IWH
Leibniz-Institut für
Wirtschaftsforschung Halle

IWH Research Seminar in Economics

Montag, 13. November 2017, 10:30 – 12:00 Uhr, Konferenzsaal im Erdgeschoss

Common Lenders and Product Market Competition

Professor Farzad Saidi, Stockholm School of Economics

This paper explores how bank concentration affects product market competition of non-financial firms. We argue, and provide evidence, that sharing common lenders lowers the cost of debt financing. This is because common lenders internalize potential adverse effects of higher loan rates on the product market behavior of their borrowers' competitors. Exploiting plausibly exogenous variation in banks' industry market shares stemming from bank mergers, we find that high-market-share lenders charge lower loan rates. In the aggregate, this translates to a higher proportion of firms sharing the same lender and higher credit concentration in an industry, which we show to lead to lower output. Effects are stronger for industries with competition in strategic substitutes. Our findings support the idea that bank concentration helps firms to achieve partial collusion in the product market.

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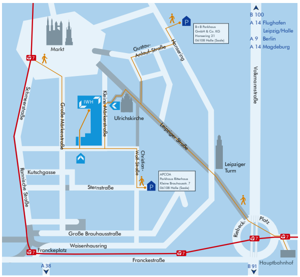

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