

Price Caps on Platforms using Dynamic Pricing: Theory and Evidence from Rideshare*

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Abstract

Dynamic pricing has become synonymous with rideshare, such as Lyft and Uber, who popularized the usage of such pricing strategies. While technological advancements have improved the ability of platforms to implement dynamic pricing, little is known about the welfare implications of the now commonly used strategy. We develop a simple model of price caps on platforms that match demand and supply, showing that while the price control can be welfare enhancing, it harms welfare if it decreases both market prices and quantities. Using a sample of rideshare receipts from users across the United States, we estimate the effects of a policy change that eliminated rideshare price caps in Nevada, thereby enabling the use of dynamic pricing, on market prices, quantities, and welfare. Using a difference-in-differences approach, we find that eliminating the price cap led to an immediate and persistent increase in rideshare prices of 11-17% and increased quantities by 13-16%. Combining the empirical results with our model generates three key insights: (i) comparable with prior literature, we find that $\epsilon^d < -2.3$ and $\epsilon^s \in (0.84, 1.12)$, (ii) eliminating the price cap increased welfare by up to \$145,000-180,000 per day in Nevada (a 12-19% increase in welfare), and (iii) an alternative policy that imposes a commission fee cap of 15%, commonly used for food delivery services, would have increased welfare by 31% relative to the price cap.

Keywords: Surge Pricing, Uber, Lyft, Price Regulations, Price Ceiling, Commission Fee

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