

14 Banking

This is the first of eight units on finance. It begins with a discussion question that contains most of the basic vocabulary of personal banking. There are texts about the different types of banks and financial institutions, and the credit crisis that began in 2008. There are two listening activities, based on an interview with a recruitment manager at HSBC, and an expert on microfinance in developing countries. The unit ends with a role play about microfinance.

Additional information about finance is available in *English for the Financial Sector* (Student's Book, Teacher's Book and Audio CD) and *Professional English in Use – Finance*, both available from Cambridge University Press.

Lead-in

The first question covers the major retail banking products and services. Two of the terms are defined (overdraft, mortgage); learners will probably know, or be able to deduce, the meanings of most of the other terms.

The second question is about banking services for business, which are covered in the text which follows.

Reading: Banks and financial institutions

The text defines the different types of financial institutions found both before and after financial deregulation in the 1980s and 90s, and explains why there were strict regulations that could be relaxed. Learners have to insert the names of the different institutions in the text. The text has quite a high vocabulary load, but is followed by vocabulary exercises.

The learners can, of course, check their answers here, and in the vocabulary exercises, in pairs.

ANSWERS

- 1 commercial banks 2 Investment banks
3 private banks 4 hedge funds 5 stockbrokers
6 Islamic banks 7 non-bank financial intermediaries

Vocabulary

ANSWERS

- 1 1 deposits 2 loan 3 capital 4 stocks or shares 5 bonds 6 merger 7 takeover bid 8 stockbroking 9 portfolio 10 returns 11 bankrupt 12 deregulation 13 conglomerate 14 interest
- 2 The following verb–noun combinations are in the text:
charge interest do business give advice
issue bonds issue stocks or shares
make loans offer advice offer services
pass laws pay interest provide services
raise capital receive deposits share profits
- Other common combinations include:
make laws make profits offer loans pay a deposit provide capital provide loans

Listening 1: Commercial banking

▶ 1.30

AUDIO SCRIPT

TONY RAMOS I think there is a real kind of perception around kind of the world of investment banking and kind of what it offers. I think also as well I think commercial banking, and I guess I would say this as a previous commercial manager, I think is a kind of a best kept secret. I think if you actually and when you do talk to students, when I talk to students and I talk them to about what the commercial banking role is and I talk to them about the fact that you're kind of working in a local marketplace, you're working you know with, like, local entrepreneurs, kind of what the day-to-day job consists of, actually going to see people with their businesses, helping start up those businesses, seeing those businesses

grow and the kind of excitement and the job satisfaction that provides to you, you actually do see their eyes kind of light up and open up, because they kind of think, oh, I actually I didn't think it was about that, I actually thought it was kind of sitting in front of a computer looking at spread sheets, I think it was doing a lot of analysis, it seemed quite dull and stuffy to me.

ANSWERS

- 1 'best kept secret'
- 2 He worked as a commercial bank manager.
- 3 1 local marketplace 2 local entrepreneurs
3 going to see 4 helping start up 5 businesses grow
- 4 Sitting in front of a computer looking at spreadsheets, doing a lot of dull analysis

Ask learners which type of financial institution they would like to work for, and why. Some may be persuaded by Tony Ramos as to the interest of commercial banking. Others may dream of working in investment banking. Others, who already know about finance, may have their sights set on hedge funds. And so on.

Reading: The subprime crisis and the credit crunch

Soon after the books mentioned in the box on the previous page were published there was a huge financial crisis. Anyone looking for the recently topical terms *credit crunch* or *toxic debt* or *trash cash* in those books would be disappointed. The real world of finance moves fast. So it seemed necessary to include a text about the subprime crisis in this book. There is no telling what will happen between me writing this and the book being published, or your teaching from it.

Given that much of what happened during the subprime crisis is common knowledge, especially among people interested in finance, your learners may well know about the sequence of events outlined in the text. In which case you could attempt to elicit this information as a **discussion** activity with the books closed before reading the text.

This issue is also the subject of the **Listening** in **Unit 16** on Bonds.

ANSWERS

- 1 Lenders granted mortgages ...
- 2 The mortgage lenders sold ...
- 3 American house prices fell ...
- 4 The value of MBSs fell ...
- 5 Some went bankrupt ...
- 6 There was a credit crisis ...

Vocabulary

ANSWERS

- 1 B 2 C 3 E 4 D 5 A

Discussion

There are no definitive 'right answers' here. As the rubric in the Student's Book suggests, deregulation in the 1980s was a contributing factor. So was the globalization of markets. Some people blame central banks for lowering interest rates in 2000 after the dot-com bubble burst, and again in 2001 after the 9/11 attacks, which led to a fall in the savings ratio. Many people blame the greed of the lenders, the originators of the mortgages, but giving low-income groups the possibility to own their homes is surely a good idea ... if they can afford it. When house prices fell and subprime borrowers defaulted, lenders often repossessed property that was worth less than the amount they had loaned, so they went bankrupt too.

Home buyers were obviously taking risks by buying houses they could scarcely afford, especially if they had 'no down payment' or special low introductory interest rate mortgages. They were hoping house prices would rise, but instead the housing bubble burst, and prices dropped rapidly. Gambling on house prices continuing to increase is rarely a good idea, but people don't seem to learn from history that house-price booms or bubbles invariably burst.

Securitization, including that of risky subprime loans, provides the financial industry with a lot of liquidity, but an industry that has to write off \$1,500,000,000,000 (quite apart from provoking much greater losses of

value on stock markets) doesn't come out looking too clever. Investment banks didn't need to buy subprime mortgages from lenders, securitize them into bonds, and include them in their MBSs and CDOs. One can also blame investors who were willing to purchase MBSs and CDOs because they paid very slightly higher interest than totally safe Treasury bonds.

Some people blame securities rating agencies which gave the MBSs and CDOs high ratings. Since rating agencies receive fees from the creators of securities, it is claimed that they might not adequately assess risks; if they gave lower ratings the issuers of securities might go to a different rating agency.

One can also accuse the US financial regulators of not reacting in time. You can easily find articles on the Internet arguing that the repeal of the Glass-Steagall Act is to blame, as well as articles arguing that this is false.

If you have learners who are particularly knowledgeable about this subject, this activity could be staged as a debate, with groups of students preparing position statements.

Listening 2: Microfinance ▶ 1.31

Some learners may know about microfinance schemes. If not, Anna-Kim Hyun-Seung explains what they are.

The interview with Anna-Kim Hyun-Seung was rerecorded with an actor, for reasons of sound quality. The speaker's accent is more Chinese than Korean.

Anna-Kim Hyun-Seung will reappear in **Units 24** and **25**, talking about corporate social responsibility, and efficiency and employment.

AUDIO SCRIPT

ANNA-KIM HYUN-SEUNG Microfinance schemes started with several NGOs and social enterprises, for example Grameen Bank in Bangladesh. They distribute very small loans to poor people, often without financial collateral. But they use some kind of different collateral, sometimes it can be social collateral, so they create a group of people and within the group people help each other to repay the loan, but it's usually a very small amount of money, and from the bank's point of view it actually provides a unique risk-management tool. Of course, distributing loans to

poor people sounds very risky, but because we are talking about a large number of people, with a very small amount of money, it actually creates a very nice portfolio in which the risk can be diversified.

NGOs and social enterprises proved that these kinds of schemes can be scalable, and the poor people are actually repaying the loans, so now the conventional banks like Citibank and Barclays are taking part in these schemes, not for the purpose of doing good only, they are actually doing it as part of their business. They are developing their microfinancing and microcredit products in developing countries. It seems that microfinance is doing really well particularly in Bangladesh and part of India, and there are some positive cases in Latin America and Africa too.

ANSWERS

- 1 Social collateral – a group of people help each other to repay the loan
- 2 Making loans to a group of people who can help each other (rather than to individuals)
- 3 Because the bank makes small loans to a large number of people, which greatly diversifies the risk
- 4 Because it has been shown that poor people do repay their loans, so microfinance can be part of a normal bank's business
- 5 Asia, Latin America and Africa

Notes

Collateral is not defined here, but *collateralized* was defined in the previous reading exercise. *NGOs* are non-governmental organizations. Anna-Kim Hyun-Seung uses the word *scalable*, which means an ability to expand or grow; this word is more often used in relation to computing systems than loan portfolios.

Discussion

Given the tone of the Listening extract, few learners are likely to oppose the aims of helping the poor, and at the same time encouraging entrepreneurialism. They might disagree that this is a profitable and risk-free initiative for a bank.

Similar (or at least related) initiatives that learners may know about include socially responsible investment funds; these are discussed in **Unit 16**.

Note

Learners with many (if not most) first languages may be (wrongly) inclined to add a plural *-s* to uncountable collective nouns like *the poor*, *the rich*, *the young*, *the old*, etc.

Role play: Microfinance

There are five role cards at the back of the Student's Book on pages 145, 148, 150, 152 and 153. All four of the main roles B–E are probably necessary to give rise to discussion, i.e. this role play will not work very well if a role is left out in a very small class, though in small groups Director B could also take on Director A's role of chairing the meeting. The meeting could be swayed by any of the four positions, but I suspect that Director E could carry the day if he/she presents his/her case well.

Writing

If the meeting was unable to come to a decision, the minutes would merely record the arguments presented. Looking at the role cards at the back of the Student's Book might help in writing these, if the participants stick to the roles suggested.

See also the role plays 'Deciding where to invest' and 'Servicing a debt' in *Business Roles 2* by John Crowther-Alwyn, and the simulation 'A Year in Fashion' in *Decisionmaker* by David Evans (Cambridge University Press).

15 Venture capital

This unit contains extracts from an interview with a venture capitalist in Cambridge, a reading exercise about the different elements of a business plan, and a role play about choosing among different investments.

Lead-in

The first question is phrased hypothetically ('If you were starting ...'), but of course you may have learners who are running their own company as well as studying, and have already raised capital.

New businesses, or start-ups, are private companies that aren't allowed to sell stocks or shares to the general public. They either operate on money provided by their founders, or get money from venture capital firms, which raise money (venture capital or risk capital or start-up capital) from financial institutions, or occasionally from rich individuals, also known as 'angels' or 'angel investors'.

Established companies are usually able to sell stocks or shares (see **Unit 17**) or issue bonds (see **Unit 16**), or if necessary borrow from banks.

money, but I didn't make the decisions necessary to drive the growth that we wanted, and, you know, you need to have the depth of experience and knowledge in those fields to do it well.

ANSWERS

- 1 ICT (Information and Communication Technologies)
- 2 Chemistry-based products or materials, and biomedical products
- 3 He didn't make the right decisions, and had to get somebody into the fund who had experience in the bio field, because you need a lot of experience and knowledge in the fields you invest in.

Listening 1: Background experience

▶ 1.32

As his accent reveals, Chris Smart is originally from South Africa. The interview was conducted in an outdoor seating area at the Hotel du Vin in Cambridge (see **Unit 10**), and so is occasionally accompanied by birdsong!

AUDIO SCRIPT

CHRIS SMART Acacia Capital Partners invests in ICT, Information and Communication Technologies, and that is very broadly based in what is called the technology field, but it doesn't include things like chemistry-based products or materials, or any of those biomedical products, it's purely technology as in IT.

... so most of the players in the funds have backgrounds in the industries in which they're investing and I mean, I, by hard experience, have, in ... run a multi-disciplinary fund, so I did a bit of bio, and a bit of ICT, and I learned very early on that I needed to get somebody into the fund who had the depth of experience in the bio, because I wasn't a bio-scientist. I didn't lose

Listening 2: Investing for ten years

▶ 1.33

AUDIO SCRIPT

CHRIS SMART OK, so the first thing to recognize is that venture capital is a business in its own right, and venture capitalists are professional in that ... and what professional means is they're not investing their own money, they're investing other people's money, so they equally have to raise that money from a market outside, and that in the most general terms is the insurance, it's the insurance industry, so pension funds and insurance companies provide institutional funding to venture capitalists. It is actually a very small percentage, so they will put one to three per cent of their asset base, and no more, into venture capital.

They raise those on a ten-year cycle, so they have to invest their, the money from a single fund that's been raised on a ten-year cycle, and realize it within the ten years. So on the whole you could say they've got five years to invest, and they've

got five years to reap, but obviously what actually happens is some investments are made in the first couple of years and then might be realized within five years, but other investments, generally after five years there's very little investing happening and most of it is re-investing in the existing portfolio companies and helping them get to a point where they can be sold or listed on a stock market, so you can realize the money.

ANSWERS

- 1 1 market outside 2 pension funds 3 insurance companies 4 institutional 5 asset base
- 2 To reap means to get the benefit or profit that is the result of your actions.
- 3 You spend five years investing, and the next five years 'reaping' – getting your money back and making a profit.
- 4 Sometimes you only invest for two years and realize a profit within five years, and sometimes you have to re-invest more money after five years.
- 5 The company should be sold or listed on a stock market (i.e. become a public company with shareholders; see **Unit 17**).

Listening 3: Managing new companies

▶ 1.34

AUDIO SCRIPT

CHRIS SMART Yes, so one of the things about, certainly the sector we're in which is high-growth, early-stage tech companies, is on the whole the management teams are less experienced, I mean you try and bring in experienced people, but on the whole what you find is that emerging tech areas, the real knowledge is, you know, is vested in people who are still, are coming up, involved in new areas, but in management terms they're inexperienced. So the venture industry as a whole has one major benefit and that is it deals with a lot of these businesses and as a result knows what the challenges are for them, and establishes networks of people that are able to help these businesses. Now that does work well, and it

works phenomenally well in the best cases. Equally, I think you'll find very disappointed management in lots of tech companies who say that venture capitalists held out, how much they can contribute and actually they receive very little, so in the end, the management have to deliver, and it is worthwhile if you're on the company side, looking for people that actually have the skills that you want and, you know, might have knowledge in sectors and real experience in comparable companies, and seek them out rather than just simply expect that they can necessarily deliver.

ANSWERS

- 1 High-growth, early-stage tech companies
- 2 They are less experienced or inexperienced.
- 3 They know what challenges the companies will face, and have networks of people that can help these businesses.
- 4 Companies should look for people from other companies who have the skills, knowledge and experience they need.

Listening 4: Successes and failures

▶ 1.35

AUDIO SCRIPT

CHRIS SMART This is, this is the interesting characteristic, I guess, of venture capital in particular, as opposed to private equity, that companies investing in technology have to be failure-tolerant, you have to take some risks in order to get the higher rewards, and on the whole a venture capitalist will set out to achieve, well not to achieve but to expect, a third complete failure of his portfolio, a third will return his money back, and a bit more maybe, and the other third will produce good returns. And from that third that produces good returns, together with the money that you recover from the other third you have to produce a relatively good return on the overall fund, but that's the sort of failure percentage that a normal venture capitalist, an early-stage venture capitalist, will expect, is a third complete failure of their portfolio.

I think if one looks at the industry statistics, the good returns across the industry are driven by few, very spectacular returns, so, you know, obviously Sequoia with Google has made phenomenal returns, and the Ciscos of the world when they were, you know, succeeded, they made phenomenal returns, the Skypes of the world made phenomenal returns for the likes of Index, so, you know, you have few examples that have made spectacular returns and they actually drive the industry returns ...

ANSWERS

- 1 Being 'failure-tolerant'
- 2 He says that a third of the portfolio will fail completely, a third will get you back the money you put in, and maybe a bit more, and a third will produce good returns.
- 3 Google, Cisco and Skype
- 4 Sequoia and Index (actually Index Ventures)

Discussion

Venture capitalists clearly need a thorough knowledge of the industry or industries they invest in, the ability to analyse business plans and financial documents, the ability to communicate with and persuade institutional investors, the ability to accept the fact that some investments lose money (being failure-tolerant), and – perhaps – at least some good luck.

Your learners may feel they potentially possess these attributes, though few are likely to have sufficient experience yet.

Reading: A business plan

ANSWERS

There are various possibilities, but a standard order might be the following. Certainly numbers 1, 2, 3 and 10 need to be in those positions.

- 1 Executive summary
- 2 Market opportunity
- 3 Product or service
- 4 Customer profile
- 5 Competition
- 6 Competitive advantage
- 7 Management team
- 8 Implementation plan
- 9 Financial analysis
- 10 Appendix or Appendices

Vocabulary

ANSWERS

- 1 competitive advantage
- 2 sustainable
- 3 sales forecasts
- 4 break-even point
- 5 revenue
- 6 exit strategy
- 7 founders
- 8 personnel (or staff)
- 2 1 founders, sales forecasts
- 2 competitive advantage, sustainable
- 3 revenue, break-even point
- 4 personnel (or staff)
- 5 exit strategy

Role play: Investing in start-ups

This activity is rather abstract (and there are clearly no 'right answers'), but most learners can be expected to have opinions about whether these industries are 'good' (probably clean energy) or 'bad' (possibly nuclear energy, genetically modified food and air travel, even if it is fuel-efficient) – even though this isn't really the focus here – or risky, or whether they offer great potential or are already a little outdated, etc.

In a large class, someone will probably be able to explain, if necessary, what nuclear medical imaging involves – X-rays, MRI (magnetic resonance imaging), CT (computed tomography) scans or CAT (computed axial tomography) scans, etc., and what nanotechnology is. If not, they could do some quick internet research. (Once again, can you remember life *before* Google and Wikipedia!)

Writing

This activity could be done either individually or collaboratively, as a group.

An alternative speaking and writing activity would be to return to the business discussed in **Unit 11** on Products and **Unit 12** on Marketing (juice bar, taxi company, pizza-delivery service, fitness centre, etc.), imagine that it had succeeded and wanted to expand and open branches in other cities, and write a business plan – or rather just an Executive summary, as real business plans are generally over 25 pages long.

This could include short sections outlining the Market opportunity, the Product or service, the Customer profile, and an Implementation plan, as well as a section on Competition that discussed real companies in *your city*. It would be unlikely to contain a detailed Financial analysis.

16 Bonds

This unit contains a text explaining bonds, and a listening exercise concerning bonds deriving from mortgage-backed securities, a subject covered in **Unit 14**. There are also texts about different types of bonds, and a case study about selecting among different types of bond funds.

Lead-in and Reading

The Lead-in questions are answered in the text which follows. Briefly:

- Governments can raise taxes and issue bonds.
- Companies can issue both bonds and shares.
- Bond interest is tax-deductible, but unlike share dividends, bond interest payments have to be made, and bonds have to be repaid.
- Bonds are safer than shares for investors, but they generally pay a lower return.

As usual, with relatively small and cooperative classes that might know the answers, you could attempt to elicit the information given in the text as a **discussion** activity with the books closed.

ANSWERS

The following phrases or sentences should be underlined:

- tax revenue
- governments also issue bonds
- they can either issue new shares ... on the stock market (equity finance) or borrow money (debt finance), usually by issuing bonds
- bonds are generally safer than stocks or shares, because if an insolvent or bankrupt company sells its assets, bondholders are among the creditors who might get some of their money back
- shares generally pay a higher return than bonds
- bond interest is tax deductible
- dividends paid to shareholders come from already-taxed profits
- debt increases a company's financial risk: bond interest has to be paid
- the principal has to be repaid when the debt matures

Comprehension

ANSWERS

- 1 False: everyday activities should be financed by cash flows; bonds are usually only issued for expanding a company's activities
- 2 True
- 3 True
- 4 False: bondholders, along with other creditors, may get some of their money back
- 5 True
- 6 False: the tax advantage comes from issuing bonds
- 7 False: systematic public spending should be paid for by tax revenue
- 8 False: a 5% bond would increase in value if interest rates fell to 4%

Vocabulary

ANSWERS

- 1 cash flows 2 equity 3 mutual funds
4 pension funds 5 principal 6 maturity
7 coupon 8 insolvent or bankrupt 9 creditors
10 dividends 11 market makers 12 bid or bid price 13 offer or offer price 14 yield
- 2 The following verb-noun combinations are in the text:
borrow money, deduct interest payments, finance activities, issue shares, issue bonds, pay (a rate of) interest, pay a (higher) return, pay dividends, pay tax, raise money, receive interest payments, repay principal, sell assets

Other possible combinations:
deduct tax, receive dividends, repay bonds, repay money, sell bonds

Listening: Bonds and subprime mortgages ▶ 2.2

AUDIO SCRIPT

THERESA LA THANGUE Bonds are a very interesting way of raising money. A firm, a listed firm has two routes to raising capital. One is through debt and one's through equity. Equity is when they sell off shares in the market, and then you have debt where they'll go to a large, usually a large bank and say 'We'd like to raise X billion dollars,' and they will be sold a bond by that organization. Now most bonds are rated by the credit rating agencies. The governments do it as well and their bonds tend to be Triple A [AAA] rated, they are the 'gold standard' of bonds. And most firms that issue bonds in London they'll be Triple A [AAA] rated or Triple B [BBB] rated by the various credit rating agencies.

Now what happened in America with mortgage-backed securities, which as I said before were a very good bond, and they were considered to be a very safe investment because mortgages are long term and they tend to be solid. What happened in the States was a number of organizations had mortgages from subprime lenders who are considered to be more risky – they have bad credit history, or they have large mortgages against properties which they couldn't really afford, and what was happening in the US was that bonds were being packaged that were partly good debt, good safe secure debt, and partly this very bad debt. But the credit rating agencies didn't look too closely, it would appear, at what was happening, and had given all of these bonds Triple A [AAA] ratings.

What happens with a bond, it's then securitized, where the person, the firm that holds the bond then chops it up into small pieces and sells those small pieces on, so basically they're selling on the debt, and it's a huge market and it usually works extremely well. The problem with securitizing, of the mortgage-backed securities in the US, is that each little bit of security got a little bit of the good debt, but also a little bit of the bad debt, and these were sold off, and the bad debt is going bad, and nobody is quite sure if the bits of securities they've bought are going to go bad, or if

they have gone bad, or if they've got lots of bad, and this is the problem at the moment, that nobody really trusts each other's balance sheet, so they're not, so the banks aren't lending to each other.

ANSWERS

- 1 AAA (Triple A) (the official rating) and 'gold standard', meaning very safe, as safe as gold
- 2 Because mortgages are long term and they tend to be 'solid', i.e. safe, as traditionally they were only lent to people who would be able to repay them
- 3 People with a bad credit history, or with large mortgages against properties which they couldn't really afford. (She says 'subprime lenders', but although there were institutions which lent these mortgages, the description applies to subprime borrowers.)
- 4 Mortgages were securitized: packaged into bonds containing partly safe debt and partly very bad debt.
- 5 They didn't correctly analyse the mortgage-backed securities and gave them all AAA ratings.
- 6 Investors in mortgage-backed securities, particularly banks, didn't know if they had good or bad debt, and no longer trusted each other's accounts (balance sheets) and so they stopped lending to each other.

Discussion

Banks in most non-'Anglo-Saxon' countries tend *not* to lend mortgages to people who show little sign of being able to repay them, yet banks in many countries *did* buy American subprime mortgage-backed securities.

Reading: How to profit from bonds

The three texts are extracted and slightly edited from:

- Rush to buy government bonds, by Julia Kollewe, *The Guardian*, 6 March 2009
<http://www.guardian.co.uk/business/2009/mar/06/bankofenglandgovernor-interest-rates>
- Corporate bonds: the only 'hot' story in town, by Julian Knight, *The Independent*, 11 January 2009
<http://www.independent.co.uk/money/spend-save/corporate-bonds-the-only-hot-story-in-town-1299060.html>

- Why high-yield bonds are only for the brave: Lending your money to struggling companies can be lucrative, by Rob Griffin, *The Independent*, 28 March 2009 <http://www.independent.co.uk/money/spend-save/why-highyield-bonds-are-only-for-the-brave-1655993.html> (consulted March 2009).

ANSWERS

- 1 British government bonds (or gilts); (investment-grade) corporate bonds; high-yield (non-investment-grade) corporate bonds
- 2 The British government is buying back billions of pounds' worth of gilts, which increases their price (by the logic of supply and demand); because of the recession, companies are having to pay investors high interest rates to convince them to buy (investment-grade) bonds; the interest rates paid by risky, non-investment-grade bonds are extremely high
- 3 To inject money into the depressed economy (to 'kickstart' it)
- 4 Companies that are considered to have a reasonable chance of going bust and defaulting on their loans
- 5 Some of the companies might default, but a careful selection of high-yield bonds reduces the investor's risk.

Vocabulary

ANSWERS

- 1 soared (to soar) 2 to kickstart 3 benchmark
4 slump, recession, depression 5 rally
6 defaulting (to default) 7 to go bust

Note

The **cartoon** has an employee of a fund management company suggesting that they re-brand a fund that is doing very badly as one designed specifically for people with low self-esteem! Self-esteem (or at least esteem) was mentioned in **Unit 2** in relation to McGregor's Theory Y and Maslow's 'hierarchy of needs'.

Discussion

At the time of writing (May 2009), most people expect the credit crunch to end and the global economy to revive within 18 months or so. There is, of course, no way of knowing whether this will come to pass.

Under normal circumstances, the increase in gilt prices would only be temporary; once the government had stopped buying them back, their price would fall to a more usual level. Besides, the higher the price of a fixed-income bond, the lower its yield.

After a recession, corporate bond interest rates should fall again, so the price of existing long-term bonds paying high interest rates would remain high. Once high-quality bond rates fell, the rates paid by non-investment-grade bonds would fall too, although this also depends on how many of them defaulted.

Case study: Investing in funds

You may want to have the learners read this page, perhaps out of class, before they discuss the funds, so they can look up or ask about any vocabulary they don't know.

Here are some notes about the different funds:

- 1 Although the renewable energy industry does indeed have a high rate of growth, there is no guarantee that the small firms which lead the global market today will continue to do so.
- 2 Although it true that emerging markets account for one-third of global economic activity and three-quarters of growth, and have a strong competitive advantage as manufacturing locations, the fund can obviously only invest in a small selection of countries, markets and companies. Even if debt securities issued by governments are safe, there is always the risk of losing money due to changes in exchange rates. Debts from institutions and companies in emerging markets may be less secure than those issued by major institutions and companies in developed markets.
- 3 There is nearly always a correlation between a high yield (or rate of return) and risk, and this fund is honest enough to state that 'considerable fluctuations in price cannot be ruled out.' 'Non-investment-grade bonds' means bonds with a low

credit rating (as opposed to investment-grade bonds with AAA ratings, etc.), so there are clearly big risks involved here.

- 4 The claim that prestigious branded luxury goods with high prices enjoy stable demand even during tough economic times is dubious: it depends on quite how bad the situation gets. Even if new markets for luxury goods are opening up in emerging markets, investing solely in this branch is probably risky.
- 5 The ethical growth fund gives more information about companies it does *not* invest in than about companies in which it does. It makes no specific claims apart from aiming to achieve the highest possible capital growth. It is certainly possible to achieve capital growth by investing in ethical companies (even if this growth might be less than that offered by less ethical investments), but there is no guarantee that this fund will select the best opportunities. (There is more on socially responsible investment and corporate social responsibility in **Unit 24**.)
- 6 As mentioned in the previous unit, the vast majority of microfinance clients repay their loans. The argument that their small-scale local businesses are generally unaffected by developments in global markets is probably a good one, and investing in this fund would almost certainly constitute diversification for most investors. The fund only aims to realize a return that is (slightly?) higher than the investor could get by buying money market funds (which generally pay more than deposit accounts in banks but less than bonds), which is probably achievable.
- 7 This fund invests in both medium and high quality debt securities, but they are all inflation-linked. The fund states that it invests worldwide, in accordance with the principle of risk-spreading, but it does not specify if the investments are all in euros, or whether exchange rate risks might be involved.
- 8 This fund, like any fund called 'dynamic', is clearly taking risks in the search for high earnings – 'Investments are made globally with no restrictions as to country, currency or sector ... across the entire range of borrower ratings and maturities.' But it is honest, pointing out that 'Sizeable short-term price fluctuations are possible.' This does suggest, however, that the fund managers are confident

that their fund will grow in the long term. But as the famous quote from John Maynard Keynes has it, 'In the long run we are all dead' (*A Tract on Monetary Reform* (1923) Chapter 3).

A *Eurobond* is an international bond that is denominated in a currency other than that of the country where it is issued.

Writing

This report could easily include relevant phrases or sentences from the advertisements in the Student's Book.

See also the simulation 'Wall Street Blues' in *Decisionmaker* by David Evans (Cambridge University Press).

This unit has a jumbled text explaining stocks and shares; listening and vocabulary exercises practising the verbs and expressions people use to talk about rises and falls in asset prices; an extract from a book about the work of an analyst in an investment bank; and a role play involving investing money in a stock portfolio.

Lead-in

Here's a wholly fictitious story that could be used to introduce the opening discussion task:

Do you know how Rockefeller made his first million dollars? One day, when he was young and very poor, he was walking along the street and he found a one cent piece. He bought an apple with it, polished it on his shirt, made it look nice and shiny, and sold it for two cents. Then he bought two apples, polished them, and sold them both for two cents each, and so on. After two months, he had enough money to buy a barrow for his apples. After two years, he was just about to open his first fruit store ... when he inherited a million dollars from his uncle! This is still the quickest way to get rich.

By way of answers to the question about advantages and disadvantages:

- Putting your money under the mattress is probably not a good idea unless you live in a country with banks that are likely to go bankrupt, no investment opportunities, no inflation, and no burglaries, fires, burst pipes, landslides, earthquakes, etc.
- Winning the lottery would probably give you the best possible return on your money, but the odds against winning are generally enormous (e.g. about 14 million to 1 for the top prize in the British lottery).
- About one gambler out of eight comes away from Las Vegas or Monte Carlo with a profit.
- Keeping your money in a bank is generally safe, although interest rates paid to depositors are generally lower than those on the money markets, the bond market, etc.
- The price of gold sometimes rises dramatically – for example during financial crises, such as at the time of writing – but it can also fall. Furthermore, it pays no interest, and it costs money to store gold in safety.
- Buying a painting gives you something to look at, but also something to protect against damage

and insure against theft (though people who buy paintings as investments often keep them in bank vaults). Prices of Impressionist and post-Impressionist paintings have risen dramatically in the past 40 years, but they could also fall.

- Property (BrE) or real estate (AmE) usually appreciates in value in the long term, but the property market is subject to speculative booms and slumps, so you have to buy at the right time. But Mark Twain's advice, 'Buy land, young man, they're not making it any more,' is probably still valid.
- Government bonds and bonds in secure companies are generally a safe investment, but a long-term fixed-interest bond can lose a lot of value if interest rates rise sharply. As discussed in **Unit 16**, bonds including subprime mortgages were at the heart of the financial crisis that began in 2008.
- Shares are more risky than bonds, as their value can fluctuate wildly (e.g. minus 30% in three days in the crash of October 1987, minus 45% in autumn 2008, etc.), and because there is no guarantee of receiving a dividend, unlike bond interest payments.
- Investing in a hedge fund is not open to everybody: many funds require a minimum investment of \$500,000 or more. The whole point of hedge funds is that they are supposed to be able to make money in a bear market, but this doesn't always work.
- The advantages of giving your money away are obvious: no more worries about income tax, capital gains tax, capital transfer tax, bank charges, accountants, complicated tax returns, no more worrying about the S&P Index while you are on holiday (as in the cartoon in the Student's Book), etc.!

Reading: Stocks and shares

This text explains the basics of stocks and shares: why and how they are issued, how they are traded, etc. It is not followed by a vocabulary exercise because many of the sentences are themselves definitions of words. The text also includes vocabulary that appears in the following exercises (e.g. *bear market*, *stock index*).

Obviously learners who already know something about stocks and shares will find this exercise easier than those who don't, but most business learners can be expected to have some knowledge of the subject. As always, if you expect your learners to be familiar with most of the content of the text, you could also try to elicit the information first as a question and answer activity.

ANSWERS

1 J 2 D 3 A 4 F 5 G 6 C 7 K 8 E 9 I
10 H 11 L 12 B

Discussion

- 1 It is self-evident that the *majority* of market participants cannot regularly outperform the market, but there are a few famous investors who do (such as Warren Buffett, George Soros, etc.). The armies of analysts working for investment banks – who are roundly ridiculed in Geraint Anderson's book *Cityboy*, excerpted below – exist because the industry believes that there are ways to beat the market (by having more information than other people). What your learners believe may depend on what books they have read, or what their finance professors have told them.

The **cartoon** about prices falling suggests that stock prices are based on (possibly irrational) fears rather than on economic reality. This means that one could have a more accurate view of a company's real value than the one reflected in its market price, but this information would only become valuable when or if the rest of the market took into account the real economic facts.

- 2 A person revealing privileged information (only known to some people in the company) in this way would probably be guilty of breaking company rules, while anyone selling shares on this information would be guilty of insider trading, which is against the law. Whether you feel you should help friends by revealing such information, and whether they should expect you to do so, depends on your individual ethics, and on whether you are what the Dutch intercultural theorist Fons Trompenaars called a universalist or a particularist: see **Unit 4**.
- 3 There are two basic ways to make money from falling stock markets. One is with *put options*, which are

explained in **Unit 18**; the other is by *short-selling*, which is explained in the reading text which follows.

Listening: A financial news report

▶ 2.3

AUDIO SCRIPT

NEWSREADER Here in New York, the Dow-Jones is down –58.86 points at 7,123.22, a drop of –0.82%, and the S&P 500 has drifted a little more to 742.55, that's down –0.37%. But the NASDAQ Composite is slightly firmer at 1,397.04, that's up 0.4%. Things weren't much better in Europe today, with the DAX in Frankfurt tumbling 2.61%, and the CAC-40 in Paris continuing its slide, finishing –1.83% lower. In London the Footsie 100 kissed goodbye to 2.5%.

It wasn't all doom and gloom in Asia though, with the Nikkei 225 in Tokyo climbing to 7,568.42, that's a gain of 1.48%. In Australia, the S&P/ASX 200 is virtually unchanged at 3,344.50.

Over on the currency markets, the dollar's lost 0.0048 cents against the euro this morning, and 0.0015 against the pound, now trading at a dollar 43, while it's steady against the yen, adding a tiny 0.00001 cents – I've never even seen one of those! – trading at \$0.0102.

Over on commodities, gold is back where it started this morning, at \$942, while oil's been yo-yoing, but right now it's on 43.60, that's a dollar 46 more than this time yesterday.

ANSWERS

The Dow-Jones	Fallen
The S&P 500	Fallen
The NASDAQ	Risen
Shares in Germany	Fallen
Shares in France	Fallen
Shares in Britain	Fallen
Shares in Japan	Risen
Shares in Australia	Unchanged
The dollar against the euro	Fallen
The dollar against the pound	Fallen
The dollar against the yen	Unchanged
Gold	Unchanged
Oil	Risen

Vocabulary

The idioms chosen here and in the **Listening** are just a few of those regularly used by financial journalists. Interested learners should be encouraged to read the market reports in newspapers such as the *Financial Times*, *Wall Street Journal*, or *International Herald Tribune*, or watch the financial programmes on CNN, CNBC, Bloomberg, etc.

ANSWERS

1 C 2 E 3 C 4 A 5 D 6 E 7 D 8 A
9 B 10 C 11 E 12 B

Reading: Hedge funds

The text is from *Cityboy: Beer and Loathing in the Square Mile* by Geraint Anderson (London: Headline, 2008), pp. 140–141.

Some **additional questions** might be: has anyone done anything similar (written exposés of the financial sector) in the learners' countries? Would anyone doing so lose their job if their identity was discovered? Is it hypocritical to write a column condemning investment banking while continuing to work as an analyst and earning huge bonuses?

In this extract, Anderson summarizes one of the major strategies of hedge funds, namely short-selling. As mentioned in the Student's Book, hedge funds are private investment funds which use a lot of derivative instruments in the search for higher returns; consequently they are considered in more detail in

Unit 18 on Derivatives.

The questions are quite difficult, in that the first one requires background knowledge (but knowledge that most learners can be expected to have), and the second and third involve implied meanings.

BACKGROUND NOTES

Cityboy is a salacious and wonderfully funny account of the working life of an analyst in investment banks in the City of London. Anderson – a former hippy and Cambridge history student, and the son of a former Labour MP – previously wrote an anonymous newspaper column about life in the City, and turned it into a book when he stopped working there. The book's subtitle is a clear reference to Hunter S. Thompson's autobiographical novel *Fear and Loathing in Las Vegas: A Savage Journey to the Heart of the American Dream* (1972).

SUGGESTED ANSWERS

- 1 The 'tech bubble' is also often called the 'dot-com boom' or the 'dot-com bubble': the rapid, speculative rise and even more rapid fall of the price of internet company stocks between 1995 and 2001. A 'bubble' means prices which rise and fall a great deal in a short period of time.
- 2 'Boy' suggests youth and immaturity – after all, most of the people working in finance are adults – but also excessively competitive, testosterone-fuelled, masculine, 'alpha male' behaviour. (There is also an expression common in London, 'wide boy', meaning a working-class male who lives by his wits and wheeling and dealing, and a common prejudice – or a realization? – that the City is full of such people.)
- 3 This suggests that the entire industry of financial experts and analysts is trying to say clever-sounding things that actually have little meaning, in order to sound like specialists and thereby earn a living.
- 4 Shorting shares means borrowing shares from a fund or company that isn't planning to sell them in the short term, selling them, waiting for their price to fall, and then buying them back at a lower price and returning them to their original owner.
- 5 The investment banks had to encourage their analysts and brokers to spend more time working with hedge funds than with their traditional institutional clients because they make money from each transaction and the hedge funds were making many more transactions than traditional clients.

Role play: Investing a client's money

The longer the learners hold their imaginary portfolio, the more chance there is of it increasing or decreasing in value. This is therefore not an activity to undertake at the end of a course. Lists of the most important stocks (and sometimes complete lists) in major stock markets are printed in the financial pages of serious newspapers, and of course on the Internet. It would be helpful (or indeed necessary) to find a list of recently floated companies, as the instructions request the learners to select two of these. Financial sections of newspapers also usually list the exchange-traded funds issued by banks and mutual funds, and bond prices.

With more motivated students, another possibility is to allow them to buy and sell during the period that the portfolio is in existence, charging, say, 2% commission for each transaction. After they have established their portfolios (and during the following weeks, if the portfolios can be changed) the learners can be invited to explain the reasons for the positions they have taken. At the chosen end date, the learners can present their results, and attempt to provide reasons or explanations for them.

18 Derivatives

This unit contains vocabulary and comprehension exercises about financial derivatives, a listening about hedge funds and structured products, a text from the *Times Online* website about financial spread-betting, and a closing exercise drawing together all the financial instruments discussed in **Units 16–18**.

Lead-in

The newspaper headlines in the Student's Book reveal that *derivatives* seems to collocate with *losses*. The claim by the American investor Warren Buffett that derivatives are 'Financial weapons of mass destruction' is outlined in an article in Unit 19 of *English for the Financial Sector* (Cambridge University Press).

ANSWERS

- The main types of derivatives are futures, options and swaps.
- Derivatives are used for hedging (protection against price changes) and speculating (buying or selling assets, hoping to make a profit in the future).
- They are risky because there is no limit to how much the value of the underlying asset can change, leaving the possibility of huge losses on the derivative instrument.
- The headlines refer to the following cases:
 - Barings Bank in London, which went bankrupt when a single trader lost \$1.4bn on unauthorized stock index futures in 1995
 - Daiwa Bank in Japan, which lost \$1.1bn through unauthorized bond trading in 1995
 - the US hedge fund Long Term Capital Management, which lost \$4.6bn on derivative trading in 1998
 - the Allied Irish Bank, which lost \$697m on unauthorized currency trading in 2002
 - Société Générale in France, which lost €4.9bn on a single trader's unauthorized stock index futures in 2008.
- Other examples include:
 - Sumitomo Bank in Japan, which lost \$2.6bn on unauthorized copper trades in 1996
 - BAWAG in Austria, which lost \$2.4bn on unauthorized currency trading in 2006
 - the French bank Crédit Agricole, which lost €250m on a single trader's unauthorized bets on credit markets in 2007

- Caisse d'Epargne in France, which lost €600m on unauthorized equity derivatives trading in 2008. An internet search for 'derivatives losses' will turn up others.
- Warren Buffett has made his money by what he calls 'value investing' – buying shares that appear to be underpriced by some forms of fundamental analysis, rather than by speculating in derivatives. Only time will tell whether derivatives will have brought down the global financial system before you read this! Given that individual derivative losses can run into billions of dollars, Buffett may have a point.

Vocabulary: Derivatives

ANSWERS

1 F 2 A 3 E 4 D 5 C 6 B 7 H 8 G

Discussion

These questions require not only an understanding of the terms in the previous Vocabulary exercise, but an understanding of how derivatives can be used. Many business learners will know about derivatives from finance courses. All the information required to answer is given below.

ANSWERS

- 1 The obvious answer would be to arrange a futures contract: the producer gets a fixed future selling price, and the buyer gets a fixed buying price.
- 2 The company could try to arrange an interest rate swap with a company with floating rate debt that expected interest rates to rise.

- 3 Buy a put option giving the right to sell the stock in the future at the current market price. (See also the notes below.)
- 4 Buy a call option giving the right to buy the stock in the future at the current price. (See also the notes below.)
- 5 In all the contracts suggested in the previous answers, one party wins and the other loses. Futures, options and swaps are a 'zero-sum game': one party's gains are equal to the other party's losses. This is unlike mutually beneficial 'win-win situations', which is what all business books say negotiations and business partnerships should be.

Notes

- 1 If the price of cocoa does change before the date of the futures contract, either the producer or the buyer will have lost money by signing the contract.
- 2 If interest rates do fall, the company exchanging its floating rate notes will lose.
- 3 If the stock price falls, the seller of the put option will lose.
- 4 If the stock price rises, the seller of the call option will lose. In the contrary situations, the seller (also known as the writer) of the options will earn the price of the option, the premium, as the option will not be exercised.

Consequently, alternative answers (which learners with a knowledge of options may suggest) would be:

- 3 Write (i.e. sell) a call option giving someone else the right to *buy* the share; if the market price of the underlying security remains below the option's strike price (or exercise price: the agreed-upon price at which the option can be exercised), the buyer will not take up the option, and the seller earns the premium.
- 4 Write (i.e. sell) a put option giving someone else the right to *sell* the share; if the market price of the underlying security remains above the strike price, the buyer will not take up the option, and the seller earns the premium.

Listening: Hedge funds and structured products ▶ 2.4

Teresa La Thangue appeared in **Unit 16**, talking about bonds and subprime mortgages.

AUDIO SCRIPT

THERESA LA THANGUE Now hedge funds, it's a very, it's a term that covers a number of organ... ways of trading. They tend to be things that only firms, or very wealthy organizations, can invest in. In the UK, there is no retail access to hedge funds because we believe that at the moment, hedge funds don't do enough to ensure that retail investors would be aware of the risks, what they were getting involved with.

Hedge funds used to be, many, many years ago when they first became popular, just a way of hedging your bets, so if you had a derivative you would buy another product, a smaller product, to go against the risk involved with the derivative. But now they are seen as an investment tool in their own right, and they can invest in anything, and they do, they invest in, some of them are just straight equity investors, where they invest in the price of a share going up, some of them are short-sellers, some of them are very involved in spread-betting, some involved very much in the derivatives market, some will invest in bonds, so it's basically just a bit of a cover-all term now.

A structured product is pretty much similar to a hedge fund, though I understand that if you are making available to the retail community a structured product, it must have a very consistent risk profile across it, so you don't find that you're investing in a bond, a Triple A bond, but also a very risky derivative at the other end, so you must have a very consistent risk profile so that you, the ... the structured product that you buy, is consistent with your understanding of risk.

ANSWERS

- 1 Because the FSA (Financial Services Authority), which regulates the financial industry in Britain, doesn't think that hedge funds would adequately warn retail investors about the risks involved in investing in a hedge fund

- 2 They are no longer just a way of hedging your positions (or 'bets'); they are an investment tool, a way of investing in equities, bonds, derivatives, doing spread-betting, etc.
- 3 Buying equities, short-selling, spread-betting, derivatives, bonds
- 4 Structured products offered by banks must have a very consistent risk profile (i.e. not be a mixture of safe and risky elements).

Notes

Short-selling was explained in **Unit 17**; *spread-betting* is explained in the reading text which follows.

Reading: Spread-betting

The text is a shortened version of an article that appeared on the *Times Online* website called 'Ten things to know about spread-betting' <http://www.timesonline.co.uk/tol/money/investment/article1305642.ece> (consulted March 2009).

ANSWERS

- 1 'taking a punt'
- 2 'the odds are in the spread-betting company's favour' and 'that's if you make any profits, of course'
- 3 Not necessarily; although there is no limit as to how high a stock price, commodity price or stock index could rise, it cannot fall below zero (but zero is a long way below the example quoted – 5,016 points for the FTSE, at £10 a point). Furthermore, the article says you can establish 'stop-loss' limits.
- 4 No; the final example is about hedging: protecting the value of a fund tracking a stock index

Discussion: Investing, speculating and gambling

Notes

There are no definitively 'right answers' here, but:

- Buying **stocks or shares** can be a simple investment, but buying them with money you cannot really afford, hoping their price will soon rise, is clearly speculation.
- Buying **bonds** is generally considered to be a safe investment, but buying them in the hope of forthcoming falls in interest rates is clearly speculation.
- Buying foreign **currency** to use in the future is essentially speculation; if you didn't expect the exchange rate to move unfavourably, why buy now? Over 90% of the trades on foreign exchange markets are speculative, unrelated to real needs such as travel or purchasing imports.
- **Futures** are often used to hedge, i.e. to protect against losses, but one can also trade in security, commodity or financial futures as a form of speculation. Given that futures contracts have to be exercised, this might also be thought of as gambling, e.g. buying 100 tonnes of copper because you expect to be able to sell it easily is a serious gamble if you end up paying much more than the market price when the contract ends, and can't sell it.
- Buying call or put **options** to buy or sell stocks in the future can either be hedging (protecting an investment) or speculation (especially if one does not possess the underlying shares). But since either the buyer or the seller of an option is guaranteed to lose money, options could fairly be categorized as either speculation or gambling, depending on one's point of view.
- Similarly with **swaps**: if one party wins, the other has to lose. This might be thought of as either speculation or gambling.
- **Structured products** usually involve a combination of assets, and often only make a profit if certain market conditions are met (stock market prices, interest rates, exchange rates, etc.). There is by definition a risk, even though, as Teresa La Thangue says, there must be a consistent and understandable risk profile. This is clearly speculation at the very least; some may think of it as gambling.

Role play: Financial instruments

There are three question cards at the back of the Student's Book on pages 145, 148 and 150. The learners need to be divided into trainers and trainees. The trainees should look at one of the three sets of questions at the back of the Student's Book, and think about the questions, either individually or in pairs or small groups; give them a few minutes to decide on their answers. The trainers could also work in pairs or groups, deciding what the correct answers are. The teacher needs to check that the trainers know the right answers, by asking them (out of the hearing of the trainees), and showing them the correct answers below if necessary (the answers may be photocopied). The roles can be reversed or the pairs or groups changed after the first or second question card, though it is preferable to have stronger learners taking the trainer's role. A simpler alternative would be to have the teacher play the role of trainer.

Writing

The training memo or information leaflet would include the information in the answers below, perhaps with an introductory sentence such as 'This leaflet explains the income investors can receive from bonds,' or 'This page lists the ways in which investors and institutions can make money from stocks or shares.'

ANSWERS

Questions (1)

- 1 Regular interest payments, paid six-monthly or annually
- 2 They can buy futures contracts, as well as options that they only need to exercise if prices move in the right direction.
- 3 They can sell the index in a spread-betting market.

Questions (2)

- 1 Annual dividends, although the company is not obliged to pay these. If the company retains its profits without investing them, the money is recorded in the Balance Sheet as 'shareholders' equity', showing that it still belongs to the shareholders, even if it has not been distributed.
- 2 Market interest rates go up and down depending on the economic situation and decisions made by central banks (see Unit 23), but fixed interest bonds continue to pay the same rate. Successful companies are able to issue bonds at relatively low rates; companies in financial difficulties, or in danger of going bankrupt, have to pay much higher rates.
- 3 The yield of a bond depends on the price paid for it; bonds may be sold either above or below their 'par value' or 'nominal value' – the price written on them – depending on interest rate fluctuations, or the financial situation of the issuer.

- 4 Companies can buy currency or interest rate futures, or arrange interest rate swaps and currency swaps with other companies; investors can buy currency or interest rate futures.

Questions (3)

- 1 Investors can buy shares and sell them later if the price goes up. They can buy call options to buy shares at a fixed price in the future; if the price rises they can exercise the option, and buy and sell the shares at a profit. If they possess shares, they can buy a put option to sell them at a particular price, and potentially make a profit if the market price is lower than the option's strike price (though this is more often a way of cutting losses than making a capital gain).
- 2 They can sell call and put options, and earn the premium if the options are not exercised (because the market price went in the opposite direction from that anticipated by the buyer).
- 3 Hedge funds can short-sell shares they do not possess, if they are able to borrow them from a fund that has a long position in the shares.

English for Business Studies, Third Edition
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Bookkeeping and accounting – recording transactions, elaborating budgets, calculating costs and expenses, preparing financial statements and tax returns, and so on – are central to all commercial activity, from the smallest sole-trader or self-proprietorship (one-person business) to the largest multinational company. Financial control is equally crucial for all non-commercial organizations and institutions.

This unit aims to introduce the basic concepts and terminology of accounting and financial statements. It begins with exercises defining basic accounting terminology and the different areas of accounting. There is a listening exercise in which a university lecturer explains the difficulty of valuing assets. There are exercises and a role play based on Google's financial statements.

Business students are likely to have followed courses in accounting early in their studies, or even at secondary school, and so will probably be able to launch straight into the **Lead-in** and the **Vocabulary** exercises. There is a lot of vocabulary work in this unit, but a lot of vocabulary is necessary to begin to discuss any aspect of accounting.

If you require further background information on accounting, you might find Units 2 to 17 of *Professional English in Use – Finance* (Cambridge University Press) helpful.

Lead-in

The skills required for bookkeeping are probably accuracy and concentration, and some mathematical (or at least arithmetical) ability. Managerial or management and cost accounting require analytical ability and mathematical competence. Tax accounting requires a thorough knowledge of tax laws and accounting combined with a desire to help clients reduce their tax liabilities. Auditing requires strong analytical skills, and honesty; 'creative accounting' presumably requires the same, with the substitution of dishonesty for honesty.

The **cartoon** seems to show an attempt to take the practice known as creative accounting (defined in the second **Vocabulary** exercise), also known as 'window dressing', to an even higher level!

4 The most likely collocations are: calculate liabilities, calculate taxes, keep records, pay liabilities, pay taxes, receive income, record expenditure, record income, record transactions, value assets, value liabilities

There is a discussion question in the middle of these vocabulary exercises. People studying business degrees are likely to find mere bookkeeping beneath them. Managerial or management accounting implies having a somewhat higher position in a company. I have yet to meet a learner who wanted to be a cost accountant, and few who are already thinking about tax accounting or creative accounting. In fact my experience of business students is that in their first year most of them say they want to work in marketing ('because it's creative'), but in their final year they enthusiastically apply for jobs with the big auditing firms.

Vocabulary

ANSWERS

1 1 B 2 B 3 B 4 A 5 C 6 C 7 A 8 B
9 A 10 A

2 1 cost accounting 2 tax accounting
3 auditing 4 accounting 5 managerial or
management accounting 6 'creative
accounting' 7 bookkeeping

3 1 C 2 A 3 B

Notes

The term *Balance sheet* is used in both Britain and the US; the alternative name *Statement of financial position* is also used in the US. The name *Income statement* is used in the US, and according to International Financial Reporting Standards. The name *Profit and loss statement* is also used, while *Profit and loss account* is also used in Britain.

The name *Cash flow statement* (or *Statement of cash flows*) has largely replaced the names *Funds flow statement*, *Statement of funds flows*, *Source and application of funds statement* and *Statement of changes in financial position*.

British company law also requires companies to produce a fourth statement, a *Statement of total recognized gains and losses* or *STRGL*, showing any gains and losses that are not included in the profit and loss account, such as the revaluation of fixed assets.

Reading 1: Google Inc. Balance sheet

Financial statements such as these can be found in a company's Annual Reports, and by searching for the company on financial websites such as <http://www.google.com/finance>, <http://moneycentral.msn.com/home.asp>, <http://finance.yahoo.com>, <http://www.reuters.com/finance>, etc.

ANSWERS

- 1 1 Shareholders' Equity 2 Intangibles
3 Additional Paid-In Capital 4 Accrued Expenses 5 Total Receivables 6 Accounts Payable 7 Prepaid Expenses 8 Retained Earnings 9 Property/Plant/Equipment 10 Goodwill 11 Total Liabilities
- 2 Total Assets, and Total Liabilities & Shareholders' Equity
- 3 \$1,404.11 million (the Prepaid Expenses)
- 4 The capital the shareholders have paid into the company (Common Stock + Additional Paid-In Capital + Other Equity) = \$14,677.24 million, which is greater than the Retained Earnings (\$13,561.63 million).
- 5 The money Google owed at the balance sheet date was \$2,302.09 million (Total Current Liabilities), which is less than what it was owed: \$2,642.19 million (Total Receivables, Net).

Listening: Valuing assets ▶ 2.5

AUDIO SCRIPT

RICHARD BARKER So, a company's balance sheet, in principle, is intended to give you the value of the company's business, but in practice, some assets are very easy to value, and some are very difficult to value. So if you hold some shares in another company or something, or you hold some money in a bank account, this is very easy to value. On the other hand, if your assets comprise research and development, or people for that matter, then it's in principle very difficult to put a value on those things. And when you measure the profit of a company, what you're trying to do is measure a change in value, so the difference between what a company is worth at the beginning of a year, and what it is worth at the end of a year, is the profit that it makes, or the loss that it makes. And if it's difficult to measure the value of assets in the first place, it's also difficult to measure whether a company's making profit or not.

So an example might be ... take an airport, and a runway on an airport. Well, what's a runway worth? would be one question. You could estimate that maybe, you could estimate how long you think the airport will operate for, how many planes will land on it, what the value of one airport will be, what the value of Heathrow would be in comparison with the value of Gatwick, for example. But it's actually quite a subjective thing to measure. And then you've got to figure out, well, how long is this thing going to last, because every year you want to take the depreciation on that runway and charge it against profit – you want to take a reduction in the value of the runway, and if you think the runway will last 25 years, then you will depreciate it four times as quickly as if you think it will last 100 years. So there's lots of estimation and judgement in accounting because the value of an asset depends upon the future uncertain events, and those uncertain events, by their very nature, can't be estimated very easily.

ANSWERS

- 1 Research and development, people, and an airport runway
- 2 The difference between what a company is worth at the beginning and the end of a year
- 3 Because you don't know how long the airport will operate for, or how many planes will land on the runway
- 4 A reduction in the value of an asset, charged against profit (every year)

Notes

It is in fact only shares in *listed* companies that are easy to value, as they have a quoted share price. Valuing unlisted companies is much more difficult.

As mentioned in the subsequent section on Cash flow statements, *depreciation* is generally used for the loss of value of *tangible* assets (property, plant and equipment), and *amortization* for the loss of value of *intangible* assets (such as people, reputation, patents, trademarks, etc.).

Discussion

- It would be possible to put a value on a university's land and buildings, though this would not normally be done if the institution is a 'going concern' and consequently not for sale. Some old universities also have huge endowments, and large investment portfolios or sums of cash in the bank, which are easy to value, but famous universities are largely famous for the quality of their teaching and research staff.
- As with a university, if a company is a going concern and not for sale, the current selling price of its assets, or their replacement cost, is not relevant. Recording their historical cost is simpler and more objective. In many countries, a company's buildings can be depreciated down to €1 or whatever on the balance sheet, so no realistic figure is recorded anywhere. In countries with very high inflation, however, current or replacement cost accounting probably gives a better picture of a business's value.

- Accounting normally follows the principle of conservatism: one understates rather than overstates values or profits. Consequently raw materials, work-in-progress, and inventories are often recorded at 'the lower of cost or value', i.e. whichever figure is lower, the cost price or the current market value.
- Examples of companies whose value is largely based on brands or reputation include Coca-Cola, number one in Interbrand's ranking of the best global brands, with an estimated value of \$66,667 billion in 2008 (<http://www.interbrand.com>). Similarly, Microsoft's value is far greater than its tangible assets.

Reading 2: Google Inc. Income statement

ANSWERS

- 1 Interest Income Net
- 2 Research & Development
- 3 Cost of Revenue
- 4 Selling/General/Administrative Expenses

Vocabulary note

Google's Income statement has 'Net Income' (before and after tax), which is standard AmE. British companies usually use 'Profit'. Interestingly, the Swiss bank UBS publishes its annual reports and statements in English, but uses 'Net Profit', which is neither BrE nor AmE but perhaps an example of 'international English'.

Vocabulary: Cash flow statement

This exercise both introduces and recycles vocabulary and requires the learners to decide which of the three categories different items belong to.

ANSWERS

	Ops.	Inv.	Fin.
Amortization (loss of value of intangible assets)	✓		
Changes in the size of the inventory	✓		
Depreciation (loss of value of tangible assets)	✓		
Dividends paid			✓
Income taxes paid	✓		
Payments to suppliers for goods and services	✓		
Payments to employees	✓		
Proceeds from issuing shares or debt			✓
Purchases or sales of property, plant and equipment		✓	
Receipts from the sale of goods or services	✓		
Repurchase of company shares or repayment of debt			✓

Role play: Presenting a company's results

This role play will work best with learners who already know more about financial statements than is explained in this unit. To be interesting, it will need to be prepared out of class: explaining which figures have increased and which have decreased is straightforward; suggesting reasons as to *why* this happened will require research.

You could either select one learner from each group to make a presentation, or they could do whole group presentations (the CFO and colleagues).

In-service learners may prefer to talk about their own employer.

This unit begins with activities that practise the basic vocabulary of competitive markets, and continues with listening exercises based on an interview with a company director who talks about how new companies can change established industries or initiate new ones, and about how successful companies sometimes cluster together in the same geographical region. The unit ends with a case study concerning the development of an industrial cluster.

Lead-in

The questions here introduce the basic vocabulary. Learners are likely to know the names of some famous market leaders (e.g. Coca-Cola, Gillette, Ikea, Kellogg's, McDonald's, Nike, Nokia), and some, though probably fewer, market challengers (e.g. Pepsi, Burger King, Adidas). In other industries – such as automobiles, consumer electronics, white goods (fridges and cookers), cameras, and so on – they will probably know that there are several major manufacturers, without knowing which has the largest market share.

They will almost certainly also be able to give examples of products manufactured by market followers that they have bought, either because they were cheaper, or because they wanted something specialized.

Reading: Market structure

The Avis slogan referred to in the text was subsequently shortened to just 'We try harder.'

ANSWERS

1 market leader 2 market share 3 market challenger 4 market followers 5 market segmentation 6 niche 7 differentiated 8 unique selling proposition

Vocabulary

This exercise defines words that appear in the subsequent listening activities.

ANSWERS

1 cluster 2 landlord 3 entrepreneur 4 headhunter 5 attorney 6 vulnerable 7 patent 8 dominate 9 disrupt 10 address or tackle

Listening 1: Early stage companies

▶ 2.6

In answer to the pre-listening question, Charles Cotton mentions Cisco (who make networking components), eBay and Google. In the following extract he mentions Facebook.

AUDIO SCRIPT

CHARLES COTTON It's interesting to look at almost any industry from the perspective of an early stage company, and early stage companies get into an industry because they look at its structure and say, 'We can bring something to this industry which can potentially be highly disruptive and therefore change the landscape and give us as a company an opportunity to become fabulously successful,' and clearly there are examples of companies who've done that: Cisco going back 20 years had that sort of perspective, more recently companies like eBay invented a whole new approach, a whole new paradigm, and most recently of all you've got Google, that, you know, has evolved from a search company to compete with, you know, the biggest software companies on the planet, including the Microsofts who are now, you know, very concerned about that. So looking at all of these industries, some of them are defined by the new entrants, and I think eBay and Google are good examples of that, to an extent Cisco as well.

ANSWERS

1 He says they think they can bring something new to an industry which can disrupt it and potentially make them extremely successful.
2 Cisco, eBay, Google and Microsoft

- 3 He means that the early companies in the industries come to dominate them (become the market leaders).

Note

Charles Cotton talks about 'the Microsofts', and in the next extract 'the Googles of this world'. This is a common expression used for giving an example of a certain category. It was also used by Chris Smart in **Unit 15**: in **Listening 4** he talked about 'the Ciscos of the world' and 'the Skypes of the world'.

Listening 2: Sine waves and bell curves ▶ 2.7

AUDIO SCRIPT

CHARLES COTTON And even now, Google is losing people, because Google has got itself into the situation where it's no longer that brash, young, successful, sexy start-up, and it's people like Facebook and so on who are now attracting the youngest and brightest away from the Googles of this world, and attracted to something yet again new, which again is disrupting the way in which, particularly young people communicate and converse with each other.

I think that we go through sort of sine waves or bell curves in industry where, you know, a disrupter moves in to being a dominant player, potentially with other strong players, but over time their position is, becomes more vulnerable, and they are, they find themselves being competed against by younger, newer, fresher, more exciting new ideas.

So, entrepreneurs, new ideas, disrupt, address, tackle, compete with existing, well-established industries and structures, but it's an evolution.

ANSWERS

- A sine wave has regular deviations from a horizontal axis over time, going from alternate highs to lows; a bell curve (showing a normal distribution of a quantitative phenomenon) rises and falls symmetrically around a vertical axis, giving approximately the shape of a bell. A bell curve is an image of the rise and fall of a particular company in an industry over time; a sine wave could illustrate the successive rise and fall of different companies. Business students, who have to devote much (if not most) of their time to maths and statistics, can be expected to know these concepts.
- 1 The most intelligent young people in the computer industry now wanted to work for Facebook rather than Google
- 2 1 disrupter 2 dominant 3 vulnerable 4 competed against 5 entrepreneurs 6 disrupt 7 compete with 8 well-established 9 evolution

Discussion: Clusters

The concept of industrial or economic clusters was popularized by Michael Porter's well-known book *The Competitive Advantage of Nations* (New York: Free Press, 1990).

ANSWERS

- Bangalore: software developers
Detroit: automobiles Hollywood: movies
Las Vegas: gambling (casinos) Paris: fashion (haute couture) Silicon Valley: computer companies the area around Bordeaux: wine
- There are many other industrial clusters that are less well-known internationally, but which may be known to learners from particular areas.
- Start-ups situate themselves near other companies in the same industry because this helps them to find qualified staff, who might join them from other companies, and to have the possibility of exchanging information with other companies, and to benefit from the existence of ancillary service companies.

- Similar shops and restaurants often situate themselves right next to each other because they know that this will attract a pool of potential customers, and they will probably get more custom this way than by choosing a location away from other similar businesses.

Listening 3: Clustering ▶ 2.8

AUDIO SCRIPT

CHARLES COTTON Clustering is perhaps the, one of the most exciting areas for governments as well as for companies to address. And everybody looks at the well-established examples. In America, it used to be around one, Route 128, around Boston area which really lost its crown to Silicon Valley, out in northern California. And today there are many examples of clusters. Each of these clusters has a number of factors associated with them, no one of which is sufficient on its own to define a cluster, but these factors in total, perhaps eight out of ten of them, you know, are to be found in every cluster. If you look at the traditional ones like Route 128, like Silicon Valley, and in Europe places like Tel Aviv, like Cambridge, like Oxford, like London, they've all evolved around a university campus, and what you've got there then are very bright people pushing the boundaries of science and technology, and seeing then the opportunities for the development of companies, and for those companies then to be successful.

What happens as a result of that is that people move from a university environment into a, into a business environment and need to learn new skills, and so what you have around those people that make that step are people, older people who've been in industry before, or people who are focusing on supporting products and services and so on, and you get this sort of virtuous circle taking place where you have a nucleus which is the individual or individuals who break away from university, then massing up as they talk to each other to gain experience, talk to other people to gain experience, and build around them this, this cluster.

So some of the other factors that make clusters successful are all of the supporting services like the lawyers, the accountants, the patent attorneys, the headhunters, the recruiters, the people who provide catering services for the companies that come along, the landlords and so on, so you get this vast circle of activity around, around a cluster, which then builds into something more than what starts as a technology cluster into a, into an economic cluster itself ...

ANSWERS

- 1 Route 128 around Boston and Silicon Valley in northern California
- 2 Tel Aviv, Cambridge, Oxford and London
- 3 The existence of a very good university, with science and technology departments
- 4 They need to learn new business and management skills
- 5 1 patent attorneys 2 headhunters
3 landlords 4 technology 5 economic

Note

Some people may object to Charles Cotton's situating of Tel Aviv in Europe, but he is speaking loosely, as when he speaks of Czechoslovakia (which has not existed as such since the end of 1992) in the following section.

Listening 4: Software-based clusters

▶ 2.9

If you consider that there is too much listening and not enough reading in this unit, you could of course replace some of these listening exercises, e.g. this one and/or the following one, by reading activities, given that the audio scripts are included in the Student's Book.

- Many learners may offer India as an answer to the pre-listening question, but in fact Charles Cotton is talking about eastern Europe.

AUDIO SCRIPT

CHARLES COTTON ... so it becomes a question of saying, well, what is it about your culture, the background, the technologies, the history of your industries that can provide the essence of what your cluster can be grouped around? You may not have a world-class university which these other ones have, but you may have some fabulous software programmers, and certainly if you look at places in eastern Europe and Russia, because they couldn't afford the latest computers and so on back in the 90s, and two, and sort of, you know, the 1980s and 1990s, their software programmers were outstanding, they were the most creative people on the planet, and they've continued to evolve in that way and today it's certainly the case that software developers in Bulgaria, in Hungary, in Czechoslovakia, in parts of Ukraine and so on, are in great demand for two reasons. First of all, they have this ability to do a great deal with very small levels of resource, and secondly they don't charge as much as programmers in the western world or even India these days, because India started as sort of a crèche, almost, of software developers, but has now become a much more expensive place to have that software done, so there are always opportunities creating, and around, being created, and around those opportunities can coalesce many of the other factors that can lead to a cluster formation, and so today I'm most particularly aware of the software-based clusters for development purposes in eastern Europe and the former parts of the Soviet Union.

ANSWERS

- 1 Software programmers in eastern Europe (Bulgaria, Hungary, 'Czechoslovakia' and parts of Ukraine) and Russia
- 2 Because they didn't have the latest computers in the 1980s and 1990s, so they developed the ability to do a great deal with very limited resources
- 3 They are much cheaper than Indian programmers (they don't charge as much)

Listening 5: Clusters of the future

▶ 2.10

AUDIO SCRIPT

CHARLES COTTON But as we look forward I think we're going to see, you know, new powerhouses economically evolve, which will inevitably mean that there will be new clusters created. The ones that most people tend to talk around are round China and India, but I also propose that we'll see similar things happening in places like Brazil, and Brazil is a resource-rich country with, you know, an increasingly well-educated population, and I think education is at the core of any of these clusters, which is why China and India are going to become so successful, because particularly in their cases, a lot of their young people have gone off to be educated in, principally in the US but also in Europe, and then have gone back because they've seen the business opportunities in their own country. In a way we're going to see similar sorts of things happening with, with places like Brazil which has got a very large population, which is resource-rich as I mentioned, and where a lot of the population has experience of being in university in North America, and again seeing opportunities in their homeland to create something special, and along the way, you know, being a capitalist-dominated world, you know, seeing the opportunity for personal gain for, you know, the exercise of their knowledge and their skills.

ANSWERS

- 1 China, India and Brazil
 - 2 They have increasingly well-educated populations: people who have gone to university in the US and Europe, and returned to their country because they see business opportunities
- Learners may suggest other European, Asian or Latin American countries that could successfully develop economic clusters. Africa seems to be less likely, as does Australia for anything that has to be exported.

Case study: Encouraging clusters

This is a fairly abstract case study, given that no countries or industries are specified, but learners should be able to say whether at least some of these factors are present in their country (e.g. a skilled workforce, a good infrastructure, a good education system, already-existing companies). They may know less about the actual business environment, government services, the existence or otherwise of venture capital firms, and the ease of mobility.

You could also attempt to elicit the factors listed here with the students' books closed, before beginning the case study.

The learners may have discussed the different sectors and industries in their country, and their possible evolution, in **Unit 7**.

All countries should have at least one sector or industry that already has or could potentially develop a competitive advantage, and which could usefully be backed by the government. Some minor form of government help is clearly a more plausible prescription than 'develop a world-class university', or 'establish an excellent infrastructure'.

Depending on time (and perhaps on how different their recommendations are), one, two or all of the groups could present their conclusions to the class.

Writing

This could be written either individually or in groups. The groups' conclusions and recommendations could conceivably be changed by input from the rest of the class, following the presentations.

21 Takeovers

This unit contains a text about takeovers, mergers and leveraged buyouts and accompanying exercises, extracts from an interview with the Press Officer of the UK Competition Commission, and a role play about a potential investigation of a large and successful company by a competition authority.

Lead-in

The first three questions are answered in the text which follows. If the learners know about the subject, you could add further questions, and try to elicit the information contained in the text.

Reading: Takeovers, mergers and buyouts

The text is quite dense, as it defines all the terms included in the Vocabulary exercise which follows; learners who are not familiar with the subject may well need to read it at least twice.

SUGGESTED ANSWERS

The following sentences should probably be underlined:

- Why do companies take over other companies?
Successful companies have to find ways of using their profits.
... sometimes it is easier to take over other companies with existing products and customers.
Acquiring a competitor in the same field of activity (horizontal integration) gives a company a larger market share and reduces competition.
Companies can also acquire businesses involved in other parts of their supply chain (vertical integration), generally to achieve cost savings.
- How do companies take over other companies?
... a raid, which simply involves buying as many of a company's stocks as possible on the stock market.
... a takeover bid: a public offer to a company's stockholders to buy their stocks at a certain price (above the current market price) during a limited period of time.
- What is a merger?
... to merge with it: to combine the two companies to form a single new one.

Note

The book mentioned in the final paragraph is *Barbarians at the Gate: The Fall of RJR Nabisco*, by Bryan Burrough and John Helyar (New York: Harper and Row, 1990); 20th anniversary edition (New York: HarperBusiness, 2008).

Other examples of the bad reputation of corporate raiders in the 1980s are two well-known movies, Oliver Stone's *Wall Street* (1987), starring Michael Douglas as a raider whose mantra is 'Greed is good', and Garry Marshall's *Pretty Woman* (1990), with Richard Gere and Julia Roberts.

Vocabulary note

The noun *takeover* is one word but the verb *take over* is two. Although investment banks have Mergers and Acquisitions departments, most people (including financial journalists) talk about *takeovers* rather than *acquisitions*. In everyday language, the verb *buy* is much more common than *acquire* (or *purchase*).

The text uses the terms *stock* and *stockholder* (because there are more and bigger takeovers in the US than the UK); the British equivalents *share* and *shareholder* have the same meanings.

Vocabulary

ANSWERS

- | | | |
|--------------------|-------------------------|------------------------|
| 1 diversify | 2 retail outlets | 3 controlling interest |
| 4 listed companies | 5 fees | 6 conglomerates |
| 7 synergy | 8 market capitalization | 9 subsidiaries |
| 10 pension fund | | |

Comprehension

SUGGESTED ANSWERS

- 1 Horizontal integration means buying competitors in the same field of activity; vertical integration means buying companies involved in other parts of the supply chain.
- 2 Backward integration means buying suppliers of raw materials or components; forward integration means buying distributors or retailers.
- 3 A raid means buying a company's stocks on the stock market; a takeover bid means making an offer to a company's stockholders to buy their stocks.
- 4 A friendly bid is when the directors of a company agree to a takeover; a hostile bid is when they do not.
- 5 Asset-stripping means buying a company in order to sell its profitable parts, or to close the company and sell its assets at a profit.

Discussion

Business learners may well have read or been told that the possibility of a takeover is a challenge to company managers and directors to do their jobs well, and to put capital to productive use. If they fail to do this, they will be taken over by companies or raiders who will use the assets more efficiently, cut costs, and increase shareholder value. On the other hand, the permanent threat of a takeover or a buyout is clearly a disincentive to long-term planning or capital investment, as a company will lose its investment if a raider tries to break it up if its share price disappoints in the short term. Takeovers can also lead to job losses, which is the subject of **Unit 25, Efficiency and employment**.

Listening 1: The role of the Competition Commission ▶2.11

Rory Taylor speaks rather quickly; learners may need to listen two or three times in order to fully understand, and answer the questions.

AUDIO SCRIPT

RORY TAYLOR We're a competition investigation authority; it's what the Americans might call an antitrust authority. Our role is, when cases are referred to us, to look at mergers that might have the effect of damaging competition in a particular market, or indeed in certain cases we can look at the markets in general, and again see whether competition is working effectively, and benefiting the consumer.

We do have a free market attitude in this country, but markets left unchecked can develop features that are damaging to competition and, by definition, towards consumers. If you can imagine a situation, hypothetically, in which one company just became more and more successful there would be the danger that they could just buy over every single other company in that market, and ultimately that wouldn't be good for anyone in the economy, including the company itself.

We always say round here that good, efficient companies have nothing to fear from the competition authorities, and we've had plenty of companies come through here and tell us that competition is essential to keeping their business efficient and innovative, so it's, it's an essential part of the system, and I think if you look at any developed economy there's, there's always a competition regime there. How it works differs from country to country, but I think there's a general acceptance that it's a necessary, a necessary check and balance as long as it's not over-interventionist.

ANSWERS

- 1 An antitrust authority (A trust means a group or consortium of independent organizations formed in order to limit competition by controlling the production and distribution of a product or service, but antitrust laws are also applied to single large companies that dominate a market.)
- 2 If a proposed merger might damage competition in a particular market, or if it is thought that competition is not working effectively, and benefiting the consumer, in a particular market. (This could also apply to proposed takeovers.)

- 3** A company that is so successful that it could buy every single other company in its market. (Rory Taylor says 'buy over'; 'buy up' or just 'buy' would be more common.)
- 4** That having competition (rival, competing companies) is essential to keeping their business efficient and innovative
- 5** **a** A belief that markets should be allowed to operate without governmental interference
b A set of laws and regulations concerning markets and competition
c A way of preventing abuse of power by strong companies. (The term comes from theories of government, particularly political systems which have legislative, executive, and judicial branches, each with separate powers, as in the USA.)
d Intervening or interfering too much in what is supposed to be a free market

ANSWERS

- 1** 1 player **2** natural monopolies **3** utilities
4 market investigations **5** handful
6 groceries **7** lion's share
- 2** **1** company or competitor or business **5** (a small) number or quantity **7** the largest part
- 3** **2** A market in which it is normal that there is only one company (a monopoly) as it would be difficult, or impossible, or uneconomic to provide competing services (e.g. water or gas pipes, electric cables, etc.)
3 Service providers such as water, electricity and gas companies
6 Food and other everyday products bought in supermarkets

Listening 3: Breaking the law and abusing a dominant position ▶ 2.13

AUDIO SCRIPT

RORY TAYLOR We look at the structure of markets and whether markets are working competitively. Now even if they're not working competitively that can be a range of factors that doesn't mean the company is doing anything wrong, it just means they're acting logically, to whatever business and competitive pressures there are. On the other side of the coin, there are offences, breaches of competition law. Those actually get looked at by the Office of Fair Trading, and that's where companies have actively, are actively, in simple terms, doing something wrong. There's two offences. One is abuse of a dominant position. The, probably the highest-profile example of that in recent times is the Microsoft case, with the European Competition Commission, and the other one is cartels, or price fixing as it's also known, which is something that our sister body the Office of Fair Trading are being, are taking a great interest at the moment, and yeah, that is something that's looked [at] extremely seriously by the authorities and you can be fined as much as 10% of your annual turnover, so you can be facing big fines if you are, if you are found guilty of that thing.

Listening 2: Market investigations ▶ 2.12

AUDIO SCRIPT

RORY TAYLOR You won't generally come across too many markets where there's one dominant player outside the, sort of, natural monopolies and the utilities. We used to do, under the previous legislation, what were called monopoly investigations, but now they're known as market investigations, as to some extent that reflects that you're not usually looking at one player dominating one particular market but maybe a small handful. That's not necessarily a bad thing, it all depends on the structure of that market and to what degree they're competing with each other. We've just been looking at the groceries market, that's ... I would say using, using the term advisedly, dominated by big four supermarkets, certainly got the lion's share of the ... people's shopping, but at the same time they're competing very vigorously with each other, so that's not necessarily anything we'd, we'd look to intervene in.

For questions 2 and 3, learners could work in pairs to deduce meanings, and consult dictionaries if necessary.