

**National University of Lesotho**  
**BA Examinations**  
**EC4311: Labour Economics**

---

January 2024

100 marks

3 Hours

---

**Instruction:**

Answer any FOUR questions

### Question 1

- (a). Explain (graphically or otherwise) why a
- (i). a lump-sum government transfer can entice some workers to stop working (and entices no one to start working) [12]
  - (ii). the income tax credit can entice some people who otherwise would not work to start working (and entices no one to stop working). [13]

### Question 2

State whether the following statements are true or false. Briefly explain your answer.

- (a). Assuming consumption and leisure are normal goods, hours worked will fall when the wage increases if the income effect dominates the substitution effect. [5]
- (b). If a married woman's husband gets a raise, she tends to work less, but if she gets a raise, she tends to work more. [5]
- (c). In the basic model of labour supply, a "take-it-or-leave-it" cash grant that individuals only get if they do not work will reduce labour force participation. [5]
- (d). When the government imposes a payroll tax on workers, the effects are identical to the effects had the government imposed the tax on employers. [5]
- (e). In order to use schooling as a signal, the signal must be more costly for low- skilled workers than for high-skilled workers. [5]

### Question 3

- (a). With the aid of graphs, discuss the impact of a payroll tax on wages and employment in a competitive industry. [10]
- (b). Explain (graphically) how mandated benefits affect labour market outcomes. Explain why these outcomes differ from those resulting from a payroll tax. [15]

### Question 4

- (a). Explain (graphically or otherwise) why the demand for labour is inversely related to wages. [10]
- (b). Explain (graphically or otherwise) how the amount of unemployment created by an increase in the minimum wage depends on the elasticity of labour demand. [15]

### Question 5

One of the local politicians has claimed that it is profitable for firms to pursue a strategy that is “environmentally friendly” (for example, by building factories that do not pollute and are not noisy) because workers will be willing to work in environmentally friendly factories at a lower wage rate. Critically evaluate the validity of this claim. {*Hint: Use the Hedonic Wage Function (HWF) to explain how firms and workers “match and mate” in the labour market.*} [25]

### Question 6

- (a). Discuss how the wage-schooling locus is determined in the labor market, and why it is upward sloping and concave. [15]
- (b). Suppose the skills acquired in school depreciate over time, perhaps because technological change makes the things learned in school obsolete. What happens to a worker’s optimal amount of schooling if the rate of depreciation increases? [10]