

Course Title: Credit and Microfinance

Lecturer: Dr. Kumar Aniket

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📄 <http://www.aniket.co.uk/teaching/microfinance/>

Objectives: *To familiarise you with the main ideas in the emerging theory of microfinance and give you a flavour of the contemporary research in this area.*

Main References

Armendáriz de Aghion, B. and Morduch, J. (2005). *The Economics of Microfinance*. MIT Press.

A good background reading to motivate the topic. The treatment of theory is much simpler than that covered in the lectures.

Morduch, J. (1999). The microfinance promise. *Journal of Economic Literature*, 37(4):1569–1614.

A comprehensive survey articles which consolidates the salient ideas in the literature on microfinance, especially on the empirical side of the literature.

Ghatak, M. and Guinnane, T. W. (1999). The economics of lending with joint liability: theory and practice. *Journal of Development Economics*, 60(1):195–228.

An excellent survey of the contemporary theory in the microfinance literature. This is the single most important reading for the course.

The Course Plan

Lecture 1: Introduction; Consumption and Credit

* Eswaran, M. and Kotwal, A. (1990). Implications of Credit Constraints for Risk Behaviour in Less Developed Economies. *Oxford Economic Papers*, 42(2):473–482.

* Dercon, S. (2004). *Insurance against Poverty*, chapter Risk, Insurance and Poverty: a Review, pages 9–37. Oxford University Press for WIDER.

<http://fds.oup.com/www.oup.co.uk/pdf/0-19-927683-8.pdf>.

Eswaran, M. and Kotwal, A. (1989). Credit as insurance in agrarian economies. *Journal of Development Economics*, 31(1):37 – 53.

Aleem, I. (1990). Imperfect information, screening, and the costs of informal lending: A study of a rural credit market in pakistan. *World Bank Economic Review*, 4(3):329–349.

Udry, C. (1990). Credit Markets in Northern Nigeria: Credit as Insurance in a Rural Economy. *The World Bank Economic Review*, 4(3):251–269.

Lecture 2: Adverse Selection and the Peer Selection Effect

* Ghatak, M. (1999). Group lending, local information and peer selection. *Journal of Development Economics*, 60:27–50.

- * Ghatak, M. (2000). Screening by the company you keep: Joint liability lending and the peer selection effect. *The Economic Journal*, 110:601–631.
- Ghosh, P., Mookherjee, D., and Ray, D. (2000). Credit rationing in developing countries: An overview of the theory. In *A Reader in Development Economics*. Blackwell. Available from Debraj Ray's NYU website.
- Stiglitz, J. E. and Weiss, A. (1981). Credit rationing in markets with imperfect information. *American Economic Review*, 71(3):393–410.
- De Mezza, D. and Webb, D. C. (1987). Too much investment: A problem of asymmetric information. *Quarterly Journal of Economics*, pages 281–292.

Lecture 3: *Moral Hazard and Monitoring*

- * Aniket, K. (2006b). Sequential group lending with moral hazard. *Edinburgh School of Economics Discussion Paper No. 136*.
<http://www.aniket.co.uk/research/sql.pdf>.
- * Ghatak, M. and Guinnane, T. W. (1999). The economics of lending with joint liability: theory and practice. *Journal of Development Economics*, 60(1):195–228.
- * Stiglitz, J. (1990). Peer monitoring and credit markets. *World Bank Economic Review*, 4(3):351–366.
- Conning, J. (2000). Monitoring by delegates or by peers? joint liability loans under moral hazard. Mimeo.

Lecture 4: *Enforcement; Savings.*

- * Aniket, K. (2006a). Does subsidising the cost of capital really help the poorest? an analysis of saving opportunities in group lending. *Edinburgh School of Economics Discussion Paper No. 140*.
<http://www.aniket.co.uk/research/savings.pdf>.
- * Besley, T. J. and Coate, S. (1995). Group lending, repayment incentives and social collateral. *Journal of Development Economics*, 46(1):1–18.
- * Ghatak, M. and Guinnane, T. W. (1999). The economics of lending with joint liability: theory and practice. *Journal of Development Economics*, 60(1):195–228.
- Rai, A. S. and Sjöström, T. (2004). Is grameen lending efficient? repayment incentives and insurance in village economies. *Review of Economic Studies*, 71:217–234.
- Jain, S. and Mansuri, G. (2003). A little at a time: the use of regularly scheduled repayments in microfinance programs. *Journal of Development Economics*, 72(1):253–279.