

Discussion 2 week 7 new

[Business](#)



Airline Businesses and Decision Making Details: al Affiliation: Airline Businesses and Decision Making

1. Ways in which game theory can be a useful optimization tool in making pricing decisions by airlines

Unlike sports where there must always be a winner and loser, business is pretty different, for all players can participate, having a win-win situation at the very end either by correctly anticipating actions of other players or cooperating with others to produce quantity that actually maximizes profit for all. To say the least, Airline firms are but expensive to develop individually, and so, share the development costs. Game theory, therefore, helps airlines better assess their negotiating positions; that is, it helps airlines to either make independent pricing decisions or follow existing pricing decisions (Baird, Gertner, & Picker, 1998). Even with cooperating firms, game theory helps in safeguarding their prospects from being taken advantage of regarding own prices viz-a-viz " added value."

2. Price-setting strategies commonly used by airline companies

Peak User Pricing

This is a strategy used by airlines to charge higher prices for seats to travel during peak seasons, during holidays and/or during certain yearly/crucial events to certain parts of the world, for instance, the Muslims' travel to Mecca for the Hajj pilgrimage. This pricing strategy often lowers the demand for the airlines tickets by limiting the number of those that can afford such expensive fares (Doganis, 2005). However, the strategy generally increases profits to such firms.

Segmented Pricing

In this strategy, customers are charged differently based on their willingness

to pay viz-a-viz the extent of service offered. Travelling in First class seats cost usually costs more, double or multiple times the cost of other seats due to the added comfort like superior services and/or added special snacks/features (Belobaba, Odoni, & Barnhart, 2009). It is more a profit maximizing strategy than a demand related strategy.

References

Baird, D., Gertner, R., & Picker, R. (1998). *Game theory and the law*. New York: Harvard University Press.

Belobaba, P., Odoni, A., & Barnhart, C. (2009). *The Global Airline Industry*. West Sussex: John Wiley & Sons, Ltd.

Doganis, R. (2005). *The Airport Business*. London: Routledge.