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KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
FOURTH YEAR, SECOND SEMESTER EXAMINATION
FOR THE DEGREE OF BACHELOR OF SCIENCE
(BUSINESS ADMINISTRATION)

Date: 8th December, 2023
Time: 11.30am –1.30pm

KHR 408 - LABOUR ECONOMICS

INSTRUCTIONS TO CANDIDATES

ANSWER **QUESTION ONE (COMPULSORY)** AND **ANY OTHER TWO** QUESTIONS

QUESTION ONE (30 MARKS)

a) In a small manufacturing town, Smith Manufacturing Company (SMC) faced a unique set of challenges related to labour management. The company was striving to strike a balance between maintaining a productive workforce, controlling costs and fostering a positive work environment. SMC operated in a local labor market where it held a significant presence, giving it a degree of monopsony power – the ability to influence wages due to limited alternative employment options for workers. However, the company had been experiencing issues with low productivity, absenteeism, and high turnover, raising concerns about the overall efficiency of its labor force. To address the challenges, SMC adopted an efficiency wage model that is above the market-clearing wage. The efficiency wage was set above the reservation wage. In acknowledging its monopsony power, SMC ensured that its efficiency wage is not exploitative. The company later recognized the existence of shirking behaviour among some employees contributing to overall decline in productivity. Assume that the SMC management has engaged you to assist them understand labour market terms used in the above passage. Write short notes on the following terminologies as used in labour market;

   i)   Reservation wage   (2 marks)
   ii)   Efficiency wage   (2 marks)
   iii)   Monopsony   (2 marks)
   iv)   Labour shirking   (2 marks)

b) A student faces two career options, to pursue a degree in economics or sociology. The student lives in two periods. In the first, he gets an education and in the second, he works in the labour market. If the student becomes an economist, he will spend Ksh 15,000 on education in the first period and earns Kshs 472,000 in the second period. If he becomes a sociologist, he will spend Ksh 40,000 on education in the first period and then earns Ksh 500,000 in the second period.

   i)   Suppose he can lend and borrow money at 5 per cent rate of interest between the two periods. Which career should he pursues and why?   (3 marks)
   ii)   What if he can lend and borrow money at 15 per cent rate of interest? Will he choose a different option? Explain   (3 marks)
   iii)   Suppose tuition fee for sociology course is raised to Ksh 60,000, what career will the student pursue if the interest rate is 5 per cent?   (4 marks)

c)   Discuss the any three factors that contribute to occupational wage differences in your country
                                                                        (6 marks)
d)   Discuss measures that the Kenyan government can take to improve human capital development
      for the workforce.   (6 marks)

QUESTION TWO (20 MARKS)

a)   There exist variations in wage and employment levels in real world different from what the model
      of wage determination predict. Explain the factors contributing to these variations
                                                                        (10 marks)
b)   Explain why a lump sum government transfer can entice some workers to stop working (and
      entice no one to start working) while the earned income tax credit can entice some people who
      otherwise would not start working (and entices no one to stop working).
                                                                        (10 marks)

QUESTION THREE (20 MARKS)

a)   To produce output Q, a firm operating in a competitive market uses labour (L) and capital (K)
      using the following technology $Q = 50K^{0.5}L^{0.5}$, if the product Q of the firm sells at Ksh. 10 in the
      market and the firm can hire labour at a wage of Ksh.50. In addition, the firm's capital is fixed at
      100 units.
      Required:
      i)   How many workers should the firm hire to maximize profits?   (6 marks)
      ii)   If the wage rate declined by 50 per cent, what will be the firm's response?
                                                                        (4 marks)
b)   Explain any five factors that contribute to labour mobility in your country
                                                                        (10 marks)

QUESTION FOUR (20 MARKS)

a)   Discuss the postulation of the wage fund theory and its criticisms.
                                                                        (10 marks)
b)   The general objective of labour union is to increase the wage of union members. Using relevant
      examples from your country, discuss how unions succeed in achieving this objective
                                                                        (10 marks)

QUESTION FIVE(20 MARKS)

A worker derives satisfaction by consuming goods (M) and leisure (L) using a utility function expresses
as $U(M,L) = M^{1.5}L$. The worker has a total of 200 hours available for work and leisure. Besides, the
worker receives Ksh.200 though he doesn't have to work to receive this money. For every hour the
worker commits to work related activities, he received Ksh.10.

Required;

i)   Show using a well labelled diagram, the worker's budget line   (4 marks)
ii)   Determine the optimal choice of consumption and leisure for the worker and number of hours of
        Work.   (6 marks)
iii)   What is the worker's reservation wage?   (4 marks)
iv)   If the non-labour income (V) increases to Ksh.1000, how will this affect optimal consumption of
         leisure and reservation wage?   (6 marks)