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No Sign of Price Distortions – Lack of Evidence for Effects of US Bank Bailouts

There has been much political and public controversy surrounding the very large rescue packages offered to the banking sector in the course of the financial crisis of 2007 to 2009. The aim of the packages was to stabilise the financial sector and, therefore, the development of the real economy. The downsides of these bailouts were the enormous financial cost to the taxpayer, increased assumption of risk by the government and possible distortive effects on competition in the banking market – since not all banks were given financial support. Researchers at the Halle Institute for Economic Research (IWH) – Member of the Leibniz Association led by Professor Felix Noth have now studied the long-term, indirect and possible market-distorting effects of the US rescue packages.

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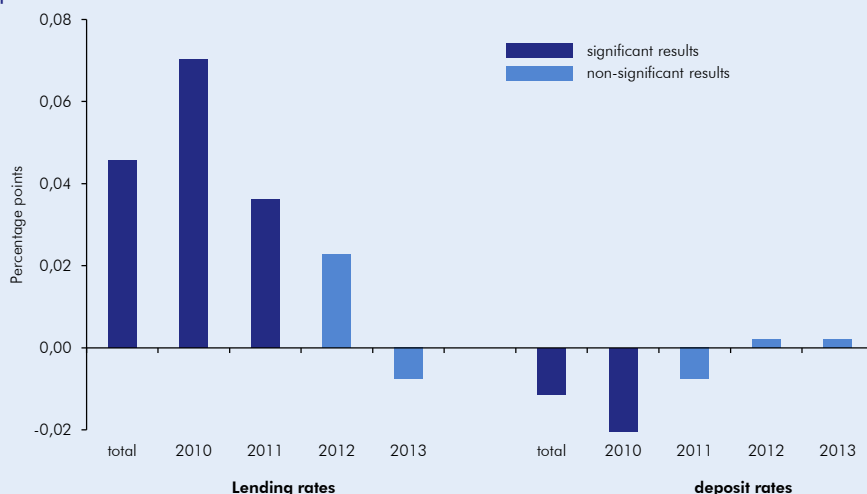
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Figure
Effects of a 20 percentage point increase of bailout expectations on lending and deposit rates



Source: See. Koetter, M.; Noth, F., *ibid.*; IWH calculations and illustration.

More specifically, the researchers examined the effects of the Troubled Asset Relief Program (TARP) from 2008 which, with a volume of 475 billion US dollars, was

one of the largest stabilisation measures implemented in the US. There were, however, no indications that banks relying on an emergency government bailout gained a competitive advantage in the long term. The interest margins of banks with a higher probability of being bailed out rose only in the immediate aftermath of TARP (see Figure). Researchers were unable to identify a significant increase in credit and deposit growth at these banks between 2010 and 2013.

Publication

Koetter, Michael; Noth, Felix: Did TARP Distort Competition among Sound Unsupported Banks?, in: [Economic Inquiry, Vol. 54 \(2\), 2016, 994-1020](#).

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