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## Transport Policy

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# Basic economic principles of road pricing: From theory to applications

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### Abstract

This paper presents, a non-technical introduction to the economic principles relevant for transport pricing design and analysis. We provide the basic rationale behind pricing of externalities, discuss why simple Pigouvian tax rules that equate charges to marginal external costs are not optimal in "second-best"™ settings, and discuss the conceptual link between congestion pricing and road capacity. The final part of the paper is devoted to implementation paths for transport pricing policies. A simple numerical model demonstrates how different time patterns of constraints on pricing and capacity policy instruments may lead to different time patterns of efficiency along those implementation paths.



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## JEL classification

R41; R48; D62

## Keywords

Road pricing; Transport externalities; Transport policy; Policy implementation

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