

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF ARTS

FOURTH YEAR END EXAMINATION IN ARTS SEMESTER I – 2021/2022

ECN 4197: Labour Economics

Duration: Two Hours

Answer 04 questions only.

1. Indicate whether statements given below are true or false and explain the reasons for your answer. Marks are not given if you state only true or false.
 - a. Assuming leisure is a normal good, when the government impose a 36% income tax rate on the salary, labour supply of all individuals will decrease.
 - b. In any market structure marginal revenue product (MRP) of labour is equal to value of marginal product (VMP) of the labour.
 - c. Labour demand curve of a firm in a complete market is downward sloping as the price of the good decreases with the increase of the supply of that good.

(05 marks each)

2.

- a. Briefly explain the assumption of the work leisure basic model. (05 marks)
- b. How does a typical individual decide on how many hours should be supplied to the labor market?
(04 marks)
- c. Explain the impact of the below on the individual labour supply, using a theoretical model you have learned.
 - i. Reduction of price of meals at the restaurants

ii. Reduction of non-wage income (03 marks each)

3.

- a. What is the link between the firm's marginal revenue product (MRP) curve and the firm's short run labour demand curve?
(05 marks)
- b. Explain how each of the following changes would impact the labour demand
 - i. An increase in the price of gross substitute for labour
 - ii. A decrease in the demand for the product which the labour is use to produce.
(05 marks each)

4.

- a. Explain the meaning of the term “Principal agent problem” using an appropriate example from the Sri Lankan labour market. (07 Marks)
- b. Propose two solutions to overcome the principal agent problem. And identify the advantages and disadvantages of the solutions you have proposed. (08 marks)

5.

- a. Explain the rationale of each of the following union tactics using the Chamberlain model of bargaining power.
 - i. The union calls for a token strike
 - ii. The union explains to the management the importance of a wage increment to reduce the labour turnover rate (10 Marks)
- b. Strikes occur due to asymmetric information in the labour market. Do you agree with this statement? (05 marks)

6.

- a. What are the different types of labour market discrimination?
- b. What is known as statistical discrimination? Explain its meaning using an example from the Sri Lankan labour market.
- c. Employers practice discrimination even though it is costly for them to do so. Do you agree with this statement? Give reasons for your answer. (05 for each marks)