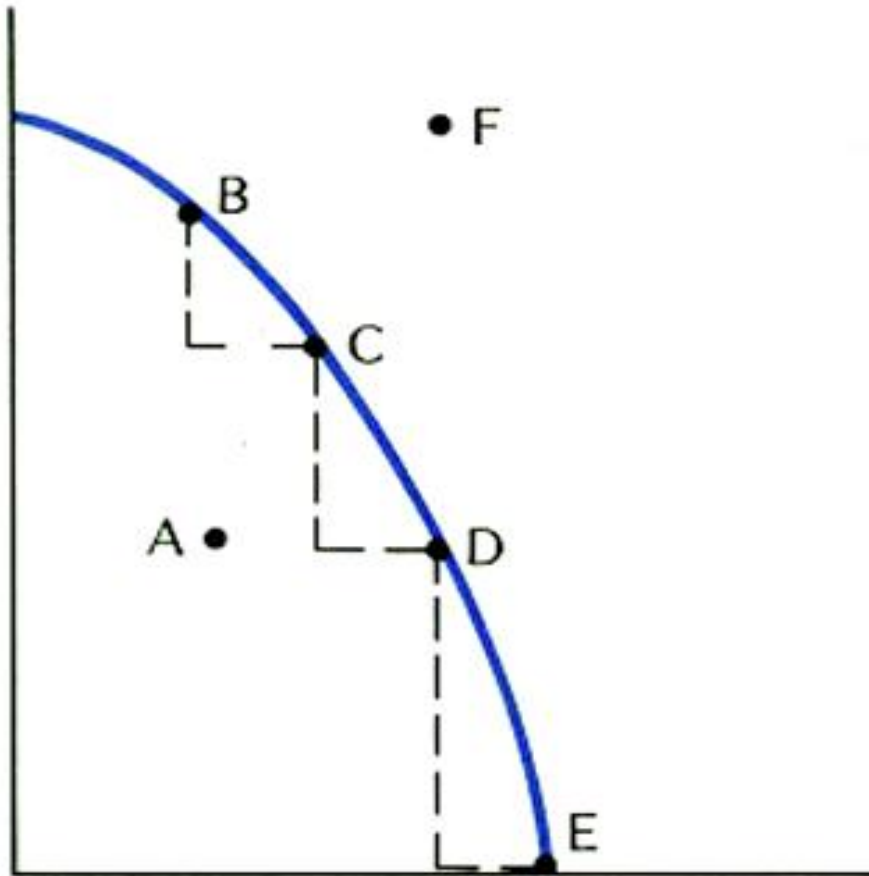


Transport Economics

Prottoy A. Akbar

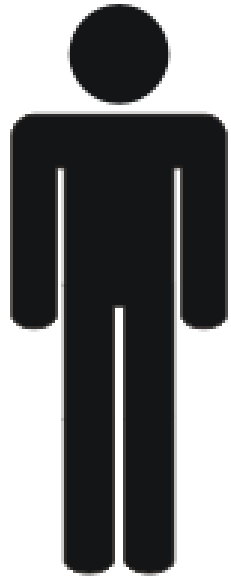
Every choice has an **opportunity cost**:

- The (value of the) best alternative we chose to forego
- In terms of time, money, space, energy, ... (i.e., finite resources)

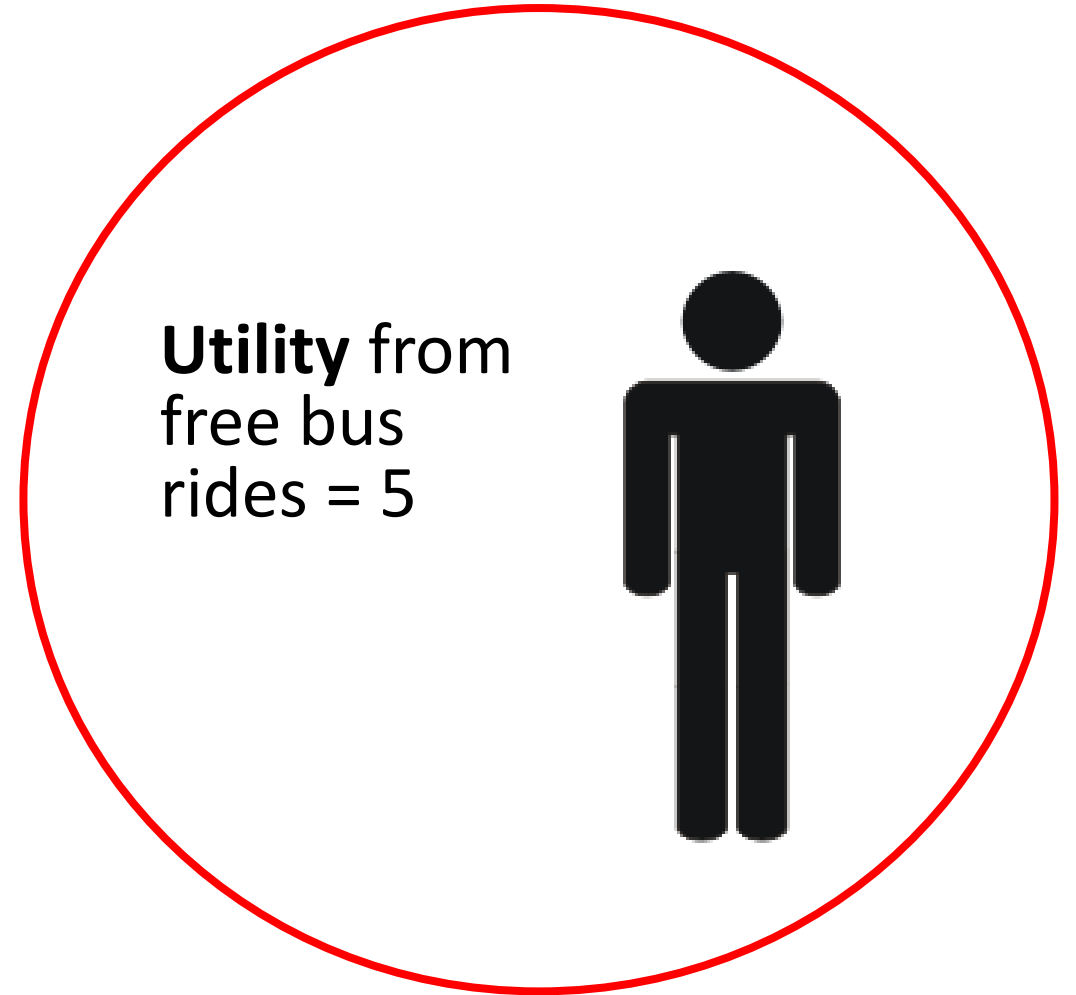


The Production
Possibility Frontier

How to allocate transportation resources?



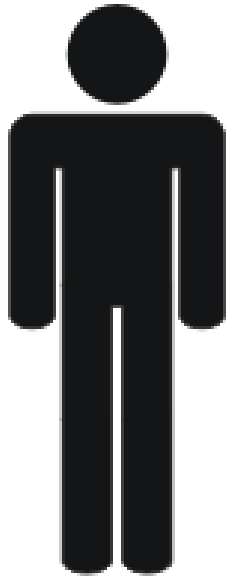
Utility from
free bus
rides = 3



Utility from
free bus
rides = 5

How to allocate a bus pass?

Opp. Cost
= €80



Monthly
spending on
travel = €20

Opp. Cost
= €20



Monthly
spending on
travel = €80

How to allocate a bus pass?

Unobservable to us: how much do they value the bus pass?

Anna

€20/month



€70/month



Arttu

Pricing as an allocation mechanism

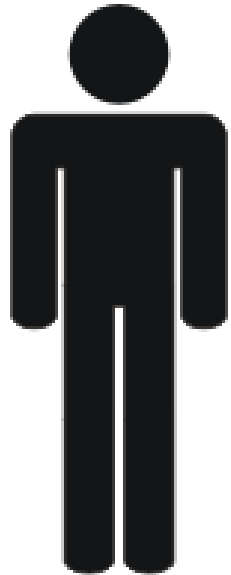
Unobservable to us: how much do they value the bus pass?

Anna

€20/month

€70/month

Arttu



At price = €21/month

Net gain to Arttu:

$$€70 - €21 = €49$$

But how to set the right price?

Markets

work because there is

1. Conflict: buyers vs sellers
2. Competition: from other sellers and buyers

But also often fail and require intervention...