

Identifying the Dual Hypotheses in Lending Market: Evidence from Japanese Regional Lending Markets

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Abstract

This paper investigates the effect of oligopoly power to the lending rate in the regional lending market using prefectural panel data in Japan and Herfindahl-Hirschman Index (HHI) as the measure of the degree of oligopoly power. We construct the estimation models of lending rate and outstanding lending which identify the borrowing demand and lending supply. With this model, we capture the effects of HHI to the lending rate and the outstanding lending. We obtain the negative correlation between lending rate and HHI, and the positive correlation between outstanding lending and HHI. This result implies efficient effects or scale effects is dominant to market structure effects provided by oligopoly.