

# Airline industry research

[Transportation](#), [Airlines](#)



After the devastating economic, political and social effects of the world trade bombing, it has been identified that the said sectors has been recovering from the tremors of the said tragedy.

Before, Foreign Direct Investment influx in the economy of the United States dramatically dropped due to the fear loosing from investing in a country, during those times, that has been experiencing terrorist attack not to mention the possibility of being kidnapped and/or become one of the victims of the terrorist.

The significant downturn on the volume of FDI's that was experienced during those times made the financial and business sector of the United States on the brink of bankruptcy. Among those hundreds of businesses that were negatively affected by the said act of terrorism, the airline industry was the most affected party. Why? This could be explained through some economic concepts.

#### Price Elasticity of Demand

Airline industry has been one of the most sensitive industries in the market in responding to external forces that imposes large effects on its performance (ise. ac. uk, 2007).

Economic factors such us oil price hike and terrorism instantly affect the level of demand of airline passengers (Associatedcontent. com, 2007a). Like for instance, by the time oil prices increased in the world market, the primary effects of the said increase was to raise the operational costs of airline companies.

Due to this scenario, in order for the companies not to bare all of the negative effects of the oil price hike, the tendency of the airline companies would be to pass some amount of the price increase to their customers through increasing the price of their services. As an effect, airline passengers would think twice if whether they would still avail the services of airline companies or just find other cheaper ways of going to their destination (Warren, 2007).

In short, as the prices of the airline companies increases, the level of demand of airline passengers on the other hand decreases. The economic reason behind this event would be due to the fact the airline services are being considered as price elastic. Price elastic goods are most of the time normal goods and by only just a small raise or decrease in its prices, the level of demand responses on the opposite manner.

The same thing goes when considering the effects of terrorism to the profitability of airline industry. Due to the fear of becoming one of the possible victims of the terrorist groups, airline companies target customers shifted to other means of transportation or just merely postpone their vacation or business trips to other state or country. Due to the worsening level of demand, airline companies were forced to lower down their prices so as to attract more passengers.

Actually, it is not only the profitability of the airline companies is the only one being considered here; minimizing the costs of operation is also a huge factor in determining the price level that can be offered by the airline companies. By the time airline companies find ways on how to lower down

their operational costs, then, that is the time when they could offer lower fare on their customers.

As a result of the lower price offering of airline companies, more and more passengers will avail their services or simply will increase their level of demand.

It is clear on the above statements that price level still serves to be the major basis on how consumers would behave on a certain product or services.

As the issue on terrorism slowly died on the eye of the media and on the minds of every members of the society, airline companies has been starting to experience improvements on the number of passengers that avails their services. It has been identified that airline passengers are starting to feel secured and trust the airline companies.

With this customers going back to avail the services of airline companies, it would serve as the stepping stone in order for the latter to recover from financial losses that they acquired for the past years. Airline tickets are being expected to increase slowly as the number of airline passengers would start to increase.

With the slow-paced recovery of the airline industry from the effects of terrorism, still, the demand level of airline passengers are still on its way towards the equilibrium state.

Positive and Negative Externalities

Aside from the price level being set by the airline companies, there are still other economic factors that affect the degree of supply and demand of airline services like externalities. Externalities can come in two kinds, positive and negative externalities and this two imposes different effect on the level of demand and supply of airline services (tutor2u. com, 2007).

Let us take first the case of positive externality as a factor affecting demand and supply of airline services. When the U. S. government hosts a certain world convention, say, convention for international economic leaders, then, it is being expected that a lot of foreigners from other countries would avail the services of airline companies in the United States.

Even though the government did not intend to help boosts the demand of passengers of airline industry, still, their hosting of a certain international event would surely improve the profitability of airline companies even just for a certain period of time. Furthermore, other possible instance wherein positive externalities would apply to airline industry would be the scenario wherein the economy performs well.

When we say an economy performs well, considering the situation of airline industry, would be when the per capita income of every individual in the market has increased due to the booming of the GDP and other economic indicators since if consumers have some extra income as a result of the increase of their per capita income, there is a big probability that those extra income could be spend for vacation trips and other leisure activities like traveling to other county or state.

In this scenario, airline companies would surely accommodate more passengers [vacationers] as a consequence of having extra income from the improvement of consumer's per capita income.

In this regard, it would be necessary to stress that there are some economic activities or events that unintentionally improves other industries or businesses and this scenario are being tagged as the positive externalities.