

A Summary of Research Interest

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Studies have shown that the development of small and medium enterprise sector has a close relationship with economic growth (Beck, Demirguc-Kunt, & Levine, 2005). Nevertheless, since large financial institutions lend funds based on hard information which SMEs generally lack, they shut their doors to SMEs. Meanwhile, orthodox theory holds that SMEs obtain external financing from small financial institutions, mainly community banks or small banks, through relationship lending (A. Berger & Udell, 1995). By processing soft information, reviewing deposit accounts and past lending history of SMEs (A. Berger, Saunders, Scalise, & Udell, 1998), and acquiring private information from insiders of SMEs, community banks would have comparative advantage, known as small bank advantage, to perceive status of SMEs so they can lend to SMEs (A. N. Berger & Udell, 2002). In this paper, I would like to conceptually discuss possible factors that might reduce insignificant small bank advantage in China consequently discourage small Chinese banks make relationship lending. This proposal is organized as the following: first, I would like to review relevant literature of relationship lending, then I will explain how some factors that I think important weaken small bank advantage and cause banks refrain to make relationship lending. Subsequently, I would like to discuss why this proposed empirical research is meaningful to policy making and research on relationship lending. Finally, a brief research plan will be presented.

One equation:

$$df = \left[\left(\frac{\partial f}{\partial t} + \mu_t \frac{\partial f}{\partial x} + \frac{\sigma_t^2}{2} \frac{\partial^2 f}{\partial x^2} \right) \right] dt + \sigma_t \frac{\partial f}{\partial x} dB_t \quad (1)$$

References

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