

Libertarian's Corner: Paradoxical Taxi Fares

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When I taught at Hofstra University in Long Island during the 80s, I often commuted to work in the wee hours of the morning via so-called gypsy cabs—the unlicensed taxis which abound in my section of upper Manhattan. A flat rate (usually \$25 plus tolls) was agreed upon at the start of the trip and was paid at its close. Most of the time, the story ended there.

Sometimes, however, when we passed the airport on the way, an argument ensued. The driver pointed out that the fare to the airport is more (\$35 minimum), yet the cost of that trip measured in time and mileage is less. So, he concluded, he had been had, despite his agreement to the terms and a clear, initial bid on my part stating the time involved (45 minutes) and the destination (Hempstead in Nassau County).

Was he right or wrong? And why? The prime principle of economics is that prices are determined by supply and demand, not costs. Some products may cost a quarter and sell for a half-dollar, while others go for a dollar yet cost only a dime to make. The first producer is neither a benefactor nor a patron, and the second producer is neither a profiteer nor an exploiter. Rather, both producers merely respond to market signals which tend to equalize supply and demand.

To return to the taxi fare, the market price for a commute to the heart of Nassau County is indeed less than the market price for the shorter, faster trip—in the same direction—to the airport. That this is so is evidenced by the very facts of the case: I was always able to obtain a taxi at the lower rate for the longer, slower trip.

Why this is so is a bit more subtle. A taxi is the only sensible means of travel to the airport, especially during the wee hours of the morning. Commuting, on the other hand, can easily be accomplished by rail—much slower, yet far cheaper—or by car pools with other early risers. Moreover, people are willing to pay more for an occasional trip and when loaded down with baggage than when they must make the trip several times a week. Finally, the number of gypsies speeding about empty during these hours is very high. Many drivers consider themselves lucky to get any substantial fare at that hour. More than a few went so far as to suggest a regular contract.

Put in economic terms, the demand for cabs at the time I commuted was very low, especially for commuter trips. The choice facing a would-be supplier

was often not an airport trip or a commuter's trip, but a commuter's trip or no trip at all (or perhaps a few local trips). Later in the day, during rush hour, when the demand for taxis is far greater, the gap between airport fare and a commuter's fare narrows, for the demand for taxis is far closer to the supply of taxis available for hire.

The law of supply and demand can sometimes appear to have paradoxical results, but if one truly understands the principle and also knows the market situation involved, the paradoxes disappear. Ω

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