



MACHAKOS UNIVERSITY

EXAMINATIONS 2018/2019

SUPPLEMENTARY EXAM

EXAMINATION FOR THE DEGREE OF BACHELOR OF ECONOMICS

EAE 402: ECONOMICS OF MICROFINANCE II

INSTRUCTIONS

- 1. This examination consists of FIVE questions**
- 2. Answer question ONE (COMPULSORY) and any other TWO Questions**

Question one (30 marks)

- In the measurement of impact of microfinance access, different units of assessment may be used. Discuss four of these units, clearly describing an advantage and 2 disadvantages of each. (12marks)
- Describe two ways that a microfinance institution can use to recover debt from problematic loan accounts. (4 marks)
- Clearly outline four disadvantages of group lending. (4 marks)
- Briefly explain the importance of preparing a business plan when starting a business. (10 marks)

Question two (20 marks)

- It is argued that households should save their way out of subsistence borrowing constraints. That is, a credit-constrained household that acts with foresight will always slowly and

steadily accumulate until credit constraints are overcome. However, this does not happen.

Give five explanations why this does not happen. (10 marks)

b) Explain the meaning of selection bias in the assessment of the impact of microcredit access.

(2 marks)

c) Describe four causes of selection bias.

(8 marks)

Question three (20 marks)

a) Economic theory suggests that a rational household that suffers some credit constraint would always strive to save until the credit constraint is overcome. Explain why this is not always the case. (10marks)

b) In Barboza, G., & Trejos, S. (2009) Micro credit in Chiapas, Mexico: Poverty Reduction Through Group Lending. *Journal of Business Ethics* Vol. 88: pp 283-299, the study uses Akerlof's (1970) terminology to describe Micro Credit programs to the poor. That is Micro Credit lend money to "the lemons". Briefly explain why these markets where Micro credit ventures in developing countries to reduce poverty are referred to as the lemons. (6 marks)

c) Clearly outline four disadvantages of group lending (4 marks)

Question four (20 marks)

a) Three have been recent cases of failure/closing down of microfinance institutions. Discuss some of the challenges faced by these institutions leading to their closure. (10marks)

b) Clearly outline reasons why despite the profitability in the micro-credit business, a few entrants enter the market, leaving existing money lender with the monopoly powers that allow them to make exorbitant profits in the short terms. (10 marks)

Question five (20 marks)

- a) Assuming you are a member of a local SACCO and has just qualified for a micro loan. In your considered opinion, how would this affect your household? (6 marks)
- b) What is the meaning of market failure with respect to the insurance market and insurance services to the poor and people in the informal sector and give four reasons for the aforementioned market failure (6 marks)
- c) You have been employed as a credit officer in a NAWAKU SACCO having completed your course work at Kenyatta University. Advise the mangment on five aspects to include in a checklist to ensure that all required information from a borrower is collected. (8marks)