Pricing priorities in waitlists

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ASSA 2025

January 5, 2025

Motivation

- Waitlists are a common **alternative to market mechanisms**
  - Used for affordable housing, daycare places, camping permits...
- Natural choice when we **do not want to extract revenue** from participants
- But using waitlists instead of prices causes **allocative inefficiency**...

Motivation

- We should consider intermediate options: waitlists with some partial pricing!

My question:

How to optimally combine waitlists with prices while recognizing that charging participants is undesirable?

Literature

- **Mechanisms without money** (Hylland and Zeckhauser, 1979; Budish, 2011)
  - **This paper**: money allowed but transfers undesirable
- **Wasteful screening** (Hartline and Roughgarden, 2008; Yang, 2021)
  - **This paper**: combining wasteful and non-wasteful screening
- **Wait times 'acting as prices'** (Barzel, 1974; Leshno, 2022; Ashlagi et al., 2022)
  - **This paper**: but waiting screens only on relative values...
  - ...while money screens on absolute values

Model

Agents

- The designer distributes two kinds of goods, $\boldsymbol{A}$ and $\boldsymbol{B}$
- Agents' values for A and B given by two-dimensional types $\boldsymbol{(a, b)} \in [0,1]^2$
- A type-(a, b) agent who gets a good, pays $\boldsymbol{p}$ and waits $\boldsymbol{t}$ gets utility:

$$\begin{aligned} &e^{-\rho \cdot t}(a-p) \quad \text{if she gets } A, \\ &e^{-\rho \cdot t}(b-p) \quad \text{if she gets } B. \end{aligned}$$

- NB: waiting **delays receipt** $\Rightarrow$ waiting cost **multiplies value** for the good!

Arrivals

- At every time $\tau \in \mathbb{R}$, flow masses $\boldsymbol{\mu_A, \mu_B} > 0$ of goods A and B arrive
  - Unit flow mass of goods arrives in total: $\mu_A + \mu_B = 1$
- At every time $\tau \in \mathbb{R}$, a unit flow mass of agents with types $(a, b) \sim \boldsymbol{F}$ arrives
  - F has full support and a differentiable pdf f
- Total good arrival rate = agent arrival rate

Waitlists

- Separate first-come-first-serve waitlists for goods A and B

- The designer chooses:

  1. **Prices for joining** the two waitlists
  2. A **menu of pay-to-skip options** for each waitlist

- Arriving agents choose:

  1. **At most one waitlist** to join
  2. Whether they want some **pay-to-skip** option from their waitlist's menu

Steady state

- We will consider **steady states** of the waitlists
- In SS, **all agents of the same type make the same choices**
- Thus, the designer chooses **steady state allocations** of:
  1. Payments $p : [0,1]^2 \to \mathbb{R}_+$
  2. Wait-times $t : [0,1]^2 \to \mathbb{R}_+$
  3. Goods: $x : [0,1]^2 \to \{A, B, \varnothing\}$

Designer's constraints

- Designer chooses allocation (p, t, x) subject to **IC, IR** and **supply** constraints:

$$\text{for every } (a,b),(a',b') \in [0,1]^2, \quad U[a,b,(p,t,x)(a,b)] \geq U[a,b,(p,t,x)(a',b')] \tag{IC}$$

$$\text{for every } (a,b) \in [0,1]^2, \quad U[a,b,(p,t,x)(a,b)] \geq 0 \tag{IR}$$

$$\int \mathbb{1}_{x(a,b)=A}\,\mathrm{d}F(a,b) \;\leq\; \mu_a, \qquad \int \mathbb{1}_{x(a,b)=B}\,\mathrm{d}F(a,b) \;\leq\; \mu_b \tag{S}$$

Designer's objective

- In SS, objective can be written in terms of **flows**. Choose (p, t, x) to maximize:

$$\gamma \cdot R + W$$

- $\gamma \in [0,1]$ is the weight on revenue R:

$$R = \int p(a,b)\,\mathrm{d}F(a,b)$$

- W is the value for goods (net of payments) for agents getting them:

$$W = \int \underbrace{\mathbb{1}_{x(a,b)=A}(a - p(a,b))}_{\text{Agents getting good } A} + \underbrace{\mathbb{1}_{x(a,b)=B}(b - p(a,b))}_{\text{Agents getting good } B} \,\mathrm{d}F(a,b)$$

Designer's objective

$$W = \int \underbrace{\mathbb{1}_{x(a,b)=A}\big(a - p(a,b)\big)}_{\text{Agents getting good } A} + \underbrace{\mathbb{1}_{x(a,b)=B}\big(b - p(a,b)\big)}_{\text{Agents getting good } B} \, \mathrm{d}F(a,b)$$

- When allocating, designer cares about agents' values, but **not** when they arrived
- Counterintuitive implication: **no wait times** in the objective!
  - Indeed, an agent's utility is $e^{-\rho \cdot t}(a-p)$ not $a - p(a,b)$...
  - ...but giving it to her earlier **pushes someone else back**

Feasible mechanisms

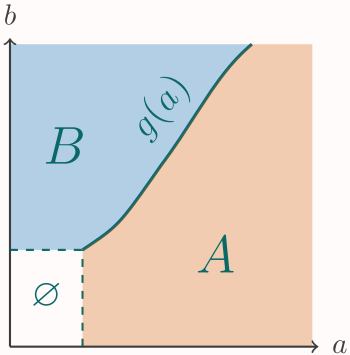
Who chooses which waitlist?

- When joining both waitlists costs money, some types do not participate ($\varnothing$)

- Types on the **boundary** $\boldsymbol{g}$ indifferent between their best options in both waitlists

- Types below g pick some option in A, types above g pick some option in B

- Offering different **pay-to-skip** options alters the shape of boundary g



Payments:

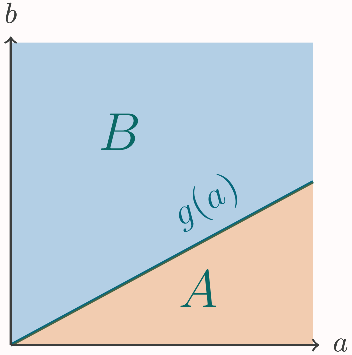
Two extreme cases

No payment benchmark

- Suppose joining is free and there are no pay-to-skip options
- Wait-times adjust to ‘clear the market’
- Type (a, b) chooses A if:

$$e^{-\rho \cdot t_A} \cdot a > e^{-\rho \cdot t_B} \cdot b$$

- **Ratio** $\frac{a}{b}$ determines choice of waitlist

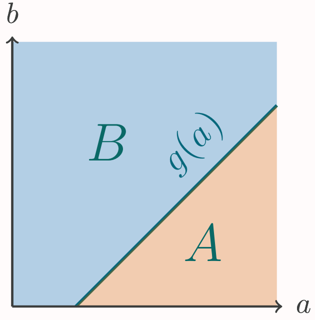


Non-wasteful payments ($\gamma = 1$)

Proposition 1

If payments are not wasteful ($\gamma = 1$), the optimal mechanism offers **no pay-to-skip** options and prices entry to only one waitlist. The price is chosen to **equate wait-times** in both waitlists.

- This achieves the first-best!
- A-goods go to those with **highest** $\boldsymbol{a - b}$



Role of payments: intuition

- Without payments, agents self-select only based on **relative values**

- Payments are wasteful, but let us screen on agents' **absolute values**

No payments

Payments + equal wait-times

- In general, payments create a **better allocation** but **are wasteful**

General case

General case

- **Assumption**: consider piece-wise continuously diff'able wait-time allocation rules

Theorem 1

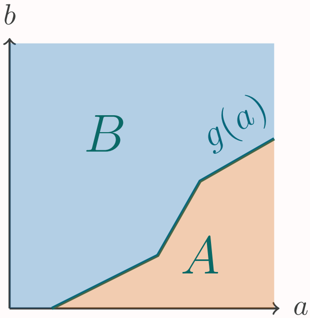
The optimal mechanism prices entry to only one waitlist and offers finitely many pay-to-skip options.

Conjecture 1

For *sufficiently well-behaved distributions*, the optimal mechanism prices entry to only one waitlist and offers **no pay-to-skip options**.

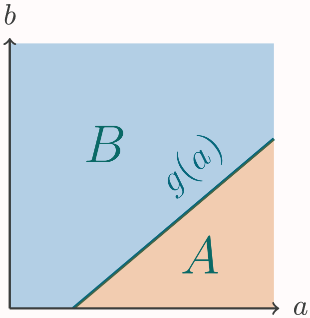
- Conjecture 1 holds in simulations for uniform, normal, Beta, etc...

Optimal mechanisms



Theorem 1

Entry price for only one waitlist
Finite pay-to-skip options



Conjecture 1

Entry price for only one waitlist
No pay-to-skip options

Conclusions

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- The literature notes wait-times can to some extent **'act like prices'**
- Distinguish **waitlists** (waiting delays receipt) and **queues** (waiting wastes time)
- For waitlists, **wait-times only screen on relative preferences**
- Payments screen on **absolute preferences**, and could be useful even when wasteful

Thank you!

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