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# Competition or manipulation? An empirical evidence of determinants of the earnings persistence of the U.S. banks

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## Abstract

We examine the impact of competition on bank earnings persistence by exploiting a natural experiment following interstate banking deregulation that increased bank competition. We find that bank earnings adjustment speed increases after the state where the bank locates implements the deregulation. This relationship is weakened, however, with the increase of banks' abilities to sustain earnings, as reflected in size, diversification, managerial efficiency and safety. We further find that competition directly impacts bank earnings adjustment speed, and does not indirectly go through the channel of earnings management.

Keywords: Competition; Geographic Expansion Index; Earnings persistence; Earnings adjustment speed, Earnings management

JEL Classification: G20, G21, G38

## 1. Introduction

Financial crisis raises the recent intense debate on the association between accounting changes and financial crisis. For instance, the accusation of market value accounting after the 2007-2009 financial crisis, along with the economic significance of

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