

Law of proportional effect: an analysis of the growth patterns of Bolivian financial system

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Abstract

The paper investigates the size distribution of the entities of financial intermediation in Bolivia from a dynamic perspective for the period 1990-2012. The objective is to verify whether the data confirm the Gibrat Law also known as the Law of Proportionate Effects (LPE) from unit root tests using the panel data methodology. The results indicate that larger banks are growing faster than the smaller ones, the existence of persistent positive growth rates in subsequent periods, and that growth is more variable in smaller entities. Therefore, according to the evidence presented the LPE is rejected in the case of the Bolivian financial system.

JEL Classification: C23, G21, L11

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