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Economies of scale and scope in European banking

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Abstract

The cost structure of four EC banking markets are examined using the translog cost-function methodology. The results indicate differences across the French, German, Italian and Spanish banking markets. However, economies of scale do appear to exist in each country over a wide range of bank output levels, including the largest banks. The results also indicate scope economies for the German system, which is perhaps a reflection of the universal nature of this market. The findings of widespread economies of scale means that cost advantages gleaned through larger bank size could be an important factor in generating economic gains resulting from the EU's single market programme. Cost advantages to be had through scope economies may also increase as European banking systems gradually convert to a universal banking model.

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