

Title: Low Cost Carrier Competition And Flight Departure-Time Differentiation

Author: Stuart D. GURREA

Affiliation and post: Economists Incorporated, Senior Economist

Address:

Economists Incorporated

EmeryStation North, 5980 Horton, Suite 250

Emeryville CA 94608, USA

Tel: +1-510 420-5634

Fax: +1-510 547-5162

Email: gurrea.s@ei.com

Abstract

Since deregulation of the US airline industry in 1978, the most important event reshaping the industry together with the advent of code-sharing agreements has been the creation of low cost carriers (LCCs). Typically, low operating costs and aggressive pricing define LCCs, as opposed to traditional network airlines' higher costs and less aggressive pricing. The presence of LCCs has revolutionized the way airlines compete and the competitive responses incumbent airlines adopt, in particular how they differentiate their flight schedules in response to heightened competition. In this paper we empirically test the predictions of the theory of spatial competition and identify the effect of LCC competition on flight schedules.

Substantial theoretical work on spatial differentiation offers predictions ranging from minimal to maximal differentiation depending on the assumptions of the model, but little empirical work has been done to support either conclusion. In this paper we offer empirical evidence of strategic responses to LCC competition through spatial differentiation.

Understanding the implications of location theory is important from a policy perspective. In 1999 the US Department of Justice (DOJ) sued an incumbent airline for engaging in predatory practices at an international airport. Allegedly the incumbent would transitorily saturate routes and cut fares to uneconomical levels to drive out small competitors from markets. Once competition was driven out, pre-entry schedules and fares were reestablished to recoup the transitory losses. For policy makers to distinguish anticompetitive practices from competitive responses, it is important to understand what are the patterns of differentiation firms are likely to adopt in response to increased competition.

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