Demand Shocks, Capacity Coordination and Industry Performance: Lessons from Economic Laboratory

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Summary

Anti-trust exemptions may be granted to businesses on the grounds of extenuating circumstances, with an argument that such exemptions may benefit the public through helping producers to adjust to otherwise difficult economic circumstances. This project uses the tools of economic laboratory to evaluate possible effects of anti-trust exemptions allowing oligopolists to coordinate their capacities, on firms’ abilities to adjust to negative demand shocks. We also seek to evaluate the effects of such capacity coordination on the industry prices and consumer welfare. The post-September 11th Aloha and Hawaiian Airlines Antitrust Exemption Agreement is used as a motivating example for our study.