

UNIVERSITY OF FORT HARE

Labour Economics
ECO 323/E

Main Examination

2024

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Time: 3 Hours
Subject: ECO 323/E
Marks: 100

This paper consists of 3 pages including the cover page

Internal Examiners
Dr DL Hunter
Mr O Kolawole

External Examiners
Prof L Jeke

INSTRUCTIONS

Answer any FOUR questions.
Each question carries equal marks.
Write legibly and where necessary draw clear and fully labelled graphs.

Answer any FOUR questions

Question One [25 Marks]

- a. What factors determine the elasticity of the industry's labour demand curve? Discuss the various determinants of labour demand elasticity. [10]
- b. Structural unemployment generally refers to the overall inability of the economy, owing to structural imbalances, to employ the total labour force even at the peak of the business cycle. Discuss FIVE policy prescriptions for dealing with structural unemployment in South Africa. [15]

Question Two [25 Marks]

- a. What circumstances tend to cause an individual to choose not to participate in the labour force? Discuss with relation to:
- a. differences in educational level [3]
 - b. the presence of preschool children in the household [3]
 - c. the level of the spouse/partner's income [3]
 - d. race or nationality of the individual [3]
- b. With the aid of appropriate diagram(s), evaluate the implications of employer discrimination for the employment decisions of the firm, the profitability of the firm, and the black-white wage ratio in the labour market. [13]

Question Three [25 Marks]

- a. Explain the income and substitution effects of a wage change and how they affect the shape of the individual labour supply curve. Use relevant diagram(s) to aid your discussion. [12]
- b. Illustrate and explain the equilibrium implications for a competitive economy containing many regional markets when labour and firms are free to enter and exit the various markets. Why is the resulting allocation of labour efficient? [13]

Question Four [25 Marks]

- a. Explain why, if capital markets are perfect, high- and low-ability workers are predicted to have the same rate of return on their human capital investments. What happens if capital markets are imperfect? [5]
- b. Illustrate and explain the main difference in the earnings patterns in the case of general and specific training. [10]
- c. Evaluate the labour market implications of the Southern African Development Community (SADC) free movement of persons protocol for South Africa. [10]

Question Five [25 Marks]

- a. What is statistical discrimination and what impact will statistical discrimination have on the wages of affected workers? Why do employers use group membership to indicate a worker's productivity? [10]
- b. Discuss human capital theory as a possible explanation for higher earnings being associated with increased education and training, and investment in education and training being "profitable". Make use of illustration(s). [15]

END OF EXAMINATION

