



MACHAKOS UNIVERSITY

University Examinations for 2019/2020 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 402: ECONOMICS OF MICROFINANCE II

DATE: 21/10/2020

TIME: 2:00 – 4:00 PM

INSTRUCTIONS:

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 two disadvantages of each. (12 marks)
- 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)
- Explain the meaning of selection bias in the assessment of the impact of microcredit access. (2 marks)
- 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. (10 marks)
- 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) There have been recent cases of failure/closing down of microfinance institutions. Discuss some of the challenges faced by these institutions leading to their closure. (10 marks)
- b) An NGO has been providing funds to businessmen in a village in your country. The NGO has emerged you to measure the impact of credit. Using a relevant framework discuss how you would quantitatively measure the credit impact. (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? Give reasons for this market failure. (6 marks)
- c) You have been employed as a credit officer in a SACCO having completed your course work at Machakos University. Advise the management on five aspects to include in a checklist to ensure that all required information from a borrower is collected. (8 marks)