

Introduction to Air Transport Economics: From Theory to Applications



While it is undoubtedly true that there are many books that cover different aspects of various economic problems, it is also true that there comes a time when there is a requirement for a textbook that brings together the disparate elements of analysis that are covered in other separate areas. Therefore, for example, there are textbooks on labor economics, monetary economics, international economics, comparative economic systems, industrial organization, and numerous other specialized fields. It is our conviction that the time has come to bring together the numerous and informative articles and institutional developments that have characterized the field of airline economics in the previous two decades.

Book preview by Bijan Vasigh

While some might argue that this is too specialized an area in economics, we would contend that the unique nature of the economics of this industry make it particularly appropriate for a separate text. Included here, and as covered in the text, we would suggest the perishable nature of the product and the consequent elasticity of demand and pricing complications, the control of the method of delivering the service by a disinterested third party (namely, Air Traffic Control), the presence of only two major suppliers of the means of providing the service, the unique dominance of this form of transportation for long-haul passenger traffic, the interesting and complicated financial arrangements that are used to provide the service, the existence of quasi-monopolistic entities to jointly deliver the service (airports), and last, but by no means least, the international legal aspects of the industry. All of these areas are covered in one place or another, but there is, as of yet, no single text or article that brings them together in such a way that the critically important underlying economics of the industry is made clear to the interested reader.

The underlying foundation of the text is the idea that the reader should be introduced to the economic way of thinking and ap-

proaching problems in aviation rather than the more traditional institutional and governmental regulatory approach. In the early chapters, the reader is introduced to the elementary ideas of demand and supply and market equilibrium. This is followed by an in-depth presentation of costs and their key applicability to managerial decision-making. The basic economic principles are then applied to a unique analysis of the effect of air traffic control and the governmental ownership of airports on the industry. Following this, there is a thorough discussion on market structures, and on how they affect the industry. In particular, this section introduces the idea of contestability theory, which appears to be particularly applicable to this industry. The international aspects of the industry and global alliances are then discussed in detail.

The final chapters are devoted to what might be called applications of the earlier theoretical chapters. There is an elementary overview chapter on the various types of forecasting that are prevalent in the industry. The next chapter ties together the basic principles of demand (that were covered earlier) in a somewhat more sophisticated presentation of the critically important topic of revenue management. Clear numerical examples are

presented tying this mainstay of the industry to the theoretical idea of elasticity of demand. This discussion is followed by another unique chapter, which is entirely devoted to the phenomenon of so-called low-cost carriers. Finally, the text presents a decidedly non-conventional approach to the controversial topic of safety within the industry. That is, rather than the conventional safety-at-any-cost approach (which, in reality, is not followed anyway), the text adopts a more balanced cost-benefit approach to this important topic.

As economists at a university that specializes in the aviation industry, our preferred approach is to apply economic principles to the industry, and here is the area where we see the unique need. Therefore, we feel that this text will be the first text to bring all of these areas together in one book. In conclusion and as discussed above, our approach will follow a more or less standardized format. That is, we first present the necessary economic principles that will be used to analyze the industry. We follow this with a discussion of institutional arrangements, particularly in the international area, that make the aviation industry a truly global enterprise. Finally, the last chapters of the text are devoted to practical applications and comparisons within the industry. It is our hope that the text will appeal to interested readers within the industry as well as students who intend to enter the industry.

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About the book

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 ISBN: 978-0-7546-7079-7
 Publication Date: 08/2008
 Number of Pages: 350 pages

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