Discussion of “Can Big Players Affect Aggregate Lending Fluctuations? Evidence From Banks’ Acquisitions” by Charles Boissel

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- Understanding effects of banking sector concentration important for modeling banks
Summary

- How do idiosyncratic shocks to a highly concentrated banking system affect aggregate lending volatility?
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● Thoughtfully and transparently addresses identification issues
Comments

1 Economic mechanism
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3. Implication
Economic Mechanism

- Important question: how do shocks get disseminated across banks and amplified if banking sector is concentrated?
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Discussion: Can Big Players Affect ...
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- A structural approach might be helpful to uncover economic forces
Empirical analysis

- Assumption: aggregate, bank group shocks, idiosyncratic are iid and vol constant over time and common across banks

- Strong and still hard to disentangle different hypotheses

- Time varying vol. would invalidate analysis post 1995

- Idiosyncratic shocks that appear to be more correlated during bad times?

- Most of the variation soaked up by aggregate shock - even though this shock could have started as a bunch of idiosyncratic events

- Instrument needed

- Mergers likely endogenous

- Difficult to isolate the merger event

- Merger events not discrete but planned way before the acquired bank changes top BHC in call reports

- Dates in call reports oftentimes do not coincide with merger

- All variations in loan growth attributed to random events

- Would be nice to tease out bank group specific loan growth policies from bank group idiosyncratic shocks
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- Aggregate volatility decreasing?

What should we conclude:

1. Focus only on aggregate shocks?
2. Concentration does not matter?

Is that true for other market participants and for other financial products (e.g. liquidity provision)?

Idiosyncratic shocks matter in bad times as long as banks are interconnected - connectiveness is not necessarily contained to the same bank holding company.
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- If taken by face value BHC idiosyncratic shocks matters little for loan growth variation
- It’d be nice to parse out bank group specific shocks and understand economically what they do and how they affect banks
- Why not try a more structural approach to deal with the identification problems?