

Dept of Industrial & Systems Engineering, NUS, Singapore

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An Analysis of Airport Pricing and Regulation in the Presence of Competition Between Full Service Airlines and Low Cost Carriers

Speaker: Oum Tae, University of British Columbia, Canada

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Time: 15:00 p.m. to 16:00 p.m.

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Abstract: Despite the airport privatization and deregulation trend in recent years, whether or not the privatized or commercialized airports should be left unregulated is still an open question. Related to this issue, one question that has received a very little attention to date is if and how pricing behavior of unregulated airports affect downstream airline competition, especially the competition between airlines offering differentiated services such as the case of full service airlines (FSA) vis-à-vis low cost carriers (LCC). If the upstream monopoly (airport) hinders downstream (airline) competition, the welfare effects of the upstream unregulated monopoly may be much larger than initially suspected. This aspect of airport pricing has not been formally incorporated in the debate on airport price regulation. In this paper, we study a duopoly model to capture the differential competitive effects of changing airport user charges on FSAs and LCCs. By making reasonable assumptions on differential price elasticities, unit costs and competitive behavior as manifested by firm-specific conduct parameters, we perform numerical simulations to measure differential effects on an FSA and an LCC of increasing airside user charge by an unregulated upstream monopolist airport.

Biography: Tae Oum is UPS Foundation Professor at University of British Columbia, a Co-Director of the Centre for Transportation Studies and the President for the Air Transport Research Society(ATRS)

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