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<b>Report No.</b>	HIAS-E-8
<b>Title</b>	Monitoring, cross subsidies, and universal banking
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<b>Abstract</b>	<p>We formalize the idea that a financial conglomerate may utilize commercial banking activities to cross-subsidize investment banking through bundled offers. The investment banking sector entails supra-normal profits due to incentive problems with security underwriting. Universal banks may aim to capture (some of) those profits by providing discounts on commercial loans. This practice has an adverse effect on commercial banks' monitoring incentives, encouraging the pursuit of private rents by entrepreneurs. It also leads to lower underwriting fees and a lower probability of successful public offerings. The social welfare effects of universal banking can be either positive or negative.</p>
<b>Keywords</b>	universal banking, moral hazard, monitoring, cross subsidy, bundled offer
<b>JEL</b>	G21, L10

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