Bank business models at zero interest rates

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Abstract:
We propose a novel observation-driven dynamic finite mixture model for the study of banking data. The model accommodates time-varying component means and covariance matrices, normal and Student's t-distributed mixtures, and economic determinants of time-varying parameters. Monte Carlo experiments suggest that banks can be classified reliably into distinct components in a variety of settings. In an empirical study of 208 European banks between 2008Q1–2015Q4, we identify six business model components and discuss how these adjust to post-crisis financial and regulatory developments. Specifically, bank business models adapt to changes in the yield curve.