

# DISCUSSION OF ATER AND ORLOV

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# Summary



- Very nice paper!
- A fair number of papers have looked at the effect of the internet on prices
- This one looks at the effect on quality
- Nice extension to earlier work (including Orlov, 2011):
  - ▣ Internet lowered prices
  - ▣ Prices and quality are jointly determined
    - Internet also should have an effect on quality
- Little prior work on this

# Main Findings



- Higher internet penetration is associated with longer scheduled flight times and longer flight delays
  - ▣ The two compound, i.e. actual flights times were also longer (lower quality)
- The effect of internet penetration is **smaller** in
  - ▣ More competitive markets
  - ▣ Markets with Low-Cost Carrier Competition
  - ▣ More leisure-oriented flights
- Identification comes from geographical and time series variation

# Comments



- Say more about magnitudes
  - ▣ For markets with mean HHI (0.7), a 20% increase in internet penetration (1 std. dev.) leads to 10-24 second increase in scheduled flight time (Table 4)
- What is the mechanism for lowering quality (esp. for flight delays)?
  - ▣ More intense price competition leads to cost-cutting, hence lower quality?
- Which quality metric is the right one? Scheduled time, actual time, variance?

# Alternative Explanations?

- Authors include carrier-day (really: carrier-quarter), airport-carrier, segment and aircraft type fixed effects, plus a number of additional controls
- Alternative explanations would need to come from other changes within carrier-airport or segment over time.
  - Also, other changes related to the internet: **Different mechanism?**
  - Example: Internet facilitated video-conferencing and electronic communications. This may have reduced the importance of business travel relative to leisure travel – de-emphasizing schedule competition relative to price competition

# Remaining Puzzles

- Why the change from competition over scheduled flight time to competition over price?
  - ▣ Did passengers' preferences change?
  - ▣ Computer Reservation System made it more difficult to compare prices than it needed to be
- If business travelers like to search by schedule and leisure travelers like to search by price, then why did no alternative intermediary emerge prior to the Internet to allow travel agents to do better price comparisons?
  - ▣ Intermediary's incentives? Likely conflict of interest, since CRSs owned by the airlines