



FACULTY/COLLEGE		College of Business and Economics	
SCHOOL		School of Economics	
CAMPUS(ES)		APK	
MODULE NAME		Labour Economics	
MODULE CODE		ECO2FA2	
SEMESTER		First	
ASSESSMENT OPPORTUNITY, MONTH AND YEAR		Final Summative Assessment Opportunity May 2019	
ASSESSMENT DATE	22 May 2019	SESSION	16h30 -18h30
ASSESSOR(S)	Ms K Mmelesi, Mr F Kirsten & Prof JMM Viljoen		
MODERATOR(S)	Prof H van Zyl		
DURATION	2 hours (120 min)	TOTAL MARKS	100
NUMBER OF PAGES OF QUESTION PAPER (Including cover page)			16

ATTENDANCE SLIP

Surname:

Initials:

Student number:

Cell number:.....

STUDENT NUMBER.....



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INFORMATION/INSTRUCTIONS:

- This is a closed-book assessment.
- There are 5 questions. **Answer all questions**
- Answer the questions on the question paper.
- Read the questions carefully and answer only what is required.
- Number your answers clearly and correctly as per the question paper.
- Do not use a pencil.

SURNAME	
INITIALS	
STUDENT NUMBER	
CELL NUMBER	

Mark schedule

Section A		Section B							
	Mark		Mark		Mark				
Q1		Q2		Q3		Q4		Q5	
MC[20]		2.1 [5]		3.1 [4]		4.1 [4]		5.1 [5]	
		2.2 [4]		3.2 [3]		4.2 [4]		5.2 [5]	
		2.3 [6]		3.3 [6]		4.3 [10]		5.3 [5]	
		2.4 [3]		3.4 [5]		4.4 [2]		5.4 [5]	
		2.5 [2]		3.5 [2]					

Total mark : _____

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QUESTION 1 (THIS QUESTION IS COMPULSORY)**[20 MARKS]****Multiple choice questions****Answer the multiple choice questions on the attached answer sheet on page 16**

1. In Forestfall, which has 1,000 residents, 400 people do not currently work. Of these 400 persons, 240 are under age 15, 10 are institutionalized, 25 have become discouraged and quit seeking work, and 75 others are either full-time students or homemakers. Of the 600 people who do work, 150 work part-time but wish to work full-time. The employment-population ratio (absorption) in Forestfall is _____ and the official unemployment rate is _____

- A. 600/750; 50/650.
- B. 650/675 400/1,000
- C. 450/850; 50/600
- D. 675/860; 65/650

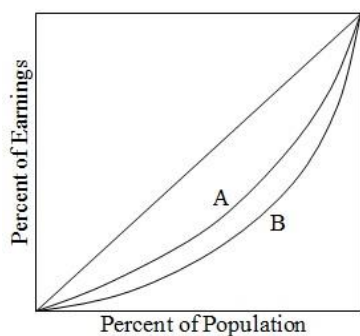
2. In 2018, the employment-population ration (absorption) in South Africa was approximately

- A. 54%.
- B. 59%.
- C. 43%.
- D. 79%

3. For the South African earnings distribution, the

- A. mode is less than the median.
- B. median is greater than the mean.
- C. mean is less than the median.
- D. mode is greater than the mean.

Refer to the diagram below. Answer question 4 and 5



4. If an increase in the minimum wage increases the earnings of low-income individuals relative to high-income individuals, this will cause the Lorenz curve of earnings to shift from

- A. A to B and the Gini coefficient will rise.
- B. A to B and the Gini coefficient will fall.
- C. B to A and the Gini coefficient will rise.
- D. B to A and the Gini coefficient will fall.

5. An increase in earnings inequality would be shown by a

- A. shift from line A to line B.
- B. shift from line B to line A.
- C. movement up to the right along line A.
- D. movement down to the left along line A.

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6. If an increase in the sales tax reduces the earnings of low-income individuals relative to high-income individuals,
- A. the Gini coefficient would fall.
 - B. the Gini coefficient would rise.
 - C. the Gini coefficient would not change.
 - D. the Lorenz curve would shift closer to the diagonal.
7. Including fringe benefits with earnings, the Lorenz curve moves
- A. away from the diagonal and the Gini coefficient falls.
 - B. toward the diagonal and the Gini coefficient rises.
 - C. toward the diagonal and the Gini coefficient falls.
 - D. away from the diagonal and the Gini coefficient rises.
8. Which of the following factors **does not** help explain why the earnings distribution is skewed to the right?
- A. family background
 - B. discrimination
 - C. the impact of ability on human capital decisions
 - D. churning within the distribution
9. Discrimination that segregates qualified women into lower-paying jobs is called
- A. wage discrimination.
 - B. employment discrimination.
 - C. occupational discrimination.
 - D. human capital discrimination.
10. An employer who is willing to pay a wage premium to avoid employing persons from some particular group is engaging in
- A. a taste for discrimination.
 - B. occupational segregation.
 - C. statistical discrimination.
 - D. human capital discrimination.
11. One implication of Becker's "taste-for-discrimination" model is that
- A. firms that discriminate will have lower costs than non-discriminating firms.
 - B. the existence of competitive market forces will cause discrimination to diminish and eventually disappear.
 - C. an increase in the supply of African American workers will cause the equilibrium African American-white wage ratio to rise.
 - D. non-discriminating firms will be put at a competitive disadvantage because they employ victims of discrimination.
12. According to the theory of statistical discrimination,
- A. the process of competition should put discriminating employers at a competitive disadvantage.
 - B. the discrimination coefficient is a measure of prejudice in the labour market.
 - C. there will be discriminatory wage differentials because a firm with market power distinguishes between different groups with different elasticities of labour supply.
 - D. a person is judged on the basis of the average characteristics of her or his demographic group.

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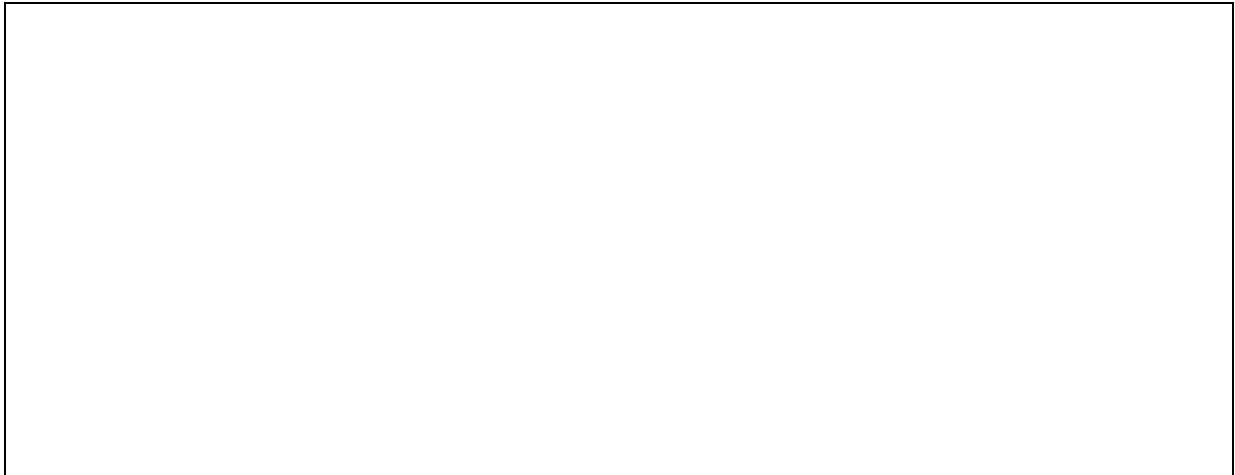
13. Assuming competitive labour markets, occupational segregation by sex
- A. increases the profits of firms that discriminate.
 - B. is beneficial from society's standpoint, because the gains to male employees outweigh the losses to female employees.
 - C. results in an inefficient allocation of labour and diminished output.
 - D. cannot persist, as employers will find it in their best interest to hire only female employees.
14. Which of the following research findings would support an efficiency wage explanation of pay differentials?
- A. Firms with higher turnover costs pay lower than average wages.
 - B. Firms with higher costs of detecting shirking pay higher than average wages.
 - C. Pay is positively correlated with human capital investments in a given industry.
 - D. Differences in observable worker characteristics explain most of the variance in pay across industries.
15. All else equal, large firms tend to pay higher wages. This may be explained by all of the following, **except**
- A. large firms may be more bureaucratic and a less pleasant place to work.
 - B. large firms are more likely to be unionized.
 - C. workers at large firms are more highly specialized, requiring more on-the-job training.
 - D. large firms are more likely to discriminate against women and minorities.
16. Compared to present-oriented people, individuals who are more future-oriented tend to have _____ discount rates and consequently tend to obtain _____ education and earnings.
- A. lower; more
 - B. lower; less
 - C. higher; more
 - D. higher; less
17. Which of the following would unambiguously predict a decrease in desired hours of work?
- A. the substitution effect of a wage decrease
 - B. the income effect of a wage decrease
 - C. a wage increase
 - D. the substitution effect of a decline in income tax rates
18. Available evidence indicates that
- A. age-earnings profiles vary with education, but not with age.
 - B. age-earnings profiles vary with age, but not with education.
 - C. age-earnings profiles of workers with more education tend to be flatter, but higher, than those with less education.
 - D. differences in earnings between workers who have more education and those who have less education generally widen with age.
19. At the optimal amount of education, the internal rate of return on education is
- A. maximized.
 - B. higher than the market rate of interest.
 - C. equal to the market rate of interest.
 - D. lower than the market rate of interest.
20. Which one of the following statements is correct?
- A. The added-worker effect and the discouraged-worker effect operate in the same direction.
 - B. The added-worker effect and the discouraged-worker effect operate in different directions.
 - C. The added-worker effect is relatively strong as the economy expands and wages rise.
 - D. The discouraged-worker effect is relatively strong as the economy expands and wages rise.

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Section B:**QUESTION 2 Introduction, supply, demand and quality of labour. [20 MARKS]**

2.1 Peter values leisure and income.

- i) Assume Peter earns a wage of R20 per hour. Graph Peter's budget constraint (wage rate) and indifference map. Use the basic income-leisure model, to show Peter's optimal combination of income and leisure. (3)



- ii) Now assume point B lies to the left of Peter's optimal combination of income and leisure and point A lies to the right. What is the relationship between the MRS and wage rate and the value of income vs leisure at points A and B? (2)

At point B	At point A

2.2 Before she goes to university, Mrs. Snake works part-time for R20.00 per hour and spends the rest of her time at home with the children. Her husband works full-time for R28.00 per hour. After graduating, she earns R50.00 per hour, but she still chooses to stay at home part of the day. In a model of household production, is this behaviour optimal? Why or why not? (4)



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2.3 **Discuss six** reasons why the labour force participation rate of **females might rise**

(6)

2.4 Distinguish between private and social benefits and costs of human capital investment

(3)

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3.2 For a change in each of the following situations mentioned below, predict the impact on the equilibrium wage rate and employment level (supply of labour and demand for labour). (3)

- (a) If government policy is implemented to decrease migrant workers
- (b) If the worker's productivity decrease
- (c) If the government increase the social grants that workers receive

	Impact on equilibrium wage rate	Impact on employment level
Case a		
Case b		
Case c		

3.3 Most people prefer to work in a safe working environment but for some firms it is very costly to provide job safety. These firms usually have a shortage of labour.

- i) Explain how the firms can attract more labour.
- ii) Illustrate and explain the hedonic theory of wages and how it manage to fit the risk averse workers to the more save jobs and the risk lovers to the jobs with higher risks. (6)

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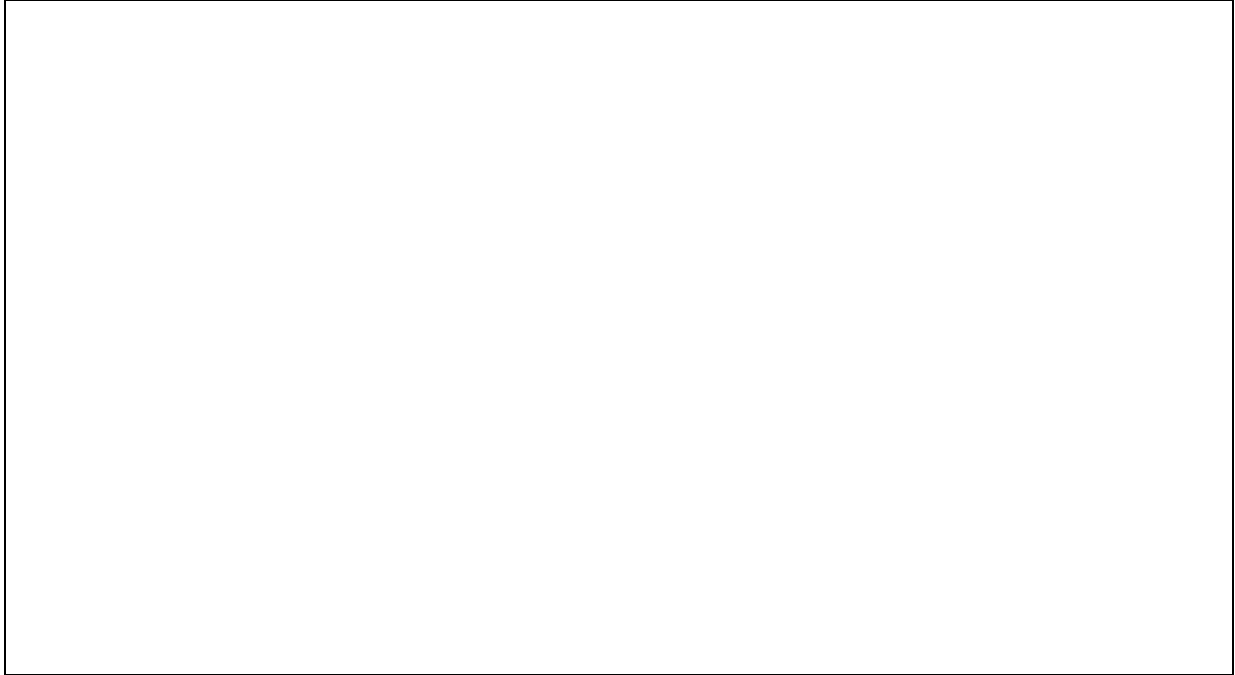
- 3.4 Illustrate and explain the profit maximising level of wages and employment for a firm hiring labour from a perfectly competitive labour market. (5)

- 3.5 Explain why a firm with monopoly power hires less labour than if it sell its output in a competitive market (2)

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QUESTION 4: Trade Unions: Collective Bargaining and Economic Impact.**[20 MARKS]**

4.1 South Africa's trade unions are in crisis. Currently only one in four workers (25.5% of the workforce) is unionized, and this figure is declining slowly but steadily. One of aims of unions is to raise the wages of their members. Unions can increase the wages of their members by increasing the demand for union labour, restricting the supply of labour and by bargaining for an above equilibrium wage. Illustrate and explain how unions bargain for an above-equilibrium wage. (4)



4.2 There are two types of strike models based on asymmetric information. Discuss these two models under the following headings. (4)

Model 1: Information gap between the union leadership and rank-and-file union members.

Model 2: Information differences between the union and the firm.

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4.3 Illustrate and explain the **spillover effect, the threat effect and the product market effect** of a union wage advantage. In each case stipulate whether the measured wage effects **understate or overstate** the pure wage advantage (10)

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4.4 If in a given labour market the wage rate would be R24 without a union and R30 with a union, then what is the pure union wage advantage? Please show how you calculated it. (2)

QUESTION 5: Labour Market discrimination, minimum wages, employment and unemployment
[20 MARKS]

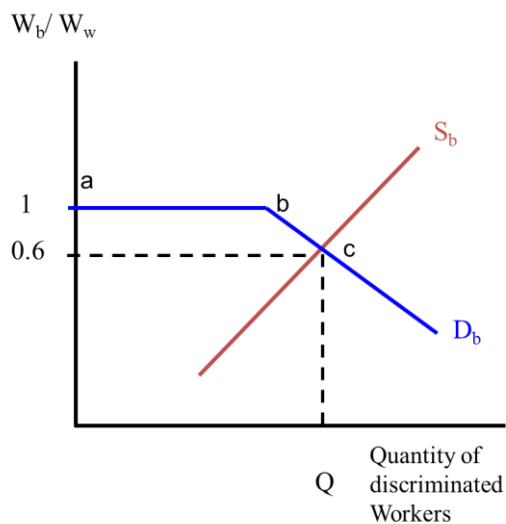
5.1 Column A contains a list of characteristics or questions relating to unemployment. Choose the concept in Column C that best fit the characteristics or questions in Column A and write this matching code in Column B. Each response in Column C may be used once, more than once, or not at all. (5)

Column A	Column B (matching code eg D)	Column C
1. Paul is unemployed because firms where he worked, now pay efficiency wages to the staff to increase worker productivity.		A. cyclical unemployment
2. Sarah is searching for a job but struggles to get one. She realises that she does not have the skills required for the available job openings.		B. job-matching programs
3. Peter was laid off from his job because the union demanded an above-market clearing wage. He wants a job but does not want to work for a non-union firm because the wage is lower.		C. expansionary monetary policy
4. Paula just graduated and entered the labour market. She is searching for a job but has not yet found a job.		D. crowding out
5. John is looking for a job. He got an offer but he first wants to see whether he can't find a job with a better salary.		E. wait unemployment
6. Gwen is searching for a job but the only jobs she can find are 300km from her hometown. She is married and have 2 sons and cannot move to where the jobs are		F. demand-deficient unemployment
7. Graham lost his job because the aggregate demand for output decreased and the firm had to lay off people		G. structural unemployment
8. Marcy became unemployment when she lost her job due to permanent plant closing		H. expansionary fiscal policy
9. Unemployment when workers lose their jobs because of job cutbacks.		I. temporary layoffs
10. Unemployment due to a decline in aggregate demand.		J. job training and retraining programs
		K. displaced workers
		L. changes in the structure of the economy
		M. efficiency wages
		N. union job queues
		O. frictional unemployment
		P. natural unemployment

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5.2. Illustrate and explain **how a minimum wage** would affect the wages offered and employment decision of a monopsonist. (Assume that the minimum wage is binding, but—for simplicity—that it is perhaps not as high as the competitive equilibrium wage would have been.) (5)

5.3 Consider the following figure, which illustrates the wage discrimination and discrimination coefficient, and answer the questions that follow: (5)



Question	Answer
1. Does the horizontal portion of the demand curve represents the (non-discriminating employers or discriminating employers or both employers)?	
2. The quantity supplied of workers who are discriminated against rises as the discriminated-non-discriminated wage ratio (rises, fall or stay constant)	
3. If the wage of discriminated workers is R24, what is the wages of non-discriminated workers?	

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4. What is the wage difference?	
5. On which segment of the Db curve will the firm hire workers who are discriminated against?	

5.4 Describe and analyse public policies that may be used to combat unemployment. (5)

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SECTION A - Answer SheetIndicate the correct option with an **X (in pen)**

(Remember to write your student number on the bottom of this sheet as well)

Question	[A]	[B]	[C]	[D]
1				
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