

Homework 2

Instructions

Upload this homework into the homework vaults in the IS no later than on 10/3 at 23.59. The homework submitted after this date can be evaluated only if you have an excuse in the IS for at least 3 working days in the week between the given lectures and seminars (from these five: Wed, Thu, Fri, Mon, Tue) and the teacher has given you an alternative date when you submit your homework. We expect that you write the homework on your own. Should your answers resemble with the answers in someone else's homework, we might deduct points from your score. We appreciate the effort and thorough thinking (whether your answers make sense, whether you have supported all your claims by careful argumentation, whether your answers are informed by data). Try to formulate ideas as concisely as possible. Certainly do not add any "dummy text" just in order to get closer to the maximum extent. The final document can be inserted into the System in all standard formats (doc, docx, odt, pdf, ...). Print your homework and take it to the seminar on 11/3. Title the document *Homework 2* (your name and surname will be added to the name of the document automatically). **Put your name and surname on the top of your homework.**

Task (6 points, maximum 800 words)

Read the paper by Goolsbee and Syverson (2008) (see the study materials) and answer the following questions:

1. How do the authors identify the threat of entry of Southwest Airlines in a certain market?
2. How is the reaction of other airlines to the threat of the entry identified?
3. How do the authors deal with the possibility that the correlation between the threat of entry and the decline in incumbents' fares might arise also if Southwest chooses to enter in airports where operating costs are falling?
4. How do the authors test whether the incumbents invest into excess capacities? What is their finding?
5. How does the paper test whether the incumbent is trying to deter entry? What is the conclusion?
6. How do the authors explain that the price reduction before the entry of Southwest might lead to entry deterrence or accommodation?