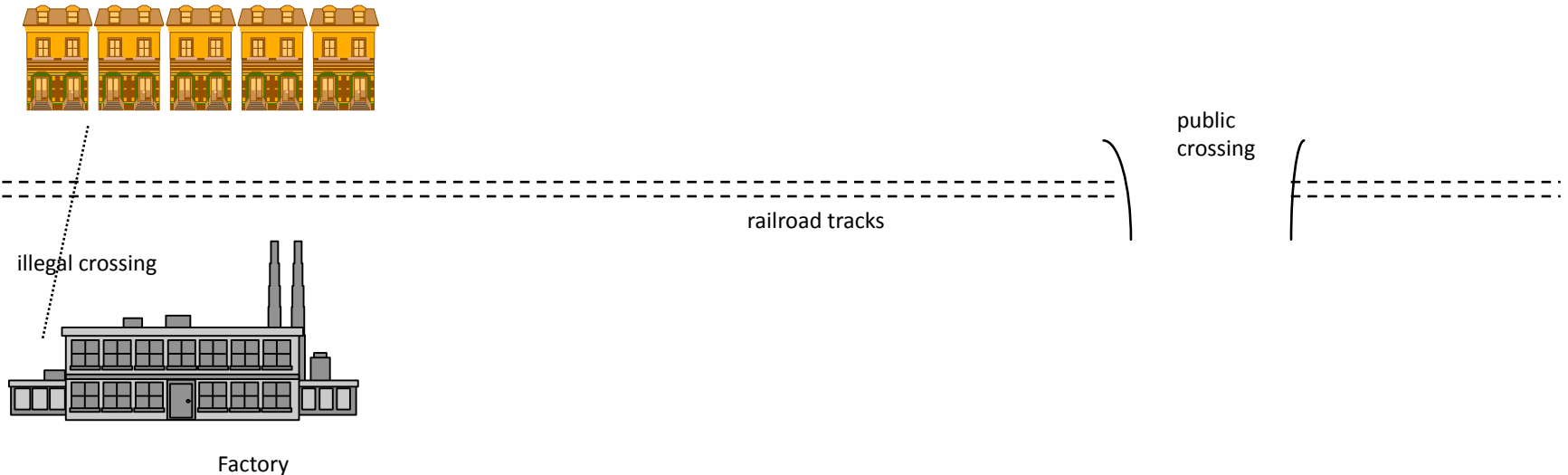


# Scitovsky Paradox

# Illustration of Scitovsky Paradox

Workers' housing



1000 workers cross the tracks each day to get to work (trespassing on private property).

If the trains travel at their usual speed of 60 mph, one person will die per year. (Each person has a 0.1% chance of dying.)

If the trains are obliged to slow down to 30 mph, no one will die

It would cost the railroad company (owner of the tracks) \$200,000 per year (fuel costs, brake maintenance, lost time, etc.) to slow each train as it passed between the houses and the factory.

Should the railroad company be required to slow the trains?

Assume the parties have full information and are honest.

Situation #1: You approach each worker and say: "The railroad currently has a right to run its trains at 60 mph. How much would you pay per year to make the trains slow down?" Each answers: \$100.

Situation #2: You approach each worker and say: "The railroad has a legal duty to slow its trains to 30 mph when they pass between the houses and the factory. How much money would you demand per year in return for permitting the trains to go 60 mph?" Each answers: \$1000.