

ABSTRACT

**ANALYSIS OF MARKET POWER AND PROFITABILITY OF
CONVENTIONAL AND ISLAMIC BANKING
IN INDONESIA**

By

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The first aim of this study is to investigate market power and competition between conventional banks (C8) and islamic bank (C8) with using panel data over a period of July 2010 to September 2014. The second aim is to analyze the effect of market power variables, total of asset, total of loan, inflaton, and Gross Domestic Product on Return on Asset (ROA) and Return on Equity(ROE) in the banking sector of Indonesia using time series data.

The results of PR H-Statistics (Panzar and Roose) test for long run equilibrium showed disequilibrium condition. It means banking in Indonesia sufficient of develop. However islamic banks more approtimate of equilibrium (in turn 0) than conventional banks. Market powet test confirmed that Islamic banks are less competitive than conventional banks. The higher market power of Islamic banks compared to conventional banks can be explain by their product differentiation.

The results of the profitability measures showed that market power, total asset, inflaton, and Gross Domestic Product have significant effects on ROA and ROE. But total of loan not significant effects.

Key words : Market power, profitability, conventional and islamic banks, long run equilibrium