

The Hong Kong Polytechnic University

Subject Description Form

Subject Code	LGT5161
Subject Title	Air Transport Regulatory Policy
Credit Value	3
Level	5
Normal Duration	1-semester
Pre-requisite	Nil
Role and Purposes	<p>Air transport markets have undergone fundamental changes in their regulatory environments in the last couple of decades. The liberalization of air transport markets, the subsequent huge growth of air traffic, the development of new airline business models and new forms or airline collaborations, the growing importance of non-aeronautical airport businesses, privatization strategies, and new and innovative methods of economic airport regulation contributed to the development of an exciting industry with tremendous business opportunities but also substantial social responsibilities. This subject handles all these issues. It explains general facts of the air transport industry, and how airport businesses have developed over time, why airlines may be exempted from antitrust regulations, while airports are often subject to heavy economic regulation, and how regulation shapes airline and airport businesses today. The purpose is to help the students to develop a profound understanding of the most important drivers of economic aviation regulation today, and to offer ways to successfully address the challenges arising from historic and current industry developments.</p>
Subject Learning Outcomes	<p>Upon completion of the subject, students will be able to:</p> <ol style="list-style-type: none"> a. Describe the role of air transport markets worldwide and especially in Northeast Asia. b. Appreciate the benefits of market liberalization that could be achieved in the past all over the world in air transport. c. Understand how public and private institutions govern national and international air transport markets. d. Understand why airlines and especially airports are subject to regulation until now. e. Critically assess current regulatory practice in the air transport industry.
Subject Synopsis/ Indicative Syllabus	<p>Introduction</p> <ul style="list-style-type: none"> • <u>Liberalization</u>: This covers the development of aviation markets in the Asia-Pacific region, the United States and Europe. <p>Airlines</p> <ul style="list-style-type: none"> • <u>Alliances & mergers</u>: Antitrust regulations should protect customers from excessive pricing by companies. But, airlines are often exempted from

	<p>antitrust regulations because collaborative price setting can reduce airline ticket prices. This part discusses empirical evidence on this issue and the effects of collaboration on ticket prices for transfer and non-stop passengers.</p> <ul style="list-style-type: none"> • <u>Collusion</u>: Airport charges are traditionally aircraft weight related. Yet, it seems that airports change charging structures in a way that increases the share of airport revenues derived from charges that are passenger based. The effects of the airport charges structures on airline competition are the topic of this part. • <u>Low cost airlines (Econometrics)</u>: One of the major achievements of liberalizing airline markets is the development of the low-cost carrier business model. This part discusses empirical methods to quantify the strong pressure low-cost airlines exert on ticket prices. <p>Airports</p> <ul style="list-style-type: none"> • <u>Public supply</u>: Airports are often owned and operated by government agencies. This is different from many other industries that are mainly driven by private companies. This part discusses some benefits of the public supply of transport infrastructure. • <u>Natural monopoly</u>: Here students will be provided with a data set and some econometric methods to analyze airport cost structures. This helps to understand why airports are often considered as “natural monopolies.” • <u>Privatization and “concession services:”</u> Nowadays private involvement in airport ownership in operation has substantially increased. Furthermore, many airports earn a large share of their revenues from the supply of services that are not primarily related to airport infrastructure (so called concession services. The implications of these developments for the optimal pricing of airport infrastructure is a major theme of this subject. • <u>Regulation</u>: Private involvement often comes together with some form of airport infrastructure charges regulation. The benefits and drawbacks of different forms of regulation are discussed in detail in this class. Regulation forms discussed in class include cost-based regulation, price-cap regulation • <u>Competition</u>: Airports are often considered as natural monopolies, while they still compete in various dimensions. This part covers the competition between neighboring airports, competition for transfer passengers and the role of the evolving airport and airline businesses for airport market power. • <u>Congestion</u>: The tremendous growth in air traffic is often associated with shortages in infrastructure supply, which then leads to a drop of service quality in terms of airline punctuality. How airlines strategically react to such shortages and its implications for airport infrastructure pricing is discussed in detail in this class.
Teaching/Learning Methodology	A combination of lectures, guest talks by industry experts (online and face-to-face), company visits, real case studies and students-directed learning activities will be included in this subject.

Assessment Methods in Alignment with Intended Learning Outcomes	Specific assessment methods/tasks	% weighting	Intended subject learning outcomes to be assessed (Please tick as appropriate)				
			a	b	c	d	e
	Coursework	35%	✓	✓	✓	✓	✓
	Examination	65%	✓	✓	✓	✓	✓
	Total	100 %					
Explanation of the appropriateness of the assessment methods in assessing the intended learning outcomes:							
Student Study Effort Expected	Class contact:						
	▪ Lectures / Tutorials						39 Hrs.
	▪						
	Other student study effort:						
	▪ Self study						87 Hrs.
Total student study effort						126 Hrs.	
Reading List and References	<p>Various lecture notes and:</p> <p>Beesley, M.E. and Littlechild, S.C., 1989. The regulation of privatized monopolies in the United Kingdom. <i>RAND Journal of Economics</i> 20, 454-472.</p> <p>Czerny, A.I., forthcoming. Airport regulation. Encyclopedia of Transportation. Elsevier.</p> <p>Czerny, A.I., Guiomard, C. and Zhang, A., 2016. Single-till versus dual-till regulation of airports. Where do academics and regulators (dis)agree? <i>Journal of Transport Economics and Policy</i> 50, 350-368.</p> <p>Czerny, A.I. and Lang, H., forthcoming. Privatization and deregulation of the airline industry. Encyclopedia of Transportation. Elsevier.</p> <p>Wiltshire, J., 2018. Airport competition: Reality or myth? <i>Journal of Air Transport Management</i> 67, 241-248.</p> <p>Zhang, A. and Czerny, A. I. (2012), Airports and airlines economics and policy: An interpretive review of recent research, <i>Economics of Transportation</i> 1: 15-34.</p>						