PNU University

English in Economics and Management

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بسم الله الرحمن الرحیم

پیشگفتار ناشر

کتاب‌های دانشگاه پیام نور حسب مورد و با توجه به شرایط مختلف یک درس در یک یا چند رشتۀ دانشگاهی، به‌صورت کتاب درسی، متن آزمایشگاهی، فرادرسی، و کمک‌درسی چاپ می‌شوند.

کتاب درسی ثمرۀ کوشش‌های علمی صاحب اثر است که براساس نیازهای درسی دانشجویان و سرفصل‌های مصوب تهیه و پس از داوری علمی، طراحی آموزشی، و ویرایش علمی در گروه‌های علمی و آموزشی، به چاپ می‌رسد. پس از چاپ ویرایش اول اثر، با نظرخواهی‌ها و داوری علمی مجدد و با دریافت نظرهای اصلاحی و متناسب با پیشرفت علوم و فناوری، صاحب اثر در کتاب تجدیدنظر می‌کند و ویرایش جدید کتاب با اعمال ویرایش زبانی و صوری جدید چاپ می‌شود.

متن آزمایشگاهی (م) راهنمایی است که دانشجویان با استفاده از آن و کمک استاد، کارهای عملی و آزمایشگاهی را انجام می‌دهند.

کتاب‌های فرادرسی (ف) و **کمک‌درسی** (ک) به منظور غنی‌تر کردن منابع درسی دانشگاهی تهیه و بر روی لوح فشرده تکثیر می‌شوند و یا در وبگاه دانشگاه قرارمی‌گیرند.

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Brief Contents

Preface

My goal in writing this text is to encourage the students of economics, management and accounting to develop their reading and comprehension skills. The text does this by informing students with the core concepts of economics, management and accounting.

The reading passages have been taken from basic text books sources. Care has been taken to include various topics from economics, management and accounting. Short passages have also been provided which should be translated into Persian.

Most of the chapters are allocated to the economic issues (except chapters 8, 9 and 10), because the students of Accounting and Management have sufficient English courses in the later semesters.

Chapter 1

The Nature of Economics

General Objectives

This unit has been designed to help you to:

- Discuss the difference between microeconomics and macroeconomics.
- Evaluate the role that rational self-interest plays in economic analysis.
- Explain why economics is a science.
- Distinguish between positive and normative economics.

Behavioural Objectives

After reading the text, students are expected to:

- Learn and define the key terms and general words appeared in the text.
- Be able to use these words in related passages.
- Distinguish and apply different parts of speech of the given words.
- Do the exercises.

Vocabulary Help

ALLOCATION **n**

The process of distributing resources for the production of goods and services, and of distributing goods and services for consumption by households.

An **allocation** is efficient if the resources, goods, and services are distributed according to the economy's highest valued uses.

BEHAVIORAL ECONOMICS n

An approach to the study of consumer behavior that emphasizes psychological limitations and complications that potentially interfere with rational decision making.

The typical person about whom economists make **behavioral economics** predictions is assumed to act as thought motivated by self-interest.

BOUNDED RATIONALITY n

The hypothesis that people are nearly, but not fully, rational, so that they cannot examine every possible choice available to them but instead use simple rules of thumb to sort among the alternatives that happen to occur to them.

A key behavioral implication of the **bounded rationality** assumption is that people should use so-called rules of thumb.

CETERIS PARIBUS n

The assumption that nothing changes except the factor or factors being studied.

Most models use the **ceteris paribus** assumption that all other things are held constant, or equal.

ECONOMICS **n**

A social science that studies the allocation of limited resources to the production of goods and services used to satisfy consumer's unlimited wants and needs.

Five notable phrases contained in **economics** definition that need further study are: (1) social science, (2) allocation, (3) limited resources, (4) production, and (5) unlimited wants and needs.

ECONOMY **n**

The system of production, distribution, and consumption of goods and services that a society uses to address the problem of scarcity.

The essential task of an **economy** is to transform resources into useful goods and services (the act of production), then distribute or allocate these products to useful ends (the act of consumption).

EVALUATE **v**

If you evaluate something, you decide how valuable it is after considering all its features.

He was asked to **evaluate** the situation.

GOODS **n**

All things from which individuals

derive satisfaction or happiness.

You will frequently see the plural combination of these two phrases together "**goods** and services" to indicate the wide assortment of economic **goods** produced using the economy's scarce resources.

LIMITED **adj**
Something that is limited is rather small in amount or degree.

Economics is the study of how people allocate their **limited** resources in an attempt to satisfy their unlimited wants.

MACROECONOMICS **n**
The branch of economics that studies the entire economy, especially such topics as aggregate production, unemployment, inflation, and business cycles.

Macroeconomics can be thought of as the study of the economic forest, as compared to microeconomics, which is study of the economic trees.

MICROECONOMICS **n**
The branch of economics that studies the parts of the economy, especially such topics as markets, prices, industries, demand, and supply.

Microeconomics can be thought of as the study of the economic trees, as compared to macroeconomics, which is study of the entire economic forest.

MODELS, OR THEORIES **n**

Simplified representations of the real world used as the basis for predictions or explanations.

Social scientists, and especially economists, usually have to test their **models, or theories**, by examining what has already happened in the real world.

NATURE **n**

The nature of something is its basic quality or character.

"An Inquiry into the **Nature** and Causes of the Wealth of Nations" is the Adam Smith's most famous book.

NORMATIVE ECONOMICS **n**

Analysis involving value judgments about economic policies; relates to whether things are good or bad. A statement of *what ought to be*.

When the values are interjected into the analysis, we enter the realm of **normative economics**.

POSITIVE ECONOMCS **n**

Analysis that is strictly limited to making either purely descriptive statements or scientific predictions; for example, "If A, then B". A statement of *what is*.

A **positive economic** statement is “If the price of gasoline rises, people will buy less.”

PREDICTION **n**

If you make a prediction, you say what you think will happen.

Proponents of behavioral economics have not conclusively demonstrated that paying closer attention to psychological thought processes can improve economic **predictions**.

PRODUCTION **n**

The process of transforming the inputs into the outputs.

Economics is a social science that studies the allocation of limited resources to the **production** of goods and services used to satisfy consumer's unlimited wants and needs.

PURCHASE **n**

The act of buying something.

He sold the house he had **purchased** only two years before.

RATIONALITY **n**

The assumption that people do not intentionally make decisions that would leave them worse off.

The bulk of economic analysis continues to rely on the **rationality** assumption as the basis for constructing economic models.

SATISFACTION **n**

The process of successfully fulfilling wants and needs. A basic fact of life is that people want and need stuff to stay alive and to make that life more enjoyable.

Satisfaction is the economic term that captures wants-and-needs-fulfilling process.

SERVICES **n**

Activities that provide direct satisfaction of wants and needs without the production of tangible products or goods. Examples include information, entertainment, and education.

Term **service** should be contrasted with the term good, which involves the satisfaction of wants and needs with tangible items.

Vocabulary

Exercise 1.1

Match the words in column A with their appropriate equivalent in column B. There are more choices in column B than required.

Column A	Column B
1. allocate	a. buy
2. limited	b. cost
3. satisfy	c. standard
4. produce	d. output
5. purchase	e. apportion
6. prediction	f. restricted
7. normative	g. character
8. nature	h. fulfill
	i. forecasting
	j. manufacture

Defining Economics

Economics is part of the social sciences and as such seeks explanations of real events. All social sciences analyze human behavior, as opposed to the physical sciences, which generally analyze the behavior of electrons, atoms, and other nonhuman phenomena. Economics is the study of how people allocate their limited resources in an attempt to satisfy their unlimited wants. As such, economics is the study of how people make choices.

To understand this definition fully, two other words need explaining: *resources* and *wants*. Resources are things that have value and, more specially, are used to produce goods and services that satisfy people's wants. Wants are all of the items that people would purchase if they had unlimited income.

Whenever an individual, a business, or a nation forces alternatives, a choice must be made, and economics helps us study how those choices are made. For example, you have to choose how to spend your limited income. You also have to choose how to spend your limited time. You may have to choose how much of your company's limited funds to spend on advertising and how much to spend on new-product research. In economics, we examine situations in which individuals choose how to do things, when to do things, and with whom to do them. Ultimately, the purpose of economics is to explain choices.

• Microeconomics versus Macroeconomics

Economics is typically divided into two types of analysis: *microeconomics* and *macroeconomics*.

Macroeconomics is the part of economic analysis that studies decision making undertaken by individuals (or households) and by firms. It is like looking through a microscope to focus on the small parts of our economy. Macroeconomics is the part of economic analysis that studies the behavior of the economy as a whole. It deals with economywide phenomena such as changes in unemployment, in the general price level, and in national income. Microeconomic analysis, for example, is concerned with the effects of changes in the price of gasoline relative to that of other energy sources. It examines the effects of new taxes on a specific product or industry. If price controls were reinstituted in Iran, how individual firms and consumers would react (in the realm of microeconomics)? The effects of higher wages brought about by an effective union strike would also be analyzed using the tools of microeconomics. In contrast, issues such as the rate of inflation, the amount of economywide unemployment, and the yearly growth in the output of goods and services in the nation all fall into the realm of macroeconomics analysis. In other words, macroeconomics deals with aggregates, or totals-such as total output in an economy.

Be aware, however, of the blending of microeconomics and macroeconomics in modern economic theory. Modern economists are increasingly using microeconomics analysis-the study of decision making by individuals and by firms-as the basis of macroeconomics analysis. They do this because even though macroeconomics analysis focuses on aggregates, those aggregates are the result of choices made by individuals and firms.

• The Economic Person: Rational Self-Interest

Economics assume that individuals act as motivated by self-interest and respond predictably to opportunities for gain. This central insight of economics was first clearly articulated by Adam Smith in 1776. Smith wrote in his most famous book, *An Inquiry into the Nature and Causes of the Wealth of Nations*, that "it is not from the benevolence of the butcher, the brewer, or the banker that we expect our dinner, but from their regard to their own interest". Thus, the typical person about whom economists make behavioral predictions is assumed to act *as thought* motivated by self-interest. Because monetary benefits and costs of actions are often the most easily measured, economists make behavioral predictions about individuals' responses to opportunities to increase their wealth, measured money terms.

The rationally assumption of economics, simply stated, is as follows: We assume that individuals do not intentionally make decisions that would leave them worse off.

• Economics as a Science

Economics is a social science that employs the same kinds of methods used in other sciences, such as biology, physics, and chemistry. Like these other sciences, economics uses models, or theories. Economics models, or theories, are simplified representations of the real world that we use to help us understand, explain, and predict economic phenomena in the real world. There are, of course, differences between sciences. The social sciences-especially economics-make little use of laboratory experiments in which changes in variables are studied under controlled conditions. Rather, social scientists, and especially economists, usually have to test their models, or theories, by examining what has already happened in the real world.

• Positive versus Normative Economics

Economics uses *positive analysis*, a value-free approach to inquiry. No subjective or moral judgments enter into the analysis. Positive analysis relates to statements such as "If A, then B". For example, "If the price of gasoline goes up relative to all other prices, then the amount of it that people buy will fall". That is a positive economic statement. It is a statement of *what is*. It is not a statement of anyone's value judgment or subjective feelings. When our values are interjected into the analysis, we enter the realm of *normative economics*, involving normative analysis. A positive economic statement is "If the price of gasoline rises, people will buy less". If we add to that analysis the statement "so we should not allow the price to go up", we have entered the realm of normative economics-we have expressed a value judgment.

Vocabulary and Comprehension Exercise

Exercise 1.2

Fill in the blanks with appropriate words from the following list.

theory	normative	model	bounded rationality
rationality	wants	self-interest	microeconomics
positive	unlimited	macroeconomics	ceteris paribus
behavioral			

1. Economics is a social science that involves the study of how individuals choose among alternatives to satisfy their…………, which are what people would buy if their incomes were ……..

2. In account of text, ……….., the study of the decision-making process of individuals (or households) and firms, and ……….., the study of the performance of the economy as a whole, are the two main branches into which the study of economics is divided.

3. In economics, we assume that people do not intentionally make decisions that will leave them worse off. This is known as the ………… assumption.

4. In account of text, ……….. is not confined to material well-being but also involves any action that makes a person feel better off, such as having more friends, power, or affection or providing more help to others.

5. A ……., or ………., uses assumptions and is by nature a simplification of the real world. The usefulness of a model can be evaluated by bringing empirical evidence to bear on its predictions.

6. Most models use the ………. assumption that all other things are held constant, or equal.

7. In account of text, ……….. economics emphasizes psychological constraints and complexities that potentially interfere with rational decision making. This approach utilizes the ………. hypothesis that people are not quiet rational, because they cannot study every possible alternative but instead use simple rules of thumb to decide among choices.

8. In account of text, ………. economics is value-free and relates to statements that can be refused, such as "If A, then B".

9. In account of text, ………… economics involves people's value and typically uses the word *should*.

Comprehension Exercises

Exercise 1.3

First read the text carefully and then choose the best choice to complete each question.

1. Which one <u>is not</u> belong to social sciences?

a. economics
b. biology
c. accounting
d. management

2. Which one belongs to macroeconomics?

a. trade
b. price
c. production
d. inflation

3. According to the passage, which one of the following issues <u>is not</u> the subject matter of economics?

a. consumption
b. production
c. exchange
d. political election

4. In account of text, …….. simplifies representations of the real world that we use to help us understand economic phenomena in the real world.
   a. microeconomics
   b. theories
   c. models
   d. b and c

5. Modern economists are increasingly using ……….. as the basis of macroeconomic analysis.
   a. Rationality assumption
   b. models
   c. Microeconomics analysis
   d. theories

Exercise 1.4

Read each statement and decide whether it is true or false. Write "T" before true statements and "F" before false statements. Base your answers on the information given in the passage.

1. …… Economics is the study of how people make choices.

2. ……. Needs are things that have value and, more specially, are used to produce goods and services that satisfy people's wants.

3. ……. Microeconomics examines the effects of new taxes on a specific product or industry.

4. …….. Economics is a social science that employs the same kinds of methods used in other sciences.

5. …….. Normative analysis relates to statements such as "If A, then B".

6. ……... Macroeconomics is like looking through a microscope to focus on the small parts of our economy.

Exercise 1.5

After reading the text, try to provide full answers to the following questions.

1. What is the purpose of economics?

2. What is the difference between microeconomics and macroeconomics?

3. Categorize each of the following issues either a microeconomic issue, a macroeconomic issue, or not an economic issue.
   a. The national unemployment rate
   b. The decision of a work overtime or not
   c. A family's choice to have a baby
   d. The rate of growth of the money supply
   e. The national government's budget deficit
   f. A student's allocation of study time between two subjects

4. Categorize each of the following conclusions as being the result of positive analysis or normative analysis.
   a. A higher minimum wage will reduce employment opportunities for minimum wage workers.
   b. Increase the earnings of minimum wage employees is desirable, and raising the minimum wage is the best way to accomplish this.
   c. Everyone should enjoy open access to health care.
   d. Health care subsidies will increase the consumption of health care.

5. Suppose that one of your classmates is a hardworking student, serious about his classes, and conscientious about his grades. He is also involved, however, in volunteer activities and an extracurricular sport. Is he displaying rational behavior? Based on what you read in this chapter, construct an argument supporting the conclusion that he is.

Translation Practice

Translate the following text into fluent Persian. Use a dictionary if necessary.

Behavioral Economics and Bounded Rationality

In recent years, some economists have proposed paying more attention to psychologists and psychiatrists. They have suggested an alternative approach to economic analysis. Their approach, which is known as *behavioral economics*, examines consumer behavior in the face of psychological limitations and complications that may interfere with rational decision making.

- **Bounded Rationality**

Proponents of behavioral economics suggest that traditional economic models assume that people exhibit three “unrealistic” characteristics:

1. Unbounded selfishness. People are interested only in their own satisfaction.
2. Unbounded willpower. Their choices are always consistent with their long-term goals.
3. Unbounded rationality. They are able to consider every relevant choice.

Instead, advocates of behavioral economics have proposed replacing the rationality assumption with the assumption of bounded rationality, which assumes that people cannot examine and think through every possible choice they confront. As a consequence, behavioral economics suggest, people cannot always pursue their long-term personal interests. From time to time, they must also rely on other people and take into account other people’s interests as well as their own.

- **Rules of Thumb**

A key behavioral implication of the bounded rationality assumption is that people should use so-called *rules of thumb*: Because every possible choice cannot be considered; an individual will tend to fall back on methods of making decisions that are simple than trying to sort through every possibility.

A problem confronting advocates of behavioral economics is that people who appear to use rules of thumb may in fact behave as if they are fully rational. For instance, if a person faces persistently predictable ranges of choices for a time, the individual may rationally settle into repetitive behaviors that an outside observer might conclude to be consistent with a rule of thumb. The bounded rationality assumption indicates that the person should continue to rely on a rule of thumb even if there is a major change in the environment that the individual faces. Time and time again, however, economists find that people respond to altered circumstances by fundamentally changing their behaviors. Economists also generally observe that people make decisions that are consistent with their own self-interest and long-term objectives.

- **Behavioral Economics: A Work in Progress**

It remains to be seen whether the application of the assumption of bounded rationality proposed by behavioral economists will truly alter the manner in which economists construct models intended to better predict human decision making. So far, proponents of behavioral economics have not conclusively demonstrated that paying closer attention to psychological thought processes can improve economic predictions.

As a consequence, the bulk of economic analysis continues to rely on the rationality assumption as the basis for constructing economic models. Advocates of behavioral economics continue to explore ways in which psychological elements might improve analysis of decision making by individual consumers.

Keywords

Assumption	فرض	Limit	محدود
Ceteris paribus	ثابت بودن سایر شرایط	Macroeconomics	اقتصاد کلان
Economics	علم اقتصاد	Microeconomics	اقتصاد خرد
Evaluate	ارزیابی کردن	Nature	ماهیت
Firm	بنگاه	Prediction	پیش‌بینی
Fulfill	تامین کردن	Price	قیمت
Fund	ذخیره مالی	Purchase	خریداری کردن
Household	خانوار	Rational	عقلائی
Industry	صنعت	Spend	خرج کردن
Inflation	تورم	Unemployment	بیکاری

Answer Key

In this section you can compare your answers to the different questions, thereby you have the opportunity to appraise your understanding of the lesson as well as your competence in English.

Exercise 1.1

1. e	2. f	3. h	4. j
5. a	6. i	7. c	8. g

Exercise 1.2

1. wants, unlimited	2. microeconomics, macroeconomics	
3. rationality	4. self-interest	5. model, theory
6. ceteris paribus	7. behavioral, bounded rationality	
8. positive	9. normative	

Exercise 1-3

1. b	2. d	3. d	4. d
5. c			

Exercise 1-4

1. T	2. F	3. T	4. T
5. F	6. F		

Exercise 1-5

1. In economics, we examine situations in which individuals choose how to do things, when to do things, and with whom to do them. Ultimately, the purpose of economics is to explain choices.

2. Microeconomics can be thought of as the study of the economic trees, as compared to macroeconomics, which is study of the entire economic forest.

3.

a. a macroeconomics issue	b. a microeconomics issue
c. not an economic issue	d. a macroeconomics issue
e. a macroeconomics issue	f. a microeconomics issue