**Review Questions, Lecture 5: Determinants of Borrowing Capacity**

**Question 1:** Under which conditions on the pay-off distribution and utility function of the entrepreneur does diversification of investment projects pay off in the absence of moral hazard?

**Question 2:** What is the intuition why diversification of investment projects may pay off in a world with moral hazard even when the conditions in question 1 are not fulfilled?

**Question 3:** Sketch the argument that an incentive scheme for the borrower with two projects where the borrower only is rewarded if both projects are successful is at least as good as any other incentive scheme.

**Question 4:** Why does “social capital” increase pledgeable income if the loan is received by a group rather than an individual borrower?

**Question 5:** What is the role of monitoring in the model of peer-lending?