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ЭКОНОМИЧЕСКАЯ ТЕОРИЯ

Учебно-методическое пособие
для студентов 2 курса факультета по подготовке специалистов
для зарубежных стран медицинских вузов

ECONOMIC THEORY

Teaching workbook
for 2nd students of the Faculty on preparation of experts for foreign countries
of medical higher educational institutions

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INTRODUCTION

Economics is the study of how society manages its scarce resources. In most societies, resources are allocated not by a single central planner but through the combined actions of millions of households and firms. Economists therefore study how people make decisions: how much they work, what they buy, how much they save, and how they invest their savings. Economists also study how people interact with one another. For instance, they examine how the multitude of buyers and sellers of a good together determine the price at which the good is sold and the quantity that is sold. Finally, economists analyze forces and trends that affect the economy as a whole, including the growth in average income, the fraction of the population that cannot find work, and the rate at which prices are rising.

We study economics because there is scarcity of many goods we want. This problem is common to the individual as well as the State. That is why we say Economics is the science of scarcity. And scarcity is the basic fact of life.

SEMINAR 1

Unlimited needs and limited resources. The problem of economic choice

Economics is a social science, which attempts to find laws or principles of economy.

Economics is the study of how people, individually and collectively, allocate their limited resources to try to satisfy their unlimited wants.

Want — a desire for something.

Needs — basic necessities or requirements.

Scarcity — is the fundamental economic problem that human wants exceed the availability of time, goods, and resources. Individuals and society therefore can never have everything they desire.

Scarcity occurs because human wants exceed the production possible with our limited time and resources.

The purpose of economy is to create economic goods: public goods and means of production.

Economic objectives of the society: economic growth, full employment, price stability, economic freedom, social justice.

Five Fundamental Questions that every economy must answer:

1. How much is to be produced? At what level—to what degree—should available resources be employed or utilized in the production process?

2. What is to be produced? What collection of goods and services will best satisfy society's material wants?

3. How is that output to be produced? How should production be organized? What firms should do the producing, and what productive techniques should they utilize?

4. Who is to receive the output? In particular, how should the output of the economy be shared by individual consumers?

5. Can the system adapt to change? Can the system negotiate appropriate adjustments in response to changes in consumer wants, resource supplies, and technology?

Economy creates the material base of human society, which must be comfortable for living.

Economy means a system for the management, use and control of the money, goods and other resources of a country, community or household.

Main functions of the economy: to produce (the goods for life), to exchange (the goods between producers and consumers), to redistribute (for the chronically ill, disabled, elderly, etc.)

Economic theory studies the efficient use of resources for more complete satisfaction of human needs, to improve the quality of goods and services.

Economic theory studies the objective laws of economy, rational behavior of economic subjects.

Functions of Economic theory are: cognitive (to learn the economic problems), theoretical (to build the economic concepts), methodological (to create the methods of economic studies), pragmatic (to give the recommendations for the government and economic subjects).

Economics can also be divided into numerous subdisciplines: international economics, labour economics, welfare economics, resource economics, environmental economics, financial economics, development economics, economic geography and others.

Economics is said to be **positive** when it attempts to explain the consequences of different choices given a set of assumptions and **normative** when it prescribes that a certain action should be taken.

Macroeconomics is the branch of economics that studies the economy as a whole. It tries to understand the picture as whole rather than small parts of it. In particular, it studies the overall values of output, of unemployment and of inflation.

Microeconomics, is the branch of economics that studies individual producers, consumers, or markets; studies how government activities such as regulations and taxes affect individual markets; tries to understand what factors affect the prices, wages and earnings.

World Economics studies export, import, exchange rate, trade and balance of payments.

Questions for monitoring:

1. What is the subject of economic theory?
2. What is the major difference between needs and resources?
3. What happens to human needs as our society develops?
4. What are the main functions of the economy?
5. What subdisciplines can economics be divided into?
6. What is the difference between positive and normative economics?
7. How can you explain Five Fundamental Questions of every economy?
8. What does Microeconomics study as a branch of economics?
9. What does Macroeconomics study as a branch of economics?
10. What does World Economics study as a branch of economics?

SEMINAR 2

The theory of consumer behavior

Economic goods are able to satisfy the different human needs and society as a whole. The economic goods have a limited size; are things of value that you can see, and show to the others. They are things like bicycles, books, stereos, and clothing.

Economic services are intangible things that have value but often cannot be seen, touched, or shown to others.

Good is any item or service that satisfies a human want and, in so doing, adds to human happiness.

Material goods: natural resources; products from the agricultural and mining industries; building machines; debt obligations.

Intangible goods: internal (personal features, abilities), external (business relations, reputation).

Capital goods are human-made resources that are used for the production of other goods and services. Factories, machines, tools, railroads, trucks, and business buildings are all examples of capital goods.

Consumer goods which are not a factor of production — are finished products sold to consumers for their own personal use. They include such things as food, clothing, TV sets, and newspapers.

Utility — the want-satisfying power of a good or service; the satisfaction or pleasure a consumer obtains from the consumption of a good or service (or from the consumption of a collection of goods and services).

Marginal Utility — the extra utility a consumer obtains from the consumption of one additional unit of a good or service; equal to the change in total utility divided by the change in the quantity consumed.

Utility-maximizing rule – to obtain the greatest utility the consumer should allocate money income so that the last dollar spent on each good or service yields the same marginal utility; so that the marginal utility of each good or service divided by its price is the same for all goods and services.

Law of diminishing marginal utility — as a consumer increases the consumption of a good or service, the marginal utility obtained from each additional unit of the good or service decreases.

Budget line — a curve that shows the different combinations of two products a consumer can purchase with a given money income.

Budget restraint — the limit imposed upon the ability of an individual consumer to obtain goods and services by the size of the consumer's income (and by the prices that must be paid for the goods and services).

Rational — an adjective that describes the behavior of an individual who consistently does those things that will enable the achievement of the declared objective of the individual; and that describes the behavior of a consumer who

uses money income to buy the collection of goods and services that yields the maximum amount of utility.

Income effect — the effect a change in the price of a product has upon the real income (purchasing power) of a consumer and the resulting effect upon the quantity of that product the consumer would purchase after the consequences of the substitution effect have been taken into account (eliminated).

Real income — the amount of goods and services an individual or group can purchase with his, her, or its Nominal income adjusted for changes in the price level.

Nominal income — the number of dollars received by an individual or group during some period of time; the money income.

Price level — the weighted average of prices paid for the final goods and services produced in the economy.

Substitution effect:

1) the effect a change in the price of a consumer good would have upon the relative expensiveness of that good and the resulting effect upon the quantity of the good a consumer would purchase if the consumer's real income remained constant;

2) the effect a change in price of a resource would have upon the quantity of the resource employed by a firm if the firm did not change its output.

Questions for monitoring:

1. What do economic goods mean?
2. What do economic services mean?
3. What is the difference between material goods and intangible goods?
4. How can you explain the sense of capital goods as human-made resources?
5. What do consumer goods mean?
6. How can you explain the economic sense of utility?
7. What is the meaning of the consumer's rational behavior?
8. How can you explain the utility-maximizing rule?
9. How can you explain the substitution effect?
10. What is the difference between real income and nominal income?

SEMINAR 3

The theory of the firm and the theory of producer's behavior

Production entails using technology to apply energy to materials in ways that make the materials more valuable, or that otherwise help satisfy human wants.

Economic efficiency is achieved when we produce the combination of outputs with the highest attainable total value, given our limited resources.

Natural resources — are things provided by nature. Land, air, water, forests, coal, iron ore, oil, and other minerals are examples of natural resources.

Inputs are resources used in the production process, such as labour and raw or semifinished materials.

Outputs are transformed materials; the results of production.

Factors of production — economic resources: Land, Capital, Labour, and Entrepreneurial ability.

Land — Natural resources («free gifts of nature») that can be used to produce goods and services.

Capital — man-made resources used to produce goods and services; goods that do not directly satisfy human wants; capital goods.

Capital is all physical improvements made to natural resources that facilitate production, including buildings and all machinery and equipment.

Entrepreneurial ability — The human resources that combines the other resources to produce a product, makes non-routine decisions, innovates, and bears risks.

Labour, sometimes called human resources, is any form of human effort exerted in production. It includes all kinds of work.

Labour resources are the physical and mental talents that people can make available for production.

Firm is an organization that employs resources to produce a good or service for profit and owns and operates one or more plants.

Plant — physical establishment that performs one or more of the functions in the production of goods and services.

Aim of any producer — to maximize profit and to minimize cost.

Profit maximization is a short term process by which a company determines the price and output level that returns the most benefit.

Competition — the presence in a market of a large number of independent buyers and sellers and the freedom of buyers and sellers to enter and to leave the market.

Non-price competition — the means other than decreasing the prices of their products that firms employ to attempt to increase the sale of their products; and that includes quality competition, advertising, and sales promotion activities.

Monopolistic competition — a market in which there is a fairly large number of buyers.

Monopsony — a market in which there is only one buyer of the good or service.

Oligopoly — a market in which a few firms sell either a standardized or differentiated product, into which entry is difficult, in which the firm's control over the price at which it sells its product is limited by mutual interdependence (except when there is collusion among firms), and in which there is typically a great deal of non-price competition.

Oligopsony — a market in which there are a few buyers.

Costs are measured in monetary terms and include such items as wages, rent, rates, interest, and the amounts paid for raw materials, fuel, power, transport and so on.

Total costs — the sum of variable cost and fixed costs cost.

Fixed costs — any cost that in total does not change when the firm changes its output.

Fixed resources — any resource employed by a firm the quantity of which the firm cannot change.

Variable cost — a cost that, in total, increases (decreases) when the firm increases (decreases) its output; the cost of variable resources.

Variable resources — any resources employed by a firm the quantity of which can be increased or decreased (varied).

Average (total) cost — the total cost of a firm divided by its output (the quantity of product produced); equal to average fixed cost plus average variable cost.

Average (variable) cost — the total variable cost of a firm divided by its output (the quantity of product produced).

Average (fixed) cost — the total fixed cost of a firm divided by its output (the quantity of product produced).

Marginal cost — the extra (additional) cost of producing one more unit of output; equal to the change in total cost divided by the change in output (and in the short run to the change in total variable cost divided by the change in output).

Opportunity cost — the amount of other products that must be forgone or sacrificed to produce a unit of a product.

Implicit cost — the monetary income a firm sacrificed when it employs a resource it owns to produce a product rather than supplying the resource in the market; equal to what the resource could have earned in the best-paying alternative employment.

Isoquant — is a contour line drawn through the set of points at which the same quantity of output is produced while changing the quantities of two or more inputs.

Isocost is a line shows all combinations of inputs which cost the same total amount.

Questions for monitoring:

1. What is the difference between inputs and outputs?
2. What kind of costs do you know?
3. Is competition essential for market economy?
4. What is perfect competition?
5. What is the difference between oligopoly and oligopsony?
6. What is the difference between monopoly and monopsony?
7. What is the meaning of the firm?
8. What is the main goal of any producer?
9. How can you describe the set of points that the isoquant line represents?
10. How can you describe the set of points that the isocost line represents?

SEMINAR 4

Macro equilibrium: aggregate demand and aggregate supply (AD-AS)

Demand is the total quantity of a good or services which buyers are prepared to purchase at a given price; the quantity of a good that buyers wish to buy at each price.

Demand is the quantity of a specific good that people are willing and able to buy during a specific period, given the choices available.

Supply is the total quantity of a product or factor that firms or factor owners are prepared to sell at a given price; the quantity of a good that sellers wish to sell at each price.

Supply refers to the quantity of a specific good that sellers will provide under alternative conditions during a given period.

Surplus is the excess of the quantity supplied over quantity demanded when the price is above equilibrium.

Demand curve is a line showing the relationship between the price of a product or factor of production and the quantity demanded per time period.

Supply curve is a line showing the relationship between the price of a product or factor of production and the quantity supplied per time period.

National wealth refers to the total value of wealth possessed by the citizens of a nation at a set point in time.

Equilibrium price is the price in a competitive market at which the quantity demanded and quantity supplied is equal.

Law of demand: the inverse relationship between the price and the quantity demanded of a good or service during some period of time.

Elastic demand: if a small change of price results in a large change in demand.

Inelastic demand: if a small change of price results in a little change in demand.

Quantity supplied is the amount of a good or service sellers offer (or a seller offers) to sell at a particular price during some period of time.

Equilibrium quantity is the quantity demanded and quantity supplied at the equilibrium price in a competitive market.

Quantity demanded is the amount of a good or service buyers wish (or a buyer wishes) to purchase at a particular price during some period of time.

Aggregate demand (AD) is the total level of demand for desired goods and services (at any time by all groups within a national economy) that makes up the gross domestic product (GDP).

Aggregate demand (AD) is the sum of consumption expenditure, investment expenditure, government expenditure, and net exports.

Consumers' expenditure on goods and services: This includes demand for durables and non-durable goods.

Gross Domestic Fixed Capital Formation — i. e. investment spending by companies on capital goods. Investment also includes spending on working capital such as stocks of finished goods and work in progress.

General Government Final Consumption i.e. government spending on publicly provided goods and services including public and merit goods. Transfer payments in the form of social security benefits (pensions, job-seekers allowance etc.) are not included as they are not a payment to a factor of production for output produced. A substantial increase in government spending would be classified as an expansionary fiscal policy.

Exports of goods and services. Exports sold overseas are an inflow of demand into the circular flow of income in the economy and add to the demand for our country produced output. When export sales from our country are healthy, production in exporting industries will increase, adding both to national output and also the incomes of those people who work in these industries.

Imports of goods and services. Imports are a withdrawal (leakage) from the circular flow of income and spending in the economy. Goods and services come into the economy — but there is a flow of money out of the economic system. Therefore spending on imports is subtracted from the aggregate demand equation.

Real money balances effect. As the price level falls, the real value of money balances held increases. This increases the real purchasing power of consumers.

Prices and interest rates. A lower price level increases the real interest rate - there will be pressure on the monetary authorities to cut nominal interest rates as the price level falls. Lower nominal interest rates should encourage an increase in consumer demand and planned investment.

International competitiveness. If our country price level is lower than other countries (for a given exchange rate), our goods and services will become more competitive. A rise in exports adds to aggregate demand and therefore boosts national output.

Macroeconomic equilibrium for an economy in the short run is established when aggregate demand intersects with short-run aggregate supply.

Macroeconomic equilibrium. If the price level is too high, there will be an excess supply of output. If the price level is below equilibrium, there will be excess demand in the short run. In both situations there should be a process taking the economy towards the equilibrium level of output.

Aggregate supply (AS) measures the volume of goods and services produced within the economy at a given price level. AS represents the ability of an economy to deliver goods and services to meet demand.

Short run aggregate supply (SRAS) shows total planned output when prices in the economy can change but the prices and productivity of all factor inputs e. g. wage rates and the state of technology are held constant. The SRAS curve is assumed to be upward sloping (i. e. it is responsive to a change in aggregate demand reflected in a change in the general price level).

Long run aggregate supply (LRAS) shows total planned output when both prices and average wage rates can change — it is a measure of a country's potential output and the concept is linked to the production possibility frontier. The LRAS curve is assumed to be vertical (i.e. it does not change when the general price level changes).

The main cause of a shift in the supply curve is a change in business costs — for example:

Changes in unit labour costs: Unit labour costs are wage costs adjusted for the level of productivity. A rise in unit labour costs might be brought about by firms paying higher wages or a fall in the level of productivity.

Commodity prices: Changes to raw material costs and other components e.g. the prices of oil, copper, rubber, iron ore, aluminium and other inputs will affect a firm's costs.

Exchange rates: Costs might be affected by a change in the exchange rate which causes fluctuations in the prices of imported products. A fall (depreciation) in the exchange rate increases the costs of importing raw materials and component supplies from overseas.

Government taxation and subsidies: An increase in taxes to meet environmental objectives will cause higher costs and an inward shift in the SRAS curve. Lower duty on petrol and diesel would lower costs and cause an outward shift in SRAS.

The price of imports: A cheaper import from a lower-cost country has the effect of shifting out SRAS. A reduction in a tariff on imports or an increase in the size of an import quota will also boost the supply available at each price level. The exchange rate affects how much a business must pay for imported raw materials and components.

Policies to increase LRAS

Expanding the labour supply — e. g. by improving work incentives and relaxing controls on inward labour migration. In the long term many countries must find ways of overcoming the effects of an ageing population and a rising ratio of dependents to active workers.

Increase the productivity of labour — e. g. by investment in training of the labour force and improvements in the quality of management of human resources. Productivity can be measured in several ways including output per person employed and output per hour worked.

Improve mobility of labour to reduce certain types of unemployment for example structural unemployment caused by occupational immobility of labour. If workers have more skills and flexibility, they will find it easier to get work. Conversely when unemployment remains high, the economy loses out on potential output and there is a waste of scarce resources.

Expanding the capital stock — i. e. increase investment and research and development.

Increase business efficiency by promoting greater competition within markets.
Stimulate invention and innovation — to promote lower costs and improvements in the dynamic efficiency of markets. Innovation creates new goods and services and encourages investment.

Questions for monitoring:

1. What does demand mean?
2. How does demand depend on the price?
3. What are non-price determinants of demand?
4. What is the difference between complements and substitutes?
5. Can you explain the law of demand?
6. How can demand be visually represented?
7. What is the difference between individual and market demand?
8. What do economists call «supply»?
9. What factors influence supply?
10. How do demand and supply interact?

SEMINAR 5

Aggregate income-expenditure model

Income is the consumption and savings opportunity gained by an entity within a specified timeframe, which is generally expressed in monetary terms. If you were to judge how a person is doing economically, you might first look at his or her in-come. A person with a high income can more easily afford life's necessities and luxuries. It is no surprise that people with higher incomes enjoy higher standards of living — better housing, better health care, fancier cars, more opulent vacations, and so on.

Gross Domestic Product (GDP) is the total market value of goods and services produced within a country during some period, usually one year.

Gross National Product (GNP) is the value of all output produced by resources owned by the citizens of a country.

Gross National Product (GNP) is the total income earned by a nation's permanent residents (called nationals). It differs from GDP by including income that our citizens earn abroad and excluding income that foreigners earn here. For example, when a Canadian citizen works temporarily in the United States, his production is part of U.S. GDP, but it is not part of U.S. GNP. (It is part of Canada's GNP.) For most countries, including the United States, domestic residents are responsible for most domestic production, so GDP and GNP are quite close.

Net National Product (NNP) is the total income of a nation's residents (GNP) minus losses from depreciation. Depreciation is the wear and tear on the economy's stock of equipment and structures, such as trucks rusting and light-bulbs burning out. In the national income accounts prepared by the Department of Commerce, depreciation is called the «consumption of fixed capital».

National income is the total income earned by a nation's residents in the production of goods and services. It differs from net national product by excluding indirect business taxes (such as sales taxes) and including business subsidies. NNP and national income also differ because of a «statistical discrepancy» that arises from problems in data collection.

Personal income is the income that households and noncorporate businesses receive. Unlike national income, it excludes retained earnings, which is income that corporations have earned but have not paid out to their owners. It also subtracts corporate income taxes and contributions for social insurance (mostly Social Security taxes). In addition, personal income includes the interest income that households receive from their holdings of government debt and the income that households receive from government transfer programs, such as welfare and Social Security.

Disposable personal income is the income that households and noncorporate businesses have left after satisfying all their obligations to the government. It

equals personal income minus personal taxes and certain nontax payments (such as traffic tickets).

Nominal GDP is the production of goods and services valued at current prices.

Real GDP is the production of goods and services valued at constant prices.

GDP deflator is a measure of the price level calculated as the ratio of nominal GDP to real GDP times 100.

$$\text{GDP deflator} = \frac{\text{Nominal GDP}}{\text{Real GDP}} \times 100\%$$

Consumption is the spending by households on goods and services, with the exception of purchases of new housing.

Marginal Propensity to Consume (MPC): Each dollar earned by a household can be either consumed or saved. By assumptions of the model, MPC is an exogenous parameter that tells us the share of consumption out of each additional dollar of income.

Consumption function (Keynes) is a single mathematical function used to express consumer spending. It was developed by John Maynard Keynes and detailed most famously in his book *The General Theory of Employment, Interest, and Money*.

Saving function (Keynes) is the starting point of the Keynesian economics analysis of equilibrium output determination using the injections-leakages model. It captures the relation between saving by the household sector and income. Because income is used for either consumption or saving, the saving function is a complement of the consumption function.

Fundamental Psychological Law (Keynes): consumption expenditures (and saving) by the household sector depend on income and then only a portion of additional income is used for consumption, with the rest used for saving.

Expenditure is the value of money that has been used up to produce something, and hence is not available for use anymore. In business, the cost may be one of acquisition, in which case the amount of money expended to acquire it is counted as cost. Households buy goods and services from firms, and firms use their revenue from sales to pay wages to workers, rent to landowners, and profit to firm owners. Income must equal expenditure.

Paradox of thrift: economic concept that if everyone tries to save an increasingly larger portion of his or her income, they would become poorer instead of richer.

Wealth is the value of the assets owned by an individual or a group of individuals.

Questions for monitoring:

1. What does consumption mean?
2. What is the Gross National Product (GPN)? How is it measured?
3. What methods are used to count GPN?
4. What kinds of GPN do economists distinguish?
5. What is Net National Product?
6. What is the difference between Nominal GDP and Real GDP?
7. How can you explain the difference between Personal income and National income?
8. How can you explain the difference between Personal income and Disposable personal income?
9. What is the meaning of Fundamental Psychological Law?
10. What is the meaning of Paradox of thrift?

SEMINAR 6

Financial system of the state and fiscal policy

Finance: a branch of economics concerned with resource allocation as well as resource management, acquisition and investment. Simply, finance deals with matters related to money and the markets.

Financial system: the collection of accounting processes and procedures that allow a business to keep accurate financial records, monitor accounts, prevent fraud and mistakes, and catch any discrepancies. A financial system allows a company to maintain accountability for expenditures and revenues, and to control their finances to minimize waste and loss.

Financial institutions provide service as intermediaries of financial markets. They are responsible for transferring funds from investors to companies in need of those funds; facilitate the flow of money through the economy. To do so, savings are brought to provide funds for loans.

Central (National) bank is a reserve bank, or monetary authority is a public institution that manages a state's currency, money supply, and interest rates. Central banks also usually oversee the commercial banking system of their respective countries.

Financial statement: a written report which quantitatively describes the financial health of a company. This includes an income statement and a balance sheet, and often also includes a cash flow statement. Financial statements are usually compiled on a quarterly and annual basis.

Tax is a fee charged («levied») by a government on a product, income, or activity. If tax is levied directly on personal or corporate income, then it is a direct tax. If tax is levied on the price of a good or service, then it is called an indirect tax. The purpose of taxation is to finance government expenditure. Taxation – the act of levying a tax.

Taxation principles. A variety of factors that the government should follow when putting together an equitable system of taxation. These include criteria such as equity, simplicity, neutrality, and compatibility.

Direct tax is a tax levied by the government directly on the income or property of individuals or businesses. Direct taxes are different from indirect taxes, which are levied at the point of certain actions such as purchasing in the case of sales tax, importing in the case of customs duties, or production in the case of excise taxes.

Income tax is a tax levied on incomes of persons or corporations. International differences in income tax rates sometimes induce persons and corporations to relocate to lower-tax jurisdictions.

Incomes policies are economy-wide wage and price controls, most commonly instituted as a response to inflation, and usually below market level. Incomes policies have often been resorted to during wartime.

Fiscal policy: decisions by the President and Parliament, usually relating to taxation and government spending, with the goals of full employment, price stability, and economic growth. By changing tax laws, the government can effectively modify the amount of disposable income available to its taxpayers. For example, if taxes were to increase, consumers would have less disposable income and in turn would have less money to spend on goods and services.

Expansionary policy is a macroeconomic policy that seeks to expand the money supply to encourage economic growth or combat inflation (price increases). One form of expansionary policy is fiscal policy, which comes in the form of tax cuts, rebates and increased government spending. Expansionary policies can also come from central banks, which focus on increasing the money supply in the economy.

Contractionary policy is a type of policy that is used as a macroeconomic tool by the country's central bank or finance ministry to slow down an economy. Contractionary policies are enacted by a government to reduce the money supply and ultimately the spending in a country.

Interest Rate: the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets. Interest rates are typically noted on an annual basis, known as the annual percentage rate (APR). The assets borrowed could include, cash, consumer goods, large assets, such as a vehicle or building. Interest is essentially a rental, or leasing charge to the borrower, for the asset's use.

Reserve Requirements are requirements regarding the amount of funds that banks must hold in reserve against deposits made by their customers. This money must be in the bank's vaults or at the closest Central bank.

Questions for monitoring:

1. What is the meaning of finance?
2. What kind of special tools of expansionary fiscal policy do you know?
3. What kind of special tools of contractionary fiscal policy do you know?
4. What are the main taxation principles?
5. What is the difference between direct taxes and indirect taxes?
6. What are the main functions of Central (National) bank?
7. How can you describe the common structure of financial system?
8. Which economic information does financial statement include?
9. What are meaning Interest Rate and Reserve Requirements?
10. How do you understand the term «fiscal policy»?

SEMINAR 7

Money market and monetary policy

Monetarism means monetary policy, or control of the money supply, is the primary if not sole determinant of a nation's economy. Monetarists believe that management of the money supply to produce credit ease or restraint is the chief factor influencing inflation or deflation, recession or growth; they dismiss fiscal policy (government spending and taxation) as ineffective in regulating economic performance.

Money is any object or record that is generally accepted as payment for goods and services and repayment of debts in a given socio-economic context or country. Money as the medium of exchange is believed to be used in one-half of almost all exchange. Workers exchange labour for money, people buy or sell goods in exchange for money as well.

Barter. People do not accept money to consume it directly but because it can subsequently be used to buy things, they wish to consume. To see the advantages of a medium of exchange, imagine a barter economy, that is, an economy having no medium of exchange. Goods are traded directly or swapped for other goods.

Monetary aggregates:

- monetary aggregate M0 (cash in circulation);
- monetary aggregate M1 (M0 + transferable deposits in Belarusian rubles);
- monetary aggregate M2* (M1 + other deposits in Belarusian rubles + plus legal and/or natural persons' funds in Belarusian rubles-denominated securities (except for shares) issued by the banks of the Republic of Belarus;
- monetary aggregate M3 (M2* + transferable deposits, other deposits in foreign currency, deposits in precious metals, and legal and/or natural persons' funds in foreign currency-denominated securities (except for shares) issued by the banks of the Republic of Belarus.).

Functions of money: a medium of exchange or means of payment; a store of value; a unit of account; a standard of deferred payment.

Central bank:

- acts as a lender to commercial banks;
- acts as a banker to the government;
- takes responsibility for the funding of the government's budget deficit;
- takes responsibility for the control of the money supply, which includes currency outside the banking system;
- controls the quantity of currency in private circulation and the one held by the banks through purchases and sales of government securities;
- can impose reserve requirements on commercial banks, that is, it can impose the minimum ratio of cash reserves to deposits that banks must hold.

Demand for money is a demand for real money, that is, nominal money deflation by the price level to undertake a given quantity of transactions.

Money market. Set of institutions, conventions, and practices whose aim is to facilitate the lending and borrowing of money on a short-term basis. Money market is, therefore, different from the capital market, which is concerned with medium- and long-term credit. The transactions that occur on the money market involve not only banknotes but assets that can be turned into cash at short notice, such as short-term government securities and bills of exchange.

Monetary system. The basis of any monetary system is a defined money commodity that serves as a universal equivalent. Its stipulated weight represents the content of metal of the country's monetary unit, but in its functions as a circulation and payment medium this commodity may be substituted for nominal symbols of value (hard or paper money).

Banknote circulation:

- 1) banknotes freely redeemable for gold in bullion (gold-bullion standard);
- 2) banknotes indirectly redeemable for gold through foreign currencies convertible in gold (gold-exchange standard);
- 3) banknotes redeemable with limitations for foreign exchange (allowed to all citizens, only to foreigners, only on current items of balance of payment, or different combinations of these conditions—at a single or differentiated rate of exchange);
- 4) restricted redemption of banknotes and monetary media on current accounts, redeemable in gold only for foreign central banks of issue (such an exchange system existed after World War II until August 1971 only in the USA);
- 5) the inconvertibility of money media in the accounts of central and other banks either to gold or to foreign exchange (closed currency).

E-money. E-money is defined as an “electronic store of monetary value on a technical device that may be widely used for making payments to undertakings other than the issuer without necessarily involving bank accounts in the transaction, but acting as a prepaid bearer instrument”.

E-cash includes reloadable electronic purses and multi-purpose stored value cards.

Network money defines funds stored in software products that can be used for payments or transfers over communication networks (i. e., the Internet).

Access products allow agents to access their bank accounts and transfer funds. These latter products are new ways of executing transactions with existing forms of money.

Web-money is an electronic money and online payment system (transactions are conducted through WebMoney Transfer). WM Transfer Ltd, the owner and administrator of WebMoney Transfer Online Payment System, was founded in 1998 and is a legal corporate entity of Belize. The company claims to have more than 11 million users.

Questions for monitoring:

1. What are the main concepts of monetarism?
2. What is the meaning of money?
3. What is the difference between finance and money?
4. What are the main functions of money?
5. How can you explain economic sense of monetary aggregates?
6. How does demand for money manifest itself?
7. What does money market mean?
8. What kind of modern money forms do you know?
9. How do you understand the term «banknote circulation»?
10. How can we use electronic money?

SEMINAR 8

Macro equilibrium of the goods and money markets: IS-LM model

IS curve is a graph of all combinations of r and Y that result in goods market equilibrium, i. e. actual expenditure (output) = planned expenditure.

LM curve is a graph of all combinations of r and Y that equate the supply and demand for real money balances.

IS–LM model (Investment Saving–Liquidity Preference Money Supply) is a macroeconomic tool that demonstrates the relationship between interest rates and real output, in the goods and services market and the money market.

Economic growth is an increase in the capacity of an economy to produce goods and services, compared from one period of time to another.

Economic growth is the increase in the amount of the goods and services produced by an economy over time.

Intensive economic growth — increases in aggregate economic activity, or growth, may be generated by adding more labor and capital or by improving skills and technology.

Extensive economic growth comes from the expansion of ordinary inputs of labor, reproducible capital (i. e., machines and livestock) and natural resources.

Factors of economic growth: fiscal discipline, tax reform, financial liberalization, unified and competitive exchange rates, trade liberalization, privatization, deregulation ...

Deregulation is the act or process of removing or reducing state regulations.

Corruption is payment for services or material which the recipient is not due, under law.

Social Policy is an instrument applied by governments to regulate and supplement market institutions and social structures.

Social Policy is social services such as education, health, employment, and social security.

Today's main social problems: poverty, well-being, ill health, education, crime, homelessness, child protection.

Government — the formal institutions of a society that have the authority to make and implement binding decisions on such matters as the distribution of resources, allocation of benefits and burdens, and the management of conflicts.

Society is a community, nation, or broad grouping of people who have common traditions, institutions, and collective activities and interests.

Poverty is an existence in which the basic needs of an individual or family exceed the means available to satisfy them.

Poverty rate — the percentage of the population with incomes below the official poverty income levels.

Health policy — decisions, plans, and actions that are undertaken to achieve specific health care goals within a society.

Business cycle is alternating periods of economic growth and contraction, which can be measured by changes in real GDP.

Economic cycle stages: expansion; peak; recession (contraction); recovery

Expansion is a time when businesses are expanding, producing more goods and hiring more workers.

Peak: the highest demand, earnings, price, rate, value, etc.

Peak: the phase in which real GDP reaches its maximum after rising during a recovery.

Recession is period of general economic decline, defined usually as a contraction in the GDP for six months (two consecutive quarters) or longer.

Recession is a downturn in the business cycle during which real GDP declines

Collapse — sudden and dramatic slowdown in economic activity, resulting in a steep drop in prices with a consequent fall in level of employment.

Stagnation: a state of inactivity (in business or art etc.); economic growth of less than 1 % per year.

Trough is the phase of the business cycle in which real GDP reaches its minimum after falling during a recession.

Unemployment: total number of able men and women of working age seeking paid work.

Unemployment rate — percentage of total workforce who are unemployed and are looking for a paid job.

Workforce: total number of employee (usually excluding the management) on an employer's payroll.

Frictional unemployment — unemployment caused by the normal search time required by workers who are changing jobs or seasonally unemployed.

Structural unemployment — unemployment caused by a mismatch of the skills required for existing job opportunities

Cyclical unemployment — unemployment caused by the lack of jobs during a recession.

Involuntary unemployment — condition of being unemployed against one's wishes.

Inflation is a situation in which a decline in the purchasing power of money results in a rise of the general price level.

Hyperinflation is an extremely rapid rise in the general price level

Deflation is a decrease in the general level of prices.

Emission is an issuing of paper money.

Employee is an individual who works part-time or full-time under a contract of employment.

Questions for monitoring:

1. What does social policy mean?
2. What are the main stages of business cycle?
3. What is economic growth?
4. What are the objectives of economic growth?
5. How can economic growth be achieved?
6. Can economic growth be eternal?
7. How can we define unemployment?
8. What does rate of unemployment mean?
9. How do economists explain the phenomenon of inflation?
10. What are micro- and macro-consequences of inflation?

SEMINAR 9

Balance-of-payments and its structure

World economy — the economy, which is based on economies of all of the world's countries, national economies.

Objective of world economy — to keep trade as free and open as possible to encourage greater world growth, employment, income, and investment.

Human development index (HDI) is a composite statistic of life expectancy, education, and income indices used to rank countries into four tiers of human development.

Causes of East Asia's relative success — outward orientation, high saving and investment rates, macroeconomic discipline ...

Globalization means erasure of national boundaries for economic, political, and other purposes; international trade becomes interregional trade.

Cooperation — voluntarily arrangement in which two or more entities engage in a mutually beneficial exchange instead of competing

Regionalization — the process of dividing an area into smaller segments called regions (states or provinces).

Specialization — country focuses on the production of a limited scope of products or services in order to gain productive efficiency within the entire system of world economy.

Tools of international relations — diplomacy, sanctions, war.

Diplomacy is the practice of conducting negotiating between representatives of states.

Sanctions — are usually a first tool after the failure of diplomacy, and are one of the main tools used to enforce treaties.

War — the use of force is often thought of as the ultimate tool of international relations.

Foreign Trade — means the exchange of goods and services between nations.

Tariff – a tax imposed on an imported good.

Non-tariff barriers — import quotas, licensing requirements, unreasonable product-quality standards, unnecessary red tape in customs procedures.

Free trade is the trade wherein goods and services flow across international boundaries on the basis of comparative advantage.

World Bank is the world's foremost intergovernmental organization concerned with the external financing of the economic growth of developing countries.

International Monetary Fund is the international association of nations that was formed to make loans of foreign monies to nations with temporary payments deficits.

Balance of Payments Deficit — when payments made by the country exceed payments received by the country.

Balance of trade — refers to the relationship of imports to exports of goods and services

National debt (internal and external) is the amount of money its government has borrowed from the people of the country and from other countries.

Currency exchange rate gives possibility to exchange money from one foreign currency to another.

Transnational Corporation is any firm that is registered and operates in more than one country at a time.

The theory of comparative advantage — even if a country is able to produce all its good at lower costs than another country can, trade still benefits both countries.

Comparative advantage explains how trade can create value for both parties even when one can produce all goods with fewer resources than the other.

A country or firm has an **absolute advantage** if it can produce a product (good or service) more 'efficiently' (cheaply) than others.

Questions for monitoring:

1. What does the world economy comprise?
2. What is globalization and why is it so important?
3. What kind of tools of international relations do you know?
4. What are the basic factors for the world production and integration?
5. How do you understand the terms “international specialization” and “international cooperation”?
6. What is the advantage of the regional economic integration?
7. Which tool of international relations is more effective, in your opinion?
8. What are the main functions of International Monetary Fund?
9. How can you describe the main features of Transnational Corporation?
10. How can you describe the structure of Balance-of-payments?

TASKS FOR STUDENTS' SELF-WORK

Students' essays (research works) topics

1. Who is a consumer? The main features of his/her behavior.
2. Who is a producer? The main features of its behavior.
3. Economic crisis: usual reasons and consequences.
4. Economic role of the government.
5. Economic growth and its determinants in the modern World.
6. The problem of inflation, the government's policy against inflation.
7. The problem of unemployment, the government's policy against unemployment.
8. Economic systems of different countries.
9. International economic organizations and its role.
10. Globalization of World economy.
11. Social policy and arguments for its development.
12. Today's main social problems.
13. Modern economic, social and personal well-being indicators.
14. National account systems: using of the major macroeconomic indicators.

TEST CONTROL

Choose a correct answer or answers

1. The branch of economics that studies the economy as a whole.

Variants of answer:

- a) world economics;
- b) microeconomics;
- c) economic theory;
- d) economic geography;
- e) macroeconomics.

2. The branch of economics that studies how government activities such as regulations and taxes affect individual markets.

Variants of answer:

- a) microeconomics;
- b) world economics;
- c) economics;
- d) economic geography;
- e) macroeconomics.

3. The purpose is to create economic goods public goods and means of production.

Variants of answer:

- a) econometrics;
- b) economic theory;
- c) economics;
- d) economy;
- e) scarcity.

4. Economics is said to be ... when it prescribes that a certain action should be taken.

Variants of answer:

- a) cognitive;
- b) negative;
- c) normative;
- d) positive;
- e) pragmatic.

5. Economic theory studies ...

Variants of answer:

- a) scarcity and rational behavior of economic subjects;
- b) the objective laws of economy and human relationships;

- c) human relationships;
- d) means to make people happy;
- e) the objective laws of economy and rational behavior of economic subjects.

6. It creates the material base of human society, which must be comfortable for living.

Variants of answer:

- a) economics;
- b) economic theory;
- c) scarcity;
- d) society;
- e) economy.

7. Land, air, water, forests, coal, iron ore, oil, and other minerals.

Variants of answer:

- a) natural resources;
- b) economic resources;
- c) economic products;
- d) factors of production;
- e) natural products.

8. It studies the efficient use of resources for more complete satisfaction of human needs.

Variants of answer:

- a) economic geography;
- b) macroeconomics;
- c) microeconomics;
- d) economic theory;
- e) econometrics.

9. Scarcity as the fundamental economic problem

Variants of answer:

- a) individuals can never be fully happy;
- b) individuals can have everything they desire;
- c) individuals can never have the job they like;
- d) individuals can never have everything they desire;
- e) individuals can never have enough money they desire.

10. The economy means a system for the management, use and control of what?

Variants of answer:

- a) money, goods and resources;

- b) money, goods or resources;
- c) money and finance;
- d) goods and services;
- e) services.

11. The main functions of the economy.

Variants of answer:

- a) to produce, to exchange, to spend;
- b) to produce, to exchange, to redistribute;
- c) to produce, to sell, to redistribute;
- d) to produce, to exchange, to trade;
- e) to produce, to exchange, to consume.

12. The branch of economics that tries to understand what factors affect the prices, wages and earnings.

Variants of answer:

- a) world economics;
- b) economic geography;
- c) economics;
- d) macroeconomics;
- e) microeconomics.

13. The branch of economics that studies individual producers, consumers, or markets.

Variants of answer:

- a) economics;
- b) world economics;
- c) microeconomics;
- d) macroeconomics;
- e) economic geography.

14. It studies export, import, exchange rate, trade and balance of payments.

Variants of answer:

- a) economic theory;
- b) world economics;
- c) microeconomics;
- d) econometrics;
- e) macroeconomics.

15. The branch of economics that studies export, import, exchange rate, trade and balance of payments.

Variants of answer:

- a) world economics;

- b) macroeconomics;
- c) world economics;
- d) microeconomics;
- e) econometrics.

16. The functions of economic theory.

Variants of answer:

- a) theoretical, methodological, pragmatic;
- b) cognitive, theoretical, methodological, pragmatic;
- c) physical, theoretical, methodological, pragmatic;
- d) methodological, physical, theoretical, cognitive;
- e) economical, cognitive, theoretical, methodological.

17. The branch of economics that studies the overall values of output, of unemployment and of inflation.

Variants of answer:

- a) microeconomics;
- b) macroeconomics;
- c) economic geography;
- d) world economics;
- e) economics.

18. Economics is said to be ... when it attempts to explain the consequences of different choices given a set of assumption.

Variants of answer:

- a) pragmatic;
- b) normative;
- c) cognitive;
- d) negative;
- e) positive.

19. The economy, which is based on economies of all of the world's countries, national economies.

Variants of answer:

- a) micro-economy;
- b) regional economy;
- c) national economy;
- d) world economy;
- e) macro-economy.

20. Social science, which attempts to find laws or principles of economy.

Variants of answer:

- a) economy;

- b) scarcity;
- c) economics;
- d) econometrics;
- e) sociology.

21. It is the economic system centered around a family.

Variants of answer:

- a) mixed economy;
- b) planned economy;
- c) command economy;
- d) market economy;
- e) traditional economy.

22. It is the process of taking a private industry or private assets into public ownership by a national government or state.

Variants of answer:

- a) localization;
- b) nationalization;
- c) expropriation;
- d) privatization;
- e) globalization.

23. It involves the production, distribution and consumption of goods and services between the entities in a particular society.

Variants of answer:

- a) economic system;
- b) economic theory;
- c) economic good;
- d) economic growth;
- e) economic need.

24. It is protected under copyright, patent, service mark, trademark, or trade secret laws from imitation, infringement, and dilution.

Variants of answer:

- a) intellectual property;
- b) personal property;
- c) private property;
- d) mixed property;
- e) public property.

25. It is an economy in which only the private decisions of consumers, resources suppliers, and business firms determine how resources are allocated.

Variants of answer:

- a) market mechanism;

- b) market system;
- c) marketing;
- d) market economy;
- e) market.

26. It is the process of transferring property from the public sector (a government) to the private sector.

Variants of answer:

- a) deregulation;
- b) nationalization;
- c) expropriation;
- d) globalization;
- e) privatizatiion.

27. They are able to satisfy the different human needs and society as a whole.

Variants of answer:

- a) economic goods;
- b) economic services;
- c) capital goods;
- d) consumer goods;
- e) economic resources.

28. Knowledge, creative ideas, or expressions of human mind that have commercial value.

Variants of answer:

- a) human property;
- b) individual property;
- c) peoples' property;
- d) personal property;
- e) intellectual property.

29. The key factors that make the market economy work are consumer sovereignty and the freedom of the enterprise.

Variants of answer:

- a) planned economy;
- b) market economy;
- c) command economy;
- d) mixed economy;
- e) traditional economy.

30. It is movable and includes tangible and intangible items whose ownership belongs to the individual.

Variants of answer:

- a) individual property;

- b) personal property;
- c) intellectual property;
- d) people's property;
- e) human property.

31. It is economic system in which decisions about the production, allocation and consumption of goods and services is planned ahead of time, in either a centralized or decentralized fashion.

Variants of answer:

- a) traditional economy;
- b) planned economy;
- c) mixed economy;
- d) market economy;
- e) command economy.

32. It is that which is had by or belongs to/with something, whether as an attribute or a component.

Variants of answer:

- a) scarcity;
- b) certificate;
- c) property rights;
- d) license;
- e) property.

33. The basic economic questions are answered by government officials.

Variants of answer:

- a) command economy;
- b) mixed economy;
- c) traditional economy;
- d) planned economy;
- e) market economy.

34. It involves an interaction of price, quantity, supply, and demand of resources and products.

Variants of answer:

- a) marketing;
- b) market system;
- c) market economy;
- d) market;
- e) market mechanism.

35. It is any institution or mechanism that brings together the buyers (demanders) and sellers (suppliers) of a particular good service.

Variants of answer:

- a) market economy;

- b) modern economy;
- c) traditional economy;
- d) planned economy;
- e) mixed economy.

36. It contains both private and public, or state owned (or controlled) enterprises.

Variants of answer:

- a) market economy;
- b) planned economy;
- c) traditional economy;
- d) effective economy;
- e) mixed economy.

37. They are human-made resources that are used for the production of other goods and services.

Variants of answer:

- a) consumer goods;
- b) economic resources;
- c) capital resources;
- d) capital goods;
- e) economic goods.

38. The classification of economic systems according to the type of property ownership.

Variants of answer:

- a) private ownership or public ownership;
- b) private ownership or collective ownership;
- c) personal ownership or public ownership;
- d) private ownership or personal ownership;
- e) collective ownership or public ownership.

39. It is the ownership of property by non-governmental legal entities, unless privately owned by the government as an institution.

Variants of answer:

- a) private property;
- b) people's property;
- c) individual property;
- d) personal property;
- e) human property.

40. The classification of economic systems according to the method of resource allocation and control.

Variants of answer:

- a) traditional economy or command economy;

- b) market economy or command economy;
- c) traditional economy or planned economy;
- d) planned economy or command economy;
- e) market economy or planned economy.

41. If a small change of price results in a large change in demand.

Variants of answer:

- a) inelastic demand;
- b) elastic supply;
- c) inelastic supply;
- d) elastic demand;
- e) price elasticity.

42. The quantity demanded and quantity supplied at the equilibrium price in a competitive market.

Variants of answer:

- a) quantity demanded;
- b) limited quantity;
- c) quantity supplied;
- d) equilibrium quantity;
- e) normal quantity.

43. It is the consumption and savings opportunity gained by an entity within a specified time-frame, that is generally expressed in monetary terms.

Variants of answer:

- a) income;
- b) budget;
- c) consumption;
- d) savings;
- e) expenditure.

44. It is the quantity of a good that buyers wish to buy at each price.

Variants of answer:

- a) quantity supplied;
- b) supply;
- c) equilibrium quantity;
- d) quantity demanded;
- e) demand.

45. It is the quantity of a good that sellers wish to sell at each price.

Variants of answer:

- a) equilibrium quantity;

- b) quantity demanded;
- c) quantity supplied;
- d) supply;
- e) demand.

46. A good or service of which consumers will purchase more (less) at every when their incomes increase (decrease).

Variants of answer:

- a) inferior good;
- b) consumer good;
- c) substitute goods;
- d) complementary goods;
- e) normal good.

47. The price in a competitive market at which the quantity demanded and quantity supplied are equal.

Variants of answer:

- a) competitive price;
- b) competitive price;
- c) maximum price;
- d) equilibrium price;
- e) minimum price.

48. It is a line showing the relationship between the price of a product or factor of production and the quantity supplied per time period.

Variants of answer:

- a) isocost
- b) budget line;
- c) isoquant;
- d) supply curve;
- e) demand curve.

49. It is a line showing the relationship between the price of a product or factor of production and the quantity demanded per time period.

Variants of answer:

- a) isoquant;
- b) supply curve;
- c) isocost;
- d) demand curve;
- e) budget line.

50. As consumer income is increased, demand for ... will also increase.

Variants of answer:

- a) normal good;

- b) economic good;
- c) substitute good;
- d) complementary good;
- e) inferior good.

51. The inverse relationship between the price and the quantity demanded of a good or service during some period of time.

Variants of answer:

- a) equilibrium quantity;
- b) law of demand;
- c) economic law;
- d) equilibrium price;
- e) law of supply.

52. If a small change of price results in a little change in demand.

Variants of answer:

- a) inelastic supply;
- b) inelastic demand;
- c) elastic demand;
- d) elastic supply;
- e) price elasticity.

53. It is the sum of consumption expenditure, investment expenditure, government expenditure, and net exports.

Variants of answer:

- a) price level;
- b) aggregate demand;
- c) aggregate supply;
- d) demand;
- e) supply.

54. The amount of a good or service buyers wish (or a buyer wishes) to purchase at a particular price during some period of time.

Variants of answer:

- a) quantity supplied;
- b) supply;
- c) equilibrium quantity;
- d) quantity demanded;
- e) demand.

55. It is the total quantity of a product or factor that firms or factor owners are prepared to sell at a given price.

Variants of answer:

- a) supply;

- b) demand;
- c) quantity demanded;
- d) equilibrium quantity;
- e) quantity supplied.

56. The total level of demand for desired goods and services.

Variants of answer:

- a) price level;
- b) supply;
- c) demand;
- d) aggregate supply;
- e) aggregate demand.

57. It is the total quantity of a good or service which buyers are prepared to purchase at a given price.

Variants of answer:

- a) demand;
- b) quantity demanded;
- c) equilibrium quantity;
- d) supply;
- e) quantity supplied.

58. The amount of a good or service sellers offer (or a seller offers) to sell at a particular price during some period of time.

Variants of answer:

- a) demand;
- b) supply;
- c) quantity demanded;
- d) equilibrium quantity;
- e) quantity supplied.

59. As consumer income is increased, demand for ... will decrease.

Variants of answer:

- a) inferior good;
- b) economic good;
- c) substitute good;
- d) normal good;
- e) complementary good.

60. The amount of a good or service buyers wish to purchase at a particular price during some period of time.

Variants of answer:

- a) supply;

- b) quantity supplied;
- c) quantity demanded;
- d) demand;
- e) equilibrium quantity.

61. *The aim of any producer.*

Variants of answer:

- a) to maximize profit, to minimize cost;
- b) to minimize profit, to minimize cost;
- c) to sum of profit and cost;
- d) to minimize profit, to maximize cost;
- e) to maximize profit, to maximize cost.

62. *Oligopoly.*

Variants of answer:

- a) many sellers;
- b) a single seller;
- c) no sellers;
- d) a few sellers;
- e) independent sellers.

63. *The limit imposed upon the ability of an individual consumer to obtain goods and services by the size of the consumer's income.*

Variants of answer:

- a) scarcity;
- b) budget;
- c) budget restraint;
- d) marginal utility;
- e) utility.

64. *Situation in which a change in price by one firm will affect the sales and profits of another firm and any firm that makes such a change can expect the other firm(s) to react in an unpredictable way.*

Variants of answer:

- a) competition;
- b) non-price competition;
- c) mutual interdependence;
- d) mutual independence;
- e) price competition.

65. *Consumers are able to compare all available products before they purchase by looking at ...*

Variants of answer:

- a) profit;

- b) income;
- c) tax;
- d) competition;
- e) price and quality.

66. Monopolistic competition.

Variants of answer:

- a) independent sellers;
- b) no sellers;
- c) a few sellers;
- d) many sellers;
- e) a single seller.

67. Physical establishment that performs one or more of the functions in the production of goods and services.

Variants of answer:

- a) plant;
- b) partnership;
- c) corporation;
- d) firm;
- e) business.

68. The sum of variable costs and fixed costs.

Variants of answer:

- a) marginal cost;
- b) total cost;
- c) fixed costs;
- d) average cost;
- e) opportunity cost.

69. The products of the various firms in the market are nearly identical.

Variants of answer:

- a) market product;
- b) identical product;
- c) differentiated product;
- d) individual product;
- e) standardized product.

70. The want-satisfying power of a good or service.

Variants of answer:

- a) consumption;
- b) utility;
- c) marginal utility;

- d) scarcity;
- e) budget restraint.

71. The presence in a market of a large number of independent buyers and sellers and the freedom of buyers and sellers to enter and to leave the market.

Variants of answer:

- a) competition;
- b) production;
- c) market;
- d) consumption;
- e) cooperation.

72. Market in which there are a few buyers.

Variants of answer:

- a) monopsony;
- b) oligopsony;
- c) pure competition;
- d) monopolistic competition;
- e) monopoly.

73. The organization which employs resources to produce a good or service for profit and owns and operates one or more plants.

Variants of answer:

- a) government;
- b) seller;
- c) buyer;
- d) consumer;
- e) firm.

74. The consumer uses money income to buy the collection of goods and services that yields the maximum amount of utility.

Variants of answer:

- a) utility-maximizing rule;
- b) the Veblen effect;
- c) income effect;
- d) law of diminishing marginal utility;
- e) utility-minimizing rule.

75. Market in which there is a fairly large number of buyers.

Variants of answer:

- a) monopoly;
- b) monopsony;
- c) monopolistic competition;
- d) pure competition;
- e) oligopsony.

76. Any cost that in total does not change when the firm changes its output.

Variants of answer:

- a) variable cost;
- b) opportunity cost;
- c) fixed costs;
- d) marginal cost;
- e) total cost.

77. Line shows all combinations of inputs which cost the same total amount.

Variants of answer:

- a) isocost;
- b) isocost map;
- c) budget line;
- d) isoquant;
- e) isoquant map.

78. The extra utility a consumer obtains from the consumption of one additional unit of a good or service.

Variants of answer:

- a) utility;
- b) total utility;
- c) budget restraint;
- d) marginal utility;
- e) scarcity.

79. Monopoly.

Variants of answer:

- a) no sellers;
- b) many sellers;
- c) a single seller;
- d) independent sellers;
- e) a few sellers.

80. Monopsony.

Variants of answer:

- a) no buyers;
- b) a single buyer;
- c) many buyers;
- d) a few buyers;
- e) independent buyers.

81. It is the total income earned by a nation's residents in the production of goods and services.

Variants of answer:

- a) personal income;
- b) national income;
- c) real income;
- d) GDP;
- e) disposable personal income.

82. It is the total income of a nation's residents minus losses from depreciation.

Variants of answer:

- a) GDP;
- b) national income;
- c) NNP;
- d) national wealth;
- e) GNP.

83. Employment, income and wealth, care work, creativity and innovations.

Variants of answer:

- a) economic well-being indicators;
- b) social well-being indicators;
- c) personal well-being indicators;
- d) individual well-being indicators;
- e) public well-being indicators.

84. Voluntarily arrangement in which two or more entities engage in a mutually beneficial exchange instead of competing.

Variants of answer:

- a) globalization;
- b) cooperation;
- c) colaboration;
- d) specialization;
- e) regionalization.

85. The weighted average of the prices paid for the final goods and services produced in the economy.

Variants of answer:

- a) money level;
- b) economic level;
- c) financial level;
- d) price level;
- e) production level.

86. It measures of changes in the purchasing power of a currency and the rate of inflation.

Variants of answer:

- a) purchasing power;
- b) consumer price index;
- c) currency rate;
- d) consumer basket;
- e) price level.

87. Poverty, health, education, environment, civil society, national stability.

Variants of answer:

- a) personal well-being indicators;
- b) economic well-being indicators;
- c) individual well-being indicators;
- d) social well-being indicators;
- e) private well-being indicators.

88. It is the income that households and non-corporate businesses have left after satisfying all their obligations to the government.

Variants of answer:

- a) nominal income;
- b) real income;
- c) personal income;
- d) national income;
- e) disposable personal income.

89. Food and shelter, personal and family activities, political participation, economic participation, human rights.

Variants of answer:

- a) social well-being indicators;
- b) economic well-being indicators;
- c) political well-being indicators;
- d) public well-being indicators;
- e) personal well-being indicators.

90. The production of goods and services valued at constant prices.

Variants of answer:

- a) real GNP;
- b) nominal GDP;
- c) nominal GNP;
- d) real GDP;
- e) GDP deflator.

91. It is the wear and tear on the economy's stock of equipment and structures, such as trucks rusting and lightbulbs burning out.

Variants of answer:

- a) national income;
- b) GNP;
- c) depreciation;
- d) national wealth;
- e) GDP.

92. It is a situation in which a decline in the purchasing power of money results in a rise of the general price level.

Variants of answer:

- a) deflation;
- b) money supply;
- c) purchasing power;
- d) price level;
- e) inflation.

93. It equals personal income minus personal taxes and certain non-tax payments (such as traffic tickets).

Variants of answer:

- a) national income;
- b) real income;
- c) disposable personal income;
- d) nominal income;
- e) personal income.

94. It is the total income earned by a nation's permanent residents.

Variants of answer:

- a) GDP;
- b) NNP;
- c) national income;
- d) GNP;
- e) national wealth.

95. It is the income that households and non-corporate businesses receive.

Variants of answer:

- a) disposable national income;
- b) national income;
- c) disposable personal income;
- d) personal income;
- e) real income.

96. The production of goods and services valued at current prices.

Variants of answer:

- a) GDP deflator;
- b) nominal GDP;
- c) real GNP;
- d) nominal GNP;
- e) real GDP.

97. It refers to the total value of wealth possessed by the citizens of a nation at a set point in time.

Variants of answer:

- a) economic growth;
- b) GDP;
- c) national wealth;
- d) GNP;
- e) national well-being.

98. It measures average changes in prices received by domestic producers for their output.

Variants of answer:

- a) producer index;
- b) producer price index (PPI);
- c) consumer price index (CPI);
- d) price level;
- e) purchasing power.

99. It is a measure of price level calculated as the ratio of nominal GDP to real GDP times 100.

Variants of answer:

- a) nominal GNP;
- b) nominal GDP;
- c) real GNP;
- d) real GDP;
- e) GDP deflator.

100. It expresses the current prices of a basket of goods and services in terms of the prices during the same period in a previous year, to show effect of inflation on purchasing power.

Variants of answer:

- a) price level;
- b) consumer basket;
- c) purchasing power;
- d) consumer price index (CPI);
- e) producer price index (PPI).

101. The weighted average of the prices paid for the final goods and services produced in the economy.

Variants of answer:

- a) price level
- b) purchasing power
- c) consumer basket
- d) consumer price index
- e) final goods and services.

102. It is the value of money that has been used up to produce something, and hence is not available for use anymore.

Variants of answer:

- a) expenditure;
- b) savings;
- c) consumption;
- d) personal budget;
- e) demand.

103. Spending by households on goods and services, with the exception of purchases of new housing.

Variants of answer:

- a) consumption;
- b) GDP;
- c) expenditure;
- d) savings;
- e) aggregate demand.

104. It captures the relation between saving by the household sector and income.

Variants of answer:

- a) saving function;
- b) aggregate demand;
- c) income function;
- d) consumption function;
- e) expenditure function.

105. Everyone tries to save an increasingly larger portion of his or her income, they would become poorer instead of richer.

Variants of answer:

- a) fundamental psychological law;
- b) Giffen effect;
- c) Veihien effect;
- d) fundamental economic law;
- e) paradox of thrift.

106. The economy having no medium of exchange. Goods are traded directly or swapped for other goods.

Variants of answer:

- a) barter;
- b) business;
- c) supply;
- d) monetarism;
- e) market.

107. It is a single mathematical function used to express consumer spending.

Variants of answer:

- a) income function;
- b) consumption function;
- c) demand curve;
- d) expenditure function;
- e) saving function.

108. It measures the volume of goods and services produced within the economy at a given price level.

Variants of answer:

- a) supply;
- b) aggregate demand;
- c) aggregate supply
- d) equilibrium quantity;
- e) demand.

109. Each dollar earned by a household can be either consumed or saved. It tells us the share of consumption out of each additional dollar of income.

Variants of answer:

- a) Giffen effect;
- b) marginal propensity to consume;
- c) Veihien effect;
- d) paradox of thrift;
- e) fundamental psychological law.

110. Consumption expenditures by the household sector depend on income and than only a portion of additional income is used for consumption, with the rest used for saving.

Variants of answer:

- a) fundamental economic law;
- b) law of supply;
- c) law of diminishing marginal utility;

- d) law of demand;
- e) fundamental psychological law.

111. They facilitate the flow of money through the economy. To do so, savings are brought to provide funds for loans.

Variants of answer:

- a) financial institutions;
- b) finance;
- c) financial markets;
- d) money markets;
- e) financial systems.

112. It is any object or record that is generally accepted as payment for goods and services and repayment of debts.

Variants of answer:

- a) shares;
- b) jewelry;
- c) money;
- d) gold;
- e) bonds.

113. They provide service as intermediaries of financial markets. They are responsible for transferring funds from investors to companies in need of those funds.

Variants of answer:

- a) financial systems;
- b) financial institutions;
- c) money;
- d) finance;
- e) financial markets.

114. It is an issuing of paper money.

Variants of answer:

- a) corruption;
- b) money supply;
- c) inflation;
- d) deflation;
- e) emission.

115. To keep trade as free and open as possible to encourage greater world growth, employment, income, and investment.

Variants of answer:

- a) objective of microeconomics;

- b) objective of world economy;
- c) objective of macroeconomics;
- d) objective of economics;
- e) objective of national economy.

116. Set of institutions, conventions, and practices whose aim is to facilitate the lending and borrowing of money on a short-term basis.

Variants of answer:

- a) money market;
- b) demand for money;
- c) monetary policy;
- d) supply of money;
- e) finance market.

117. It is the total amount of monetary assets available in an economy at a specific time.

Variants of answer:

- a) money;
- b) fiscal policy;
- c) monetary policy;
- d) demand for money;
- e) money supply.

118. It measures employed by governments to influence economic activity, specifically by manipulating the money supply and interest rates.

Variants of answer:

- a) economic policy;
- b) monetarism;
- c) fiscal policy;
- d) monetary policy;
- e) social policy.

119. The amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets.

Variants of answer:

- a) automatic stabilizer;
- b) interest rate;
- c) required reserves;
- d) currency exchange rate;
- e) percentage rate.

120. Financial market consisting of bond issuers, underwriters, buyers, and brokers/dealers.

Variants of answer:

- a) market capital;

- b) bond market;
- c) capital market;
- d) money market;
- e) finance market.

121. It is the amount charged, expressed as a percentage of principal, by a lender to a borrower for the use of assets.

Variants of answer:

- a) reserve requirements;
- b) interest rate;
- c) currency rate;
- d) tax;
- e) fiscal policy.

122. Difference between actual and planned expenditure.

Variants of answer:

- a) investment;
- b) unplanned inventory investment;
- c) consumption;
- d) planned inventory investment;
- e) demand.

123. Requirements regarding the amount of funds that banks must hold in reserve against deposits made by their customers.

Variants of answer:

- a) credits;
- b) deposits;
- c) money aggregates;
- d) interest rate;
- e) reserve requirements.

124. It is a public institution that manages a state's currency, money supply, and interest rates.

Variants of answer:

- a) government;
- b) commercial bank;
- c) private bank;
- d) state bank;
- e) Central bank.

125. Banks, credit unions, insurance companies, etc.

Variants of answer:

- a) financial institutions;
- b) market institutions;
- c) depository institutions;

- d) government institutions;
- e) economic institutions.

126. It is a branch of economics concerned with resource allocation as well as resource management, acquisition and investment.

Variants of answer:

- a) finance;
- b) financial market;
- c) money;
- d) financial system;
- e) money system.

127. It is the collection of accounting processes and procedures that allow a business to keep accurate financial records, monitor accounts, prevent fraud and mistakes.

Variants of answer:

- a) national account systems;
- b) finance;
- c) money;
- d) financial system;
- e) financial market.

128. An individual or firm which acts as an intermediary between a buyer and seller, usually charging a commission.

Variants of answer:

- a) dealer;
- b) banker;
- c) broker;
- d) shareholder;
- e) distributor.

129. Spending on capital equipment, inventories, and structures, including household purchases of new housing.

Variants of answer:

- a) finance;
- b) investment;
- c) expenditure;
- d) savings;
- e) consumption.

130. An individual or firm that buys goods from a producer or distributor for wholesale and/or retail reselling.

Variants of answer:

- a) shareholder;

- b) teller;
- c) broker;
- d) dealer;
- e) distributor.

131. It is the price annually paid for the exclusive right to use a certain location, piece of land or other natural resources.

Variants of answer:

- a) public rent;
- b) capital rent;
- c) land rent;
- d) economic rent;
- e) personal rent.

132. Any payment to a factor of production in excess of the cost needed to bring that factor into production.

Variants of answer:

- a) public rent;
- b) capital rent;
- c) economic rent;
- d) land rent;
- e) personal rent.

133. Major types of shares.

Variants of answer:

- a) no-ordinary shares and preference shares;
- b) simple shares and preference shares;
- c) ordinary shares and no-ordinary shares;
- d) preference shares and special shares;
- e) ordinary shares and preference shares.

134. It is the number of firms producing identical products which are homogeneous.

Variants of answer:

- a) marketing;
- b) market;
- c) market system;
- d) market mechanism;
- e) market structure.

135. A market that works as a conduit for demand and supply of debt and equity capital.

Variants of answer:

- a) bond market;

- b) money market;
- c) capital market;
- d) market of resources;
- e) finance market.

136. Major parts of capital market.

Variants of answer:

- a) bond market, money market;
- b) stock market, bond market, money market;
- c) stock market, bond market;
- d) stock market, shares market, money market;
- e) finance market, bond market, money market.

137. A place where shares are bought and sold.

Variants of answer:

- a) stock market;
- b) finance market;
- c) capital market;
- d) shares market;
- e) bond market.

138. Its entitle the shareholder to share in the earnings of the company as and when they occur, and to vote at the company's annual general meetings and other official meetings.

Variants of answer:

- a) special shares;
- b) general shares;
- c) common shares;
- d) preference shares;
- e) ordinary shares.

139. A unit of ownership that represents an equal proportion of a company's capital.

Variants of answer:

- a) bond;
- b) bill;
- c) money;
- d) obligation;
- e) share.

140. Its entitle the shareholder to a fixed periodic income (interest) but generally do not give him or her voting rights.

Variants of answer:

- a) common shares;
- b) ordinary shares;

- c) special shares;
- d) general shares;
- e) preference shares.

141. Non-tariff barriers.

Variants of answer:

- a) business quotas, income tax;
- b) export quotas, reserve requirements;
- c) import quotas, export quotas;
- d) import quotas, licensing requirements;
- e) free trade, licensing requirements.

142. Tools of international relations.

Variants of answer:

- a) trade, war, diplomacy;
- b) trade, sport, war;
- c) sanctions, war, diplomacy;
- d) sport, war, tourism;
- e) war, tourism, diplomacy.

143. It is a tax imposed on an imported good.

Variants of answer:

- a) fee;
- b) tax;
- c) excise;
- d) duty;
- e) tariff.

144. It means erasure of national boundaries for economic, political, and other purposes; international trade becomes interregional trade.

Variants of answer:

- a) nationalization;
- b) regionalization;
- c) globalization;
- d) cooperation;
- e) specialization.

145. This is the world's foremost intergovernmental organization concerned with the external financing of the economic growth of developing countries.

Variants of answer:

- a) World Bank;
- b) UNESCO;
- c) WIPO;

- d) Monetary Found;
- e) United Nations.

146. It means the exchange of goods and services between nations.

Variants of answer:

- a) foreign market;
- b) national debt;
- c) national reserve;
- d) foreign trade;
- e) national budget.

147. It is the amount of money its government has borrowed from the people of the country and from other countries.

Variants of answer:

- a) national reserve;
- b) national budget;
- c) international debt;
- d) foreign trade;
- e) national debt.

148. It gives possibility to exchange money from one foreign currency to another.

Variants of answer:

- a) stock exchange;
- b) money exchange rate;
- c) monetary policy;
- d) currency exchange rate;
- e) currency exchange.

149. These are usually a first tool after the failure of diplomacy, and are one of the main tools used to enforce treaties.

Variants of answer:

- a) war;
- b) diplomacy;
- c) tourism;
- d) sanctions;
- e) trade.

150. The process of dividing an area into smaller segments called regions (states or provinces).

Variants of answer:

- a) globalization;
- b) localization;
- c) regionalization;
- d) specialization;
- e) cooperation.

KEYS FOR THE TEST

№	Answer	№	Answer	№	Answer	№	Answer	№	Answer
1	e	31	b	61	a	91	c	121	b
2	a	32	e	62	d	92	e	122	b
3	d	33	a	63	c	93	c	123	e
4	c	34	e	64	c	94	d	124	e
5	e	35	a	65	e	95	d	125	c
6	e	36	e	66	d	96	b	126	a
7	a	37	d	67	a	97	c	127	d
8	d	38	a	68	b	98	b	128	c
9	d	39	a	69	e	99	e	129	b
10	a	40	b	70	b	100	d	130	d
11	b	41	d	71	a	101	a	131	c
12	d	42	d	72	b	102	a	132	c
13	c	43	a	73	e	103	a	133	e
14	b	44	e	74	a	104	a	134	e
15	c	45	d	75	c	105	e	135	c
16	b	46	e	76	c	106	a	136	b
17	b	47	d	77	a	107	b	137	a
18	e	48	d	78	d	108	c	138	e
19	d	49	d	79	c	109	b	139	e
20	c	50	a	80	b	110	e	140	e
21	e	51	b	81	b	111	a	141	d
22	b	52	b	82	c	112	c	142	c
23	a	53	b	83	a	113	b	143	e
24	a	54	d	84	b	114	e	144	c
25	d	55	a	85	d	115	b	145	a
26	e	56	e	86	b	116	a	146	d
27	a	57	a	87	d	117	e	147	e
28	e	58	e	88	e	118	d	148	d
29	b	59	a	89	e	119	b	149	d
30	b	60	c	90	d	120	b	150	c

FINAL CONTROL QUESTIONS

1. Aggregate demand and its factors. Aggregate demand curve (AD).
2. Aggregate supply and its factors. Aggregate supply curve (AS).
3. Aim of any individual producer or firm. Accounting profit, normal profit, and economic profit.
4. Automatic stabilizer and fiscal policy of government.
5. Average fixed, variable, and total costs.
6. Balance of payments and its structure: the current account and the capital account.
7. Bank system: central bank and commercial banks.
8. Basic types of goods: normal good, substitute goods, complementary goods.
9. Budget restraint. Budget line and indifference curve. Consumer equilibrium.
10. Business cycle. Economic cycle stages: expansion, peak, recession, recovery.
11. Capital market. Interest rate and reserve requirements.
12. Capital. Major parts of capital market: stock market, bond market, money market.
13. Central bank and its functions.
14. Competition. Non-price competition. Pure competition.
15. Consumer. Rational behavior of consumer. Utility-maximizing rule.
16. Consumption and saving. Autonomous consumption. Marginal propensity to consume. Consumption function. Saving function.
17. Costs and its types: fixed costs, variable costs, total costs.
18. Costs and its types: marginal cost, opportunity costs, implicit costs.
19. Demand. Law of demand. Quantity demanded. Demand curve.
20. Economic equilibrium. Equilibrium price. Equilibrium quantity of production.
21. Economic goods and economic services. Material and intangible goods.
22. Economic growth and its aim. Intensive and extensive economic growth.
23. Economic growth. The aim and factors of economic growth.
24. Economic system and its types: market economy, mixed economy, planned economy, traditional economy.
25. Economic theory and its functions.
26. Economics as a social and natural science.
27. Economy: purpose and functions. The economic objectives of the society.
28. The price elasticity of demand and its factors.
29. Elasticity: elastic and inelastic demand. The income elasticity of demand.
30. Employment and unemployment. Types of unemployment.
31. Expenditures of government, firms and household. Paradox of thrift.

32. Finance and financial system. Broker and dealer.
33. Fiscal policy: contractionary policy and expansionary policy.
34. Foreign trade. Tariff and nontariff barriers. International trade's role.
35. Globalization and anti-globalization. Globalization critics' arguments.
36. Government's market policy. Types of government intervention: direct and indirect participation.
37. Gross domestic product (GDP) and Gross national product (GNP). Methods of GDP measuring.
38. Human wants and human needs. Law of increasing people's needs.
39. Imperfect competition: monopoly, oligopoly, monopolistic competition.
40. Income inequality as a social problem: government's role.
41. Inflation and deflation. Money emission.
42. Inflation. Rate of inflation. Inflationary expectations.
43. International economic organizations. World Bank and International Monetary Fund.
44. International loan. Creditworthy of a country.
45. International relationship and its tools: diplomacy, sanctions, war.
46. Investments and its types.
47. Labour force. The reasons for emigration and immigration of specialists.
48. Labour market: human resources, labour force, demand for labour, supply of labour.
49. Land and land market. Price of land (rent). Demand for land. Supply of land.
50. Macroeconomic equilibrium (AD-AS). Aggregate supply curve and Aggregate demand curve.
51. Macroeconomics and its subject.
52. Market and its infrastructure. Types of markets.
53. Market economy: the main features.
54. Market, market mechanism and market structure.
55. Microeconomics and its subject.
56. Mixed economy: the main features.
57. Monetary policy: regulating of money supply by government.
58. Money and its functions.
59. Monopoly and monopsony, its main features.
60. National account systems. The major macroeconomic indicators.
61. National debt and its refinancing.
62. National economy and its structure.
63. National income. Personal and disposable personal income.
64. National wealth. Economic, social, and personal well-being indicators.
65. Nominal GDP. Real GDP. GDP deflator. Consumer Price Index (CPI).
66. Oligopoly and oligopsony, its main features.
67. Perfect competition: the main features.
68. Planned economy: the main features.

69. Price elasticity of supply. Factors of price elasticity of supply.
70. Production. Five fundamental questions that every economy must answer.
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