Bank Competition and Risk-Taking under Market Integration

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Increased bank competition from market integration affects banks' risk-taking behavior in ways beyond a simple increase in the number of competitor banks.

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Linkages between bank competition and risk-taking are analyzed in a model where market integra-tion is the principal driver of increased competition. Risk implications of across-market competition un-der banking market integration are significantly different from that of within-market competition. While both modes of competition increase the number of competitor banks, across-market competition yields a bank-customer effect that can potentially reverse any relation that prevails be- tween within-market competition and risk-taking. This result suggests that the lack of consensus in the bank competition-financial stability literature is not an anomaly but an inherent feature of the analysis.

JEL Classification: D82, G21, L13

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