

Correlation of the Rate of Imperfect Competition and Profit in Banking Markets

Authors : Jan Cernohorsky

Abstract : This article aims to assess the evolution of imperfect competition in selected banking markets, in particular in the banking markets of Slovakia, Poland, Hungary, Slovenia and Croatia. Another objective is to assess the evolution of the relationship of imperfect competition and profit development in the banking markets. The article first provides an overview of literature on the topic. It then measures the degree of imperfect competition in individual markets using the Herfindahl-Hirschman Index. The commonly used indicator of total assets was chosen as an indicator. Based on this measurement, the individual banking sectors are categorized into theoretical definitions of the various types of imperfect competition - namely all surveyed banking sectors falling within the theoretical definition of monopolistic competition. Subsequently, using correlation analysis, i.e., the Pearson correlation coefficient, or the Spearman correlation coefficient, the connection between the evolution of imperfect competition and the development of the gross profit on selected banking markets was surveyed. It was found that with the exception of the banking market in Slovenia, where there is a positive correlation; there is no correlation between the evolution of imperfect competition and profit development in the selected markets. This means a recommendation for the regulators that it is not appropriate to rationalize a higher degree of regulation in granting banking licenses on the size of the profits attained in the banking market, as the relationship between the degree of concentration in the banking market and the amount of profit according to our measurements does not exist.

Keywords : bank, banking system, imperfect competition, profitability

Conference Title : ICBEFSM 2015 : International Conference on Business, Economics, Financial Sciences and Management

Conference Location : London, United Kingdom

Conference Dates : December 10-11, 2015