UNIVERSITY OF EMBU

2021/2022 ACADEMIC YEAR

FIRST SEMESTER EXAMINATIONS

SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF SCIENCE IN ECONOMIC AND FINANCE

BAE 203: ECONOMICS OF MICROFINANCE 1

DATE: 2 DECEMBER, 2021   TIME: 11.00-2.00 PM

INSTRUCTIONS:

Answer Question ONE and ANY Other TWO Questions.

QUESTION ONE (30 MARKS)

a) Using specific examples, explain the difference between the following terms;
   i.   Microfinance and micro credit   (3 marks)

   ii. Saving and investment   (3 marks)

   iii. Interest rate and exchange rate   (3 marks)

b) Explain five (5) importance of microfinance institutions to the Kenyan economy (5 marks)

c) Discuss two (2) roles of subsides and donors in microfinance institutions   (4 marks)

d) Explain five (5) factors that you should consider when comparing the operating efficiency of two microfinance institutions   (5 marks)

e) Describe the key economics traits that microfinance institution should consider when conducting a more detailed market analysis to learn more about the entrepreneurs operating there and the kinds of products and services that would best meet their needs

(5 marks)

f) Briefly explain why do poor people lack access to financial markets? (2 marks)

QUESTION TWO (20 MARKS)

Kamiu is a large and remote village in Kirimari Ward of Embu County. The population of the village is about three thousand five hundred people with 52:48 male female ratio. The main economic activity of the village is agriculture. Most of the people are poor. A defunct NGO and some SHGs are there in the village. Economically and socially the village is poor with some basic problems like stray animals, monkeys menace and lack of irrigation facilities. You have recently joined as Branch Manager in a Regional Rural Bank branch in the village. Your controlling authority enjoins upon you to initiate microfinance programme in a big way in the village.

a) In the light of above, please answer the following questions:

   i) Name and explain four (4) major financial services, you would like to introduce in the village for increasing microfinance? (4 marks)

   ii) What are the facilitating factors and hindering factors prevailing in the village for the development of microfinance? (5 marks)

   iii) Suggest some activities you would like to finance in the village? (3 marks)

   iv) What socio-economic changes you would intent to bring in the village? (3 marks)

b) Explain the key characteristics of microfinance clients (5 marks)

QUESTION THREE (20 MARKS)

a) Using a well labelled schematic representation, describe how microfinance helps in breaking poverty cycle

(10 marks)

b) "Microfinance Credit Lending Models" is an attempt to document the various models currently being used by microfinance institutions throughout the world. Discuss five (5) revenue models adopted by microfinance institutions (10 marks)

QUESTION FOUR (20 MARKS)

Using possible illustrations, discuss each of the following analytical tools or indicators for financial and portfolio analysis in microfinance institutions

a) Operating Self-Sufficiency (OSS)   (4 marks)

b) Financial Self-Sufficiency (FSS)   (4marks)

c) Return on Asset (ROA)   (4 marks)

d) Return on Equity (ROE)   (4 marks)

e) Portfolio for Asset (PFA)   (4 marks)

QUESTION FIVE (20 MARKS)

a) Microfinance refers to the provision of basic financial services like small loans, small savings, funds transfer and micro insurance to the poor and marginalized people in the existing society. In line with this, describe the evolution of microfinance.   (10 marks)

b) Discuss the role of technology in microfinance institutions in Kenya   (10 marks)

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