

The Economics of Ultra Low-Cost Airlines

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Agenda

- Airline Industry Background
- Ultra Low-Cost Airline Business Model
- Instructional Resources
- Q & A



Objectives

- Apply economic principles to the ultra low-cost airline business model
- Employ instructional resources on the ultra low-cost airline market that incorporate economic principles



About Me



Bill Betthausen



X @BillBetthausen

Bill Betthausen is a Business Education and Social Studies Teacher at Bishop O’Connell High School in Arlington, VA. He teaches AP Economics, AP Comparative Government and Politics, and International Business. Always excited to innovate and try something new in the classroom, Bill strives for meaningful student engagement while emphasizing problem solving, collaboration, and global understanding. Bill was a fellow for the Transatlantic Outreach Program to Germany in 2017 and the World Digital History Foundation to Korea in 2023. Bill was named Outstanding Economic Educator of the Year for 2023 by the Virginia Council on Economic Education.



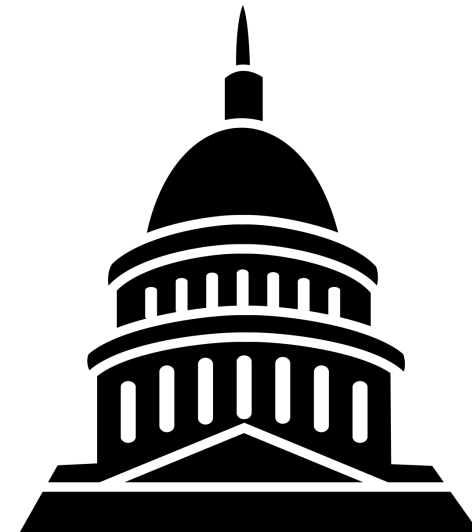
Airline Industry Background



Airline Deregulation Act of 1978



- Removed federal control of routes, fares, and the entry of new airlines
- Fares could be based upon supply & demand
- Opposed by airlines over fears of a destabilized industry



Types of Airlines



Legacy



Low-Cost



Ultra Low-Cost





Airline Deregulation Results

BEFORE:

100% legacy airlines

\$695 average round trip

55% of flights filled

TODAY:

52% legacy and 48% other

\$302 average round trip

84% of flights filled

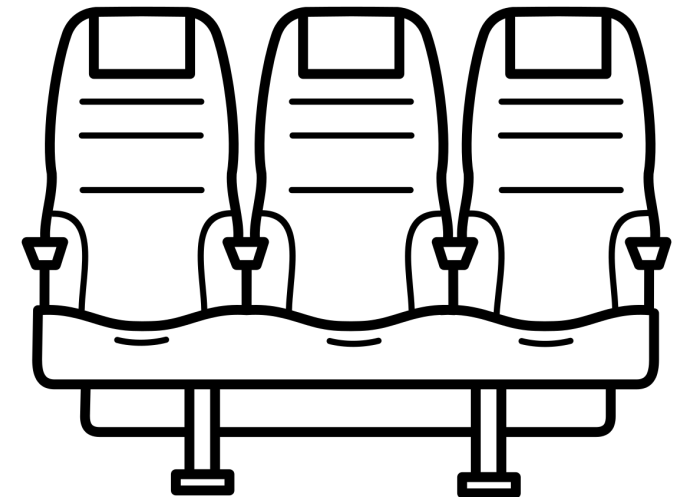
What is an Ultra Low-Cost Airline?



Definition

Operates with a low-cost business model AND offers “unbundled” fares where you pay for what services you need

Expect **nothing** more than a seat!



1983: Began as *Charter One Airlines*

1993: Acquired aircraft and began service between Detroit and Atlantic City, NJ.

2005: New CEO transformed the company to an ultra low-cost airline

2010: First U.S. carrier to charge for carry-on luggage

2022: Shareholders reject offer to have the company be acquired by Frontier



1994: Founded in Denver with flights to/from North Dakota

1999: Serving cities across the United States

2008: Filed for Chapter 11 bankruptcy

2009: Purchased by Republic Airways, which also bought out Midwest Airlines

2014: Transitioned to an ultra low-cost airline





Ultra Low-Cost Airline Business Model

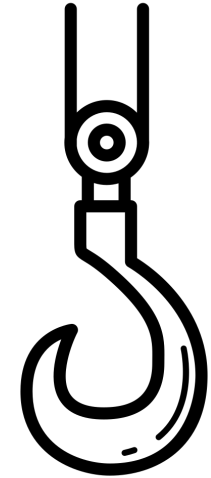


Ultra Low-Cost Business Model



Hook customers in at low prices!

Pay for everything (a la carte model)



Let's Fly Away . . .



Departing

Baltimore, MD (BWI) to Orlando, FL (MCO)
Sat 12/02/23 | 8:11 PM - 10:55 PM (nonstop)

\$18.98



Returning

Orlando, FL (MCO) to Baltimore, MD (BWI)
Sat 12/09/23 | 10:00 AM - 12:22 PM (nonstop)

\$18.98

Round-Trip Total: \$37.96

Non-Refundable

This seems like a great deal, right?

THE PERKSSM BUNDLE

Save up to \$234

YOUR PRICE:

~~\$218~~ **\$101**

per passenger, per direction
price will be higher after initial booking

[+ ADD THE PERKS!](#)

\$101 price x 1 passengers x 2 directions = \$202



Personal Item



Carry-On Bag



Checked Bag



Seat Selection



Flight Flexibility



Refundability



Only available now, at initial booking

THE WORKSSM BUNDLE

Save up to \$566

YOUR PRICE:

~~\$425~~ **\$142**

per passenger, per direction

[+ ADD THE WORKS!](#)

\$142 price x 1 passengers x 2 directions = \$284



Personal Item



Carry-On Bag + Board FirstSM



Checked Bag



Seat Selection



Flight Flexibility



Refundability



CUSTOMIZE IT

UNBUNDLED

You can purchase your travel options individually.

[CONTINUE & CUSTOMIZE](#)

Options purchased per passenger, per direction



Personal Item



Carry-On Bag

\$\$

Checked Bag

\$\$

Seat Selection

\$\$

Flight Flexibility

\$\$



Refundability



DEPARTING FLIGHT



Baltimore To Orlando

[Flight 4071](#)

\$18.98 | Dec 02, 2023 8:11 PM

Non-Refundable

\$0.07 | Airfare

\$18.91 | Taxes & Carrier Imposed Fees

RETURNING FLIGHT



Orlando To Baltimore

[Flight 3274](#)

\$18.98 | Dec 09, 2023 10:00 AM

Non-Refundable

\$0.07 | Airfare

\$18.91 | Taxes & Carrier Imposed Fees

PASSENGER(S) [\[view\]](#)

Subtotal: \$0.00

BUNDLE IT [\[view\]](#)

Subtotal: \$202.00

SEATS [\[view\]](#)

Included with your Bundle!

BAGS [\[view\]](#)

Included with your Bundle!

EXTRAS [\[view\]](#)

Subtotal: \$0.00

Taxes and Carrier Imposed Fees [\[+\]](#)

TOTAL PAYMENT DUE

\$239.96



Examples of Baggage Fees

BAG PRICES

Per Person / Per Direction

	During Booking on Web / Mobile App	Before Check-In on Web / Mobile App	At Check-In on Web / Mobile App	At Airport Kiosk or Ticket Counter	At Airport Boarding Gate	Customer Support Agent
Carry On	BEST VALUE \$60 \$53	BEST VALUE \$63	\$63	\$79	\$99	\$79
1st Checked	BEST VALUE \$53	BEST VALUE \$63	\$63	\$79	\$99	\$79
2nd Checked	\$73	\$83	\$83	\$89	N/A	\$89
3 + Checked price per bag	\$93	\$103	\$103	\$95	N/A	\$95



Examples of Non - Baggage Fees


- [Chat Agent Booking Charge](#): \$35 per passenger (Non-Refundable)
 - A \$35 service charge per ticket is applied for each Standard Fare ticket and FRONTIER Miles award ticket booked through our chat agents. Save money by purchasing your tickets at FlyFrontier.com or on the Frontier mobile app.

\$20.00 Airport Agent Assistance I will need assistance at the airport ticket counter. Charged per person, per direction.

- **Web Check In**: Up to \$5 per passenger, per direction (Non-Refundable)
 - A fee will apply to customers who check in on the website. Passengers may check in using our mobile app to avoid this fee and save time and money. Download our mobile app today and manage your booking, purchase bags and seats, and check your flight status
- [Carrier Interface Charge](#): Up to \$23 per passenger, per flight segment (Non-Refundable)

✈ Flight [Modify](#)

 **Sat 12/2** # 1359 **BWI** → **MCO** 2 hr 25 min | Nonstop [Wanna Get Away](#)
7:15 PM 9:40 PM

 **Sat 12/9** # 4156 **MCO** → **BWI** 2 hr 10 min | Nonstop [Wanna Get Away](#)
10:20 AM 12:30 PM


Price per Passenger **\$274.57**

Taxes and fees per Passenger **\$50.39**

Total per Passenger **\$324.96**

Passenger(s) **x1**

Flight total \$324.96

or from \$32/mo*
with  [Learn more](#)

Washington ↔ Orlando

Round trip · Economy · 1 passenger

\$158

Lowest total price



Selected flights

	Sat, Dec 2 · 8:00 PM – 10:32 PM JetBlue	2 hr 32 min DCA–MCO	Nonstop	140 kg CO ₂ +39% emissions ⓘ	▼
	Sat, Dec 9 · 10:11 AM – 12:22 PM JetBlue	2 hr 11 min MCO–DCA	Nonstop	142 kg CO ₂ +39% emissions ⓘ	▼

Booking options

How options are ranked ⓘ

Book with JetBlue
B6 2523, B6 324 Hide options

Blue Basic \$158	Blue \$218	Blue Extra \$268
Seat selection for a fee	✓ Free seat selection	✓ Free seat selection
✓ Standard seat	Extra legroom available for a fee	Extra legroom available for a fee
✗ Last to board	Priority boarding for a fee	✓ Priority boarding
Ticket changes for a fee	✓ Free change, possible fare difference	✓ Free change, possible fare difference
✗ No carry-on bags	✓ 1 free carry-on	✓ 1 free carry-on
1st checked bag: \$60	1st checked bag: \$60	1st checked bag: \$60
Continue	Continue	Continue

Washington ↔ Orlando



\$212

Round trip · Economy · 1 passenger


Lowest total price



Selected flights

	Sat, Dec 2 · 6:00 PM – 8:27 PM United	2 hr 27 min IAD–MCO	Nonstop	83 kg CO ₂ -18% emissions ⓘ	▼
	Sat, Dec 9 · 9:00 AM – 11:10 AM United	2 hr 10 min MCO–IAD	Nonstop	82 kg CO ₂ -20% emissions ⓘ	▼

Booking options

 **Book with United**
UA 2268, UA 1881 Hide options

<p>Basic Economy \$212</p> <ul style="list-style-type: none">✖ Seat selection for a fee✖ No priority boarding✖ Ticket changes for a fee✖ No upgrades <hr/> <ul style="list-style-type: none">✖ No carry-on bags✖ 1st checked bag: \$70 <p>Continue</p>	<p>Economy \$282</p> <ul style="list-style-type: none">✔ Free seat selection✖ Priority boarding for a fee✔ Free change, possible fare difference✖ Upgrades available <hr/> <ul style="list-style-type: none">✔ 1 free carry-on✖ 1st checked bag: \$70 <p>Continue</p>	<p>Economy Plus \$414</p> <ul style="list-style-type: none">✔ Free seat selection✖ Priority boarding for a fee✔ Free change, possible fare difference✖ Upgrades available <hr/> <ul style="list-style-type: none">✔ 1 free carry-on✖ 1st checked bag: \$70 <p>Continue</p>
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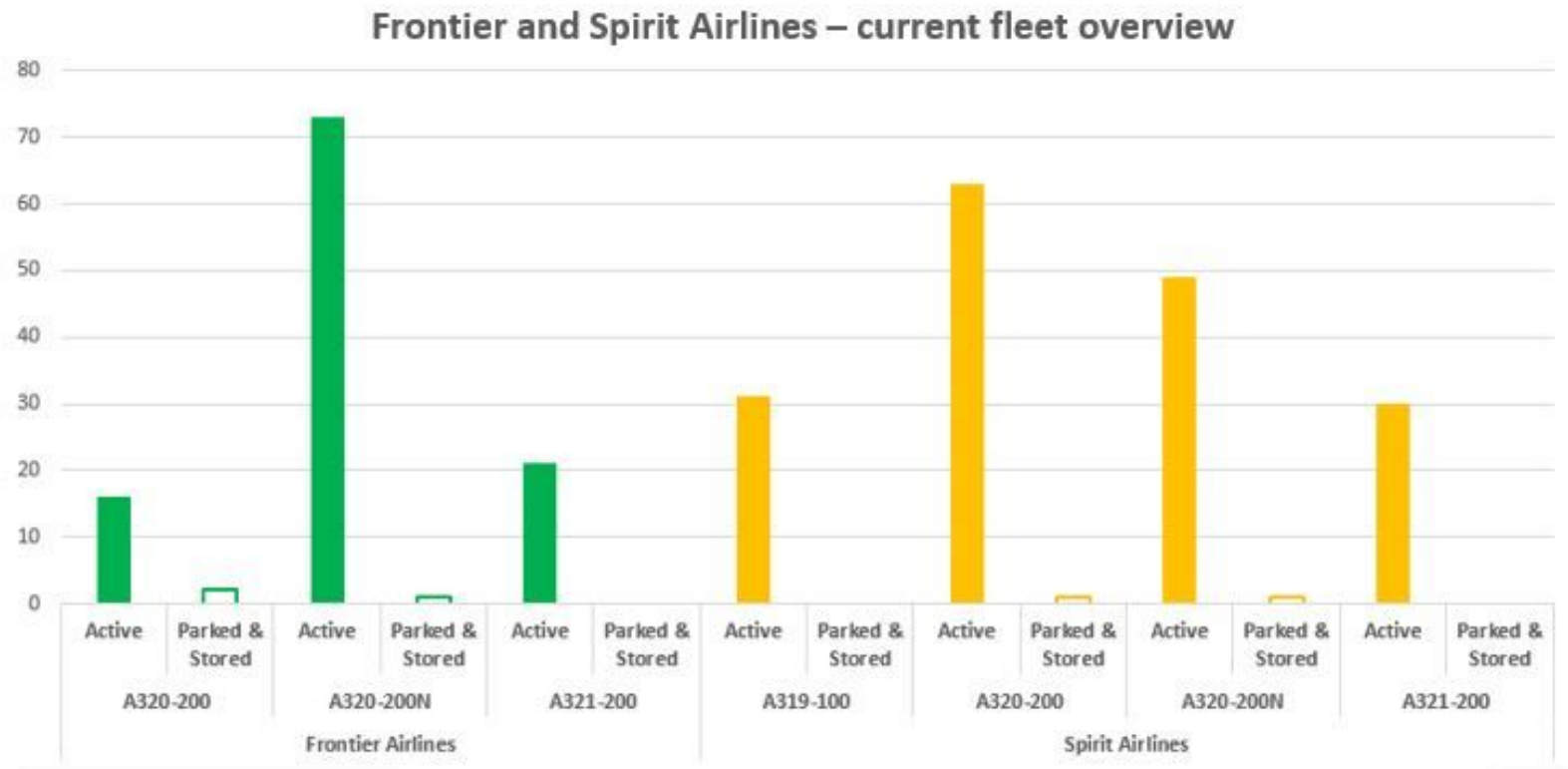
How do ultra low-cost
airlines reduce costs?



Similar Planes



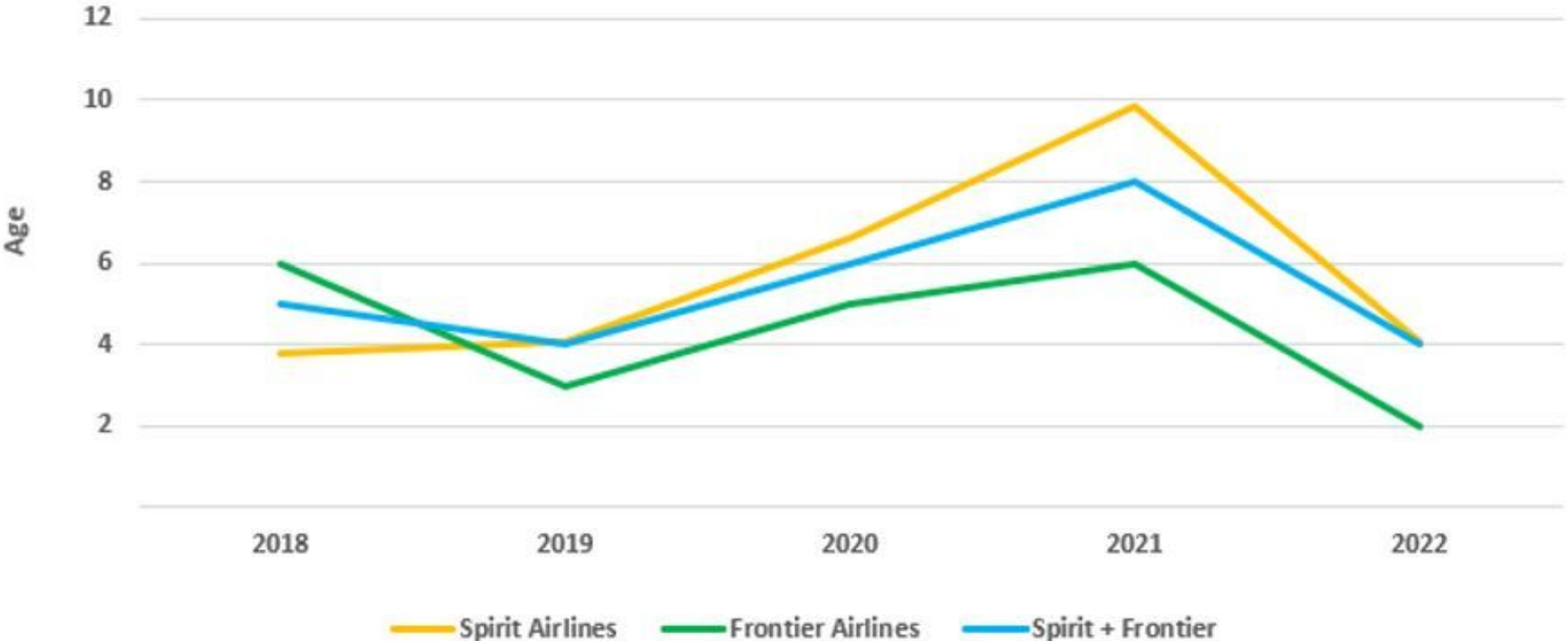
- All Airbus Fleet
- Save on Training and Maintenance Costs



Airplane Fleet Age is Low



Frontier and Spirit Airways - Fleet Avg. Age



More Seats



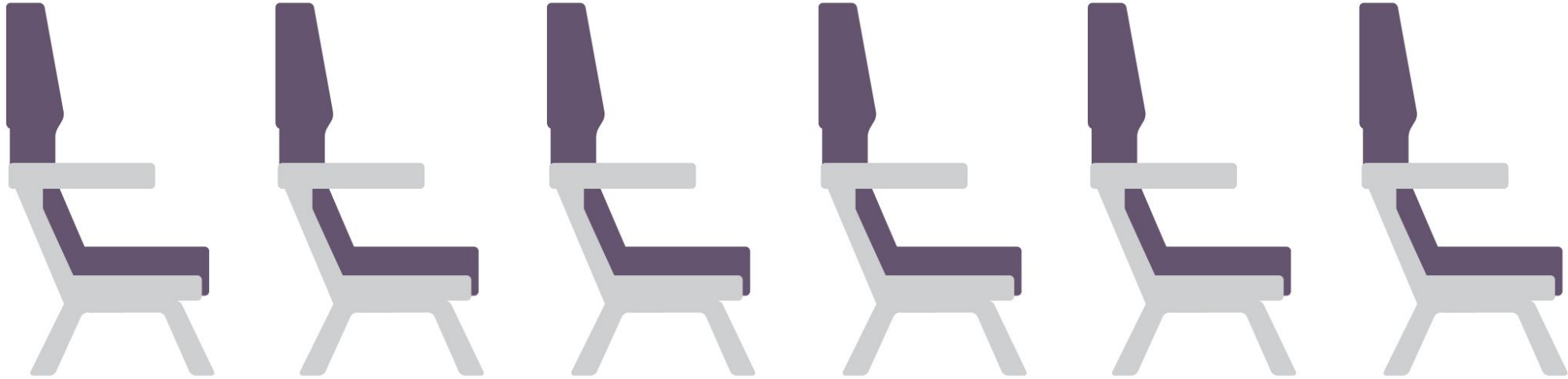
The Same, Only Different

Spirit Airlines squeezes 178 seats onto the A320, giving only 28 inches of space for an entire row—and the seats don't recline.



JetBlue's A320 can carry 150 passengers, and rows are a standard 34 inches.

Less Room Between Seats



Jet Blue

34"

Virgin America,
Southwest

32"

Delta,
American

31"

United

30"

Spirit

28"

Seats



No entertainment systems

Seats do not recline (save on repairs)

No power outlets

Live Phone Support is Limited



spirit[®]

Spirit Guest Service - International and Domestic

You can [chat with us](#), text us at 48763, or use 855-728-3555 on WhatsApp

24 hours a day/ 7 days a week

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[Text Us](#) directly on WhatsApp

720-902-3969




EMAIL US

Send us an [email](#) with your feedback and questions.



FILE A COMPLAINT

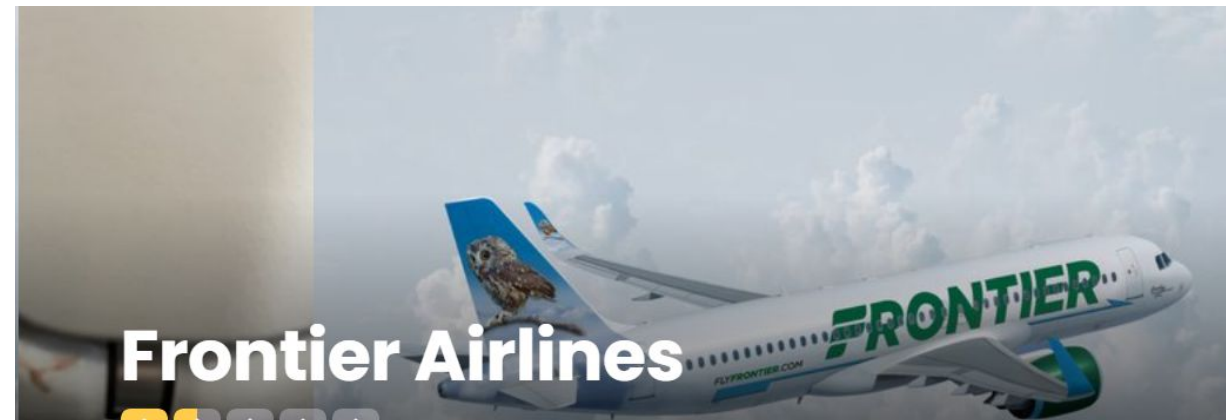
File a formal written complaint [here](#).



Spirit Airlines

★ ★ ★ ★ ★ 1.4 (528 reviews)

✔ Claimed • Airlines



Frontier Airlines

★ ★ ★ ★ ★ 1.3 (4,766 reviews)

Unclaimed ⓘ • Airlines

Open Open 24 hours [See hours](#)

Home / News

Ryanair boss Michael O'Leary: I'm serious about toilet fees

Thu 5 Mar 2009 at 10:25



Ryanair chief Michael O'Leary today insisted he was serious about charging passengers to use onboard toilets and has instructed aircraft manufacturers to examine a credit card system rather than a coin slot.

The no-frills carrier boss said there were technical and safety issues preventing a £1 coin-operated mechanism but alternative payment options are now being explored.

The controversial pound-to-spend-a-penny plan would help raise £15 million a year for the airline, which could be passed on to passengers in fare savings, he argued.

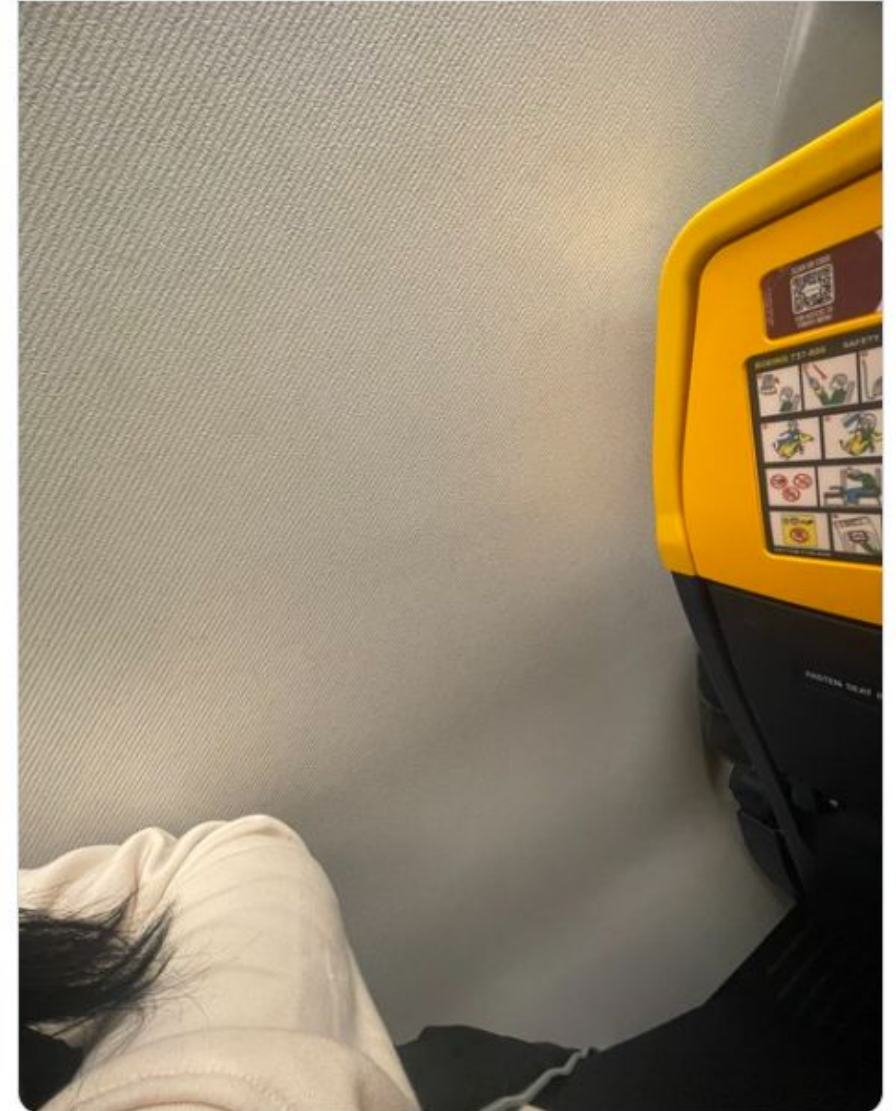
"We have looked into this before and the problem is Boeing can't come up with a mechanism on the toilet door to take coins," he said.

"We're suggesting they go back and look at a mechanism where you'd swipe the credit card for a quid on the toilet door. They've gone off to look at that."



read that again, but slowly

ameliaasavin @ameliasavin · Nov 7
@Ryanair so i pay €12 for a seat... but a window isn't included in the deal? [REDACTED]



6:32 AM · Nov 8, 2023 · 23.6M Views



Instructional Resources



Planning an International Trip



GRADE 9-12, ACTIVITY

Planning an International Trip

Time: 20 mins, Updated: April 3 2023, Author: [Council for Economic Education](#)

Economic Concept: Exchange Rates

<https://econedlink.org/resources/planning-an-international-trip/>

'You Paid How Much For That Ticket?'



GRADE 9-12, LESSON

'You Paid How Much for That Ticket?'

Time: 45 mins, Updated: April 6 2023, Author: Jody Hoff

Economic Concept: Price Discrimination

<https://econedlink.org/resources/you-paid-how-much-for-that-ticket/>



PAGE ONE Economics®

The Economics of Flying: How Competitive Are the Friendly Skies?

Economic Concept: Market Structures

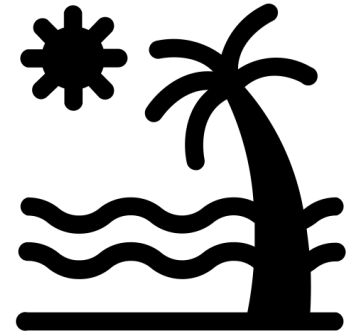
<https://www.stlouisfed.org/education/page-one-economics-classroom-edition/economics-of-flying>

Vacation Flight Comparison



The PACED Decision-Making Grid

- P** State the **problem**.
- A** List the **alternatives**.
- C** Identify the **criteria**.
- E** **Evaluate** the alternatives based upon the criteria.
- D** Make a **decision**.



Assume that you are taking a vacation and will travel by airplane to your selected destination. Price out a ticket using at least one legacy, one low-cost, and one ultra-low cost airline carrier.

<https://docs.google.com/document/d/16QJwnj6iClpd9Apfc3EW6zU5kskx71XLyvTUEcRd3Jo/edit?usp=sharing>

Airline Mergers



■ PRESS RELEASE

Justice Department Sues to Block JetBlue's Proposed Acquisition of Spirit

<https://www.justice.gov/opa/pr/justice-department-sues-block-jetblue-s-proposed-acquisition-spirit>

- Have students analyze whether a JetBlue and Spirit Airlines merger would be harmful to consumers
- Have students draw a comic that supports or opposes such a merger

Airline Design Project



You are proposing a new ultra low-cost airline and are tasked with investigating the possibility of beginning operations in a country of your choice.



Company (___ / 10)

- Proposed Airline Name
- Proposed Slogan
- Proposed airport headquarters location
- Logo ([Logo Maker](#))

Doing Business in your country (___ / 20)

- Steps to starting a business
- Common business cultural practices (provide at least THREE guidelines)

Air Transport Market in your country (___ / 20)

- Patterns of business and leisure travel (think about major cities and vacation spots in your country)
- State-owned (legacy) airlines and/or other low-cost carriers
- Who regulates airlines? Identify two regulations that you will need to consider

Marketing (___ / 30)

- Product: Who is your target market? What services will you provide that your competitors are not offering?
- Price: Provide pricing for one of your proposed routes in the local currency and converted to U.S. dollars. Include the pricing with two competitors and explain why you chose the price you did.
- Place: Identify at least three routes that your airline will fly and explain why you chose them.
- Promotion: What mediums will you use to advertise your airline? Give at least two examples.

Sample Advertisement (___ / 10)

Create a sample social media post for your airline.

Presentation (___ / 10)

- Creativity
- Correct spelling and grammar
- At least 12 slides
- [Wakelet](#) collection of resources (include a link in your slides)

National Standards

- **STANDARD 2: DECISION MAKING**
. Effective decision making requires comparing the additional costs of alternatives with the additional benefits. Many choices involve doing a little more or a little less of something: few choices are “all or nothing” decisions.
- **STANDARD 9: COMPETITION AND MARKET STRUCTURE**
*Competition among sellers usually lowers costs and prices, and encourages producers to produce what consumers are willing and able to buy.
Competition among buyers increases prices and allocates goods and services to those people who are willing and able to pay the most for them.*

Q & A

Invest In Girls



FREE
TO
JOIN

Girls, let's get smart(er) about money

Our FREE online programs are tailored to high school girls so they can learn about personal finance in a supportive environment and build confidence on money matters.

Winter offerings



Master the basics of personal finance



Learn how to invest money



Discover careers in finance

Scan to see
upcoming programs



Or visit investgirls.org/students

Questions? Email Cristina Medina at cmedina@investgirls.org



FinEd50 is a coalition of non-profit organizations, researchers, corporate partners, and professional organizations that believes that personal finance education is a crucial tool to helping people better navigate their financial lives, make informed decisions regarding their life choices, and take more control over their own futures.

FinEd50: Financial Education for American

Currently, only 24 states require personal finance education courses in the United States. Research indicates that a quality financial education leads to improved future credit scores, declines in payday lending, student loan payment increases, student borrowing shifting to lower cost options, and overall financial well-being!

Recognizing that education is the realm of state and local leadership, FinEd50 is dedicated to achieving:

State Level Action: State-level action that guarantees equitable access for every student to a robust, high-quality personal finance course;

National Standards: Courses and educational materials that address the content outlined in National Standards for Personal Financial Education and are culturally relevant and respectful to students' lived experiences;

Innovative Funding: Innovative funding mechanisms and professional development in place to support and develop a corps of high-quality teachers with access to new professional development opportunities to teach personal finance; and

Measurement: A mechanism for measuring access to courses on personal financial literacy and equitable reach of state requirements.

Learn more about FinEd50:

Advocacy

CEE Affiliates



A network of 200 nationwide affiliates

Provide professional development for K-12 teachers, advocate for including economics and personal finance in K-12 schools, conduct research, and forge partnerships.

<https://www.councilforeconed.org/resources/local-affiliates/>

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