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MAIN EXAMINATION

JANUARY – APRIL 2022

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF ECONOMICS

REGULAR PROGRAMME

ECN 416: LABOUR ECONOMICS

Date: APRIL 2022	Duration: 2 Hours
INSTRUCTIONS: Answer Question ONE and any TWO Questions	

Q1.

a) Define the following terms as used in labour economics   **[10 Marks]**

   (i)   Worker heterogeneity

   (ii)   Labour Shirking

   (iii)   Labour Market Segmentation

   (iv)   Wage discrimination

   (v)   Reservation wage

 b) A utility maximizing worker faces a Cobb-Douglas utility function given as:

   $U(C, L) = 16X^{3/4} L^{1/4}$ Where X is consumption goods and L is Leisure hours.   Besides the worker is entitled to Kshs. 13,600 dividends per month from Safaricom as return on shares she bought seven years ago. In addition, the worker has 720 hour available per month for work and leisure. Every hour committed into work is compensated at the rate of Kshs. 20.

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Required:

(i)   How much utility does the worker receive if she consumes X = 16 and works h = 95 hours **(2 Marks)**

(ii) Derive the worker's optimal labour supply and leisure **(8 Marks)**

(iii) Calculate the worker's reservation wage **(4 Marks)**

c) Discuss the objectives of each of the actors in the labour market **(6 marks)**

Q2.

a)   A firm operating in a competitive market uses labour (L) and capital (K) to produce output Y using a technology given as

$$\ln Y = \ln \frac{16}{3} + \frac{3}{4} \ln L + \frac{1}{4} \ln K$$

Given that the firm's output fetches Kshs. 30 in the market and that the firm compensates labour at the rate of Kshs. 60.

Required:

a)   Determine the optimal labour that the firm should employ in order to maximize profits and that capital is fixed in the short-run at 625 units **(6 Marks)**

b)   If the price of output increases to Kshs. 35, how will the firm respond? Explain your answer **(4 Marks)**

c)   Discrimination is only a short-run phenomenon. Explain the conditions under which discrimination can persist in the long run **(10 Marks)**

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Q3.

a) There are limitations in the labour markets that inhibit them to clear and that wages do no adjust to the changes. Discuss any five factors that inhibit the labour market not to clear as in competitive market conditions **(10 Marks)**

b) Explain briefly the Residual Claimant theory of wages and highlight it' s criticisms **(10 Marks)**

Q4.

a) With relevant examples from Kenya, discuss the reasons why occupational wage difference exist in the labour market. **(10 Marks)**

b) With the help of well labelled diagrams, explain why a lump-sum government transfer would decrease hours of work. **(10 Marks)**

Q5.

a) How does the concept of dual market labour hypothesis explain wage differentials in the Kenyan labour market? **(10 Marks)**

b) With relevant examples, explain the different types of unemployment highlighting their main causes **(10 Marks)**

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