



MOI UNIVERSITY

OFFICE OF THE CHIEF ACADEMIC OFFICER

UNIVERSITY EXAMINATIONS

2013/2014 ACADEMIC YEAR

FORTH YEAR END OF SEMESTER II EXAMINATIONS

**FOR THE DEGREE OF
BACHELOR OF BUSINESS MANAGEMENT**

EXAM CODE:- BBM 484

COURSE TITLE:- AIR TRANSPORT ECONOMICS

DATE:- 27TH JUNE, 2013

TIME:- 2.00P.M. - 5.00 P.M.

INSTRUCTION TO CANDIDATES

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SCHOOL OF BUSINESS AND ECONOMICS

BBM 484: Air Transport Economics

APRIL 2013 EXAMINATION

1st semester 4th year 2013

Time: 3 hours

(40 copies)

Instructions

Answer question ONE and any other THREE questions.

Question one (compulsory)

a) Explain the following terms as used in air transport economics

(i) Protection level

(ii) Booking limit

(iii) Yield management

(6 marks)

(b) It is a common practice for airline companies to overbook their flights. Please explain the reasons behind this practice.

(6 marks)

c) Explain the role of Air transport in economic development of a country. (7 marks)

d) Explain the factors that determine demand for air transport between two markets.

(6 marks)

Question two

a) Discuss the three levels of price discrimination strategies and explain which level is

commonly practiced in air transport services.

(8 marks)

- b) Discuss the factors that determine the optimal booking level in air transport service. (7 marks)

Question three

- a) Explain the benefits of revenue management in an airline and illustrate how revenue maximization is achieved. (10 marks)
- b) Liberalization in air transport has benefited LCC's. Discuss. (5 marks)

Question four

- a) For the last two decades, several countries in the world have witnessed the move towards privatization of their air transport services. Discuss ways in which privatization has taken place and the impact privatization has had on the economies of those countries. (10 marks)
- b) Explain the main factors that influence price elasticity of demand for air transport. (5 marks)

Question five

- a) For the last two decades, air transport services have witnessed rapid growth in revenue from air cargo transportation globally. Discuss the factors that may have contributed to the growth. (9 marks)
- b). Explain why forecasting demand for air transport is critical in air transport operations management. (6 marks)

Question six

A flight departs Nairobi for Cairo using a Boeing 737- 300 series. The operating details are as

follows:

Flight Distance	3600km
Average speed	800km/h
Aircraft seats	120 (all economy)
Average fare	USD 250
Direct operating cost	USD 2600 per block hour
Seat factor	80%

Assuming direct operating costs constitute 60% of total operating cost, please calculate the following:

- Break even point on total operating costs
- Contribution on direct operating costs
- If the aircraft is leased at a cost of USD 1500 per block hour, would it still break even on total costs?

(15 marks)