

Evidence on Scale Economies in National Bank of Pakistan

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Abstract : We use a parametric approach within a translog cost function framework to estimate the economies of scale in National Bank of Pakistan from 1997 to 2013. The results indicate significant economies of scale throughout the sample at aggregates and disaggregates taking in account size subject to stipulation ownership. The factor markets often produce scale inefficiencies in the banking of developing countries like Pakistan such inefficiencies are common due to distortion in factor markets leading to the use of inappropriate factor proportions. The findings suggest that National Bank of Pakistan diversify their asset portfolios that it has cost advantage, therefore, expansion in size should be encouraged under current technology because it appears to be cost effective. In addition, our findings support the implementation of universal banking model in Pakistan.

Keywords : scale economies, cost function, disaggregates, aggregates

Conference Title : ICBEF 2017 : International Conference on Business, Economics and Finance

Conference Location : Copenhagen, Denmark

Conference Dates : August 17-18, 2017