Contents

List of Figures xi
List of Tables xv
Glossary of Terms xix
List of Abbreviations xxvii
About the Authors xxxi
Acknowledgements xxxiii
Foreword xxxv
Preface to the Second Edition xxxvii

1 The Evolving Air Transport Industry 1
The Airline Industry 2
Financial Condition of the Airline Industry 6
Consolidation and Bankruptcies 12
Factors Affecting World Air Traffic Growth 17
Economic Impact of the Air Transport Industry 19
Outlook for the Air Transport Industry 22
Summary 23
Discussion Questions 24
References 24

2 Principles of Economics with Applications in Aviation 27
Basic Economics 28
Scope of Economics 29
The Role of Economic Systems 33
Government Failures and Market Failures 38
Summary 41
Discussion Questions 43
References 43

3 Supply and Demand: Analysis in the Airline Industry 45
Basics of Demand 46
Basics of Supply 62
Market Equilibrium 67
Consumer and Producer Surplus 76
Disequilibrium 80
Elasticity 81
Summary 93
Discussion Questions 94
References 95
## 8 Competitive Market Structure and Monopolistic Markets

- **Perfect Competition**
- **Monopoly**
- **Price/Output Decision for Monopolies**
- **Monopoly Pricing and Consumer Well-being**
- **Monopoly Market Power in Aviation**
- **Monopsony**
- **Summary**
- **Discussion Questions**
- **References**

## 9 Hybrid Market Structure and the Aviation Industry

- **Monopolistic Competition**
- **Oligopolies**
- **Examples of Oligopoly**
- **Contestability Theory**
- **Kinked Demand Curve Theory**
- **Cournot Theory**
- **Price–Output Determination under hybrid Market Structure**
- **Profitability Issues**
- **Competition and Anti-trust Issues**
- **Industry Consolidation**
- **Beyond Market Concentration Considerations**
- **Anti-trust, Market Evolution, and Cooperation**
- **Summary**
- **Discussion Questions**
- **References**

## 10 Aviation Forecasting and Regression Analysis

- **Aviation Forecasting Applications**
- **Qualitative Forecasting Methods**
- **Quantitative Forecasting Methods**
- **Descriptive Statistics**
- **Time-series Analysis**
- **Time-series Forecasting**
- **Forecast Accuracy**
- **Regression Analysis**
- **Data Sources**
- **Summary**
- **Discussion Questions**
- **References**

## 11 Dynamic Pricing Policy and Revenue Management

- **Dynamic Pricing Policy**
- **Cost-based Pricing**
- **Markup and Price Elasticity of Demand**
- **Bundling**
- **Unbundling and Airline Ancillary Revenue**
Market Skimming and Penetration Pricing 340
Peak-load Pricing 341
Price Discrimination 341
Consumer Surplus 342
Necessary Conditions for Price Discrimination 342
Degrees of Price Discrimination 344
Uniform Pricing versus Price Discrimination 345
Importance of Revenue Management 347
Scenario: Uniform versus Multiple Pricing 349
Revenue Management “Fences” 351
Revenue Management Control Types 354
Spoilage and Spillage 356
Leg-based Expected Marginal Seat Revenue Model 358
Overbooking 365
Other Issues Associated with Revenue Management 369
Summary 369
Discussion Questions 370
Appendix: Derivation of Overbooking Probability Equation 371
References 371

12 Low-cost and Start-up Airlines: A New Paradigm 373
The Evolution of the Industry 374
Characteristics of Low-cost Carriers 377
Cost Structure Comparison 388
Incumbent Carriers' Response to Low-cost Carriers 393
The Future of Low-cost Carriers 396
Summary 397
Discussion Questions 397
Appendix: Select Airline Two Letter Codes 398
References 398

13 The Economics of Aviation Safety and Security 401
The Basics of Aviation Safety 402
The History of Aviation Safety 404
Incentives for Aviation Safety 407
Causes of Aviation Accidents 410
Basic Economics of Safety 418
Politics and Safety Regulation 419
Accident Prevention 420
Summary 422
Discussion Questions 422
References 422

14 An Overview of Macroeconomics for Managers 425
Economic Growth 426
Unemployment 429
Inflation 434
Monetary Policy 439