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ECONOMIC THEORY

book

Издателство на Българската академия на науките
"Проф. Марин Дринов"
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CONTENTS

Section 1
ECONOMIC THEORY AS A SCIENCE

1.1. The subject of economic theory and its place in the system of economic sciences
1.2. Economic laws and categories, their classification
1.3. The method of economic theory and its constituent elements

1.1. The subject of economic theory and its place in the system of economic sciences

Economic theory is the science that studies the actions of people in the process of choosing rare resources for the production, exchange, distribution and consumption of goods and services.

Economic theory is a science that studies the laws of development of the economic system arising from the production and appropriation of goods and services in all spheres of social reproduction, as well as those aspects of the evolution of the national consciousness of the spirit of the people, its culture, psychology, morality and behavior that affect the process economy.

The subject of economic theory is the study of organizational, economic and industrial relations in their interaction with productive forces and the organization of management and effective management of the entire economy.

The object of research in economic theory is an economic system that functions on the basis of certain production relations.

The main task of economic theory is to characterize the foundations of the functioning of economic systems by analyzing the operation of economic laws.

The main sections that economic theory studies:

1) the foundations of economic theory (political economy) is a fundamental, methodological part of economic science, which reveals the essence of economic categories, laws and patterns of functioning and development of economic systems in different historical eras;

2) microeconomics - studies the economic processes and behavior of economic entities of the primary link: households,

enterprises, firms. It analyzes the prices of individual goods, the costs of their production, profits, wages, supply and demand for goods, etc.;

3) macroeconomics - studies the patterns of functioning of the economy as a whole, that is, at the level of the national economy. The object of her research is the gross national product, national income, national wealth, standard of living, problems of unemployment, inflation and its causes, money circulation, interest movement, tax policy, credit and banking system, etc .;

4) mesoeconomics - studies the basic principles of the functioning of the regional economy, individual industries and subsystems of the national economy (agro-industrial complex, military-industrial complex, commercial and industrial complex, territorial and economic complexes, free economic zones, etc.);

5) megaeconomics - studies the patterns of functioning and development of the world economy as a whole, that is, at the global-planetary level.

Economic theory, depending on the functional goal, is divided into positive and normative economic theory.

Positive economic theory aims at a comprehensive knowledge of economic processes and phenomena, reveals their interconnections and interdependencies, which are due to real reality. That is, it examines the actual state of the economy, economic reality and answers the question: what is it like?

Normative economic theory clarifies objective processes, evaluates them, draws conclusions and develops recommendations for improving the economic system, its transition to a higher stage of development. It answers the question: how should it be, what should be done for this?

So, this science, on the one hand, is designed to study real facts, to find out the cause-and-effect relationships in the economic system, on the other hand, to give recommendations for its improvement in order to more efficiently use the available resources and achieve, on this basis, a high level of satisfaction of social needs. Thus, economic theory fulfills not only cognitive, but also applied function.

Functions of economic theory:

1) cognitive;

2) worldview;

3) practical;

4) predictive;
5) methodological.

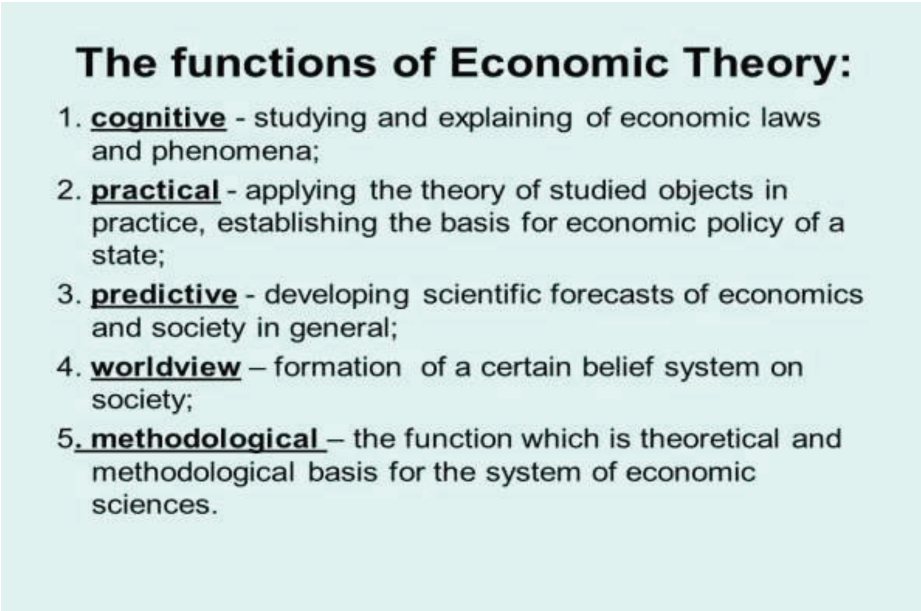

Figure 1.1. Economic laws and categories, their classification

1.2. Economic laws and categories, their classification

Economic theory, knowing the objective economic reality, discovers and formulates economic categories, laws and principles.

Economic categories are abstract, logical, theoretical concepts that, in generalized form, express generic characteristics of certain economic phenomena and processes. For example: commodity, property, capital, profit, market, demand, wages, labor, etc.

Economic laws reflect significant, stable, constantly repeating causal relationships and interdependencies of economic processes and phenomena. Laws express the essence of economic relations.

Economic principles are theoretical generalizations containing assumptions, averaging, which reflect certain trends in the development of the economic system.

Principles are associated with economic laws, but unlike them objectively in nature do not exist. They are specially created in the process of systematizing economic knowledge and act in the form of certain postulates that can be considered as a form of implementation, use of economic laws. Principles are less stable and less binding than laws.

Economic laws in their totality create a system of economic laws, which includes general, general and specific laws. Universal laws are considered the laws of socio-economic progress, since they express the fundamental foundations and sequence of the development of human society at all stages.

Specific economic laws, on the one hand, reveal the essence of socio-economic relations in a particular economic system in the process of its development, on the other, its individual spheres.

Economic laws have both common and distinctive features in comparison with the laws of nature.

Forms of cognition and using of economic laws.

There are two main forms of cognition and use of economic laws: empirical, when people, not knowing the essence of economic laws, use them unconsciously, intuitively in their practical activities, and scientific, when people, having cognized and disclosing the essence of economic laws, use them consciously, which means more efficient in their economic activities.

1.3. The method of economic theory and its constituent elements

In order to gain new knowledge, you need to consciously apply science-based methods. This is an important condition for the development of all sciences, including economic theory. The method of science is designed to provide the most profound disclosure of the essence of its subject.

Economic theory uses a wide range of techniques and methods of researching its subject, which determine the content of its method.

The method of economic theory is a set of techniques, means and principles with the help of which the categories and laws of the functioning and development of economic systems are studied.

The complexity and multidimensionality of the economic system requires adequate methods of its cognition. The fundamental principle of the methodology of economic theory is a systematic approach to analysis. The economy constitutes a certain integrity, in which the interconnection of elements, components that make up its composition is manifested. At the same time, integrity is determined not only by the composition of its inherent elements, but also by various connections between them.

The systems approach in economic theory means the study of internal cause-and-effect, structural and functional, hierarchical, direct and feedback relationships. It is their knowledge that makes it possible to identify complex processes of development of the economic system, to find out the nature of many economic processes and phenomena.

Economic theory uses both general scientific and specific for a given science methods of cognition of economic phenomena and processes (Fig. 1.2).

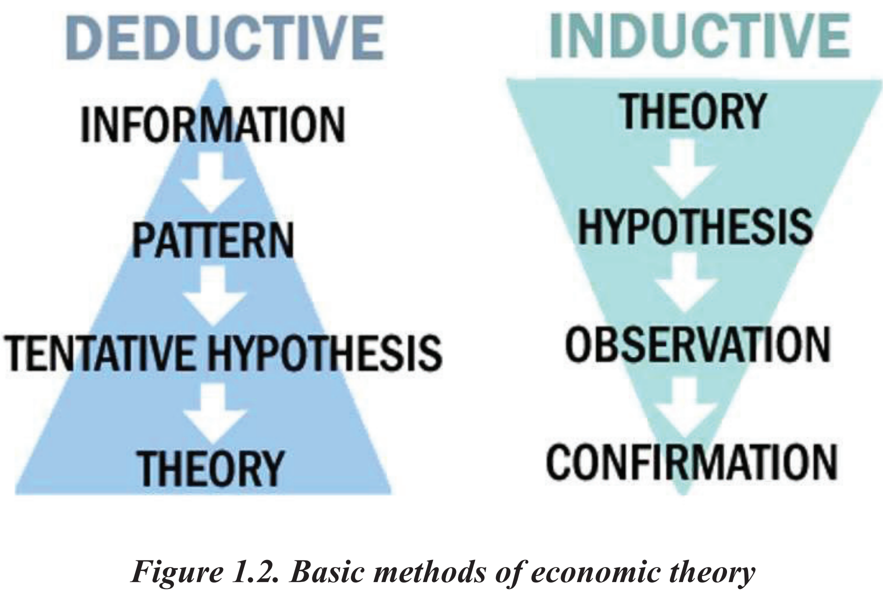

Figure 1.2. Basic methods of economic theory

The systematic approach is used both in general scientific and in methods of cognition special for economic theory.

Dialectics as a method is a method of cognition common to all sciences, including economic theory. It is based on the use of the laws and principles of philosophy, substantiated by the still outstanding German philosopher Georg Hegel, the essence of which lies in the knowledge of economic phenomena and processes in their interconnection and interdependence, in continuous development, in the understanding that the accumulation of quantitative changes leads to a change in the qualitative state, that the source of development is the internal contradictions of phenomena, the unity and struggle of opposites.

A feature of theoretical and economic research is that in the study of economic processes it is impossible to use specific techniques and technical means that are widely used, for example, in the natural sciences. It uses scientific economic thinking in the form of scientific abstraction.

Scientific abstraction as a method consists in in-depth knowledge of real economic processes by highlighting the main, most essential stable sides of a certain phenomenon, purified (abstracted) from everything secondary, accidental, inessential. The results of applying the method of scientific abstraction are the formation of concepts, categories, the identification and formation of economic laws.

Analysis and synthesis as a research method is used in the unity of its two components.

In the analysis, the object of research is mentally or in fact divided into components, each of which is studied separately; during synthesis, various elements, sides of the object are combined into a single whole, taking into account the interrelationships between them. Analysis contributes to the disclosure of the essential in each element, and synthesis completes the disclosure of the essence of the object as a whole.

Induction and deduction. Induction is a method of cognition from the particular to the general, from knowledge of the lowest degree to knowledge of the highest degree. Deduction is a method of cognition from the general to the singular. The method of induction and deduction provides a dialectical connection between the individual, the particular and the general.

Historical and logical methods are used by economic theory to study economic processes in unity. The historical method studies these processes in the historical sequence in which they arose, developed and changed one after another in life. The logical method examines economic processes in their logical sequence, moving from simple to complex, while freeing itself from historical accidents, zigzags and details that are not characteristic of this process.

Economic modeling is a formalized description and quantitative expression of economic processes and phenomena (using mathematics and econometrics), the structure of which abstractly reflects the real picture of economic life. Economic models make it possible to visually and deeper explore the main features and patterns of development of a real object of cognition.

An economic experiment is an artificial reproduction of economic processes and phenomena in order to study them in optimally favorable conditions and for further practical implementation. An economic experiment makes it possible to test in practice the validity of scientific theories and recommendations in order to prevent errors and failures in the economic policy of the state. The role of experiments is especially important at critical stages of economic development, during crises, economic reforms, stabilization, etc.

The method of qualitative and quantitative analysis. It provides for a clear identification of the qualitative certainty of an economic phenomenon and the emphasis of those components, elements that are quantifiable, the study of the dynamics of the process; identification of factors influencing its connections in the system.

The combination of quantitative and qualitative analysis is carried out using mathematical and statistical methods. Its use provides a theoretical basis for determining specific practical tasks in terms of the rates and proportions of economic development, the development of economic development programs, etc.

Comparison method. To determine the similarities and differences of economic phenomena, the method of comparisons is used. The need for comparison as a general scientific method is due to the fact that in economic life nothing can be assessed by itself. Any phenomenon is cognized by comparison. In order to know the unknown, to evaluate it, a criterion is needed, which, as a rule, is already known, previously known. Comparison methods are varied: comparison of features, properties, statistical values, economic categories, the operation of economic laws in different conditions, etc.

Development of a scientific hypothesis. If the content of the economic phenomenon being studied is not known, and the facts are not enough to clarify it, then the researcher is forced to limit himself to a theoretical assumption, that is, a scientific hypothesis. For a scientific hypothesis to turn into a full-fledged theory, additional evidence, practical confirmation is needed.

The use of a hypothesis is essential for the development of economic theory. It helps to resolve the contradictions between new facts and outdated theoretical views. The hypothesis poses problems that contribute to the effective conduct of scientific research. It makes it possible to check all possible ways of research and choose the most correct and scientifically sound ones.

Topics for reports to Section 1

1. Modern economic theories and their impact on economic development.
2. Economic thought in Ukraine.
3. Economic theory and the formation of economic thinking.
4. Economic theory and economic policy.
5. The main directions and problems of the development of the latest economic theories.

Theoretical questions to Section 1

1. Analyze the stages of development of economic thought and try to substantiate the need for the emergence of leading schools of economic theory.
2. Describe the main currents of economic thought. Are there any common and distinctive features between them?
3. What are the main directions of modern economic thought do you know? Are they related to the modern world?
4. What is the subject of economic theory?
5. What is the difference between the concepts of economics and economic theory?

6. Remember the functions of economic theory. What is the place of economic theory in modern life?

7. What is the essence of the economic law? What types of economic laws do you know

8. Give the definition of the economic category. Give examples.

9. How do you understand the method of economic theory? What is the essence of an abstract method?

10. What methods of studying economic phenomena and processes do you know?

Test tasks 1

1. Economic laws:

a) abstract, logical, theoretical concepts, which in generalized form express generic characteristics of certain economic phenomena and processes;

b) reflect significant, stable, constantly repeating causal relationships and interdependencies of economic processes and phenomena;

c) theoretical generalizations containing assumptions, averaging, which reflect certain trends in the development of the economic system;

d) are created in the process of systematizing economic knowledge and appear in the form of certain postulates.

2. The laws of socio-economic progress, since they express the fundamental foundations and sequence of the development of human society at all stages, are:

a) specific laws;

b) general laws;

c) general laws;

d) there is no correct answer.

3. What definition characterizes the deduction method:

a) putting forward a hypothesis and testing it in practice;

b) the transition from generalization to isolated facts;

c) analysis of facts and their generalization;

d) collecting factual material?

4. The science that studies the actions of people in the process of choosing rare resources for the production, exchange, distribution and consumption of goods and services is:

a) economics;
b) economic theory;
c) philosophy;
d) management.

5. What is the object of study of economic theory:

a) society as a whole;
b) the economic system;
c) the economic policy of the state;
d) the economic activity of people.

6. Scientific substantiation of the economic policy of the state, the development of recommendations for the application of principles and methods of rational management are:

a) cognitive function;
b) theoretical function;
c) practical function;
d) methodological function.

7. The classical school, considering the influence of the state on economic processes within the state, believed that it should:

a) intervene and completely control them;
b) influence monetary policy;
c) not to interfere in economic processes;
d) to influence the incomes of the population, that is, to regulate solvent demand.

Practical tasks 1

Task 1

Determine the employee turnover rate at the enterprise, provided that the average number of employees for the quarter is 800 people, the number of employees hired is 20 people, the number of dismissed is 18 people.

Section 2
PUBLIC PRODUCTION AND FACTORS AFFECTING IT

2.1. The essence and structure of productive forces and production relations
2.2. Phases and spheres of social production
2.3. Socio-economic formations

2.1. The essence and structure of productive forces and production relations

The basis for the development of human society is material production, the creation of material wealth. Therefore, the first historical act of man is the production of the means necessary to satisfy his vital needs. The production of material goods in each socio-economic formation has its own characteristics, occurs with the help of various instruments of labor, etc. Within the framework of any mode of production, human interaction with nature is carried out, in which humanity is the subject, and nature is the object. In the process of this interaction, a person modifies the substance of nature and adapts it to meet his needs. This interaction means a labor process that covers the following main points: human labor, objects of labor, means of labor.

Labor is a purposeful, conscious activity of people, in the process of which they modify the external nature, mediate, regulate and control the exchange of substances between man and nature and at the same time change and improve them.

The subject of labor is the substance of nature, on which a person acts in the process of labor, subjecting it to processing.

There are two types of objects of labor: provided by nature itself (for example, a fish that is caught; a tree that is cut down); subject to previous processing (mined ore, which is smelted at a metallurgical plant). Such an object of labor is called raw material, raw material.

Means of labor - a thing or a set of things created according to the laws of nature, with which a person affects the objects of labor.

The main ones are mechanical means of labor (machines, equipment), work buildings, canals, roads, earth, pipes, barrels, vessels, etc. Depending on the functions performed in the labor process, a certain thing can be both an object and a means of labor. So, a functioning lathe belongs to the means of labor, and what is being repaired - to the objects of labor.

If the labor process is considered from the point of view of its result - the product, then it is a production process, and the means and objects of labor are means of production.

For the implementation of the production process, certain conditions are necessary - factors of production.

Factors of production are all the necessary elements that are used to produce material and spiritual wealth.

In economics, along with the concept of «**factors of production**» is also used such a category as «**resources of production**». They constitute a set of natural, capital and human forces that can potentially be used in the production process.

There is a set of factors for the production of this or that good. Therefore, there is a need to classify them, to combine them into certain groups. In economics, there are different approaches to the classification of factors of production.

Modern domestic and world economic science includes in the composition of production factors:

labor,
capital,
land,
entrepreneurial abilities,
science,
information,
ecology.

Figure 2.1. Production factors

Labor as a factor of production is the physical and intellectual activity of a person aimed at the production of economic goods and the provision of services.

Human capital is a certain stock of knowledge, skills, abilities, motivations and health status formed as a result of investments and accumulated by a person, which are expediently and effectively used in a particular sphere of social production.

Capital is an economic resource, which is defined as the totality of all technical, material and monetary resources used to produce goods and services.

Land as a factor of production includes the land itself, as well as forest and water resources, mineral deposits and other natural resources used in the production process.

Science is a specific form of human activity aimed at obtaining and systematizing new knowledge about nature, society and thinking.

Being embodied in the production activity of people in the form of creating new means of labor, the introduction of advanced technologies, the use of new types of energy, materials, advanced methods of organizing production and labor, etc., *science has become the main productive force of society*.

It acts as a factor that integrates and constantly revolutionizes all other factors of production (labor, capital, entrepreneurial abilities, information, environmental management), enriches them with a qualitatively new content.

Information in modern conditions is the most important factor of social production, which can be defined as a system for collecting, processing and systematizing a variety of human knowledge in order to use them in various spheres of life, and primarily in the economic sphere.

Acting as an intermediary link between science and production, information has a significant impact on the development of economic processes. Due to the development of information, a reassessment of the role and place of material factors of social production takes place. There is a gradual reduction in material and growth of information sources of human economic life. Therefore, the information intensity of production, labor and product increases significantly.

Environmental factor of production. In the second half of the 20th century, due to changes in the environment and the quality of mineral resources, as well as the creation of a market for environmental services, the role of the environmental factor in the process of reproduction of the social product and labor force increased significantly.

The environmental factor can be defined as a system of specialized types of labor activity and expenses aimed at the rational use of natural resources, environmental protection, as well as its reproduction.

The environmental factor in modern conditions is becoming increasingly important both at the micro and at the macro level.

Entrepreneurial ability is a special, specific factor of production that characterizes human activities regarding the combination and effective use of all other factors of production in order to create goods and services.

The specificity of this factor lies in a special type of enterprise behavior, which is characterized by initiative, innovation, flexibility, a certain degree of risk and responsibility. The entrepreneurial abilities of a manager ensure the development and improvement of production, its constant renewal, the creation of an innovative environment, a change in traditional stereotypes in the management of the production process and open the way for something new. Entrepreneurial activity in terms of its significance and effectiveness is equated to the expenditure of intellectual capital.

Noting the role and importance of the above factors of production, it should be noted that they intertwine and interact with each other. None of them by themselves are capable of producing a product and generating income. The absence of at least one of them can lead to the destruction of the system and make the production process itself impossible.

In addition, interchangeability is inherent in production factors, which is due to the specifics of consumer properties and design features of the product being produced, as well as the limited nature of a particular type of resource.

The production function is a technological ratio that reflects the relationship between the total cost of factors of production, on the one hand, and the maximum output, on the other.

A production function with two factors of production (labor and capital) is written by the following formula:

$$Q = f(L, K),$$

where Q - is the volume of production;
L - labor costs;
K - capital costs;
f - is a function.

If we take into account the entire set of factors of production (labor, capital, materials and other factors), then the production function will look like this:

$$Q = f(L, K, C, \ldots, X_n),$$

where C - is the cost of materials;
X*n* - costs of other factors.

The production function indicates the existence of alternative possibilities in which a different combination of factors of production or their interchangeability provide the same maximum output (Fig. 2.2).

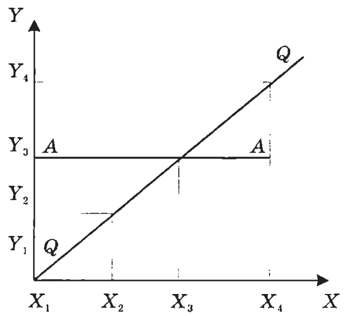

Figure 2.2. Factor use case graph

Line X_1 - X characterizes the level of use of factor A.

Line A - A - the amount of product that can be obtained with optimal use of factor A.

The Q - Q line characterizes the actually produced product in the presence of one or another level of use of factor A.

If the production process is constantly displayed on the line A - A, this means that the production factor is used optimally. If the line goes lower, then the factor is underutilized, if it is higher, it is used in excess.

2.2. Phases and spheres of social production

The basis of the life of human society is the production of material and spiritual benefits: in order to live, work, create benefits, people must eat, drink, have clothes, shelter, that is, constantly consume material and spiritual benefits. And you can only consume what is created by human labor. Therefore, society must always produce livelihoods.

The process of production of material and spiritual benefits is the labor activity of people.

Social production in its structure consists of the following phases:

1) production itself;
2) distribution;
3) exchange;
4) consumption.

First of all, production and consumption proper are closely related, i.e. these phases coincide in space and time. Consumption is the use of created goods. It is of two types: production and personal.

Production consumption is the consumption of means of production by the worker's labor force in the manufacture of a socially necessary product. So this kind of consumption actually means production. This is also associated with personal consumption, in the process of which the reproduction of labor power takes place.

The main goal of *social production* is to meet the personal needs of all members of society. If the connection between production and consumption is lost somewhere, then labor activity becomes meaningless, or turns into production for the sake of production, and not for consumption.

Before entering the consumption phase, the product must go through the stages of distribution and exchange.

Distribution comes in three forms:

1) the distribution of the means of production;

2) the distribution of labor resources;

3) the distribution of consumer goods.

In order to get exactly what is needed to meet the needs of society, production unit (team) or person, the product must go through the stage of exchange.

There are three types of *exchange*:

1) exchange of activities and abilities;

2) exchange of means of production;

3) exchange of consumer goods.

According to the spheres of economic activity of people in social production, three blocks of industries can be distinguished:

1) main production;

2) production infrastructure;

3) social infrastructure.

The main production is the branches of material production, where consumer goods and means of production are directly manufactured. The increase in social wealth depends precisely on these industries, on their technical level. These are: the raw materials complex, the fuel and energy complex, the metallurgical complex, the agro-industrial complex, the chemical forestry complex, the production of consumer goods, the investment complex.

Infrastructure is a complex of branches of the national economy, the sphere of material and non-material production, serving industry and agriculture. Infrastructure is divided into two types: 1) production infrastructure; 2) social infrastructure.

Industrial infrastructure - is a complex of industries serving the main production and provides effective economic activity at each enterprise and the national economy as a whole.

These industries include:

1) transport, communications, trade, credit and financial institutions;

2) specialized branches of business services (information, advertising, leasing, consulting, engineering and construction and others).

Social infrastructure is an intangible production, where intangible forms of wealth are created, which play a decisive role in the development of workers, augmenting their mental and physical abilities, professional knowledge, and raising the educational and cultural level.

Social infrastructure includes the following sectors:

1) health care and physical education;

2) general secondary, special secondary, vocational and higher education, a system of advanced training;

3) housing and communal services;

4) passenger transport and communications;

5) consumer services;

6) culture and art;

7) science.

2.3. Socio-economic formations

Basis is an economic system or social mode of production. A superstructure is formed above the base.

The superstructure is social, political, legal, ideological, national and other relations. The superstructure and its individual subsystems are determined by the basis. At the same time, the superstructure actively influences the basis, and at certain short-term periods of time, some of its elements may dominate the development of the basis, i.e. in this way, politics can shape the economy.

In dialectical unity and interaction, the base and the superstructure form a socio-economic formation - this is an economic system and its inherent set of other social relations, which are in complex interaction.

According to the formation theory of Karl Marx and Friedrich Engels, the development of human society is a gradual transition from one socio-economic formation to another, and each subsequent formation is a new stage in the development of productive forces and production relations, as well as social, political, legal and other forms existence of society. According to this theory, five socio-economic formations are identified:

1) primitive communal;
2) slave-owning;
3) feudal;
4) capitalist;
5) communist.

Based on the formational approach, a civilizational approach emerged, the essence of which is that the development of the country is influenced not only by a change in the basis, but also by the totality of all existing factors in the country, such as economic, political, legal, religious, cultural and national.

Civilization is a historical, concrete state of society, which is characterized by a special way of labor, a certain social production technology and the corresponding material and spiritual culture.

Modern economic science defines the following stages in the development of society.

– ***Existence from the inception of mankind to the end of the 18th century.*** At this stage of the development of society, there was no technological mode of production. Science and the development of technology were relatively independent spheres of human activity, the means of labor were mainly manual.

– ***From the end of the 18th century. before the beginning. XIX century.*** This stage is divided into three stages:

a) pre-industrial;
b) industrial;
c) post-industrial.

The industrial stage is characterized by the fact that science becomes an active participant in production, manual labor is replaced by machine labor. The main organizational forms in the pre-industrial period are manufactories, in the industrial and in the post-industrial period - factories and plants.

– ***Modern civilization - information civilization.***

Topics for reports to Section 2

1. Industrial infrastructure and its elements.
2. Civilization and its constituent elements.
3. Formational approach to the development of mankind, its shortcomings.
4. The system of motivation for human activity.
5. Scientific and technological progress as a prerequisite for economic development.
6. Fundamental contradiction of economic life: unlimited needs - limited resources.
7. Natural resource potential of the Ukrainian economy and the efficiency of its use.
8. Scientific and technological progress and its criteria.

Theoretical questions to Section 2

1. What is social production? Its structure and role in people's lives.
2. What factors of production do you know and what influence do they have on the development of production and society as a whole?
3 Productive forces, their composition and role in the development of society.
4. What do industrial relations express?
5. What is the difference between organizational-economic and socio-economic relations of production?
6. Describe the phases of social production.
7. What is the essence of the main production, production and social infrastructure? What is the relationship between them?

8. Describe the basis, superstructure, mode of production, socio-economic formation.

9. What is the meaning of the formational and civilizational approach to the development of society?

10. Give the definition of the economic system. Describe its components and types.

Test tasks 2

1. The main structural elements of the economic system do not include:

a) productive forces;
b) economic relations;
c) management at the enterprise;
d) economic mechanism.

2. The economic mechanism is:

a) a set of interrelated and appropriately ordered elements of the economy that form a certain integrity, the economic structure of society, which has a common goal;

b) a set of means of production, workers with their physical and mental abilities, science, technology, information, methods of organizing and managing production, ensuring the creation of material and spiritual benefits necessary to meet the needs of people;

c) relations between people regarding the production, distribution, exchange and consumption of material and non-material benefits;

d) a set of forms and methods for regulating economic processes and social actions of business entities based on the use of economic laws of the market, state economic levers, legal norms and institutional formations.

3. The relationship between people regarding the creation and use of tools and objects of labor in the production process is:

a) technical and economic relations;
b) organizational and economic relations;
c) socio-economic relations;
d) social and organizational relations.

4. A system based on the domination of state property, nationalization and monopolization of the national economy, rigid, centralized directive planning of production and resource allocation, the absence of real commodity-money relations, competition and free pricing is:

a) the traditional economic system;
b) command and control system;
c) market economic system;
d) mixed economic system.

5. The substance of nature, which a person influences in the process of labor, subjecting it to processing, is:

a) means of labor;
b) the subject of labor;
c) labor tasks;
d) factors of production.

6. Modern domestic and world economic science does not include in the composition of production factors:

a) ecology;
b) entrepreneurial ability;
c) standard of living;
d) information.

7. The technological relationship, reflecting the relationship between the total costs of production factors, on the one hand, and the maximum volume of production, on the other, is:

a) production function;
b) theoretical function;
c) practical function;
d) methodological function.

8. A set of interrelated and appropriately ordered elements of the economy that form a certain integrity, the economic structure of society, which has a common goal - this is:

a) technological system;
b) social system;

c) economic mechanism;
d) economic system.

9. The historical, concrete state of society, which is characterized by a special way of work, a certain social production technology and the corresponding material and spiritual culture, is:

a) infrastructure;
b) basis;
c) civilization;
d) superstructure.

10. Which of the socio-economic formations did not exist before:

a) primitive;
b) communist;
c) capitalist;
d) informational?

Practical tasks 2

Task 1

Determine the total number of employees at the enterprise, namely: the number of main and additional employees, as well as cleaners, if: the number of days off per year - 108 days; the number of holidays in a year that do not coincide with weekends - 9 days; operating mode - two-shift; duration of 1 shift - 8 hours; the coefficient taking into account the time of vacations and absenteeism of employees for good reasons - 0.07; the coefficient of fulfillment of production standards by the main employees - 1.05; annual production program - 200,000 pcs; total labor input per unit of production - 1.5 norms/h; service standards for additional workers: for electricians - 20 jobs, for repairmen - 30 jobs; total area of industrial premises - 800 m2; service rate for cleaners - 200 m2.

Section 3
PUBLIC PRODUCT. DRIVING FORCES OF ECONOMIC AND PRODUCTION DEVELOPMENT

3.1. The essence and characteristics of human needs and benefits
3.2. Characteristics of the social product and its main forms
3.3. The economic efficiency of social production
3.4. The essence and types of economic progress

3.1. The essence and characteristics of human needs and benefits

Need is an objective condition for human existence. The content of this category is as follows:

1) need is a category that reflects relations between people and the conditions for their viability;

2) the needs are objective and subjective.

At the present stage, the most popular classification of needs is Abraham Maslow's theory. This theory is called Maslow's Hierarchy of Needs (Fig. 3.1).

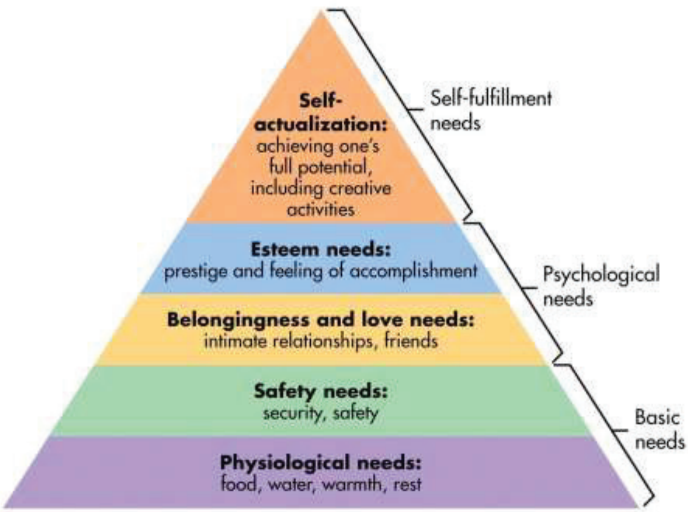

Figure 3.1. Maslow's Hierarchy of Needs

The need for *self-actualization* is a person's desire to show the best qualities, to develop creatively.

Esteem needs (the need for growth and respect) - this includes intellectual development, professional development, career.

Belongingness and love needs are the needs for communication, the presence of friends, the availability of information support for people.

Safety needs - these include the needs for work, the satisfaction of material benefits, the need for life safety and social protection.

Physiological needs are needs that are given along with birth and do not depend on heredity. This is the need for food, light, water, etc.

Abraham Maslow identified two types of needs:

1) primary - these are needs that arise with birth, without which a person cannot function normally at all. These needs include physiological and protection needs;

2) secondary - these are needs that arise as a continuation and development of primary needs. These include social needs, needs for self-realization and creativity. The emergence of such needs is due to the development of civilization.

Secondary needs cannot be met without meeting primary needs.

The main disadvantage of this theory is that it does not take into account the national mentality and psychology of individual people.

In the mechanism of reproduction, economic and social needs are interrelated and equal.

Economic needs are the desire of consumers to purchase and use various goods and services that benefit them.

Social needs - relate to the needs of personal development, the need for education, self-realization and creative activity.

All that satisfies human needs are called ***benefits*** (Fig. 3.2).

Figure 3.2. Classification of benefits

Since the stocks of productive goods of society are limited, then only a certain amount of benefits can be produced in the state.

The production capacity curve reflects all possible combinations of the maximum volumes of goods output that can be produced in a society with a certain stock of production factors.

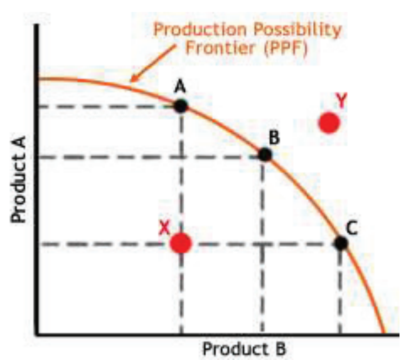

Figure 3.3. The production capacity curve

The amount of other products that you have to give up in order to get some amount of another product is called the opportunity cost of that product.

The law of growth in opportunity cost is as follows: in order to get each additional unit of the desired product, we must give up more and more other product.

«The economic relations of each society are manifested primarily as interests» - these words belong to F. Engels. Awareness of needs and the desire to satisfy them determine the motivation of human behavior, prompting him to a certain target action.

Economic interests are a category that expresses the conscious economic needs of individuals, social strata, groups and classes, which are manifested in the set goals, specific tasks and actions to achieve them. It is through interests as incentives that production relations are manifested, therefore, interests are considered as the driving force of economic progress.

In essence, economic interests are objective. They reflect the place and role of subjects in the system of social division of labor and economic relations. At the same time, economic interests are subjective and always have their own carriers.

The subjects of economic interests are separate individuals, households, collectives (groups) of people, society as a whole.

The objects of economic interests are economic benefits (goods, services, information, etc.).

The economic interests of society can be classified according to various criteria (Tabl. 3.1).

State and municipal employees, called upon to carry out measures for the practical realization of these interests, are carriers of personal needs, which do not always coincide with public ones. This contradiction gives rise to *corruption* - a negative social phenomenon associated with abuse of state power, selfish use of official powers, authority and opportunities for their implementation by employees to obtain personal benefits in personal or narrow group corporate interests.

The main forms of corruption: bribery, abuse of office, excess of one's own or official powers, theft of state or collective property, misuse of budget funds, etc.

Table 3.1. The economic interests of society

Criteria	Types
By subjects	- personal; - collective, group; - public.
By importance	- main, priority; - minor.
On a temporary basis	- current; - promising.
By objects	- property; - financial; - intellectual, etc.
By the degree of awareness	- valid; - imaginary.
By implementation possibilities	- real; - utopian.
On a territorial basis	- municipal; - regional; - national; - unification of states; - universal (global).

Practice shows that the main tools for overcoming corruption are:

- control over the observance of the rule of law and ensuring the transparency of the activities of public authorities;
- clear specification of property rights;
- competitive placement of state and municipal orders, granting rights to rent real estate, etc.;
- publicity in matters of receipt and use of budgetary funds;
- introduction of the «single window» principle, in which all the necessary documents for registration of business entities are considered by the authorized management body.

As society develops and economic interests become more complicated, rigid administration and lack of feedback begin to contradict the principles of functioning of complex self-organizing systems. Ignoring the role and importance of personal interest as a powerful factor of socio-economic progress, its subordination to the state in a command-administrative economy causes inconsistency of the system of economic interests, including:

- distortion of the motivational behavior of economic agents;
- oppression of the stimulating role of needs;
- weakening of responsibility and incentives for highly efficient work;
- loss of labor values and social attitudes of the population;
- development of the psychology of dependence and economic dependence on the state.

In contrast to the command-administrative system, the consumer's personal interest dominates in a market economy. The practice of successful development of advanced Western countries shows that ***not subordination, but coordination of interests is an effective means of their coordination and implementation.***

3.2. Characteristics of the public product and its main forms

The public product (PP) is the sum of all material and spiritual benefits created by society over a certain period of time, usually a year.

One of the forms of the public product is *the gross public product* (GPP).

The gross public product (GPP) is the value of all goods and services produced in a country, including intermediate ones, for a certain period of time. Such calculations are carried out in order to determine what the total number of goods in society are intermediate and final. This indicator is used as the final public product (FPP).

The final public product (FPP) is the entire mass of finished goods produced for a certain time, entering production or personal consumption, for the restoration of consumed means of labor and accumulation in finished form. So the FPP is only part of the GPP.

Gross Domestic Product (GDP) is a macroeconomic indicator that expresses the market aggregate of the values of final goods and services that were produced by all industries over a certain period of time.

Gross National Product (GNP) is a macroeconomic indicator that expresses the total value of final goods and services created by factors of production owned by citizens of a country, and not only within this country, but also abroad.

National income (NI) is a net income expressed in prices of factors of production or is a macroeconomic indicator of the total income of the entire population of a country for a certain period.

Produced NI and used NI are distinguished.

Produced NI is the entire volume of the newly created value of goods and services (everything produced).

Used NI is the national income produced minus the costs of all natural disasters, storage losses and foreign trade balance.

Since the national income determines the well-being of life in the country, it is divided into a necessary and a surplus product.

The required product is that part of the national income that is necessary for the normal reproduction of the labor force, that is, to maintain its efficiency, including the training of a new generation of workers. The necessary product should cover the costs of food, clothing, housing, education, cultural and social needs. The required product is characterized by such an indicator as the minimum value of the required product - it is determined by the minimum life required by the manufacturer for the reproduction of labor and normal functioning.

An additional product is that part of the national income that acts as an excess over the necessary product. It can be achieved only at a certain stage in the development of society, that is, only when the worker produces more than he needs for life.

Personal income is the sum of all income that the population actually received in cash.

National wealth (NW) is a set of material and non-material benefits that society controls on a certain date and that are created by human labor for the entire previous period.

3.3. The economic efficiency of public production

Modern economic theory and world management practice assess the results of the functioning of the economies of countries in two ways: *economic growth and the efficiency of public production*. These concepts are close and interconnected with each other, but not identical.

Economic growth is the development of the national economy over a certain period, measured by the absolute growth in gross domestic product (GDP), gross national product (GNP) and national income (NI).

Production efficiency is a category that characterizes the return, production efficiency. It testifies not only to an increase in production volumes, but also to what price, what resources are used to achieve this growth, that is, it testifies to the quality of economic growth.

Distinguish between the effectiveness of the reproduction process as a whole and its individual phases: production, distribution, exchange and consumption. The efficiency of the entire national economy, its individual branches, enterprises and the efficiency of the economic activity of an individual worker are distinguished. Taking into account the intensive development of international integration processes, they determine the effectiveness of foreign economic relations and the world economy.

All this allows us to conclude that *efficiency* is not a random phenomenon, but a natural, stable, objective process of the functioning of the economy, which has acquired the features of an economic law. It can be formulated as *a law of increasing the efficiency of public production.* This law gets the greatest scope for action in conditions of intensive type of economic growth, which is characteristic of the economy of developed countries.

In economic theory and practice, economic and social efficiency of production is distinguished (Fig. 3.4).

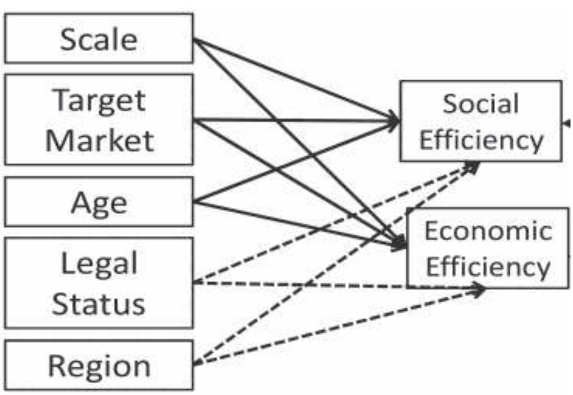

Figure 3.4. Types of production efficiency

The level of efficiency of public production is determined by a system of indicators.

Indicators of economic efficiency of production

Labor productivity at the micro level is defined as the ratio of the volume of products produced to the number of workers employed in its production, or the number of man-hours worked over a certain period of time.

Labor productivity at the macro level is defined as the ratio of national income to the average number of workers employed in its creation.

Labor intensity is the inverse of labor productivity, which reflects the amount of living labor expended on the production of a unit of output.

Return on assets ratio is an indicator that characterizes the efficiency of the use of labor instruments, i.e. the amount of products produced from a unit of fixed assets. It is calculated as the ratio of the value of goods produced to the value of fixed assets.

Capital intensity productive fixed capital is the inverse indicator of capital productivity, which shows the cost of production assets costs per unit of output.

Material efficiency characterizes the effectiveness of the items used, i.e. shows how many products are produced per unit of consumed material resources (raw materials, materials, fuel, electricity, etc.). It is calculated as the ratio of the value of the manufactured product to the value of the material resources expended.

Material consumption is the inverse indicator of material efficiency, which characterizes the cost of material resources per unit of output.

Capital intensity is an indicator close to the index of capital intensity of production. It is defined as the ratio of the volume of capital investments to the resulting increase in the volume of production.

Ecological efficiency. Modern economic science believes that along with indicators of economic efficiency, it is necessary to determine the efficiency of environmental management of an enterprise using the indicator of environmental and economic efficiency.

The indicated indicators of economic efficiency express only certain characteristics of the effectiveness of the economic activity of the enterprise. To determine its effectiveness as a whole, taking into account the simultaneous influence of all factors of production, an integral efficiency indicator is used.

Calculations of performance indicators are necessary for making certain optimal decisions.

First, they are needed to assess the level of use of various types of resources and costs, organizational and technical measures taken and the overall performance of the production and economic activities of the enterprise over a certain period.

Secondly, with their help, they substantiate and determine the best options for economic decisions on the use of new equipment, technology and organization of production, increasing production capacity, improving the quality and updating the range of products, etc.

Indicators of social efficiency of production

The social efficiency of public production shows how its development corresponds to the solution of its main, ultimate goal - to serve the consumer, to satisfy the personal needs of each person.

The standard of living is the actual level of provision of people with material and spiritual benefits of a particular country in a specific historical period.

It is determined by the level of actual consumption of material and spiritual goods and services per capita, per family, as well as its compliance with the national social standard - the subsistence minimum.

The subsistence minimum is the value of a set of food products sufficient to ensure the normal functioning of the human body, preserve its health, as well as the minimum set of non-food products and services necessary to meet the basic social and cultural needs of an individual.

The living wage reflects the *poverty line* of the population, beyond which degradation of the individual sets in.

In developed countries, there is also such an indicator as the *quality of life* of the population, formed on the basis of the so-called human development indices (HDI), which characterize:

- the volume of real GDP per capita;

- average life expectancy;
- the level of literacy of the population;
- the average length of study in the country.

These four standards (HDI) are used in world practice by UN experts to establish the conformity of the country's living standards, education and longevity to international standards.

In addition, other indicators are calculated to analyze the state and forecast the socio-economic situation in the country:

- the level of the minimum hourly wage;
- unemployment rate;
- the level of poverty;
- fertility rate;
- the level of health care;
- the level of physical development of a person;
- quality and comfort of housing;
- the duration of the working week;
- the amount of free time and the availability of the possibility of its rational use;
- working conditions and safety;
- the degree of distribution of means of communication and communications;
- condition and ecological capacity of the environment, etc.

There is a close relationship between the economic and social efficiency of production. Economic efficiency is the material basis for solving social problems. In turn, the social development of society (the growth of the people's well-being, their educational and cultural level, the conscious attitude of workers to work, etc.) significantly affects the increase in the efficiency of social production.

3.4. The essence and types of economic progress

The concept of «progress» comes from the Latin word «progressive», which means movement forward, the progressive development of society along an ascending line, from less perfect to more perfect forms.

Economic progress is the progressive development of the entire economic system, each of its elements and subsystems, on the basis of which social progress occurs.

There are two main types of economic development - extensive and intensive.

According to the *extensive type*, economic growth is achieved as a result of the quantitative increase in all elements of the productive forces, primarily the factors of production, with a constant level of its technical base. The main factors of this type of economic growth are:

- increase in the volume of investments while maintaining the existing level of technology;

- an increase in the number of employees;

- growth in the volume of working capital (raw materials, materials, etc.).

So, to double the output of products, two times as many machines, machine tools, equipment of the same quality are put into operation, twice as much labor of the same qualifications and level of education, the same forms of labor organization, raw materials, etc. In this case, labor productivity and efficiency are unchanged.

According to the *intensive type* of economic growth, an increase in the scale of production is achieved as a result of the qualitative improvement of the entire system of productive forces, primarily material and personal factors of production. The basis of intensification is scientific and technological progress, the radical form of its development - scientific and technological revolution, which is unfolding. The main factors of this type of economic growth:

1) introduction of new equipment and technology based on advanced achievements of scientific and technological progress, the basis of which is the process of investment in production;

2) raising the general educational and professional levels;

3) improving the use of fixed and circulating assets;

4) the introduction of new progressive forms of organization of production and labor;

5) development of entrepreneurial abilities;

6) advancing development of the information sphere, informatization of economic activity.

The intensification of production is manifested in the growth of social labor productivity (that is, in an increase in output from each unit of resources involved in production), in an increase in product quality and production efficiency.

The main forms of the intensive type of development, or intensification of production:

- savings, in which, as a result of the introduction of new equipment and technology, the need for labor is reduced;
- labor-saving, in which the same amount of work is carried out by a smaller number of highly qualified workers;
- material and resource-saving (economical objects of labor are used, for example, composite materials, or old objects of labor are used more rationally, less electricity is consumed, etc.);
- all-round, in which all these forms are rationally combined and the efficiency of social production grows faster.

Criteria of economic progress are signs, indicators, on the basis of which the assessment of the essence, including quality, of the progressive development of the economic system and the main productive force - the person - is substantiated.

In turn, the development of economic progress gives rise to the following contradictions:

1) the contradiction of the productive forces;
2) the contradiction of technical and economic relations;
3) contradictions in economic property;
4) contradictions of the economic mechanism;
5) contradictions between productive forces and property relations;
6) contradictions between the spheres of reproduction.

Consequently, the growth of human needs is the main driving force behind the development of society. Since a person can act as both a subject and an object of production relations, contradictions arise within the system of productive forces, which are manifested in the form of factors of economic progress.

Topics for reports to Section 3

1. Positive and negative aspects of scientific and technological progress.
2. The history of the GDP indicator and its significance for the characteristics of the national economy.
3. Needs and economic interests are the driving forces for the development of the economy and society.

4. The system of motivation for human activity.

5. Fundamental contradiction of economic life: unlimited needs - limited resources.

6. Natural resource potential of the Ukrainian economy and the efficiency of its use.

Theoretical questions to Section 3

1. What is a social product and its structure?
2. What is the difference between gross domestic product and gross national product?
3. Necessity, concept and classification of needs. Maslow's hierarchy of needs.
4. What are goods? Give an example of benefits. What is the difference between economic and social goods?
5. What are economic interests? Why do needs and interests act as an incentive for the production activity of people?
6. What is the essence of the economic progress of society? What is the impact of economic progress on the development of society?
7. Extensive and intensive economic progress, its forms and factors influencing it.
8. Scientific and technological revolution and its main features.
9. What is labor productivity and how is it measured?
10. What is production efficiency and what are its main indicators?

Test tasks 3

1. Needs that arise with birth, without which a person cannot function normally at all:

a) the need for creativity;
b) social needs;
c) the need for self-expression;
d) physiological needs.

2. Needs that are actually satisfied by the goods and services existing on the market:

a) absolute needs;
b) real needs;
c) satisfied needs;
d) solvent needs.

3. Macroeconomic indicator, which expresses the market aggregate of the values of final goods and services that were produced by all industries for a certain period of time is:

a) gross national product (GNP);
b) gross domestic product (GDP);
c) national income (NI);
d) gross public product (GPP).

4. Labor productivity is:

a) reflects the amount of living labor spent on the production of a unit of output;

b) characterizes the efficiency of using the means of labor, i.e. the amount of products produced from a unit of fixed assets;

c) is defined as the ratio of the volume of products produced to the number of workers employed in its production, or the number of man-hours worked for a certain period of time;

d) characterizes the efficiency of the used objects of labor, i.e. shows how much is produced from a unit of consumed material resources.

5. Capital productivity is:

a) reflects the amount of living labor spent on the production of a unit of output;

b) characterizes the efficiency of using the means of labor, i.e. the amount of products produced from a unit of fixed assets;

c) is defined as the ratio of the volume of products produced to the number of workers employed in its production, or the number of man-hours worked for a certain period of time;

d) characterizes the efficiency of the used objects of labor, i.e. shows how much is produced from a unit of consumed material resources.

6. An essential, natural relationship and interaction between the opposite sides of an economic phenomenon or process, as a result of which this category is their driving force of development, and in the epistemological (cognitive) aspect - the basis for understanding the essence of economic laws and categories is:

a) economic interest;
b) economic progress;
c) economic contradiction;
d) economic efficiency.

7. The actual level of provision of people with material and spiritual benefits of a particular country in a specific historical period is:

a) standard of living;
b) living wage;
c) the quality of life of the population;
d) human development index.

8. To get each additional unit of the desired product, we must give up more and more other product:

a) the law of demand;
b) the law of growth of the opportunity cost;
c) the law of supply;
d) the law of opportunity costs.

9. Macroeconomic indicator, which expresses the total cost of final goods and services created by production factors owned by citizens of the country, and not only within this country, but also abroad, is:

a) gross national product (GNP);
b) gross domestic product (GDP);
c) national income (NI);
d) gross public product (GPP).

10. Economic interests are:

a) formation in accordance with the general world level of production development and reflect the maximum level of human needs satisfaction achieved in the world economy;

b) all possible combinations of the maximum volumes of output of goods that can be produced in society with certain reserves of production factors;

c) the conscious desire of economic entities to meet economic needs, which is an objective incentive for their economic activities;

d) a macroeconomic indicator that expresses the market total value of final goods and services that were produced in the country for a certain period of time by all producers.

Practical tasks 3

Task 1

Here is a table of the country's production capabilities (Tbl.3.2).

Table 3.2. Country's production capabilities

Type of product	Manufacturing alternatives				
	A	B	C	D	E
Consumer goods, mln.	0	2	4	6	8
Investment goods, mln.	30	27	21	12	0

A) Build the curve of the country's production capabilities.

B) Show graphically how the curve will shift if the technology for the production of investment goods has improved, but the technology for the production of consumer goods has remained unchanged.

C) Determine the opportunity cost of producing one unit of consumer goods when increasing production from 2 to 4 million.

Task 2

GNP = $5,000;

Consumer spending = $1,200;

Government spending = $900;

Net exports = $70.

Calculate:

1. the amount of investment;
2. the volume of import, if export = $350;
3. PNP, if the depreciation amount = $150.

Section 4
PROPERTY IN THE SYSTEM OF PRODUCTION RELATIONS

4.1. The essence of property, its economic and legal meaning
4.2. Types, types and forms of ownership
4.3. Reforming property relations at the present stage of development of Ukraine

4.1. The essence of property, its economic and legal meaning

Property is a complex and multifaceted category that expresses the entire set of social relations - economic, social, legal, political, national, moral and ethical, religious, etc. It occupies a central place in the economic system, since it predetermines the method of combining the worker with the means of production, the purpose of the functioning and development of the economic system, determines the social and political structure of society, the nature of the incentives for labor activity and the method of distributing the results of labor.

At first, property was viewed as the relationship of a person to a thing, that is, as the physical presence of this thing in a person and the possibility of using it. However, with the development of society and the accumulation of scientific knowledge, the idea of property changed, became more voluminous and meaningful.

Things are not property in themselves, just as gold or silver are not money in nature. They turned into money only in certain economic relationships.

This also applies to property. Its main characteristic is not a thing and not people's attitude to things, but by whom and how the thing is appropriated, how such an assignment affects the interests of other people. Of course, something becomes property, that is, an economic category, only when, in connection with its appropriation, people enter into certain economic relations with each other. Accordingly, *property expresses the relationship between people about the appropriation of things*.

In other words, the socio-economic essence of property is revealed and realized not in the system of relationships «person –

thing», but in the plane of interaction «person – person» regarding the appropriation of property objects.

Assignment is a process that arises as a result of a combination of an object and a subject of appropriation, that is, it is a concrete social way of mastering a thing. It means the subject's attitude to certain things as to his own. Assignment forms and expresses a specific feature of a particular form of ownership and its types.

The assignment relations cover all spheres of the reproductive process - from production to consumption.

The starting point for the assignment is the production area. This is where the property and its value are created. Whoever owns the means of production appropriates the result of production. After this, the process of appropriation continues through the spheres of distribution and exchange, which act as secondary and tertiary forms of appropriation.

The main object of appropriation in the economic system, which determines its socio-economic form, goals and interests are *the appropriation of the means of production and its results*.

Property is a set of relations between business entities regarding the appropriation of the means of production and its results.

It is worth noting that the category «appropriation» generates its own antipode - the category of «alienation».

Expropriation is the deprivation of the subject of the right to own, use and dispose of this or that property object.

Appropriation and *expropriation* are paired categories that exist simultaneously as a unity of opposites. The appropriation of a certain property object by one subject at the same time means its alienation from another subject. If one subject said that «this is mine,» it is the same as what he said to others: «this is not yours.» Therefore, along with the owner, there is always not an owner.

Thus, perceiving the semblance of a person's relationship to a thing, property always expresses a connection: the relationship of the «owner» to the «non-owner».

Property relations are manifested through the *subjects* and *objects of property*.

Property objects are everything that can be appropriated or alienated:

- means of production in all sectors of the national economy;

- real estate (buildings and structures, isolated water bodies, perennial plantations, etc.);

- natural resources (land, its subsoil, forests, water, etc.);

- personal and household items;

- money, securities, precious metals and products from them;

- intellectual property, that is, spiritual, intellectual, information resources and products (works of literature and art, achievements of science and technology, discoveries, inventions, know-how, information, computer programs, technologies, etc.);

- cultural and historical values;

- work force.

Property subjects are personified carriers of property relations:

- an individual (individual) - a person as a bearer of property and non-property rights and obligations;

- legal entities - organizations, enterprises, institutions, associations of persons of all organizational and legal forms;

- the state represented by government bodies, municipalities (local government and self-government bodies);

- several states or all states of the planet.

Property also has a *legal aspect*, acting as a legal category. The legal aspect of ownership is realized through ownership.

Property right is a set of rights and norms of economic relations between individuals and legal entities, legalized by the state, which are formed between them regarding the appropriation and use of property objects.

Thanks to this, economic property relations acquire the character of legal relations, that is, relations whose participants act as carriers of certain legal rights and obligations.

Ownership has been defined since the time of Roman law by three main powers:

- ownership;

- use;

- disposal.

In modern economic science and the economic practice of the developed countries of the West, a broader and more detailed system of property rights is used. Thus, the English jurist A. Honore, a representative of institutionalism, proposed a system of property rights, which consists of 11 elements:

1. Ownership;

2. Right to use;

3. The right of management (the right to decide who and how will ensure the use of benefits);

4. The right to income (the right to own the results of the use of goods);

5. Right to capital value;

6. Right to safety (right to be protected from expropriation or environmental damage);

7. The right to inherit goods;

8. The right to indefinite possession of the good;

9. Prohibition of Harmful Use;

10. The right to responsibility (the possibility of collecting goods in payment of debt);

11. «Reverse» nature of property rights, that is, the return of powers transferred to someone after the expiration of the agreement or ahead of schedule in case of violation of its terms, etc.

Property as *an economic category* expresses the relationship between people regarding the appropriation of property objects and, above all, the means of production and its results.

Property as *a legal category* reflects the legislative consolidation of economic relations between individuals and legal entities regarding the ownership, use and disposal of property objects through a system of legal laws and regulations.

Thus, property is characterized by the dialectical relationship of economic and legal relations, in which economic property relations are primary, basic, and legal - secondary, derivative, since they are conditioned by economic relations.

4.2. Types, types and forms of ownership

A complex problem of economic science is the problem of forms of ownership. There are two approaches to the classification of forms of ownership: vertical-historical and horizontal-structural.

The vertical-historical approach determines the historical forms of ownership that arise in the process of a long evolution of society, and changes in one form of ownership of another (Fig. 4.1).

Figure 4.1. Evolution of forms of ownership

Each stage of development of human society corresponds to a certain form of ownership, reflecting the achieved level of development of productive forces, the peculiarities of appropriation of means and results of production and the main subject that concentrates property rights.

In the early stages of development, mankind for thousands of years used *collective forms of property*, first in the form of tribal, and then - communal property. The low level of development of productive forces predetermined that people could only jointly (collectively) obtain means of subsistence and jointly consume them. Only in this way could humanity defend its right to life.

Subsequently, the development of the productive forces, the improvement of the person himself, changes in his living conditions lead to the formation of a new type of property - *private*.

The primitive communal form of ownership is characterized by the same rights of all members of the community to the dominant object of property - land, as well as to the means of labor and the results of production.

The slave-owning form of ownership is characterized by the absolute concentration of the slave owner's property rights to the means of production, the results of labor and to the worker (slave).

Feudal ownership implies absolute property rights of the feudal lord to land and limited rights to the worker (serf).

Capitalist property is characterized by the concentration of the entrepreneur's property rights to the means and results of labor and the absence of ownership of the employee who has personal freedom.

However, the legal equality of all citizens of a capitalist society does not mean equality in the distribution and concentration of property rights. This creates economic power for some and economic dependence for others.

There are two main types of property: ***private and public.***

Private property is a type of property when the exclusive right to own, use and dispose of the property and receive income belongs to a private (natural or legal) person.

The private type of property acts as a set of individual labor, family, individual with the use of hired labor, partnership and corporate forms of ownership.

Private property in all its forms is a factor in the development of society, stimulates the owner's entrepreneurial initiative, interest in increasing personal power, and, consequently, the wealth of public opinion, gives him economic freedom of choice, a certain status in society, self-respect, the right to inheritance, approves real property responsibility, etc.

Individual labor property by the fact that an individual in entrepreneurial activity simultaneously uses his own means of production and his labor force.

If the holding uses the labor of family members, such property takes the form of *family labor property* (for example, a farm family holding).

An individual private owner can also use the labor of an employee in the farm (permanently or in seasonal work).

Partnership property is a combination of capital or property of several individuals or legal entities. In order to carry out joint business activities, each participant in the partner enterprise retains his share of the capital or property contributed by him in the partnership property.

Corporate (shareholding) property is capital formed through the issue and sale of shares. The object of ownership of the joint-stock company, in addition to the capital created through the sale of shares, is also other property acquired as a result of economic activity.

The peculiarity of corporate property is that it combines the features of private and public property. On the one hand, the owners of shares are the private owners of that part of the capital that corresponds to the nominal or market price of their shares, as well as the income from them. At the same time, due to the dispersion of the block of shares, ordinary shareholders have no real right to participate in the disposal of the entire capital of the joint-stock company. Only those who own a controlling stake have a real right to dispose and manage the capital of the company.

If we consider the implementation of corporate property through the relations of ownership, disposal and management, then the bearers of the ownership relations of their share are separate shareholders who receive income (dividends) on them. The relationship of command and control is not implemented separately (i.e., by each shareholder), but by the owners of the controlling block of shares, who dispose and manage the capital of the joint-stock company as a single property.

Public ownership means the joint appropriation of the means of production and its results. Subjects of public property treat each other as equal co-owners. In these conditions, the distribution of income becomes the main form of individual appropriation, and labor is the measure of its distribution.

Public property exists in two forms: ***state and collective.***

State property is a system of relations in which the absolute rights to manage and dispose of property are exercised by bodies (institutions) of state power.

State property is divided into nationwide and municipal (communal) property.

Nationwide property is the common property of all citizens of the country, which is not divided into shares and is not personified between individual participants in the economic process.

Property is necessary for the state to perform economic, social and defense functions.

Objects of state property are natural resources (land, its subsoil, forests, water, air space), energy, transport, communications, roads, educational institutions, institutions of national culture, fundamental science, defense and space objects, etc.

Municipal (communal) property is property that is at the disposal of regional government bodies (region, city, district, etc.).

Cooperative property is the joint property of members of a separate cooperative, created on a voluntary basis to carry out joint activities. The property of a cooperative is formed as a result of the combination of property, monetary contributions of its members and income received from their joint labor activities. Each member of the cooperative has the same management rights and income, which is distributed according to the share and labor contribution of the members of the cooperative.

Labor collective property - joint property transferred by the state or another entity to the disposal of the enterprise collective (on terms of purchase or lease), which is used in accordance with applicable law. Collective ownership can exist in different forms, depending on the source of the redemption. If the enterprise is bought out at the expense of accumulated profit, then the indivisible property of the enterprise collective is created. If the enterprise was bought out from the personal income of its employees, then shared ownership is formed.

The property of public and religious associations is created at the expense of their own funds, donations from citizens or organizations, or by transferring state property. The subjects of such property are parties, trade unions, sports societies, churches and other public organizations.

4.3. Reforming property relations at the present stage of development of Ukraine

A mixed economy is an economy of equal functioning of all forms of ownership in a market economy.

Mixed ownership unites various forms of ownership - private, state, collective, cooperative and others, including the property of foreign entities.

Combined forms of ownership. In the developed countries of the West, in order to ensure the effective functioning of production, the process of combining enterprises of various forms of ownership is taking place, however, provided that each of them retains its basic quality. As a result, combined forms of ownership are created: concerns, trusts, holdings, financial and industrial groups and other associations. Each member of such an association delegates to the management body such a scope of its powers that does not cause the loss of the basic properties of its inherent form of ownership.

In Ukraine, as a result of the reform of property relations on the basis of denationalization and privatization, the following forms of ownership have developed and are legally enshrined:

- *private;*
- *collective;*
- *state.*

The existence of mixed forms of ownership, property of other states, property of international organizations and legal entities of other states is also allowed.

The transition from one form of ownership to another is possible through such processes as denationalization and privatization.

Denationalization is a concept that reflects a whole range of relations for the transfer of state property to other forms. For effective denationalization, the following problems must be resolved:

1) overcoming the socio-economic monopoly of the state;

2) provision of alternative labor relations instead of uncontested government employment;

3) transition to multi-channel formations of economic regulation;

4) the formation of social guarantees and social protection of workers.

Denationalization can take place in the following ways:

1) transfer of state-owned enterprises to the ownership of the collective;

2) distribution of state property or a certain part of it among all members of society;

3) sale of state property to citizens and non-state legal entities.

Privatization is only a stage of denationalization, which provides for the transfer of ownership of part of the means of production to workers or their sale as private property.

Privatization methods:

1) redemption of objects of small privatization is a way by which a partnership of buyers created by its employees becomes the owner of the object. This privatization method does not provide for competition among workers;

2) redemption of state property of an enterprise in accordance with an alternative production plan - this is a method of privatization, according to which a partnership of buyers becomes the owner of the

object, which proposed an alternative plan to the one developed by the privatization commission;

3) the redemption of leased state property is the method by which the lessee becomes the owner of the property in accordance with the lease agreement;

4) sale at auction and under a contract (competition) - this is the way in which the owner of the property becomes the buyer who offered the maximum price at the auction or at the competition - the best conditions for the further operation of the object, and under equal conditions - the highest price;

5) the sale of shares of open (public) joint stock companies is a method by which the owners of shares of state enterprises, transformed into OJSC (PJSC) on a competitive basis, become those buyers who offered the highest price for the largest number of shares after the sale of some of them on preferential terms ...

As a result of the policy of denationalization and privatization in Ukraine in recent years, the structure of forms of ownership has changed significantly. The monopoly domination of state property was replaced by a real polyformism of property, which created an objective basis for the formation and effective development of a market economy in the country.

The modern economy of developed countries is on the threshold of post-industrial development and is characterized by **dynamism and the latest trends in the development of property relations.**

Topics for reports to Section 4

1. Share (corporate) property: content, functions and role in economic reform.
2. Intellectual property: content, mechanism and forms of implementation.
3. Necessity, main directions and forms of reforming property relations in Ukraine.
4. Equality of different forms of ownership as a prerequisite for the formation of a market economy.
5. Characteristics of the process of denationalization in modern Ukraine.
6. Privatization processes in Ukraine.

Theoretical questions to Section 4

1. What is the essence and necessity of property relations? Aspects of ownership.
2. Determine the essence of the economic and legal understanding of property relations.
3. What can be the object of appropriation?
4. List and describe the main types, forms and types of property.
5. Describe the trends in the development of forms of ownership in Ukraine.
6. Denationalization and privatization. What do they have in common and what is the difference?
7. What are the main forms of ownership provided by the Law of Ukraine «On Property»?
8. What are the possible ways of denationalization of property? Which way is used in Ukraine?

Test tasks 4

1. Which of the forms of ownership historically formed in the process of evolution did not exist:

a) primitive;
b) command and control;
c) feudal;
d) capitalist.

2. Development of productive forces, improvement of the person himself, changes in his living conditions lead to the formation of a new type of property:

a) private;
b) collective;
c) public;
d) state.

3. Modern forms of private property do not include:

a) individual labor;
b) cooperative;

c) affiliate;
d) corporate.

4. Modern forms of public ownership do not include:
a) nationwide;
b) municipal;
c) individual with the use of hired labor;
d) property of religious and cultural organizations;
e) property of the enterprise collective.

5. Expropriation is:
a) the process arising from the combination of the object and the subject of appropriation, that is, it is a concrete-social way of mastering a thing;
b) the process of depriving the subject of the right to own, use and dispose of this or that property object;
c) the process of predetermining the method of combining the worker with the means of production, the purpose of the functioning and development of the economic system;
d) the process of revealing the essence of the socio-economic existence of society.

6. Among the significant number of property rights, three main ones are distinguished, namely:
a) possession, use, responsibility;
b) for alienation, for security, for perpetuity;
c) possession, use, disposal;
d) for the acquisition, use, rent.

7. What most fully defines property as an economic category:
a) man's attitude to natural resources;
b) the attitude of a person to the means of production;
c) relations between people regarding the appropriation of means and results of production;
d) the attitude of a person to the productive forces of society.

8. In Ukraine, as a result of the reform of property relations on the basis of denationalization and privatization, the following forms of ownership have developed and are legally enshrined:

a) private, public, national;

b) private, collective, state;

c) private, corporate, municipal;

d) private, municipal, state.

9. The concept that reflects a whole range of relations on the transfer of state property in other forms is:

a) association;

b) denationalization;

c) merger;

d) cooperation.

10. The methods of privatization do not include:

a) the process of combining enterprises of various forms of ownership;

b) redemption of objects of small privatization;

c) redemption of state property of the enterprise in accordance with the alternative production plan;

d) redemption of state property leased;

e) sale at auction and by contract (competition).

Practical tasks 4

Task 1

GDP, measured in billion dollars, is 5465, consumption - 3657, investments - 741 and government procurement - 1098.

Calculate net export.

Task 2

Suppose apples cost $0.5 in 2017 and $1 in 2020, and oranges cost $1 in 2017 and $5 in 2020. In 2017, 4 apples and 3 oranges were produced, in 2020 - 5 apples and 4 oranges.

Calculate the nominal GDP in the country where only these 2 goods are produced (assuming 2017 as the base year).

Section 5
BASIC FORMS OF ECONOMIC DEVELOPMENT. COMMODITY ORGANIZATION AND ITS ROLE IN THE EVOLUTION OF SOCIETY

5.1. Forms of public production
5.2. Product and its properties
5.3. Theory of money and money circulation

5.1. Forms of public production

The form of public production is a certain way of organizing economic activity.

There are three main forms of social production:

1) natural;

2) commodity;

3) public.

Natural production is a type of production organization in which people produce products to satisfy their own needs, that is, the products of labor do not acquire a commodity form and are intended for personal and domestic economic consumption by direct producers.

Signs of natural production:

1) a closed circulation of products, which, as a rule, did not leave the economy;

2) each economic unit is completely separate and independent in both production and consumption. That is why consumption was 100% dependent on its own production;

3) the social division of labor in kind is poorly developed;

4) weakly expressed social nature of production.

Gradually, natural production was replaced by commodity production as a developed and effective form of organizing social production.

Commodity production is a form of organization of a social economy in which products are produced not for consumption by their producers, but specifically for exchange, for sale on the market.

Commodity production, in contrast to natural economy, is not a closed, but an open economic form.

In a commodity economy, there are not direct economic ties between producers, but mediated through the exchange of the products of their labor as commodities. At the same time, manufacturers are economically free in the choice of goods and partners.

What are the reasons for the emergence and functioning of commodity production, commodity relations?

First, there is a social division of labor in which producers specialize in the manufacture of certain products or in certain types of activity. Where there is no social division of labor, there can be no commodity production, commodity-money relations. Without the division of labor, without the qualitative differentiation of the labor activity of producers, the exchange of the results of their labor will be economically meaningless, since they will all produce the same types of products.

Secondly, there is an economic isolation of producers of goods as owners. The economic basis for the isolation of economic entities was first private ownership of the means of production, and then other forms of ownership (collective, joint-stock, mixed, and others). The products of labor oppose each other as commodities if they are produced by economically independent producers, they themselves dispose of the results of their labor. That is, if a commodity producer is also a commodity owner. The owner independently decides at his own peril and risk what, where, when and how much to produce, with whom to exchange and on what conditions.

There are two types of commodity production: **simple and developed.**

Simple commodity production is a small-scale production of individual independent artisans and peasants working for the market. It was inherent in capitalist societies.

A developed form of commodity production is the highest and most effective degree of commodity organization of the economy based on private property, wage labor and machine industry.

Commodity production is the basis for the emergence and development of a market economy.

The market economy is one of the summits of social civilization, a brilliant invention of mankind, and has no alternative in the foreseeable historical perspective.

Therefore, the economy rejected the need to develop commodity production, market relations, and rejected the achievements of world civilization, which doomed itself to self-destruction, as happened with the command-administrative economy in the former socialist countries. Therefore, the way out of the crisis and the economic development of Ukraine consists in creating a developed market economy, integrating it into the world market economy.

5.2. Product and its properties

The fundamental category of commodity production is «commodity». However, historically and logically, this category was preceded by the category «benefits».

Benefits - everything that is capable of satisfying human needs, for example, the fruits of nature, products of labor, services, phenomena that satisfy certain human needs, meet his interests, goals and aspirations.

Benefits are divided into economic and non-economic.

Non-economic benefits are provided to man by nature, that is, without the application of his labor, in unlimited quantities (for example, air, sea water, solar heat, etc.).

Economic benefits are the benefits of a person's economic (labor) activity, which exist in limited quantities.

The economic benefits are very diverse (Figure 5.1).

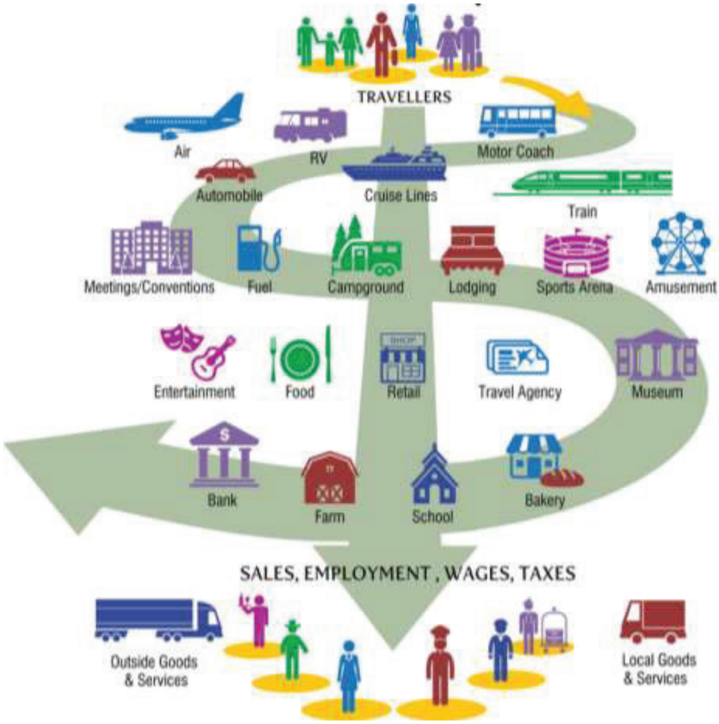

Figure 5.1. The economic benefits

An economic benefits in conditions of commodity production takes the form of *a commodity*.

A commodity is an economic good that satisfies a specific human need and is used for exchange (buying and selling on the market).

According to the classical theory, the most important characteristics of a product are its use value and value.

Consumer value is the ability of a product to satisfy any human need.

Since the commodity satisfies the needs of not the producer himself, but of another person, it has not just a use value, but a social use value, that is, it is a use value for others.

The value of a commodity is the producer's public labor embodied in the commodity.

Value manifests itself through the external form of its reflection - exchange value.

Exchange value is certain quantitative ratio (proportion) in which goods of one kind are exchanged for goods of another kind.

The above concept of a product and its properties in economics is known as *the theory of labor value*. This theory was founded by the classics of political economy - Adam Smith and David Ricardo. It was subsequently completed by Karl Marx and his supporters.

However, in modern neoclassical economic theory, there are some other approaches to characterizing a product and its properties. In particular, such concepts as «usefulness», «value» and «rarity» of a product have been introduced into scientific circulation.

Usefulness among neoclassicists, in contrast to consumer value, is a purely subjective concept, individual for each specific person. It shows the degree of satisfaction or pleasure that a particular person receives from the consumption of a particular product or service.

One and the same product with the same use value can have completely different degrees of utility for individual consumers. For example, the usefulness of bread is different for a well-fed and a hungry person, a cigarette for a smoker and a non-smoker, etc. But all these goods, regardless of their different usefulness for different people, do not lose their objective basis - use value.

Value. People, buying certain goods, thereby, as it were, assess the degree of their usefulness specifically for themselves. Neoclassicists present the assessment of the degree of usefulness of a good by an individual as a value. Therefore, the value for them is subjective. Only what is valuable in the eyes of the buyer, whose subjective assessments are the basis for determining the produced good as value, has value.

People value goods and services not only because socially necessary labor is expended on their production, but also because they are useful. From their point of view, only the usefulness of goods and services can provide the so-called socially necessary character to labor costs. So, value is both a function of labor input and a utility function.

The combination of value and value and their public acceptance is reflected in the price. The price can be considered a form of monetary expression of the value and value of a product.

The price predetermines the possibility of simultaneous manifestation of the interests of producers and consumers. Only value is the driving motive for the producer, just as value is the driving motive for the consumer.

From the standpoint of neoclassical views, the value of goods also depends on their rarity, that is, on the needs and stock (quantity) of goods that are able to satisfy these needs.

Rarity is a characteristic of economic goods, reflecting the limited resources to meet the unlimited needs of society. Of great value are those goods that are limited, rare in comparison with the needs for them.

For example, water is more beneficial to humans than a diamond. But there is enough water, but not enough diamonds. Therefore, diamonds, the usefulness of which is much less useful for satisfying life's needs, because one can do without them altogether, are valued by people more expensive than water.

5.3. Theory of money and money circulation

Money has a long history. It is a complex and essential element of a market economy. It is possible to understand the economic essence of money only on the basis of a comprehensive understanding of the causes of its occurrence and the laws of development.

There are two main concepts that explain the reasons for the emergence of money: ***rationalistic and evolutionary***.

The rationalist concept prevailed until the end of the 18th century. It also has adherents among some modern economists. Thus, P. Samuelson defines money as an «artificial social convention», and J. K. Galbraith believes that the consolidation of monetary functions for precious metals and other objects is «a product of an agreement between people».

However, attempts to explain the origin of money by an agreement between people or by legislative acts of the state, in our opinion, are not very convincing. After all, money in its simplest forms arose in the early stages of the development of individual peoples, when neither the factor of mutual agreement, nor the power of the state could play a significant role in defining such a complex category as money. It can be assumed that the state only at a certain stage of development legislated a certain product, which spontaneously performed the role of a universal equivalent, like «fiat money».

And today, when the regulatory role of the state in relation to money has significantly increased, it does not mean that it is the creator of modern money. The state can determine and change the external attributes of money - their form, denomination, mass, the procedure for issuing banknotes, the exchange rate in order to better adapt them to the effective fulfillment of their social role. But all these actions of the state regarding money do not affect their generic essence and do not deny their objective origin, due to the long development of commodity production and exchange.

The evolutionary concept was first formulated by the founders of classical political economy A. Smith, D. Ricardo, and then was developed by K. Marx. They arguably proved that money has a commodity origin and arose as a result of a long development of the social division of labor, commodity production, exchange and a consistent change in the forms of value.

At an early stage in the development of human society, the appearance of money was preceded by the era of natural (barter) exchange of goods (G1 - G2), when the commodity G1 expressed its value in the opposed commodity-equivalent G2. When bartering, you need to find a partner who has what you need, and he must want what you offer for exchange. With the development of commodity production and the saturation of the market with goods, direct commodity exchange became more and more complicated, and could not take place at all, since the interests of the participants in the commodity transaction did not coincide. This required finding many potential exchange partners capable of meeting each other's needs for goods and services, and then achieving the ultimate goal of the exchange. In order to get the desired product, it was necessary to first find an intermediary product that would satisfy the exchange partner, and eventually a product that would meet the interests of all participants in exchange operations, that is, would be a universal equivalent.

Gradually, the development of exchange stimulated the spontaneous separation from a multitude of goods of some one, the most popular in its consumer properties and therefore suitable for fulfilling the role of a universal equivalent. For different peoples, the goods that played the role of generally recognized equivalents were: cattle, fur, salt, fish, grain, tea, rice, precious shells, iron, copper, bronze, etc. With the further development of commodity relations, the role of an intermediary commodity, which performed would be the function of the general equivalent, was fixed for precious metals - silver and gold, and then - only for gold.

Gold has become better than other commodities to fulfill the role of a universal equivalent and to be called money due to its natural properties (rarity, high cost, homogeneity, divisibility without loss of value, shelf life, ability to receive wherever trade is developed, etc.).

With the advent of money, the entire commodity world seemed to be divided into two poles: on one there are all ordinary goods, on the second - a special commodity - money, which plays the role of a universal equivalent and has absolute liquidity (the ability to sell).

Money contributed to the transformation of barter trade (G1 - G2) into commodity-money circulation (G1 - M - G2).

So, *money* is a special commodity that plays the role of a universal equivalent, acts as an intermediary in the exchange of goods and expresses economic relations between people regarding the production and exchange of goods.

All this indicates that money is an objective category of a market economy that cannot be canceled or changed with the consent of people or a decision of the state as long as there are social relations adequate to money, just as they cannot be introduced where there is no such relationship. The actions of the state and, accordingly, its legal norms and monetary policy must be adequate to these objective conditions and form a mechanism for their implementation.

Modern individual Western economists define the essence of money based on its functions. So, K.R. McConnell and S.L. Bru believes that «money is what is considered money» or «everything that performs the function of money is money.» J. Hicks understands money as «that which is used as money.» S. Fischer, R. Dornbusch, R. Schmalenzi consider the key point in defining money to be its payment function: «money is a generally recognized means of payment, which is accepted in exchange for goods and services, as well as when paying debts». R. Barr also believes that «money can be defined as the medium of exchange generally accepted in this payment community.»

The functions of money are the actions they perform in a market economy.

Classical economic theory identifies five functions of money: a measure of value, a means of circulation, a means of forming treasures, a means of payment, world money.

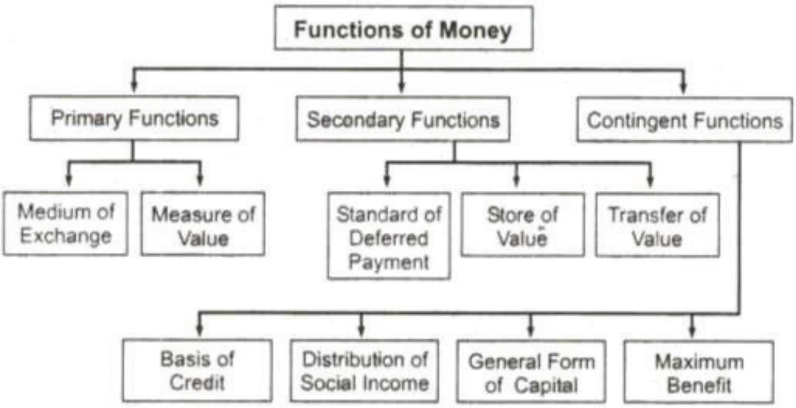

Figure 5.2. Functions of money

The function of money as a measure of value lies in the ability of money, as a universal equivalent, to measure the value of all other commodities, giving them the form of prices.

Money performs the function of a measure of value ideally, that is, on the basis of mentally equating the value of a commodity to the amount of money.

Money as a measure of value is widely used as a unit of account. With their help, it is possible to give a quantitative expression to all economic processes and phenomena at the micro and macro levels, at all stages of the process of social reproduction, without which their organization and management is impossible.

The function of money as a measure of value in the era of gold and high-grade paper money is realized through the scale of prices.

The price scale is a certain weight amount of a precious metal, which is legally established by the state as the country's currency and is used to measure commodity prices.

In each country, the monetary unit has its own name - dollar, franc, mark, pound sterling, yen, hryvnia, etc. Through the scale of prices, prices of goods are established not by the weight of gold, but in national monetary units.

From the middle of the XX century. in accordance with the recommendations of the IMF, the circulation of gold money was completely stopped and they were converted into paper money.

Money performs the function of a medium in the form of coins and paper money.

At first, metallic money was used in the form of simple ingots, wire, or pieces of metal. It was not very convenient. With the development of trade, the need arose for the branding of ingots by a more famous and authoritative person, and then, gradually, this function was transferred to the state. According to the established form, states began to produce coins.

A coin is an ingot of a monetary metal of a certain weight, shape, standard and denomination, legalized by the state as a medium of circulation.

The coin turned out to be the most perfect form of high-grade money, that is, those that function in circulation with their own substantial value. She served the economic relations of people for several millennia. In the process of prolonged circulation, the coins are erased, the weight content of gold in the coin decreases, and it becomes, as it were, inferior. However, such coins, the real value of which differs from the nominal value, continue to function successfully as a medium of circulation. This indicates that in the process of circulation money acquires a special exchange value, which can exist apart from the real intrinsic value of the material from which it is made. In addition, money performs the function of a medium of circulation instantly, as a temporary intermediary, which makes them indifferent (indifferent) to their value form. All this has created conditions for the replacement of full-value (gold) money in the sphere of circulation with defective «money-signs», for example, paper money.

Paper money is signs, symbols, representatives of high-grade (gold) money in circulation, which are endowed with state power by a compulsory course of circulation. Paper money does not have its own value, since the costs of making them are insignificant, but they have purchasing power.

The function of a means of payment is to serve with money to repay various debt obligations between subjects of economic relations.

Money performs this function both in the sphere of commodity circulation when selling goods on credit, and paying off debt, and outside it when paying off various obligations (wages, taxes, rent and rent, loan repayment, etc.).

On the basis of this function, credit money arose - a bill of exchange, a banknote, a check.

The function of forming a treasure is performed by the money that goes out of circulation, temporarily interrupts its movement, accumulates and turns into a treasure in its gold or silver «flesh».

This function is related to the ability of gold or silver money to be a store of value, a representative of an abstract form of wealth. Along with the direct accumulation of treasures in the form of gold coins, they are also accumulated in an aesthetic form (jewelry, luxury goods made of gold). This is due to the fact that gold has a stable value and is characterized by perfect, absolute liquidity. Other types of money and assets are characterized by value stability and liquidity only to a greater or lesser extent.

The function of world money is to serve interstate economic relations with money related to settlements for foreign trade operations, the provision of loans and other agreements.

Initially, only gold served this function. In this function, money appears in three meanings:

- as a universal means of payment (settlements on the country's foreign trade and balance of payments);
- as a general purchasing tool (purchase of goods such as weapons, grain, energy resources with immediate cash payment);

- as a universal embodiment of the social wealth of a nation in the event of gold movement from one country to another without a counter movement of a commodity equivalent or debt repayment (granting loans, transferring gold for conservation, etc.).

Evolution of the functions of money. An important aspect of understanding the functions of money is the principle of their evolution. Money cannot be seen as something immutable. Under the influence of the development of market relations, some functions become more complicated, change or die off, and instead of them come new ones, more adequate to the prevailing conditions. Therefore, at each stage of the development of commodity-money relations, a certain set of functions of money and the mechanism of their interaction are formed.

Evolution of the cost measure function. Since gold went out of circulation and ceased to be money, it ceased to function as a measure of value. However, this does not mean that the function of modern money as a measure of value is completely exhausted. It is formed on a different basis. It should be borne in mind that in the process of exchange there is a need not so much to measure the value of the exchanged goods, but to find out how many times the value of a particular good is greater or less than the value of the good offered for exchange. Under these conditions, the function of money as a measure of value seems to be modified into a function of comparing the value of the exchanged goods. This can also be done by money that has no value of its own. The ultimate goal of a commodity exchange, in which money also takes part, is to exchange goods for goods, not money. Having ceased to be the representative of the monetary (gold) goods, the paper-money unit personifies the representative value of the total mass of goods and services in circulation and are serviced by the corresponding amount of money. That is, the value basis of modern money is the value of the total mass of commodities, which they represent in exchange. So, modern money performs the function of comparing the value of exchanged goods, acts as counting units with the help of which prices are determined, monetary accounting of the national product is kept, etc.

Evolution of the function of money education treasures. Since gold money has been replaced by paper money, its preservation cannot form a treasure. But paper and credit money acquires a qualitatively new functional form - it becomes capital and can perform the function of accumulation. Having a representative value, money is liquid in comparison with other assets. Money in the function of accumulation serves the needs of social reproduction (capital construction, the purchase of machinery, equipment, etc.), as well as the needs of the population for the purchase of housing, expensive durable goods, the need for recreation, etc.

Evolution of the function of money as a means of payment. In the process of development of commodity-money relations, the functions of money as a means of circulation gradually narrow down and, at the same time, the functions of money as a means of payment expand. Ultimately, credit money that arises from the payment function becomes widespread and developed forms of money. The development of credit money and credit relations has a significant impact on all aspects of modern economic and social life, which convincingly testifies to the growth of the commodity-money form of the economy into a commodity-credit one, corresponding to the highest degree of development of social production.

Evolution of world money. In modern conditions, gold is not directly used as world money. The function of world money is performed by freely convertible national currencies of developed countries and collective international monetary units (euros), which ensured confidence in their currencies as stable carriers of value not only in the domestic, but also in international markets. However, gold acts as a centralized reserve of the country, concentrated in central banks, and can be used in international settlements indirectly by selling gold on world markets and then exchanging it for national currencies of other countries.

Money circulation is the movement of money in cash and non-cash forms, serving the sale of goods and non-commodity payments in the economy.

The turnover of money is carried out on the basis of its inherent laws. One of the most important is the law that determines the amount of money required for circulation.

The law of money circulation assumes that during a certain period in circulation there must be a certain, objectively determined money supply. He finds out the internal connections between the amount of money in circulation and the mass of goods, the level of prices, the speed of circulation of money.

Topics for reports to Section 5

1. Laws of evolution of economic forms of management.
2. Labor theory of value and the theory of marginal utility: the essence of differences.
3. The current stage of development of commodity production (on the example of developed countries of the world).
4. «Economics» about commodity production.
5. The history of the emergence of money and their evolution.
6. History of money in Ukraine.
7 The law of value, its characteristics and significance in the development of a market economy.

Theoretical questions to Section 5

1. Is there a subsistence economy in the Ukrainian economy? If so, in what forms?
2. What are the main reasons for the emergence of commodity production?
3. What is the difference between simple and developed forms of commodity production?
4. Product and its properties. The consumer and exchange value of the goods.
5. Formulate the definition of money as an economic category. What types of money do you know?
6. Describe the functions of money.
7. What is the monetary system? What types of money systems can you name?
8. What determines the amount of money required for circulation, indicate the calculation methods?
9. Cash and non-cash money. Their characteristics and types.

Test tasks 5

1. The process of evolution of forms of money is:

a) commodity money - paper money - metal money - credit money - electronic money;

b) commodity money - paper money - metal money - electronic money - credit money;

c) commodity money - metal money - paper money - credit money - electronic money;

d) paper money - metallic money - commodity money - credit money - electronic money.

2. An economic good that satisfies a specific human need and is used for exchange (purchase and sale on the market) is:

a) labor force;

b) entrepreneurial ability;

c) goods;

d) solvency.

3. The social labor of a producer embodied in a commodity is:

a) use value;

b) the cost of the goods;

c) social value;

d) the cost of means of labor.

4. A special commodity, performing the role of a universal equivalent, acts as an intermediary in the exchange of goods and expresses economic relations between people regarding the production and exchange of goods - these are:

a) money;

b) labor force;

c) means of labor;

d) objects of labor.

5. Such a form of social production as natural production is:

a) a type of production organization in which people produce products to meet their own needs;

b) a type of organization of a social economy in which products are produced not for consumption by their producers, but specifically for exchange, for sale on the market;

c) a type of organization of production in which people produce products to meet the needs of the collectives of enterprises and organizations;

d) a type of production organization in which people produce products to meet government needs.

6. Which of the proposed functions of money does not exist:

a) measure of value;

b) a means of return on assets;

c) a means of circulation;

d) means of payment;

e) world money.

7. The gold exchange standard characterizes:

a) circulation of gold coins, the performance by gold of all the functions of money, free minting of gold coins with a fixed content, free exchange of paper money for gold;

b) banknotes were exchanged for gold only upon provision of the amount established by law;

c) banknotes were exchanged for foreign currency, which, in turn, was exchanged for gold;

d) the exchange of banknotes for gold was canceled in all countries, and the exchange of dollars for gold was carried out only for the governments and central banks of the country.

8. A written promissory note of a strictly established form by law, which indicates the amount of the monetary debt, the timing of its payment, as well as the right of its owner to demand from the debtor to pay the debt at the due date - these are:

a) promissory note;

b) check;

c) bond;

d) share.

9. What concept, explaining the reasons for the origin of money, does not exist:

a) a rationalistic concept;

b) evolutionary concept;
c) a revolutionary concept.

10. In Ukraine, the money supply is calculated using the following number of aggregates:
a) 2;
b) 3;
at 4;
d) 5.

Practical tasks 5

Task 1

It is known that at the beginning of the year the volume of money supply in the country amounted to 26 million units, the country's central bank during the year issued another 6 million units.

What will be the total cost of goods and services sold for the year if the velocity of money circulation in the country was 8 turnovers per year?

Task 2

The consumer spends $20 a day buying oranges and apples. The marginal utility of apples for him is *20 - 3x*, and the marginal utility of oranges is *40 - 5y*. The price of 1 kg of apples - $1, oranges - $5.

How many kg apples and oranges will a rational consumer buy?

Section 6
MARKET ECONOMY: ESSENCE, STRUCTURE AND INFRASTRUCTURE

6.1. Market economy as an integral part of commodity production
6.2. Market features, structure and functions
6.3. The state as a subject of a market economy
6.4. Market infrastructure

6.1. Market economy as an integral part of commodity production

*Marke*t - a system of economic relations associated with the exchange of goods and services based on the widespread use of various forms of ownership, commodity-money and financial-credit mechanisms.

There are two sectors of the economy: market and non-market (budget) or public and privat.

Public Sector	*Traditional Approach*
• public choice • the need of resource budget allocation • public action opening • monopole • public markets • single public supply sovereignty	• anonymous client • service standardisation • advertising undifferentiated on client/service segments • dialogue with the user • market segmentation • local community = target group
Private Sector	*Managerial Approach*
• personalised/individual choice on the market • demand and price • opacity against public action • market equality • market satisfaction • competition • client sovereignty	• "segmented" personalised client • Personalised supply • Individual advertising • Dialogue with the client • Client segmentation • Niche

Figure 6.1. Public and Private sector

The relationship between the market and budget sectors is determined by a combination of factors inherent only in one country or another. It changes at different stages of the evolution of the economic system.

A change in the dominant of one of the sectors causes qualitative shifts in the social structure, affects the fate of the system and affects most of the subjects of the economy.

The market is an integral attribute of the commodity economy. It ensures the movement of goods and money (G - M - G and M - G - M). The vast majority of economic processes are carried out through the market. This is a specific form of economic relations, linking various business entities.

6.2. Market features, structure and functions

The modern market is characterized by: economic freedom, competition, mobility of resources, autonomy of actions of market participants, comprehensive awareness of subjects, socialization and globalization of economic ties.

Forms of manifestation of economic freedom:

- freedom to choose the sphere of using their abilities;
- freedom to choose the scope of your capital;
- freedom to choose partners;
- freedom of pricing;
- freedom to choose a measure of the riskiness of economic activity;
- full responsibility for their decisions, actions and their consequences.

Competition in the most general sense means that what one of the economic entities does, others can freely do. It (competition) is the oldest stimulus for economic development and at the same time, in the process of evolution, generates monopoly, which limits and distorts competition.

Table 6.1. Forms of competition according to various criteria

Criteria	Forms of competition
by subject	- between producers and consumers; - between producers of homogeneous products; - between manufacturers of dissimilar products; - between the owners of capital and labor; - between owners of capital; - between the owners of the labor force; - between private owners of capital and the state; - between monopolized and non-monopolized sectors; - between monopolies; - within monopolies.
by objects	- for resources; - for sales markets; - for the right of primary possession of information, etc.
depending on market forms	- perfect; - imperfect.
depending on the legality	- conscientious; - unfair.
depending on the consequences	- free (there are a large number of producers and buyers on the market, entry and exit to the market is easy, accessible to everyone, goods are homogeneous, of the same quality, the state does not control relations in such a market. Such a market gives rise to a monopoly); - oligopolistic (a small number of sellers who produce homogeneous products, but between them there is a distribution of markets across regions and there is no competition); - monopoly (one manufacturer dictates prices, sets entry barriers, negatively affects the population's ability to pay, forms a specific consumer environment, is dangerous for the state. To prevent, create a system of antimonopoly); - monopolistic competition (a large number of manufacturers that produce similar but heterogeneous products occurs due to the increase or decrease in prices or decrease or increase in the quality or quantity of products. This model is inherent in most countries).

The most important market functions are as follows.

Regulation function. The market regulates all economic processes - production, exchange, distribution and consumption, determining the proportions and directions of the distribution of economic resources at the micro and macro levels through the expansion or contraction of supply and demand.

Stimulation function. The market encourages producers of goods and services to reduce costs, improve the quality and consumer properties of goods. It creates an effective mechanism for motivating labor, stimulating an increase in the efficiency of the economy through the introduction of advanced achievements of scientific and technological progress.

Distribution function. Incomes of producers and consumers in a market economy are differentiated through prices, causing social stratification of society in terms of income.

Sanitation function. The market through competition clears the economic environment of uncompetitive farms and maintains efficient ones. This mechanism for rehabilitating the economic environment is depersonalized and therefore cannot be biased and unfair.

Locational function. The market ensures the production of an optimal combination of goods and services through an efficient combination of resources. An effective combination of resources is that in which goods and services are produced with minimal opportunity costs.

Informative function. The market through prices informs the producer, trader, consumer about what is profitable to produce and buy, and what is not, how much of what needs to be produced for which segments of the population should be guided in their economic activities, etc.

Integration function. The market unites the subjects of the economic system into a single whole, contributing to the formation of a single economic space both within a separate state and within the world economy.

Market formation stages:

- the classic free market (until the middle of the 19th century), in which the state did not interfere in the economy, acting as a «night watchman» who made sure that everyone who had an independent source of income carefully paid taxes to the state treasury;

- a regulated market (mid-19th - 50s of the 20th century). It was characterized by state intervention in the economic life of society in order to limit the arbitrariness of monopolies and protect the competitive environment;
- a socially oriented market, in which, in addition to regulatory mechanisms, the state assumes the function of social protection of the population.

6.3. The state as a subject of a market economy

The real model of the economic structure presupposes the use of both a market mechanism that ensures the effective functioning of the economy and a state regulatory mechanism to solve a number of problems that the market refuses, or a market solution of which is too expensive for society.

The main tasks of the state in the conditions of market economic systems:

- legal support for the functioning of the market mechanism;
- organization of money circulation;
- protection and promotion of competition;
- production of public goods;
- minimization of transaction costs;
- compensation of external effects (externalities);
- stabilization of macroeconomic fluctuations;
- redistribution of income through the tax system;
- realization of national interests in the world economy.

Externalities are the costs and benefits associated with the production and consumption of goods by those entities that are not participants in a certain market transaction.

External effects take the form of <u>positive and negative</u>.

<u>Positive effects</u> arise when the production or consumption of any good brings uncompensated benefits to third parties.

Example. *The costs of limiting and eliminating the cholera epidemic (isolating patients, providing them with medical care, keeping those* *who had contact with the sick during the incubation period, etc.) give a positive effect to those who could get sick, but escaped this trouble, DO NOT paying for directly listed health care services.*

Negative effects arise when the production or consumption of any good leads to uncompensated costs for third parties.

Example. *Polluting the environment, the company shifts part of the costs (for the use of treatment facilities, waste-free technologies, etc.) that it should have carried out on the population, thus forcing them to spend money on treatment, live in discomfort, etc. nor does it compensate him for these expenses.*

The English economist Arthur Pigou, as a result of his study of the nature of externalities, proposed the introduction by the state of a certain tax to eliminate external effects, which is known in scientific literature as the Pigou tax.

The American economist Robert Coase, based on the study of external effects, came to conclusions opposite to those of Arthur Pigou. Their content is as follows.

1. If property rights are clearly defined by law and people carefully observe them, then no external effects arise, there are no «market failures» and the state has no reason to interfere in economic life.

2. Externalities appear only where property rights are blurred; where they are clearly defined, external effects turn into internal ones.

3. For the successful operation of the market, transaction costs (the cost of using the market mechanism) are of paramount importance.

4. Government regulation is justified only when the costs associated with government intervention are less than the costs associated with «market failures».

So, if the existing externalities distort the monetary assessment of costs and benefits, which leads to inefficient allocation of resources, then the market system does not produce public goods.

Unlike ordinary goods, the use of which implies their mandatory purchase, public goods (national defense, government, law enforcement, environmental protection, street lighting, etc.) are consumed because they are produced. Benefits from the use of public goods are not only for those who made certain costs for their creation or paid for their consumption, but also those who did not spend anything on it. The costs of their production are carried out through exemptions in the form of taxation.

6.4. Market infrastructure

Infrastructure is the foundation, the foundation of the economic system and its subsystems, its internal structure, which ensures integrity. Thanks to the infrastructure, the movement of flows of goods and services from the seller to the buyer is carried out.

Market infrastructure is a complex of institutions, services, enterprises, organizations that ensure the normal mode of smooth functioning of the market.

Let's consider in more detail some elements of the market infrastructure. Exchanges are one of the most important infrastructural elements.

The term «exchange» translated from Latin means «leather wallet». Exchanges originated as places where merchants carry out trading operations. The first exchange was registered in Antwerp in 1531 p., The second - in London in 1566.

Exchange is an organizational and legal form of wholesale trade in bulk goods according to standards and samples (commodity exchange) or systematic transactions for the purchase and sale of securities (stock exchange), currency (currency exchange), labor (labor exchange), charter agreements (freight exchange)/

A commodity exchange is a wholesale commodity market characterized by the following features:

- trade in goods according to standards and samples, which makes it possible to sell not the goods themselves, but a contract for their supply;
- regularity of trading based on certain rules;
- formation of prices based on comparison of supply and demand (quotes);
- freedom to choose a counterparty for the transaction;
- standardization of contracts and minimum delivery quantities.

The stock exchange is an organized securities market that performs the function of mobilizing funds for long-term investments in the economy and for financing government programs.

Securities are documents expressing property (debt) obligations.

Types of securities.

Shares are securities issued by joint-stock companies, which testify to the investment of a certain amount of capital and entitle their owner to receive a certain income (dividend) from the profit of the joint-stock company.

A bond – is a document certifying the transfer of money into debt for a certain period with the right to receive an annual fixed income and an obligation to return the amount of debt within a certain period.

A bill of exchange is a written promissory note in the form established by law, issued by the borrower (debtor, drawer) to the creditor (payee), which gives the latter the right to demand from the debtor the return of the amount specified in the bill of exchange within a certain period.

Voucher - is a property coupon issued in the course of privatization of state property for the acquisition of shares in enterprises subject to privatization.

Certificate (deposit) - a financial document issued by a bank, certifying the presence of a cash deposit and the obligation to pay this amount to the certificate holder within a certain period. This is a bearer security. Interest on certificates of deposit is paid annually or simultaneously with the repayment of the debt.

Currency exchange - an exchange that regularly and orderly buys and sells foreign currency at market prices.

The rate that is set on the exchange is called the official rate. It forms the basis for settlements between commercial banks and clients. State representatives participate in the work of the currency exchange.

Exchange-traded currency commodity is currency and gold.

The labor exchange is a government structure that mediates the relationship between employers and the hired labor force.

The Freight Exchange is a permanent market in which chartering and chartering of ships are concluded.

The exchanges discussed above are called specialized.

Universal exchange - an exchange that carries out transactions not only with a wide range of goods, but also with currencies, securities and freight contracts.

So, exchanges are market structures where deals are made, exchange operations are carried out.

Exchange intermediaries

Broker is a reseller who ensures the conclusion of transactions at the request of clients and at their expense. Broker service fee - brokerage.

Dealer - an exchange intermediary, buys and sells only for himself and at his own expense.

There are other organizational forms of selling goods and services.

Chambers of Commerce and Industry are commercial organizations whose main task is to promote the development of economic and trade relations with partners from foreign countries. They are legal entities and provide targeted information services.

Trading house - trading firms that purchase goods from manufacturers or wholesalers and resell them within their state or abroad.

Fair is a periodically organized in the same place exhibition of samples of consumer goods and (or) equipment, vehicles, communications, know-how, where exhibitors conclude deals on a national and international scale. Take-out sales are prohibited at the international fair. Sometimes fairs are defined as a place of periodical trade.

A store is a retail business.

A ballroom store is a retail trade enterprise that sells from catalogs.

Marketing is a type of activity of firms related to the sale and sale of products includes: product development, market research, communication, distribution, pricing, service deployment, etc.

Consulting firms provide services to economic entities on:

- market research and forecasting;
- assessment of trade and political conditions for the implementation of export-import operations;
- development and implementation of marketing programs.

An auditing firm advises on accounting and control of financial activities for conducting economic and financial audits; management through the accounting system; prepares conclusions regarding the reliability of the financial statements of firms subject to audit control.

Topics for reports to Section 6

1. Problems, features and prospects of market formation in Ukraine.
2. Competitiveness and stability of the firm. Competition law.
3. Commodity exchange, its characteristics.
4. The economic mechanism, its elements and their characteristics.
5. Classification of markets.

Theoretical questions to Section 6

1. Name the market functions and expand their content.
2. What are the principles of functioning of the market economy and reveal their content.
3. Give the most generalized definition of the market.
4. What problems does the market economy solve?
5. Basic principles of the development of a market economy.
6. Give a definition of the concept of «market infrastructure» and reveal its significance for the smooth functioning of the market.
7. What is the market and market structure?
8. Who, in your opinion, is the subject of the market and is the object of market relations?
9. What types of markets can you name?

Test tasks 6

1. Market function responsible for clearing the economic environment from uncompetitive farms and supporting effective:

a) regulation function;
b) stimulation function;
c) distribution function;
d) function of sanitation.

2. The market function responsible for encouraging producers of goods and services to reduce costs, improve the quality and consumer properties of goods:

a) regulation function;
b) the function of stimulation;
c) distribution function;
d) sanitation function.

3. The main subjects of a market economy do not include:

and money;
b) households;
c) entrepreneurs;
d) the state.

4. A large number of manufacturers who produce similar, but heterogeneous products, occurs due to an increase or decrease in prices or a decrease or increase in the quality or quantity of products - these are:

a) monopoly;
b) monopolistic competition;
c) oligopolistic competition;
d) free competition.

5. Which of the proposed exchange intermediaries does not exist:

a) investor;
b) broker;
c) broker;
d) there is no correct answer.

6. Externalities are:

a) a set of interrelated and appropriately ordered elements of the economy that form a certain integrity, the economic structure of society, which has a common goal;

b) relations between people regarding the production, distribution, exchange and consumption of material and non-material benefits;

c) the costs and benefits associated with the production and consumption of goods by those entities that are not participants in a particular market transaction;

d) the substance of nature, which a person influences in the process of labor, subjecting it to processing.

7. The market is:

a) abstract, logical, theoretical concepts, which in a generalized form express generic characteristics of certain economic phenomena and processes;

b) a type of organization of a social economy in which products are produced not for consumption by their producers, but specifically for exchange, for sale on the market;

c) the process of predetermining the method of combining the worker with the means of production, the purpose of the functioning and development of the economic system;

d) a system of economic relations associated with the exchange of goods and services based on the widespread use of various forms of ownership, commodity-money and financial-credit mechanisms.

8. The term «exchange» in translation from Latin means:

a) leather wallet;

b) the gold coin yard;

c) trading platform;

d) purchase and sale.

9. Which of the market subsystems does not exist in the market infrastructure:

a) organizational and technical;

b) financial and credit;

c) socio-psychological;

d) scientific research and information support.

Practical tasks 6

Task 1

Based on the initial data shown in Table 6.2, characterizing three sets of indifference of two goods: food (F) and entertainment (H), do the following:

1) build three curves of indifference;

2) determine which of the indifference curves reflects the highest level of utility, and which of the indifference curves reflects the lowest level of utility;

3) reflect the following combinations of goods on indifference curves: 50H and 8F; 45H and 4F; 12H and 45F; 25H and 16F; 21H and 12F;

4) build a budget line for each of the following situations, provided that the consumer spends $200 per month for food and entertainment, the price of food and entertainment is:

Situations:

1) PH = PF = $5;

2) PF = $5, PH = $10;

3) PF = $10, PH = $5;

4) PF = $6, PH = $6;

but consumer incomes increased to $240 for a month.

5) present conclusions.

Table 6.2. Initial data

Set No. 1		Set No. 2		Set No. 3	
H	F	H	F	H	F
2	40	10	40	12	45
4	34	12	35	14	40
8	26	14	30	16	35
12	21	17	25	18	30
17	16	20	20	21	25
22	12	25	16	27	20
29	9	30	14	33	17
34	7	37	11	38	15
40	5	43	10	44	13
45	4	50	8	50	12

Section 7
DEMAND AND SUPPLY. MARKET BALANCE THEORY

7.1. The essence of demand and the factors that determine it
7.2. Offer: content and factors affecting it
7.3. Elasticity of supply and demand
7.4. The interaction of supply and demand. Market equilibrium

7.1. The essence of demand and the factors that determine it

The term «demand» in economics means an effective need, i.e. the need that the subject is able to pay.

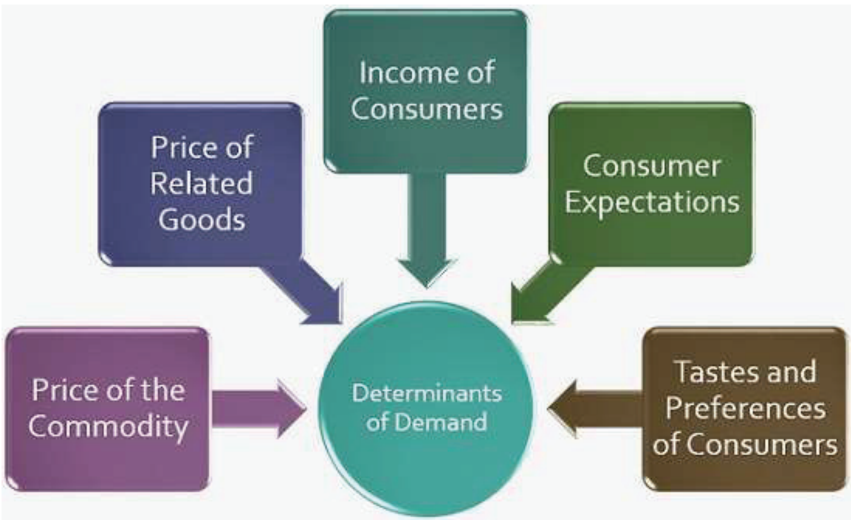

Figure 7.1. What is demand?

From this definition, it follows that the demand for a particular product (service) depends on the price.

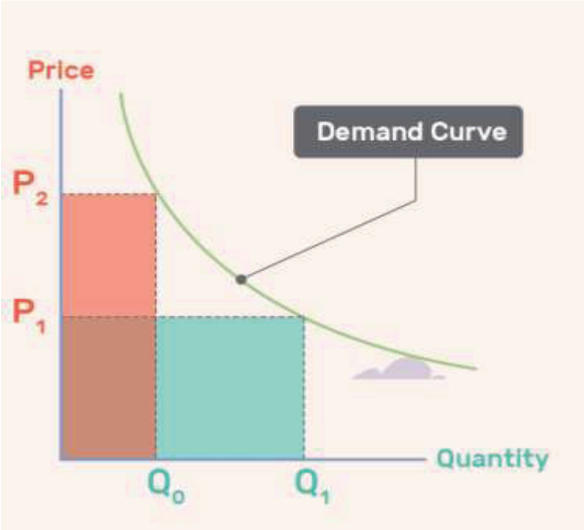

Figure 7.2. Demand curve

The individual demand curve does not answer the question of what price in these options is the market. It only show how the amount of demand will change if the price changes, and all other factors remain unchanged. Both digital and graphic representations indicate an inverse relationship between the amount of demand for a product and the price of that product. This means that an increase in the price of any product will lead to a decrease in the amount of demand for it, and, conversely, a decrease in price will increase demand.

The relationship between price and demand is constant. The reason for the change in demand is the change in price.

Inverse causal relationship between the price of a product and the amount of demand is called the law of demand.

The law of demand manifests itself through the economic behavior of the consumer. How can one explain the fact that the consumer is ready to buy more goods at a lower price?

First, the consumer's income is always limited; objectively, he can buy more goods for a lower price.

Secondly, the law of diminishing marginal utility operates in economics, the meaning of which is that each subsequent unit of goods brings less satisfaction than the previous one, and therefore the consumer is ready to purchase each subsequent unit of goods for a lower price.

Third, this behavior is explained by the income effect, the meaning of which is that a decrease in the price of consumer goods is equivalent to an increase in income. Therefore, at a lower price, the consumer can purchase more of this product, without limiting himself in the consumption of other goods.

And finally, consumer behavior also determines the substitution effect, because the consumer is interested in replacing the consumption of expensive goods with cheaper ones (all other things being equal, that is, if they are of high quality, meet standards, etc.). For example, if the price of kefir decreases, while yogurt remains high, the consumer can replace the consumption of yoghurt with kefir.

Distinguish between individual and market demand.

Individual demand is the demand of an individual consumer.

Market demand is the sum of individual demands made by each consumer at different prices.

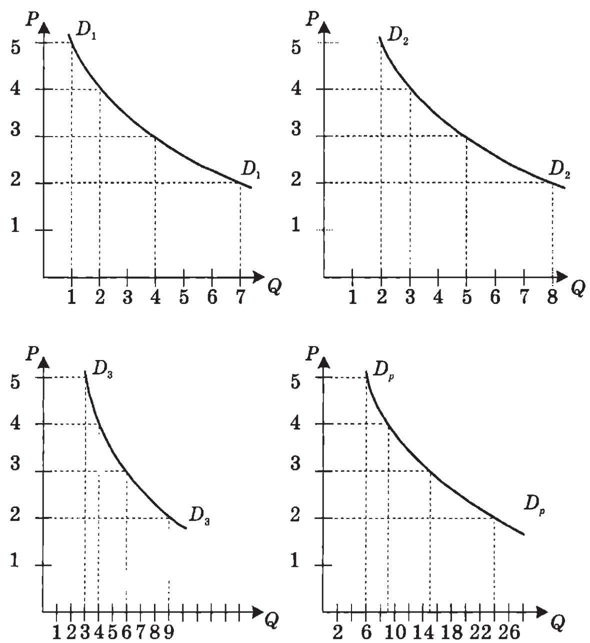

Figure 7.3. Market demand curve graph plotted by adding individual demand curves

As seen from Fig. 7.3, there is also an inverse relationship between market demand and price.

The functional dependence of demand on price is expressed by the equation^

$$Q_D = f(P),$$

where Q_D - is the amount of demand for the product;

P - is the price of the product.

Price is the most important factor in determining the volume of demand. But there are other factors that affect it. What happens to the demand curve if non-price factors change?

Non-price demand factors:

- the number of buyers (an increase in the number of buyers increases market demand and vice versa);
- consumer income (direct relationship between income and demand);
- consumer expectations (expectation of price growth in the future increases current demand and vice versa);
- prices for related products. If the price of a substitute product (an interchangeable product) rises, then the demand for it decreases, and for its substitute, it increases. For example, an increase in the price of butter leads to a decrease in demand for it and an increase in demand for margarine. If the price of a complementary product (supplement) rises, then the demand for both this product and the supplement decreases. For example, the rise in gasoline prices forces the owner of the car to use it less, and therefore the demand for gasoline, as well as for oils, brake fluid, etc., decreases;
- market volume. The more developed the market is, the more it encourages economic agents to search for new sources of income to increase their effective demand;
- climatic conditions (in the resort area in late spring, summer and early autumn, the demand for bathing suits, excursion services, etc. is growing).

It is necessary to distinguish between the concepts of «change in the volume (value) of demand» and «changes in demand». Changes in the volume of demand occur due to price changes and are graphically characterized by the movement of a point along the demand curve.

Changes in demand caused by non-price factors change the position of the demand curve by shifting it to the left or right.

Let's depict the influence of non-price factors on the change in the position of the demand curve (Fig. 7.4).

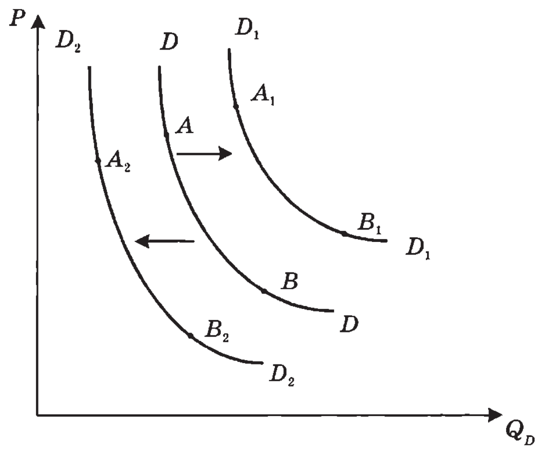

Figure 7.4. Displacement of the demand curve due to the influence on demand of non-price factors

A shift in the DD curve to D_1D_1 means that non-price factors cause an increase in demand, and a shift in DD to D_2D_2 means a decrease in demand.

The movement along the DD curve from point A to point B, along the D_1D_1 curve from A_1 to B_1, along the D_2D_2 curve from A_2 to B_2 reflects the change in the volume of demand under the influence of price. The movement from point A to point A_1, from A to A_2, from B to B_1, etc. means that demand is influenced by non-price factors.

7.2. Supply: content and factors affecting it

Supply is the volume of goods and services that manufacturers want and can put on the market at different prices for a certain period of time.

A stable causal relationship between the price and the volume of goods (services) that the producer is able to supply to the market is expressed by *the law of supply*.

The content of the law of supply is that the higher the price (all other things being equal), the more goods at this price the producers are ready to offer to the market within a certain period of time, and vice versa, the lower the price, the less goods the manufacturer wants and will be able to supply to the market.

The definition implies a direct relationship between the price and the supply of goods. Let us draw its supply curve by the letter S. To do this, we plot the supply volume (Qs) on the abscissa axis, and the price (P) on the ordinate axis.

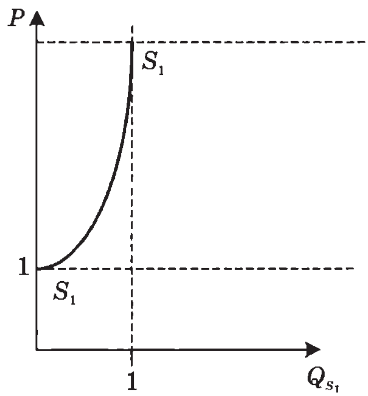

Figure 7.5. Supply Curve Chart

Supply, like demand, takes the form of not only individual supply, but also market supply. The market supply is defined as the total sum of individual offers, and the market supply curve consists of the aggregate of individual volumes of goods offered by all manufacturers of this product at a certain price.

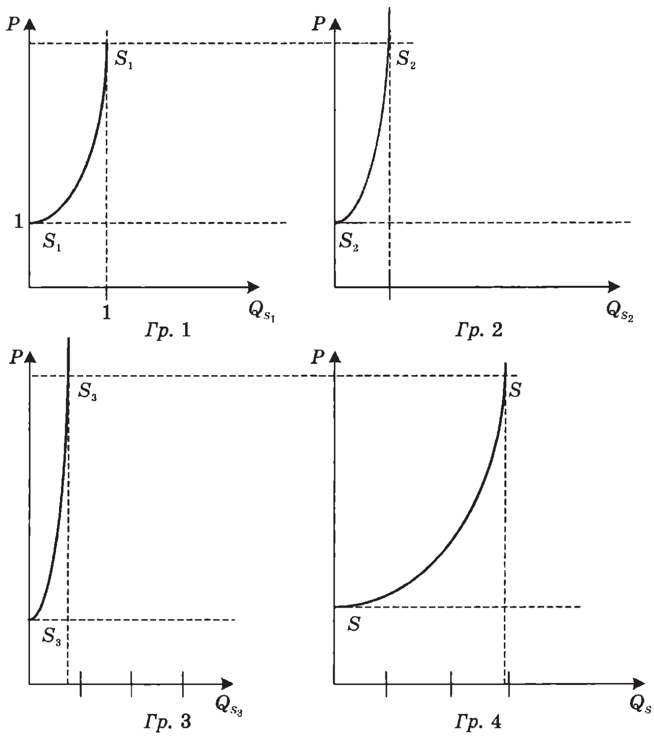

Figure 7.6. Market Supply Curve Chart

As you can see, the market supply curve SS is equal to the sum of the individual supply curves $S_1S_1 + S_2S_2 + S_3S_3$.

The movement of any point along the supply curve S (Fig. 7.6) reflects the change in the supply volume depending on the price.

Consider the factors causing the shift of the SS curve.

Non-price factors of influence on the offer.

Technological progress. The use of new technologies, for example, in the production of yoghurts, makes it possible to shorten the ripening period of the product, extend the shelf life of its useful properties, and reduce the unit cost. This contributes to the expansion of the supply of yoghurts on the market, so the SS curve shifts to the right.

Change in resource prices. The rise in prices for resources (other things unchanged) leads to an increase in production costs, an increase in prime cost forces the entrepreneur to reduce the supply of his goods. Therefore, the supply curve shifts to the left.

Changes in prices for related goods. If, for example, the price of margarine rises, but the price of yoghurt remains unchanged, then the yoghurt producer will look for an alternative way to use his resources and, probably, will direct them to margarine production, thereby reducing yoghurt production. This will shift the SS curve to the left.

Changes in fiscal policy. If the tax rate increases, the SS curve (other things being equal) will shift to the left.

Entrepreneurs' expectations. Optimistic expectations of entrepreneurs will contribute to the shift of the SS curve to the right, while pessimistic expectations will cause its shift to the left.

The shift in the SS curve can be influenced by changes in fashion and religious traditions (during fasting, for example, the consumption of meat and meat products decreases), etc.

7.3. Elasticity of supply and demand

So far, we have considered the influence of price and non-price factors on the supply and demand of goods, not counting the fact that individual goods or groups of goods are not equally sensitive to changes in prices and non-price factors.

The ability of one economic variable to respond to changes in another economic variable is called elasticity.

Quantitatively, elasticity is measured by an indicator called the coefficient of elasticity (E).

The coefficient of elasticity is a measure of the response of one variable to a change in another, expressed as a ratio of percentage changes. In other words, the coefficient of elasticity is the ratio of the percentage change in one value to the percentage change in another.

Distinguish between price elasticity of demand, income and cross elasticity. Let's consider each of them.

The price elasticity of demand (E_{Dp}) shows how many percent the volume of demand will change if the price changes by one percent.

If a change in price by 1% causes a change in the volume of demand that exceeds 1%, then this indicates the presence of **elastic demand** (EDr> 1).

If a 1% price change causes a smaller change in the volume of demand, then there is an **inelastic demand** (EDr <1).

If a 1% change in price causes the same 1% change in demand, then there is **a unit elasticity of demand** (EDr = 1).

If the change in price does not affect the change in the volume of demand, there is **a completely inelastic demand** (EDr = 0).

If an infinitely small change in price leads to an infinite increase in the volume of demand, there is **an absolutely elastic demand** (EDr→ ∞).

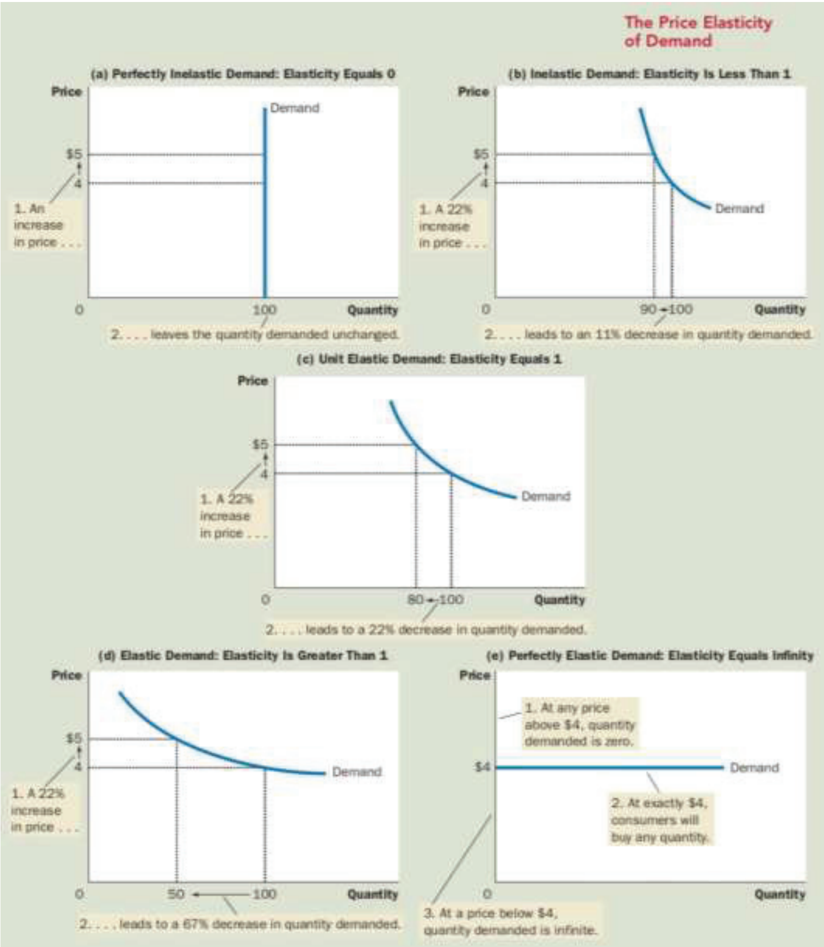

Figure 7.7. Demand types by elasticity

Price elasticity affects *the amount of income* (sales proceeds), which is defined as the product of the unit price of the product by the quantity of the product sold.

For elastic demand, a 1% decrease in price causes a significant increase in the volume of demand (sales), therefore, sales revenues increase.

For inelastic demand, a 1% decrease in price results in less than 1% increase in demand, so the total sales revenue decreases.

For a unit elastic demand, a change in price leads to exactly the same change in demand, so the total sales income remains unchanged.

On the last two situations - absolutely inelastic and absolutely elastic demand - the law of demand does not apply. These extremes are less practical than theoretical, although demand is sometimes completely inelastic. An example is insulin for insulin-dependent diabetics or anti-asthma drugs for asthmatics. That is, we are talking about goods that are extremely important for life support, the price of which does not restrict demand. It can only be limited by the consumer's income level.

It is much more difficult to give an example of perfectly elastic demand. Economic theory also describes a situation where a decrease in price leads to a decrease in demand for a product, and an increase in price leads to its growth. Such a situation is called the R. Giffen effect, and goods, the demand for which reacts to price changes, are called R. Giffen goods (the English economist R. Giffen was the first to study this effect). The demand curve for R. Giffen's goods would have a positive rather than negative slope.

In order to describe the influence of factors on the price elasticity of demand, one should consider the structure of goods in terms of their sensitivity to price changes. To do this, from the total mass of goods, it is necessary to distinguish interchangeable goods (substitute goods) and complementary goods (complement goods).

Fungible goods are goods that are able to satisfy the same need independently of each other. (For example, the need for fats can be satisfied with either sunflower oil or margarine.)

Complementary goods are those goods, the consumption of one of which necessarily requires the consumption of others. (For example, using the useful properties of a car is impossible without the use of oils, gasoline, brake fluid, etc.)

Substitute goods and complement goods react differently to changes in the associated goods.

For substitute goods, an increase in the price of one product causes an increase in the volume of demand for another (paired) product. An increase in the price of butter will lead to an increase in the consumption of margarine.

For complementary goods, an increase in the price of one product is accompanied by a decline in demand for another (related) product. The rise in the price of gasoline will force the owner of the car to use it less, as well as to consume less not only gasoline, but also oils and other related products.

Factors affecting the price elasticity of demand.

The value of the product for the consumer. The goods that the consumer cannot do without are price-inelastic. Essentials are inelastic and luxury goods are elastic.

Availability and availability of substitute goods. The more goods-substitutes are available to the consumer, the more elastic the demand for goods-substitutes, the price of which changes, and vice versa.

The importance of complementary goods in the general structure of consumption. Thus, the rise in electricity prices may affect the reduction in consumer demand for electric pumps to a greater extent than for lubricants for pumps.

Time factor. In the long run, the demand for goods is more elastic than in the short run, for the following reasons:

a) the reaction of consumers to changes in the prices of goods, the consumption of which was traditional and long-term, requires a certain adaptation period. For example, the Ukrainian family is traditionally accustomed to consuming more pork than poultry meat, so the prevalence of the latter in consumption cannot occur simultaneously, but gradually;

b) an entrepreneur also cannot instantly respond to an increase in the price of a certain product and offer substitute goods to consumers, since the establishment of production of substitute goods requires a certain amount of time;

c) a long-term change in the price of goods, the consumption of which occupies a significant share in income, requires a long time to find an alternative source. For example, the limitations of traditional fuel for thermal power plants and the rise in prices for it forced the use of fuel for nuclear power plants, which required fundamental scientific research.

Cross elasticity of demand

The presence of substitute goods and complement goods forms the response (sensitivity) of consumers regarding the volume of demand for related goods. If the price changes for one of the commodities of the pair, then this requires investigation of the cross elasticity of demand.

Cross-elasticity of demand is the sensitivity of consumer demand for good A to changes that have occurred in the price of related good B.

The coefficient of cross-elasticity of demand is the ratio of the percentage change in demand for good A to the percentage change in the price of good B.

Income elasticity of demand

Investigation of the income elasticity of demand requires an analysis of the structure of goods from the standpoint of dividing them into normal and lower ones.

Normal goods are goods for which demand increases as consumer income rises.

Goods below normal are goods for which the demand for which decreases as the income of consumers grows (low-quality goods, repair services for clothes and shoes, etc.).

The income elasticity of demand shows the degree of change in demand for a product due to changes in consumer income.

The coefficient of the income elasticity of demand is defined as the ratio of the percentage change in the volume of demand for a product to the percentage change in the volume of consumer income.

The division of goods into lower and normal does not contain any internal reason. It is caused by consumer behavior as a response to changes in demand due to changes in income. Therefore, the consumer classifies this or that product (service) as inferior or normal.

Elasticity of supply

The phenomenon of elasticity is characteristic not only of demand, but also of supply.

Elasticity of supply is the sensitivity of supply to changes in the price of goods that the entrepreneur is willing to put on the market.

The entrepreneur's behavior in changing the volume of goods offered to the market is influenced primarily by the price. The price elasticity of supply is defined as the ratio of the percentage change in the volume of supply to the percentage change in the price of the product.

The elasticity of demand is also influenced by the time factor and the interchangeability of factors of production (an increase in the price of one of the factors that can be replaced by another, cheaper one, leads to a reduction in the entrepreneur's costs and an increase in supply).

7.4. The interaction of supply and demand. Market equilibrium

When entering the market, sellers and buyers plan their activities, relying on their own experience and information that the market provides them primarily due to the price. Each entity carries out such planning separately. Sometimes the market finds that consumers have miscalculated their consumer expectations because entrepreneurs offered fewer items than buyers were willing to buy at a set price. Another situation is possible, when entrepreneurs offer a larger volume of goods than consumers are willing to buy at a price set by them.

The situation in the market when entrepreneurs offer at a certain price as many goods as consumers are willing to buy is called market equilibrium.

In other words, market equilibrium occurs when supply and demand are balanced at a certain price (Figure 7.8).

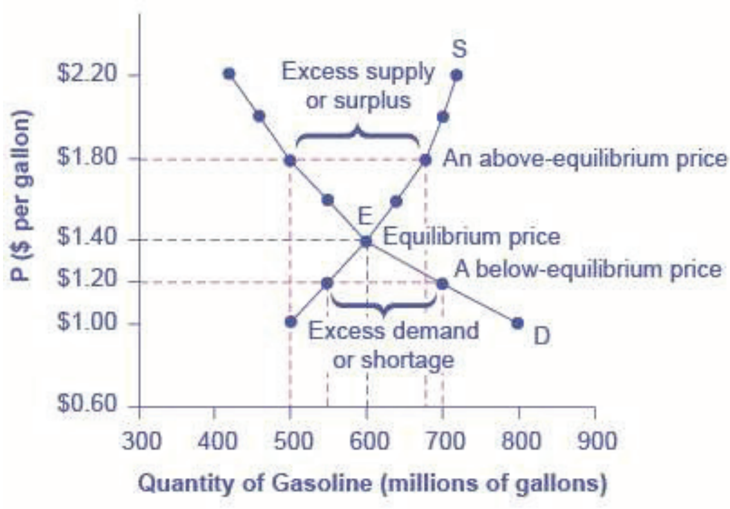

Figure 7.8. Market equilibrium of supply and demand

On the graph, equilibrium is represented by point E, where the demand (D) and supply (S) curves intersect.

This equilibrium point corresponds to the equilibrium price PE and the equilibrium supply and demand volume QE.

The equilibrium price PE is the price at which, as a result of competitive forces, sellers offer as many goods as buyers are willing to buy. If the price rises above the equilibrium level, that is, it moves up to the point $1.80, then the following changes will occur in the market: the volume of demand will decrease, moving to the left of $600 mln. to $500 mln., and supply will grow from $600 mln to $670 mln. A surplus of offered goods is formed.

If the price falls below the equilibrium level, then the demand will grow from QN to QDK, and the supply will decrease from QN to QSK. The vertical shaded figure graphically depicts the scarcity of goods in the market.

To restore equilibrium, in the first case, the price must fall, and in the second, it must rise and return to the PN price level.

The equilibrium price is not simply the price at which purchases and sales are balanced. This equality always takes place, because you cannot buy more than they can sell, and vice versa, sell more than they can buy. The equilibrium price means that buyers are motivated to continue to purchase goods in the volumes in which producers agree to continue supplying them to the market.

Distinguish between partial equilibrium in an individual market and general market equilibrium.

As already noted, the prices of goods are in constant motion: a change in the price of one good affects the volume of supply and demand for another, and this, in turn, affects the equilibrium price. If the entire price system is in equilibrium, then general market equilibrium occurs.

Equilibrium conditions do not induce economic agents to change their economic behavior. In order for the motives for such a change to arise, it is necessary that the external conditions change: technologies, expectations, price levels, etc.

So, the state of both partial and general equilibrium is a theoretical abstraction. In real life, such an economic situation occurs only occasionally and the balance is very quickly disturbed. However, understanding the mechanism for establishing and disrupting equilibrium is extremely important for understanding the laws of the functioning of the economic system, the impact of economic policy on it and adjusting the latter.

Topics for reports to Section 7

1. Problems of commodity deficit from the point of view of market equilibrium and the law of supply and demand.
2. Sale of enterprises in Ukraine: supply and demand.
3. Labor market: supply and demand.
4. Demand and supply of credit resources in Ukraine.

Theoretical questions to Section 7

1. What is common and different, from your point of view, in terms of «need» and «demand»?
2. What does it mean to move a point along the demand curve?
3. The relationship of what phenomena expresses the law of demand?
4. What do the concepts «change in the volume of demand» and «changes that took place in demand» mean?

5. What factors influence the shift in the demand curve? When happens

offset to the left, and when - to the right?

6. Give the definition of the category «offer». What does the offer function look like?

7. What does it mean to move a point along the supply curve?

8. Compare the demand curve and the supply curve.

9. What does a supply curve shift mean and what factors determine it?

10. What does the term «elasticity» mean in economic theory?

11. Describe the price elasticity of demand for different groups of goods.

12. Describe the income elasticity of demand for lower and normal goods.

13. Define the cross-elasticity of demand and show its effect on substitute goods and complement goods.

14. What is supply elasticity? How is it determined?

15. What is the mechanism for establishing partial and general equilibrium in the market?

16. What is the equilibrium price? What functions does it perform?

17. How does price deviation from equilibrium affect equilibrium?

Test tasks 7

1. Between a change in the amount of demand and a change in price:

a) direct dependence;

b) inverse relationship;

c) depends on market conditions;

d) does not depend on the price.

2. Between the change in the amount of supply and the change in price:

a) direct dependence;

b) inverse relationship;

c) depends on market conditions;
d) does not depend on the price.

3. The term «demand» in economics means:
a) solvent need;
b) social lack of demand;
c) monopolistic competition;
d) the substance of nature, which a person influences in the process of labor.

4. The content of the supply law is as follows:
a) the higher the price (all other things being equal), the more goods at this price the producers are ready to offer to the market within a certain period of time;
b) the lower the price (all other things being equal), the more goods at this price the commodity producers are ready to offer to the market within a certain period of time;
c) the more equilibrium the price (all other things being equal), the more goods at this price producers are ready to offer on the market within a certain period of time;
d) the higher the price (all other things being equal), the less goods at this price producers are willing to offer to the market within a certain period of time.

5. Changes in demand caused by non-price factors change the position of the demand curve, shifting it:
a) up or down;
b) up and to the right or up and to the left;
c) down and right or down and left;
d) left or right.

6. What kind of demand elasticity does not exist:
a) cost elasticity of demand;
b) income elasticity of demand;
c) price elasticity of demand;
d) cross elasticity.

7. With the price elasticity of demand EDr = 0, the following is observed:

a) inelastic demand;
b) completely inelastic demand;
c) elastic demand;
d) absolutely elastic demand.

8. Such a non-price factor of influence on the supply volume as technological progress through the use of new technologies will shift the supply curve:

a) up;
b) down;
c) to the right;
d) to the left.

9. If the actual price in the market exceeds the equilibrium price level:

a) leads to an increase in the price of the factors of production of this product;
b) there is a shortage of goods;
c) there is an excess of goods;
d) the actual price continues to rise.

10. The Robert Giffen effect is when:

a) a decrease in price leads to an increase in demand for the product, and an increase in price leads to its reduction;
b) a decrease in price leads to a decrease in demand for a product, and an increase in price leads to an increase in it;
c) both a decrease and an increase in prices leads to an increase in demand for the goods;
d) and a decrease and an increase in prices leads to a decrease in demand for the goods.

Practical tasks 7

Task 1

Table 7.1 presents data characterizing the situation on the market for a product (coffee).

Table 7.1. Initial data

Price, $	Demand (D)	Supplay (S)
8	70	10
16	60	30
24	50	50
32	40	70
40	30	90

It is necessary:

a) build a curve of supply and demand according to the table;

b) find what the equilibrium price will be equal to;

c) determine what will happen on the market if the price of ground coffee is set at $32.

Task 2

The demand function has the form: Qd = 200 - 0.5P,

the supply function: Qs = 2p - 50.

Calculate the parameters of market equilibrium (price - UAH, volume - thousand units).

Section 8
COMPETITION AND MONOPOLY IN THE MARKET ECONOMY

8.1. Competition, its essence and economic foundations. Competition law
8.2. Types of economic competition
8.3. Competitive methods
8.4. Monopoly: causes, essence and main forms
8.5. Antimonopoly policy of the state

8.1. Competition, its essence and economic foundations. Competition law

The development of the countries of the world shows that the effective functioning of a market economy is due to the presence of competition, in which all business entities have equal opportunities to carry out economic activities.

Competition is a powerful tool of the market economy, a driving force that forces commodity producers to increase production efficiency, reduce production costs, improve the quality of products (goods, works, services), accelerate the introduction of the latest advances in science and technology, and carry out organizational and structural changes in the course of business. The degree of development of economic competition is one of the decisive criteria for the development and civilization of market relations.

What is competition?

Competition - economic rivalry, the struggle between business entities for the best conditions for the production and sale of goods and services in order to obtain the greatest possible profit.

Consequently, *the task of competition* is the rivalry of market actors for the realization of their own interests by acquiring economic competitive advantages in comparison with their rivals.

The main conditions for the emergence and existence of competition are:

- the presence on the market of an unlimited number of independent producers and buyers of goods or resources;
- freedom of producers to choose their economic activities;

- absolutely free access of economic agents to the market and the same free exit from it;

- a certain correspondence between demand and supply; lack of overproduction and shortages;

- absolute mobility of material, labor, financial and other resources;

- lack of agreements between suppliers and consumers of resources that can restrict competition;

- availability of complete information on demand, supply, prices, rate of return, etc., to each competitor.

At the present stage of development of a market economy, competition is defined as the process of using already known (above) conditions and the discovery and use of new development conditions.

In its development, competition has gone through a complex evolutionary path - from simple to complex modern forms.

<u>Modern factors in the development of competition can be considered:</u>

- general economic - the general level and dynamics of production; the state of business activity; the state of the markets; availability and structure of resources; the development of the credit and financial system;

- technological - the sectoral structure of the economy; the level of dissemination of modern technologies; the presence of a technological leader in the economy; the economy's susceptibility to innovation;

- institutional and social - the existence of legal norms of economic activity; the creation of market institutions; public policy objectives; the degree of government intervention in economic processes; national traditions; mentality and spiritual values of the people; general and professional culture; political, economic and social stability in society;

- international - business activity in international markets; actions of international economic organizations; stability of the global financial system.

The economic basis for the development of competitive relations in the post-socialist countries and in Ukraine, in particular, was demonopolization, privatization processes, denationalization of property, stimulation of entrepreneurial initiative, development of small and medium-sized businesses, attraction of foreign capital to the domestic economy, liberalization of trade and foreign economic activity.

The economic law of competition.

Competition has no subjective disadvantages. In the process of competition between the subjects of production and sale of goods, significant and stable relationships arise, which indicate that competition is not a subjective and not an accidental phenomenon, but an objective economic force, which takes the form of the economic law of competition.

The law of competition expresses internally necessary, stable, significant cause-and-effect relationships between economic agents in the struggle for the most favorable conditions for the production and sale of goods in order to obtain the greatest profit.

The law of competition and each form of its manifestation have internal contradictions: between producers and consumers; between different enterprises; between different consumers; between small, medium and large enterprises for the realization of their needs and interests. All business entities act independently of each other, each of them strives to realize its economic interest - to receive income in the presence of different production costs and differences in the consumer values of goods. However, the market cannot create uniform conditions for the realization of the interests of all producers, since the laws of the market are in force, and consumers choose only those goods that correspond to their interests.

So, objectively, a contradiction arises between the conditions for the production of goods and the possibilities of their sale with the receipt of the desired profit. This contradiction is resolved through the law of competition. It is competition that affects the costs of production of goods, their prices, and, consequently, the amount of profit.

The content and role of the law of competition in a market economy is more fully manifested through the functions that it performs.

Pricing function. This is one of the most important functions of competition. The peculiarity of this function is expressed in the fact that competition affects the level of individual production costs of any product, reducing them to socially necessary costs, which determine the equilibrium market price of the product.

So, competition is the mechanism that sets the price at the level at which market equilibrium and the sale of goods are achieved.

Regulation function. Focusing on competitively determined market prices, entrepreneurs direct their capital from low-income industries to those industries whose goods are in demand and provide more profit. As a result of the transfer of capital resources between industries, an appropriate balance is achieved between production and needs, and the necessary proportions in social production are formed. Thus, the competitive mechanism of the law performs a regulatory function.

Stimulation function. Competitive struggle for the highest profits encourages producers to use new equipment and technologies, introduce efficient forms of labor and production organization, use resources more economically, update products, improve their quality, and reduce prices. All this stimulates scientific and technological progress, promotes the search for more efficient methods of production and sale of goods, the development of entrepreneurial initiative, and the improvement of the qualifications of personnel. This, in turn, increases the efficiency of the entire social production.

Control function. Competition controls the competitiveness of each manufacturer according to two main indicators of its activity:

- firstly, according to the correspondence of the individual production costs of its goods to the socially necessary costs of the production of similar goods;

- secondly, according to the correspondence of the consumer value of its goods (assortment) to public needs, that is, its usefulness for society.

If a commodity is sold on the market at a price established on the basis of competition, which reimburses production costs and brings income, then this indicates that the commodity producer works according to socially normal conditions of production. So, the competitively established market price is for them the standard of rational management.

The law of competition carries out these functions through its relationship with the law of value, the law of supply and demand, the law of growth in labor productivity and other laws of the market economy.

It should be noted that the law of competition determines not only the relationship between producers and their interests, but also protects the interests of consumers, providing them with a wide selection of goods and services at affordable competitive prices.

Function of differentiation of commodity producers. Producers as subjects of competitive market relations of equal economic opportunities may have different final results of their activity. Producers can achieve the desired results only under the condition of civilized competition, when each of the market participants can compete and defeat competitors due to their own preferences.

If enterprises do not strive for a constant increase in production efficiency, their individual production costs will be higher than socially necessary ones, they will be uncompetitive and become bankrupt. And vice versa, competition encourages and creates conditions for the further development and prosperity of those commodity producers who use production resources most efficiently to obtain the best end results.

Accordingly, there is a differentiation in the distribution of income between producers. This is in line with the prevailing principle of competition: «Different rewards for different results».

The negative consequences of competition are that it gives rise to its opposite - monopoly; leads to the ruin and bankruptcy of small and medium-sized enterprises; increases the growth of unemployment, inflation, property and social stratification of the population; generates commercial secrets, dishonest forms of struggle, etc.

Overall, however, competition has more positive effects than negative ones. In addition, in order to limit the negative consequences of competition and enhance its positive results in developed countries, a state competition policy is being implemented, aimed at creating favorable conditions for the development of competition and preventing unfair actions in the struggle. In general, competition has been and is the most important element of the market economy mechanism, the driving force behind its effective development.

8.2. Types of economic competition

Competition, as we know from the previous paragraph, is a complex and multifaceted category of a market economy. It is very difficult to cognize it without a deep analysis of the structure, that is, the species of which it consists and which interact with each other. To do this, you should distribute the competition among species according to certain criteria.

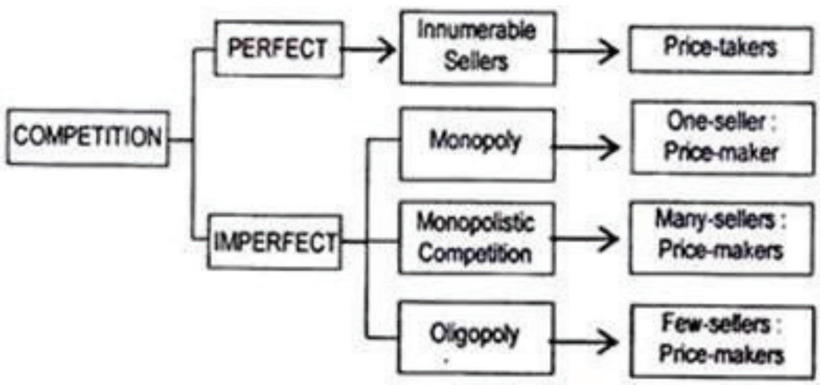

Figure 8.1. Classification of types of competition

Perfect competition is a market situation in which numerous independently operating producers sell identical products and none of them is able to control the market price.

A perfectly competitive market is characterized by the following features:

- the presence of a large number of sellers and buyers, none of which affects the market price, which is formed on the basis of supply and demand;
- each manufacturer produces a homogeneous (standardized) product that does not differ from the product of other sellers;
- barriers to entry into the market are minimal or nonexistent;
- there are no artificial restrictions on demand, supply, movement of resources;
- each seller and buyer has complete information about the demand, supply and price of goods on the market.

In the conditions of perfect competition, there is no fight with a specific competitor. It confronts the firm with the market. The market is completely impersonal. All competitors are independent of each other, the actions of an entrepreneur depend not on the actions of an individual competitor, but on the market as a whole. Competitive behavior is shaped in such a way that producers must respond quickly to changes in general market conditions.

The market of perfect competition is rather an ideal model of the market, in which the markets of classical capitalism of the 18th-19th centuries approached, when their subjects were scattered and relatively small enterprises. However, in the real conditions of modern management practice, competition in its pure form almost does not exist. *Imperfect competition* is more typical of the vast majority of today's markets.

Imperfect competition arises where the above conditions of free competition are not met. The main sign of imperfect competition is the ability of individual market participants to influence prices to a certain extent and thereby receive additional profit.

There are three market structures of imperfect competition: the market of absolute monopoly, the market of monopolistic competition, the market of oligopolistic competition.

Absolute monopoly is a situation in which there is only one seller and many buyers on the market who have no choice, and therefore are forced to purchase the necessary goods at the proposed price.

Monopolistic competition is a situation in the market when a large number of manufacturers offer similar, but not identical products, i.e. it is based on product differentiation.

Monopoly competition synthesizes some of the features of perfect competition and monopoly.

It resembles perfect competition in two ways:

- a large number of sellers and buyers;

- Entry to and exit from the market is practically free, although there are some obstacles.

The difference lies in the fact that with perfect competition, products are identical (standardized), and with monopolistic competition, they are differentiated (heterogeneous).

Oligopolistic competition is a model of a market structure in which few large firms monopolize the production and sale of the bulk of goods.

An oligopoly is characterized by the following features:

- a small number of enterprises in the industry that can control the main part of the market, producing both homogeneous and differentiated products;
- high barriers to entry into the industry;
- high interdependence of oligopolistic enterprises from each other both in price and in production;
- price control is essential in case of coordination of actions of competing enterprises.

Oligopolistic enterprises have the ability to realize their superprofits based on understanding their interdependence and predicting the reactions of competitors in the process of making decisions about the volume of production or the level of prices for their products. They are ready to go either as an oligopolist - a «price leader», or to join the general course in the market and coordinate their behavior with other enterprises. Awareness of the dependence of the behavior of each oligopolistic enterprise on the reaction of competitors is called "oligopolistic rationality".

Oligopoly is the leading market structure of the modern economy, which accounts for most of the output in developed countries.

Western economic literature argues that in modern oligopolies, the main force that forces sellers to listen to the demands of buyers and not to raise prices excessively in comparison with the level of costs is not competition between them, but a certain opposition from strong oligopolistic buyers.

8.3. Competitive methods

In a competitive market, rivals use different methods of struggle: price, non-price, dishonest (unfair) and honest (conscientious).

Historically, competition in a market economy began with the use of predominantly methods of price competition.

Price methods of competition are competition in which price is the main means of struggle.

In price competition, the winner is the one who achieves a lower product price than competitors. This is, in fact, a struggle to reduce production costs through the use of the achievements of scientific and technological progress, the scientific organization of labor, increasing its productivity, etc.

Depending on the forms and goals of competition, the following types of prices are formed: monopoly high, monopoly low, dumping, discriminatory.

A monopoly high price is a kind of market price for a good or service that is set by the monopolies above the value of the good and provides them with a profit. This price is set as a result of the production by monopolies of the overwhelming number of goods or services of a certain type, their restriction of competition, and the achievement of a dominant position in the market. In this case, monopolists restrict competition, violate consumer rights and thus receive high profits.

The practice of establishing monopoly high prices leads to a decrease in the effective demand of the population, a decrease in their real income. At first glance, sellers should be interested in high prices for their products in order to receive higher incomes (which, in principle, corresponds to reality), but in the conditions of modern competition this principle is somewhat modified. The presence of competitors on the market keeps sellers from setting ultra-high prices for their products for a long time. The general rule can be formulated as follows: the more sellers competing with each other on the market, the lower the prices on it (all other things being equal), and vice versa: the less competition in the market between sellers of a certain product, the higher the price for it (all other things being equal conditions).

A monopoly low price is set for goods and services that are purchased by large companies, for component parts in small and medium-sized companies through a contract system; for raw materials purchased from developing countries; for goods manufactured in the public sector of the economy, etc.

Dumping prices are very low prices for goods when they are sold in domestic and foreign markets in order to ruin and eliminate competitors from already mastered markets, over time, makes it possible to compensate for their losses by a significant increase in the prices of goods.

Discriminatory prices are different prices for the same product for different buyers. That is, by establishing different approaches to customer service, the firm carries out price discrimination. There are three types of price discrimination.

First degree price discrimination, or absolute price discrimination, exists when the consumer is set an individual price at the level of his willingness to pay for the good, that is, the highest price at which the consumer agrees to purchase a certain unit of a good or service.

Price discrimination of the second degree consists in setting different prices for different quantities of the same product. This method of discrimination, as in the previous case, uses a descending market demand curve, reflecting a decrease in the buyer's willingness to pay the same price as the volume of purchases increases.

Price discrimination of the third degree (in segmented markets) is introduced by a monopolist when it is possible to identify several separate groups of consumers with different elasticities of demand, that is, to determine the so-called market segments. Thereafter, those buyers whose demand is significantly inelastic will be offered a higher price, and those whose demand is elastic - a lower price.

This is the most common type of price discrimination. Of course, in this case, too, the monopolist gets the opportunity to increase his own income.

Elements of the so-called hidden price discrimination take place when selling goods with an additional «load», with a «gift», with a «low price» for regular customers, seasonal sales, etc.

In the conditions of modern competition, non-price methods of competition prevail.

Non-price competition is a competitive strategy that is not aimed at change, but at creating prerequisites that improve product sales.

This means that when developing a strategy and tactics of behavior in the market, the company first of all cares about the fact that the created products, in terms of their consumer qualities, meet the needs of consumers. Therefore, an indispensable condition for the economic policy of the company is to take into account the dynamics of consumer expectations. And within the framework of these parameters, it determines ways to reduce costs and reduce prices.

Non-price methods of competition are divided into two types: competition on products and competition on terms of sale.

Competition for products provides for the spread of such non-price characteristics of goods as improving their quality while maintaining prices, increasing operational reliability, updating the range, conformity of goods to international standards, etc.

Competition in terms of sale involves the distribution and improvement of services related to the sale of goods.

These include:

- sale of goods on credit;
- extension of the warranty service period;
- free delivery of goods to your home and installation;
- free consultations on the use of the purchased product;
- sale of goods with provision of spare parts for them;
- intensive use of advertising that proves the advantages of the seller's products;
- opening repair shops and service centers that carry out warranty repairs, and routine maintenance of the sold goods.

Leading firms provide other pre-sales and after-sales services to buyers of their products.

Unfair competition is an uncivilized form of competition, which is manifested in the violation by the subjects of market relations of the current legislation, professional, ethical, moral norms and rules of conduct in order to achieve unlawful advantages in competition.

The most common methods of unfair competition are as follows:

– Misuse of other manufacturer's product designations;
– Disinformation of consumers about the product;
– Compromise of competitors' products;
– Pressure on resource suppliers and banks;
– Unlawful collection, disclosure and use of trade secrets about the activities of a rival – competitor;
– Poaching leading specialists from competing firms.

Sometimes some dishonest methods of competition turn into criminal offenses: blackmail, arson, explosions and murder.

All this necessitates government intervention in regulation and elimination of unacceptable forms of competition.

8.4. Monopoly: causes, essence and main forms

Free competition, as one of the dynamic forces of economic development, operated in the 18th-19th centuries. By that time, monopolies were an exception, they existed mainly in the sphere of circulation and did not significantly affect the process of social reproduction. However, at the turn of the XIX-XX centuries. a stormy process of formation and development of monopolies began, which took a dominant position in material production and the non-material sphere. At the same time, there was a transition from free competition to the rule of monopolies.

What are the reasons for the emergence and development of monopolies?

First, the operation of the law of competition. The law of competition and each of its functions are subordinated to the achievement of the main goal of production - to maximize profits. To maximize profits, the manufacturer must constantly increase the volume of production and sales of goods, gradually eliminate its competitors. In the end, the manufacturer seizes and controls most of the production and sale of goods, turns into a monopolist. This indicates that competition gives rise to its antipode - monopoly. Competition and monopoly always exist in a real market economy as two opposite characteristics.

A monopoly position is desirable for every entrepreneur. It allows him to avoid a number of problems and risks associated with competition, to take a privileged position in the market. By concentrating a certain economic power in their hands, they have the opportunity to influence other market participants from a position of strength, impose their conditions on them and achieve the greatest benefits.

Secondly, the reason for the emergence of monopoly is the operation of the law of concentration of capital and production.

Capital concentration is the process of increasing the size of individual capital through capitalization of profits, i.e. using a certain part to expand production.

Therefore, a consequence of the concentration of capital is the concentration of production. Competition is the driving force behind this process. As a result of competition, from the mass of small and medium-sized enterprises, several of the largest ones stand out, which become monopolies. Thus, a chain is created: competition gives rise to concentration of production, and this concentration at a certain stage of its development leads to monopoly.

Third, the reason for the creation of a monopoly is the process of centralization of capital.

Centralization of capital is an increase in the size of capital due to the absorption or combination of several previously independent individual capitals into one, larger one.

One of the main forms of capital centralization is the creation of joint stock companies.

So, the concentration and centralization of capital and production created an objective necessity and the possibility of the emergence of monopolies, became their economic basis.

Fourth, the reason for the emergence of monopolies is the transformation of individual private property.

In the last third of the XIX century the organizational and economic structure of production was represented mainly by small and medium-sized enterprises of individual private property, which became a brake on the development of productive forces. At this time, significant achievements of scientific and technological progress made it possible to build railways, seaports, canals, large factories, and other large facilities. However, no individual capitalist had the necessary capital to finance such projects.

So, a new form of ownership was needed that could solve these problems. It became a large joint stock property, which combined the capital of several enterprises.

Fifth, the economic crises that in the second half of the XIX century became a factor in the acceleration of concentration and centralization of production and the creation on this basis of monopolies.

The consequence of economic crises is massive ruin and bankruptcy of small and medium-sized enterprises. Some of them are forcibly absorbed by big capital, while others are forced to agree to unite in order to avoid ruin. The interrelation of these two phenomena, crises and monopolies, shows one of the reasons for the accelerated monopolization of the economy.

8.5. Antimonopoly policy of the state

Monopolies and the process of monopolizing the economy have significant negative consequences:

- firstly, monopolies suppress competition - an important driving force of economic progress;
- secondly, they are able to increase revenues by reducing the volume of output and increasing its price;
- thirdly, they tend to slow down scientific and technological progress;
- fourthly, they are susceptible to the predatory use of natural resources and environmental pollution;
- fifthly, they ruin small and medium-sized businesses;
- sixth, they monopolize the mass media (print, radio, television), with the help of which they influence the consciousness of the population in the direction they need;
- Seventh, they put pressure on the government in search of illegal benefits and privileges, etc.

However, monopolies also have significant positive features.

Thanks to the appropriation of high profits, monopoly structures have more opportunities to finance research and development, introduce new equipment and technology, and retrain employees. In addition, the «scale of production» effect of large enterprises allows them to produce cheap and quality products. Large enterprises are more resilient in crisis conditions, which reduces the unemployment rate and social tension in society.

Therefore, modern economic science believes that one cannot equate the concept of «monopoly» with the concept of «large enterprise», even if it has a high share of production and sales of products. Only an enterprise that uses market power - dictates prices in the market, suppresses competition and carries out other negative actions - should be considered a monopoly. The state implements an antimonopoly policy against such monopoly enterprises in order to prevent the abuse of their monopoly position.

Antimonopoly policy is a set of measures developed and implemented in many countries of the world aimed at stopping, preventing and limiting the activities of monopolies, as well as creating the corresponding legislation.

American and European antitrust policies have their own characteristics:

- American - directed mainly against monopoly as a structural unit;
- European is of a regulatory nature and is aimed mainly at counteracting the negative manifestations of the market power of monopolies.

In modern conditions, the national and supranational levels of competition law in Europe are created in the context of integration processes in the economy and the strengthening of international competition. Each country of the European Union has a national competition law coordinated with the pan-European one. The EU competition policy is regulatory in nature, i.e. directed against unscrupulous monopolistic practices.

In recent years, EU competition policy and competition law have undergone significant changes compared to the early 1960s, when a common European competition policy was formed. New approaches to competition policy are based on a new - more economical than legal - approach to the content of competition and competitive relations.

Japan's antitrust laws are considered «tough» because they are based on the Law on the Prohibition of Private Monopoly and Enforcement of Fair Deals.

The main content of *the current stage of antimonopoly policy in Ukraine* is the protection of the already created competitive environment, increasing the efficiency of the functioning of existing competitive relations.

This led to the transformation of the antimonopoly policy of the state into competition policy, and the antimonopoly law into competition law.

Competition policy is a system of state measures to create and develop a competitive environment, regulate competitive relations and the competitive process in order to support and encourage economic competition, combat the negative consequences of monopoly, protect the legitimate interests of entrepreneurs and consumers, promote the development of civilized market relations, create a competitive domestic production.

State control over the observance of competition law, protection of the interests of entrepreneurs and consumers from violations thereof is carried out by the **Antimonopoly Committee of Ukraine** in accordance with its powers determined by law.

The main tasks of the Antimonopoly Committee of Ukraine are:

- implementation of state control over compliance with legislation on the protection of economic competition;
- prevention, detection and suppression of violations of competition legislation;
- control over economic concentration;
- promoting the development of fair competition.

Methods for implementing antimonopoly policy include:

- legal: adoption of relevant legislative and regulatory acts;
- organizational and control: development and organization of the implementation of measures aimed at preventing violations of competition law; monitoring, inspections, appointing expertise;
- administrative-imperative: compulsory separation of economic entities, application of sanctions, imposition of fines;
- prophylactically explanatory: informing, making proposals, providing recommendations, preliminary conclusions regarding violations, clarification on the qualification of violations.

To determine the monopoly position of economic entities in the market, certain quantitative indicators are used. So, in Ukraine, a position is considered monopoly if the market share of one enterprise exceeds 35%, three - 50, five - 70%.

For abuse of a monopoly (dominant) position, the Law of Ukraine «On the Protection of Economic Competition» establishes the following types of liability:

- fines;
- compulsory division of monopoly entities;
- administrative responsibility;
- compensation for damage.

The legal basis for competition policy is competition law.

Competition legislation is a set of laws, regulations and instructions that determine the legal framework for supporting and protecting economic competition and limiting monopoly in business.

The activities of the Antimonopoly Committee of Ukraine are based on the principles of legality, transparency, protection of the rights of business entities on the basis of their equality before the law and the priority of consumer rights.

So, it can be argued that in Ukraine today there is a legislative base and organizational foundations for the implementation of an effective state competition policy. However, life and the deepening of market reforms constantly create new problems in the field of competition policy, which require new approaches to their solution. Therefore, the issue of limiting monopoly, supporting and developing economic competition should continue to be an important element of the state's economic policy.

Topics for reports to Section 8

1. Regularities of the emergence of monopolies.
2. Competition and monopoly in a modern market economy.
3. The experience of highly developed countries in the regulation of the economy.
4. Ukrainian economy on the way to creating a market system.
5. Antimonopoly policy of states and its essence.

Theoretical questions to Section 8

1. What is the essence and role of competition in a market economy?
2. Expand the essence of the law of competition.
3. What are the main conditions for the emergence of economic competition?
4. What is the difference between perfect competition and imperfect competition?
5. What are the most important features of the markets of monopolistic and oligopolistic competition?
6. Describe the main methods of competition.
7. What are the main reasons for the emergence of monopolies?
8. What is the essence of monopoly?
9. What are the main forms of monopoly in the economy?
10. What are the main indicators and limits of monopolization of the economy.
11. Expand the content of the concept of «market power» monopoly.

12. Describe the main consequences of monopolization of the economy.

13. What is the essence and purpose of the state's antimonopoly policy?

14. What are the main functions of the Antimonopoly Committee of Ukraine.

Test tasks 8

1. A market situation in which numerous independently operating producers sell identical products and none of them is able to control the market price is called:

a) absolute monopoly;
b) monopolistic competition;
c) perfect (free) competition;
d) oligopolistic competition.

2. Competition is:

a) a situation in which the more equilibrium the price (all other things being equal), the more goods at this price the commodity producers are ready to offer to the market within a certain period of time;

b) a theory that ascribes to the money supply in circulation the role of a determining factor in the formation of economic equilibrium, the development of production and changes in the volume of the gross national product;

c) technological ratio, reflecting the relationship between the total costs of factors of production, on the one hand, and the maximum volume of production, on the other;

d) economic rivalry, the struggle between business entities for the best conditions for the production and sale of goods and services in order to obtain the greatest possible profit.

3. An important indicator of the concentration of industry sales is:

a) Lerner Index;

b) Herfindale - Hirshman index (Herfindale - Hirshtap Index - HHI);

c) coefficient (index) of market concentration (market concentration ratio - CRn);

d) the coefficient of supply elasticity.

4. What function of the law of competition does not exist:

a) the function of differentiation of commodity producers;

b) methodological function;

c) pricing function;

d) stimulation function;

e) regulation function.

5. The coefficient of competitiveness is determined:

a) the ratio of the market value of products to production costs;

b) the ratio of production costs to the market value of products;

c) the difference between the market value of products and production costs;

d) the product between the market value of products and production costs.

6. A monopoly, reflecting a situation where the demand for a particular product or service is better satisfied by one or more firms, is called:

a) administrative;

b) economic;

c) natural;

d) social.

7. The model of the market structure, in which few large firms monopolize the production and sale of the bulk of goods, is called:

a) absolute monopoly;

b) monopolistic competition;

c) perfect (free) competition;

d) oligopolistic competition.

8. Very low prices for goods when selling them in domestic and foreign markets in order to ruin and eliminate competitors from already mastered markets, over time, makes it possible to

compensate for their losses by a significant increase in the prices of goods:

a) discriminatory prices;
b) dumping prices;
c) monopoly low prices;
d) monopoly high prices.

9. A diversified concern is:

a) amalgamation of tens and even hundreds of enterprises of various industries, transport, trade, the participants of which lose ownership of the means of production and the manufactured product, and the main company exercises financial control over other participants in the association;

b) a giant industrial complex, in which companies operating in different, technologically unrelated areas are concentrated under a single financial control;

c) an association, which is created on the basis of temporary agreements between several banks and industrial corporations for conducting joint large-scale financial transactions or implementing industrial projects;

d) the unification of a number of enterprises in one branch of industry, the participants of which retain ownership of the means of production, but lose ownership of the produced product, that is, they retain production, but lose commercial independence.

Practical tasks 8

Task 1

The company manufactures and sells its products in perfect competition. Fixed, variable costs and production for the next period are shown in Tbl. 8.1

Table 8.1. Initial data

Variant	Index	1	2	3	4	5	6
1	Fixed costs, UAH	50					
	Variable costs, UAH	55	138	200	250	310	420
	Market price per unit, UAH	100					
	Production volume, units	1	2	3	4	5	6
2	Fixed costs, UAH	100					
	Variable costs, UAH	100	138	182	254	368	490
	Market price per unit, UAH	115	115	115	115	115	115
	Production volume, units	1	2	3	4	5	6
3	Fixed costs, UAH	75					
	Variable costs, UAH	115	160	234	316	430	560
	Market price per unit, UAH	125	125	125	125	125	125
	Production volume, units	1	2	3	4	5	6
4	Fixed costs, UAH	45					
	Variable costs, UAH	85	168	190	264	353	470
	Market price per unit, UAH	105	105	105	105	105	105
	Production volume, units	1	2	3	4	5	6
5	Fixed costs, UAH	56					
	Variable costs, UAH	110	170	250	340	440	580
	Market price per unit, UAH	135	135	135	135	135	135
	Production volume, units	1	2	3	4	5	6
6	Fixed costs, UAH	94					
	Variable costs, UAH	180	248	380	410	540	700
	Market price per unit, UAH	150	150	150	150	150	150
	Production volume, units	1	2	3	4	5	6
7	Fixed costs, UAH	73					
	Variable costs, UAH	150	215	293	378	491	630
	Market price per unit, UAH	130	130	130	130	130	130
	Production volume, units	1	2	3	4	5	6
8	Fixed costs, UAH	60					
	Variable costs, UAH	153	194	268	364	415	600
	Market price per unit, UAH	110	110	110	110	110	110
	Production volume, units	1	2	3	4	5	6
9	Fixed costs, UAH	115					
	Variable costs, UAH	210	285	345	464	590	735
	Market price per unit, UAH	155	155	155	155	155	155
	Production volume, units	1	2	3	4	5	6
10	Fixed costs, UAH	70					
	Variable costs, UAH	123	154	196	316	441	602
	Market price per unit, UAH	150	150	150	150	150	150
	Production volume, units	1	2	3	4	5	6

Based on the above data, it is necessary:

1. Determine the most profitable sales volume for the enterprise, using for this:

- method of comparing aggregate indicators;
- method of comparison of limit indicators;

2. Construct the TR and TC curves on the graph and find profit at the most profitable sales volume for the enterprise.

3. Draw MC and MR curves on another graph. To note and show the value of the most profitable sales volume for the enterprise;

4. Determine what the lowest selling price can be accepted by the company in the short and long term.

Section 9
ENTREPRENEURSHIP IN THE MARKET ECONOMY

9.1. Content, basic principles and characteristics of entrepreneurship

The concept of «entrepreneurship» was first introduced into scientific circulation by the English scientist Richard Cantillon (1680-1734). He viewed it as a special economic function, an important feature of which is risk.

Entrepreneurship is a rather broad and multidimensional phenomenon (Fig. 9.1).

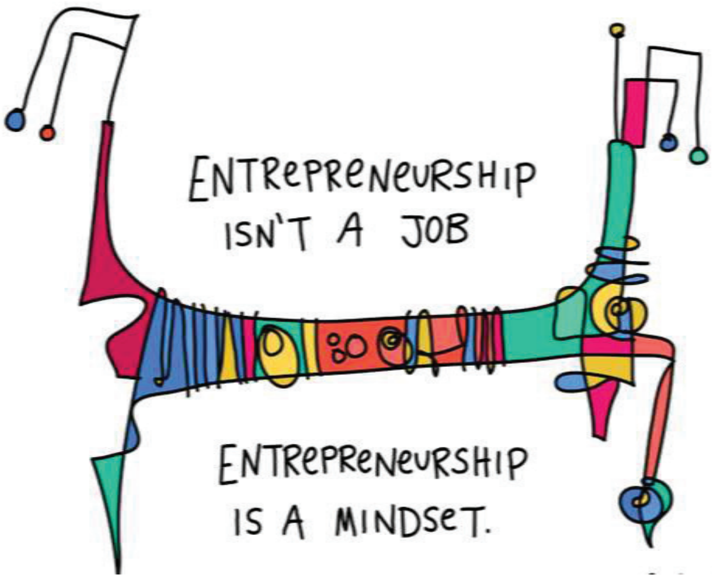

Figure 9.1. What is entrepreneurship?

In the Law of Ukraine «On Entrepreneurship», which was in force earlier, for the first time in Ukrainian legislation a legal definition of the concept of entrepreneurial activity was provided. In Art. 1 of the Law «On Entrepreneurship» entrepreneurship was defined as a direct independent, systematic, at one's own risk activities for the production of products, performance of work, provision of services for the purpose of making a profit, which is carried out by individuals and legal entities registered as subjects of entrepreneurial activity in the manner prescribed by law.

The current legislation of Ukraine to a certain extent restricts the ability to engage in entrepreneurial activity for certain categories of citizens:

- servicemen;
- officials of the prosecutor's office, state security, Ministry of Internal Affairs, courts, state arbitration, state notary;
- representatives of state authorities and administration;
- citizens with a criminal record for economic crimes, etc.

Any economic activity must be expedient. The goal of entrepreneurial activity is to maximize income as a result of directing the entrepreneur's efforts to a specific object.

The object of entrepreneurship is a set of certain types of economic activity, within which, by combining resources, the entrepreneur achieves the maximization of income.

Entrepreneurship is characterized by certain features and principles.

Business principles:

- free choice of activities on a voluntary basis;
- attraction of property and funds of legal entities and individuals to entrepreneurial activity;
- independent formation of an activity program, selection of suppliers and consumers of manufactured products, setting prices according to production costs in compliance with current legislation;
- free hiring of workers;
- attraction and use of material, technical, financial, labor, natural and other resources, the use of which is not prohibited or limited by law;
- free distribution of profits that remain after payment of payments established by law.

Signs of entrepreneurship as an economic activity:
- independence;
- innovation;
- initiative;
- creation;
- riskiness;
- economic and social responsibility;
- the scale of thinking;
- efficiency.

9.2. Theories and models of entrepreneurship

The theoretical understanding of the phenomenon of «entrepreneurship» has come a long way. It is believed that this term was first introduced into scientific circulation by the French banker R. Cantillion in the 18th century. He called people with unfixed incomes entrepreneurs because they are engaged in risky activities: artisans, merchants, peasants, usurers, robbers and beggars.

The classic of English political economy A. Smith defined an entrepreneur as an owner who takes risks for the sake of commercial success. He himself organizes economic activity, he manages, he himself disposes of its result.

The German economist and sociologist W. Sombart defined the entrepreneur as follows:

a) *as a conqueror*, since he is spiritually liberated, rich in ideas, ready to take risks, intrusive and has a strong will;

b) *as an organizer* who knows how to unite people around him for the sake of realizing his ideas;

c) *as a creator*, he knows how to convince buyers to buy exactly his product, to attract interest in himself and his business, to win their trust.

The Austro-American economist I. Schumpeter was the first to notice that an entrepreneur is not necessarily the owner of capital. The destruction of the idea of a mandatory combination of an owner and an entrepreneur in one person is due to the development of credit relations, where no commercial bank is the owner of all capital: one part of it is represented by its own capital, the other is involved. The corporate form of entrepreneurship clearly reflects the separation of the business function from the property function. The latter function becomes more passive, and an increasingly active role is transferred to organization and management.

Consider the relationship between the concepts of «business» and «entrepreneurship».

The term «business» is more widely used abroad. Domestic science often uses the term «entrepreneurship».

A businessman is a person who has his own business.

But scientific publications increasingly emphasize that a businessman can simply perform a reproductive function, that is, from year to year, produce the same goods and provide services. Entrepreneurs are innovators who are distinguished from other people by creative search, discovery, desire to develop new sales markets, introduce new forms of organization of production and sales, find new resources and their combinations, conscious risk and the like.

With a change in the technological mode of production, the economic behavior of entrepreneurs changes. The transition from industrial to information technology presupposes the transition of entrepreneurial activity from the classical to the innovation model.

9.3. Organizational and legal forms of entrepreneurship

Entrepreneurship is carried out in certain organizational and legal forms, which the entrepreneur chooses freely, but not arbitrarily. The latter is due to such objective circumstances:

- the requirement for the compliance of the business organization form with the current legislation;
- the content of the chosen entrepreneurial activity;
- the presence or absence of sufficient capital for the implementation of an entrepreneurial project, etc.

Entrepreneurial activity is carried out through certain organizational structures - enterprises.

An enterprise is an economic link, which is characterized by the following features:

- availability of property necessary for the implementation of a certain economic process;

- the technological conditionality of the factors of production (for the production of bread, other means of production and workers are needed than for the production of garments);

- a certain place in the system of social division of labor (specialization, cooperation, combination, integration);

- a certain place in society.

The *classification of enterprises* used in the world practice is almost completely formed (Tbl. 9.1).

Let us consider in more detail types of enterprises registered in Ukraine in terms of the classification criteria «purpose of activity», «legal form», «size» and «form of ownership».

A for-profit organization is a legal entity, the main purpose of which is receipt of profit and its distribution among the founders.

For-profit organizations are: business partnerships; production cooperatives; state or municipal unitary enterprises.

A not-for-profit organization is a legal entity for which receipt of profit and its distribution among the founders is not the main objective, and the profit gained is used for self-development and achievement of the statutory goals of the organization.

Not-for-profit organizations include: consumer cooperatives; religious organizations; charitable and other types of foundations; non-governmental organizations (NGOs); associations and unions formed by for-profit and not-for-profit organizations; fully self-financing institutions.

A sole proprietorship (an individual private company) is a company owned by one person. There may be other people employed as well.

A partnership is a legitimate voluntary association of two or more persons acting as co-owners of the company and managing it for the purpose of receiving profit.

Amalgamation of enterprises is usually carried out on a voluntary basis and involves uniting industrial, commercial, or other activities.

The organizational and economic forms of amalgamation of enterprises can be: associations, corporations, consortia, concerns, cartels, syndicates, trusts, holdings, financial and industrial groups.

Table 9.1. International Classification of Enterprises

Classification features	*Types of enterprises*
Purpose of activity	- for-profit - not-for-profit
Legal form	- sole proprietorship - partnership - association of enterprises
Ownership of capital and control	- national - foreign - with foreign investments - joint-stock - multinational
Scope of activity	- international - transnational - offshore
Types and nature of economic activity	- industrial - trading - agricultural - construction - motor transport - finance and credit - insurance - tourist - consulting - others
Technological (territorial) integrity and degree of subordination	- principal (parent); - subsidiaries; - branches
Enterprise size (according to certain criteria)	- micro- - small -medium-sized - large
Ownership	- individual (sole) - family - private - state-owned - employee-owned - municipal - mixed

A micro-enterprise is an entity of any legal form and form of ownership where the average number of employees for a reporting period (a calendar year) is less than 10 persons, and the annual income from any activity does not exceed an amount equivalent to EUR2 million calculated based on the annual average exchange rate published by the NBU.

A small enterprise is an economic entity of any legal form and form of ownership where the average number of employees for a reporting period (a calendar year) is less than 50 persons, and the annual income from any activity does not exceed an amount equivalent to EUR10 million, calculated based on the annual average exchange rate published by the NBU.

A medium-sized enterprise is an economic entity of any legal form and form of ownership which cannot be classified as a micro-enterprise, small or large enterprise.

A large enterprise is an economic entity of any legal form and form of ownership where the average number of employees in a reporting period (a calendar year) is more than 250, and the annual income from any activity exceeds an amount equivalent to EUR50 million, calculated based on the average annual exchange rate published by the NBU.

An individual enterprise (sole proprietorship) is a business arrangement based on the personal property of an individual and exclusively on their labor.

A family business is an economic entity based on the property and labor of members of one family living together.

Features of a family business are as follows: its participants are answerable for its obligations with all the capital and their personal property; there are no problems with the distribution of profit; the possibility of using labor cooperation, combining different professions in doing business; implicit confidence in the relationship between the members of a family business, a guarantee of preserving business information confidentiality; readiness to work hard with long working hours; the possibility for the heirs to get «family secrets» related to the production technology used.

A private enterprise is an economic entity, based on the property of an individual citizen, with the right to hire a workforce.

A state-owned enterprise is an economic entity based on the public property.

An employee-owned enterprise is an economic entity based on the property of the labor collective of an enterprise, cooperative, another statutory partnership, public or religious organization.

A municipal enterprise is an economic entity based on the property of administrative territories.

A mixed enterprise is an economic entity based on joining up the property of different owners.

After the state registration, an enterprise is recognized as a legal entity.

A legal entity is a subject of civil law which has the following features: independence of its functioning from natural persons which are part of it; availability of its own property separated from the property of the participants; the right to acquire, use, and dispose of the property; the right to implement, on its own behalf, other actions permitted by law; the right, on its own behalf, to resolve disputed issues regarding its activity and conflict situations in court or by arbitration; independent property liability; availability of a settlement account and other accounts in banks, independent balance, seals with its name, trademark, etc.

9.4. Classification of enterprises by size. Small business. New types of entrepreneurial activity

According to the level of concentration and centralization of production and capital, enterprises are divided into small, medium and large.

The term «concentration» means concentration, accumulation, saturation, unification.

Concentration of production - the process of increasing concentration of production in large enterprises.

Capital concentration is the process of capital growth by converting part of net income into capital (capitalization of part of net income).

Centralization of capital is a process of voluntary pooling of capitals (corporatization) or absorption by some capitals of others, as a result of which there is a process of enlarging production.

Indicators of the level of concentration of production:
- the number of employees;
- production volumes;
- trade turnover;
- capital turnover;
- the share of the enterprise in the product market;
- absence or presence of competition;
- absence or presence of external control.

The most common criteria for determining the size of enterprises (large, medium or small) are recognized by world practice:
- the amount of capital;
- the number of employees;
- the volume of the issue.

The laws of different countries establish their quantitative affiliation of enterprises to one type or another.

At the same time, one should not equate large, medium and small production with the division of enterprises into similar types. The division of enterprises according to the above three types is based on quantitative indicators, while the division of entrepreneurship is based on qualitative characteristics.

The choice of the type of enterprise largely depends on the industry chosen for the entrepreneurial activity.

The scale of entrepreneurial activity is determined by scientific, technical and production specialization, cooperation, and the intensity of integration processes.

The classification of enterprises according to the criteria defined above is important for the choice of organizational and legal form.

The main organizational and legal form for a large enterprise is a joint stock company (JSC).

<u>Advantages of large production compared to small ones:</u>
- technical and technological advantages due to significantly better financial opportunities for using the achievements of scientific and technological progress;
- economies of scale of production, combination and employment;
- comparatively higher stability and stability (even in a difficult financial situation, large enterprises, as a rule, are not liquidated, but only change the owner and management structure);

- great opportunities for using the loan;

- advantages in the sphere of circulation (the purchase of resources in bulk is cheaper), the costs of transportation, storage and sale of large quantities of goods are lower per unit of production.

Medium-sized enterprises occupy an intermediate position between small and large. there are much fewer of them than small ones, but more than large ones. They specialize in serving those market segments that are not profitable or, due to certain circumstances, are not occupied by large or small enterprises. Their assortment is not very diversified, but stable, since specialized markets are less dependent on market fluctuations.

The dual role of medium-sized enterprises:

- create a competitive environment for large enterprises;

- are an intermediate step towards monopolization;

- the maximum number of medium-sized enterprises that fall under the absorption process;

- the medium-sized enterprises themselves tend to occupy a monopoly (oligopolistic) position in certain market segments.

Small enterprises are more often legislatively determined by the number of employees employed in them, taking into account the specifics of spheres, industries and types of economic activity.

In countries with developed market economies, the share of employed in medium and small businesses is 50-70%, and the share in GDP is 50-60%. There are a lot of small businesses. It was on the basis of small enterprises that medium and large ones arose.

Small business traits:

- a large number of;

- flexibility (the ability to quickly respond to market changes in the economy);

- instability (in the United States, three out of five newly created small firms go bankrupt every year).

Small business functions:

- promptly respond to market fluctuations in the economy;

- adjust the structure of the economy in accordance with changes in the structure of tastes, needs, preferences, etc.;

- expand the boundaries of economic freedom, guided in their activities by economic expediency, and not by decisions of managerial cooperative or state bodies;

- ensure the development of competition;
- contribute to the weakening of monopoly;
- create additional jobs;
- saturate the market with goods and services in the absence of large start-up capital;
- quickly recover expenses and restore the ability to re-invest;
- are the basis for the formation of the middle class;
- are active in relation to innovation.

There are industries where both small and medium and large enterprises can successfully operate. This is the production of clothing, footwear, trade.

Small business is common in high-risk activities, as well as where mass production is impractical.

The transition to an innovative model of entrepreneurial activity gives rise to new forms of it:

- venture entrepreneurship (business);
- engineering;
- leasing;
- technoparks;
- commercial network;
- franchising, etc.

Summing up, we note that entrepreneurship is a multidimensional phenomenon. The forms of entrepreneurial activity are generated by the needs of economic entities and are determined by the level of economic development.

Topics for reports to Section 9

1. Entrepreneurship - as a modern factor of production.
2. Modern and most popular types of business in Ukraine and other countries.
3. Entrepreneurial space and its components.
4. Theoretical foundations for the development of entrepreneurship in the transitional economy of Ukraine.
5. Organization and development of small business in Ukraine.
6. Financing of small and medium businesses.

Theoretical questions to Section 9

1. Give a general description of entrepreneurship and reveal the common and different in terms of «entrepreneurship» and «business».

2. What are the reasons for the evolution of entrepreneurship theories? Expand the main aspects of these evolutionary changes.

3. Give a comparative description of the classic and innovative models of entrepreneurship.

4. What (what factors) determine the organizational forms of entrepreneurship?

5. What types of business associations do you know? What determines the appropriateness of using each of them?

6. How is the degree of dependence of enterprises included in corporate capital determined?

7. What is concentration of production? What indicators determine its level?

8. What is the criterion underlying the division of enterprises into small, medium and large? What is such a classification for?

9. What determines the advisability of choosing the type of entrepreneurial activity?

10. What are the advantages and disadvantages of small business.

11. What are the advantages and disadvantages (limitations) of large entrepreneurship?

12. What is the place of medium-sized enterprises in the business system? Why?

13. What is venture entrepreneurship, what functions does it perform, on what principles does it function?

14. What is special about the leasing business?

15. What is franchising? On what principles is it created? What are its advantages and limitations?

Test tasks 9

1. Entrepreneurship is:

a) a situation in which the more equilibrium the price (all other things being equal), the more goods at this price the commodity producers are ready to offer to the market within a certain period of time;

b) independent, proactive, at their own risk activities for the production of products, the performance of work, the provision of services and the implementation of trade in order to make a profit;

c) technological ratio, reflecting the relationship between the total costs of factors of production, on the one hand, and the maximum volume of production, on the other;

d) economic rivalry, the struggle between business entities for the best conditions for the production and sale of goods and services in order to obtain the greatest possible profit.

2. What type of entrepreneurs is not represented in the modern economy:

a) the entrepreneur is the owner;
b) an entrepreneur - a tenant;
c) an entrepreneur - an employee;
d) entrepreneur-manager.

3. A diversified association, which arises on the basis of intensive expansion (distribution, expansion of the zone of influence) of the main company into numerous, little-related sectors of the economy by buying up stakes in other enterprises:

a) a syndicate;
b) trust;
c) concern;
d) conglomerate;
e) financial and industrial groups.

4. Organizational form of association of large industrial firms with banking structures, in which each member-participant independently solves his own problems, but does not neglect the interests of others:

a) a syndicate;
b) trust;
c) concern;
d) conglomerate;
e) financial and industrial groups.

5. Consolidation of several individuals and (or) legal entities for joint activities on the basis of an agreement. It consists of full members, who bear full (unlimited) liability for the obligations of the company, and member-contributors, who are responsible for the obligations of the company only with their contributions:

a); complete society

b) an additional liability company;

c) limited liability company;

d) mixed society (limited).

6. The cartel is:

a) the form of association of enterprises producing homogeneous products provides for the preservation of production independence in case of loss of the right to independently sell products;

b) an agreement (public or private) between independent enterprises on the implementation of a unified pricing policy, distribution of sales markets, agreeing on the conditions for the exchange of patents, licenses, etc. Production activity is not regulated by this agreement;

c) a form of association, which implies the loss of legal and economic independence both in production and in implementation;

d) an association of industrial, financial, commercial enterprises, which formally retain their independence, but in fact are subordinate to financial control and the management of the main company, which is responsible for the economic activities of the combined enterprises within the blocks of shares of each of them.

7. The concept of «entrepreneurship» was first introduced into scientific circulation:

a) R. Cantillon;

b) A. Smith;

c) J. B. This;

d) V. Sombart;

e) I. Schumpeter.

8. The system of providing services by a consulting firm to a client company in the construction of industrial and other facilities:

a) technoparks;

b) venture entrepreneurship;
c) leasing;
d) engineering.

9. Franchising is:

a) the main large company enters into an agreement with small and medium-sized independent enterprises to grant them the exclusive right to sell its goods or services under the trademark of the main company;

b) two or more shops under common ownership and control, selling goods of a similar range, with a common procurement and sales service, and possibly a similar architectural design;

c) combines various types of enterprises and their various organizational and legal forms according to the principle of economic expediency;

d) a system of forms and methods for promoting trade, training sellers in the ability to advise buyers on the quality and use of goods; understanding of the psychology of the buyer and the active influence on his desire to purchase goods in this particular trade establishment.

10. To identify the degree of dependence of enterprises forming corporate capital from the main (parent) company, the criterion of the participation system is applied. According to this system, if the share of the parent company is 50-95%, then the enterprise that is part of the corporation (holding) takes the following form:

a) department;
b) branch;
c) subsidiary;
d) association.

Practical tasks 9

Task 1

The investment project provides for the investment of UAH 600 thousand. and receiving further over 8 years cash receipts in the amount of UAH 150 thousand annually.

Determine the payback period of the project.

Task 2

You decided to protect and multiply your savings in the amount of UAH 10 thousand, put them for 20 years in a deposit account with a bank with an annual interest rate of 15.5%, the interest on the deposit is fixed.

How much will you receive at the end of the deposit agreement?

Task 3

The investment company Ukrinvest has accepted for consideration the business plans of two investment projects:

Table 9.2. Project A

Indicators	Years				
	1	2	3	4	5
1. Investment costs, UAH.	2500	1500	-	-	-
2. Gross income	-	3500	3500	3600	3200
3. Gross expenses	-	2000	2200	2300	2000
4. Depreciation	-	250	350	330	310

Table 9.3. Project B

Показатели	Years			
	1	2	3	4
1. Investment costs, UAH.	2200	-	-	-
2. Gross income	-	3600	3100	3500
3. Gross expenses	-	1750	1500	1500
4. Depreciation	-	450	420	410

Discount rate:

– project A - 15%;

– project B - 18%.

Profit tax rate - 18%.

Determine the effectiveness of projects, justify which project should be preferred.

Section 10
CAPITAL. PRODUCTION COSTS AND PROFITS

10.1. Capital as an economic category of commodity production
10.2. Advance capital structure. Production costs, their essence and classification
10.3. Return on capital and the factors that determine it. The economic role of profit
10.4. Circulation and turnover of industrial capital. Depreciation and reproduction of fixed capital

10.1. Capital as an economic category of commodity production

Modern economic science interprets capital as a complex, multidimensional category, the evolution of which reflected the historical process of the development of nature, forms of movement, dynamics and structure of commodity production.

In the traditional political-economic definition, capital (from the Latin Capitalis - main) has the following properties:

1) limitation;
2) the ability to accumulate;
3) liquidity;
4) the ability to convert (constant change of forms);
5) self-expansion.

It is generally accepted that capital is a complex dynamic substance that constantly changes its forms. Therefore, the understanding of capital is constantly expanding, going beyond its original meaning. The following categories have become widespread in modern economic literature:

I. Human capital as a measure of the person's ability to generate income. Education, vocational training, health, natural abilities and creativity of the individual are considered as factors of his productive force, which contributes to an increase in the production of high-quality innovative products and brings the so-called technological rent, acting as the most important source of income growth for an individual and society as a whole. In this case, the person is defined not only as a subject, but also as an object of economic activity and investment, which are more profitable than investment in other factors of production. Investments in human capital are the costs of obtaining education, qualifications, training and retraining of employees, maintaining health, information support, etc. The amount of human capital is estimated by the potential income that it can bring to the owner.

II. Intellectual capital is a set of knowledge, experience, skills, abilities and relationships accumulated in the process of intellectual activity, which have economic value and are used to generate income.

In modern economic literature, the *intellectual capital of society* is distinguished (a set of knowledge, experience, connections and information used at the level of society as a whole and is the leading factor in the growth of the national income of a post-industrial society), the *intellectual capital of an individual company* (a set of assets based on the intellectual abilities of the company's employees, realized in the process of innovation and increasing its market value) and the *intellectual capital of an individual*. In a highly civilized society, intellectual capital begins to prevail over all other forms of capital, acting as the main prerequisite for the accumulation of social wealth.

Domestic and foreign researchers distinguish the following components in the structure of the intellectual capital of a separate company:

1. Human capital - knowledge, creativity, professional experience and moral values accumulated as a result of investments and embodied in the company's employees.

2. Structural capital - hardware and software, organizational structure, intellectual property, customer relations, etc.

Structural capital includes:

- client capital (relationships with customers, buyers, business relationships with suppliers, trademarks and service marks, etc.);

- organizational capital (information resources, electronic networks, organizational structure, copyright, etc.).

III. Social capital is capital embodied as social ties and relationships based on trust as concentrations of expectations and obligations that induce subjects to take effective action to achieve common goals. Unlike materialized physical capital and human capital inseparable from the individual, social capital exists only in relations between people. Its objective basis is the networks of social connections, which are used for information, training, formation of rules of conduct and reputation based on decency, reliability, consistency, loyalty, honesty, openness, adherence to generally recognized moral and ethical values.

Western researchers define social capital as a certain amount of resources (actual or virtual) that are accumulated by individuals and groups due to the presence of a network of more or less institutionalized relations of mutual recognition and trust. Asserting that «social capital includes both a certain network of connections and certain assets that can be mobilized through this network,» they distinguish the following forms of it:

1) obligations and expectations, which depend on the reliability of the social environment;

2) information capabilities (the ability of a social structure to transfer information flows and norms);

3) social norms and ethical principles.

Thus, according to modern scientific approaches, capital can take not only materialized, but also non-material (embodied in individuals or in relationships between them).

According to the famous French researcher P. Bourdieu, post-industrial transformations contribute to the development of such basic states of capital:

1*) incorporated* (a set of relatively stable, reproducible dispositions and abilities that the owner of one or another form of capital is endowed with);

2) *objectified* (materialized forms of capital, accessible to direct perception and transmission in physical, objective form);

3) *institutionalized* (recognition of a certain type of capital as a resource, which can be unformalized or formalized in the form of property rights, certificates, etc.).

In a broad sense, capital is a complex, multi-level and multidimensional phenomenon that determines the self-organization of economic life, aimed at self-growth of value. In a narrow sense, capital is a self-increasing advanced value; certain investments or assets that make it possible to generate income.

In modern economic literature, the category of capital is analyzed in the following aspects:

I. By spheres of application (industrial, commercial, loan capital, or capital of the sphere of production and capital of the sphere of circulation).

Industrial capital - capital that is used in the field of material and non-material production in order to make a profit.

Trading capital - capital that functions in the field of commodity circulation, providing a trading profit.

Loan capital - money capital provided in a loan and bringing the owner income in the form of interest.

II. By investment directions (material, human, intellectual, social capital).

III. By the scale of functioning (local, regional, national, transnational capital).

IV. By importance in the creation and redistribution of income (real and fictitious capital).

Real capital serves primarily the movement of industrial capital, plays a decisive role in generating income, being embodied in material, monetary and spiritual values.

Fictitious capital is capital represented in securities (stocks, bonds, etc.), which regularly brings income to their owner and carries out an independent, different from real capital, movement in the securities market. By itself, fictitious capital as a title of ownership of securities does not create income, but only contributes to its redistribution.

V. By role in the reproduction process (capital-property; capital-function).

VI. According to the *sources of formation* (own and attracted capital).

VII. By innovative focus (non-risk and venture (risky) capital).

VIII. By the forms of functioning (individual, social, collective).

10.2. Advance capital structure. Production costs, their essence and classification

The advanced industrial capital is invested in means of production and labor.

Labor power (personal factor of production) is the ability of a person to wage labor, the totality of his physical and mental abilities.

The level of development of the labor force in modern conditions is undergoing fundamental changes under the influence of the scientific and technological revolution. The importance of mental abilities, creative and spiritual efforts of workers in the organization and management of production is increasing, the requirements for the level of their educational and qualification training are increasing. The quality and level of development of the workforce is determined by the amount of investment in human capital.

The means of production (material factors of production) include:

- *objects of labor* - objects of purposeful human activity, which are the material basis of the created product (natural substances in their original or partially processed state);

- *means of labor* - a thing or a set of things with which a person acts on objects of labor (machines, tools, equipment, vehicles, etc.).

Means and objects of labor constitute the material and material basis of industrial capital, which is continuously improved with the development of scientific and technological progress.

Production costs are a form of movement of advanced industrial capital.

Production costs - a cost estimate of the costs of economic resources carried out by entrepreneurs for the production of products.

The concept of costs in economics is based on the general idea of limited resources and the possibility of their alternative use, since the choice of a certain production option leads to the loss of benefits from the use of the corresponding resources in the best possible way.

In this regard, the actual costs are divided into external and internal.

External (explicit or explicit) costs - the cost of paying for economic resources, suppliers of which are not the owners of the company (cash costs for the purchase of raw materials, fuel, equipment, labor and transport services).

Internal (implicit, or implicit) costs - the costs of the firm to use its own (unpaid) resources. Implicit costs include the lost income by the entrepreneur from a profitable alternative use of its own resources. Modern economic science refers to internal expenses as normal profit

- the minimum payment required to continue the activities of an entrepreneur in a particular area of business.

Economic (imputed) costs are expenses that an entrepreneur has to carry out in order to divert resources from their alternative use. These are the actual costs of producing a good, which reflect the cost of resources in their best possible use.

Depending on the period during which it is possible to change the economic resources attracted by the company to the production of a certain type of product, there are:

- the costs of the firm in the long run (a time interval sufficient to change all employed resources);
- the costs of the company in the short term (the time interval during which at least one type of resources remains unchanged).

In some cases, firms incur *irreversible costs* that cannot be reimbursed and characterize:

- missed opportunities associated with erroneous management decisions (losses that are reimbursed from profit);
- losses that are carried out once and for all and are not compensated in the event of the termination of the company (advertising costs, etc.).

10.3. Return on capital and the factors that determine it. The economic role of profit

Return on capital is the most important category of a market economy, complex and multifaceted in nature and in specific forms of manifestation. The evolution of scientific ideas about the nature and source of profit reflects the development of theoretical studies of the essence and dynamics of capital movement.

D. Ricardo defined profit as part of the value that remains after deducting wages. Based on the theory of three factors of production, Zh.B. Sey divided profit into interest (income on capital) and entrepreneurial income (remuneration for «talent, activity, spirit of order and leadership»). JS Mill analyzed profit as the reward of an entrepreneur for abstaining from consumption. K. Marx investigated profit as the main goal and motive of the capitalist's activity, the result of unpaid labor of hired workers, a derivative and transformed form of surplus value, which acts as a product of all advanced capital.

Famous economists of the second half of the XIX century. E. Böhm-Bawerk and A. Marshall paid attention to the risk payment as a component of profit. An important step towards the description of the economic nature of profit was the study of the famous American scientist J.B. Clarke's Distribution of Wealth (1895). Distinguishing the two states of the economy (statistical and dynamic), the scientist argued that incomes such as wages, interest, rent and entrepreneurial income (remuneration of managerial labor) are formed in the statistical economy. However, according to the American researcher, only in a dynamic economy are the necessary conditions created for the emergence of profit as a specific type of income.

In the XX century. it became common to use this term in a narrow sense, which supplanted the identical concept of entrepreneurial income. At the same time, the following approaches to the interpretation of the economic nature of profit have been established in the economic literature:

1. **Profit as a reward for skillful assessment of risks and uncertainties.** This approach was founded by the famous American economist F. Knight, who believed that profit is generated by a special entrepreneurial talent, the ability to adapt to the needs of dynamic development and adequately respond to anticipated and unforeseen risks. «In an entrepreneurial system, economic activity is directed by a special social class - businessmen,» the researcher wrote. They are, in a strict sense, producers, while the population simply provides them with production services.

2. **Profit as a reward for innovation, implementation of technical, commercial, organizational and financial innovations.** This approach was substantiated by the famous Austro-American researcher I. Schumpeter in his book The Theory of Economic Development (1912) based on the study of profit as a powerful creative force in the development of a market economy.

3. **Profit as a consequence of monopoly power arises from the restriction of competition.** This approach was founded by the American economist E. Chamberlin, the author of The Theory of Monopolistic Competition (1933) and the English researcher J. Robinson, the author of the book The Economics of Imperfect Competition (1933).

In modern economic theory, considerable attention is paid to the analysis of the profit of firms operating in conditions of various types of market structures. In this case, profit is interpreted as the entrepreneur's income on invested capital, expressed in monetary form, the difference between the total sales proceeds (gross income) and the total costs of the company.

$$PR = TR - TC,$$

where PR - is the firm's profit;
TR - is sales revenue;
TC - total costs.

Accounting profit is defined as the difference between gross income (revenue from product sales) and accounting (external) production costs.

Economic profit is defined as the difference between gross income and economic (external and internal, taking into account normal profit) production costs.

Normal profit is the industry's usual income from economic resources; the minimum income that encourages the entrepreneur to continue the business while remaining in a specific area of the business. Since normal profit is a reward for performing entrepreneurial functions, it is included in the internal costs of the firm.

The final financial result that is most interested in the entrepreneur is called net profit. *Net profit* - profit remaining at the disposal of the entrepreneur after settlements with the budget for tax and mandatory payment obligations.

Economic profit is a surplus from normal profit, it is the result of the entrepreneur's initiative, his ability to find the best use and combination of economic resources, implement innovations, take risks.

When calculating it, the following situations are possible:

- economic profit is negative, indicating the need to find more profitable ways to use available resources;

- the economic profit is zero - this means that the entrepreneur receives a normal profit and the alternative use of the invested funds will not increase his income;

- economic profit is a positive value, certifying the efficient use of resources.

The existence of excess profits over a long period indicates that there are obstacles to effective competition for manufacturers in a particular market.

Monopoly profit - the profit of a company that has a monopoly position in the market.

The means of measuring profit are its mass (absolute monetary value) and the rate (qualitative percentage).

Profit mass is the absolute amount of profit in monetary terms.

The rate of profit characterizes the degree of return on capital and is defined as the percentage ratio of the mass of profit to the total advanced capital.

The value of the rate of profit testifies to the efficiency of the advanced capital functioning and depends on many factors operating in the spheres of production, circulation and distribution, including the rate of capital turnover, the amount of profit, market prices, cost structure, scale of production, etc.

The socio-economic essence of profit is most fully manifested in its functions. Profit functions include:

- accounting, indicative, characterizing profit as the most important indicator, a criterion for the effectiveness of the company's business;

- distributive, characterizing profit as the main financial source of development of firms and society as a whole;

- stimulating, defines profit as a powerful motivating factor, a generator of economic development, investment and innovation.

The economic role of profit in market conditions is manifested in the following features:

- profit is the driving force behind the functioning and development of the economy, the main incentive for entrepreneurial activity;

- the desire to make a profit contributes to the efficient allocation and use of resources, the introduction of scientific and technological progress, cost reduction, improving the quality of products and their consumer properties;

- profit is a source of expanding social production, increasing national wealth and meeting the needs of society, which are growing.

10.4. Circulation and turnover of industrial capital. Depreciation and reproduction of fixed capital

The circulation of industrial capital is a continuous movement of capital in three stages with a sequential change of forms and a return to its original form in an increased, as a rule, volume. The continuous movement of capital according to the logic of its circulation is the circulation of capital.

Capital turnover is a continuously repeating circulation of capital, as a result of which the advanced funds fully return to their original form.

One of the characteristics of capital turnover is the speed of its movement.

The first measurement of the rate of capital turnover is the period of time during which the entire sum of the advanced capital, which has increased by the amount of profit, returns to the entrepreneur in the form of proceeds. This period of time is one revolution.

The second dimension of the rate of capital turnover is the number of times the advanced capital turns over the year.

Fixed capital is a part of industrial capital that functions in kind of means of production for several production and technological cycles, transferring its value in parts to newly created products.

Working capital is a part of industrial capital that functions in the form of objects of labor, work in progress, finished goods, cash (including wages), rotating and transferring its value to newly created products during one production and technological cycle.

Depreciation is a term used in two meanings:

1) the process of gradual transfer of the value of fixed capital to newly created products as they wear out;

2) the process of restoring the value of fixed capital at the expense of targeted accumulation of funds.

Physical deductions and tear of fixed capital occurs in the process of industrial consumption of its elements, as well as under the physical and chemical influence of the environment. The amount of physical depreciation depends on the duration and intensity of the use of fixed capital. Losses from physical wear and tear of machinery and equipment can be reduced through current and major repairs.

Moral deterioration of fixed capital - the technical and economic aging of its elements is manifested in the loss of the expediency of their further exploitation due to the appearance of cheap or better means of labor. Distinguish obsolescence of the first and second types.

Depreciation deductions - the annual write-off of part of the cost of fixed capital. The depreciation allowance is part of the gross expenses of the company. At the same time, they act as a source of compensation for the depreciation of fixed assets, forming the financial prerequisites for investment. That is why the system of depreciation deductions is an important factor in increasing the efficiency of social production.

Depreciation rate - expressed as a percentage, the ratio of the annual depreciation amount to the value of the elements of fixed capital

The intensification of production in countries with developed economies leads to losses by the depreciation fund of the functions of financing the renewal of fixed capital within the limits of simple reproduction. In modern conditions, depreciation deductions are turning into one of the most important sources of accumulation, performing functions similar to those inherent in the capitalized part of profit.

Topics for reports to Section 10

1. Capital and profit. Their interaction.
2. The main directions of reducing the costs of the enterprise for production.
3. The essence of the category «profit» in the theories of modern Western researchers.

4. Describe the concept of «accounting profit», «economic profit», «normal profit».

Theoretical questions to Section 10

1. Describe the basic concepts of capital formed in the development of economic science.
2. Expand the essence of the concepts of «human capital», «intellectual capital», «social capital».
3. Describe the specific forms of existence of capital.
4. Analyze the differences between fixed and working capital.
5. What are production costs?
6. What is the economic essence of profit?
7. Analyze the main forms of profit.
8. How is the rate of return determined?
9. What is the economic role of profit?
10. What is capital turnover and how does it differ from circulation?
11. What functional forms does industrial capital acquire in the course of its movement?
12. Describe the structure of the turnover time of industrial capital.
13. What is depreciation of fixed assets?
14. What is the essence of physical and moral depreciation of fixed capital?
15. What are the main methods of depreciation used in modern conditions?
16. Expand the essence and instruments of the state depreciation policy.

Test tasks 10

1. In modern economic literature, the category of capital on the basis of "direction of investment" is classified as follows:

a) material, material, human, intellectual, social;
b) local, regional, national, transnational;
c) real and fictitious;
d) individual, public, collective;

e) industrial, trade, loan.

2. Profit functions do not include:
a) accounting;
b) discriminatory;
c) distribution;
d) stimulating.

3. The totality of relatively stable, reproducible dispositions and abilities that the owner of a particular form of capital is endowed with is:
a) the incorporated state of capital;
b) the objectified state of capital;
c) the institutionalized state of capital;
d) the discounted state of capital.

4. In modern economic literature, the category of capital on the basis of «scale of operation» is classified as follows:
a) material, material, human, intellectual, social;
b) local, regional, national, transnational;
c) real and fictitious;
d) individual, public, collective;
e) industrial, trade, loan.

5. What type of obsolescence is the depreciation caused by the cheaper elements of fixed capital due to an increase in labor productivity in industries producing machines and equipment similar to those used at operating enterprises:
a) obsolescence of the first type;
b) obsolescence of the second type;
c) obsolescence of the third type;
d) obsolescence of the fourth type.

6. Costs, the size of which does not depend on changes in production volumes, are called:
a) total costs;
b) average costs;
c) variable costs;

d) fixed costs;
e) marginal costs.

7. In modern economic literature, the category of capital on the basis of «scope» is classified as follows:

a) material, material, human, intellectual, social;
b) local, regional, national, transnational;
c) real and fictitious;
d) individual, public, collective;
e) industrial, trade, loan.

8. Part of industrial capital that functions in the form of objects of labor, work in progress, finished goods, cash (including wages), rotating and transferring its value to newly created products during one production and technological cycle:

a) social capital;
b) real capital;
c) working capital;
d) fixed capital.

9. Production costs are:

a) a monetary fund intended to reimburse the value of the consumed elements of working capital;
b) a monetary fund intended to replace the value of consumed elements of fixed capital;
c) a cost estimate of the costs of economic resources carried out by entrepreneurs for the production of products;
d) the material basis of industrial capital, which is continuously improved with the development of scientific and technological progress.

10. Depreciation is:

a) the process of gradual transfer of the value of fixed capital to newly created products as they wear out;
b) the process of rapid transfer of the value of fixed capital to newly created products as they wear out;
c) the process of gradual transfer of the value of working capital to newly created products as they wear out;

d) the process of quickly transferring the value of working capital to newly created products as they wear out.

11. Profit remaining at the disposal of the entrepreneur after settlements with the budget for tax and mandatory payment obligations:

a) net profit;

b) accounting profit;

c) economic profit;

d) normal profit.

12. What type of obsolescence is the wear caused by the invention of new, more efficient means of labor, the use of which improves the quality characteristics and reduces the cost of manufactured products:

a) obsolescence of the first type;

b) obsolescence of the second type;

c) obsolescence of the third type;

d) obsolescence of the fourth type.

13. A part of industrial capital that functions in the natural form of means of production during several production and technological cycles, transferring its value in parts to newly created products:

a) social capital;

b) real capital;

c) working capital;

d) fixed capital.

14. Means of labor are:

a) buildings, structures, machines, components, semi-finished products;

b) buildings, structures, machines, machines, equipment;

c) machinery, equipment, raw materials, materials;

d) raw materials, materials, components, semi-finished products.

Practical task 10

Task 1

Determine and evaluate the change in the indicators of the efficiency of the use of working capital (the turnover ratio and the turnover period) in a small enterprise in the next period compared to the previous one, under the following conditions:

1) the income of the enterprise in the II quarter amounted to UAH 150 thousand, and in the III quarter it increased by 7%;

2) the average balance of normalized working capital in the third quarter amounted to 45 thousand hryvnias, and in the second quarter it was less by 2%.

Task 2

The volume of products manufactured by the enterprise is 5 thousand units. The total costs of the enterprise amounted to UAH 100 thousand, of which fixed costs were UAH 20 thousand.

Indicate what the average variable and average fixed costs are equal to.

Task 3

Determine what profit the company receives at its disposal on the condition that products are sold in the amount of 600 units at a price of 12 UAH / piece, if the production costs were 7000 UAH, and the profit tax of the company is set at 30%.

Section 11
THE ECONOMIC GROWTH

11.1. Economic growth: content, types, factors
11.2. Concepts and simplest models of economic growth
11.3. Inflation, its essence, causes, types and socio-economic consequences

11.1. Economic growth: content, types, factors

Long-term economic growth is one of the goals of the state's macroeconomic policy.

Economic growth is defined from two positions:

1) as a progressive increase in the real volume of GDP, GNP or national income (NI) due to an increase in the volume of resources used and (or) their better use without upsetting the balance in short-term periods;

2) as real growth of GDP (GNP or ND) per capita.

There are three types of economic growth:

- *extensive*, which is carried out by increasing the volume of resources involved in the production process;
- *intensive*, carried out through the effective, productive use of resources based on scientific and technological progress and the best forms of organization of production;
- *mixed*, which combines intensive and extensive types.

Since in the economy, as in other systems, there are almost no pure forms, any economic growth can be considered mixed. Depending on which factors prevail, we can talk about a predominantly intensive or extensive type.

Conventionally, all factors of economic growth are divided into three groups:

1) demand factors that ensure the growth of aggregate costs contribute to an increase in production and income;

2) supply factors, which are decisive in most models and have a complex structure, including: natural resources in their qualitative and quantitative terms; the volume and quality of capital; the number and quality of labor resources; technological level; institutional factors;

Information Support; organizational factors, etc.;

3) factors of distribution, concerning both the distribution of resources, which significantly affect the factors of supply, and the distribution of national product and income, which affect aggregate demand.

The sources of economic growth are:

- economic resources offered by their owners;
- growth of resource productivity based on the development of scientific and technological progress.

11.2. Concepts and simplest models of economic growth

The concepts of economic growth differ among themselves, first of all, in the position of researchers of this problem regarding whether economic growth is desirable or undesirable.

Different attitudes towards the prospects and consequences of economic growth are reflected in the following concepts:

- zero economic growth;
- sustainable economic development;
- noospheric development;
- innovative economic growth.

Zero economic growth concept. The steady increase in the needs of the population, the ideological and advertising encouragement of the rapid renewal of the assortment of consumer and investment goods, on the one hand, as well as the awareness of the limitedness right up to the depletion of resources and the rapid growth of damage to the environment caused by production systems, on the other hand, became the reason for rethinking the assessment of economic growth.

It is important to emphasize that the *positive in the theory of zero economic growth* is the focus on the need to summarize the negative impact on the environment of the economic system and the ability of the ecological system to assimilate and neutralize this impact.

The *disadvantage of this concept* is that its authors did not see ways to resolve the contradictions between the growing needs and limited economic resources in economic growth itself (the use of waste-free resource-saving technologies, etc.).

The concept of sustainable economic development. Constant economic development is understood as a special type of economic dynamics aimed at the fullest satisfaction of the needs of the present; however, nothing threatens the satisfaction of the needs of future generations.

The concept of sustainable economic development is based on the consideration of three aspects: *economic, social and environmental.*

In economic terms, sustainable development must ensure the efficiency and sustainability of growth.

In the social aspect, sustainable economic development should be aimed at: reducing the gap between the incomes of the richest and the poorest segments of the population; preservation of the achievements of material and spiritual culture; ensuring democratic rights to the participation of various segments of the population in making managerial decisions, etc.

In the environmental aspect, the objectives of sustainable economic development are to ensure all generations have access to natural resources and the environment that are not ruined by economic activity.

In other words, the concept of sustainable economic development is based on a change in the paradigm of economic policy from ensuring high rates of economic growth and social assistance to the unemployed during periods of depression to a goal that is more balanced in terms of long-term prospects, the content of which is to create conditions for effective, socially oriented economic development, strategic whose task is to preserve the natural environment.

The concept of noospheric development. This concept is based on an understanding of how rational society is. The theory of the noosphere was founded by our compatriot Academician V.Vernadsky.

Supporters of the theory of the noosphere (the sphere of reason) have come to the conclusion that in the XX century. there was an accumulation of irrationality in the life of society, which endangered the survival of mankind. Therefore, to eliminate this threat, it is necessary to make a choice in favor of reason. At the same time, everyone should realize that, firstly, man is a part of the natural system, the reproduction of which must be directed to the activities of mankind. Second, if humanity continues to neglect the state of the environment for the sake of production and consumption volumes, which are constantly growing, the natural system will be so distorted that humanity will be doomed.

Therefore, the economy and humanity must develop in harmony with nature. Ecological and economic harmony is the key to social progress.

The concept of innovative economic growth. Innovative growth is growth based on entrepreneurial initiative in the field of market, scientific, technical and organizational and economic activities. This concept is consistent with an intense type of economic growth. A feature of the innovative type of growth is that innovations allow you to eliminate (or significantly reduce) the barriers formed by the factors of demand and distribution in connection with the contradiction between the efficiency and social orientation of economic growth.

Economic growth models.

Modern macroeconomic theory is aimed at creating optimization economic, mathematical and econometric models of economic growth. They are studied by such disciplines as «macroeconomics», «economic and mathematical modeling» and «econometrics». Let's consider two simplest models of economic growth:

- based on the production capability curve;
- based on the production function.

The economic growth model based on the production opportunity curve is graphically depicted in Fig. 11.1.

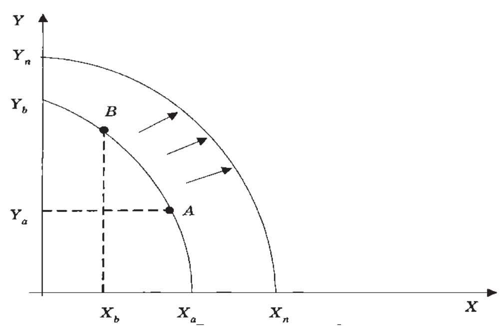

Figure 11.1. Production Capability Curve

The curve of production possibilities shows the combinations of output of various types of products with the available amount of natural, labor, investment resources and a certain technological level of production.

A shift in the production opportunity curve to the right and upward means economic growth. This shift occurs as a result of increased supply of resources and technological progress. If the economy worked in conditions of potential volume, but did not grow, and society had a need to increase the volume of department I, for example, from Y_a to Y_b, society would have to sacrifice part of the product of department II (from X_a to X_b).

If the economy grows, it will be able to increase the volume of production of I and II divisions (Y_n; X_n).

The proportions in which there is an increase in production of departments I and II may differ. The more the national economy produces consumer goods, the more it cares about the present. The more the economy produces means of production, the more it cares about the future.

Production function and economic growth. The product created by the national economy is the result of the use of economic resources: land, labor, capital. The relationship between the amount of resources used and the amount of products produced from them is described by the production function:

$$Y = f(L, K, A),$$

where L - a labor resource;
K - capital resource;
A - land resource.

This formula describes extensive economic growth, since it reflects only the quantitative characteristics of the resources used in production.

Let us depict graphically (Fig. 11.2) a model of economic growth based on a production function, which is characterized by: the presence of labor resources (L) and capital (K); constant marginal productivity of these resources; a constant proportion of the volume of labor and capital; constant returns to scale.

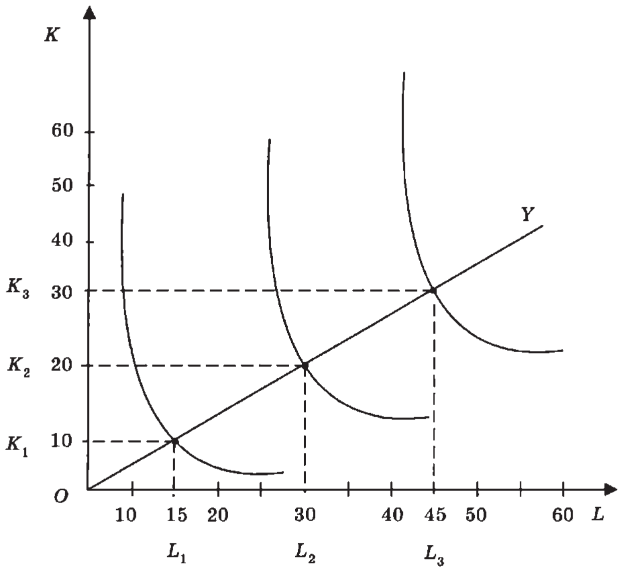

Figure 11.2. Economic growth based on the production function

Let 10 units of capital account for 15 units of labor, i.e. K:L = 2:3.

In fig. 11.2 depicts three isoquants, which show the various combinations of labor and capital required to produce a certain amount of product and income.

The isoquant (indifference curve) is a curve of equal-sized outputs of production volumes with various combinations of resources involved in production. The curve has a convex shape towards the origin, which indicates the interchangeability of resources.

The 0Y line represents economic growth. As you can see from the graph, for the production of 100 units product must be used 10 units. capital and 15 units labor. For the production of 200 units income - 20 units, respectively. capital and 30 units labor, etc. This means there is a constant return to scale.

11.3. Inflation, its essence, causes, types and socio-economic consequences

The inflation problem is an integral part of the theory of money.

Inflation is one of the most acute problems of modern economic development in many countries of the world, it negatively affects all aspects of society.

There are different views on the nature and causes of inflation, but two directions prevail: the first considers inflation as a purely monetary phenomenon caused by violation of the laws of monetary circulation; the second - as a macroeconomic phenomenon caused by the violation of the proportions of social reproduction, and above all between production and consumption, demand and supply of goods.

Meanwhile, inflation is a complex, multilateral phenomenon, the causes of which are in the interaction of factors in the sphere of production and the sphere of money circulation.

Inflation outwardly looks like the depreciation of money due to their excessive emission, which is accompanied by an increase in prices for goods and services.

However, this is only a form of manifestation, and not the deep essence and cause of inflation. Of course, inflation has its external manifestation in the rise in prices. But not every price increase is an indicator of inflation. Prices can rise as a result of improved product quality, worsening conditions for the extraction of fuel and raw materials, change under the influence of cyclical and seasonal fluctuations in production, natural disasters, etc. But these will, as a rule, not be inflationary, but to a certain extent natural periodic changes in prices for individual goods and services.

In fact, inflation is the result of an economic imbalance caused by a complex of *internal and external causes*.

The most important internal causes of inflation are:

- violation of the proportions of reproduction between production and consumption, accumulation and consumption, demand and supply, money supply in circulation and the sum of commodity prices;

- a significant increase in the state budget deficit and public debt, caused by unproductive government spending;

- excessive emission of paper money, which violates the laws of monetary circulation;

- the militarization of the economy diverts a significant part of resources to the defense industry, leads to an underproduction of consumer goods, creates a shortage of them;

- increasing the tax burden on producers;

- outstripping the growth rates of wages in comparison with the growth rates of labor productivity.

External factors of inflation are associated with increased internationalization of economic ties between states, accompanied by increased competition in world markets for capital, goods and services, labor, aggravation of international monetary and credit relations, with structural world crises (energy, food, financial, etc.).

Summarizing what has been said, we can give the following definition of inflation.

Inflation is the depreciation of money caused by imbalances in social production and violation of the laws of monetary circulation, which is expressed in a steady rise in prices for goods and services.

Open inflation develops freely and is not restrained by anyone.

Latent inflation is inflation when the state takes measures aimed at directly curbing prices for goods and services, on the one hand, and incomes of the population, on the other.

Creeping inflation is inflation that develops gradually when prices rise slightly (not exceeding 10% per year).

Moderate inflation (2-5% per year) in developed Western countries is not viewed as a negative factor. On the contrary, it is believed that it stimulates the development of the economy, gives it the necessary dynamism.

Galloping inflation - inflation when prices rise rapidly – by 10-100% annually. At the stage of galloping inflation there is a decline in production and a reduction in trade, the incentive to invest is lost, the process of social accumulation is restrained, the outflow of capital from the production sphere to the sphere of circulation is spreading, that is, there is an imbalance in the economic equilibrium.

Hyperinflation - inflation when prices rise astronomically – by 1-2% daily or reach 100% or more per year. It means a deep and social crisis in the country.

Balanced inflation - inflation when the prices of goods of different commodity groups do not change relative to each other. Prices rise rather slowly and at the same time for most goods and services.

Unbalanced inflation - inflation when the ratio of prices in different product groups changes by different percentages and in different ways for each type of product.

Expected inflation is usually moderate inflation that can be forecast for any period. Quite often, this is a direct result of the government's anti-inflationary actions.

Unexpected inflation is characterized by a sudden jump in prices due to an increase under the influence of inflationary expectations of the public demand of the population for consumer goods, commodity producers - for raw materials and means of production.

Demand inflation is an imbalance between supply and demand on the demand side.

It can be caused mainly by an increase in government orders (for example, military), the demand of entrepreneurs for means of production in conditions of full employment and almost full utilization of production capacities, as well as an increase in the purchasing power of workers (an increase in wages) as a result, for example, of concerted actions of trade unions. All this leads to the formation of an excess of money in comparison with the quantity of goods, leads to higher prices. Thus, an excess of means of payment in circulation creates a deficit in supply, when producers cannot adequately respond to an increase in demand.

Supply (cost) inflation is an increase in prices due to an increase in production costs or a decrease in aggregate supply.

The economic consequences of inflation.

First, inflation destroys normal economic ties, increases chaos and disproportions in the economy, disorganizes the investment process, since with an unrestrained rise in prices, the goal of production (profit) can be achieved without production growth.

Secondly, capital flows from the sphere of production to the sphere of circulation, primarily into speculative commercial structures, where they turn around faster and bring huge profits, and also move abroad in search of profitable use and guaranteed profits. Speculation, shadow economy and corruption are growing.

Third, the normal functioning of the monetary system is disrupted. The depreciation of money undermines incentives to accumulate it, giving rise to such a phenomenon as «flight from money», when entrepreneurs and the population prefer to invest money savings in goods, real estate and other material values. Loan agreements are broken, since during inflation it is unprofitable to provide long-term loans at low interest rates, since the creditor will have to receive debts in depreciated money.

Fourth, commodity-money relations are gradually being phased out and direct product exchange based on barter transactions is expanding. This leads to the loss of money of its economic functions, and the exchange relations return back to a simple, or accidental, form of value.

Fifth, inflation also negatively affects the international economic and monetary position of the country. It undermines the competitiveness and export of domestic goods, while at the same time stimulates the import of goods from abroad, since they are sold at higher prices in the domestic market. Inflation restrains the inflow of foreign capital, reduces the official and market rates of the national currency through its depreciation.

Social consequences of inflation.

Economic science believes that inflation is a kind of tax, which the state, by issuing unsecured money, additionally taxes the income of the population, which leads to negative social consequences. J. M. Keynes wrote that «by a prolonged process of inflation, governments can secretly and imperceptibly confiscate a significant part of the wealth of their citizens.»

First, inflation lowers the standard of living of all segments of the population, especially those with a constant income, since the growth rate of income lags behind the growth rate of prices for goods and services.

Second, inflation devalues the population's previous cash savings in banks, insurance policies, annuities, and other fixed value paper assets.

Third, inflation increases unemployment, undermines the motivation for effective labor activity, increases social differentiation of the population and social tension in society.

Anti-inflationary government policy.

To combat inflation, the state pursues an anti-inflationary policy, which provides for the implementation of tactical (short-term) measures to reduce the level of existing inflation and strategic (long-term) measures aimed at preventing inflation in the long term.

The main measures of anti-inflationary state policy include:

- production growth and market saturation with goods;
- limiting the issue of money;
- overcoming the state budget deficit;
- stimulation of savings and investments;
- pursuing a sound credit policy;
- reduction of tax rates;
- carrying out privatization and stimulating the development of medium and small business;
- increase in non-cash turnover;
- widespread introduction of an electronic settlement system;
- reduction of barter transactions;
- regulation of the exchange rate;
- development of the securities market;
- suppression of inflationary expectations of the population;
- Conducting monetary reforms of the confiscatory type.

Deflation is a general decline in the average price level in the economy. The opposite process to inflation.

Topics for reports to Section 11

1. The cyclical nature of the development of a market economy.
2. State regulation of the economy.
3. The essence of reproduction. Realization conditions for simple and extended reproduction.
4. Classification of cycles by reasons of occurrence.
5. Causes of unemployment and methods of combating unemployment.
6. Methods to reduce inflation in the country's economic system.

Theoretical questions to Section 11

1. What caused the cyclical form of economic development? Is humanity able to avoid cyclical fluctuations in the economy? Give reasons for your position.
2. Give a comparative description of the theories of cyclical fluctuations, illuminated by M.I. Tugan-Baranovsky.
3. Describe short, medium and long cycles and reveal the consequences of their interaction.
4. Analyze the four phases of the classic 19th century industrial cycle.
5. Expand the features of modern economic cycles. What are they caused by?
6. Give a definition of a recession.
7. Explain the inconsistency of the impact of cyclical development on the economy.
8. What are non-cyclical fluctuations in the economy? How do they affect the state of the national economy?
9. Describe structural crises.
10. What caused financial crises and what are the consequences of their impact on the economy?
11. Expand the causes, content and consequences of environmental crises.
12. Give a definition of unemployment as an economic and socio-economic phenomenon.
13. Give a definition of the category of "labor force" and describe its structure.
14. What part of the population, according to the ILO concept, is classified as an economically active population? Why?
15. Give the definition of voluntary and forced idleness. What are the implications of these concepts for the analysis of macroeconomic instability?
16. What is full time employment? When is it achieved?
17. What indicators of measurement of the unemployment rate do you know?
18. Explain the inconsistency of the impact of unemployment on the economy.
19. Formulate Okun's (Perch) law and justify its content.

20. Give a definition of economic growth and reveal its impact on social development. What types and theoretical concepts of economic growth do you know? Expand their content.

Test tasks 11

1. Isoquanta is:

a) production capability curve;
b) the indifference curve;
c) demand curve;
d) supply curve;
e) opportunity cost curve.

2. Depreciation of money caused by imbalances in social production and violation of the laws of monetary circulation, which is expressed in a steady rise in prices for goods and services:

a) stagnation;
b) stagflation;
c) deflation;
d) inflation.

3. Unemployment as an economic phenomenon is associated with:

a) with an excess of the supply of the labor resource over the demand for this resource;

b) when the demand for a labor resource exceeds the supply for this resource;

c) with an increase in the supply of labor resources and the demand for this resource;

d) with a decrease in the supply of the resource of labor and the demand for this resource.

4. The unemployment rate is determined:

a) economically inactive population / number of unemployed;
b) the number of workers / the number of unemployed;
c) the number of unemployed / labor force;
d) the number of unemployed / economically inactive population.

5. The phase of the economic cycle, which is characterized by a decline in production, is located between its highest and lowest points:

a) trend;
b) recession;
c) expansion of production;
d) boom;
e) bottom.

6. What form of unemployment does not exist:

a) frictional;
b) absolute;
c) structural;
d) cyclic.

7. Economic growth, which is carried out through the effective, productive use of resources based on scientific and technological progress and the best forms of organization of production:

a) extensive;
b) intensive;
c) relative;
d) mixed.

8. According to the concept of the International Labor Organization (ILO), people are considered to be able to work if they are:

a) from 18 to 70 years old;
b) from 18 to 55 years old;
c) from 15 to 55 years old;
d) from 15 to 70 years old.

9. Economic growth, which is carried out by increasing the volume of resources involved in the production process:

a) extensive;
b) intensive;
c) relative;
d) mixed.

10. This concept is based on an understanding of how rational society is. This theory was founded by our compatriot Academician V. Vernadsky:

a) zero economic growth;
b) sustainable economic development;
c) noospheric development;
d) innovative economic growth.

Practical tasks 11

Task 1.

Let us assume that the population of the country is 188.1 million. The total number of employed is 119.0 million, and 6.5 million are unemployed and are actively looking for it.

Calculate the unemployment rate.

Task 2.

The population is 100 million people, 24 million people - children under 16 years old, 30 million dropped out of the labor force, 4 million 600 thousand people - the unemployed.

Determine the size of the labor force and the unemployment rate.

VOCABULARY

A ballroom store is a retail trade enterprise that sells from catalogs.

A bill of exchange is a written promissory note in the form established by law, issued by the borrower (debtor, drawer) to the creditor (payee), which gives the latter the right to demand from the debtor the return of the amount specified in the bill of exchange within a certain period.

A bond – is a document certifying the transfer of money into debt for a certain period with the right to receive an annual fixed income and an obligation to return the amount of debt within a certain period.

A businessman is a person who has his own business.

A coin is an ingot of a monetary metal of a certain weight, shape, standard and denomination, legalized by the state as a medium of circulation.

A commodity is an economic good that satisfies a specific human need and is used for exchange (buying and selling on the market).

A family business is an economic entity based on the property and labor of members of one family living together.

A large enterprise is an economic entity of any legal form and form of ownership where the average number of employees in a reporting period (a calendar year) is more than 250, and the annual income from any activity exceeds an amount equivalent to EUR50 million, calculated based on the average annual exchange rate published by the NBU.

A legal entity is a subject of civil law which has the following features: independence of its functioning from natural persons which are part of it; availability of its own property separated from the property of the participants; the right to acquire, use, and dispose of the property; the right to implement, on its own behalf, other actions permitted by law; the right, on its own behalf, to resolve disputed issues regarding its activity and conflict situations in court or by arbitration; independent property liability; availability of a settlement account and other accounts in banks, independent balance, seals with its name, trademark, etc.

A medium-sized enterprise is an economic entity of any legal form and form of ownership which cannot be classified as a micro-enterprise, small or large enterprise.

A mixed economy is an economy of equal functioning of all forms of ownership in a market economy.

A mixed enterprise is an economic entity based on joining up the property of different owners.

A monopoly high price is a kind of market price for a good or service that is set by the monopolies above the value of the good and provides them with a profit.

A monopoly low price is set for goods and services that are purchased by large companies, for component parts in small and medium-sized companies through a contract system; for raw materials purchased from developing countries; for goods manufactured in the public sector of the economy, etc.

A municipal enterprise is an economic entity based on the property of administrative territories.

A private enterprise is an economic entity, based on the property of an individual citizen, with the right to hire a workforce.

A small enterprise is an economic entity of any legal form and form of ownership where the average number of employees for a reporting period (a calendar year) is less than 50 persons, and the annual income from any activity does not exceed an amount equivalent to EUR10 million, calculated based on the annual average exchange rate published by the NBU.

A state-owned enterprise is an economic entity based on the public property.

Absolute monopoly is a situation in which there is only one seller and many buyers on the market who have no choice, and therefore are forced to purchase the necessary goods at the proposed price.

Accounting profit is defined as the difference between gross income (revenue from product sales) and accounting (external) production costs.

An auditing firm advises on accounting and control of financial activities for conducting economic and financial audits; management through the accounting system; prepares conclusions regarding the reliability of the financial statements of firms subject to audit control.

An employee-owned enterprise is an economic entity based on the property of the labor collective of an enterprise, cooperative, another statutory partnership, public or religious organization.

An individual enterprise (sole proprietorship) is a business arrangement based on the personal property of an individual and exclusively on their labor.

Assignment is a process that arises as a result of a combination of an object and a subject of appropriation, that is, it is a concrete social way of mastering a thing.

Balanced inflation - inflation when the prices of goods of different commodity groups do not change relative to each other. Prices rise rather slowly and at the same time for most goods and services.

Belongingness and love needs are the needs for communication, the presence of friends, the availability of information support for people.

Benefits - everything that is capable of satisfying human needs, for example, the fruits of nature, products of labor, services, phenomena that satisfy certain human needs, meet his interests, goals and aspirations.

Broker is a reseller who ensures the conclusion of transactions at the request of clients and at their expense.

Capital concentration is the process of capital growth by converting part of net income into capital (capitalization of part of net income).

Capital concentration is the process of increasing the size of individual capital through capitalization of profits, i.e. using a certain part to expand production.

Capital intensity is an indicator close to the index of capital intensity of production.

Capital intensity productive fixed capital is the inverse indicator of capital productivity, which shows the cost of production assets costs per unit of output.

*Capital i*s an economic resource, which is defined as the totality of all technical, material and monetary resources used to produce goods and services.

Capitalist property is characterized by the concentration of the entrepreneur's property rights to the means and results of labor and the absence of ownership of the employee who has personal freedom.

Centralization of capital is a process of voluntary pooling of capitals (corporatization) or absorption by some capitals of others, as a result of which there is a process of enlarging production.

Centralization of capital is an increase in the size of capital due to the absorption or combination of several previously independent individual capitals into one, larger one.

Certificate (deposit) - a financial document issued by a bank, certifying the presence of a cash deposit and the obligation to pay this amount to the certificate holder within a certain period.

Civilization is a historical, concrete state of society, which is characterized by a special way of labor, a certain social production technology and the corresponding material and spiritual culture.

Commodity production is a form of organization of a social economy in which products are produced not for consumption by their producers, but specifically for exchange, for sale on the market.

Competition - economic rivalry, the struggle between business entities for the best conditions for the production and sale of goods and services in order to obtain the greatest possible profit.

Competition in the most general sense means that what one of the economic entities does, others can freely do.

Competition legislation is a set of laws, regulations and instructions that determine the legal framework for supporting and protecting economic competition and limiting monopoly in business.

Complementary goods are those goods, the consumption of one of which necessarily requires the consumption of others.

Concentration of production - the process of increasing concentration of production in large enterprises.

Cooperative property is the joint property of members of a separate cooperative, created on a voluntary basis to carry out joint

Corporate (shareholding) property is capital formed through the issue and sale of shares.

Creeping inflation is inflation that develops gradually when prices rise slightly (not exceeding 10% per year).

Criteria of economic progress are signs, indicators, on the basis of which the assessment of the essence, including quality, of the progressive development of the economic system and the main productive force - the person - is substantiated.

Cross-elasticity of demand is the sensitivity of consumer demand for good A to changes that have occurred in the price of related good B.

Currency exchange - an exchange that regularly and orderly buys and sells foreign currency at market prices.

Dealer - an exchange intermediary, buys and sells only for himself and at his own expense.

Demand inflation is an imbalance between supply and demand on the demand side.

Denationalization is a concept that reflects a whole range of relations for the transfer of state property to other forms.

Depreciation rate - expressed as a percentage, the ratio of the annual depreciation amount to the value of the elements of fixed capital

Dialectics as a method is a method of cognition common to all sciences, including economic theory.

Discriminatory prices are different prices for the same product for different buyers.

Dumping prices are very low prices for goods when they are sold in domestic and foreign markets in order to ruin and eliminate competitors from already mastered markets, over time, makes it possible to compensate for their losses by a significant increase in the prices of goods.

Economic (imputed) costs are expenses that an entrepreneur has to carry out in order to divert resources from their alternative use.

Economic benefits are the benefits of a person's economic (labor) activity, which exist in limited quantities.

Economic growth is the development of the national economy over a certain period, measured by the absolute growth in gross domestic product (GDP), gross national product (GNP) and national income (NI).

Economic interests are a category that expresses the conscious economic needs of individuals, social strata, groups and classes, which are manifested in the set goals, specific tasks and actions to achieve them.

Economic needs are the desire of consumers to purchase and use various goods and services that benefit them.

Economic principles are theoretical generalizations containing assumptions, averaging, which reflect certain trends in the development of the economic system.

Economic profit is defined as the difference between gross income and economic (external and internal, taking into account normal profit) production costs.

Economic progress is the progressive development of the entire economic system, each of its elements and subsystems, on the basis of which social progress occurs.

Economic theory is a science that studies the laws of development of the economic system arising from the production and appropriation of goods and services in all spheres of social reproduction, as well as those aspects of the evolution of the national consciousness of the spirit of the people, its culture, psychology, morality and behavior that affect the process economy.

Economic theory is the science that studies the actions of people in the process of choosing rare resources for the production, exchange, distribution and consumption of goods and services.

Elasticity of supply is the sensitivity of supply to changes in the price of goods that the entrepreneur is willing to put on the market.

Entrepreneurship is a rather broad and multidimensional phenomenon

Esteem needs (the need for growth and respect) - this includes intellectual development, professional development, career.

Exchange is an organizational and legal form of wholesale trade in bulk goods according to standards and samples (commodity exchange) or systematic transactions for the purchase and sale of securities (stock exchange), currency (currency exchange), labor (labor exchange), charter agreements (freight exchange)/

Exchange value is certain quantitative ratio (proportion) in which goods of one kind are exchanged for goods of another kind.

Expected inflation is usually moderate inflation that can be forecast for any period.

Expropriation is the deprivation of the subject of the right to own, use and dispose of this or that property object.

External (explicit or explicit) costs - the cost of paying for economic resources, suppliers of which are not the owners of the company (cash costs for the purchase of raw materials, fuel, equipment, labor and transport services).

Factors of production are all the necessary elements that are used to produce material and spiritual wealth.

Fictitious capital is capital represented in securities (stocks, bonds, etc.), which regularly brings income to their owner and carries out an independent, different from real capital, movement in the securities market.

Fungible goods are goods that are able to satisfy the same need independently of each other.

Galloping inflation - inflation when prices rise rapidly – by 10-100% annually.

Goods below normal are goods for which the demand for which decreases as the income of consumers grows (low-quality goods, repair services for clothes and shoes, etc.).

Human capital is a certain stock of knowledge, skills, abilities, motivations and health status formed as a result of investments and accumulated by a person, which are expediently and effectively used in a particular sphere of social production.

Hyperinflation - inflation when prices rise astronomically – by 1-2% daily or reach 100% or more per year.

Industrial capital - capital that is used in the field of material and non-material production in order to make a profit.

Industrial infrastructure - is a complex of industries serving the main production and provides effective economic activity at each enterprise and the national economy as a whole.

Inflation is one of the most acute problems of modern economic development in many countries of the world, it negatively affects all aspects of society.

Infrastructure is a complex of branches of the national economy, the sphere of material and non-material production, serving industry and agriculture.

Infrastructure is the foundation, the foundation of the economic system and its subsystems, its internal structure, which ensures integrity.

Internal (implicit, or implicit) costs - the costs of the firm to use its own (unpaid) resources. Implicit costs include the lost income by the entrepreneur from a profitable alternative use of its own resources.

Labor collective property - joint property transferred by the state or another entity to the disposal of the enterprise collective (on terms of purchase or lease), which is used in accordance with applicable law.

Labor intensity is the inverse of labor productivity, which reflects the amount of living labor expended on the production of a unit of output.

Labor is a purposeful, conscious activity of people, in the process of which they modify the external nature, mediate, regulate and control the exchange of substances between man and nature and at the same time change and improve them.

Labor power (personal factor of production) is the ability of a person to wage labor, the totality of his physical and mental abilities.

Labor productivity at the macro level is defined as the ratio of national income to the average number of workers employed in its creation.

Labor productivity at the micro level is defined as the ratio of the volume of products produced to the number of workers employed in its production, or the number of man-hours worked over a certain period of time.

Latent inflation is inflation when the state takes measures aimed at directly curbing prices for goods and services, on the one hand, and incomes of the population, on the other.

Loan capital - money capital provided in a loan and bringing the owner income in the form of interest.

*Marke*t - a system of economic relations associated with the exchange of goods and services based on the widespread use of various forms of ownership, commodity-money and financial-credit mechanisms.

Market infrastructure is a complex of institutions, services, enterprises, organizations that ensure the normal mode of smooth functioning of the market.

Marketing is a type of activity of firms related to the sale and sale of products includes: product development, market research, communication, distribution, pricing, service deployment, etc.

Material consumption is the inverse indicator of material efficiency, which characterizes the cost of material resources per unit of output.

Material efficiency characterizes the effectiveness of the items used, i.e. shows how many products are produced per unit of consumed material resources (raw materials, materials, fuel, electricity, etc.).

Means of labor - a thing or a set of things created according to the laws of nature, with which a person affects the objects of labor.

Moderate inflation (2-5% per year) in developed Western countries is not viewed as a negative factor.

Money circulation is the movement of money in cash and non-cash forms, serving the sale of goods and non-commodity payments in the economy.

Money is a special commodity that plays the role of a universal equivalent, acts as an intermediary in the exchange of goods and expresses economic relations between people regarding the production and exchange of goods.

Monopolistic competition is a situation in the market when a large number of manufacturers offer similar, but not identical products, i.e. it is based on product differentiation.

Monopoly profit - the profit of a company that has a monopoly position in the market.

Municipal (communal) property is property that is at the disposal of regional government bodies (region, city, district, etc.).

Nationwide property is the common property of all citizens of the country, which is not divided into shares and is not personified between individual participants in the economic process.

Natural production is a type of production organization in which people produce products to satisfy their own needs, that is, the products of labor do not acquire a commodity form and are intended for personal and domestic economic consumption by direct producers.

Need is an objective condition for human existence.

Non-economic benefits are provided to man by nature, that is, without the application of his labor, in unlimited quantities (for example, air, sea water, solar heat, etc.).

Normal goods are goods for which demand increases as consumer income rises.

Normal profit is the industry's usual income from economic resources; the minimum income that encourages the entrepreneur to continue the business while remaining in a specific area of the business.

Oligopolistic competition is a model of a market structure in which few large firms monopolize the production and sale of the bulk of goods.

Oligopoly is the leading market structure of the modern economy, which accounts for most of the output in developed countries.

Open inflation develops freely and is not restrained by anyone.

Paper money is signs, symbols, representatives of high-grade (gold) money in circulation, which are endowed with state power by a compulsory course of circulation.

Partnership property is a combination of capital or property of several individuals or legal entities.

Perfect competition is a market situation in which numerous independently operating producers sell identical products and none of them is able to control the market price.

Physiological needs are needs that are given along with birth and do not depend on heredity.

Private property is a type of property when the exclusive right to own, use and dispose of the property and receive income belongs to a private (natural or legal) person.

Privatization is only a stage of denationalization, which provides for the transfer of ownership of part of the means of production to workers or their sale as private property.

Production consumption is the consumption of means of production by the worker's labor force in the manufacture of a socially necessary product.

Production costs - a cost estimate of the costs of economic resources carried out by entrepreneurs for the production of products.

Production efficiency is a category that characterizes the return, production efficiency.

Profit mass is the absolute amount of profit in monetary terms.

Property is a complex and multifaceted category that expresses the entire set of social relations - economic, social, legal, political, national, moral and ethical, religious, etc.

Property is a set of relations between business entities regarding the appropriation of the means of production and its results.

Property right is a set of rights and norms of economic relations between individuals and legal entities, legalized by the state, which are formed between them regarding the appropriation and use of property objects.

Rarity is a characteristic of economic goods, reflecting the limited resources to meet the unlimited needs of society.

Real capital serves primarily the movement of industrial capital, plays a decisive role in generating income, being embodied in material, monetary and spiritual values.

Return on assets ratio is an indicator that characterizes the efficiency of the use of labor instruments, i.e. the amount of products produced from a unit of fixed assets.

Return on capital is the most important category of a market economy, complex and multifaceted in nature and in specific forms of manifestation.

Safety needs - these include the needs for work, the satisfaction of material benefits, the need for life safety and social protection.

Science is a specific form of human activity aimed at obtaining and systematizing new knowledge about nature, society and thinking.

Scientific abstraction as a method consists in in-depth knowledge of real economic processes by highlighting the main, most essential stable sides of a certain phenomenon, purified (abstracted) from everything secondary, accidental, inessential.

Simple commodity production is a small-scale production of individual independent artisans and peasants working for the market.

State property is a system of relations in which the absolute rights to manage and dispose of property are exercised by bodies (institutions) of state power.

Supply (cost) inflation is an increase in prices due to an increase in production costs or a decrease in aggregate supply.

Supply is the volume of goods and services that manufacturers want and can put on the market at different prices for a certain period of time.

The coefficient of cross-elasticity of demand is the ratio of the percentage change in demand for good A to the percentage change in the price of good B.

The coefficient of elasticity is a measure of the response of one variable to a change in another, expressed as a ratio of percentage changes.

The equilibrium price is not simply the price at which purchases and sales are balanced.

The final public product (FPP) is the entire mass of finished goods produced for a certain time, entering production or personal consumption, for the restoration of consumed means of labor and accumulation in finished form.

The Freight Exchange is a permanent market in which chartering and chartering of ships are concluded.

The gross public product (GPP) is the value of all goods and services produced in a country, including intermediate ones, for a certain period of time.

The intensification of production is manifested in the growth of social labor productivity (that is, in an increase in output from each unit of resources involved in production), in an increase in product quality and production efficiency.

The labor exchange is a government structure that mediates the relationship between employers and the hired labor force.

The main production is the branches of material production, where consumer goods and means of production are directly manufactured.

The market economy is one of the summits of social civilization, a brilliant invention of mankind, and has no alternative in the foreseeable historical perspective.

The method of economic theory is a set of techniques, means and principles with the help of which the categories and laws of the functioning and development of economic systems are studied.

The object of entrepreneurship is a set of certain types of economic activity, within which, by combining resources, the entrepreneur achieves the maximization of income.

The object of research in economic theory is an economic system that functions on the basis of certain production relations.

The objects of economic interests are economic benefits (goods, services, information, etc.).

The peculiarity of corporate property is that it combines the features of private and public property.

The price scale is a certain weight amount of a precious metal, which is legally established by the state as the country's currency and is used to measure commodity prices.

The property of public and religious associations is created at the expense of their own funds, donations from citizens or organizations, or by transferring state property.

The public product (PP) is the sum of all material and spiritual benefits created by society over a certain period of time, usually a year.

The rate of profit characterizes the degree of return on capital and is defined as the percentage ratio of the mass of profit to the total advanced capital.

The stock exchange is an organized securities market that performs the function of mobilizing funds for long-term investments in the economy and for financing government programs.

The subject of economic theory is the study of organizational, economic and industrial relations in their interaction with productive forces and the organization of management and effective management of the entire economy.

The subject of labor is the substance of nature, on which a person acts in the process of labor, subjecting it to processing.

The subjects of economic interests are separate individuals, households, collectives (groups) of people, society as a whole.

The subsistence minimum is the value of a set of food products sufficient to ensure the normal functioning of the human body, preserve its health, as well as the minimum set of non-food products and services necessary to meet the basic social and cultural needs of an individual.

The value of a commodity is the producer's public labor embodied in the commodity.

Trading capital - capital that functions in the field of commodity circulation, providing a trading profit.

Trading house - trading firms that purchase goods from manufacturers or wholesalers and resell them within their state or abroad.

Unbalanced inflation - inflation when the ratio of prices in different product groups changes by different percentages and in different ways for each type of product.

Unexpected inflation is characterized by a sudden jump in prices due to an increase under the influence of inflationary expectations of the public demand of the population for consumer goods, commodity producers - for raw materials and means of production.

Unfair competition is an uncivilized form of competition, which is manifested in the violation by the subjects of market relations of the current legislation, professional, ethical, moral norms and rules of conduct in order to achieve unlawful advantages in competition.

Universal exchange - an exchange that carries out transactions not only with a wide range of goods, but also with currencies, securities and freight contracts.

Usefulness among neoclassicists, in contrast to consumer value, is a purely subjective concept, individual for each specific person.

Voucher - is a property coupon issued in the course of privatization of state property for the acquisition of shares in enterprises subject to privatization.

Corruption - a negative social phenomenon associated with abuse of state power, selfish use of official powers, authority and opportunities for their implementation by employees to obtain personal benefits in personal or narrow group corporate interests.

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