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# Economies of Scale and Economies of Scope in Multiproduct Financial Institutions: Further Evidence from Credit Unions

H. Youn Kim

Journal of Money, Credit and Banking

Vol. 18, No. 2 (May, 1986), pp. 220-226 (7 pages)

Published By: Ohio State University Press



<https://doi.org/10.2307/1992205>

<https://www.jstor.org/stable/1992205>

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# Economies of Scale and Economies of Scope in Multiproduct Financial Institutions: Further Evidence from Credit Unions

*A Note by H. Youn Kim*

Recently, Murray and White (1983) have analyzed economies of scale (economies of production due to output expansion) and economies of scope (economies due to joint production of output) for credit unions of British Columbia by explicitly recognizing the multiproduct nature of the credit union. Unfortunately, their analysis of scale and scope economies is limited in view of recent advances in the theory of the multiproduct firm. For example, in multiproduct firms, there exist two economies of scale: economies arising from overall production activity and economies arising from the production of a particular product or a product set. Estimates of scale economies obtained by Murray and White (hereafter, MW) are overall scale economies, but no discussion of product-specific scale economies is provided in their analysis. Further, MW employ the cost complementarity concept as a measure of economies of scope. However, cost complementarity is a local not global test for the existence of economies of scope. In addition, it is necessary to distinguish overall scope economies from product-specific scope economies.

This paper reexamines the issue of economies of scale and scope in credit unions, extending the model developed by MW and providing some new empirical evidence. Section 1 extends the model developed by MW to reexamine the issue of scale and scope in multiproduct credit unions. Section 2 contains a description of empirical results. Section 3 completes the paper with a conclusion.

## *1. Specification of the Model*

In their analysis of scale and scope economies in the credit union industry, MW begin with a multiproduct cost function. They represent credit union outputs with

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