

Macquarie University Economics Department Research Seminar

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"Competition and collusion in short-haul airline markets"

Abstract: Occasionally, airlines are convicted and fined for explicit price collusion. Yet at other times, fierce competition from new ('low-cost') airlines bankrupts even well-established (legacy) carriers; and most new airlines fail (and exit) either almost immediately or in the medium term. Since old and new companies use essentially the same technology, it remains to be explained why the competition outcomes are so varied. This study looks at the complexities facing airline managements, and (in particular) at (1) the problems facing a new airline seeking to establish itself in a network industry, especially when entering city-pair markets already served by others, and (2) the responses of incumbents to such entry.

Fares are, of course, one of the competitive weapons. In this study, statistical enquiries address peak/off-peak fare differences, and how and why offered fares are adjusted over time (that is, over booking days) for travel on a particular date.

JEL classifications: L12, L14, L93 and R48

Keywords: price discrimination, network economies and economies of scale, contestability, labour-market inflexibility