

AN EMPIRICAL EXAMINATION OF ECONOMIES OF SCALE IN THE ASIAN AIRLINE INDUSTRY

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ABSTRACT

According to the Air Travel Association (IATA)'s 20-Year air passenger forecast, Asia Pacific will be the biggest driver of demand from 2015 to 2035 with more than half of the new passenger traffic coming from the region. Of the five fastest-growing markets in terms of additional passengers per year over the forecast period, four will be from Asia. With the growth of air traffic in Asia, airline industry in Asia is bound to grow rapidly in terms of size. This study evaluates the impact of size of an airline on cost efficiencies by evaluating economies of scale in the Asian airline industry for the period 2015 to 2019. We use translog cost function to estimate cost efficiencies in the Asian airline industry. We find that, on average, Asian airlines do experience economies of scale in terms of cost of services provided (cost of goods sold), because with every increase in size as measured by total assets as well as by total operating revenue, cost of services provided increases less than proportionately. Asian airlines also experience significant economies of scale in selling, general, and administrative expenses when size is measured in terms of total assets, but they experience significant diseconomies of scale when size is measured in terms of total operating revenue.

Keywords: *economies of scale; operating revenue; airline industry, translog cost function, cost efficiencies,*