

The decision making of people facing two types of different strategies of airline companies in Hong Kong

Introduction

From 2013, Low-cost carrier expand quickly and stole many clients from Traditional airline. Thus, we would like to know the elasticity respectively and what factors will affect people decision when they need to book flight.



Economic concepts

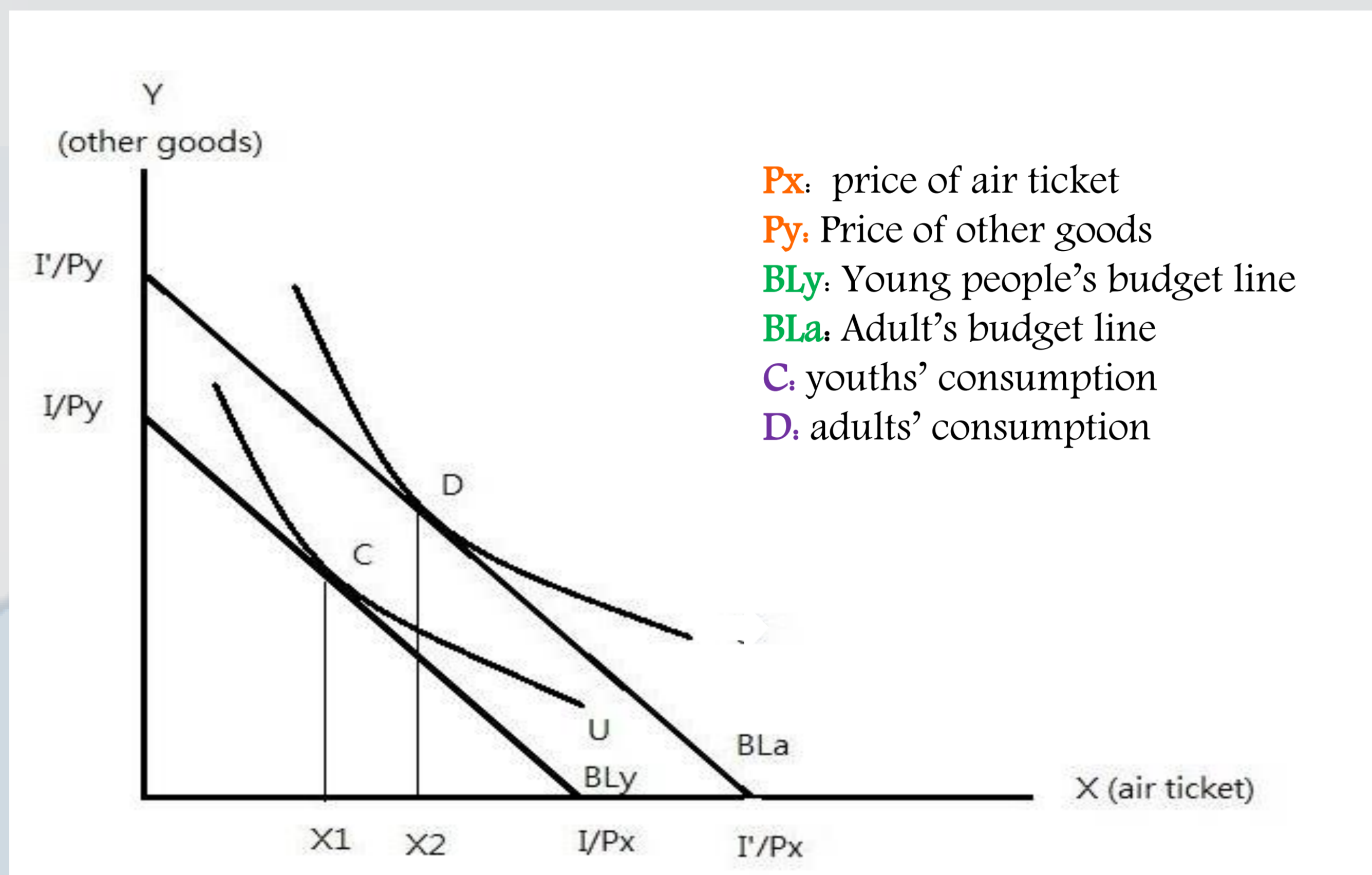
I. Utility

- Adults consume more than young people (i.e. $x_2 > x_1$) because of higher income
- Adults choose traditional airline while young people choose low cost carrier

Reason:

people choose the airline company that provide them with the highest utility

The effect of income on people's utility



II. Consumer surplus

Pricing strategy of airline companies.

Traditional airline companies **higher price**
 Low-cost carrier companies **lower price**

The higher WTP of consumers, the higher the price

III. Elasticity

(the larger proportion in income, the higher Ed)

Consumers of Traditional airline: **Higher income, lower Ed**
 Consumers of Low-cost carrier: **lower income, higher Ed**

Limitation

- Not easy to collect a large sample size
- Rely on first hand information



Results

Elasticity

	Average price elasticity of demand [Ⓢ]
Low cost carrier (long haul) [Ⓢ]	3.75 [Ⓢ]
Low cost carrier (short haul) [Ⓢ]	1.875 [Ⓢ]
Low cost carrier (overall) [Ⓢ]	2.8125 [Ⓢ]
Traditional airline (long haul) [Ⓢ]	1.785714 [Ⓢ]
Traditional airline (short haul) [Ⓢ]	3.125 [Ⓢ]
Traditional airline (overall) [Ⓢ]	2.455357 [Ⓢ]

Type of airline company

E_d low-cost carrier $>$ E_d traditional airline

=> consumers of low cost carrier consumers are more price sensitive than those of traditional airline companies.

(∴ degree of necessity)

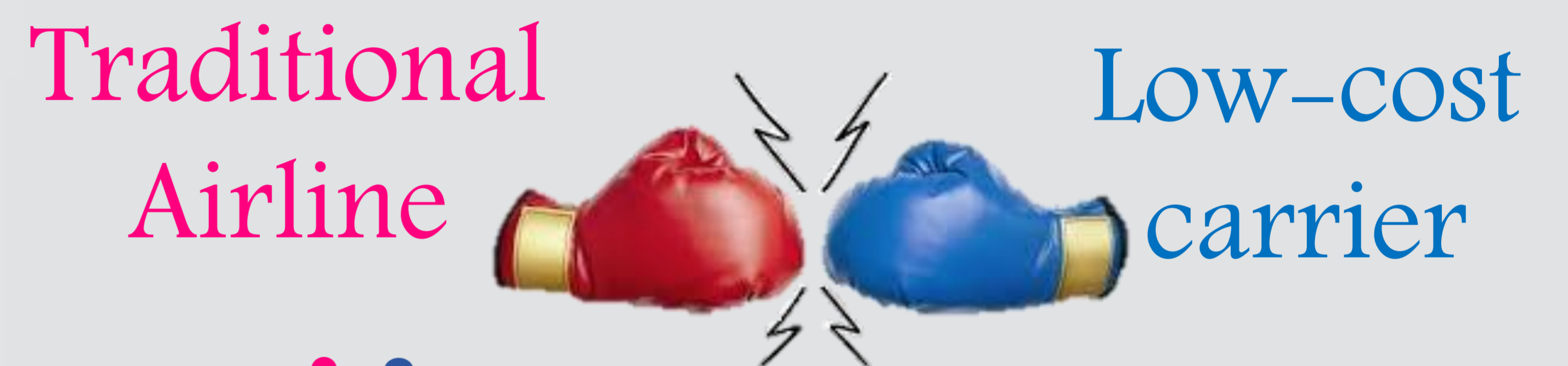
Travel distance

- Low-cost carrier company:

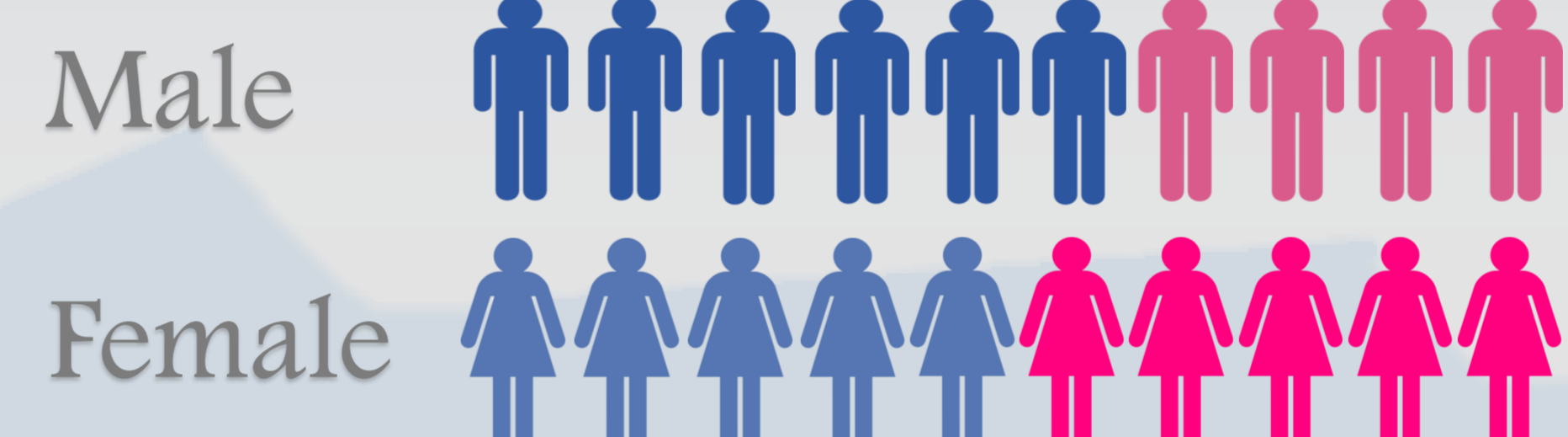
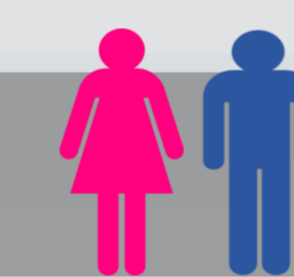
E_d long haul $>$ E_d short haul.

Traditional airline company:

E_d long haul $<$ E_d short haul.



Sex



Age



← Below 40 → Above 40 →

Income



↑ Traditional Airline
 \$20,000
 ↓ Low-cost carrier

Conclusion

- People from the same **Sex, Age group** or **Income Group** would like to have **similar** preference.
- Degree of necessity, travel distance, proportion of flight expense to income also **influence** the decision making of people