EVALUATING THEORIES OF BANK RUNS WITH HETEROGENEITY RESTRICTIONS

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Abstract
This paper empirically tests theories of bank runs. We use a structural panel VAR to extract runs from deposit market data. Identification exploits cross-sectional heterogeneity in deposit insurance: we identify bank runs as adverse deposit market supply shocks hitting uninsured banks harder compared to insured. Conditional on a run, we study the behavior of uninsured banks with bad and good fundamentals. We find that both experience runs, but deposit outflows at the former are more severe. Panic effects, which affect all uninsured deposits alike, irrespective of fundamentals, dominate in the aggregate. Insured banks partially absorb the outflow of uninsured deposits. (JEL: C3, E5, G01, G21)

The editor in charge of this paper was Fabio Canova.

Acknowledgments: We would like to thank three anonymous referees, Fabio Canova (the editor), Charles Calomiris, Elena Carletti, Russell Cooper, Dean Corbae, Olivier De Jonghe, Gianni De Nicolò, Giovanni Dell’Ariccia, Huberto Ennis, Jonas Fisher, Simon Gilchrist, Alejandro Justiniano, Robert Kollmann, Roland Meeks, Mattias Villani, Raf Wouters and seminar participants at the Federal Reserve Board, Sveriges Riksbank, De Nederlandsche Bank, Swiss National Bank, Cardiff Business School, ECARES, Maastricht University, Queen Mary, Tilburg University, the Federal Reserve System Committee Meeting on "Financial Structure and Regulation" and the Wharton conference on "Liquidity and Financial Crises" for useful comments and valuable suggestions. The views expressed herein are solely the responsibility of the authors and should not be interpreted as reflecting the views of the Executive Board of Sveriges Riksbank.

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