

Eastern University, Sri Lanka
Faculty of Commerce and Management

Third Year First Semester Examination in Bachelor of Business Administration
(Specialization in HRM) 2016/2017 (Nov 2018)
ECN 3033 Labor Economics

Answer all Questions

Time: 03 Hours

"Labour demand is a derived demand", Explain.

(04 Marks)

Briefly explain how an increased tariff on steel imports would affect the demand for labor in the steel industry.

(04 Marks)

Suppose that the demand for cook at fast-food restaurants in a small city is $LD = 300 - 20W$, where L = the number of cook and W = the wage in dollars per hour. The equilibrium wage is \$4 per hour, but the government puts in place a minimum wage of \$5 per hour.

- I. How does the minimum wage affect employment in these fast-food restaurants?
- II. Draw a graph to show what has happened and estimate the effects on employment in the fast-food sector.

(06 Marks)

When the cost of bread-making machines fell by 10 percent, the demand for assistant bakers fell by 15 percent.

- I. What is the cross-wage elasticity of demand for assistant bakers in this case?
- II. Are assistant bakers and bread-making machines gross substitutes or gross complements?

(06 Marks)

(Total 20 Marks)

"Leisure must be an inferior good for an individual's labor supply curve to be backward-bending." True or false. Explain your answer.

(04 Marks)

The minimum wage was increased to \$5.85 from \$5.15. If 16 hours per day are available for work and leisure,

- I. Draw the daily budget constraint for a worker who was earning the minimum wage rate of \$5.15.
- II. Draw the new budget constraint after the increase in wage.

(06 Marks)

Explain income leisure choice of a labor using an indifference curve.

(06 Marks)

d. Explain how non-labour income effects income-leisure tradeoff?

(04 Marks)

(Total 20 Marks)

3. a. Briefly explain the determinants of worker mobility?

(04 Marks)

b. Why wage differs among employees? Briefly explain.

(04 Marks)

c. What is meant by discrimination in the labor market? Explain the prejudice labor market discriminations.

(06 Marks)

d. "Unemployment is one of the important issues in labour market". Do you agree? Explain.

(06 Marks)

(Total 20 Marks)

4. a. What is meant by human capital investment? Explain how human capital investment plays a vital role in economic development.

(05 Marks)

b. John is considering one year training program, which charges Rs. 20,000/= in tuition, to learn how to install airport-screening equipment. If he enrolls in the program, his opportunity cost in forgone income is Rs.100,000/= per year he can now earn. After completing the program, he is promised a job for 5 years, with a yearly salary of Rs.130,000/=. Assume John's personal discount rate is 5 percent. Should John enroll in the program? Why? (Show your calculation)

(05 Marks)

c. Briefly explain the costs and benefits of being a member of a labor union.

(05 Marks)

d. Graphically explain the contract zone of bargaining process

(05 Marks)

(Total 20 Marks)

5. a. Graphically explain how wage has been determined in perfect and imperfect labour market.

(10 Marks)

b. What are the approaches being used by individual firms to determine wage? Briefly explain.

(10 Marks)

(Total 20 Marks)