

Accepted Manuscript

Measuring banks' market power in the presence of economies of scale: A scale-corrected Lerner index

Laura Spierdijka, Michalis Zaourasa

PII: S0378-4266(17)30245-5
DOI: [10.1016/j.jbankfin.2017.09.022](https://doi.org/10.1016/j.jbankfin.2017.09.022)
Reference: JBF 5226



To appear in: *Journal of Banking and Finance*

Received date: 4 January 2017
Revised date: 20 July 2017
Accepted date: 26 September 2017

Please cite this article as: Laura Spierdijka, Michalis Zaourasa, Measuring banks' market power in the presence of economies of scale: A scale-corrected Lerner index, *Journal of Banking and Finance* (2017), doi: [10.1016/j.jbankfin.2017.09.022](https://doi.org/10.1016/j.jbankfin.2017.09.022)

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Measuring banks' market power in the presence of economies of scale: A scale-corrected Lerner index

Laura Spierdijk^a, Michalis Zaouras^a

^a*University of Groningen, Faculty of Economics and Business, Department of Economics, Econometrics and Finance, P.O. Box 800, 9700 AV Groningen, The Netherlands.*

Abstract

A positive Lerner index indicates a welfare loss for consumers due to deviations from marginal-cost pricing. Such a welfare loss may not always be due to market power, though. In particular, marginal-cost pricing would result in negative profit for the firm in the presence of economies of scale. In such a scenario, a positive Lerner index could simply reflect the firm's need to earn non-negative profits rather than market power. We propose a novel, scale-corrected price-cost margin for firms that produce in the economies of scale range. We show that this measure is more informative about market power than the Lerner index itself. As an empirical illustration, we analyze market power in the U.S. banking sector using both the corrected and uncorrected Lerner index. The corrected Lerner index reveals significant market power for U.S. commercial banks during the 2000 – 2014 period.

JEL codes: D43, L13, G21

Keywords: market power, Lerner index, economies of scale, U.S. commercial banks

Email addresses: L.Spierdijk@rug.nl (Laura Spierdijk), M.Zaouras@rug.nl (Michalis Zaouras)

Download English Version:

<https://daneshyari.com/en/article/7356702>

Download Persian Version:

<https://daneshyari.com/article/7356702>

[Daneshyari.com](https://daneshyari.com)