UNIVERSITY WITH A PURPOSE

UNIVERSITY OF PETROLEUM AND ENERGY STUDIES
End Semester Examination, December 2021

Course: Airline Economics **Semester : III**
Program: MBA -AVM **Duration : 03 hrs.**
Course Code: TRAV 7005 **Max. Marks: 100**

Instructions: This questions paper has four sections A, B, C & D. You are required to attempt all the sections. Please read the instructions given with the respective sections carefully.

Q. No.	Section A **Attempt all the questions. Each question carries equal marks.**	10Qx2M= 20Marks	COs
Q.1	Select the correct option in the following objective type questions: Zero economic profit means 1. The firm is exactly covering its covering its accounting cost 2. The opportunity costs of the owners' investment 3. Either '1' or '2' 4. Both '1' and '2'		CO1
Q.2	The purpose of operating performance analysis is to 1. Maximize Revenue 2. Minimize Cost 3. Maximize the surplus of revenue 4. None of them		
Q.3	A two-leg flight operated by a 200-seat aircraft: the first leg is 500 miles and is flown with 80 percent of seat occupied (i.e. 160), whilst the second is 3000 miles and is flown with 40 percent of seats occupied (i.e. 80). Calculate distance weighted passenger load factor. 1. 46 percent 2. 47 percent 3. 48 percent 4. 49 percent		
Q.4	Revex Ratio is defined as 1. Operating performance/operating cost 2. Operating revenue/operating cost 3. Operating cost/operating revenue 4. None of them		
Q.5	Operating Margin is calculated as: 1. Ratio of operating profit and operating revenue 2. Ratio of operating performance and operating cost 3. Ratio of operating revenue and operating cost 4. Operating cost and operating profit		
Q.6	Explain Briefly: What is the difference between average stage length and distance flown by passengers?		
Q.7	Break Even Load Factor: 1. (TOCs/ASM or ATMs)/(operating revenue/RPMS or RTMs) 2. CASM/Yield 3. CASM = RASM 4. All of the above		
	If Yield rises whilst unit cost remains unchanged, BELF will:		

Q.8 Q.9 Q.10	1. Fall 2. Rise 3. Improve 4. Options '1' and '3' both Declining real prices means that 1. More distance is covered 2. More value addition 3. More consumer surplus 4. All of the above **Fill in the following blanks: (01 mark each)** 1. If achieved load factor rises whilst yield and unit cost (and therefore BELF) remain constant, operating performance will ----------. 2. When yield softens, if BELF is not to rise, unit cost must also be -----------		
	Section B **(Attempt all questions. Each question carries equal marks)**	**4Qx5M= 20 Marks**	
	1. Differentiate between High Yield Passengers and Low Yield Passengers. 2. What are the preconditions to RM? **3.** Discuss Airlines as an undifferentiated product? 4. The demand for LCC airlines estimated to have an income elasticity of +0.3. Following a 15% rise in consumer's real incomes (other factors remain constant).How can you predict the demand for LCC airlines. 5. Explain airline's heterogeneity of product with the help of an example.		CO2
	Section C **Attempt all the questions. Each question carries equal marks.**	**3Qx10M= 30 Marks**	
Q.1 Q.2 Q.3	**" If demand is elastic, comparatively lower price will benefit the airline operator, if the demand is inelastic higher price will be better for him."** Discuss and examine the role of price elasticity in airline business decision with the help of imaginary figures. Suppose you are handling Marketing Division of Airline 'X' and you are assigned to devise a pricing to face the pandemic effects. In this context, explain the following A. Discuss the elements of sound pricing decisions B. Pricing in different situations C. Which pricing method you would suggest to your airline and reasons for it. "Managing an airline is complicated because pricing, output, advertising, and investment decisions involve important strategic considerations. Because only a few firms are competing, each firm must carefully consider how its actions will affect its rivals, and how its rivals are likely to react [in response, say, to a price cut intended to stimulate sluggish sales]……. These strategic considerations can be complex. When making decisions, each firm must weigh its competitors' reactions, knowing that those competitors will also weigh its reactions to their decisions. Furthermore, decisions, reactions, reactions to reactions, and so forth are dynamic, evolving over time. When the managers of a firm evaluate the potential consequences of their decisions, they must assume that their competitors are as rational as they are. They must put themselves in their competitors' place and consider how they would react." Analyze the statement.		CO3
	Section D (Read, Analyze and Answer the Questions given at the end of the caselet)	**2Qx15M= 30 Marks**	

Q			CO4

Continental Airlines

When considering adding a new flight (or dropping an existing one that appears to be doing poorly). Continental engages in a very thorough incremental analysis along the lines given in the table.

Incremental Analysis as Employed by Continental Airlines

Problem	Shall Continental run an extra daily flight from City X to City Y?	
The Facts	Fully allocated costs of this flight Out-of-pocket costs of this flight Flight should gross	$ 4,500 $ 2,000 $ 3,100
Decision	Run the flight. It will add $ 1,100 to net profit by adding $3,1 and only $ 2,000 to costs. Overheads and other costs totaling $2,500 ($ 4,500 minus $ 2,000) would be incurred whether the flight is running or not. Therefore, fully allocated or "average" costs of $ 4,500 are not relevant to this business decision. It is the out-of-pocket or incremental costs that count.	

The corporate philosophy is clear: "If revenues exceed out-of-pocket costs, put the flight on." In other words, Continental compares the out-of-pocket", or incremental, costs associated with each proposed flight to the total revenues generated by that flight. An excess of revenues over incremental costs leads to a decision to add the flight to Continental's Schedule.

The "out-of-pocket costs" figures that Continental uses is obtained by circulating a proposed schedule for the new flight to every operating department concerned and finding out what added expenses will be incurred by each of them. Here an alternative cost concept is used. If a ground crew is on duty and between work on other flights, the proposed flight is not charges a penny of their salary. Some costs may even be reduced by the additional flight. For example, on a late night round trip flight between Colorado Springs and Denver, Continental often flies without any passengers and with only a small amount of freight. Even without passenger revenues, these flights are profitable because their net costs are less than the rent for overnight space at Colorado Springs.

On the revenue side, Continental considers not only the projected revenues for the flights but also the effect on revenues of competing and connecting flights on the Continental Schedule. Several Continental flights which fail to cover even their out-of-pocket costs directly bring in passengers for connecting long-haul service. When the excess of additional revenue over cost on the long-haul flight is considered, Continental earns a positive net profit on the feeder service.

Continental's use of incremental analysis extends to its scheduling of airport, arrival and departure times. A proposed schedule for the Kansas City at that time was not sufficient to service two plans simultaneously. Continental would have been forced to lease an extra fuel truck and to hire three new employees at an additional monthly cost of $ 1,800. However, when Continental began shifting around proposed departure times in other cities to avoid the congestion at Kansas City, it appeared that the company might lose as much as $ 10,000 in monthly revenues if passengers switched to competing flights leaving at more convenient hours. Needless to say, the two flights were scheduled to be on the ground at the same time in Kansas City.

Q.1 Discuss how Continental Airlines used incremental analysis in its flight service decisions

Q.2 Also demonstrate the usefulness of the technique.