

Borenstein summary

This article shows the factors which influence the degree of market power exercised by an airline. It results in the ability to mark up the price of those dominant airlines without creating an umbrella effect that allows other airlines to raise their prices as much. There are marketing devices or some factors that might give advantages to an existing firm to gain larger shares of passengers on a route and its share of traffic, also likely to discourage entry of other firms.

One of the best known marketing devices in the airline industry is the frequent-flyer program (FFPs) which gives a gift, usually free travel to customers after they have conducted a certain amount of business with the airline. The FFP of an airline becomes attractive when customers expect to travel with that specific airline quite often in the future. Also, customers would consider an airline which serves more destinations with more direct services. FFP increases in effectiveness when the buyers place a high value on the bonus relative to the value they place on marginal payment for purchased travel. A similar program which has been used in the airline industry is Travel agent commission override programs (TACOs). This program pays bonuses to travel agents who generate some specified level of revenues for the airline. The bonuses are generally in the form of increased commissions on the agent's sale, or free travel for the agent to sell and keep all of the resulting revenue. Thus, it creates the principal agent between air travel buyers and travel agents by presenting biased information. The airline can also present biased information to both travel agents and consumers via computer reservation system (CRSs) which is the system for obtaining schedule and price information of airlines.

Not only those marketing devices that allow an incumbent to gain advantages, but also the power to obtain the scarce inputs which are slot and gate at an airport. Controlling the dominant share of the slots and gates allows an airline to inhibit profitable entry. Hence, there are some correlation between airport dominance and high fares.

Philip Leslin summary

This study identifies the effect of information to consumers toward the behavior of firms and the efficiency of markets. Although the insight examines that more information is better, the existing empirical studies into the effects of information on firm behavior find small or negligible effects from increased information. Thus, the importance of such policies become obscure.

When the Department of Health Services(DHS) imposed the new regulation which is a standard format grade card to show the result of the hygiene inspection of firms. We analyze the effects of the increased information by constructing a panel data set cover between the period 1996 to 1998, with three key elements. Those are the outcome of every restaurant health inspection in Los Angeles country, the quarterly revenue for individual restaurants in Los Angeles country, and 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.

We found that the grade card causes DHS inspection scores to increase, then restaurant revenue increase. The inspection scores increase because restaurants make actual hygiene improvements, or because the grade cards cause inspectors to grade more leniently. The grade cards also cause consumers to become sensitive to restaurant hygiene. Furthermore, grade cards cause a decrease in the incidence of foodborne illness hospitalization which is not fully explained by consumer sorting. Since disclosure of grade cards was initially voluntary for some restaurants, while mandatory for others, They may create differences in the effect on hygiene quality.