

**The Impacts of “Shock Therapy” on Large and Small Clients:
Experiences from Two Large Bank Failures in Japan**

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Abstract

A bank failure can have various consequences for the clients. The adverse impacts might, however, differ between large and small firms. In this paper, we focus on the clients of two large failed Japanese banks - the Long-term Credit Bank of Japan (LTCB) and the Nippon Credit Bank (NCB). We show that subsequent events after bank failures had different consequences between large and small firms. As for the clients of LTCB that had faced “shock therapy”, the surviving large firms showed significant recovery of their profits but the surviving small firms did not. In contrast, as for the clients of NCB, the surviving small firms experienced significant decline in their profits when the new bank terminated the banking relationship.