International Journal of Innovative Research in Computer Science & Technology (IJIRCST)
ISSN: 2347-5552, Volume-10, Special Issue-6, June-2022
Innovative Projects 2022
Organized by Presidency University, Bangalore, India

Introduction to Determination of Income and Employment Income

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ABSTRACT

Income determination is a crucial component of economic analysis because it enables decision-makers in government, business, and society to gauge the health of an economy as a whole. Employment income is a crucial component of the overall framework for determining income because it serves as the main source of revenue for people and households. With an emphasis on job income, this chapter offers an introduction of the fundamental ideas, approaches, and elements involved in determining revenue. The analysis takes into account both the individual level of income determination and the total level of employment income in an economy, taking into account both microeconomic and macroeconomic views.

KEYWORDS:

Aggregate Demand, Demand, Employment Income, Independent Contractor, Level Employment.

I. INTRODUCTION

Because national income depends on total employment in the economy over the short term, income and employment are sometimes used interchangeably in macroeconomics. The calculation of income and employment has frequently been a key topic of discussion among economists.To assess the modern version of the employment theory proposed by J.M. Keynes in his book General theory of Employment, Interest and Money, it is necessary to first understand how classical economists have examined the determination of income and employment. The traditional view of employment makes the assumption that labor and other productive resources are fully utilised. The traditional economists also believed that full employment in the economy is caused by the flexibility of prices and wages. According to traditional economists, there can never be a general overproduction that leads to a general unemployment.

The economy may experience brief turbulence, but it quickly returns to normal. They consequently thought that there will always be a stable equilibrium at full employment. Government intervention or any other factors in a free-market economy could be the cause of any disturbances in the full employment condition. There is no chance of widespread unemployment or instability in the normal scenario, which is a stable equilibrium at the full employment level, because government does not interfere with free market operations. According to traditional theorists, market forces such as supply and demand dictate how resources should be distributed as well as what rewards they should receive[1], [2].

According to traditional economists, prices and salaries are variable. This contributes to full employment on its own. When the economy is generally overproducing, depression (a state in which all commercial activity is at a relatively low level) and hence widespread unemployment would occur. Therefore, prices would decrease. This then causes a rise in demand, which raises prices. As a result, commercial activity is boosted, and unemployment is eliminated. If wages are flexible, they may also contribute to a rise in unemployment. For instance, wages are reduced to spur demand for labor[3], [4].

Markets Law of Say

The law of markets developed by French economist Prof. J.B. Say serves as the cornerstone of traditional employment and income theory. According to this law, there is no chance for widespread overproduction and thus widespread unemployment in the economy. Say asserts that production creates the market for commodities; selling involves both buying and more production, which increases demand for other goods. Every producer locates a customer. This prevents widespread overproduction by automatically creating demand for whatever is supplied in the economy. It follows that supply creates its own demand. Production results in earnings for the factor resources used in it. The money made in this way is used to buy things made in the economy. As a result, income is created concurrently with the production of things in the economy. Thus, the market for commodities or demand is created through production.Say's law is that there should always be an acceptable amount spent on commodities to fully utilize available resources. Factor resources spend some of their money on purchases while saving some of it. However, the money saved in this way is used to buy capital items. Because of this, traditional economists assumed that investments and savings were equal. Since there is no chance that the income stream would stop flowing, supply will always generate its own demand. The current market rate of interest would equalize any discrepancy between savings and investments.

Principles of Say's Law

The following are the key presumptions of Say's law of markets:

1. There is a free exchange economy and no interference from the government. It adheres to the laissez-faire philosophy. The buying and selling of goods are completely up to the buyers and sellers.
2. The market is experiencing perfect competition.
3. The income stream remains uninterrupted. Everything that is earned is put to use. Additionally, it is believed that investments and savings are equal.
4. The amount of output restricts the market's size. On the grounds that supply does not generate its own demand and that a pay rate reduction cannot enhance employment during a slump, J.M. Keynes severely criticized the classical view.

Saving is a leak in the revenue stream that disrupts the economy's flow of income and expenditure. It prohibits using all of the income received to purchase what is created. The whole effective demand won't be sufficient to consume the entire supply of production unless investors are prepared to invest an equal amount of projected savings. The demand for both consumer and producer goods is referred to as effective demand. As a result, unemployment and general overproduction will occur. Different factors motivate different types of savers. Investors also have many motivations for making investments. Because planned investments and savings are made by different people for various reasons, there is no method to guarantee that they are equal. Savings are a result of income. It is based on the individual's income. On the other hand, the demand for investments depends mostly on the marginal efficiency of capital and the interest rate in the short term.

Long-term influences on investment demand include population increase and technological advancements. The yield anticipated from a new capital asset is known as marginal efficiency of capital (MEC). A businessman's propensity to invest depends on the marginal efficiency of capital. Investment is encouraged by high capital marginal efficiency. Given that wages comprise a significant portion of the population's income, Keynes suggested that a general decrease in wages won't lead to an increase in employment. Reduced purchasing power results in decreased demand for goods and services. Effective demand, or total expenditure, determines employment in the economy, not pay level. Say's law implies, in Keynes's view that a free-market economy is always at what Keynesian economists refer to as full employment. Say's rule thus fits within the broader framework of laissez-faire economics, which holds that the economy's problems in this case, recessions, stagnation, and involuntary unemployment can be resolved by free markets on their own. Government or the central bank action is not necessary for the economy to reach full employment. Modern advocates of Say's law even contend that such intervention is almost always ineffective[5]–[7].

II. DISCUSSION

Employment is a partnership between two people that governs the delivery of compensated work services. One party, the employer, who may be a business, a not-for-profit organization, a co-operative, or any other entity, pays the other, the employee, in accordance with the terms of a contract in exchange for doing the job that has been allocated to them. Employees perform work in exchange for pay, which may be made in the form of an hourly wage, piecework compensation, or an annual salary, depending on the nature of the work performed, the industry conditions in effect, and the bargaining power of the parties. In some industries, employees could get stock options, bonuses, or gratuities. Employees may also receive benefits in some jobs in addition to compensation. Health insurance, housing, and disability insurance are a few examples of benefits. Employment laws, organizational policies, and legal contracts are often what regulate employment.

Employers and Workers

Supervisor is not to be confused with this. Additional details: largest employers list, List of occupations and tradespeople. An employee is a person employed to execute particular tasks that are packaged into a job and who contributes labor and skills to an endeavor of an employer or of a person conducting a business or activity (PCB). An employee is a person who is engaged by a company on a regular basis to perform services for the firm in exchange for payment and who does not perform these services as a part of an independent business.The classification in general is covered in this section. See Independent contractor (disambiguation) for further usage. The classification of employees is a problem that affects most businesses, particularly those that participate in the gig economy. Many people who fill jobs are frequently hired as independent contractors.

An independent contractor must agree with the customer on what the finished work product will be before controlling the means and method of reaching the intended result. This distinction distinguishes independent contractors from employees. Second, an independent contractor provides services to the whole public, not only to one corporation, and is in charge of handling client payments, covering out-of-pocket costs, and supplying the necessary equipment to finish the task. Third, a formal agreement between the parties that states that the worker is an independent contractor and is not eligible for employee benefits, that the services they perform are not essential to the firm, and that the relationship is temporary frequently serves as documentation of the parties' relationship. There is a distinction between an agent and an independent contractor in the United States as a general rule of employment law. The ABC test can be used to establish a worker's status, which by default is an employee unless certain requirements are satisfied. Therefore, determining up front whether someone performing labor is an independent contractor or an employee, and treating them accordingly, can prevent issues later on for a business.

If certain conditions are met, such as regular payment, adherence to established working hours, receipt of tools from the employer, close supervision by the employer, acting on the employer's behalf, and working for only one employer at a time, the worker is considered an employee and the employer is generally responsible for their actions and required to provide benefits. In a similar vein, even in the lack of an invention assignment, the employer is the rightful owner of any innovation developed by an employee who was hired to invent. In contrast, unless the firm obtains a written contract specifying that it is a work made for hire or a legal assignment of the copyright, the company contracting a work by an independent contractor will not possess the copyright. An employer must be aware of the distinction in order to maintain protection and prevent legal action. In an organization, employer and managerial control exists on many levels and affects workers and productivity equally. Control is the key link between expected outcomes and actual operations. To have a profitable and fruitful working relationship, employers must strike a balance between interests like reducing pay restrictions and maximizing labor output.

Employing New Employees

The primary methods used by both employers and job seekers to locate one other are job listings in newspapers through classified advertising and online, often known as job boards. Professional recruitment consultants, who are paid a commission by the company to identify, screen, and choose qualified candidates, are another common method through which employers and job seekers connect. However, a study has revealed that such consultants might not be trustworthy if they don't choose staff based on accepted norms. A more conventional strategy is to post a Help Wanted sign within the business often on a window or door or positioned on a counter. While evaluating various personnel might be time-consuming, assessments are often the most effective way to build up strategies for skill analysis and talent measurement in the workplace. Employer and potential employee frequently go through the extra step of conducting a job interview to get to know one another. Wiki-training for staff at Katowice's Regional Institute of Culture 02 the term training and development describes an employer's efforts to provide newly hired employees with the skills they need to do their jobs and to advance within the organization. The right amount of training and development can increase workers' job happiness.

Remuneration

Employees can be paid in a variety of ways, such as hourly wages, piecework, annual salaries, or gratuities the latter of which is sometimes paired with another kind of payment. The employee may receive a commission, or a portion of the price of the items or services they have sold, in sales positions and real estate positions. Employees may be qualified for bonuses in particular specialties and occupations such as executive positions if they reach predetermined goals. A compensation strategy that has the additional advantage, from the perspective of the company, of helping to align the interests of the compensated individual with the performance of the company is the payment of some executives and staff in shares or stock options. A number of American states, most notably New York State law, have a doctrine known as the faithless servant doctrine that stipulates that an employee who acts dishonestly towards his employer must forfeit all of the pay, he received during that time.

Employee Advantages

Employee perks are a variety of non-wage payments made to workers in addition to their salaries or wages. Housing provided or paid for by the employer, group insurance (health, dental, life, etc. disability income protection, retirement benefits, daycare, tuition reimbursement, sick leave, paid and unpaid vacation, social security, profit-sharing, funding of education, and other specialized benefits are just a few examples of the benefits that may be available. Meals may be included in the benefits in specific situations, such as when workers are employed in remote or isolated areas. Benefits for employees can strengthen the bond between an employee and an employer and reduce staff turnover. Organizational justice is how an employee perceives and evaluates how they were treated by their company in terms of justice or fairness. Organizational justice also includes the subsequent steps taken to affect the relationship between the employee and the company.Employees can form trade or labor unions, which operate as the workforce's representative in negotiations with management of organizations over working conditions, contractual terms, and services[8], [9].

Terminating a Job

The relationship may typically be terminated at any moment by either the employer or the employee, frequently with a specific notice period. At-will employment is the term used for this situation. The contract between the two parties outlines each party's obligations in the event of a breakup and could include clauses stipulating notice periods, severance money, and security measures. An employment bond is a contract that forbids an employee from quitting their job under the penalty of a surety bond. Some employees may have tenure in certain professions, including teaching, public service, university professorships, and some positions with orchestras, which implies they cannot be fired arbitrarily. A layoff is another sort of termination.

Rebar is being assembled by a worker in Mazatlán, Sinaloa, Mexico, for a water treatment facility. The socioeconomic connection in which a worker sells their labor to an employer, either formally or informally, is known as wage labor. These exchanges often take place in a labor market where wages are determined by the market. Except in exceptional circumstances, such as the vesting of intellectual property patents in the United States, where patent rights are often vested in the original human creator, the labor product ordinarily becomes the undifferentiated property of the employer in exchange for the wages received. A person whose principal source of income comes from the sale of their labor in this manner is referred to as a wage worker.It presently dominates labor arrangements in contemporary mixed economies like those of the OECD nations. Even though most employment follows this structure, sometimes wage labors thought to simply refer to physical, unskilled, or semi-skilled labor. This is because the wage work arrangements of CEOs, professionals, and professional contract workers are confused with class assignments.

Article Focus

The institutionalization of wage labor in today's market economic systems has come under fire, particularly from socialists, who have used the derogatory phrase wage slavery to describe it. The sale of labor as a commodity is compared by socialists to slavery. Such comparisons are also known to have been made by Cicero. According to American philosopher John Dewey, politics will continue to be the shadow cast on society by big business until industrial feudalism is replaced by industrial democracy. According to Thomas Ferguson's investment theory of party competition, elections become occasions where investor blocs gather and compete to control the state plus cities due to the undemocratic structure of economic institutions under capitalism. According to American business theorist Jeffrey Pfeiffer, toxic workplaces, job insecurity, long hours, and increased performance pressure from management are among the employer commonalities and modern employment practices that are to blame for the 120,000 extra deaths that occur each year, making the workplace the fifth leading cause of death in the country.

Involuntary Unemployment and Complete Employment

Five main types of unemployment are identified by economists: cyclical, frictional, structural, classical, and Marxian. Different types of unemployment may coexist in the real world, and all five may be present at once. It is challenging to quantify the size of any of these, in part because they overlap and are challenging to distinguish from one another. All unemployment, with the exception of cyclical unemployment, can be viewed as existing at full employment, the level of employment and unemployment that serves as the demand-side growth barrier caused by inflation. Although there may be different sorts of employment such as frictional, structural, or voluntary employment, according to classical economists, full employment is a state in which there is no involuntary unemployment. As a result, full employment refers to an economic condition in which all available resources are being utilised. In other words, there is no deflationary unemployment, meaning that everyone who wants to work for the going rate of pay is actually employed. When a worker declines to work for the going pay, he is said to be voluntarily unemployed.

There is cyclical unemployment because the effective aggregate demand is insufficient. Its name comes from the fact that it fluctuates with the economic cycle, however it can also last for a long time, as it did during the Great Depression of the 1930s. Due to demand failure, for example, gloomy company expectations that discourage private fixed investment spending, the gross domestic product is not as high as it could be. This can also happen as a result of poor government spending, high taxation, insufficient consumption, or low exports relative to imports. In this situation, there are more unemployed workers than vacant positions, thus even if all open positions were filled, and some workers would still be without a job. This type of unemployment is related to idle capital goods and unused industrial capacity. According to Keynesian economists, the issue might be resolved by government deficit spending or by expanding the money supply by lowering interest rates. A worker may experience frictional unemployment if they are not given the proper training or are given the incorrect jobs. This kind of unemployment is brought on by the inactivity of the labor force, the seasonality of the work, the short-term scarcity of raw materials, the breakdown of machinery, etc.

In order to put it another way, it calls for people to temporarily switch occupations while looking for new ones; it is compatible with full employment. It is occasionally referred to as search unemployment and is thought to be mostly voluntary. It occurs when either employer's fire employees or employees leave their jobs, typically as a result of the employees' unique traits not matching those of the employment. This kind of unemployment is accompanied with an equal number of openings, and it cannot be resolved by stimulating aggregate demand. The greatest method to reduce this type of unemployment is to give companies and job seekers more and better information. The emphasis of an economy may theoretically be changed away from jobs with high turnover, potentially through the use of tax incentives or employee training initiatives. However, some frictional unemployment can be advantageous because it enables both employees and employers to select people who best advance their businesses' bottom lines. Wait unemployment is a particular type of frictional unemployment that results from the existence of some industries where employed employees are compensated above the market-clearing equilibrium pay. This not only limits employment in the high-wage sector but also draws candidates from other industries who are waiting to try to land jobs there.

The primary issue with this notion is that these people will probably wait while working so that they are not included in the unemployment statistics.When a substantial number of people are unemployed due to a lack of completely available cooperative production factors, structural unemployment is said to exist. Lack of land and capital in the economy could be producing structural unemployment. In other words, it involves a mismatch between the number of job seekers and the number of openings.The number of open positions may be equal to the number of unemployed people, but the unemployed people lack the necessary qualifications for the open positions or are in the incorrect region of the country or the world to accept them. That is, matching workers with employment is quite expensive. The dynamic shifts in a capitalist economy, such as capital flight and technological progress, lead to structural unemployment. Workers are left behind as a result of migration and training expenses, as well as labor market inefficiencies.

With the exception of the fact that it lasts longer, structural unemployment is difficult to empirically distinguish from frictional unemployment. The pain is also increased. Similar to frictional unemployment, this sort of unemployment cannot be quickly eliminated by simple demand-side stimulus. Better remedies include direct attacks on the labor market's issues, such as training initiatives, mobility subsidies, or anti-discrimination laws. The preservation of strong aggregate demand may strengthen these programmers, making the two types of policy complimentary. Persistent cyclical unemployment may also contribute to structural unemployment because it demoralizes many jobless people and renders their skills such as job-searching abilities out of date and obsolete. This is the case in economies that have experienced persistently low aggregate demand. Debt issues may result in homelessness and a descent into a cycle of poverty. This implies that they might not be a good fit for the openings generated when the economy improves. It follows that persistently high demand may reduce structural unemployment. However, it may also promote inflation, necessitating the use of some wage and price regulations in addition to certain labor-market measures.Many instances of technological unemployment, such as those brought on by the automation of labor, may be considered structural unemployment.

An alternative definition of technical unemployment is the reduction in the number of workers required to create a given level of output as a result of consistent advances in labor productivity. The fact that this issue can be resolved by increasing aggregate demand shows that cyclical unemployment is to blame. Since seasonal unemployment is associated with specific job types like construction labor, migrant farm work, etc., it may be considered a form of structural unemployment. When there is insufficient aggregate effective demand for jobs, people who are willing to work at the current wage level or a little less often find themselves involuntarily unemployed. When there is involuntary unemployment, the level of full employment is not reached by the aggregate demand and supply. In other words, the equilibrium reached is the equilibrium of underemployment. Full employment is a state of employment when a rise in effective demand does not result in an increase in output or employment, according to J.M. Keynes. In other terms, full employment refers to a state of employment in which the available economic capacity is fully utilised.

Beyond that point, an increase in effective demand does not lead to an increase in output or employment. Total spending on consumption and investment constitutes effective demand.It is the whole demand for output. Depicts a situation with full employment. Take note that AD = AS at full employment. The point of effective demand is pointing E, where total supply and total demand are equal. Effective demand is the amount of money that consumers actually spend on the goods produced in an economy. Wages, rent, interest, and profit are all examples of ways that producers divide the proceeds from the sale of their goods to other parties. Effective demand is therefore equal to national income divided by national output. Since the level of employment is determined by the economy's overall demand, the notion of effective demand plays a significant role in the Keynesian theory of employment. Unemployment is a result of a lack of effective demand.The following are significant factors that affect effective demand.

A function of aggregate demand it represents a schedule of earnings or funds anticipated from the sale of the production generated at various output levels. In other words, the amount of money that all producers in the economy anticipate earning from the sale of the goods and services produced by the employed workers is the aggregate demand price at any level of employment. Thus, unlike when determining demand for a specific firm's products, aggregate demand is assessed in terms of the amount of labor employed rather than a unit of a commodity. Aggregate demand is a function of employment that rises with time. It demonstrates a rise in aggregate demand price as employment grows. Aggregate supply function this is a timetable that outlines the minimal sums of money that must be made in order to persuade producers to provide various levels of employment. In other words, aggregate supply price is the least amount of money that can be expected to be made from the sale of the product that results from a certain level of employment. These are therefore the minimal predicted sales proceeds that producers must get in order to be persuaded to create a specific number of jobs. This is another growing aspect of employment.

III. CONCLUSION

Income and employment income determination is a complex process that takes into account a variety of macroeconomic and individual factors. An individual's employment income is significantly influenced by a number of microeconomic variables, including skills, credentials, productivity, and labor market dynamics. On a macroeconomic level, elements such as economic expansion, inflation, and governmental policies affect the overall level of employment income in a country. Numerous methodologies are used in the study of how income is determined, including both quantitative and qualitative techniques, including case studies and interviews, statistical analysis, and econometric modelling. A thorough grasp of income trends, distribution, and the underlying causes of income inequality can be attained by researchers by combining various methodologies.

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