

Nonparametric Analysis of Profit Maximization Behavior of Iranian Banks

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The weak axiom of profit maximization (WAPM) is used to analysis the optimization behavior of 18 Iranian banks in 10 years (2000-2009). The banks can be divided into 2 groups: the state and private owned banks. Nonparametric nature of this test allows studying the profit maximization behavior of firms without need to any assumption on functional form of underlying technology. Firstly, using the financial statements of the banks, the netputs and corresponding prices are defined and extracted for every bank. Afterwards, the WAPM is checked under 2 assumptions: constant technology and nonregressive technological change. Although most of the banks violate the deterministic WAPM test but testing the stochastic WAPM with measurement error and believing in existence of at least 1 percent measurement error in data, show the private owned banks behavior is consistent with WAPM under nonregressive technological change assumption. However the state owned banks behavior is consistent too if one believed in 5 percent measurement error. This leads to conclusion that performing of the state's development policies and objectives by the state owned banks could deviate them from profit maximization behavior.

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