Case 2.4 Uber’s surge pricing: unobjectionable or unfair?

Summary

This case study reviews how Uber’s surge pricing works, and how it depends on demand and supply. It also considers the arguments that have been made for and against surge pricing.

Suggested answers

1 Can you think of other markets where the idea of surge pricing (adjusting price upwards when there are abnormal increases in quantity demanded) might usefully be applied? Would the same criticisms be likely to arise as have been made of Uber’s surge pricing?

There are already other markets where prices adjust in real time to changes in demand. One example is pricing of airline tickets. Another example, which was tried and abandoned in Australia, was pricing of tickets to Australian Football League matches. The latter example brought exactly the same criticisms as Uber’s surge pricing, which is why it was abandoned.

Airline ticket pricing does not seem to generate the same criticism, perhaps this is because differences in ticket prices are less observable to consumers than Uber’s surge pricing.

2 Explain why variability in the price of Uber rides due to surge pricing is likely to be moderated where travellers have readily available substitutes such as public transport or other ride-sharing apps.

Where travellers anticipate that the price they will pay to travel on Uber will be a surge price, it raises the relative attractiveness of using alternative cheaper forms of transport. Hence, the more that travellers have those substitutes available, the more they will respond by switching their consumption to those methods of transport instead of using Uber. Hence, the increase in demand for Uber services at the time at which surge pricing would be introduced, will be smaller than if the substitutes were not available. Due to the increase in demand being smaller, the rise in price at the time of surge pricing will be lower.