

# Why Raising Transit Fares Often Fails to Increase Revenue

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**Research:** [Heterogeneous fare sensitivity in microtransit: evidence from a natural experiment](#)

One of the latest developments in mobility innovation is microtransit, an on-demand, shared transportation service operated by municipalities that provides flexible, door-to-door rides at roughly bus-fare prices. Unlike private rideshare platforms that concentrate on dense, high-income markets, microtransit is designed to expand access in lower-density and traditionally underserved communities. By dynamically routing shared vehicles in response to rider requests, these systems can substitute for or complement fixed-route bus networks while improving coverage and convenience.

Cities across the United States are increasingly adopting microtransit with high expectations for expanding mobility access. Yet while these services can deliver better coverage in underserved areas, they are not inexpensive to operate and often rely on significant public support. As pandemic-era funding winds down and federal resources tighten, many local governments now face a pressing policy question: *can raising fares help microtransit systems become financially sustainable without undermining access?*

## Study Context

A [new study by Dr. Jia Li](#) examines this issue using detailed rider data from Wilson, North Carolina, one of the first U.S. cities to replace its traditional bus network with citywide on-demand microtransit. The study analyzes hundreds of thousands of ride requests and a natural experiment that occurred when the city increased fares from \$1.50 to \$2.50 in 2022. Because this change occurred without any other changes in service, it provides a rare opportunity to observe how riders actually respond to price.

## Key Findings on Rider Behavior and Revenue

The results reveal a striking pattern: riders do not respond to fare increases in the same way. Frequent users who rely heavily on the service tend to keep riding even when prices rise. In contrast, occasional riders, who represent the largest share of the user base, are much more price sensitive and significantly reduce their usage when fares increase.

This difference matters for transit finances. Using a structural model based on individual rider behavior, the study simulates the impact of further fare hikes:

- **Minimal Revenue Gains:** e.g., 40% fare increase would increase total revenue by only about 7%.
- **Ridership Offset:** Reductions in usage among price-sensitive riders offset much of additional revenue collected from remaining users.

### **Strategic Recommendations**

The findings suggest that traditional “one-size-fits-all” fare policies may be inefficient for modern transit systems. Instead of uniform price increases, transit agencies may achieve better financial and social outcomes through targeted pricing strategies, such as:

- **Off-peak discounts**
- **Income-based fares**
- **Employer partnerships**
- **Loyalty programs for frequent riders**

### **Conclusion**

As cities search for sustainable transportation solutions in low-density areas, the study highlights an important lesson: understanding rider behavior, particularly rider heterogeneity, is critical for designing effective transit pricing policies. Although the analysis focuses on Wilson, North Carolina, the behavioral patterns identified in the study are likely to apply broadly to other cities implementing microtransit or similar on-demand transit services.

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