



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) Discuss 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. Discuss. (6 marks)