Business article review

Business Article Review The business article summaries the first quarter labor situation in the United s and their implications on business organizations. The article reported that as labor productivity in the country increased by 3. 2% relative to the 2005 level. This mount in productivity resulted in company's higher output. The real gross domestic product jumped to an annualized rate of 4. 8%, after registering only 1. 8% increase in the fourth quarter. However, the article also recognizes that in the long run, labor productivity is declining. It stated that " compared with the first quarter of 2005, output per hour rose 2. 4%, below the average annual increase of 3. 5% since late 2001." The previous rise in productivity necessitated higher wages. The Department of Labor reported that unit labor costs increased by 1. 4% while inflation-adjusted compensation rose to only 0. 4 %. The higher rate of increases in productivity relative to the mount in hourly wage indicates that " companies are still able to keep a significant share of productivity gains for themselves and their investors." An implication of this is that companies are able to keep a larger share of their revenue as gross profits which can dampen the possibility of inflation as they allow companies to absorb more costs. However, the article also recognized that as companies have strong pricing power, they are hesitant in absorbing higher input costs but are inclined to pass these costs to consumers. The decline in the number of unemployed is indicative of a strong job market (Whitehouse).

The article revealed the interrelation of different macroeconomic variables in the society as well as showed how the economic climate affects the position and decision making of business entities. The concepts such as inflation, productivity, and employment levels which are presently tackled in the class and their relationships are more elucidated and understood in the business article.

Theoretically, labor productivity and wages are closely linked. Accordingly, when output per worker increases, employees contribution to the company's revenue also increases causing companies to seek for more workers. The effect is a higher demand for workforce. As wages are determined by the labor supply and demand, an increase in demand will push labor up from the current level.

We can see this scenario in the business article summarized above. As employees' productivity mount, there had been adjustments in their wages to reflect their efficiency. The declining number of unemployed people in the United States can somehow mirror the higher demand for workers among industries.

Another theory which relates productivity to wages states that wages should equal to employees productivity. This makes sense as the value of worker should be reflected on what he contributes to a business organization. However, we can see that in the real life scenario revealed by the business article, workers' wages do not readily adjust to the increase in their productivity in the short run.

Labor productivity and wages are two important concepts in economic which have lots of implications. I believe that the article is a good way of learning more about economic concepts such as wages and productivity. As economics is a social science, it is extremely important that the concepts learned in classroom should mirror what is happening in the outside world. However, its is also important to note that as factors cannot be held in " ceteris paribus" in the real world, the effects of other variables or their exact relationships cannot be readily ascertained.

Works Cited

Whitehouse, Mark. May 5, 2006