Discussion

"To Surcharge or Not To Surcharge? A Two-Sided Market Perspective of the No-Surcharge Rule" N. Economides and D. Henriques

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Main Questions

Interesting and policy relevant questions:

1. When is it profitable for competing payment card networks to impose No-Surcharge-Rule (NSR) to their merchants, that is, banning member merchants from surcharging card payments?

2. When is it socially desirable to impose NSR on merchants?

Main Results

1. It is profitable to impose NSR if cardholders do not value much the number of member merchants of a card network, that is, when network externalities from merchants to cardholders are sufficiently low.

2. It is socially desirable to impose NSR when network externalities from merchants to cardholders are sufficiently low AND when merchants' market power is sufficiently high.

Policy implication: Social desirability of NSR depends on the competitiveness of merchant markets. Market-by-market NSR!

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- When network externalities from merchants to cardholders are very high, NSR is unprofitable.
  - The networks have to lower their carholder fees too much to compensate the cardholders for the reduced card acceptance by merchants.

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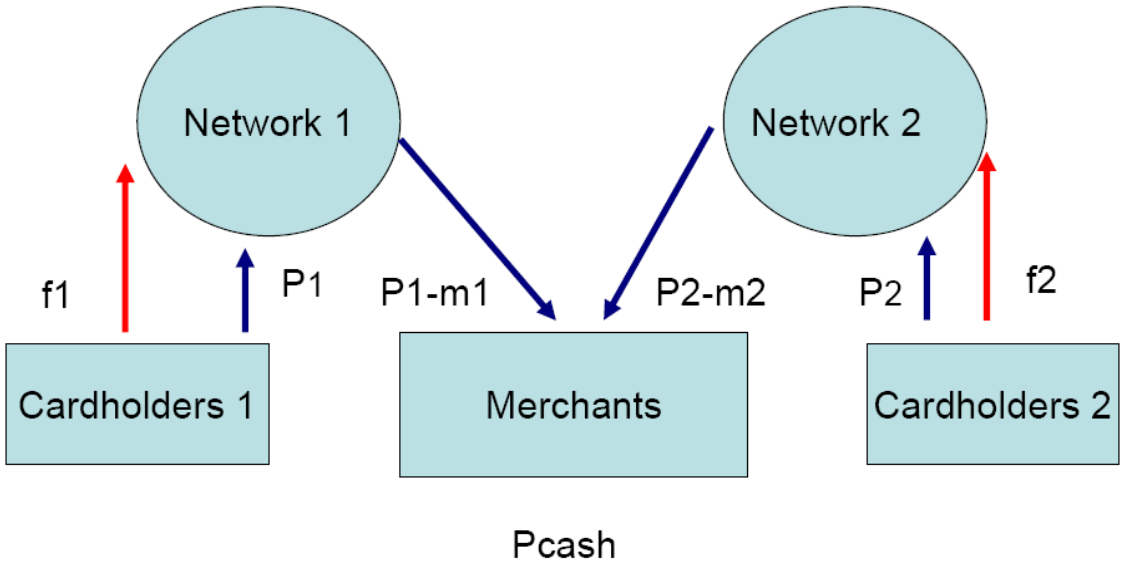
  - More competitive merchants pass-through more (?) their increased cost of card acceptance due to NSR.

Setup



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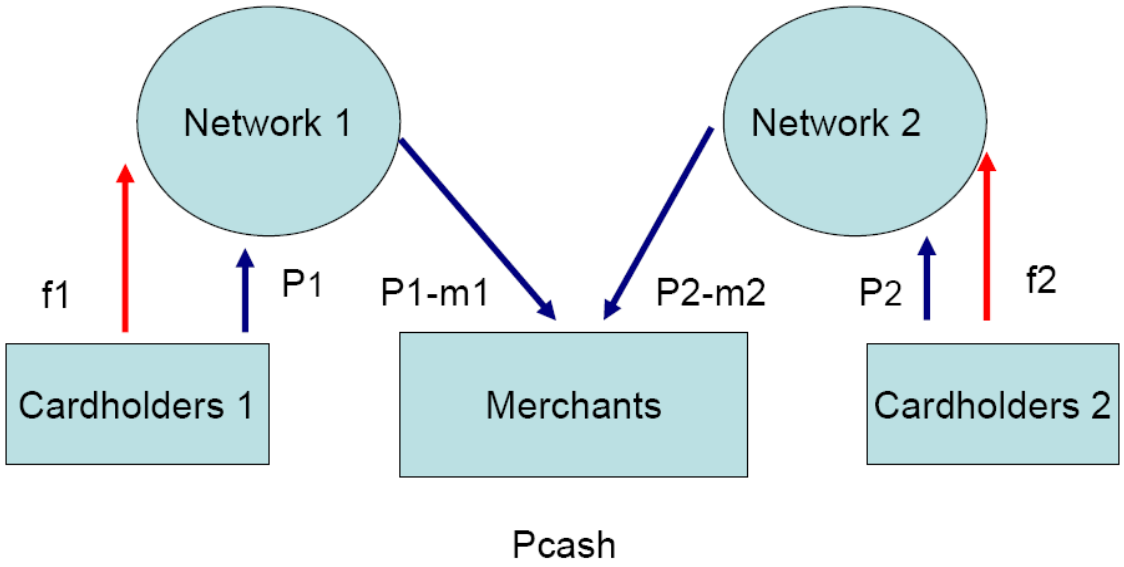

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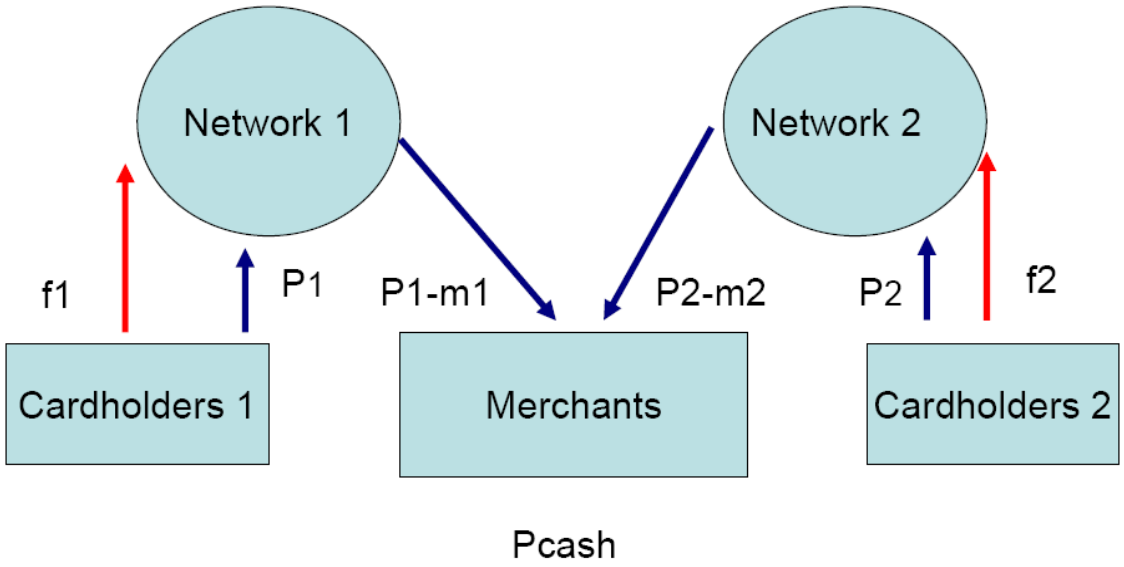

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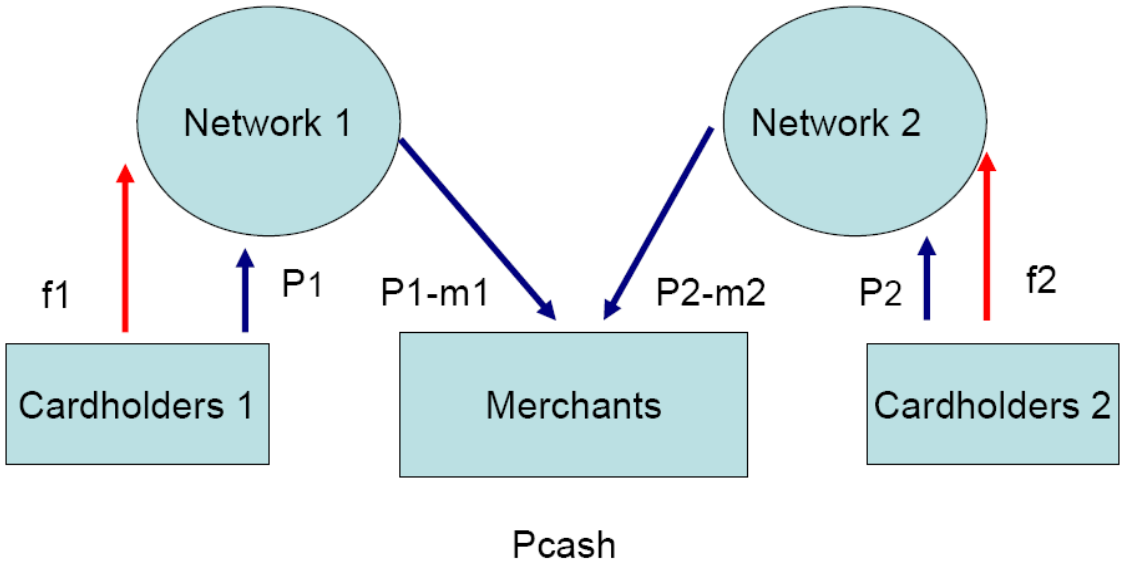

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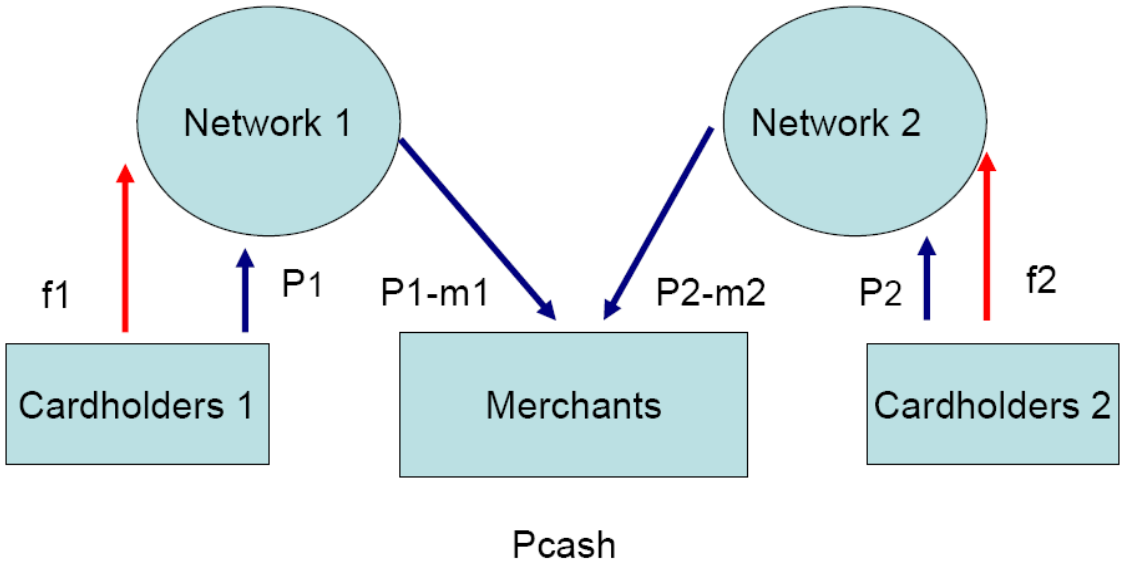

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- $p_i = \beta v + (1 - \beta)(m_i - b) < p_{cash} = \beta v$ and $p_i^{NSR} = p_{cash} = \beta v$ (?).

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  - Where does the merchant market power come from?
- Asymmetric equilibria of network competition?

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- How would introducing a cost of surcharging affect the results?
- Allowing merchants to surcharge would create uncertainty on prices of card payments.
    - How would this affect the welfare implications of NSR?