



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS AND STATISTICS

BACHELOR OF ECONOMICS

BACHELOR OF ARTS

EAE 304: LABOUR ECONOMIC

DATE: 19/8/2021

TIME: 11:00 – 1:00 PM

INSTRUCTIONS:

- i) Answer question ONE (COMPULSORY) and any other TWO questions
- ii) Show all your working clearly

QUESTION ONE (COMPULSORY) (30 MARKS)

- 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 kshs 10 arid the price of each unit capital is Ksh 25. The price of output is constant at ksh 50 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 labour 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 different interest rate? Will she choose a different option? Why? (6 marks)
- ii. Suppose the musical school raises 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 (20 MARKS)

- a) Using a well labeled diagram, demonstrate the effect of a wage cut on the demand for labour, the cost of capital being constant (10 marks)
- b) With relevant examples discuss the argument in favor of minimum wages in your country (10 marks)

QUESTION THREE (20 MARKS)

- 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 (20 MARKS)

- 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 (6 marks)

- c) Give a brief explanation of the following concepts m. used in la our economics
- i. Asking wage (2 marks)
 - ii. Shirking (2 marks)

QUESTION FIVE (20 MARKS)

- a) “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 go for further studies or not. (10 marks)
- b) Giving the condition for equilibrium of a profit maximizing firm derive the demand curve for labour for the firm operating in the short run (10 marks)