

Why Are (Some) Consumers (Finally) Writing Fewer Checks? The Role of Payment Characteristics

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DISCUSSION:

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1. Motivation and main results

- A close look at the determinants of consumer payment choice.
- The authors claim to exploit a rich database and make clear what they have and what the previous paper do not have in their databases.
- The main contribution is to show that the characteristics of the payments may be more important in explaining payment choice than demographics or other money demand factors.

2. Main comments (a)

- An interesting paper with a nice data set and interesting results.
- Some additional efforts should be made in order to make clear the contribution of the paper:
 - What the authors' database has that other databases do not have. Some of the cited databases are also rich and even include data on rewards (Rysman, JIE).
 - It is claimed that this is the first paper using a Heckman filter for selection bias applied to consumer payment choice. However there are at least two recent paper using similar filters:
 - Lippi, F. and A. Secchi (forthcoming): Technological change and the households' demand for currency" *Journal of Monetary Economics*.
 - Klee (2008): How people pay: Evidence from grocery store data, *Journal of Monetary Economics*, 55(3),526-541.

2. Main comments (b)

- It seems that the main contribution is describing the relative explanatory power of: (i) the characteristics of the payment choice; (ii) the demographics; this is done for a wide set of payment instruments. From the results, it is not totally clear that demographics are not an important determinant of payment choice.
- However, although they are closely related, rather than the above, the paper seems to focus too much on explaining why US citizens write fewer checks.
- What can be done to reinforce the contribution of the paper?
 - Additional tests and robustness check.
 - Some additional explanations on the limitations (if this is finally demonstrated) of demographics as explanatory variables of payment choice.

3. Econometric concerns (a)

- Empirical goals and empirical models. Alternatives:
 - Two separate logit estimations for the characteristics of the payment choice (CONDITIONAL logit) and the demographics (MULTINOMIAL logit).
 - A MIXED logit estimation combining the characteristics of the payment choice and the demographics.
 - A sequential logit: first step: choosing paper-based or electronic payments; second step: choosing the specific type of payment.

- Selection bias:
 - The “Heckit” model (Probit + OLS) is a powerful tool to correct for selection bias but may also produce some bias ⁵ with qualitative data, as it is the case of payments.

3. Econometric concerns (b)

- An alternative is to use a multinomial, conditional or mixed logit with a Heckman correction following the Dubin-McFadden approach, as in Klee (2008, JME).

- Instrumental variables:
 - The instrumental variables results are not very encouraging... and they show that some demographic variables are indeed significant.

- Ordered Logit:
 - A nice set of results. However, again many demographic variables are significant.

4. Minor comments

- What procedure is followed to aggregate the data into the different set of payment characteristics (convenience, ...). A deeper explanation on the data will be helpful.
- The authors acknowledge that the database excludes respondents under age 25 and includes only respondents who have or share most of the financial responsibility in their household. This is not a limitation, however, since the potentially excluded respondents frequently have a very heterogeneous behavior.
- The Sargan test in the Instrumental Variables approach suggests that the model is not correctly identified.