

# Identifying the Dual Hypotheses in Lending Market: Evidence from Japanese Prefectural Lending Markets

Kazuki Hiraga

Tokai University

Mail:khiraga581470@gmail.com

Masashi Manabe

Kaetsu University

Mail:manabe@kaetsu.ac.jp

Naoyuki Yoshino

Asia Development Bank Institute

Mail:yoshinonaoyuki@gmail.com

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## Abstract

This paper investigates the effect of oligopoly power to the loan rate and lending outstanding in the regional lending market using prefectural panel data in Japan and Herfindahl-Hirschman Index (HHI) as the measure of the degree of oligopoly power. In other word, we compare with dual hypotheses; the market conduct performance hypothesis and efficiency structure hypothesis, to implement above investigation. We construct the estimation models of lending rate and outstanding lending which identifies the borrowing demand and lending supply. With this model, we capture the effects of HHI to the loan rate and the outstanding lending. We obtain the negative correlation between loan rate and HHI, and the positive correlation between outstanding lending and HHI. This result implies efficient effects or scale effects is dominant to market structure effects provided by oligopoly.

Key Words: market conduct performance hypothesis, efficient structure hypothesis, Herfindahl-Hirschman Index (HHI), Prefectural Panel Data.

JEL Classification: G21, E51, R51