

## Chapter 13

# Electronic Payment Systems

### True-False Questions

1. Almost 50% of the purchases made online are done with credit cards.

**Answer:** F

**Reference:** LensDoc Organizes Payments Online

2. Most B2B e-commerce transactions today are conducted using credit cards.

**Answer:** F

**Reference:** Paying with Credit Cards Online

3. A chargeback occurs every time an e-commerce customer claims that he/she did not make a credit purchase online.

**Answer:** T

**Reference:** The Chargeback Problem

4. E-payment systems that require the payer to install specialized components have proven less likely to succeed.

**Answer:** T

**Reference:** Characteristics of Successful E-payment Methods

5. One disadvantage of using credit cards as a medium of exchange on the Internet is it requires special payment methods to protect the identity of online buyers.

**Answer:** T

**Reference:** Characteristics of Successful E-payment Methods

6. Transaction fees are a major factor blocking the use of credit cards for small, online purchases.

**Answer:** T

**Reference:** Characteristics of Successful E-payment Methods

7. If the risk of having a transaction compromised is greater for the seller than the buyer, buyers will tend to avoid using an e-payment system.

**Answer:** F

**Reference:** Characteristics of Successful E-payment Methods

8. For an e-payment system to succeed, a critical mass of merchants must accept the payment system.

**Answer:** T

**Reference:** Characteristics of Successful E-payment Methods

9. E-payment systems tend to increase transaction costs by 10 – 15% over traditional payment systems.

**Answer:** F

**Reference:** Characteristics of Successful E-payment Methods

10. One of the most important factors in e-payment systems is the system must instill trust in buyers.

**Answer:** T

**Reference:** Security for E-Payments

11. A credit card has to be paid in full each month while a charge card is allowed to carry a balance.

**Answer:** F

**Reference:** Payment Cards

12. With debit cards, the cost of a charged items comes directly from the user's checking account.

**Answer:** T

**Reference:** Payment Cards

13. A credit card gateway ties a merchant's systems to the back-end processing systems of the credit card issuer.

**Answer:** T

**Reference:** Payment Cards

14. When an e-wallet customer shops at a site that is e-wallet-enabled, she doesn't have to fill in personal or credit card information for the site because the information is already included in the e-wallet, which the merchant can automatically read.

**Answer:** T

**Reference:** E-Wallets and Digital IDs

15. E-wallets use a public key encryption system.

**Answer:** T

**Reference:** E-Wallets and Digital IDs

16. A digital ID is a password needed to access a secured e-payment site.

**Answer:** F

**Reference:** Digital IDs : A Universal E-Wallet

17. When a stolen credit card is used to make purchases, the issuer of the credit card will, with adequate documentation, credit the cardholder's account and charge back the merchant.

**Answer:** T

**Reference:** Security Risks with Credit Cards

18. Stolen card risks are born by the merchant.

**Answer:** T

**Reference:** Security Risks with Credit Cards

19. Contactless smart cards send and receive data via an antenna embedded on the card.

**Answer:** T

**Reference:** Smart Cards

20. Contact cards can send and receive data at a much faster rate than contactless cards.

**Answer:** F

**Reference:** Smart Cards

21. A disadvantage of smart cards is that with present technology, traditional credit cards are more secure than smart cards.

**Answer:** F

**Reference:** Securing Smart Cards

22. With current technology, it is theoretically impossible to hack into a smart card.

**Answer:** F

**Reference:** Securing Smart Cards

23. Europe, Asia, and South America account for the vast majority of smart cards being issued in the world today.

**Answer:** T

**Reference:** Applications of Smart Cards

24. Loyalty cards at retailers are examples of smart card technology.

**Answer:** T

**Reference:** Applications of Smart Cards

25. Using the Internet to purchase a \$250 annual subscription for an ISP is an example of a micropayment.

**Answer:** F

**Reference:** E-Cash and Alternatives to Credit Cards

26. Qpass is a micropayment system used mostly by computer hardware and software retailers.

**Answer:** F

**Reference:** Qpass

27. Stored-value cards have found greater acceptance than other e-cash methods as a replacement for credit cards.

**Answer:** T

**Reference:** Stored-Value Cards and Other Innovations

28. Stored-value cards can be used for purchases up to the value placed on the card from a credit card or checking account.

**Answer:** T

**Reference:** Stored-Value Cards and Other Innovations

29. Disposable Visa Cash cards are loaded with a specified amount of value and can be discarded once the money has been spent.

**Answer:** T

**Reference:** Visa Cash

30. A beenz is a form of electronic script which is converted into cash according to a posted exchange rate.

**Answer:** F

**Reference:** E-Loyalty and Rewards Programs

31. P2P payments enable the transfer of funds between individuals.

**Answer:** T

**Reference:** P2P

32. PayPal is an example of a P2P system.

**Answer:** T

**Reference:** P2P

33. E-checks have the same legal protections for users and acceptors as traditional paper checks.

**Answer:** T

**Reference:** E-Checking

34. B2B payments have typically been made with checks, EDI, and EFT.

**Answer:** T

**Reference:** Purchasing Cards for B2B

35. Like charge cards, the balance on purchasing cards is paid in full each month.

**Answer:** T

**Reference:** Purchasing Cards for B2B

36. Letters of credit are rarely used in international B2B because the payment through a letter of credit is never assured.

**Answer:** F

**Reference:** Electronic Letters of Credit

37. With letters of credit, credit risk is reduced because payment is accessed via the creditworthiness of the issuing bank.

**Answer:** T

**Reference:** Electronic Letters of Credit

38. TradeCard payments have not become an alternative to electronic letters of credit because it is much more expensive to use TradeCards.

**Answer:** F

**Reference:** TradeCard Payments in B2B Global Trading

39. E-tailers have succeeded in standardizing online sales tax rules across the United States.

**Answer:** F

**Reference:** Special Payment-Related Issues

40. Successful e-payment systems typically use little specialized hardware or software.

**Answer:** T

**Reference:** Summary

## Multiple Choice Questions

41. In an e-payment system, the bank or nonbanking institution that provides the e-payment instrument used to make a payment is called:
- a. the payer.
  - b. the payee.
  - c. the regulator.
  - d. the issuer.

**Answer:** d

**Reference:** E-Payment Methods

42. In an e-payment transaction, the party making the e-payment in exchange for goods or services is called the:
- a. payee.
  - b. regulator.
  - c. payer.
  - d. issuer.

**Answer:** c

**Reference:** E-Payment Methods

43. In an e-payment transaction, the party receiving the e-payment in exchange for goods or services is called the:
- a. payer.
  - b. merchant.
  - c. issuer.
  - d. regulator.

**Answer:** b

**Reference:** E-Payment Methods

44. The government agency that controls the e-payment process is called the:
- a. regulator.
  - b. payee.
  - c. merchant.
  - d. issuer.

**Answer:** a

**Reference:** E-Payment Methods

45. The issuer not only issues the e-payment card, it also is typically involved in:
- a. regulation.
  - b. purchase recommendation.
  - c. customer service after the sale.
  - d. authenticating transactions and approving credit.

**Answer:** d

**Reference:** E-Payment Methods

46. All of the following are critical factors in determining whether a particular method of e-payment achieves widespread acceptance **EXCEPT**:

- a. independence.
- b. interoperability.
- c. portability.
- d. transferability.

**Answer:** d

**Reference:** Characteristics of Successful E-Payment Methods

47. A payment card that allows the cardholder to make charges up to a fixed limit is the:

- a. debit card.
- b. credit card.
- c. charge card.
- d. e-payment card.

**Answer:** b

**Reference:** Payment Cards

48. A payment card that has no fixed limit, but must be paid off each month is called a(n):

- a. debit card.
- b. credit card.
- c. charge card.
- d. e-payment card.

**Answer:** c

**Reference:** Payment Cards

49. A card that draws the payment amount directly from the user's checking account is called a(n):

- a. debit card.
- b. credit card.
- c. charge card.
- d. e-payment card.

**Answer:** a

**Reference:** Payment Cards

50. With a credit card gateway,:

- a. the customer's system is tied to the back-end processing system of the credit card issuer.
- b. the credit card issuer's customer-facing interface is tied to the customer's system.
- c. the customer's system is tied to the merchant's system.
- d. the merchant's system is tied to the back-end processing system of the credit card issuer.

**Answer:** d

**Reference:** Payment Cards

51. The purpose of a credit card gateway is:
- a. to make sure that every shopper sees the same Web page when he/she visits a participating site.
  - b. to tie the merchant's systems to the back-end credit card processing systems.
  - c. to provide online shoppers with a series of links to secure shopping sites.
  - d. to prevent hackers from tracking where online shoppers are shopping.

**Answer:** b

**Reference:** Payment Cards

52. Harold uses a card to buy a baseball card online. The cost of the card is deducted from his checking account. Harold used a(n):
- a. credit card.
  - b. charge card.
  - c. debit card.
  - d. e-wallet.

**Answer:** c

**Reference:** Payment Cards

53. The card which provides the holder with credit to make purchases up to a limit fixed by the card company and charges relatively high interest rates on unpaid balances is the:
- a. credit card.
  - b. charge card.
  - c. debit card.
  - d. e-wallet.

**Answer:** a

**Reference:** Payment Cards

54. The card which provides the holder credit to make purchases which are paid in full upon receipt of the monthly statement is called the:
- a. credit card.
  - b. charge card.
  - c. debit card.
  - d. e-wallet.

**Answer:** b

**Reference:** Payment Cards

55. A virtual credit card:
- a. is the name given to a fraud technique where credit card charges are made, but no valid credit card exists.
  - b. can only be used online.
  - c. must be downloaded in order to be used off-line.
  - d. can be used virtually anywhere.

**Answer:** b

**Reference:** Virtual Credit Cards

56. The authentication/registry part of an e-wallet:

- a. stores biometric data about the cardholder that will be used to authenticate users
- b. generates one key and it is a public key.
- c. generates a pair of session keys.
- d. carries out authentication without knowing the name of the user.

**Answer:** c

**Reference:** E-Wallets and Digital IDs

57. A customer authorizes a charge, but then denies it.

- a. The customer must still pay the bill because online charges cannot be challenged.
- b. If the cardholder convinces the issuer of his story, the merchant will receive a chargeback.
- c. The merchant will then call the police and press charges against the cardholder.
- d. The customer must then negotiate a settlement with the merchant.

**Answer:** b

**Reference:** Security Risks with Credit Cards

58. A smart card with a small gold plate on the front that passes data to and from the card reader when the plate makes contact with the reader is called:

- a. a purchase card.
- b. a debit card.
- c. a contact card.
- d. an optical memory card.

**Answer:** c

**Reference:** Smart Cards

59. When a card holder loses a stored-value card,:

- a. the merchant will issue a new one without charge.
- b. the issuer will issue a new card, but it will charge a transaction fee.
- c. the customer loses the value stored on the card because whoever finds the card can use it.
- d. the issuer suffers a financial loss when it replaces the card.

**Answer:** c

**Reference:** Securing Smart Cards

60. Payments under \$10 are called:

- a. minipayments.
- b. micropayments.
- c. smart payments.
- d. e-cash.

**Answer:** b

**Reference:** E-Cash and Alternatives to Credit Cards



61. A disadvantage for the merchant of allowing customers to use credit cards for small dollar purchases is:

- a. transaction fees are significant on small dollar purchases.
- b. it is difficult to price a large number of small dollar items.
- c. small dollar purchases are less secure.
- d. customers aren't interested in spending small amounts of money online.

**Answer:** d

**Reference:** E-Cash and Alternatives to Credit Cards

62. An advantage of e-cash is:

- a. the identity of the purchaser doesn't have to be revealed at the place of purchase.
- b. it is widely accepted off-line.
- c. a critical mass of users was established in the earliest days of the Internet.
- d. it is widely accepted online.

**Answer:** a

**Reference:** E-Cash and Innovative Payment Methods

63. An e-reward from a merchant for visiting, registering, or purchasing from its site that can be accumulated by the buyer and traded for products at a later date is called:

- a. e-cash.
- b. a debit card.
- c. beenz.
- d. a purchase card.

**Answer:** c

**Reference:** E-Loyalty and Rewards Programs

64. The currency used by e-loyalty reward programs is called:

- a. e-cash.
- b. virtual credit.
- c. stored value.
- d. electronic script.

**Answer:** d

**Reference:** E-Loyalty and Rewards Programs

65. The online transfer of funds between individuals is called:

- a. P2P.
- b. H2H.
- c. P2B.
- d. B2P.

**Answer:** a

**Reference:** P2P Payments

66. An advantage of e-checks is:

- a. they contain more information than traditional paper checks.
- b. they operate outside the traditional banking industry.
- c. they fit current business practices, and so require little process reengineering.
- d. they require the development of complex internal processing systems.

**Answer:** c

**Reference:** E-Checking

67. A special-purpose card issued to employees solely for the purpose of purchasing and paying for nonstrategic materials and services is called:

- a. a virtual credit card.
- b. a debit card.
- c. an e-wallet.
- d. a purchase card.

**Answer:** d

**Reference:** Purchasing Cards for B2B

68. All of the following are advantages of using purchase cards **EXCEPT**:

- a. purchasing departments report productivity gains.
- b. bills are consolidated into a single payment.
- c. improved control.
- d. they are widely accepted in international trade.

**Answer:** d

**Reference:** Purchasing Cards for B2B

69. In global trade, a written agreement by a bank to pay the seller on account of the buyer, a sum of money upon presentation of certain documents is called a:

- a. trade card payment.
- b. micropayment.
- c. PKI payment.
- d. letter of credit.

**Answer:** d

**Reference:** Electronic Letters of Credit

70. All of the following are benefits of LCs **EXCEPT**:

- a. credit risk is reduced because payment is accessed via the creditworthiness of the issuing bank.
- b. LCs are cheap and easy to establish.
- c. payment is assured if all the terms in the LC are complied with.
- d. political risk is reduced if the LC is confirmed by a bank in the seller's country.

**Answer:** b

**Reference:** Electronic Letters of Credit

71. Taking the information that is typically printed on a bill and hosting it on a Web server is called:

- a. consolidating.
- b. posting.
- c. accessing.
- d. presentment.

**Answer:** d

**Reference:** E-Billing

72. A customer receives his electric bill from the electric company. The electric company is a(n):

- a. individual biller.
- b. bill consolidator.
- c. third-party biller.
- d. bill presenter.

**Answer:** a

**Reference:** E-Billing

73. From the perspective of the billing firm, all of the following are advantages of e-billing **EXCEPT:**

- a. reduced processing expense.
- b. improved customer service.
- c. universal availability.
- d. opportunity for targeted advertising.

**Answer:** c

**Reference:** E-Billing

74. From the perspective of the customer, all of the following are advantages of e-billing **EXCEPT:**

- a. reduced expenses.
- b. improved record keeping.
- c. ability to pay bills from anywhere at any time.
- d. fewer ads from companies sending bills.

**Answer:** d

**Reference:** E-Billing

75. The current Internet sales tax moratorium in the United States applies to:

- a. all sales made over the Internet.
- b. all sales made over the Internet if the seller has no physical presence in the state where the buyer lives.
- c. clothing, food, and pharmaceuticals only.
- d. all sales to minors only.

**Answer:** b

**Reference:** Tax Calculation Services for Business

**Essay Questions**

76. List five crucial factors that come into play in determining whether a particular method of e-payment achieves widespread acceptance.

**Answer:** Five of the following:

1. Independence – will specialized components for the buyer and/or seller be required?
2. Interoperability and portability – it must mesh with existing systems.
3. Security – should be equally secure for all parties.
4. Anonymity – the more anonymous the better.
5. Divisibility – the ability to cover the upper or lower and middle of the acceptable range of credit card use has a chance of succeeding.
6. Ease of use – credit cards set a standard (new systems must be no more difficult to use than they are).
7. Transaction fees – the credit card system probably won't work because fees are too high.

**Reference:** Characteristics of Successful E-Payment Methods

77. Regardless of the particular form, there are four parties in all e-payment systems. Who are the parties and what are their roles?

**Answer:**

1. Issuer – issues the electronic instrument. This may be a bank or some other financial institution.
2. Customer – the party offering the e-payment instrument in exchange for a good or service.
3. Merchant – the seller who accepts the e-payment in exchanges for goods or services.
4. Regulator – the agency that issues regulations to control the e-payment system.

**Reference:** Paying with Credit Cards Online

78. What are P2P payments? Give two examples of a P2P transaction.

**Answer:** P2P payments are payments between individuals. The potential number of examples is huge, including settlement of e-auction transactions, settlement of private debts, and sending money to friends or family (any payments from one individual to another individual).

**Reference:** Person-To-Person Payments

79. List three benefits of e-billing from the perspective of the billing company and three from the perspective of the customer.

**Answer:** Billing Company:

1. Reduction in billing and processing expenses.
2. Improved customer service.
3. Opportunity for targeted advertising.

Customer:

1. Reduces costs.
2. Better record keeping.
3. Can pay bills from anywhere at any time.

**Reference:** E-Billing

80. Explain the current online sales tax moratorium in the United States.

**Answer:** Presently, there is a moratorium on sales tax on online sales. The moratorium doesn't apply, however, if the seller has a physical presence in the state where the buyer lives.

**Reference:** Tax Calculation Services for Businesses

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