Working Papers on Economics - Cash Management and Payment Choices: A Simulation Model with International Comparisons

Download (Updated: 20 January, 2014 at 15:20) Keep in mind
The series Working Papers on Economics is published by the Office for Economic Studies at the *Banco de la República* (Central Bank of *Colombia*). It contributes to the dissemination and promotion of the work by researchers from the institution. This series is indexed at Research Papers in Economics (RePEc).

On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. The works published are provisional, and their authors are fully responsible for the opinions expressed in them, as well as for possible mistakes. The opinions expressed herein are those of the authors and do not necessarily reflect the views of Banco de la República or its Board of Directors.

AUTHORS AND/OR EDITORS Arango-Arango, Carlos Alberto Yassine Bouhdaoui David Bounie Martina Eschelbach Lola Hernández Publication Date: Friday, 17 of January 2014
Despite various payment innovations, today, cash is still heavily used to pay for low-value purchases. This paper develops a simulation model to test whether standard implications of the theory on cash management and payment choices can explain the use of payment instruments by transaction size. In particular, using diary survey data from Canada, France, Germany and the Netherlands, we test the assumption that cash is still the most efficient payment instrument, and the idea that people hold cash for precautionary reasons when facing uncertainty about their future purchases. The results of the simulations show that these two factors are significant determinants of the high shares of low-value cash payments in Canada, France and Germany. Yet, they are not so crucial in the Netherlands, which exhibits a significant share of low-value card transactions. We discuss how the differences in payment markets across countries may explain the performance of the model.

Updated: 20 January, 2014 at 15:20