

Exam 4915, Spring 2023 [The three questions count equally much]

Hints to graders: It is nice if the students have an approach that links the three questions.

1. A good student should be able to discuss problems associated with the lack of collateral, the lenders' risk hypothesis (for high interest rates), asymmetries and credit rationing. A good student should perhaps also know that credit is a close relative to the welfare state (resources to the poor).
2. A good student should be able to describe what is meant by micro finance and why it is expensive to provide small loans to many people. A common form is group lending (for instance in the Grameen Bank style). It would be nice if students are informed (I have briefly discussed it in class) that
 - i) there is a mixture of successes and failures in micro finance,
 - ii) that a common problem is too optimistic initial expectations of what could be achieved,
 - iii) there are complaints about how microfinance can induce violence towards those who are unwilling, or unable, to pay back when the rest of the group get their loans first when the first lender has paid back etc.
3. A good student should know that there are rotating savings and credit associations (ROSCA), informal insurance groups etc. When it comes to informal credit they should also know about the 'early pot motive' (to acquire an indivisible good earlier), planner-doer problems and the need to commitment against doers (one's future selves, the husband, other family members). They should know the simple versions of the ROSCA early pot model (Besley, Coats and Lorry). This model can be difficult to get right in all details – it is fine if they clearly understand the mechanism. If they also clearly understand the enforcement problems of ROSCAs (temptation to deviate once one has received the pot) I would be impressed. Students do not know (I guess) equally much about
 - i) informal insurance arrangement against ill health and death of family members,
 - ii) income and in kind sharing,
 - iii) reciprocity work and burden sharing--- but they may have heard about it in class.