

UNIVERSITY OF COLOMBO, SRI LANKA

FACULTY OF MANAGEMENT AND FINANCE

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

July 2016

BEC 2205 Labour Economics

Two (02) Hours

Answer Any Four (04) Questions

Use of Calculators is Allowed.

1.
 - i. Why should a person receive more wages to maintain the same level of satisfaction when he has to work more number of hours ?
(05 Marks)
 - ii. Show that, a person at a higher indifference curve will reach higher level of satisfaction compared to a person at a lower indifference curve.
(05 Marks)
 - iii. Explain why does an individual labour supply curve is positively sloped at low wage rates but bends backward as wage rate increases.
(08 Marks)
 - iv. Explain how the income and substitution effects do act on increase in wage rates in determining the number of hours worked by an employee.
(07 Marks)
- (Total 25 marks)**

2. i. Explain, with the help of indifference curves, how an individual will reach a higher level of satisfaction with more earnings and more leisure in the presence of non-labour income.

(08 Marks)

- ii. Under what circumstances an employee will try to make false claims to receive the compensation allowance and what action to be taken to avoid such claims.

(07 Marks)

- iii. Income tax and subsidies help a country to reduce the disparity of income distribution. Using the indifference curves, discuss the impact of

- a. increase in the tax free allowance
b. increase in the tax rate

on the level of employment and income.

(10 Marks)

(Total 25 marks)

3. A small firm, producing concrete paving bricks, tried with different number of employees to improve the labour productivity. Thus they changed the no of people employed from day to day and counted the average number of number of paving bricks produced by them in a day. The results are given in the following table.

No of Employees	1	2	3	4	5	6	7
Daily Production-TPP _L	46	100	159	220	280	336	387

No of Employees	8	9	10	11	12	13
Daily Production-TPP _L	432	470	500	521	532	532

- i. Assuming both the product and the factor markets are perfectly competitive, and the price of one unit of paving bricks is Rs. 35/=, calculate
- Total Revenue Productivity of Labour (TRP_L)
 - Marginal Revenue Productivity of Labour (MRP_L)
 - Average Revenue Productivity of Labour (ARP_L)

(12 Marks)

- ii. Hence or otherwise, obtain giving reasons, what will be the
- minimum possible number of employees
 - maximum possible number of employees

(10 Marks)

- iii. Assuming that the daily wage rate for an employee is Rs. 1125/= and the cost of other factors of production are negligible, find the optimum level of employment for the firm

(03 Marks)

(Total 25 marks)

4. i. How the demand for labour will be affected by the increased wage rates when
- the elasticity of demand for final products is greater
 - the degree of substitutability between capital and labour is higher

(10 Marks)

- ii. Explain briefly how the intervention of trade unions would distort the smooth functioning of the labour market and create involuntary unemployment in a situation of productivity decline.

(06 Marks)

- iii. How does the age, wealth and capabilities will affect the level of education an individual desire to acquire ?

(09 Marks)

(Total : 20marks)

5. i. Discuss, how the number of hours work by husband and wife is decided, in a household where both of them are willing to work, when
- a. non-labour income is higher, but the wage rates for both husband and wife will be lower
 - b. non-labour income and wage rate of husband is higher but the wage rate of wife is lower
 - c. non-labour income and wage rates of both husband and wife are lower

(15 Marks)

- ii. Explain the concept of shadow wages and discuss how the level of domestic work undertaken is determined in relation to both shadow wages and market wages.

(10 Marks)

(Total : 20 marks)