

Working Papers on Economics - An Application of the Tourist Test to Colombian Merchants

Download 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 Betancourt-García, Yanneth Rocío Restrepo-Bernal, Manuela

The series Borradores de Economía (Working Papers on Economics) contributes to the dissemination and promotion of the work by researchers from the institution. On multiple occasions, these works have been the result of collaborative work with individuals from other national or international institutions. This series is indexed at Research Papers in Economics (RePEc). The opinions contained in this document are the sole responsibility of the author and do not commit Banco de la República or its Board of Directors.

Publication Date: Friday, 15 of October 2021 Abstract

Cash is still widely used in Colombia, even among merchants that accept payment cards. Indeed, 60% of these merchants use dissuasive strategies to make their clients pay with cash. This shows that merchant service costs (MSC) for cards are not optimal in the sense of the Tourist Test. We present estimates of MSC compatible with the Tourist Test, such that merchants are indifferent between being paid with cash or cards. We find that cash is less costly than cards at the average retail-sales transaction-value, hence there is no positive optimal MSC at this ticket value. For the average card transaction ticket, the optimal MSC would be positive but far below the rates charge by the industry (0.74% in a short-term scenario). Yet, the additional incentive that sales-tax evasion provides to cash payments reduces the Tourist Test MSC to 0.44%. Our estimates for long-term scenarios yield even lower optimal MSC. A reduction in MSC fees that strikes a middle ground between these figures should discourage merchant strategies that deter consumers from paying with cards. These results should be taken as a guideline as the estimations depend on the underlying assumptions and only consider the merchant's side of the card industry.