

## ANSWERS

- 1 a, b, d
- 2 The European Competition Commission and the Office of Fair Trading
- 3 Price-fixing, or forming a cartel (a group of companies which agree not to compete on price)

### Note

Regarding question 1b, *holding* a dominant position is not against the law, only *abusing* such a position; as Taylor puts it, 'it doesn't mean the company is doing anything wrong, it just means they're acting logically, to whatever business and competitive pressures there are.'

### Discussion

- Abusing a dominant position means using your huge market share (or near monopoly) to:
  - charge low prices (below the cost of production) in order to drive a competitor out of business ('predatory pricing')
  - impose unfair purchase or selling prices or other unfair trading conditions (such as supplementary obligations on suppliers)
  - limit production, markets or technical development to the prejudice of consumers, in order to keep prices high
  - apply different conditions to equivalent transactions with other trading parties
  - refuse to sell individual products, but only more expensive 'bundled' products (sometimes called 'tied selling'), etc.
- The Microsoft case was about the company, which had a near monopoly with its operating system, only selling it combined with additional programs such as a web browser and a media player, which prevented other companies competing against these products.

Other cases that have been investigated by US and European regulators include telecoms companies, airlines, microchip producers, supermarkets, oil companies, etc. A web search for 'antitrust cases' will give numerous examples.

### Role play: Is this company restricting competition?

There are three role cards at the back of the Student's Book on pages 146, 148 and 150. If the learners are unable to choose an industry to which their imaginary dominant company belongs, you will have to choose for them.

There is an imbalance among the roles, as the company has two representatives to the competition authority's one. This is because the company has rather more arguments than the competition authority, at least as shown on the role cards. This imbalance could be corrected by giving the competition authority's investigator a colleague or assistant, but the role cards will still give more arguments to the company!

Once the class has chosen an industry, the learners can either do the role play in groups of three, or prepare the roles in pairs or small groups first.

### Writing

No model answer is given here, as the summary is likely to contain many words and phrases, if not sentences, from the role cards at the back of the Student's Book.

See the role plays 'Who should we take over?' and 'Integration' in *Business Roles* by John Crowther-Alwyn (Cambridge University Press).



This is the first of seven units on economics. The role of the government has been a major political and economic issue in industrialized democracies since at least the 1980s. Although the number of nationalized (government-owned) industries is steadily declining in most parts of the world, people with left-wing views still generally believe that the government has an essential role to play in ensuring the provision of services such as education, healthcare, social security, public transport and perhaps housing, and regulating working conditions, health and safety standards, and so on. People with right-wing views, on the contrary, generally argue that many (or most, or maybe all) of these activities can be left to private enterprise and the market system, and that the role of the government should be restricted to activities such as defence, the police, and the justice system. They argue that too much regulation is bad for business, and leads to inefficiency, and therefore unemployment. This is an argument that is *not* going to go away.

This unit has discussion activities about the role of government and the pros and cons of taxation, an extract from a famously anti-government book by Milton Friedman, and the first of four listening exercises based on extracts from an interview with Michael Kitson, a Cambridge economist. In this one, he outlines what he considers to be necessary government interventions in the economy.

## Lead-in

As usual, there are no 'right answers' here. Learners in comparatively inexpensive public universities can generally see the advantages of government spending. Few of them are likely to believe that the armed services or the police and the justice system should be privatized, although there are private prisons in some countries (such as the USA). Many of them can be expected to approve of a mixed system of both public and private education and healthcare, and the provision of some low-income housing. Some countries have privatized public transport systems, with varying results. There have long been proponents of privatizing social security, though one hears less from them during financial crises and stock market crashes. When asked to think about it, most business students seem to see the utility of regulated working conditions, traffic regulations, health and safety legislation, and so on. Similarly, few people believe in the totally unregulated sale of alcohol, drugs, guns, and so on.

## Reading: The role of government

These extracts are from Chapter Two, 'The Tyranny of Controls', of *Free to Choose* (London: Penguin, 1980), pp. 88–94, by Milton Friedman and his wife Rose.

### BACKGROUND NOTES

Milton Friedman (1912–2006) was a leading 'Chicago School' free market economist, and an opponent of Keynesianism. He was a monetarist who stressed the importance of the quantity of money as an instrument of government policy and as a determinant of business cycles and inflation. He described himself as a classical liberal and a libertarian, and was an opponent of much government regulation, and a staunch defender of individual freedom. Many of his policy prescriptions can safely be described as highly controversial, but his ideas on privatization and deregulation were taken up in the 1980s by the Reagan administration in the US, and the Thatcher government in the UK, and were later influential in many central and eastern European countries. Friedman won the Nobel Prize for Economics in 1976.

### Vocabulary notes

*Liberal* is a very problematic word, which means different things to different people. For *Americans*, a liberal is someone who believes in state intervention in the economy, such as Democrat presidents like Kennedy, Clinton and Obama. The opposite, which applies to recent Republican presidents, is *conservative*.

But in *Britain*, the Liberals (now the Liberal Democrats) were for many years the centre party, between Labour (socialist or social democrat) and the Conservatives. Consequently



in Britain, a liberal is someone who is neither on the left nor right.

Yet in pure economic terms, dating from the early 19th century, *liberal* denotes a belief in free markets, without governmental intervention, and is thus part of the name of right-wing political parties in many European countries and languages, for whom Milton Friedman would be an excellent example of a liberal, or what today is often called a neo-liberal.

#### ANSWER

In the Friedmans' opinion, the role of the US government has expanded far too much. Its interventions in the economy might even end economic progress. The government severely limits people's freedom to spend their money and work as they choose. There is a need to end a lot of existing restrictions.

### Comprehension

#### ANSWERS

- 1 They believe that government intervention – limitations imposed on economic freedom – threatens to end 200 years of economic progress.
- 2 'Currently, more than 40% of our income is disposed of on our behalf by government at federal, state and local levels combined.'
- 3 They disapprove of laws that prevent physicians (doctors) prescribing some drugs (medicines) that have been banned in the US, and that make it compulsory to have seat belts in cars.
- 4 All business activities and transactions should be voluntary, and nobody should use force or coercion.
- 5 They believe that workers should be free to work any number of hours they agree with their employer, without restrictions imposed by the government.

#### Vocabulary notes

The Friedman text uses the American words *automobile* and *railroad*; the British say *car* and *railway*. Similarly, Americans use *truck* and *airplane*, while the British say *lorry* and *aeroplane*. As mentioned in the Student's Book,

Americans say *physician* where the British usually say *doctor*. They also say *mortician* (a person who prepares the dead for burial or cremation, and arranges funerals) while the British say *undertaker*. But, of course, the verb *to undertake* means to do or to promise to do something; *undertaker* is *not* another word for entrepreneur.

### Discussion

As mentioned above, the Friedmans are best described as classical liberals and libertarians, although in US terms they are also clearly arch conservatives.

Learners may agree with some of their arguments, though many will be shocked by the implication that *anyone* should be able to practise as a lawyer, a physician, a dentist, etc. without some kind of government certification (a permit or a licence). (The Friedmans' argument is that 'the market' would decide and bad lawyers, doctors and dentists would go out of business, and that it is part of one's individual responsibility to find out if a lawyer or doctor or dentist is any good.)

### Vocabulary

#### ANSWERS

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

If the learners find this exercise difficult, you could suggest that they use dictionaries, working in pairs.

### Listening: Government intervention

▶ 2.14

#### AUDIO SCRIPT

MICHAEL KITSON ... The second effect is whether we think unfettered free markets alone can ensure the long-term optimal allocation of resources and long-term economic growth. Markets are very important, I'm not denying that, but so is the role of government to actually help markets work better. Often economists talk



about notions of market failure or the fact that markets are not working properly.

Let's just think of some of the areas where governments should want to intervene. They may want to spend, spend money on education, it's very important, educated workforce. People may not invest enough in their education if they have to pay for it themselves, and many people wouldn't be able to access the resources, wouldn't be able to get the credit, OK, so it's the importance of education. Similar things apply to health, we may not actually buy enough health if we are left to buy it ourselves.

Let's think about developing new products and technologies. Developing new products and technologies is highly risky and highly expensive, and highly uncertain outcomes, but possibly very big outcomes for the economy as a whole. So it makes ... it's understandable that firms do not invest in very early-stage technologies, OK, and ... because it may be very expensive for them, there's a good chance they won't succeed, and if they do succeed, somebody else will be able to copy and replicate and benefit from their effects.

These are positive externality effects of government intervention. If government helps to commercialize science, develop new ideas, those products can then at a later stage be developed and employed by the market, and by businesses.

I think there are many areas. This is about government in terms of economic growth. I think it's mainly in terms of the areas of education, particularly, again in the areas of transport and networks and infrastructure, and increasingly in helping develop science, and helping commercialize science, and bringing those ideas, which you know, ideas ultimately drive long-term economic growth, and encouraging those ideas from a science base to become new products, new services, better ways of doing things, will make economic growth happen in the future.

## ANSWERS

- Kitson is clearly in favour of some government interventions in the economy.
- 1 1 free markets    2 optimal    3 economic growth    4 market failure
- 2 An educated workforce is important, and people may not spend or invest enough in their education or health if they have to pay for it themselves, or be able to get the credit (borrow money) to do so
- 3 Because it's highly risky and highly expensive, and has highly uncertain outcomes, and because other companies might copy or replicate and benefit from the technology they develop
- 4 Transport and networks and infrastructure, and developing and helping commercialize science

Learners do not have to agree with Kitson about these various forms of spending, but many can be expected to.

## Note

This extract begins with 'The second effect ...'; Kitson had previously mentioned what he calls the first effect of government intervention, which is trying to counteract the business cycle. This part of the interview is in the Listening section of **Unit 23**.

## Discussion: Taxation 1

- Learners may not know the English names for the usual taxes (which are included in the following Vocabulary exercise), but they will probably know the concepts. For example, in most countries:
  - consumers pay sales tax or value-added tax on most products sold in shops and stores
  - most people pay income tax on their wages or salary (unless this is extremely low)
  - inheritances are usually subject to an inheritance tax
  - gains from shares and other securities are often liable to capital gains tax
  - most countries have customs duties on imports, either from all foreign countries, or from those not part of a customs union such as the EU or NAFTA
  - other common taxes include excise duties on petrol, tobacco and alcohol, road tax on cars, and stamp duty on property and financial transactions.



- Examples of the same amount of money being taxed more than once include business profits – companies pay tax on their profits and shareholders pay income tax on dividends – and individual wealth, which is usually taxed (income tax, capital gains tax, inheritance tax) when it is first received but in some countries is taxed again annually (usually at a low rate) by a wealth tax if it is not spent, and is subject to sales taxes if it is spent.

### BACKGROUND INFORMATION

Benjamin Franklin (1706–90) was an American statesman (he helped write the Declaration of Independence) and a scientist (he invented the lightning conductor). His line about death and taxes is still widely quoted. He is not necessarily one of the people in the cartoon!

## Vocabulary

### ANSWERS

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

### Notes

In several European languages, the equivalent term for *tax haven* uses a translation of the word *paradise*, a synonym for *heaven* (e.g. *Steuerparadies*, *paradis fiscal*, *paradiso fiscale*, etc.). But *haven* means harbour (*Hafen* in German, *havre* in French).

*Loophole* is of course pronounced loop-hole, not loofole.

## Discussion: Taxation 2

### ANSWERS

There are no 'correct answers' to questions 1, 2, 3 and 5. Wealth taxes only exist in a few countries (such as Germany and Switzerland). Many people approve of progressive tax rates until they get rich! The main reason for having both direct and indirect

taxes is that indirect taxes when you go shopping are less *visible* than, say, 40% immediately deducted from your salary.

4 Speech bubbles 1, 3, 6, 7, 10, 12 and 13 are clearly in favour of taxation and government spending (on the transport infrastructure, education, health, welfare, the urban environment, etc.). Speech bubbles 2, 4, 5, 8, 9 and 11 are clearly against taxation.

## Presentation: Taxation and government spending

This could be prepared in pairs or small groups. Even learners without opinions of their own should be able to construct a short talk or written report from the material in this unit. Given that there are arguments on both sides, this would be an opportunity to use various connectors and conjunctions such as:

e.g. (for example)	for instance	similarly	
therefore	consequently	as a result	so
because	since	as	
because of	due to	owing to (+ noun phrase)	
in order to	so as to		
though	although	even though	
however	yet	nevertheless	nonetheless
while	whereas		
what's more	furthermore	moreover	in addition
on the other hand	on the contrary	alternatively	
i.e. (that is)	in other words		



This unit is about the business cycle, its causes, and whether governments can do anything to change it. There are (unusually) two reading texts, with accompanying vocabulary and comprehension exercises, and a second extract from the interview with Michael Kitson.

### Lead-in

This book is being written during a huge international financial crisis, often referred to as the 'credit crunch' (see Units 14 and 16). There is no question that the global economy is currently doing badly: see, for example, the British GDP graph in the Student's Book. What will happen next is unknown, but recessions generally end after 18 months or so.

The main causes of the alternate periods of growth and contraction (or what economists like to call 'negative growth') of the business cycle are discussed in this unit. The most important one seems to be the level of consumption: the decisions of millions of people whether to spend their money and borrow more, when the economic outlook is good, or spend less and save more, when the economic outlook is bad or when interest rates rise.

ask the learners to describe the graph, if they are likely to know verbs like:

remain stable, stabilize, level off, rise, increase, grow, peak, reach a peak, fall, decrease, decline, bottom out, etc.

and adjectives and adverbs of size or quantity such as:

slight/slightly, dramatic/dramatically, considerable/considerably, sharp/sharply, significant/significantly, substantial/substantially

and adjectives and adverbs of time such as:

gradual/gradually, slow/slowly, steady/steadily, sudden/suddenly, rapid/rapidly.

### Vocabulary 1: The business cycle

#### ANSWERS

- 1 downturn 2 upturn 3 expectations  
4 consumption 5 balance of payments  
6 gross domestic product (GDP) 7 demand  
8 supply 9 save

#### Note

Economists also talk about gross national product (GNP), which is GDP plus income from overseas investments minus the earnings of foreign investors in the home economy.

### Reading 1: What causes the business cycle?

Before reading this text you could ask questions about the GDP graph (When were there big recessions? When was there a long upturn? etc.). Or

#### ANSWERS

- 1 gross domestic product (GDP) 2 upturn  
3 downturn 4 consumption 5 expectations  
6 balance of payments 7 save 8 demand  
9 supply

### Comprehension

#### SUGGESTED ANSWERS

- 1 ... the demand for goods and services declines.
- 2 ... economic times are good and they feel confident about the future.
- 3 ... they are afraid of losing their jobs / becoming unemployed.
- 4 ... people have to pay more on their mortgage or rent (and so consume less).
- 5 ... consumption is increasing.
- 6 ... innovations destroy established companies or industries.



## Discussion

- An obvious example of 'creative destruction' currently occurring is the way free news on the Internet threatens traditional newspapers, and possibilities to download music and films threaten the 'old-fashioned' CD and DVD industry. Similarly free internet telephone services such as Skype threaten 'traditional' telecommunications companies.
- Whether the government should intervene in the economy, by creating demand or jobs during a recession, divides the political left and right, and Keynesian and free market economists. The Keynesian argument (named after the English economist John Maynard Keynes, whose famous book *The General Theory of Employment, Interest and Money* was published in 1936), is that governments can increase demand and employment by way of fiscal or monetary policy, either by public works (building roads, schools, etc.), or by decreasing taxes, lowering interest rates, or increasing the money supply, so that consumers have more money to spend. The argument in favour of public works is that it makes more sense to pay people to create something than to pay them unemployment benefits to do nothing. Arguments against this include the one that government spending 'crowds out' or reduces the amount of money or credit available to private companies, thereby hindering the revival of the economy.

Although governments can still make tax and spending decisions, in many countries they no longer have control over interest rate decisions (concerning the base rate – the rate at which the central bank lends money to commercial banks, which influences all other rates) as the central bank is independent from the government. Similarly, decisions about the money supply – the amount of money available in the economy – are now often made by the central bank rather than the government. The most common way of changing the money supply is by selling short-term bonds, called treasury bills, to commercial banks (to take money out of circulation), or buying them back (to increase the amount of money in circulation).

- The arguments against such governmental spending are outlined in the second reading text. Monetarists argue that increasing the money supply when the

same amount of goods and services are available will simply raise prices and lead to inflation. Another argument is that fiscal measures usually only take effect too late, when the economy is already recovering, and therefore merely augment the next swing in the business cycle.

## Vocabulary 2: Fiscal and monetary policy

### ANSWERS

- 1 C   2 A   3 B   4 E   5 D   6 G   7 F
- 2 boost – stimulate   decrease – reduce  
depression – slump   excess – surplus  
expand – grow   expenditure – spending  
output – production   recovery – upturn
- 3 boom – depression   contract – expand  
demand – supply   endogenous –  
exogenous   peak – trough   save – spend

### Pronunciation note

Learners unfamiliar with the word *trough* will probably not be able to guess its correct pronunciation (/troʊf/), given that there are at least nine different ways of pronouncing the letters *-ough* in English, as in *though, through, thought, thorough, trough, tough, bough, hiccough* and *lough* (the Irish version of the Scottish *loch* or lake).

## Listening 1: Consumption and the business cycle ▶ 2.15

Note that Michael Kitson was speaking in early 2008.

### AUDIO SCRIPT

MICHAEL KITSON ... Perhaps a year ago that question would have been considered redundant by many economists. The business cycle has ended, we now have nice economic growth, you know, consistent economic growth and the business cycle has ended, and inflation's ended. Actually the reality is that inflation is still on the horizon, and the potential of a downturn in the economy. I tend to think about the major components of aggregate demand, and how that drives economic growth.



Booms [are] particularly driven by consumption, and consumption is particularly driven when people have positive expectations, their assets are increasing, particularly housing, encourages people to spend, OK. Depressions are actually that process goes into reverse, particularly when credit becomes no longer available, assets tend to decline in value, people tend to start saving more and consume less. I think consumption, particularly for the advanced countries, is the major driver of the business cycle, and the major driver of consumption is the availability of credit and the value of assets, of which houses are the most crucial one. So I tend to think it's very ... people spending or not spending.

## ANSWERS

- 1 That the business cycle and inflation had ended, and there was now consistent economic growth
- 2 No; he says there's still the potential of both inflation and a downturn in the economy
- 3 Increased spending and consumption when people have positive expectations, and when their assets, particularly the price of their house, are increasing
- 4 Depressions occur when people start saving more and consuming less, when credit is no longer available, and assets decline in value.

## Listening 2: Keynesianism ▶ 2.16

### BACKGROUND INFORMATION

John Maynard Keynes (1883–1946) (pronounced *canes* or /keɪnz/) was the most influential economist of the mid-20th century, to the extent that he has a school of economic thought named after him – and indeed has his name in an adjective and noun in many languages (Keynesian/Keynesianism, keynésien, keynesianische, keynesiano, etc.).

His ideas about government intervention in the economy, and the use of fiscal and monetary measures to diminish the effects of economic recessions and periods of high employment, were put into practice by many major Western economies shortly before the end of the Great Depression in the 1930s. Keynes argued against the traditional view that free markets would

automatically provide full employment as long as workers reduced their wage demands. Keynesian economic policies were widely adopted in the 1950s and 60s. In 1971 the Republican US President Richard Nixon famously said 'We are all Keynesians now,' but by the end of the 1970s, the monetarist argument that Keynesian policies inevitably lead to inflation had become dominant. As mentioned in the following Reading text (and as most learners will know), Keynesianism made a dramatic return in the crisis of 2008.

Keynes was part of the British delegation at the Versailles Peace Conference after World War I, and in 1944 he was the leader of the British delegation at the Bretton Woods negotiations (see the Teacher's Book notes to Unit 26). Keynes was also part of the 'Bloomsbury Group' of writers and art critics and intellectuals, which included Virginia Woolf and E. M. Forster. He was also a very successful investor. At the time of his death his private fortune was worth about £500,000 (about £11 million in 2009 money). He also increased the value of King's College, Cambridge's portfolio from £30,000 to £380,000, during a period (1924–1946) when the British stock market fell by 15%. (By way of contrast, the neoclassical economist Irving Fisher, known for his quantity theory of money, infamously stated that 'Stock prices have reached what looks like a permanently high plateau,' and 'I expect to see the stock market a good deal higher within a few months' on 17 October 1929, a week before the great crash. Fisher was responsible for Yale University's endowment, which lost most of its value.)

### AUDIO SCRIPT

**MICHAEL KITSON** ... we still have the business cycle, OK, we can still have the possible problems of a downturn, which makes the argument for what I think is standard Keynesianism, the way you manipulate budget balances or budget deficits depending on whether the economy's booming or is in recession. OK, and the government's golden rule in the UK is consistent with that, in general. If the economy's turning down it may make sense for governments to have budget deficits, and to keep expenditure in the economy. That's the Keynesianism argument about ironing out the business cycle, which I think is important because recessions can have very long-term harmful effects.



## ANSWERS

- 1 1 downturn 2 manipulate 3 balances  
4 deficits 5 booming 6 recession  
7 expenditure 8 harmful  
2 C  
3 Here, ironing out means to try to flatten the business cycle, to make its upward and downward swings smaller. More generally, to iron out means to solve problems or find solutions.

## Notes

The temptation for governments to cut taxes and increase spending in the months before an election (answer 2A), so as to temporarily increase people's disposable income and reduce unemployment, is precisely the reason why many countries (including the Euro-zone and Britain) now have central banks which are independent of the government.

Answer 2B (the government should ensure that there is never a budget deficit) might please monetarists and fiscal conservatives, but it is not the policy of most governments, which still believe in borrowing money and intervening in the economy when necessary.

Answer 2D (the government should spend any budget surplus on boosting or stimulating the economy) would be ridiculous; the other side of Keynesianism involves trying to slow down growth when the economy appears to be 'overheating' – when industry is working at full productive capacity, and consumption and investment are leading to inflation. Besides, virtually all countries have massive national debts that should ideally be repaid at some point.

## Reading 2: Keynesianism and monetarism

### ANSWERS

The paragraph headings come in this order:  
D C E A B

## Comprehension

### ANSWERS

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

## Discussion: Government intervention

There are, once again, no 'right answers' here. The first two questions echo the last two questions in the previous discussion activity. If it is accepted that increasing or inflating the money supply leads to price inflation, arguments for and against Keynesianism (or Keynesianism vs monetarism) come down to arguments in favour of either a stable price level (little or no inflation) or low unemployment.

Similarly, whether governments should rescue 'dinosaurs' in declining industries, or instead invest in start-ups in new industries, is a matter of opinion.



# 24 Corporate social responsibility

Some people argue that the objective of business, and consequently the role of managers, is to make as much money as possible for companies' owners, the stockholders or shareholders. Other people argue that companies have to be careful never to cheat customers, but for purely business reasons, rather than ethical ones: disappointed customers will not buy any more of your products in future. Still other people insist that companies have social and ethical responsibilities to their customers, their staff, their business partners, their local community, society in general, and the natural environment, that are as important as, or more important than, their responsibility to provide a financial return to their shareholders. This unit includes a text containing opposing views of the social responsibilities of business, listening exercises based on further extracts from the interview with Anna-Kim Hyun-Seung, discussion activities concerning the ethics of various business practices, and a role play about problems facing a clothing manufacturer.

## Lead-in

A good way to introduce this topic, before even looking at the illustration, would be to refer to – or better still, elicit from the learners – recent news stories relating to ethical or unethical behaviour by well-known companies.

There are clearly no 'right answers' as to which of the views expressed in the illustration the learners should agree with, but here are some remarks.

The first view is somewhat discredited these days, although placing the person expressing it in front of a dozen smoking chimneys is perhaps unfair. The second view – *caveat emptor* – clearly contradicts modern marketing theory, and the logic of satisfying needs, and of making a long-term customer rather than a single sale.

The fourth and fifth views leave open the question for multinational companies as to which laws or conventional standards of morality are applicable to subsidiaries – those of the local country, or those of the country in which the company's headquarters are situated. The sixth view might lead to a conflict between the individual employee and the employer's expectations or requirements – although it is of course possible that an employee could have as a personal ethical standard 'business is business' and the employer something more 'social'. The seventh view, referred to in the following text as the *stakeholder model*, clearly conflicts with view number three, the *stockholder model*, which is still dominant in many countries.

## Reading: Profits and social responsibility

Views 3, 4 and 5 are all expressed in the first long quotation from Milton Friedman. ('Ethical customs' means much the same thing as 'conventional standards of morality'.) View 7 is expressed in the final paragraph.

Friedman's article was published in *The New York Times Magazine*, 13 September 1970. Friedman expresses similar views at greater length in *Capitalism and Freedom* (Chicago: University of Chicago Press, 2002), originally published in 1962. The article is widely available on the Internet.

## Comprehension

### ANSWERS

- 1 Because this is generally what the owners of the business want, and what they employ executives to do
- 2 The corporation's owners, the stockholders
- 3 The cost of socially responsible actions has to be paid in the form of lower dividends, higher prices, or lower wages
- 4 Because they involve doing things that should be done by governments, and if a government is not doing these things it is because the electors chose a government that did not say it was going to do them
- 5 A society with less pollution or less unemployment and fewer social problems



- 6 Any group of people with a stake in or an interest in or a claim on the business

## Vocabulary

### ANSWERS

- 1 1 discrimination 2 undermining 3 free enterprise 4 conforming to 5 embodied  
6 ethical 7 custom 8 insofar as  
9 harms 10 proponents  
2 avoid pollution, conduct business, conform to rules, eliminate discrimination, increase profits, make expenditures, make money, make profits, maximize profits, provide employment, undermine the basis

## Discussion

As usual, there are few 'right answers' here.

- Whether doing anything other than maximizing profits is 'unbusinesslike' clearly depends on one's definition of business.
- It is probably true that stockholders *generally* wish to make as much money as possible, but many of them might well say something different if they were promised a trade-off such as lower dividends in return for less crime, or less polluted air, etc.
- It is quite difficult to argue against the statement that corporate social expenditure means spending someone else's money, given that the free enterprise, private-property system that Friedman describes is in operation in most countries; indeed a cynical description of management has long been 'spending other people's money'.
- That solving social problems is uniquely the job of the government needn't be true: Friedman neglects the fact that companies can always present their proposed 'social responsibility' policies for the approbation of their shareholders.
- Clearly someone who does *not* take an entirely capitalistic approach to business does not need to believe that the stockholders or shareholders are much more important than a company's other stakeholders. For example, there are obvious arguments *against* closing down a factory employing several hundred people in a small town

with no other significant employers, and relocating production elsewhere in order to make small financial savings. This makes perfect business sense, but the resulting unemployment benefits have to be paid out of public tax revenues.

An additional **Writing** exercise would be to write short paragraphs (similar to the above), in opposition to the given arguments.

## Listening 1: Socially responsible investment ▶ 2.17

### AUDIO SCRIPT

ANNA-KIM HYUN-SEUNG I see socially responsible investment as a very effective response to Milton Friedman's famous argument, because when Milton Friedman says 'The business of business is business,' it assumes that most shareholders want to maximize their profit, maximize their return on investment, and that is the goal of the shareholders. But what we can observe now is the rise of socially responsible investment, so it shows that at least some investors *do* care about social and environmental standards as well as their right to a return on investment. So if that's the case, if shareholders actually do care about these criteria, then Milton Friedman's argument is ... is facing the serious problem of his assumptions, because it assumes that shareholders *only* care about the profit, and therefore corporations have to maximize the profit for their shareholders. But what if shareholders want something different for their corporations? It is true that socially responsible investment is still a fraction of the total investment at the moment, but is very very rapidly increasing, and it will be very interesting to see how the trend develops.



## ANSWERS

- 1 'The business of business is business', meaning that companies should only concentrate on doing business and making maximum profits
- 2 That the goal of shareholders is only to maximize their return on investment, or their profit
- 3 Only investing in companies that have certain social and environmental standards
- 4 It is currently only a fraction of the total amount of investment, but is increasing rapidly

## Note

The kind of investment that Anna-Kim Hyun-Seung refers to here was mentioned in **Unit 16** – the 'Ethical growth fund' in the Case study.

## Listening 2: Different stakeholder groups ▶ 2.18

## AUDIO SCRIPT

**ANNA-KIM HYUN-SEUNG** I think it is very important to respond to different stakeholder groups, because obviously companies tend to be more responsive to the shareholders rather than other stakeholders, but I think when a company really considers different stakeholder groups seriously, including their community, including their own employees, then they are likely to have more genuine corporate social responsibility policies and practices.

For example, there are companies which are probably doing very good things for the community, for the external society, so that they can really improve their reputation with their external stakeholders, but for example, if they are not very nice to their own employees, if there is something going wrong within their supply chain management, with regard to human rights, low-cost child labour, working hours, then probably they don't really have a good response from their own employees, who are their own internal stakeholders, so I think it is very important to listen to all different stakeholders, internal and external, to develop a holistic approach to corporate social responsibility.

## ANSWERS

- 1 1 responsive 2 shareholders  
3 community 4 employees 5 policies  
6 practices 7 reputation 8 supply chain  
9 human rights 10 child labour
- 2 Responding to both internal and external stakeholder groups, and not just the shareholders
- 3 Because if their employees, or their suppliers' employees, are badly treated, the company will not get the goodwill of its own employees

## Discussion

As usual, this activity is best done in pairs or small groups, after which the answers can be discussed with the whole class.

There are clearly no definitive 'right answers', but here are some remarks:

- 1 Some people argue that where it is necessary to pay (i.e. bribe) someone to undertake some administrative work, or to do it more quickly, this is equivalent to paying for a service, and is not the same as bribing people in order to win business contracts.
- 2 Companies are recommended to do *benchmarking* – going outside the company to discover the best practices in an industry, and copying them – but this does *not* generally include industrial espionage!
- 3 Like the concept *caveat emptor*, built-in obsolescence clearly conflicts with the modern marketing logic of satisfying faithful customers. However, if products last too long ...
- 4 Some people have gone as far as describing political power (a consequence of lobbying) as 'the fifth P of marketing'.
- 5 Most countries have legislation concerning seriously misleading advertising. The same objection can be made to telling only half the truth in advertising, or exaggerating a great deal, or keeping quiet about bad aspects of products as can be made to built-in obsolescence: it conflicts with the marketing logic of creating long-term customers. Yet the advertising for products that people pay for only once will always tend to exaggerate, e.g. people are unlikely to stop going to the cinema because they dislike one misleadingly advertised movie. And chocolate manufacturers, for



example, are unlikely to mention in their advertising that their product is probably bad for your teeth, your weight, and your skin complexion.

- 6 Whistle-blowers are likely to be dismissed for breach of contract; a question which often arises is whether they deserve legal protection or compensation.

### Role play: Problems at a clothes manufacturer

There are five role cards at the back of the Student's Book on pages 146, 149, 151, 152 and 154. The situation here involves two potentially ethical dilemmas: whether to lay off staff and whether to continue to use a polluting chemical.

It is essential that the chair follows the instructions, and speaks first, followed by the Chief Scientist, before allowing the other participants to speak.

The outcome is unpredictable. While the Human Resources Manager's arguments may be implausible, a similar authentic outcome is mentioned in **Unit 25** on Efficiency and employment. The Financial Manager (of course!) gets the 'bad', unethical role, but some learners may agree. The Marketing Manager's 'wikinomic' suggestion (see **Unit 4**) may well find favour, but this doesn't solve the over-production and employment problem.

### Vocabulary notes

Some words from the role cards, which can be clarified, if necessary, after the learners have read their roles:

*Sewers* /səʊəz/ meaning people who *sew* /səʊ/ (make pieces of clothing with needles and thread) is not to be confused with its homograph *sewers* /suəz/, meaning underground pipes used for carrying waste water and human waste away from bathrooms and toilets to sewage works where it is treated. (Similarly, *sew* is not to be confused with its homophone *sow* /səʊ/ meaning to put seeds in the ground so that plants will grow, while this meaning of *sow* is not to be confused with its homograph *sow* /sau/, meaning an adult female pig, etc.!)

*Fabric*, meaning a type of cloth or woven material, is not to be confused with the word meaning *factory* in many European languages (*Fabrik*, *fabriek*, *fabrique*, *fabbrica*, *fábrica*, etc.).

*Selling point*, meaning a characteristic of a product that makes it attractive to potential customers, is not to be confused with *point of sale*, the location where something is purchased.

*Odour* (BrE), meaning smell, is spelt – or spelled (AmE) – *odor* in AmE.

See also the simulations 'Smoke Signals', 'A Pirate's Dilemma', and 'Dirty Work' in *Decisionmaker* by David Evans (Cambridge University Press).



# 25 Efficiency and employment

This unit considers the trade-off between business efficiency and employment: increased efficiency generally leads to job losses. There are the usual opening discussion questions, followed by vocabulary exercises covering the key terms. These are followed by listening exercises based on an example from South Korea, and a role play involving a postal service that wants to restructure its sorting offices.

## Lead-in

Job security was also discussed in the Lead-in to **Unit 2**. Business students are generally more interested in things like a challenging job than security. Most will probably say they expect to change employers several times, except entrepreneurial types, who may deny that they will ever work for anyone else!

The idea of a 'work portfolio', consisting of several different contracts rather than a full-time job or a lifelong career, was popularized by Charles Handy's well-known book *The Age of Unreason* (Harvard Business School Press, 1990). If flexible organizations offer fewer full-time positions, it becomes the individual's responsibility to create job opportunities. Yet many people, if not most, still seem to prefer to do a single full-time job.

The answer to the question about whether technological progress creates or destroys jobs probably depends on the industry and the country; this Teacher's Book does not have any figures to offer.

*Fire* and *sack* often mean to be dismissed because the person has done something wrong; *lay off* and *make redundant* are more often used when members of staff are no longer necessary; *to let go* is a euphemism for *to lay off*.

- 3** 1 contract work    2 Job sharing  
3 delayering    4 outsourced or contracted out, relocate or delocalize    5 downsized or rightsized or restructured, redundant

## Vocabulary notes

*Down-sizing*, *right-sizing* and *de-layering* can also be hyphenated, especially in BrE; *jobsharing* can also be written as one word.

The terms *upsizing* and *resizing* are occasionally used when an organization increases the number of staff employed.

## Vocabulary

### ANSWERS

- 1** 1 flexible labour market    2 downsizing  
3 outsourcing or contracting-out  
4 job sharing    5 relocation or delocalization  
6 delayering    7 rationalization or restructuring  
8 contract work    9 casual work    10 rightsizing  
**2** *appoint*, *engage*, *hire*, *recruit* and *take on* mean to employ; *fire*, *lay off*, *let go*, *make redundant* and *sack* mean to dismiss  
*Appoint* and *engage* are generally used for senior positions; *hire* and *take on* are more often used when companies employ large numbers of new staff.  
*Recruit* means to hire people, sometimes with the sense that they have to be persuaded to join (as with army recruiting offices).

## Discussion

Cases of restructuring or downsizing or delocalizing are generally met with dismay about job losses, except by those whose interest is in efficiency and profit.

Concerning the possible solutions to unemployment:

- people with interesting and responsible jobs are often opposed to sharing them with someone else. For example, if you are a brand manager, or the person responsible for dealing with particular clients, investors, or investments, you probably don't want to spend Thursday and Friday at home worrying about what someone else is doing with 'your' job. It is also more expensive for companies to hire two part-time workers for the same job
- people in boring jobs would probably be happy with a cut in working hours, but not with the consequent reduction of income



- retiring at a younger age, or working fewer years in one's life, perhaps taking some years off, for example when your children are young, as many women already do, equally involve a reduction of income. The burden on current workers to pay the pensions of the previous generation is already increasing; many countries want to raise the retirement age
- training programmes are presumably a good idea if there are or will be jobs available that require the skills of the newly trained workers, but some unemployed people still have few skills and lack the capacities to learn others
- public sector jobs obviously have to be paid for out of tax revenue.

## Listening 1: Efficiency and the number of employees ▶ 2.19

### AUDIO SCRIPT

**ANNA-KIM HYUN-SEUNG** Increasing business efficiency doesn't necessarily conflict with the interests of employees, although that is often the case. In most cases companies probably just want to lower the number of employees when they increase their efficiency. But I know of a few companies which managed to increase their efficiency but they actually, instead of going for lay-offs, instead of reducing the number of employees, they actually decided to reduce the average number of working hours per employee, so that the employees can invest their time in training, development, education, arguably even leading to a better quality of life, and work and life balance, especially at the factory level, at the shop-floor level. So, there are cases that actually achieve both increasing efficiency and maintaining the benefits for employees. But of course that's probably only a few examples.

### ANSWERS

- 1 Reduce their number of employees
- 2 Reducing the average number of working hours per employee, so that the employees can spend time on training, development and education
- 3 They had a better quality of life, and a better work/life balance, and become more efficient at work

## Listening 2: Efficiency, training and productivity ▶ 2.20

### AUDIO SCRIPT

**ANNA-KIM HYUN-SEUNG** I have one example which is a Korean company. It's called Yuhan-Kimberly and it's a form of joint venture between Yuhan, a local company, and Kimberly Clark in the United States. So Yuhan-Kimberly is itself a local player, they are the market leader in their industry, they make toilet paper, tissues, and sanitary items. Within South Korea they are probably one of the most respected companies because of their very consistent corporate social responsibility policies and practice. For example, in 1984, they launched the very first nationwide environmental campaigning, which was about developing forests. The company really tried to commit themselves in social and responsible causes.

I don't exactly remember the year, but at some point the company had problems and they had the situation that they needed to cut down the total number of working hours, and what they chose was instead of cutting down the number of employees they cut down the number of average working hours, so they actually changed their shift system. Before the change it was three teams, three shifts, but they changed it into four teams, two shifts, and I think each worker worked consecutively four days, 48 hours, 12 hours each day, and they took off four days, and one of the four days was committed to a training programme operated by the company. It was part of their lifelong learning programme as well, so I think the employees responded in very good ways because for them it was obviously a much better choice than losing their job, and it was also a training opportunity. Also after this change there was a big increase in productivity because obviously the workers could have the proper rest for three or four days.

### ANSWERS

- 1 They make toilet paper, tissues, and sanitary items in South Korea, in a joint venture with the American company Kimberly Clark.



- 2 They have a long history of socially responsible corporate policies and practices.
- 3 They cut the number of average working hours rather than cutting the number of employees. Everyone worked four 12-hour shifts and then took four days off, one of which was spent on a training programme.
- 4 The workers responded well and there was a big increase in productivity as the workers were properly rested.

The answer to the discussion question is that this situation is rather exceptional, which is why Anna-Kim Hyun-Seung remembers and cites it. It probably requires total confidence that sales will increase again and that the workers will all be needed in the long term.

### Discussion: The postal service

In many countries, postal services were traditionally a nationalized monopoly, often combined with telephone services, and often inefficient from a business perspective, but there is a growing trend towards privatization, especially of telephone and banking services.

At the time of writing, the Royal Mail in Britain is a limited company owned by the government, but it is expected to be partly privatized. The United States Postal Service is an independent government agency, and the third biggest employer in the country (after the Department of Defense and Wal-Mart).

Postal services that are considered to be a public service rather than a source of profit often have unprofitable small post offices in thinly-populated areas, which generally come under threat of closure if the organization is privatized. Whether everyone should have access to a local post office is a matter of opinion, and an issue that generally separates the political left and right – and people living in urban and rural areas.

### Role play: Reorganizing the postal service

#### Reading

This situation is fairly closely based on events in Switzerland a few years ago. The plan naturally met

with a lot of opposition from trade unions and left-wing parties, and was badly received by many journalists. The post office swiftly compromised, and established several geographically dispersed secondary sorting centres as well as the three main ones.

### Comprehension

#### ANSWERS

- 1 They want to reduce the number of sorting offices from 25 to three large, new, efficient, automated ones.
- 2 Because it is necessary to become more efficient and competitive in a future open market with international competition. They are also facing a continuing decrease in the volume of mail.
- 3 The main advantage would be cost savings due to rationalization; the main disadvantages are that 4,500 people would lose their jobs, and many of the 5,500 people who retained their jobs would have longer journeys to work and would have to work at night.
- 4 The trade unions and local governments where sorting offices would be closed are against the plan; local governments in the areas where the three new centres are planned are in favour of the project.

### Role play

There are four role cards at the back of the Student's Book on pages 147, 149, 151 and 153. As usual, the learners can first discuss and prepare their roles in pairs or small groups. As always, it is necessary to select a competent learner to take the role of the CEO who chairs the meeting. The four participants should speak in the order indicated.

Given the four roles, if there is a vote to close the meeting the most probable outcome is a 2–2 tie, but persuasive speakers may be able to sway others and change their minds.

### Writing

No model answer is given, as the outcome of the meeting is uncertain. The learners could look at the information in the role cards in the Student's Book to help them write their summary.



# 26 Exchange rates

This unit contains a text outlining the recent history of exchange rates, and reasons why they fluctuate, listening exercises on a proposed tax on international currency transactions, and a case study about such a tax.

## Lead-in

An **additional first question**: Quickly – how many currencies can you name in 30 seconds, starting NOW?!

For Europeans, naming different currencies was easier before the introduction of the euro, but so it goes! Lists of currencies are easily available on the Internet.

The traditional reasons for buying foreign currencies were for foreign travel and international trade – buying goods or services from abroad. Today, as is explained in the Reading text, 95% of currency transactions are purely speculative. Organizations and individuals buy foreign currencies to get higher interest rates or hoping to make a short-term capital gain if the other currency appreciates.

Today, exchange rates are generally determined by market forces (supply and demand) – the quantities bought and sold.

Learners who have travelled may know about exchange rate fluctuations, and most business students should too!

## Reading: Exchange rates

You could also attempt to elicit much of the information given in the text with the learners' books closed, by asking questions.

The system of pegging against the US dollar and against gold, mentioned in the first paragraph, was known as the 'Bretton Woods system' after an international conference held in a small town in New Hampshire in 1944. The Bretton Woods Conference also led to the establishment of the World Bank and the International Monetary Fund the following year.

Since the end of gold convertibility, a dollar is merely a piece of paper on which is written 'In God We Trust': God, not gold!

The day the Bank of England lost billions of pounds is known as 'Black Wednesday' (16 September 1992). The Conservative government was forced to withdraw the

pound from the European Exchange Rate Mechanism, as they were not able to keep sterling above its agreed lower limit. One of the people active in the markets that day was the financier George Soros, who made over US\$1 billion profit by selling sterling – or rather by short-selling it: selling currency he did not own at the time of the sale, but which he purchased later at a lower price. He gave some of the proceeds to a foundation that set up English language schools in central and eastern Europe.

## ANSWERS

The paragraph headings come in this order:

B C E A D

## Comprehension

### SUGGESTED ANSWERS (OR MORE PRECISELY, QUESTIONS)

- 1 What was gold convertibility?
- 2 Why did gold convertibility end in 1971?
- 3 How is a floating exchange rate determined?
- 4 What would happen if there was purchasing power parity? or What would happen if currencies were correctly valued?
- 5 Why do speculators buy foreign currencies?
- 6 What proportion of currency transactions are speculative?
- 7 How can companies try to protect themselves against currency fluctuations?
- 8 How can governments attempt to influence the value of their currency?
- 9 Why are governments' or central banks' attempts to influence exchange rates not very successful?



## Vocabulary

### ANSWERS

- 1 revalue 2 devalue 3 floating  
4 proponents 5 depreciate 6 appreciate  
7 hedge 8 fluctuations 9 futures contracts

## Discussion

- At the time of writing (June 2009), the price of gold is about \$950 an ounce. This could easily change.
- The quantity of the US currency currently backed by gold is less than 1%. At the other extreme, until 2000, there was a legal requirement that a minimum of 40% of Swiss francs had to be backed by gold reserves; the figure is now less than 20%. Figures for other countries may be available on the Internet.
- The main argument against government or central bank intervention in currency markets is that it is generally unproductive, because currency speculators can counteract the (small) effect it has.
- The most obvious way to discourage currency speculation would be a tax on currency transactions. Whether currency speculators should be prevented or taxed is the subject of the following Listening activity.

## Listening 1: Currency flows and the Tobin Tax ▶ 2.21

### AUDIO SCRIPT

**MICHAEL KITSON** ... it's very difficult of course to intervene, to regulate exchange rates, because now they're changing very very quickly. Money is flowing instantaneously backwards and forwards, it's what many people call 'hot money'. Money flowing in another country quickly, and in and out of a country quickly, and it has been, arguably, helped to deepen financial crises, such as the south-east Asian crisis in the end of the 1990s, when money flew out of these economies, and money can flow very quickly and destabilize, and we should add that then leads to real effects, real effects I mean people lose jobs, unemployment goes up, and output falls. So we've got this problem of these, of money flowing in and out of countries. Can we

regulate it? Well, it's very difficult, but there are arguments that perhaps we can, or certainly arguments to consider.

Now one, for instance, is something called the Tobin Tax. Now the Tobin Tax is an argument you tax, at a very small rate, 0.01, or 0.1, very small tax on currency purchase and currency selling. OK. Now, what that would do is should dampen down currency speculation, because remember what people are doing in terms of currency flows is they're ... they're buying and selling currencies with very small differences, OK, you spend, you buy and sell currencies, a big volume of currency, on a small difference to make you money. Sometimes it's called 'highly leveraged' – you borrow a lot of money – to buy a currency or sell a currency. If you make a small tax, you may discourage people from buying and selling so rapidly, and just dampen down those currency fluctuations.

I may add, a Tobin Tax will not prevent a major crisis, but may dampen down the currency speculation over time. Now the Tobin Tax, which was suggested by a Nobel Prize winner, James Tobin, who I think thought it was a theoretical issue and perhaps wasn't ... wouldn't be practical. Many have argued it just wouldn't be possible to implement this Tobin Tax, but what's interesting as the world economy's developed, as exchange rates have suffered from crises, increasingly people are thinking it's back on the agenda. OK, we need to reconsider, perhaps the Tobin Tax would be possible in certain circumstances, and perhaps with ICT – information technology – we could coordinate it at a global level.

One country cannot introduce a Tobin Tax because then other, all the trading would take place elsewhere. It has to take place globally ... but now we say that actually we can have a global system of regulation, the ICT may actually now facilitate it, and we can actually implement this sort of policy.

### ANSWERS

- 1 Speculative money that is invested in a currency for a very short time



- 2 Increased unemployment and falling output
- 3 A very small tax on currency purchase and currency selling, designed to reduce currency speculation
- 4 Buying or selling currency with borrowed money
- 5 It would probably reduce or 'dampen down' currency trading and currency fluctuations.
- 6 ICT (information and communication technology) makes global coordination possible.

I mean, I don't think you can criticize individual firms for not investing in Africa, because they won't get what they call a private rate of return, they will not make profit from it, but there's a significant social rate of return – better education, better economic growth, better standards of living, people living longer. OK, we need to think about how we're going to get those resources into Africa, I think it's one of the great challenges.

## Notes

The south-east Asian financial crisis that Michael Kitson refers to occurred in 1997. The value of various currencies collapsed dramatically, especially in Thailand, South Korea and Indonesia.

Kitson talks about money *flowing* in and out of countries, and then about how money *flew* out of south-east Asia. These are of course two different verbs: *flow* – *flowed*; *fly* – *flew* – *flown*.

Kitson uses the numbers 0.01 and 0.1, which he says as *nought point nought one* and *nought point one*. This is a British usage; Americans would say *zero* instead of *nought*.

## ANSWERS

- 1 Because they won't get a sufficient rate of return, or a profit
- 2 Africa would get a significant social rate of return: better education, better economic growth, better standards of living, longer life expectancy, etc.

## Case study: A currency transaction tax

The figures given in the Student's Book come from Rodney Schmidt, *The Currency Transaction Tax: Rate and Revenue Estimates* (Tokyo, New York and Paris: United Nations University Press, 2008): <http://tinyurl.com/ycse2rs> (consulted October 2009).

Several organizations which support a Tobin Tax or other currency transaction tax have websites which provide further information.

Additional preliminary discussion questions could be:

- Do you agree that currency transactions should be taxed, and not, e.g. stock market transactions?
- Are there any alternative ways of raising money internationally (e.g. a carbon tax)?

The learners can discuss the questions in small groups, and then share their decisions with the whole class.

Although alternative energy is one of the suggestions, this topic is covered in greater detail in **Unit 28**.

## Writing

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

## Listening 2: Developing Africa ▶ 2.22

### AUDIO SCRIPT

**MICHAEL KITSON** And the other argument of course is, it's a very small tax but it will raise a significant amount of revenue.

What would you do with that? Again, another issue. One of the arguments, you could use that revenue to go to the parts of the world where the world economy does not invest. OK, it doesn't make sense for individual investors in most cases to put lots of money into, say, Africa, to build up infrastructure, roads and education, which will help to develop that region of the world. But you could use the resources generated from a Tobin Tax, which would generate significant, significant social benefits for Africa, and significant economic benefits for the region and the world economy as a whole. It would be a world tax and a world expenditure, and you'd spend it where the world economy and the depressed regions would benefit most.



# 27 International trade

This unit contains two listening sections in which Michael Kitson talks about the theory of free trade and comparative advantage, and infant industries and strategic industries, an extract from an interview with the Korean economist Ha-Joon Chang about infant industries, and a reading and discussion section about the advantages and disadvantages of free trade and the policies of the World Trade Organization.

## Lead-in

Much of the audio-visual and computing equipment in a classroom is likely to have been imported, as well, probably, as teaching materials. Most of the learners' clothes and shoes were probably produced abroad. And so on.

Many countries would like to restrict imports, to protect their balance of trade, and their own producers, but in a customs union such as the EU (European Union) or NAFTA (the North American Free Trade Agreement) this is impossible. Furthermore, most countries are members of the WTO (World Trade Organization), which tries to remove obstacles or barriers to international trade.

## Vocabulary

### ANSWERS

1 I 2 C 3 D 4 B 5 A 6 G 7 H 8 E 9 F

## Listening 1: Free trade ▶ 2.23

### AUDIO SCRIPT

**MICHAEL KITSON** I think I would argue that many economists favour free trade, and some governments see the problems with free trade, under certain circumstances. We all know that economics is based on simplified models. And sometimes those simplified models are not useful in explaining the way the real world works, or sometimes there are exceptions to those models.

Let's take into account the standard argument for free trade – OK, that everybody gets better off, more efficiency, we can consume more goods and services. Well, that may be the case, but there may be some people who lose out. Take the very simple argument, we often have two economies with two goods,

OK, we simplify and then we extend. So say we've got two economies with two goods. We've got a developed country producing computers and cloth, and we have an underdeveloped country that's trying to produce computers and cloth. OK, and then we say, well actually with free trade you should specialize in what you're best at, or least worst at. OK, so under that situation we say, right, to the developed country, you produce computers, and sell some computers to the developing country, and the developing country, you focus on cloth, and buy the computers from the developed country, and so on. That's our standard model, OK. And we can see that there's efficiency gains, ultimately we should be able to get, consume more computers and cloth through that process.

But let's think what happens there. I'm working in a cloth factory in a developed country. We move from going from no trade to free trade. My country specializes just in computers. What's going to happen, I'm going to lose my job. OK. Now that may be a big concern, governments may be concerned about workers losing jobs in certain sectors. Now we could argue in theory I just need to reallocate my job and become working in computing. It may be very difficult for me to do that. I may be in the wrong part of the country, I may not have the right skills and so on.

Basically what happens with free trade is that many many people gain and a few people may lose and they may lose big time, and if we're concerned about those people we may want to have some transition process, we may be concerned about unfettered free trade.



## SUGGESTED ANSWERS

- 1 They are simplified, and not always useful in explaining how the real world works, and sometimes there are exceptions
- 2 Everyone becomes better off, there is more efficiency, and we can consume more goods and services
- 3 A developed country producing both computers and cloth, and an underdeveloped country that's trying to produce computers and cloth
- 4 Workers in a cloth factory in a developed country who lose their jobs, and who might find it very difficult to get new jobs, because they are in the wrong part of the country, or don't have the right skills
- 5 Some kind of transition process (between no trade and free trade)

## Notes

Kitson also uses the expression 'unfettered free trade' in **Unit 22**, where *unfettered* (meaning not limited by any rules or controls) is in a vocabulary exercise.

The fourth question could also be answered in the singular, as Kitson talks about a single worker.

*Cloth* of course means a textile or a type of woven material, not *clothes*.

The model that Kitson describes, and the theory of comparative advantage, were put forward by David Ricardo in *Principles of Political Economy and Taxation* (1817), following on from Adam Smith's account of specialization or the division of labour, and the advantages of free markets and free trade in *An Inquiry into the Nature and Causes of the Wealth of Nations* (1776).

## Listening 2: Exceptions to free trade

▶ 2.24

### AUDIO SCRIPT

MICHAEL KITSON OK, so that's case number one. OK, that some people may lose out and we may be concerned about protecting them. Let's go back to our free trade example. Now we've got

our one country specializing in computers and another country specializing in cloth. Now that cloth-producing country may say OK, that's our comparative advantage, cloth, but we don't want to remain cloth producers for the rest of our ... in the future, we want our country to develop and grow. We want to produce a wider range of goods and services, or goods and services that are higher value added. And it would generate higher wages and economic growth. We want to move out of cloth into something else. We want to move out of cloth into automobiles and perhaps into computing in the longer term. How are we going to do that with our comparative advantage just being cloth? We may need to protect certain sectors of our economy to let them grow.

There's a very good argument in economics called the infant industry argument. OK, we establish these industries, and they're new and young, they cannot compete with the bigger more established industries in the advanced countries. We need to leave them time to develop and grow, and then they can compete with other countries. So we need to protect those sectors, so they can grow and we can have a new comparative advantage in the future. So I think under those circumstances we can have arguments where you may want to not have unfettered free trade.

Now let's think about advanced countries. Advanced countries, arguably, mainly focus on free trade and the advantages of free trade, but even here we can have arguments about why you want to, why you want to support or protect certain sectors. This is sometimes called strategic trade theory. OK, we can identify strategic sectors of the economy. Those sectors may benefit other parts of the economy. It's what economists call externalities. Externalities basically means, a positive externality, something in one part of the economy may have positive benefits elsewhere. OK, or those sectors may generate economies of scale, so as you protect them they become bigger and more competitive. Say, for instance, we say aerospace, it's crucial to have an aerospace industry. Why?



Because the knowledge generated in aerospace will ... will go elsewhere, be porous. The ideas generated in aerospace will go into automotive, will go into electrical engineering, go into other sectors, so if we have a strong aerospace sector, it will benefit the rest of the economy. That may be an argument for protecting that sector, under certain circumstances.

#### SUGGESTED ANSWERS

- 1 Because other goods and services have a higher value added and would generate higher wages and economic growth.
- 2 Protecting the new sectors of the economy to let them develop and grow, until they have a comparative advantage and can compete with other countries.
- 3 They may generate economies of scale, and benefit other parts of the economy (by way of positive externalities).
- 4 Aerospace, which generates knowledge that goes into the automotive industry (motor vehicles), electrical engineering, etc.

### Reading: Education and protection

The South Korean economist Ha-Joon Chang, a professor at the University of Cambridge, is the author of several books, including *Kicking Away the Ladder: Development Strategy in Historical Perspective* (London: Anthem Press, 2002), which points out that almost all of today's rich countries used tariff protection and subsidies to develop their industries, but now urge free-market, free-trade policies. In *Bad Samaritans – Rich Nations, Poor Policies, and the Threat to the Developing World* (London: Random House, 2007), he argues that the International Monetary Fund, the World Bank, and wealthy countries are holding back development and creating poverty. This book has been republished with different subtitles: the British paperback is called *Bad Samaritans – The Guilty Secrets of Rich Nations and the Threat to Global Prosperity* (Random House, 2008), and the US edition is *Bad Samaritans – The Myth of Free Trade and the Secret History of Capitalism* (New York: Bloomsbury Press, 2008).

The text in the Student's Book is extracted from an interview, available at:

<http://www.multinationalmonitor.org/mm2008/092008/interview-chang.html> (consulted June 2009).

This extract from the interview is similar to the beginning of Chapter 3 of *Bad Samaritans*. Elsewhere in the book, Chang offers a counter argument to the globalization theories of Thomas L. Friedman (see **Unit 8: Production**).

**Additional questions:** What is the minimum school-leaving age in your country? How long has it been like this? What was it 100 or 150 years ago?

The minimum school-leaving age in developed countries is generally at least 16, but this is a relatively recent state of affairs. In Britain, for example, education only became compulsory in 1870, between the ages of 5 and 12. In other words, children began work just after their 12th birthday, although exceptions were made in agricultural areas to start even earlier. The leaving age was gradually raised to 16 during the following 100 years.

(Another additional question: Why doesn't Chang include business manager or language teacher in his list of desirable jobs?!)

#### SUGGESTED ANSWERS

- 1 The analogy is that although children *could* start unskilled work at a very young age (and learn how to be productive, because of competition), they need many years of education if they are ever going to get a good, well-paid job; similarly, to develop advanced industries which give a high return, it is necessary to protect them while they grow up and increase their efficiency and productivity.
- 2 The short-term disadvantage is that consumers have to use expensive, inferior products from inefficient domestic producers, rather than be free to buy superior imported goods.



## Discussion

- In answer to the first question, learners may suggest either potentially strategic industries, or potential infant industries, depending on what country they are from.
- The second question (or questions) might lead to a conflict between agreeing with Chang's argument theoretically, and not wanting to spend hard-earned money (or indeed a student grant!) on inferior or more expensive goods (or food), especially if there is a risk that the infant industry might fail.

## Vocabulary

This short exercise contains words from the activity which follows. Many learners will know the word *dumping*, which exists as a loan word in many, if not most, European languages.

### ANSWERS

- 1 generic   2 trademark   3 dumping  
4 copyright   5 subsidize

## Reading and discussion: For and against free trade

Information on the World Trade Organization is readily available on the Internet, notably on the WTO's own site, <http://www.wto.org>. Anti-WTO sites can be found by searching for 'anti-WTO' or 'against the WTO', etc.

Some learners may have very strong views on this subject, which could lead to lively discussion.

Although the Student's Book asks 'Which set of arguments do you find the most convincing?', and the following activity requires learners to prepare a brief talk or a written report summarizing the arguments either in favour of or against free trade, many learners may find some arguments on both sides convincing. In this case, an alternative activity would be to classify in order the eight or ten most persuasive statements or arguments.

Another way of finding claims to agree and disagree with would be to type 'globalization means' and 'globalisation means' into Google (separately; it won't

look for both at once) and look at the extracts given, or at a few of the sites. For example, a quick search in June 2009 came up with:

- Globalisation means countries can prosper from worldwide recession – if they are smart
- Globalisation means job losses for unionised labour
- Globalisation means new challenges for sustainability
- Globalisation means no barriers to money but razor wire for refugees
- Globalization means accepting people's distinct identities
- Globalization Means Consumer Power
- Globalization means integration of peoples, integration of religions, tolerance and dialogue between peoples and religions
- Globalization means reconnecting the human community
- Globalization means the breakdown of boundaries as barriers to economic exploitation
- Globalization means uprooting old ways of life and threatening livelihoods and cultures

This idea comes from an article which has nothing to do with language teaching: Wolfgang Teubert, 'Parole-linguistics and the diachronic dimension of the discourse', in *Text, Discourse and Corpora: Theory and Analysis* by Michael Hoey, Michaela Mahlberg, Michael Stubbs and Wolfgang Teubert (London: Continuum, 2007).

### ANSWERS

In favour: A C E F I J L

Against: B D G H K M N

## Presentation

This could be prepared in pairs or small groups. Unlike the Presentation in **Unit 22**, which asked learners to consider arguments on both sides of a question, the objective here is to prepare a forceful but one-sided argument.

The learners' presentations are likely to be quite similar, so probably only a few should be offered to the whole class. However, the learners could all prepare a written version out of class.



# 28 Economics and ecology

This unit is about global warming and the economic consequences of energy policy. It contains an extract from an article by an economist arguing that we should prioritize reducing poverty rather than fighting global warming, and extracts from an interview with a climate scientist about environmental policy and climate change. There is a role play about making energy policy recommendations for a developing country.

## Lead-in

- As most learners can be expected to know, global warming is largely caused by the burning of carbon-based fuels, which release carbon dioxide into the atmosphere. You may, however, have a learner who insists that this is not true, and that it is caused by changes in the sun, or some such, which would at least enliven this discussion activity.
- Possible solutions include reducing the use of carbon-based energy, and replacing it with solar power, wind power, hybrid petrol-electric cars, etc. Some of these solutions are being implemented, but not at a rate fast enough to slow down, let alone reverse, climate change. Many governments are unwilling to take measures that will reduce their country's economic growth and standard of living.
- An international response to global warming would obviously be preferable, but learners may have differing views as to what individual countries could or should do. A mixed class may be able to outline the situation in their different countries.
- Some learners will (claim to) have changed the way they live because of an awareness of climate change and their 'carbon footprint', and be conscientious in paying carbon offsetting charges, etc; others may look mystified! I'm told that wearing high-heeled shoes on aeroplanes to reduce your carbon footprint does *not* work!

## Reading: The economics of climate change

Christian Gollier is the Director of the Laboratoire d'Economie des Ressources Naturelles of the Institut d'Economie Industrielle of the Université des Sciences Sociales in Toulouse, France.

His article 'The Economics of Climate Change: A Critical Analysis of the Stern Review' was published by the OECD (Organisation for Economic Co-operation and Development) in 2007, at <http://www.oecd.org/dataoecd/32/4/40133781.pdf> (consulted April 2009). The text is made up of short extracts, without the ellipses indicated.

The Stern Review on the Economics of Climate Change was commissioned by the UK government, and published in 2006. It was led by Lord Stern, at the time the Head of the Government Economic Service and a former World Bank Chief Economist.

### ANSWER

He says that fighting poverty is more important than cutting CO<sub>2</sub> emissions.

## Comprehension

### ANSWERS

- 1 Because most of the consequences will not appear before the year 2100, and the people living then will be much wealthier than us, and so will be able to do something then
- 2 Because the future value of money spent today has to be discounted by the rate of return of capital over the intervening period
- 3 Spending money on fighting malaria, and improving access to clean drinking water
- 4 It will force them to spend some of the benefits of their economic growth on things other than fighting poverty (which should be the first priority)



## Vocabulary

### ANSWERS

- 1 1 mean 2 bear 3 stemming from 4 crucial question 5 discounted 6 rate of return (of capital) 7 In a nutshell 8 highly cost-effective 9 poorest nations (or developing nations) 10 poverty line
- 2 bear costs, benefit people, cut CO<sub>2</sub> emissions, cut costs, cut poverty, discount benefits, discount costs, fight global warming, fight poverty, help people, implement policies, redistribute wealth, reduce CO<sub>2</sub> emissions, reduce costs, reduce global warming, reduce (the) impact (of)

### Vocabulary note

*Bear* is an irregular verb (*bear – bore – borne*); the past participle *borne* appears later in the text.

## Discussion

It is true that people in poor countries suffering from malaria and without clean drinking water have higher priorities than cutting carbon dioxide emissions, but most people think that climate change will have serious effects on the planet long before the date Gollier gives, 2100.

Some learners may be appalled by this argument; the following Listening activity gives a contrary viewpoint.

## Vocabulary

An **additional discussion question** would be to ask what point the cartoonist was trying to make. [Presumably that hybrid or electric cars, whose owners often feel very virtuous, are not really an advance if the electricity they use comes from burning carbon (or specifically coal, as in the cartoon).]

### ANSWERS

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

## Notes

This is the sense of *inertia* used in Listening 3 below; the word also has other meanings which are almost the contrary. The *Cambridge Advanced Learner's Dictionary* gives:

**inertia** (FORCE) the physical force that keeps something in the same position or moving in the same direction

**inertia** (LACK OF ACTIVITY) lack of activity or interest, or unwillingness to make an effort to do anything

### ANSWERS

- 2 a decrease, diminish, drop, dwindle, fall, recede, shrink and shrivel all mean to become smaller
- b augment, expand, extend, grow, increase, inflate, multiply, rise and swell all mean to become bigger

## Listening 1: A big step forward ▶ 2.25

The interview with Martin Beniston was not recorded by a professional sound recordist, and the quality is not as good as most of the other Listeners.

### AUDIO SCRIPT

**MARTIN BENISTON** Well, as a climate scientist I feel we are moving forward in the right direction, albeit too slowly in terms of some of the urgent issues that need to be addressed in terms of climate change. But certainly, compared to 10 or 15 years ago, climate change is now on the agenda of policy, it's on the agenda of large companies, who are thinking ahead in terms of remaining competitive while at the same time addressing energy and climate issues, so I think there has been a big step forward. On the other hand, one still sees many declarations, like the G8 Declaration, which looked very promising, but whether anybody is actually going to put that into effect within the proposed timeframe is another matter. And it's not just a matter of political will, it's also ... is the technology there to help us along, and so on and so forth. What's going to happen with the emerging economic giants like China and India, who are sort of not



too keen on going ahead with this, and China's almost on a par with the United States now in terms of its global carbon emissions, so it's a huge actor in the game, and if China doesn't come in, and India doesn't come in, then we're going to be in trouble.

### SUGGESTED ANSWERS

- 1 Both governments and large companies are now addressing urgent energy and climate issues
- 2 There is no guarantee that the G8 Declaration will be put into effect, or that the necessary technology will be available,
- 3 As emerging economic giants
- 4 They are not very keen on the G8's proposals, but there will be problems if they don't accept them (as China is now responsible for almost as many carbon emissions as the United States).

### Note

The G8 Declaration to which Beniston refers is 'Responsible Leadership for a Sustainable Future', L'Aquila, Italy, July 2009.

The G8 leaders (US, Japan, Germany, France, UK, Italy, Canada, Russia) agreed that the global average temperature should not be more than 2° higher than pre-industrial levels, and that there should be a 50% global reduction of greenhouse gas emissions (GHGs) by 2050. The Declaration also said that developed countries should reduce their emissions 'by 80% or more by 2050 compared to 1990 or more recent years'. See <http://tinyurl.com/ncno2t/> (consulted October 2009).

Official statistics state that China's emissions are now higher than the USA's.

## Listening 2: Emerging technologies

▶ 2.26

As there are ten gaps to complete in question 1, you could perhaps play the extract normally the first time, and then play it a second time, briefly pausing the CD once or twice, e.g. at the end of the first and second sentences.

### AUDIO SCRIPT

**MARTIN BENISTON** Well, I think if we look at all the emerging technologies related to sort of green energy and other environmentally friendly technologies, it's certainly more of an opportunity than a hindrance. I think much of the reticence of politicians up till now, and the general public to some extent, related to the climate change issue was that one had the impression that, you know, to try and become carbon neutral, or to try and revert ... reverse the, you know, global warming, would mean going back to the Stone Age or to the Middle Ages or something, you know, this is not really the case, I mean it's not at all the case. And certainly there are huge opportunities out there for, you know, transform the economy, and transformations of technology, and so on, so I would say ... in fact if you look at some of the more progressive countries towards environmentally-friendly technologies you do see that GDP has actually grown in places like Denmark, while at the same time carbon emissions have not progressed at all and have even dwindled to some extent, the same for Sweden even if the Swedish case is less spectacular, so it does show that you can decouple carbon emissions from economic growth, so why not take that route?

### ANSWERS

- 1 1 green energy 2 environmentally friendly  
3 hindrance 4 reticence 5 carbon neutral  
6 opportunities 7 GDP 8 emissions  
9 dwindled 10 decouple

(Suggested answer)

- 2 Carbon neutral describes products or processes that do not increase the amount of carbon dioxide in the atmosphere, and so have no 'carbon footprint'. (This can be achieved by reducing the consumption of carbon fuels, utilizing alternative energy sources, and by carbon offsetting – balancing or cancelling out the amount of CO<sub>2</sub> emissions through investments in renewable energy, planting trees, etc.)



- 3 That to reverse global warming it would be necessary to reduce economic activity so much that it would be like going back hundreds of years, or even to prehistoric times (which isn't true, because there are countries where GDP has grown while carbon emissions have declined).

### Note

Martin Beniston is an excellent example of the way that native English speakers make great use of the short expressions *you know* and *sort of* as fluency devices in speech. They are, of course, much less frequent in writing.

## Listening 3: Can we ignore the problem for now? ▶ 2.27

### AUDIO SCRIPT

**MARTIN BENISTON** I think in some instances the comment can be legitimate, in the sense that one cannot take all actions immediately to counteract climate change, and it's more sort of iterative process, you know, you see climate change kicking in in various regions of the world, then you can start adjusting whatever sector is, needs to be adjusted. On the other hand, you do also have at the same time reasons to act now because of the inertia of the climate system. So the thing is, even if you are rich and you can possibly adjust to that in the future, to some of the negative impacts of climate change in the future, we still need to start acting now to reduce greenhouse gas emissions, because, you know, the more we accumulate GHGs in the atmosphere, the stronger will be warming, and the more negative will be the impact. And many of the impacts are going to affect countries that are still extremely poor, so the sort of countries of the south, basically, which even if they might be richer in tomorrow's world than they are today, will still be poor countries in the next 50 to 100 years, and may not have the economic strength to counteract some of the very negative impacts of climate change like sea level rise or desertification, changes in water resources, and so on.

### SUGGESTED ANSWERS

- 1 Beniston says that Gollier's argument about doing nothing now can be legitimate in some instances, because there are actions that cannot be taken immediately.
- 2 In many cases it is necessary to act now because of the inertia of the climate system: the more the quantity of greenhouse gases increases, the greater the warming will be.
- 3 He says that although they might get richer in the next 50 to 100 years, they will still be poor countries that may not be able to counteract the impacts of climate change.
- 4 The rise of the sea level, desertification, and changes [reductions] in water resources, and so on.

### Note

A more usual pronunciation of *iterative* is /'itərətɪv/.

### Discussion

Learners may well have read or seen news items or documentaries about global warming, including *An Inconvenient Truth*, the 2006 documentary directed by David Guggenheim and presented by Al Gore, the former United States Vice President (and winner of the majority of votes in the 2000 presidential election). They will probably know about the threats that global warming presents to their country, and perhaps have some awareness of their country's clean energy policies. This discussion will be all the richer if the learners come from different countries.

Whether and how the learners' countries could increase economic growth while reducing carbon emissions (as Denmark and Sweden have done) is a more technical issue. The final question about reducing economic growth comes back to (and broadens) the Lead-in question in this unit about concern with one's carbon footprint.



## **Role play:** Recommending an energy policy

There are four role cards at the back of the Student's Book on page 154. This role play concerns a developing country because there is probably more leeway as to whether such economies should take the lead in combating global warming.

The learners should be familiar with the overall arguments by now, so all the roles are shown on one page, rather than being spread out on separate pages of the Student's Book. Consequently the learners can also be asked to think of arguments to counter rival proposals they expect to hear in the meeting.

One way to spice up this role play would be to invent an extra role for a contrarian 'scientist' who claims that global warming is not happening, or is not due to carbon dioxide emissions, if you had a learner for whom such a role appeared suitable.

The outcome of the meeting is unpredictable, but the Chairperson should be encouraged to persevere until he/she is able to establish a list of three policy proposals.

## **Writing**

No model answer is given, as the outcome of the meeting is uncertain. The learners could look at the information in the role cards in the Student's Book to help them write their summary.







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Will Capel set up most of the UK interviews, and Pete Kyle expertly recorded them, with an extraordinarily large microphone on the end of a pole. One other recording was produced by James Richardson. Pete Kyle also produced and edited the CDs. My thanks go to all the interviewees, who graciously gave us their time and shared their expertise with us: John Antonakis, Olga Babakina, Richard Barker, Martin Beniston, Charles Cotton, Carlo de Stefanis, Denis Frucot, Janine George, Melissa Glass, Alan Goodfellow, Anna-Kim Hyun-Seung, Lakshmi Jaya, Michael Kitson, Teresa La Thangue, Alison Maitland, Tony Ramos, Chris Smart, Krishna Srinivasan, Saktiandi Supaat and Rory Taylor. Thanks also go to the writers whose texts I have used, and the cartoonists whose work (mostly from *The New Yorker*) brightens up the pages.

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I've dedicated previous books to my children, but this time I have to revert to the equally traditional apology-to-partner paragraph: sorry, Kirsten, for the surliness that went with many months of writing a book while also working full-time and taking on too many other commitments. (Oddly, she doesn't believe my assurances that this will never happen again!)

Ian MacKenzie

September 2009



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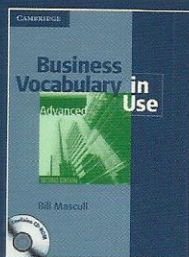
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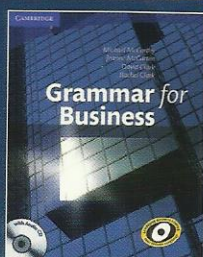
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