

# Consumer Awareness and Equilibrium in Two-Sided Markets for Payment Methods

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  - At 60% awareness level acceptance of debit and credit falls around zero.
  - The usage of cash goes below 1% if the cost of using cash increases by 5.8 times.
  - The welfare-maximizing IF on credit cards is 0.031 lower than the current level if issuer pt is 100%. It is 0.007 lower if issuer pt is at profit max.

## General Comments

- Important and policy relevant results
- Structural demand estimation using individual level data from both consumers and merchants
- No data on the identity of individuals' banks and method specific costs/benefits
  - Estimates method-specific benefits related to consumer demographics and transaction type
  - Counterfactuals cannot capture banks' heterogeneous responses

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  - This should change across markets (due to different levels of local competition): Loyalty might be due to lack of competition.
- So returning consumers might indeed be due to the lack of competition, which should usually give LESS incentives for card acceptance (Rochet and Tirole 2002).

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- Why not creating a measure of local competition by using the location of the merchant and its type of sector?
- Doing random match within a location among merchants accepting the preferred method of the consumer.

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  - Very little variation in consumer adoption (82 % have all methods) and merchant acceptance (70% accept all ).
- **Multiplicity of equilibria** fundamental property in two-sided markets. How do you tackle with it in counterfactuals?

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- Merchant acceptance of costly credit cards could be rationalized only by sufficient level of consumer awareness.
  - But you do not account for credit lines increasing consumption (by assumption of exogenous transaction amount)
- Counterfactuals will be valid if consumers are less informed by a marginal amount than what you assume.