KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF ECONOMICS AND FINANCE AND BACHELOR OF COMMERCE

EAE 304: LABOUR ECONOMICS

DATE: Tuesday, 29th November 2016 **TIME:** 11.00 a.m. - 1.00 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

a) Distinguish between the following terms as used in labour economics:

i. Occupational and demographic mobility (2 Marks)

ii. Monopsonic an monopolistic labour markets (2 Marks)

iii. Segmented and dual labour markets (2 Marks)

iv. Structural and cyclical unemployment (2 Marks)

b) Suppose the hourly wage is Kshs10 and the price of each unit of capital is Ksh25. The price of output is constant at Kshs50 per unit. The firm's production function is given as: $f(L,K) = L^{\frac{1}{2}}K^{\frac{1}{2}}$

Required:

(i) If the current capital stock is fixed at 1,600 units, how much labour should the firm hire in the short run? (8 Marks)

(ii) How much profit will the firm earn (4 Marks)

c) Debbie is about to choose a career path. She has narrowed her options to two alternatives. She can either become a marine biologist or a concert pianist. Debbie lives two periods. In the first, she gets an education. In the second, she works in the labor market. If Debbie becomes a marine biologist, she will spend $15,000 on education in the first period and earn $472,000 in the second period. If she becomes a concert pianist, she will spend $40,000 on education in the first period and then earn $500,000 in the second period.

i) Suppose Debbie can lend and borrow money at a 5 percent rate of interest between the two periods. Which career should she pursue? What if she can lend and borrow money at a 15 percent rate of interest? Will she choose a different option? Why? (6 Marks)

ii) Suppose the musical school raise tuition fees so that it now costs Debbie $60,000 to become a concert pianist. What career should Debbie pursue if the interest rate is 5 percent?(4 Marks)

QUESTION TWO

a) Using a well labeled diagram, demonstrate the effect of a wage cut on the demand for labour holding constant the cost of capital (10 Marks)

b) With relevant examples, discuss the argument in favor of minimum wages in your country (10 marks)

QUESTION THREE

a) The general objective of a labour union is to increase the wage of union members through modifying wages rendering the competitiveness of labour markets ineffective. Discuss how unions succeed in achieving this objective (9 Marks)

b) Using a well labeled diagram, illustrate how an individual makes the decision of entering the labour market or not highlighting the motivating factor behind the decision (11 Marks)

QUESTION FOUR

a) Discuss the criticisms of the wage fund theory (10 Marks)

b) By a use of a graph, demonstrate why the labour supply curve is backward bending (6Marks)

c) Give a brief explanation of the following concepts as used in labour economics

(i) Asking wage (2 Marks)

(ii) Shirking (2 Marks)

QUESTION FIVE

a) Labour markets do not often operate under competitive conditions due to some features inhibiting money wages flexibility. Discuss any five features that prevent downward flexibility of wages (10 Marks)

b) Using a well labeled diagram, illustrate why wages are higher than the market wages in monopolistic union markets (6 Marks)

c) What are the Factors that may affect a worker's mobility decision? (4 Marks)