

The Hidden Side of Dynamic Pricing: Evidence from the Airline Market*

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Abstract

Both our theoretical analysis and empirical evidence describe how airlines price in distribution: they set a possibly different fare for each seat on an aircraft. Focussing on fare distributions allows us to unveil some hidden dynamic pricing strategies. We show how a flight's fare distribution is set in practice and its consistency with two main theoretical predictions. First, fare distributions are increasing over the seats' order of sale. Second, over time fare distributions move downward to reflect the perishable nature of seats. Since the former effect is stronger than the latter, observed fares tend to increase over time.

JEL Classification: D22, L11, L93.

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