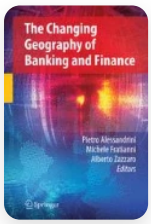
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Financial Centers Between Centralization and Virtualization

| Chapter | First Online: 01 January 2009

| pp 277–294 | Cite this chapter



The Changing Geography of Banking and Finance

Michael H. Grote

1795 Accesses 28 Citations

Abstract

The chapter examines the current and future role of European financial centers. The “virtualization” of space leads to the weakening of the benefits from agglomeration through the widespread use of information and communication technology. Virtualization works well, however, only for standardized information, like stock prices, but not for complex information requiring constant interpretation. For the latter, face-to-face contacts cannot be substituted, and thus, financial centers are here to stay.

Nevertheless, it is not clear how many financial centers will survive. The chapter finds strong competition between Europe’s first-tier financial center London and second-tier centers, such as Frankfurt and Paris. Due again to the nature of information, national centers will remain serving opaque domestic businesses. Thus, there is little competition between second-tier centers which are caught in between centralization – toward London – and regionalization toward the most opaque businesses within their respective countries.

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About this chapter

Cite this chapter

Grote, M.H. (2009). Financial Centers Between Centralization and Virtualization. In: Zazzaro, A., Fratianni, M., Alessandrini, P. (eds) The Changing Geography of Banking and Finance. Springer, Boston, MA. https://doi.org/10.1007/978-0-387-98078-2_13

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DOI	Published	Publisher Name
https://doi.org/10.1007/978-0-387-98078-2_13	30 April 2009	Springer, Boston, MA
Print ISBN	Online ISBN	eBook Packages
978-0-387-98077-5	978-0-387-98078-2	Business and Economics Economics and Finance (R0)

Keywords

Stock Exchange | Spatial Proximity | Complex Information | Foreign Bank | Agglomeration Economy

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