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Bailout and Code Share: A Japanese Domestic Airline Market

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Abstract

A Japanese airline company, ADO, declared bankruptcy in 2002. ANA bailed out ADO by code-sharing, by which ANA purchased 50% of all seats on ADO under an administrative procedure supervised by the Japan Fair Trade Commission. This paper evaluates this administrative procedure based on a structural model and results from some counterfactual experiments. After calculating the purchase price at which ANA bought code-sharing seats from ADO using a Nash bargaining solution, results show the ratio of the bargaining power of ANA and ADO as about 75.71% to 24.29%. Subsequently, the earlier rule is counterfactually changed to another rule by which ANA can freely purchase code-sharing seats from ADO. This experiment shows an increase of up to about 0.91% of social welfare. Moreover, code-sharing not only enhances the convenience of passengers by increasing the flight services of ANA; it also implies that passengers would be unable to ride on the intended airline. Based on consumer surplus, we offer a solution to this difficulty.

JEL Classifications: H81, L13, L93

Keywords: Bailout, Code sharing, Counterfactual experiments, Nash bargaining solution