



Course Code: ECN 213

Credit Units: 2

Course Title: Labour Economics

Instructions: Answer any 3 questions

Time Allowed: 2 hours

Question One

Melody is a young lady who has just completed her University education in economics. Her parents have given her an endowment fund that yields ₦10,000 per month. The market wage rate for her level of qualifications is ₦300 per hour. Assuming that she sleeps for about 8 hours a day, she would have about 480 hours to allocate between work and leisure in a month.

- Explain her budget line with the aid of illustrations (6 marks)
- With the aid of an indifference curve explain why Melody cannot work for 300 hours and consume ₦110,000 worth of goods (6 marks)
- Suppose that Melody chooses to work 350 hours and consumes worth ₦115,000 in a month, discuss if this situation is maximal for her explaining why (8 marks)

Question Two

- Using the Nigerian labour market as an example, explain one reason why we need a theory to understand labour market problems? (5 marks)
- The labour market theory assumes that there are actors in the labour market, who are the key actors? (6 marks) Explain the motive economists typically assign to workers and firms (4 marks).
- The interactions between key actors bring about solutions to supply and demand on the labour market. Illustrating and explain the equilibrium condition in a free-market economy (5 marks).

Question Three

- What is labour force participation rate (2 marks)? What three categories determine the [size of the] labour force in Nigeria? (2 marks) Examine one reason why the size of the labour force in Nigeria has increased (1 mark).
- The neoclassical model of labour-leisure choice explains how workers choose to supply hours of work. Explain one key assumption of this model (7.5).
- Frank consumes ₦40,000 worth of goods and works for 100 hours. Suppose he becomes able to consume ₦45,000 worth of goods and 150 hours of labour. Use indifference curves to explain his change in utility (7.5).

Question 4

Explain with the aid of an illustration why in the short run, a profit maximizing firm will hire workers up to the point where wage equals the value of marginal product (20 marks).

Question 5

Your government has proposed a take it or leave it type cash grant for unemployed persons, advise the government on the possible effect on work incentives.

- What is labour force participation rate (2 marks)? What three categories determine the [size of the] labour force in Nigeria? (2 marks) Examine one reason why the size of the labour force in Nigeria has increased (1 mark).
- The neoclassical model of labour-leisure choice explains how workers choose to supply hours of work. Explain one key assumption of this model (7.5).
- Frank consumes ₦40,000 worth of goods and works for 100 hours. Suppose he becomes able to consume ₦45,000 worth of goods and 150 hours of labour. Use indifference curves to explain his change in utility (7.5).