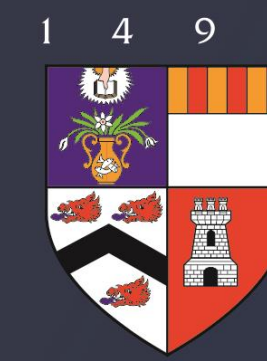


# Assessing the Impact of Oil Price Fluctuations on Airfares in Australia

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## 1. Introduction

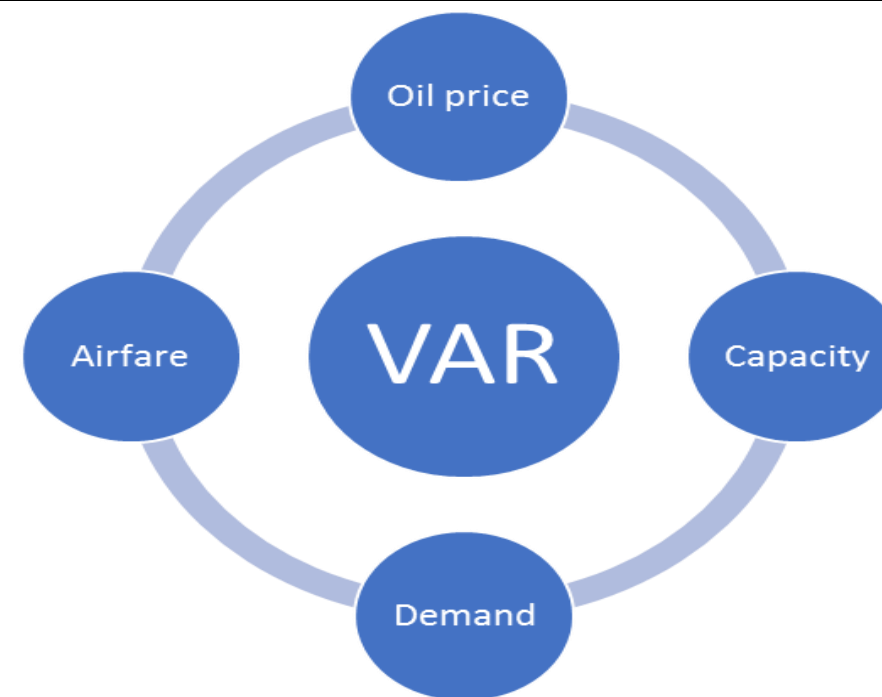
- Oil price is destined to be very volatile, which creates instability for many economies and industries.
- Recent oil price tumble has strongly benefited airline industry, but are those benefits passed on to passengers?

➤ **The main areas of interest in this study are:**

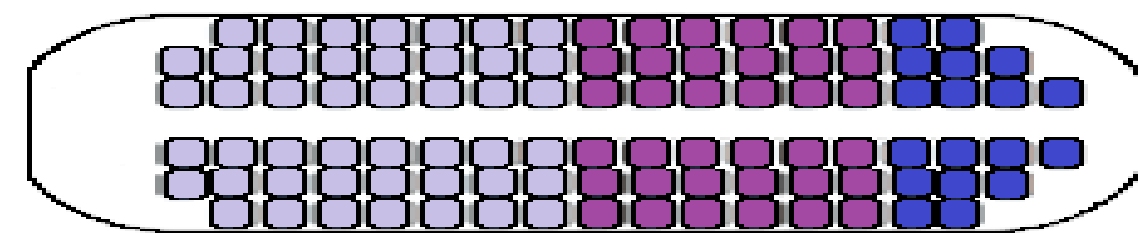
- The impact of oil price shocks on business class, full economy and discount airfares.
- The effect of oil price shocks on airline demand and capacity.
- Demand-based airline pricing.
- Asymmetric impact of oil prices on variables of interest.



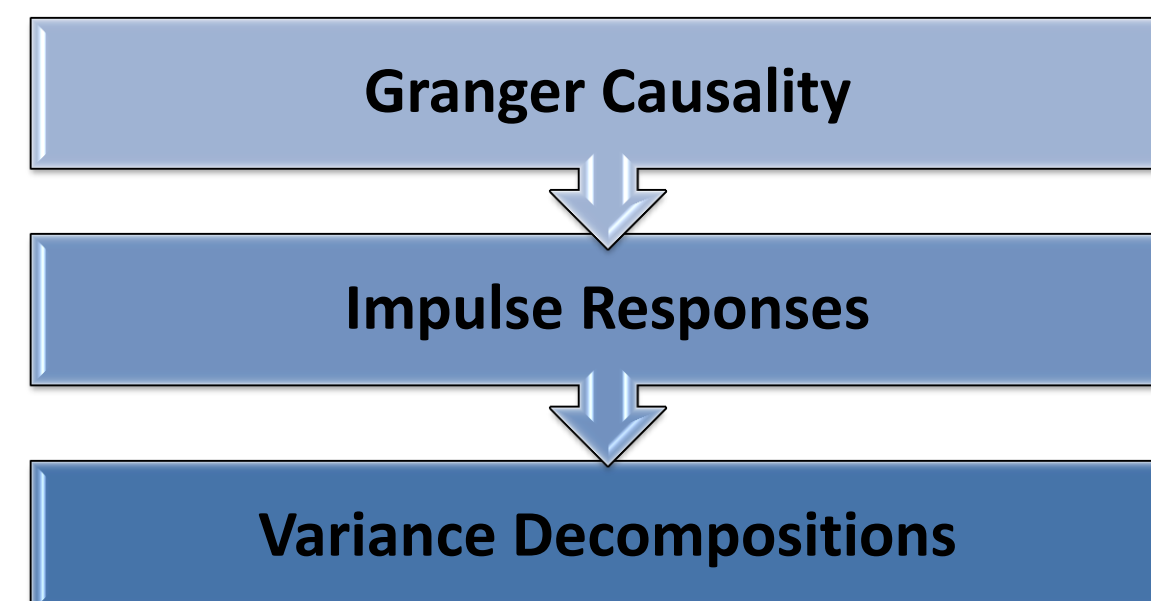
## 2. Methods Adopted



- **Airfare: Discount/ Economy/ Business**



- **Oil Price Specification:**



## 3. Main Findings

- Net oil price decreases Granger-cause business class airfares.
- Net oil price increases have an impact on full economy tickets.
- Airline demand and capacity Granger-cause discount tickets, but not business class and full economy airfares.
- Real oil price decreases positively affect airline capacity.
- Net oil price increases have a positive impact on airline demand.

## 4. Conclusions

- Only sharp and stable oil price innovations are passed on to consumers.
- Oil price shocks have an asymmetric impact on airfares, airline demand and capacity.
- Airline pricing is more demand-based than cost-based.
- Airlines practice price discrimination, and use service-based pricing on business class and full economy passengers.