



MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY

P.O. Box 972-60200 – Meru-Kenya

Tel: +254(0) 799 529 958, +254(0) 799 529 959, + 254 (0) 712 524 293,

Website: info@must.ac.ke Email: info@must.ac.ke

University Examinations 2023/2024

THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR
OF SCIENCE IN ECONOMICS

BEC 3356: LABOUR ECONOMICS

DATE: APRIL 2024

TIME: 2 HOURS

INSTRUCTIONS: Answer question *one* and any other *two* questions

QUESTION ONE (30 MARKS)

- a) Distinguish between the following terms as used in labour economics:
- i. Monopsony and Monopoly labour market (2 Marks)
 - ii. Underemployment and unemployment (2 Marks)
 - iii. Isocost line and budget line (2 Marks)
 - iv. Indifference curve and an Isoquant (2Marks)
 - v. Marginal Product and Average product of Labour (2 Marks)
- b) A utility maximizing worker participating in the labour market derives satisfaction from consumption of goods (C) and Leisure (L) as given by the utility function

$$U = f(C, L)$$

The worker has a total of T hours of which h hours are devoted to work while L hours are devoted to leisure. Assume that the worker receives non-labour income (V) during the period,

work is remunerated at w shillings per hour and the worker exhausts all her income in consumption of goods (C) and Leisure (L)

Required:

- (i) With a well labelled diagram, illustrate how the worker makes a decision on the hours of work and hours of leisure (4marks)
- (ii) What would happen to hours of work when the wage rate increases? (6marks)
- c) Suppose that labour is the only variable input in the production process for a competitive profit-maximizing firm that produces commodity X and the price of commodity X is Kshs3. The firm's production is shown below.

Number of workers	0	1	2	3	4	5	6	7	8
Output per hour	0	9	17	24	30	35	39	42	44

Required;

- i. Calculate the marginal product of labour for this firm and the value of the marginal product of labour and the Marginal Revenue

Marginal Product (2 Marks)

VMPL (2 Marks)

Marginal Revenue (2 Marks)

- ii. Suppose that the competitive wage for workers who can make commodity X is Ksh19 per hour. How many workers should this firm hire and why? (4marks)

QUESTION TWO (20 MARKS)

- a) With the help of relevant examples, explain the sources of human capital differences (10 Marks)
- b) Discuss the form of labour mobility and factors influencing labour mobility (10 marks)

QUESTION THREE (20 MARKS)

- a) Explain the types of unemployment prevalent in Kenya and the major causes of unemployment (10 marks)
- b) Discuss the three fundamental issues that collective bargaining agreements (CBAs) deal with (10 marks)

QUESTION FOUR (20 MARKS)

- a) With a well labelled diagram, explain how education contribute to wage deferential in the labour market (10 Marks)
- b) What are the main sources of labor-market imperfections? (10 marks)

QUESTION FIVE (20 MARKS)

- a) Discuss any five factors that prevent the labour market from operating under perfect competition (10 marks)
- b) Briefly explain the wage fund theory and its main criticisms (10 marks)