Economics of Airlines and Air transportation

FACTORS OF DEMAND

- Price
- Competitors price
- The level of income of the consumer
- The level of development of the economy
- Availability and possibility of other mode of transportation
- Benefits and amenities received from the transportation.
- Frequency of services: and
- Other external factors like terrorism, and development of tourism in other countries.

Demand Function

$$D_{at} = f\{P, P_y, Y, D, O_t, A, \ldots\ldots n\}$$

$$D_{at} = f\,[P]$$

Estimation of demand for air transportation

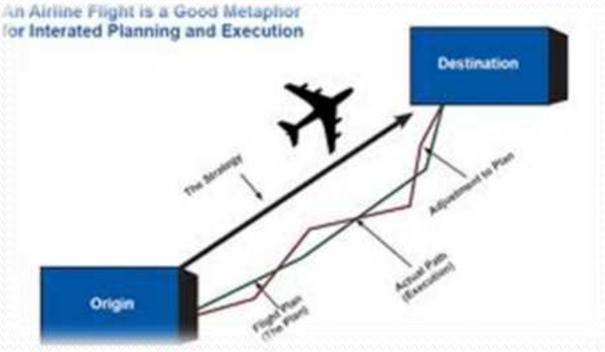
- Survey method
- Complete enumeration method
- Sample survey metchod
- Cross section analysis
- Cause and effect analysis method
- Time series analysis method

AIRLINE SUPPLY ANALYSIS

- supply refers either the number of seats or number of trips can be provided by an air service provider at a given price and in a given time period.

Factors of Supply.

- Like demand, supply is also dependent variable, generally, price, technology, price of the factors, entry of new firms, government policies etc. are the factors influencing the supply. price of tickets, price of resources, technology, entry of new service providers are the factors which influences the supply of air transportation.



Supply Function

- $S_A = f\{p_t\, p_r\, T, N_s, G.......n\}$
- S_A= supply of air transportation
- F=functional relation
- P_t= price of ticket
- P_r= price of resources
- T = technology
- N_s= new service providers
- G = government policies
- N=other factors

COST ANALYSIS

- **Cost function**
- A cost function is the functional representation of the relationship between cost and cost factors like price of inputs, size plant, and level of technology.

- $C = f\,(F, Q, P, T)$

- *C =stands for the costs,*
- *f =denotes functional relationship,*
- *F =refers to the factor-input prices,*
- *O =stands for the rate of output,*
- *P =refers to the size of plant, and*
- *T =stands for the state of technology*

Various costs in Airlines sector

Let us understand the different types of costs invested in air transportation sector and how they can be classified. The list of various types of cost invested in the air transportation sector

- Flying operation expenditure
- Direct maintenance expenditure
- Passenger services expenditure
- Aircraft servicing
- Reservation and sales of ticket
- Advertisement and publicity