Government Intervention through an Implicit Federal Backstop: Is There a Link to Market Power?

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Notes

1. Merton (1977).

competitors". The GAO report did not indicate whether AIG's business losses were mitigated by pricing strategies.

7. Even though AIG's difficulties stemmed from operations in the AIG Financial Products division, the apparent perception by some competitors was that the bailout would provide capital relief company-wide, as noted by Mr. Kelly.

8. Keeley (1990).

9. Much of the money AIG received was used to offset losses from their Financial Products division. However, the moral hazard problem created by the TARP funds is independent of funds deployment. That is, it is the existence of the potential capital infusion that creates the moral hazard problem for insurers,

17. Cummins and Sommer (1996).

18. Baranoff and Sager (2002).

19. Lin et al. (2014).

20. Cheng and Weiss (2013).

21. Samuelson and Zeckhauser (1988).

29. Cummins (2002).

30. Cummins and Weiss (1991).

31. These data are obtained from the Federal Reserve Economic Database housed at the St. Louis Federal Reserve Bank.

32. Cotterill (1986).

33. The inverse HHI does not give the exact number of firms in the market, but rather is the number of firms that would be in the market if each firm had the same market share.

behaviour related to market concentration during the bailout period, but we also found significant differences between models between the two subsamples for most of the business lines. The differences between models suggest that AIG's pricing behaviour differs from that of other carriers over time, but there is no systematic evidence that AIG took advantage of its bailout funding to increase its market share in competitive markets. Results of these tests are available from the authors upon request.

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