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**University Examinations 2015/2016**

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR THE

DEGREE OF

BACHELOR OF COMMERCE

**BEC 3356: LABOUR ECONOMICS**

**DATE: AUGUST 2016 TIME: 2 HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two***questions.

**QUESTION ONE (30 MARKS)**

1. Distinguish between the following terms as used in labour economics:
2. Nominal and Real wages (2 marks)
3. Underemployment and unemployment (2 marks)
4. Labour and labour force (2 marks)
5. Budget constraint and indifference curve (2 marks)
6. Monopoly and monopsony market (2 marks)
7. A utility maximizing worker participating in the labour market derives satisfaction from consumption of goods (C) and Leisure (L) as given by the utility function.



The worker has a total of (T) hours which (h) hours are devoted to work while (L) hours are devoted to leisure. Assume the worker receives non-labour income (V) during the period, work is remunerated at (w) shillings per hour and the worker exhausts all her income in consumption of goods (C) and leisure (L)

**Required:**

1. With a well labeled diagram, illustrate how the worker makes a decision on the hours of work and hours of leisure (5 marks)
2. What would happen to hours of work when the wage rate increase (5 marks)
3. According to wage fund theory, “wages can only increase when either when wage fund increases or the workforce goes down.” Discuss the criticisms of this postulation (10 marks)

**QUESTION TWO (20 MARKS)**

1. Highlight the various factors leading to labour mobility (10 marks)
2. “Wages are sticky downwards but flexible upwards.” Discuss this statement in the context of the insiders and outsiders (10 marks)

**QUESTION THREE (20 MARKS)**

1. Using a well labeled diagram, demonstrate the income effect and substitution effect of a wage increase for a worker (12 marks)
2. Demand for labour is derived. Explain (4 marks)
3. Define the term “collective barging” (4 marks)

**QUESTION FOUR (20 MARKS)**

1. With the aid of relevant examples, explain the sources of human capital differences (10 marks)
2. With a well labled diagram, explain how education contributes to wage deferential in the labour market (10 marks)

**QUESTION FIVE (20 MARKS)**

1. Explain how trade unions influence wages and employment in the labour market. (10 marks)
2. Briefly define minimum wage legislation and the three main objectives of such a legislation (10 marks)