

ABSTRACT

This study is an investigation of bank portfolio behaviour in Trinidad and Tobago in the post World War II period. It is suggested that the pattern of portfolio allocation observed, particularly in the colonial period, is better explained by the parent - subsidiary relationship of the multinational firm rather than by risk/return analysis. This study argues that bank asset portfolio behaviour influences the economy via (i) an allocative effect and (ii) an aggregative effect.

In addressing itself to the first issue a historico-descriptive approach is used. The process of bank asset selection was found to be significantly influenced by certain market imperfections. With respect to the distribution of the major component of the asset portfolio i.e. loans and advances, it is not clear that the allocation of the greatest proportion of this portfolio for "non-business" purposes is in the best interest of long term economic development. In order to investigate the factors influencing bank portfolio behaviour and its effect on money stock determination (the second issue), several variants of a bank portfolio model were constructed. Regression results showed bank asset demand to be influenced primarily by average deposit levels and

deposit variability. Interest rates played an almost negligible role.

While greater attention was focused on the portfolio model in level form, a stock adjustment model was also estimated. Due to the estimation method used the results were not unexpectedly poor. The results suggest though that the adjustment period between actual and desired loan levels is longer than that for other assets in the banks' portfolio.

The behaviour of banks with respect to their holdings of surplus funds is an important factor in the determination of the money stock. Deposit variability and average deposits were shown to be the most significant explanatory variables of bank excess funds behaviour. The excess cash ratio was found to be much more stable than the excess liquidity variable. One implication of this is that prediction of the money multiplier is made much more difficult if the more realistic latter variable is used.