When Are Non-Direct Flights Priced Competitively? Evidence from U.S. Airlines

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Abstract

Competition between nonstop and connecting services was a focal point in the recent antitrust review of a merger between two legacy airlines – American Airlines and US Airways. Using origin-and-destination survey data on domestic flights in the United States, I compare the pricing of direct (which includes nonstop) and non-direct service, and find the following: carriers offering only non-direct service set significantly lower fares than competitors' direct service, while carriers offering both types of services tend not to offer low non-direct fares. This is consistent with the theoretical literature on the behavior of multiproduct firms in vertically differentiated oligopoly. I explore the findings' implications for the antitrust review of airline mergers.