and Simkins (2006) investigate whether jet fuel hedging behavior of airlines is a source of their market value, and find that an airlineôs jet fuel hedging is indeed positively related to its

hastwo or more intermediate stops. First, we discuss why market distance does matter for the marginal impact of gasoline price on air travel demand.

A consumerôs travel cost on a tri

Second, we assume that the cost to the consumer of driving, which includes the

the steeper among the two, reflecting the fact that the incremental time cost to the consumer associated with using ground transport to cover one extra mile towards the destination is greater than the incremental time cost associated with using

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channels: demand-side and supply-side. The following provides intuitive descriptions of the demand-side effect, as well as the two supply-side effects.

Demand effect

The demand effect captures how crude oil price changes affect air travel demand. The component in equation (31) captrdes

pass

those unhedged fuel usage, the marginal cost of products that have more intermediate stops experiences a greater increase (decrease) compared to products that have fewer intermediate stops. This effect is captured by the previously posited parameter ranking:

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Table 2: Predicted Impacts of Market Distance on the Crude Oil Fare Passthrough Rate

theory, and consistent with many empirical analyses of this issue, we use the following log-linear reduced-form regression model:[38]

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relevant market

zero. As such, one way to proceed with interpreting the empirical results is to compute the marginal effect of each explanatory variable on the pass

column reveal a negative mean crude oil price-airfare pass-through rate/elasticity of -0.065, suggesting that a 1% decline in crude oil price results in a mean 0.065 percent increase in airfares. While not all products in the sample have negative estimated crude oil price-airfare pass-through rates, the vast majority (approximately 67%)

The results and discussion above do reveal airline fuel hedging is a strong contributor to negative crude oil.

between the mean pass-through rate and market distance. The observations suggest that as market distance increases up to approximately 350 miles, the positive pass-through rate declines toward the zero pass-through line; however, as market distance further increases, the negative pass-through rate increases in magni7e telyin(s ov-9(li)ge)4( )d tein, 0(t-oug)-9(y)(in(sf9(d

Our empirical estimates reveal a mean product level crude oil price-

References