KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF ECONOMICS

EAE 402: ECONOMICS OF MICROFINANCE II

DATE: Thursday, 23rd November 2017 **TIME:** 11.00 a.m. - 1.00 p.m.

INSTRUCTIONS:

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

Question One (30 Marks)

(a) Briefly explain the meaning of market failure with respect to the credit market. (2 marks)

(b) The rural credit market is characterized with factors that explain market failure in this market. Discuss **four** of these features in light of the Kenyan rural credit market. (8 marks)

(c) Give two examples of external sources of financing a business and discuss **two** disadvantages of external sources of funds. (6 marks)

(d) Assume that you are part of the credit office team in a SACCO. There are several outstanding and dormant debt accounts. So far, you have written warning letters to the borrowers but the debts are still outstanding and dormant. Explain **four** ways in which you can recover such amounts. (8 marks)

(e) Explain the importance of a business plan for any start-up business. (6 marks)

Question Two (20 marks)

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

(i) State **two** variables within a household that may be used in the impact assessment. (2 marks)

(ii) Clearly explain **three** disadvantages of using a household as a unit of assessment. (6 marks)

(b) Financial institutions serve different clients; among them, corporate clients.

(i) Explain the meaning of corporate clients and specify whether it is possible for an individual to be classified as a corporate client. (3 marks)

(ii) Clearly state some of the needs of corporate clients from a financial institution that may clearly differentiate them from retail clients. (6 marks)

(c) State **three** limitations of group lending. (3 marks)

Question Three (20 marks)

(a) In the absence of formal insurance to cover the poor and those in the rural areas, this population result to informal ways of insurance.

(i) State two of the ways in which this population insures themselves. (2 marks)

(ii) The several methods/ways of informal insurance however, have their shortcomings and may therefore, not provide a lasting solution. Discuss four shortcomings of the informal insurance by the poor. (8 marks)

(b) Mrs. Trampania is a member of a group that has been considered for funding by microfinance. After waiting for months, she has now qualified for a micro loan. Discuss how this would affect her household. (10 marks)

Question Four (20 marks)

(a) Analyze the problems faced by micro-finance organisations when providing services to the poor. (10 marks)

(b) Describe several ways in which the informal financial institutions complement the formal financial institutions in the economy. (10 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) The government has played a crucial role in the development of Micro Small and Medium Enterprises (MSMEs). Discuss. (10 marks)