

- 1 The world economy experienced subdued growth for a second year in 2013. In addition, a rising number of low cost airlines exited due to high fuel costs. These have impacts on both national carriers and low cost airlines.

Explain how the above changes will affect the world market for air travel and assess the usefulness of elasticity concepts in determining the likely impact on different types of airline carriers. [25]

Introduction:

Subdued growth (means slower economic growth) in 2013, increasing unit cop and no. of sellers will cause the demand and supply of air travel to change thus causing a change in equilibrium prices and quantity. Thus in view of these changes, the use of elasticity concepts can help to determine the impact on different airline carriers such as national and budget ones.

Body:

1. Subdued economic growth (slower economic growth) → increase dd due to rising income but slow rate → increase purchasing power → demand for more luxurious gds such as holidays → short hauls (by prefer to take by train/ship) → dd for air travel increase → dd shift right
2. Falling no of sellers → due to higher unit cop → lower rate of profitability → exit industry → fall in ss
3. Simultaneous shift → $\uparrow dd < \downarrow SS$ → price increase, qty fall (due to low cost carriers may not have super normal profits to sustain the higher unit cost of production)

Accept any other well-explained judgment on the outcome for the air travel market.

Transition to next part of essay

Explain that the above factors may have differing impact on different airline carriers and it might be useful to determine the impact on them by using elasticity concepts such as price, cross, income elasticity of demand and price elasticity of supply.

Thesis:

		Price Elasticity of demand	Cross Elasticity of demand	Income Elasticity of demand	Price elasticity of Supply
Exit of low cost carriers airlines due to rising fuel cost	Low cost carriers:	Fall in ss less competitors → dd more price elastic (caters to lower to middle income consumers which air travel takes up a larger proportion of their household income) → more than proportionate decrease in qty dd → TR decrease	Relatively more ex when ss fall as price increase hence qty dd fall → TR fall.	-	-
	National carriers:	Overall fall in ss of airline carriers, price of air travel increases, demand is relatively more price inelastic, qty dd decrease less than proportionately → TR increase	Increase in demand as consumers switch to relatively cheaper substitute → increase dd → TR increase	-	-
Subdued economic growth	Low cost carriers:	-	-	Demand for low cost carriers is income elastic for low-middle consumers → more than proportionate increase in demand good → TR increases	Supply relatively less price inelastic due to lack of excess spare capacity due to budget and low headcount.
	National carriers:	-	-	Demand for full-service airlines is income inelastic for middle-high income consumers → increase in TR	Supply relatively more price elastic due to existence of spare capacity (larger fleet of aircrafts and high manpower)

Judgment:

Students need to assess the usefulness of each concept to explain the likely impact on different airline carriers.

Student has to judge which of the elasticity concepts and why they are more useful to determine the impact of the above events on P, Qty and TR of national carriers and low cost airline.

Anti-thesis:

Elasticity concepts might not be useful as:

1. Real world ceteris paribus condition may not hold, unable to determine clearly on the impact when there is simultaneous shift or more than one change in the market.
2. Different types of consumers hence may not see national carriers and low cost airlines as very close substitutes. Difficulty in obtaining the values thus it may not be useful for different airlines to determine the impact???

Conclusion:

Students need to make a judgment on how useful were the elasticity concepts in helping to determine the impact on each these airlines.

Level	Descriptor	Marks
3	For an answer that is also well-developed with detailed analysis to explain the impact of slow economic growth and falling no of low cost airlines due to rising fuel cost. The answer should also contain good application with reasoned assessment of the usefulness of elasticity concepts in determining the different impact on different airline carriers such as budget and national ones. There should be a <u>proper</u> conclusion to the question.	18-21
	For an answer that is well developed with detailed analysis of how the slow economic growth, fall in no of low cost carriers due to rising fuel cost had impacted the air travel market and has a clear structure to answer the question. The answer also must contain clear statements that are supported by <u>some reasoned</u> arguments on assessing the usefulness of using elasticity concepts to determine the impact on different types of airline carriers and there should be <u>some</u> attempt to a conclusion to the question.	15-17
2	For an answer that has <u>more thorough relevance</u> as to the question requirement by explaining how market forces affect the market for air travel and has <u>some assessment</u> on the extent of usefulness <u>a few elasticity concepts</u> and its impact on <u>one or some</u> type of airline carriers.	12-14
	For an answer that shows some relevance to the question requirement with an ability to identify and explain some facts that links to market forces <u>OR</u> elasticity concepts, have some ability at drawing accurate graphs and <u>fair</u> ability to apply concepts to the context of the question. Most of the analysis is <u>accurate</u> but <u>undeveloped</u> with ideas not organized properly to answer to the question directly. (Meaning one-sided either answer the part a or part b of the question).	10-11
1	For an answer that shows some knowledge about demand supply and elasticity concepts but does not indicate that the meaning of the question has been properly grasped. The answer also contains basic conceptual errors or has an inadequate development of analysis.	6-9
	For an answer that is mostly irrelevant and contains only a few valid points made incidentally.	1-5

Allow up to 4 additional marks for Evaluation		
E2	For a valid evaluation that is well justified.	3-4
E1	For an unexplained judgment or one that is not supported by analysis.	1-2