

Why So Much For Such A Short Ride?

It is easy for new firms to enter some markets and difficult for them to enter others. Difficulty in entering a market is usually caused by the existence of some barrier to entry. Of course, not all barriers to entry are the same. One kind is created through legal means. For example, when the government specified that no firm can compete with the U.S. Postal Service in the delivery of first-class mail, it effectively created a legal barrier to entering the business of delivering first-class mail.

Suppose you go to New York City. You visit Rockefeller Center and Madison Square Garden; you take a tour of the Empire State Building and the Statue of Liberty; you go to a Broadway play at night. In your travels around New York City, you notice taxicabs picking up and delivering people. You wonder what you or anyone else would need to do to enter the taxicab market in New York City.

Let's list the things that sound reasonable. You would need a car and a driver's license. Perhaps the city of New York would want to make sure that you did not have a criminal record, so you might need to pass a personal background check.

In reality, the Taxi and Limousine Commission in New York City requires that you also have a taxi license, called a taxi medallion. It is similar to a business license: you need it to lawfully operate a taxicab business in New York City. In 2017 the price of a taxi medallion is \$241,000.

The high price of a taxi medallion acts as a barrier to entering the taxicab market in New York City. Who gains and who loses as a result of this barrier to entry? The beneficiaries are clearly the current owners of taxicab businesses. Because of such a high barrier to entering the taxicab business, the supply of taxis on the streets of New York City is less than it otherwise would be. If supply is lower than it would be, then prices are higher. In other words, the price of a taxi ride in New York City is likely to be less if a taxi medallion cost, say, \$300 than if it cost \$241,000. At the latter price, fewer people will be entering the taxicab business and expanding the supply of taxis for hire. The losers are (1) people who would like to enter the taxicab business but cannot and (2) the taxi riders who pay higher prices because of the somewhat restricted entry into the taxicab business.



Think About It ...

As a result of the high price of a taxi medallion, taxi fares are higher than they would be if taxi medallion prices were lower. What are some of the arguments in favor of having such a high price on taxi medallions? What might happen if there was no cost to have a taxi in New York City?