UNIVERSITA' DEGLI STUDI DI BARI
FACOLTA' DI ECONOMIA

Cattedra di Lingua Inglese

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PROGRAMMA PER L'A.A. 2015-2016

Corso di Laurea in Economia e Commercio (6 CFU)

Sede di Bari

Obiettivi del corso sono:

- conoscenza e uso corretto orale e scritto delle strutture morfo-sintattiche e del lessico di base della lingua inglese in un contesto comunicativo generale;
- apprendimento della terminologia specialistica
- comprensione di testi parlati e scritti di carattere economico, commerciale e finanziario;
- uso appropriato della lingua per discutere e trattare per iscritto argomenti di contenuto specialistico.

Il raggiungimento di questi obiettivi sarà perseguito mediante lezioni ed esercitazioni in aula e in laboratorio, in particolare:

a) ***Corso istituzionale***, basato sulla lettura, traduzione e discussione in lingua inglese di brani di argomento economico/commerciale/finanziario, teso ad un progressivo ampliamento del lessico specialistico e all'approfondimento delle abilità linguistiche di base;

b) ***esercitazioni di lettorato***, in aula e in laboratorio linguistico, con attività di ascolto, pronuncia, conversazione e scrittura sotto la guida degli esperti linguistici, mirate soprattutto ad una revisione sistematica del lessico e delle strutture morfosintattiche di base e all'acquisizione di una buona competenza comunicativa in lingua inglese;

c) attività di ***tutorato*** individuale nelle ore di ricevimento.

Gli studenti potranno inoltre fare esercizio pratico della lingua attraverso attività di ***autoapprendimento*** utilizzando i materiali multimediali disponibili presso il Centro Linguistico della Facoltà.

L'**esame finale**, con verbalizzazione unica, è articolato in una prova scritta e una prova orale da sostenere nello stesso appello. Entrambe le prove verteranno su tutto il contenuto del programma. Per la valutazione lo studente può optare, al momento della prova scritta, tra esame con voto o prova di idoneità.

Corso istituzionale

DOSSIER (v. sotto, pagg. 3-59)

Esercitazioni

A. DOFF et el., *Empower B1+ - Intermediate Student's Book,* Cambridge University Press, 2015.

L. HASHEMI - B. THOMAS, *All in One Grammar*, Cambridge University Press - Loescher, 2008

Dizionari consigliati

I dizionari consigliati sono disponibili per consultazione presso la Biblioteca dell'Area Linguistica. Sarebbe tuttavia ottimale possederne almeno uno di lingua di base, monolingue o bilingue, ed uno specialistico.

Dizionari bilingue:

G. Ragazzini, *Dizionario Italiano-Inglese / Inglese-Italiano*, Zanichelli, 2002

Grande Dizionario di Inglese Rizzoli-Larousse, Sansoni, 2003

Dizionari specialistici:

F. Picchi, *Economics and Business*, Dizionario enciclopedico economico e commerciale Inglese-Italiano / Italiano-Inglese, Zanichelli, 2000

L. Codeluppi, *A New Dictionary of Economics*, Cisalpino-Goliardica, 2001

Dizionario giurieconomico American-English-Italian – Italiano-Inglese, Simone, 2010

Dizionari monolingue:

Cobuild Dictionary of the English Language, Collins, 2001

Macmillan English Dictionary for Advanced Learners, Macmillan, 2003

Cambridge International Dictionary of English, C.U.P.,2000

Longman Dictionary of Contemporary English, Longman,2003

1 - Economics

Economics is the social science that analyzes the production, distribution, and consumption of goods and services. The term *economics* comes from the Ancient Greek *οἰκονομία* (*oikonomia*, "management of a household, administration") from *οἶκος* (*oikos*, "house") + *νόμος* (*nomos*, "custom" or "law"), hence "rules of the house(hold)". Current economic models emerged from the broader field of political economy in the late 19th century.

Economics aims to explain how economies work and how economic agents interact. Economic analysis is applied throughout society, in business, finance and government, but also in crime, education, the family, health, law, politics, religion, social institutions, war, and science.

Common distinctions are drawn between various dimensions of economics. The primary textbook distinction is between **microeconomics**, which examines the behaviour of basic elements in the economy, including individual markets and agents (such as consumers and firms, buyers and sellers), and **macroeconomics**, which addresses issues affecting an entire economy, including **unemployment**, **inflation**, **economic growth**, and **monetary and fiscal policy**. Other distinctions include: between positive economics (describing "what is") and normative economics (advocating "what ought to be"); between economic theory and applied economics; between mainstream economics (more "orthodox" dealing with the "rationality-individualism-equilibrium nexus") and heterodox economics (more "radical" dealing with the "institutions-history-social structure nexus"); and between rational and behavioural economics.

Microeconomics

Microeconomics, like macroeconomics, is a fundamental method for analyzing the economy as a system. It treats households and firms interacting through individual markets as irreducible elements of the economy, given scarcity and government regulation. A market might be for a *product*, say potatoes, or the *services of a factor of production*, say bricklaying. The theory considers aggregates of *quantity demanded* by buyers and *quantity supplied* by sellers at each possible price per unit. It weaves these together to describe how the market may reach equilibrium as to price and quantity or respond to market changes over time.

Such analysis includes the theory of **supply and demand**. It also examines market structures, such as perfect competition and monopoly for implications as to behaviour and economic efficiency.

In microeconomics, production is the conversion of inputs into outputs. It is an economic process that uses inputs to create a **commodity** for exchange or direct use. Production is a flow and thus a rate of output per period of time.

Inputs used in the production process include such primary factors of production as labour services, capital (durable produced goods used in production, such as an existing factory), and land (including natural resources). Other inputs may include intermediate goods used in the production of final goods, such as the steel in a new car.

Economic efficiency describes how well a system generates desired output with a given set of inputs and available technology. Efficiency is improved if more output is generated without changing inputs, or in other words, the amount of "waste" is reduced. A widely-accepted general standard is Pareto efficiency, which is reached when no further change can make someone better off without making someone else worse off.

Scarcity is the fundamental economic problem of having seemingly unlimited human needs and wants, in a world of limited resources. It states that society has insufficient productive resources to fulfill all human wants and needs. Alternatively, scarcity implies that not all of society's goals can be pursued at the same time; trade-offs are made of one good against others. For example there is scarcity when the production of one good *decreases* as a consequence of the *increasing* of the production of another good, an inverse relationship. This is because increasing the output of one good requires transferring inputs to it from the production of the other good, decreasing the latter.

Supply and demand

Prices and quantities are considered the most directly observable attributes of goods produced and exchanged in a market economy. The theory of supply and demand is an organizing principle for explaining how prices coordinate the amounts produced and consumed. In microeconomics, it applies to price and output determination for a market with perfect competition, which includes the condition of no buyers or sellers large enough to have price-setting power.

For a given market of a commodity, *demand* is the relation of the quantity that all buyers would be prepared to purchase at each unit price of the good. Demand theory describes individual consumers as rationally choosing the most preferred quantity of each good, given income, prices, tastes, etc. A term for this is 'constrained utility maximization' (with income and wealth as the constraints on demand). Here, utility refers to the hypothesized relation of each individual consumer for ranking different commodity bundles as more or less preferred.

The law of demand states that, in general, price and quantity demanded in a given market are inversely related. That is, the higher the price of a product, the less of it people would be prepared to buy (other things unchanged). As the price of a commodity falls, consumers move toward it from relatively more expensive goods (the substitution effect). In addition, the purchasing power from the price decline increases the ability to buy (the income effect).

Supply is the relation between the price of a good and the quantity available for sale at that price. Producers are hypothesized to be *profit-maximizers*, meaning that they attempt to produce and supply the amount of goods that will bring them the highest profit. Supply is typically represented as a directly-proportional relation between price and quantity supplied (other things unchanged). That is, the higher the price at which the good can be sold, the more of it producers will supply. The higher price makes it profitable to increase production.

Market equilibrium occurs where the quantity supplied equals the quantity demanded. At a price below equilibrium, there is a shortage of quantity supplied compared to quantity demanded. This pushes the price up. At a price above equilibrium, there is a surplus of quantity supplied compared to quantity demanded. This pushes the price down. The model of supply and demand predicts that for given supply and demand, price and quantity will stabilize at the price that makes the quantity supplied equal to the quantity demanded. Similarly, demand-and-supply theory predicts a new price-quantity combination from a shift in demand, or in supply.

(Adapted from *Wikipedia*, *the free encyclopedia*)

2 – History of economics

Economic writings date from earlier Mesopotamian, Greek, Roman, Indian, Chinese, Persian, and Arab civilizations.

Two groups, later called 'mercantilists' and 'physiocrats', more directly influenced the subsequent development of the subject. Both groups were associated with the rise of economic nationalism and modern capitalism in Europe. **Mercantilism** was an economic doctrine that flourished from the 16th to 18th century in a prolific pamphlet literature, whether of merchants or statesmen. It held that a nation's wealth depended on its accumulation of gold and silver. Nations without access to mines could obtain gold and silver from trade only by selling goods abroad and restricting imports other than of gold and silver. The doctrine called for importing cheap raw materials to be used in manufacturing goods, which could be exported, and for state regulation to impose protective tariffs on foreign manufactured goods and prohibit manufacturing in the colonies.

Physiocrats, a group of 18th century French thinkers and writers, developed the idea of the economy as a circular flow of income and output. Physiocrats believed that only agricultural production generated a clear surplus over cost, so that agriculture was the basis of all wealth. Thus, they opposed the mercantilist policy of promoting manufacturing and trade at the expense of agriculture, including import tariffs. Physiocrats advocated replacing administratively costly tax collections with a single tax on income of land owners. In reaction against copious mercantilist trade regulations, the physiocrats advocated a policy of **laissez-faire**, which called for minimal government intervention in the economy.

Modern economic analysis is customarily said to have begun with Adam Smith (1723–1790). Smith was harshly critical of the mercantilists but described the physiocratic system "with all its imperfections" as "perhaps the purest approximation to the truth that has yet been published" on the subject.

Classical political economy

The publication of **Adam Smith's** ***The Wealth of Nations*** in 1776, has been described as "the effective birth of economics as a separate discipline." The book identified land, labour, and capital as the three factors of production and the major contributors to a nation's wealth.

Smith discusses the benefits of the specialization by **division of labour**. His "theorem" that "the division of labour is limited by the extent of the market" has been described as a "fundamental principle of economic organization." Smith also founded the **resource-allocation theory** — that, under competition, owners of resources (labour, land, and capital) will use them most profitably, resulting in an equal rate of return in equilibrium for all uses (adjusted for apparent differences arising from such factors as training and unemployment).

In Smith's view, the ideal economy is a self-regulating market system that automatically satisfies the economic needs of the populace. He described the market mechanism as an "invisible hand" that leads all individuals, in pursuit of their own self-interests, to produce the greatest benefit for society as a whole. Smith incorporated some of the Physiocrats' ideas, including laissez-faire, into his own economic theories, but rejected the idea that only agriculture was productive.

In his famous invisible-hand analogy, Smith argued for the seemingly paradoxical notion that competitive markets tended to advance broader *social* interests, although driven by narrower *self*-interest. The general approach that Smith helped initiate was called political economy and later classical economics. It included such notables as Thomas Malthus, David Ricardo, and John Stuart Mill writing from about 1770 to 1870.

While Adam Smith emphasized the production of income, David Ricardo focused on the distribution of income among landowners, workers, and capitalists. Ricardo saw an inherent conflict between landowners on the one hand and labour and capital on the other. He posited that the growth of population and capital, pressing against a fixed supply of land, pushes up rents and holds down wages and profits.

Marxism

Marxist (later, Marxian) economics descends from classical economics. It derives from the work of **Karl Marx**. The first volume of Marx's major work, ***Das Kapital***, was published in German in 1867. In it, Marx focused on the **labour theory of value** and what he considered to be the exploitation of labour by capital. The labour theory of value held that the value of an exchanged commodity was determined by the labour that went into its production.

Neoclassical economics

A body of theory later termed '**neoclassical economics**' or '**marginalism**' formed from about 1870 to 1910. The term 'economics' was popularized by such neoclassical economists as **Alfred Marshall** as a concise synonym for 'economic science' and a substitute for the earlier, broader term 'political economy'. This corresponded to the influence on the subject of mathematical methods used in the natural sciences.

Neoclassical economics systematized supply and demand as joint determinants of price and quantity in market equilibrium, affecting both the allocation of output and the distribution of income. It dispensed with the labour theory of value inherited from classical economics in favour of a **marginal utility** theory of value on the demand side and a more general theory of costs on the supply side.

Keynesian economics

Keynesian economics derives from **John Maynard Keynes**, in particular his book ***The General Theory of Employment, Interest and Money*** (1936), which ushered in contemporary macroeconomics as a distinct field. The book focused on determinants of national income in the short run when prices are relatively inflexible. Keynes attempted to explain in broad theoretical detail why high labour-market unemployment might not be self-correcting due to low "effective demand" and why even price flexibility and monetary policy might be unavailing.

(Adapted from *Wikipedia*, *the free encyclopedia*)

3 - Macroeconomics

Macroeconomics examines the economy as a whole to explain broad aggregates and their interactions "top down," that is, using a simplified form of general-equilibrium theory. Such aggregates include **national income and output**, the **unemployment rate**, and price inflation and subaggregates like total consumption and investment spending and their components. It also studies effects of monetary policy and fiscal policy.

Macroeconomic analysis also considers factors affecting the long-term level and growth of national income. Such factors include capital accumulation, technological change and labour force growth.

Growth

Growth economics studies factors that explain economic growth – the increase in output per capita of a country over a long period of time. The same factors are used to explain differences in the *level* of output per capita *between* countries, in particular why some countries grow faster than others, and whether countries converge at the same rates of growth.

Much-studied factors include the rate of investment, population growth, and technological change. These are represented in theoretical and empirical forms (as in the neoclassical and endogenous growth models) and in growth accounting.

Inflation and monetary policy

In economics, **inflation** is a rise in the general level of prices of goods and services in an economy over a period of time. When the price level rises, each unit of currency buys fewer goods and services; consequently, inflation is also an erosion in the purchasing power of money – a loss of real value in the internal medium of exchange and unit of account in the economy. A chief measure of price inflation is the inflation rate, the annualized percentage change in a general price index (normally the Consumer Price Index) over time.

Inflation's effects on an economy are manifold and can be simultaneously positive and negative. Negative effects of inflation include a decrease in the real value of money and other monetary items over time, uncertainty over future inflation may discourage investment and savings, and high inflation may lead to shortages of goods. Positive effects include a mitigation of economic **recessions**, and debt relief by reducing the real level of debt.

Money is a *means of final payment* for goods in most price system economies and the **unit of account** in which prices are typically stated. The main functions of money are distinguished as: a medium of exchange; a unit of account; a store of value; and, occasionally, a standard of deferred payment.

As a medium of exchange, money facilitates trade. Its economic function can be contrasted with barter (non-monetary exchange). Given a diverse array of produced goods and specialized producers, barter may entail a hard-to-locate double coincidence of wants as to what is exchanged, say apples and a book. Money can reduce the transaction cost of exchange because of its ready acceptability. Then it is less costly for the seller to accept money in exchange, rather than what the buyer produces.

At the level of an economy, theory and evidence are consistent with a positive relationship running from the total money supply to the nominal value of total output and to the general price level. For this reason, management of the money supply is a key aspect of monetary policy.

Monetary policy rests on the relationship between the rates of interest in an economy, that is the price at which money can be borrowed, and the total supply of money. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like economic growth, inflation, exchange rates with other currencies and unemployment. Where the currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks which are tied to a central bank, the monetary authority has the ability to alter the money supply and thus influence the interest rate (to achieve policy goals). The beginning of monetary policy as such comes from the late 19th century, where it was used to maintain the gold standard.

Fiscal policy and regulation

National accounting is a method for summarizing aggregate economic activity of a nation. The national accounts are **double-entry accounting** systems that provide detailed underlying measures of such information. These include the national income and product accounts (NIPA), which provide estimates for the money value of output and income per year or quarter.

NIPA allows for tracking the performance of an economy and its components through business cycles or over longer periods. Price data may permit distinguishing nominal from real amounts, that is, correcting money totals for price changes over time. The national accounts also include measurement of the capital stock, wealth of a nation, and international capital flows.

International economics

International trade studies determinants of goods-and-services flows across international boundaries. It also concerns the size and distribution of gains from trade. Policy applications include estimating the effects of changing **tariff** rates and trade quotas. International finance is a macroeconomic field which examines the flow of capital across international borders, and the effects of these movements on exchange rates. Increased trade in goods, services and capital between countries is a major effect of contemporary globalization.
The distinct field of *development economics* examines economic aspects of the development process in relatively low-income countries focussing on structural change, poverty, and economic growth. Approaches in development economics frequently incorporate social and political factors.

Economic systems is the branch of economics that studies the methods and institutions by which societies determine the ownership, direction, and allocation of economic resources.

Among contemporary systems at different ends of the organizational spectrum are **socialist systems** and **capitalist systems**, in which most production occurs in respectively state-run and private enterprises. In between are **mixed economies**. A common element is the interaction of economic and political influences, broadly described as political economy.

(Adapted from *Wikipedia, the free encyclopedia*)

4 - Microeconomics

Microeconomics (from Greek prefix *micro-* meaning "small" + "economics") is a branch of economics that studies how the individual parts of the economy, the household and the firms, make decisions to allocate limited resources, typically in markets where goods or services are being bought and sold. Microeconomics examines how these decisions and behaviours affect the supply and demand for goods and services, which determines prices, and how prices, in turn, determine the supply and demand of goods and services.

This is a contrast to macroeconomics, which involves the "sum total of economic activity, dealing with the issues of growth, inflation, and unemployment. Microeconomics also deals with the effects of national economic policies (such as changing taxation levels) on the before mentioned aspects of the economy. One of the goals of microeconomics is to analyze **market mechanisms** that establish relative prices amongst goods and services and allocation of limited resources amongst many alternative uses. Microeconomics analyzes market failure, where markets fail to produce efficient results, and describes the theoretical conditions needed for perfect competition.

Assumptions and definitions

The theory of **supply and demand** usually assumes that markets are perfectly competitive. This implies that there are many buyers and sellers in the market and none of them has the capacity to significantly influence prices of goods and services. In many real-life transactions, the assumption fails because some individual buyers or sellers have the ability to influence prices.

Mainstream economics does not assume *a priori* that markets are preferable to other forms of social organization. In fact, much analysis is devoted to cases where so-called market failures lead to **resource allocation**. In such cases, economists may attempt to find policies that will avoid waste directly by government control, indirectly by regulation that induces market participants to act in a manner consistent with optimal welfare, or by creating "missing markets" to enable efficient trading where none had previously existed.

This is studied in the field of collective action. It also must be noted that "optimal welfare" usually takes on a Paretian norm, which in its mathematical application of Kaldor–Hicks method, does not stay consistent with the Utilitarian norm within the normative side of economics which studies collective action, namely public choice. Market failure in positive economics (microeconomics) is limited in implications without mixing the belief of the economist and his or her theory.

The demand for various commodities by individuals is generally thought of as the outcome of a utility-maximizing process. The interpretation of this relationship between price and quantity demanded of a given good is that this set of choices is that one which makes the consumer happiest.

Modes of operation

It is assumed that all firms are following rational decision-making, and will produce at the profit-maximizing output. Given this assumption, there are four categories in which a firm's profit may be considered.

A firm is said to be making an **economic profit** when its average total cost is less than the price of each additional product at the profit-maximizing output. The economic profit is equal to the quantity output multiplied by the difference between the average total cost and the price.

A firm is said to be making a normal profit when its economic profit equals zero. This occurs where average total cost equals price at the profit-maximizing output.

If the price is between average total cost and average variable cost at the profit-maximizing output, then the firm is said to be in a loss-minimizing condition. The firm should still continue to produce, however, since its loss would be larger if it were to stop producing. By continuing production, the firm can offset its variable cost and at least part of its fixed cost, but by stopping completely it would lose the entirety of its fixed cost.

If the price is below average variable cost at the profit-maximizing output, the firm should go into shutdown. Losses are minimized by not producing at all, since any production would not generate returns significant enough to offset any fixed cost and part of the variable cost. By not producing, the firm loses only its fixed cost. By losing this fixed cost the company faces a challenge. It must either exit the market or remain in the market and risk a complete loss.

Applied microeconomics

Applied microeconomics includes a range of specialized areas of study, many of which draw on methods from other fields. Applied work often uses little more than the basics of price theory, supply and demand. Industrial organization and regulation examines topics such as the entry and exit of firms, innovation, role of trademarks. Law and economics applies microeconomic principles to the selection and enforcement of competing legal regimes and their relative efficiencies. Labour economics examines wages, employment, and labor market dynamics. Public finance (also called public economics) examines the design of government tax and expenditure policies and economic effects of these policies (e.g., social insurance programs).

Political economy examines the role of political institutions in determining policy outcomes. Health economics examines the organization of health care systems, including the role of the health care workforce and health insurance programs. Urban economics, which examines the challenges faced by cities, such as sprawl, air and water pollution, traffic congestion, and poverty, draws on the fields of urban geography and sociology.

The field of financial economics examines topics such as the structure of optimal portfolios, the rate of return to capital, econometric analysis of security returns, and corporate financial behavior. The field of economic history examines the evolution of the economy and economic institutions, using methods and techniques from the fields of economics, history, geography, sociology, psychology, and political science.

(Adapted from *Wikipedia*, *the free encyclopedia*)

5 - **Currency**

Coins and **banknotes** are the two most common forms of currency.

In economics, the term **currency** can refer to a particular currency, for example Pound Sterling, or to the coins and banknotes of a particular currency, which comprise the physical aspects of a nation's money supply. The other part of a nation's money supply consists of money deposited in banks (sometimes called deposit money), ownership of which can be transferred by means of **cheques** or other forms of money transfer such as **credit** and **debit cards**. Deposit money and currency are money in the sense that both are acceptable as a means of exchange, but money need not necessarily be currency.

Historically, money in the form of currency has predominated. Usually (gold or silver) coins of intrinsic value commensurate with the monetary unit (commodity money), have been the norm. By contrast, modern currency, as fiat money, has no intrinsic value.

Control and production

In most cases, each **central bank** has monopoly control over the supply and production of its own currency. To facilitate trade between currency zones, there are different **exchange rates**, which are the prices at which currencies (and the goods and services of individual currency zones) can be exchanged against each other. Currencies can be classified as either floating currencies or fixed currencies based on their exchange rate regime.

In cases where a country does have control of its own currency, that control is exercised either by a central bank or by a Ministry of Finance. In either case, the institution that has control of monetary policy is referred to as the monetary authority. Monetary authorities have varying degrees of autonomy from the governments that create them. In the United States, the Federal Reserve System operates without direct oversight by the legislative or executive branches. A monetary authority is created and supported by its sponsoring government, so independence can be reduced by the legislative or executive authority that creates it. (Revocation of authority is unlikely in Western countries, where there has been a trend towards central bank independence.)

Several countries can use the same name for their own distinct currencies (e.g., *dollar* in Canada and the United States). By contrast, several countries can also use the same currency (e.g., the euro), or one country can declare the currency of another country to be legal tender. For example, Panama and El Salvador have declared U.S. currency to be legal tender, and from 1791–1857, Spanish silver coins were legal tender in the United States.

Each currency typically has a main currency unit (the U.S. dollar, for example, or the euro) and a fractional currency, often valued at $^{1}/_{100}$ of the main currency: 100 cents = 1 dollar, 100 pence = 1 pound, although units of $^{1}/_{10}$ or $^{1}/_{1000}$ are also common.

History

Early currency

The origin of currency is the creation of a circulating medium of exchange based on a **unit of account** which quickly becomes a store of value. Currency evolved from two basic innovations, both of which had occurred by 2000 BC.

This first stage of currency, where metals were used to represent stored value, and symbols to represent commodities, formed the basis of trade for over 1500 years. However, the collapse of the Near Eastern trading system pointed to a flaw: in an era where there was no place that was safe to store value, the value of a circulating medium could only be as sound as the forces that defended that store. Trade could only reach as far as the credibility of that military. It was only the recovery of Phoenician trade in the ninth and tenth centuries BC that saw a return to prosperity, and the appearance of real coinage, possibly first in Anatolia and subsequently with the Greeks and Persians. In Africa many forms of value store have been used including beads, ingots, ivory, various forms of weapons, livestock, ochre and other earth oxides, and so on. African currency is still notable for its variety, and in many places various forms of **barter** still apply.

Coinage

These factors led to the shift of the store of value being the metal itself: at first silver, then both silver and gold. Metals were mined, weighed, and stamped into **coins**. This was to assure the individual taking the coin that he was getting a certain known weight of precious metal. Coins could be counterfeited, but they also created a new unit of account, which helped lead to banking. Archimedes' principle provided the next link: coins could now be easily tested for their fine weight of metal, and thus the value of a coin could be determined, even if it had been shaved, debased or otherwise tampered with.

In most major economies using coinage, copper, silver and gold formed three tiers of coins. Gold coins were used for large purchases, payment of the military and backing of state activities. Silver coins were used for midsized transactions, and as a unit of account for taxes, dues, contracts, while copper coins represented the coinage of common transaction. In Europe, this system worked through the medieval period because there was virtually no new gold, silver or copper introduced through mining or conquest. Thus the overall ratios of the three coinages remained roughly equivalent.

Paper money

In premodern China, the need for credit and for circulating a medium that was less of a burden than exchanging thousands of copper coins led to the introduction of **paper money**, commonly known today as **banknotes**. This economic phenomenon was a slow and gradual process that took place from the late Tang Dynasty (618–907) into the Song Dynasty (960–1279). It began as a means for merchants to exchange heavy coinage for receipts of deposit issued as promissory notes from shops of wholesalers, notes that were valid for temporary use in a small regional territory. In the 10th century, the Song Dynasty government began circulating these notes amongst the traders in their monopolized salt industry. The Song government granted several shops the sole right to issue banknotes, and in the early 12th century the government finally took over these shops to produce state-issued currency. Yet the banknotes issued were still regionally valid and temporary; it was not until the mid 13th century that a standard and uniform government issue of paper money was made into an acceptable nationwide currency.

At around the same time in the medieval Islamic world, a vigorous monetary economy was created during the 7th–12th centuries on the basis of the expanding levels of circulation of a stable high-value currency (the dinar). Innovations introduced by Muslim economists, traders and merchants include the earliest uses of credit, cheques, promissory notes, savings accounts, loaning, exchange rates, the transfer of credit and debt, and banking institutions for loans and deposits.

In Europe paper money was first introduced in Sweden in 1661. Sweden was rich in copper, thus, because of copper's low value, extraordinarily big coins (often weighing several kilograms) had to be made.

The advantages of paper currency were numerous: it reduced transport of gold and silver, and thus lowered the risks; it made loaning gold or silver at interest easier, since the specie (gold or silver) never left the possession of the lender until someone else redeemed the note; and it allowed for a division of currency into credit and specie backed forms. It enabled the sale of **stock** in joint stock companies, and the redemption of those **shares** in paper.

However, these advantages held within them disadvantages. First, since a note has no intrinsic value, there was nothing to stop issuing authorities from printing more of it than they had specie to back it with. Second, because it increased the money supply, it increased inflationary pressures, a fact observed by David Hume in the 18th century. The result is that paper money would often lead to an inflationary bubble, which could collapse if people began demanding hard money, causing the demand for paper notes to fall to zero. The printing of paper money was also associated with wars, and financing of wars, and therefore regarded as part of maintaining a standing army.

For these reasons, paper currency was held in suspicion and hostility in Europe and America. It was also addictive, since the speculative profits of trade and capital creation were quite large. Major nations established **mints** to print money and mint coins, and branches of their treasury to collect taxes and hold gold and silver stock.

Legal tender era

With the creation of central banks, currency underwent several significant changes. During both the coinage and credit money eras the number of entities which had the ability to coin or print money was quite large. One could, literally, have "a license to print money"; many nobles had the right of coinage. Royal colonial companies, such as the Massachusetts Bay Company or the British East India Company could issue **notes of credit**—money backed by the promise to pay later, or exchangeable for payments owed to the company itself. This led to continual instability of the value of money. The exposure of coins to debasement and shaving, however, presented the same problem in another form: with each pair of hands a coin passed through, its value grew less.

The solution which evolved beginning in the late 18th century and through the 19th century was the creation of a central monetary authority which had a virtual monopoly on issuing currency, and whose notes had to be accepted for "all debts public and private". The creation of a truly national currency, backed by the government's store of precious metals, and enforced by their military and governmental control over an area was, in its time, extremely controversial. Advocates of the old system of Free Banking repealed central banking laws, or slowed down the adoption of restrictions on local currency.

At this time both silver and gold were considered legal tender, and accepted by governments for taxes. However, the instability in the ratio between the two grew over the course of the 19th century, with the increase both in supply of these metals, particularly silver, and of trade. This is called bimetallism and the attempt to create a bimetallic standard where both gold and silver backed currency remained in circulation occupied the efforts of inflationists.

By 1900, most of the industrializing nations were on some form of **gold standard**[1], with paper notes and silver coins constituting the circulating medium. No country anywhere in the world today has an enforceable gold standard or silver standard currency system.

Banknote era

A banknote (more commonly known as a bill in the United States and Canada) is a type of currency, and commonly used as legal tender in many jurisdictions. With coins, banknotes make up the **cash** form of all money. Mostly paper, Australia's Commonwealth Scientific and Industrial Research Organisation developed the world's first polymer currency in the 1980s that went into circulation on the nation's bicentenary in 1988. Now used in some 22 countries (over 40 if counting commemorative issues), polymer currency dramatically improves the life span of banknotes and prevents counterfeiting.

Modern currencies

Currently, the International Organization for Standardization has introduced a three-letter system of codes (ISO 4217) to define currency (as opposed to simple names), in order to remove the confusion caused by currencies with the same name; there are dozens of currencies called the dollar and many called the franc. Even the pound is used in nearly a dozen different countries, all, of course, with wildly differing values. In general, the three-letter code uses the ISO 3166-1 country code for the first two letters and the first letter of the name of the currency (D for dollar, for instance) as the third letter. The United States currency, for instance is globally referred to as USD.

(Adapted from *Wikipedia, the free encyclopedia*)

[1] The **gold standard** is a system in which the price of the national currency is measured in units of gold bars and is kept constant by the daily buying and selling of base currency to other countries and nationals. Today this type of monetary policy is not used anywhere in the world, although a form of gold standard was used widely across the world between the mid-1800s through 1971. Its major advantages were simplicity and transparency.

6 - Banks

A **bank** is a financial intermediary that accepts deposits and channels those deposits into lending activities, either directly or through capital markets. A bank connects customers with capital deficits to customers with capital surpluses.

Banking is generally a highly regulated industry, and government restrictions on financial activities by banks have varied over time and location. The current set of global bank capital standards are called Basel II. In some countries such as Germany, banks have historically owned major stakes in industrial corporations while in other countries such as the United States banks are prohibited from owning non-financial companies.

The oldest bank still in existence is Monte dei Paschi di Siena, headquartered in Siena, Italy, which has been operating continuously since 1472.

History

Banking in the modern sense of the word can be traced to medieval and early Renaissance Italy, to the rich cities in the north like Florence, Venice and Genoa. The Bardi and Peruzzi families dominated banking in 14th century Florence, establishing branches in many other parts of Europe. Perhaps the most famous Italian bank was the Medici bank, set up by Giovanni Medici in 1397. The earliest known state deposit bank, *Banco di San Giorgio* (Bank of St. George), was founded in 1407 at Genoa, Italy.

Banks can be traced back to ancient times even before money when temples were used to store commodities. During the 3rd century AD, banks in Persia issued **letters of credit**. Muslim traders are known to have used the **cheque** or *ṣakk*. In the 9th century, a Muslim businessman could cash an early form of the cheque in China drawn on sources in Baghdad, a tradition that was significantly strengthened in the 13th and 14th centuries, during the Mongol Empire. Fragments found in the Cairo Geniza indicate that in the 12th century cheques remarkably similar to our own were in use, only smaller to save costs on the paper. They contain a sum to be paid and then the order "May so and so pay the bearer such and such an amount". The date and name of the issuer are also apparent.

The word *bank* was borrowed in Middle English from Middle French *banque*, from Old Italian *banca*, from Old High German *banc, bank* "bench, counter". Benches were used as desks or exchange counters during the Renaissance by Florentine bankers, who used to make their transactions atop desks covered by green tablecloths.

Definition

The definition of a bank varies from country to country. Under English common law, a banker is defined as a person who carries on the business of banking, which is specified as:

- conducting current accounts for his customers
- paying cheques drawn on him, and

- collecting cheques for his customers.

In most common law jurisdictions there is a Bills of Exchange Act that codifies the law in relation to **negotiable instruments**, including cheques, and this Act contains a statutory definition of the term *banker*: *banker* includes a body of persons, whether incorporated or not, who carry on the business of banking'. Although this definition seems circular, it is actually functional, because it ensures that the legal basis for bank transactions such as cheques does not depend on how the bank is organised or regulated.

Since the advent of EFTPOS (Electronic Funds Transfer at Point Of Sale), direct credit, direct debit and internet banking, the cheque has lost its primacy in most banking systems as a payment instrument. This has led legal theorists to suggest that the cheque based definition should be broadened to include financial institutions that conduct current accounts for customers and enable customers to pay and be paid by third parties, even if they do not pay and collect cheques.

Banking

Banks act as payment agents by conducting **checking or current accounts** for customers, paying cheques drawn by customers on the bank, and collecting cheques deposited to customers' current accounts. Banks also enable customer payments via other payment methods such as telegraphic transfer, EFTPOS, and ATM (Automated Teller Machine).

Banks borrow money by accepting funds deposited on current accounts, by accepting term deposits, and by issuing debt **securities** such as banknotes and **bonds**. Banks lend money by making advances to customers on current accounts, by making **installment loans**, and by investing in marketable debt securities and other forms of money lending.

Banks provide almost all payment services, and a **bank account** is considered indispensable by most businesses, individuals and governments. Non-banks that provide payment services such as remittance companies are not normally considered an adequate substitute for having a bank account.

Banks borrow most funds from households and non-financial businesses, and lend most funds to households and non-financial businesses, but non-bank lenders provide a significant and in many cases adequate substitute for bank loans, and money market funds, cash management trusts and other non-bank financial institutions in many cases provide an adequate substitute to banks for lending savings to.

Banks offer many different channels to access their banking and other services:

- **ATM** is a machine that dispenses cash and sometimes takes deposits without the need for a human bank teller. Some ATMs provide additional services.
- A **branch** is a retail location.
- **Call center**
- **Mail**: most banks accept check deposits via mail and use mail to communicate to their customers, e.g. by sending out statements.
- **Mobile banking** is a method of using one's mobile phone to conduct banking transactions.
- **Online banking** is a term used for performing transactions, payments etc. over the Internet.

- **Relationship Managers**, mostly for private banking or business banking, often visiting customers at their homes or businesses.
- **Telephone banking** is a service which allows its customers to perform transactions over the telephone without speaking to a human.
- **Video banking** is a term used for performing banking transactions or professional banking consultations via a remote video and audio connection. Video banking can be performed via purpose built banking transaction machines (similar to an Automated teller machine), or via a videoconference enabled bank branch.

A bank can generate revenue in a variety of different ways including **interest**, transaction **fees** and **financial advice**. The main method is via charging interest on the capital it lends out to customers. The bank profits from the differential between the level of interest it pays for deposits and other sources of funds, and the level of interest it charges in its lending activities.

This difference is referred to as the *spread* between the cost of funds and the loan interest rate. Historically, profitability from lending activities has been cyclical and dependent on the needs and strengths of loan customers and the stage of the economic cycle. Fees and financial advice constitute a more stable revenue stream and banks have therefore placed more emphasis on these revenue lines to smooth their financial performance.

In the past 20 years American banks have taken many measures to ensure that they remain profitable while responding to increasingly changing market conditions. First, this includes the Gramm-Leach-Bliley Act, which allows banks again to merge with investment and insurance houses. Merging banking, investment, and insurance functions allows traditional banks to respond to increasing consumer demands for "one-stop shopping"

Second, they have expanded the use of risk-based pricing from business lending to consumer lending, which means charging higher interest rates to those customers that are considered to be a higher credit risk and thus increased chance of default on loans. This helps to offset the losses from bad loans, lowers the price of loans to those who have better credit histories, and offers credit products to high risk customers who would otherwise be denied credit.

Third, they have sought to increase the methods of payment processing available to the general public and business clients. These products include debit cards, prepaid cards, smart cards, and credit cards. They make it easier for consumers to conveniently make transactions and smooth their consumption over time (in some countries with underdeveloped financial systems, it is still common to deal strictly in cash, including carrying suitcases filled with cash to purchase a home).

Types of banks

Banks' activities can be divided into **retail banking**, dealing directly with individuals and small businesses; **business banking**, providing services to mid-market business; corporate banking, directed at large business entities; **private banking**, providing wealth management services to high net worth individuals and families; and **investment banking**, relating to activities on the financial markets. Most banks are profit-making, private enterprises. However, some are owned by government, or are non-profit organizations.

Types of retail banks

- **Commercial banks**: the term used for a normal bank to distinguish it from an investment bank. After the Great Depression, the U.S. Congress required that banks only engage in banking activities, whereas investment banks were limited to capital market activities. Since the two no longer have to be under separate ownership, some use the term "commercial bank" to refer to a bank or a division of a bank that mostly deals with deposits and loans from corporations or large businesses.
- **Postal savings banks**: savings banks associated with national postal systems.
- **Private banks**: banks that manage the assets of high net worth individuals. Historically a minimum of USD 1 million was required to open an account, however, over the last years many private banks have lowered their entry hurdles to USD 250,000 for private investors.
- **Offshore banks**: banks located in jurisdictions with low taxation and regulation. Many offshore banks are essentially private banks.
- **Savings banks**: in Europe, savings banks take their roots in the 19th or sometimes even 18th century. Their original objective was to provide easily accessible savings products to all strata of the population. In some countries, savings banks were created on public initiative; in others, socially committed individuals created foundations to put in place the necessary infrastructure. Nowadays, European savings banks have kept their focus on retail banking: payments, savings products, credits and insurances for individuals or small and medium-sized enterprises. Apart from this retail focus, they also differ from commercial banks by their broadly decentralised distribution network, providing local and regional outreach.
- **Ethical banks**: banks that prioritize the transparency of all operations and make only what they consider to be socially-responsible investments.

Types of investment banks

Investment banks "underwrite" (guarantee the sale of) stock and bond issues, trade for their own accounts, make markets, and advise corporations on capital market activities such as mergers and acquisitions.

Merchant banks were traditionally banks which engaged in trade finance. The modern definition, however, refers to banks which provide capital to firms in the form of shares rather than loans. Unlike venture capital firms, they tend not to invest in new companies.

Both combined

Universal banks, more commonly known as financial services companies, engage in several of these activities. These big banks are very diversified groups that, among other services, also distribute insurance— hence the term bancassurance, a portmanteau word combining "banque or bank" and "assurance", signifying that both banking and insurance are provided by the same corporate entity.

Other types of banks

Central banks are normally government-owned and charged with quasi-regulatory responsibilities, such as supervising commercial banks, or controlling the cash interest rate. They generally provide liquidity to the banking system and act as the lender of last resort in event of a crisis.

Islamic banks adhere to the concepts of Islamic law. This form of banking revolves around several well-established principles based on Islamic canons. All banking activities must avoid interest, a concept that is forbidden in Islam. Instead, the bank earns profit (markup) and fees on the financing facilities that it extends to customers.

(Adapted from *Wikipedia, the free encyclopedia*)

7 - Stock exchange

A **stock exchange** is an entity which provides "trading" facilities for **stock brokers** and traders, to trade **stocks** and other **securities**. Stock exchanges also provide facilities for the issue and redemption of securities as well as other financial instruments and capital events including the payment of income and **dividends**. The securities traded on a stock exchange include **shares** issued by companies, unit trusts, derivatives, pooled investment products and bonds.

To be able to trade a security on a certain stock exchange, it has to be listed there. Usually there is a central location at least for recordkeeping, but trade is less and less linked to such a physical place, as modern markets are electronic networks, which gives them advantages of increased speed and reduced cost of transactions. Trade on an exchange is by members only.

The initial offering of stocks and bonds to **investors** is by definition done in the primary market and subsequent trading is done in the secondary market. A stock exchange is often the most important component of a stock market. Supply and demand in stock markets is driven by various factors which, as in all free markets, affect the price of stocks.

There is usually no compulsion to issue stock via the stock exchange itself, nor must stock be subsequently traded on the exchange. Such trading is said to be *off exchange* or over-the-counter. This is the usual way that derivatives and bonds are traded. Increasingly, stock exchanges are part of a global market for securities.

The first stock exchanges

Some stories suggest that the origins of the term "bourse" came from the Latin *bursa* meaning *a bag* because, in 13th century Bruges, the sign of a purse (or perhaps three purses), was hung on the front of the house where merchants met. The story may well non be true, however it is possible that in the late 13th century **commodity traders** in Bruges gathered inside the house of the Van der Burse family (for some a Venetian family with original name "Della Borsa" and used three leather bags as coat-of-arms), and in 1309 they institutionalized this until now informal meeting and became the "Bruges Bourse." The idea spread quickly around Flanders and neighboring counties and "Bourses" soon opened in Ghent and Amsterdam.

In the middle of the 13th century, Venetian bankers began to trade in government securities and there were people in Pisa, Verona, Genoa and Florence who also began trading in government securities during the 14th century. This was only possible because these were independent city states ruled by a council of influential citizens, not by a duke.

The Dutch later started **joint stock companies**, which let shareholders invest in business ventures and get a share of their profits—or losses. In 1602, the Dutch East India Company issued the first shares on the Amsterdam Stock Exchange. It was the first company to issue stocks and bonds. In 1688, the trading of stocks began on a stock exchange in London.

On May 17, 1792, in order to more easily trade cotton, twenty-four supply brokers signed the Buttonwood Agreement outside 68 Wall Street in New York underneath a buttonwood tree. On March 8, 1817, properties got renamed to New York Stock & Exchange Board.

The role of stock exchanges

Stock exchanges have multiple roles in the economy. This may include the following:

- **Raising capital for businesses**. The Stock Exchange provides companies with the facility to raise capital for expansion through selling shares to the investing public.

- **Mobilizing savings for investment**. When people draw their savings and invest in shares, it leads to a more rational allocation of resources because funds, which could have been consumed, or kept in idle deposits with banks, are mobilized and redirected to promote business activity with benefits for several economic sectors such as agriculture, commerce and industry, resulting in stronger economic growth and higher productivity levels of firms.

- **Facilitating company growth**. Companies view acquisitions as an opportunity to expand product lines, increase distribution channels, hedge against volatility, increase its market share, or acquire other necessary business assets. A takeover bid or a merger agreement through the stock market is one of the simplest and most common ways for a company to grow by acquisition or fusion.

- **Profit sharing**. Both casual and professional stock investors, through dividends and stock price increases that may result in capital gains, will share in the wealth of profitable businesses.

- **Corporate governance**. By having a wide and varied scope of owners, companies generally tend to improve on their management standards and efficiency in order to satisfy the demands of these shareholders and the more stringent rules for public corporations imposed by public stock exchanges and the government. Consequently, it is alleged that **public companies** (companies that are owned by shareholders who are members of the general public and trade shares on public exchanges) tend to have better management records than **privately held companies** (those companies where shares are not publicly traded, often owned by the company founders and/or their families and heirs, or otherwise by a small group of investors). Despite this claim, some well-documented cases are known where it is alleged that there has been considerable slippage in corporate governance on the part of some public companies. The dot-com bubble in the late 1990's, and the subprime mortgage crisis in 2007-08, are classical examples of corporate mismanagement. Companies like Enron Corporation (2001), One.Tel (2001), MCI WorldCom (2002), Parmalat (2003), Lehman Brothers (2008), and General Motors (2009) were among the most widely scrutinized by the media.However, when poor financial, ethical or managerial records are known by the stock investors, the stock and the company tend to lose value. In the stock exchanges, shareholders of underperforming firms are often penalized by significant share price decline, and they tend as well to dismiss incompetent management teams.
- **Creating investment opportunities for small investors**. As opposed to other businesses that require huge capital outlay, investing in shares is open to both the large and small stock investors because a person buys the number of shares they can afford. Therefore the Stock Exchange provides the opportunity for small investors to own shares of the same companies as large investors.

- **Government capital-raising for development projects**. Governments at various levels may decide to borrow money in order to finance infrastructure projects such as sewage and water treatment works or housing estates by selling another category of securities known as bonds. These bonds can be raised through the Stock Exchange whereby members of the public buy them, thus loaning money to the government. The issuance of such bonds can obviate the need to directly tax the citizens in order to finance development, although by securing such bonds with the full faith and credit of the government, the result is that the government must tax the citizens or otherwise raise additional funds to make any regular coupon payments and refund the principal when the bonds mature.

- **Barometer of the economy**. At the stock exchange, share prices rise and fall depending, largely, on market forces. Share prices tend to rise or remain stable when companies and the economy in general show signs of stability and growth. An **economic recession**, depression, or financial crisis could eventually lead to a stock market crash. Therefore the movement of share prices and in general of the stock indexes can be an indicator of the general trend in the economy.

Listing requirements

Listing requirements are the set of conditions imposed by a given stock exchange upon companies that want to have their stocks and shares listed and traded on that exchange. Such conditions sometimes include minimum number of shares outstanding, minimum market capitalization, and minimum annual income. However such requirements may vary by stock exchange, as in the examples that follow.:

- **London Stock Exchange:** The main market of the London Stock Exchange has requirements for a minimum market capitalization (£700,000), three years of audited financial statements, minimum public float (25 per cent) and sufficient working capital for at least 12 months from the date of listing.
- **NASDAQ Stock Exchange:** To be listed on the NASDAQ a company must have issued at least 1.25 million shares of stock worth at least $70 million and must have earned more than $11 million over the last three years.[4]
- **New York Stock Exchange:** To be listed on the New York Stock Exchange (NYSE) a company must have issued at least a million shares of stock worth $100 million and must have earned more than $10 million over the last three years.

(Adapted from *Wikipedia, the free encyclopedia*)

20 Major Stock Exchanges : Year ended 31 December 2009
Source: World Federation of Exchanges - Statistics/Monthly

Economy	Stock Exchange	Market Capitalization (USD Billions)	Trade Value (USD Billions)
United States	New York Stock Exchange	11838	17521
Japan	Tokyo Stock Exchange	3306	3704
United States	NASDAQ	3239	13608
Europe	Euronext	2869	1935
United Kingdom	London Stock Exchange	2796	1772
China	Shanghai Stock Exchange	2705	5056
Hong Kong	Hong Kong Stock Exchange	2305	1416
Canada	Toronto Stock Exchange	1677	1245
Spain	BME Spanish Exchanges	1435	1259
Brazil	BM&F Bovespa	1337	645
India	Bombay Stock Exchange	1307	264
Germany	Deutsche Börse	1292	1517
Australia	Australian Securities Exchange	1225	799
India	National Stock Exchange of India	1225	792
Switzerland	SIX Swiss Exchange	1065	740
China	Shenzhen Stock Exchange	868	2772
South Korea	Korea Exchange	835	1570
Nordic Countries	NASDAQ OMX Nordic Exchange	817	697
South Africa	JSE Limited	799	271
Taiwan	Taiwan Stock Exchange	658	905
Italy	Borsa Italiana	656	948

8 - Public administration

Public administration is a "field of inquiry with a diverse scope", of which the "fundamental goal...is to advance management and policies so that government can function." Some of the various definitions which have been offered for the term are: "the management of public programs"; the "translation of politics into the reality that citizens see every day"; and "the study of government decision making, the analysis of the policies themselves, the various inputs that have produced them, and the inputs necessary to produce alternative policies."

Public administration is "centrally concerned with the organization of government policies and programmes as well as the behavior of officials (usually non-elected) formally responsible for their conduct". Many unelected **public servants** can be considered to be public administrators, including **police officers**, municipal budget analysts, HR benefits administrators, city managers, Census analysts, and cabinet secretaries. Public administrators are public servants working in public departments and agencies, at all levels of government.

The field is multidisciplinary in character; one of the various proposals for public administration's sub-fields sets out five pillars, including **human resources**, **organizational theory**, **policy analysis** and **statistics**, **budgeting**, and **ethics**.

Definition

One scholar claims that "public administration has no generally accepted definition", because the "scope of the subject is so great and so debatable that it is easier to explain than define". Public administration is a field of study (i.e., a discipline) and an occupation. There is much disagreement about whether the study of public administration can properly be called a discipline, largely because it is often viewed as a subfield of the 2 disciplines of political science and administrative science".

History

Dating back to Antiquity, Pharaohs, kings and emperors have required pages, treasurers, and tax collectors to administer the practical business of government. Prior to the 19th century, staffing of most public administrations was rife with nepotism, favoritism, and political patronage, which was often referred to as a "spoils system". Public administrators have been the "eyes and ears" of rulers until relatively recently. In medieval times, the abilities to read and write, add and subtract were as dominated by the educated elite as public employment. Consequently, the need for expert civil servants whose ability to read and write formed the basis for developing expertise in such necessary activities as legal record-keeping, paying and feeding armies and levying taxes. As the European Imperialist age progressed and the militarily powers extended their hold over other continents and people, the need for a sophisticated public administration grew.

The eighteenth-century noble, King Frederick William I of Prussia, created professorates in Cameralism in an effort to train a new class of public administrators. Lorenz von Stein, an 1855 German professor from Vienna, is considered the founder of the science of public administration in many parts of the world. In the time of Von Stein, public administration was considered a form of administrative law, but Von Stein believed this concept too restrictive. Von Stein taught that public administration relies on many prestablished disciplines such as sociology, political science, administrative law and public finance. He called public administration an integrating science, and stated that public administrators should be concerned with both theory and practice. He argued that public administration is a science because knowledge is generated and evaluated according to the scientific method.

In the United States of America, Woodrow Wilson is considered the father of public administration. He first formally recognized public administration in an 1887 article entitled "The Study of Administration." The future president wrote that "it is the object of administrative study to discover, first, what government can properly and successfully do, and, secondly, how it can do these proper things with the utmost possible efficiency and at the least possible cost either of money or of energy." Wilson advocated four concepts:

- Separation of politics and administration
- Comparative analysis of political and private organizations
- Improving efficiency with business-like practices and attitudes toward daily operations
- Improving the effectiveness of public service through management and by training civil servants, merit-based assessment

Core branches

In academia, the field of public administration consists of a number of sub-fields. Scholars have proposed a number of different sets of sub-fields. One of the proposed models uses five "pillars":

- **Human resource management** is an in-house structure that ensures that public service staffing is done in an unbiased, ethical and values-based manner. The basic functions of the HR system are employee benefits, employee health care, compensation, etc.
- **Organizational Theory in Public Administration** is the study of the structure of governmental entities and the many particulars inculcated in them.
- **Ethics in public administration** serves as a normative approach to decision making.
- **Policy analysis** serves as an empirical approach to decision making.
- **Public budgeting** is the activity within a government that seeks to allocate scarce resources among unlimited demands.

The goals of the field of public administration are related to the democratic values of improving equality, justice, security, efficiency, effectiveness of public services usually in a non-profit, non-taxable venue; business administration, on the other hand, is primarily concerned with taxable profit.

(Adapted from *Wikipedia, the free encyclopedia*)

9 – Monetary policy

Monetary policy is the process by which the **monetary authority** of a country controls the **supply of money**, often targeting a rate of interest to attain a set of objectives oriented towards the growth and stability of the economy. These goals usually include stable prices and low unemployment. Monetary theory provides insight into how to craft optimal monetary policy.

Monetary policy is referred to as either being an expansionary policy, or a contractionary policy, where an expansionary policy increases the total supply of money in the economy rapidly, and a contractionary policy decreases the total money supply or increases it only slowly. Expansionary policy is traditionally used to combat **unemployment** in a **recession** by lowering **interest rates**, while contractionary policy involves raising interest rates to combat **inflation**. Monetary policy is contrasted with fiscal policy, which refers to government borrowing, spending and taxation.

A policy is referred to as **contractionary** if it reduces the size of the money supply or increases it only slowly, or if it raises the interest rate. An **expansionary** policy increases the size of the money supply more rapidly, or decreases the interest rate. Furthermore, monetary policies are described as follows: accommodative, if the interest rate set by the central monetary authority is intended to create economic growth; neutral, if it is intended neither to create growth nor combat inflation; or tight if intended to reduce inflation.

There are several monetary policy tools available to achieve these ends: increasing interest rates by fiat; reducing the monetary base; and increasing reserve requirements. All have the effect of contracting the money supply; and, if reversed, expand the money supply. Since the 1970s, monetary policy has generally been formed separately from fiscal policy. Even prior to the 1970s, the Bretton Woods system[1] still ensured that most nations would form the two policies separately.

Within almost all modern nations, special institutions (such as the Federal Reserve System in the United States, the Bank of England, the European Central Bank, the People's Bank of China, and the Bank of Japan) exist which have the task of executing the monetary policy and often independently of **the executive**. In general, these institutions are called **central banks** and often have other responsibilities such as supervising the smooth operation of the financial system.

The primary tool of monetary policy is open market operations. This entails managing the quantity of money in circulation through the buying and selling of various financial instruments, such as treasury bills, company bonds, or foreign currencies. All of these purchases or sales result in more or less base currency entering or leaving market circulation.

[1] The **Bretton Woods system** of monetary management established the rules for commercial and financial relations among the world's major industrial states in the mid 20th century. Preparing to rebuild the international economic system as World War II was still raging, 730 delegates from all 44 Allied nations gathered in Bretton Woods, New Hampshire, United States, for the United Nations Monetary and Financial Conference. The delegates deliberated upon and signed the Bretton Woods Agreements in July 1944. Setting up a system of rules, institutions, and procedures to regulate the international monetary system, the planners at Bretton Woods established the International Monetary Fund (IMF) and the International Bank for Reconstruction and Development (IBRD), which today is part of the World Bank Group. These organizations became operational in 1945 after a sufficient number of countries had ratified the agreement. The Bretton Woods system was the first example of a fully negotiated monetary order intended to govern monetary relations among independent nation-states.

Usually, the short term goal of open market operations is to achieve a specific short term interest rate target. In other instances, monetary policy might instead entail the targeting of a specific exchange rate relative to some foreign currency or else relative to gold.

Theory

Monetary policy is the process by which the government, central bank, or monetary authority of a country controls (i) the **supply of money**, (ii) **availability of money**, and (iii) **cost of money** or rate of interest to attain a set of objectives oriented towards the growth and stability of the economy.

Monetary policy rests on the relationship between the rates of interest in an economy, that is the price at which money can be borrowed, and the total supply of money. Monetary policy uses a variety of tools to control one or both of these, to influence outcomes like **economic growth**, inflation, exchange rates with other currencies and unemployment. Where currency is under a monopoly of issuance, or where there is a regulated system of issuing currency through banks which are tied to a central bank, the monetary authority has the ability to alter the money supply and thus influence the interest rate (to achieve policy goals).

History of monetary policy

Monetary policy is primarily associated with **interest rate** and **credit**. For many centuries there were only two forms of monetary policy: (i) Decisions about **coinage**; (ii) Decisions to print **paper money** to create credit. Interest rates, while now thought of as part of monetary authority, were not generally coordinated with the other forms of monetary policy during this time. Monetary policy was seen as an executive decision, and was generally in the hands of the authority with seigniorage, or the power to coin. With the advent of larger trading networks came the ability to set the price between gold and silver, and the price of the local currency to foreign currencies.

With the creation of the Bank of England in 1694, which acquired the responsibility to print notes and back them with gold, the idea of monetary policy as independent of executive action began to be established. The goal of monetary policy was to maintain the value of the coinage, print notes which would trade at par to specie, and prevent coins from leaving circulation. The establishment of central banks by industrializing nations was associated then with the desire to maintain the nation's peg to the **gold standard**, and to trade in a narrow band with other gold-backed currencies. To accomplish this end, central banks as part of the gold standard began setting the interest rates that they charged, both their own borrowers, and other banks who required liquidity. The maintenance of a gold standard required almost monthly adjustments of interest rates. During the 1870-1920 period, the industrialized nations set up central banking systems, with one of the last being the Federal Reserve in 1913.

Monetarist macroeconomists have sometimes advocated simply increasing the monetary supply at a low, constant rate, as the best way of maintaining low inflation and stable output growth.

Monetary decisions today take into account a wider range of factors, such as:

- short term interest rates;
- long term interest rates;
- velocity of money through the economy;
- exchange rates;
- credit quality;

- bonds and equities (corporate ownership and debt);
- government versus private sector spending/savings;
- international capital flows of money on large scales;
- financial derivatives such as options, swaps, futures contracts, etc.

Trends in central banking

The central bank influences interest rates by expanding or contracting the monetary base, which consists of currency in circulation and banks' reserves on deposit at the central bank. The primary way that the central bank can affect the monetary base is by **open market operations** or sales and purchases of second hand government debt, or by changing the reserve requirements. If the central bank wishes to lower interest rates, it purchases government debt, thereby increasing the amount of cash in circulation or crediting banks' reserve accounts. Alternatively, it can lower the interest rate on discounts or overdrafts. If the interest rate on such transactions is sufficiently low, commercial banks can borrow from the central bank to meet reserve requirements and use the additional liquidity to expand their balance sheets, increasing the credit available to the economy. Lowering reserve requirements has a similar effect, freeing up funds for banks to increase loans or buy other profitable assets.

A central bank can only operate a truly independent monetary policy when the **exchange rate** is floating. If the exchange rate is pegged or managed in any way, the central bank will have to purchase or sell foreign exchange. These transactions in foreign exchange will have an effect on the monetary base analogous to open market purchases and sales of government debt; if the central bank buys foreign exchange, the monetary base expands, and vice versa. But even in the case of a pure floating exchange rate, central banks and monetary authorities can at best "lean against the wind" in a world where capital is mobile.

In the 1980s, many economists began to believe that making a nation's central bank independent of the rest of executive government is the best way to ensure an optimal monetary policy, and those central banks which did not have independence began to gain it. This is to avoid overt manipulation of the tools of monetary policies to effect political goals, such as re-electing the current government. Independence typically means that the members of the committee which conducts monetary policy have long, fixed terms. Obviously, this is a somewhat limited independence.

(Adapted from *Wikipedia, the free encyclopedia*)

10 - Fiscal policy

In economics, **fiscal policy** is the use of government expenditure and revenue collection to influence the economy.

Fiscal policy can be contrasted with the other main type of macroeconomic policy, monetary policy, which attempts to stabilize the economy by controlling interest rates and the money supply. The two main instruments of fiscal policy are **government expenditure** and **taxation**. Changes in the level and composition of taxation and government spending can impact on the following variables:

- Aggregate demand and the level of economic activity;
- The pattern of resource allocation;
- The distribution of income.

Fiscal policy refers to the use of the government **budget** to influence the first of these: economic activity.

Stances of fiscal policy

The three possible stances of fiscal policy are neutral, expansionary and contractionary. The simplest definitions of these stances are as follows:

- A **neutral stance** of fiscal policy implies a balanced economy. This results in a large tax revenue. Government spending is fully funded by tax revenue and overall the budget outcome has a neutral effect on the level of economic activity.
- An **expansionary stance** of fiscal policy involves government spending exceeding tax revenue.
- A **contractionary fiscal** policy occurs when government spending is lower than tax revenue.

However, these definitions can be misleading because, even with no changes in spending or tax laws at all, cyclical fluctuations of the economy cause cyclical fluctuations of tax revenues and of some types of government spending, altering the deficit situation; these are not considered to be policy changes. Therefore, for purposes of the above definitions, "government spending" and "tax revenue" are normally replaced by "cyclically adjusted government spending" and "cyclically adjusted tax revenue". Thus, for example, a government budget that is balanced over the course of the business cycle is considered to represent a neutral fiscal policy stance.

Methods of funding

Governments spend money on a wide variety of things, from the military and police to services like education and healthcare, as well as transfer payments such as welfare benefits. This expenditure can be funded in a number of different ways:

- Taxation
- Seigniorage, the benefit from printing money
- Borrowing money from the population or from abroad
- Consumption of fiscal reserves.
- Sale of fixed assets (e.g., land).

All of these except taxation are forms of deficit financing.

Borrowing

A fiscal deficit is often funded by issuing bonds, like treasury bills or consols and gilt-edged securities. These pay interest, either for a fixed period or indefinitely. If the interest and capital repayments are too large, a nation may default on its debts, usually to foreign creditors.

Consuming prior surpluses

A fiscal surplus is often saved for future use, and may be invested in local (same currency) financial instruments, until needed. When income from taxation or other sources falls, as during an economic slump, reserves allow spending to continue at the same rate, without incurring additional debt.

Economic effects of fiscal policy

Governments use fiscal policy to influence the level of aggregate demand in the economy, in an effort to achieve economic objectives of price stability, full employment, and economic growth. **Keynesian economics** suggests that increasing **government spending** and decreasing **tax rates** are the best ways to stimulate aggregate demand. This can be used in times of recession or low economic activity as an essential tool for building the framework for strong economic growth and working towards full employment. In theory, the resulting deficits would be paid for by an expanded economy during the boom that would follow; this was the reasoning behind the New Deal[1].

Governments can use a budget surplus to do two things: to slow the pace of strong economic growth, and to stabilize prices when inflation is too high. Keynesian theory posits that removing spending from the economy will reduce levels of aggregate demand and contract the economy, thus stabilizing prices.

Economists debate the effectiveness of fiscal stimulus. The argument mostly centers on crowding out, a phenomenon where government borrowing leads to higher interest rates that offset the stimulative impact of spending. When the government runs a budget deficit, funds will need to come from public borrowing (the issue of government bonds), overseas borrowing, or monetizing the debt. When governments fund a deficit with the issuing of government bonds, interest rates can increase across the market, because government borrowing creates higher demand for credit in the financial markets. This causes a lower aggregate demand for goods and services, contrary to the objective of a fiscal stimulus. Neoclassical economists generally emphasize crowding out while Keynesians argue that fiscal policy can still be effective especially in a liquidity trap where, they argue, crowding out is minimal.

In the classical view, expansionary fiscal policy also decreases net exports, which has a mitigating effect on **national output and income**. When government borrowing increases interest rates it attracts foreign capital from foreign investors. This is because, all other things being equal, the bonds issued from a country executing expansionary fiscal policy now offer a higher rate of return.

[1] The **New Deal** is a series of economic programs implemented in the United States between 1933 and 1936. They were passed by the U.S. Congress during the first term of Franklin Delano Roosevelt, President of the United States, from 1933 to 1936. The programs were responses to the Great Depression that began with the Wall Street Crash of October, 1929.

In other words, companies wanting to finance projects must compete with their government for capital so they offer higher rates of return. To purchase bonds originating from a certain country, foreign investors must obtain that country's currency. Therefore, when foreign capital flows into the country undergoing fiscal expansion, the demand for that country's currency increases. The increased demand causes that country's currency to appreciate. Once the currency appreciates, goods originating from that country now cost more to foreigners than they did before and foreign goods now cost less than they did before. Consequently, exports decrease and imports increase.

Other possible problems with fiscal stimulus include the time lag between the implementation of the policy and detectable effects in the economy, and inflationary effects driven by increased demand. In theory, fiscal stimulus does not cause inflation when it uses resources that would have otherwise been idle. For instance, if a fiscal stimulus employs a worker who otherwise would have been unemployed, there is no inflationary effect; however, if the stimulus employs a worker who otherwise would have had a job, the stimulus is increasing labour demand while labour supply remains fixed, leading to wage inflation and therefore price inflation.

(Adapted from *Wikipedia, the free encyclopedia*)

11 - International trade law

International trade law includes the appropriate rules and customs for handling trade between countries. This branch of law is now an independent field of study as most governments have become part of the world trade, as members of the **World Trade Organization** (WTO). Whereas "International Commercial Law" deals with transactions between companies and individuals. Since the transaction between private sectors of different countries is an important part of the WTO activities, this latter branch of law is now a very important part of the academic works and is under study in many universities across the world.

Overview

International trade law should be distinguished from the broader field of international economic law. The latter could be said to encompass not only WTO law, but also law governing the international monetary system and currency regulation, as well as the law of **international development**.

The body of rules for transnational trade in the 21st century derives from medieval commercial laws called the *lex mercatoria* and *lex maritima* — respectively, "the law for merchants on land" and "the law for merchants on sea". Modern trade law (extending beyond bilateral treaties) began shortly after the Second World War, with the negotiation of a multilateral treaty to deal with trade in goods: the **General Agreement on Tariffs and Trade** (GATT)[1].

International trade law is based on theories of economic liberalism developed in Europe and later the United States from the 18th century onwards.

World Trade Organization

In 1995, the World Trade Organization, a formal international organization to regulate trade, was established. It is the most important development in the history of international trade law.

The purposes and structure of the organization is governed by the *Agreement Establishing The World Trade Organization*, also known as the "Marrakesh Agreement". It does not specify the actual rules that govern international trade in specific areas. These are found in separate treaties, annexed to the Marrakesh Agreement.

Trade in goods

The GATT has been the backbone of international trade law throughout most of the twentieth century. It contains rules relating to "unfair" trading practices — **dumping** and **subsidies**.

[1] The **General Agreement on Tariffs and Trade** (typically abbreviated **GATT**) was negotiated during the UN Conference on Trade and Employment and was the outcome of the failure of negotiating governments to create the International Trade Organization (ITO). GATT was formed in 1949 and lasted until 1993, when it was replaced by the World Trade Organization in 1995.

Trade and Human Rights

The World Trade Organisation Trade Related Intellectual Property Rights (TRIPS) agreement required signatory nations to raise **intellectual property rights** (also known as intellectual monopoly privileges). This arguably has had a negative impact on access to essential medicines in some nations.

Dispute settlement

Since there are no international governing judges the means of dispute resolution is determined by jurisdiction. Each individual country hears cases that are brought before them. Governments choose to be party to a dispute. And private citizens determine jurisdiction by the Forum Clause in their contract.

Besides forum, another factor in international disputes is the rate of exchange. With currency fluctuation ascending and descending over years, a lack of Commerce Clause can jeopardize trade between parties when one party becomes unjustly enriched through natural market fluctuations. By listing the rate of exchange expected over the contract life, parties can provide for changes in the market through reassessment of contract or division of exchange rate fluctuations.

(Adapted from *Wikipedia, the free encyclopedia*)

12 - History of free trade

It is known that various prosperous world civilizations throughout history have engaged in trade. Based on this, theoretical rationalizations as to why a policy of **free trade** would be beneficial to nations developed over time, especially in Europe, and especially in Britain, over the past five centuries. Before the appearance of Free Trade doctrine, and continuing in opposition to it to this day, the policy of **mercantilism** had developed in Europe in the 16th century. Early economists opposed to mercantilism were David Ricardo and Adam Smith.

Economists that advocated free trade believed trade was the reason why certain civilizations prospered economically. Adam Smith, for example, pointed to increased trading as being the reason for the flourishing of not just Mediterranean cultures such as Egypt, Greece, and Rome, but also of Bengal (East India) and China. The great prosperity of the Netherlands after throwing off the Spanish Imperial rule, and declaring free trade, made the free trade/mercantilist dispute the most important question in economics for centuries. Free trade policies have battled with mercantilist, protectionist, isolationist, communist, populist, and other policies over the centuries.

Wars have been fought over trade, such as the Peloponnesian War between Athens and Sparta, the Opium Wars between China and Great Britain, and other colonial wars. All developed countries have used protectionism due to an interest in raising revenues, protecting infant industries, special interest pressure, and, prior to the 19th century, a belief in mercantilism.

Some degree of Protectionism is nevertheless the norm throughout the world. In most developed nations, controversial agricultural tariffs are maintained. From 1820 to 1980, the average tariffs on manufactures in twelve industrial countries ranged from 11 to 32%. In the developing world, average tariffs on manufactured goods are approximately 34%.

Currently, the **World Bank** believes that, at most, rates of 20% can be allowed by developing nations; but some economists think that higher levels may be justified because the productivity gap between developing and developed nations is much higher than the productivity gap which industrial countries faced. If the main defense of tariffs is to stimulate infant industries, a tariff must be high enough to allow domestic manufactured goods to compete for the tariff to be possibly successful. This theory, known as **import substitution industrialization**, is largely considered to be ineffective for currently developing nations, and studies by the World Bank have determined that **export-oriented industrialization** policies correlate with higher economic growth as observed with the Four Asian Tigers (Hong Kong, Singapore, South Korea and Taiwan).

Trade diversion

According to mainstream economic theory, global free trade is a net benefit to society, but the selective application of free trade agreements to some countries and tariffs on others can sometimes lead to economic inefficiency through the process of trade diversion. It is economically efficient for a good to be produced by the country which is the lowest cost producer, but this will not always take place if a high cost producer has a free trade agreement while the low cost producer faces a high tariff. Applying free trade to the high cost producer (and not the low cost producer as well) can lead to trade diversion and a net economic loss. This is why many economists place such high importance on negotiations for global tariff reductions, such as the Doha Round.

Opinion of economists

The literature analysing the economics of free trade is extremely rich with extensive work having been done on the theoretical and empirical effects. Though it creates winners and losers, the broad consensus among members of the economics profession in the U.S. is that free trade is a large and unambiguous net gain for society. In a 2006 survey of American economists (83 responders), "87.5% agree that the U.S. should eliminate remaining tariffs and other barriers to trade" and "90.1% disagree with the suggestion that the U.S. should restrict employers from outsourcing work to foreign countries."

Quoting Harvard economics professor N. Gregory Mankiw, "Few propositions command as much consensus among professional economists as that open world trade increases economic growth and raises living standards." Nonetheless, quoting Prof. Peter Soderbaum of Malardalen University, Sweden, "This neoclassical trade theory focuses on one dimension, i.e., the price at which a commodity can be delivered and is extremely narrow in cutting off a large number of other considerations about impacts on employment in different parts of the world, about environmental impacts and on culture."

Most free traders would agree that there are winners and losers from free trade, but argue that this is not a reason to argue against free trade, because free trade is supposed to bring overall gain due to the idea that the winners have gained enough to make up for the losses of the losers.

In an assessment of the literature on the theory and empirical research relating to the benefits of free trade, Sonali Deraniyagala and Ben Fine found that much of the work was flawed, and concluded that the extent to which free trade benefits economic development is unknown. Theoretical arguments are largely dependent upon specific empirical assumptions which may or may not hold true. In the empirical literature, many studies suggest the relationship is ambiguous, and the data and econometrics underlying a set of empirical papers showing positive results have been critiqued.

Opposition

The relative costs, benefits and beneficiaries of free trade are debated by academics, governments and interest groups.

Arguments for protectionism fall into the economic category (trade hurts the economy) or the moral category (the effects of trade might help the economy, but have ill effects in other areas); a general argument against free trade is that it is **colonialism** or **imperialism** in disguise. The moral category is wide, including concerns of **income inequality**, **environmental degradation**, supporting **child labour** and sweatshops, race to the bottom, **wage slavery**, accentuating **poverty** in poor countries, harming national defense, and forcing cultural change.

Free trade is often opposed by domestic industries that would have their profits and market share reduced by lower prices for imported goods. For example, if United States tariffs on imported sugar were reduced, U.S. sugar producers would receive lower prices and profits, while U.S. sugar consumers would spend less for the same amount of sugar because of those same lower prices. More generally, producers often favor domestic subsidies and tariffs on imports in their home countries, while objecting to subsidies and tariffs in their export markets.

Socialists frequently oppose free trade on the ground that it allows maximum **exploitation** of workers by capital. For example, Karl Marx wrote in *The Communist Manifesto*, "The bourgeoisie...

has set up that single, unconscionable freedom -- Free Trade. In one word, for exploitation, veiled by religious and political illusions, it has substituted naked, shameless, direct, brutal exploitation."

"Free trade" is opposed by many anti-globalization groups, based on their assertion that free trade agreements generally do not increase the economic freedom of the poor or the **working class**, and frequently make them poorer. Where the foreign supplier allows de facto exploitation of labour, domestic free-labour is unfairly forced to compete with the foreign exploited labour, and thus the domestic "working class would gradually be forced down to the level of helotry." To this extent, free trade is seen as nothing more than an end-run around laws that protect individual liberty, such as the Thirteenth Amendment to the United States Constitution (**outlawing** slavery and indentured servitude). In this regard, protective trade policies are seen, not so much as protecting domestic producers, but rather, as protecting liberty itself. Thus, while admitting that some gain in efficiency might be realized in the short-term by implementation of free trade policies, the long-term question of the cost of that efficiency in terms of loss of liberty remains.

It is important to distinguish between arguments against free trade theory, and free trade *agreements* as applied. Some opponents of NAFTA[1] see the agreement as being materially harmful to the common people, but some of the arguments are actually against the particulars of government-managed trade, rather than against free trade *per se*.

Latin America performed poorly since **tariff cuts** in 1980s and 1990s, compared to **protectionist** China and Southeast Asia. According to Samuelson, it is wrong to assume a necessary surplus of winnings over losings and he condemned "economists' over-simple complacency about globalization" and said that workers don't always win. Some economists try to emphasize that trade barriers should exist to help poor nations build domestic industries and give rich nations time to retrain workers.

It has long been argued that free trade is a form of colonialism or imperialism, a position taken by various proponents of economic nationalism and the school of mercantilism. In the 19th century these criticized British calls for free trade as a cover for the British Empire.

(Adapted from *Wikipedia, the free encyclopedia*)

[1] The **North American Free Trade Agreement** or **NAFTA** is an agreement signed by the governments of Canada, Mexico, and the United States, creating a trilateral trade bloc in North America. The agreement came into force on January 1, 1994.

13 - World Trade Organization

The **World Trade Organization** (**WTO**) is an organization that intends to supervise and liberalize international trade. The organization officially commenced on January 1, 1995 under the Marrakech Agreement, replacing the **General Agreement on Tariffs and Trade** (GATT), which commenced in 1948. The organization deals with regulation of trade between participating countries; it provides a framework for negotiating and formalizing trade agreements, and a dispute resolution process aimed at enforcing participants' adherence to WTO agreements which are signed by representatives of member governments and ratified by their parliaments.

The organization is currently endeavoring to persist with a trade negotiation called the Doha Development Agenda (or **Doha Round**), which was launched in 2001 to enhance equitable participation of poorer countries which represent a majority of the world's population.

The WTO has 153 members, representing more than 97% of total world trade and 30 observers, most seeking membership. The WTO is governed by a ministerial conference, meeting every two years; a general council, which implements the conference's policy decisions and is responsible for day-to-day administration; and a director-general, who is appointed by the ministerial conference. The WTO's headquarters is in Geneva, Switzerland.

The WTO's predecessor, the General Agreement on Tariffs and Trade (GATT), was established after World War II in the wake of other new multilateral institutions dedicated to international economic cooperation — notably the Bretton Woods institutions known as the **World Bank** and the **International Monetary Fund** (IMF).

Functions

Among the various functions of the WTO, these are regarded by analysts as the most important:

- It oversees the implementation, administration and operation of the covered agreements.
- It provides a forum for negotiations and for settling disputes.

Additionally, it is the WTO's duty to review and propagate the national trade policies, and to ensure the coherence and transparency of trade policies through surveillance in global economic policy-making. Another priority of the WTO is the assistance of **developing**, **least-developed** and **low-income countries** in transition to adjust to WTO rules and disciplines through technical cooperation and training.

The WTO is also a center of economic research and analysis: regular assessments of the global trade picture in its annual publications and research reports on specific topics are produced by the organization. Finally, the WTO cooperates closely with the two other components of the Bretton Woods system, the IMF and the World Bank.

Principles of the trading system

The WTO establishes a framework for trade policies; it does not define or specify outcomes. That is, it is concerned with setting the rules of the trade policy games. Five principles are of particular importance in understanding both the pre-1994 GATT and the WTO:

1. **Non-Discrimination**. It has two major components: the most favoured nation (MFN) rule, and the national treatment policy. The MFN rule requires that a WTO member must apply the same conditions on all trade with other WTO members ("Grant someone a special favour and you have to do the same for all other WTO members"). National treatment means that imported goods should be treated no less favorably than domestically produced goods (at least after the foreign goods have entered the market) and was introduced to tackle non-tariff barriers to trade (e.g. technical standards, security standards et al. discriminating against imported goods).
2. **Reciprocity**. It reflects both a desire to limit the scope of free-riding that may arise because of the MFN rule, and a desire to obtain better access to foreign markets.
3. **Binding and enforceable commitments**. The tariff commitments made by WTO members in a multilateral trade negotiation and on accession are enumerated in a schedule (list) of concessions; a country can change its bindings, but only after negotiating with its trading partners, which could mean compensating them for loss of trade. If satisfaction is not obtained, the complaining country may invoke the WTO dispute settlement procedures.
4. **Transparency**. The WTO members are required to publish their trade regulations, to maintain institutions allowing for the review of administrative decisions affecting trade, to respond to requests for information by other members, and to notify changes in trade policies to the WTO. The WTO system tries also to improve predictability and stability, discouraging the use of quotas and other measures used to set limits on quantities of imports.
5. **Safety valves**. In specific circumstances, governments are able to restrict trade. Exceptions to the MFN principle also allow for preferential treatment of developing countries, regional free trade areas and customs unions.

Dispute settlement

In 1994, the WTO members agreed on the Understanding on Rules and Procedures Governing the Settlement of Disputes (DSU) annexed to the "Final Act" signed in Marrakesh in 1994. Dispute settlement is regarded by the WTO as the central pillar of the multilateral trading system, and as a "unique contribution to the stability of the global economy". WTO members have agreed that, if they believe fellow-members are violating trade rules, they will use the multilateral system of settling disputes instead of taking action unilaterally.

Agreements

The WTO oversees about 60 different agreements which have the status of international legal texts. Member countries must sign and ratify all WTO agreements on accession. The most important agreements are:

- The **Agreement on Agriculture**: it came into effect with the establishment of the WTO at the beginning of 1995. The AoA has three central concepts, or "pillars": domestic support, market access and export subsidies.
- The **General Agreement on Trade in Services**: it was created to extend the multilateral trading system to the service sector, in the same way as the General Agreement on Tariffs and Trade (GATT) provides such a system for merchandise trade. The Agreement entered into force in January 1995.
- The **Agreement on Trade-Related Aspects of Intellectual Property Rights**: it sets down minimum standards for many forms of intellectual property (IP) regulation. It was

negotiated at the end of the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) in 1994.

- The **Agreement on the Application of Sanitary and Phytosanitary Measures**: it was negotiated during the Uruguay Round of the General Agreement on Tariffs and Trade, and entered into force with the establishment of the WTO at the beginning of 1995. Under this agreement, the WTO sets constraints on members' policies relating to food safety (bacterial contaminants, pesticides, inspection and labelling) as well as animal and plant health.
- The **Agreement on Technical Barriers to Trade**: it is an international treaty of the World Trade Organization that entered into force with the establishment of the WTO at the end of 1994 and ensures that technical negotiations and standards, as well as testing and certification procedures, do not create unnecessary obstacles to trade".

Criticism of the World Trade Organization

The stated aim of the World Trade Organization (WTO) is to promote free trade and stimulate economic growth. The actions, method, and fundamentalism, of the World Trade Organization evokes strong antipathies. Among other things, the WTO is accused of widening the sociological gap between rich and poor it claims to be fixing.

Developing countries

Critics contend that small countries in the WTO have little influence, and despite the WTO aim of helping the developing countries, the politicians representing the most influential nations in the WTO (and within those countries or between them, influential private business interests) focus on the commercial interests of **profit-making companies** rather than the interests of all. Martin Khor argues that the WTO does not manage the global economy impartially, but in its operation has a systematic bias toward rich countries and **multinational corporations**, harming smaller countries which have less negotiation power. He argues that developing countries have not benefited from the WTO Agreements of the Uruguay Round, and, therefore, the credibility of the WTO trade system could be eroded. Khor also believes that the Doha Round negotiations "have veered from their proclaimed direction oriented to a development-friendly outcome, towards a 'market access' direction in which developing countries are pressurised to open up their agricultural, industrial and services sectors".

Labour and environment

Other critics claim that the issues of **labour** and **environment** are steadfastly ignored. Steve Charnovitz believes that the WTO "should begin to address the link between trade and labour and environmental concerns". He also argues that "in the absence of proper environmental regulation and resource management, increased trade might cause so much adverse damage that the gains from trade would be less than the environmental costs". Further, **labour unions** condemn the labour rights record of developing countries, arguing that to the extent the WTO succeeds at promoting globalization, then in equal measure do the environment and labour rights suffer. On the other side, Khor responds that "if environment and labour were to enter the WTO system [...] it would be conceptually difficult to argue why other social and cultural issues should also not enter." He also argues that "trade measures have become a vehicle for big corporations and social organizations in promoting their interests".

(Adapted from *Wikipedia, the free encyclopedia*)

14 - Marketing

Marketing is the process by which companies create **customer** interest in goods or services. It generates the strategy that underlies sales techniques, business communication, and business developments. It is an integrated process through which companies build strong **customer relationships** and create value for their customers and for themselves.

Marketing is used to identify the customer, to satisfy the customer, and to keep the customer. With the customer as the focus of its activities, it can be concluded that **marketing management** is one of the major components of **business management**. Marketing evolved to meet the stasis in developing new markets caused by mature markets and overcapacities in the last 2-3 centuries. The adoption of marketing strategies requires businesses to shift their focus from **production** to the perceived needs and wants of their customers as the means of staying profitable.

The term *marketing concept* holds that achieving organizational goals depends on knowing the needs and wants of target markets and delivering the desired satisfactions. It proposes that in order to satisfy its organizational objectives, an organization should anticipate the needs and wants of consumers and satisfy these more effectively than competitors.

Marketing practice tended to be seen as a creative industry in the past, which included **advertising**, **distribution** and **selling**. However, because the academic study of marketing makes extensive use of social sciences, psychology, sociology, mathematics, economics, anthropology and neuroscience, the profession is now widely recognized as a science. The overall process starts with marketing research and goes through **market segmentation**, business planning and execution, ending with pre and post-sales promotional activities. It is also related to many of the creative arts. The marketing literature is also adept at re-inventing itself and its vocabulary according to the times and the culture.

Evolution of marketing

The marketing orientation evolved from earlier orientations namely the production orientation, the product orientation and the selling orientation.

Orientation	***Profit driver***	***Western European timeframe***	***Description***
Production	Production methods	until the 1950s	A firm focusing on a production orientation specializes in producing as much as possible of a given product or service. Thus, this signifies a firm exploiting economies of scale, until the minimum efficient scale is reached. A production orientation may be deployed when a high demand for a product or service exists, coupled with a good certainty that consumer tastes do not rapidly alter (similar to the sales orientation).

Product	Quality of the product	until the 1960s	A firm employing a product orientation is chiefly concerned with the quality of its own product. A firm would also assume that as long as its product was of a high standard, people would buy and consume the product.
Selling	Selling methods	1950s and 1960s	A firm using a sales orientation focuses primarily on the selling/promotion of a particular product, and not determining new consumer desires as such. Consequently, this entails simply selling an already existing product, and using promotion techniques to attain the highest sales possible.
Marketing	Needs and wants of customers	1970 to present day	The '**marketing orientation'** is perhaps the most common orientation used in contemporary marketing. It involves a firm essentially basing its marketing plans around the marketing concept, and thus supplying products to suit new consumer tastes. As an example, a firm would employ market research to gauge consumer desires, use R&D to develop a product attuned to the revealed information, and then utilize promotion techniques to ensure persons know the product exists.

Recent approaches in marketing are:

- the relationship marketing with focus on the customer
- the business marketing or industrial marketing with focus on an organization or institution
- the social marketing with focus on benefits to the society.

New forms of marketing also use the Internet and are therefore called **internet marketing** or more generally *e-marketing*, *online marketing*, search engine marketing, *desktop advertising* or affiliate marketing. It tries to perfect the segmentation strategy used in traditional marketing. It targets its audience more precisely, and is sometimes called personalized marketing or one-to-one marketing.

Orientation	***Profit driver***	***Western European timeframe***	***Description***
Relationship marketing / **Relationship management**	Building and keeping good customer relations	1960s to present day	Emphasis is placed on the whole relationship between suppliers and customers. The aim is to give the best possible attention, customer services and therefore build customer loyalty.
Business marketing / Industrial marketing	Building and keeping relationships between organizations	1980s to present day	In this context marketing takes place between businesses or organizations. The product focus lies on industrial goods or capital goods than consumer products or end products. A different form of marketing activities like promotion, advertising and communication to the customer is used.

Social marketing	Benefit to society	1990s to present day	Similar characteristics as marketing orientation but with the added condition that there will be a curtailment on any harmful activities to society, in either product, production, or selling methods.
Branding	Brand value	2000s to present day	In this context, "branding" is the main company philosophy and marketing is considered an instrument of branding philosophy.

Customer orientation

A firm in the **market economy** survives by producing goods that persons are willing and able to buy. Consequently, ascertaining consumer demand is vital for a firm's future viability and even existence as a going concern. Many companies today have a customer focus (or market orientation). This implies that the company focuses its activities and products on consumer demands. Generally there are three ways of doing this: the customer-driven approach, the sense of identifying market changes and the product innovation approach.

In the **consumer-driven approach**, consumer wants are the drivers of all strategic marketing decisions. No strategy is pursued until it passes the test of consumer research. Every aspect of a market offering, including the nature of the product itself, is driven by the needs of potential consumers. The starting point is always the consumer. The rationale for this approach is that there is no point spending R&D funds developing products that people will not buy. History attests to many products that were commercial failures in spite of being technological breakthroughs.

A formal approach to this customer-focused marketing is known as ***SIVA*** (**Solution**, **Information**, **Value**, **Access**). This system is basically the four Ps renamed and reworded to provide a customer focus. The SIVA Model provides a demand/customer centric version alternative to the well-known **4Ps** supply side model (**product**, **price**, **placement**, **promotion**) of marketing management.

Product → Solution
Price → Value
Place → Access
Promotion → Information

If any of the 4Ps had a problem or were not there in the marketing factor of the business, the business could be in trouble and so other companies may appear in the surroundings of the company, so the consumer demand on its products will become less.

The concept of marketing mix shows the relations between Company and Customers: 5P&5C model.

Product → Consumer desire
Price → Cost
Place → Convenience
Promotion → Communication
People → Customer approach

The human factor is becoming a key competitive advantage and therefore the model **5C&5P** is becoming significant in the 21st Century.

In this sense, a firm's **marketing department** is often seen as of prime importance within the functional level of an organization. Information from an organization's marketing department would be used to guide the actions of other departments within the firm. As an example, a marketing department could ascertain (via marketing research) that consumers desired a new type of product, or a new usage for an existing product. With this in mind, the marketing department would inform the **R&D department** to create a prototype of a product/service based on consumers' new desires.

The production department would then start to manufacture the product, while the marketing department would focus on the promotion, distribution, pricing, etc. of the product. Additionally, a firm's **finance department** would be consulted, with respect to securing appropriate funding for the development, production and promotion of the product. Inter-departmental conflicts may occur, should a firm adhere to the marketing orientation. Production may oppose the installation, support and servicing of new capital stock, which may be needed to manufacture a new product. Finance may oppose the required capital expenditure, since it could undermine a healthy cash flow for the organization.

Herd behavior in marketing is used to explain the dependencies of customers' mutual behaviour. *The Economist* reported a recent conference in Rome on the subject of the simulation of adaptive human behaviour. It shared mechanisms to increase impulse buying and get people "to buy more by playing on the herd instinct." The basic idea is that people will buy more of products that are seen to be popular, and several feedback mechanisms to get product popularity information to consumers are used. A "swarm-moves" model was introduced by a Florida Institute of Technology researcher, which is appealing to supermarkets because it can "increase sales without the need to give people discounts."Other recent studies on the "power of social influence" include an "artificial music market in which some 19,000 people downloaded previously unknown songs" (Columbia University, New York); a Japanese chain of convenience stores which orders its products based on "sales data from department stores and research companies;" a Massachusetts company exploiting knowledge of social networking to improve sales; and online retailers who are increasingly informing consumers about "which products are popular with like-minded consumers" (e.g., Amazon, eBay).

Marketing research

Marketing research involves conducting research to support marketing activities, and the statistical interpretation of data into information. This information is then used by managers to plan marketing activities, gauge the nature of a firm's marketing environment and attain information from suppliers. Marketing researchers use statistical methods such as quantitative research, qualitative research, hypothesis tests, Chi-squared tests, linear regression, correlations, frequency distributions, binomial distributions, etc. to interpret their findings and convert data into information. The marketing research process spans a number of stages including the definition of a problem, development of a research plan, collecting and interpretation of data and disseminating information formally in form of a report. The task of marketing research is to provide management with relevant, accurate, reliable, valid, and current information.

A distinction should be made between **marketing research** and **market research**. Market research pertains to research in a given market. As an example, a firm may conduct research in a target market, after selecting a suitable market segment. In contrast, marketing research relates to all research conducted within marketing. Thus, market research is a subset of marketing research.

Market segmentation pertains to the division of a market of consumers into persons with similar needs and wants. As an example, if using Kellogg's cereals in this instance, Frosties are marketed to children. Crunchy Nut Cornflakes are marketed to adults. Both goods aforementioned denote two products which are marketed to two distinct groups of persons, both with like needs, traits, and wants.

The purpose for market segmentation is conducted for two main issues. First, a segmentation allows a better **allocation** of a firm's finite resources. A firm only possesses a certain amount of resources. Accordingly, it must make choices (and appreciate the related costs) in servicing specific groups of consumers. Furthermore the diversified tastes of the contemporary Western consumers can be served better. With more diversity in the tastes of modern consumers, firms are taking note of the benefit of servicing a multiplicity of new markets.

Types of marketing research

Marketing research, as a sub-set aspect of marketing activities, can be divided into the following parts:

- **Primary research** (also known as field research), which involves the conduction and compilation of research for the purpose it was intended.
- **Secondary research** (also referred to as desk research), is initially conducted for one purpose, but often used to support another purpose or end goal.

By these definitions, an example of primary research would be market research conducted into health foods, which is used *solely* to ascertain the needs/wants of the target market for health foods. Secondary research, again according to the above definition, would be research pertaining to health foods, but used by a firm wishing to develop an unrelated product.

Primary research is often expensive to prepare, collect and interpret from data to information. Nonetheless, while secondary research is relatively inexpensive, it often can become outdated and outmoded, given it is used for a purpose other than for which is was intended. Primary research can also be broken down into quantitative research and qualitative research, which as the labels suggest, pertain to numerical and non-numerical research methods, techniques. The appropriateness of each mode of research depends on whether data can be quantified (**quantitative research**), or whether subjective, non-numeric or abstract concepts are required to be studied (**qualitative research**).

There also exists additional modes of marketing research, which are:

- **Exploratory research**, pertaining to research that investigates an assumption.
- **Descriptive research**, which as the label suggests, describes "what is".
- **Predictive research**, meaning research conducted to predict a future occurrence.
- **Conclusive research**, for the purpose of deriving a conclusion via a research process.

Marketing planning

The area of **marketing planning** involves forging a plan for a firm's marketing activities. A marketing plan can also pertain to a specific product, as well as to an organization's overall

marketing strategy. Generally speaking, an organization's marketing planning process is derived from its overall **business strategy**. Thus, when top management are devising the firm's strategic direction or mission, the intended marketing activities are incorporated into this plan. There are several levels of marketing objectives within an organization. The senior management of a firm would formulate a general business strategy for a firm. However, this general business strategy would be interpreted and implemented in different contexts throughout the firm.

The field of marketing strategy encompasses the strategy involved in the management of a given product. A given firm may hold numerous products in the marketplace, spanning numerous and sometimes wholly unrelated industries. Accordingly, a plan is required in order to manage effectively such products. Evidently, a company needs to weigh up and ascertain how to utilize effectively its finite resources.

Marketing specializations

With the rapidly emerging force of globalization, the distinction between marketing within a firm's home country and marketing within external markets is disappearing very quickly. With this occurrence in mind, firms need to reorient their marketing strategies to meet the challenges of the global marketplace, in addition to sustaining their competitiveness within home markets.

Buying behaviour

A marketing firm must ascertain the nature of the customers buying behaviour, if it is to market its product properly. Buying behaviour is usually split into two prime strands, whether selling to the consumer, known as **business-to-consumer** (B2C) or another business, similarly known as **business-to-business** (B2B).

(Adapted from *Wikipedia, the free encyclopedia*)

15 - Export

The term **export** is derived from the conceptual meaning of shipping goods and services out of the port of a country. The seller of such goods and services is referred to as an **exporter** who is based in the country of export whereas the overseas based buyer is referred to as an **importer**. In International Trade, "exports" refers to any good or commodity, or service transported from one country to another country in a legitimate fashion, typically for use in trade.

Export of commercial quantities of goods normally requires involvement of the **customs** authorities in both the country of export and the country of import. The advent of small trades over the internet such as through Amazon and e-Bay have largely bypassed the involvement of Customs in many countries because of the low individual values of these trades. Nonetheless, these small exports are still subject to legal restrictions applied by the country of export. An export's counterpart is an **import**.

In national accounts "exports" consist of transactions in goods and services (sales, barter, gifts) from residents to non-residents. The exact definition of exports includes and excludes specific "borderline" cases. A general delimitation of exports in national accounts is given below:

- An export of a good occurs when there is a change of ownership from a resident to a non-resident; this does not necessarily imply that the good in question physically crosses the frontier. However, in specific cases national accounts impute changes of ownership even though in legal terms no change of ownership takes place (e.g. *cross border financial leasing*, *cross border deliveries between affiliates of the same enterprise*). Also **smuggled** goods must be included in the export measurement.
- Export of services consist of all services rendered by residents to non-residents. In national accounts any direct purchases by non-residents in the economic territory of a country are recorded as exports of services; therefore all expenditure by foreign tourists in the economic territory of a country is considered as part of the exports of services of that country. Also international flows of illegal services must be included.

National accountants often need to make adjustments to the basic trade data in order to comply with national accounts concepts; the concepts for basic trade statistics often differ in terms of definition and coverage from the requirements in the national accounts:

- Data on international trade in goods are mostly obtained through declarations to customs services. If a country applies the general trade system, all goods entering or leaving the country are recorded. If the special trade system (e.g. extra-EU trade statistics) is applied goods which are received into customs warehouses are not recorded in external trade statistics unless they subsequently go into free circulation in the country of receipt.
- A special case is the intra-EU trade statistics. Since goods move freely between the member states of the EU without customs controls, statistics on trade in goods between the member states must be obtained through surveys. To reduce the statistical burden on the respondents small scale traders are excluded from the reporting obligation.
- Statistical recording of trade in services is based on declarations by banks to their central banks or by surveys of the main operators. In a globalized economy where services can be rendered via electronic means (*e.g.the Internet*) the related international flows of services are difficult to identify.

- Basic statistics on international trade normally do not record smuggled goods or international flows of illegal services. A small fraction of the smuggled goods and illegal services may nevertheless be included in official trade statistics through dummy shipments or dummy declarations that serve to conceal the illegal nature of the activities.

The theory of international trade and commercial policy is one of the oldest branches of economic thought. Exporting is a major component of international trade, and the macroeconomic risks and benefits of exporting are regularly discussed and disputed by economists and others. Two views concerning international trade present different perspectives. The first recognizes the benefits of international trade. The second concerns itself with the possibility that certain domestic industries (or labourers, or culture) could be harmed by foreign competition.

Methods of export include a product or good or information being mailed, hand-delivered, shipped by air, shipped by boat, uploaded to an Internet site, or downloaded from an Internet site. Exports also include the distribution of information that can be sent in the form of an email, an email attachment, a fax or can be shared during a telephone conversation.

International Trade Barriers

Trade barriers are generally defined as government laws, regulations, policy, or practices that either protect domestic products from foreign competition or artificially stimulate exports of particular domestic products. The most common foreign trade barriers are government-imposed measures and policies that restrict, prevent, or impede the international exchange of goods and services. Examples of trade barriers are tariffs, subsidies, import quotas, embargoes as well as product standards, packaging and labeling conditions, language, cultural aspects and many others.

Tariffs

A **tariff** is a tax placed on a specific good or set of goods exported from or imported to a country, creating an economic barrier to trade.

Usually the tactic is used when a country's domestic output of the good is falling and imports from foreign competitors are rising, particularly if there exist strategic reasons for retaining a domestic production capability. Some failing industries receive a protection with an effect similar to a **subsidy** in that by placing the tariff on the industry, the industry is less enticed to produce goods in a quicker, cheaper, and more productive fashion. The third reason for a tariff is related to the issue of **dumping**. Dumping involves a country producing highly excessive amounts of goods and *dumping* the goods on another foreign country, producing the effect of prices that are "too low". Too low can refer to either pricing the good from the foreign market at a price lower than charged in the domestic market of the country of origin. The other reference to dumping relates or refers to the producer selling the product at a price in which there is no profit or a loss. The purpose (and expected outcome) of the tariff is to encourage spending on domestic goods and services.

Protective tariffs sometimes protect what are known as **infant industries** that are in the phase of expansive growth. A tariff is used temporarily to allow the industry to succeed in spite of strong competition. Protective tariffs are considered valid if the resources are more productive in their new use than they would be if the industry had not been started. The infant industry eventually must incorporate itself into a market without the protection of government subsidies.

Subsidies

To subsidize an industry or company refers to a governmental providing supplemental financial support to manipulate the price below market value. Subsidies are generally used for failing industries that need a boost in domestic spending. Subsidizing encourages greater demand for a good or service because of the lowered price.

The effect of subsidies deters other countries that are able to produce a specific product or service at a faster, cheaper, and more productive rate. With the lowered price, these efficient producers cannot compete. The life of a subsidy is generally short-lived, but sometimes can be implemented on a more permanent basis.

The agricultural industry is commonly subsidized, both in the United States, and in other countries including Japan and nations located in the European Union (EU).

Exports and free trade

The theory of **comparative advantage** materialized during the first quarter of the 19th century in the writings of 'classical economists'. David Ricardo is most credited with the development of the theory that states that all parties maximize benefit in an environment of unrestricted trade, even if absolute advantages in production exist between the parties. The key objective of trade was to promote a *"favorable"* ***balance of trade***, referring to a time when the value of domestic goods exported exceeds the value of foreign goods imported. The "favorable" balance in turn created a *balance of trade surplus*.

In contrast Mercantilism, the first systematic body of thought devoted to international trade that emerged during the 17th and 18th centuries in Europe advocated that government policy directly arrange the flow of commerce to conform to their beliefs. They sought a highly interventionist agenda, using taxes on trade to manipulate the balance of trade in favor of the *home country*.

Ways of exporting

The company can decide to export directly or indirectly to a foreign country.

Direct selling involves **sales representatives**, **distributors**, or **retailers** who are located *outside* the exporter's home country. Direct exports are goods and services that are sold to an independent party in a foreign country. Mainly the companies are pushed by their core competencies and the goal of improving their performance of value chain.

A distributor in a foreign country is a merchant who purchases the product from the manufacturer and is compensated by the profit he makes upon the resale of the products to his customers. A distributor is authorized to sell products in designated territory and bears all commercial risks associated with the sale. Distributors usually carry stock inventory and service the product, and in most cases distribute the goods to retailers rather than selling them to end users. Direct selling through distributors is considered to be the most popular option to companies, to develop their own international marketing capability. Direct selling also gives the company greater control over the marketing function and the opportunity to earn more profits. When choosing distributors the manufacturer should evaluate their size and capabilities of sales force, sales records, current product mix, facilities and equipment, marketing polices, promotional strategy.

Regardless of the type of products they sell, sales representatives' primary duties are to make customers interested in their merchandise and to arrange the sale of that merchandise. Some work for a single organization, while others represent several companies and sell a range of products. Rather than selling goods directly to consumers, sales representatives deal with retailers, businesses, government agencies, and other organizations. Sales representatives have several duties beyond selling products. They analyze sales statistics, prepare reports, and handle administrative duties such as filing expense accounts, scheduling appointments, and making travel plans. They also read about new and existing products and monitor the sales, prices, and products of their competitors.

Exporters can also sell directly to foreign retailers; usually, products are limited to consumer lines. They can also sell directly to end users. A good way to generate such sales is by printing catalogues or attending trade shows.

Direct selling over the Internet

Electronic commerce is an important means to small and big companies all over the world, to trade internationally. We already can see how important E-commerce is for marketing growth among exporters companies in emerging economies, in order to overcome capital and infrastructure barriers.

E-commerce eases engagements, provides faster and cheaper delivery of information, generates quick feedback on new products, improves customer service, accesses a global audience, levels the field of companies, and supports electronics data interchange with suppliers and customers.

Indirect exports selling, is simply selling goods to or through an independent domestic intermediary in the manufacturer’s home county. Then intermediaries export the products to customers in foreign markets.

Making the export decision

Once a company determines it has exportable products, it must still consider other factors, such as the following:

- What does the company want to gain from exporting?
- Is exporting consistent with other company goals?
- What demands will exporting place on the company's key resources - management and personnel, production capacity, and finance - and how will these demands be met?
- Are the expected benefits worth the costs, or would company resources be better used for developing new domestic business?

Challenges

Exporting to foreign countries poses challenges not found in domestic sales. With domestic sales, manufacturers typically sell to wholesalers or direct to retailers or even direct to consumers. When exporting, manufacturers may have to sell to importers who then in turn sell to wholesalers. Extra layer(s) in the chain of distribution squeezes margins and manufacturers may need to offer lower prices to importers than to domestic wholesalers.

(Adapted from *Wikipedia*, *the free encyclopedia*)

16 - Electronic commerce

Electronic commerce, commonly known as **e-commerce** or **eCommerce**, consists of the buying and selling of products or services over electronic systems such as the Internet and other computer networks. The amount of trade conducted electronically has grown extraordinarily with widespread Internet usage. The use of commerce is conducted in this way, spurring and drawing on innovations in **electronic funds transfer**, **supply chain management**, **Internet marketing**, **online transaction processing**, **electronic data interchange** (EDI), **inventory management** systems, and automated data collection systems. Modern electronic commerce typically uses the World Wide Web at least at some point in the transaction's lifecycle, although it can encompass a wider range of technologies such as e-mail as well.

A large percentage of electronic commerce is conducted entirely electronically for virtual items such as access to premium content on a website, but most electronic commerce involves the transportation of physical items in some way. **Online retailers** are sometimes known as e-tailers and online retail is sometimes known as **e-tail**. Almost all big retailers have electronic commerce presence on the World Wide Web.

Online shopping is a form of electronic commerce where the buyer is directly **online** to the seller's computer usually via the Internet. There is no intermediary service. The sale and purchase transaction is completed electronically and interactively in real-time such as Amazon.com for new books. If an intermediary is present, then the sale and purchase transaction is called **electronic commerce** such as eBay.com.

Electronic commerce is generally considered to be the sales aspect of e-business. It also consists of the exchange of data to facilitate the financing and payment aspects of the business transactions.

History

Originally, electronic commerce meant the facilitation of commercial transactions electronically, using technology such as Electronic Data Interchange (EDI) and Electronic Funds Transfer (EFT). These were both introduced in the late 1970s, allowing businesses to send commercial documents like **purchase orders** or **invoices** electronically. The growth and acceptance of credit cards, automated teller machines (ATM) and telephone banking in the 1980s were also forms of electronic commerce. Another form of e-commerce was the airline reservation system typified by Sabre in the USA and Travicom in the UK.

From the 1990s onwards, electronic commerce has additionally included enterprise resource planning systems (ERP), data mining and data warehousing.

In 1990, Tim Berners-Lee invented the web browser and transformed an academic telecommunication network into a worldwide everyman everyday communication system called the Internet or www. Commercial enterprise on the Internet was strictly prohibited until 1991. Although the Internet became popular worldwide around 1994 when the first internet online shopping started, it took about five years to introduce security protocols and DSL (Digital Subscriber Line) allowing continual connection to the Internet. By the end of 2000, many European and American business companies offered their services through the World Wide Web. Since then people began to associate the word "ecommerce" with the ability of purchasing various goods through the Internet using secure protocols and electronic payment services.

Forms

Contemporary electronic commerce involves everything from ordering "digital" content for immediate online consumption, to ordering conventional goods and services, to "meta" services to facilitate other types of electronic commerce.

On the consumer level, electronic commerce is mostly conducted on the World Wide Web. An individual can go online to purchase anything from books or groceries, to expensive items like real estate. Another example would be online banking, i.e. online bill payments, buying stocks, transferring funds from one account to another, and initiating payment to another country. All of these activities can be done with a few strokes of the keyboard.

On the institutional level, big corporations and financial institutions use the Internet to exchange financial data to facilitate domestic and international business. Data integrity and security are very hot and pressing issues for electronic commerce today.

Impact on markets and retailers

Economists have theorised that e-commerce ought to lead to intensified **price competition**, as it increases consumers' ability to gather information about products and prices. Research by four economists at the University of Chicago has found that the growth of online shopping has also affected industry structure in two areas that have seen significant growth in e-commerce, bookshops and travel agencies. Generally, larger firms have grown at the expense of smaller ones, as they are able to use economies of scale and offer lower prices. The lone exception to this pattern has been the very smallest category of bookseller, shops with between one and four employees, which appear to have withstood the trend.

Convenience

Online stores are usually available 24 hours a day, and many consumers have internet access both at work and at home. Other establishments such as internet cafes and schools provide access as well. A visit to a conventional retail store requires travel and must take place during business hours.

In the event of a problem with the item – it is not what the consumer ordered, or it is not what they expected – consumers are concerned with the ease with which they can return an item for the correct one or for a refund. Consumers may need to contact the retailer, visit the post office and pay return shipping, and then wait for a replacement or refund.

Price and selection

One advantage of shopping online is being able to quickly seek out **deals** for items or services with many different **vendors** (though some local search engines do exist to help consumers locate products for sale in nearby stores). Search engines, online price comparison services and discovery shopping engines can be used to look up sellers of a particular product or service.

Shipping costs (if applicable) reduce the price advantage of online merchandise, though depending on the jurisdiction, a lack of sales tax may compensate for this.

Shipping a small number of items, especially from another country, is much more expensive than making the larger shipments bricks-and-mortar retailers order. Some retailers (especially those selling small, high-value items like electronics) offer free shipping on sufficiently large orders.

Fraud and security concerns

Given the lack of ability to inspect merchandise before purchase, consumers are at higher risk of fraud on the part of the merchant than in a physical store. Merchants also risk fraudulent purchases using stolen credit cards or fraudulent repudiation of the online purchase. With a **warehouse** instead of a **retail storefront**, merchants face less risk from physical theft.

Secure Sockets Layer (SSL) encryption has generally solved the problem of credit card numbers being intercepted in transit between the consumer and the merchant. Identity theft is still a concern for consumers when hackers break into a merchant's web site and steal names, addresses and credit card numbers. A number of high-profile break-ins in the 2000s has prompted some U.S. states to require disclosure to consumers when this happens. Computer security has thus become a major concern for merchants and e-commerce service providers, who deploy countermeasures such as firewalls and anti-virus software to protect their networks.

Phishing is another danger, where consumers are fooled into thinking they are dealing with a reputable retailer, when they have actually been manipulated into feeding private information to a system operated by a malicious party.

Quality seals can be placed on the Shop web page if it has undergone an independent assessment and meets all requirements of the company issuing the seal. The purpose of these seals is to increase the confidence of the online shoppers; the existence of many different seals, or seals unfamiliar to consumers, may foil this effort to a certain extent. A number of resources offer advice on how consumers can protect themselves when using online retailer services. These include:

- Sticking with known stores, or attempting to find independent consumer reviews of their experiences; also ensuring that there is comprehensive contact information on the website before using the service, and noting if the retailer has enrolled in industry oversight programs such as trust mark or trust seal.
- Before buying from a new company, evaluate the website by considering issues such as: the professionalism and user-friendliness of the site; whether or not the company lists a telephone number and/or street address along with e-contact information; whether a fair and reasonable refund and return policy is clearly stated; and whether there are hidden price inflators, such as excessive shipping and handling charges.
- Ensuring that the retailer has an acceptable privacy policy posted. For example note if the retailer does not explicitly state that it will not share private information with others without consent.
- Ensuring that the vendor address is protected with SSL when entering credit card information. If it does the address on the credit card information entry screen will start with "HTTPS".
- Using strong passwords, without personal information. Another option is a "pass phrase". These are difficult to hack, and provide a variety of upper, lower, and special characters and could be site specific and easy to remember.

Although the benefits of online shopping are considerable, when the process goes poorly it can create a thorny situation. A few problems that shoppers potentially face include identity theft, faulty products, and the accumulation of spyware[1]. Even though the efforts of most large online corporations are making it easier to protect yourself online, it remains a constant fight with criminals. It is advisable to be aware of the most current technology to fully protect yourself and your finances.

One of the hardest areas to deal with in online shopping is the delivery of the products. Most companies offer shipping insurance in case the product is lost or damaged; however, if the buyer opts not to purchase insurance on their products, they are generally out of luck. Some shipping companies will offer refunds or compensation for the damage, but it is up to their discretion if this will happen. It is important to realize that once the product leaves the hands of the sellers, they have no responsibility (provided the product is what the buyer ordered and is in the specified condition).

Lack of full cost disclosure

The lack of full disclosure with regards to the total cost of purchase is one of the concerns of online shopping. While it may be easy to compare the base price of an item online, it may not be easy to see the total cost as additional fees such as shipping are often not visible until the final step in the checkout process. The problem is especially evident with cross-border purchases, where the cost indicated at the final checkout screen may not include additional fees that must be paid upon delivery such as duties and brokerage. Some services such as the Canadian based Wishabi attempts to include estimates of these additional cost, but nevertheless, the lack of general full cost disclosure remains a concern.

Privacy

Privacy of personal information is a significant issue for some consumers. Different legal jurisdictions have different laws concerning consumer privacy, and different levels of enforcement. Many consumers wish to avoid spam and telemarketing which could result from supplying contact information to an online merchant. In response, many merchants promise not to use consumer information for these purposes, or provide a mechanism to opt-out of such contacts.

Many websites keep track of consumers shopping habits in order to suggest items and other websites to view. Many larger stores use the address information encoded on consumers' credit cards (often without their knowledge) to add them to a catalog mailing list. This information is obviously not accessible to the merchant when paying in cash.

Payment

Online shoppers commonly use credit card to make payments, however some systems enable users to create accounts and pay by alternative means, such as:

- Billing to mobile phones and landlines
- Cash on delivery (C.O.D., offered by very few online stores)
- Check
- Debit card

[1] A **spyware** is a computer software that obtains information from a user's computer without the user's knowledge or consent.

- Direct debit[1] in some countries
- Electronic money of various types
- Gift cards
- Postal money order
- Wire transfer/delivery on payment

Product delivery

Once the payment has been accepted the goods or services can be delivered in the following ways.

- Downloading: This is the method often used for digital media products such as software, music, movies, or images.
- Drop shipping: the retailer does not keep goods in stock, but instead transfers customer orders and shipment details to either the manufacturer or a wholesaler, who then ships the goods directly to the customer. This supply chain management technique allows to bypass the retailer's physical location to save time, money, and space.
- In-store pickup: The customer orders online, finds a local store using locator software and picks the product up at the closest store. This is the method often used in the bricks and clicks business model.
- Printing out, provision of a code for, or emailing of such items as admission tickets and scrip[2] (e.g., gift certificates and coupons). The tickets, codes, or coupons may be redeemed at the appropriate physical or online premises and their content reviewed to verify their eligility (e.g., assurances that the right of admission or use is redeemed at the correct time and place, for the correct amount of money, and for the correct number of uses).
- Shipping: The product is shipped to the customer's address or that of a customer-designated third party.
- Will call, COBO (in Care Of Box Office), or "at the door" pickup: The patron picks up pre-purchased tickets for an event, such as a play, sporting event, or concert, either just before the event or in advance. With the onset of the Internet and e-commerce sites, which allow customers to buy tickets online, the popularity of this service has increased.

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[1] A **direct debit is** an order given to a bank or building society by a holder of an account, instructing it to pay to a specified person or organization any sum demanded by that person or organization

[2] A s**crip** is any substitute for currency which is not legal tender and is often a form of credit.

17 - European Union

Flag

Motto: *United in diversity*

Anthem: *Ode to Joy*

Political centres: Brussels, Luxembourg, Strasbourg

The **European Union** (**EU**) is an economic and political union of 27 member states. Committed to regional integration, the EU was established by the Treaty of Maastricht in 1993. With over 500 million citizens, the EU generated an estimated 28% share (US$ 16.5 trillion) of the nominal gross world product in 2009. The EU has developed a single market through a standardised system of laws which apply in all member states, and ensures the free movement of people, goods, services, and capital, including the abolition of passport controls by the Schengen Agreement between 22 EU states. It enacts legislation in justice and home affairs, and maintains common policies on trade, agriculture, fisheries and regional development. Sixteen member states have adopted a common currency, the euro, constituting the eurozone.

Having a legal personality, the EU is able to conclude treaties with countries. It has devised the Common Foreign and Security Policy, thus developing a limited role in European defence and foreign policy. Permanent diplomatic missions of the EU are established around the world and representation at the United Nations, WTO, G8 and G-20 is maintained. EU delegations are headed by EU ambassadors.

The EU operates through a hybrid system of supranationalism and intergovernmentalism. In certain areas, decisions are taken by independent supranational institutions, while in others, they are made through negotiation between member states. Important institutions of the EU include the European Commission, the Council of the European Union, the European Council, the Court of Justice of the European Union, and the European Central Bank. The European Parliament is elected every five years by EU citizens.

History

1945–1957

After World War II, moves towards European integration were seen by many as an escape from the extreme forms of nationalism which had devastated the continent. One such attempt to unite Europeans was the European Coal and Steel Community which, while having the modest aim of centralised control of the previously national coal and steel industries of its member states, was declared to be "a first step in the federation of Europe". The originators and supporters of the Community include Jean Monnet, Robert Schuman, Paul Henri Spaak, and Alcide de Gasperi. The founding members of the Community were Belgium, France, Italy, Luxembourg, the Netherlands, and West Germany.

In 1957, these six countries signed the Treaties of Rome, which extended the earlier cooperation within the European Coal and Steel Community and created the European Economic Community, (EEC) establishing a **customs union** and the European Atomic Energy Community (Euratom) for cooperation in developing nuclear energy. In 1967 the Merger Treaty created a single set of institutions for the three communities, which were collectively referred to as the *European Communities* (EC), although commonly just as the *European Community*.[25]

1957-1993

In 1973, the Communities enlarged to include Denmark, Ireland, and the United Kingdom. In 1979, the first direct, democratic elections to the European Parliament were held.[27]

Greece joined in 1981, and Spain and Portugal in 1986. In 1985, the Schengen Agreement led the way toward the creation of open borders without passport controls between most member states and some non-member states. In 1986, the European flag began to be used by the Community and the Single European Act was signed.

In 1990, after the fall of the Iron Curtain, the former East Germany became part of the Community as part of a newly united Germany. With enlargement towards Eastern and Central Europe on the agenda, the Copenhagen criteria for candidate members to join the European Union were agreed.

1993-2010

The European Union was formally established when the Maastricht Treaty came into force on 1 November 1993, and in 1995 Austria, Sweden, and Finland joined the newly established EU. In 2002, Euro notes and coins replaced national currencies in 12 of the member states. Since then, the Eurozone has increased to encompass sixteen countries. In 2004, the EU saw its biggest enlargement to date when Malta, Cyprus, Slovenia, Estonia, Latvia, Lithuania, Poland, the Czech Republic, Slovak Republic, and Hungary joined the Union.

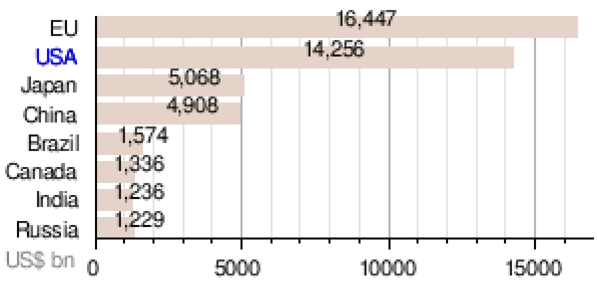
On 1 January 2007, Romania and Bulgaria became the EU's newest members. In the same year Slovenia adopted the euro, followed in 2008 by Cyprus and Malta, and by Slovakia in 2009. In June 2009, the 2009 Parliament elections were held leading to a renewal of Barroso's Commission Presidency. On 1 December 2009, the Lisbon Treaty entered into force after a protracted and controversial birth. This reformed many aspects of the EU but in particular created a permanent President of the European Council.

Governance

The institutions of the EU operate solely within those competencies conferred on it upon the treaties and according to the principle of subsidiarity (which dictates that action by the EU should only be taken where an objective cannot be sufficiently achieved by the member states alone). Law made by the EU institutions is passed in a variety of forms, primarily that which comes into direct force and that which must be passed in a refined form by national parliaments.

Competencies in scrutinising and amending legislation are divided equally, with some exceptions, between the European Parliament and the Council of the European Union while executive tasks are carried out by the European Commission and in a limited capacity by the European Council. The interpretation and the application of EU law and the treaties are ensured by the Court of Justice of the European Union.

Economy



The EU and the next seven largest economies in the world by nominal GDP. (IMF, 2009)

Since its origin, the EU has established a **single economic market** across the territory of all its members. Currently, a **single currency** is in use between the 16 members of the eurozone. If considered as a single economy, the EU generated an estimated nominal **gross domestic product** (GDP) of US$16.45 trillion (14.794 trillion international dollars based on purchasing power parity) in 2009, amounting to over 21% of the world's total economic output in terms of purchasing power parity, which makes it the largest economy in the world by nominal GDP. It is also the largest exporter, and largest importer of goods and services, and the biggest trading partner to several large countries such as China and India.

161 of the top 500 largest corporations measured by revenue (Fortune Global 500 in 2010) have their headquarters in the EU.

In May 2007 unemployment in the EU stood at 7% while investment was at 21.4% of GDP, inflation at 2.2% and public deficit at −0.9% of GDP. There is a great deal of variance for annual per capita income within individual EU states, these range from US$7,000 to US$69,000.

Single market

The signing of the Maastricht Treaty in 1992 established the **EU single market**. It ensures the free movement of goods, capital, people and services.

Two of the original core objectives of the European Economic Community were the development of a **common market**, subsequently renamed the single market, and a **customs union** between its member states. The single market involves the free circulation of goods, capital, people and services within the EU, and the customs union involves the application of a common external tariff on all goods entering the market. Once goods have been admitted into the market they cannot be subjected to customs duties, discriminatory taxes or import quotas, as they travel internally. The non-EU member states of Iceland, Norway, Liechtenstein and Switzerland participate in the single market but not in the customs union. Half the trade in the EU is covered by legislation harmonised by the EU.

Free movement of capital is intended to permit movement of investments such as property purchases and buying of shares between countries. Until the drive towards **Economic and Monetary Union** the development of the capital provisions had been slow. Post-Maastricht there has been a rapidly developing corpus of ECJ judgements regarding this initially neglected freedom. The free movement of capital is unique insofar as it is granted equally to non-member states.

The free movement of persons means citizens can move freely between member states to live, work, study or retire in another country. This required the lowering of administrative formalities and recognition of professional qualifications of other states.

The free movement of services and of establishment allows self-employed persons to move between member states in order to provide services on a temporary or permanent basis. While services account for between sixty and seventy percent of GDP, legislation in the area is not as developed as in other areas. This lacuna has been addressed by the recently passed Directive on services in the internal market which aims to liberalise the cross border provision of services. According to the Treaty the provision of services is a residual freedom that only applies if no other freedom is being exercised.

Monetary union

The creation of a **European single currency** became an official objective of the EU in 1969. However, it was only with the advent of the Maastricht Treaty in 1993 that member states were legally bound to start the monetary union no later than 1 January 1999. On this date the euro was duly launched by eleven of the then fifteen member states of the EU. It remained an accounting currency until 1 January 2002, when euro notes and coins were issued and national currencies began to phase out in the eurozone, which by then consisted of twelve member states.

All other EU member states, except Denmark and the United Kingdom, are legally bound to join the euro when the convergence criteria are met, however only a few countries have set target dates for accession. Sweden has circumvented the requirement to join the euro by not meeting the membership criteria.

The euro is designed to help build a single market by, for example: easing travel of citizens and goods, eliminating exchange rate problems, providing price transparency, creating a single financial market, price stability and low interest rates, and providing a currency used internationally and protected against shocks by the large amount of internal trade within the eurozone. It is also intended as a political symbol of integration and stimulus for more. Since its launch the euro has become the second **reserve currency**[1] in the world with a quarter of foreign exchanges reserves being in euro.

The euro, and the monetary policies of those who have adopted it in agreement with the EU, are under the control of the **European Central Bank** (ECB). There are eleven other currencies used in the EU. A number of other countries outside the EU, such as Montenegro, use the euro without formal agreement with the ECB.

Competition

The EU operates a **competition policy** intended to ensure undistorted competition within the single market. The Commission as the **competition regulator** for the single market is responsible for antitrust issues, approving mergers, breaking up cartels, working for economic liberalisation and preventing state aid.

The Competition Commissioner is one of the most powerful positions in the Commission, notable for the ability to affect the commercial interests of trans-national corporations. For example, in 2001 the Commission for the first time prevented a merger between two companies based in the United States (GE and Honeywell) which had already been approved by their national authority. Another high profile case against Microsoft, resulted in the Commission fining Microsoft over €777 million following nine years of legal action.

Languages

Among the many languages and dialects used in the EU, it has 23 official and working languages: Bulgarian, Czech, Danish, Dutch, English, Estonian, Finnish, French, German, Greek, Hungarian, Italian, Irish, Latvian, Lithuanian, Maltese, Polish, Portuguese, Romanian, Slovak, Slovene, Spanish, and Swedish. Important documents, such as legislation, are translated into every official language. The European Parliament provides translation into all languages for documents and its plenary sessions. Language policy is the responsibility of member states, but EU institutions promote the learning of other languages.

German is the most widely spoken mother tongue (about 88.7 million people as of 2006), followed by English, Italian, and French. English is by far the most spoken foreign language at over half (51%) of the EU population, with German and French following. 56% of EU citizens are able to engage in a conversation in a language other than their mother tongue. Most EU official languages are written in the Latin alphabet except Bulgarian, written in Cyrillic, and Greek, written in the Greek alphabet. (Adapted from *Wikipedia, the free encyclopedia*)

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[1] A **reserve currency**, or **anchor currency**, is a currency which is held in significant quantities by many governments and institutions as part of their foreign exchange reserves. It also tends to be the international pricing currency for products traded on a global market, and commodities such as oil, gold, etc. This permits the issuing country to purchase the commodities at a marginally lower rate than other nations, which must exchange their currencies with each purchase and pay a transaction cost.