MAASAI MARA UNIVERSITY

REGULAR UNIVERSITY EXAMINATIONS

2018/2019 ACADEMIC YEAR

THIRD YEAR FIRST SEMESTER

SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF SCIENCE IN ECONOMICS
BACHELOR OF SCIENCE IN FINACIAL ECONOMICS

COURSE CODE: ECO 3106
COURSE TITLE: ECONOMICS OF LABOUR AND INDUSTRY

DATE: 5TH DECEMBER 2018 **TIME: 8.30 -10.30 A.M**

INSTRUCTIONS TO CANDIDATES

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

This paper consists of 3 printed pages. Please turn over.

QUESTION ONE

(a). Explain the concept production function. **(3mks)**

(b). Differentiate between economy of scale and economy of scope. **(4mks)**

(c). The Economic Planning Department at International chemicals, Inc. has used regression analysis to estimate the firm's production function as:

$$InQ= 3+0.25\ InK + 0.75\ InL$$

where "In" denotes natural logarithm of the variable.

(i). If the capital stock is fixed at 16, the price of labour is Kshs 200 per unit, and the price of the firm's only product, sulphuric acid, is Kshs 10 per unit, determine the rate of labour input that will Maximize profit. **(4mks)**

(ii). If both the capital and labour units are variable the price of labour in kshs 200 per unit and the price of capital is Kshs 100 per unit, determine the input rates for both capital and labour that will Maximize profit. **(5mks)**

(d). Describe factors that influence aggregate labour demand in the economy. **(4mks)**

(e). Explain the following concepts as used in labour economics. **(5mks)**

(i). Voluntary unemployment
(ii). Sticky wages.
(iii). Involuntary unemployment.
(iv). Minimum wages.
(v). Allocative efficiency

QUESTION TWO

(a). A team representing of all firms in the automatic widget industry is currently negotiating a new three- year contract with the leaders of the united widget workers labour union. The industry demand function for labour (i.e. the marginal revenue product of labour) is

$$MRP_L= 20-2L$$

The marginal revenue function associated the demand curve is MR=20-4L and the labour supply and marginal expenditure on input functions facing the industry are

$$W=5+2L$$
$$ME=5+ 4L$$

Where L is the number of workers in thousands and W is the hourly wage rate.

(i). If the management team can dominate the negotiations and dictate the terms of agreement, Calculate wage rate and level of employment determination. (**4mks)**

(ii). If the labour union team can dominate the negotiations and dictate the terms of agreement, find the wage and employment **(4mks)**

(b). Explain modern theory of wages. Use examples for illustrations. **(4mks)**

(c). Explain the main objectives of trade unions in less developed economies. **(3mks)**

QUESTION THREE

(a). (i). Differentiate between nominal wages and real wages. **(3mks)**

(ii). Explain factors that determine real wages. **(4mks)**

(b). Explain the following theories of wages. **(5mks)**

(i). Subsistence

(ii). The residual demand.

(iii). The wage fund.

(c). Discuss the case for the government involvement in labour markets. (**3marks)**

QUESTION FOUR

(a). Critically explain the argument that perfect competition in the most desirable market structure. (**4mks)**

(b). Discuss the advantages and disadvantages of internal labour markets. **(4mks)**

(c). If the labour demand and labour supply intersect above the negotiated wage rate. Explain the implications for the aggregate supply (AS) curve. **(4mks)**

(d). Explain the cost of unemployment to the economy. **(3mks)**

QUESTION FIVE

(a). Explain the causes of backward sloping of labour supply curve. **(5mks)**

(b). Use diagrams to explain labour exploitation in the following markets. **(6mks**)

(i). Monopolistic.

(ii). Monopsony.

(c). Discuss policy measures adopted by the government to reduce labour exploitation. (**4mks)**

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