

Foe or Friend: Flat-Rate Pricing and Market Outcome

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Abstract

Flat-rate pricing has become increasingly popular in the ride-hailing industry in recent years. We analyze a policy change in which a leading ride-hailing company in Singapore introduced an origin-destination-based flat-fare option to examine the causal effects of flat-rate pricing on driver efficiency and welfare. We first document that flat-rate pricing significantly improves driver efficiency by reducing trip distance and duration compared with metered pricing. We then investigate the causal impact of flat-rate pricing on drivers' labor supply and welfare using a difference-in-differences approach. We find that affected taxi drivers, despite stopping detouring, manage to make higher shift earnings by logging more trips without extending shift hours or reducing break time. Our results provide important managerial implications that introducing flat-rate pricing does not necessarily create a zero-sum game but can lead to a win-win situation for both drivers and riders and therefore increases social welfare.

Keywords: *Flat-Rate; Ride-Hailing; Difference-in-Differences*

Track: Pricing & Promotions