

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF SCIENCE IN ECONOMIC AND STATISTICS

ECON 342: ECONOMICS OF LABOUR

STREAMS: Y3S2

TIME: 2 HOURS

DAY/DATE: TUESDAY 10/04/2018

11.30 A.M - 1.30 P.M

INSTRUCTION:

- **Answer question one and any other two questions**
- **Do not write anything on the question paper**

1. (a) Compare and contrast labour market and other markets. [5marks]
- (b) Explain clearly the properties of indifference curves. [10marks]
- (c) Nancy and William are considering to establish a firm with the following factor cost function $C = 100L - 12L^2$. If the production function is given by $Q = 7L$ and the price of product is given at 4. How many employees should be hired in order for Nancy and William to maximize profit? [5marks]
- (d) 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 the firm will employ to maximize profits. [10marks]
2. (a) Explain clearly the following types of unemployment encountered in Kenya.
- (i) Cyclical unemployment [4marks]
 - (ii) Search unemployment [4marks]
 - (iii) Structural unemployment [4marks]
 - (iv) Classical unemployment [3marks]
- (b) Unemployment can either be voluntary or involuntary. Distinguish between these categories of unemployment and categorize the above (I –IV) types of unemployment. [5marks]
3. (a) Explain the main determinants of labour supply. [10marks]
- (b) Compare and contrast human capital investment and physical capital investment. [10marks]
4. (a) Economists argue that labour market discrimination may be the result of a number of factors. Discuss any four theories explaining this. [10marks]
- (b) Explain the advantages and disadvantages of minimum wage law in Kenya. [10marks]
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