THE 331st IDEC SEMINAR

THE 78th TAOYAKA PROGRAM SEMINAR

What kind of competition matters ? oil prices, concentration, and airfares

Speaker : **Dr. Volodymyr Bilotkach**

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Date : **September 29th,Thursday**

Time : **16:30~18:30**

Venue : **Large Conference Room in IDEC(1F)**

Language : **English**

Abstract

This study takes a time series approach to evaluate the impact of market concentration and key input (oil) price on average air fares on the US airline markets. I use US DOT quarterly price data between 1995-2014. The following measures of concentration are employed: "system HHI" or concentration on the overall marketplace, without regard for competition on individual routes; "market HHI", or weighted average concentration on individual non-stop routes; and "airport HHI" or average concentration at the airport level. All relevant time series are integrated of order one, necessitating regressions in differences. I find a clear link between average air fares and one year lagged oil price, potentially capturing the effect of fuel hedging - a strategy popular by the US carriers. Of measures of concentration, "system HHI" has the most robust statistically significant effect on airfares. This result appears to suggest that forces facilitating tacitly collusive behaviour, such as repeated interaction and multimarket contact, are more important determinants of price levels than competition at the route level or airport concentration. I further stress the need for revision of the policy towards mergers between network airline companies. The prevalent approach whereby such mergers are approved as long as partner airlines' networks do not overlap do not fully account for the potential for such consolidation events to affect tacitly collusive behavior.

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