

SENIOR SIX SELF-STUDY WORK

DAY 1

TOPIC: THE UNEMPLOYMENT PROBLEM

Meaning:

According to **Lipsey** unemployment refers to the percentage of the workforce seeking employment.

Unemployment is the situation where labour is able and willing to work at the ongoing wage rate but cannot find a job.

Types of unemployment

There are two major types of unemployment, namely

- 1. Voluntary unemployment.**
- 2. Involuntary unemployment.**

Voluntary unemployment

This is a situation in which people who are able are not willing to work (at the ongoing wage rate) yet employment opportunities exist.

Or Is one in which labour is not willing to work at the ongoing wage rate yet there are jobs.

Causes of voluntary unemployment

- Laziness or poor attitude towards work. Jobs are likely to be available but some people are naturally lazy to take on the available job opportunities. They do not want to do manual work and this gives rise to voluntary unemployment.
- Desire for leisure. Some individuals also refuse to take on the available jobs at the current wages in order to enjoy their earned incomes. Individuals who prefer leisure to work are reluctant to get jobs which reduce their time for leisure and recreation hence creating voluntary unemployment.
- Low wages given in the available job. Some individuals refuse to work because they do not accept the current wages. They do not take on such jobs with low wages and benefits and this causes voluntary unemployment.
- Poor working conditions existing in a given job for example long hours of work and poor housing discourage labour to take on the existing jobs. The unemployed fear to apply for such jobs due to the poor working conditions hence causing voluntary unemployment.
- High level of social ties or cultural attachment. This makes an individual to refuse job opportunities in distant areas hence causing voluntary unemployment.
- High level of education or qualifications. Some individuals refuse to take on certain jobs because they are not equivalent to the qualifications attained hence causing voluntary unemployment.
- Political instability in a given area. This scares away labour for fear of losing their lives even when jobs are available hence causing voluntary unemployment.

- Low status esteem attached to the available jobs. Some individuals despise certain jobs that they are of a low status compared to their level of education or skills. Due to this attitude, some individuals do not take on these jobs and this causes voluntary unemployment.
- Good economic background of the unemployed. Some individuals prefer to remain unemployed and live on the family's wealth or riches. Such people feel that they can comfortably survive on the accumulated wealth inherited from their parents instead of taking on jobs and be employed. This creates voluntary unemployment.
- High risks involved in doing the job. Some individuals fear to take on certain jobs that are available because of the high occupational hazards involved for example fishing, guarding and mining. A person would rather remain unemployed instead of doing a very risky job and this causes voluntary unemployment.
- Desire of the unemployed to depend on past accumulated savings or income. Individuals who have saved part of their incomes refuse to accept any job at the current wage rate in order to enjoy the accumulated income. The individuals find it not necessary to be employed by others which creates voluntary unemployment.
- Social and religious restrictions. An individual may not take on a job for fear of violating certain social and religious norms. For example, a person practicing Islam as his or her religion cannot get employed in a brewery hence causing voluntary unemployment.
- Unfavourable geographical location of jobs. Jobs may be available but are located in hard to reach areas or in very remote areas or in areas which are prone to natural disasters like landslides and earthquakes the job seekers may fear to work in such areas and this creates voluntary unemployment.
- Presence of target workers. Some workers after achieving their targets decide not to continue working hence causing voluntary unemployment.

Involuntary unemployment

This is a situation in which people who are able and willing to work at the current wage rate are unable to find jobs.

Or Is one in which labour is willing to work but is unable to find work at the ongoing wage rate.

Other types of unemployment

1. Technological unemployment

This is where labour is rendered redundant as a result of machines replacing human labour in the production process.

Or It occurs when there is a change in the techniques / methods of production such that machines replace human labour.

Solutions to technological unemployment

- Encourage employees to be with multiple skills / diversification of skill retraining labour to acquire multiple skills.
- Use of labour intensive or capital saving techniques of production.
- Control of rapid advancement in science and technology.
- Find alternative work for those who have lost jobs.

2. Residual unemployment

This is one due to physical or mental disabilities that makes such people unemployable due to their low standards of efficiency.

3. Casual / erratic unemployment

This is where labourers are employed only when there is demand for their labour and they become unemployed when the job is done for example tailors, barbers, bodaboda riders, mechanics and building contractors

Is one which is caused by expiry or end of contracts.

Or Is one which is caused by a temporary end of demand for labour with specific skills

4. Seasonal unemployment

This is where people are unemployed due to changes in climate or weather conditions especially in agriculture between harvesting and planting.

Examples of seasonal unemployment in an economy

- During bad weather in the case of outdoor activities like construction.
- Period between harvesting and planting in case of a farmer or agriculture.
- Dock workers when there are no ships due to bad weather conditions.

Causes of seasonal unemployment in an economy

- Climatic changes for example in agriculture.
- Failure to tame nature.
- Periodic variations in demand.

Remedies for / solutions to seasonal unemployment

- Modernising agriculture so that it is less dependent on nature for example irrigation during the dry season.
- Diversification of the agricultural sector.
- Diversification of the economy i.e. creating many activities within the economy.
- Acquisition or equipping people with multiple skills / Training labour to do many jobs
Diversification of skills within the same occupation. .

5. Frictional / transitional / search unemployment

This is one that arises due to labour switching or changing jobs in the short run.

Or It is one that arises due to mismatch between demand and supply of labour in the short-run.

Causes of frictional unemployment

- Ignorance of existing job opportunities elsewhere. Employment opportunities exist but labour force is ignorant of their existence and therefore cannot get work. This is brought about by failure of employers to disseminate information about the employment opportunities which they have.
- Automation or technological development. The use of modern technology in industrial operations causes unemployment to human labour as it is replaced by machines.
- Temporary breakdown of machinery and closure of plant in order to carry out renovations. This causes unemployment for short durations pending the repair of plants.
- Changes in demand and supply conditions in the labour market. This occurs when supply of labour for particular jobs in the short run is higher than the demand for labour because the employers' need for labour is fixed.
- Shortage of raw materials during certain periods. Absence of raw materials, during certain periods due to seasonal supply of raw materials or due to temporary shortage of finance to buy raw materials from within and abroad can cause unemployment till raw materials are made available.
- Structural breakdown in the sector or industry. The breakdown of an industry or sector of production causes unemployment for short durations.

Solutions to frictional unemployment

- Increasing the mobility of labour for example by maintaining political stability.
- Improving on the skills of workers through training.
- Providing information in the labour market for example through job adverts.

6. Natural unemployment

This is one experienced under conditions of full employment when the demand for labour is equal to the supply of labour.

7. Structural unemployment

This is one that arises from changes in the patterns of demand and supply in the economy.

Or It is a type of unemployment due to structural changes in the economy causing fall in demand for goods and services.

Or It is one where labour is unable to find jobs due to changes in the structure of the production process (changes in the patterns of demand and supply).

Causes of structural unemployment

- Political instability which causes total breakdown in the production process Poor political atmosphere (climate) leads to destruction of productive activities and production infrastructure. This has led directly to unemployment in the areas experiencing political instability and indirectly to unemployment in areas which are stable but which depend on the supply of raw materials inputs from areas experiencing instability since the raw materials are no longer obtainable from the areas.
- Poor education system that emphasizes theoretical subjects and white collar jobs.
- Technological advancements in form of computerisation or use of capital intensive techniques of production. The use of complicated machines such as tractors, computers, weight lifters and robots has led to a reduction in number of workers employed by firms thereby leading to unemployment.
- Depletion or exhaustion of a natural resource or major raw materials
- For example, the decline in copper ores at Kilembe, declining soil fertility some parts of Uganda and declining timber and fish stocks has led to open unemployment and underemployment in the mining, mining, fishing, lumbering industries and agriculture.
- Poor government policy on labour for example Structural Adjustment Programmes (SAPs) of the International Monetary Fund (IMF) like privatisation, retrenchment and demobilisation given to countries as conditionality for getting loans have greatly contributed to unemployment in the developing countries.
- Long periods of training causing labour immobility due to limited skills.
- Depression in the economy, that is, a period of low economic activity.
- Changes in demand for a commodity due to changes in tastes / preferences / fashions. Decline in demand leading to collapse of local firms especially in the fashion and confectionary industries has led to unemployment in the industries which have lost market for their products.

ACTIVITY 1

- a. Define the term underemployment.
 - b. Differentiate between frictional unemployment and seasonal unemployment.
 - c. Mention any two examples of seasonal unemployment in an economy.
 - d. Give any two remedies for seasonal unemployment in your country.
 - i. State three causes of voluntary unemployment.
 - ii. What is full employment?
 - iii. State three reasons why it is hard to achieve full employment in your country.
 - a. Explain the causes of voluntary unemployment in your country.
 - b. What are the possible solutions to voluntary unemployment in your country?
1. Outline the factors that lead to involuntary unemployment (4 mks)
 2. What is meant by the following terms?
 - (a) Full employment
 - (b) Under employment

© Open—urban unemployment

(a) Technological unemployment

3. Define the term underemployment

4. Differentiate between frictional unemployment and seasonal unemployment

5. Mention any two examples of seasonal unemployment in an economy

6. Give any two remedies for seasonal unemployment

Solutions for controlling structural unemployment

- Retraining of workers to improve on labour skills. Ensuring political stability to widen job opportunities.
- Encouraging diversification of production so as to widen job opportunities.
- Equipping workers with many skills.
- Encouraging proper manpower planning by the government such that demand for labour is equal to supply of labour.
- Importation of raw materials to ensure continuous production.
- Encouraging use of appropriate technology for example labour intensive methods.
- Widening markets through regional groupings to create more jobs for example EAC and COMESA.
- Undertaking flexibility in production to allow industries to adjust with changes in tastes or fashions.

Measures that should be employed to solve structural unemployment include:

- Structural adjustment and re-adjustment policies to counter the effects of structural changes and Structural Adjustment Programmes (SAPs).
- Educational reforms aimed at acquisition of practical skills for self-reliance.
- Retraining programmes for labour aimed at acquiring new skills.
- Research in new commodity uses and flexibility in production to counter the effects of changes in tastes and preferences.
- Economic diversification to widen opportunities for absorbing victims of structure change.
- Use of labour intensive techniques of production that are more employment creating.

8. Export / international unemployment

This is one that arises due to loss of export markets by the export oriented industries forcing them to reduce the labour employed.

9. Cyclical / Mass / Keynesian unemployment

This arises due to fall or deficiency in aggregate demand for goods and services.

Or It is one that arises due to down string of the trade cycle, most especially, during periods of economic depression or slump or recession.

Causes of cyclical unemployment

- Fall in investment resulting into a fall in the demand for resources.
- Fall in exports leading to a decline in export earnings.

- Drop or fall in prices which discourages production.
- Fall in savings which reduces the level of investment.
- Decrease in interest rates on deposits.
- Increase in importation that reduces the demand for local goods.
- Reduced government expenditure.
- Decrease in incomes such that people hardly afford to buy goods produced.

Solutions to overcoming the cyclical / Keynesian unemployment

These aim at increasing aggregate demand in the economy and they include

- Reducing direct taxation in order to increase the disposable income.
- Increasing government expenditure through investing in employ-generating activities.
- Using expansionary monetary policy / increasing money supply, for example, reducing interest rates.
- Improving investment climate so as to promote private investment I providing tax holidays / tax waivers.
- Subsidising consumers so as to increase on their demand for goods and services.
- Encouraging exports by finding new markets.

Disguised unemployment

This is a situation whereby labour force or a worker is actively involved production but the marginal product is zero or negative or negligible.

Or It is a type of unemployment where the work available is insufficient for the workforce such that the marginal product of labour is zero or negative.

Causes of disguised unemployment

- Inadequate supply of capital. This limits expansion of production units leading to employment of many workers in the small scale firms.
- Nepotism. This results into over recruitment of labour in some jobs.
- High population growth rate leading to increase in labour supply. This causes employers to employ excess labour in a given job.
- Poor and un coordinated manpower planning. The un coordinated, manpower planning results into excess labour supply in some jobs thereby bringing about disguised unemployment.
- Poor land tenure system. This causes shortage of land hence encouraging small scale subsistence agriculture in the rural areas.
- Inadequate skills. This limits specialization of labour in the production process thereby, employing too many people in a given job or sector.
- Limited information about the existing jobs. This limits mobility of labour as many people remain employed in a specific job.
- Excess supply of labour to an occupation. This results into increase in job seekers without increasing the number of job opportunities.
- Desire to retain workforce for future use. An industry with hopes of expanding in the near future can decide to retain the excess labour supply in some jobs thereby, causing disguised unemployment.

Measures aimed at controlling disguised unemployment in developing economies (Solutions to disguised unemployment)

- Training and retraining of labour. This is through carrying out education reforms to enable labour get the necessary skills for employment.
- Controlling population growth rate. This is through encouraging the use of family planning methods so as to reduce on the excess supply of labour.
- Changing the land tenure system / encouraging land reforms. This aims at increasing access to land for increased production and employment.
- Encouraging the development of agriculture. This is aimed at expanding investment, promoting labour mobility and increasing employment chances in other areas.
- Encouraging privatisation. This leads to expansion of the private sector suiting into increased employment in the long run.
- Encouraging economic diversification. This leads to creation of many job opportunities from the different activities carried out.
- Availing firms with affordable capital for investment. This is through giving credit facilities to small and large scale enterprises so as to increase production and create more job opportunities.
- Developing entrepreneurship. This leads to increased investment from the capital injected and creation of many jobs.
- Encouraging management reforms. This especially helps in avoiding nepotism in some sectors.
- Hidden unemployment; those who are engaged in "second choice" non-employment activities (in education and household activities) because job opportunities are not available at the levels of education already attained or for women, social mores restrict them to domestic work.
- Open unemployment is one where labour is rendered unemployed and is actively looking for jobs.

Theories on causes and solutions to unemployment Keynesian theory of unemployment (Advanced by John Maynard Keynes)

According to Keynes, unemployment arises due to deficiency of aggregate demand in the economy especially in times of depression/recession

Due to a fall in aggregate demand for goods, firms are forced to reduce their level of output which in turn calls for less labour to be employed. Incomes and demand fall further through the multiplier process, investment is discouraged resulting into further lay-offs of labour and less capital employed.

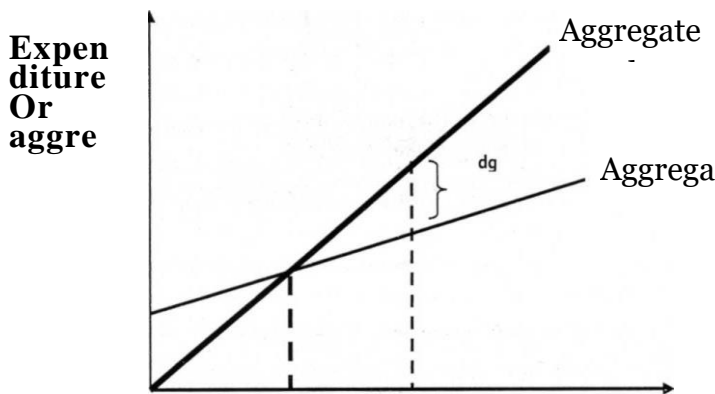
According to Keynes, the major remedy or solution to such unemployment is to **increase Aggregate demand** in an economy.

Keynes suggested that Aggregate demand can be increased by using the following measures:

- Reduce direct taxes/ reduce taxes on income.
- Subsidization of consumers.

- Use of expansionary monetary policy.
 - Increase government expenditure.
 - Increase wages of labour.
 - Encourage private investment through provision of incentives like tax holidays.
- Therefore, the focus of Keynes is to increase Aggregate demand in an economy and his solutions are the ones that apply to cyclical unemployment.

Illustration of Keynesian unemployment:



Level of Unemployment

NB: The level of unemployment is shown by the gap $Y_e - Y_f$

Assumptions of the Keynesian theory of unemployment

Keynes made the following assumptions when analyzing cyclical unemployment

- Existence of an industrialised economy.
- He assumed conditions of full employment of resources.
- He assumed the existence of a highly monetized economy.
- He assumed existence of a big and strong private sector.
- He assumed existence of a closed economy.
- He assumed the existence of well-functioning and developed product, factor and money market.
- He assumed that there is deficiency in aggregate demand during an economic recession

Applicability/relevance of the Keynesian theory of employment to developing economies like Uganda

N.B: It is noted that to a greater extent, the theory is not applicable or relevant in developing countries because it was designed in the context of a developed economy. However, to a minor or lesser extent, the theory has some applicability or relevance in developing countries.

The greater extent to which the theory is not applicable in developing countries:

The Keynesian theory of unemployment is said to be irrelevant or less applicable to developing countries because of the following:

1. It mainly affects industrialised economies yet developing countries are basically agro-based economies (agrarian economies). Developing countries depend on agriculture

where supply is inelastic even if demand increased, resources would not automatically be employed to increase supply.

2. The theory is mainly concerned with deficiency in aggregate demand yet unemployment in developing countries basically arises from the supply side. This supply side involves shortages of basic inputs and other co-operant factors like skills, capital and infrastructure. Production in firms drops. As a result, some units of labour can be laid off which creates unemployment but Keynes ignored this possibility.
3. The theory of Keynes works under conditions of full employment of resources yet such conditions are not found in developing countries which are characterized by under-utilisation of resources. This makes the theory of Keynes to be less relevant in developing countries.
4. The theory is based on an assumption of a highly monetised economy yet developing countries are basically subsistence (where many people produce goods for their own consumption or use). Increased aggregate demand does not lead to change in the activities in the subsistence sector since it is not affected by changes in the monetary conditions of the economy.
5. Keynes based his theory on the existence of a big and strong private sector yet in developing countries, the private sector is still weak and small. An increase in aggregate demand does not lead to rapid increase in employment generation since the private sector is small and cannot expand quickly.
6. Keynes based his theory on a closed economy yet developing countries operate as open economies in which foreign trade plays a dominant role in developing them. They primarily depend on the exports of agricultural and industrial raw materials and the import of consumer and capital goods her.: making the Keynesian theory irrelevant to the developing countries.
7. In developing countries, the product, factor and money markets are still under-developed and weak yet Keynes assumed that such markets are functional and well developed. This renders the theory to be less applicable in developing countries.
8. The theory of Keynes puts emphasis on the investment multiplier as the biggest contributor to employment creation yet in many developing countries it is the export multiplier which contributes greatly to the creation of employment. Increase in investment does not lead automatically to sustainable creation of employment due to small domestic market. Increase in the export markets however, creates need to increase output leading increased capital employment of labour.
9. As a solution to unemployment, Keynes suggested or prescribed measure which increase levels of aggregate demand by adopting an expansionary monetary policy. However, these measures cause inflation in developing countries when applied {too much money chasing few goods} therein making the theory of Keynes to be irrelevant or less applicable in developing countries.

The smaller /minor extent of applicability (relevance) of Keynesian theory of unemployment in developing countries

To a minor extent, Keynesian theory of unemployment has some relevance developing countries as justified below:

1. At times unemployment results due to fall in demand, both domestically and abroad. Domestically, a decline in demand for products produced local firms lead to their reducing production or even closure hence causing unemployment.
2. Even internationally, a decline in demand for export products leads decline in production and employment at home, especially in the agricultural sector, thus making the theory applicable.
3. In developing countries there is an element of industrialisation hence theory of Keynesian unemployment may not completely be ruled out. Increasing the demand for products of the industrial sector can cause me sector to increase the volume of capital and labour employed to increase output hence making the theory applicable.
4. In the long run as supply of co-operating factors for labour increase, the theory is likely to become relevant. Since unemployment in development countries arises from the supply side due to lack of co-operant factors, in the long run when skills increase, capital becomes available, techniques production improves and organization improves, output and employment increases thus making the theory relevant to the developing countries.
5. Investment climate affects employment levels and therefore promotion investment will expand employment. In developing countries like Uganda, the provision of investment incentives such as tax holidays to investors, leads to increased investment which creates incomes to increase demand which creates further investment and employment in the economy.
6. Measures to stabilise export earnings through IMF compensatory arrangements to ensure stable export markets can reduce unemployment.
For example, developing countries are encouraging export promotion so as to increase export earnings, income and aggregate demand thereby creating more employment. This renders the theory of Keynes relevant to developing countries because one of his solutions to this kind of unemployment was to find new markets for exports.
7. The use of expansionary monetary policy as suggested by Keynes has some application in developing countries because it increases the purchasing power of the people. As purchasing power increases, the market for products of firms expands. Producers are encouraged to increase output and more labour gets employed in firms. This makes the theory to have some applicability in developing countries.

Solutions to unemployment according to Keynes

According to Keynes, the solution to unemployment is to increase aggregate demand in the economy. He prescribed measures such as:

- Increase government expenditure. Government can increase her expenditure in the provision of social infrastructures. This raises incomes of people employed it provision of infrastructures which in turn leads to increased consumer demand, increased consumer demand stimulates producers to increase production hence increasing the level of employment of capital and labour.

- Subsidise consumers. Government can subsidise consumers by providing fees and services especially education and health either free of charge or at low prices. Consumers then re-channel incomes that they would have spent on purchase of public goods to the consumption of goods produced by private producers. This leads to increased aggregate demand. Increased aggregate demand encourages producers to increase output by employing more capital and labour hence reducing unemployment.
- Reduce direct taxes. When income taxes are reduced, consumers' disposable incomes increase. This enables consumers to increase their demand for goods and services, thus increase in aggregate demand. Producers respond to increased consumer demand by increasing investments so as to increase output hence the level of employment.
- Use expansionary monetary policy especially lower the interest rates. Reducing interest rates increases the level of liquidity preference as savings are discouraged by the low levels of interest. This increases the level of consumption which in turn encourages investors to increase output hence increased employment.
- Increase wages of labour. This enables consumers to increase their demand for goods and services, thus increase in aggregate demand. Producers respond to increased consumer demand by increasing investments so as to increase output hence raising the level of employment.
- Promote private investment through provision of incentives like tax holidays. Favourable investment climate can be created through provision of investment incentives such as tax holidays to investors. This leads to increase-investment which creates income to increase demand which creates further investment and employment in the economy.

ACTIVITY 2

- 1.(a) Explain the Keynesian theory of unemployment,
(b) To what extent is this theory of unemployment applicable to your country?
2. (a) What, according to J.M Keynes, is the solution to the unemployment problem?
(b) Explain the limitations of the Keynesian theory of unemployment developing countries.
3. (a) What are the solutions to unemployment according to Keynes?
(b) Examine the relevance of the Keynesian theory of unemployment to the developing countries.
- 4.(a) Explain the effects of unemployment to an economy (10mks)
(b) Suggest possible remedies to the unemployment problem in your country (10mks)
5. (a) Discuss the general causes of unemployment in developing countries (10mks)
(b) Suggest practical remedies to alleviate the unemployment problem in your country (10mks)

DAY 3

Costs of unemployment in an economy

Costs of unemployment are the adverse effects that unemployment has on the economy, the unemployed, their families and society at large.

Costs or effects of unemployment in an economy include:

- Leads to decline in the level of acquired skills. The unemployed people not get the opportunity to put into practice the skills or knowledge they acquired during training in schools, colleges and universities. There is decay of knowledge and loss of skills which hinders professional or career development.
- Leads to low aggregate demand for goods and services. The unemployed people have no money to buy goods and services and this causes a reduction in aggregate demand for goods and services hence limiting investment.
- Worsens income and wealth inequality. The unemployed people who are not earning income are not able to accumulate wealth while those people who are employed are able to earn income, save, invest and accumulate wealth. This leads to wealth and income inequalities.
- Results into low production or low output. Due to the rising level of unemployment, the purchasing power of the people is low because they are earning less or low incomes. As a result, firms reduce their levels of output n; this leads to low GDP or low economic growth.
- Increases the dependency burden of the unemployed on the employed.
- The unemployed people have to survive by depending on the few individuals v. -are employed. This heavy dependency burden reduces levels of savings for those who are employed.
- Leads to low government revenue. The unemployed people are not ear income and therefore, they do not pay direct taxes to the government. This results low tax revenue to the government hence limited funding of development projects by the government.
- Leads to high crime rates and social evils (immorality). The unemployed people who are not earning income resort to all sorts of immoral acts like theft and prostitution so as to earn a living. They resort to illegal ways of getting money so that they can survive.
- Leads to under exploitation of productive resources hence wastage, Seasonal unemployment in the agricultural sector causes excess capacity. As a -suit of this, there is wastage of resources that could have been put to use.
- Leads to low standards of living and misery due to low or no incomes. Individuals who are jobless find it difficult to buy or access basic necessities of life. As a result, their standard of living drastically falls or declines hence causing misery and suffering.
- Creates political tension or unrest. Unemployment makes the government unpopular among the masses. The unemployed people are easily mobilised to stage rebellions against the government and this has disastrous consequences.
- Encourages rural-urban migration with its associated evils. The unemployed people move from rural areas to urban areas in search for jobs leading to increased crimes.

- Discourages investment in education. The unemployed people are not able to meet the cost of educating their children. This reduces the quality of education in an economy. At the same time, when the educated people fail to get jobs, other people get discouraged and they may not study or invest in education.
- Leads to brain drain. After failing to get jobs in the home country, highly trained professional people move to other countries in search for jobs. This has a larger effect of reducing the size of the skilled manpower available in the home country and thus the development process is retarded.
- Leads to increased social unrest / instabilities in families. Social instabilities tend to increase due to lack of incomes leading to violence, divorce and family break-ups.
- Leads to high government expenditure. The government spends heavily on supporting projects which are aimed at creating more jobs for the people. Government finances self-help projects, programmes for the disabled, aged and new youths. This exerts pressure on the national budget in terms of expenditure.

Reasons for the control of unemployment problem in developing countries

- To increase the level of acquired skills among the labour force. This is because controlling unemployment enables the people get the opportunity to put into practice the skills they acquired during training in various institutions of learning.
- To increase the level of aggregate demand for goods and services hence stimulating investments and growth. As more people get employed, they generate money to buy goods and services and this results in an increase in aggregate demand for goods and services hence stimulating investment.
- To reduce income and wealth inequality. As more people become employed, they earn income, save, invest and thus are able to accumulate wealth. This leads to equity in income distribution in the society.
- To promote increased production/ output. As more people get employed they engage in productive work. This leads to production of more goods and services hence contributing to an increase in Gross Domestic Product.
- To reduce the dependency burden. As more people become employed, number of individuals who are depending on the working group reduces. This helps to increase levels of savings and investment in the economy.
- To increase government revenue. As unemployment reduces, government is able to impose taxes on incomes of the employed people through PAYE. The tax revenue generated is used in financing development activities in the country.
- To reduce crime rates and social evils like prostitution and theft associated with the lack of job opportunities. As more people become employed, the income earning opportunities enable them discard illegal ways of getting money for survival.
- To reduce social unrest / instabilities in families that tends to increase due to lack of incomes. As more people employed, they generate income to enable them meet the needs of their family members. This creates happiness between husbands, wives and children due to availability of income to sustain a desirable standard of living.
- To encourage exploitation of productive resources hence reducing waste*

- This is because controlling unemployment through measures like agriculture modernisation involving irrigation reduces cases of seasonal unemployment that causes excess capacity. As a result of this, more resources are put to use thereby avoiding wastage.
- To ensure peace and stability because of having a contented population. This is because controlling unemployment makes people contented and raises the popularity of the government in power among the masses. This creates relative peace in the country and gives confidence to investors to carry on production.
- To reduce rural-urban migration with its associated negative effects. As unemployment reduces, people in the rural areas get opportunities of generating income. This helps to control the problem of rural-urban exodus.
- To promote / encourage investment in education. This is because controlling unemployment, gives people income earning opportunities that enables them to meet the cost of educating their children. This encourages people to invest in education and increases the level of literacy in the country.
- To reduce brain drain with its negative effects on the economy. This is because controlling unemployment, enables the highly skilled manpower access income earning opportunities in the domestic economy thereby reducing the danger of brain drain.
- To reduce government expenditure on supporting the unemployed hence diverting those funds to other productive ventures for example roads. As unemployment reduces government spends less money on projects aimed at supporting the unemployed population and thus more funds are geared towards expanding productive sectors and creating more jobs.

ACTIVITY 3

1. Define the term voluntary unemployment
2. State three causes of voluntary unemployment
3. State three reasons why it is hard to achieve full employment in developing economies
4. (a) Account for the unemployment problem in your country (10mks)
(b) Explain the measures being taken to tackle the unemployment problem in your country (10mks)
5. (a) Account for the causes of unemployment (10mks)
(b) Explain the effects of unemployment in an economy (10mks)
6. (a) Distinguish between frictional unemployment and cyclical unemployment (4mks)
(b) Why is unemployment a problem of concern to the government of Uganda? (16mks)
7. (a) What are the causes of disguised unemployment in your country? (10mks)
(b) Explain the measures that should be taken to increase the level of employment in your country (10mks)

DAY 3

Rural-urban migration

Rural migration is the movement or exodus of people from rural areas to urban areas. This results into increase in labour supply in urban areas and causes open urban unemployment.

Causes of rural-urban migration

Rural-urban migrations is as a result of push and pull factors. Push factors refer to where Unfavourable conditions in rural areas force people to move to urban areas while pull factors refer to good conditions in urban areas that attract people from the rural areas to the urban areas.

Push factors

- Insecurity in rural areas has driven many people to urban areas that are relatively stable.
- Famine in the rural areas has forced people to move to urban areas.
- Conflicts among the rural population due to criminal cases like witchcraft, murder, rape and defilement.
- Poor land tenure system where most of the youth do not have access to land.
- High population growth rates in the rural areas causing pressure on land.
- Natural hazards in rural areas, for example, landslides in Bududa, earthquakes in Bundibugyo, floods in Teso and Kasese.
- Socio-cultural factors have tended to encourage people to migrate to urban areas due to the desire to break away from practices like forced marriages, circumscion, female genital mutilation among others.
- Higher wages or incomes earned by workers in urban areas attract the rural people.

Pull factors

- Higher wages or incomes earned by workers in urban areas attract the rural people.
- High job opportunities in urban areas due to industrial development.
- The highly developed infrastructure in urban areas like schools, hospitals and soon.
- The poor education system that is theoretical in nature attracts people to move to urban areas for white collar jobs.
- Staying in urban areas is looked at as prestige by some people.

Effects of rural-urban migration

Positive effects

- Reduces pressure on land in rural areas.
- Leads to increase in cheap labour supply in urban areas.
- Encourages government effort to provide social services to the rural people.
- Reduces the dependence burden in rural areas.

Negative effects

- Leads to open urban unemployment because of increase in labour supply.
- Leads to break up of family and cultural ties.
- Leads to high population in urban areas hence causing congestion.

- Encourages high crime rates or immoral acts like theft and rape.
- Worsens the housing crisis in urban areas leading to overcrowding and increase in house rent.
- Causes a fall in agricultural output because of the movement of young energetic members from rural areas.
- Leads to the development of shanty towns where sanitation is poor.

Solutions of rural-urban migration

The following measures can be used to overcome rural-urban migration:

- Encourage agricultural modernisation through irrigation to increase employment in rural areas.
- Maintain political stability in rural areas so as to promote investment.
- Encourage land reforms so that there is increased access to land for invest in the rural areas.
- Encourage small scale industries in the rural areas to create jobs.
- Government should develop infrastructure in rural areas so as to encourage development.
- Credit facilities should be given to farmers to encourage large scale agriculture
- Educational reforms should be encouraged so as to promote practical education.
- Encourage settlement and resettlement programmes in the rural areas to reduce population pressure, for example, Mobuku irrigation scheme in Kasese.
- Abolish traditional or cultural practices that make the youth run away from areas.

Open unemployment

This is a type of unemployment where labour is rendered unemployed and actively looking for jobs.

OR Open unemployment is a situation in which labour is unutilised in urban centre both voluntarily and involuntarily.

OR Open unemployment- is one where labour is rendered unemployed and is active-looking for jobs.

Causes of open urban unemployment in market economies

- Technological development leading to technical unemployment. Due to change in technology employed from labour intensive to capital intensive, many workers have been substituted by machines hence becoming unemployed in urban centres.
- Unfavourable political climate. Political instability leads to destruction of productive infrastructure in urban centres leading to unemployment. Secondly, creates uncertainty which discourages investments that would have create employment opportunities in urban centres.
- Lack of information about jobs yet jobs exist. Some people are unemployed in centres despite existence of employment opportunities due to poor flow of information about existing job opportunities. People thus remain unemployed rite the existence of employment opportunities.

- Discrimination in the labour market on the basis of sex, tribe, religion and race, due to discrimination in the labour market some people who are qualified but disfavoured are denied jobs while those favoured even when they are less qualified are given jobs. This leads to open unemployment of those disfavoured.
- Structural adjustment policies of retrenchment. The retrenchment of civil servants and demobilisation of soldiers due to IMF conditionalities causes urban unemployment. Most of the retrenched labourers are workers previously employed in urban centres and upon being retrenched, they remain in urban centres in search of employment opportunities in the private sector which are nonexistent.
- Unfavourable climatic conditions. Unfavourable changes in climate which affects output and consumption causes open urban unemployment. A decline in agricultural performance affects agricultural processing industries based in the urban centres negatively hence unemployment.
- Low rate of industrialisation. The rate of growth of the industrial sector is too low to absorb the available urban labour force. Since the rate of growth of the industrial sector is not fast enough to absorb the ever growing labour force, some labourers become unemployed in urban centres.
- Rapid natural growth of urban population. Urban population grows rapidly through natural means due to high fertility rates. This leads to a situation where urban populations exceed urban resources and employment opportunities thus leading to unemployment.
- Rural-urban migration. Many people migrate from rural to urban centres, among other reasons, to look for better employment opportunities. Unfortunately, the rate of rural-urban migration surpasses the rate of job creation in the developing countries. The majority of rural-urban immigrants therefore, remain unemployed.
- Employment of foreign experts. The employment of expatriates in positions which can be filled by local skilled labour leads to the unemployment of the local labour force in the urban centres thus causing urban unemployment.
- Limited capital.
- Switching jobs by labour.
- Limited skills.
- Poor land tenure system.
- Decline in the demand for products produced.
- Exhaustion of raw materials.
- Breakdown of industrial firms.

Measures of controlling open urban unemployment in Uganda

- Providing investment incentives.
- Undertaking education reforms.
- Carrying out land reforms.
- Controlling population growth rate.
- Widening markets.
- Providing investment credit.

- Developing infrastructure.
- Ensuring political stability.
- Modernising agriculture.
- Advertising jobs.
- Diversifying the economy.
- Encouraging the use of appropriate technology.
- Liberalisation of the economy.

ACTIVITY 3

1. (a) 'Open –urban unemployment is best explained by rural—urban migration' discuss
(b) Suggest solutions to the problems of urban unemployment (10mks)
2. (a) What do you understand by the term full employment? (6mks)
(b) Why is it difficult to achieve full employment in an economy? (14mks)
3. (a) Explain the Keynesian theory of unemployment (6mks)
(b) To what extent is this theory relevant to developing countries? (14mks)

DAY 4

Measures that should be taken to reduce or control open urban unemployment in a market economy

Strictly use should / can / may

- Effective land reforms. Government should restructure the land tenure system which leaves large tracts of land in the hands of a few individuals and majority of the people either landless or tenants of the absentee landlords, can be achieved through land redistribution that enables squatters and the landless bonafide land owners.
- Education reforms. The education system should be made more practical than theoretical in order to equip school leavers with skills for self-employment.
- Control population growth rate. Measures should be taken to control population growth rate through family planning. This would avoid a situation in wh. population grows faster than the rate of job creation that causes unemployment
- Ensure political stability. The problem of political instability should be tack, through dialogue and constitutionalism instead of military confrontation: destroys productive infrastructures even in urban centres as well as cause rural-urban migration and its consequent open urban unemployment.
- Encourage the use of appropriate technology. The use of intermediate appropriate technology which creates more employment opportunities should encourage instead of relying on capital intensive techniques of production which substitutes labour in production and creates unemployment.
- Liberalisation of the economy.
- Widen markets.
- Provide investment credit.
- Develop infrastructure.
- Modernise agriculture.

- Advertise jobs.
- Diversify the economy.
- Provide investment incentives.

Underemployment

This refers to the state of underutilisation of economic resources especially labour.

Forms of under employment.

- Working less hours than desired.
- Working full time but marginal product is zero.
- Working in jobs where the requirements are below the skill level.
- Working full time but the co-operating factors are inadequate to ensure productive rewards.

Causes of underemployment of labour in an economy

- Shortage of co-operant factors.
- High population growth rate.
- Poor land tenure system.
- Small or limited markets.
- Political instability.
- Limited skills.
- Seasonal changes especially in agriculture.
- Ignorance of people about availability of jobs.
- Poor attitude of people towards work due to low wages and desire for leisure.
- Desire to retain labour force by trade unions or employers for future use.
- Increased rural-urban migration leading to underemployment in urban areas.
- Poor manpower planning.
- Limited raw materials.
- Discrimination in the labour market.

Full employment

Full employment is a situation where there are more jobs than job seekers.

Or A situation where the number of unfilled vacancies equals the number of job seekers.

Or A situation where all people or factors willing to work can get work.

Or A situation where unemployment in the economy is 3% or less.

Demerits of full employment:

- Leads to inefficiency of labour.
- Results into inflation because of high income.
- Leads to labour immobility.
- Leads to resource misallocation to non-priority areas.

Reasons as to why it is difficult to attain full employment in an economy

It is difficult to attain full employment in an economy because of limitations of the measures aimed at reducing unemployment in an economy. These may include:

- Use of inappropriate technology. This is particularly common with foreign investors who use capital intensive techniques of production thereby displacing labour in production.
- Increased rural urban migration. There is rampant rural exodus resulting in high levels of open urban unemployment.
- Rapid population growth rate in an economy. The high population growth rates in an economy where labourers are far beyond the job creation capacity hinders frustrated efforts to reduce unemployment.
- Immobility of factors of production. The immobility of factors of production between jobs and regions, for example, labour is prevented by social and culture, ties from taking up jobs available in other areas.
- Poor manpower planning. The weak government policies on manpower planning, for example, preference of foreign workers, privatization and retrenchment limit the level of employment of the local labour force.
- Inappropriate education system. The poor education system in many developing countries produces many job seekers in excess of the job opening: This increases the rate of unemployment of the graduates or school leavers.
- Shortage of co-operant factors. The absence of co-operant factors in form limited capital and limited skills makes it hard to solve unemployment by setting up production units.
- Existence of a large subsistence sector in developing countries. This limits the level of employment since family labour is mainly used.
- Low aggregate demand or low domestic and foreign markets. This causes few people to be employed since the demand for labour is a derived demand.
- Heavy capital outflows. This limits investment and reduces the capacity; developing countries to create more job opportunities and reduce the level of unemployment.
- Trade union restrictions. The existence of strong trade unions and professional bodies that restrict entry of new employees or workers in order to maintain wages for the already employed people, is a cause of failure to attain employment.
- Structural changes in the economy. The structural changes in the economy may cause temporary unemployment because of constant dislocation of labour.
- Political instability. This discourages any productive activity aimed at creating more employment opportunities by scaring away potential investors.
- Heavy dependence on nature. This is a major cause of seasonal unemployment especially in the agricultural sector between harvesting and planting.
- Social barriers, for example, discrimination in the labour market based on: sex, religion, tribe, political party among others, making it hard to reduce the level of unemployment in the economy.

Causes of unemployment in developing countries

(The causes of Involuntary Unemployment in Uganda) Unemployment in developing countries is attributed to the following factors:

- Technological progress and the increased use of capital intensive methods resulting into technological unemployment. The use of labour saving techniques of production such as tractors, cranes and computers has resulted in unemployment of people previously employed to perform manual tasks.
- Unfavorable change of climate or Changes in seasons and seasonal nature of some occupations. This leads to seasonal unemployment in the agricultural sector and agro-based industries. Change in climate from rainy to dry or drought conditions, for example, leads to unemployment of farmers during the dry season.
- Changes in tastes and / or changes in demand resulting into structural unemployment. Unemployment is caused due to decline in demand for products of some firms due to change in consumer tastes and preferences leading to closure of the firms hence unemployment.
- High population growth rates and consequent growth of labour force.
- Most developing countries experience high rates of growth of population of about 3 % per annum yet the productive resources (co-operant factors of production) are not increasing at a faster rate. This results in the unemployment of some of the labour force.
- Poor political atmosphere which destroys productive infrastructure. Political insecurity destroys productive infrastructures and disrupts production activities leading to unemployment in areas where insecurity occurs.
- Discrimination in the labour market in terms of sex, nationality, religion, political affiliation and race. Some people who are capable and willing to work are left out of the job market due to discrimination on the basis of sex, nationality, religious belongingness, political affiliation and race.
- Structural adjustment programmes of the I.M.F. and World Bank in form of retrenchment in order to cut costs resulting into structural unemployment. The International Monetary Fund and World Bank's structural adjustment programmes (SAPs) given as conditionalities to developing countries to amongst other things carry out retrenchment from the civil service as a pre-requisite for getting loans has led to unemployment.
- Poor education system that tends to create job seekers and in some cases unemployment is due to lack of appropriate skills. The education system prepares job seekers instead of job creators due to the theoretical nature of the systems.
- Since white collar jobs are in short supply yet the turnover of the education -tem at all levels is very high, many school leavers remain unemployed.
- Rampant rural-urban migration resulting into open urban employment. Due to rural-urban wage gap and other factors, most people migrate from rural areas to urban centres primarily in search of better wage employment opportunities. Since the rate of rural urban migrations is higher than the rate of urban employment creation, many immigrants from rural areas become unemployed in urban centres.

- Inadequate information about existing job opportunities by people who are capable of working. Some people are unemployed because they lack knowledge about existence of employment opportunities yet employment opportunities exist. This is due to poor dissemination of information about employment opportunities in firms.
- Poor land tenure system. A few people own large chunks of land while the majority are either tenants or landless, which has resulted in under-employment and unemployment of the landless.
- Limited co-operant factors particularly capital. This limits expansion of production units thereby causing unemployment of many workers in the small scale firms.
- Breakdown of industrial firms / breakdown in the production process. The breakdown of machinery and closure of plant in order to carry out renovations. This causes unemployment for short durations pending the repair of plants.
- High degree of specialisation of labour. This results into occupation immobility of labour due to the possession of specialized skills that cannot be applied in other jobs.
- Underdeveloped infrastructures. The basic infrastructure like roads is poor which has hindered producers to transport their goods to markets. This has discouraged further investment and production. As a result, few jobs have been created for the people hence increase in unemployment.
- Physical and mental incapacitation resulting into residual unemployment. The physical or mental disabilities make such people unemployable due to their low standards of efficiency.

ACTIVITY 4

- 1.a What is meant by the term "full employment?"
 - b. Explain the reasons why it is hard to achieve full employment in developing economies
 - a. Examine the causes of the unemployment problem in developing countries.
- 2.b What are the measures being taken to control the unemployment in developing countries?
 - a. What are the costs of unemployment in your country?
 - a. What are the causes of structural unemployment in an economy?
 - b. Explain the measures that can be employed to solve structural unemployment in an economy.

DAY 5

Steps that have been taken to solve the problem of unemployment in developing countries

- Developed infrastructures. The government has improved basic infrastructure like roads which has enabled producers to transport their goods to markets. Thus has encouraged further investment and production. As a result, more jobs have been created for the people hence a reduction in unemployment.
- Diversified the economy. The government has diversified the economy in order to reduce dependence on only one sector, agriculture. The government has encouraged growth of

sectors such as mining, industry, fishing and tourism, in order to increase the rate of job creation and of the growth of the economy.

- Liberalised the economy. The removal of unnecessary government controls trade has increased the number (range) of trade or economic activities carried out in Uganda. The expansion in economic activities has provided more jobs to the people. Consequently, unemployment has been controlled or reduced.
- Privatised public enterprises. Public (government/state) enterprises have been diverted / transferred to private ownership to create efficiency. This efficiency has enabled firms to expand their scale of production and they have generated more jobs to the people in the long-run.
- Controlled population growth rate. Measures have been taken to control population growth rate through family planning programmes. This has been done to reduce the rate of growth of population so that population size does not exceed the available resources in the economy resulting in unemployment.
- Provided affordable credit for investment. Government has provided soft loans to people to enable them to invest and create employment opportunity. This has been done through schemes such as Poverty eradication action plan.
- Reformed the education system. Attempts have been made to make education more relevant to the needs of the country. This has been done through measure such as vocationalisation of education in order to make graduates of the education: -system job makers not job seekers.
- Modernised the agriculture sector through research. The agricultural sector has been modernized through research into better techniques of production, better seed and animal breeds, more drought and disease resistant varieties in order to use output and reduce underemployment and unemployment
- Encouraged use of appropriate technology. Unemployment has been fought through encouragement of the use of techniques which are more appropriate to the needs of the country, for example, the use of the ox-plough.
- Advertised existing jobs. Measures have been taken to make information about existing employment opportunities available to job seekers through advertisements of existing job opportunities in the mass media. This has created a between job seekers and employers thereby reducing frictional unemployment caused by ignorance of employment opportunities.
- Widened market, for example, by joining economic integration. Government has joined regional organizations such as East African Community in order to urease markets for local products, increase output and create more employment opportunities.
- Improved the political atmosphere. Government has created law and order imparts of the country. This has considerably reduced unemployment caused by political instability such as disruption of production activities, displacement of settled people and destruction of economic and social infrastructures.
- Undertaken special programmes for persons with special needs or persons with disabilities. The government has financed the income generating projects for disabled people. Such projects include shoe-making, tailoring, making crafts among others. The

disabled people earn income from these projects and they have become employed. This has helped to reduce (residual) unemployment.

- Promoted further industrialisation based on labour intensive techniques. Measures have been taken to encourage large scale industrialisation. Such industries create linkages in the economy and are labour intensive in nature. This has helped to create job opportunities for the people which has reduced unemployment.
- Provided tax incentives to investors. Government has encouraged foreign investment through provision of investment incentives to the foreigners in form of tax holidays and tax rebates. This has led to increased investment and creation of employment.
- Exported surplus labour to other countries. Government has encouraged private organizations to export surplus labour to countries in the Middle East. This has helped to ease the unemployment problem in the country since more job opportunities have been opened up.
- Reformed the land tenure system. Government has attempted to reform the land tenure system in order to make the landless people more productive as well as to create stability of tenure which encourages people to have long term plans for land use. This has been attained through the passing of the Land Act, which outlaws the eviction of squatters by landlords without compensation.

Measures being taken to tackle the unemployment problem in Uganda

Measures being taken to tackle the unemployment problem in my country include the following:

- Education reforms are being implemented to impart practical and vocational skills aimed at producing job makers rather than job seekers. The government is setting up vocational institutions and community polytechnics to train people in practical skills like carpentry, building, metal work, tailoring and agri-business. Such skills are intended to create job makers rather than job seekers.
- Population control measures are being implemented to check the high population growth rates. Controlling population growth rate is being carried out through family planning programmes so that the rate at which the population is rising is proportionate to the rate at which jobs are being created. This helps to reduce the excess labour supply in relation to available job vacancies thereby reducing unemployment.
- Existing jobs / employment opportunities are being advertised to increase job awareness. Measures are being taken to make information about existing employment opportunities available to job seekers through advertisements existing job opportunities in the mass media. This helps create a link between job seekers and employers thereby reducing frictional unemployment caused by ignorance of employment opportunities.
- Land reform policy being undertaken. Government is undertaking reforms in the land tenure system in order to make the landless people more productive > allowing more people access land and to create stability of tenure which encourages people initiate long term plans for land use. This is through re passing of the Land Act, which outlaws the eviction of squatters by landlord without compensation.
- Infrastructure is being developed to ease labour mobility. The government is improving basic infrastructure like roads which enables producers to transport their goods to

markets. This encourages further investment and production. As result, more jobs are created for the people thereby reducing unemployment.

- Agricultural modernisation is being carried out. The agricultural sector is being modernised through research into better techniques of production, better seed and animal breeds, more drought and disease resistant varieties in order to increase output and income thereby reducing underemployment and unemployment.
- Attempts are being made to expand the manufacturing / industrial sector in order to increase the country's absorptive capacity thus create more employment opportunities. Measures are being taken to encourage large scale industrialisation. Such industries create linkages in the economy and are labour intensive in nature. This creates job opportunities for the people, thereby reducing unemployment.
- Setting up institutions to promote investment, for example Uganda Investment Authority (UIA) so as to increase employment opportunities.
- Joining of economic integration to expand market and thus create more job opportunities. Uganda is a member of regional organisations such as the African Community and COMESA. This is aimed at increasing the market for local products, increase output and thereby creating more employment opportunities.
- Undertaking economic diversification by setting up small scale industry and pursuing other economic activities. The government is encouraging diversification of the economy in order to reduce dependence on only one sector agriculture. The government is encouraging the growth of sectors such as mining industry, fishing and tourism. These activities help to increase the rate of job creation thereby reducing unemployment.
- Privatisation policy is being implemented. State enterprises are being transferred to private ownership to create efficiency. This efficiency is to enable firms to expand their scale of production and generate more jobs to the people in the long-run.
- Economic liberalisation is being undertaken. The removal of unnecessary government controls on trade is increasing the number (range) of trade or economic activities carried out in Uganda. The expansion in economic activities providing more jobs to the people. Consequently, reducing unemployment.
- Ensuring the provision of credit facilities or startup capital to local investors. Government is encouraging Micro Finance Institutions to provide soft loans to people to enable them to invest through setting up income generating projects. Such projects are providing jobs to the people who would have remained unemployed.
- Ensuring political stability. Government is creating law and order in most parts of the country so that more investors are attracted to the country. This is considerably promoting investment by private entrepreneurs and in the process more jobs are created in the country hence reducing unemployment.

The possible measures that should be taken to solve the unemployment problem in Uganda

The possible measures of reducing the unemployment problem in my country are:

(Use Should / May / Can in the explanation of the points).

- Control population growth rates. Measures should be taken to control to population growth rate through family planning programmes. This can be done to seduce the rate of growth of population so that population size does not exceed the available resources in the economy. This can reduce unemployment.
- Train labour / carry out education reforms / undertake manpower planning. Attempts should be made to make education more relevant to the needs of the country. This can be done through measures such as vocationalisation of education in order to make graduads of the education system job makers not job seekers.
- Liberalisation of the economy. The removal of unnecessary government controls on trade can increase the number (range) of trade or economic activities carried out in Uganda. The expansion in economic activities can provide more jobs to the people. Consequently, unemployment can be controlled or reduced.
- Further privatisation. Public enterprises should be transferred to private ownership to create efficiency. This efficiency can enable firms to expand their scale of production and thereby generate more jobs to the people in the long-run.
- Diversification of the economy. The government should diversify the economy in order to reduce dependence on only one sector, agriculture. The government can encourage growth of sectors such as mining, industry, fishing and tourism, in order to increase the rate of job creation and of the growth of the economy.
- Reform the land tenure system. Government should attempt to reform the land tenure system in order to make the landless people more productive as well as to create stability of tenure which can encourage people to have long term plans for and use. This can be attained through the passing / enacting of the Land Act, which outlaws the eviction of squatters by landlords without compensation.
- Improve the political atmosphere. Government should create law and order in most parts of the country. This can considerably reduce unemployment causer by political instability such as disruption of production activities, displacement settled people and destruction of economic and social infrastructures.
- Encourage use of appropriate technology. Unemployment should be fought through encouragement of the use of techniques which are more appropriate to the needs of the country, for example, the use of the ox-plough.
- Improve investment climate / provide tax incentives to investor. Government should encourage foreign investment through provision investment incentives to the foreigners in form of tax holidays and tax rebates this should lead to increase in investment and creation of employment.
- Advertise jobs. Measures should be taken to make information about existing employment opportunities available to job seekers through advertisements existing job opportunities in the mass media. This can help create a link between job seekers and

employers thereby reduce frictional unemployment caused by ignorance of employment opportunities.

- Widen market for example by joining economic integration. Government should join regional organisations such as East African Community in order to increase markets for local products, increase output and create more employment opportunities.
- Modernise agriculture. The agricultural sector should be modernized through research into better techniques of production, better seed and animal breeds, more drought and disease resistant varieties in order to increase output. The increase commercial production can reduce underemployment and unemployment.
- Develop infrastructure. The government should improve basic infrastructure like roads which can enable producers to transport their goods to markets can encourage further investment and production. As a result, more jobs may be created for the people hence a reduction in unemployment.
- Promote industrialisation. Measures should be taken to encourage large scale industrialization. Such industries can create linkages in the economy and are labour intensive in nature. This can help to create job opportunities for the people which may reduce unemployment.
- Provide social programmes for persons with disabilities. The government should finance the income generating projects for disabled people. Such projects include shoe-making, tailoring, making crafts among others. The disabled people can earn income from these projects and they may become self-employed. This may help to reduce (residual) unemployment.
- Provide credit facilities for example start-up capital. Government may encourage Micro Finance Institutions to provide soft loans to people to invest and create employment opportunities. This should be done through schemes such as Poverty eradication action plan (PEAP).
- Export surplus labour to other countries. Government should encourage private organisations to export surplus labour to countries in the Middle East. This can help to ease the unemployment problem in the country since more opportunities may be opened up.

ACTIVITY 5

- 1) (a) Distinguish between voluntary and involuntary unemployment (4mks)
(b) Explain the major causes of voluntary unemployment in developing countries (16mks)
- 2) (a) Examine the causes of structural unemployment in an economy (10mks)
(b) What are the effects of rising unemployment on the economy? (10mks)
- 3) (a) Define and explain the term under employment (4mks)
(b) What policy measures are being taken to increase the level of employment in Uganda

DAY 6

LABOUR

Labour refers to any human effort, whether physical or mental that is utilised in the production process.

Significance of labour in the production process

- Labour creates capital or wealth from the reward it gets.
- Labour determines value. The value of a good depends on the amount of labour used to produce it.
- Labour utilises land and capital and without it, remain idle.
- The quality and quantity of labour force, well-motivated and having co- operant factors makes effective utilisation and exploitation of natural resources which raises output.
- Labour is the end for which production is undertaken, that is, the need to satisfy human wants.

Productivity of labour

Productivity of labour is the amount of output produced per unit of labour employed (during a given period of time) i.e. it is the measure of output per unit: of labour employed.

Factors which determine the productivity of labour in Uganda

- Wages (motivation / remuneration / terms of service).
- Level of technology
- Level of skills / ability / education and training/ experience
- Availability and quality of co-operant factors;
- Quality of management / level of organisation of production process supervision
- Level of inventions and innovations
- Working conditions
- Attitude to work
- Natural ability / talent
- Political climate
- Physical ability / health conditions of workers

Factors which may lead to an increase in the productivity of labour

- Increase in the level of wages.
- Improvement in the technology / technological progress.
- Improvement in the quality of management.
- Increase in the level of skills.
- Improvement in the working conditions.
- Positive changes in attitude towards work.
- Improvement in political climate.
- Increase in the level of inventions and innovations.
- Increase in the level of specialization.
- Increase in the availability and quality of co-operant factors.
- Improvement in the health conditions of labour.
- Increase in experience.

Efficiency of labour

This is the measure of the quality and quantity of output that a unit of labour can produce in a given period of time.

Factors that influence or determine the level of efficiency of labour

- Natural ability or talent.
- Level of innovations and inventions.
- Physical ability or strength (health conditions of workers).
- Wages (motivation / remuneration / terms of service).
- Level of technology.
- Level of skills / ability / education and training/ experience.
- Availability and quality of co-operant factors.
- Quality of management / level of organisation of production process / supervision.
- Working conditions.
- Attitude towards work.
- Political climate;
- Level of specialisation or division of labour.

Labour supply

Labour supply is the number of hours of work labour is willing to work for at a given wage rate over a given period of time.

Factors that influence the supply of labour

- Health conditions of workers. When they are good, workers are active, they do not miss work leading to high supply of labour but when they are poor, workers are not active, they sometimes miss work leading to low supply of labour.
- Size of the population. When the size of the population is big, it means there are more people to work hence high supply of labour but when the size of the population is small, it means there are few people to work hence low supply of labour.
- The age composition of the population. When the majority of the population is a working population, then supply of labour is high but when few people are of working age, the supply of labour is low.
- Working conditions. When the working conditions are good, many people are encouraged to work leading to high supply of labour but when the working conditions are poor, many people are discouraged to work leading to low supply of labour.
- Political climate. When there is political stability, people feel secure to work hence high supply of labour but when there is political unrest, people are in fear for their lives hence low supply of labour.
- Trade unions' influence. Trade unions that have great influence, restrict labour supply so as to raise the members' wages but trade unions with less influence cannot restrict labour supply since there is minimal influence on employers leading to high supply of labour.
- The level of knowledge of job opportunities. When the level of knowledge is high, the supply of labour is high as more people get jobs but when the level of knowledge is low, the supply of labour is low as fewer people get jobs.

- The level of migrations. When the immigration rate is high, the level of supply of labour is high because there are more people to work but when emigration rate is high, the supply of labour is low because there are few people to work.
- Attitude of labour towards work. When the attitude is positive, people are willing to work hence supply of labour is high but when it is negative, people are not willing to work, hence low supply of labour.
- The level of mobility of labour. When the level of mobility of labour high, it means people are willing to move from one job or geographical area another hence high supply of labour but when the level of mobility of labour is low, it means few people are willing to move from one job or area another hence low supply of labour.
- The level of wages. When the level of wages is high, many people are motivated to work leading to high supply of labour but when the level of wages is low, many people are demotivated and discouraged to work leading to low supply of labour.
- The nature of the jobs. When a job is risky, people are discouraged to work for fear of contracting diseases or even losing their lives at work hence the supply of labour is low but when a job is non-risky, people are encouraging to work because their lives are not in danger hence high supply of labour.
- The level of skills required in a particular job. When the level of skills required is high, the supply of labour is low because not so many people have these skills but when the level of skills required is low, the supply of labour is high because many people who have those skills.

Demand for labour

It refers to the number of workers or people employers are willing to offer jobs and retain in employment at a given wage rate.

Or It is demand derived from demand for the products labour is required to produce.

Factors that determine the demand for labour

- The level of demand for a product that labour helps to produce.
- The level of wages or price of labour.
- The level of skills of labour.
- The availability of co-operant factors, for example, land, capital etc to complement labour.
- The proportion of the cost of labour to the total cost of production.
- The possibility of substituting labour for other factors of production.
- The amount of output of labour (the productivity of labour).

Marginal productivity of labour

Marginal productivity of labour refers to the quantity of output that can be produced or realized from the employment of one extra unit of labour.

Limitations to productivity of labour in developing countries include:

- Limited capital.
- Limited skills.
- Poor techniques of production
- Limited supply of raw materials.

- Poor attitude towards work.
- Poor working conditions.
- Poor entrepreneurial ability.
- Low wages.
- Poor land tenure system.
- Physical disability.
- Unfavourable political climate.

ACTIVITY 6

1. (a) Define the term labour force (1mk)
(b) Mention any three factors which determine the size of labour force in an economy
Give any four reasons why the labour supply curve may be regressive (4mks)
2. (a) What is meant by labour demand? (1 mk)
(b) Mention any three factors influencing the demand for labour in an economy
3. (a) Differentiate between labour supply and labour demand (2 mks)
(b) State two measures that should be taken to increase labour supply in your country
(2 mks)
5. (a) Distinguish between efficiency of labour and productivity of labour (4mks)
(b) Discuss the factors that determine efficiency of labour in your country
(a) What factors limit labour productivity in developing countries? (10mks)
(b) What measures are being taken to improve the productivity of labour in your country?
(10mks)

DAY 7

Labour force is the proportion of the population that is made up of the working age group, excluding full-time students and housewives. It is the total number of people of the working age group that is available for employment at a given time.

Characteristics / features of Uganda's labour force

- Mainly youthful.
- Slightly more females than males.
- Mainly employed in the primary sector.
- Mainly semi-skilled and unskilled.
- Mainly rural based.
- Many are employed in the public sector.
- Many are unemployed and underemployed.
- Majority of the labour force is not unionised.
- Some are poorly deployed to occupations which do not match their skills.

Determinants of the size of labour force

- Size of the population.
- Number of full time students / length of training period.
- Health status of the population.
- Government policy in terms of employment age / age structure.
- Social customs / number of full time housewives.

Wages

Meaning

A wage is a monetary reward or payment to labour for its contribution towards the production of goods and services.

Types of wages

1. **Nominal or money wage.** This is a wage expressed in monetary terms for example euro, shillings and dollars.
2. **Real wage.** This is the purchasing power of a nominal wage.

Or

The amount of goods and services a nominal wage can buy.

Determinants of the real wage

- Size of the nominal wage.
 - Level of taxes.
 - Amount of goods and services available.
 - General Price level.
 - Size of the monetary and subsistence sector.
1. **Basic wage.** This is a wage earned by a worker after removing all allowances and medical benefits.
 2. **Minimum wage.** This is a wage set by the government above equilibrium and it is illegal to pay a worker below it.
 3. **Living wage.** This is a payment to a worker sufficient to provide basic needs.
 4. Or
 5. It is a reward that is adequate for a worker and family to subsist comfortably.
 6. **Subsistence wage.** This is a reward to labour that is just enough to enable him to meet the basic human needs. It is a minimum payment to a worker to induce him to hard work but not afford any luxury of life.

Methods of wage determination in developing economies

1. **Time rate system.** Wages are determined according to duration of work. The more the time spent on work, the higher the wages paid and the less the it spent on work, the lower the level of wages.
2. **Piece rate system.** Wages are determined by quantity of output produced. The more the work done by the worker, the higher the wages and a small amount work done leads to earning low wages.
3. **Individual bargaining power of labour.** Wages are determined by individual worker bargaining with his or her employer for an acceptable wage rate. A worker with strong

bargaining power earns more wages than a worker with low bargaining power who is paid low wages.

4. Market forces of demand and supply for labour. The wage rate is determined through the interactive forces of demand for labour and supply of labour till equilibrium market wage is determined.
5. In a situation where the demand for labour is more than the labour supply, wages tend to be high and where labour supply is more than demand for labour, low wages are paid to workers.
6. Collective bargaining or trade union influence. Trade unions determine wages through round table negotiations for wages with employers. Strong trade unions are able to demand higher wages for their members compared to weak trade unions with a low bargaining power.
7. Government policy of wage legislation. Government determines wages through fixing of wages either at minimum below which it is illegal to pay or at a maximum above which it is illegal to pay workers. The government sets wages of civil servants using a historical salary scale where they are graded such that top civil servants are paid high wages compared to the low cadre staff.
8. Employer's setting wages for the workers. The employer sets a wage at which to pay workers depending on his will and ability to pay the wage. Employers with a strong ability and willingness to pay, offer high wages to the workers while employers with a low ability and willingness to pay, offer low wages to the workers.

Some concepts under wages

- Wage freeze. This refers to the situation where wages are kept constant for a certain period of time by the government so as to check inflation.
- Wage drift. This is where piece rate earners negotiate with their employers for more allowances apart from the basic wage.
- Wage restraint. This is a voluntary restriction of wage increase where the government encourages trade unions not to increase wages so as to check inflation.
- Economy of high wages is the belief that high wages will increase the effort of the workers to an extent sufficient to compensate the employer for the greater cost of labour. Where workers have previously been insufficiently fed, ill clad and badly housed, an increase in wages would improve their efficiency.

Or It refers to a situation where wages are increased with hope that the higher the wages, the higher the labour efficiency. When workers' wages are low, an increase in wages is expected to increase their welfare and efficiency making them devote more time to their jobs.

Methods / systems of wage payment in an economy

1. Sliding scale system. This is where wages are adjusted according to the changes in the cost of living such that an increase in the cost of living leads to high wages while a decrease in the cost of living leads to low wages.

2. Bonus payment system. This is a situation where a worker is given an extra amount of money for producing beyond the expected target or working beyond the recommended time.

3. Profit sharing system. This is a situation where workers are encouraged to buy shares in the business and on top of their wages; they are entitled to dividends (profits).

Or

A mode of wage payment in which after deduction of costs of output except labour costs, from selling price, the employer shares profits with the employee in terms agreed to by both parties to the contract.

4. Time rate system. This is a method of wage payment where workers are paid according to the time they have worked for example per hour, day and month. The system involves clocking in and clocking out.

5. Piece rate system. This is a method of wage payment where workers are paid according to the amount of work done.

The more amount of work done, the higher the wages and less amount of work done, the lower the wages.

ACTIVITY 7

- 1.(a)What is meant by the term ‘productivity of labour’? (1mk)
(b) Mention any three factors that limit productivity of labour in your country
- 2.(a) Distinguish between marginal product of labour and average product of labour
(b) Give any two factors which may increase the average product of labour in an economy (2mks)
3. (a)Differentiate between wage freeze and wage restraint (2mks)
(b) Give any two causes of wage differentials in your country (2mks)
4. (a) Distinguish between a wage and a salary (2mks)
(b) How are they determined in an economy?

DAY8

Time rate system of wage payment

Time rate system is a method of wage payment where workers are paid according to the time they have worked for example per hour, day and month.

Merits of time rate system

- Encourages hard work in terms of working overtime. This is because workers put in more effort to earn more wages leading to high output produced.
- Better quality output is produced due to constant supervision of the work and absence of hurrying.
- Proper records of time are kept for easy or correct payment. Therefore, it becomes easy to calculate the wages given to the workers for example multiplying the wage rate by duration of work.
- Workers are encouraged to report in time for work. This implies that workers are self-driven.

- Workers are able to receive regular wage payments. Employees receive wages even during periods of temporary idleness.
- Less efficient / slower workers who take more time easily earn high wages as all workers are paid same wage.
- Minimizes conflicts between workers and employers thereby creating industry peace.
- In a situation where output cannot be measured for example health and education, it is difficult to apply piece rate.
- Minimizes destruction of delicate machinery due to absence of hurrying as is the case of piece rate.

Demerits of time rate system

- Encourages laziness by the workers.
- Leads to low production of goods and services.
- Slower and less efficient workers can easily be paid more than the faster and efficient workers.
- Poor quality output is produced where there is no supervision.
- Leads to high costs of supervision and time checking.

Circumstances in which time rate method is preferable to the piece rate method of wage payment

Time rates are more satisfactory than piece rates:

- When a high quality of output is essential for example as in computer programming.
- When the work cannot be speeded up, for example, in bus driving
- When there is no standard type of work, for example, in car repair
- When care has to be taken of delicate machines, for example, in medical tests
- When output cannot be easily measured, for example, in nursing and teaching.
- When working for long hours may undermine health, for example, in laundry
- When labour is by nature a fixed factor of production which must be engaged whatever the output, for example, in secretarial and selling staff.
- When periods of temporary idleness necessarily occur, for example, in repair work.

Piece rate system of wage payment

Piece rate system is a method of wage payment where workers are paid according to amount of work done.

Merits of piece rate system

- Eliminates the need for constant supervision of the workers leading to reduced costs of production.
- Minimizes labour strikes (industrial unrest) because it limits conflicts or disagreements over payments.
- Higher output is realized because workers are encouraged to produce more so as to earn high wages.
- Promotes team work / spirit among the workers leading to increased productivity.
- Workers do the work at their own pace thereby reducing overstraining.

- It is easy to calculate the wages because output is measurable.
- Dull and slow workers are stimulated to work hard in order to earn high wages.
- Encourages innovativeness among workers so as to produce a large output of and services to earn high wages.
- Faster workers earn more wages than slow / lazy workers which minimises seating in the payment of wages.
- Employers easily forecast output to be produced by the workers and this enables them to put aside the necessary amount of money for wage payment, that is, it simplifies employers costing calculations.
- It helps employers in identification of suitable workers by enabling them to remove the lazy ones and maintain workers who put in more effort.
- Tasks are completed faster since the system encourages hard work among the workers.
- Employers are protected from falsified payments since wages are directly related to the level of output.
- Output is increased and the cost per unit of a fixed factor of production employed reduces.
- Demerits of piece rate system
- Workers tend to over work themselves to earn high wages and this negative affects their health.
- Reduces the quality of work because of hurried work for higher pay.
- Leads to over production due to high output rates resulting into wastage of resources.
- A worker who genuinely misses work or falls sick is not paid for the missed. This causes wage / income instability.
- Hard working people are resented by the slow workers leading to conflicts arc income inequality.
- Leads to high risks of accidents because workers try to increase the speed of work for higher wages.
- It undermines trade union solidarity because of variations in piece rates one place to another and due to the conflicts between the hard working people the slow workers.
- Slow but careful and efficient workers are discouraged since they produce output levels (and good quality output in a long time) that earns them low wages.
- Workers may resist being transferred from one form of work where they acquired more experience to another.

Circumstances under which piece rate system is preferable to time rate system of wage payment

- When it is possible to measure output either in terms of area covered or volume of output produced.
- If it leads to increased output per period of time since it motivates workers to work harder to produce greater units of output within the shortest period of time.
- When careful workers are not likely to suffer for doing quality work in lesser quantities thereby earning less than fast but careless workers who earn more producing output in large quantities but of poor quality.
- If it enables workers to become creative and innovative in order to increase output.
- When it is easy to check and avoid wastage arising from hurrying.
- When accidents at the work place can be avoided.
- When active workers who are creative or physically stronger or hardworking are not resented for producing more output thereby earning more than the other workers.
- When it is possible to forecast output and cost of production.
- When supervision of workers is not necessary, for example, when all workers know and do what they are required to do.

ACTIVITY 8

1. (a) What is meant by piece rate method of wage payment? (1mk)
(b) Mention any three advantages of piece rate method of wage payment (3mks)
2. (a) Differentiate between piece rate and time rate methods of wage payment
(b) State any two merits of using the time rate method of wage payment (2mks)
3. (a) Distinguish between go-slow method and sit-down strike as applied to trade unions
(b) Give any two features of trade unions in developing countries (2mks)
4. (a) Explain the causes of wage differentials in an economy (10mks)
(b) What are the merits and demerits of high minimum wage?
5. (a) Explain the tools used by trade unions to achieve their objectives (8 mks)
(b) To what extent have trade unions in Uganda achieved their objectives? (12mks)

DAY 9

Theories of wage payment

1. Wage fund theory

This theory states that there should be a sum money put aside to pay workers.

The amount of wage given to each worker depends on the number of workers and the sum of money put aside.

2. **Bargaining power theory.** This theory states that wages are given to workers depending on the bargaining strength of trade unions and employers. strong trade unions earn more wages for their members while weak trade unions earn low wages for their members.
3. **Residual claimant theory.** This theory states that workers should be paid their wages after all other factors of production have been paid, that is, the employer should pay rent and interest before paying labour.

4. **Iron law/ subsistence theory of wages.** This theory states that a worker should be paid the bare minimum or subsistence wage which is just enough to meet the basic needs.

An increase in wages above the basic needs (subsistence needs) leads to increase in population (and this 'eats' the subsistence wage way).

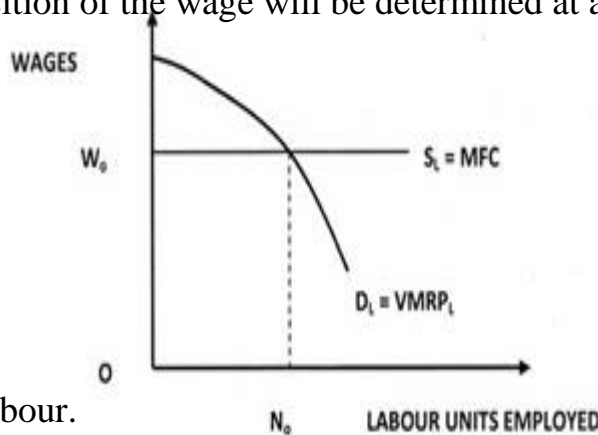
When population exceeds the basic/ subsistence wage, there is starvation, misery and death till the subsistence wage is restored again.

5. **Marginal productivity theory of wages.** This theory states that a **worker is paid a wage** equal to the **value of his marginal product** of labour increases, the wage given to labour should increase and when the marginal product of labour falls, the wage given to labour should reduce.

or profit maximization requires that a producer should not pay a wage higher than the MRP of that worker, that is, the marginal value of its marginal physical product.

Therefore, position of the wage will be determined at a point where **MRP=MFC**.

Illustration



Where;

SL is supply of labour.

DL is demand for labour.

MFC is marginal factor cost.

VMRPL is value of marginal revenue product of labour.

ON₀ is units of labour employed.

OW₀ are the wages paid.

From the diagram above, the wage is determined at a point where the **MFC = MRP** of labour service and are equal to the average cost of the factor service.

Thus each labour service will be paid OW₀ wages for ON₀ units of labour employed.

NB: Marginal revenue product of labour is the addition made to total revenue resulting from employing of one more unit of labour.

Assumptions of the marginal productivity theory

- It assumes that there is full employment of labour.
- It assumes that all units of labour employed are homogeneous.
- Labour is assumed to be perfectly mobile.
- There is no government intervention in determining wages.
- It assumes the law of diminishing returns operates.
- It assumes labour knows his marginal product.
- It assumes there is perfect competition in the labour market.
- It assumes employers are able to measure the marginal product of labour.

- It assumes workers have sufficient bargaining power to determine the wages given to them.
- It assumes output can be measured or quantified in measurable units.

The relevance/ applicability of the marginal productivity theory of wage determination
To a large extent, the theory is inapplicable or irrelevant because:

(Limitations of the marginal productivity theory of wages)

- All units of labour are not homogenous and worker's productivity varies. A of labour differs from another in terms of skills, education attainment physical ability. Therefore, efficiency of labour differs from worker to worker, is therefore wrong to assume that all units of labour are homogeneous.
- Labour tends to be immobile yet the theory assumes perfect mobility, theory assumes perfect mobility of labour between different employments places. However, labour tends to be immobile both occupationally geographically.
- Perfect competition does not exist in true market situation. There imperfection in labour markets due to government interference in fixing wages
- All units of labour are not fully employed as there are cases of unemployment and under employment. There is no full employment situation of labour in developing countries due to excess supply of unskilled labour resulting in some form of unemployment and underemployment.
- Government usually intervenes in fixing wages yet the theory assumes no government intervention. Government influences wages through fixing minimum and maximum wages as well as adopting policies such as wage freeze and wage restraint.
- It ignores the role of trade unions in bargaining for high wages. For example, the Uganda Medical Workers' Union normally influences wages of their members through round table negotiations with the employers. This trade union pressure influences wage rate and not marginal productivity of labour, thus making the theory not applicable to developing countries.
- It does not consider the exploitation of workers by the capitalists, for example, underpayment of the workers. Wage rate is usually not equal to the value of the marginal product of labour
- because capitalists desire to remain with surplus fits and therefore, pay workers less than the value of their marginal product. This thus makes the theory not applicable to developing countries.
- The law of diminishing returns may not apply all the time. The theory is based n the law of diminishing returns but sometimes there is constant and increasing return because of inventions and innovations leading to technological development. This leads to an increase not decrease in output as more labourers are employed.
- It does not consider the level of education and training which may differ and thus influence the level of wages paid to labour. Highly educated labour earns more than less educated workers even if their marginal product is the same or even less.
- It is difficult to measure the marginal product of labour in some occupations or sectors for example the service industry like education and health sectors. Therefore, wages of

workers in the service sector are determined using other factors thus making the theory irrelevant.

- It ignores historical factors in wage determination for example the inherited salary structure in developing countries. The colonial government had a wage structure for different categories of the civil service by which some categories of servants earned more wages than others. To-date government pays workers according to wage rates inherited from the colonial times and not according to marginal productivity theory of distribution as applied to wages.
- Labour cannot be completely substituted in the production process as the theory assumes.
- It ignores the supply of labour in determining wages for example the supply of unskilled labour.
- Labour and the employers cannot determine the exact value of the marginal product since output is produced by many factors. It is therefore, not possible to calculate the marginal productivity of labour separate from the contribution of other co-operant factors thus making determination of wages on the basis of marginal productivity of labour difficult.
- Employer at times use the subsistence level as a measure of wages, which may be below or above the value of the marginal product. Workers are therefore, paid according to what the employers consider adequate for maintaining subsistence needs or cost of living but not according to marginal productivity of labour.
- Bargaining for wages by individual labourers is not taken into account by the theory. Sometimes wages are determined by worker's ability to bargain and workers who have stronger bargaining power earn more than those who are poor at bargaining for higher wages.

To a minor extent, the theory can be applicable;

- It assumes that employers can vary the units of labour employed and this is largely true in most occupations.
- It assumes that workers with higher marginal physical product get higher wages than those with low marginal physical product and this is true in occupations where piece rate system applies.
- The government has no influence over wages in the private sector of ar. eloping countries like Uganda.
- Trade unions in developing countries are weak and have no or limited effect on wages.

ACTIVITY 9

- 1.(a) Explain the marginal productivity theory of wages
(b) Why is the marginal productivity theory rarely used in determining wages?
- 2.(a) Explain the iron law of wages
(b) Account for wage differentials in your country.
- 3.(a) Explain the marginal productivity theory as applied to labour
(b) What are the limitations of the marginal productivity theory of distribution in the determination of wages?

DAY 10

Marginal productivity theory of distribution

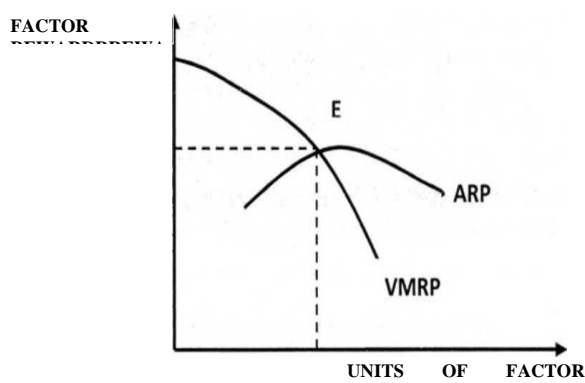
It states that a factor of production should be paid a reward equal to the monetary value of its marginal (physical) product.

Or It states that profit maximisation dictates that a factor of production should be rewarded according to the value of its marginal product.

Or It states that a factor of production must be paid a price equal to the value of its marginal revenue product.

Illustration

Where;



ARP is average revenue product.

VMRP is value of marginal revenue product

OQ0 is units of factor service employed.

OP0 is the factor price

From the diagram above, the factor price is determined at **point E** where **ARP=VMRP**. Thus each factor service is paid **OP0** price for **OQ0** units of output.

Assumptions of the marginal productivity theory of distribution

- It assumes that all units of factors of production are homogeneous.
- It assumes that marginal product of a factor of production can be calculated
- It assumes that output can be quantified into measurable units.
- It assumes fair and perfect competition in the factor market.
- It assumes perfect mobility of factors of production.
- It assumes full employment of factors of production.
- It assumes perfect knowledge in the factor market.
- It assumes no government intervention in determination of factor rewards.
- It assumes that the law of diminishing returns operates.

The relevance or applicability of the marginal productivity theory of distribution

To large extent, the theory is inapplicable because:

- All units of a factor input are not homogenous. The assumption that all units of a service are homogeneous is unrealistic. Fertility of land, for example, differ from one piece of land to another. Likewise, efficiency of labour differs worker to worker. It is therefore, not correct to assume that the different factor units of the same service are homogeneous.
- Factors are not perfectly mobile. The theory assumes perfect mobility of factors as between different employments and places. In reality, factors are mainly immobile. There is no automatic movement of factor units from one industry or place to another.
- Perfect competition does not exist in true market situation. Perfect competition does not exist in the factor and product markets. What is in existence is imperfect competition. This leads to exploitation of factors by being paid much lower than their marginal productivity.
- Factors of production are not fully employed. The theory assumes existence of employment in the economy. Otherwise in case of unemployment factor units offer their services even at a price less than their marginal product. Therefore, forms of unemployment and underemployment exist in all economics.
- Not all factors are divisible for example a blast furnace. The assumption that factor units are divisible and therefore can be increased by small quantities does hold true. It is not easy to vary a large or lumpy factor.
- Profit maximisation is not the main motive of production always. The theory lies that the entrepreneurs are motivated by profit maximization that is why units of a factor service are employed when the firm finds the marginal revenue product of the service is higher than its price. This is not true because the entrepreneur is motivated by other factors besides profits.
- Production is not a result of one factor alone hence difficulty in determining the contribution of each factor to marginal output. Production is as a result of different factors and their units working together. It is therefore, not possible to calculate the marginal productivity of each factor unit separately.
- Assumes the law of diminishing returns which is unrealistic.
- The value of marginal product is not necessarily equal to the value of factor units used in producing it but determined by other factors for example forces of demand and supply.
- Government legislation of factor prices is not taken into consideration by the theory
- It ignores the fact that factor rewards can be bargained for such as the wage rate for labour.
- It ignores the use of other factors to reward the factors of production other than their marginal physical product for example skills and experience.
- It ignores the effects of historical factors in determining factor rewards for example the inherited wage / salary structure.
- To a minor extent, the theory can be applicable;
- The payment to a factor according to the value of its marginal product can be used where output can be quantifiable.
- Factor inputs tend to be relatively homogeneous for example unskilled labour, farm land and money capital.

- Technology in many developing countries has tended to be constantly rudimentally therefore, the theory can be applicable.
- The government has no influence over factor rewards in the private sector.

Factors that determine the level of wages in an economy

- Level of education and training. Highly skilled labour is paid more % because of the high productivity and efficiency than a worker with a low of education who is inefficient and needs further training.
- Cost of living. High costs of living like in urban areas leads to high wages to a worker to enable them sustain better standards of living while low costs living like in rural areas leads to low wages given to a worker because minimal cost required to sustain a given lifestyle.
- Level of talents and natural gifts. A highly talented worker is gifted contributes more to output hence earns more wages than a worker who is talented and contributes less to output.
- Nature of the job. Highly risky jobs result into high wages given to worker-compensate them for the risk they are exposed to while less risky jobs results low wages given to workers.
- Level of experience/ responsibility. High level of experience or more responsibilities leads to high wages given to a worker because of the high level of efficiency while limited experience or no responsibility leads to low wages given to a worker since he contributes less to a firm's output.
- The bargaining strength of the individual workers. A worker with a strong bargaining power is able to be paid a high wage because of his ability to convince the employer for better pay than a worker with low bargaining power who cannot easily convince the employer for a better pay even when they are of the same qualifications and do the same job.
- The number of hours worked (time rate system). More time spent worker at a given job leads to a high wage given to a worker because contributing more to output but less time taken on a given job, results into low wage given to a worker since the contribution to output is low.
- The strength of the workers' trade unions. Workers under trade unions with strong bargaining power earn more wages because of their ability to negotiate for better terms of employment but workers under weak trade unions are paid low wages since they cannot actively negotiate for better terms of service.
- Ability of workers to do work (piece rate system). More amount of work done high wages given to workers because of their high level of productivity but less amount of work done leads to low wages given to a worker due to the low levels of productivity.
- Government policy on wages. Government gives different wages to different civil servants in different departments. Some are paid high wages because of them
- levels of experience, education and productivity while others are paid low wages because of their low levels of experience and productivity.

- Level of discrimination in the labour market. Some employers pay high wages to some workers and at the same time other workers are paid low wages for the same occupation within the same company/firm basing on differences in age, religion, gender and political party.
- Employer's ability and willingness to pay. The higher the willingness and ability to pay the workers, the higher the wages given but when the ability and willingness to pay the workers is low, the wages given to the workers are low.
- Market forces of demand and supply of labour. A high demand for labour compared to labour supply leads to high wages paid to workers since there are more job vacancies than the job seekers but a high labour supply compared to demand for labour leads to low wages paid to workers as the job seekers are more than the job vacancies available.

ACTIVITY 10

- 1.(a) State the marginal productivity theory of wages (1mk)
(b) Identify ant three assumptions of the marginal productivity theory of wages
- 2.Clearly distinguish between the wage fund theory and the subsistence theory of wages (4mks)
- 3.(a) Differentiate between nominal wage and real wage (2mks)
(b)Outline any two determinants of real wage in your country

DAY 11

Wage differentials

This is where different wages are paid to different workers depending on differences in occupations, gender, age, race, trade unions and political party. However, the differences in wages may be between jobs or within the same job.

Causes of wage differences in an economy

- Differences in the level of education and training. Workers who spend longer periods at school such as degree holders earn more wages because of the high skills possessed than diploma holders who spend fewer years at school but are serving in the same occupation or industry.
- Differences in the cost of living. Workers who work in areas where the cost of living in high such as urban centres earn higher wages to enable the work attain reasonable welfare than those serving in areas where the cost of living is low such as rural areas.
- Differences in the level of talents and natural gifts. Highly talented workers such as Musicians, painters, professional footballers and athletes' earn more wages because of their innate abilities that make them contribute more to output than the less talented workers even in the same occupation whose contribution to output is low since they are gifted.
- Differences in the nature of the jobs. Workers employed in highly risky jobs such as pilots and miners are paid high wages than those who work in less risky jobs such as white collar jobs, in order to compensate workers serving in risky jobs for the high of health which they bear.

- Differences in the level of experience or seniority or responsibility. Workers who have worked for long in the same occupation earn high wages than those who have just joined the industry because senior employees need limited further training and supervision.
- Differences in the bargaining strength of the individual workers. Workers who are more eloquent in asking for higher wages are paid much more highly because of their ability to convince employers to pay them high wages than the less eloquent ones are poor at bargaining for wages.
- Differences in the number of hours worked or time spent on the job. Workers work longer hours put in more effort and produce high output hence earn more income than those who put in less effort by working for shorter hours when the time rate method of paying wages is used.
- Differences in the strength of the workers' trade unions. Workers that belong to strong trade unions, that are capable of negotiating for wages for their members, higher wages than workers who belong to weak trade unions or un-unionised workers that cannot bargain for high wages.
- Differences in the ability of workers to do work or differences in quantities output produced. Workers who are hardworking produce large quantities of work therefore earn higher wages than the lazy workers who produce lesser quantities of output when the piece rate method of paying wages is used.
- Differences in government policy on wages. Government pays different wage rates different officials even when the officials have the same levels of education, experience and seniority. This is done to attract highly skilled workers to a particular industry or to promote integrity of the workers who are well paid.
- Differences in the elasticity of demand for the final product that labour helps to produce. Workers who produce products that are demand inelastic earn higher wages than those who produce products which are demand elastic. This is because prices products which are demand inelastic can be increased in order to earn wages for the workers that produced them whereas it is not possible to increase prices for products which are elastic in demand.
- Discrimination in the labour market in terms of race, sex, tribe or region Workers who are favoured by their employers on account of their race or tribe or religion or sex earn higher wages than those disfavoured by the employers even though they are doing the same job.
- Differences in employer's ability and willingness to pay. Different employers have different abilities to pay and workers being employed by the different employer or occupations earn differently.
- Differences in the elasticity of supply of labour to an occupation. Labour which is inelastic in supply to an occupation such as highly skilled labour earns higher wages than labour which is elastic in supply to an occupation such as semi-skilled and unskilled workers especially when forces of demand and supply of labour influence wage rate.
- Differences in the degree of substitutability of labour by machines. Labour which is easily substitutable by machines such as unskilled labour earns lesser wages than professionals who are not easily substitutable by machines because their work involves either a very high degree of human touch or judgement.

Reasons for low wage levels in an economy: A summary

- Low level of education and training / low labour skills,
- Low cost of living especially in rural areas,
- Low level of (limited) talents and natural gifts,
- Less risky nature of the job.
- Low level of experience/ responsibility.
- Low bargaining strength of the individual workers.
- The limited number of hours worked.
- The limited strength of the workers' trade unions.
- The inability of workers to do work.
- Negative government policy on wages for example wage freeze and wage restraint to control inflation.
- High level of discrimination in the labour market.
- Low employer's ability and willingness to pay.
- Excessive supply of labour in relation to demand for labour.

Wage legislation

This refers to the government policy of fixing wages either maximum wage set below the equilibrium wage above which it is illegal to pay (employ labour) or minimum wage below which it is illegal to pay (employ) workers.

Therefore, **maximum wage legislation** is a government policy of fixing a wage rate below the equilibrium wage above which it is illegal to pay wages.

Minimum wage legislation is the setting of wages by the government above the equilibrium wage below which it becomes illegal to pay the workers.

N.B A **maximum wage** refers to a wage set below the equilibrium wage above which it is illegal to pay (employ labour).

While

A **minimum wage** is a wage set by the government above the equilibrium below which employers are not supposed to pay the workers. It aims at avoiding exploitation of the workers.

Objectives / reasons for legislation of a minimum wage

- To enable workers, meet the rising cost of living. Minimum wage legislation undertaken to enable workers to cope with the rising cost of living caused primarily by rising levels of inflation.
- To reduce brain drain. This applies especially when the minimum legislated wage is higher than either the market wages or legislated wages in neighbouring countries. Workers would thus find no economic motivation to go and work in other countries where wages are lower than wages offered home.
- To reduce exploitation of the workers by employers. Minimum wage legislated reduces worker exploitation by the employer since the employer is not allowed to pay workers less than the minimum wage.

- To ensure industrial peace. Minimum wage legislation reduces workers' strikes for increased wages since workers are aware that they are paid wages which are higher than rates determined by market forces of demand and supply.
- To encourage labour mobility. Minimum wage legislation is aimed at increasing inter sectoral mobility of labour, say, from the private to the public sector.
- To expand the demand for goods and services. Minimum wage legislation increases the purchasing power of workers hence increased demand hence increased standard of living of the workers.
- To fight corruption or bribery among workers. Minimum wage legislation aims at reducing malpractices such as theft and embezzlement especially, if the minimum wage provides for worker's basic needs of life.
- To increase labour productivity or efficiency. Minimum wage legislation enables workers to save for investment and this increases the productivity of the economy.
- To ensure fair distribution of income or wealth between different sectors and regions. Minimum wage legislation reduces wage differences between occupations in order to forge equity in income distribution.
- For political support. Minimum wage legislation aims at winning political good will and support from the workers who may fear a change of government because change of political leadership may put into power leaders who are not sensitive to worker's welfare.
- To encourage savings or capital accumulation by the workers. Minimum wage legislation increases the level of savings and investment in an economy thus increased output.
- To attract labour force by reducing voluntary unemployment. Minimum wage legislation is aimed at attracting labour from other sectors of the economy into the public sector.
- To reduce labour instability such as moon lighting- a situation in which a worker holds more than one job simultaneously in order to make ends meet. Minimum wage legislation aims at making labour force more stable as it avoids problems of labour instability such as absenteeism and moonlighting in order to make a living.

ACTIVITY 11

- 1.(a) How are wages determined in your country?
(b) Discuss the factors for wage disparities in your country.
- 2.(a) Why wages are relatively lower in the primary sector than in other sectors?
(b) What measures has your country undertaken to minimize this difference?
- 3.(a) Distinguish between piece rate and time rate methods of wage payment
(b) Discuss the merits and demerits of piece rate method of wage payment
- 4.(a) What is meant by minimum wage legislation?
(b) State any two reasons for minimum wage legislation in your country?

DAY 12

Effects of a minimum wage in a market economy

Positive effects

- Results into increased savings and investment by workers.
- Helps workers to meet the increasing cost of living.
- Promotes equity in income distribution when rationally implemented.
- Helps fight malpractices like corruption and moon lighting.
- Leads to increased government popularity.
- Leads to increased demand for goods due to increased incomes.
- Protects workers from exploitation by employers.
- Leads to increased efficiency of the workers.
- Leads to increased labour supply or reduced voluntary unemployment.
- Leads to reduced brain drain.
- Minimises labour unrest thus promoting industrial peace.
- Promotes mobility of labour.
- Leads to increased revenue to government through taxation.

Negative effects

- Leads to excess supply of labour in relation to its demand.
- Increases the costs of production due to high labour costs.
- Results into technological unemployment as employers replace labour with machines due excessive demand for a high wage.
- Worsens the income gap when not equitably implemented. High minimum wage increases income disparities between wage and non-wage earners because prices for products in the informal and agricultural sectors are low leading to earnings for workers in the sectors.
- Encourages rural-urban migration and its effects. Minimum wage legislation causes imbalances in income gap between rural and urban centres since formal employment which benefits from minimum wage legislation is rural based. This leads to influx of labourers from rural areas to urban areas in quest for high paid wage employment.
- Leads to cost push and demand pull inflation. High minimum wage leads to increased aggregate demand leading to inflation if increased wages do not lead to corresponding increase in output of consumer goods and services.
- Discourages investment resulting into low entrepreneurship due to low profits. Investors are discouraged from investing in the economy for fear of high costs of production resulting in low profits or even losses.
- Causes budgetary deficits. A high minimum wage for public sector workers increases government wage bill and may cause government to incur a budget deficit.

Effects of a maximum wage legislation in a market economy

Positive effects of maximum wage legislation

- Encourages investment.
- Makes labour cheap and affordable.
- Controls inflation.
- Creates equity in income distribution.
- Controls a boom.
- Minimises labour unrest.
- Makes government popular.

Negative effects of maximum wage legislation

- Leads to brain drain.
- Causes voluntary unemployment.
- Depresses consumption leading to economic depression or stagnation.
- Causes unpopularity of the government.

ACTIVITY 12

1. Assess the effects of a minimum wage policy in an economy.
- 2.(a) Distinguish between a minimum wage and a living wage (2mks)
(b) State any two factors that influence the level of wages in your country (2mks)
3. Give four factors that determine the strength of trade unions in LDC's (4mks)
6. (a) Define the term elasticity of supply (1mk)
(b) What factors influence elasticity of labour supply? (3mks)
7. (a) Distinguish between elasticity of demand for labour and elasticity of supply for labour
(b) Give any two determinants of elasticity of demand for labour (2mks)
8. (a) What are the salient features of Uganda's labour force?
(b) What factors determine the supply of labour in the industrial sector?
9. (a) What is manpower planning? (2mks)
(b) What manpower problems is your country facing? (9mks)
© What are the possible solutions to the above problems? (9mks)