



KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF
ECONOMICS/ECONOMETRICS/FINANCE AND BACHELOR OF COMMERCE

EAE 304: LABOUR ECONOMICS

DATE: Friday, 9th February, 2018

TIME: 4.30 p.m. - 6.30 p.m.

INSTRUCTIONS:

Answer question **ONE**, and any other **TWO** questions. Question carries 30 marks and all other questions carry 20 marks each.

QUESTION ONE (COMPULSORY)

a) Explain the following concepts as used in labour economics

- i) Non sequential job search
- ii) Labour shirking
- iii) Frictional Unemployment
- iv) Reservation wage

(8 marks)

b) A worker derives satisfaction from the consumption of goods (C) and leisure (L). The worker has a total time of 168 hours per week that she allocates to work and leisure. The hourly wage is Kshs 5 and the worker has some investments that pay Ksh.320 per week. The worker's preference between Consumption of goods (C) and Leisure (L) is expressed as

$$U(C, L) = CL - 200L - 80C + 1600$$

Required:

- i) Graph the worker's budget line and label it clearly. (2 marks)
- ii) Find the worker's marginal utility of consumption and leisure (2 marks)
- iii) What is the worker's marginal rate of substitution when $L = 100$ and she is on her budget line? (3 marks)
- iv) Calculate the worker's reservation wage? (2 marks)

- v) Find the worker's optimal amount of consumption and leisure. (3 marks)
- c) Adam Smith in "The Wealth of Nations", (1776) observed, "investment in human resources yields benefits to the individual as well as to the nation." Discuss why individual chooses to go to school and how this influences the evolution of earnings over individual's life cycle. (10 marks)

QUESTON TWO - (20 MARKS)

- a) Construction workers in India are paid lower wages than their counterparts in U.S.A. Discuss five labor market frictions which explain why this is the case. (10 marks)
- b) "Wages tend to settle at the level just suffice to maintain the worker and his family at a minimum subsistence level", critically discuss this statement with reference to appropriate wage theory. (10 marks)

QUESTION THREE - (20 MARKS)

- a) Using examples from Kenya, describe why occupational wage difference exist in the market. (10 marks)
- b) With relevant examples, discuss five ways in which trade unions are beneficial to its members. (10 marks)

QUESTON FOUR - (20 MARKS)

- a) Discuss the concept of dual market labour hypothesis and how it explains male/female wage differential. (10 marks)
- b) In the labour markets, conditions for competition do not hold because of a number of hindrances towards downward mobility of wages. Discuss with relevant examples any five limiting factors to the flexibility of wages downwards. (10 marks)

QUESTIONFIVE - (20 MARKS)

- a) Discuss any five advantages of immigration on Labour Markets. (10 marks)
- b) Using a well labeled diagram, demonstrate your understanding of the effect of wage cut on the input mix in the production process. (10 marks)