

# Bank Reputation, Risk Taking, and Bank Runs: The Effect of Competition\*

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## Abstract

This paper studies bank behaviors when there are fears of bank runs caused by tainted reputation. We present a model where the threat of the rational withdrawal can affect the investment strategy ex ante. In a monopolistic deposit market, bank runs distort bank investments and prevent banks from efficient risk takings. However, in a competitive deposit market, the competitive pressure can cancel out the moral hazard problem. Moreover, we also show the relation between lending market competition and financial stability changes depending on the deposit market structure.

**Keywords:** Bank run, Bank risk taking, Deposit market structure

**JEL Classification Numbers:** G21, G30

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