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NETWORK EFFECTS AT RETAIL PAYMENTS MARKET: EVIDENCE FROM RUSSIAN MERCHANTS

Abstract:

This research examines the role of network externalities in card acceptance by merchants on the retail payments market in Russia. The work empirically tests the effects of both direct and indirect network externalities for the merchants' card acceptance probability based on the representative survey of 800 traditional (offline) merchants from all Russian regions. The main finding of this study is that the probability of cashless payments acceptance by merchants increases with the presence of direct and indirect or both types of network externalities, controlling for a large set of control variables, including merchants' characteristics and location-specific differences between the retailers. The results are robust to the changes in measures of network externalities and inclusion of shadow economy controls. The findings are significant both statistically and economically.

Keywords:

Retail payments; payment cards; network effects; merchants' acceptance; financial services

JEL Classification: G21, E42