

Sample essay on how the idea or scenario can help the business to maximize profit...

[Business](#), [Employment](#)



Application of Macroeconomic Theory in Business Profitability

Income and Employment Theory

Macroeconomics is a study that deals with economy's aggregate level or nationwide level. There are various macroeconomic theories that are being applied in order to achieve the business' profitability target. One of these theories is the Income and Employment theory. Specifically, it analyzes the relationship between the levels of prices and employment in an economy. This theory is important as it enables the government to craft policies, which have a large contribution to the overall stability of the economy through definition of interrelation of the factors involved. In relation, the employment level is one of the crucial variables in macroeconomics, which is often identified based on the employment rate. In definition, the term describes the fraction or proportion of the country's labor force that are unemployed, but aggressively looking for employment. Therefore, the term employment rate refers to the total number of both working and not working labor force. On the other hand, the income, otherwise economically known as the aggregate output, is another variable in macroeconomics that also contributes to the economy's stability. In fact, the economy's overall activity is being measured and summarized through the level of total output. Both output and income are interrelated with each other. For example, the total output or production of either goods or services will further produce income to the business. Therefore, the total output of the products is closely connected with the total income. Moreover, the market's income may depend on the employment rate as people may not have the buying power if

they belong to the unemployed labor force. In that case, a less chance of the market to consume products will directly affect the business' profitability. In that sense, better employment rate is closely related to better income from the output produced by the businesses. On the other hand, a higher unemployment rate would also decrease the potential profitability of the businesses.

The current application of this theory can be seen almost anywhere. Its philosophy can also be seen based on the activities of various businesses. The income and employment theory is also applied in many industries such as the food industry. As an example, this business' income depends on the number of customers that purchase their products. An upscale restaurant may have a lesser income than the fast food chains as far as the employment rate is concern. That is because lesser people are able to afford the price that the first offers. Economically speaking, the food industry may reduce their output based on the customer's demand, which will further affect the industry's aggregate income.

Scenario that this theory can be applied

One afternoon on a regular weekday, you are walking on the streets of New York City. Due to global recession, the number of workers in the city decreased exponentially. While roaming around the places, you passed by McDonalds and saw that there were about 30-40 individuals that were eating inside the fast food chain. You also noticed that almost half of these people are in between the age of late 20s and early 40s. Some were just reading newspapers while the others were just engaged in a casual conversation in

this early afternoon. Upon reaching the next street, you passed by this upscale restaurant and noticed that it was unusual to see 5 people dining inside. You learned in the economics class that the theory of income and employment are interrelated with each other. This scene portrays a reality that the unemployment rate in the country affected the people's capability to afford more expensive products. As an effect, people chose to buy products from McDonalds instead of dining in an expensive restaurant. However, the fast food's daily sale also decreased by 20% percent due to global recession. Thus, the upscale restaurant experienced a worse income for the last few years. In this case, the total income of both the employed and unemployed people directly affects these two businesses in terms of their total income. Due to decreasing profit, businesses are also likely to reduce their manpower, which will add up to the current unemployment rate. Therefore, by reducing the unemployed people, the aggregate income of other business industry is also at risk.

The scenario showed the interrelated effects between the unemployment rate and the aggregate business income. Economists will easily understand and predict the potential economic outcome of the scenario based on the variables that are involved in such event. Due to current instability, the government must do its part in order to regain a good economic activity. In order for businesses to maximize their profits in spite of the global recession, the government must help them in the process.

One of the ideas would be the reduction of income tax. If the tax payer's income is generally lower than the price of basic commodities, chances are,

people will not be able to buy the business outputs and keep their money as savings for future spending. In effect, businesses profitability will decrease, which might lead to cost reduction through manpower reduction. Ideally, the government may reduce tax so that consumers will be able to afford the products that businesses produce and therefore, reviving the theory's economic contribution. In this case, consumer will have more spending capability, which will further regain the profitability of the business as well as the aggregate income of the industry.