Moderated

SCHOOL OF ECONOMICS

DEPARTMENT OF APPLIED ECONOMICS

END OF SEMESTER EXAMINATION

EAE 402: ECONOMICS OF MICROFINANCE II

REGULAR SEMESTER I 2017/2018

DATE: **TIME: 2** Hours

Instructions

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

Question One ***(30 marks)***

a) Give a brief meaning of venture capital as a source of business financing and give two advantages of using a venture capitalists. (6 marks)

b) In the paper, "Estimating the impact of microcredit on those who take it up: Evidence from a randomized experiment in Morocco" Crépon, Devoto, Duflo, & Parienté, (2015) find that while micro-credit increases household income, it may not necessarily be welfare improving, hence limiting the use of income as a measure of impact of micro-credit on households. Briefly explain 3 possible reasons given for the result that access to micro-credit may not necessarily be welfare improving for households. (6 marks)

c) In their paper, "The economic lives of the poor." Banerjee & Duflo, (2007) carefully discuss the livelihoods of the poor that distinguishes them from the rich. This includes a discussion of factors that describes how the poor earn their money.

~~d)~~ Discuss four of these factors that describes how the poor earn their money. Give suitable examples for clarity. (8 marks)

d) ~~e)~~ Clearly outline four disadvantages of internal sources of business capital. (6 marks)

e) ~~f)~~ Distinguish between adverse selection and moral hazard. (4 marks)

Question Two ***(20 marks)***

a) In the measurement of impacts, e.g measuring the impact of a micro-credit one of the commonly used methods is the Randomized control trial (RCT). One of the steps in an RCT includes conducting a balance check between the control group and the treatment group. Briefly describe the meaning and the importance of a balance check. (4 marks)

b) There are significant features of rural credit markets in developing economies that lead to market failure hence necessitating government policy interventions. Discuss four of these features. You should give examples for clarity. (8 marks)

c) Tackling the poverty problem may require the poor to start-up small businesses that may be facilitated by group lending. There are however, challenges that inhibit group lending both in the urban and rural areas. Discuss four of these challenges. (8 marks)

Question Three ***(20 marks)***

a) Recently, there have been innovations to increase insurance coverage for the poor as well as farmers in developing economies.
Describe two of these interventions. Ensure that your discussion includes a mention of the cause of the market failure in the insurance market for the poor that is mitigated by the intervention. (6 marks)

b) Assume that you have been tasked by a SACCO to help recover non-performing loans. Outline four ways that you would suggest and help implement to recover such loans. (6 marks)

c) Define assortative matching and explain how it helps to mitigate the problem of adverse selection in group lending. (8 marks)

Question Four ***(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. (8 marks)

b) After graduating from Kenyatta university, you and your friends decide to start a barber shop at the Uni-City. You however, do not have funds for the start-up. Your friend suggests that you should issue a debenture to raise the funds but you think of that as a big joke😊. Explain to your friend why you think that issuance of a debenture may not be an option to raise funds for your business. (4 marks)

c) To raise funds for the business in (b) above, you suggest that you should write a business plan and try and get funds from the Uwezo fund. Write a paragraph detailing the marketing strategy for your business. (8 marks)

Question Five *(20 marks)*

a) In the paper "Savings constraints and microenterprise development: Evidence from a field experiment in Kenya" by Dupas, P., & Robinson, J. (2013), the authors conducted an RCT to analyze barriers of savings and investments among small-holder business men and women such as motor-cycle *(boda)* operators and market women in Kenya. The authors documented that one of the problems in the experiment was attrition. Describe the problem posed by attrition and how the problem can be dealt with in such a case. (6 marks)

write in full

b) Describe four ways in which the informal financial institutions complement the formal financial institutions in the economy. (8 marks)

c) Outline four components that must be included in a business plan to be presented to a potential financier. (6 marks)