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Hubs and high fares: dominance and market power in the U.S. airline industry

In this paper try to explain about the importance of route and airport dominance in deterring the degree of marketing power exercised by an airline. The results indicate that an airline's share of passengers on a route and at the endpoint airports significant influences its ability to markup price above the cost. Airlines value airport dominance for the insulation such dominance may give them from competition. As is common in many industries, the same factors that might give advantages to an incumbent firm if entry occurs are also likely to discourage entry in the first place. Thus, marketing devices or other factors that give an advantage to a dominant airline may result in it gaining larger shares of passengers on a route, as well as greater market power given its share of traffic. One of the best-known marketing devices in the airline industry is frequent-flyer pro- grams (FFPs). These programs give a gift, usually free travel, to a customer after they have conducted a certain amount of business with the airline. A primary purpose of these programs is to offer kickbacks on business purchases in the form of a gift to the agent who does the buying for the business. Travel agent commission override programs (TACOs) pay bonuses to travel agents who generate some specified level of revenues for the airline. While FFPs the principal/agent relationship between employees and employers, TACOs rely solely on the principal/agent relationship between air travel buyers and travel agent. As TACOs may induce travel agents to present biased information to travellers, computer reservation systems (CRSs) may allow the airlines that own them to present biased information to both travel agents and consumers. The marketing devices that have come into existence since deregulation-frequent flyer programs, travel agent commission override bonuses, and the biases due to computer reservation systems-provide some of the explanation for the advantages of airport dominance. Other sunk costs of entry, such as advertising and the setup of new airport facilities, may also play important roles. The empirical work presented does not allow one to determine the extent to which each of these factors permits an airline with a dominant endpoint share to raise its price.

The Effect of Information on Product Quality: Evidence from Restaurant Hygiene Grade Cards

This paper try to explain about the effect of an increase in product quality information to consumer on firms' choices of product quality. There are several ways through which information to consumers may affect the behavior of firms and the efficiency of markets. With rare exception, the insight is typically that more information is better, which has led economists to support policies that seek to increase the amount of information available to consumers. Meanwhile, existing empirical studies into the effects of information on firm behavior find small or negligible effects from increased information, casting doubt on the importance of such policies. Moreover, both statistically and economically significant increases in product quality due to an increase in information to consumers. To analyze the effects of the increased information, with three key elements. First, we observe the outcome of every restaurant health inspection in Los Angeles County. Second, based on confidential sales tax data, we observe quarterly revenue for individual restaurants in Los Angeles County. Third, for all of California we observe the number of people admitted to hospitals with food-related and nonfood-related digestive disorders, in each month and in each three-digit zip code. The central finding is that hygiene grade cards cause restaurants to increase hygiene quality. To establish this, we show that (i) grade cards cause an increase in inspection scores, (ii) grade cards cause consumers to become sensitive to restaurant hygiene, and (iii) grade cards cause a decrease in the incidence of foodborne illness hospitalizations which is not fully explained by consumer sorting. The finding that grade cards reduce illnesses is fairly striking in itself. Providing people with better information causes people to change their purchase decisions and causes firms to modify their behavior, leading to improved health for people.