring Switzerland.
- j) The banks were pushed into signing the pact *in the wake of* Chiasso scandal.

**2. Circle the number next to the most appropriate interpretation of the**

**word in *italics*.**

a) The banks have *withstood* every challenge be the government.

- a. refused
- b. resisted
- c. accepted

a) A *mystique* has grown up around Swiss banking.

- (i) atmosphere of lies
- (ii) air of disbelief
- (iii) auro of secrecy

b) This view was *propogated* by the banks themselves.

- (i) spread
- (ii) held
- (iii) believed

**3. Complete these sentences with suitable words.**

a) The new pact between the Central bank and the commercial banks provides ..... a substantial tightening ..... of the regulations.

b) The Swiss have been regularly requested ..... foreign governments to give police access ..... information about certain accounts.

c) ..... my view, Switzerland was irresistible ..... certain wealthy foreigners because of its system of numbered accounts.

d) Italians working in Switzerland exchanged their Swiss francs ..... lire ..... a rate higher than the official one in Milan.

e) The banks have promised not to employ agents abroad ..... a view ..... organizing capital flights.

f) At the border, special police units sometimes take cars apart in their search ..... smuggled currency.

g) The Italians are likely ..... react well ..... the new developments if the smuggling of currency ..... the Italian border ..... southern Switzerland is brought ..... a halt.

**D Oral Work**

1. Argue for or against the following debating theme:

'The Swiss commercial banks have justifiably acquired a world-wide reputation for efficiency and discretion. Everyone concerned should have left the banks alone and let them put their own house in order.'

**2. Discussion Topics**

a) What are the main services a bank should provide?

b) Is it desirable that the banks in a country should be state-owned? Give reasons for your answer.

c) Discuss the strengths and weaknesses of the banking system in

your own country.

d) Which foreign banking system do you most admire? Give reasons for your answer.

### E Writing Exercises

1. 'Secrecy is one of the "pillars" of any banking system.' Discuss.
2. Analyze critically the operation and services of your own bank.
3. Some people consider that a banker's life is extremely dull and not terribly challenging intellectually. To what extent do you agree with this judgement?
4. Summarize the main facts of the 'Chiasso scandal'. The relevant passage begins on line 75, and ends on line 103. You should write your summary in about 60-80 words.

### Glossary:

<i>prided</i> <i>mystique</i> <i>irresistible</i> <i>reluctance</i> <i>awkward</i> <i>propagated</i> <i>curb</i> <i>aptly</i> <i>scrutiny</i> <i>dubious</i> <i>facilitate</i> <i>tightening</i> <i>disclosed</i> <i>debacle</i>	<i>persuaded</i> <i>cherished</i> <i>penal</i> <i>imposed stiff</i> <i>assets</i> <i>vigorous</i> <i>stampeded</i> <i>notoriety</i> <i>tarnished</i> <i>gigantic</i> <i>stake</i> <i>hoarded</i> <i>breast</i>
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## UNIT 5

### The World Bank

#### Preparation

1. What is the main function of the World Bank?
2. Some countries in the world are often described as being 'poor', while others are termed 'developing'. Do you think this is a useful distinction to make? If so, what are the distinguishing features of each category of country?
3. World Bank officials often talk of 'middle-income' countries. Give the names of countries which might be included in this group.



4. What does the term 'fertility rate' mean when applied to a country as a whole? In which countries is the rate of fertility high and which low? The World Bank is one of the major channels through which development aid is passed from the industrial West to the poor and developing nations of the world. Its scale of operations is vast, which is why lending program exceeds \$7 billion a year, and its work force numbers about 4.500.

In the last **decade**, important changes have taken place in the size of the Bank's operations and in the emphasis of its lending policies. Few people would deny, furthermore, that the President of the Bank, Mr. Robert McNamara, has plaid an important role in bringing about the changes. What immediately **strikes** anyone looking at the lending figures over the last ten years is the tremendous expansion in the Bank's loan program. This has increased from \$1 billion to nearly \$7 billion. The figure includes 'hard loans' which are made at current rates of interest, and 'soft loans' which are allocated to poor countries at **concessionair** rates, and usually channeled through the Bank's affiliate, the International Development Association (IDA).

In deciding the emphasis of its lending policy, the Bank has had to take into account the 'population explosion' which is occurring in many poor countries of the world. It is a fact that the **fertility** rate of poor countries is often very high. This is one of the main reasons for these countries remaining poor. Unfortunately, wideranging **ontraception** programs do not usually reduce this rate because there is a strong and deeply-rooted tradition among people in these countries to have big families. The large family unit, it is believed, brings greater financial stability. What the Bank discovered – this was a revolutionary idea – was that there was a link between economic and social development, on the one hand, and a reduction in fertility rate, on the other. Thus, by improving basic health services, by introducing better nutrition, by increasing literacy, and by promoting more even income distribution in a poor country, a lower and more acceptable fertility rate would be achieved.

This 'advance in thinking', to use Robert McNamara's words, persuaded the Bank to change its overall lending strategy. Where previously it had concentrated on the big infrastructure projects such as **dams**, roads and bridges, it began to switch to projects which directly improved the basic services of a country. There was a shift, if you like, from building dams to digging water holes to provide clean water. A second reason for the change in approach was that the Bank had learned a bitter lesson from projects financed in the 1960s. Many of its major capital investments had scarcely touched the lives of the urban and rural poor, nor had they created much employment. The projects did not have the 'trickle down' effect they have in industrialized countries. Instead, the huge dams, steel mills and so on were left as monuments to themselves.

This redirection of its lending has meant that the Bank has tended to support labor-intensive activities rather than capital intensive ones, both in rural and urban areas. There is a better chance, in the first case, that its funds will benefit the bottom 40 % of a country's population. The Bank is also looking at ways of stimulating

the growth of small businesses in many developing countries, since this would create employment opportunities for people with low incomes.

The major thrust of the Bank's efforts is directed towards improving conditions in poor countries. The Bank sees it as a moral duty of developed countries to help those living in conditions of absolute poverty. Mr. McNamara has publicly stated that he trusts 'civilized people will never allow themselves to reach a stage where they will watch on their color TV sets other less fortunate nations **perish**.'

While **retaining** the priority of helping poor countries clearly in mind, the Bank also assists middle-income countries. What these need, above all, is a constant flow of investment capital, and they are quite prepared to pay market rates for it. This 'investment flow' the bank will provide. On such investments, the Bank earns an average return of 8 % annually. It must be remembered that, although many of its loans are on **concessionair** terms, the Bank is also a hard-headed agency, not a **welfare** institution. It tries to increase the productivity of these middle-income countries so that the loans 'earn the amount required to service them.'

Being such a big and obvious target, the Bank has often come under fire. For example, its officials have been taken to task for using the Concorde supersonic aircraft so frequently; about 500 times in one year. Also, the large growth in the organization's **personnel** has not pleased some US critics. A more substantial criticism has concerned the President's policy of setting annual targets for lending to specified countries. This could lead to **deterioration** in the quality of loans, some say.

One former Bank official has said: 'rather than encourage growth rate for its own **sake**, the Bank should begin to think of itself less as a foreign aid agency and more of a financial "deal maker" combining official with private resources for purposes'.

Finally, some people maintain that the **impact** of the projects funded by the Bank has been modest. When one looks around the world at countries that have successfully transformed to industrial status, for example Hong Kong, or have greatly improved the well-being of their peoples, for example China, it seems that one should **beware** of overestimating the Bank's impact. In the case of Hong Kong, change has come about as a result of a trade offensive, the purpose of which has been to flood western markets with cheap goods made by capitalist methods of production; in the case of China, change has come from radical social reorganization following an armed revolution.

### Language Notes

**Line 8** *The President of the Bank*: up to present, all the Bank's presidents have come from the US, which has prompted some people to call the World Bank presidency a US appointment!

**Line 28** *There was a link between.....*: an alternative for *link* would be *correlation*.

**Line 55** *Thrust*: focus

**Line 58** *Absolute poverty*: defined by the World Bank as: 'A condition of life so characterized by malnutrition, illiteracy, disease, squalid surroundings, high infant mortality and low life expectancy as to be beneath any reasonable definition of human decency.'

### A. Comprehension

1. In what sense is the World Bank a 'channel'?

2. How extensive are the Bank's operations?
3. What is a 'soft loan'? Why do you suppose the World Bank makes this type of loan?
4. Why are birth control programmes not very effective in controlling population growth in poor countries?
5. How has the Bank modified its lending policy recently? Why has this change in emphasis taken place?
6. The huge dams, steel mills and so on were left as a monuments to themselves'. What does the writer mean by this statement?
7. In what way does the need for a capital of a middle-income country differ from that of a poor country?
8. What point is the writer trying to make when he quotes the examples of Hong Kong and China?

## **B. Vocabulary**

**1. Circle the number next to the most suitable interpretation of the word in *italics*.**

- a) The Bank decided to change its overall lending *strategy*.
  - i) terms
  - ii) policy
  - iii) amount
- b) There was a *shift* from building dams to digging water holes.
  - i) change in emphasis from
  - ii) strong preference for
  - iii) lack of interest in
- c) The projects did not have the *trickle down* effect they have in industrialized countries. This means:
  - i) that relatively few people in the borrowing countries benefited from the projects
  - ii) that the industrialized countries used the money far more wisely
  - iii) that the projects were not really worthwhile in themselves
- d) The bank is looking for ways of *stimulating* the growth of small businesses.
  - i) enlarging
  - ii) financing
  - iii) encouraging
- e) The World Bank is a *hard-headed* agency
  - i) stubborn
  - ii) tough
  - iii) realistic
- f) Being such a big and obvious *target*, the Bank has often come under fire.
  - i) organization with power
  - ii) object to attack
  - iii) focus of attention
- g) Bank officials have been *taken to task* for using Concorde so frequently.
  - i) interrogated

- ii) dismissed
- iii) criticized
- h) The *impact* of the projects *funded* by the Bank has been modest.
- i) effect i) proposed
- ii) amount ii) financed
- iii) total iii) set up
- i) In the case of Hong Kong, change has resulted from a *trade offensive*.
- i) unfair competition if foreign markets
- ii) a policy of constant price-cutting
- iii) a sustained effort to win overseas markets

**2. Here are some short extracts from a World Bank booklet. Explain briefly what each italicized word or phrase means.**

- a) The Bank's charter *spells out* certain basic rules that govern its operations. It must lend only for productive purposes, and *pay due regard to* the prospects for repayment..... Except in 'special circumstances', loans must be for *specific* projects..... And the Bank's decisions to lend must be based *only on economic considerations*.
- b) Assume, for example, that technical staffs of the government and the Bank agree that improvements in the road system are *a priority need* for attainment of the country's development goals. After some preparatory work, the Bank will send a staff *mission* to make a *thorough appraisal* of all aspects of the project. The approval of a loan does not end the Bank's involvement. In most cases, the borrower seeks *bids*, on the basis of international competition for the goods and services required. The Bank releases money only as needed to meet *verified expenditures* on the project.
- c) Member governments own and control the Bank. Every member *subscribes to* shares in an amount roughly based on its relative economic strength. The World Bank and the IDA are controlled by a Board of Governors and 20 full-time Executive Directors. Most functions of the Governors are *delegated to* the Executive Directors. In practice, most decisions are taken on the basis of a *clear consensus* rather than by formal vote.
- d) The Bank provides a large amount of technical assistance to countries by administering *feasibility studies*, many of which lead to projects financed by the Bank and IDA.

**3. Complete the sentences using an appropriate form of the words in *italics*.**

- a) *vast* The.... of the bank's resources does not mean that it throws money away.
- b) *deny* The.... of aid to poor countries is an unwise policy.
- c) *expansion* The Bank has greatly.....its lending in recent years.
- d) *concessionary* As a.... to some countries, interest rates on loans are below market rate.
- e) *affiliate* About 130 countries are.....to the Bank.
- f) *explosion* In many countries, the population is..... at an everincreasing

rate.

g) *fertility* Many rural programmes are aimed at making the land more.....

h) *economic* The Bank expects countries to use its funds ....., but this is not always the case.

i) *nutrition* The.... value of certain foods is well-known.

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j) *illiteracy* In some countries, as much as 60 % of the population is not....

k) *literacy* People who cannot read or write are said to be

.....

l) *bitter* Poverty and harsh living conditions often.... people.

m) *benefit* South Korea and Taiwan are both .....of World Bank aid.

n) *institution* The Bank has tried to .... better monitoring of its projects.

o) *deteriorate* In real terms, the condition of the poor in most countries has...

p) *resources* In rural areas, technical experts often need to be extremely .... and creative.

## C Language Practice

**1. Here is a short dialogue between a Bank official and a journalist who is interviewing him. Write a report of the conversation, using some of the verbs listed in the box.**

*Admit Apologize Remind Reassure Answer Insist Point out Confide Say Enquire  
Maintain Agree Ask Suggest Deny*

*Journalist:* Isn't it true that many of your projects have not been completed in time and have exceeded their budgets?

*Bank official:* To some extent, that's true. Because of inadequate planning, and in some cases, bad judgement, there have been some heavy cost overruns. But don't forget, we are organizing and administering a vast number of projects throughout the world.

*Journalist:* I still say the Bank has a poor record in this respect. Take your public utility projects. The average completion time overrun has been about 50 %.

*Bank official:* Absolute nonsense! It's more like 30%. I'd advise you to approach us, in future, if you want to get accurate statistics.

*Journalist:* I still think the Bank should keep a closer check on its projects.

*Bank official:* We are doing everything in our power to see that money is not wasted. And I can tell you, between ourselves, that steps are being taken to monitor our projects even more carefully in

future.

*Journalist:* Do you mind if I put a final question?

*Bank official:* I'm sorry. I hope you don't think I'm rude, but I must rush off to a committee meeting this minute.

*Journalist:* I quite understand. Perhaps we can meet again this time next week.

**2. Write out these sentences, using the most suitable tense or form of the verbs in brackets.**

- a) Last year, the wheat needs of people in Africa's Sahelian region could (meet) by a twentieth of the wheat Europeans (use) to feed their cattle.
- b) By 1982, it (expect) that the World Bank (lend) almost \$12 billion to member countries.
- c) It is no use (provide) money for projects unless these are carefully planned.
- d) Robert McNamara has been successful in (shift) the focus of aid away from transport, power and communications projects. Despite (criticize) by some experts, he has continued (urge) Bank officials (concentrate) more on agricultural development and urban renewal.
- e) Senior Bank officials resent (attack) for (use the Concorde airline too frequently).
- f) It is essential that the productivity of the urban poor (increase).
- g) The industrialized nations should be discouraged from (set up) trade barriers against the exports of developing countries.
- h) The first step involves (prepare) a comprehensive study of the economy. The report which (draw up) is used by the Bank (provide) a basis for its decisions.
- i) By (put) a photograph (show) the harvesting of sorghum in Upper Volta on the cover of its annual report, the Bank intended (draw) attention to its rural development activities.
- j) At present, developing nations (urge) by the Bank (invest) more resources in labor-intensive projects.
- k) It (think) by most experts that agriculture is the key to (improve) the living standards of the poor in many countries.
- l) It is time people (realize) the seriousness of the population problem.

**3. Complete the passage by supplying any suitable word for each blank space.**

The difficulty ... getting funds through the US congress is hardly likely to disappear during the next ... years, and will inevitably put the Bank's capital requirements ... considerable pressure. The next issue... the Bank's shareholders will be a general capital increase. Without this, it will not even be able to ... its present lending programme in real terms. ...or not the Bank gets enough money to be able to increase its lending will ..... be a key feature shaping it in the next five years. There is, ....., another ...

.. which I would argue is even more important. The Bank has increased enormously its ... of operations. Its lending programme is now approaching seven ..... dollars. It has also started to direct its efforts .... specific problems of economic development where the solutions have as .... to do with the social and political structure of less developed nations .... with their inadequate infrastructures. The big question is .... the Bank can turn itself from being a body that lent money to build dams .... a body which can help less developed nations to help.....

## D. Oral Work

1. Argue for or against the following debating themes:

- a) The efforts of the World Bank to combat poverty, though praiseworthy, are doomed to fail because world population growth will not be contained.
- b) The spectre that stalks the world is not poverty; it is greed of the developed, industrialized nations.

1. Discussion Topics

- a) Eight hundred million people live in what the World Bank calls 'absolute poverty'. How would you personally define this state?
- b) 'A major transfer of wealth to developing nations occurred when OPEC countries dramatically raised the price of oil. Less developed countries, with no oil, can only try to obtain a 'larger slice of the cake' by using moral arguments.' Analyze and comment on this point of view.
- c) 'In order to help the exports of developing countries, the richer, industrialized nations should be prepared to allow certain of their own industries to contract, and even disappear, as a result of industrial nations to say "Let's block off these imports" because, after all, they need the Third World as much as it needs them.' 'In many countries of the world, it is not international aid in the form of cheap loans that is needed, but political, economical and social change.' Discuss these points of view.

## Glossary :

<i>decade</i> <i>strikes</i> <i>fertility</i> <i>contraception</i> <i>dams</i> <i>perish</i> <i>retaining</i> <i>concessionary</i>	<i>sake</i> <i>impact</i> <i>beware</i> <i>welfare</i> <i>personnel</i> <i>deterioration</i>
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## UNIT 6

### Product Liability Laws in US and EEC countries

#### Preparation

1. Should manufacturers be obliged by law to compensate their customers for any injuries their products cause, whether they have been negligent or not? In other words, should they be 'strictly liable' for their products?

2. Recently, in the United States, a psychiatrist was paralyzed after striking his head on the bottom of a swimming pool. He was awarded damages of L 1.25 million against the pool's manufacturers. Does the size of the award seem reasonable? And if so, why?

3. A pharmaceutical company produces a drug which is taken by pregnant women. Fifteen years later, a number of these develops a specific disease which has resulted from their taking the drug. Should the company be held responsible and pay compensation to all the victims?

What price should a manufacturer pay when one of his products causes injury because it is defective? This is always a difficult question to answer; in some circumstances, it is even difficult to decide whether a manufacturer is liable at all. Lets look at a few cases heard in British 5 and US courts. Here are four examples:

A In a 1975 British case, a man whose eye was destroyed by the **rotary blade** of his son's toy helicopter collected only the equivalent of about \$10 000.

B In the US in 1997, a man from Michigan was awarded \$ 10 154,000 after he had lost a finger while operating a lift truck.

C The manufacturer of a bench saw made for the US Navy in 1942, and originally equipped with the required safety guard, was ordered to pay \$ 50,000 to a worker injured while using the machine at 1971. The award was made despite evidence that the achine had been rebuilt by a dealer who had removed the safety guard.

D Recently a jury in Pittsburgh awarded more than \$ 500,000 to a Pennsylvania coal miner who had been **crippled** while working. The company paying compensation was the National Mine Service Corporation, the Manufacturer of a coal **shuttle** car nvolved in the accident. Though other miners testified that the victim was not adequately trained and was operating the car improperly, the manufacturer was held liable. When one compares case A with case B, it seems at first sight that in the British case the victim was paid too little for his injury while in the US case the victim was compensated very well indeed. In cases C and D, the awards appear very high in view of the facts **indicating** that the victim to some extent had contributed personally to his injury. In Western Europe the Common Market countries are now moving towards product liability laws which will be harsher on business than ever before.

This is partly because of the tragic events during the early 1960s when hundreds of infants in Britain and Germany were born with **deformities** because their mothers, while pregnant, had taken a drug called **thalidomide**.

The EEC proposals are based on the legal concept of 'strict liability', and, in this respect, they are modeled on the tough US prod uct liability laws. The terms 'liability laws' means that if a product causes injury because of a defect in manufacturing,



a company is liable even if it took all due care when making the product.

A very controversial section of the proposals says that a manufacturer is liable even for those defects that could not have been foreseen ‘in the light of the scientific and technological developments at the time the item was put into circulation’. A ten year limit is proposed on a company’s liability, probably to soften the **severity** of this provision.

As a result of the proposed strict liability concept, many people believe that the EEC rules will create the same kind of ‘product liability’ crisis in Europe that now exists in the US. There, awards in such cases are rising, and companies are having to pay soaring premiums for product liability insurance, especially in high risk areas like pharmaceutical, chemicals, **automotive** parts, and industrial machinery generally. Smaller companies have found difficulty in getting any insurance at all and a few such companies have had to close down because of product liability claims.

Problems in the US have arisen from the judicial interpretation of defect’. In recent years, the courts have begun to hold manufacturers liable for the full life of their product and for ‘foreseeable design defects that might not appear until many years later (see example C and the case of the bench saw).

Many lawyers in the US oppose this idea of the manufacturer’s ‘absolute liability’

They feel that some of the manufacturer’s liability should be transferred to the negligent employer or employee, and that contributory negligence ought to be allowed as a defense. US courts, for example, have held the perfume 70 manufacturer liable for burns sustained by somebody who **poured** perfume on a lighted candle, to see how it would smell.

There is also pressure from many legal experts to allow manufacturers a ‘state of the art defense’. This means that they could **plead** that a available when the product was originally modern safety feature was not technologically manufactured. The member of the American Bar Association has quoted the example of the Wright Brothers’ airplanes built during the 1990s in order to illustrate his view of the **absurdity** of the present state of the law: ‘Suppose one of those planes was still around and that it came down and injured someone. The injured person under today’s standards could argue that the maker was at fault because the plane doesn’t have the safety features of a Boeing 747 **jet**’. Strong support in the US has also come for a statue of limitations beyond which a manufacturer would no longer be liable for injury caused. Some favor ten years, as proposed in the EEC rules. They point out that many lawsuits brought against industrial machine manufacturers involve equipment more than twenty-five years old.

Leaving aside changes in the actual law itself, we can now turn to the **vexed** question of the size of awards. Some limits on the size of these is thought necessary in the US. Many of the big awards (over \$100,000) have substantially exceeded the courts’ estimates of ‘economic loss’ – medical expenses, lost earnings, etc.

Large awards, now on the increase, are partly the result of the high salaries in the US. They reflect its **affluent** society. They also **stem** from the fact that comprehensive social security is still lacking in the US so that badly-injured person will have to pay for constant medical attention for life, and this can cost a fortune.

A very important reason, however, for the size of awards in the US is the country's system of **contingency** fees for lawyers.

Under the system, lawyers are paid nothing if they lose the case, but a third or more of the award if they win. In other words, payment by results! Of course, they have a big **incentive** not just to win but to **squeeze** every last dollar from the court, in their own and their clients' interests.

Many Europeans criticize the contingency fee system of paying lawyers. They say that the system does not just compensate victims for economic loss – and perhaps make some allowance for pain and suffering – but it also provides a windfall profit for lawyer and victim. American lawyers, on the whole, seem in favor of this system. They think it works in favor of the injured person. It leads to the law being interpreted on humanitarian grounds rather than strictly legalistic ones. A lawyer will risk spending a year or so trying to establish a legal precedent on behalf of a badly-injured person, especially if that person is likely to be awarded \$1million or more.

### Language notes

*Coal shuttle car:* a car or carriage moving to for carrying coal.

*Lawsuits brought against:* a person 'brings a lawsuit against' a company/takes a company to court/ takes legal action against a company/ sues

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a company.

*Windfall profit:* unexpected financial gain.

### A. Comprehension

1. Why is the writer of this article critical of the award made by The jury in Pittsburgh (1. 26)?
2. The EEC proposals regarding product liability are not likely to be welcomed by European manufacturers. Why is this so?
3. In the United States, what effect has the tough product liability laws?
4. What is 'contributory negligence'? Why would US Manufacturers be glad to see this concept incorporated in their product liability laws?
5. What argument might someone in the US use to justify a 'statute of limitations'?
6. What are some of the factors accounting for the high awards granted by US courts to victims of defective products?
7. What is the contingency system of paying lawyers favor it?

### B Vocabulary

**1. Find suitable words for the blank spaces. Use the first-letter clues that have been provided.**

- a) In the US, if a product causes an injury to someone because it is d....., a company is l....., in law, even if it took care when making the product.
- b) Large companies in the US have to pay very high insurance p..... to cover themselves against product liability claims.
- c) Many of the l..... brought by people against manufacturers have involved defects in very old machines.
- d) Some victims of defective products have received a ..... in excess of \$ 1 million.
- e) Under the proposed new law, a victim would not have to prove the company was n..... in some way, but simply that he was injured by the product.
- f) It is difficult for a judge to decide what amount of d..... is sufficient to c..... someone when he has suffered very great injury from a product.
- g) With a c..... f..... system of payment, a lawyer will often work harder on the behalf of his c.....because the financial reward will be greater.

**2. Interpretation of words and phrases. Circle the number next to the most suitable answer.**

- a) Companies in the US are having to pay *soaring* premiums .
  - (i) rising at a fast rate
  - (ii) costing a great deal
  - (iii) increasing at a steady pace
- b) It seems *at first sight* that in the British case the victim was paid too little.
  - (i) after preliminary consideration of the matter
  - (ii) after a quick evaluation of the law
  - (iii) after first catching a sight of it
- c) The pharmaceutical and chemical industries are 'high-risk areas' because:
  - (i) an enormous amount of risk capital is invested in these industries
  - (ii) these industries are very competitive and therefore very risky
  - (iii) the possibility of their products injuring customers is higher than in many other industries
- d) Manufacturers could *plead* a modern safety feature was not available at the time.
  - (i) insist
  - (ii) argue
  - (iii) beg
- e) We turn to the *vexed* question of the size of awards.
  - (i) irritating
  - (ii) controversial
  - (iii) critical
- f) Many big awards have *substantially* exceeded the courts' estimates of economic loss.
  - (i) easily
  - (ii) scarcely

- (iii) considerably
- g) In the context of the article, 'economic loss' means such things as:
  - (i) loss of compensation by the courts
  - (ii) loss of future earnings
  - (iii) loss of earnings and medical expenses
- j) Large awards reflect its *affluent* society.
  - (i) wealthy
  - (ii) generous
  - (iii) humane
- k) The size of awards stems from the fact that a comprehensive social security system is lacking in the US.
  - (i) benefits from
  - (ii) produces from
  - (iii) results from
- i) The lawyer will work hard to create a legal precedent for his client.
  - (i) a special law relating to the individual
  - (ii) a legal decision serving as a rule
  - (iii) a law protecting individual rights
- k) The contingency fee system provides *a windfall profit* for lawyer and victim. This statement implies that:
  - (i) the lawyer and victim more money than they deserve
  - (ii) the lawyer and the victim are entitled to the money they receive
  - (iii) the lawyer and the victim do not get as much money as they should

**3. Complete the sentences using an appropriate form of the word in *italics*.**

- a) *product* It is difficult to get skilled workers, so we try to increase the ..... of those we already have.
- b) *injure* Certain toys can be ..... to a child's health.
- c) *liable* The company denied ..... for the accident.
- d) *cripple* He received a ..... injury at work.
- e) *victim* Workers disobeying their union are sometimes ..... by their colleagues.
- f) *foresee* We shall not expand our factory capacity in the ..... future.
- g) *critic* Many lawyers are ..... of the EEC draft directive on product liability.
- h) *inadequate* The ..... of the present product liability law is recognized by everyone, hence the need for change.
- i) *oppose* Consumer associations and manufacturers are in ..... concerning this law.
- j) *indicate* The controversy surrounding the proposals is ..... of their importance.
- k) *soar* Consumers are getting used to ..... prices.
- l) *negligent* The fact that someone has ..... operated a machine has not often influenced US juries.
- m) *expert* My lawyer has a great deal of ..... in product liability law.

- n) *plead* The company has entered a ..... of guilty.  
 o) *fault* This product has a ..... wiring system.  
 p) *affluent* The ..... of certain sectors of the city strikes one's eye immediately.  
 q) *feature* We may expect a number of cases .... pharmaceutical companies.

## C. Language practice

### 1. Write out the sentences using the most appropriate tense or form of the word in brackets. Make any other necessary changes.

- a) Unless the EEC (modify) its proposals, it will be unable (avoid) (create) the type of product liability crisis now (exist) in the US.  
 b) If legislation (base) on the present proposals, a large number of unreasonable claims would be bound (arise) from those (consider) themselves to be injured as a result of (use) defective product.  
 c) Most European manufacturers have resigned themselves to (accept) the strict liability principle, but they hope the courts will refrain (interpret) too generously the concept of 'defect'.  
 d) In some industries, companies will hesitate (introduce) new products for fear of (bring) upon themselves lawsuits.  
 e) One reason for the EEC (insist) (introduce) the strict liability concept is that it wishes to encourage firms (set up) better safety standards.  
 f) Letting manufacturers (evade) responsibility for make) unsafe products is not a sensible policy.  
 g) A group of industrialists has requested that 'a state of the art' defense (allow). However, the members of this group are not optimistic of their proposals (accept).  
 h) The public should be made (realize) that (introduce) 'strict liability' laws may lead to prices (rise).  
 i) The government risks (do) lasting damage to successful companies if it (place) too heavy responsibilities on them.  
 j) There is a case to be made (fix) maximum amounts of an award.  
 k) Most consumer associations resent people (suggest) that the government (share) financially in the risks of product liability.  
 l) The manufacturers are aiming (persuade) the government ( allow) them (use) the defense that reasonable steps to withdraw the product when the hazard became known.

### 2. Complete the sentences below which give you practice in using certain frequently-used prepositional phrases.

- a) We feel that, ..... all costs, the law must be modified. If it is implemented, some companies will not be able to operate ..... a profit.  
 b) If someone injures himself ..... accident, the company can still, ..... certain circumstances, be held liable.  
 c) ..... due course, we expect a huge increase in product liability lawsuits.  
 d) ..... average, since 1973, new product liability claims per firm in the US

have totaled twelve.

- e) ..... all probability, the EEC directive will become law.
- f) The present law is, .....the whole, to the advantage of manufacturers.
- g) The consumer associations are ..... no means sure their views will be accepted.
- h) As ..... the size of awards, ..... No account should it be assumed that these will be as large as in the States.

## **D Oral work**

### **1.Argue for or against the following debating theme:**

‘Imposing strict liability on manufacturers of products in the EEC countries would place a totally unfair burden on them, and could act as a severe deterrent to innovation. The proposed legislation is against the interests of society as a whole.’

### **2.Discussion Topics**

- (a) Is it fair that the mother of a ‘thalidomide’ baby should be generously compensated while the mother of a deformed baby, who has not taken the drug, should receive nothing from society?
- (b) Some people argue that government funds should be available to meet awards of compensation in excess of a certain fixed sum. In this way, governments would share in the risks of product liability and the producer’s liability would be limited financially. What do you think of this proposal?
- (c) Some people say that an arbitrary period of limitation for product liability court actions would contradict the principle of strict liability. For example, a drug might only show its dangerous effects after ten or fifteen years. Comment on this view.

## **E Writing Exercises**

**1. Below, you are given part of the dialog from a television program about Product Liability. A representative of a Consumer Association is talking to an industrialist. Summarize the arguments of the two speakers. Use about 80-100 words.**

*Consumer*

*Representative:* I know you are always taking the manufacturer’s side, Malcolm, but the simple fact is that a company should take responsibility for the goods it makes, and it should be prepared to back its own judgement of what standard of safety is appropriate.

*Industrialist:* I agree to a certain extent with you, John. Certainly, a company should be expected to produce goods to a certain recognized standard or specification, and, if it fails to do so, it should be penalized. But remember, innovation is never without risk.....

*Consumer*

*Representative:* Well, surely that's what profits are all about; they're payment for risk-taking.

*Industrialist:* Yes, but producing new products is a service to society as a whole. However well tested a product is beforehand, one cannot predict possible dangers over a long time period, so the government should step in and help financially when someone is injured.

*Consumer*

*Representative:* Nonsense! Why should our tax be used to subsidize negligent companies. Businesses have simply got to assume the risks themselves, and make allowances, if necessary, in the prices they charge.

*Industrialist:* That means that prices will probably rise a great deal with products like pharmaceuticals, automotive parts, even toys perhaps.

*Consumer*

*Representative:* Possibly, but in most cases, insurance cover will be available and prices won't rise much. I'll bet you the consumer will hardly be affected at all, except in the high-risk areas you mentioned.

*Industrialist:* I still maintain we're going to get in Britain the kind of situation they now have in the US. Either companies will have to make their products so reliable that there's no chance of failure or they'll just have to get out of certain business areas altogether because insurance will be too costly.

*Consumer Representative:* That's a gross exaggeration! We're not like the US for a start. We won't get the sort of explosion of product liability cases they've had. Compensation awards would not be as big over here, so fewer people will bother to take cases to court. Also, of course, the contingency fee system is not common in Britain. No, I'll say it again, British manufacturers must take responsibility out of it, by the way. We've got enough government interference as it is!

**2. 'It is an acceptable defense for a manufacturer to say he took every reasonable precaution to manufacture a safe product, so he was not negligent, even if the product turned out to be dangerous or defective in fact.' Discuss this view.**

**Glossary:**

<i>rotary blade</i> <i>crippled</i> <i>shuttle</i> <i>indicating</i> <i>deformities</i> <i>thalidomide</i> <i>severity</i> <i>automotive</i> <i>poured</i> <i>plead</i> <i>absurdity</i>	<i>Vexed</i> <i>affluent</i> <i>stem</i> <i>contingency</i> <i>incentive</i> <i>squeeze</i>
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## UNIT 7

### Copyright – audio and video recording

#### Preparation

1. What does the term ‘copyright’ mean?
2. Why is it necessary?
3. In recent years the use of photocopies, tape- and video-recorders has enormously increased. What effect would you expect this to have on the copyright protection given to such people as writers, musicians and artists?

Copyright protection is based on the moral principle of fair play. A person who works and produces something is **entitled** to own the product of his labour and skill. A copyright law, therefore, generally gives to an author, artist, or composer the right to **prevent** another person copying an original work – a book, tune or picture – which he or she has created. This right to protection given to the creator of a work is found in copyright laws throughout the world and is also the basis of international conventions on the subject. Unfortunately, nowadays, this protection is being seriously threatened by modern developments in the field of audio and video recording.

Whenever copyright laws come under review, investigating committees, when considering changes in the law, have to take into account certain facts of modern life. The first of these is that the tape recorder has become standard equipment in homes, libraries, schools and other institutions. It is almost as indispensable as the radio and stereo; indeed, it is often incorporated with these in a single unit known familiarly as a ‘music centre’. The video recorder, a much more expensive piece of equipment, is less widely used at present, but its price will steadily decrease and the number of users will grow. This statement is substantiated by the declared intention of some powerful Japanese companies to commit substantial financial resources to developing their video recorder sales. The increased use of tape- and video-recorders has created great problems for those who have to draft copyright laws which will be appropriate to modern conditions. It is now recognized that copyright in musical works and sound recordings is constantly **infringed**, everywhere.

Surveys have shown that when people are at home, they do not think twice about recording from the radio, and they have few scruples about copying commercial records and tapes borrowed from friends, music libraries and other such sources. Unauthorized recording has in fact become a national **pastime** in many countries. Furthermore, now that video recording is increasing, with the play-back equipment designed for use with TV sets, it is **inevitable** that film copyright will also come under attack. The existence of widespread, unauthorized recording is **undeniable**. It is equally clear that, in a free country, it is impossible to check up on individuals who record in private and break copyright law. Policing such acts of **infringement** is really impractical. As a result, legal experts now find themselves in a **dilemma**. They operate



on the principle that copyright owners must be protected by the law while, at the same time, they recognize that tape and video recording are making it difficult, if not impossible, for owners to exercise their legal rights.

Where recording equipment is combined with other equipment, e.g. a radio or 'hi fi' system, the levy is only calculated on the cost of the recording facility. The costs are in effect apportioned. The German system, supported by many, has nevertheless had its critics. Some people say it is not a just system because it **discriminates against** buyers of tape recorders who have no intention of infringing copyright. Others argue that they should be able to record without paying additional **remuneration** to copyright owners. The possibility of imposing a levy on blank tape has also been considered by West Germany and other nations. This kind of levy might reflect more accurately actual usage for recording, but it would involve a large operation by the authorities and possibly produce less revenue.

The Hong Kong government has, in recent years, made determined efforts to **stamp out** this trade. In 1973, a special copyright enforcement unit was set up to take over from the police. At about the same time, copyright offences came within criminal jurisdiction. The new enforcement unit tended to ignore the retailer of pirate tapes and to concentrate instead on the sources of these recordings. Intelligence networks were established. The co-operation of the public was sought. Finally, numerous raids were carried out on pirate tape 'factories'. As a result, over 180 'pirates' have been convicted, fined and occasionally jailed, and of course, millions of dollars' worth of recording equipment seized.

Notwithstanding these efforts, business is still **flourishing**. After all, profits are huge, setting up in business as a pirate is relatively easy, capital outlay on equipment is swiftly **recouped**, and **penalties imposed** by the courts are fairly **lenient**. Also, as one would expect, the pirates have become **shrewder**. They now store smaller numbers of tapes in any one place.

## Language Notes

*Commit financial resources to developing.* Note: 'to be committed to' is followed by the gerund ('ing') form, e.g. We are committed to spending more money on development projects.

*Check up on:* watch/keep under surveillance, e.g. A jealous husband frequently checks up on his wife!

*Blanket licence:* this term is explained in the writing exercise

*Multi – million dollar export trade:* the words 'million' and 'dollar' have no 's' endings because they are here used as adjectives.

## A Comprehension

1. What justification is given in the text for the existence of copyright law?
2. In this modern, technological age, the legal expert who has to draft new copyright law is immediately faced by an obvious problem. Explain the nature of

this difficulty.

3. What solution have the Germans found to the problem of widespread unauthorized recordings?
4. In what sense is the German system unfair to 'honest' buyers of taperecorders?
5. What evidence is there in the text indicating that the pirate tape industry in Hong Kong is on a very large scale?
6. The efforts of the Hong Kong government to eliminate the illegal trade in pirate tapes have not been totally successful. Why is this so?

## **B Vocabulary**

### **1. Supply words or phrases similar in meaning to those italicized in these sentences.**

- a) In many homes, the tape-recorder is almost as *indispensable* as the TV.
- b) Copyright in sound recordings is constantly *infringed*.
- c) Most people have few *scruples* about copying commercial records.
- d) It is *inevitable* that film copyright will also be threatened.
- e) *Policing* acts of infringement is virtually impossible.
- f) Legal experts find themselves in a *dilemma*.
- g) The Germans have *opted for* a levy system.
- h) The recording equipment industry pays a *lump sum* to collecting societies.
- i) Piracy of tapes is *rampant* in Hong Kong.
- j) The government is determined to *stamp out* this practice.
- k) Fortunes are being made by some *racketeers*.
- l) Many *raids* are carried out by police on pirate factories.
- m) The penalties for illegal taping are relatively *lenient*.

### **2. Interpretation of words and phrases. Circle the number next to the most appropriate answer.**

- a) The tape-recorder is often *incorporated* in what is known as a 'music centre'.  
(i) fixed  
(II) added  
(III) combined
- b) The Japanese companies will *commit* substantial resources to video sales.  
(I) place  
(I) assign  
(II) find
- c) Film copyright will soon *come under attack*.  
(i) be threatened  
(ii) become out-of-date

(iii) begin to DISAPPEAR

d) The existence of widespread unauthorized recording is *undeniable*.

(i) indisputable

(II) incredible

(III) improbable

e) The levy *discriminates against* 'honest' buyers of tape-recorders.

(i) harms greatly

(II) charges excessively

(iii) treats unfairly

f) The pirate tape industry in Hong Kong has reached *epidemic* proportions.

(I) vast

(II) unforeseen

(III) regrettable

g) Copyright offences came within criminal jurisdiction' means that:

(i) it became a criminal offence to break copyright.

(ii) it came into the jurisdiction of criminals.

(iii) it became a common crime to break copyright.

h) The purpose of the copyright enforcement unit in Hong Kong was:

(i) to try to get changes in copyright law

(ii) to search for retailers of pirate tapes

(iii) to try to find people who were breaking copyright law

i) The new enforcement unit tended to *ignore* the retailer or pirate tapes.

(i) be unaware of

(II) take no notice of

(III) neglect

j) *Intelligence networks* were established by the enforcement unit.

(i) well-organized sources of information

(ii) groups of highly intelligent workers

(iii) departments within the enforcement unit

k) *Notwithstanding* these efforts, business is *flourishing*.

(i) as a result of (i) booming

(ii) besides (ii) improving

(iii) in spite of (iii) declining

l) Capital outlay is swiftly *recouped* by the pirate tape manufacturers.

- (i) recovered
- (II) spent
- (III) capitalized

m) The pirate tape manufacturers have now become *shrewder*.

- (i) more careful
- (ii) more astute
- (iii) more adventurous

## C Language practice

**1. Rewrite each sentence, replacing the italicized words or phrases with phrasal verbs chosen from the box below.**

Example:

The British government will *introduce* a new copyright law.

The British government will **bring in** a new copyright law.

- a) Many companies have *delayed* signing international copyright agreements.
- b) Because of illegal tape-recording, sales of records have *decreased* in recent years.
- c) In some countries, the police *have dealt severely with* distributors of pirate tapes.
- d) In parts of the Far East, artists have no option but to *tolerate* infringement of their copyright.
- e) Songs which are 'hits' in Europe often *become popular* in Hong Kong and Singapore.
- f) A committee to review copyright law was *established* in Britain in 1973.
- g) This committee *produced* some very controversial recommendations.
- m) An eminent judge *accepted* the job of acting as chairman.
- i) The task of the committee *proved to be* long and complex.
- j) The government is still *examining* ways of improving copyright law.

**2. The exercise below gives further practice in the use of the definite and indefinite article. Indicate which, if any, should be used.**

The problem of the photographic reproduction of ..... copyright works has been under ..... study at international level since at least 1961. The interest which ..... discussions have aroused reflects ..... almost universal desire to find ..... *\*modus vivendi* between, on the one hand, The legitimate copyright interests of ..... authors and publishers to control or at least receive ..... remuneration in respect of reproduction of their works and, on the other hand, ..... equally legitimate interests of those engaged in ..... research, in servicing research (for example, libraries) and .....

education who are mainly interested in ..... dissemination of information. \*Latin term meaning ‘compromise’ in this particular context.

## D. Oral Work

1. Argue for or against the following debating theme. ‘sooner or later, copyright law in most countries will be as dead as the dodo.

\*A large *extinct* bird from Mauritius

2. Discussion topics

a) A government committee investigating Copyright law in Britain visualized the following situation: one can imagine a vicious circle. The increase in library and other copyright will mean smaller circulation for books, journals, etc, which in turn means more copying. in the end, publication ceases – in some fields at least.’ Do you think this situation could eventually arise in your own country? What can be done to prevent it?

b) A person should be free to copy whatever tapes or records he wishes to comment on this view.

c) In Britain, members of a committee examined copyright in relation to industrial design. They suggested two categories of design should be distinguished:

### Category A

Designs which influence purchasing decisions (e.g. designs of wallpaper, cutlery, carpets, pottery, etc) should be protected by copyright for twenty-five years from the time of marketing the article bearing the design. These articles would bear an internationally recognized copyright symbol.

### Category B

This would include all shapes of three-dimensional objects where the appearance of the article did not influence the purchaser who ‘buys the article only in the expectation that it will do the job for which it is intended.’ Typical items in this category would be, for example, aircraft propellers or replacement parts in cars and other machinery to which no decorative additions had been made. This category would get less copyright protection. Discuss the value of this proposal.

## Glossary:

<i>entitled</i>	<i>lump sum</i>
<i>prevent</i>	<i>apportioned</i>
<i>substantiated</i>	<i>discriminates against</i>
<i>infringed</i>	<i>remuneration</i>
<i>scruples</i>	<i>rampant</i>
<i>pastime</i>	<i>stamp out</i>
<i>inevitable</i>	<i>flourishing</i>

<i>undeniable</i> <i>infringement</i> <i>dilemma</i> <i>opted for</i> <i>levy</i>	<i>recouped</i> <i>penalties</i> <i>imposed</i> <i>lenient</i> <i>shrewder</i> <i>galling</i> <i>stalls</i> <i>bring in</i>
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## UNIT 8

### Modern Banking

**Read the following text carefully, looking up anything you do not understand. Write headings and notes in the margin.**

**1** When you deposit your coat in the theatre cloakroom, you do not expect the theatre to rent your coat out during the performance. Banks lend out some of the coats in their cloakroom. A theatre would have to get your particular coat back on time, which might be tricky. A bank finds it easier because one piece of money looks just like another. Unlike other financial institutions, such as pension funds, the key aspect of banks is that some of their liabilities are used as the medium of exchange: cheques allow their deposits to be used as money. Bank reserves are the money available in the bank to meet possible withdrawals by depositors. The reserve ratio is the ratio of reserves to deposits.

**2** The money supply is the value of the stock of the medium of exchange in circulation. At any time, some people are writing cheques on a Barclays account to pay for goods purchased from a shop that banks with Lloyds TSB; others are writing cheques on Lloyds TSB accounts to finance purchases from shops banking with Barclays. The clearing system is the process of interbank settlement of the net flows required between banks as a result. Thus the system of clearing cheques represents another way society reduces the costs of making transactions. Society continues to find new ways to save scarce resources in producing and using a medium of exchange. Already many people use credit cards. Some supermarket tills debit customers' bank accounts directly. And shopping by TV and telephone and the internet is growing rapidly.

**3** Table 1 shows the balance sheet of UK commercial banks in 2004. The banks' assets were mainly loans to firms and households, and purchases of financial securities

such as bills and bonds issued by government and firms. Because many securities are very liquid, banks can lend short term and still get their money back in time if depositors withdraw their money. In contrast, many loans to firms and households are quite illiquid. The bank cannot easily get its money back in a hurry. Modern banks get by with very few cash reserves in the vault. In Table 1 these are so small they are not even recorded separately. Liquidity is the cheapness, speed and certainty with which asset values can be converted back into money.

### Balance sheets of UK banks

<b>Assets</b>		<b>Liabilities</b>	
<i>In foreign currency</i>		<i>In foreign currency</i>	
Securities	1230	Sight and time deposits	1322
Loans	1097	Other liabilities	1190
Other assets	177		
<i>In sterling</i>		<i>In sterling</i>	
Securities	309	Sight and time deposits	1429
Loans	1600	Other liabilities	555
Other assets	83		
Total	4496	Total	4496

**4** Liabilities of commercial banks include sight and time deposits. Chequing accounts are sight deposits. Time deposits, which include some savings accounts, pay higher interest rates because banks have time to organize the sale of some of their high-interest assets in order to have the cash available to meet withdrawals. The money in sight deposits can be withdraw 'on sight'

without prior notice. Time deposits, paying higher interest rates, require the depositor to give notice before withdrawing money.

Certificates of deposit (CDs) are large 'wholesale' time deposits, a one-off deal with a particular client for a specified period, paying more generous interest rates. The other liabilities of banks are various 'money market instruments', short-term and highly liquid borrowing by banks.

### **5 The business of banking**

A bank is a business making profits by lending and borrowing. To get money in, the bank offers attractive interest rates to depositors. UK banks increasingly offer interest on sight deposits and offer better interest rates on time deposits.

Banks have to find profitable ways to lend what has been borrowed. Table 1 shows how banks lend their money. In sterling, most is lent as advances of overdrafts to households and firms, usually at high interest rates. Some is used to buy securities such as long-term government bonds. Some is more prudently invested in liquid assets. Although these pay a lower interest rate, the bank can get its money back quickly if people withdraw a lot of money from their sight deposits. And some money is held as cash, the most liquid asset of all.

**6** The bank uses its specialist expertise to acquire a diversified portfolio of investments. Without the existence of the bank, depositors would have neither the time nor the expertise to decide which of these loans or investments to make. UK banks hold reserves that are only 2 per cent of the sight deposits that could be withdrawn at any time. This shows the importance of the other liquid assets in which banks have invested. At very short notice, banks could cash in liquid assets easily and for a predictable amount. The skill in running a bank entails being able to judge how much must be held in liquid assets, including cash, and how much can be lent out in less liquid forms that earn higher interest rates.

**7** A commercial bank borrows money from the public, crediting them with a deposit. The deposit is a liability of the bank. It is money owed to depositors. In turn the bank lends money to firms, households or government wishing to borrow. A financial intermediary specializes in bringing lenders and borrowers together. Commercial banks are financial intermediaries licensed to make loans and issue deposits, including deposits against which cheques can be written. Banks are not the only financial intermediaries. Insurance companies, pension funds and building societies also take in money in order to relend it. The crucial feature of banks is that some of their liabilities are used as means of payment, and are thus part of money stock.

## **8 How banks create money**

To simplify the arithmetic, assume banks use a reserve ratio of 10 per cent. Suppose, initially, the non-bank private sector has wealth of £1000 held in cash. This cash is a private sector asset. It is a liability of the government, who issued it, but not a liability of the private banks. The first row of Table 9-2 shows this cash as an asset of the non-bank private sector



Now people pay this £1000 of cash into the banks by opening bank deposits. Banks have assets of £1000 cash and liabilities of £1000 of deposits, money owed to depositors. If banks were like cloakrooms, that would be the end of the story.

**9** However, banks do not need all deposits to be fully covered by cash reserves. Suppose banks create £9000 of overdrafts. This is a simultaneous loan of £9000, an asset in banks' balance sheets, and the granting to customers of £9000 of deposits, against which customers can write cheques. The deposits of £9000 are a liability on banks' balance sheet. Now the banks have £10 000 total deposits – the original £1000 when cash was paid in, plus the new £ 9000 as counterpart to the overdraft – and £10 000 of total assets, comprising £9000 in loans and £1000 cash in the vaults. The reserve ratio is still 10 per cent in row three of Table 2.

**10** It does not even matter whether the 10 per cent reserve ratio is imposed by law or is merely profit-maximizing smart behaviour by banks that balance risk and reward. The risk is the possibility of being caught short of cash, the reward is the interest rate spread.

The interest rate spread is the excess of the loan interest rate over the deposit interest rate.

How did banks create money? Originally, there was £1000 cash in circulation. That was the money supply. When paid into bank vaults, it went out of general circulation as the medium of exchange. But the public acquired £1000 of bank deposits against which cheques could be written. The money supply was still £1000. Then banks created overdrafts not fully backed by cash reserves. Now the public had £10 000 of deposits against which to write cheques. The money supply rose from £1000 to £10 000. Banks created money.

## **11 Financial panics**

Everybody knows what the banks are doing. Usually, people do not mind. But if people believe that a bank has lent too much, and will be unable to meet depositors' claims, there will be a run on the bank. If the bank cannot repay all depositors, you try to get your money out first while the bank can still pay. Since everyone does the same thing, they ensure that the bank is unable to pay. Some of its loans will be too illiquid to get back in time. A financial panic is a self-fulfilling prophecy. Believing a bank will be unable to pay, people rush to get their money out. But this makes the bank go bankrupt. Today, financial panics are rare. A key reason for this, which we discuss in the next unit, is that the Bank of England will lend to banks in temporary difficulties.

Since this is known, it helps prevent a self-fulfilling stampede to withdraw deposits before a bank cannot pay.

## PRONUNCIATION DRILL – TEXT 2

Deposit	financial	cheque	depositor	ratio	withdrawal
vault	prudent	expertise	diversified	portfolio	license
insurance	arithmetic	simultaneous	prophecy	bankrupt	
stampede					

## COMPREHENSION CHECK

Now answer the following questions:

1. What makes a bank different from (a) cloakroom, (b) pension fund?
2. How does the clearing system work?
3. Why are some assets mentioned in sections 3 and 4 classified as liquid and others as illiquid?
4. What is the essence of banking business?
5. Explain in your own words and with the help of Table 9-2 how banks create money.
6. What is a bank run?

**Find the following English word-combinations in Text 2 and translate them into**

**Russian:**

to bank with Lloyds TSB (Trustee Savings Bank)	to earn higher interest rates
to get by with very few cash reserves in the vault	non-bank private sector
sight and time deposits	to grant a deposit
high-interest assets	profit-maximizing behaviour
to meet withdrawals	to balance risk and reward
money market instruments	to be caught short of cash
to acquire a diversified portfolio of investments	to prevent a self-fulfilling stampede

## Money Idioms

**Match each idiom in Box A with its meaning in box B.**

<b>1.</b> to work for peanuts <b>2.</b> to feather your nest <b>3.</b> to go from rags to riches <b>4.</b> to salt away <b>5.</b> to make a killing <b>6.</b> to cook the books	<b>a.</b> to start your life very poor and then later in life become very rich <b>b.</b> to record false information in the accounts of an organization, especially in order to steal money <b>c.</b> to be paid a very small amount of money <b>d.</b> to save something, esp. money, for use at a later time <b>e.</b> to grow wealthy by taking advantage of one's position or by making use of property or funds left in one's trust <b>f.</b> to make a lot of money in a short time
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**Now, fill the blanks with appropriate idioms in the correct form.**

1. Like most immigrants, he came to America in search of opportunity. He wanted to live the American dream. He wanted to \_\_\_\_\_.
2. If you only knew what corporate insiders knew, you could \_\_\_\_\_ on a stock.
3. It's not easy paying a mortgage, raising a young child, and \_\_\_\_\_ enough money for your retirement.
4. The directors of the company made millions from \_\_\_\_\_ before the fraud investigators caught them.
5. Many Americans now \_\_\_\_\_ in 'dead-end jobs' thanks to wages that have been pushed down by illegal labor.
6. "We must especially beware of that small group of selfish men who would clip the wings of the American eagle in order to \_\_\_\_\_". (from The Four Freedoms, speech by F.D. Roosevelt)

**Explain in English what is meant by:**

bank reserves reserve ratio money supply clearing system financial securities	time deposit certificate of deposit money market instruments advances of overdrafts a diversified portfolio of investments
---	--

bills bonds liquid/illiquid assets sight deposit	interest rate spread a run on the bank
---	---

**Interpret and extend the following statements:**

1. Cheques allow banks' deposits to be used as money.
2. The key aspect of banks is that some of their liabilities are used as the medium of exchange.
3. The system of clearing cheques represents another way society reduces the costs of making transactions.
4. Modern banks get by with very few cash reserves in the vault.
5. A deposit is a liability of the bank.
6. The crucial feature of banks is that some of their liabilities are used as means of payment, and are thus part of money stock.
7. Banks do not need all deposits to be fully covered by cash reserves.
8. A financial panic is a self-fulfilling prophecy.

**EXTENSION ACTIVITIES**

**Explain whether the following statements are true or false.**

1. If the value of money in use exceeds its value in exchange, it is called a commodity money.
2. The reason that a token money maintains its value is because its production and supply are controlled strictly.
3. Money is unmatched by any other asset in terms of its liquidity.
4. Money is unmatched by any other asset as a store of value.

5. When a loan is in the form of a bank deposit into an individual's checkable account, the money

stock goes up.

6. A bank makes loans until it can no longer do so because of the reserve requirement restriction.

7. Any banking system which holds 100 percent reserves does not face the problem of insolvency.

8. When an individual makes a deposit in a commercial bank, he is lending money to the bank.

9. Banks usually establish their reserve ratios by carefully weighing the benefits in terms of higher

earnings from a lower ratio versus the risks of insolvency.

10. One of the distinguishing characteristics of commercial banks as financial intermediaries is that their liabilities serve as a means of payment.

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