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# **Perception of the fairness of pricing**

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# Plan

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# Objective

- Regulating access to scarce resources by prices...
- ...but perceived as unfair
- Resistance to the introduction of new pricing measures in transport sector
- Test empirically different principles of regulation in order to see if these receive more support than regulation by prices.

# State of the art

- Two papers :
  - Kahneman, Knetsch, and Thaler (1986) : the reference transaction
  - Frey and Pommerehne (1993) : how can the regulation of excess demand by prices be considered to be unfair when economists recommend it as a principle?
- Two steps :
  - test the current validity of the foregoing empirical results
  - explore further attitudes to certain principles of allocation

- A number of questions emerged from our survey and we shall investigate these empirically :
  - is the principle of allocating scarce resources by prices always rejected?
  - is there a difference between a rejection of the principle of regulation by prices depending on whether the supplier belongs to the public or the private sector?
  - are lotteries or administrative allocation better accepted than regulation by prices as a means of dealing with excess demand?

- does the possibility of controlling the use of revenue derived from pricing moderate the rejection of regulation by prices?
- can providing additional supply which is related to the price increase make this increase more acceptable?
- does offering compensation which belongs to the same “dimension” to those whose demand has been removed improve acceptance of regulation by prices?
- are the principles which form the classical basis of the reference transaction such as queues and a moral rule, universally perceived as fair?
- do attitudes vary according to the economic and social situation of individuals?

# Methodology for the survey

- Face-to-face interviews
- 400 persons of the Lyon conurbation
- Random selection on the basis of quotas
- Four different fictional “stories” with an exceptional and a recurring situation :
  - allocation of seats in the situations of excess demand in the case of the high speed train (TGV)
  - assigning parking spaces at the car park of a firm with premises in the centre of a major city in which it is very difficult to find parking in the surrounding area

# Results

- **The rejection of peak period pricing**

Peak period pricing with constant supply was overwhelmingly perceived to be unfair in all the situations

- **Exceptional administrative regulation :**

For both scenarios, exceptional administrative solutions in the form of an unknown administrative rule or a lottery are overwhelmingly rejected and considered to be barely less unfair than pricing

However, no significant difference depending on whether the available spaces are allocated at the discretion of the firm or works committee

- **The role of the allocation of revenue from pricing :**
  - Peak period pricing with constant supply is perceived as being significantly fairer when the revenue derived from pricing is handed over to the works committee (recurring : 28%, exceptional : 37%) than when this revenue goes into the firm's coffers (recurring : 10%, exceptional : 7%)
  - No significant difference between the exceptional situation and the recurring
- **The increase in supply and the acceptability of pricing :**

Peak period pricing with additional supply is nevertheless perceived as being unfair: only 29% of respondents consider it to be fair for the TGV (recurring congestion), 38% consider it fair for recurring parking congestion and 51% consider it fair (exceptional congestion).

- **The right to compensation :**

Unlike peak period pricing with constant supply, compensation is overwhelmingly considered to be fair in the case of the TGV (recurring : 80%, exceptional : 95%), parking (recurring : 89%, exceptional : 93%)

- **The reference transaction, moral rule and queueing :**

- For both scenarios, the principle by which seats and spaces are allocated on the basis of a moral rule is considered to be very fair (TGV : between 70% and 90%, parking: more than 90%).
- In both cases, the reference transaction involved application and compliance with this moral rule.

- While the principle of queueing is considered to be fair in the case of parking (exceptional : 68%, recurring : 69%)...  
... it is considered to be essentially unfair in the case of the TGV where the difference between the different types of situation is significant (exceptional : 37%, recurring : 33%)
- Parking : management by means of queueing seems to be well accepted and has therefore been incorporated into the reference transaction...  
... TGV: the reference transaction is based on a system of seat reservation which means that the management of scarcity by means of queueing is negatively perceived.

# Conclusion

- Our results confirm the role of the reference transaction and also show that other regulation principles may be considered to be less unfair, or even fairer, than pricing on its own.
- Our results confirm the overwhelming rejection of peak period pricing as a means of regulating excess demand.
- The use of administrative procedures or lotteries to allocate seats or parking spaces is also rejected.



- Accompanying a price rise with an additional service or infrastructure reduces opposition in the same way as the right to influence the use of revenue, but the negative attitudes nevertheless subsist.
- The moral rule is judged to be very fair in all cases.
- The right to compensation is overwhelmingly demanded from the monopoly holder, whether it belongs to the public or private sector: it could therefore be possible to rehabilitate pricing in the form of compensation.