

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE  
OF BACHELOR OF COMMERCE

BCOM 352: LABOUR ECONOMICS

STREAMS: BCOM Y3S1

TIME: 2 HOURS

DAY/DATE: FRIDAY 8/12/2017

11.30 A.M - 1.30 P.M.

INSTRUCTIONS:

- Answer Question ONE and any other TWO Questions
- Do not write on the question paper

QUESTION ONE

- (a) Compare the labour market and other commodity market. [10 Marks]
- (b) Explain clearly the properties of indifference curves. [10 Marks]
- (c) Consider a perfectly competitive firm that uses labour as an input. The firm faces a market price of \$10 for each unit of its output. The market wage rate is currently at \$30. Also provided is the following

Labour input (workers)	Total product
0	0
1	9
2	17
3	22
4	25
5	26

Compute and show in a diagram the number of workers that a firm will employ to maximize profits. [10 Marks]

QUESTION TWO

Explain clearly the following types of unemployment encountered in Kenya

- (i) Cyclical unemployment [4 Marks]
- (ii) Search unemployment [4 Marks]
- (iii) Structural unemployment [4 Marks]

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- (iv) Classical unemployment [3 Marks]
- (v) Unemployment can either be voluntary or involuntary. Distinguish between these categories of unemployment and categorize the above (i-iv) types of unemployment. [5 Marks]

**QUESTION THREE**

- (a) A major function of a trade union is to negotiate wages on behalf of members. Explain different ways in which trade union can raise wages. [10 Marks]
- (b) Compare and contrast human capital investment and physical capital investment. [10 Marks]

**QUESTION FOUR**

- (a) Explain why supply curve for an individual labour supplier is backward bending and not smooth and straight, showing clearly the distinction between substitution effect and income effect. [10 Marks]
  - (b) Explain the advantages and disadvantages of minimum wage law in Kenya. [10 Marks]
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