

## **Economies of scope in the Japanese banking industry**

Yichang Wu  
Graduate Student, Kobe University

### **Abstract**

Economies of scope are usually considered a main factor in explaining bank diversification benefits. While whether there are diversification benefits remains controversial, previous studies on scope economies may not be sufficient to support diversification benefits, as most of them need to be updated in terms of background and methodology, especially in Japan. Thus, this paper tries to re-estimate economies of scope in the Japanese banking industry. Using a sample including 120 Japanese banks from 2000 to 2020, we estimate the cost frontier with a translog cost function by stochastic frontier analysis (SFA) approach. In addition to the traditional measures, this paper adopts a new measure of scope economies proposed by Chavas and Kim (2010). It allows us to decompose the scope economies into four different effects. The results show that most Japanese banks exhibit significant scope economies, which may explain why diversification benefits are found in Japan. Furthermore, we also find that scope economies decrease as bank diversification increases.