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## Competitive Responses to Low Cost Carrier Entry

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Abstract

"Low cost" or "discount" air carriers have been instrumental in substantially lowering prices on domestic air routes in the United States. The consumer welfare impact of low cost carrier entry depends not only on the fare effects on routes entered by the low cost carrier, but also on the fare effects on other routes, including one-stop routes that flow through hub cities. In this paper, we measure the competitive responses of an established carrier to the entry of a low cost carrier, on routes where the two carriers compete, on routes not entered by the low cost carrier, and on routes that flow through the hub city of the established carrier. The purpose of the paper is to provide at least some preliminary evidence as to whether or not the consumer welfare benefits of low cost carriers have been over or understated in previous research.

Copies of this paper may be available at the Annual Forum, or may be obtained by contacting the authors directly.



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