MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SUPPLEMENTARY EXAMINATIONS FOR

BACHELOR OF ECONOMICS& FINANCE

EAE 302: ECONOMICS OF MICROFINANCE I

DATE: 26/7/2019   **TIME: 2:00 – 4:00 PM**

INSTRUCTIONS:

   i)   **Answer question one (Compulsory) and any other two questions**

   ii) **Do not write on the question paper**

   iii) **Show your working clearly**

QUESTION ONE (COMPULSORY) (30 MARKS)

a)   Describe the reasons for microfinance growth in developing countries.   (5 marks)

b)   Discuss the services local and international donors support MFIs with in developing

       countries   (5 marks)

c)   Describe the motivation behind forming groups   (4 marks)

d)   Discuss group lending methodology in Kenya   (5 marks)

e)   Discuss the moral hazard in Lending   (5 marks)

f)   Discuss the variables of micro loans that influence the effective rate.   (6 marks)

QUESTION TWO (20 MARKS)

a)   Define and discuss the adverse selection problem in microfinance institutions

                                                                                    (6 marks)

b)   Explain the guidelines that should be considered when regulating MFIs   (5 marks)

c)   Discuss the moral hazard and can it be mitigated in group leading   (5 marks)

d) Define the following terms as used microfinance institutions (4 marks)

      i) Fungibility

      ii) Group liability;

      iii) Ex ante and ex post moral hazard;

      iv) Assortative matching.

QUESTION THREE (20 MARKS)

a) Giving examples discuss the regulation and supervision of MFIs in Kenya. (7 marks)

b) Discuss the concept of pricing of loans (6 marks)

c) Discuss capital adequacy as used in regulation of MFIs in Kenya and compare it with capital requirement (7 marks)

QUESTION FOUR (20 MARKS)

a) Discuss why loan portfolio diversification is importance and more encouraged in MFIs in Kenya. (6 marks)

b) "Lack of access to credit finance by MSE entrepreneurs in the informal sector have popularized microfinance". Discuss brief the above statement. (8 marks)

c) Briefly discuss the structure of credit markets in the informal sector giving examples in Kenya (6 marks)

QUESTION FIVE (20 MARKS)

a) Discus with example why rural money lender could would charge more than urban money lender (6 marks)

b) Many people think that money lender is as profitable venture, then why do money lenders don't face greater competition as suggested by economic theory? (8 marks)

c) In microfinance institutions face agency problem. Discus. (6 marks)