
Discussion of: Scott and Dunkelberg (2008)

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Paper's contribution

- Using unique survey responses on firm's perceived change in bank competition and various aspects of bank services
- Qualitative measure of bank competition, which is hard to measure because of disagreement on appropriate model for bank competition and lack of data to estimate these models
- Qualitative measure of hard to measure aspects of bank services, including quality of services and ease of access to credit

Amusing typos

- Bain, J., Demirguc-Kunt, A., Maksimovic, V., 1951. Relation of the profit rate to industry concentration. Quarterly Journal of Economics 65, 293-324.
- Expand literature review

Paper's main findings

- Market structure affects bank competition though not in a straightforward fashion:
 - Concentration in banking markets is negatively associated with perceived changes in competition but only in markets where concentration has not been increasing
- Bank competition affects the quality of bank services and credit availability:
 - Perceived changes in competition improve quality of bank services and credit availability but not lending terms

Concentration or competition ?

- Structure-Conduct-Performance literature has found ambiguous results for the link between concentration and performance
- Prior literature has found that IO-based proxies for bank competition (e.g. Panzar and Rosse (1987) H-statistics for contestability of banking markets) are not correlated with bank concentration (e.g., Shaffer, and Claessens and Laeven 2004)
- So, how to reconcile this with the results in the paper? Is the survey-measure of competition a poor proxy for competition, or capturing different aspects of bank competition?
- Perhaps compare H-statistics with survey-based measure of perceived competition

Endogeneity

- Authors use market structure variables (concentration) as instruments for the perceived change in competition variable in regressions with banking outcome variables on quality of service and access to credit as dependent variable
- But are these valid instruments ?
- Unlikely to meet exclusion restriction