

MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS**

**2016/2017 ACADEMIC YEAR**

**FOURTH YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS**

**BACHELOR OF ARTS IN ECONOMICS**

**COURSE CODE: ECO 419**

**COURSE TITLE: ECONOMICS OF LABOUR AND**

**INDUSTRY II**

**DATE: 15TH MAY 2017 TIME: 11:00 – 13:00HRS**

**INSTRUCTIONS TO CANDIDATES**

Answer Question **ONE** and any other **THREE** questions

*This paper consists of* ***THREE*** *printed pages. Please turn over.*

**QUESTION ONE**

1. Discuss the main causes of wage differentials in Kenyan labour market. (**5mks)**
2. Explain the modern theory of wages under perfect competition.(**5mks)**
3. Suppose that the demand and supply functions for unskilled labour in a market;

Demand: LD=10-0.5w

Supply: LS=6+0.9w

Where L is millions of workers and w is the hourly rate.

1. Determine the equilibrium wage rate and the number of workers employed. **(4mks)**
2. If the Kenyan government through the Ministry of Labour sets a minimum of KES 10.5 per hour. Find the wage rate and the quantity of labour employed. Compare your answer for part c(i), how many workers will lose their jobs? **(8mks)**

d) Discuss the advantages and disadvantages of internal labour markets.     **(3mks)**

**QUESTION TWO**

1. Explain why the term derived demand is used to describe the demand for factors of production. **(5mks)**
2. Critically assess the argument that perfect competition is the most desirable market situation. **(4mks)**
3. In what ways does the heterogeneity of labour complicate an analysis of demand of labour? **(3mks)**
4. Explain why common property resources tend to be over exploited.  **(3mks)**

**QUESTION THREE**

1. Suppose that a monopolist had some product that was acquired with zero marginal cost.
2. What price should the monopolist charge for this product?     **(3mks)**
3. Determine the quantity of the product that should be sold in order to maximize total revenue. **(3mks)**
4. Explain the role technical innovation plays in the strategy of an oligopolist. (**4mks)**
5. Discuss the case for the government involvement in markets. (**5mks)**

**QUESTION FOUR**

1. Distinguish between the following concepts.
2. Horizontal integration and vertical integration. (**2mks)**
3. Economies of scale and economies of scope. (**2mks)**
4. Nominal wages and real wages. (**2mks)**
5. Why does pay tend to rise with age? Is this fair to young workers?(**5mks)**
6. Explain principle agent theory using examples and illustrations.(**4mks)**

**QUESTION FIVE**

1. Explain the following concepts as used in labour economics; (**7mks)**
2. Regulation
3. Privatization
4. Allocative efficiency
5. Pareto optimality
6. Asymmetric information
7. Predatory pricing
8. Paternalism

b) Explain the difference between the Keynesian labour market and the Friedman-Phelp labour market. (**4mks)**

c) If the labour demand and labour supply curves intersect above the negotiated wage (w). Explain the implications of this on the AS curve. (**4mks)**

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