



MASENO UNIVERSITY

UNIVERSITY EXAMINATIONS 2016/2017

THIRD YEAR SECOND SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION WITH INFORMATION TECHNOLOGY

HOMA-BAY CAMPUS

AEC 321: LABOUR ECONOMICS

Date: 26th November, 2016

Time: 2.00 - 5.00 pm

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.
- Question ONE carries 25 marks while the rest carry 15 marks each
- Marks will be awarded for being neat, clear and use of relevant diagrams.



QUESTION ONE

- (a) Explain the concept of internal labor market and give reasons why firms often rely on internal labor market (8marks)
- (b) Discuss the main causes of market failures (10marks)
- (c) There is inverse relationship between the wage rate and the quantity of labor demand. Explain the causes and illustrate with a diagram (6marks)
- (d) With example distinguish between primary and secondary labor markets (6marks)

QUESTION TWO

- (a) A union representing 400 workers faces a labor demand curve given by $w=500-L$, where L is the number of workers employed, and w is the weekly wages, measured in dollars. What wage should the union set in order to maximize the total wage income of all of its members? (7marks)
- (b) Show that a profit-maximizing firm will never hire more labor in the short or long run, when the wage rate rises. Which is more elastic, the short run or the long run? Explain your answer (8marks)

QUESTION THREE

- (a) Define the following:
 - (i) Labor force (2marks)
 - (ii) Unemployment (2marks)
 - (iii) Labor force participation (2marks)
 - (iv) Economic Rent (2marks)
 - (v) Overpayment and underpayment (2mark)
- (b) Explain the determinants for the demand for labor (5marks)

QUESTION FOUR

- (a) Discuss the functions of trade union. What limits its ability to negotiate for high wages? Illustrate with a diagram. (10marks)
- (b) What are the measures of profit maximization that economists rely on to be influencing hiring of labor (5marks)

QUESTION FIVE

(a) Distinguish between the income and substitution effects of a change in the wage rate on the supply of efforts. Show how these could in theory combine to produce a backward-sloping supply curve for labor.

(8marks)

(b) What are the nonwage labor costs that do not directly vary with the number of hours worked by the workers?

(7marks)

QUESTION SIX

(a) Explain how individual can increase his or her human capital

(6marks)

(b) Discuss factor affecting human capital investment

(6marks)

(c) What are the causes of market discrimination according to economists?

(3marks)