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The effects of bank market power in short-term and long-term firm credit availability and investment

Los efectos del poder de mercado bancario sobre el crédito y la inversión empresarial a corto y largo plazo

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ABSTRACT

This article investigates the short-term and long-term effects of bank market power on the availability of credit for companies, and on firm investment. Our results suggest that an increase in bank market power reduces firms' credit availability and investment in the short-term, but firm investment recovers in the long-term. The economic

significance of these relationships is found to be larger for SMEs than for other (larger) firms.

RESUMEN

Este artículo investiga los efectos del poder de mercado bancario a corto y largo plazo sobre la disponibilidad de crédito para las empresas, y sobre la inversión corporativa. Nuestros resultados sugieren que un incremento del poder de mercado bancario reduce la disponibilidad de crédito y la inversión de las empresas a corto plazo, pero a largo plazo la inversión empresarial se recupera. Se descubre que la importancia económica de estos resultados es mayor para las pequeñas y medianas empresas que las (otras) grandes empresas.

KEYWORDS:

Bank loans | bank market power | Euler equation | firm investment rate | risk premium

PALABRAS CLAVE:

Crédito bancario | poder de mercado bancario | ecuación de Euler | tasa de inversión empresarial | prima de riesgo

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Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

1. Berger, Demirgüç-Kunt, Levine, and Haubrich (2004) offer an extensive overview of the effects of bank concentration on firm financing, particularly for the case of SME financing, and offer a future research agenda as well.

2. Recent empirical papers have shown that the comparative advantage of large banks in hard information technologies do not appear to be monotonically increasing with firm size (see Berger & Black, 2011; Berger, Espinosa-Vega, Frame, & Miller, 2005; Berger, Frame, & Miller, 2005; Frame, Srinivasan, & Woosley, 2001).

3. See also Goddard and Wilson (2009) and Goddard, Molyneux, Wilson, and Tavakoli (2007), 2011) for a complete overview of New Industrial Organization approaches as profit hypotheses, as well as different methodological aspects.

4. The acronyms correspond to the Spanish denominations: Asociación Española de Banca (AEB), Confederación Española de Cajas de Ahorros (CECA), and Unión Nacional de Cooperativas de Crédito (UNACC).

5. We thank this suggestion to an anonymous referee and the editor.

6. Recall that substituting $(I/K)_{it} = (I/K)_{it-1} + \Delta(I/K)_{it}$, and $\text{LERNER}_{ijt} = \text{LERNER}_{ijt-1} + \Delta\text{LERNER}_{ijt}$ yields the error-correction mechanism equivalent to the ADL model proposed in model (3). Additionally, in the error correction mechanism is the adjustment of (I/K) to equilibrium deviations in the previous period, $(I/K)_{it-1} - \beta\text{LERNER}_{ijt-1}$.

7. See Huang, Shi, and Zhang (2011).

8. This treatment eliminates the most common source of endogeneity, although it would be not completely eliminated if errors are correlated over time. We include Sargan test as well as the AR(2) and the AR(3) tests to confirm the validity of the instruments used in our estimations.

9. Endogeneity test is computed, like the C statistic, as the difference of two Sargan–Hansen statistics in which the first model is treated as an equation with a smaller set of instruments in which the suspect regressor/s is treated as endogenous, and the second model is treated as a large set in which the suspect regressor/s is treated as exogenous.

Additional information

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