Optimal Urban Transportation Policy: Evidence from Chicago

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Abstract :
Urban transportation policies have become a focal point in cities' efforts to address environmental and distributional concerns. This paper characterizes the optimal mix of policies and evaluates their welfare and distributional effects. To that end, we present a framework of a municipal government aiming to maximize welfare. The government chooses the prices and frequencies of different modes of transportation, subject to a budget constraint. Budget considerations introduce monopoly-like distortions. We move on to an empirical application of this framework to the city of Chicago. We first construct a novel dataset of all relevant transportation modes. On the demand side, our empirical model captures the rich heterogeneity in travel choices. On the supply side we account for differential congestion and costs of different road-based modes. Preliminary counterfactuals suggest that the city should lower transit prices even further but also lower frequency to meet its budget constraint.