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Do universal banks finance riskier but more productive firms? ☆

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Abstract

Using variation in bank scope generated by the stepwise repeal of the Glass-Steagall Act in the US, we show that the deregulation of universal banks allowed them to finance firms with 14% higher volatility. This increase in risk is compensated by lasting improvements in firms’ total factor productivity of 3%. Using bank scope-expanding mergers to identify shocks to universal banks’ private information about borrower firms, we provide evidence that informational economies of scope across loans and non-loan products account for the firm-level real effects of universal banking.

\textit{JEL classification:} E20, G20, G21

\textit{Keywords:} Universal banking, Financial deregulation, Bank scope, Firewalls, Cross-selling

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