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Introduction

Simply put, payments settle things. A payment is typically the final step in a sequence of activities that make up an economic or financial trade. Because the parties to the trade look forward to this final step, payments are the focus of their expectations about timing, risks, and costs. The more certain it is that this final step of a trade will take place, the easier it is for trades to occur and for people to undertake efficient economic actions.

As the world economy continues to grow, the share devoted to financial services has risen relative to the share representing other economic activities. Payments have increased in importance as that trend has manifested itself, and their contribution to the global economy is likely to increase as well.

The rising importance of payments to economic activity in general is a significant development—especially for banks and central banks as providers of payment services. Bank customers frequently rely on credit provided by their institutions to complete payments, whether they are using credit cards or other payment instruments. Similarly, banks often rely on very-short-term credit provided by central banks to make payments. Needless to say, whenever financial institutions provide credit, they must manage risk to prevent excessive risk taking. Managing payments is therefore part of a larger risk management process in the financial sector.

This special issue of the *Economic Policy Review* is devoted to the economics of payments. The wide-ranging articles in this collection investigate large-value payments systems, both theoretically and empirically; risk in retail payments systems; payments system development trends across countries; and the interaction of the provision of reserves by central banks and the operation of payments systems. They illustrate the diversity of interests and methods that economists have developed for studying payment activities.

The contributions to this volume center on three broad themes: theoretical models of money and payments, empirical analyses of trends in large-value payments, and risk management in payments systems.

The theoretical theme is examined in three articles—by Morten L. Bech; Antoine Martin and James McAndrews; and Todd Keister, Antoine Martin, and James McAndrews. The Bech study and the Martin-McAndrews study, both focusing on large-value payments systems, explore the strategic incentives for banks to submit payments on time in different economic environments. They consider how the incentives are affected by different central bank policies, such as the terms under which intraday credit is provided. Keister, Martin, and McAndrews consider alternative models of monetary policy implementation as well as the relationship between the demand for intraday balances to meet payment needs and the reserve balances used to implement the policy objectives of the monetary authorities.

Bringing an empirical perspective to the topic, Morten L. Bech, Christine Preisig, and Kimmo Soramäki conduct a global tour of developments in large-value payments over the last

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decade. Relying largely on data compiled by the Bank for International Settlements, the authors discern a number of key trends in the growth and evolution of large-value payments. In addition, two articles focusing on the timing of large-value payments systems—the first by Olivier Armantier, Jeffrey Arnold, and James McAndrews and the second by Christopher Becher, Marco Galbiati, and Merxe Tudela—complement Bech's theoretical work by explaining how different central bank policies influence payment timing. Both empirical analyses use data obtained directly from the large-value payments systems they study. Armantier, Arnold, and McAndrews review the timing distribution of payments in Fedwire, the Federal Reserve's system, while Becher, Galbiati, and Tudela consider the timing of payments in CHAPS, the major U.K. system. The differences in timing between the two systems are found to be significant.

Two studies consider the theme of risk management—one by Michele Braun, James McAndrews, William Roberds, and Richard Sullivan, the other by Antoine Martin and David C. Mills. Both apply the economic reasoning associated with risks in credit arrangements to the specific case of payments. Braun et al. emphasize emerging retail systems while Martin and Mills focus on the risk associated with a central bank's intraday lending to banks.

The economics of payments is a rapidly developing field. These studies offer a variety of approaches that use theoretical as well as empirical techniques to explore different aspects of payments. Going forward, as researchers gain greater access to payment data, they will be better equipped to test other hypotheses about the determinants of behavior in payments systems. We hope that our findings will stimulate such initiatives and deepen interest in this dynamic field.