Abstract

This thesis examines how microprudential policy, as captured by bank regulation and supervision practices, affects income inequality and whether and how the effect of macroprudential policy on income inequality depends on the stance of microprudential policy. The dataset covers 70 countries over the period 1996–2013. Using the GMM estimation method, the analysis provides evidence that tighter microprudential policy leads to a reduction in income inequality as measured by the Gini coefficient. However, the effect of an overall tightening of microprudential policy disappears in countries with low levels of economic development. Among the various microprudential policies, the power and independence of supervisory authorities have the most significant negative impact on income inequality. Moreover, the effects of macroprudential policy tightening on income inequality are amplified when it is implemented within a strict microprudential policy framework. In addition, the results suggest that macroprudential policy tightening is effective in reducing income inequality under a strong microprudential policy framework, while the effect is reversed under a weak microprudential policy framework. This paper contributes to the growing literature on the spillover effects of banking regulation and supervision and on the relationship between financial sector policies and income inequality.

JEL Classification	G21, G28, O15, O16
Keywords	Income Inequality, Microprudential Policy, Macroprudential Policy, Crisis Prevention, Panel Data

Title	Does Bank Regulation and Supervision Impact Income Inequality? Cross-Country Evidence