

- The cost per passenger declines as the load factor (the percent of seats filled with paying passengers) increases toward 100 percent.
- Cost per kilometre flown declines with the stage-length (number of kilometres flown) of the flight; i.e., as the length of a flight increases, the cost per kilometre declines.
- There are significant economies of *traffic density*, in this industry. This indicates that as the level of traffic increases, in a network of a given size, the cost per passenger falls. It is less costly per passenger to provide service in a market with six flights per day than it is in a market with one flight per day. Airlines the size of the former CP Air and PWA were too small to fully exploit available traffic density economies. Carriers the size of Canadian Airlines International Limited and Air Canada appear to have reached the mass necessary to exploit available economies.³²
- There are roughly constant economies of *network size*. This means that when holding the amount of traffic per route constant, adding additional routes/cities to the network does not lower costs per passenger.

These results suggest that airlines need to operate with relatively full aircraft, and frequent service in a market. There appear to be no significant cost advantages to operating a large network of airline services relative to operating an efficient small network. However, as will be seen next, there are marketing advantages to operating large networks.

³² See D.W. Gillen, W.T. Stanbury and M.W. Tretheway, "Duopoly in Canada's Airline Industry: Consequences and Policy Issues," *Canadian Public Policy*, Vol. XIV(1), March 1988, pp. 15-31.