Managerial economics and the airline industry

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Managerial Economics and the Airline Industry Introduction Back in 2003, the price of oil per barrel is US$25. (William, 2008) In June 2008, the price of crude oil per barrel has already reached $142. 99. (Frei, 2008) Because of the oil price hike in the global market, air fares started to increase.

In line with the slow economic growth caused by the terrorist attacks in 2001 and the tight competition in the world market, the recent national unemployment rate rose up to 5. 5% in May as compared to 5. 0% in April this year. (U. S. Department of Labor, 2008) This happened since some of the medium-scale and multi-national companies were forced to lower down their operational costs through massive lay-offs. In line with the high unemployment rate in U. S., millions of the Americans could no longer afford to spend their savings on leisure purposes which will require them to spend a large portion of their savings on air fares.

Based on the students knowledge on managerial economics, economic tools and concept will be used in weighing the pros and cons of recommended solution on how the U. S. airline industry could avoid filing bankruptcy.

Recommended Solution for U. S. Airline Industry

Considering the slow growth in the U. S. economic condition combined with the oil price hike in the global market, merger and acquisition should be approved by the U. S. Department of Justice in terms of minimizing and preventing the number of cases wherein these businesses would file bankruptcy.

Regardless of whether the demand for airline services goes up or down, the problem with the airline businesses is the fact that its fixed operational cost remains high because of the continuously increasing oil prices in the world market. In line with this matter, the only way to make the airline operational cost to go down is by making its available human resources more efficient.

The benefits of allowing business merger among the U. S. Airline Companies includes the fact that existing airline companies will be able to enjoy the benefits of economies of scale. In the process of merging two airline companies into one, the airline business will have more power in terms of maximizing the use of its human resources and assets aside from having a bigger market share in the industry.

During the reorganizational process, airline managers will have the option to select and retain their best talents while laying off employees that do not have sufficient knowledge and skills in airline operations. By doing so, a newly merged airline company will be able to cut down its operational costs by making its human resources more efficient.

Basically, cutting down the operational costs will enable the newly merged company to offer a more competitive air fare prices as compared to its competitors. For this reason, there is a higher chance that a newly merged airline company will have more customer-base, higher sales and profitability which is necessary in making the U. S. airline companies able to sustain the slow economic growth in the country.

Conclusion

The best solution in making the U. S. airline companies able to sustain the slow economic growth in U. S. is for by the U. S. Department of Justice to permit the merger and acquisition option.

The problem with other alternative solutions like government grants to U. S.

airline companies, loans and/or loan guarantees is the fact that these options offer only a temporary solution to the problem. It is only through the process of legally allowing business mergers that airline businesses could effectively survive the economic crisis.

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