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МЕТОДИЧНІ ВКАЗІВКИ

для самостійної роботи студентів з дисципліни

“Англійська мова професійного спрямування”

для спеціальностей “Фінанси”, “Облік та аудит”,
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UNIT 1

1 Stocks And Shares

EXERCISE 1. Read the following text and then decide whether the statements following are TRUE or FALSE

The act of issuing shares (GB) or stocks (US) – i. e. offering them for sale to the public – for the first time, is known as floating a company or making a flotation. Companies generally use a bank to underwrite the issue. In return for a fee, the bank guarantees to purchase the security issue at an agreed price on a certain day, although it hopes to sell it to the public. Newer and smaller companies trade on "over-the-counter" markets, such as the Unlisted Securities Market in London. Successful companies can apply to have their shares traded on the major stock exchanges, but in order to be quoted (GB) or listed (US) there, they have to fulfil a large number of requirements. One of these is to send their shareholders independently-audited annual reports, including the year's trading results and a statement of the company's financial position.

Buying a share gives its holder part of the ownership of a company. Shares generally entitle their owners to vote at companies' General Meetings, to elect company directors, and to receive a proportion of distributed profits in the form of a dividend (or to receive part of the company's residual value if it goes into bankruptcy). Shareholders can sell their shares at any time on the secondary market, but the market price of a share – the price quoted at any given time on the stock exchange, which reflects how well or badly the company is doing – may differ radically from its nominal, face, or par value.

At the London Stock Exchange, share transactions do not have to be settled until the account day or settlement day at the end of a two-week accounting period. This allows speculators to buy shares hoping to resell them at a higher price before they actually pay for them, or to sell shares, hoping to buy them back at a lower price.

If a company wishes to raise more money for expansion it can issue new shares. These are frequently offered to existing shareholders at less

than their market price: this is known as a rights issue. Companies may also turn part of their profit into capital by issuing new shares to shareholders instead of paying dividends. This is known as a bonus issue or scrip issue or capitalisation issue in Britain, and as a stock dividend or stock split in the US. American corporations are also permitted to reduce the amount of their capital by buying back their own shares, which are then known as treasury stock; in Britain this is generally not allowed, in order to protect companies' creditors. If a company sells shares at above their par value, this amount is recorded in financial statements as share premium (GB) or paid-in surplus (US).

The Financial Times-Stock Exchange (FT-SE) 100 Share Index (known as the "Footsie") records the average value of the 100 leading British shares, and is updated every minute during trading. The most important US index is the Dow Jones Industrial Average.

1. A company can only be floated once. TRUE/FALSE
2. Banks underwrite share issues when they want to buy the shares. TRUE/FALSE
3. It is easier for a company to be quoted on an unlisted securities market than on a major stock exchange. TRUE/FALSE
4. Unlisted companies do not publish annual reports. TRUE/FALSE
5. The market price of a share is never the same as its nominal value. TRUE/FALSE
6. On the London Stock Exchange it is possible to make a profit without ever paying anyone any money. TRUE/FALSE
7. If a company issues new shares, it has to offer them to existing shareholders at a reduced price. TRUE/FALSE
8. A scrip issue can be an alternative to paying a dividend. TRUE/FALSE
9. American corporations with large amounts of cash can spend it by buying their own shares. TRUE/FALSE
10. Companies do not have to sell their shares at their nominal value. TRUE/FALSE

EXERCISE 2. Add appropriate words from the text to these sentences:

1. Offering shares to the public for the first time is called _____ a company.

2. A company offering shares usually uses a merchant bank to _____ the issue.
3. The major British companies are _____ on the London Stock Exchange.
4. In London, share transactions have to be _____ every two weeks.
5. The value written on a share is its _____.
6. The value listed in the newspapers is its _____.

EXERCISE 3. Complete the sentences using these words:

arbitrageurs	bears	bulls	insiders
market-makers	shareholders	stags	stockbrokers

1. People who buy stocks and shares are called _____ in Britain, and stockholders in the USA (although most of the shares of all leading companies are held by institutional investors such as pension funds and insurance companies).
2. People who buy securities expecting their price to rise so they can resell them before the next settlement day are known as _____.
3. People who sell shares hoping to buy them back at a lower price before the next settlement day are called _____.
4. People who buy new share issues, hoping to resell them at a profit (if the issue is over-subscribed) are known as _____.
5. Shareholders place their orders with, and sometimes seek advice from _____ who are members of the Stock Exchange, but who can work anywhere with a telephone and a computer screen connected to the Stock Exchange.
6. Brokers in turn buy shares from and sell them to _____ who are wholesalers in stocks and shares, and who guarantee to make a market at all times with brokers.
7. _____ are people who occupy a position of trust within an organization and possess information not known to the public; buying or selling shares when in possession of such information that affects their price is illegal.
8. _____ are people who buy stakes in companies involved (or expected to be involved) in takeover bids.

EXERCISE 4. Learn the following financial terms:

1. **Arbitrageur** is a person who buys and sells currencies for profit; a person who buys stakes in companies involved in takeover bids.
2. **Insider** is a person, who occupies a position of trust within a company and possesses information not known to the public.
3. **Bear** is a person who sells shares hoping to buy them back at a lower price before the next account or settlement day.
4. **Bull** is a person who buys securities expecting their price so that he or she can resell them before the next account day.
5. **Stag** is a person who buys new share issues, hoping to resell them at a profit if the issue is oversubscribed.
6. **Actuary** is a person who calculates probabilities for an insurance company, so that it can set its premiums.
7. **Cambist** is a dealer in foreign currencies and bills of exchange.
8. **Liquidator** or **receiver** or **administrator** is a person appointed by a court who realizes (turn into cash) a company's assets in order to repay creditors.

EXERCISE 5. *Business People*. Match the statements with the job titles in the box:

accountant	actuary	arbitrageur	auditor
broker	cambist	economist	entrepreneur
liquidator	market-maker	raider	sole trader

1. "I've set up my own business and now employ a lot of people."
JOB: _____
2. "I buy and sell securities for my customers."
JOB: _____
3. "I buy the shares of companies that I think will be involved in takeover bids."
JOB: _____
4. "I check and evaluate financial records prepared by other people."
JOB: _____
5. "I deal in foreign currencies."
JOB: _____
6. "I keep financial records and prepare financial statements."
JOB: _____
7. "I'll be able to tell you tomorrow why what I forecast yesterday didn't happen today!"
JOB: _____

8. "I'm a wholesaler in stocks and shares. I deal with stockbrokers at the stock exchange."

JOB: _____

9. "I own a small shop which I run by myself."

JOB: _____

10. "I sell the assets of bankrupt companies in order to repay creditors."

JOB: _____

11. "I spend my working life calculating when other people are going to die!"

JOB: _____

12. "I acquire companies by buying their shares on the Stock Market."

JOB: _____

2 Types Of Shares

A share (in British English) or a stock (in American English) is a security representing a portion of the nominal capital of a company. (In Britain "stock" is used to refer to either a block of shares with a nominal value of £100, or various kinds of fixed-interest securities.)

Ordinary shares (GB) or common stock are fixed units of a company's share capital that usually pay a dividend and have voting rights. Preference shares or preferred stock receive a fixed dividend, which is paid before other shares get any dividend. Deferred shares do not receive dividend until other categories of shares have received theirs. Barometer stocks (GB) or bellwether stock (US) is a widely-held stock that can be considered as an indicator of present and future market performance. Blue chip is a security in a company considered to be virtually without risk. Defensive shares or defensive stock offer a good yield but only a limited chance of a rise or decline in price.

EXERCISE 6. Complete the following using the phrases in the box:

barometer stocks	blue chips	defensive stock
deferred shares	equities	growth stock
mutual fund	ordinary shares	participation certificates
preference shares <i>or</i> preferred stock		

1. Another name for stocks and shares is _____, because all the stocks or shares of a company – or all those of a particular

category – have an equal nominal value.

2. _____ (US: common stock) are often the only kind of shares with voting rights.
3. Some companies issue _____ which, like shares, grant their holders part of the ownership of a company, but usually without voting rights.
4. _____ as their name suggests, usually receive a fixed dividend, which must be paid in full before any dividend is paid on other shares. But because interest payments are tax deductible, and dividends are not, many companies now issue bonds instead.
5. _____ (or stock), again as the name suggests, do not receive a dividend until other categories of shares have had a dividend paid on them, but might earn a higher dividend if the company does well.
6. Securities in companies that are considered to be without risk are known as _____.
7. Widely-held stocks (e. g. blue chips or 20-year Treasury Bonds) that can be considered as indicators of present and future market performance, are known as _____ (GB) or bellwether stocks (US).
8. A _____ or share is one that is expected to appreciate in capital value; it usually has a high purchasing price and a low current rate of return.
9. A _____ or income stock or share is one that offers a good yield but only a limited chance of a rise or decline in price (in an industry that is not much affected by cyclical trends).
10. A way of spreading risks is to invest in a unit trust (in Britain) or a _____ (in the US), organizations that invest small investors' money in a wide portfolio of securities.

EXERCISE 7. *Market Price Idioms*. Classify the following expressions according to whether you think they mean:

- (a) the price rose a little
- (b) the price rose a lot
- (c) the price fell a little
- (d) the price fell a lot
- (e) the price was almost unchanged.

1. After early losses, the Dow Jones rallied to finish ten points up.
2. Boeing shares plummeted after a door fell off a 747 taking off from

- Dulles International Airport and landed in the White House garden.
3. Chrysler continued to drift, finishing 75 cents down at 45 and a half.
 4. CIBA-Geigy shares rocketed after the company announced the discovery of a drug that will cure people of wanting to make a fortune on the stock market.
 5. Compaq stock suffered a small setback, losing \$2.25.
 6. EuroDisney shares sank again to FF2.35 after Mickey got caught in a mousetrap.
 7. Eurotunnel shares went through the floor, finishing at 0.14.
 8. Gold slipped back a little to \$385.40.
 9. Hill-Lewis shares took a knock, after the news that company chairman Stuart Tipping had resigned.
 10. IBM stocks suffered a drop after disappointing quarterly results were released.
 11. In Frankfurt, the DAX index failed to halt its slide, finishing 6 points down.
 12. In Lisbon, shares were slightly weaker in light trading.
 13. In Milan, shares eased slightly in subdued trading.
 14. In New York, the Japanese yen slumped to 123 to the dollar.
 15. In Paris, the CAC-40 recovered slightly, finishing up by 0.32%.
 16. In the Philippines, shares took a tumble in heavy late trading, with the Manila Composite Index closing at 2507.33.
 17. In Tokyo, shares rebounded, the Nikkei closing at 20677.83.
 18. In Hong Kong, the Hang Seng Index plunged to 8269.44.
 19. On Wall Street, most of the leading stocks were firmer.
 20. Philip Morris also dipped, down 75 cents to \$52.75.
 21. Shares fell sharply across the board in Jakarta this morning.
 22. Shares of Tottenham Hotspur Football Club crashed to a record low of 16p after the team lost their fourteenth successive home game on Saturday.
 23. Silver was steady at six hundred and thirty-five cents an ounce.
 24. The Deutschmark jumped after the weekend's election results, finishing at 0.598 against the dollar.
 25. The dollar was slightly stronger in active trading yesterday.
 26. The Dutch guilder leapt to an all-time high after gold was discovered in the mountains outside Amsterdam.
 27. The pound revived a little, finishing 2 pfennigs up.
 28. The Swiss franc advanced a little to 2.14.

29. Thirty-five points were wiped off the Footsie as shares took a beating in London.

30. Volkswagen staged a comeback, finishing up 14.

Now underline all the "up" and "down" phrases in the examples.

EXERCISE 8. Read the passage, then choose words and phrases from the box to fill the blanks in the text:

middlemen	equity	symptoms	functions	resources
significantly	exert	markets	efficient	efficiency
surplus	slump	flow	prices	forms

Stocks in trade

Why is everyone betting on the _____? Part of the answer is that capital markets have proved remarkably _____ at bringing savers and borrowers together. Capital is just another word for stored wealth and resources, which can take many _____. And markets, as basic economics shows, are the least bad way to set _____ and _____ to allocate scarce resources.

The key difference between capital markets and financial intermediaries, such as banks or life insurers, is that capital markets cut out _____. Where banks and institutions stand between savers and investors, directing the _____ of resources, capital markets bring the two parties face to face.

The two main types of capital markets are _____ markets, for trading company shares (or equities), and bond markets, for trading the debt of companies and governments. Both perform two crucial _____ in the economy. They move resources across space and time, from where they are in _____ to where they are needed most. And they produce valuable information, through the prices they set, that firms, households, and governments use to manage _____ better.

Although the forms of capital markets have changed _____ over the years, these broad functions have remained the same. That is not enough to silence critics, however. Many argue that share and bond prices gyrate wildly, with no underlying justification, and that financial markets _____ too much control over the world's resources. They point to America's great crash of 1929 and Japan's long stock market _____ in the 1990s. Yet such events are usually _____ of broader _____ ills,

not causes. The apparent chaos of the trading floor should, over the long term, lead to greater _____ in the real economy – and will certainly work better than any centrally planned alternative.

UNIT 2

1 Securities, bonds, options and futures

EXERCISE 1. Read and translate the text in written form:

There is a lot to be said about securities. Security is an instrument that signifies (1) an ownership position in a corporation (a stock), (2) a creditor relationship with a corporation or governmental body (a bond), or (3) rights to ownership such as those represented by an option, subscription right, and subscription warrant.

People who own stocks and bonds are referred to as investors or, respectively, stockholders (shareholders) and bondholders. In other words a share of stock is a share of a business. When you hold a stock in a corporation you are part owner of the corporation. As a proof of ownership you may ask for a certificate with your name and the number of shares you hold. By law, no one under 21 can buy or sell stock. But minors can own stock if kept in trust for them by an adult. A bond represents a promise by the company or government to pay back a loan plus a certain amount of interest over a definite period of time. Bonds are long-term debt instruments, usually with maturities of 10 or more years. They are usually issued in \$1,000 amounts (or multiples of \$1,000). Secured bonds are backed by collateral, usually real estate or fixed assets; unsecured bonds, or debentures, are backed by the good credit of the issuer (i.e., the borrower). Bonds pay interest at six month intervals and the principal is repaid at maturity. Junk bonds are low-grade, risky bonds issued by financially weak companies. To attract investors, junk bonds have to pay much higher than normal interest rates. Firms that issue bonds must set aside funds on a periodic basis to prepare for repayment at maturity

In the USA bonds, like stocks, are traded on the New York Exchange and other organized exchanges. However, much of the trading in bonds takes place on the over-the-counter market. Bonds, while traded much like stocks, have the following unique characteristics: (a) they are usually sold in \$1,000 denominations, or variations thereof; (b) they may be sold at a premium (a price above par) or at a discount (a price below par), depending on the investment quality of the security and the rate of interest offered; (c)

bond prices are usually quoted in thirty-seconds of a point if they are government issues, or eights of a point if they are corporate issues; and (d) bond prices are directly affected by changes in market interest rates.

An option is a piece of paper that gives you the right to buy or sell a given security at a specified price for a specified period of time. A "call" is an option to buy, a "put" is an option to sell. In the simplest form, these have become an extremely popular way to speculate on the expectation that the price of a stock will go up or down. In recent years a new type of option has become extremely popular: options related to the various stock market averages, which let you speculate on the direction of the whole market rather than on individual stocks. Many trading techniques used by expert investors are built around options; some of these techniques are intended to reduce risks rather than for speculation.

When a corporation wants to sell new securities to raise additional capital, it often gives its stockholders rights to buy the new securities (most often additional shares of stock) at an attractive price. The right is in the nature of an option to buy, with a very short life. The holder can use ("exercise") the right or can sell it to someone else. When rights are issued, they are usually traded (for the short period until they expire) on the same exchange as the stock or other security to which they apply.

A warrant resembles a right in that it is issued by a company and gives the holder the option of buying the stock (or other security) of the company from the company itself for a specified price. But a warrant has a longer life – often several years, sometimes without limit. As with rights, warrants are negotiable (meaning that they can be sold by the owner to someone else), and several warrants are traded on the major exchanges.

The commodity markets, where food stuff and industrial commodities are traded in vast quantities, are outside the scope of this text. But because the commodity markets deal in "futures" – that is, contracts for delivery of a certain good at a specified future date – they have also become the center of trading for "financial futures", which, by any logical definition, are not commodities at all.

Financial futures are relatively new, but they have rapidly zoomed in importance and in trading activity. Like options, the futures can be used for protective purposes as well as for speculation. Making the most headlines have been stock index futures, which permit investors to speculate on the future direction of the stock market averages. Two other types of financial futures are also of great importance: interest rate futures, which are based

primarily on the prices of U.S. Treasury bonds, notes, and bills, and which fluctuate according to the level of interest rates; and foreign currency futures, which are based on the exchange rates between foreign currencies and the U.S. dollar. Although, futures can be used for protective purposes, they are generally a highly speculative area intended for professionals and other expert investors.

EXERCISE 2. *Bonds*. Match the responses on the right with the questions on the left:

- | | |
|--|---|
| 1. So what exactly are bonds? | a. Because of changes in interest rates. For example, no-one will pay the full price for a 6% bond if new bonds are paying 10%. |
| 2. And how do they work? | b. Exactly. And the opposite, a bond whose market value is higher than its face value, is above par. |
| 3. So you have to keep them for a long time? | c. I knew you'd finish by saying that! |
| 4. Why should that happen? | d. No, not at all. Bonds are very liquid. They can be sold on the secondary market until they mature. But of course, the price might have changed. |
| 5. Oh, I see. Is that what they mean by below par? | e. No, not unless it's a floating rate bond. The coupon, the amount of interest a bond pays, remains the same. But the yield will change. |
| 6. But the bond's interest rate doesn't change? | f. No, those are short-term (three-month) instruments which the government sells to and buys from the commercial banks, to regulate the money supply. |
| 7. How's that? | g. That's the name they use in Britain for long-term government bonds – gilts or gilt-edged securities. In the States they call them Treasury Bonds. |
| 8. And people talk about AAA and AAB bonds and things like that. | h. They're securities issued by companies, governments and financial institutions when they need to borrow money. |
| 9. And what about | i. Well, a bond's yield is its coupon payment |

gilts?

expressed as a percentage of its price on the secondary market, so the yield changes if you buy or sell above or below par.

10. Not Treasury Bills? j. Well, they usually pay a fixed rate of interest and are repaid after a fixed period, known as their maturity, for example five, seven, or ten years.
11. And James Bond. k. Yes. Bond-issuing companies are given an investment grade by private ratings companies such as Standard & Poors, according to their financial situation and performance.

1.		2.		3.		4.		5.		6.	
7.		8.		9.		10.		11.			

EXERCISE 3. Complete the following:

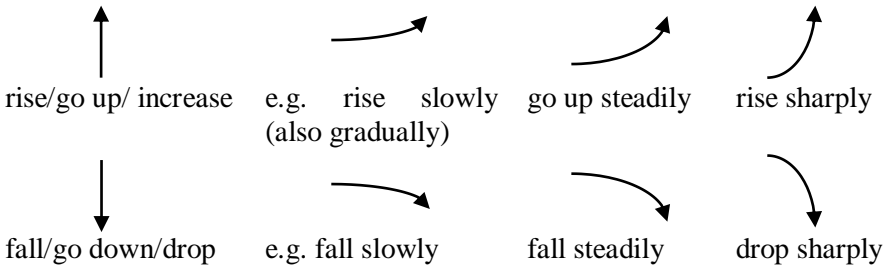
1. Companies generally use investment banks to _____ their bonds.
2. Thereafter, they can be traded on the _____ market.
3. The amount of interest a bond pays is often called its _____.
4. The majority of bonds have a _____ rate of interest.
5. A bond's _____ depends on the price it was bought at.
6. A bond priced at 104% is described as being _____.
7. Bonds are repaid at 100% at _____.
8. AAA is the highest _____.

2 Profit, loss, rise and fall

The **main aim/objective** of a company (= most important thing for a company to do) is to **make a profit** (= receive more money than it spends; *opp* **make a loss**). If a company does not make a profit or a loss, it **breaks even**. For example: Most new companies are happy if they **break even** in their first year of business.

Companies receive money from selling their products (this money is called the **turnover**), and they spend money (called the **expenditure**) on these things: **raw materials** (= materials in their natural state, e.g. coal and oil are important **raw materials** used to make plastics), and **overheads** (= things a company must always spend money on, e.g. rent, electricity, etc.). For many companies, **labour costs** (= money paid to workers) are very expensive.

These verbs describe **trends** (= movements) in sales, prices, profit and loss, etc.



Notice the different uses of prepositions with these verbs:

by + size of change Pre-tax profits rose **by** 11% (to £120 million).
from + previous level Prices dropped **from** \$594 to \$386.
to + new level

NOTE: Rise, increase and fall are also used as nouns. For example: a rise of 10% ('of' introduces the amount); a fall of \$3.5 million; an increase in sales ('in' introduces the thing that is – changing); a fall in profits.

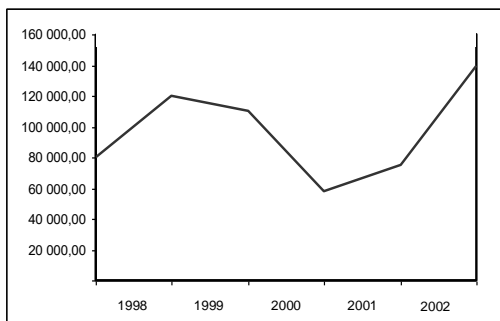
EXERCISE 4. Complete the missing preposition in these sentences.

- Sales rose _____ 10% last year.
- The stock market value fell _____ 240 _____ 225 in the space of two days.
- There was a rise _____ 5% in the value of the shares.
- The shares were £2.50 last week, but the value has just gone up 20p _____ £2.70.
- There has been a steady increase _____ the profit.
- We had to pay over £5,000 _____ interest.

EXERCISE 5. Replace the underlined word(s) with another word or phrase that has the same meaning.

After last year when sales (1) dropped by 5%, I am pleased to say there has been a (2) slow rise in sales in the first quarter of this year, and we are optimistic that the company will continue to (3) do well in the next quarter. In the longer term, our (4) objective for the company is to (5) grow by at least 10% over the next two years, and of course, to make sure that our profit (6) increases by a similar amount.

EXERCISE 6. Look at the graph and complete the sentences on the right. Each gap is one word.



1. In 1998 sales _____.
2. In the following year they _____.
3. In 2000 there was a _____ in sales.
4. In 2001 business improved and there was a _____.
5. And in 2002 sales _____.

6. In the five-year period sales _____ by _____.

EXERCISE 7. *Rise and Fall*. Classify these verbs (from the sentences in the previous exercise), according to whether they mean *rise* or *fall*:

advance	be firm	be strong	be weak
dip	drift	drop	ease
jump	leap	plummet	plunge
rally	rebound	recover	revive
rocket	sink	slip	slump
tumble			

Four of these verbs – all in one line of the box – mean to rise after previously falling. Which are they?

Remember that *rise* and *fall* are irregular verbs: *rise* – *rose* – *risen*; *fall* – *fell* – *fallen*.

Remember to distinguish between *fall* – *fell* – *fallen*, and *feel* – *felt* – *felt*.

As well as the verb *rise*, English also has the verbs *raise* and *arise*.

Rise is an irregular, intransitive verb: *rise – rose – risen*. Things can rise, but you cannot rise something.

Raise is a regular, transitive verb: *raise – raised – raised*. People raise things. As well as to increase – to cause to rise – *raise* has lots of other meanings, including to collect capital, to bring up children, etc.

Arise is an irregular, intransitive verb: *arise – arose – arisen*. It means to happen or occur, or to come into existence. *Problems arose soon after the new chairman took office*.

EXERCISE 8. Complete the following sentences with the appropriate form of *rise*, *raise*, or *arise*:

1. A cash-flow crisis has _____.
2. Last year we issued bonus shares and _____ \$2 million.
3. Prices have already _____ 4% since January, and I think they're going to _____ at the same rate until the end of the year.
4. Retail prices _____ by 7% last year.
5. She _____ her children all on her own while working part-time.
6. The Federal Reserve will probably _____ interest rates by 0.5%.
7. The problem _____ from the lack of quality control.
8. We didn't expect those difficulties to _____ with the new product.

EXERCISE 9. Find in the text all the words and phrases connected with *profit*, *loss*, *rise* and *fall* and give their equivalents in your native language. Translate the text in writing and say what you know about Japan and JGBs.

Can Japan stomach higher interest rates? Since September, when ten-year government bond (JGB) yields dipped below 0.7%, yields have tripled. Masaru Hayami, the central bank governor, suggests a brighter outlook for the economy as the reason. Fat chance. Unemployment is rising again, wages and consumption are falling and businessmen, who continue to butcher their investment plans, are more miserable than ever.

The immediate cause of the bond-market decline was a bit of news management so inept that some imaginative souls sniff a conspiracy. More

deficit spending and slumping tax revenues have combined to blow a mighty hole in the budget for the next fiscal year, which the finance ministry announced on December 21st. The gap will be filled with jumbo sales of JGBS, whose issuance will rise by 23% to ¥71.5 trillion (\$617 billion).

So much was well known. The nasty bit was the ministry's revelations about who would buy these bonds, or rather who wouldn't. In recent years by far the biggest buyer has been the finance ministry itself, through its management of Japan's huge pot of postal savings. Lately, however, these savings have been needed elsewhere – notably, for the government's ambitious project to lend to those companies which can no longer borrow on commercial terms. That means more money for the big public-sector lenders and more for Japan's credit-guarantee associations, which underwrite the debts of small companies. The finance ministry says it will end its routine monthly purchase of ¥200 billion-worth of JGBS in the secondary market, and sharply reduce the amount it buys when the bonds are issued. This fiscal year's initial budget forecast that the ministry would subscribe to more than one-third of new JGBS; in the fiscal year that starts next April it plans to buy just 16%.

There are plenty of other reasons offered for the rise in yields. Among them: worries that Japan's public finances are worsening (they are); fears that the postal-savings system faces a funding crisis (in fact, its problems are on the other side of its balance sheet); and the thought that the government is engineering the whole thing to bankrupt the worst-off companies, thus reducing overall debt (a bit Machiavellian) Yet the explanation is simple: without the finance ministry's prop, Japan's absurdly low interest rates have begun to return to more sensible levels. With bond yields at 1%, investors were in effect betting on deflation of 3% a year for the next ten years – which seems overly bleak even in Japan.

Unfortunately, such is the dismal shape of the economy that even a modest rise in rates will hurt. Already, six of Japan's nine large city banks have raised the price of fixed-rate mortgages. Japanese companies will also suffer, particularly those in heavily indebted sectors such as building, property and retailing. Companies in these businesses were anyway struggling to cope with rising borrowing costs, as banks had already started to charge more to lend to them. The banks themselves will also feel the pinch. They have relied on windfall bond profits to help write off their bad loans. In the first half of this year, bond-market earnings accounted for 28%

of the big banks' operating profits. As prices have sunk, unrealised profits on bond portfolios have probably evaporated. If they sink further, banks will have to decide whether to start booking (or burying) losses instead.

The most serious potential problem likely to be associated with rising bond yields is a further rise in the yen, which would crush exports and fuel deflation via lower import prices. Since August, the yen has risen by a fifth in trade-weighted terms, thanks in part to expectations of slower growth (and hence of lower interest rates) in America.

All of this makes life even more difficult for the central bank, despite its governor's cheery outlook. To help the economy back on to its feet, the Bank of Japan has been trying to run a super-loose monetary policy. With monetary policy being tightened by a rise in the yen and in long-term interest rates, it must now decide whether to loosen further. Short-term interest rates are close to zero; they cannot be cut much more. But there is one card left to play: print money, which is generally done by buying bonds. So far the Bank has resisted this, restricting itself to modest monthly purchases of JGBS. But there are growing calls for it to be bolder. A report this week from the government's Economic Planning Agency called for a "manageable level of inflation". Now that would really send bonds into a tailspin.

3 Futures and Options

Study EXERCISE 10 before reading the following text:

Contracts can be made on futures markets to buy and sell currencies, various financial assets, and commodities (raw materials or primary products such as metals, cereals, tea, rubber, etc.) at a future date, but with the price fixed at the time of the deal. Currencies and commodities are also traded for immediate delivery on spot markets. Making contracts to buy or sell a commodity or financial instrument at a pre-arranged price in the future as a protection against price changes is known as hedging. Of course, this is only possible if two parties, for example, a producer and a buyer, both want to hedge, or if there are speculators who believe that they know better than the market.

Traders or speculators might wish to buy or sell a currency at a future price if it is expected to appreciate or depreciate, or if interest rates are expected to change. Prices of foodstuffs – wheat, maize, coffee, tea, sugar, cocoa, orange juice, pork bellies, etc. – are frequently affected by

droughts, floods and other extreme weather conditions, which is why both producers and buyers often prefer to hedge, so as to guarantee next season's prices. When commodity prices are expected to rise, future prices are obviously higher than, or at a premium on, spot prices; when they are expected to fall they are at a discount on spot prices; when they are expected to stay the same, future prices are also higher, as they include interest costs.

As well as commodities and currencies, there is a growing futures market in stocks and shares. One can buy options giving the right to buy and sell securities at a fixed price in the future. A call option gives its holder the right but not the obligation to buy securities or a commodity or currency at a certain price during a certain period of time. A put option gives its holder the right to sell securities, currencies, commodities, etc. at a certain price during a certain period of time.

The buyer of a share option pays a premium per share to the seller, and only risks this amount. The seller of an option (known as the writer) risks losing an unlimited amount of money, depending on the performance of the underlying share, especially if he or she does not actually possess it. If you expect the value of a share that you own to fall below its current price, you can buy a put option at this price (or higher): if the price falls, you can still sell your shares at this price. Alternatively, you could write a call option giving someone else the right to buy the share at the current price: if the market price remains below this price, no-one will take up the option, and you earn the premium.

On the contrary, if you think a share will rise, you can buy a call option giving the right to buy at the current price, hoping to buy and resell the share at a profit, or to sell this option. Or you can write a put option giving someone else the right to sell the shares at the current price: if the market price remains above this, no-one will exercise the option, so you earn the premium.

The price at which the holder of a call/put option may buy/sell the underlying security is known as its exercise or strike price. A call (put) option has intrinsic value if its exercise price is below (above) the current market price of the underlying share. Call options with an exercise price below the underlying share's current market price, and put options with an exercise price above the share market price, are described as being "in-the-money". On the contrary, call options with an exercise price higher than a share's current market price, and put options with an exercise price lower

than the share's market price, are "out-of-the-money".

EXERCISE 10. Decide whether the following statements are TRUE or FALSE:

1. The price of a futures contract is determined at the moment the contract is made. TRUE/FALSE
2. Hedging is another name for speculating. TRUE/FALSE
3. Futures prices are always higher than spot prices, because they contain interest charges. TRUE/FALSE
4. In options, 'call' means 'buy' and 'put' means 'sell'. TRUE/FALSE
5. The amount of money one can make or lose on an options contract is determined at the moment the contract is made. TRUE/FALSE
6. You can sell an option to sell an asset you do not actually possess. TRUE/FALSE
7. If you think a share will rise, you can profit by buying a call option or writing a put option giving someone else the right to sell the shares at the current price. TRUE/FALSE
8. If you think the value of a share you own will fall below its current price, you can profitably buy a call option at this price (or higher) or write a put option. TRUE/FALSE
9. A put option has intrinsic value if its exercise price is above the current market price of the underlying share. TRUE/FALSE
10. A call option with an exercise price below the underlying share's current market price is "out-of-the-money". TRUE/FALSE

EXERCISE 11. Match up the following words (using them more than once if necessary) to make up at least ten two-word nouns:

call	contract	financial	forward	futures
instrument	market	materials	option	price
primary	product	raw	spot	strike

EXERCISE 12. Match up the following words or expressions to make eight pairs of opposites:

call option	discount	drought	exercise price
flood	futures market	hedging	in-the-money

market price obligation out-of-the-money premium
 put option right speculation spot market

EXERCISE 13. *Review – Bonds and Shares.* Ten of the following twenty-one words and expressions have a direct relation to bonds, and ten others are more likely to be used in relation to stocks or shares. One word logically applies to both categories. Make two lists:

above par	accounting period	blue chip
broker	bull	convertible
coupon	crash	debt
dividend	Dow-Jones	equity
floating rate	flotation	insider
interest	investment grade	junk
maturity	redeem	zero coupon

Bonds

Shares

Both bonds and shares

EXERCISE 14. *Review – Securities.* In this wordbox you should be able to find 23 words, either horizontal (left to right), vertical (top to bottom) or diagonal (top left to bottom right), including:

1. 3 types of investors, named after animals
2. 6 names of securities
3. 10 verbs related to securities
4. 4 words relating to the income investors receive from securities.

B	U	L	L	I	S	S	U	E	Y	C
E	U	J	Q	N	H	T	E	Z	I	A
A	P	Y	B	T	A	O	A	L	E	L
R	U	D	O	E	R	C	F	G	L	L
E	T	E	N	R	E	K	U	N	D	I
T	R	A	D	E	O	P	T	I	O	N
U	I	L	E	S	A	I	U	E	E	V
R	G	I	L	T	N	C	R	K	N	E
N	M	D	I	V	I	D	E	N	D	S
H	E	D	G	E	W	R	I	T	E	T

UNIT 3

1 Financial Instruments

EXERCISE 1. Learn the following financial terms:

1. **Certificates of deposit** are short-term, interest-bearing bank deposits that can be traded like a share or bond.
2. **Commercial paper** is a short-term, discounted and unsecured corporate debt of large American banks companies issued as a way of borrowing money.
3. **Currency swap** is an exchange of a currency for another between two borrowers in different countries.
4. **Futures contract** is an arrangement to buy or sell a commodity or currency or financial instrument at an agreed price at a future date.
5. **Interest-rate swap** is an exchange between two parties, e.g. of fixed interest bonds for floating rate bonds, in an attempt to reduce risks or costs.
6. **Junk bond** is a high-yielding bond issued by less secure companies; also

used to finance leveraged buy-outs.

7. **Off-balance-sheet transactions** are a financial business that need not be registered as loans on a balance sheet.
8. **Participation certificates** grant their holder part of the ownership (equity) of a company, but without voting rights.
9. **Securitization** is the process of selling packages of bank debts to third party investors as bonds.
10. **Zero coupon bonds** pay no interest, but are sold at a large discount and ultimately redeemed at face value, providing a capital gain.

EXERCISE 2. Use the following terms to complete the sentences below:

certificates of deposit	commercial paper	currency swap
detachable warrants	forward contract	futures contract
off-balance-sheet transactions	junk bonds	interest-rate swap
participation certificates	securitization	zero coupon bonds

1. _____ is short-term, discounted and unsecured corporate debt of large American banks and companies issued, usually for one to three months only, as a way of borrowing money.
2. _____ pay no interest, but are sold at a large discount and ultimately redeemed at face value. They consequently yield capital gains, often taxed at a lower rate than interest, which is considered as income.
3. _____ are sometimes issued with bonds, and give the buyer the right to buy the same firm's equities within a certain period. Unlike convertible bonds, the bond itself is not converted into shares.
4. _____ is the process of selling packages of bank debts to third party investors as bonds. It shifts the risk of default from the bank to the new owners, and releases capital with which the bank can make new loans.
5. _____ are high-yielding bonds issued by less secure companies and by companies seeking to finance leveraged buy-outs.
6. A borrower with a lot of floating loans can spread the risk via an _____ with a borrower of fixed rate loans.
7. An importer who will need foreign exchange in three or six months time can buy it in advance by way of a _____.
8. Banks can convert large deposits that cannot be withdrawn on demand into _____: short-term, interest-bearing securities that can be traded like a share or bond.

9. Debt swaps, letters of credit, options, etc. are all forms of financial business that need not be registered as loans on a balance sheet. They are consequently known as _____.
10. Futures markets deal in contracts for standardized quantities of commodities, currencies, etc., for specific time periods. Non-standardized deals can be negotiated in an over-the-counter _____.
11. Issuing _____ – which grant their holder part of the ownership of a company, but without voting rights – rather than shares, diminishes the risk of takeovers.
12. Two borrowers, each with a better credit rating in their own country, but also needing foreign currency, can arrange a _____.

2 Financial Ratios

The analysis of financial ratios is used to help assess company performance. A ratio expresses the relationship between two figures as a proportion or percentage. Ratios are widely used in analysis of accounts to understand the significance of reported figures. To give an example, if you are told that a company made a profit of £250000 last year, that gives you no idea of whether the performance was good or bad. If you are told that profit represented 1 per cent of total assets, or 50 per cent of total assets, you would probably feel able to judge how well the business was performing.

A wide range of ratios can be used to judge different aspects of a company's position. To give an example, the analyst may be interested in solvency – that is, company's ability to meet obligations as they fall due. One useful ratio here is the 'liquidity ratio', that compares current assets excluding stock with current liabilities. For our example, Steetley PLC, this ratio shows:

$$\frac{176859 - 42504}{118278} = 1.1 \qquad \frac{164520 - 54461}{100464} = 1.1$$

Thus the analyst might conclude that Steetley has sustained a consistently strong liquidity position in 1987.

One simple question left out here is who prepares the balance sheet and profit and loss account. In fact it varies. Big firms will do it themselves, but

have them audited outside, small firms will delegate preparation to a firm of accountants and middle-sized firms can go either way.

A ratio is the number obtained when one number is divided by another. Various financial ratios are used to measure profitability, solvency, liquidity, efficiency, etc.

Match the explanations on this page with the ratios on the next page.

The **current ratio** (or working capital) measures liquidity – i.e. having enough cash to meet short-term obligations. It shows if a business can pay its most urgent debts.

The **quick ratio** (or **acid test ratio**) provides a more accurate picture of short-term solvency by considering completely liquid assets.

A company's **profit margin** or **return on sales** is the percentage difference between sales income and the cost of sales.

Productivity shows the amount of work or sales per employee.

Earnings per share relates the company's profits to the number of ordinary shares it has issued.

The **price/earnings ratio (PER)** reflects the market's opinion of a company's revenues, earnings and dividends: the higher it is, the more investors are optimistic about the company's future prospects.

A company's **debt/equity ratio**, or gearing compares the amount of debt to the firm's own capital. A highly-g geared company is one that has a lot of debt compared to equity

Interest cover or **times interest earned** shows whether funds are available to pay long-term debt costs.

Dividend cover or **the dividend payout ratio** shows the percentage of income paid out to shareholders (or the number of times the net profits available for distribution exceed the dividend actually paid).

Return on equity shows profit compared to shareholders' capital.

Return on total assets shows profit compared to all of a company's capital, whether debt or equity.

A company's **market/book ratio** is current stock market value divided by the amount invested by shareholders. (This equals the return on equity multiplied by the price/earnings ratio.)

Note: The American term for *gearing* is *leverage*.

EXERCISE 3. *What are the names of these ratios?* Try not to look back at the previous page.

1.	_____	<u>common stock dividend</u>
		<u>net income</u>
2.	_____	<u>current assets</u>
		<u>current liabilities</u>
3.	_____	<u>distributable profit</u>
		<u>number of shares</u>
4.	_____	<u>liquid assets</u>
		<u>current liabilities</u>
5.	_____	<u>(long - term) loan capital</u>
		<u>shareholders' equity or net assets</u>
6.	_____	<u>market value of stock, per share</u>
		<u>past year's earnings per share</u>
7.	_____	<u>market value * number of shares</u>
		<u>nominal value * number of shares</u>
8.	_____	<u>pre - tax profit</u>
		<u>interest charges</u>
9.	_____	<u>pre - tax profit</u>
		<u>owners' equity</u>
10.	_____	<u>pre - tax profit</u>
		<u>sales</u>
11.	_____	<u>pre - tax profit</u>
		<u>total sales</u>
12.	_____	<u>sales volume</u>
		<u>number (or wages) of employees</u>

EXERCISE 4. *Word Partnerships – Capital*. All the words below can be combined with *capital* in a two-word noun or adjective, e.g. *capital-intensive*, *venture capital*. Add the word *capital* either before or after each of the words below:

- _____ asset _____
- _____ expenditure _____

3. _____ formation _____
4. _____ gains _____
5. _____ goods _____
6. _____ human _____
7. _____ intensive _____
8. _____ investment _____
9. _____ issued _____
10. _____ market _____
11. _____ nominal _____
12. _____ ratio _____
13. _____ share _____
14. _____ sum _____
15. _____ transfer _____
16. _____ turnover _____
17. _____ uncalled _____
18. _____ unissued _____
19. _____ venture _____
20. _____ working _____

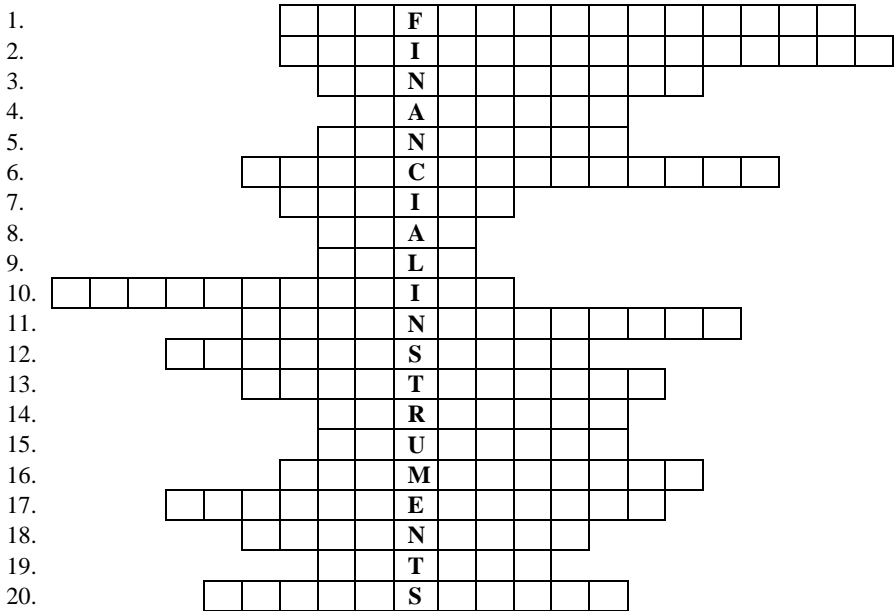
EXERCISE 5. Now complete the following ten sentences:

1. _____ are those that are used in the making of other goods.
2. _____ describes activities which require a great deal of capital investment.
3. _____ has been issued but not yet paid for (when shareholders are given the possibility of paying in installments).
4. _____ include inheritances, and so on, and are usually taxed at a special rate.
5. _____ include profits from investments, the sale of assets, and so on, and are often subject to a special tax.
6. _____ is a term that acknowledges the value of education, training, and so on.
7. _____ is capital that is allowed according to a company's Memorandum of Association, but which has not yet been offered for sale.
8. _____ is invested in new enterprises.
9. _____ is the money required to finance a company's everyday operations.

10. A _____ is one that cannot be sold or turned into cash as it is required for making or selling the firm's products.

EXERCISE 6. *Review – Financial Instruments.* Add the words and expressions that complete the following sentences to the wordbox:

1. A (10, 5) receives a dividend before the other classes of share.
2. An (8, 8) is one issued by a fairly new or small company, sold on a smaller stock exchange with fewer regulations than the big stock exchanges.
3. A (5, 5) is one of three names for new shares distributed to shareholders instead of a dividend.
4. A (7) is sometimes issued with a bond, giving the holder the right to buy the same company's shares at a certain price.
5. A (4, 4) is one that is considered risky, but which pays a high rate of interest.
6. A (4, 6, 4) pays no interest, but instead is issued at a discount (and of course redeemed at 100%).
7. An (6) gives the right to buy or sell an asset at a certain price on a certain date.
8. A (4) is the exchange of one security, currency, etc. for another.
9. A (4) is a bond issued by the British government.
10. A (8, 4) is a short-term security issued by the Bank of England to regulate the money supply.
11. An (8, 5) is the most common type of equity.
12. A (6, 5) is one whose owner is not registered with the issuing company.
13. A (6, 5) is one whose market price is expected to rise in the future.
14. A (8) is a loan to buy property, with the property (house, apartment, etc.) serving as a guarantee for the loan.
15. A (4, 4) is a security in a large, safe, profitable company.
16. (6, 5) is the American equivalent of ordinary shares in Britain.
17. A (8, 5) does not receive any dividend payment until after other categories of shares have received theirs.
18. A (9) is a bond issued by a company and secured by the company's assets.
19. A (6) is a contract to deliver a commodity, security, currency, etc. at a pre-arranged date, with the price fixed when the contract is made.
20. A (6, 5) consists of new shares offered at below their nominal value to existing shareholders.



UNIT 4

Takeovers

EXERCISE 1. Read the text and translate it in written form:

The terms "takeover", "merger", "acquisition", "consolidation" and "amalgamation" are commonly used interchangeably. They all describe the event of two or more companies combining into one economic entity. In the technical jargon of finance, a merger is the absorption of one or more corporations by another with the acquiring firm retaining its corporate identity and the other firms disappearing from the corporate community. A consolidation occurs when all the combining firms disappear as distinct and separate corporate entities and a new consolidate corporate entity is created. The financial press tends to use the term "merger" for all the types of combinations.

Types of takeovers. Business mergers are generally classified by the

market relationship that exists or could exist between the merging parties. A horizontal merger is one that unites two or more firms engaged in the production or sale of the same product or products. Horizontal mergers are generally considered as eliminating competition and increasing the concentration of economic powers in surviving firms.

A vertical merger unites one or more firms engaged in the production of the given product at different levels or stages of the productive process. Frequently the merging parties have a buyer/seller relationship, with one being a customer of the other. Vertical mergers are also classified as: 1) backward: merging towards earlier stages of production (i.e., towards raw material sources); 2) forward: merging towards later stages (i.e., towards consumers of the final product).

A conglomerate merger unites firms whose products are neither horizontally nor vertically related. Common usage would hold all merger activity not considered variety. Conglomerate mergers may involve the addition of new products, entry into a new industry, or the combination of different production technology, or marketing channels.

A concentric merger occurs when merging firms are in different products areas but are related in raw materials, production technology, or marketing channels. Concentric mergers are classified as a subset of conglomerate mergers.

The "merger mania" of the 1980s introduced a new corporate phenomenon, the friendly takeover by a white knight: a person or company considered more favorable to a firm threatened with a hostile takeover.

EXERCISE 2. Paraphrase the underlined words and word-combinations:

1. The terms "takeover", "merger", "acquisition", "consolidation" and "amalgamation" all describe the event of two or more companies combining into one economic entity.
2. In the technical jargon of finance, a merger is the absorption of one or more corporations by another with the acquiring firm retaining its corporate identity.
3. A consolidation occurs when all the combining firms disappear as distinct and separate corporate entities.
4. A horizontal merger is one that unites two or more firms engaged in the production or sale of the same product or products.
5. Horizontal mergers are generally considered as eliminating competition and increasing the concentration of economic powers in surviving firms.

6. A conglomerate merger unites firms whose products are neither horizontally nor vertically related.

EXERCISE 3. Complete the texts with the words in the boxes:

Sooner or later, all companies need to introduce new products and services. Large companies often have the choice of innovating – developing new products, services or markets themselves – or of buying another, smaller company with successful products. If the other company is too big to acquire, another possibility is to merge or amalgamate with it. Other reasons for taking over or combining with other companies include:

diversifying	optimizing	rationalizing
reducing	reinforcing	searching

1. _____ your company's position;
2. _____ competition;
3. _____ production;
4. _____ the use of a plant or invested capital;
5. _____ products or markets; and
6. _____ for synergy (the belief that together the companies will produce more than the sum of the two separate parts).

buy	grow	increase	launch	persuade	sell
-----	------	----------	--------	----------	------

A company that wants to (7) _____ or diversify can (8) _____ a raid – in other words, simply (9) _____ a large quantity of another company's shares on the stock exchange. A "dawn raid" consists of buying shares through several brokers early in the morning, before the market has time to notice the rising price, and before speculators join in. This will immediately (10) _____ the share price, and may (11) _____ a sufficient number of other shareholders to (12) _____ for the raider to take control of the company.

board	friendly	hostile	poison pill	white knight
-------	----------	---------	-------------	--------------

If a raid is not, or would not be, successful, a predator can make a takeover bid: a public offer to a company's shareholders to buy their shares, at a particular price during a particular period. A (13) _____ takeover has the consent of the directors of the company whose shares are being acquired; a (14) _____ takeover bid is one undertaken

against the wishes of the (15) _____ of directors. Defences against a hostile takeover include the (16) _____ – a defensive action taken to repel a raider, such as changing the share voting structure or the board of directors, or spending all the company's cash reserves. If measures such as these do not work, a company can at least attempt to find a (17) _____ – another buyer whom they prefer.

EXERCISE 4. *Phrasal Verbs – Takeovers*. Match up the phrasal verbs on the left with the verbs that have a similar meaning on the right:

- | | |
|---------------------------------|-------------------------------------|
| 1. act on advice | a. accept an offer |
| 2. adhere to principles | b. accumulate capital |
| 3. branch out | c. acquire a company |
| 4. build up capital | d. await with pleasure |
| 5. cash in on | e. collapse |
| 6. draw up a plan | f. defeat |
| 7. fall through | g. diversify |
| 8. fight off | h. follow advice |
| 9. get away with something | i. invent |
| 10. look after | j. prepare a plan |
| 11. look forward to | k. profit from |
| 12. make up | l. protect |
| 13. rely on or count on someone | m. respect principles |
| 14. take over a company | n. succeed in doing something wrong |
| 15. take up an offer | o. trust someone |

1		2		3		4		5		6		7		8	
9		10		11		12		13		14		15			

EXERCISE 5. Use the phrasal verbs in the left-hand column to complete the text below (using each verb once only). You may need to use the past tense, the past participle or the present continuous form.

When we tried to (1) _____ MacKenzie PLC we were all (2) _____ an easy victory. We thought that most of their shareholders would (3) _____ the chance of a quick profit. But the directors were determined to (4) _____ our bid. They (5) _____ a lot of untrue stories about our company, and criticized our last Annual Report, claiming that we

hadn't (6) _____ Generally Accepted Accounting Principles, and that our accountants had (7) _____ a lot of window dressing. They were able to convince their shareholders that they could (8) _____ them (the current management) to (9) _____ their interests better than we could. Over the years, they had obviously (10) _____ a lot of respect from their shareholders, who (11) _____ the board of directors' advice, and didn't (12) _____ our offer. Thus the whole deal (13) _____. But we are now (14) _____ alternative plans to (15) _____ in a new direction.

EXERCISE 6. *Leveraged Buyouts*. Match the responses on the right with the sentences on the left:

- | | |
|---|--|
| 1. What's the difference between a takeover bid and an LBO? | a. Exactly. And make a profit in the process. |
| 2. Borrowed from where? | b. LBO is short for "leveraged buyout." It involves buying a company with a lot of borrowed money. |
| 3. Ah-huh. Guess what my next question is? | c. Not an appalling joke about elbows, I hope? |
| 4. OK, so you borrow money and buy a company. Then what? | d. OK. They're bonds that are considered to be fairly risky but which pay a high rate of interest. People buy them because the high returns generally compensate the risk of default. |
| 5. Uh? | e. Well, it can go wrong. If there's a recession or a stock market crash it makes it more difficult to sell the assets, and if you have less sales revenue, it becomes harder to pay the interest on the borrowed money. |
| 6. And then you pay back the bank or the bond-holders? | f. Well, you choose a large badly-managed, inefficient corporation or conglomerate, or a company with huge cash reserves, or whose assets are worth more than its stock market value. You buy it, restructure it, and |
| 7. Sounds easy. | |

- sell the profitable bits. It's called asset-stripping.
8. Oh I see. So it can go wrong. Just one more thing ...
9. Forget it!
- g. Wherever you can get it. You can try to get an ordinary loan from a bank, or you can try to sell junk bonds.
- h. You sell it again.

1		2		3		4		5		6		7		8	
---	--	---	--	---	--	---	--	---	--	---	--	---	--	---	--

EXERCISE 7. Add appropriate words to these sentences:

1. Leverage means using a high proportion of _____ money.
2. LBOs are often _____ by junk bonds.
3. The people who try LBOs compare the value of a company's assets with its _____.
4. The profit in an LBO often comes from _____.
5. LBOs have led to several _____ being split up.

EXERCISE 8. Insider Dealing Puzzle

Company A was planning to take over its big rival Company B, and had borrowed £20 million from a British merchant bank. The day before it announced its bid, the price of Company B's shares unexpectedly rose 10%. Stock exchange investigators suspected insider dealing: somebody in the bank was profiting from the information that a takeover was going to increase Company B's share price, and had bought a lot of them. At the end of the inquiry, the chief investigator gave journalists the following information, and told them to work out for themselves who was guilty.

1. There were five suspects, of five different *nationalities*, working in five different *departments* in a row of five neighbouring *offices* along the same corridor in the bank. Each banker drives a *different* car, and has a *different expensive* hobby.
2. The American collects post-impressionist paintings.
3. The banker in the middle office drives power boats.
4. The banker with the BMW is in the next office to the one who works in mergers and acquisitions (who is not necessarily guilty).
5. The banker with the Ferrari works in the office immediately between those of the Jaguar driver, and the Maserati driver, who has the right-

hand office.

6. The banker with the Maserati collects expensive Bordeaux wines.
7. The banker with the Mercedes works in the office next to the one who specializes in underwriting share issues.
8. The British banker, in the left-hand office, works next door to the person with a Mercedes.
9. The Ferrari driver regularly goes on safari hunting trips.
10. The Frenchman is a bond dealer.
11. The Jaguar driver, who is German, advises customers about shares.
12. The Swiss banker has a Maserati.
13. Now, said the chief investigator, two of these people are guilty. One of them flies a helicopter in his spare time, and the other specializes in financing international trade. Who are they?

Nationality					
Car					
(left) Hobby					(right)
Department					