Economics in Context
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Markets for Restaurant Reservations

El Celler de Can Roca in Spain, the world's #1 ranked restaurant in 2015, is typically booked a year in advance. Other high-end restaurants get thousands of calls per day for reservations. With limited seating, this clearly represents a case of a shortage – the quantity demanded exceeds the quantity supplied. As discussed in the text, when a shortage exists market forces will tend to push prices higher, toward an equilibrium that will eliminate the shortage. But while a meal at a top restaurant can cost hundreds (even thousands!) of dollars, the reservation itself is free. Why is this the case?

A number of websites and apps now sell reservations to in-demand restaurants for a fee. For example, Table 8 sells reservations for peak times in major U.S. cities, typically for $20. Table 8 and the restaurant share the revenue from these sales, but other reservation sales are made without the restaurant's participation. The app Shout, which operates in the New York City area, allows to people to sell reservations directly to others. Most reservations listed for $20 to $25, but with some selling for as much as $40.

A logical economic argument can be made for the marketing of restaurant reservations. First, a market creates a mechanism for eliminating (or at least reducing) a shortage. Reservations are thus allocated to those who value them most-highly, rather than those who get lucky. Another advantage of marketed reservations is that the problem of no-shows can be reduced. An estimated 10 to 20 percent of parties that make restaurant reservations simply don't show up, creating inefficiency and uncertainty. If a reservation costs money, it is reasonable to expect that no-shows would be less frequent.

A market for reservations implies that meals aren't valued the same regardless of the day and time. The demand for reservations tends be higher, say, at 7:30 PM on a Saturday than at 5:00 PM on a Tuesday. If the price for a reservation varies by day and time, then those who are willing to pay the most can purchase reservations for peak times, while others can still obtain reservations for off-peak times, which may cost little or nothing.

Of course one critique of selling reservations is that it gives rich people a further advantage. The current predominant reservation system – free but somewhat random – means that all those willing to pay for the meal itself have a relatively equal chance of securing a reservation.[1] One counter-argument to this critique

1 Of course even with free reservations, restaurants may give preference to certain customers based on income or other factors.

is that everyone could potentially benefit from the selling of reservations:

> Restaurateurs will make more money in the short run. In the long run, this means more restaurants, more tables, and keener competition for customers. That, in turn, means that even if prices rise at peak times, prices at other times should fall. Richer customers will get convenience, while thriftier customers will pay less than they did before. (Harford, 2015, p. 33)

But there is no guarantee that prices would fall for off-peak times. Further, many people view the practice of charging higher prices during times of high demand as patently unfair. A 1986 journal article, by lead author Daniel Kahneman, addressed a similar issue – is it fair for a hardware store that charges $15 for snow shovels to raise its price to $20 after a large snowstorm? While the basic supply-and-demand model may support the price increase, 82% of respondents indicated that this would be "unfair" or "very unfair." Thus people evaluate market outcomes not necessarily on the basis of efficiency, but on ideas of justice and fairness.

Other than markets for reservations, alternatives may be devised that increase efficiency and recognize the value of a reservation, without sacrificing fairness. For example, customers could make reservations for free by providing a credit card number, but be charged a nominal fee if they fail to show up as scheduled. Linking a reservation to a specific person could also, in principle, inhibit the resale of reservations.

Sources:
Harford, Tim. 2015. "The Modern Price of Getting a Table," The Atlantic, May 2015.
Kahneman, Daniel, Jack L. Knetsch, and Richard H. Thaler. 1986. "Fairness as a Constraint on Profit Seeking: Entitlements in the Market," The American Economic Review, 76(4): 728-741.