This dissertation estimates and compares bank concentration and integration effects on real activities with firm level data under different stances of the capital market structure and different consequences from the creation of a single currency regime. This is a comparative empirical study of 14 European countries between 1992 and 2005. Using firm level data and a series of large panel of bank concentration and integration measures, this paper examines and analyzes financial constraints of European countries with the Euler equation derived by the dynamic investment model.

We control the cross-country differences of firms’ size, business cycles and institutional backgrounds to check for the robustness of our estimator as possible instruments for the cost of external finance. The empirical results show that the concentrated banking sector in European countries in addition to a deregulation process helps to relax financial constraints on firm level investment in general. The magnitude of this effect is bigger for big firms than for small ones. The heterogeneous firms in countries with a highly concentrated banking sector are less financially constrained than those with a low concentrated banking sector, highlighting a scale-efficient banking sector. In other words, the estimated coefficients on cash flow suggest that high concentration in the banking sector creates fewer information costs than low concentration, suggesting the structural intensity in the banking sector creates more the external finance premium for small firms which have high reliance on banks to finance their investment. However, the measures of financial integration have no significant effects on the financial constraints faced by firms.