# eúsav Ekonomický ústav SAV, v.v.i.
## Institute of Economic Research SAS

## The IER Seminar in Empirical Economics

We would like to invite you to the **Empirical Seminar** series organized by the Institute of Economic Research, Slovak Academy of Sciences, Šancová 56 that will be held online. The seminar will take place on **November 29th, 2022 at 2.00 p.m. (CET).**

The speaker will be *Gianni De Nicolo* (Johns Hopkins University – Carey Business School, USA).

The topic of the seminar is: ***Bank Risk and Bank Rents: The Franchise Value Hypothesis Reconsidered***

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**Abstract**
The predictive relationship between banks' Tobin Q and a theory-based measure of bank risk of insolvency is highly non-linear. Using large samples of publicly quoted banks in the US, Europe, and Asia during 1985-2017, we find that higher values of Q predict lower bank risk of insolvency up to values of Q close to 1, but higher values of Q predict higher bank risk of insolvency when Q exceeds 1 and franchise value is priced. The franchise value hypothesis (FVH), postulating a negative relationship between bank rents and risk, is thus rejected in our samples. We then construct proxy measures of bank efficiency rents, loan and deposit pricing power rents, and rents due to government guarantees, and show that an increase of any of these rents is associated with higher franchise values. We provide a rationalization of the rejection of the FVH using a calibration of two standard financial models of the banking firm, and the qualitative implications of a simple industry model with agency costs and endogenous market structure.

The seminar will be co-chaired by Mária Širaňová.

**Link:** https://teams.microsoft.com/l/meetup-join/19%3aN1DbFP4xWw8up59Qx5Y-CJmz8Q-Y4jniJZWjqs6Q9RA1%40thread.tacv2/1665992138617?context=%7b%22Tid%22%3a%2217c92093-1286-4bb4-b6ea-02f3119dd49c%22%2c%22Oid%22%3a%2227793317-80ee-4b77-a46f-c1644628f49c%22%7d