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CONTENTS

LIST OF TABLES
LIST OF FIGURES
GLOSSARY
1 INTRODUCTION 1
Background 1
Research Problems 7
General Research Objective 8
Research Questions 9
Specific Research Objectives 9
Research Benefits 12
Research Coverage 12
Novelties 13
2 THEORY 13
Efficiency 13
Competition 19
Bank Soundness 26
3 METHOD 33
Framework of Thinking 33
Data 36
Variables 39
4 CONSOLIDATION POLICY AND EFFICIENCY CONVERGENCE 41
Introduction 42
Literature Review 45
Data and Methodology 46
Empirical Results 51
Concluding Remarks 57
5 DOES THE EFFICIENCY-STRUCTURE HYPOTHESIS APPLY? 59
Introduction 59
Literature Review 64
Data and Methodology 67
Empirical Results 72
Concluding Remarks 85
6 COMPETITION AND BANK SOUNDNESS 86

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CONTENTS (Continued)

	Introduction	87
	Literature Review	90
	Data and Methodology	95
	Empirical Results	101
	Concluding Remarks	107
7	WILL OFF-BALANCE SHEET TRANSACTION CHANGE THE COMPETITIVE POSITION-BANK SOUNDNESS RELATIONSHIP?	109
	Introduction	109
	Literature Review	111
	Data and Methodology	114
	Empirical Results	120
	Concluding Remarks	134
8	GENERAL OVERVIEW	136
9	CONCLUSIONS	143
REFFERENCES		144
CURRICULUM VITAE		151

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LIST OF TABLES

1.1	Merger and acquisition transactions during 2000-2016	4
1.2	Some regulations for commercial bank	5
1.3	Summary of Specific Research Objective (SRO)	11
2.1	Characteristics of market structures	20
3.1	Some characteristics of group of commercial banks	34
3.2	Selected indicators of the sample banks as of Dec. 2016 (IDR bn)	37
3.3	The structure of Indonesian commercial banks as of Dec. 2016	38
3.4	The combination of input and output variables for efficiency scores calculation	39
3.5	Variables of each cost function model	40
3.6	Definition of variables for cost function	40
3.7	Variables and their definition for Z-score calculation	41
4.1	The β and σ convergence over period 2002-2016	53
4.2	Convergence towards best efficiency level	54
4.3	Crisis Impact on the efficiency convergence	55
4.4	Crisis impact on speed of convergence towards best efficiency level	56
5.1	Main data summary statistics over period 2002-2016 (IDR bn.)	67
5.2	Efficiency and lerner index summary statistics	73
5.3	Granger-causality between competition and efficiency	75
5.4	The relationship between efficiency and market share	82
5.5	The relationship between profit with market share and efficiency	84
6.1	Summary statistics over period 2002-2016	95
6.2	The definition of dependent variables, explanatory variables and instrument variable	99
6.3	The effect of competition or pricing power on bank soundness	103
7.1	Average commitment transactions in off-balance sheet over 2012-2016 (%)	114
7.2	Average component of commitment liabilities over 2012-2016 (%)	115
7.3	The definition of dependent variables, explanatory variables and instrument variable	118
7.4	Annual average level of efficiency during 2002-2016	121
7.5	Average level of efficiency for each bank during 2002-2016	122
7.6	Annual average of lerner index during 2002-2016	124
7.7	Average lerner index for each bank during 2002-2016	125
7.8	Granger-causality between efficiency and competitive position with UL component	127
7.9	Granger-causality between efficiency and competitive position with UL component using total assets	129
7.10	The effect of competitive position on bank soundness	131
7.11	The effect of competitive position on bank soundness using total assets	133

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LIST OF FIGURES

1.1	Ratio of asset and credit to GDP	2
2.1	Production frontier	15
2.2	CRS and VRS frontier	18
3.1	Interconnectedness between internal and external factors of banking stability	34
4.1	DEA efficient frontiers	48
4.2	Efficiency scores	52

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GLOSSARY

Term	Definition
AB test	Arellano-Bond test. A procedure to evaluate mis-specification of a dynamic panel data model estimated by generalized method of moment.
AFC	Asian Financial Crisis. A financial crisis occurred in 1997/ 1998 triggered by currency depreciation in some Asian countries, i.e. Indonesia, Thailand, South Korea, Malaysia, Philippines.
Basel III	Basel III is an international regulatory accord that introduced a set of reforms designed to improve the regulation, supervision and risk management within the banking sector in each country.
BUKU	*Bank Umum Kegiatan Usaha*. Bank categorization based on the amount of capital. There are four categories. Banks that belong to large-capital category have the flexibility to conduct various activities compared to banks in smaller capital category.
CRS	Constant Return to Scale. If an increase in inputs results in a proportionate increase in the output level. If the inputs amount for a unit are all doubled, then the technology must produce twice as much output.
DEA	Data Envelopment Analysis. A non-parametric method. A method used to calculate relative efficiency score using mathematical or linear programming approach. No data or error terms distribution assumption required.
DIF-GMM	Difference GMM. The GMM that uses first difference transformation of a lagged variable to get an instrument variable.
DMU	Decision Making Unit. An object to be measured its level of efficiency, such as a bank, a firm, government agency and others.
DRS	Decreasing Return to Scale. If a proportionate increase in all of its inputs results in a less than proportionate increase in its output.

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Term	Definition
Dynamic model	A model that use lagged of dependent variable as one of its independent variables.
Efficiency score	A score calculated by DEA or SFA which reflect level of efficiency of a firm. Higher score means higher efficiency, otherwise higher inefficiency.
ESH	Efficient Structure Hypothesis. A hypothesis that says an industry's structure arises because of superior efficiency by some firms. Firms with low cost structure increase profits by reducing prices and expanding market shares. A positive relationship between firm profits and market structure.
GFC	Global Financial Crisis. A financial crisis occurred in 2007/2008 triggered by the US sub-prime mortgage, affected many countries around the world including Indonesia.
GMM	Generalized method of moment. A general estimation principle. Estimators are derived from so-called moment conditions. A moment condition is a statement involving the data and the parameters: $g(\boldsymbol{\theta}_0) = E[f(\mathbf{w}_t, \mathbf{z}_t, \boldsymbol{\theta}_0)]=0$, where $\boldsymbol{\theta}$ is vector of parameters, $\mathbf{w}_t$ contains model variables; and $\mathbf{z}_t$ contains instruments.
Instrument variable	A variable that can provide a consistent estimation for a regression model when the explanatory variables correlate or show some form of dependence with the error terms.
IRS	Increasing Return to Scale. If a proportionate increase in all of its inputs results in a higher than proportionate increase in its outputs.
NSFR	Net Stable Funding Ratio. A significant component of the Basel III reforms. Banks should maintain a stable funding profile in relation to their on- and off-balance sheet activities. NSFR is a ratio between available amount of stable funding (ASF) and required amount of stable funding (RSF).
OJK	*Otoritas Jasa Keuangan*. The Indonesian banking supervisor and regulator.

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Term	Definition
PAM	Partial Adjustment Model. The partial adjustment model comprises two parts, a static part to describe how the desired level is determined and the dynamic partial adjustment process. The desired level is: $y^*_t = \theta_0 + \theta_1 x_t + \varepsilon_t$; while the dynamic partial adjustment process is $y_t - y_{t-1} = \lambda (y^*_t - y_{t-1})$.
Panel data	Also known as longitudinal data or cross-sectional time series data, is data that is derived from a number of observations over time on a number of units.
Pricing power	A firm's ability to set and apply a favorable pricing policy for its products.
QLH	Quite Life Hypothesis. A hypothesis that says firms with market power are less efficient. A negative relationship between firm market power and its efficiency.
Risk taking	A firm's action to do something that involves risk in order to achieve its goal.
Scale efficiency	A firm is said to be scale efficient (SE) when its size of operations is optimal so that any modifications on its size will render the firm less efficient.
SFA	Stochastic Frontier Approach. A parametric method. A method used to calculate efficiency score by constructing a function with two error components that links input and output. Require assumption on error terms distribution.
SYS-GMM	System GMM. The GMM that uses first difference transformation of a lagged variable and lagged difference of a variable to get instrument variables.
VRS	Variable Return to Scale. If an increase in inputs does not result in a proportional change in the outputs.
X-efficiency	Sometimes called technical efficiency. The ability of a firm to produce maximum output from its inputs.
Z-Score	A measure for risk of bankruptcy or insolvency. Higher Z-score means lower risk of bankruptcy or insolvency, otherwise higher risk.

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