Seminar 2 - Credit

1. How do credit transactions differ from many other transactions (buying and selling potatoes and grain, for example)

2. Discuss different reasons why credit contracts often are interlinked with the terms of other contracts in low income regions.

3. Poor people often face very high interest rates. This has been explained by the so called lender's risk hypothesis. Assume that there is perfect competition and let

   (a) $L =$Loan amount,

   (b) $R =$Lender's opportunity cost,

   (c) $P =$Fraction of loans repaid, and

   (d) $i =$Interest rate.

   Use this notation to set up the lender's risk hypothesis model, derive the main equation, and describe its implications in words. The model does not seem to describe reality very well, why is that? The model is still used to explain the high interest rates in developing countries but with an important twist – what is that twist?

4. Explain how a Rosca works (rotating savng and credit assosiation). What is the main "incentive problem" in a Rosca? How can the fact that Roscas are repeated many times allieviate this problem. Could the emergance of formal credit undermine the stability of a Rosca?

5. What kind of research design do Banerjee et al use to identify the effect of micro finance?

6. Why do Banerjee et al (the miracle of micro finance) estimate the intention to treat (iit) when assessing the effect of Microfinance (why do they not scale estimates with "Spandana" take-up rates) and discuss some issues regarding the external validity of their findings.