

# Foundations of Airline Finance: *Methodology and Practice*

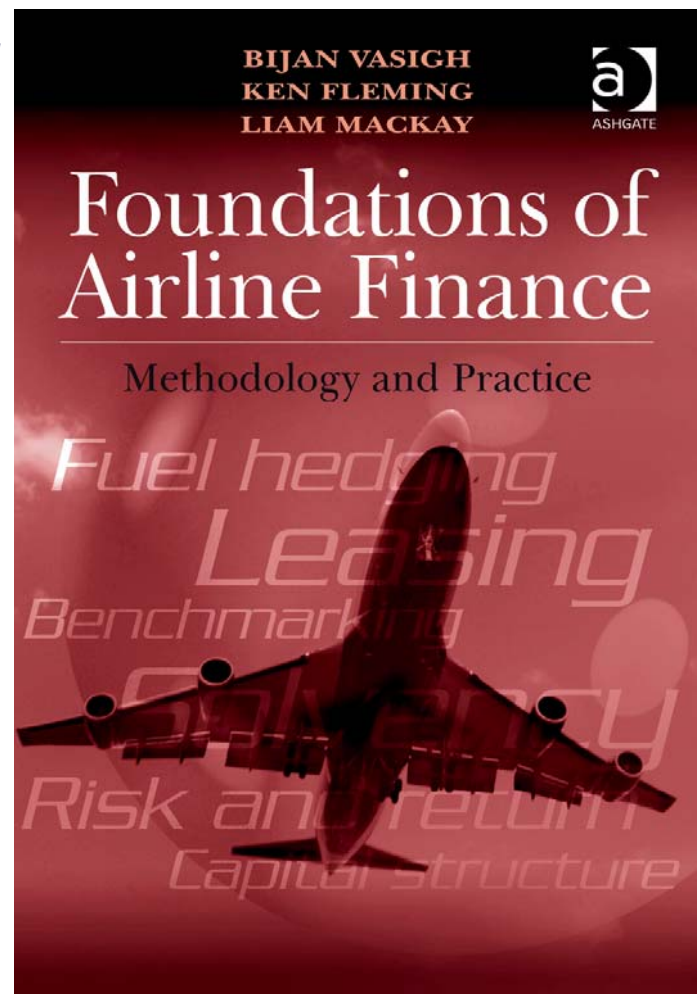
From frequent flyer programs to fuel hedging, this new book on airline finance provides you with a foundation in finance and in the application of these methodologies to various topics in airline industry practice.

By Bijan Vasigh, Ken Fleming, and Liam Mackay

Book Review by Frank van der Zwan

This book is divided into four parts. The first part deals with the theoretical aspects of airline finance, examining the role of finance in the airline industry and discussing the structure and classification of airline costs. The reader is also introduced to general finance concepts such as time value of money, risk and rate of return and how their application can affect decision-making in the airline industry, like amortization schedules of aircraft. The second part explains airline accounting and finance. It looks at everyday financial statements like balance sheets, income statements, statements of retained earnings and cash-flow statements. These statements are then analyzed, looking at the various general ratios for profitability, liquidity, long-term risk and stock market valuation. However, more airline-specific ratios such as CASM and RRPM are also discussed. The third part of the book focuses on airline capital budgeting, where concepts such as payback period, net present value, and internal rate on return are examined. It looks at airline capital structure and cost of capital, as well as at working capital and current asset management. The final part of the book focuses on practical applications of airline finance, like fuel hedging and aircraft buy-versus-lease decision-making.

In my view, the book successfully captures the fundamental role of finance in the airline industry, and after reading the book, you will have seen how financial considerations have an impact on virtually all aspects of airline management and operations. As might be expected from a more specialized textbook, it discusses key airline finance issues, such as fuel hedging, in much more detail than the general airline management textbooks by Doganis or Holloway, thereby creating a considerably deeper understanding of these important issues. What is particularly appealing about the book is the glossary of terms with clear definitions of ratios and financial terms and the various



appendices providing useful reference-like additional information.

Unfortunately, it is not all praise: at times you get the feeling you are reading an uncorrected proof of the book. There are a considerable number of inconsistencies and typing errors in the formulas and examples that are presented. In some chapters, the structure and length of the content is somewhat awkward. A general section on the role of accounting, for instance, is suddenly interrupted by a detailed description of various ways in which to account for airlines' frequent flyer programs, to be followed

again by a general section on airline consolidation. Some sections consist of lengthy explanations of undemanding content, while in other cases, rather complex formulas are presented without any explanation or examples, like the formula for standard deviation of the airline's stocks' return.

Overall, this new book covers the salient points of airline finance and is a useful addition to the airline literature. However, due to the somewhat immature structure of the book and the inconsistency in a number of formulas, the advice to the authors and the publisher would be to swiftly start working on a thoroughly revised second edition.

#### About the author

Bijan Vasigh is Professor of Economics and Finance at Embry-Riddle Aeronautical University. Ken Fleming is a published expert in aviation economics. Liam Mackay works for Continental Airlines on financial planning and analysis.

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#### About the book

Author: Bijan Vasigh, Ken Fleming and Liam Mackay

Title: Foundations of Airline Finance: Methodology and Practice

Publisher: Ashgate

Date of publication: June 2010

ISBN: 978-0-7546-7770-3

<http://www.ashgate.com>

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