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Additional Evidence on Transparency and Bank Financial Performance

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Additional Evidence on Transparency and Bank Financial Performance

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Abstract

Previous research measures bank transparency by analyst following and the standard deviation of analyst earnings per share forecasts; this paper finds that transparency has a positive effect on bank financial performance. A separate theoretical study suggests that return volatility and trading volume are important measures of transparency. We examine the relation between transparency and bank holding company (BHC) profit efficiency using these alternative measures. Our empirical results confirm that transparency has a positive effect on bank financial performance. This is an important finding given that the recent financial crisis was characterized by a lack of transparency at a number of banking institutions.

JEL Codes: G21; D02

Keywords: Profit Efficiency, Transparency, Stochastic Frontier Analysis

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