

# Returns to Market Power in Financial Institutions

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The strong positive relationship between firm profits and size for Thai financial institutions can not be explained by returns to scale or scope. Evidence for this statement is found by applying both production frontier and function techniques and different model specifications on data covering 1991 to 1995 for Thai banks and finance & securities companies. Increasing returns to market power is the only way to explain the Thai data. A firm enjoys returns to market power if the bigger the firm, the higher the price it can charge and/or the lower the price it has to pay for inputs.

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