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MAIN EXAMINATION

JANUARY - APRIL 2015 TRIMESTER

FACULTY OF COMMERCE

DEPARTMENT OF ACCOUNTING AND FINANCE

REGULAR PROGRAMME

CEC 311: LABOUR ECONOMICS

Date: APRIL 2015

Duration: 2 Hours

INSTRUCTIONS: Answer Question ONE and ANY OTHER TWO Questions

- Q1. The labour market is an example of a factor market. Answer the following:
- Describe the THREE participants in the labour market; clearly showing the objectives of each participant.
 - How does theory inform the working of the labour market?
 - Distinguish positive economics from normative economics. How does this theory inform labour market.
 - Describe the labour market in details; indicating who constitutes the supply of labour and the demand for labour.
 - Why is demand for labour a “derived demand”?
- Q2. In a perfectly competitive firm (in both the labour and capital) markets suppose that the marginal physical product (MPP) is 150/- and the nominal wage (w) is 10/-
- If the firm is at profit-maximizing level of output, what is their output price?
 - Suppose the marginal product of capital (MP_c) is 1,000/- and the nominal rental rate of capital is 50/- In order to maximize profits in the short run

what adjustment should the firm make increase, decrease or maintain the same?

Q3. Suppose a fisherman in Lake Victoria currently pays his workers 20/- per hour while working on the boat. He pays time-and-a-half more than 40 hours per week. The workers average 60 hours per week at the lake. There are 20 men on the typical week at the lake, they catch 1,000 kgs of fish. Also the captain has surveyed competing boats and discovered that they pay 20/- per hour and overtime. The captain has sought advice on how to improve performance of his fishing crew so as to increase profits. A business consultant has made a few recommendations for the captain to consider.

- a) The first recommendation is to increase the hourly pay from 20/- to 23/- per hour (plus over-time). The captain is skeptical of doing this because the competition only pays 20/- and he can find plenty of workers at 20/- wage. The consultant says it is possible that it could actually improve the captain's profits. How could paying higher wages increase profits?
- b) The second recommendation is to replace the hourly pay with a piece rate schedule
 - i If the captain intends to maintain 60 hours work week. What sort of piece rate (shilling per ton/kg) should he offer (ie how much per ton/kg) worker keep in mind that he needs to compete for crew with the other captains that pay 20/- per hour. Also it will be difficult to assign a specific catch equally among the 20 crew members.
 - ii Compared to the 20/- per hour wage rate what would the advantage of paying by the piece rate be?
 - iii Compared to the 20/- per hour wage rate, what would be the disadvantages of the pay by piece rate be?

Q4. Labour demand for low-skilled workers in Kenya is $D_L = 240 - 10W$ where D_L is the number of workers (in millions) and W is the hourly wage. There are 12 million domestic low-skilled workers who supply labour inelastically. If Kenya were to open its borders to immigrants, 2 million low-skilled immigrants would enter and supply labour in elastically.

- i What is the market clearing wage, if immigration is not allowed?
- ii What is the market clearing wage with open borders?

- iii What would be the consequences of opening the borders to immigration?
- iv Who would benefit from immigration? Domestic workers? Domestic firms? Immigrant workers? Explain briefly.

END