

DSVOL

Modulated
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KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2019/2020

SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF
ECONOMIC S/ECONOMETRICS/FINANCE AND BACHELOR OF COMMERCE

EAE 304: LABOUR ECONOMICS DSVOL

INSTRUCTIONS:

Answer question ONE, and any other TWO questions. Question One carries 30 Marks and all other questions carry 20 Marks each.

QUESTION ONE.(COMPULSORY)

- a) Define the following terms as used in labour economics [10 Marks]
- (i) Labour Shirking
 - (ii) Reservation wage
 - (iii) Efficiency wage
 - (iv) Monopsony
 - (v) Short-run period
- b) A student is faced with two career options. To pursue a degreeⁱⁿ economics degree or a diploma in electronics. The student lives in two periods. In the first, she gets an education and in the second, she works in the labor market. If the student becomes an economist, she will spend Kshs15,000 on education in the first period and earn Kshs472,000 in the second period. If she becomes an electrician, she will spend Kshs 40,000 on education in the first period and then earn Kshs500,000 in the second period.
- (i) Suppose the student can lend and borrow money at a 5 percent rate of interest between the two periods. Which career should she pursue and why? (3 Marks)
 - (ii) What if she can lend and borrow money at a 15 percent rate of interest? Will she choose a different option? ~~Why?~~ Explain. (3Marks)
 - (iii) Suppose tuition for electronics is raised to Kshs60,000, what career will the student pursue if the interest rate is 5 percent? (4 Marks)
- c) Discuss the factors that contribute to occupational wage differences in your country? [10 marks]

QUESTION TWO (20 MARKS)

- a) To produce output Q , a firm operating in a competitive market uses labour (L) and capital (K) using the following technology $Q = 50K^{0.5}L^{0.5}$. product Q sells at Kshs. 10 in the market and the firm can hire labour at a wage of Kshs 50. The firm's capital is fixed at 100 units.

Required:

- (i) How many workers should the firm hire to maximize profits? [6 marks]
 - (ii) If the wage rate declined by 50%, what will be the firm's response? (4 Marks)
- b) Explain any five factors contributing to labour mobility in your country [10 marks]

QUESTION THREE (20 MARKS)

- d) A worker derives satisfaction by consuming goods (M) and leisure (L) using a utility function expressed as $U(M, L) = M^{1.5}L$. The worker has a total of 200 hours available for work and leisure. Besides, the worker receives Kshs 200 though he doesn't have to work to receive this money. For every hour the worker commits to work related activities, he receives Kshs 10.

Required:

- i) Show using a well labelled diagram, the graduate's budget line. (2 Marks)
- ii) Determine the optimal choice of consumption and leisure for the worker and number of hours of work. (10 Marks)
- iii) What is the ~~graduate's~~ ^{worker's} reservation wage (3 Marks)
- iv) If the non labour income (V) increases to Kshs 1,000, how will this affect optimal consumption of leisure and reservation wage (5 Marks)

QUESTION FOUR (20 MARKS)

- a) There exist variations in wage and employment levels in real world different from what the models of wage determination predict. Explain the factors contributing to these variations [10 marks]
- b) Explain why a lump sum government transfer can entice some workers to stop working (and entices no one to start working) while the earned income tax credit can entice some people who otherwise would not work to start working (and entices no one to stop working). [10 marks]

QUESTION FIVE (20 MARKS)

- a) ^{Discuss} ~~What is~~ the postulation of the wage fund theory and ~~discuss~~ ^{discuss} its criticisms. [10 marks]
- b) The general objective of a labour union is to increase the wage of union members. Using relevant examples from your country, discuss how unions succeed in achieving this objective [10 Marks]