Short Question

When lending to agents who have no collateral, explain how group-lending with joint-liability is able to solve the problem of under-investment (Stiglitz and Weiss, 1981) and over-investment (De Mezza and Webb, 1987).

Essay

When lending to poor agents who have no wealth, explain how group-lending with joint-liability helps to solve the following problems:

(a) Adverse Selection

(b) Moral Hazard

(c) Enforcement

`(Tripos 2008)`

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