Assignment 7

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**Module Seven questions**

1. **What is the importance of labour economics?**

Labour economics is the branch of economics which studies the workings and outcomes of the market for labour services. Labour economics deals with the behaviour of employers and employees to the pecuniary (wages, prices, profits) and non-pecuniary (working conditions, work environmental) aspects of the employment relationship and firms operate in these markets as they pursue their objectives of profit maximization; the labour markets, the capital market and the product market.

The importance of labour economics is that it helps economists to understand labour related problems. For example issues on fair wage or salaries, workers, welfare of workers, labour productivity, workers safety, gender related matters, job security and job satisfaction.

Secondly the study is important in providing data for economic planning and policy e.g. It helps economists to know the contribution of labour services to peoples income (wages and salaries). There is evidence that in most economy, labour input is the most important economic resource.

Lastly the study of labour economics helps us to understand the nature of the market in which labour services are bought and sold.

**2. Discuss the scope as well as the importance of labour economics**

The scope of labour economics is concerned with issues that affect or concern the labour force such as;

1. Mobility of labour/worker mobility and Migration. This refers to the ease with which labour can

move from one occupation or geographical area to another. It has two components or aspects namely:

1. Geographical mobility of labour: is the movement of labour between geographical locations or areas. That is mobility of workers from one region, country and location to another. If the present value of the benefits associated with mobility exceeds the costs, both monetary and psychic, we assume that labour will decide to change jobs or move, or both. Also if the discounted stream of benefits is not as large as the costs, then people will decide not to change jobs.
2. Occupational mobility of labour – it measures the extent to which workers change occupation or skills in response to differences on their wages or job availability.

Migration is highly selective in the sense that it is not an activity in which all people are equally likely to

be engaged. To be specific, mobility is much higher among the young and better educated than the old.

The characteristics of Migrants include;

Age: Which is the single most important factor in determining who migrates. The peak years for mobility are 20 – 24; 12% of this age group migrates across the country or state lines each year. By age 32 the rate of migration begins to drop gradually and by age 42 it drops very low. There are two reasons for this situation. Firstly, migration is greater among the young with great potentials and ability to take high risk. They bring high investment returns from any human capital investment.

Secondly, a large part of the cost of migration are psychic, the losses associated with giving up friends, community ties, and benefits of knowing ones way around can easily be forgone because at such early adult age one is not yet established as a matured adult. However as one grows older such things begin to count.

Education: while age is the best indicator of who will move, education is the best indicator of who will move within the age group. Educated people tend to want to migrate more to areas where they can find good jobs with high wages and incentives within the country or outside the country. One cost of migration is ascertaining where the opportunities exist and how lucrative are the jobs.

The role of distance: As the cost of migration gets higher the desire for mobility reduces as a result. There is also the cost of getting relevant information of where opportunities exist. This can either encourage or discourage labour from migrating.

b) Labour Market: - It is the market in which wages and conditions of employment are determined. Remember that in the market system the forces of demand and supply determine commodity prices while in the labour market, what we talk about is service and the wages for labour services. Note: Labour services are not homogenous, they are classified based on the quality of skills requirement.

c) Supply of Labour – number of hours of labour service that the working population is prepared to offer within a given period of time and at a given wage rate

d) Union and Collective Bargaining – This is a negotiation and the agreement between the employer and the

employee. Collective bargaining is the establishment by negotiation and discussion of agreement on matters of

mutual conscience to employers and to unions covering the employment relationship and terms and conditions

of employment within and about a disputed matters that can lead to disorder considered or may be considered

with the aim of taking care of the problems or issues and averting the disorder.

**3. What is the nature of the labour problem in developing economies?**

Labour problem can be defined as the problem of improving the conditions of employment of the wage-

earning classes. It encompasses the difficulties faced by wage-earners and employers who began to cut wages

for various reasons including increased technology, desire for lower costs or to stay in business at all cost. The

wage-earning classes responded with strikes, by unionizing and by committing acts of outright violence. It was

a nationwide problem that spanned nearly all industries and helped contribute to modern business conditions

still seen today. Possible causes include the failure to account for the negative externality of reproduction in the

face of finite natural resources which results in over-supply of labour and falling living standards for wage-

labourers, depersonalization by machines and poor working conditions.

Most developing economies have labour related problems, such problems include:-

a) Shortage of labour – many developing countries lack skilled labour. The reasons are because majority of the

population are not skilled or semiskilled labour. For that reason they use expertise (foreigner) in productions

that need high level skilled manpower.

b) Most people who are working receive low wage payments which are common among employees who have

no skills or are semi-skilled. That is those who have little or no education.

c) Labour is abundant for agriculture, while there is less labour for industries, commerce and services.

d) Government is the chief employer of labour. While the employment by the organize private sector is minimal

in such economy.

e) Labour force problem is not a characteristic of many self-employed artisans who are not organized nor have

anything to do with government, government institutions or the organized private sector.

The problems of child Labour exist throughout the world. It is however common in developing

countries, particularly rural areas where the capacity to enforce minimum age requirements for schooling and

work does not exist. Here children are being exploited and forced into child labour. They have little or no

chance of receiving formal education. Children in this category are working objects of extreme exploitation

with minimal wage.

The conditions under which these children work in most developing countries are very severe. They are

often not provided the sanitation for proper physical and mental development. In most countries of the world

there are restrictions on child labour but not followed in many developing countries. Most state leaves these

children vulnerable to exploitation. Child labours are the worst paid categories in the world. They face health

hazards and potential abuse. Most employers take undue advantage of child labour knowing that they cannot

legally form unions to change their conditions of employment. This manipulation stifles the development of

youths in the society. The working conditions of these children do not provide the stimulation for proper

physical and mental development. Consequently, these children are deprived of the simple joy of childhood.

There is no uniform international law or agreement that defines child labour. Many countries have different

minimum age for work restrictions.

The causes of Child Labour are the following Poverty, children work to ensure the survival of their families and themselves, schooling problems, traditional factors, rapid rural urban migration. The ways of tackling the Problem of Child Labour will include improved quality education, provision of subsidies, establishing partnerships with international organisations

Sectoral distribution of labour force

Labour force is that part of the population which is employed or available for work. It can also be defined as everyone who is classified as either Employed or Unemployed. The available labour services to the society depend on the following:-

a) The size and demographic composition of the population.

b) The labour force participation rate – that means the percentage of the working age which is actually working or seeking job.

c) The number of work hours per year or month or week or day or hour

d) The quantity of labour force – labour input is provided in form of services, the total productive effort available in the economy depends upon a number of factors that leads to the factors that determine the size and composition of labour force.

By Sectorial Distribution of Labour Force, we mean the number or percentage of persons that are gainfully employed in various sectors of the national economy. During the recent years there has been a fluctuation in the manufacturing sector and it contributed to a total high of gainful employment when compared with other sectors as electricity, gas, and water and mining respectively. The breakdowns of the various groups in the country are as listed below;

Factors that affect the size of Labour Force

Factors affecting the size of a labour force include population, income, educational attainment, home ownership, number of industries and government policies. Economic Online reveals that a 1 percent growth in state population causes a 0.74 percent growth in the size of the labour force. Additionally, an increase in minimum wage causes an increase in the size of a labour force.

According to Economic Online, home ownership has many benefits to the society, but it reduces employee mobility, decreasing the size of a labour force. An increase in the wage rate reduces the demand for labour, reducing the size of a labour force. On the other hand, high productivity increases the demand for labour and the size of a labour force.

The supply of labour also affects the size of a labour force. Immigration increases the size of a labour force while migration reduces it. Preference for work also affects the size of a labour force because the benefits of working motivate people to seek employment. Trade unions prevent a decrease in the size of a labour force by protecting the rights of workers.

The cost of living has no impact on the size of a labour force. Labour force includes the unemployed because of their potential for employment within formal and informal sectors

Factors that determine the size and composition of labour force:

1. Population size - Labour force is part of the population, the relationship between the population and labour force depends on birth rate, death rate and net immigration. Other demographic factors include:-

a. Age composition of the population – This helps to determine the labour force. For example in Nigeria age eligible population that can participate in labour force is within 15-64 years. Because they are qualified to belong to the labour force. The more we have people within this range the more the size of the labour force.

b. Sex composition of the population – in any economy where the population skew favour any particular sex, for instance more men, it mean that more members of the population will be available for work whether skilled or unskilled.

2. Labour force participation rate of the population:

Participation rate means the percentage of the working age population which is actually working or seeking for work. Labour force participation rate is determined by compiling the actual with the potential labour force or what is called the age eligible population.

I. Potential labour force – The potential labour force or age eligible population is defined as the entire population less (i) young peoples under 15 years of age and the (ii) peoples who are institutionalized, children under 15 years of age are excluded on the assumption that in some countries schooling and child labour laws keep most of them out of the labour force.

II. Actual labour force – It consists of those people who are either employed or unemployed but actively seeking a job. In percentage form labour force

participation rate is expressed as actual labour force divided by potential labour force multiply by 100. i.e. actual labour force x 100

Potential labour force

3. The average number of hours worked weekly and annually: By this the labour force minus the total amount of labour supplied in the economy does not depend only on the number of labour force that participates but also on the average no of hours worked per week and per year by those participants. Experience show that work week decline on weekly basis as follows:-

a. Workers income – leisure preferences

b. Non-wage income – if non-wage income increases, the no of working hours will reduce.

c. Assumption that leisure is a normal goods

4. People attitude to work: General attitude of people in a particular society will affect the size of the labour force. In countries where those who belong to the labour force do not depend on the unemployment effort or any form of it (Social allowance or Benefit). The size of labour force would be large. In such a situation people will be willing to provide labour services for their up keep.

5. Quality of labour: A qualitative or superior labour force is one that is more experienced, more educated and better trained. Productivity of labour may be considering an investment in human capital. Human capital investment includes expenditures on:-

a. Formal education

b. On the job training

c. Health and migration

Worker can become more productive by;

 Improving their physical and mental health

 By moving from locations and jobs where their productivity is relatively low to where their productivity is relatively high.

6. Legal requirement on women participation in the labour force: In some countries as a result of religious influence, women are excluded from the labour force, for that reason the size of the labour force in such a country will be limited to the no of men who are willing to work. If it happens in a country where the population of women exceeds that of men, it could mean that the greater no of the labour force is excluded from the labour market.

**4. What are the causes of child labour and as a Human Resource personnel how will you mitigate the same in your organization?**

The problems of child Labour exist throughout the world. It is however common in developing countries, particularly rural areas where the capacity to enforce minimum age requirements for schooling and work does not exist. Here children are being exploited and forced into child labour. They have little or no chance of receiving formal education. Children in this category are working objects of extreme exploitation with minimal wage.

The conditions under which these children work in most developing countries are very severe. They are often not provided the sanitation for proper physical and mental development. In most countries of the world there are restrictions on child labour but not followed in many developing countries. Most state leaves these children vulnerable to exploitation. Child labours are the worst paid categories in the world. They face health hazards and potential abuse. Most employers take undue advantage of child labour knowing that they cannot legally form unions to change their conditions of employment.

This manipulation stifles the development of youths in the society. The working conditions of these children do not provide the stimulation for proper physical and mental development. Consequently, these children are deprived of the simple joy of childhood. (Gbosi, 2005). There is no uniform international law or agreement that defines child labour.

Many countries have different minimum age for work restrictions. The following are the causes of Child Labour:

i. Poverty: Children in the child labour category work for many reasons. The most important is poverty. Children work to ensure the survival of their family and themselves. Children are paid far less than adults. The income they earn is of benefit to their poor families.

ii. Schooling Problems: The school problems contribute to child labour. Many times children seek employment because they don’t have access to schools or good education. Even when there is access to education, the low quality of education often makes attendance a waste of time for most students.

iii. Traditional Factors: In Africa most female children, based on cultural believe and traditional believe that women will not fit into native roles if they become educated. They believe that educated women will not get married or have children. Therefore many families prefer their female children to take over household duties. The intended purpose is to release mothers for paid employment in many developing countries. Such cultural practices eventually restrict the education of females and promote child employment in many developing countries. This make certain siblings going to school while others work.

iv. Rapid Rural Urban-Migration: This is another reason for the increasing rate of child labour in urban areas of developing countries. Families leave the severity of agricultural working conditions for cities in order to search for economic opportunities that often do not exist.

Such increases coupled with worsening economic trends, force children and their families into urban poverty. Thus children are forced into child labour or required to work.

The ways of tackling the Problem of Child Labour include the following:

i. Improved quality education: If the governments improve the quality of education, the value will increase to children and parents. School represents the most important means of drawing children away from the labour market. School provides children with guidance and opportunity to understand their role in the society. Therefore there is need to adequately fund all levels of education in developing countries.

ii. Provision of Subsidies: Poor families should be provided with subsidies prone to having children. This will enable them afford their children’s school fees and other fees associated with attendance. The issue of poverty should be addressed so as to reduce the level of child labour.

1. Establishing partnership with International Organizations: These organizations should include united nation (UN), the International Labour Organization (ILO), the World Bank, the International Monetary Fund (IMF) and other international agencies should be encouraged to assist government of developing countries in the area of financial aid, public enlightenment campaigns and the establishment of a world labour court. The court should be charged with handling matters relating to the problems of child labour throughout the globe.

**5. Discuss the factors that determine the size and composition of a labour force?**

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**6. With an aid of doctrines, discuss unemployment?**

KEYNES stressed that under investment is the main cause of unemployment in an economy. According KEYNES the national income has two components, that part saved and that part consumed (Y=C+S) he emphasized that the entire amount saved must find its way to investment; if this is not so, it will result to chronic unemployment.

However the liquidity preference of individual who desire to hold fund in the form of cash as impediment. The amount of employment in an economy will depend on the volume of the national income. In order to maintain a high level of employment as previously, the amount of investment should be kept as high in the present period.

This has to be followed in some instance with the interest rate low enough to encourage saving and investment. Keynes said that even though it is possible saving and investment to be equal a level high enough to achieve full employment equilibrium is more likely to be reached at a lower point and demand for labour will not be enough at that point to ensure employment to those who desire job.

Some later followers of Keynes laid emphasis on interest rate as a method of inducing investment. They said that the decision of businessmen is more influenced by profit expectation and also by any cost reduction, which might be obtained from theological invention.

General unemployment shows that if the government fails to generate adequate level of aggregate monetary demand there will be general unemployment in the economy.

Government can influence the level of aggregate monetary demand by the manipulation of tax rates and public sector expenditures, so as to maintain full or nearly full employment.

**7. In your own view, what are the causes of unemployment in developing countries? Discuss briefly.**

The other causes of unemployment in developing countries include but not limited to;

Poor education: This is the major cause of unemployment in most countries that do not take serious care

of their education sector. Nations who do not backup what the students are taught in their individual institutions

of higher learning with practical background are likely to 'vomit' graduates yearly who cannot make good

impact to the society. When the graduates that are given out every year cannot defend what they studied, the

only thing they do is to add to the unemployment level of the country. For example Democratic Republic of

Congo has one of the lowest education enrolments in Africa Continent. This poor education contributes

seriously to unemployment in that country as many of their institutions were destroyed during the nation’s Civil

wars. So, the poorer the educations sector of any country, the higher the increase in unemployment rate of the

country.

The question is: how many of these graduates secure jobs after their graduation? The answer is that very little number of them secure jobs after years of their graduation. The reason is because there are little facilities and poorly trained teachers who rendered poor services to the graduates when they were in their institutions.

Lack of Skills: It is hard to see any person who is full of skills and still suffer from unemployment. A

skillful person can adapt in many environments and feed appropriately to the fullness. One of the principal

causes of unemployment among adults of different locations of the world is because good skills which can give

them good self-employment are lacking in them. There are many importance of skill acquisition. In many

nations of the world, undergraduates are seriously working hard to acquire material certificates without putting

into consideration the importance of skill acquisition. A skillful human being can stand at any point of test.

When paper certificates are supported with skills their strengths are increased. It is not a crime for someone who

is studying mechanical engineering to go to a road-side mechanic (technician) and learn how to repair vehicles.

When he learns this, it lessens insult which may be added to his injury (worsen the situation of unemployment)

after his graduation. Many who have graduated from mechanical engineering department most especially in

African Continent are unable to defend their certificates when they are called for practical interview. They may

perform well in theoretical examination but failed when they were called to show their skills from what they

learnt by repairing faulty vehicles. So to avoid worsening of the situation, they should learn skills necessary to

see them through and can help them get their dream jobs even immediately after their graduation. When they

have the necessary skills on their area of specialization, unemployment will be reduced as they will be

employed; but contrary to that, there will be consistence rise in unemployment level. It is shameful to hear that

those who graduated from electronics and computer engineering in most developing or underdeveloped

countries cannot produce or repair any electrical appliance. The major reason for that is because the skills

needed are lacking. Youths, adults, and even the young are to go for skills to back themselves up.

Poor moral: One may ask: how can poor moral behaviour be a cause of unemployment? It is a cause of

unemployment because many citizens have lost their jobs because their moral actions are too bad and negates

the ethics of most structured organizations. Ladies wear some offensive clothes to their places of work and after

advices by their boss get fired as a result of their stubbornness. They get sacked because their top banana (boss)

could not take that from the poor morally trained ladies. Furthermore, some workers do not have good manner

of approach. As a result of consistence complains received by the managers from their customers, the managers

have no other option than to sack the workers before the misbehaved workers first 'sack' the customers. When

the weak morally trained are given their walking papers (sacked), their numbers add to the number of those who

have been 'swimming in the ocean of unemployment'.

There are those who suffer laziness the way patients suffer from diseases. They cannot attend work in a

week without being late in at least two work days. This cankerworm that has eaten deep into their bodies

became difficult for them to stop. After some time of lateness to duties, the Chief Executive Officer gets tired of

them and decides to 'give run to them'. In order words, the CEO has to get the late comers sacked.

Poor government planning: A government that fails in her duty to help minimize unemployment in any

country is as bad as a shepherd that does not care for his flock. Some top government officials are after their

selfish interest without considering the importance of making provisions for her citizens. Due to the

government's weakness, unemployment becomes the major problem in the country. Selfish governments does

not work hard in creating production companies where citizens of the country can get employed to reduce

unemployment; rather, they keep on stealing and embezzling the public fund. When the funds that are supposed

to be used by the government to provide employment for the masses is not used, the next that follows is

persistence rise in unemployment status.

Corruption: What is corruption? How can corruption be a cause of unemployment? Corruption can be

defined as immoral action which could involve bribery and embezzlement (misuse) of public fund for personal

use. A corrupt government can be said to be a government which makes use of public fund for their (the

government officials) personal and selfish use. Corruption is a cause of unemployment because when those in

government who are to use public money for building more manufacturing industries are busy embezzling the

funds for their selfish use, the next is massive increase in unemployment rate.

According to 2008 census calculation in Liberia, 68 per cent of Liberians were unemployed in that year. In the

same year, 2008, Liberia ranked 138 on the scale of 180 countries surveyed by Transparency International,

which is a watchdog that fights corruptions in countries and keep the records. This means that when 138 is

subtracted from the 180, Liberia is known to be the 42nd most corrupt in the world in 2008 and that is still high

when it comes to corruption. When unemployment is connected to corruption, Liberia was the world most

corrupt nation in 2013. It is clear evidence that corruption is also the major cause of unemployment. Without

going too far, Nigeria is the 8th most corrupt country in the world and this country also have high

unemployment rate. The corruption in Nigeria government makes government of the country to spend less on

the welfare of the citizens of the country.

When corruption is taken as normal routine, functions which are to be done by three persons is being taken up

by one person alone and that same one person collects salaries made for three persons. Why won’t

unemployment rate increase when such action is being observed in the country?

**8. Discuss the types of unemployment**

The types of unemployment are;

1. Structural unemployment

Structural unemployment comes about through technological advances, when people lose their jobs because

their skills are outdated. These are people who are laid off from sectors that are in decline and are in the process

of making a transition to sectors that are expanding. For example, if the textile industry is shrinking while the

health care industry is expanding, workers have to retrain and retool for the new opportunities. It occurs when

production structure changes from labour intensive method to capital intensive method. This type of change

leads to job losses and unemployment. Structural unemployment is due to changes in demand. This

unemployment is cause by changes in the country’s industrial structure through the switching of production

from one kind of work to another. Such a change produces unemployment only because of the immobility of

factor of production. The features of Structural Unemployment are as :

* It results from a mismatch between skills needed for available jobs and the skills possessed by those seeking job.
* It may occur because of geographical mismatch between the location of job openers and job seekers.

2. Frictional unemployment:

Frictional unemployment arises when a person is in-between jobs. After a person leaves a company, it naturally

takes time to find another job, making this type of unemployment short-lived. It is also the least problematic

from an economic standpoint. The feature of this unemployment involves a short term unemployment which

follows workers strikes, natural disasters, layoff or the conscious action of workers who quit their job that are

low paying in search of high paying ones.

Frictional unemployment occurs because not all active job seekers would have found job or accepted

employment and not all employers would have filled their job vacancies in this case. Unemployment rate

always remains positive for the following reasons;

* People continually quit their present job to search for new jobs.
* People enter the labour force to seek work or job for the first time.
* People re-enter the labour force after periods of absence
* People move from one job to another within the 30 days.

Similarly employers consciously;

* Search for replacement for workers who quit or retire
* They discharge some employment in hope of finding better ones.
* Employers seek new workers to fill jobs created by expansion of their firms.

3. Demand deficient or cyclical unemploment:

Cyclical unemployment comes around due to the business cycle itself. Cyclical unemployment rises during

recessionary periods and declines during periods of economic growth.

It is as a result of decline in the aggregate demand when the aggregate demand for a product fall. For example,

if sales are low, which leads to low profit as demand falls, there would be unsold inventories as a result, profits

will drop and as a result, workers will be laid off their jobs which will lead to unemployment.

4. Seasonal unemployment:

This is a situation in which particular workers chances of being employed are subjected to the dictates of the

seasons. There is a high incidence of seasonal unemployment and it is usually associated with labour fluctuation

or changes in the agricultural and construction industries.

There are many workers who are employed to work in cocoa plantations, rice mills, field and maize farms

during planting and harvesting periods. These often have little or nothing to do during the slack period and if

they cannot find other job these periods, they remain unemployed, albeit seasonally. The causes of

unemployment:

* One reason for unemployment is voluntary. Some of the unemployed have saved enough money so they can quit unfulfilling jobs. They have the luxury to search until they find just the right opportunity.
* The second cause is when workers must move for unrelated reasons. They are unemployed until they find a position in the new town.
* The third reason is when new workers enter the workforce. That includes students who graduate from high school, college, or any higher degree program. They have more skills than if they didn't go to school. That's a big primary reason for youth unemployment.
* The fourth reason is when job seekers re-enter the workforce. They went through a period in their lives when they stopped looking for work.
* These include mothers who are re-joining the workforce after their children are old enough. Other re-entrants got married and set up the household while their spouses worked. Others had to care for elderly relatives before returning to the labour force.
* The fifth cause is technology advances. That's when computers or robots replace worker tasks. Most of these workers need retraining before they can get a new job in their field.
* The sixth cause is job outsourcing. That's when a company moves its manufacturing or call centers to another country. Labour costs are cheaper in countries with a lower cost of living. That occurred in many states in 1994. Many manufacturing jobs moved to Mexico from USA. It also occurred once when workers in China and India gained the skills needed by American companies.
* The seventh reason for unemployment is when there are fewer jobs than applicants. The technical term is demand-deficient unemployment. When it happens during the recession phase of the business cycle, it's called cyclical unemployment.

**9. What are the factors that affect demand for labour?**

There are 3 basic factors among others affecting the demand for Labour, they include; the wage rate, product demand and technological changes. As mentioned earlier the wage rate is perhaps the most important factor affecting demand for labour. This is because wages defines the income level of employed household. Thus, changes in wage rate leads to movement along the labour demand curve as indicated in illustration 1 above.

Product demand could necessitate an increase in the demand for labour while wage rate and technology remains unchanged thus leading to a shift of the labour demand curve either to the right of to the left as the case maybe.

1. Product demand (The Price of the Firm’s Output):

The higher the price of a firm’s output, the greater is the firm’s demand for labour. The price of output affects the demand for labour through its influence on the value of marginal product of labour. If the price of the firm’s output increases, the demand for labour increases and the demand for labour curve shifts rightward.

2. Technological Changes:

New technologies decrease the demand for some types of labour and increase the demand for other types. For example, if a new automated bread-making machine becomes available, a bakery might install one of these machines and fire most of its workforce which will lead to a decrease in the demand for bakery workers. But the firms that manufacture and service automated bread making machines hire more labour, so there is an increase in the demand for this type of labour.

On the other hand Technological changes also lead to a shift in the labour demand curve. If the wage rate remains constant and the product remain unchanged but a new technology which ultimately reduced the cost of production is purchased, this could lead to a sustaining effect with the entire labour demand curve shifting either to the right or to the left.

3. The Price of Other Factors of Production:

If the price of using capital decreases relative to the wage rate, a firm substitutes capital for labour and increases the quantity of capital it uses. Usually, the demand for labour will decrease when the price of using capital falls.

**10. What are the main determinants of elasticity of demand for labour?**

Elasticity of labour demand measures the responsiveness of demand for labour when there is a change in the ruling market wage rate. The elasticity of demand for labour depends on these factors:

a) Labour costs as a % of total costs: When labour expenses are a high proportion of total costs, then labour demand is more elastic than a business where fixed costs of capital are the dominant business expense. In many service jobs such as customer service centres or gas boiler repairs, labour costs are a high proportion of the total costs of a business.

b) The ease and cost of factor substitution: Labour demand will be more elastic when a firm can substitute quickly and easily between labour and capital inputs. When specialised labour or capital is needed, then the demand for labour will be more inelastic with respect to the wage rate. For example it might be fairly easy and cheap to replace security guards with cameras but a hotel would find it almost impossible to replace hotel cleaning staff with machinery!

c) The price elasticity of demand for the final output produced by a business: If a firm is operating in a highly competitive market where final demand for the product is price elastic, they may have little market power to pass on higher wage costs to consumers through a higher price. The demand for labour may therefore be more elastic as a consequence. In contrast, a firm that sells a product where final demand is inelastic will be better placed to pass on higher costs to consumers.

Some of the main determinants of elasticity of demand for labour are as follows:

i. The proportion of labour costs in total costs:

If labour costs form a large proportion of total costs, a change in wages would have a significant impact on costs and hence demand would be elastic.

ii. The ease with which labour can be substituted by capital:

If it is easy to replace workers with machines, demand would again be elastic.

iii. The elasticity of demand for the product produced:

A rise in wages increases costs of production which, in turn, raise the price of the product. This causes demand for the product to contract and demand for labour to fall. The more elastic the demand for the product is, the greater the fall in demand for it and hence for workers – making demand for labour elastic.

iv. The time period:

Demand for labour is usually more elastic in the long run as there is more time for firms to change their methods of production.

v. The qualifications and skills required:

The more qualifications and skills needed, the more inelastic supply will be. For instance, a large increase in the wage paid to brain surgeons will not have much effect on the supply of labour. This is especially true in the short run, as it will take years to gain the requisite qualifications and experience.

vi. The length of training period:

A long period of training may put some people off the occupation. It will also mean that there will be a delay before those who are willing to take it up are fully qualified to join the labour force. Both effects make the supply of labour inelastic.

vii. The level of employment:

If most workers are employed already, the supply of labour to any particular occupation is likely to be inelastic. An employer may have to raise the wage rate quite significantly to attract more workers and encourage the workers employed in other occupations to switch jobs.

viii. The mobility of labour:

The easier workers find it easy to change jobs or to move from one area to another. The easier it will be for an employer to recruit more labour by raising the wage rate. Thus, higher mobility makes the supply elastic.

ix. The degree of vocation:

The stronger the attachment of workers to their jobs, the more inelastic supply tends to be in case of a decrease in wage rate.

x. The time period:

As with demand, supply of labour tends to become more elastic over time. This is because it gives workers more time to notice wage changes and to gain any qualifications or undertake any training needed for a new job.

**11. Discuss the labour market theories learnt giving examples**

1. Neo classical labour market theory – This is otherwise known as the orthodox labour market theory States that employers act to maximize their profit by paying low wages for the workers skill they need as they can, workers also want to maximize their gain by insisting on the highest pay for the job for which they have the required essential or dispensable skill.

2. Labour Market Segmentation Theory – This theory state that labour market consist of various subgroup with little or no capability to cross over from one group to another. It describes a situation where different groups or individuals receive different wages or compensations for the same work. The theory explains economic marginalization due to racial, ethnic or political reason. Segmentation can result in different groups, for example men and women, receiving different wages.

The 19th-century Irish political economist John Elliott Cairnes referred to this phenomenon as that of "noncompeting groups". Modern labour market segmentation theory arose in the early 1960s. It changed the view of many economists who saw the labour market as just a market of individuals with different characteristics of education and motivation, as well as technology, playing a major factor in terms of producing output.

3. Labour Market Theory of Poverty – This state that because wages are sticky downwards most rigid firms that want to remain in business have the only option of laying off workers during economic down-turns such action adversely affect employment and income distribution and increase the number of households in the poverty bracket.

4. The Dual Labour Market Theory – The theory states that there are two groups within the labour market, the primary market and the secondary market characterized by high income, fringe benefits, job security and a high prosper of upward mobility. However, as the word "dual" implies, a DLM usually refers to two parallel markets.

The labour market consists of two tiers. Workers in the upper tier enjoy high wages, good benefits, and employment security, and they are often unionized. Workers in the lower tier experience low wages, high turnover, job insecurity, and little chance of promotion. Until now, dual labour market theory has focused mainly on microeconomic factors such as discrimination, poverty, and public welfare. Dual Labour Markets considers the macroeconomic implications of the dual market. Theoretical models from research of over six years were used to analyse such policy issues as; the level and persistence of unemployment, the level of real wages, the accumulation of human capital, and the political viability of labour market reform.

There are two key sectors of Dual labour market: primary and secondary sector.

a. In a primary sector the workforce as a whole is motivated to serve their employer because of wages, health benefit, pension and job security. The job market consists of a majority of blue collar and white collar jobs. The primary sector generally contains the higher-grade, higher-status, and better-paid jobs, with employers who offer the best terms and conditions.

These jobs are usually considered to be the occupational labour-markets and some industrial labour-markets. The primary sector is sometimes sub-divided into an upper and lower level. The primary workers are trying to prove themselves to their employers by portraying their skills and educational credentials.

b. In a secondary sector, job management is entitled to complete control because there is a larger turnout. Many in this job type either leave or are replaced quickly. These jobs give low emphasis on job morale and their workers lack motivation. The secondary jobs are mostly low-skilled, they require relatively little training, and can be learned relatively quickly on the job.

There are few barriers to job mobility within the secondary sector. This is because the jobs are unattractive, there is little incentive to stay, and there are high levels of labour turnover, with workers moving on to other jobs or employers. Wages are low, and the terms and conditions of the job are poor.

5. Human Capital Theory – This theory state that human capital is the stock of competency (knowledge, skill) and attribute (creativity, ingenuity) contained in the ability of a worker to perform labour services so as to produce expected economic value. This theory actually defined what labour is all about.

6. Theory of Labour Discrimination – Discrimination in the labour market exists if individuals who have identical productive characteristics are treated differently because of the demographic groups to which they belong. This is the valuation, in the market place, of personal characteristics of workers that are unrelated to workers’ productivity such as colour, race, gender/sex, marital status, generation, Ethnic, etc.

Types of discrimination in the Labour Market:

• Wage discrimination: Present if prices paid by employers for given productive characteristics are systematically different for different demographic groups, e.g. men and women

• Occupational discrimination: Present if individuals with same education and productive potential are working in lower-paying occupations or with

lower levels of responsibility than similar individuals from another demographic group, e.g. natives and immigrants, men and women etc.

• Occupational segregation is present if the distribution of occupation differs between demographic groups, e.g. men and women (female or male dominated occupations)

It can be difficult to distinguish between occupational segregation and occupational discrimination

7. Split labour market theory, originally proposed by sociologist Edna Bonacich in the early 1970s, is an attempt to explain racial/ethnic tensions and labour market segmentation by race/ethnicity in terms of social structure and political power rather than individual-level prejudice.

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