



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2020/2021 ACADEMIC YEAR
FOURTH YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF SCIENCE IN FINANCIAL
ECONOMICS**

COURSE CODE: ECF 4204

COURSE TITLE: ECONOMICS OF MICROFINANCE

DATE: 7TH OCTOBER, 2021

TIME: 1100 – 1300HRS

INSTRUCTIONS TO CANDIDATES

Answer question **ONE** and any other **THREE** questions

This paper consists of 2 printed pages. Please turn over.

QUESTION ONE

- (a) Account for the growth of Microfinance Growth in the world **(8marks)**
- (b) Discuss **FIVE** services offered by local and international donors to the Microfinance Institutions (MFIs). **(10marks)**
- (c) Why doesn't capital flow naturally to the poor as suggested by economic theory? **(7marks)**

QUESTION TWO

- (a) Microfinance Institutions (MFIs) which are legally allowed to take deposits must be subject to stringent regulations and supervision. Discuss **(7marks)**
- (b) Discuss the risks in microfinance industry in Kenya **(8marks)**

QUESTION THREE

- (a) Much as there is free entry into the moneylenders' market, there are constraints that are specific to the market, which keep out potential entrants into the market. Explain these constraints. **(8marks)**
- (b) Defenders of moneylenders argue that merely seeing interest rates at 100 – 200 percent does not imply monopoly. The rates may reflect genuine cost. Discuss **(7marks)**

QUESTION FOUR

- (a) Using a mathematical illustration, discuss Adverse Selection problem faced by Microfinance Institutions (MFIs) **(7marks)**
- (b) The information problems create inefficiency since the vacuum in information flow creates tension between the borrower and the lender, especially if gaps emerge in repayments schedules. The information problems arise at the three distinct stages. Explain these stages **(8marks)**

QUESTION FIVE

- (a) What are the advantages of group lending to Microfinance Institutions (MFIs) that are unavailable to banks **(7marks)**
- (b) Discuss the variables of micro loans that influence the effective rate of lending **(8marks)**

END//