Abstract

Using static and dynamic panel data analysis, we examine how interest rates influenced equity prices of European banks and insurance companies between 2006 and 2015. Identification and quantification of effects of the low yield environment, which is a consequence of decreasing interest rates, are crucial for regulators and policy makers. Our static and dynamic models show that decreasing short-term interest rates had a negative impact both on banks and insurers. In this thesis, dynamic models are estimated by means of the Blundell-Bond system GMM estimator and we consider their results superior to the results of static models because all underlying assumptions of the dynamic models are met here. Results obtained by employing the Blundell-Bond system GMM estimator suggest that life insurers were effected more than banks, while banks were effected more than non-life insurers. In case of a 1 percentage point decrease in short-term interest rates, equity prices of life insurers are estimated to decrease on average by 18 %, equity prices of banks by 8 %, and equity prices of non-life insurers by 3 %.

JEL Classification	C33, C36, C61, E44, G21, G22
Keywords	interest rates, equity prices, static panel analysis, dynamic panel analysis, system GMM estimator

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