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The Credit Rating Industry: An Industrial Organization Analysis

| Chapter

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framework for arranging initial observations and developing questions for further analysis.

A striking fact about the structure of the industry in the United States is its persistent fewness of incumbents. There have never been more than five general-purpose bond rating firms; currently there are only three. Network effects—users’ desires for consistency of rating categories across issuers—are surely part of the explanation. But, for the past 26 years, regulatory restrictions (by the Securities and Exchange Commission) on who can be a “nationally recognized statistical rating Organization” (NRSRO) have surely also played a role.

A curious part of the behavior of the rating firms is their coverage and their pricing. Hypotheses to explain this behavior are explored.

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White, L.J. (2002). The Credit Rating Industry: An Industrial Organization Analysis. In: Levich, R.M., Majnoni, G., Reinhart, C.M. (eds) Ratings, Rating Agencies and the Global Financial System. The New York University Salomon Center Series on Financial Markets and Institutions, vol 9. Springer, Boston, MA. https://doi.org/10.1007/978-1-4615-0999-8_3

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DOI	Publisher Name	Print ISBN
https://doi.org/10.1007/978-1-4615-0999-8_3	Springer, Boston, MA	978-1-4613-5344-7

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