

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

***THIRD* YEAR *FIRST* SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF ARTS IN ECONOMICS**

**COURSE CODE: ECO 418**

**COURSE TITLE:** **ECONOMICS OF LABOUR AND INDUSTRY**

**DATE: 31ST JANUARY 2017 TIME: 1100 -1300HRS**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of* ***THREE***  *printed pages. Please turn over.*

**QUESTION 1**

1. The table below contains labor market data for a hypothetical County in Kenya for the year 2014 and 2015. Please compute the missing data marked (i), (ii),(iii),(iv), (v), and (vi).

|  |  |  |
| --- | --- | --- |
| Year  | 2014 | 2015 |
| Population (P) | 1320 | 1823 |
| Labor Force participation Rate (LFPR)  | 66.0% | (iv) |
| Labor Force (N) |  | 1551 |
| Employment Rate (ER) | 56.1% | (v) |
| Unemployment Rate (UR) |  | (vi) |
| Unemployed Population (actively seeking for employment)  |  | 451 |

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2. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
3. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
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5. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
6. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

(**6 marks**)

1. Use the neoclassical labor-leisure choice model to illustrate what happens to hours of work when the wage rate changes?

(**9 marks**)

1. Explain 5 causes of wage rigidities that may make equilibrium attainment impossible in the labor market. (**10 marks**)

**QUESTION 2**

1. With the aid of a well-labeled diagram, illustrate how minimum wage legislations can cause labor market imperfections. (**10 marks**)
2. Explain and criticize the subsistence theory of wages (**5 marks**)

**QUESTION 3**

1. An employee derives utility from consuming leisure and work. The utility function of the student is expressed as follows:

$$U\left(X,Y\right)=0.45L^{0.2}W^{0.8}$$

The employee’s is constrained by the fact that her weekly endowment is 150 hours. Her time constraint is given by the following equation.

$$L+3W=150$$

Where W is the amount of time spent on leisure and W is the amount of time spent on work. Use constrained optimization to find out the amount of time that the employee spends on leisure and work per week.        **(10 marks)**

1. in the context of your country, explain the possible causes of occupational wage differentials. **( 5 marks)**

**QUESTION 4**

1. Differentiate between the following terms as used in labor economics:
2. Seasonal and cyclical unemployment
3. Occupational and geographical mobility of labor (**4 marks**)
4. Discuss 5 causes of unemployment in the context of developing countries (**10 marks**)
5. Define the term job search (**1 mark**)

**QUESTION 5**

1. Discuss the 5 reasons why employers may be inclined to pay efficiency wages **(10 marks**)
2. State and explain briefly why the government would want to set up minimum wages. (**5 marks**)

**//END**