

[Home](#) > [The Changing Geography of Banking and Finance](#) > Chapter

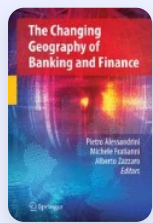
# Financial Centers Between Centralization and Virtualization

| Chapter | First Online: 01 January 2009

| pp 277–294 | [Cite this chapter](#)

[Save chapter](#)

[View saved research](#) >



## [The Changing Geography of Banking and Finance](#)



[Michael H. Grote](#)

1785 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.

 This is a preview of subscription content, [log in via an institution](#)  to check access.

### Access this chapter

[Log in via an institution](#) →

[Institutional subscriptions](#) →

### Similar content being viewed by others



**[International Financial Centres in Europe and Asia, 1900–2000](#)**

Chapter | © 2020



**[Financial Markets: World Financial Centres](#)**

Chapter | © 2021



**[Considerations on Financial Technology and the Impact on Financial System](#)**

Chapter | © 2021

### Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

[Economic Geography](#)

[European Economics](#)

[Financial Economics](#)

[Regionalism](#)

## References

---

Beaverstock JV (2002) Transnational elites in global cities: British expatriates in Singapore's financial district. *Geoforum* 33:525-538

Boden D, Molotch HL (1994) The compulsion of proximity. In: Friedland R, Boden D (eds) *NowHere: Space, time and modernity*. University of California Press, Berkeley, Los Angeles, London, pp. 257-286

Budd L (1998) Global cities and finance: A troubled relationship. In: Gravesteijn S, van Griensven S, de Smidt M (eds) *Timing global cities*. Nederlandse Geografische Studies 241, Utrecht: Koninklijk Nederlands Aardrijkskundig Genootschap, 67-83

Castells M (1997) *The power of identity: The information age - economy, society and culture*. Blackwell, London

Clark G, O'Connor K (1997) The informational content of financial products and the spatial structure of the global finance industry. In: Cox LR (ed) *Spaces of globalization*. Guilford Press, London, New York, pp. 89-114

Coval JD, Moskowitz TJ (1999) Home bias at home: local equity preference in domestic portfolios. *Journal of Finance* (6):2045-2073

Cowan R, David PA, Foray D (2000) The explicit economics of knowledge codification and tacitness. *Industrial and Corporate Change* 9(2):211-253

Davis EP (1990) International financial centers: An industrial analysis. Bank of London Working Paper Series, London

de Smidt M, van Rietbergen T (2002) Stock markets for sale: European integration and the consolidation of stock exchanges. *Tijdschrift voor Economische en Sociale Geografie* 93 (2):208-213

Deutsche Börse (2005a) Annual Report 2004. Deutsche Börse, Frankfurt

Deutsche Börse (2005b) Proposed pre-conditional cash offer by Deutsche Börse for the London Stock Exchange plc. January 27

Engelen E (2004) "Amsterdamed"? The uncertain future of a secondary financial center. University of Amsterdam, Working Paper

Engelen E (2007) "Amsterdamed"? The uncertain future of a financial center. *Environment and Planning A* 39:1306-1324

Faulconbridge J, Engelen E, Hoyler M, Beaverstock J (2007) Analysing the changing landscape of European financial centers: The role of financial products and the case of Amsterdam. *Growth and Change* 38(2):279-303

French KR, Poterba JM (1991) Investor diversification and international equity markets. *American Economic Review* 81:222-226

Fujita M, Thisse J-F (1996) Economics of agglomeration. *Journal of the Japanese and International Economies* 10 (4):339-378

Gaspar J, Glaeser E (1998) Information technology and the future of cities. *Journal of Urban Economics* 43:136-156

- Gehrig T (1995) Korreferat zum Referat Norbert Schulz. In: Gallen B, Hesse H, Ramser HJ (Eds) Standort und Region. Tübingen, Mohr, pp. 79-81
- Gehrig T (1998) Cities and the geography of financial centers. CEPR Discussion Paper No. 1894, London.
- Grinblatt M, Keloharju M (2001) How distance, language, and culture influence stockholdings and trades. *Journal of Finance* 56:1053-1073
- Grote MH (2004) Die Entwicklung des Finanzplatzes Frankfurt seit dem Zweiten Weltkrieg - Eine evolutionsökonomische Untersuchung. Duncker & Humblot, Berlin
- Grote MH (2007) Mobile marketplaces: Consequences of the changing governance of European stock exchanges. *Growth and Change* 38(2):260-278
- Grote MH (2008) Foreign banks' attraction to the financial center Frankfurt: An inverted 'U'-shaped relationship. *Journal of Economic Geography* 8:239-258
- Grote MH, Lo V, Harrschar-Ehrnborg S (2002) A value chain approach to financial centers: The case of Frankfurt. *TESG Journal of Economic and Social Geography* 93:412-423
- Grote MH, Täube FA (2006) Offshoring the financial services industry: Implications for the evolution of Indian IT clusters. *Environment and Planning A* 38:1287-1305
- Hau H (2001a) Location matters: An examination of trading profits. *Journal of Finance* 56:1959-1984

Hau H (2001b) Geographic patterns of trading profitability in Xetra. *European Economic Review* 45:757-769

Kim S (1991) Heterogeneity of labor markets and city size in an open spatial economy. *Regional Science and Urban Economics* 21:109-126

Kindleberger CP (1974) The formation of financial centers: A study in comparative economic history. *Princeton Studies in International Finance* 36(Nov)

Laulajainen R (2001) End of geography at exchanges? *Zeitschrift für Wirtschaftsgeographie* 45(1):1-14

Lee R, Schmidt-Marwede U (1993) Interurban competition? Financial centers and the geography of financial production. *International Journal of Urban and Regional Research*. 17 (4):492-515

Lo V (2000) Networking for localised knowledge: The case of the M&A-Sector. Working Paper Series SFB 403 AB-00-19, Frankfurt

Lo V (2001) Wissensbasierte Netzwerke im Finanzsektor. In: Esser J, Schamp EW (eds) *Metropolitane Region in der Vernetzung*. Frankfurt: Campus, pp. 131-53

Lo V (2003) Wissensbasierte Netzwerke im Finanzsektor. *Das Beispiel des Mergers & Acquisitions-Geschäfts*, Wiesbaden 2003

Lo V, Schamp EW (2001) Finanzplätze auf globalen Märkten - Beispiel Frankfurt/Main. *Geographische Rundschau* 53(7-8):26-31

Lo V, Grote MH (2002) Where traders go when stock exchanges go virtual: Concentration, dissemination or persistence? In: Balling M, Lierman F, Mullineux

A (eds) *Technology and finance: Challenges for financial markets, business strategies and policy makers*. Routledge, London, pp. 90–203

Loughran T, Schultz P (2005) *Liquidity: Urban versus rural firms*. University of Notre Dame, Working Paper

Loughran T, Schultz P (2006) *Asymmetric information, firm location, and equity issuance*. University of Notre Dame Working Paper

Lundvall B-Å (1988) *Innovation as an interactive process: From user-producer interaction to the national system of innovation*. In: Dosi G et al. (eds) *Technical change and economic theory*. Pinter, London, pp. 349–369

Malloy CJ (2005) *The geography of equity analysis*. *Journal of Finance* 55(2):719–755

Martin R (1999) *The new geographical turn in economics: Some critical reflections*. *Cambridge Journal of Economics* 23:65–91

McCreevy C (2005) *Stock market consolidation and security markets regulation in Europe*. Annual lecture at Société Universitaire Européenne de Recherches Financières (SUEFR), Brussels, November 30

O'Brien R (1992) *Global financial integration: The end of geography*. Pinter, London

Pinkowitz L, Stulz RM, Williamson R (2001) *Corporate governance and the home bias*. NBER Working Paper 8680

Porteous DJ (1999) *The development of financial centers: Location, information*

externalities and path dependence. In: Martin R (ed) *Money and the Space Economy*. John Wiley & Sons, Chichester, pp. 95-114

Power D (2002) IT and institutions in the structuring of European finance: Urban impacts. *Economic and Industrial Democracy* 23(3):335-356.

Schmidt RH, Grote MH (2006) Was ist und was braucht ein bedeutender Finanzplatz? *Bankhistorisches Archiv* 45:11-27

Storper M, Venables AJ (2004) Buzz: Face-to-face contact and the urban economy. *Journal of Economic Geography* 4:351-370

Ter Hart HW, Piersma J (1990) Direct representation in international financial markets: The case of foreign banks in Amsterdam. *TESG* 81(2):82-92

Thrift N (1994) On the social and cultural determinants of international financial centers: The case of the city of London. In: Corbridge S, Thrift N, Martin R (eds) *Money, Power and Space*. Blackwell, Oxford, pp. 327-355

UBS (2006) *UBS in Deutschland*. UBS, Frankfurt

Veltz P (1996) *Mondialisation, villes et territoires. L' conomie d'Archipel*. PUF, Paris

Walter I (1998) Globalization of markets and financial center competition. Paper presented at the conference on "Challenges for Highly Developed Countries in the Global Economy," Institut f r Weltwirtschaft, Kiel, 20 March

W jcik D (2002) Cross-border corporate ownership and capital market integration in Europe: Evidence from portfolio and industrial holdings. *Journal of Economic*

Wójcik D (2007) Geography and future of stock exchanges: Between real and virtual space. *Growth and Change* 38(2):200–223

## Author information

---

### Authors and Affiliations

**Frankfurt Institute for Private Equity and M&A, Frankfurt School of Finance & Management, Sonnemannstraße 9-11, 60314 Frankfurt am Main, Germany**

Michael H. Grote

### Corresponding author

Correspondence to [Michael H. Grote](#).

## Editor information

---

### Editors and Affiliations

## Rights and permissions

---

[Reprints and permissions](#)

## Copyright information

---

© 2009 Springer Science+Business Media, LLC

## 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](https://doi.org/10.1007/978-0-387-98078-2_13)

[.RIS↓](#) [.ENW↓](#) [.BIB↓](#)

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

## Keywords

[Stock Exchange](#)

[Spatial Proximity](#)

[Complex Information](#)

[Foreign Bank](#)

[Agglomeration Economy](#)

*These keywords were added by machine and not by the authors. This process is experimental and the keywords may be updated as the learning algorithm improves.*

## Publish with us

[Policies and ethics](#) 

## Search

Search by keyword or author



## Navigation

**Find a journal**

---

**Publish with us**

---

**Track your research**

---

