Airlines and Pricing Abuses

The American airline industry is a wonderful laboratory for students interested in regulation and competition. Until the late 1970s, airlines were regulated by the Civil Aeronautics Board. The Board directly regulated competition by setting minimum fares and controlling routes. But then the industry was deregulated by congress and airlines could make choices over fares and routes. Soon there was an influx of entry and competition. Prices (and wages) went down, and the industry adopted the hub-and-spoke route model that is still in use.

More recently, however, competition has again diminished—but for different reasons. The Department of Justice allowed a wave of mergers while the Department of Transportation has permitted code-sharing that often achieves the same goal as a merger, and at the same time failed to protect consumers’ shopping environment from drip pricing, opaque prices, and high search costs. Combined with two drastic drops in demand (the financial crisis and covid-19), these have reduced competition in airlines through fewer competitors, capacity reductions and tacit collusion. Airlines have also been accused of predatory pricing to exclude low-cost carriers. The airline industry is a laboratory for studying antitrust; over the decades airlines have provided examples of many anticompetitive tactics prohibited by the antitrust laws.

**Reading**

You may wish to review the readings on predatory pricing from the monopolization module.

**Required reading**


*United States v. AMR Corp.*, 335 F. 3d 1109 (10th Cir. 2003)


**Recommended reading**

*Spirit Airlines, Inc. v. Northwest Airlines, Inc.*, 431 F.3d 917 (6th Cir. 2005)

**Background reading**

Deregulation

Tacit collusion


Mergers


On predatory pricing:


