

# Ownership matters: the geographical dynamics of BAAC and commercial banks in Thailand

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## Abstract

We present a dynamic spatial competition model for the provision of financial services in Thailand. We document empirically puzzling patterns of expansion of government development bank BAAC that opens once in less populous and more distant locations, which contradicts simple profit maximizing behavior. We show that considering an objective function where BAAC is benevolent, maximizing own revenues but also taking into account revenues of commercial banks with some weight allows to rationalize these expansion patterns. With equal weights, BAAC would maximize the total access to financial services, regardless the provider. A higher weight for commercial bank is compatible with BAAC incorporating political constraints or recognizing higher funding costs (provided by tax revenues) compared to commercial banks. We conduct simulation exercises that allow us to identify which parameter configuration better fits the data. Our simulations suggest that BAAC puts a higher weight on revenues of commercial banks than on its own revenue: i.e. BAAC prefers people to be served by commercial banks. Thus, it goes to locations which are very unlikely to be covered by commercial banks. As a result, we show that the total financial access is lower than in the case of pure profit maximizing BAAC.