Running head: ELASTICITY OF DEMAND 1

Elasticity of Demand

Pamela Hill

Rasmussen College

This paper is being submitted on August 20, 2017, for Audra Sherwoods, G204/ECO2023 Section 01 Microeconomics – Online Plus – 2017 Summer Quarter Term 2.

ELASTICITY OF DEMAND 2

Hawaiian Airlines

As the largest airline in Hawaii, Hawaiian Airlines is the 8th largest airline in the United States of America with flights to the U.S mainland, New Zealand, Hawaii, Australia and South Korea. The airline is the oldest airline in the U.S with no fatal accidents. Further, it is known as the airline with least number of cancellations, baggage handling problems, and over sales. As an airline with such impeccable qualities, the demand for its services is high, especially in Hawaii.

Price elasticity of demand measures the responsiveness of demand to changes in prices. In the airline sector, therefore, it measures how demand changes with any changes in airline fares and the prices of on-flight amenities such as meals, comfort, and entertainment. The demand for airline travel is sensitive to price and income changes (IATA, 2008; Brons, Pels, Nijkamp & Rietveld, 2002). However, the extent of sensitivity will depend on circumstances. For Hawaii Airlines, and for most airlines, the price elasticity of demand is relatively elastic. This is because over the recent past many airlines have emerged and each one of them tries to outdo the others by increasing on-flight benefits which attract passengers. Therefore, a slight increase in fares can lead to a huge loss in customer base as they will try to substitute the airline across a variety of competing airlines. However, the airline has managed to stay on top of the industry for its impeccable history of quality assurance and this has earned it customer loyalty.

On-flight amenities remain a very competitive tool for airlines. However, airlines continue to reduce the cost of service provision to increase profits and reduce overall flight charges. The demand for on-flight entertainment depends on the prices of these amenities, consumer spending habits and the level of incomes. When the prices for on-flight entertainment

ELASTICITY OF DEMAND 3

does high passengers find the airline to be expensive and they will either cut their on-flight spending or substitute the airline altogether. Low on-flight entertainment prices attract more

customers. Similarly, higher incomes make the price elasticity of demand for on-flight entertainment relatively inelastic.

One of the ways to increase demand for the airline is by reducing the fares and the cost of on-flight amenities. Further, making these amenities more customized will attract more customers. Ensuring that all the cabin crew members meet all the international standards is also important. Air hostesses need to be constantly trained on quality customer services to attract more customers and make their flights as comfortable as possible.

Price setting mechanism is determined collectively by the market forces of demand and supply. When demand for flights is high, airlines tend to hike fares and when demand is low, fares tend to fall. Also, airlines do price collisions where they agree on pricing mechanisms while they compete on other aspects. The government also comes in to check prices so that they are not unreasonably high.

In conclusion, air transport is very competitive so much so that any undesirable trait by any airline could cost it a lot of customers. Prices of flights play a very important role in determining demand. Because there are many airlines operating currently, the price elasticity of demand is elastic whereby slight changes in price causes a momentous change in demand. While reducing the prices for flights can induce demand, somewhat increasing the quality of on-flight amenities would go a long way in not only bringing in new customers but also retaining them.

ELASTICITY OF DEMAND 4

Reference

Brons, M., Pels, E., Nijkamp, P., & Rietveld, P. (2002). Price elasticities of demand for passenger air travel: a meta-analysis. *Journal of Air Transport Management*, *8*(3), 165-175.

No, I. E. B. Air Travel Demand.