

Title: The Economic Effects of the Aloha and Hawaiian Airlines' Agreement to Reduce Capacity

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Abstract

In the aftermath of the terrorist attacks on 9/11, Aloha Airlines and Hawaiian Airlines were granted antitrust immunity for them to reduce capacity on their inter-island routes. Aloha and Hawaiian stressed that this orderly reduction of excess capacity would improve efficiency and thereby reduce costs and increase profits. They contended that airfares would not increase as a result. This article uses a simple economic model to analyze the effects of collusive capacity reductions. Economic theory predicts that prices will rise as a consequence. Empirical data confirms that air fares rose dramatically. In addition, the article reveals that costs to passengers rose in other ways as well.