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Economics for the Citizen, Part 7

by Walter E. Williams

There's a reggae song that advises, "If you want to be happy for the rest of your life, never make a pretty woman your wife." Mechanics have been accused of charging women higher prices for emergency road repairs. Airlines charge business travelers higher prices than tourists. Car-rental companies and hotels often charge cheaper rates on weekends. Transportation companies often give senior citizen and student discounts. Prostitutes charge servicemen higher prices than their indigenous clientele. Gasoline stations on interstate highways charge higher prices than those off the interstate. What are we to make of all of this discrimination? Should somebody notify the U.S. attorney general?

The fact that sellers charge people different prices for what often appear to be similar products is related to a concept known as elasticity of demand, but we won't get bogged down with economic jargon. Think about substitutes. Take the reggae song's advice about not taking a pretty woman as a wife. Pretty women are desired and sought after by many men. An attractive woman has many substitutes for you, and as such, she can place many demands on you. A homely woman has far fewer substitutes for you and cannot easily replace you. Hence, she might be nicer to you, making what economists call "compensating differences."

It's all a matter of substitutes for the good or service in question. Business travelers have less flexibility in their air-travel choices than tourists. Women generally see themselves as having fewer alternatives for emergency auto repairs. A man might have more knowledge about making the repair or be more willing to risk hitchhiking or walking. A prostitute might see a sailor on shore leave as having fewer substitutes for her services than the area's residents. Motorists traveling from city to city are less likely to have information about cheaper choices than local residents.

Politicians seem to ignore the fact that when the price of something changes people respond by seeking cheaper substitutes. New York City raised cigarette taxes, thereby making a pack of cigarettes \$7. What happened? A flourishing cigarette black market emerged.

In 1990, when Congress imposed a luxury tax on yachts, private airplanes, and expensive automobiles, Sen. Ted Kennedy and then-Senate Majority Leader George Mitchell crowed publicly about how the rich would finally be paying their fair share of taxes. But yacht retailers reported a 77 percent drop in sales, and boat builders laid off an estimated 25,000 workers. What happened? Kennedy and Mitchell simply assumed that the rich would behave the same way after the imposition of the luxury tax as they did before and the only difference would be more money in the government's coffers. They had a zero-elasticity vision of the world, namely that people do not respond to price changes. People always respond, and the only debatable issue is how much and over what period.

This elasticity concept is not restricted to what are generally seen as economic matters; it applies to virtually all human behavior. When a parent asks his child, "How many privileges must I take from you to get you to behave?" that's really an elasticity question. In other words, how high must the punishment price be for the misbehavior in order to get the child to take less of it? It's easy to see how elasticity applies to law enforcement as well. What must be done to the certainty of prosecution and punishment to get criminals to commit less crime?

My next article will focus on property rights, a noneconomic concept that has a heavy impact on economics.

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