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An Empirical Analysis of Technical Efficiency of Commercial Banks in India

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INTRODUCTION

The empirical analysis of technical efficiency of commercial banks in India is of utmost importance due to the ongoing globalization and increasing competition in the banking sector. This study aims to evaluate the technical efficiency of commercial banks in India using a combination of DEA (Data Envelopment Analysis) and stochastic frontier analysis (SFA) methods. The sample consists of major commercial banks in India over the period of five years.

Methodology

The study employs two methods: DEA and SFA. DEA is a non-parametric method that can measure the relative efficiency of decision-making units (DMUs), in this case, commercial banks. SFA is a parametric method that models the production frontier with stochastic errors.

Results

The results indicate that commercial banks in India have shown a steady increase in technical efficiency over the study period. The highest technical efficiency was achieved by the largest banks, followed by mid-sized and then smaller banks. SFA results showed that the production frontier was upward sloping, indicating the presence of economies of scale.

Discussion

The findings suggest that large banks have better access to resources and can better manage operational risks, leading to higher technical efficiency. Smaller banks, on the other hand, face challenges in resource allocation and management.

Conclusion

The study provides valuable insights into the technical efficiency of commercial banks in India. Policymakers and bank managers can use these findings to improve operational efficiency and enhance profitability.

Acknowledgment

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References


Appendix

[Table A1: List of banks included in the study]

[Table A2: Technical efficiency scores]

[Figure 1: Stochastic frontier analysis results]

[Figure 2: DEA efficiency scores]

[Graph 1: Trend analysis of technical efficiency over the study period]

Author’s Biographies

Dipti Gaba is a research scholar at XYZ University. She has published extensively in the field of banking and finance. She holds a PhD in Economics.

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