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# Welfare Implications of Congestion Pricing: Evidence from SFpark

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**Abstract.** *Problem definition:* Congestion pricing offers an appealing solution to urban parking problems—charging varying rates across time and space as a function of congestion may shift demand and improve allocation of limited resources. It aims to increase the accessibility of highly desired public goods and to reduce traffic caused by drivers who search for available parking spaces. At the same time, complex policies make it harder for consumers to make search-based decisions. We investigate the effect of congestion pricing on consumer and social welfare. *Academic/practical relevance:* This paper contributes to the theory and practice of the management of scarce resources in the public sector, where welfare is of particular interest. Methodologically, we contribute to the literature on structural estimation of dynamic spatial search models. *Methodology:* Using data from the City of San Francisco, both before and after the implementation of a congestion-pricing parking program, SFpark, we estimate the welfare implications of the policy. We use a dynamic spatial search model to structurally estimate consumers' search costs, distance disutilities, price sensitivities, and trip valuations. *Results:* We find that congestion pricing increases consumer and social welfare by more than 4% and reduces search traffic by more than 10% in congested regions compared with fixed pricing. However, congestion pricing may hurt welfare in uncongested regions, in which the focus should be on increasing utilization. Moreover, an unnecessarily complex congestion-pricing scheme makes it difficult for consumers to make search-based decisions. We find that a simpler pricing policy may yield higher welfare than a complex one. Lastly, compared with a policy that imposes limits on parking durations, congestion pricing increases social welfare by allocating the scarce resource to consumers who value it most. *Managerial implications:* The insights from SFpark offer important implications for local governments that consider alternatives for managing parking and congestion and for public-sector managers who evaluate the tradeoffs between approaches to manage public resources.

**Supplemental Material:** The online appendix is available at <https://doi.org/10.1287/msom.2021.0995>.

**Keywords:** congestion pricing • dynamic spatial search model • public sector • traffic management

## 1. Introduction

One of the challenges in managing public goods is to achieve an efficient allocation of resources while keeping utilization high. Without intervention by policy makers, individuals tend to overuse public goods and ignore the negative externalities they impose on others. This behavior leads to congestion and other inefficient outcomes, a problem commonly referred to as the tragedy of commons. This problem is present in urban parking—affordable prices of public parking cause some users to overuse parking spaces without consideration of the negative impact to others. This behavior can induce urban transportation and other problems. As Shoup (2005, p. 7) writes, “just as cattle compete in their search for scarce grass, drivers compete in their search for scarce curb parking spaces. Drivers waste time and fuel, congest traffic, and pollute the air while

cruising for curb parking.” Summarizing 16 studies, Shoup (2006) found that, on average, 30% of urban traffic was caused by drivers cruising to search for parking rather than driving to their desired destinations.

Congestion pricing is one solution to manage traffic congestion (Vickrey 1952). Although Vickrey and others proposed the solution many decades ago, due to the technological challenges involved, it has only been put into practice recently. To implement congestion pricing, cities must install technologies such as cameras and sensors to track congestion levels frequently. In recent years, a few cities experimented with different variations of congestion pricing, including New York City's PARK Smart (2008), San Francisco's SFpark (2011), and Berkeley's GoBerkeley (2012). With varying levels of pricing complexity, all programs reported increased accessibility and lower

congestion (see reports for details of the various programs).

Although accessibility and decreased congestion are important, they are not all that matters. Social planners also care about maintaining high levels of utilization of public goods. Doing so is challenging because utilization induces congestion. Therefore, a good policy that strives to increase consumer and social welfare must strike a balance between utilization and congestion.

Using *SFpark*—the congestion-pricing parking program implemented by the City of San Francisco—as a test bed, we wish to answer the following questions in this paper: (1) How does congestion pricing affect externalities caused by consumers, such as search? (2) Would congestion pricing lead to a more efficient allocation of public resources and improve welfare via that allocation? (3) What are the caveats of implementing congestion pricing?

To answer these questions, we model customers' parking decisions using a two-stage dynamic structural model. In the first stage, a customer decides whether to drive and, if so, whether to park directly at a garage or to search for on-street parking. If a customer decides to search, in the second stage, she will make a dynamic decision of whether to park on the street, continue to search, or abandon searching. We estimate consumers' search costs, distance disutilities, and price sensitivities using availability and payment data from the *SFpark* program. We then use the estimates to quantify the effect of congestion pricing on consumer surplus, social welfare, and search traffic.

We find several interesting results. First, our empirical analysis indicates that the effect of congestion pricing on consumer surplus depends on the level of congestion in a region—congestion pricing may either increase or decrease welfare, depending on the characteristics of the region we study. Congestion pricing increases welfare in popular regions with moderate to high congestion levels. However, it decreases welfare in less-congested areas.

Second, even though it increases parking availability, a complex congestion-pricing scheme makes it difficult for consumers to make search-based decisions (e.g., where to start, where to search, etc.) and also induces search for lower prices. Interestingly, we find that a simpler three-tier pricing policy may increase welfare relative to a more complex policy because consumers can be more informed and use this information to improve decisions.

Finally, we compare the efficacy of congestion pricing to a policy that charges a fixed price, but sets time limits on parking (which was the policy in San Francisco prior to *SFpark*). We find that congestion pricing leads to higher social welfare, but that the effect on consumer surplus is ambiguous.

What we learn from *SFpark* offers important lessons to local governments that consider alternative approaches to manage parking congestion. Congestion pricing is indeed an attractive approach to manage highly utilized public resources. It leads to higher welfare by allocating the resource to customers who value it the most. However, a good implementation of congestion pricing is nuanced. First, the level of congestion matters—congestion pricing may not work as well in uncongested areas.

Second, the complexity of the pricing policy matters—if the pricing policy is very complex, congestion pricing may lead to inefficient search and decrease welfare. Therefore, a simpler policy is often more desirable than a complex one.

Finally, our results highlight ways to manage scarce public resources better. Public-sector managers often mitigate overutilization by rationing capacity through usage limits or permits. We demonstrate that congestion pricing can be a more efficient approach. Congestion pricing accounts for heterogeneity in consumer demand through price discrimination, an aspect missing from capacity-rationing levers. Of course, planners may have additional factors to consider, such as feasibility, cost, and equity concerns, when choosing a strategy. Nevertheless, our analysis offers quantifiable results and a generalizable methodology for public-sector managers to better evaluate the tradeoffs involved in making such decisions.

## 2. Literature Review

This paper is related to three streams of literature: (1) dynamic pricing, price discrimination, and the effect of pricing on welfare; (2) public-sector operations management; and (3) consumer-demand modeling and structural estimation. We review each stream and discuss our contributions below.

### 2.1. Dynamic Pricing, Price Discrimination, and the Effect of Pricing on Welfare

Our paper contributes to the theory and practice of dynamic pricing. In the past several decades, dynamic pricing has been successfully applied in a number of industries, such as airlines, hotels, and car rentals. More recently, additional industries, such as sports, concert planning, and retail, started adopting these strategies (Shapiro and Drayer 2014, Xu et al. 2019, Tereyağoglu et al. 2017, Fisher et al. 2018, Moon et al. 2018).

This line of research focuses primarily on profit/revenue-maximization objectives, but a few empirical analyses examine the welfare effect of price discrimination. Leslie (2004) is one of the first studies to measure the welfare effect empirically. Unlike revenue or profit, welfare is not directly observable. Therefore, it is necessary to develop structural models to explicitly

capture consumers' utility functions and decision processes. Using Broadway theater as an example, Leslie (2004) finds that although price discrimination leads to a 5% increase in firm profit, its impact on consumer surplus is negligible. Using airline data, Lazarev (2013) compares intertemporal price discrimination to alternative pricing schemes (free resale, zero cancellation fees, and third-degree price discrimination) and finds that the welfare effect is ambiguous and can be moderated by the mix of business versus leisure travelers. We contribute to this line of research by empirically analyzing the welfare effect of dynamic pricing through structural models. We examine a dynamic pricing program implemented for city parking, where welfare is of particular interest. We offer insights on the conditions that affect the sign of welfare in the context of a public-sector problem.

## 2.2. Public-Sector Operations Management

There are a growing number of operations management papers studying the public sector. Although a large body of this research focuses on healthcare, research is also burgeoning in education, public transportation, energy and utility, natural resource management, and, most recently, the design of smart cities. Despite diverse contexts, a common theme that differentiates public-sector versus private-sector operations is the public sector's focus on societal outcomes rather than profitability. As a result, much emphasis has been placed on quality (e.g., Kc and Terwiesch 2009), congestion and utilization (e.g., Powell et al. 2012 and Berry Jaeker and Tucker 2017), accessibility (e.g., Kim et al. 2015 and Gallien et al. 2017), and welfare and equity (e.g., Ashlagi and Shi 2016 and K  k et al. 2018). The design of smart cities is receiving a lot of attention recently, with advances in technology. Among the issues analyzed are sharing service integration (Qi et al. 2018), electric vehicles and battery-charging facilities (Mak et al. 2013, Schneider et al. 2018), and bike-sharing systems (Kabra et al. 2020). We contribute to this emerging topic by examining congestion-pricing policies for city parking and their implications on welfare.

Stavins (2011) reviews and discusses two approaches to address the commons problem: the command-and-control approach (set usage limits) and the market-based approach (set prices to internalize the externalities).

Despite the long-standing literature on optimal pricing (e.g., Vickrey 1952, Williamson 1966, and Arnott and Inci 2006), empirical analyses of consumer reaction to dynamic pricing in public transportation are relatively scarce. Two recent studies (Ottosson et al. 2013, Pierce and Shoup 2013) estimate demand elasticity of changes of parking rates using regression approaches. Without explicit consumer-decision models and structural estimation, however, they are unable to offer insights on the effects on welfare. We show that

the market-based approach leads to greater social welfare compared with a command-and-control policy, but that the effect on consumer surplus is ambiguous.

Finally, our work is related to studies of congestion in service operations, most of which analytically model the role of prices in regulating congestion in services, but recent papers also investigate the role of time limits (Tong and Rajagopalan 2014, Feldman and Segev 2020). For extensive reviews, see Hassin and Haviv (2003).

## 2.3. Consumer Demand Modeling and Structural Estimation

There is an increasing number of papers that use consumer-choice models (Vulcano et al. 2010, Lederman et al. 2014, Fisher et al. 2018, Kabra et al. 2020), as well as models with dynamic decisions (Ak    n et al. 2013, Li et al. 2014, Emadi and Staats 2020, Yu et al. 2017, Moon et al. 2018).

Our work is also closely related to literature on structural estimation of search models. This research estimates consumer search cost in different contexts, observing (De Los Santos et al. 2012, Honka 2014, Koulayev 2014, Chen and Yao 2017) or not observing (Horta  su and Syverson 2004, Hong and Shum 2006, Kim et al. 2010) consumers' search paths. Similar to the second set of papers, we also estimate search costs and other parameters without observing search paths. However, the data we use are more fine-grained, and the search is multidimensional. Specifically, because the search is conducted on a two-dimensional map, it restricts the set of available options at every step. We embed a random walk with no immediate return to the dynamic search process. This enables us to address the challenge of dimensionality in estimation, while at the same time introduces randomness in the consumers' search process.

## 3. Background on the SFpark Program and Data Description

In this section, we introduce the SFpark program. We then describe the data used for this study and provide summary statistics for the periods before and after the implementation of the program.

### 3.1. The SFpark Program

The City of San Francisco implemented SFpark in 2011 to address urban parking problems via congestion pricing. Rather than charging a constant rate at all locations and at all times, the program adjusts parking rates according to demand. One of the challenges in implementing congestion pricing is that it requires constant monitoring of parking-space utilization to adequately adjust prices. SFpark adopted several technologies, including parking sensors and smart meters,



to track availability and measure utilization. The adoption of these technologies enabled *SFpark* to implement a data-driven parking-pricing strategy. It also enabled researchers to conduct detailed analysis of consumer response to congestion pricing and its implications on welfare by using fine-grained data that were not previously available.

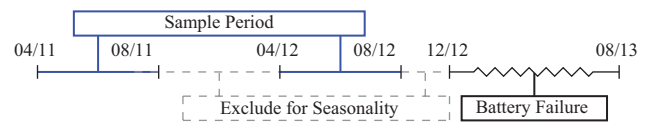
The San Francisco Municipal Transportation Agency (SFMTA) piloted the program in seven parking-management regions, which included 6,000 metered spaces amounting to roughly a quarter of the total metered parking spaces in San Francisco. The pilot started in August 2011 and ended in June 2013. The pilot was deemed successful: It illustrated the ability to reallocate demand, reduce congestion, and generate additional revenues. As a result, the program was rolled out to the entire city in late 2013.

With congestion pricing, *SFpark* adjusts hourly parking rates dynamically based on observed occupancy rates. The program divides each paid-parking day (Monday to Saturday) into three time windows: morning (9 a.m.–12 p.m.), noon (12 p.m.–3 p.m.), and afternoon (3 p.m.–6 p.m.). Parking is free at other times and on Sundays. For each time window, *SFpark* uses the block-level average occupancy rate to determine the hourly rate for parking, where the occupancy rate is defined as the fraction of time that a block is occupied. *SFpark* started tracking occupancy rates of the piloted areas in April 2011, four months before the official start of the program. They used occupancy data during that period to determine price-adjustment rules for the pilot, which started in August 2011. Before the implementation, parking was fixed at \$2 per hour for all blocks. After the implementation, *SFpark* raised a block's price by \$0.25/hour if the occupancy rate was above 80%, lowered it by \$0.25/hour if the occupancy rate was between 60% and 80%, and lowered it by \$0.50/hour if the occupancy rate was below 60%. *SFpark* also adjusted off-street parking prices (city-managed parking garages) using similar rules.<sup>1</sup> Finally, *SFpark* set an upper and a lower bound for the hourly rate—the rate could not exceed \$6.00/hour or go below \$0.25/hour. As a result of these changes, parking rates varied by block, time of day, day of week, and month. Over the two-year pilot period, *SFpark* made 10 on-street rate adjustments and eight off-street rate adjustments (i.e., every eight to 12 weeks). All adjustments were announced on the program's website at least seven days before the changes went into effect.

### 3.2. Data

We use three data sets provided by *SFpark*. Parking-sensor data consist of hourly block-level occupancy rates from April 2011 until June 2013. After late 2012, however, the sensor data became incomplete due to battery failures and sensor outages. On-street meter-

Figure 1. (Color online) Timeline



payment data contain all parking transactions starting from the first quarter of 2011 and include start and end times, payment types, and payment amounts. The meter-payment data are more reliable than the parking-sensor data because they are not subject to battery failures. However, meter-payment data are not an accurate proxy for availability, because drivers may park for longer or shorter periods than paid for or may park illegally without paying. Hence, as long as the sensors were operating, the sensor data set is a more accurate source for calculating occupancy rates. We therefore used the meter-payment data to determine parking locations and durations, but did not use it to infer occupancy rates. Off-street garage data contain usage data for publicly owned parking garages. We observe transaction-level payment data at the same level of detail as meter-payment data. The garage-transaction data are not subject to illegal or undertime/overtime parking, because payment is determined based on actual parking time.

Because of the increase in sensor failures starting in late 2012, we only use data from April 2011 to July 2012. To control for seasonality and to make fair comparisons between the before and after periods, we use data from the same months in both years: April to July 2011 (the before period) and April to July in 2012 (the after period), as shown in Figure 1.<sup>2</sup> The SFMTA extended the parking time limit in the pilot areas from two to four hours in late April 2011. To make fair comparisons, we exclude the days in April 2011 in which the parking time limit was only two hours. We also exclude consumers who parked in a garage for more than four hours from the main analysis, but we do account for them for garage occupancy-rate calculations. Among the seven piloted regions, we focus on the regions that are relatively more isolated from others: Fillmore, Marina, and Mission.<sup>3</sup>

In addition to the *SFpark* data, we also use the Infogroup U.S. Historical Business Data in 2011 and 2012. The Infogroup data provide the name, street address, and employee size of each registered business. We calculate the total numbers of businesses of different sizes in each parking block and merge them with the *SFpark* data. For parking blocks analyzed in our study, we identify a total of 2,051 businesses in 2011 and 2,216 businesses in 2012. Figure 2 shows the distribution of business establishments in Fillmore, Marina, and Mission in 2011. We use the number of businesses as an input in the destination model to generate

**Figure 2.** (Color online) Business Density in 2011



Notes. (a) Marina. (b) Fillmore. (c) Mission.

parking demand. We allow businesses of different sizes to have heterogeneous impacts on the ideal-location demand distribution. Specifically, the Infogroup data code the number of employees in a business as: A (one to four employees), B (five to nine employees), C (10 to 19 employees), D (20 to 49 employees), etc. In the districts under study, the distribution of A-, B-, C-, and D-type businesses are 68.55%, 15.73%, 10.34%, and 4.09% in 2011 and 69.17%, 14.87%, 10.78%, and 3.83% in 2012. Larger businesses (i.e., with more than 50 employees) account for less than 1.5% of our data for both 2011 and 2012. We thus group them with type D and denote the combined group as D+.

Table 1 presents the before and after summary statistics of the hourly parking rates, occupancy rates, and the number of businesses for the three regions. Consistent with *SFPark* guidelines, we use average occupancy rates to divide the parking blocks to high (average occupancy rates above 80%), medium (60% to 80% occupancy), and low (below 60% occupancy) utilization.

Table 1 shows that after the implementation of congestion pricing, the mean parking rate increased by around 150% in high-utilization blocks and decreased by between 40% and 70% in low-utilization blocks in Marina and Fillmore. In Mission, there were no high-utilization blocks in the before period, and the parking rates in the low-utilization blocks decreased slightly.<sup>4</sup> As expected, the average occupancy rate in low-utilization blocks increased, while the average occupancy rate in high- and medium-utilization blocks decreased. This provides evidence of shifts in demand as a response to congestion pricing. We also find that high-utilization blocks have a higher average number of businesses.

#### 4. Model

There are  $M_r$  consumers who are interested in visiting region  $r$  (i.e., Fillmore, Marina, or Mission). In the

baseline model, we set the market size of each region,  $M_r$ , to be twice the average number of drivers in the before period, which yields a market size of 700 in Marina, 1,135 in Fillmore and 1,420 in Mission. We later perform robustness checks to make sure that our results are insensitive to these market sizes.

We specify the decision process of a consumer  $i$ , whose trip destination is at block  $b_i^*$ , and is interested in parking for a duration of  $h_i$  hours. Block  $b_i^*$  is the ideal parking location for consumer  $i$ , if parking is free and available. Although we do not observe consumers' ideal locations, we estimate the distribution of ideal locations of consumers as a function of business densities over the set of blocks,  $B_r$ , in region  $r$ : The fraction of consumers whose ideal location is block  $b$  is  $\omega_r(b)$ , and  $\sum_{b \in B_r} \omega_r(b) = 1$ . Details of this specification are in Section 5.1.

In our model, ideal locations and trip durations are determined endogenously and do not change once a customer has parked. Although there may be situations in which a customer is willing to change her destination or duration based on congestion levels and parking rates, these two variables are largely determined by the purpose of the trip. For example, the destination of a consumer who plans to buy an iPhone is the Apple store, and the duration of the trip is determined by the expected time it takes to shop and purchase an iPhone.

We model consumers' driving and parking behavior as a series of decisions. We assume that each consumer chooses among three options: (1) drive to the region and search for on-street parking; (2) drive to the region, but park directly in the public garage without searching;<sup>5</sup> or (3) choose an outside option, which includes staying at home, using other modes of transportation, or parking elsewhere.<sup>6</sup>

A consumer chooses the option that gives her the highest expected utility. Without loss of generality,

**Table 1.** Summary Statistics

Variable	Marina					Fillmore					Mission				
	Total	High	Mid	Low	Garage	Total	High	Mid	Low	Garage	Total	High	Mid	Low	Garage
Rate—Before	2.00 (0.00)	2.00 (0.00)	2.00 (0.00)	2.00 (0.00)	2.50 (0.00)	2.00 (0.00)	2.00 (0.00)	2.00 (0.00)	2.00 (0.00)	2.00 (0.00)	2.00 (0.00)	(–) (–)	2.00 (0.00)	2.00 (0.00)	2.25 (0.25)
Rate—After	2.50 (0.97)	3.24 (0.45)	2.61 (0.68)	1.17 (0.73)	2.33 (0.47)	2.27 (0.93)	3.29 (0.27)	2.24 (0.75)	1.31 (0.68)	2.33 (0.47)	2.32 (0.78)	(–) (–)	2.53 (0.65)	1.92 (0.85)	2.00 (0.41)
Occupancy—Before	0.74 (0.16)	0.83 (0.11)	0.74 (0.13)	0.58 (0.16)	0.13 (0.06)	0.70 (0.19)	0.84 (0.15)	0.69 (0.16)	0.57 (0.17)	0.26 (0.13)	0.62 (0.18)	(–) (–)	0.63 (0.17)	0.58 (0.18)	0.12 (0.06)
Occupancy—After	0.73 (0.16)	0.81 (0.12)	0.75 (0.13)	0.56 (0.15)	0.19 (0.08)	0.69 (0.20)	0.82 (0.16)	0.70 (0.16)	0.56 (0.21)	0.23 (0.14)	0.66 (0.18)	(–) (–)	0.68 (0.18)	0.63 (0.18)	0.12 (0.05)
No. of A-Type Businesses—Before	8.68 (7.39)	9.17 (11.77)	7.22 (5.26)	11.25 (2.63)	(–) (–)	16.07 (36.76)	39.90 (73.86)	9.80 (10.26)	7.90 (7.65)	(–) (–)	20.72 (19.86)	(–) (–)	25.89 (21.07)	7.43 (5.71)	(–) (–)
No. of A-Type Businesses—After	9.84 (9.70)	12.17 (16.40)	7.67 (5.36)	11.25 (3.40)	(–) (–)	16.93 (39.51)	42.60 (79.68)	10.32 (10.07)	7.80 (8.12)	(–) (–)	22.08 (21.52)	(–) (–)	27.22 (23.23)	8.86 (6.36)	(–) (–)
No. of B-Type Businesses—Before	2.58 (3.32)	4.67 (5.43)	1.67 (1.22)	1.50 (0.58)	(–) (–)	2.82 (3.21)	4.70 (4.47)	2.56 (2.96)	1.60 (1.17)	(–) (–)	4.36 (3.41)	(–) (–)	5.33 (3.38)	1.86 (2.04)	(–) (–)
No. of B-Type Businesses—After	2.58 (3.13)	4.33 (5.16)	2.11 (1.27)	1.00 (0.00)	(–) (–)	2.87 (3.20)	4.40 (4.20)	2.76 (3.17)	1.60 (1.07)	(–) (–)	4.48 (3.66)	(–) (–)	5.44 (3.75)	2.00 (2.00)	(–) (–)
No. of C-Type Businesses—Before	2.32 (2.67)	3.17 (3.92)	2.11 (2.20)	1.50 (1.29)	(–) (–)	2.04 (2.41)	2.20 (2.20)	2.00 (2.53)	2.00 (2.54)	(–) (–)	3.36 (2.61)	(–) (–)	4.17 (2.60)	1.29 (1.11)	(–) (–)
No. of C-Type Businesses—After	2.74 (2.84)	3.83 (4.31)	2.44 (2.19)	1.75 (0.96)	(–) (–)	2.24 (2.40)	2.30 (2.16)	2.24 (2.55)	2.20 (2.49)	(–) (–)	3.84 (2.67)	(–) (–)	4.78 (2.51)	1.43 (1.13)	(–) (–)
No. of D-Type Businesses—Before	1.68 (1.73)	1.67 (2.07)	1.67 (1.87)	1.75 (1.26)	(–) (–)	2.00 (4.37)	3.30 (6.43)	1.20 (1.53)	2.70 (6.46)	(–) (–)	1.84 (1.70)	(–) (–)	2.06 (1.70)	1.29 (1.70)	(–) (–)
No. of D-Type Businesses—After	2.21 (2.20)	2.50 (3.21)	1.89 (1.90)	2.50 (1.29)	(–) (–)	2.42 (5.02)	3.80 (7.36)	1.56 (1.94)	3.20 (7.36)	(–) (–)	2.28 (1.97)	(–) (–)	2.83 (1.89)	0.86 (1.46)	(–) (–)
No. of Blocks	19	6	9	4	1.00	45	10	25	10	1	25	0	18	7	2
No. of Space	329	100	153	76	205	739	123	453	163	920	861	0	616	245	448

Notes. Standard deviations are in parentheses. When calculating the occupancy rate, we excluded nonoperational hours for parking spaces when applicable, for example, peak-time tow away zones. “Before” refers to our sample period before congestion pricing: April to July in 2011; “after” refers to our sample period after congestion pricing: April to July in 2012. High-, medium-, and low-utilization blocks are defined using average occupancy rate in 2011 (i.e., before SFpark) greater than 80%, between 60% and 80%, and below 60%, respectively. A-type business has one to four employees, B-type business has five to nine employees, C-type business has 10–19 employees, and D+-type business has more than 20 employees.

we normalize the mean utility of the outside option to zero. Customer  $i$ 's utility of the outside option is  $u_{i0} = \epsilon_{i0} \equiv V_i^0$ , where  $\epsilon_{i0}$  is an idiosyncratic shock to the outside utility of customer  $i$ , which follows a normal distribution with mean zero and standard deviation  $\sigma$ .

Consumer  $i$  obtains a mean trip value,  $v_{irt}$ , from driving to the region relative to the outside option, irrespective of whether she parks at the garage directly or searches for on-street parking. We let the mean utility of driving be a linear function of the duration of parking. Specifically,  $v_{irt} = \alpha + \beta X_{rt} h_i$ , where  $X_{rt}$  contains the intercept and dummy variables indicating the time of day, day of week, and month. Even though all parameters are region-specific, we omit the subscript  $r$  for parameters for brevity. We follow the literature on discretionary services and allow the mean utility of driving to increase with trip duration (e.g., Anand et al. 2011 and Feldman and Segev 2020) and assume that this function is linear.<sup>7</sup> Keeping everything else equal, longer trips provide greater utility to the customer, and this increase in utility offsets the parking costs, which also increase with trip duration.

Whether a consumer chooses to drive depends on her mean utility, but also on her costs and the utility shock, which, taken in sum, yield a nontrivial travel decision.

Customer  $i$  who decides to drive and park directly at the garage obtains value  $v_{irt} + \epsilon_{ig}$  from the trip, where  $\epsilon_{ig}$  is an idiosyncratic shock to her utility from parking at the garage, and follows the same distribution as  $\epsilon_{i0}$ . The customer also incurs costs for walking from the garage to her ideal location,  $b_i^*$ , and the garage parking fee, which is based on the hourly parking rate at the garage,  $P_{bg}$ , and the parking duration,  $h_i$ . Specifically, customer  $i$ 's utility for parking at the garage is:  $u_{ig} = \alpha + \beta X_{rt} h_i + \epsilon_{ig} - \eta_i d(b_i^*, b_g) - \theta_i P_{bg} h_i \equiv V_i^{\text{garage}}$ , where  $\eta_i$  is customer  $i$ 's cost of walking one block;  $d(b_i^*, b_g)$  is the distance from the garage to her destination in blocks,  $b_i^*$ ,<sup>8</sup> and  $\theta_i$  is customer  $i$ 's price sensitivity. We assume that there is always an available parking space at the garage.<sup>9</sup>

Finally, a consumer who chooses to drive to the region and search for on-street parking would either end up parking at a block that she finds available and affordable, or could eventually decide to abandon



searching and either park at the garage or choose the outside option (e.g., forgo the trip or park elsewhere). If she parks on-street, she will obtain value  $v_{irtd} + \epsilon_{is}$ , where  $\epsilon_{is}$  is an idiosyncratic shock to consumer  $i$ 's utility from on-street parking, and follows the same distribution as  $\epsilon_{i0}$  and  $\epsilon_{ig}$ . Note that all utility shocks,  $\epsilon_{i0}$ ,  $\epsilon_{ig}$ , and  $\epsilon_{is}$ , are observable to the consumer, but not to the researchers. As with garage parking, a consumer who parks on-street pays for parking and incurs search costs and the cost of walking to her destination if she parks in another block.

#### 4.1. Dynamic Spatial Search Model

**4.1.1. States, Actions and Utilities.** We derive the model of search with congestion pricing, in which prices may vary across blocks and by time of day, day of week, and month. Fixed pricing is a special case of this model. On the  $k$ th search, consumer  $i$  arrives at block  $b_k$ ,  $k = 1, 2, 3, \dots$ . There are three actions,  $a$ , that she can choose from: continue to search ( $a = 0$ ), park at the current block if there is a spot available ( $a = 1$ ), or stop searching for on-street parking ( $a = 2$ ). She chooses the option that gives her the highest expected utility. The utility of each option depends on the following state variables, which are realized after consumer  $i$  arrives to the block:

- $b_k$ : the block that the consumer arrives at on the  $k$ th search;
- $P_{rtdb_k}$ : the hourly parking price at block  $b_k$  in region  $r$  at time  $t$  on day  $d$ ;
- $A_{rtdb_k}$ : the availability of block  $b_k$  in region  $r$  at time  $t$  on day  $d$ .  $A_{rtdb_k}$  equals one if there is at least one parking spot available, and zero otherwise;
- $\epsilon_{irtdb_k}$ : the shock to the cost to search observed by consumer  $i$  at block  $b_k$  in region  $r$  at time  $t$  on day  $d$ .

Consumer  $i$ 's utility from choosing action  $a$  at block  $b_k$  is  $u_i(b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}; a)$ . We specify the utility from each action below:

Consumer  $i$  may decide to stop searching for on-street parking ( $a = 2$ ). She then faces two options: park at the garage or choose the outside option (e.g., give up the trip completely, park at a private garage, etc.). She chooses the option that maximizes her utility:<sup>10</sup>

$$u_i(b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}; 2) = \max(V_i^{\text{garage}}, V_i^0) \\ \equiv V_i^{\text{garage} \mid 0}.$$

Alternatively, consumer  $i$  may decide to park on-street ( $a = 1$ ). Then, if the block is available—that is,  $A_{rtdb_k} = 1$ —she gets:  $u_i(b_k, P_{rtdb_k}, 1, \epsilon_{irtdb_k}; 1) = v_{irtd} + \epsilon_{is} - \eta_i d(b_i^*, b_k) - \theta_i P_{rtdb_k} h_i \equiv V_i^{\text{park}}(b_k, P_{rtdb_k})$ . If there is no parking spot available in the block—that is,  $A_{rtdb_k} = 0$ —then she cannot park there and we denote her utility from parking by negative infinity:  $u_i(b_k, P_{rtdb_k}, 0, \epsilon_{irtdb_k}; 0) = -\infty$ .

Finally, if consumer  $i$  decides to continue to search ( $a = 0$ ), she gets the expected utility:

$$u_i(b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}; 0) \\ = -s_i \epsilon_{irtdb_k} + E \left[ \max_{a=\{0,1,2\}} u_i \right. \\ \left. (b_{k+1}, P_{rtdb_{k+1}}, A_{rtdb_{k+1}}, \epsilon_{irtdb_{k+1}}; a) \right. \\ \left. \mid (b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}) \right], \\ \equiv -s_i \epsilon_{irtdb_k} + V_i^{\text{search}}(b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}),$$

where  $s_i$  is consumer  $i$ 's per block search cost and  $\epsilon_{irtdb_k}$  is the shock associated with the search cost  $s_i$ . That is, the actual cost incurred if consumer  $i$  continues to search,  $s_i \epsilon_{irtdb_k}$ , depends on both the per block search cost,  $s_i$ , which is known to the consumer before searching, and the search cost shock,  $\epsilon_{irtdb_k}$ , which is only realized after she arrives at block  $b_k$ . The shocks,  $\epsilon_{irtdb_k}$ , are independent and identically distributed (i.i.d.) across consumers, regions, time, day and blocks, and follow a standard log-normal distribution (i.e.,  $\log(\epsilon_{irtdb_k})$  follows the standard normal distribution).<sup>11</sup> The log-normal distribution guarantees that the overall search cost  $s_i \epsilon_{irtdb_k}$  is nonnegative (a customer would not give up an available parking spot because she suddenly “enjoys” searching). The expectation denotes the expected utility from continuing to search once a customer arrives at block  $b_k$ . It is taken with respect to the conditional distribution of state variables in the next period ( $b_{k+1}, P_{rtdb_{k+1}}, A_{rtdb_{k+1}}, \epsilon_{irtdb_{k+1}}$ ) given the current state variables ( $b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}$ ).

A consumer that continues to search follows a random-walk strategy (with no immediate return) and will arrive at one of the adjacent blocks randomly. Ideally, shocks would be specific to each of the adjacent blocks. Although intellectually appealing, block-specific shocks introduce three unobserved state variables (most blocks have three adjacent blocks at each end) and increase the estimation complexity substantially. Without much loss of generality, we introduce one shock to the search cost, which captures, for example, the general traffic condition that makes a consumer more or less willing to continue to search. To introduce randomness to the search-path itself, a customer who continues to search elects one of the adjacent blocks randomly. The random-walk model allows for idiosyncratic shocks that affect a consumer's stopping decision without overcomplicating the estimation.<sup>12</sup>

**4.1.2. Evolution of States and Consumer Beliefs.** As we discussed, the evolution of the state variable  $b_k$  follows a random walk with no immediate return. The direction of driving at the initial block is generated randomly, and there is an equal probability to transition from the current block to any of the adjacent blocks.<sup>13</sup> Let  $B_{rb_k}$  be the set of adjacent blocks accessible from the current block  $b_k$  and  $|B_{rb_k}|$  be the number



of adjacent blocks. The joint evolution of state variables  $P_{rtdb_k}$  and  $A_{rtdb_k}$  depends on the region, time and day, and the location of the current block. For the evolution of the search cost shock, recall that  $\epsilon_{irtdb_k}$  is i.i.d. across consumers, regions, times, days, and blocks and is independent from  $P_{rtdb_k}$  and  $A_{rtdb_k}$ . Therefore, if a consumer decides to continue to search (i.e.,  $a = 0$ ), the transition probability is:

$$Pr(b_{k+1}, P_{rtdb_{k+1}}, A_{rtdb_{k+1}}, \epsilon_{irtdb_{k+1}}; 0 | b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}) = \begin{cases} \frac{1}{|B_{rb_k}|} f_{rtdb}^{P,A}(P_{rtdb_{k+1}}, A_{rtdb_{k+1}} | b_k, P_{rtdb_k}, A_{rtdb_k}) f^\epsilon(\epsilon_{irtdb_{k+1}}), & \text{if } b \in B_{rb_k} \\ 0, & \text{otherwise,} \end{cases}$$

where  $f_{rtdb}^{P,A}$  and  $f^\epsilon$  are the density functions of the state variables.

Consumers form rational expectations about the price, availability, and search cost shock distributions. A fully rational consumer would need to possess an extreme level of sophistication: Not only would she form rational expectations of the availability, price, and search cost shock at each specific block, she would also form rational expectations of the spatial correlations of these state variables and would, therefore, update her belief about the distribution of these state variables at a future block based on the observed states of all previous blocks visited. This level of rationality is undesirable: Not only does it introduce a substantial computational burden to the estimation of a dynamic model with multiple state variables, but this level of rationality also expects too much from a consumer. Instead of assuming full rationality, we simplify beliefs and decisions by letting consumers' beliefs of  $P_{rtdb_k}$  and  $A_{rtdb_k}$  be i.i.d. across block  $b_k$ . That is, consumers still have different expectations about the price and availability in different hours of a day, on different days, and in different regions. However, within a region and at a given time  $t$  and day  $d$ , all blocks appear ex ante the same. To explain, taking availability as an example, a consumer forms an expectation that all blocks have the same probability to be available and that this expectation is consistent—it equals the observed average probability of a block being available across all blocks in the region at time  $t$  on day  $d$ . Specifically,  $\phi_{rtdb}$  is the probability that block  $b$  is available (i.e., at least one spot is empty) in region  $r$  at time  $t$  on day  $d$ , and  $\tilde{\phi}_{rtdb}$  is consumers' belief of availability. Then,

$$\tilde{\phi}_{rtdb} = \frac{\sum_{b \in B_r} \phi_{rtdb}}{|B_r|} \equiv \phi_{rtid}.$$

Of course, whether a consumer finds a block available is based on the real-time availability of the block, rather than on average availability. In other words,

consumers' beliefs are correct on average, but not for a particular instance. As with realized availability, customers form rational expectations with respect to prices. Consumers do not know whether the nearby blocks are priced lower than the current block they are at and only learn how much they will be paying once they arrive at a specific block. In fact, as we show later, the potential rate difference may motivate them to search for better prices in new blocks.

Availability  $\phi_{rtdb}$  is not directly observable but we can derive it from block-level utilization by modeling the block as an  $M/G/s_{rb}/0$  loss system:  $s_{rb}$  is the number of parking spaces at block  $b$ , the number zero indicates that the maximum queue length is zero (it is a loss system), so that consumers who find that the block is full do not wait in the block for a spot to become available, the arrival rate to block  $b$  at time  $t$  on day  $d$  is  $\lambda_{rtdb}$  and the mean parking time is  $1/\mu_{rtdb}$ . The arrival rate follows a Poisson process, but the time spent parking can follow any distribution. From the Erlang loss formula, the probability that a consumer can successfully park—that is, she is not “lost”—is:

$$\phi_{rtdb} = 1 - \frac{\left(\frac{\lambda_{rtdb}}{\mu_{rtdb}}\right)^{s_{rb}}}{s_{rb}!} \bigg/ \sum_{k=0}^{s_{rb}} \frac{\left(\frac{\lambda_{rtdb}}{\mu_{rtdb}}\right)^k}{k!}. \quad (1)$$

Because only a fraction  $\phi_{rtdb}$  of arriving consumers can be served, utilization is:

$$\varphi_{rtdb} = \frac{\phi_{rtdb} \lambda_{rtdb}}{s_{rb} \mu_{rtdb}}. \quad (2)$$

Rearrange and substitute Equation (1) in Equation (2),  $\phi_{rtdb}$  is implicitly defined by:

$$\phi_{rtdb} = 1 - \frac{\left(\frac{\varphi_{rtdb} s_{rb}}{\phi_{rtdb}}\right)^{s_{rb}}}{s_{rb}!} \bigg/ \sum_{k=0}^{s_{rb}} \frac{\left(\frac{\varphi_{rtdb} s_{rb}}{\phi_{rtdb}}\right)^k}{k!}. \quad (3)$$

The expected value that a customer who continues to search derives is:

$$\begin{aligned} V_i^{\text{search}}(b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}) &= E \left[ \max_{a \in \{0, 1, 2\}} u_i(b_{k+1}, P_{rtdb_{k+1}}, A_{rtdb_{k+1}}, \epsilon_{irtdb_{k+1}}; a) \right. \\ &\quad \left. | (b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}) \right] \\ &= E \left[ \max_{a \in \{0, 1, 2\}} u_i(b_{k+1}, P_{rtdb_{k+1}}, A_{rtdb_{k+1}}, \epsilon_{irtdb_{k+1}}; a) | b_k \right] \\ &\equiv V_i^{\text{search}}(b_k). \end{aligned}$$

To explain, the expected value from search,  $V_i^{\text{search}}(b_k)$ , is a function of the current block,  $b_k$ , and it varies across consumers due to differences in parameters and ideal locations. The second equality holds because consumers do not update their beliefs of price and availability, and because the search shocks,  $\epsilon_{irtdb_k}$ , are i.i.d. across blocks.

**4.1.3. Optimal Decision Rule.** Consumer  $i$ 's optimal decision rule,  $a_i^*(b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k})$ , can be characterized as follows:

- If the current block is available—that is,  $A_{rtdb_k} = 1$ —a consumer can choose from three potential actions: continue to search ( $a = 0$ ), park at the current location ( $a = 1$ ), or abandon on-street parking ( $a = 2$ ). A consumer chooses the action that gives her the highest utility:

$$a_i^*(b_k, P_{rtdb_k}, 1, \epsilon_{irtdb_k}) = \begin{cases} 0, & \text{if } -s_i \epsilon_{irtdb_k} + V_i^{\text{search}}(b_k) \\ & > \max(V_i^{\text{garage}|o}, V_i^{\text{park}}(b_k, P_{rtdb_k})) \\ 1, & \text{if } V_i^{\text{park}}(b_k, P_{rtdb_k}) \\ & \geq \max(V_i^{\text{garage}|o}, -s_i \epsilon_{irtdb_k} + V_i^{\text{search}}(b_k)) \\ 2, & \text{otherwise.} \end{cases}$$

- If the current block is unavailable—that is,  $A_{rtdb_k} = 0$ —a consumer has two options to choose from: continue to search ( $a = 0$ ) and stop searching ( $a = 2$ ).

$$a_i^*(b_k, P_{rtdb_k}, 0, \epsilon_{irtdb_k}) = \begin{cases} 0, & \text{if } -s_i \epsilon_{irtdb_k} + V_i^{\text{search}}(b_k) > V_i^{\text{garage}|o} \\ 2, & \text{otherwise.} \end{cases}$$

Let  $u_i^*(b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}) = \max_{a \in \{0,1,2\}} u_i(b_k, P_{rtdb_k}, A_{rtdb_k}, \epsilon_{irtdb_k}; a)$  be the maximum utility a consumer could get after she arrives at block  $b_k$ . This utility depends on whether the block is available and can be computed recursively. Derivations of the utilities are in Online Appendix A.

## 4.2. Choice of Driving

Finally, we discuss consumer  $i$ 's initial decision. In the first stage, consumer  $i$  chooses among three options: (1) drive to the region and search for on-street parking; (2) drive to the region, but park directly at a public garage; and (3) choose the outside option. We have specified the utilities from the last two options in the previous section. It remains to derive the expected utility from the first option. The expected utility of consumer  $i$  who decides to drive and search for on-street parking is  $u_{is} = \max_{b_1 \in B_r} E_{(P_{rtdb_1}, A_{rtdb_1}, \epsilon_{irtdb_1})} u_i^*(b_1, P_{rtdb_1}, A_{rtdb_1}, \epsilon_{irtdb_1})$ , where  $b_1$  is the block from which a consumer starts to search ( $k = 1$ ). Consumer  $i$  chooses an initial block  $b_1$  from the set of blocks in the region,  $B_r$ , to maximize her expected utility-to-go. The expectation is taken over the state variables  $(P_{rtdb_1}, A_{rtdb_1}, \epsilon_{irtdb_1})$  because they are unknown at the time she makes the decision—consumer  $i$  only observes the realizations of these random variables after she arrives at block  $b_1$ .

In the first stage, consumer  $i$  chooses the option that brings her the highest expected utility among  $u_{is}$ ,  $u_{ig}$ , and  $u_{i0}$ , where

$$\begin{aligned} u_{is} &= \max_{b_1 \in B_r} E_{(P_{rtdb_1}, A_{rtdb_1}, \epsilon_{irtdb_1})} u_i^*(b_1, P_{rtdb_1}, A_{rtdb_1}, \epsilon_{irtdb_1}), \\ u_{ig} &= v_{irtd} + \epsilon_{ig} - \eta_i d(b_i^*, b_g) - \theta_i P_{b_g} h_i, \\ u_{i0} &= \epsilon_{i0}. \end{aligned}$$

Because we assume identical and rational beliefs across blocks, all blocks are ex ante the same, except for their distance to the ideal location. Hence, consumer  $i$ 's best starting location is her ideal location  $b_i^*$ . In a version of the model in which beliefs are stratified across blocks, consumers may not always choose their ideal locations from which to start their search. For example, a customer may want to start at a less congested block located far from her ideal location, if she has a high search cost and a low distance-disutility cost. (See Online Appendix D.2 for details.)

## 5. Identification and Estimation

### 5.1. Destination Model

Prior to discussing how we identify and estimate the model parameters, we describe the specification of the destination distribution. We specify the distribution of consumers' destinations as functions of block-level business densities in each region. Because we have annual business-density data, we allow the distribution of consumers' destinations to vary by year; the subscript  $y$  accounts for potential changes in business density across years.<sup>14</sup> The fraction of consumers whose destination is block  $b$  in year  $y$ ,  $\omega_{ry}(b)$ , is defined as:

$$\omega_{ry}(b) = \frac{\exp(\kappa_r^0 + \kappa_r^A \log N_{ry}^A(b) + \kappa_r^B \log N_{ry}^B(b) + \kappa_r^C \log N_{ry}^C(b) + \kappa_r^{D+} \log N_{ry}^{D+}(b))}{\sum_{b=1}^B \exp(\kappa_r^0 + \kappa_r^A \log N_{ry}^A(b) + \kappa_r^B \log N_{ry}^B(b) + \kappa_r^C \log N_{ry}^C(b) + \kappa_r^{D+} \log N_{ry}^{D+}(b))},$$

where  $\log N_{ry}^A$ ,  $\log N_{ry}^B$ ,  $\log N_{ry}^C$  and  $\log N_{ry}^{D+}$  are vectors of the log scaled numbers of businesses of size A (one to four employees), B (five to nine employees), C (10–19 employees), and D+ (20 employees and above) for region  $r$  in year  $y$ , respectively. This specification guarantees  $0 \leq \omega_{ry}(b) \leq 1$ , and  $\sum_{b=1}^B \omega_{ry}(b) = 1$ . We normalize  $\kappa^0$  to zero without loss of generality. The parameters left to be estimated are  $\kappa_r^A$ ,  $\kappa_r^B$ ,  $\kappa_r^C$ , and  $\kappa_r^{D+}$  for each region.

The establishments of the businesses are largely exogenous, as they are primarily determined by factors such as availability of commercial real estates, zoning restrictions, licensing requirements, etc. Therefore, they should be little affected by the change of the parking policy or the anticipation of it. Moreover, although changes in destination popularity may lead to business openings or closures, these changes are slow

in nature. Indeed, we find minimal changes in the number of businesses from the year 2011 to 2012; the correlation of the number of businesses across the two years is more than 94% for all regions under study, on par with other regions in the city for which the parking policy did not change.

## 5.2. Identification

The identification of the destination model is straightforward. The distribution of ideal locations,  $\omega$ , is a function of business densities. The exogenous variations in business densities across blocks identify the parameters in the destination model (i.e.,  $\kappa^A$ ,  $\kappa^B$ ,  $\kappa^C$  and  $\kappa^{D+}$ ). We identify consumer attributes by exploiting parking patterns in the fixed-pricing and congestion-pricing periods. The three key consumer attributes in which we are interested are search cost, distance disutility, and price sensitivity.

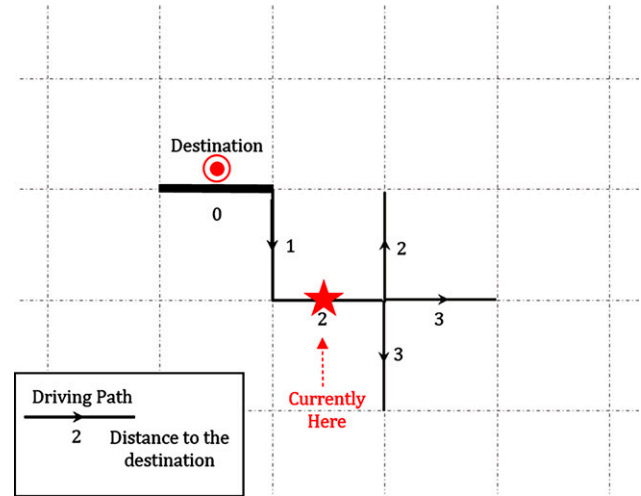
Similar to Hortaçsu and Syverson (2004), Hong and Shum (2006), and Kim et al. (2010), even though we do not directly observe consumers' search paths, we are able to identify search costs and other relevant parameters.<sup>15</sup> We explain which variations in our data drive the identification of each parameter:

**5.2.1. Separation of Price Sensitivity from Search Cost and Distance Disutility.** Price sensitivity is identified through the exogenous variation of prices from the *Sfpark* program and the resulting variations in parking locations. To illustrate, consider a simple case with one block and one garage in the region.

Naturally, in this case, the block is the ideal location for all consumers, but some will have to park at the garage on a congested day. What differentiates on-street from off-street parking is the parking fee and the distance disutility. Although the distance disutility does not change before and after the implementation of congestion pricing, the parking fee does. When the on-street price increases following the implementation of congestion pricing, more consumers park at the garage and fewer park on-street, and vice versa. The extent to which price changes can induce the reallocation of parking between on- and off-street identifies price sensitivity (relative to distance disutility).

**5.2.2. Separation of Search Cost from Distance Disutility.** There are two sources of variation that separate search cost and distance disutility. The first is the extent to which demand shifts to the garage rather than to nearby, less congested blocks. By choosing to park at the garage, a consumer avoids an additional search cost, but usually incurs a greater walking distance to her destination. By choosing to continue to search, a consumer incurs the search cost, but may reduce the walking distance, if she finds a parking space nearby. Therefore, if we observe that parking demand

**Figure 3.** (Color online) Identification Illustration: Separate Search Cost and Distance Disutility



shifts to the garage rather than to nearby, less congested blocks, we can infer that consumers are relatively more sensitive to the inconvenience induced by search than to walking.

The second source of variation stems from the imperfect correlation between the change in search cost and the respective change in walking distance. If a consumer chooses to continue to search, the total number of blocks searched always increases by one, regardless of which nearby block she visits next. However, the walking distance between the next block and her destination may increase or decrease depending on the path she takes (see Figure 3).<sup>16</sup> This seemingly subtle variation comes from the fact that the search is conducted on a two-dimensional space. If, instead, the search was conducted on a unidimensional line, then the number of blocks searched would perfectly correlate with the distance from the ideal location. In this case, it would be more difficult to determine whether a redistribution of demand is caused by aversion to search or to walking.

## 5.3. Moment Conditions

The primitives of the model that we wish to estimate are: coefficients of the destination model,  $\kappa$ ; trip-valuation parameters,  $\alpha$  and  $\beta$ ; the joint distribution of search cost, distance disutility, and price sensitivity,  $(s_i, \eta_i, \theta_i)$ ; and the standard deviation of the utility shocks,  $\sigma$ . We assume that the joint distribution of  $(s_i, \eta_i, \theta_i)$  follows a multivariate lognormal distribution  $\ln N(\mu_{s,\eta,\theta}, W_{s,\eta,\theta})$ , where  $\mu$  and  $W$  are the mean and the variance-covariance matrix of the corresponding normal distribution. All parameters are region-specific. We jointly estimate ideal-location distributions and the consumer-attribute parameters using data from both the fixed-pricing and congestion-pricing periods. We



then use the ideal-location distributions and the consumer attributes that we estimated as inputs for the counterfactual analyses.

By estimating the joint distribution, we allow a consumer's search cost, distance disutility, and price sensitivity to be correlated, and we estimate the correlations empirically. Let  $\Theta = (\mu_{s,\eta,\theta}, W_{s,\eta,\theta}, \alpha, \beta, \sigma, \kappa)$ . Because the scale of utility is irrelevant to choices, not all parameters can be identified. Consumers compare relative values among options, so the exact scale of utility is irrelevant, and the parameters are estimated relative to a parameter that is normalized to one. To measure welfare in dollars, we choose to normalize the mean price sensitivity to one.

We use Simulated Method of Moments (SMM) to estimate  $\Theta$ . First proposed by McFadden (1989), SMM is conceptually identical to the more commonly used Generalized Method of Moments, except that with SMM, the moments are calculated by using model-based simulations, rather than directly from the model. Specifically, we calculate the differences between the observed and the simulated outcomes for the fixed- and congestion-pricing periods, given exogenous variables  $V$  and parameters  $\Theta$ , as:

$$g(V; \Theta) = \begin{bmatrix} q_{rtd}^{fixed}(b) - \tilde{q}_{rtd}^{fixed}(b; \Theta) \\ Q_{rtd}^{fixed}(b) - \tilde{Q}_{rtd}^{fixed}(b; \Theta) \\ q_{rtd}^{dynamic}(b) - \tilde{q}_{rtd}^{dynamic}(b; \Theta) \\ Q_{rtd}^{dynamic}(b) - \tilde{Q}_{rtd}^{dynamic}(b; \Theta) \end{bmatrix}, \quad \forall t, d, b = \{1, 2, \dots, |B_r|, g\},$$

where  $q$  is the number of people who park,  $Q$  is the total minutes parked at each block  $b$  or in the garage  $g$  ( $Q$  and  $q$  are observed outcomes, and  $\tilde{Q}$  and  $\tilde{q}$  are simulated outcomes), and  $V$  is the matrix of indicators for each block/the garage, month (May, June, and July), weekend, and hour (morning, noon, and afternoon). We estimate the parameters  $\Theta$  based on these orthogonality conditions:

$$\mathbb{E}[V'g(V; \Theta)] = 0. \quad (4)$$

We have  $(|B| + 1) \times 4 \times 7$  moment conditions overall. (See Online Appendix B for details on the estimation procedure.)

## 6. Estimation Results, Welfare Analysis, and Robustness Tests

In this section, we report the estimated availability, ideal-location distributions, and model parameters. Using the estimates, we calculate welfare changes from before and after the implementation of congestion pricing. Finally, we perform multiple sets of robustness tests to ensure that our results are driven by data variations rather than by specific modeling assumptions.

### 6.1. Estimation Results

We calculate real-time availability for each hour and each block in our sample periods using occupancy data obtained from the parking sensors. Table 2 summarizes the availability estimates for high-, medium-, and low-utilization blocks in each region during the before and after periods. The estimates show similar patterns as the occupancy rates in Table 1.

We also estimate the per-block price sensitivity, search cost, and distance disutility; their covariance matrix; the four parameters in the destination model; and the seven parameters that affect trip valuation. Table 3 presents the results.

To interpret the magnitudes of the estimated coefficients, we convert the estimates of search cost and distance disutility to dollar values. In the main specification, for example, we estimate that it costs a median consumer in Marina approximately \$3.96 to search an additional block and \$3.10 to park one block away from their destination (all measured by first and third quartiles). We obtain similar estimates for the other two regions. We also examine the estimated correlations between search cost, distance disutility, and price sensitivity. As expected, less price-sensitive consumers also value their time more (there are negative correlations between price sensitivity and search costs). Moreover, customers who dislike search also dislike parking farther away from their destinations

**Table 2.** Summary of Availability Estimates

Variable	Marina					Fillmore					Mission				
	Total	High	Mid	Low	Garage	Total	High	Mid	Low	Garage	Total	High	Mid	Low	Garage
Availability—Before	0.92 (0.06)	0.88 (0.06)	0.93 (0.05)	0.98 (0.03)	1.00 (0.00)	0.92 (0.07)	0.86 (0.09)	0.93 (0.06)	0.96 (0.04)	1.00 (0.00)	0.99 (0.02)	(–) (–)	0.99 (0.02)	0.99 (0.06)	1.00 (0.00)
Availability—After	0.93 (0.06)	0.89 (0.07)	0.93 (0.05)	0.98 (0.02)	1.00 (0.00)	0.92 (0.08)	0.87 (0.09)	0.93 (0.07)	0.96 (0.04)	1.00 (0.00)	0.98 (0.03)	(–) (–)	0.98 (0.02)	0.97 (0.03)	1.00 (0.00)

Notes. Standard deviations are in parentheses. High-, medium-, and low-utilization blocks are defined using average occupancy rate greater than 80%, between 60% and 80%, and below 60%, respectively. “Before” refers to our sample period before congestion pricing: April to July in year 2011, “after” refers to our sample period after congestion pricing: April to July in year 2012.

**Table 3.** Model Estimates

Variable	Marina	Fillmore	Mission
Search cost (log-scaled) mean	1.38*** (0.11)	0.78*** (0.10)	0.98*** (0.09)
Search cost (log-scaled) SD	1.22*** (0.13)	1.07*** (0.13)	1.87*** (0.06)
Distance disutility (log-scaled) mean	1.14*** (0.10)	2.07*** (0.08)	1.72*** (0.07)
Distance disutility (log-scaled) SD	0.05* (0.03)	0.05** (0.02)	0.23*** (0.03)
Price sensitivity (log-scaled) mean	Normalize to 0		
Price sensitivity (log-scaled) SD	0.90*** (0.10)	0.29** (0.13)	0.52*** (0.07)
$\epsilon$ SD	0.90*** (0.10)	0.74*** (0.21)	0.11 (0.21)
Search cost $\times$ distance disutility corr	0.00 (0.01)	-0.02 (0.03)	0.07*** (0.02)
Search cost $\times$ price sensitivity corr	-1.51*** (0.10)	-1.86*** (0.09)	-1.81*** (0.08)
Distance disutility $\times$ price sensitivity corr	0.60*** (0.09)	0.60*** (0.05)	0.46*** (0.07)
Trip valuation— $\alpha$	4.51*** (0.39)	3.17*** (0.28)	3.61*** (0.24)
Trip valuation—intercept	9.74*** (0.63)	6.37*** (0.41)	7.15*** (0.32)
Trip valuation—May	Baseline		
Trip valuation—June	0.10 (0.16)	-0.38*** (0.09)	0.24*** (0.09)
Trip valuation—July	0.13 (0.16)	-0.02 (0.09)	0.30*** (0.10)
Trip valuation—Weekday	Baseline		
Trip valuation—Weekend	-0.31** (0.15)	2.04*** (0.02)	1.37*** (0.13)
Trip valuation—morning	Baseline		
Trip valuation—noon	0.06 (0.16)	0.58*** (0.10)	0.59*** (0.10)
Trip valuation—afternoon	0.39** (0.17)	0.96*** (0.13)	0.62*** (0.10)
Destination Model— $\kappa^A$	-0.34*** (0.03)	-0.11*** (0.01)	0.20*** (0.02)
Destination Model— $\kappa^B$	0.56*** (0.04)	0.47*** (0.02)	-0.01 (0.02)
Destination Model— $\kappa^C$	-0.34*** (0.05)	0.23*** (0.02)	0.04** (0.02)
Destination Model— $\kappa^{D+}$	0.21*** (0.04)	-0.05 (0.31)	-0.18*** (0.02)
Search cost dollar value	\$3.96	\$2.19	\$2.67
Distance disutility dollar value	\$3.10	\$7.98	\$5.60

Notes. The dollar value interval displays the median of the distribution over commuters. Standard errors in parentheses.

\* $p < 0.10$ ; \*\* $p < 0.05$ ; \*\*\* $p < 0.01$ .

(there is a positive correlation between search cost and distance disutility).

Based on the estimated model, we calculate the average price elasticity (i.e., percentage change in a block's occupancy rate as a result of 1% change in its price) to be -0.36, -0.24, and -0.35 for Marina, Fillmore, and Mission, respectively. Interestingly, the estimates are of the same magnitude as those reported in Pierce and Shoup (2013) and Ottosson et al. (2013) (from -0.8 to -0.4). To evaluate model fit, we compare

predicted and observed moments for each block. Figure A.4 in the online appendix demonstrates a close moment fit by blocks. We also calculate the amount of variation in the observed moments that can be explained by the model. At the hourly level, the model explains an average of between 22% and 40% of the variations in the data. Lastly, we conduct in-sample and out-of-sample analyses by randomly selecting two-thirds of time and day in each region to be used for the in-sample analysis and the remaining one-third for out-of-sample analysis. The in-sample  $R^2$  values are 42.15%, 40.65%, and 21.17% for Marina, Fillmore, and Mission, respectively, while the out-of-sample  $R^2$  values are 40.63%, 39.03%, and 21.79% for each region, respectively.

## 6.2. Welfare and Search Externality

**6.2.1. Welfare.** Using the model estimates, we quantify the effect of congestion pricing on both consumer and social welfare. We denote the actual utility that consumer  $i$  obtains by  $u_i^{\text{actl}}$ , the actual parking location for consumer  $i$  by:

$$b_i^{\text{actl}} = \begin{cases} b, & \text{if consumer } i \text{ parks at block } b \\ & \text{eventually, } b \in B_r; \\ b_g, & \text{if consumer } i \text{ parks at the} \\ & \text{garage eventually;} \\ o, & \text{if consumer } i \text{ chooses the outside} \\ & \text{option eventually;} \end{cases}$$

and the actual number of searches that consumer  $i$  has made by  $N_i$ . Then,

$$u_i^{\text{actl}} = \begin{cases} v_{irtd} + \epsilon_{is} - N_i \left( \sum_{k=1}^{N_i} S_i \epsilon_{irtdb_k} \right) \\ \quad - \eta_i d(b_i^*, b_i^{\text{actl}}) - \theta_i P_{rtdb_i^{\text{actl}}} h_i, & \text{if } b_i^{\text{actl}} = b, b \in B_r; \\ u_{ig} - N_i \left( \sum_{k=1}^{N_i} S_i \epsilon_{irtdb_k} \right), & \text{if } b_i^{\text{actl}} = b_g; \\ u_{i0} - N_i \left( \sum_{k=1}^{N_i} S_i \epsilon_{irtdb_k} \right), & \text{if } b_i^{\text{actl}} = o. \end{cases}$$

We calculate consumer surplus, CS, and social welfare, SW, as  $CS = \sum_{i=1}^{M_i} u_i^{\text{actl}} (\theta_i)^{-1}$  and  $SW = CS + \sum_{i=1}^{M_i} P_{rtdb_i^{\text{actl}}} h_i$ . Following the literature (see Meijer and Rouwendal 2006 and references therein), we divide utility by price sensitivity,  $\theta_i$ , such that welfare is expressed in dollar values. As is customary, in calculating social welfare, we view parking payment as a transfer from consumers to the government, which is then distributed back to the local community in various ways.

We report welfare and search traffic in Table 4. Note first that although customers search for an available parking spot irrespective of the pricing strategy, congestion pricing introduces another type of search—search

**Table 4.** Welfare and Search Externality

Variable	Marina		Fillmore		Mission	
	Before (uniform pricing)	After (SFpark pricing)	Before (uniform pricing)	After (SFpark pricing)	Before (uniform pricing)	After (SFpark pricing)
Panel A: Welfare calculations						
<i>Distance Disutility</i>	84.42	71.94	527.45	519.69	47.43	58.36
<i>Search Cost</i>	71.94	47.41	156.41	139.60	2.87	8.74
<i>Payment</i>	74.12	91.92	76.64	85.90	70.54	75.11
<i>Trip Valuation</i>	689.09	710.93	1178.60	1182.79	692.36	681.97
<i>Consumer Surplus Change</i>		41.05		19.50		−31.76
<i>Social Welfare Change</i>		58.86		28.76		−27.18
Panel B: Summary statistics of consumer actions and search traffic						
<i>Go with the Car (%)</i>	50.19	48.22	51.62	50.10	50.44	48.61
<i>Park at Garage (%)</i>	4.95	5.63	14.07	14.55	2.84	3.66
<i>Search Availability (%)</i>	13.23	8.04	14.84	13.03	0.51	1.40
<i>Search Price (%)</i>	0.00	0.18	0.00	0.18	0.00	0.34
<i>Total # of Searches</i>	13.23	8.22	14.84	13.21	0.51	1.74

Notes. Consumer surplus is normalized to dollar value at the size of 100 consumers. Results are based on 50 rounds of simulations.

for a better price. That is, due to the lack of complete information about prices, customers who find an available spot at a higher than expected price may forgo that space and continue searching, thereby increasing costs (see Table 4B). Although we find that in the regions we examined the cost to search for an available parking spot outweighs the cost to search for a better price, it is possible that in cities or regions with more price-sensitive customers, prices will be more dispersed, and the search for prices may be more pervasive, increasing price-based search cost. Policy makers should therefore account for this cost when considering a change in pricing strategy.

In the main specification, following the implementation of congestion pricing, consumer surplus increased by \$41.05 and \$19.50 per 100 consumers, an equivalent of 55.39% and 25.44% of total payment, in Marina and Fillmore, respectively. However, consumer surplus decreased by \$31.76 per 100 consumers, an equivalent of 45.02% of total payment, in Mission. We observe the same directional changes in social welfare.

From where do the differences in welfare originate? In Marina and Fillmore, following the implementation of congestion pricing, consumers incur much lower search costs and lower distance disutility, which offset the increase in payments.

The same does not hold in the Mission district. There, the implementation of congestion pricing increased not only total payment, but also search costs and distance disutility. Several effects may contribute to the increase in search costs and distance disutility. First, congestion pricing does not only decrease congestion of highly popular blocks, it also increases congestion at low-utilization blocks—high prices in popular blocks lead more customers to less-congested blocks in search for a better price, but this results in increased

congestion in these blocks. The increase in congestion may increase both search costs—search for a better price and search for availability in less-congested regions due to the externality imposed by consumers searching for a better price) and distance disutility. Second, consumers may find it less attractive to drive to their destination if they anticipate higher prices.

The overall effect is that both social welfare and consumer surplus decrease. The inconsistent welfare implications in different regions highlight the critical tradeoff between the desire for high utilization and the aversion for congestion. From the perspective of resource utilization, social planners would like to attract as many customers as possible and keep utilization high. However, high utilization generates congestion, which reduces the utility that each consumer obtains from accessing the resource. We further examine the reasons that congestion pricing leads to lower welfare in Mission, as well as pricing policies that may increase welfare, in Section 7.1.

Finally, following the implementation of congestion pricing, the total number of searches decreased by 37.8% and 10.96% in Marina and Fillmore, respectively. Although we do not have traffic data, these numbers suggest that the program contributes to a reduction in traffic levels. Decreased traffic has implications on gas usage, pollution, and accidents, all of which are likely to decrease as well, contributing to a more sustainable world. In addition to the negative externalities that congestion pricing helps mitigate, it may also result in positive externalities. For example, better parking availability may have implications on the economics of local businesses in these regions. In Online Appendix C, we study heterogeneous welfare impacts depending on consumers' price sensitivity and destinations.



### 6.3. Robustness Tests

We conduct multiple robustness tests to ensure that our results are not driven by specific modeling assumptions. We evaluate the robustness of our results along the following dimensions. (1) Market size: To ensure that our results are not sensitive to the choice of market size, we perform the analyses for several market sizes (Online Appendix D.1). (2) Consumers' beliefs: Rather than assuming that consumers' beliefs regarding availability and price are identical across blocks at a given time and day in a region, we allow consumers to form different beliefs depending on the levels of congestion (Online Appendix D.2). (3) Updating beliefs: We allow consumers to update their beliefs about availability if they arrive at the ideal location and find it unavailable (Online Appendix D.3). (4) Parking-duration distribution: Because of the irregularities observed in the distribution of parking durations (details explained in Online Appendix B), we draw parking durations from the observed empirical distribution. The observed distribution is censored. To see whether censoring may affect our conclusions, we simulate different distributions of parking duration based on different censoring levels and introduce additional noise (Online Appendix D.4). Our conclusions regarding welfare and search traffic changes are robust to all these alternative specifications.

## 7. Counterfactual Analyses

We conduct three counterfactual analyses: We examine what alternative pricing policies may lead to welfare improvement for uncongested regions such as Mission. We examine simpler pricing structures to balance availability-based and price-based searching. Finally, we test how congestion pricing compares to the commonly used policy that limits parking duration, but keeps prices fixed.

### 7.1. Pricing in Uncongested Regions

Recall that the congestion-pricing policy implemented by SFpark lowered consumer and social welfare in Mission. A critical difference between Mission and the other two regions is that Mission was not very congested, even before the implementation. Table 1 shows that even before the implementation of the program, no block in Mission was classified as "high" occupancy. The average occupancy rate was 62%, with all blocks reporting below 70% in the before period (April to July 2011).<sup>17</sup> To compare, before the SFpark program was implemented, the average occupancy rate in Marina was 74% and in Fillmore 70%. We also find that occupancy rates are less dispersed geographically in Mission compared with the other regions. This suggests that the primary focus in Mission should not be to reallocate demand across blocks, but to increase block utilization.

We therefore hypothesize that lower parking rates may increase welfare in Mission, by increasing the fraction of consumers who drive to the destination.

Specifically, we consider two counterfactuals with lower prices: (1) uniform pricing, where each block is priced equally at a rate that is \$0.50 lower than the average price charged during the after period; and (2) congestion pricing, in which each block is priced \$0.50 lower compared with the corresponding price during the after period for that block. Lower parking rates introduce a tradeoff: They impact parking costs and entice more consumers to drive. At the same time, the increase in demand leads to more traffic and congestion, which make driving less desirable. In uncongested areas with low utilization, availability may remain high, even when utilization increases. Therefore, decreasing prices in such areas could be beneficial if the gain from increased utilization dominates the negative impact of congestion. In overly congested areas, lower rates result in increased congestion without a welfare gain, because availability drops dramatically as utilization increases. We find the new equilibrium following procedures presented in Online Appendix D, with results shown in Table 5.

We show that lower parking rates increase consumer and social welfare under uniform pricing with lower rates. Much of the gain can be attributed to higher fractions of consumers driving to the destination—that is, 52%–54%, as opposed to 49%. Even though consumers incur slightly higher search costs or park farther away, the social gain from the increased total trip valuation more than offsets losses in search costs and distance disutility, confirming our intuition that when the region is underutilized, demand reallocation is secondary to the benefit gained from increased utilization. This result illustrates that it is important to determine whether congestion is a real concern in the region. If it is not, then alternative policies aimed at increasing utilization may lead to more desirable outcomes. With congestion pricing, even when the rates are lower, consumer surplus and social welfare decrease. This is because incomplete information on availability and prices cause consumers to park farther away from their ideal locations and results in higher congestion in some blocks, additional searches, and increased disutility costs.

The results of the counterfactuals combined highlight the importance of treating different types of regions *strategically* differently. Policies that work well in highly congested areas, such as congestion pricing, may not work well in underutilized regions, even if the price levels are lower. These areas lend themselves to fundamentally different policies.

### 7.2. Comparing Simple and Complex Pricing Policies

The complexity of a pricing strategy, along with the uncertainty it brings, may cause congestion-pricing

**Table 5.** Welfare and Search Externality with Lowering Prices Uniformly by \$0.50

Variable	Before (uniform pricing)	After (SFpark pricing)	Counterfactual I (uniform pricing \$0.50 lower)	Counterfactual II (SFpark pricing \$0.50 lower)
Panel A: Welfare calculations				
<i>Distance Disutility</i>	47.43	58.36	51.67	60.54
<i>Search Cost</i>	2.87	8.74	4.78	9.34
<i>Payment</i>	70.54	75.11	57.16	62.57
<i>Trip Valuation</i>	692.36	681.97	700.76	692.13
<i>Consumer Surplus Change</i>		−31.76	15.63	−11.83
<i>Social Welfare Change</i>		−27.18	2.25	−19.80
Panel B: Summary statistics of consumer actions and search traffic				
<i>Go with the Car (%)</i>	50.44	48.61	53.95	52.02
<i>Park at Garage (%)</i>	2.84	3.66	2.91	3.91
<i>Search Availability (%)</i>	0.51	1.40	0.91	1.64
<i>Search Price (%)</i>	0.00	0.34	0.00	0.44
<i>Total # of Searches</i>	0.51	1.74	0.91	2.08

Notes. Consumer surplus is normalized to dollar value at the size of 100 commuters. Results are based on 50 rounds of simulations.

strategies to fail (Bonsall et al. 2007). In our setting, a complex pricing strategy may lead consumers to adopt inefficient search strategies with regard to where to start and where to search. It may also induce search for better prices. To see if a simpler pricing structure may lead to higher welfare, we examine a pricing policy with only three price levels, each corresponding to the high-, medium-, and low-utilization blocks, respectively. Given that there are only three price levels, it is likely that consumers have perfect information about prices, which is what we assume. To allow for a fair comparison, we set each of the three price levels to equal the average price observed for high-, medium-, and low-utilization blocks. We keep the rate constant for the entire study period, regardless of the time of the day and day of week.

We solve for the equilibrium under the three-tier pricing policy. The results, presented in Table 6, suggest that the simpler pricing policy achieves higher social welfare and consumer surplus in all three regions, compared with the more complex congestion-pricing policy currently in place. Much of this gain can be attributed to higher trip valuation. Moreover, the simpler pricing policy further reduces total search traffic by 0.13% points (or 1.00%) in Fillmore, relative to congestion pricing.

Even with the simpler pricing policy, the social and consumer welfare are lower than with fixed pricing in the Mission, which, as we argued earlier, illustrates that the primary focus in Mission should not be to reallocate demand across blocks through differentiated pricing, but to increase utilization.

### 7.3. Usage Limits vs. Congestion Pricing

The regulation approach (e.g., usage limits or permits) and the market-based approach (e.g., price-based approach) are the two most commonly used approaches in managing public resources. In city parking, most

local governments impose parking-duration limits to regulate the usage of public parking spaces, but some have recently used congestion pricing to match demand with limited supply. For example, the City of San Francisco previously imposed two-hour parking limits on most blocks, but relaxed the limit to four hours when it decided to pilot the new congestion-pricing program in April 2011—that is, the start of the before period. To compare the two approaches, we examine the counterfactual of fixed pricing with a two-hour parking limit. In this case, if a consumer wants to park for more than the two-hour limit, she has three options: she could compromise and park for up to two hours on-street, park at the garage for the entire time demanded, or choose the outside option. A consumer will choose the option that maximizes her utility.

Consumers that require long parking durations tend to value the trip more. Limiting their parking duration or blocking them altogether harms welfare by decreasing overall trip valuation. At the same time, usage limits increase availability because they exclude consumers who demand long parking durations, and possibly allow parking spaces to be utilized by more consumers who require short parking durations. Therefore, the overall effect of usage limits on welfare depends on whether the gain from better availability offsets the loss in trip valuation.

Table 7 illustrates that the resulting social welfare with congestion pricing is higher in all regions compared with the social welfare achieved with time limits. The results have an intuitive explanation. To maximize social welfare, a social planner would allocate the parking spaces to consumers who value them the most. Congestion pricing aims at doing exactly that—by charging different prices based on congestion, the policy allocates the more desired spots to high-value customers (customers with higher trip valuation and lower search costs, distance disutility, and price sensitivity).

**Table 6.** Welfare and Search Externality with Three-Tier Pricing

Variable	Marina		Fillmore		Mission	
	Before (uniform pricing)	Counterfactual (3-tier pricing)	Before (uniform pricing)	Counterfactual (3-tier pricing)	Before (uniform pricing)	Counterfactual (3-tier pricing)
Panel A: Welfare calculations						
<i>Distance Disutility</i>	84.42	83.19	527.45	520.90	47.43	58.50
<i>Search Cost</i>	71.94	69.86	156.41	176.85	2.87	8.73
<i>Payment</i>	74.12	105.51	76.64	100.85	70.54	71.50
<i>Trip Valuation</i>	689.09	778.17	1178.60	1237.50	692.36	683.66
<i>Consumer Welfare Change</i>		61.01		20.81		–26.60
<i>Social Welfare Change</i>		92.41		45.01		–25.63
Panel B: Summary statistics of consumer actions and search traffic						
<i>Go with the Car (%)</i>	50.19	48.31	51.62	49.76	50.44	49.62
<i>Park at Garage (%)</i>	4.95	4.82	14.07	13.75	2.84	3.32
<i>Search Availability (%)</i>	13.23	8.66	14.84	13.08	0.51	1.48
<i>Search Price (%)</i>	0.00	0.00	0.00	0.00	0.00	0.20
<i>Total # of Searches</i>	13.23	8.66	14.84	13.08	0.51	1.68

Notes. Consumer surplus is normalized to dollar value at the size of 100 commuters. Results are based on 50 rounds of simulations.

Prices are only a transfer, so they do not affect social welfare.

By contrast, imposing limits on parking durations makes consumers who want to park longer particularly worse off, because they are forced to park for a shorter time or seek alternative options that are less desirable. This is especially problematic if consumers' values for the trip are positively correlated with the length of the trip, implying that drivers who value the trip more will likely be hurt the most. Therefore, congestion pricing leads to a more efficient allocation compared with time limits, and we would expect social welfare to be higher with congestion pricing compared with time limits, as we indeed observe.

The comparison of consumer surplus is less intuitive, because the prices charged affect consumer surplus.

That introduces a tradeoff: Although congestion pricing can allocate demand more efficiently, it does so by charging higher prices on average, and these higher prices (compared with the lower uniform price) influence consumer surplus negatively. Which effect dominates depends on many factors, such as the time limits imposed, the levels and spread of prices, and market and consumer characteristics. Indeed, we find that the effect on consumer surplus is ambiguous.

Relatedly, in a queueing model, in which customers choose their time in service, for which parking is a good example, Feldman and Segev (2020) show that to maximize consumer surplus, a social planner should set the price to zero, but impose time limits. We find a similar result. When comparing congestion pricing with a two-hour time limit in which parking is

**Table 7.** Welfare and Search Externality with 2-Hour Usage Limit

Variable	Marina		Fillmore		Mission	
	After (SFpark pricing)	2-hour limit (uniform pricing)	After (SFpark pricing)	2-hour limit (uniform pricing)	After (SFpark pricing)	2-hour limit (uniform pricing)
Panel A: Welfare calculations						
<i>Distance Disutility</i>	71.94	64.80	519.69	505.29	58.36	33.42
<i>Search Cost</i>	47.41	50.84	139.60	138.59	8.74	1.77
<i>Payment</i>	91.92	66.88	85.90	72.56	75.11	63.74
<i>Trip Valuation</i>	710.93	640.84	1182.79	1159.29	681.97	642.48
<i>Consumer Surplus Change</i>		–41.32		5.26		3.79
<i>Social Welfare Change</i>		–66.37		–8.09		–7.58
Panel B: Summary statistics of consumer actions and search traffic						
<i>Go with the Car (%)</i>	48.22	50.43	50.10	51.66	48.61	50.10
<i>Park at Garage (%)</i>	5.63	3.89	14.55	13.60	3.66	2.20
<i>Search Availability (%)</i>	8.04	10.68	13.03	13.39	1.40	0.34
<i>Search Price (%)</i>	0.18	0.00	0.18	0.00	0.34	0.00
<i>Total # of Searches</i>	8.22	10.68	13.21	13.39	0.51	1.74

Notes. Consumer surplus is normalized to dollar value at the size of 100 commuters. Results are based on 50 rounds of simulations. Consumer surplus and social welfare changes are evaluated relative to the after period with congestion pricing.



free, we find that social welfare is higher with congestion pricing in all regions, but that consumer surplus is higher with time limits, but a zero price. Regardless, both the market-based congestion-pricing policy, and the regulation-based approach of limiting parking time, are strategies designed to control congestion and are likely to decrease utilization. It is imperative to think carefully whether—and, if so, how—to correctly implement them, and the decision depends on the objective that the social planner tried to maximize, as our results suggest.

## 8. Conclusion

Congestion pricing is often considered as an effective tool to match supply with demand. Using data from *SFpark*, we find evidence that congestion pricing helps to increase parking availability in congested areas, reduces search costs, and allows consumers to park closer to their destinations when they need to. These benefits outweigh the increased payments and lead to an overall increase in consumer surplus and social welfare. Interestingly, we find that congestion pricing can sometimes reduce consumer and social welfare. This happens in areas with relatively low congestion levels, in which improving the overall utilization by setting a proper price level is often more important than reallocating demand by charging variable prices. One solution does not fit all. Therefore, city governments should not apply congestion pricing blindly. Rather, they should diagnose and address the primary concern of each region separately.

Our results also highlight that cities that consider implementing congestion-pricing policies should avoid setting unnecessarily complex pricing rules. Even though congestion pricing is intended to reduce search and traffic and increase availability, complicated policies limit consumers' ability to remember and process information and can lead to inferior decisions. We show that to achieve the best welfare outcome, it is important to balance the desired availability targets with the complexity of the pricing policy—implementing a simpler three-tier pricing policy may be sufficient.

More generally, our learnings from *SFpark* offer important lessons to other public sectors. Both regulation-based and market-based approaches have been used in many public sectors. We provide evidence that the market-based congestion-pricing approach generates higher social welfare than the regulation-based usage-limit approach, because congestion pricing tends to allocate resources to consumers who value them the most, while usage limits may hurt these consumers more. Although policy decisions are often multifaceted, and it is difficult to account for and measure all possible factors at play, our analysis offers a generalizable methodology and quantifiable

results that public-sector managers can use to better evaluate the tradeoffs involved.

## Endnotes

<sup>1</sup> Before the implementation, the garage hourly parking rate ranged from \$2 to \$2.50. After the implementation, the hourly rate was raised by \$0.50 for blocks with occupancy rates above 80% and lowered by \$0.50 for blocks with occupancy rates below 40%.

<sup>2</sup> Even during these periods, there were some occasional meter failures. We exclude these from the calculation of occupancy rates.

<sup>3</sup> Fisherman's Wharf is also relatively isolated. However, it is primarily a tourist destination. Because tourists might not have much knowledge of the *SFpark* program, they may make decisions differently, and we exclude it from our study.

<sup>4</sup> Some parking spaces in Mission were blocked due to construction in March 2012. This induced higher occupancy rates in this area. For fair comparisons, we treat these blocks as available in welfare and counterfactual analyses.

<sup>5</sup> In most regions we study, there is one public garage operated by the city. If there are multiple parking garages, a customer chooses the one that provides the highest utility based on her destination. We do not have data from private garages and, therefore, include parking at a private garage as part of the outside option.

<sup>6</sup> We do not explicitly model the choice of a departure time (e.g., morning or afternoon, Monday or Tuesday). However, such intertemporal shifts in demand are incorporated implicitly, to some extent, through the outside option. For instance, high prices on Tuesday afternoons result in fewer consumers driving to their destination and more consumers choosing the outside option.

<sup>7</sup> We have also analyzed alternative model specifications, in which  $v_{itd}$  is a function of  $X_{itd}$  only, a function of  $h_i$  only, or a linear additive function of  $X_{itd}$  and  $h_i$ . None of these specifications fit our empirical observations as well. In addition, to verify that a linear function of durations is reasonable, we estimate a model in which the trip valuation is a quadratic function of the trip duration. We find that, in all regions, the estimated coefficients of the quadratic terms are all very close to and not statistically different from zero, suggesting that the linear model is a reasonable proxy for customer utility.

<sup>8</sup> The distance between two blocks is calculated as the minimum number of blocks that one has to walk from one block to the other. We assume all blocks have the same length.

<sup>9</sup> Based on the garage-payment data, these garages are never full, with maximum occupancy rates of 75%, 72%, and 38% for Marina, Fillmore, and Mission, respectively.

<sup>10</sup> We assume that the set of outside options available in the second stage once the search starts is the same as in the first stage. Ideally, we would allow them to differ, as once the search starts, some outside options could be less appealing. However, we cannot empirically distinguish between customers who choose the outside option in the first stage and those who do so in the second stage, and therefore we assume that the two are the same. It is also possible to assume that once the search starts, the outside options are no longer available. Our conclusions are robust to this alternative specification.

<sup>11</sup> As we discuss in the estimation section,  $s_i$  also follows a log-normal distribution. Therefore,  $s_i \epsilon_{itdb_k}$  is log-normally distributed. Note that without observing individual search paths, it is impossible to estimate the variances of  $s_i$  and  $\epsilon_{itdb_k}$  separately. We therefore standardize the distribution of  $\epsilon_{itdb_k}$  to a standard log-normal distribution.

<sup>12</sup> Although the random-walk model abstracts away from some decisions (e.g., which block to drive to based on different beliefs about

the expected utility derived from each adjacent block), it does offer reasonable levels of complexity and nuance. Given the many transient random factors at play (traffic, blockage, road condition, traffic lights, emotions, etc.) and limited deliberation time in traffic, it is possible that a random walk may actually be a more realistic model of consumer behavior.

<sup>13</sup> For simplicity of exposition, the notation ignores the direction of driving (i.e., which block a customer searches next), but we simulate driving directions in the estimation.

<sup>14</sup> As a robustness check, we allow the coefficients  $\kappa$  to vary by months, time of day (i.e., morning, noon, or afternoon), and weekday versus weekend by including interactions of these variables and the numbers of businesses. We find that the estimated coefficients of the interaction terms are not statistically significant.

<sup>15</sup> These studies estimate search-related parameters in dynamic models without observing the actual search paths. Hortaçsu and Syverson (2004) model how investors search over funds with varying attributes and estimate heterogeneous search costs using market-share data and price data only. Hong and Shum (2006) develop a method to uncover heterogeneous search costs with price data alone, using equilibrium conditions from sequential and nonsequential search models. Kim et al. (2010) estimate consumer search costs in online retailing with view-rank data. Although the exact models and the variations used to identify search parameters differ, as Hortaçsu and Syverson (2004, p. 408) write, these papers demonstrate “how aggregate data can be used to identify and estimate search costs separately from product differentiation, with particular attention to minimizing the impact of functional form restrictions.” In fact, our data are more detailed than in those papers, because we observe each decision maker’s final decision and price variations over time due to congestion pricing, not just aggregate market shares and prices.

<sup>16</sup> In Figure 3, a consumer may turn left, right, or continue straight from the current block. If she turns left, it doesn’t change her distance from her ideal location; if she turns right or continues straight, she will be one block farther from her ideal location. That is, with a random walk, the expected increase in distance to ideal location if she continues to search is  $(1/3 \times 2 + 1/3 \times 3 + 1/3 \times 3) - 2 = 2/3$ , while the expected increase in the number of blocks searched is exactly one.

<sup>17</sup> There were blocks with occupancy rates slightly above 80% in other months that year, which led to subsequent price increases.

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