

ABSTRACT

The Demand for Air Travel:
An Empirical Analysis

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The Air Transportation industry has undergone substantial transformation over the past two decades moving from a heavily protected industry to one in which fierce competitive rivalry predominate. Deep discounting practices and excess capacity have driven the industry into a spate of financial losses. As part of the recovery plan, airlines are today attempting to strengthen their market position with the objective of achieving market dominance. Important in this regard is a fundamental understanding of the characteristics of the relevant demand functions, moreso of specific markets. This thesis presents a model and suggests an appropriate methodology for estimating air travel demand functions in the Eastern Caribbean.

The results from the empirical analysis has shown that Ordinary Least Squares (OLS) estimation procedure is superior to Panel Data methods. It further reveals that income and price continue to be critical variables in the demand function; their magnitude however, differs across regions.