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An Economic Analysis of Taxicab Regulation

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assumption that the driver might be in a position to extract an unreasonably high fare, either because the rider might be faced with a high cost of finding another cab, or because a significant share of taxi riders are visitors to the city who would not have the information necessary to bargain effectively. However, Beesley and Glaister (1983) have noted that the rider might also be in a position to impose a low fare because the driver would be faced with the cost of finding another rider.⁶⁷

⁶⁷ If exploitation of riders is a significant problem, one potential remedy would be to require cabs to post their fares or use meters. However, if cabs then discounted their fares in dealing with informed customers, a posting requirement would have little effect; cabs could simply post the fare they would have asked initially in the absence of the posting requirement and bargain as before. Taxis could be required to charge posted fares, but enforcement of an ordinance against discounts might be difficult. If posting of fares is not effective, it is conceivable that a fare ceiling would have benefits. Preventing exploitation of riders might be justified on equity grounds, but an efficiency argument can also be made. Suppose entry into the taxi industry is unrestricted and that taxi service is available at constant cost. If taxi firms act as first-degree price discriminators and extract all consumer surplus from riders, the extra revenue will cause the industry to expand beyond the efficient level, where the marginal social benefit and the marginal social cost of service are equal.