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Productivity growth decomposition with FE-IV approach: Rethinking Thai commercial banks after the financial crisis

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Abstract

To cope with the Asian Financial Crisis, Thai commercial banks have gone through a reconstructing period. This study aims to decompose the Total Factor Productivity growth (TFP) for Thai commercial banking industry with an output distance function. With an unbalanced panel dataset, we used the Fixed Effect (FE) model with Instrumental Variables (IV) to estimate the TFP growth empirically. We found the technical inefficiency change and scale effects were the two major contributors to the recent growth, while the input price effect of the premises and equipment was the major preventer of the growth. Moreover, the Thai commercial banking industry produced in decreasing return to scale, and the input-output allocation was not at the profit maximization optimum under the exogenous prices. © 2011 Elsevier B.V.

Author Keywords

Distance function; Fixed effect; Instrumental variables; Productivity growth; Thai commercial banks

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