

Dissertation Proposal

Eric Siyu Lu

Wednesday, December 6, 2017

1:30 p.m.

259 Posner Hall

Essays on Bank Competition and Regulation

The systemic importance of banks in the financial system and the economy has been long recognized by researchers and policymakers. Banks provide essential services to both depositors and borrowers, facilitating all kinds of economic activities. This dissertation investigates the mechanism of bank competition and discusses its implications on bank customers, systemic stability of the banking system, and related policies.

The first chapter looks at how changes in bank competition as a result of bank M&As affect bank performances at the branch level, as well as the impact on local mortgage lending. I exploit the within-bank cross-branch variation in whether there is a merging counterpart branch nearby, as a variation in changes in local competition condition at the branch level. I find that M&As lead to higher deposit growth for all involved branches on average. However, branches with merging counterpart branches nearby see a drop in deposits growth. Regions affected by M&As on average experience increase in mortgage loan denial rates, with an especially large increase in the regions with counterpart branches located closely. The results highlight the geographical heterogeneity in the consequences of bank consolidation.

The second chapter investigates the magnitude and economic mechanism of spillover effects of bank failures. Specifically, I identify how each bank failure is affected by its peer banks' failures. Identification is obtained by exploiting the partial overlapping branch networks of banks. I find peer failures lead to lower failure probability of failed banks on average. Moreover, there exists significant heterogeneity in the spillover effects across different acquirer types. In particular, I find failure probability of an affected bank drops if the acquirer of the failed bank is also a peer of the affected bank. The results reveal that the industrial organization structure among affected banks largely determines the direction and magnitude of the spillover effect. The findings also have important implications for the current policy regarding the resolution of failed banks.

The third chapter studies the auctions for failed banks. Using data on bids and bidders in failed bank auctions, I will estimate and test some auction models. The results can help identify and quantify the common vs. private valuation in failed bank auctions, which can shed light on the efficiency of allocation of failed banks. Moreover, the valuations obtained by estimating the auction models can then be used to identify the determinants of the valuations of bidders towards these failed banks. In particular, I will investigate how the positions of the bidder and the target affect the bidder's valuation.