Case study 2.7 Are ticket scalpers worse than used car salesmen?

Summary

This case study describes how ticket scalping – as an example of voluntary trade between buyers and sellers – can improve society’s wellbeing. It also shows how the concept of efficiency can be used to suggest the scope for potential improvements in wellbeing.

Suggested answers

1 Consider the system for selling tickets for the Commerce Students’ Society (CSS) Ball at the University of Melbourne. There is a pre-announced time (usually early on a Monday morning) at which tickets will go on sale, and a pre-announced price per ticket. To obtain tickets, you must be at the venue when ticket sales begin, which means you are likely to have to queue the night before tickets go on sale.

a Do you think such a system is likely to leave scope for welfare-improving trade between students who have obtained tickets and students who have not obtained tickets?

Yes, it is possible that there would be scope for welfare improving trade. For example, suppose there are two students, John and June. John would get $100 of benefit from going to the CSS Ball, and the opportunity cost of his time queuing is $80. June would get $50 of benefit from going to the CSS Ball, and the opportunity cost of her time queuing is $10. The CSS sets a price per ticket of $30. Hence John would choose not to queue for a ticket, and June would choose to queue to buy a ticket. Once June has bought the ticket, John would be willing to pay June up to $100 for the ticket. Since June can get only $50 benefit, she would be willing to sell the ticket for any price above $50. Hence there is scope for mutually advantageous trade. (Note that this is treating June’s costs of purchasing the ticket and her opportunity cost of queuing as sunk costs. But even if June anticipates selling the ticket to John, as long as John is willing to pay June above $90 for the ticket – which he will be willing to do – June would still queue to buy a ticket.)

b Do you think the scope for ticket scalping would increase or decrease if the CSS shifted to an alternative system where there is a pre-announced time at which tickets are made available for sale via the internet?

The scope for ticket scalping would be likely to decrease with ticket sales being made on the internet. This is because the sales of tickets would not reflect to the same extent buyers’ differences in the opportunity cost of time spent purchasing tickets. (The example in part (a) relies on a buyer with low valuation for attending the CSS Ball also having a disproportionately low opportunity cost of queuing.) Hence a larger proportion of sales are likely to be made to buyers with relatively higher valuations for attending the CSS Ball.

c If there is excess demand at the price sat which the CSS sells tickets to the ball, as evidenced by the long queues and the need to sleep overnight outside in the cold, why do you think the CSS doesn’t increase ticket prices?

Making evident the existence of excess demand in this way may be a way of promoting the event for the CSS.

2 Suppose all tickets to the upcoming Ashes Series Test matches between England and Australia have been sold or otherwise allocated. Suppose as well that you don’t own any tickets. Assuming that ticket scalping is legal, can you think of ways in which it might be possible for you to make money from scalping, even though you don’t own any tickets?

You might be able to set up as a market intermediary, providing the means for individuals who currently own tickets and individuals who would like to buy tickets to link up with each other. For example, you might be able to set up a website where individuals with tickets they wanted to sell could list them, and where potential ticket buyers could then seek to buy tickets. You might make money by charging those who list tickets for sale some proportion of the sale price as a fee for using your website. (See case study 2.10 on ‘How making a market can make you money’ for more discussion of the role of market intermediaries.)

3 Can you think of a way to sell tickets for concerts and sporting events that would mean that consumers who value attending those events most highly are assigned tickets, hence removing the scope for ticket scalping?

One possibility would be to use an auction mechanism. Consumers could be given the opportunity to submit a bid for how much they would be willing to pay for a ticket, with tickets allocated to the bidders who are willing to pay the most for a ticket. Assuming that consumers bid an amount equal to how much they value a ticket, the winning bidders would then be the consumers who value the tickets the most. In this situation there would not be scope for ticket scalping, since there would be no one who did not already have a ticket, who valued having a ticket more than someone who had been allocated a ticket. So there will be no scope for mutually advantageous trade in tickets. (To see an argument for why bidders would bid an amount equal to their valuation for a ticket, see case study 6.1 on ‘When telling the truth is the best policy: using game theory to know how to bid on eBay’).