



# MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 304 LABOUR ECONOMICS

DATE: 4/12/2019

TIME: 2.00-4.00 PM

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## INSTRUCTIONS:

- (i) Answer question **ONE** and any other two questions
- (ii) Do not write on the question paper
- (iii) Show your working clearly

## QUESTION ONE

- a) Differentiate between Sequential and non-sequential job sob search. (2 marks)
- b) Suppose that migration from Uganda has caused an increase in the number of migrant workers available to harvest the coffee Kiambu Counties;
  - i. Assume you are a farm worker who picks coffee. How are you affected by the migration of workers from Uganda? Explain using a graph. (5 marks)
  - ii. Assume you own a company that makes machinery that is designed to help harvest coffee. How does the migration of workers into this country affect you? (5 marks)
  - iv. Explain with illustrations how your answer above depends on the income effect and the substitution effect. (6 marks)
- c) Labour markets do not often operate under competitive conditions because of certain features that prevent money wages from being flexible. The features result in rigidities in money wages making. Critically discuss any five of those features. (12 marks)
- d) Demonstrate the link between labour market, macroeconomics and microeconomics (7 marks)

## **QUESTION TWO (20 MARKS)**

Explain the economic impacts of labor unions under the following themes;

- a) Wages in unionized firms operating in the union labor market and non-unionized firms operating in the nonunion labor market (10 marks)
- b) Discuss how the wage-schooling locus is determined in the labour market, and why it is upward sloping and concave (10 marks)

## **QUESTION THREE (20 MARKS)**

- a) Discuss three general methods on how trade union can modify market for labor forces that lead to increase in wages in the economy. (10 marks)
- b) Outline any four reasons why it is important to study labour economics. (10 marks)

## **QUESTION FOUR (20 MARKS)**

- a) Suppose that elasticity of substitution between workers and capital is very high in the production of insulin, and the price of machines suddenly goes up.
  - i. What will happen to the demand for labour in the insulin industry? Keep in mind that the demand for insulin is highly inelastic. Discuss both the substitution and the income effect. (6 marks)
  - ii. In this case, are capital and labour complements or substitutes? Why? (4 marks)
- b) Explain the various forms and determinants of labour mobility (10 marks)

## **QUESTION FIVE (20 MARKS)**

- a) Explain how trade union influence wages and employment in the labour (8 marks)
- b) With aid of graphs, explain what happens to the reservation wage if non-labour income increases. (6 marks)
- c) Using Kenya as a case study, discuss the roles of various players in the labour market. (6 marks)