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

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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.

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