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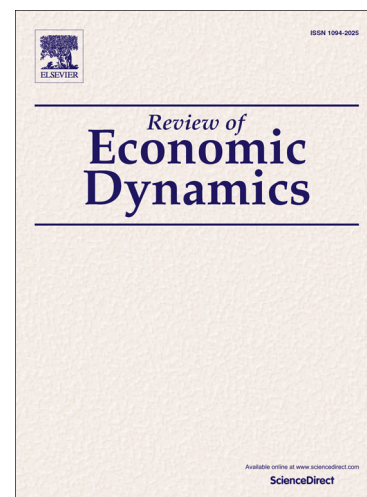
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# Innovation, Deregulation, and the Life Cycle of a Financial Service Industry\*

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## Abstract

We construct a dynamic equilibrium model to study how a major product innovation (introducing the debit card function) interacted with banking deregulation and drove the shakeout of the U.S. ATM and debit card industry. The model matches the quantitative pattern of the industry well and allows us to conduct counterfactual analyses to evaluate the roles that innovation and deregulation each played in the industry evolution. The findings show that debit innovation was the main driving force for the declining number of ATM networks, but deregulation had an important impact on the industry's welfare gains.

*JEL classification:* L10; O30; G2

*Keywords:* ATM; Banking Deregulation; Industry Dynamics; Shakeout

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