

*Profit efficiency of Australian banks in the period
from 2000 to 2008*

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Thesis submitted in partial fulfilment of the requirements for
the Honours Degree of Bachelor of Economics

Macquarie University

October 2009

Acknowledgement

I would like to thank,

To my parents and parents-in-law,

To my great supervisor, Professor Russel Cooper,

To my wonderful teacher, Professor Tony Bryant,

*To my good friends - Nick Garvin, Nick Plummer, Tom Carr, Geran Loke, Mark Frost
and Meena Samaan*

and,

*my special thanks to my wife, Jeung-eun and my daughter, Emma – without your support, I
would not be able to complete this thesis and my honours degree.*

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Abstract

This thesis provides an analysis of profit efficiency of Australian banks in the period from 2000 to 2008. The directional (technology) distance function, data envelopment analysis (DEA) and the norm-based profit index approach are utilised to compute profit efficiency scores. Technical- and allocative efficiency scores are provided by the decomposition of profit efficiency, and price efficiency scores are also provided by a separate calculation.

The profit efficiency of Australian banks is found to have not been improved in the period of study. In contrast to the previous Australian studies, allocative inefficiency is found to be the main source of the overall profit inefficiency of the banks, rather than technical inefficiency. This study also found strong implications for the negative impacts of highly concentrated market structure of the Australian banking sector on Australian banks' efficiency, which are observed from the results of allocative- and price efficiencies.

Spearman Rank Correlation (SRC) analysis is conducted to examine correlation between profit efficiency and the conventional accounting measures of profitability of Australian banks. The correlation is found between the profit efficiency and return on equity (ROE). However, return on assets (ROA) is found to be negatively correlated to the profit efficiency. The size factors, such as bank's total assets and total equity, are observed to be positively correlated to the profit efficiency.