



**UNIVERSITY OF COLOMBO, SRI LANKA**

**FACULTY OF MANAGEMENT AND FINANCE**

**Bachelor of Business Administration (Level II – Semester VII)  
Examination - July 2018**

**BEC 2205 – Labour Economics**

**Two (02) Hours**

**Answer Only Four (04) Questions**

**The use of calculators is allowed.**

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1. i. Identify the nature of unemployment in Sri Lanka and compare it with the nature of unemployment in developed countries drawing your special attention to the educated people.

(10 Marks)
- ii. “In spite of economic backsliding in the areas of the ‘five hubs strategy’ over the years, here we are now actually faced with a labour shortage – but, more of ‘unskilled’ labour than ‘skilled’ labour (The Sunday Times, 11 March 2018)”. Explain the reasons for current labour shortage in Sri Lanka.

(15 Marks)

**(Total 25 marks)**
2. i. What factors determine the supply of labour in an economy? Briefly explain.

(08 Marks)
- ii. Graphically explain how the reduction of income tax rates affects individual labour supply.

(10 Marks)
- iii. Identify the nature of the labour supply of a household.

(07 Marks)

**(Total 25 marks)**

3. i. "Employment of an economy fluctuates as greatly as fluctuation of aggregate demand".

Do you agree with this statement? Justify your answer.

(12 Marks)

- ii. "Summation of individual firm's labour demand curves is not the industry labour demand curve". Graphically explain the above statement.

(13 Marks)

**(Total 25 marks)**

4. i. a. Under what circumstances you justify the wage inequality in an economy?

(03 Marks)

b. What can policy makers do to mitigate the wage inequity issue?

(06 Marks)

- ii. Compare and contrast 'flexible production' and 'flexible forms of employment'.

(09 Marks)

- iii. Distinguish between compensation wage differentials and fringe benefits of a firm.

(07 Marks)

**(Total 25 marks)**

5. i. "Labour economists are of the view that investment in education up to the Advanced Level (A/L) is not sufficient to form human capital in a country".

Critically evaluate the above statement.

(10 Marks)

- ii. In a hypothetical economy, a survey has revealed that the average wage of an Advanced Level (A/L) qualified employee and a graduate employee are Rs. 200,000/= and Rs 300,000/= per year respectively. Generally, the length of the A/L study period is 2 years, whereas the length of the degree period is either 3 years or 4 years (nevertheless, there is no significant difference in earnings of two types of graduates). A/L education is compulsory and the government provides it for every citizen free of charge. However, the university education is free (no direct cost) only for the students those who excelled in their A/L examination. The prevailing interest rate of the economy is 14% per annum.

- a. If you have excelled in the A/L examination and reserved a seat to read a 4 year (special) degree programme, what would be your indirect cost and Internal Rate of Return (IRR) on the investment of higher education?

(08 Marks)

- b. If you are opted to read a 3 year (general) degree, what would be your decision? Justify your decision.

(07 Marks)

**(Total 25 marks)**

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