Parncheeva Rittagorn
5904641932

Borenstein - U.S. Airline Industry

Hub and High Fare :

Dominance and market power in the U.S. airline industry

This article done by Borenstein aims to illustrate the importance of route and airport dominance in determining the degree of market power exercised by an airline. The study applied two different approaches including cross-section estimation of a carrier's markup over cost and cross-section estimation of the ratio of two observed airlines' prices on a route. The result of the study told us that airline's share of passengers on a route and at the end point airports significantly influences its ability to mark up price above the cost. Moreover, the market power of a dominant airline does not spill over to other incumbent airlines which serve the same routes or airports meaning that an airline with large share of traffic on a route excises market power without the appearance of 'umbrella effect'. Large-scale operations may be able to not allow competitors to obtain gates and airport's facilities which are necessary for the entry or an expansion of service at that airport. Thus an airline charges higher prices when it has a dominant position at an airport. An airline's share of traffic at an airport also contributes to its market power. Furthermore, FFPs , frequent-flyer programs, which is one of the best-known marketing devices in the airline industry have played an important role and have been effective since the bonus value is an increasing marginal function of the mileage or points accumulated. It is said that customers prefer the airline serving the most service on the route and the one that flies most routes from his hometown. Another reason is that customers can choose the destination of the free travel offered as a bonus gift.