![The ever-long queue to The Bridge, Oxford](https://thelazymd.github.io/site-backend/articles/images/bridge.JPG)

\*The ever-long queue to The Bridge, a popular west Oxford club\*

There are few more hated in the online world of Oxford University than ticket scalpers. Hustlers purchase tickets for Oxford's most popular clubs and resell them at exorbitant prices to coveting students. Why have the original vendors, the clubs, not put a stop to this behaviour in the example of popular plays, music concerts, and sports matches? Simply – they are incentivised not to do so. The theory stems from three curious aspects of microeconomics: market efficiency, the principal-agent problem, and behavioural economics.

Let's start with market efficiency. Imagine a world where club vendors are able to auction off every ticket. From this, the seller derives two benefits. The first is they maximise profit, since every ticket is purchased at the highest value any buyer could place on it, and any consumer surplus is minimised, that is, the difference between willingness to pay and actual price. Students compete with each other until all of that willingness to pay has been transferred by the ticket's rising price to producer surplus. The second is that every buyer really wants to be there. All those students out-competing peers for a ticket must be those who most want to spend five hours of their night in a sweaty Bridge corridor: they're likely to arrive early, leave late, buy lots of drinks, and rave about how great it was afterwards. In other words, the clubs find these customers ideal and these buyers most appreciate the clubs. We term this symbiosis ‘allocative efficiency’ and it is clearly mutually beneficial. From their perspective, clubs should sell their tickets by auction.

Permitting ticket scalpers creates a pseudo-auction environment. A true auction suffers obvious drawbacks; clubs would lose logistics and reputational costs. Meanwhile, buyers would complain the equity dimension: those who have most money, rather than most need, might outbid all others. By contrast, scalpers initiate an effective auction, posting adverts on OxTickets, a Facebook group, and accepting the highest from private offers made. Though vendors sacrifice profit-maximising seller-side benefits, they capitalise on the second advantage, selecting attendees who most want to be there and have the highest propensity to spend. By contrast to an auction, scalpers soak up the logistics and reputational costs.

Secondly, consider the principal-agent problem, which arrives when any producer grows large enough that it must delegate its management of sales. As a single entity, a producer and seller maintain an obvious incentive to sell at profit-maximising levels. When that work is delegated, say to employees, producers have to consider carefully how to align their own profit-incentive with those negotiating sales. A textbook solution is to offer a proportion of sales, known commonly as a commission rate, to the salesperson. The interpretation here says that club vendors take this to the extreme. By selling at a fixed price to scalpers who then resell to the highest bidder, vendors effectively accept a fixed wage per ticket and transfer the entirety of margin-seeking to the scalper. Why do they permit this? One interpretation is certainty. A commission rate of 1 is an effective transfer of risk to a third-party; the vendor no longer has to worry about whether it will or won't sell out those tickets. The ‘certainty equivalent’ it receives in exchange denotes the resulting price to obtain that freedom. A second piece of reasoning might be that the club has no choice. Using the logic laid out earlier, the vendor cannot efficiently price discriminate; scalpers can, so such a level of profit-margin was never available to the club vendors anyway.

This latter argument is convincing, though behavioural economics offers further support to the former. All club nights are worried about risk: with high factor prices such as renting out the venue, high wages to staff who have to endure late nights, long hours, and mess, and high risks of unexpected costs such as damages, clubs would like to guarantee their income through consistent ticket sales. Behavioural economics tells us that scalpers are the perfect candidates to help clubs achieve this.

Firstly, scalpers ignore sunk costs. Scalpers see ticket-purchasing as an economic decision; a cost to be made back in revenue. Consumers, meanwhile, might carefully consider if this ticket is truly worth the value of the club night experienced or be averse to price changes. Scalpers have no such qualms.

Secondly, scalpers buy aggressively. This can be seen through the tendency to overvalue bargains. Classical economic theory suggests that each consumer purchases at the value the good holds to their utility; for instance, if a such club night did not provide £6 of 'value' to the buyer, it would not pay such a price for the ticket. In reality, such valuations are ambiguous. Most people get their idea of 'good value' not from the intrinsic value to their own utility, but for the 'going' price of that good which they have decided they want. If club tickets are generally £6, they will pay £6. If a single club decides to increase it to be £8, they will be outraged, regardless of whether that extra £2 crossed their threshold of marginal utility or not. A specific formulation occurs when bargains are offered. Most people cannot resist bargains. The reason such offers are so effective, touting scores off their usual price, is that buyers see it as an undervaluation and so interpret it as an opportunity for consumer surplus, when it is evidently not necessarily so. Scalpers buy in bulk. Their time spent scouring Oxtickets and finding suitable resale targets is only diluted by means of having multiple items to shift. It is therefore the case that this draw of a bargain is even more powerful. What might have been a rational purchase of 5 tickets at a given deal, taking into consideration their risk from potential resale chances, might suddenly increase to 8 or 10, with an appropriate bargain. Scalpers have their marginal utilities exceeded, but club vendors are not concerned. The effect of bargains is greater on scalpers as bulk buyers; it aids vendors to shift their tickets.

Finally, scalpers are careless consumers in themselves. Understanding this pattern of behaviour comes from the separation of thought processes to a 'thinker' or a 'doer'. The thinking part of the scalper buys a large amount of tickets, believing they will surely sell them on. The scalper's 'doer' mentality reaches 9PM on the night, inebriated by a pre-drinks session with friends, and resolves to keep one of those tickets for themselves. Any other businessman, from exporter to middleman, writes that off as a loss. Consuming one's own product incurs an opportunity cost; profit could have been made on that ticket. Yet at the time of decision, scalpers are unlikely to see it that way. They are tempted by its usage and its rational accounting falls by the wayside. The same behaviour is observed of wine collectors, who self-indulge in a case of decade-old Bordeaux but exhibit little regret. A curious transition occurs from opportunity cost to the scalper at the time of purchase to sunk cost at the time of consumption, further making them the ideal consumer for vendors.

In other words, scalpers have particular preference properties that are desirable to vendors seeking to minimise risk. More of this risk-minimising behaviour is observed in the explicit contracts that vendors make with 'entz' reps of colleges or 'early-bird' discounts on ticket sales. Nevertheless, ticket scalpers prove to be an interesting case in the Oxford club market and one that is surely here to stay. ∎

### For more on behavioural economics, read Thaler (2017), \*Misbehaving\*