Report on business economics

Business, Industries

Airline Industry Consolidation

Air travel in Europe remains to the largest and fast growing industry among other travel industries. It enhances faster economic growth, international investment and world trade making it the centre of globalization in other industries (Closs, 2007). With consolidation, separate airline joins their forces on equal or relatively equal terms and form a new company. This is aimed at improving investment returns by cutting down costs and improving productivity gains. Small competing airlines incur high costs and in turn run unprofitable performance. This drives them to join and create smaller number of large companies (Lawton, and Tazeeb, 2011).

Consolidation has been prompted by various factors. Bankruptcy in the airlines due high operation cost has contributed high although other factors such as fear of terrorist attack also chip in (Closs, 2007). Decline in the domestic economy profoundly affects running of airlines and as a result stronger airline end up acquiring weaker ones. Airlines suffered free-fall after the events of 9/11 and it brought up consolidation, as several airlines could not endured running bankrupt.

With increasing demand for commercial air travel there has been intensive deregulation, which has driven greater and improved level of growth in different parts of the world. Low cost airlines have been developed as witnessed in Europe, United States and many other regions. With increased level of technology and technological development, reduction in ticket prices has been witnessed as well as rising levels luxury and comfort. Bringing together various airlines have enhanced acceptable use of technology and the development of multi-decker Airbus A380 has demonstrated how coming consolidation can bring together competing airlines and attract customers (Lawton, and Tazeeb, 2011).

(Closs, 2007) postulate that as airlines enter into a consolidation, redundant operation costs are reduced. By creating alliances or partnerships, airlines seek to share the cost. With these agreements, airlines share operational costs and facilities. Facilities such as maintenance that could have been otherwise established for each airline is shared between consolidated airlines. Other facilities to be shared include sales offices facilities. As a result, the airlines will increase revenues and maximise their profits because cost are kept at minimum levels at all times. (Lawton, and Tazeeb, 2011) point out that passengers who are the consumers of this industry benefits from the efficiency created. Competition makes the airlines increase efficiency in the services offered, as it is a tool of self-marketing. Passengers are able to enjoy a range of services while at the same time not having to pay so much for the services. They benefit from lower flight prices due to low expenses. Other benefits enjoyed are derived from optimized routes about various international travels (Lawton, and Tazeeb, 2011).

Some mergers however can lead to monopoly in the industry. Resulting consequences of this is higher prices and decreased availability of services. There will also be decreased innovation in production of services and general running of the industry.

Eurozone crisis

This is an on-going financial crisis, which has made it impossible a various number of countries in Euro to finance government debts without third parties aid. The trend was witnessed towards the end of 2009 where investors developed fear concerning several debt crises as government debt levels were rising.

Templeton and Robert (2009) explain monetary policy inflexibility as a heavy blow of the Eurozone crisis. The Eurozone establishment of singe monetary policy means that independency raises issues. Individual member states no longer operate independently. This increases the risk of defaulting, which is more than what is faced by even smaller non-Eurozone economies (Barth, and Apanard, 2012). While United Kingdom is able to pay its creditors by printing money and ease the default, this option is not available to a Eurozone state such as France. When a country prints money, its currency becomes devalued relative to its trading partners, who in this case we refer to Eurozone states. The exports become cheaper and in principle, this improves the balance of trade of that country. The Gross Domestic Product increases and the same apply to tax revenues. The consequence of this process to other countries is that assets held in devalued currency suffer losses.

There is loss of confidence in Eurozone debt. Before the financial crisis developed, banks and regulators assumed high level of safety in Eurozone debt. Banks could hold bonds from economies such as Greece, which were weak as they offered small premium and were found to be sound. However, as the crisis developed, it was clear that Greek and other countries bonds presented more risk (Barth, and Apanard, 2012). The loss of confidence was contributed by failure to have information about the risk surrounding European sovereign debt. Investors further doubted the possibilities of the crisis being contained by the policy makers. This was because in countries where euro was used as currency, they could not print more money to pay debts. This is due to limitations on monetary policy choices. Further to this, the European Central Bank has the mandate on inflation control while it lacks the mandate on employment.

Liquidity had dried up quickly and after underlying structural issues such as a reduction of economic competitiveness increasingly became visible, the European Commission, the European Central Bank, and the IMF held an emergency meeting so as to address Greece`s debt crisis (Barth, and Apanard, 2012). The meeting came up with the creation a bailout fund which was referred to as `European Financial Stability Facility`. This was a temporary move that helped to provide a $163 billion loan to Greece and there was agreement that Greece would provide assurance that it would implement some strict tax hikes and spending cuts. This move would however yield minimum results and did not work as intended because as by 2011, Greece was still struggling to implement privatization plans and budget cuts. Germany and France would later come and engineer a rescue plan termed as three-pronged rescue plan, which provided second bailout package to Greece. This package was approximated to be worth $17 billion. As an alternative measure to deal with this crisis, the intergovernmental treaty agreed by the EU leaders should be strictly adhered. The treaty was about creating a fiscal unity that would be parallel to the already existing monetary union. The treaty will reassure lenders that the European Union will stand behind its member states` sovereign debt. It will also bring the European Union to proceed as an integrated unit and would ensure Eurozone member states legally get various powers over their budgets. There will also be sanctions to members who exceed 3 per cent deficit to gross domestic product ratio. Further improvements are that a permanent bailout will replace European Financial Stability Facility (EFSF). This permanent fund is to assure the lender the European Union stand behind EU members. Every Eurozone country should lend €200 billion from their central banks and give it to the IMF. This will in the end force countries to implement cutbacks in spending (Templeton, and Robert, 2009).

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