

**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.