

Hubs and High Fares: Dominance and Market Power in the U.S. Airline Industry

By Severin Borenstein

This paper they try to evaluate the correlation between the importance of route and airport dominance and the degree of market power which usually exercised by an airline. They try to explain more on the sources of market power in the airline industry. Firstly, in this paper, it has present 2 empirical findings to shown the correlation between route concentration and high prices cannot be adequately explained by the traditional theories in which high concentration facilitates tacit or explicit collusion. First empirical talk about the high average prices that some airlines are able to sustain in concentrated markets do not permit all participants in the market to charge similar prices. Second, one source of market power on city-pair routes seems to be the size of a carriers' operation at the endpoint of the route, its attractiveness to passengers who travel to the route itself is enhanced. In conclusion, the result had shown that an airline's share of passengers on a route and at the endpoint airports greatly determine its ability to mark up the price higher than the cost. Unfortunately, by having dominant airline set the high mark up, it could not create much of the effect called "Umbrella effect" which mean smaller company in the same market will benefit. However, it would be the bad idea for government to try to obstruct the airlines from forming hubs, since there is a substantial evidence indicate that hub-and- spoke air transport systems may allow more efficient use of aircraft and other inputs than the point-to-point system.

The Effect of In formation On Product Quality: Evidence From Restaurant Hygiene Grade Card

By Ginger Zhe Jin and Phillip Leslie

This paper talk about the examination on the effect of an increase in product quality information to consumers on firms' choices of product quality. Los Angeles, in 1998 the government have policy to introduced the hygiene quality grade cards to be displayed in the front of the restaurant to guarantee the shop's hygiene level. The main finding after they introduce the card, it caused many good consequences. First, the restaurant health inspection scores to increase, consumer demand to become sensitive to changes in restaurants' hygiene quality, lastly, the number of foodborne illness hospitalization to decrease. They also provide evidence that this improvement in health outcomes is not completely explained about the consumer switching from poor hygiene restaurants to good hygiene restaurants. But it can indicate for sure that by having this hygiene grade card make restaurant beware and improve their hygiene.