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## Key Terms and Concepts

**Acquirer** – The depository institution or other party that provides payment card services to merchants.

**Credit card** – A payment card that draws on a (typically uncollateralized) line of credit when the cardholder makes a purchase.

**Debit card** – A payment card linked to a deposit account that withdraws funds from that deposit account when the cardholder makes a purchase. Many debit cards can function as either a PIN debit card or a signature debit card.

- PIN debit card – A debit card that requires a cardholder to enter a security code (typically a four digit number) when making a purchase.
- Signature debit card – A debit card that does not require a cardholder to enter a security code (and often requires the cardholder to sign a receipt instead) when making a purchase.

**Externality** – An effect (either negative or positive) that the actions of one party have on the welfare of another party, without any compensation being paid to or by the affected party. Externalities are relevant in two-sided markets when a party on one side of the market (e.g., a consumer or a merchant) does not consider the effect of his or her actions on the welfare of a party on the other side of the market.

**Four-party payment card system** – A payment card system in which four parties are involved in a card transaction: the consumer, the bank that issued the card to the consumer, the merchant, and the bank that provides card services to the merchant. (Technically, the card network is itself a fifth party that also participates in such a system.) Examples include Visa, MasterCard, and all of the PIN debit networks.

**Honor-all-cards rule** – A network rule under which a merchant that accepts a network's card (of a given type) must accept all of the network's cards (of that type) regardless of the card issuer or specific card program.

**Interchange fee** – A fee in a four-party payment card network that is (typically) paid by the acquirer to the issuer for each card transaction. The fee is set at the network level and is typically common to all issuers and acquirers associated with a network.

**Issuer** – The depository institution or other party that provides a payment card to a cardholder and maintains the cardholder's account.

**Merchant discount** – The difference between the dollar value of payment card transaction and the amount that the merchant receives from its acquirer.

**No-surcharge rule** – A network rule that prohibits merchants from imposing surcharges on purchases made with a network's cards. (Network rules typically allow discounts for cash purchases.)

**Surplus** – The difference between benefits and costs experienced by a party. Total surplus is the sum of the surplus of each party in the economy.

**Three-party payment card system** – A payment card system in which the network itself both issues cards to consumers and provides card services to merchants. As a result, only three parties are involved in a card transaction: the consumer, the merchant, and the card network. Examples include the traditional structure of American Express and Discover.

**Two-sided market** – A market in which two distinct and complementary sets of users must simultaneously agree to use a product provided by a third party. Payment card markets are two-sided markets in that a merchant and a merchant’s customer must both agree