

THE EFFECT OF INFORMATION ASYMMETRY ON BANK CAPITAL STRUCTURE

Khalil Ullah Mohammad¹
Tohoku University, Japan

ABSTRACT

This paper empirically tests whether the capital structure of banks is influenced by information asymmetry in the banking environment. The study employs 560 listed banks from 17 Asian countries to test this. The study finds evidence of a sizable and significant influence of information asymmetry on the capital structure of Asian banks. It finds that high information asymmetry has a positive effect on the deposit ratio maintained by the banks. The paper finds strong evidence in favor of the theories predicting that high asymmetry will result in the bank maintaining a less than optimal capital ratio. The findings of the study add to the arsenal of central bankers advocating the justification for implementation capital regulations.

KEYWORDS: *Bank capital structure; information asymmetry proxies; bank deposit determinants;*

JEL CLASSIFICATION: G32, G21

¹ Author is a doctoral candidate at Tohoku University Japan.
Email Address: Khalil_ullah@hotmail.com Tel: +819066207886