

BECO 4310-006
Spring 2014

Case 6

Uber: Supply and demand or price gouging?

Uber helps passengers connect with car services through a smart phone app. The convenience and reliability of the Uber service has won customers and sparked opposition from competing taxi services. At the same time, Uber has been criticized for its policy of raising rates during periods of higher demand, sometimes as high as four, five, or even more than eight times the normal price. Uber CEO Travis Kalanick said the prices were simple supply and demand. Critics have called it "price gouging."

CASE MEMO ASSIGNMENT

Miles Wilson, newly analyst in his first month of working for Uber, has been asked by his manager to develop arguments for and against the current surge pricing policy. Wilson had heard a radio program earlier in the week that quoted a distinguished economist suggesting that Uber should limit surge pricing. Wilson knew that many economists liked the surge pricing idea, so he decided to use the contrary view by a distinguished economist as the focus of the memo to his manager.

For case 6, listen to the *Planet Money* story, "When A \$65 Cab Ride Costs \$192." In the story economist Richard Thaler expresses the view Uber should limit its surge pricing to about three times the usual fare. You may also want to read or listen to items listed below, or other materials.

Write a memo presenting the best arguments on both sides of this issue. First summarize the controversy over surge pricing in a brief introductory paragraph. Next, present one or two paragraphs in favor of limiting surge price to three times the usual fare. Finally, present one or two paragraphs in favor of the current surge pricing policy.

You do *not* need to make a recommendation for this case.

RESOURCES

Links to the items below are available from the course website at <http://giberson.ba.ttu.edu/BECO4310>.

REQUIRED LISTENING:

Lisa Chow, "When a \$65 Cab Ride Costs \$192," *Planet Money* (NPR) January 24, 2014.
<http://www.npr.org/blogs/money/2014/01/24/265396928/when-a-65-cab-ride-costs-192>

OPTIONAL RESOURCES: These items are recommended and useful, but not required.

- BusinessInsider, "Jerry Seinfeld's Wife Spent \$415 During Uber's Surge Pricing...", December 16, 2013.
- Bloomberg TV, "Is Uber Price Gouging Riders With Surge Policy?" December 30, 2013.
- Planet Money, "Why Paying \$192 For A 5-Mile Car Ride May Be Rational," February 07, 2014 (22 minute audio from NPR).
- Xia, Monroe and Cox, "The Price is Unfair! A Conceptual Framework of Price Fairness Perceptions," *Journal of Marketing*, Vol. 68 (October 2004), 1-15. (Article provides an example of how marketing researchers view fairness and pricing. May be a useful tool to help you think a little more deeply on the issue.)
- Maxwell, *The Price is Wrong: Understanding What Makes a Price Seem Fair and the True Cost of Unfair Pricing*, Wiley, 2008. (The entire book is relevant, but consider Chapter 6 if you want to read just part. This book is available electronically, on-line, through the TTU library website. Search the title, find the e-book version and click the link, sign in to eRaider when requested, then view book online.)