МІНІСТЕРСТВО ОСВІТИ І НАУКИ УКРАЇНИ
МИКОЛАЇВСЬКИЙ НАЦІОНАЛЬНИЙ АГРАРНИЙ УНІВЕРСИТЕТ

Факультет культури й виховання
Кафедра іноземних мов

АНГЛІЙСЬКА МОВА

Методичні рекомендації та навчальний матеріал для аудиторної та самостійної роботи здобувачів вищої освіти ступеня «бакалавр» спеціальності 072 «Фінанси, банківська справа та страхування» денної форми навчання

Миколаїв
2020

УДК 811.111

А-64

Друкується за рішенням методичної комісії факультету культури й виховання від 24 березня 2020 р., протокол № 7.

Укладач:

К. В. Тішечкіна – канд. філол. наук, доцент кафедри іноземних мов, Миколаївський національний аграрний університет

Рецензенти:

Т. О. Мороз – канд. пед. наук, доцент, декан факультету іноземної філології, Миколаївський національний університет ім. В. О. Сухомлинського;

О. В. Артюхова – канд. пед. наук, доцент кафедри іноземних мов, Миколаївський національний аграрний університет.

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Передмова

Методичні рекомендації та навчальний матеріал для здобувачів вищої освіти ступеня «бакалавр» спеціальності 072 «Фінанси, банківська справа та страхування» денної форми навчання призначені для самостійної роботи студентів і забезпечують навчальний матеріал для вивчення модулю «Мова професійного спілкування».

Мета даних методичних рекомендацій – забезпечення розвитку мовних та мовленнєвих навичок здобувачів вищої освіти з тем, передбачених навчальною програмою з іноземних мов рекомендованою Міністерством аграрної політики України та підготовка здобувачів вищої освіти до складання іспиту з англійської мови.

Рекомендації складаються з 23 навчальних текстів.

Методичні рекомендації розраховані на 90 год. (3 кр.) аудиторної та самостійної роботи.

За кожну тему студент може отримати від 5-10 балів, що передбачено навчальною програмою з іноземних мов.

Методичні рекомендації розроблені згідно до вимог типової базової програми. Запропоновані тексти забезпечують швидке й ефективне засвоєння студентами лексичного матеріалу.

Для підготовки методичних рекомендацій використовувались матеріали з новітніх підручників, автентичних джерел та періодичних видань.

NEW CODE NOT WAY TO ETHICAL TRADING

From Mr Neil Kearney.

Sir, When will the retail sector learn that positive action, not a further public relations exercise, is needed in the battle to stamp out labour exploitation in the textiles and food supply chains? ("Big retailers join forces in an effort to fight labour abuses", January 11.) The last thing needed at the moment is another standards initiative joining an already overcrowded field of weaker and weaker codes and a decade of multiple social auditing that has done little or nothing to halt growing labour rights abuses.

Producing another "light", or probably "ultra light", code and without any external consultation flies in the face of experience on the ground, which has forced six of the leading existing initiatives to seek convergence through creating a strong "common code" and testing its applicability in Turkey. The energies of the retailers now striking out on their own would be better used in working with the existing initiatives to improve purchasing practices, which are often the biggest cause of labour exploitation in supply chains. In addition, they would add weight to the "common code" exercise, which provides for a living wage and a 48-hour working week and strongly supports the establishment of mature systems of industrial relations based on unionisation and collective bargaining. But maybe it is this giving back of ownership and responsibility for workplace conditions to suppliers and their employee representatives that is driving this new PR exercise on the part of Wal-Mart, Carrefour, Tesco and a handful of others.

The total lack of transparency and the absence of consultation, even with the existing initiatives to which some of these retailers belong, do not inspire confidence in this new initiative. Fortunately, even the giants of the retail trade cannot hold back the market demand for more ethical trading. A second-rate code initiative, while probably providing more opportunities for consultants and social auditors, will simply not command confidence, respect or credibility among consumers!

Neil Kearney,

General Secretary,

International Textile, Garment and Leather Worker's Federation, 1000 Brussels Belgium.

MONEY

Money can be anything that is generally accepted in payment for goods or services. Almost every society now has a money economy based on coins and paper notes of one kind or another. However, this has not always been true. In primitive societies a system of barter was used. Barter was a system of direct exchange of one good or service for another. Somebody could exchange a sheep, for example, for anything in the market-place if they considered being of equal value. Barter, however, was a very unsatisfactory system because people's precise needs seldom coincided. People needed a more practical system of exchange, and various money systems developed based on goods which the members of a society recognized as having value. Cattle, grain, teeth, shells, feathers, skulls, salt, elephant tusks and tobacco have all been used. Precious metals gradually took over because, when made into coins, they were portable, durable, recognizable and divisible into larger and smaller units of value.

A coin is a piece of metal, usually disc-shaped, which bears lettering, designs or numbers showing its value. Until the eighteenth and nineteenth centuries coins were given monetary worth based on the exact amount of metal contained in them, but most modern coins are based on face value, the value that governments choose to give, irrespective of the actual metal content. Coins have been made of gold (Au), copper (Cu), aluminium (Al), nickel (Ni), lead (Pb), plastic, and in China even from pressed tea leaves.

Nowadays however valuable metal has generally been replaced by paper notes.

The use of paper money in Western civilization began in the Middle Ages. The major forms of money in those days, gold and silver coins, were inconvenient to carry and liable to be stolen.

To make business transactions safer and more convenient, people began depositing their coins with local goldsmiths, who gave theme written receipt in exchange for the coins. In this way, the goldsmith became a kind of medieval banker.

Merchants accepted the receipts in payment for goods because they could redeem the receipts for gold at the goldsmith's shop. In time, the goldsmiths' receipts became very popular with merchants and travellers who had to move large sums of money. As their use spread, the earliest form of paper money in Western Europe came into being.

Now most governments issue paper money in the form of notes, which are really 'promises to pay'. It may or may not be backed by gold or silver. Paper money is obviously easier to handle and much more convenient in the modern world. Cheques, bankers' card, and credit card are being used increasingly and it is possible to imagine a world where 'money' in the form of coins and paper currency will no longer be used.

Although anything can serve as money, it should possess the following qualities:

- **Portability.** Modern money has to be small enough and light enough for people to carry.

- **Durability.** The material chosen has to have a reasonable life expectancy. For that reason most countries use a very high quality paper for their money.

- **Divisibility.** One of the principal advantages of money over barter is its ability to be divided into parts.

● **Recognizability.** Money should be easily recognized for what it is and hard to copy. The quality of the paper and the engravings make paper money extremely difficult to counterfeit.

LOTS OF FROTH DOES NOT MEAN A BUBBLE

OVERVIEW

Inflows and prices are rising, but the asset class is not necessarily overheating, reports ***Javier Bias***

Ever since signs emerged late last year that the US might be about to slide into recession, debate has raged about the likely impact on commodity prices.

Conventional wisdom said the price of raw materials such as crude oil, copper, wheat and coffee should drop as US - and global -economic growth slowed. This, however, has proved to be a bad call.

Commodities prices, particularly crude oil, some base, including copper and aluminium, and agricultural raw materials, such as wheat, have risen since the credit squeeze started last summer, in defiance of the US slowdown.

The surge against the backdrop of the worst US financial crisis since the second world war has led to warnings that commodities markets could have become the latest asset price bubble following the boom in dotcom shares and house prices. Tobias Levkovich, Citi's chief US strategist, has been prominent among those who hold the bubble view. In an influential report earlier this year, he said commodities, particularly gold, were looking like a "bubble prospect" as "easy money and speculative juices combine to prices unsustainably higher".

Mr Levkovich, and other analysts of a similar persuasion, draw support from the fact that investment in the asset class has skyrocketed, with investors amassing

a $200bn (£100bn, €128bn) bet through commodities indices up from about $l0bn at the beginning of the decade.

They claim that losses in the credit and stock markets have led investors to pour fresh money into commodities, driving prices well above their fundamentals.

But whether large inflows is proof of a bubble is uncertain and the question of whether commodities have truly become the third and last bubble of this decade -after the dotcom bubble, which burst in 2001, and last year's subprime housing market - is open to debate, with many analysts in the no-bubble camp.,

Bob Greer of Pimco, which manages a $16bn fund in commodity mandates, argues against the idea of a bubble. "A speculative bubble requires constraints on supply, such as we have seen in real estate markets, and for prices to lose track of the intrinsic value of the asset, as happened in the tech boom," Mr Greer says.

"However, commodity business is conducted via futures where there is no constraint on supply and the cash market plays a vital role in anchoring prices for physical commodity assets with the futures market."

Most commodities analysts, executives from the natural resources industry and economists at international institutions suggest the rise in prices mostly reflects fundamentals, even if investor interest has added some froth to the prices.

In addition, those who argue against a bubble say too much focus has been put on US demand, when what is arguably driving the market to record highs is consumption in developing countries, such as China, India and Brazil, and supply issues.

The International Monetary Fund, for example, believes that tightening market balances have been a common factor behind the price run-ups for many commodities. It says: "Prices have been propelled by positive and rising global net demand - consumption minus production - against the backdrop of already-low inventory levels in some markets." The prospect of persistently tight fundamentals has led to a favourable investor sentiment in commodities, the IMF added in its

recent World Economic Outlook report. "These inflows have enhanced market liquidity and price discovery in commodity futures markets, including at the long end, but they can also contribute to short-term price volatility and may have led to an overshooting of prices," says the IMF.

A more powerful reason propelling commodities prices to record highs is the lagging supply response in energy, base metals and even agriculture to rampant demand in Asia.

The behaviour of the oil market offers a good example of. the trend in other markets. Amid rising consumption and record prices, non-Opec supply has grown far less than global consumption during the last five years, and 2008 is likely to be the sixth, according to Barclays Capital.

The IMF says that sluggish supply response is not only supporting spot prices, but also cementing expectations for "high oil prices to endure."

"An important factor behind the firming of these expectations has been weaker-than-expected prospects for an expansion in supplies," the Washington-based multilateral institution said. Recently, long-dated oil prices have surged above $100 a barrel.

Mr Greer, of Pimco, concurs with the argument that supply problems are driving prices higher, warning that the global economy still has substantial infrastructure constraints affecting supply, storage, processing and transportation of commodities. "It will take many years of investment to make up for the previous decades of underinvestment in infrastructure in commodity markets," he says.

Whatever the fundamentals, however, analysts warn it would be wrong for investors to assume that recent strong gains in commodities markets will continue, as nearly seven years of boom and very high prices are beginning to trigger, in some cases, a demand and supply response. They point out, for example, that the price of nickel and zinc have fallen significantly, while wheat, after hitting a record high in February has fallen to a five-and-a-half-month low. The key is to pick commodities

with tighter fundamentals as the era of all raw materials rising at the same time is mostly over.

JUST NAME YOUR PRICE

Guest Column

ANITA HOFFVANN

The world of energy has changed drastically in a few years. As the world's appetite for energy grows exponentially, this, coupled with growing attention to climate change, is seeing the oil and gas industry go through an important reconfiguration that is affecting executives and their careers.

High oil prices have justified the exploration of assets previously deemed uneconomical by oil majors. This has spawned myriad start-up companies as well as a flurry of acquisitions of companies and assets.

In the space of only a couple of years, the world's national oil companies have asserted their wish to retain ownership of their reserves.

This activity, coupled with the similarly unexpected growth of the renewables sector, has caused a seismic shift in the energy industry landscape. With the growth in the number of organizations comes the need for executives to manage them.

There is increased demand for seasoned oil and gas executives precisely as their numbers are dwindling, because of previous downturns and the demographic profile of the sector.

This human capital crisis is often referred to as the looming issue of the "big crew change". With the typical retirement age of 55 in the oil and gas industry and an average employee age of between 46 and 49 years, a significant proportion of senior executives will retire in the next few years.

This is going to continue to create a huge capability shortage of executives with technical backgrounds encompassing senior geophysicist, geologists and similar expert roles.

With such simple supply and demand factors at work in the marketplace for experienced people, the effect is that oil and gas executives' compensation packages have increased markedly over the past three years.

The truly global executives cost the same wherever they happen to be located in the world, precisely because they are in such short supply.

There is almost a "Brent crude" marker for oil and gas executive compensation, with London being the benchmark.

We have all heard the warning that companies need to prioritize their succession planning if they are to head off this impending shortage of top talent, but how many companies have strategies in place to really address this?

Most are doing no more than play musical chairs, where the same small group of today's leaders, more between roles.

The problem is that the numbers are too small; there is one potential successor for each retiring executive.

Best practice in succession planning calls for two or three potential successors to be assessed for each key executive.

So can the leading companies really be without a solution challenge?

Thankfully not. The best-in-class are now adopting a "pre-search shortlist" strategy, a more pioneered by the private equity industry.

Until recently, in the boom years for private equity, companies would take the trouble to know who was active in the even needed to hire a new leader.

This meant that when a deal presented itself, they would already know who they wanted to run that company.

So, for every top position in a company, two external candidates would be identified, screened and “tagged” alongside an internal candidate put forward by the company itself.

For existing upstream executives, you may find that you are so much in demand that you will find it difficult to retire.

The opportunities will be so many, and the incentives so high, that the oil and gas sector might end up the most “progressive” in its rejection of ageism.

Conversely, if you are just starting out, choose the energy sector because your career progression will be active player in the reconfiguration of the industry.

Our global team is seeing the same trends, whether they are located in London, Houston, Melbourne, Dubai or Moscow.

Anita Hoffmann is a Partner in Heidrick & Struggles' London office, where-level search in the Oil & Gas, Clean Technologies/ Alternative Energy and Chemicals areas.

MONEY AND MORALS CLASH

Of all the world's problems, the existential crises of Harvard Business School students must rank pretty low. But let me present one all the same. Last month, several business schools released the average compensation of their most recent graduating classes. HBS announced that its MBA class of 2005 earned, on average, $174,580, the most of any business school and roughly double the average for graduating MBAs across the US.

While my family and friends e-mailed me reports of this news with accompanying exclamation marks and smiley faces, I was not so sure what to make of it.

Two things immediately struck me. First, $174,580 is both a satisfyingly large number in itself and pregnant with the promise of even larger numbers to come. Second, it gives you a pretty clear idea of the market value of a Harvard MBA. It is,

curiously enough, almost exactly the amount these two years at Harvard will have cost in tuition and living expenses for me and my family, which leads me to suspect some hidden economic hand at work.

The existential crisis, if you can call it that, comes when you consider that one of the great privileges of having a Harvard MBA is supposedly the ability to look at a first year salary of $174,580 with something like indifference.

Even from the rank pit of graduate school loans, you should be able to take that number, weigh it coldly against the kind of work it will require and decide whether that is really what you want. How easy is this in practice?

If, like me, your material appetites and short-term personal ambitions are yanking you in different directions, then late autumn in the second year of business school is a testing time. As the leaves fall, classmates who I have grown used to seeing turning up at classes with bed hair and the same fleece jacket day after day are suddenly parading around in dark suits with leather portfolios clutched under their arms. The campus swarms with representatives of the world's great corporations fishing for recruits with some very tasty looking financial bait.

News of the big signings soon gets around. The leading private equity firms are handing out first year compensation packages of more than $400,000. The banks and consulting firms are on a feeding frenzy. Anyone with Chinese on their CV is in hot demand. Next to private equity, the most coveted sector appears to be real estate.

There are now a good number of people who know what they will be doing once they graduate in June. Some are delighted, others simply relieved. From those entering consulting you often hear the line: "I'll do it for a couple of years and then I'll be able to do what I really want to do." From the private equity folks, you hear: "I'll do it for 10 years and then retire."

The pressure of the loans students have taken on to study at HBS seems to be driving many decisions. International students especially seem impelled to find a job

in the US in order to repay large dollar debts. The sum of $174,580 sounds even more enticing when set against what they might earn in Argentina or France.

But what if the last thing you want to do is be sucked into a big corporation? What if you wake up with chills at the thought of becoming one of dozens of other MBAs pounding away on spreadsheets or hauling your suitcase through an airport on Sunday nights?

Fortunately, there are plenty of voices at Harvard urging students to heed these nagging voices and do something they know and enjoy rather than chasing the short-term pay cheque.

In his graduation day address last year, Jeff Immelt, the chief executive of General Electric, encouraged the class to look at what the majority of people were doing and run in the opposite direction.

Joe Lassiter, entrepreneur-ship professor, recommends picking a location first then trying to become part of what he calls "world class tribes", groups of people in your chosen place who really know the business they are in. Over time you will gain experience and build relationships so that if you choose to start your own company or develop the one you are in, you will have most of the resources to hand.

A programme of Social Enterprise Fellowships, which allows students to spend their first year out of HBS working at high levels in non-profit organisations such as the Bill and Melinda Gates Foundation or Save the Children, seems to be drawing a lot of interest. And the environmentalists on campus are a growing voice in both academic and student life.

Some students have joined one of the many international "treks" that take place every holiday - mixing tourism with meetings with local businesses - and found their ambitions and perspectives knocked sideways; and there are those who arrived at HBS funded by their Wall Street employer, only to return the money and pursue a different career.

All this uncertainty and re-evaluation is what can make business school such a stimulating place to pass a couple of years. But resisting the urge to grab wildly at one of the rich plums dangled before our eyes at this time of year requires some self-control.

When I graduated from university in England, people used to ask each other "do you have a job yet?" At HBS, the question has somehow escalated to "have you decided what to do with your life yet?"

Somehow a job is no longer a job. It is supposed to be your passion and your life, which is setting the bar pretty high even for a $400,000-a-year associate's position with a global investment group.

I am still deciding what kind of business I am likely to find most rewarding and how I can tally that with the kind of life I would like to lead. It is an incredible luxury to have the time, resources and people around to think deeply about all of this and stare $174,580 in the eye and say "you don't impress me".

WHAT ARE THE COSTS OF BUDGETING?

The budgeting process requires time and other resources, such as people. The results of the process impact the activities of departments and individuals. Thus, we discuss the costs of budgeting in terms of three important aspects: (1) time and resource requirements, (2) adaptability of departments or segments of the business, and (3) motivation and behavior of individuals.

Time and Resource Requirements. Budgeting is time consuming. A typical yearly budgeting sequence may take as long as three or four months. During this time, management must coordinate its activities with others in the organization. A large organization typically appoints a **budget director,** often the controller, who determines how to collect the data and prepare the budget. The budget director works closely with various department managers who provide the information necessary to complete the budgets. The budget director typically reports to a **budget committee,**

a group of key executives who are responsible for overseeing the budget process. The budget committee reports to the board of directors who approve the budget. Thus, because many people are involved in the budgeting process, the cost, in terms of human capital, is large.

Adaptability of Departments and Segments. Another cost associated with budgeting occurs when the budget is so rigidly adhered to that it inhibits a department or business segment from responding to the changes in the environment. For example, if a business segment is only allocated a specific amount of resources, it may be forced to forgo profitable opportunities due to lack of available resources.

Motivation and Behavior of Individuals. The budget also has an effect on the motivation and behavior of individuals, both during the budget process and after the budget has been formalized. During the budgeting process, individuals who develop budgets (employees, lower-level managers, and/or upper-level managers) are influenced by the communication and coordination aspects of budgeting. If communication between departments is inadequate, the budgeting process can result in inaccurate departmental budgets. For example, if the marketing department and the production department at Ford do not communicate effectively, either, or both, of their department budgets may not reflect the expected activities of the coming period.

In addition, the budgeting process may lead to dysfunctional behavior on the part of those individuals involved in determining the budget numbers. Managers and other employees may be motivated to report budget numbers that they know are not accurate representations of future expectations. We call this **budgetary slack,** which is the difference between what a person with input into the budget process chooses as an estimate of revenues or expenses and what is actually a realistic estimate. In other words, budgetary slack can be viewed as a deliberately introduced bias.

INVESTMENT BANKS HIRING BOOST

Several leading investment banks plan to boost hiring globally in 2006 in an effort to expand those businesses that helped produce bumper profits this year.

Lehman Brothers and Bear Stearns plan to boost headcount by 5 to 10 per cent and Goldman Sachs, headed by Hank Paulson, chairman and CEO, expects an increase of about 8 per cent.

All three reported record profits for 2005 last week.

The securities industry has generated bumper profits in the last few years, benefiting from strong revenues in fixed income, currency and commodity markets. This year, many also received a significant boost from their equity and merger and acquisition departments. Dave Goldfarb, Lehman's chief administrative officer, said the bank would hire "across all business segments and regions".

Lehman has more than doubled its staff in the past five years and grew by 17 per cent to 22,919 people in fiscal 2005.

Sam Molinaro, chief financial officer at Bear Stearns, said his recruiters would be looking for people to work in the investment bank's US mortgage origination business, but would also add employees to international offices, the private client business, and the derivatives and equities teams.

The investment banking industry is famous for over-hiring when profits soar. But executives insist that memories of the last downturn, which resulted in massive job cuts, remain fresh.

David Viniar, Goldman's chief financial officer, said: "We're still very careful about expenses." Other banks that have not yet reported full-year profits also have plans to hire. Grant Kvalheim, co-president of Barclays Capital, said the business intended to boost headcount by 15 per cent or more next year. Barclays Capital had about 8,800 people worldwide in December.

Some analysts think it will be difficult for the securities industry to repeat this year's strong performance next year.

Brad Hintz, analyst at Sanford C Bernstein, expects a 15 per cent decline in fixed income revenue from the US in 2006. That would have to be offset by a big gain in global investment banking revenue if the industry were to top this year's performance.

But banks remain optimistic that demand from clients such as hedge funds, private equity firms and large corporations will increase next year, and so plan to invest in expanding successful business units and developing new lines to meet this demand.

Investment banks are expecting the boom in M&A to continue next year, fuelled by the continued availability of cheap debt.

In particular, many private equity investors have raised record funds that they are now keen to invest in buying businesses.

STOCKS PROVE WORTH WITH SUPERIOR GAINS

Top market returns weaken the case for direct investing says, Chris Flood.

Five years ago, Vale was an obscure Brazilian mining company with a market value of little more than $10bn (£5bn, €6.4bn*).* Today it is the world's largest producer of iron ore and nickel, worth $172bn. Its rise to global dominance is just one illustration of the growing importance of commodity producers to the world's financial markets.

Equity prices have risen 128 per cent (FTSE All-World equities 'indices in dollar terms) since March 12 2003, while oil and gas producers have gained 250 per cent and the world mining sector has surged by almost 500 per cent.

Xstrata is the best performing FTSE 100 company since then while Eramet, the French nickel producer is the leading FTSE Eurofirst 300 stock.

The total return from the S&P GSCI since March 12 2003 is 107 per cent while the FTSE All World index has returned 156 per cent, including dividends.

This reflects the boost that dividends provide for overall equity performance while returns from commodity indices have been affected by negative roll returns when forward curves have been in contango (futures prices higher than spot prices).

So the case for fund managers increasing allocations directly to commodities does not appear clear cut.

With oil at a historic peak close to $120 a barrel, gold reaching $1,000 an ounce earlier this year, and many agricultural commodities and most base metals hitting record levels in the past 12 months, investors naturally wonder if commodity prices can remain at such elevated levels. However, there is plenty of academic evidence to prove that adding commodities to a portfolio of equities and bonds can improve returns, for any given level of risk appetite.

Bob Greer of Pimco, which has $16bn in commodity mandates, was one of the earliest proponents of holding commodities within a portfolio for diversification purposes.

"Some investors become enamoured by the search for alpha and there by 12456th lose sight of the fundamental reasons for holding commodities within an overall balanced portfolio, which is for diversification purposes," says Mr Greer.

The decision earlier this year by Calpers, the US pension fund, to increase its exposure to commodities was widely seen as part of a growing acceptance of commodities as a distinct asset class with a vital role to play in a balanced portfolio.

Ian Henderson, who has run the JPMorgan Natural Resources fund since 1991, has broadened his portfolio of energy, mining and gold stocks by adding platinum ETF and two agricultural ETFs. Mr Henderson has been a long-term investor in palm oil producers but found a lack of suitable companies to provide exposure to rising soft commodity prices.

"The ETFs are not correlated with the equity part of the portfolio and therefore lower the overall risk profile of the fund," says Mr Henderson. "The global food

crisis could be solved with two good harvest years, but that also means two years where continuing supply problems are unlikely to go away."

Philip Collins, who runs the Phoenix Multi-Asset fund for Newton Investment Management, has the freedom to invest across a wide range of asset classes.

About one-third of Phoenix exposure to commodities is via equity holdings related to oil, mining agriculture and chemicals. Mr Collins says this allows him to gain the benefit of expertise but it also exposes him to broader equity market sentiment. Mr Collins does not trade oil directly but through equities, such as drilling companies or other service providers to the oil industry.

In the agricultural sector, Mr Collins employs a mixed strategy as it is more difficult to find suitable equity investments. Phoenix holds K&S, the German fertiliser company that has benefited from rising potash prices, as well as two structured products from BNP Paribas and Barclays that provide capital protection and the potential for further gains via options. Mr Collins notes that using structured products involves counterparty risk, credit risk and risks associated with the underlying commodity.

A third exposure is via the Ceres Agriculture fund that is run by Four Winds Capital Management.

Mr Collins is a strong believer in the upswing for agricultural commodities as prices are well below their inflation-adjusted highs, while oil and base metals prices look extremely high, either historically or adjusted for inflation.

HOUSING MARKET TO PROVIDE POINTERS ON WIDER ECONOMY

The outlook for housing markets in the US and UK and their impact on the wider economy provide an important theme for this week's data releases. The link

between property prices and wider economic activity is increasingly recognized by policymakers as a crucial factor for decisions on interest rates.

The downturn in the UK housing market this year contributed to weakness in consumer spending and is a big factor in sub-trend growth in the economy. How well the market and consumer spending will recover next year is occupying analysts.

Some negative influences, including the rise in interest rates and taxation, that have weighed on consumer spending this year should start to fade.

Richard Jeffrey of Bridgewell Securities expects to see stronger growth in household spending next year (about 3 per cent in. real terms compared with the consensus forecast of about 1.8 per cent) contributing to a recovery in gross domestic product growth of 2.8 per cent.

Key to this view is the strength of the recovery in the housing market. The Royal Institute of Chartered Surveyors will publish its November survey tomorrow. October's survey showed a sharp improvement, led by optimism about future sales, and higher levels of mortgage approvals also point to another increase in sales activity in the new year. City bonus payments will stimulate the top end of the market but real vitality still depends on the return of first-time buyers, priced out of the market last year.

House prices have stabilised at historically high levels and so affordability remains out of reach for many prospective homeowners, especially in the south-east of England.

Any upward revisions to third quarter UK GDP growth, due on Thursday, are expected to be modest and the more important details may be found in the data on real personal income growth and the savings ratio.

Prospects for the US housing market are increasingly seen as vital for the performance of the economy next year. Analysts fear the US market has become overextended and this could pose a risk to consumer spending. US housing starts have exceeded 2m (annualised) over the past six months, a feat that has happened in

only three other brief periods in the past 30 years. November's data, due tomorrow, are expected to show a modest retreat to 1.96m. New home sales hit a record high of 1.42m (annualised) in October, and November's sales data, due on Thursday, are expected to remain robust at 1.35m.

Figures for US personal income and expenditure for November, due on Thursday, are expected to show the US consumer remains in robust health. Real incomes were growing at 2 per cent (annualised) in October while consumption growth was expanding at 2.6 per cent.

However, higher US interest rates next year will bring an increase in financing costs and the weakness of US households' financial balances mean that economic growth could suffer as households try to rebuild then-balance sheets next year.

A light week is in prospect for eurozone data releases. Industrial production is expected to fall by 0.5 per cent in November as weakness in France, Italy and Spain outweighs a strong rise in Germany. A decline in energy prices is expected to help German inflation ease to about 2.1 per cent in December from 2.3 per cent last month.

CUSTOMERS AND THE QUANTITY DEMANDED AND COMPETITORS AND THE QUANTITY SUPPLIED

Customers and the quantity demanded. A customer's willingness to purchase goods and services depends on the selling prices company charges for them. In simple terms, if the selling price of the product increases, the quantity of the product demanded decreases. On the other hand, if the selling price of the product decreases, the quantity of the product demanded increases.

These rules do not apply equally to all products, however. A company may be able to increase the selling price of a product if customers are loyal and unwilling to substitute other products

Also, consider the case of a product that is considered to be a staple (necessity) versus one that is considered to be a luxury. A staple's selling price does not affect the quantity demanded as much as the price of a luxury item does.

Finally, the quantity demanded is influenced heavily by product quality and service. Products with perceived high quality and service are in greater demand than products with lower quality and service that sell at the same, or perhaps even slightly lower, prices. Most companies try to differentiate their products in terms of quality and service.

Competitors and the Quantity Supplied. The selling price charged by a particular company is also influenced by the quantity of the product supplied by competitors and/or the selling prices charged by those competitors. Some companies operate in an environment where there is an abundance of suppliers whose products are almost identical. Companies in this situation are **price takers,** that is, the company "takes" the selling price from the market that establishes the price based on total supply and demand. In these markets, an individual company has little or no influence on the selling price. In the agricultural industry, for example, wheat produced by each wheat farming operation is almost identical. Therefore, wheat sellers are price takers who receive the price for wheat that the market determines. This type of environment where a large number of sellers produce and distribute virtually identical products and services is called **pure competition.**

Other companies operate in an environment in which there are many companies whose products are similar, but not identical. In this environment, called **monopolistic competition,** the market has a large impact on, but no control over, prices. Individual companies operating within this type of market can influence selling prices by advertising quality and service as well as price.

VARIETY IS THE SPICE OF AUDIT

AUDIT & LEGAL

Jennifer Hughes reports on the sector's complex transactions

The first thing auditors and lawyers tend to note about the oil and gas industry is the sheer range of activities it encompasses. Many roles embrace several industries.

"Activities extend from constructing some huge offshore platform in an often unfriendly part of the world, with all the attendant technical challenges, to retail sales at filling stations," says Andrew Ratcliffe, an audit partner at PwC.

"At the exploration end, they're looking at very long periods of planning; then you go all the way to daily cash sales by the hour on the forecourt, and you've got just about everything in between."

For many, the variety of opportunities is what attracts them to the sector. Alison Baker, an audit partner in the oil and gas team at Ernst & Young, says: "Because the industry is so big and dynamic, you're not dealing with the same things day in, day out.

"Often people ask 'Isn't audit boring?' but actually, you're dealing with the largest companies in the world going through hugely complex transactions with high-risk issues in interesting locations - you are getting right to the heart of what is going on in that business."

For auditors, there is no single path into the industry and increasingly, a career will include more than one speciality.

"The international oil companies have led in this respect, and now, rather than people coming up only through a finance route, you often see people perhaps start within audit, but gain experience within transaction teams and other advisory groups.

"This way, you're still within the sector but building a wider career," says Ms Baker.

Many lawyers tend to "fall" into the industry. Philip Stopford, co-head of the project and infrastructure finance group at White & Case, the US law firm, began more than 20 years ago by working on projects for the Indonesian government that included work with Pertamina, the state-owned oil and gas company.

"It was challenging and fun," he says. "I got far more responsibility than I would have in the main office with senior partners on top of me. I just had to get on with it and use my brain • it was great training.

"Given what has happened to crude and the price, I'm lucky to have had the grounding in Indonesia that I did," he adds. "The market has changed and developed, of course, but the physics hasn't. It's still about making gas liquid and shipping it, or taking crude and cracking [refining] it."

Rick Mattison, a manager in the legal team at Michael Page, the recruitment consultants, says professionals often gravitate towards specialist roles as they build up experience.

"Many lawyers come in from private practice because their firm had a chunk of energy experience," he says. "What they tend to look foils solid corporate and commercial experience and oil and gas experience too, where possible."

Technical knowledge is usually learnt on the job, says Mr Stopford, who says learning - thankfully - stops short of engineer level. "You do have to understand the process, however," he says.

"I once saw a news story about White & Case building an African railway, but the writer had seen we were doing a financing involving a train, and had not understood that 'train' is a technical term for part of an LNG plant."

Wendy Fenwick, an Ernst & Young colleague of Ms Baker, says technical knowledge combined with the industry's changing landscape provides constant challenge.

"There's always something new. Ten years ago, people weren't getting excited by renewable energy, but I've spent the past two days with someone who is immersing herself in all the new legislation and in biofuels. We're always learning in this industry," she says.

The high oil price and subsequent profit boom have done much to boost demand in the industry, particularly for lawyers, as companies expand their projects.

In Aberdeen, Mr Mattison says legal salaries in the sector keep up with London.

"Because of the technical knowledge needed in the industry and its specific nature, companies need to attract and retain people, and. they have to pay top-of-the-market packages to do that," he believes.

But is that specific to the current boom? Mr Mattison thinks not: "The industry is becoming more regulated and legal contract-heavy.

"In some companies, lawyers are seen as just a drain on the bottom line, but there's much less of that these days."

TAKEOVER TALK SUBDUES D TELEKOM SHARES

By Rachel Morarjee

European stocks lost their way after powerful gains last week, with technology stocks leading the fall after Microsoft withdrew its bid for Yahoo.

Comments from Warren Buffett, the billionaire investor, that the US was in recession added to downward pressure on the pan-European FTSE Eurofirst 300, which was down 0.25 per cent to 1,357.99.

Indices bounced off their lows in late trade after the US reported unexpectedly strong service sector data. Germany's Xetra Dax was 0.13 per cent higher at 7,052.08; France's

CAC 40 was down 0.13 per cent to 6,063.36 in thin volume as markets in the UK and Ireland were closed.

Deutsche Telekom softened 1.2 per cent to €11.61 following reports that the company was considering the takeover of Sprint Nextel of the US, which would catapult the German telecoms group from fourth to first in terms of users in the US mobile market.

Investors looked more favourably on reports that ArcelorMittal, the Luxembourg steel group was considering a tie-up with China's Angang Steel to expand its presence in the world's most populous nation and was also eyeing a 40 per cent stake in Indonesia's state-owned Krakatau Steel. ArcelorMittal rose 0.9 per cent to €58.06.

Tech shares were under pressure after Microsoft walked away from its bid for Yahoo on Saturday.

Sweden's Ericsson fell 1.1 per cent to SKrl4.39 after Lehman Brothers said a recovery in profit margins could slow, while Finland's Nokia declined 1.5 per cent to €19.16 on negative sentiment towards the technology sector. Alcatel-Lucent slid 1.9 per cent to €4.43.

Nokia said it would introduce many new phone models through US carriers in coming months to grab a bigger share of the lucrative mobile phone market.

In Paris, EADS slipped 3.8 per cent to €16.38 after a report in Germany's Wirt-sehafts Woche that the company was late in delivering Airbus aircraft.

Accor rose 1.1 per cent to €54.74 after Colony Capital and Eurazeo said they would increase their stake in the hotel group to 30 per cent.

Also among the gainers was Deutsche Post, which advanced 3.3 per cent to €20.87 after it said operations were " very satisfactory” in the first quarter and that it was making progress in plans to turn round the ailing DHL Express unit in the US.

Volatile solar companies lost ground after a report in Germany's Handelsblatt said Germany should solar power cut subsidies by 30 per cent, citing a study fey the RWI economic think tank which advises the government on policy.

Q-Cells fell 42 per cent to €71.25, Solar World fell 1 per cent to €34.16 and Conergy lost 4.5 per cent to €13.13. Other alternative energy shares, fared better with Norway's

Renewable Energy up 1.3 per cent to Nkr175.75 and Denmark's Vestas Wind up 0.8 per cent to DKr520.

In Switzerland, UBS rose 0.2 per cent to Sfr36.88 ahead of its first-quarter earnings announcement today, when it is expected to report a large loss. Swiss peer Julius Baer gained 0.8 per cent to SFr81 while fellow wealth manager Credit Suisse edged 0.3 per cent lower to SFr58.35.

It was a mixed picture elsewhere in the banking sector, with Austria's Raiffeisen International, which gained 12 per cent last week after strong first-quarter earnings, retreating 1.7 per cent to €108.35.

BNP Paribas slid 0,4 per cent to €71.01 and Credit Agricole slipped 0.6 per cent to €2249, while French peer Societe Generale rose 0.3 per cent to €78.46, and Franco-Belgian Dexia rose 0.3 per cent to €18.35.

VODAFONE CAMPAIGN ON SILENT MODE

Vittorio Colao is tipped to be the next chief executive but he is conducting a low-key push for the top job, writes Andrew Parker

Vittorio Colao will become the next chief executive of Vodafone later this year, if industry analysts and investors are right. "Colao is running for office," says one veteran observer of Vodafone.

Except that this is a very low-key campaign. Since he became Vodafone's deputy chief executive in 2006, the charming Mr Colao has given no interviews to the media, partly because Arun Sarin, the current chief executive, is keen to avoid any public discussion of when he will depart.

Mr Colao, 46, is instead having to prove himself through Vodafone's performance. His record as head of Vodafone's European businesses, which generate 80 per cent of the UK group's free cash flow, will be scrutinised when the 2008 results are published on May 27.

Analysts say there is already tentative evidence that he is combining the crucial tasks in Europe of increasing revenue and reining in costs.

Two former Vodafone board members say Mr Colao is the leading internal candidate to replace Mr Sarin. They add that the only real alternatives are Andy Halford, chief financial officer, and Paul Donavan, head of emerging markets.

It remains unclear when Mr Colao might get the chance to take on the top job, although some Vodafone investors expect Mr Sarin to step down this year.

Mr Sarin is enjoying improved standing with investors because his big bets for Vodafone's growth - led by investments in emerging markets - look to be coming good.

But two years ago he suffered a mauling in the media after Vodafone warned about slowing growth. For a while Mr Sarin's position appeared under threat.

Mr Colao's return to Vodafone as deputy chief executive and head of Europe was announced in September 2006, two months after an embarrassing protest vote against Mr Sarin at the group's annual meeting.

Some observers claimed his appointment was instigated by Sir John Bond, Vodafone's chairman. But Vodafone insiders insist it was Mr Sarin's choice to bring Mr Colao back. They have known each other for more than a decade.

Mr Colao ended a four-year stint as a senior Vodafone manager in 2004 to become chief executive of BCS Media Group, the Italian publishing company that owns Corriere della Sera, the country's leading broadsheet newspaper.

Although he improved profitability at RCS, he clashed with some of its shareholders, who include several of Italy's leading companies.

One shareholder claims Mr Colao's weakness during his time at RCS was an unwillingness to compromise. "Once he takes a decision, he is not willing to talk any longer," says the investor.

Mr Colao agreed to step down as RCS chief executive in July 2006, having alienated too many of its shareholders, but his time at RCS is the only less than wholly successful chapter in his career.

He is ambitious and clever, combining analytical skills with an ability to moti vate people, according to former colleagues.

They add he is principally a business man able to master a company's operations, although he is also sound on strategy.

Two possible weaknesses are mentioned. First, the unwillingness to compromise that came to the fore at RCS. Second, a propensity to micro-manage people.

Mr Colao was born in Brescia, northern Italy, in 1961, the son of an officer in the Carabinieri, or military police.

During the 1980s he studied business at Milan's Bocconi university, joined McKinsey, the consulting firm, then went to Harvard.

When he returned to McKinsey in 1991, one client was to have a lasting impact on Mr Colao - Omnitel, Italy's second-biggest mobile phone operator.

Having helped devise Omnitel's original business plan. Mr Colao joined the company as chief operating officer in 1996 and three years later was made chief executive.

One former Omnitel executive says: "The company was a big start-up, growing very fast. The challenge was to build up a service that was better than Telecom Italia."

In 2000, Vodafone acquired Omnitel as part of its takeover of Mannesmann, the German telecommunications company. Mr Colao subsequently took responsibility for Vodafone's southern European operations.

Today, he has the most arduous job at Vodafone after Mr Sarin. Running the group's European operations is difficult because they can no longer report rapid growth simply by putting mobiles into people's hands for the first time. The markets are saturated with mobiles, so he is implementing Mr Sarin's strategy of increasing

revenue partly by encouraging customers to use their mobile phones for internet services such as e-mail.

In the six months to September 30, Vodafone's European operations reported revenue growth of 2.3 per cent compared with the same period last year.

Nick Delfas, an analyst at Morgan Stanley, who has a "sell" rating on Vodafone, says: "The results in Europe in the past six months were excellent."

If Mr Colao can keep up that momentum, he may soon have a far a more prominent role at Vodafone.

OPERATING ACTIVITIES VERSUS FINANCING AND INVESTING ACTIVITIES

The distinction between operating activities and financing and investing activities is sometimes blurred. Though paying interest to lenders for use of their money is a financing activity, interest is considered to be an expense when calculating periodic income, which implies that it is an operating activity. In addition, financing can refer to payments for assets used in operations, such as inventory. Generally, when we refer to financing activities, we mean those activities associated with obtaining cash to pay for long-term assets and repaying amounts borrowed.

The term **investing** sometimes refers to purchasing assets used in operations as well as making operating expenditures. We use the term **investing** to refer to the purchase or sale of long-lived assets. The distinction involves whether the asset is a major resource the business intends to keep or an asset it consumes in a short period of time. Companies often buy insurance policies that cover multiple years. Although these insurance policies cover multiple years, their cost is not considered to be an investment because insurance is part of day-to-day profit-making activities rather than a major, long-lived asset.

Some operating activities have characteristics of both investing and financing activities. For example, think of a business that sells on credit to its customers. Sales

on credit are like investments because the business has chosen a resource (payments due from customers) that will provide cash in the future rather than cash at the time of sale. Similarly, purchasing goods for resale, which is an operating activity, is also a financing transaction because the vendors lend the company the amount of the purchase until they receive subsequent payment from the company.

One characteristic that generally distinguishes selling and purchasing on credit from investing and financing activities is that selling and purchasing activities directly influence the amount of profit the firm makes. In addition, both selling and purchasing activities are a series of transactions that tend to be repeated regularly and frequently during business operations.

PENSIONS TURN TO PASSIVE MANAGEMENT

As fees for active managers prove to be bad value, schemes rethink their strategies, says Owen Walker

A much-used phrase in the arsenal of the index-tracking analyst is "more bang for your buck", which is exactly what pension schemes are aiming to achieve - and passive investment is increasingly at the root of that strategy,

According to a recent research note by Watson Wyatt, A fairer deal on fees, total annual costs of running a pension scheme have increased by about 50 per cent over the past five years.

The paper argues that while typical hedge funds and private equity investments operate on a 2/20 fee structure - where the annual charge consists of 2 per cent on the value of the committed capital plus a 20 per cent performance fee - pension funds are paying for outperformance, or alpha, but getting market performance, or beta. By contrast, the costs of index-tracking funds (shown by the table) are minimal.

Since their emergence more than 20 years ago, index-tracking funds have always been popular in bull markets, but suffer when bear markets take their toll. But the table reveals they may be bucking this trend, with most managers in the market showing an increase in assets under management over the year to the end of February.

John Davies, director of market development at Standard & Poor's, believes this rise in popularity -despite the poor market conditions - is due to passive products being taken up in response to overpriced active products.

"Where managing your fund strategy is concerned, passive products and passive strategies are now probably more popular than they've ever been," he says. "I think we're probably moving to the next generation where what have traditionally been seen as active strategies will be wrapped up in a passive structure."

Several UK pension funds are turning to index tracking as a way of gaining steady returns.

The £350m (€442m, $688m) London Borough of Richmond-upon-Thames scheme recently put 50 per cent of its assets out to tender for passive investment.

Malcolm Smith, the scheme's senior accountant, says the decision was made on the back of a review of the fundamentals and the scheme's objectives.

"We didn't have a sufficient degree of confidence Hint we could achieve long term outperformance in the future after fees were taken into account," he says. "Generally fees are going up, and that was definitely a factor.

"We can't demonstrate that we have benefited from active management over the past 10 years."

Mr Smith adds: "The decision is about going back to first principles. It's not primarily dissatisfaction with fund managers, but more thinking about if we started with a blank sheet of paper, what would we do? Then we have been persuaded by empirical evidence. If we look at the overall position and our experience, what is there to persuade us that we are likely to be in the minority that active management benefits?"

John Hastings, partner in the investment practice at Hymans Robertson, which has been enlisted by the scheme to help search for a passive manager, says: "Another advantage of having a passive manager in place is you can just put money into passive funds while you conduct a search process for a well-performing active manager. It is a cheap and administratively convenient way to rebalance and reweigh your portfolio."

Schemes are removing the costs of paying for poor-performing active managers and putting a smaller proportion of their portfolio into well-performing active products. A smaller proportion of premium active investment is therefore being squeezed for higher returns, while the rest keeps track of the market for limited cost. This has led to more efficient management of risk and cost budgets.

This philosophy is not exclusive to the UK. Similar strategies have been adopted by the £70bn Dutch pension scheme PGGM and by Denmark's £47bn Labour Market Supplementary Pension Scheme.

On the dizzying roller-coaster that is market volatility, poor stock selection is concealed on the way up, but exposed on the way down. Good active managers are showing their worth and passive funds are helping investors make more resourceful use of those premium managers.

This is an extract from the annual index tracking survey in May's Pensions Management

Owen Walker is a stuff *writer at Pensions Management*

BUSINESS ACTIVITIES

Business activities are events that involve making and carrying out the obligations operating, investing, and financing decisions that deal with business assets or obligations.

In a profit-seeking business, there are three types of business activities that correspond to the three types of business decisions. **Operating activities** are the profit-making activities of the enterprise. Business's profit (net income) results when revenues exceed expenses for a given period. So, operating activities include those business activities that generate revenues, such as selling merchandise for cash or on credit or providing services for a fee. They also include activities that result in increased expenses, such as purchasing goods for manufacture or resale, paying wages, or combining goods and labor to manufacture products.

Investing activities include the purchase and sale of long-term assets in addition to other major items used in a business's operations. For example, purchasing equipment and buildings that a company expects to use over two or more years is an investing activity. However, actually using the buildings and equipment to provide a service, or to make or sell a product, is an operating activity. **Financing activities** are activities that involve obtaining the cash or using other noncash means to pay for investments in long-term assets, and to repay money borrowed from creditors, and to provide a return to owners.

In this chapter, we focus on operating activities, which we divide into three cycles of events commonly found in businesses: (1) expenditure, (2) revenue, and (3) conversion. Our goal is to describe, in a coherent way, the activities that are planned, performed, and evaluated as part of business operations. We also discuss procedures that owners and managers use to ensure the accuracy of accounting information and to protect assets from theft or misuse. Then we relate operating activities to the documents found in most accounting systems to show the connection between the sources of information and the activities they describe, and how they help provide accountability. Later in the chapter, we discuss the cycle of planning, performing, and evaluating business activities as it applies to operating activities.

IMF CONFIDENT OF RESILIENT GROWTH

By Krishna Guha in Washington

The world economy is proving to be a lot more resilient than many economists predicted, top International Monetary Fund officials said yesterday, expressing confidence that global growth would remain "solid" at close to 5 per cent this year.

Rodrigo Rato, IMF managing director, said the US housing market appeared to be bottoming out and a soft landing for the economy as a whole now seemed more assured.

He added that "spillovers to other countries from slower US growth have, so far, been minimal".

Economic recovery in Europe had broadened, Japan was broadly on track and emerging market growth remained vigorous, particularly in India and China.

Overall, he judged, the global environment looked quite favourable.

Mr Rato said the risks to this benign global economic environment now seemed less than a few months ago - when the US housing market was yet to show any signs of stabilising and the oil price posed a bigger threat to inflation.

Mr Rato said the threat from global economic imbalances - the record US trade deficit and matching surpluses in Asia and among oil exporters - was perhaps less imminent now, though he said they still posed a continuing significant risk.

John Lipsky, the new first deputy managing director of the IMF, said the world economy had enjoyed an "unexpectedly favourable period of global economic performance" that looked set to continue this year.

He rejected the view that recent global economic performance had been poor because of the emergence of imbalances.

"This has been a success and not a failure," he said.

Mr Lipsky said the challenge in terms of global imbalances was to find ways to help sustain this strong growth.

Mr Rato said the IMF's multilateral consultations with big economies over global imbalances had moved beyond discussing the issues to exploring possible policy actions.

He said he would report on progress to the IMF's governing board at thé meetings in April but refused to say whether the process would lead to any policy recommendations.

Such a set of detailed policy recommendations appears increasingly unlikely, with participating governments showing no eagerness to commit themselves, or have the IMF draw up a roadmap for multilateral action.

Separately, Mr Rato signalled that the IMF does not believe there is any need for Japan to raise interest rates soon, saving "we see inflation pressures as virtually non-existent".

STRUCTURE OF THE BUSINESS ENTERPRISE

The typical large business enterprise of today in the United Kingdom consists of a small number of interrelated public companies and numerous private

companies, overall control being vested in a parent company holding a majority of the equity of its subsidiaries. Reasons for the proliferation of companies within a business enterprise are many, including a desire to keep entirely separate types of business apart under specialized managements, historic factors such as acquisition of other companies, and tax complications.

There has been a greater tendency in the United Kingdom than in the United States or Germany for the large-scale business enterprises to consist of a number of diversified businesses each operating on a medium scale rather than for there to be a massive aggregation of economic power within a narrow range of industry, as for instance in the American or German steel and engineering industries. Moreover, when a new business has been acquired by a take-over bid, management has often been retained whilst the new owners have exercised only general supervision over its affairs.

Much British operating management consists of boards of directors of subsidiary companies responsible to a parent board which controls major capital expenditure and demands a minimum standard of financial performance. The performance of the subsidiary may well be known only to the financial executives of the group may have little knowledge of the composition of the business of which they are the legal owners. Most shareholders have too small a share of the equity to influence decisions of the management whilst, so far, large institutional shareholders have chosen to exert little influence. Moreover, because of the size and complexity of the group, the parent board and its specialist advisers may well have only a sketchy knowledge of the efficiencies of operation of individual subsidiaries.

Over the past few years growing competition in home and foreign markets and narrowing profit margins have caused many of the large British industrial groups to examine and to business consultants of British and American origin have been retained to advice on remedial measures. As a result of investigations by consultants, and a group's own specialist officers, there have been much reorganizations of the structure of large British businesses in recent years, most noticeably in electrical

engineering, oil and chemical companies. Many groups have organized themselves into a number of separately accounting divisions, each dealing with and coordinating activities in one of the major business fields in which the group operates. The operations of the divisions have been rationalised, reducing the resources and manpower required to achieve a given output. Unprofitable activities have been disposed of by many of these groups by running them down, by sale to a former competitor within a jointly-owned subsidiary, as in the case of the merger between AEI-Hotpoint and the EMI domestic appliance businesses.

Many large British businesses have built up small specialist staff departments at group level which enable group operating managers to exercise adequate control over operating subsidiaries. The accelerating use of electronic data-processing machines, both in the number and in the complexity of problems handled, will allow group managements to exercise more and more exact overall control of the performance of operating responsibility to divisional and factory level.

Parent boards of the major joint-stock companies are responsible mainly to themselves. Overall control usually rests with a dominant personality among their number who controls or guides the overall strategy of the group.

SAUDIS OPPOSE FURTHER OPEE CUT

By Carols Hoyos in London

Ali Naimi, Saudi Arabia's energy minister, yesterday said Opec, the oil cartel, did not need to reduce its production further.

The news from the most influential member of the Organisation of Petroleum Exporting Countries dimmed the prospect of an imminent emergency meeting of the group.

In response, international oil prices fell $1 to $52 a barrel, a 19-month low.

"Do not panic. Actually there is no reason for a meeting," Mr Naimi said.

"The market is in a healthy condition and moving in the right direction."

Edmund Daukoru, the Nigerian energy minister, was less sanguine about the market, believing it to be oversupplied.

"I think we have to take a wait-and-see [approach]," Mr Daukoru said. "After we implement the 500,000 barrels a day [cut], we have to see how the market responds."

The two men were speaking on the sidelines of an oil conference in New Delhi.

Mr Naimi's position contradicts the view expressed by other Opec members, including Iran and Venezuela, which have recently hacked further action .

Rafael Ramirez, Venezuela's energy minister, has warned that prices have dropped "too much". He spent the past week trying to gain support among Opec members for an immediate emergency meeting.

In spite of Saudi Arabia's announcement, Mr Ramirez said yesterday that he expected Opec to hold such a meeting soon.

However, people who watch Opec closely warned against assuming that Saudi Arabia would stick to itstight. Mr Naimi has a record of reducing market expectations for robust action only to reverse quickly his position and advocate production curtailments, thereby achieving a maximum jump in the oil price.

Oil prices have fallen about 15 per cent since the start of the year and are well below the record $78.40 a barrel they hit in July.

Rodrigo Rato, managing director of the International Monetary Fund, yesterday indicated how important the lower oil price had been to the US and world economies.

"Although the US economy has slowed down, in large part because of a continued weaker housing market, what I can say now is that a soft landing seems more assured, as lower energy prices have supported employment growth and consumption," Mr Rato said.

However, for Opec, which supplies more than a third of the world's oil, the goal until recently was to keep oil prices at about $60 a barrel. In October the group

agreed to reduce its production by 1.2m barrels a day, but has so far achieved only half that amount.

In December the 11-nation group met again and decided to reduce output by a further 500,000 barrels a day from February l.

"I believe these measures are working well," Mr Naimi said. "Inventories in the fourth quarter have come down . . . which puts the market closer to balance."

He added: "I think we have succeeded very well."

Part of the conundrum facing Opec is that the recent price drop cannot be fully explained by changes in demand and supply. Mild weather in Europe and the north-eastern US has reduced demand for heating oil but financial movements of institutional investors in energy futures markets have also played a significant rote.

DEMAND LIFTS PRICE BUT NOT THE SUPPLY

Agricultural commodities, for decades a sleepy corner of the investment firmament, have rarely been out of the headlines in the past six months.

Food riots have ravaged swathes of the developing world, from Cameroon to Haiti and Bangladesh to the Ivory Coast, as the price of staples such as wheat, rice and soybeans has surged.

It might be expected that supply would be raised sharply to take advantage of higher prices. But there is little sign of rising production.

Argentina, the world’s third largest soybean and sixth largest wheat exporter, is an extreme, but telling, case in point. Its government was one of the first to impose export tariffs to insulate its domestic market from global prices.

This worked so well that domestic wheat prices fell to half those of international markets. The result? Amid the horror of global hunger Argentina’s farmers are forecast to plant 15 per cent less wheat this year than last.

And the likes of Ukraine, Kazakhstan, India and Vietnam have also imposed export restrictions, reducing the incentives for their farmers to raise production.

Second, huge chunks of this population, notably in China and India, are becoming better off and are adding more meat and dairy products to their diet. This increases demand for grains exponentially.

"We are seeing a growing global population and a move up the economic scale of much of that population," says Daniel Raab, managing director of AIG Financial Products, whish runs its own commodity index.

"This is causing a multiplier effect. For every extra $1 earned, 30 - 40 cents is spent on food in the developing world, against 10 cents in developed countries. It takes 700 calories of animal feed to produce 100 calories of beef."

Barring a catastrophic economic downturn, rising demand for animal products from the developing world's emergent middle classes is here to stay.

Third demand for crops such as corn is being driven by demand for biofuel (see article below). Any retreat here may force western governments to consider more politically unpalatable measures to meet targets to cut greenhouse gas emissions.

As for the supply side, there appears to be little fallow land waiting to be brought into production. Increasing yields and juggling existing farmland are the order of the day.

"There is not much expansion of supply. Farmers are rotating the crops, it's a war of acreage. It will take a long time before new projects come on line and affect supply," says Stephan Wrobel, chief executive of Diapason Commodities Management.

"Australia might be able to increase production if there is no drought, and the US could increase production, but all in all we are in a tight balance."

Efforts to increase yield are being hampered by rising oil prices. Mr. Wrobel calculates that 25-30 per cent of input costs are driven by oil prices.

As far as investment goes, the question is whether prices can go higher, or if the bull run is in abeyance.

Albert Edwards, analyst at Society General, argues that soft commodities have been pushed to unsustainable highs by investors fleeing from risk assets "crushed by

the credit implosion”. “There may be more of a speculative element to recent price moves than many suppose” he says. Others, however, disagree. Mr. Raad believes fundamental factors have been more important for commodity prices in general.

“Speculators who make large sums of money in short periods of time will obviously have short-term effects on the markets, but to be able to sustain, for example, oil is a realistic explanation of the price action,” he says.

“Consumers are paying those prices. Ultimately prices won’t stay at current levels unless consumers are willing to buy at those prices.”

Mr. Wrobel also asserts that the fundamentals are supportive of price levels. “Speculators are often the scapegoats, the problem is supply,” he says.

He forecasts further gains ahead for grains such as corn and wheat.

Yet he believes the focus may start to shift to relatively overlooked commodities that are trading”very near their cost of production”, such as beef, sugar, cotton and lumber.

Mr. Raab picks out cotton as a potential winner with the coast of mane-made fibers jumping with oil prices.

Overall he is bullish on soft commodities, and bearish for the plight of the urban poor “The global population is continuing to grow structurally and our ability to produce higher supply is apparently reaching a tipping point. The global economy has got to adjust to a higher floor level of prices,” he concludes.

However, Mr. Wrobel is confident solutions to the food crisis will be found if the right incentives are put in place.

“It will take creative effort and a lot of commitment, but human nature is very ingenious and if finds a solution to a problem when it is paid to. The worst thing to do is to try and stop prices from rising and put tariffs on exports”.

DON'T BE DEAFENED BY CRISIS 'CHATTER'

The credit crisis is a complicated affair. Massive bank losses appear out of the blue. Obscure debt markets suddenly freeze up. The US Federal Reserve comes up with

"unconventional" measures. Some commentators breezily dismiss a passing "liquidity crisis" while others warn of an incipient solvency crisis, with subprime as just the first of many shoes to drop.

So what's the best way to grasp what's going on? Received wisdom suggests that when analysts are faced with complex evolving situations, it's sensible to keep an open mind. That works well most of the time. But when it comes to analysing what the

International Monetary Fund has called the "largest financial crisis in the United States since the Great Depression" open-mindedness may just sow confusion.

A few years ago, the CIA published a guide entitled, Psychology of Intelligence Analysis. Author Richards Heuer observes a common problem. We tend to form opinions by falling back on intuitions, or hunches. Later, we seek confirming evidence for those views, shutting out dissonant information.

Mr Heuer recommends adopting the "analysis of competing hypotheses". This involves formulating two opposing arguments and examining fresh information to see which argument is gaining ground.

Since the beginning of the year, I've attempted to apply Heuer's method. I divided a file into two columns - one entitled the "Great Unwind" and the other headed the "Great Bail-out". Every day, news about the unfolding credit crunch is placed in one or other column. Needless to say, this document is growing like a weed."

April's bad news included: a massive $19bn (£9.6bn, €12bn) writedown by UBS; the Bank for International Settlements hailing the death of the CDO; a finding by JPMorgan analyst Jan Loeys that "maturity transformation" outside the US banking system had reached nearly $6,000bn last year; the IMF's forecast of $l,000bn of credit losses from the current crisis; worsening charge-offs reported by various US credit card issuers; Moody's estimate that nearly 9m US households had negative equity; the credit crunch hurting both Harley Davidson and BMW; and the tightening of underwriting mortgage standards by various lenders.

Still, last month was not without its bright spots. The Fed's new Primary Dealer Credit Facility got to work providing liquidity to investment banks. Spreads on various debt securities high yield, agency, leveraged loans and commercial real estate mortgages -

declined. Fitch ventured to suggest that the junk bond market "may have turned the corner". During April, several banks raised equity capital. Thornburg Mortgage was rescued with a massively dilutive share issuance. Private equity firms provided funds for Washington Mutual and National City. Deutsche and Citigroup managed to offload more of those "orphaned" leveraged buy-out loans.

Unfortunately, the analysis of competing hypotheses isn't as promising in application as it sounds on paper. Much fresh information is just noise, or what the intelligence community calls "chatter". For instance, on April 22 the FT's headline declared: "US regulator fears wave of bank failures." Two days later, the pink paper confusingly announced: "Fear of bank failures recede". News can be . ambiguous. Depending on your standpoint, a large bank write-off may be a sign of grasping the nettle, or an indication of a weakened credit system. Commenting on the take-up of the Fed's Term Securities Lending Facility, research firm Portales comments: "as with most statistics these days, there is a good news/bad news interpretation".

In his book Expert Political Judgment, political scientist Philip Tetlock divides forecasters into foxes and hedgehogs. Foxes are eclectic, constantly updating their views. Hedgehogs are guided by one big idea. Foxes tend to make better forecasts. But not always. "Distinctive, hedgehog strengths," writes Mr Tetlock, "include their resistance to distractions in environments with unfavourable signal-to-noise ratios."

The credit crisis provides just such an environment. To forecast how things evolve from here, it's necessary to take firm views on key issues. Will house prices fall further or will they stabilise? Will US consumers continue borrowing despite the decline in home equity? Does the collapse of the securitisation markets impair the system's ability to create credit?

The next round of the credit crunch will be won by hedgehogs with the correct answers to these questions.

Meanwhile, the poor foxes are in danger of being overwhelmed by Wall Street's deafening roar.

Edward Chancellor is a member of GMO's asset allocation team.

WHAT IS BUSINESS?

Business is a word that is commonly used in many different languages. But exactly what does it mean? The concepts and activities of business have increased in modern times. Traditionally, business simply meant exchange or trade for things people wanted or needed. Today it has a more technical definition. One definition of business is the production, distribution, and sale of goods and services for a profit. To examine this definition, we will look at its various parts. First, production's the creation of services or the changing of materials into products. One example is the conversion of iron ore into metal car parts.

Next, these products need to be moved from the factory to the marketplace. This is known as distribution. A car might be moved from a factory in Detroit to a car dealership in Miami.

Third is the sale of goods and services. Sale is the exchange of a product or service for money. A car is sold to someone in exchange for money. Goods are products that people either need or want; for example, cars can be classified as goods. Services, on the other hand, are activities that a person or group performs for another person or organization. For example, an auto-mechanic performs a service when repairing a car. A doctor also performs a service by taking care of people when they are sick. So, business is a combination of all these activities: production, distribution, and sale. Still, there's another important factor. This factor is the creation of profit or economic surplus. A major goal in the functioning of an American business company is making a profit. Profit is the money that remains after all the expenses are paid. Creating an economic surplus or profit is, therefore, a primary goal of business activity.

INSIGHT PLUMPS FOR QUALITY AND SIMPLICITY

The fond manager is optimistic its new equity range will be popular, says Sophia Grene

Small is beautiful, we are told, but it is still rare for a fund manager to announce with pride that he has halved the assets he is responsible for.

Sandy Black, head of global equities at Insight Investment, has just overseen a restructuring of the equity business that has left him with £15bn (€19bn, $29bn) under management, compared with £30bn before the reorganisation.

Most of those assets have been transferred within the company, he says. "We took a lot of lower alpha-seeking money and the standalone regional money to the enhanced index team." The idea was to build a product range with a simpler structure, focused on UK, European and global equities. The new equity range targets two to three percentage points of outperformance.

The restructuring has also entailed changing the investment style to include wider powers such as the use of derivatives.

Three new analysts have joined the team so far this year. Two of them cover the energy and consumer sectors respectively, while a third is a quantitative analyst.

You might expect clients to be put out by these changes, but Insight is primarily the fund manager for its parent HBOS, the UK bank. "With equities, the very large majority is in-house," says Mr Black. "We haven't had any large scale mandate loss because of these changes."

There are advantages to managing in-house money, such as being able to rely on the client's acquiescence to restructuring. Nevertheless, Insight's strategy for a while has been to build its third-party business. In recent years, a significant amount of institutional money has flowed into its fixed income business as it developed a well-regarded liability driven investment offering, but the equity business has yet to make similar progress.

There may come a point when high alpha equity products could be integrated into an LDI solution, says Matthew McKelvey, equities product developer. "Insight wants to be known as a solutions provider, so the LDI team is always looking at possibilities." In the meantime, the new-look equity range is being marketed to institutional investors.

Insight has not yet seen large inflows to the platform, despite last year's appointment of Denise Saber as head of European business development. But Mr Black and Mr McKelvey are optimistic the single mandate they have from European third-party investors is just the beginning.

Insight's active equities team offers products in UK equities, Europe ex-UK equities and global ex-Europe equities. Its analysts are organised along sectoral lines, however, rather than geographically.

"We have divided things into five supersectors," says Mr Black. He lists them as financial services, industry, services, resources and materials, while Mr McK-elvey explains that the sectoral organisation enables the analysts to contemplate a big picture as well as examining the fundamentals of individual companies.

"One of the ways we screen universally is to think about the structure of those sectors. How are the structural dynamics changing?" Mr McKelvey goes on to cite macroeconomic issues such as rising oil prices, or industry-specific issues, such as recent regulatory changes in the US telecommunications industry, as examples of how sectoral analysis can inform investment strategy.

As well as applying a sectoral lens to the telescope, Insight's analysis is driven by themes, including demographics, commodities, climate change and digitisation.

"The challenge is to look beyond the obvious," says Mr McKelvey. "Our approach is to look at the whole value chain. For example, we're invested in a company that makes highly specialised bearings for wind turbines." Insight has been a pioneer in supporting research around socially responsible investment. It was a founder-signatory of the United Nations Principles of Responsible Investing and is unusual even among those asset managers with this specialisation in integrating the work of its SRI team into mainstream analysis.

"We use the SRI specialists as a centre of excellence for our thematic thinking," says Mr Black. "We view it as a means to an end."

Mr Black is also keen to propound his views on how to design a global portfolio. "There is a view that out performance must equal concentration," he says, "but it's actually a function of how different my portfolio is from the index."

Rather than choosing a small number of stocks, perhaps 30 or 40, he may have as many as 120 in the global portfolio. Given that the MSCI World index has more than 1,500 stocks, this divergence between the index and the portfolio is significant. Mr Black's contention is that broadening the portfolio allows him to minimise stock or sector specific risk, without sacrificing returns.

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Навчальне видання

АНГЛІЙСЬКА МОВА

Методичні рекомендації

Укладач: **Тішечкіна** Катерина Вікторівна

Формат 60х84 1/16. Ум. друк. арк. 2,8

Тираж 50 пр. Зам. №__

Надруковано у видавничому відділі

Миколаївського національного аграрного університету

54020, м. Миколаїв, вул. Георгія Гонгадзе, 9

Свідоцтво суб'єкта видавничої справи ДК № 4490 від 20.02.2013 р.