Size and Day-of-the-Week Effect in the Banking Industry: A Comparative Analysis Based on Economic Conditions

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Abstract

Several studies in empirical literature have examined the differences between large banks and small banks. In this study, we examine the differences in the day-of-the-week effects of stock prices of large banks as represented by the Keefe, Bruyette and Woods Index (KBW) and small banks as represented by the American Bankers Association NASDAQ Community Bank Index (ABAQ) in three successive economic periods: the pre-recession, recession and the post-recession. We find that the stock return movements of the two indices are similar to each other. Both the indices have very similar weekday effects in all three periods. We conclude that while there is more volatility in the KBW index, it is not reflected in any higher returns for larger bank shareholders. We further provide evidence that the ABAQ index and the KBW index levels are cointegrated which explains why the results on the returns appear so similar to each other.

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