

MICROECONOMICS AT WORK EXERCISE

THE PRICE OF AIR TRAVEL

REFERENCE: ‘Qantas comes under fire in class war’ (by Jane Boyle), *The Weekend Australian Financial Review*, 19–20 July 2003, p. 6.

CHAPTERS RELEVANT TO THIS EXERCISE: Chapter 2, 3, 11.

OVERVIEW

The price of air travel in Australia is formed in a market dominated by Qantas but where two other carriers, Virgin Blue and Regional Express (Rex) have signalled their intention to provide some services (such as booking and luggage handling) jointly and to compete more aggressively. Existing, and future, competition is, and will be, partly by means of the *price* of their product (i.e. on the basis that lower air fares will enable one firm to lure customers away from another), but partly also in the *type of service* that they provide. In other words, *price* might not be the only factor on which a consumer decides to buy from one firm rather than another; or, putting it another way, competition might be in terms of (a differentiated) *product* as well as price. A particular issue is the demand for air travel that comes from what is often described as the ‘corporate (or business) traveller’ – senior employees, from both the private and public sectors, travelling on business/official duty (as distinct from private travellers travelling for pleasure or on private business). This market (and the formation of prices within it) is also distinctive in that many large business or government organisations employ *agents* to arrange their travel and therefore the consumers do not relate directly to the firms supplying the service.

QUESTIONS

1. Will price always be the most important determinant of the airline a traveller chooses to fly with?
2. Give some examples of ‘non-price competition’ (i.e. services provided, and other means of product differentiation) used by Qantas as a means of attracting the business traveller.
3. Under what circumstances may an airline charging a higher price for an airfare attract custom away from a competitor charging a lower price for a flight between the same destinations?
4. How may the use of agents by large organisations in arranging flights for their employees influence the way that the market works?
5. Analyse the way in which the reservations system that a firm uses is an important element in how a market works.

6. Explain and comment on the significance of the statement that Virgin Blue is 'adding a few corporate conveniences but on a user-pays basis'.