Public Transport: design, scale and pricing. Chapter 9 in Handbook on Transport Pricing and Financing. A. Tirachini, D. Hörcher and E. Verhoef, eds.

June 2022

In book: Handbook on Transport Pricing and Financing

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Abstract

This chapter builds on the welfare economic theory of transport pricing and its application to public transport supply. In this approach, optimal fares are set to reflect the marginal welfare effect of travelling. The unique engineering characteristics of operators and users costs in public transport make an increase in demand have a positive impact on frequency, directness and density of transit lines, along with their effect on waiting, in-vehicle and access times. Because of these scale economies optimal design makes first best prices fall short of operators' costs inducing optimal subsidies, and sub-optimal pricing induces sub-optimal designs. The discussion is extended to the wider socioeconomic context in which public transport operates, by looking at second-best pricing considering intermodal substitution, and by discussing the role of public funds, equity, social acceptance, political institutions, and environmental resources. The chapter advocates a more active interplay between quantitative economic analysis and practical policy decisions on pricing in public transport.