



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

THIRD YEAR SPECIAL/SUPPLEMENTARY EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS AND FINANCE

BACHELOR OF ECONOMICS

EAE 304: LABOUR ECONOMICS

DATE:

TIME:

INSTRUCTIONS:

- (i) Answer question one (Compulsory) and any other two questions
- (ii) Do not write on the question paper

QUESTION ONE (30 MARKS)

- a) Differentiate between sequential and non- sequential job search (4 marks)
- b) Suppose that migration from Uganda has caused an increase in the number of migrant workers available to harvest the tea leaves in Kericho and Kisii counties.
 - i) Assume you are a farm worker who picks tea. How are you affected by migration of workers from Uganda? Explain using a graph (3 marks)
 - ii) You are a Kenyan and love to drink tea. How are you affected by the migration of workers from Uganda? Explain using a graph (3 marks)
 - iii) Assume you own a company that makes machinery that is designed to help harvest tea. How does the migration of workers into this country affect you (3 marks)
 - iv) Explain with illustrations how your answer above depends on the income effect and the substitution effect (3 marks)
- c) Explain the economic impacts of labour unions under the following themes:
 - i) Wages in unionized firms operating in the union labour market and non- unionized firms operating in the non-union labor market (4 marks)

- ii) Business efficiency (3 marks)
- iii) Inflation (3 marks)
- d) Does the demand curve for labour slope downward for the same reason as the demand curve for goods and services (4 marks)

QUESTION TWO (20 MARKS)

- a) In the modern economy, workers are always in motion from one job to another;
 - i) Explain four factors that determine labor mobility (4 marks)
 - ii) Describe three types of labor mobility in Kenya (6 marks)
- b) Discuss three general methods on how trade union managers to modify market for labor forces that lead to increase in wages in the economy (6 marks)
- c) Outline any four reasons why it is important to study labour economics (4 marks)

QUESTION THREE (20 MARKS)

- a) Neoclassical theory of wage discrimination stems from the work of Becker (1957) which is based on the notion that prejudice is expressed in discriminatory tastes on the part of employers, workers and consumer. With the aid of a well labeled diagram, explain the theory on employer discrimination (10 marks)
- b) Suppose the 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)

QUESTION FOUR (20 MARKS)

- a) Asking wage is the threshold wages that determines if unemployed workers accepts or rejects the incoming job offers”, discuss with illustrations how unemployed workers determines his asking wage (8 marks)
- b) Explain the three wage theory that have been put forward by various economists highlighting at least weaknesses of each theory (12 marks)

QUESTION FIVE (20 MARKS)

- a) Describe three fundamental issues of collective bargaining agreement negotiated by labour union, in order to enhance the status of workers (12 marks)
- b) “some workers obtain a lot of schooling and other workers drop out at an early age” using the schooling model explain what determines the decision to o for further studies or not (8 marks)