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# Analyzing Full Service Airline-low Cost Carrier Competition in Liberilized Domestic Air Travel Market

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## A B S T R A C T

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Air transport industry has been going through a worldwide transformation in the last decade. Aviation liberalization, started first in US in 1978, followed by EU through 1990s, has also caught on in many developing countries. Traditional airlines previously enjoying monopoly rights in these countries have now faced stiff competition from lean start-up airlines with a simple product. These so called Low Cost Carriers, LCCs, have been instrumental in radically changing air travel in liberalized domestic markets. We build a simple model to analyze the effects of LCC entry to a previously monopolistic domestic air travel market. The airlines compete on both costs and service quality. Even though the model is quite basic, its predictions are consistent with the experience: substantial fall in airline fares, dramatic growth in the share of flying public and increase in LCC market share.

**KEYWORDS** low cost carrier; full service airline; competition