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Abstract
Besides external environment, the operation of financial institutions is influenced by the risk-taking attitude of the manager. The key component of distressed financial institutions is risk-taking behavior. The data used in this study was gathered from Taiwanese financial institutions during 1995-2004 in order to examining the change of risk-taking behavior of financial institutions among different managerial indicators in this period. Further, disserting the impact of first financial reform on the risk-taking of banking and whether characteristic of prospect theory exists in banking industry in Taiwan.
The empirical evidences show that if banking industry fulfills management of objective or supervision by means of profitability indicator and non-performing loan ratio, the risk-taking attitude of decision maker will meet “Prospect Theory” whenever the relation between each indicator variable and self-standard deviation or the interrelation between the gain domain and the loss domain. And the first financial reform not only obtains the numerical destination but also reduces the degree of risk-seeking of banking.
In insurance industry respects, if taking profitability indicator, business indicator, the rate of retained premium to equity, and the reserve to assets ratio as indicator, it meets the thesis of prospect theory ；Nevertheless, the ratio of equity to assets and loss indictor don’t accord with contention of prospect theory. Regarding the security industry, the attitude of decision maker will meet “Prospect Theory” on profitability and loss indicator. Nevertheless, whether the indicators of financial structure are above or below the reference points, decision makers always tend to risk-aversion.
Besides, the result of the rolling regression analyses in banking shows that the marginal gain is more sensitive than the marginal loss when comparing the gain with the loss and it is the opposite to the thesis of prospect theory. However, the results of cross-sectional test meet the thesis of prospect theory：Indictor variance of the banks adopting risk-averse are significant smaller than the banks adopting risk-seeking.
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