

Accepted Manuscript

Title: Bank capital and credit market competition: will competitive pressure lead to higher capital levels?

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PII: S0261-5606(16)30085-7

DOI: <http://dx.doi.org/doi: 10.1016/j.jimonfin.2016.07.006>

Reference: JIMF 1701

To appear in: *Journal of International Money and Finance*



Please cite this article as: Yehning Chen, Bank capital and credit market competition: will competitive pressure lead to higher capital levels?, *Journal of International Money and Finance* (2016), <http://dx.doi.org/doi: 10.1016/j.jimonfin.2016.07.006>.

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Bank Capital and Credit Market Competition: Will Competitive Pressure Lead to Higher Capital Levels?

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Abstract

This paper establishes a theoretical model to study the relationship between credit market competition and bank capital. In the model, bank capital can alleviate the debt overhang problem, and the extent to which banks can enjoy the gain of holding capital

* I am grateful to two anonymous referees for valuable suggestions. The financial support from the Department of Technology of Taiwan is acknowledged. The usual caveats apply.

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