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The newspaper article “United raises fares \$2-\$50” from the Orange County Register discussed the recent price increase that United Airlines has pursued. United added \$2 to \$4 to each one-way fare in markets served by low-cost competitors, and \$5 to each one-way leisure fare in other markets. United also increased business fares – tickets that can be purchased at the last minute – by \$50 each way.

With analysis to the separate price charges, it is clear that United is practicing third-degree price discrimination. Its consumers, the travelers, are divided into two groups, with separate demand curves for each group. The first group is the regular travelers who purchase their tickets ahead of time, and because this group has a more elastic demand curve, they are charged lower prices. Thus their price increases are in the range of \$2 to \$5. On the other hand, the second group of consumers is those who purchase tickets at the last minute, and since these customers face a more inelastic demand curve, United is able to charge a higher price. Thus, United increased their fares by \$50, which is a considerable amount. These customers are willing to pay more because they don’t have the luxury of time to compare prices between airlines and they must buy the tickets to go where they need to go!

The article also mentions how other major airlines are expected to follow United’s lead with the increased prices. Delta Air Lines will increase its business fares by \$50 each way. American Airlines and Atlanta airlines will pass on passenger facility charges to its customers.

United is using the oligopolistic skill of price signaling. United announced that it has raised its fares, and hoped that its competitors would take the announcement as a signal that they should also raise prices. United figured that if its competitors follow its lead, all of the firms would earn higher profits. On another viewpoint, a couple of the airlines are passing on the facility fee to customers. The raising of prices was a necessary change for these airlines. They will increase the fares in order to cover a cost, which leads to making higher profits. As cost conditions change, the airlines find it necessary to change prices that have been rigid for some time. In this example, they looked to United as a price leader to signal when and by how much price should change. If the other airlines did not raise its prices, United would be out of business. However they realize that it is in their best interest to raise prices as well so everyone can earn higher profits and cover costs.

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UNITED RAISES FARES \$2- \$50

Delta follows suit on business fares and joins Americans in passing on facility fee to customers. Other airline hikes likely.

United Airlines late Thursday raised domestic air fares across the board, increasing one-way fares from \$2 to \$50 depending on the route and type of fare.

United added \$2 to \$4 to each one-way fare in markets served by low-cost competitors, and \$5 to each one-way leisure fare in other markets. United increased business fares—tickets that can be purchased at the last minute – by \$50 each way.

Other major airlines are expected to follow United's lead.

By midmorning Friday, **Delta AirLines Inc.** said it would increase its business fares by \$50 each way.

Earlier this week, **American Airlines** said it would stop absorbing passenger facility charges in markets where there are alternative nonstop flights. Local airports collect the fees as mandated by the Federal Aviation Administration.

“In layman's terms, it will cost up to \$9 more (round trip) to change planes on American rather than fly United nonstop (assuming equivalent base fares),” analyst Jamie Baker at **J.P. Morgan Securities** wrote in a report Friday.

In a prepared statement Friday, Delta said beginning Friday, the bankrupt Atlanta airline also would pass on passenger facility charges to its customers.

“Ticket prices will increase between \$3 and \$4.50 each way, for certain single connecting Delta itineraries with the 50 states where passenger facility charges have previously been absorbed,” the airline said.

A spokesman for **Northwest** said Friday that the carrier was reviewing whether to pass on facility charges to customers.