MACHAKOS UNIVERSITY

University Examinations for 2018/2019 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ECONOMICS

FOURTH YEAR ………. SEMESTER EXAMINATION FOR

BACHELOR OF ECONOMICS

EAE 402: ECONOMICS OF MICROFINANCE II

DATE: **TIME:**

INSTRUCTIONS

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

QUESTION ONE (COMPULSORY) (30 MARKS)

a) In statistical measurement of the impact of microfinance, an enterprise may be used as a unit of assessment.

i) Illustrate and explain a conceptual framework that is suitable for such an analysis (7 marks)

ii) Outline four limitations of using the enterprise as a unit of assessment (8 marks)

b) When starting a business, it is important to have a business plan. Assume that you are presenting your business plan to potential investors. Describe three main components of business plan that would be bankable and competitive. Base your points on an actual business idea for clarity. (6 marks)

c) Outline two examples of external non-ownership capital and discuss three advantages of using external sources of funds to fund a business. (9 marks)

QUESTION TWO (20 MARKS)

a) In the paper: Bold, Calvo and Dercon (2006) "Insurance for the poor?" QEH Working Paper Series, No. 125, the authors explain that there is failure in the insurance market since insurance is underprovided for the poor. The poor however, ha easy and means of dealing with these inefficiencies. Discuss four of the possible ways that the poor use to deal with under-provision of insurance/ the lack of insurance. (8 marks)

b) Explain the meaning of adverse selection and explain how it leads to credit rationing (6 marks)

c) Name two types of external sources of capital and clearly outline four advantages of these external sources of capital. (6 marks)

QUESTION THREE (20 MARKS)

a) An NGO has been providing funds to businessmen in a village in your country. The NGO has engaged you to measure the impact of credit. Using a relevant framework discuss how you would quantitatively measures the credit impact. (10 marks)

b) Using appropriate diagrams, explain the challenge that many microfinance institutions face when seeking to trade-off between their objectives of poverty reduction and profitability. (10 marks)

QUESTION FOUR (20 MARKS)

a) Using relevant examples distinguish the following pairs (10 marks)

i) Hire-purchase and lease

ii) Debt factoring and invoice discounting

iii) Moral hazard and principal –agent conflict

iv) Corporate adn retail microfinance clients

v) Garnishee order and warrant of execution

b) Explain three differences between conventional insurance and microinsurance (6 marks)

c) Why is monitoring and control of credit important while undertaking credit appraisal? (4 marks)

QUESTION FIVE (20 MARKS)

a) Describe the multitask agency problem and how it relates to microfinance and briefly describe how the management of microfinance institutions deals with this problem. (10 marks)

b) Some banks and SACCOs offer insurance services (the model of bancassurance). Discuss the challenges associated with this model. (10 marks)