

**Description****Airline Carrier Operations: Written  
Task 3**

This assignment discusses the various questions related to economic decisions that airline managers must make to control their costs and revenues.

**Question#1**

ASM is an abbreviation for Available Seat Miles in the airline industry. It is also sometimes referred to as Available Seat Kilometers (ASK). This is a measurement of an airplane's capacity to carry passengers. ASM means the number of seats available multiplied by the total number of miles flown or kilometers flown in the case of ASK. One ASM is thus the basic unit of production for an airline that carries passengers. One ASM would be equal to one seat that is available for sale, flown over one mile. For instance, an airplane with 200 seats available for a flight of 1000 statute miles will generate 200,000 ASMs for that single particular flight. If there are any seats in the flight that are included for crew rest, then they would not be counted in the total ASM.

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RASM means Revenue per Available Seat Mile, and it is commonly used as a measure for comparing unit revenues among airlines. RASM is expressed in the number of cents received for each available seat mile, and it is determined by dividing the different measures of operating revenue by ASMs. Theoretically speaking, a higher RASM simply indicates that an airline is more profitable, given that the cost per available seat mile remains constant. RASM is now preferred by most airlines because it automatically includes different sources of revenue, such as baggage fees, meals served on flights, and reservation change fees.

CASM is the abbreviation for Cost per Available Seat Mile, and it is the most commonly used measurement for the unit cost in airline industries. The CASM measure is used to perform comparisons of costs among different airlines or for the same airline across multiple periods. A lower number of CASM implies that the company could easily make a

profit and be more efficient as they would have to charge less to achieve a cost-spending balance. However, it does not guarantee what actual profits an airline would make.

Furthermore, when comparing airlines using CASM, it is important to consider that the common stage length is equally adjusted, or else the comparisons would be inaccurate.

Load Factor refers to a measurement used in the airline industry which indicates the percentage of the available seating capacity that has been filled with passengers. Higher load factors mean that the airline is operating efficiently and that most of its seats are booked. Thus, a higher load factor is favored over a lower one and allows the airline company to spread its costs easily among the passengers.

Yield is the average fare per passenger per mile. Passenger revenue is determined by multiplying Revenue Passenger Miles (RPM) by yield. Supply and demand factors greatly influence yield, and given the fact that demand for air travel is seasonal, yield is usually higher during the peak seasons.

High CASM will lead to a lower load factor and higher yield. This is because if the cost per available seat mile is higher, then the airline would have to charge more per passenger (Doganis, 2009). This may eventually lead to lowered load factor due to passengers moving over to other airlines with cheaper bookings.

### **Question#2**

A revenue passenger mile, abbreviated as RPM, is a metric for the airline industry that shows the total number of miles travelled by paying passengers. It is also used in other transportation industries but is mainly an airline traffic statistic. RPMs are calculated by multiplying the total number of paying passengers by the total distance traveled. RPM is the most trusted and standardized way of airline accounting (Doganis, 2009). This is true because it helps build and manage airport infrastructure according to the economic growth rates,

especially in developing countries. Airlines can also manage their slots and capacity using RPM.

### **Question#3**

The theory of economy of scope posits that the average cost of an airline's production decreases when there is an increase in the number of services provided. The economy of scope can give the airline an advantage of cost when it produces a variety of services that are all centered around the airline's core competency. For example, a single flight that carries both passengers and cargo is more economical than having two separate ones. On the other hand, the economy of scale is the cost advantage that an airline has with the increased output of services. Hence, the economy of scale and economy of scope are inversely related. The economy of density refers to the advantages of cost saving that occur due to the spatial proximity of service providers. The airline that benefits from economies of scope has a lower average cost because the core costs are spread over a variety of services (O'Connor, 2001). Additionally, higher economies of scale also lead to lower average costs due to a decrease in costs as the services increase.

### **Question#4**

Delta Air Lines has purchased a mixture of used and new passenger jets over the last several years, which is different from the strategy of most other airlines. This fleet strategy of Delta is driven by opportunity and flexibility. The airline analyzes the whole cost of the jet, including purchase price, maintenance, fuel costs, and all other factors, before making the final decision. It often happens that used aircraft make the most economic sense when a new airplane is to be added, and sometimes a new one can be purchased without burdening the airline's revenue. It is significant given the fact that Delta purchases airplanes rather than getting them on a lease (Delta News, 2015). Moreover, the old jets are often refitted with new interiors so that the passenger experience is not downgraded.

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### References

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Doganis, R. (2009). *Flying off course: Airline economics and marketing*. Routledge.

O'Connor, W. E. (2001). *An introduction to airline economics*. Greenwood Publishing Group.



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