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An Empirical Study for the US**

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Abstract

Recent deregulation tide has greatly changed the landscape of global banking industry. The idea of “universal banking” or “financial supermarket” is gaining appeal in many countries in the world. US, the world’s biggest economy is among them.

Since the Financial Modernization Act of 1999 the banks in the US are allowed to expand into securities industry, which was forbidden for over six decades since the Glass-Steagall Act of 1933. What kinds of impacts does this exert on the banking industry and hence on the macro financial stability? This dissertation is devoted to answer the question with empirical evidence.

The dissertation addresses three topics: bank profitability, bank risk, and efficiency. The banks’ securities activities are streamlined into three types: securities trading, underwriting and fiduciary activities; and their effects on bank profitability, risk and efficiency are examined respectively. The empirical results of the study cautiously support the current deregulation tide to create integrated financial service providers. We find that the risk effects are specifically related to particular types of securities activities and are specially related to particular risks, and should therefore not be feared too much. Moreover, since these securities activities affect various kinds of bank risks in different ways, an appropriate combination of these activities could serve as a useful tool in bank operations, helping bank managers to adjust the bank’s risk exposure. The empirical evidence also suggests that the securities activities promote bank profitability in a quadratic function. Nevertheless, the rule of “top-player” in the profitability analysis suggests that only a few top banks which are strong enough to overcome various operating barriers in the securities industry are able to make profits from this combination. Large numbers of small and middle-sized banks, therefore, have to be very cautious when stepping into the securities market. Such evidence helps to formulate recommendations for both policy makers and bank managers.