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Raising Star Ferry's Ticket Fee---a Boon or a Bane?

Star Ferry, beloved by HK citizens and tourists worldwide, has always been an iconic image of Hong Kong. Alas, it has faced an enormous setback due to the COVID 19 pandemic and is ultimately determined to raise its fare. Is this a right decision?

Being the only waterway transport that carries passengers across Victoria Harbour, Star Ferry is a monopoly providing cross-harbour services. It has been granted franchise rights from the government in March 2018 and gained its monopoly power. Although Star Ferry has no close substitutes, it still faces competition. Since MTR, which is in competitive demand with Star Ferry, provides faster and more convenient transportation services, it has posed threats to the existence of Star Ferry.

Indeed, Star Ferry Co. Ltd. decided not to raise its fares even though there is a decline in tourism during the pandemic. People's demand for star ferries inevitably drops, resulting in a surplus in the market, followed by a drop in total revenue. In light of this situation, the government agreed with Star Ferry Co. Ltd. to raise its fares on the 30th of April, including an over-50% increase in normal fares and replacing free elderly rides with \$2 fares.

The raised fare would reduce people's willingness to take the ferry. Nonetheless, the Star Ferry could make a profit. Whether it would earn a profit depends on the elasticity of demand. Based on its necessity for specific passengers and as a must-go tourist attraction, it is likely that its demand is inelastic. People will still choose to take the ferry despite an increase in its fares. The proportion of the price rise is higher than the percentage drop in quantity demanded. There will be a net increase in the total expenditure on it. In this case, raising the fares will bring about an increase in revenue of the Star Ferry Co. Ltd.

On the other hand, raising fares might cause a backfire. The full cost of taking the ferry is its fare and the cost incurred in that period. A rise in fare increases the monetary cost, and hence the full cost. Despite having such a low fare, the time

cost of taking the ferry is much higher than that of taking an MTR. Before Star Ferry Co. Ltd. raises its fares, people may merely choose it due to its lower monetary cost. However, the full cost of taking an MTR may become lower than that of a star ferry after raising its fares. Whether star ferry will remain popular depends on the individual full cost. In this case, higher fares will cause a drop in the number of passengers.

All in all, the elasticity of demand and the full cost involved are the keys to the stay or leave of the star ferry. Apart from increasing the fare, providing a subsidy is another alternative solution that the government can consider.

(491 words)