



MACHAKOS UNIVERSITY COLLEGE

(A Constituent College of Kenyatta University)
University Examinations for 2015/2016

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FIRST SEMESTER EXAMINATION FOR DEGREE IN BACHELOR OF
ECONOMICS AND FINANCE

EAE 302: ECONOMICS OF MICROFINANCE

DATE: 4/8/2016

TIME: 11:00 – 1:00 PM

INSTRUCTIONS:

- Answer question one (compulsory) and any other TWO questions. Question one carries 30 marks and the rest carry 20 marks each.

QUESTION ONE (COMPULSORY)

- a) Using relevant examples distinguish between the following pair terms as used in micro-finance. (10 marks)
- Minimum capital requirement and capital adequacy
 - Asymmetric information problems and principal-agent problem
 - Dynamic incentives and joint liability
 - Financial regulation and financial supervision
 - Micro-credit and micro-finance

QUESTION TWO

- a) Discuss the origin of microfinance using the Grameen Model. (10 marks)
- b) Explain the principal of marginal returns to capital. (4 marks)
- c) Using relevant examples, distinguish between equity capital and concessional funds (6 marks)

QUESTION THREE

- a) Discuss any five guidelines that regulators and supervisors have to follow in order to mitigate risk factors in the MFI subsector. (10 marks)
- b) The Micro and small enterprises authority is tasked with the promotion, development and regulation of micro and small enterprises. What roles enable the Authority to achieve this objective. (10 marks)

QUESTION FOUR

- a) Why has there been a need for the emergence of microfinance when ROSCAs have been in existence for a long time and are wide spread all over the globe? (10 marks)
- b) Using a well labeled diagram demonstrate that small enterprises (poor countries) are more able to pay a lenders investible funds compared to large enterprises (rich countries). Why do most of these lenders shy lending to the small enterprises (poor countries)? (10 marks)

QUESTION FIVE

- a) Using a well labeled diagram show that money lending is a hallmark of monopolistic competition? Why is this the case? (12 marks)
- b) Explain the factors that led to the emergence of the informal sector. (8 marks)