

Ownership and Anti-Preemption: the geographical dynamics of a public development bank and private sector commercial banks*

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Abstract

We analyze puzzling anti-preemptive patterns in the expansion of a government development bank, consistent with neither profit maximization nor targeting poorer locations. The public bank cedes ground to commercial banks though it could itself have made profits. These patterns are rationalized through the lens of a dynamic and strategic spatial competition game on a graph of villages connected by roads. The relevant market for a given bank branch depends on the configuration of existing branch locations and endogenously evolves over time. We compute the full equilibrium with its transition path and propose a maximum likelihood estimation of heterogeneous technology and preference parameters. The result is consistent with the public bank caring about the welfare benefits in the population derived from access to commercial banks. Counterfactual exercises entertain alternative strategic or collusive interactions, and alternative preference and political economy motivations, and show significantly different outcomes for the characteristics of populations served.

Key words: Banking, Government, Ownership, Financial Access

JEL classification: G21, G28, H11, L32

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