

## Factor Rewards



### Income

The main sources of income for people are:

1. **Wages and salaries from a job** often boosted by overtime and productivity bonuses
2. **Interest from savings**
3. **Dividends** from share ownership
4. **Rent income** from the ownership of property

The government can change people's **disposable income** by taxing incomes and providing **welfare benefits** to households on lower wages or to those who are out of work.

### Wealth

Wealth is defined as a **stock of assets** that, in turn, creates a **flow of income**.

- **Financial wealth** – e.g. stocks and shares, bonds, savings in bank and building society accounts and contributions to pension schemes.
- **Marketable wealth** – items that can be sold for a price e.g. rare antiques and fine wines.
- **Social capital** – social infrastructure such as transport systems, schools and hospitals.

It is important to distinguish between income and wealth. For example, if you receive a higher wage or salary, this adds to your monthly income and if this is saved in a bank, or by making contributions to a pension fund then you are accumulating wealth. Being wealthy can generate income for if you own shares in companies you expect to receive **dividend income** perhaps once or twice a year. Money in savings accounts pays interest. Likewise, if you own properties you can **rent it out to tenants**.

### Inequality in income and wealth

The distribution of income and wealth in the UK and in [many other countries](#) is highly unequal and there is a huge **gap between the richest and poorest households**. For example, the latest data



shows that 94% of the total wealth in Britain is held by 50% of the population. Globally, the United Nations has reported that [the World's richest 1% own 40% of all wealth](#).

Millions of people rely on relatively low incomes with little opportunity to accumulate wealth. Is this fair? What are the [consequences of a high level of inequality](#)? Should the government intervene to change the distribution of income? These are important questions for economists.

- **Labour and Wages:** In industries and jobs where labour is not scarce, wages tend to be lower. Millions of workers in the UK are paid hourly wages well below the national average. The [minimum wage](#) seeks to address some of the problems associated with low pay. On the other hand, some people have [skills](#) that are rare, and these people will command high salaries in the [labour market](#).
- **Capital and Interest:** Businesses often need to borrow money to fund investment. The reward for investing money is interest. Interest rates can of course go up or down. If the interest rate is high, it becomes less worthwhile to borrow money because any project will have to make more money than before to be profitable since more interest is being paid.
- **Enterprise and Profit:** In return for having innovative business ideas and taking the risk in putting funds into a business the entrepreneur takes any money that the business has left after the other factors of production have received their rewards. This is called **gross profit**. Taxes then have to be paid to the government, and the entrepreneur takes what is left. This after-tax profit is called **net profit**.

## Business Objectives

Economists often assume that one of the main objectives of a business is to achieve **maximum profits**. But this is not always the case! Some businesses are looking to achieve **a rising market share** and increasing market share might mean having to sacrifice some profits in the short run by cutting prices and under-cutting rival suppliers in the market.

There is also a growing interest in the concept of **social enterprises**, **ethical businesses**, and **corporate social responsibility** where the assumption of firms driven solely by the profit motive is being challenged and where businesses are encouraged to take account of their economic, social and environmental impacts. The [rise of consumer power](#) in influencing the decisions of businesses is part of this trend. Social network sites such as Twitter and Facebook may be giving consumers increased influence in shaping the decisions of many different businesses.

## Suggestions for further reading on factor rewards

[The rising gap in health inequality in the UK](#) (BBC news, July 2010)

[London living wage rises to £7.85 an hour](#) (BBC news, May 2010)

[Household wealth grows five-fold in past 50 years](#) (BBC news, May 2010)

[BBC news articles on business profits](#)

[Guardian news articles on social enterprises](#)

