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Announcement

JFI Best Paper Prize for 2004

The *JFI* editors are pleased to announce that the *JFI* Stuart Greenbaum Prize for the most significant paper published in the 2004 *Journal of Financial Intermediation* has gone to Rafael Repullo for the paper "Capital requirements, market power, and risk-taking in banking," published in Volume 13, Issue 2. The prize carries with it a $2500 check for the winner.

Capital requirements, market power, and risk-taking in banking

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Abstract

This paper presents a dynamic model of imperfect competition in banking where the banks can invest in a prudent or a gambling asset. We show that if intermediation margins are small, the banks' franchise values will be small, and in the absence of regulation only a gambling equilibrium will exist. In this case, either flat-rate capital requirements or binding deposit rate ceilings can ensure the existence of a prudent equilibrium, although both have a negative impact on deposit rates. Such impact does not obtain with either risk-based capital requirements or nonbinding deposit rate ceilings, but only the former are always effective in controlling risk-shifting incentives.

JEL classification: G21; G28; D43

Author keywords: Bank regulation; Capital requirements; Deposit rate ceilings; Moral hazard; Risk-shifting; Imperfect competition; Franchise values

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