

Washington University  
Spring 2008 Econ 452 Essay question

The rapid growth of payment (debit and credit) card usage over the last 25 years is a striking feature of the modern U.S. economy. In fact, in 2005 American consumers (i.e., non-banks) used payment cards for 40% of all transactions (by value). With this surge in use has come an increased concern about the structure of the payment card industry by regulators and antitrust authorities. In the last decade several court cases have litigated what practices should be appropriate in this industry. Using the tools from this semester, you should give a comprehensive analysis of the current state of the industry and what (if any) regulation is appropriate in the future. Key questions that should be answered include:

- What is the structure of the payment card industry? Be sure to include an analysis of key participants such as issuers, consumers, acquirers, merchants, and network operators.
- How do recent legal settlements relate to the bundled acceptance of credit and debit cards?
- How do network externalities apply to the payment card industry? What implication do these externalities have for the number of network providers, the potential for competition between them in the market, and the role of regulation in the industry?
- In discussing the above issues it is important to address the economic effects and antitrust efforts with respect to some of the following: interchange fees, one-price policies, and merchant acceptance.

While exposition is important, be aware that I will reward insightful analysis most heavily. The best essays will use facts and theory to explain what you judge to be the industry's optimal market structure, and then discuss policy changes (if any) that would help achieve this outcome.

You should cite ALL sources that you use. Internet citations must include <http://> addresses and date accessed.

Papers should be between five and eight full pages. Document specifications are

Font – Times New Roman 12pt

Double spaced

Align Left

1" margins (left, right, top, and bottom)

Front page should have title and *Washington University student ID number* at the top; text should follow immediately

Points will be deducted for failing to follow the above guidelines.

The essay must be turned in to Karen Rensing at the economics department office by 4:00 pm on Monday May 5.