Like in many other industries, product differentiation plays an important role in the aviation industry. Airlines offer consumers a menu of fare types ranging from the lowest available fare to a fully flexible business fare. Nonetheless, consumers may also choose travelling with a different airline or, if available, with high-speed rail. This dissertation studies the interaction of heterogeneity in consumers’ preferences, product differentiation, and oligopolistic competition in transport markets. The theoretical analysis focuses on the questions under which conditions strategic interaction between firms results in product differentiation, and how this may affect welfare and price dispersion under demand uncertainty. The empirical analysis focuses on the impact of loyalty programs on consumer behaviour in the aviation industry and the degree and conditions under which high-speed rail is a viable substitute for airline travel.

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