

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

**EXAMINATION FOR THE AWARD OF MASTER OF SCIENCE IN
ECONOMICS**

MSEC 841: LABOUR ECONOMICS

STREAMS: MSC

TIME: 3 HOURS

DAY/DATE: WEDNESDAY 11/4/2018

2.30 P.M. – 5.30 P.M.

**INSTRUCTION: QUESTION ONE IS COMPULSORY. ANSWER ANY OTHER
THREE QUESTIONS**

QUESTION ONE (15 MARKS)

- (a) “Imperfect competition in labour markets spoils the marginal conditions for Pareto efficiency”. Discuss with reference to
- (i) Monopsonistic buyer of labour. [3 marks]
 - (ii) Product monopolist [3 marks]
 - (iii) Trade union [3 marks]
- (b) Using Slutsky equation, identify the effects of a wage increase that influence labour supply. [6 marks]

QUESTION TWO (15 MARKS)

- (a) Demonstrate the importance of substitution effects in determining adverse and favorable labour supply responses to increasing and decreasing income tax rates. [5 marks]
- (b) Explain the theoretical link between labour productivity and labour demand.[4 marks]
- (c) Explain the general relationship between real wages and labour demand? [6 marks]

QUESTION THREE (15 MARKS)

- (a) Discuss the economic impact of the power of a trade union. [5 marks]
- (b) By use of diagram, discuss the interaction between labour and product markets.[5 marks]
- (c) Define an internal labour market and explain how it operates. [5 marks]

QUESTION FOUR (15 MARKS]

- (a) If the government reduced the attractiveness of fringe benefits by taxing them more highly what would happen to the outcome. [5 marks]
- (b) Explain how implicit contracts might smooth employment and wage changes over a business cycle. [5 marks]
- (c) Explain the efficient bargain model developed by McDonald and Solow in 1981. [5 marks]

QUESTION FIVE (15 MARKS)

- (a) Explain advantages and drawbacks that a performance related pay scheme for university lecturers might contain. [9 marks]
 - (b) Using isoprofit and indifference curves, explain the equilibrium combination of wages and fringe benefits in a firm. [6 marks]
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