



NYC Taxi Medallions

Ever asked yourself — perhaps on a rainy afternoon in Manhattan — why there aren't more taxi cabs in New York City? Part of the answer is that, in order to drive a cab in the Big Apple you need a license, a medallion. Currently, there are 13,237 medallions in the city (see Exhibit 1).

New medallions, when issued, are sold at auction. But the issue of new medallions is a rare event. More common is for existing medallions to be transacted. In August 2011, three taxi medallions sold for record high prices — including two for a whopping \$705,000. Many thought this to be a very high price, especially considering “speculation that the good-as-gold aluminum plates would plummet in value because of Mayor Bloomberg’s five-borough taxi plan.”¹ But a few weeks later a blogger was asking

What on earth is going on with the price of taxi medallions in NYC? Two of them just sold for \$1 million apiece — that's a 42% increase just since August, when conventional wisdom had it that \$705,000 was a top tick and that medallions would soon plunge in value.²

According to the *New York Times*,

The sale was the culmination of decades of astonishing growth for the humble medallion, which is nailed to the hood of every yellow cab in the city. When New York issued its first batch of medallions in 1937, the going price was \$10 even, or \$157.50 in today's dollars.³

Exhibit 1 plots the historical average price of medallions since World War II. For comparison purposes, Exhibit 2 plots two other historical time series: the S&P 500 stock index and the 10-year maturity interest rate.

Explaining the price hike

What explains the extraordinary increase in the price of NYC taxi medallions — 1,900% since 1980? Derek Thomson, senior editor at *The Atlantic*, states that

It's all about supply and demand. The tailwind behind medallion inflation is a cap on taxi cab licenses. Even as the economy of New York City grew at a furious pace across three decades, the number of taxi plates stayed basically constant, despite wage growth and population growth and rising demands for cross-town transportation. As a result, their value rose tremendously.⁴

Felix Salmon, a blogger at reuters.com, argues that “this is the real reason why medallions are so expensive: good old-fashioned interest-rate calculations.” He further argues that

Written by Professor Luís Cabral — following the suggestion of Professor Heski Bar-Isaac — for the purpose of class discussion rather than to illustrate either effective or ineffective handling of an administrative situation. © 2011 Luís Cabral.

We're basically talking about a real income stream, here, of about \$75,000 per year ... That's a real yield of 7.5% on a \$1 million investment — which isn't half bad at today's interest rates.²

What does the city's Taxi and Limousine Commission think? Chairman David S. Yassky asserts that

It's a lot of money, and it is an investment that someone would not make without being confident in the industry and the future of the city.

Questions for discussion

- What determines the price of NYC taxi medallions, in particular, what factors lie behind the recent increase?
- What do you think will happen to medallion prices in the near future?
- What determines the number of medallions issued by the city?
- What policy changes (if any) would you recommend Mayor Bloomberg?

As much as possible, your answers should incorporate concepts discussed during the first half of Firms and Markets, including (though not necessarily limited to): opportunity cost; demand (real and speculative); supply; government regulation; competitive markets; short-run and long-run equilibrium.

Endnotes

1. Jennifer Fermino, "705G for cab medallions," *New York Post*, August 8, 2011.
2. <http://blogs.reuters.com/felix-salmon/2011/10/21/why-taxi-medallions-cost-1-million/>
3. Michael M Grynbaum, "2 Taxi Medallions Sell for \$1 Million Each," *The New York Times*, October 20, 2011.
4. Derek Thomson, "The Amazing \$1 Million NYC Taxi Medallion," *The Atlantic*, October 21, 2011,

Exhibit 1

Number of NYC taxis (red line, right scale) and corporate medallion prices (blue line, left scale). Sources: New York City Taxi and Limousine Commission; Schaller Consulting.

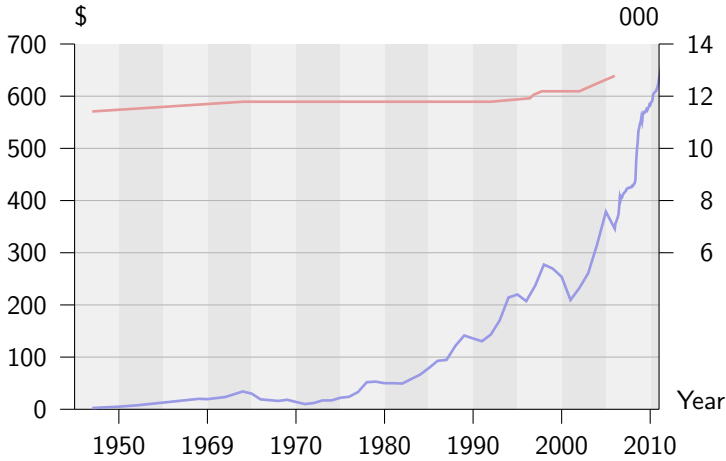


Exhibit 2

S&P 500 index (blue line) and 10-year maturity interest rate (red line). Sources: R. Shiller and St Louis Fed, respectively.

