

**UNIVERSITY OF COLOMBO, SRI LANKA**

**FACULTY OF MANAGEMENT AND FINANCE**

**Bachelor of Business Administration (Level II – Semester VII) Examination  
2017**

**BEC 2205 – Labor Economics**

**Two (02) Hours  
Answer Four (4) Questions Only**

**The use of calculators is allowed.**

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1. i. "The government increased the tax-free allowance with the expectation of inducing the supply of labor. However the consequences of the policy decision were as opposed to the predicted direction".
- a. Explain the unexpected consequences of the policy decision with the aid of graph/s.  
(08 Marks)
- b. What factors have been ignored by the policy makers in making the decision?  
(04 Marks)
- ii. "Labor force participation rate in developed countries follows the *M* shape pattern". Explain this statement. Compare this pattern with Sri Lankan labor force participation by drawing attention to both male and female participant.  
(08 Marks)
- iii. What factors determine the demand for leisure?  
(05 Marks)
- (Total 25 marks)**

2. i. Graphically explain the interrelationship between wage, productivity and level of employment in a firm.

(08 Marks)

- ii. The table bellow provides information on employment and output levels in respective economic sectors of the Sri Lankan economy.

| Economic sectors | Employed persons '000 | Output Rs '000 |
|------------------|-----------------------|----------------|
| Agriculture      | 2,154                 | 641,943,000    |
| Industry         | 2,098                 | 2,416,276,000  |
| Service          | 3,696                 | 5,087,452,000  |

- a. Calculate labor productivity for the each economic sector.

(05 Marks)

- b. Identify the least productive economic sector and reason out why the identified sector is experiencing lower level of productivity.

(06 Marks)

- iii. "The increase in demand for goods and services induces demand for labor immediately".

Do you agree with this statement? Justify your answer.

(06 Marks)

**(Total 25 marks)**

3. i. How the relationship between product market and labor market is established in the labor and product market equilibrium analysis. Briefly explain those functions.

(07 Marks)

- ii. "Existence of compensating wage differentials is not regarded as labor market discrimination".

- a. What do you mean by compensating wage differentials?

(03 Marks)

- b. What is the role of trade unions in the absence of compensating wage differentials?

(03 Marks)

iii. "A substantial disparity in wages may cause economic inequality and, in turn, it leads to poor economic wellbeing". Do you agree with the statement? Explain your answer.

(12 Marks)

**(Total 25 marks)**

4. i. Explains how and why opportunistic behavior occurs at a working place.

(06 Marks)

ii. Explain how emphasis of Fordism on labor market differs from emphasis of Taylorism on labor market.

(07 Marks)

iii. Identify the factors that support to create an internal labor market.

(04 Marks)

iv. "Assume that you have been assigned to a committee which was established in order to formulate recruitment policies for the organization. The majority of members of the committee is interesting in imposing a probationary period for the all levels of employees". Critically evaluate majority's view about the probationary period.

(08 Marks)

**(Total 25 marks)**

5. i. Identify important categories of expenditure and explain how those categories of expenditure contribute to create human capital.

(09 Marks)

ii. Briefly explain following concepts.

- a. Tournament theory
- b. Primary labor market
- c. Core workers
- d. Market clearing wage

(16 Marks)

**(Total 25 marks)**