Question 22

**The terrorist attack on New York 11 September 2001 caused a worldwide recession and an increased fear of flying, both severely affected the demand for travel by air. This led to the closure of some of the major airlines in the world.**

**a) With the aid of diagrams, explain how the recession and the closure of some of the major airlines of the world affected the market for air travel. (10)**
(decrease in income / change in taste and preference / reduction in number of supplier)

**a) Introduction**

- Economic principle.

1) States that the market for air travel is determined by the demand and supply of air travel as the price level and quantity of air travel will be set. (derive the market equilibrium – determine the price and output level)

- Requirement of the qn

2) The market will be affected by the closure of airlines and the incident of September 11. The price and quantity will change.

**Main Body**

1. Explain how the market equilibrium is attained and the price and quantity of air travel is determined
- State that the market demand for air travel is downward sloping from left to right.
- State that the market Ss of air travel is upward sloping from left to right
- State that the intersection of Dd and Ss will mean that the market is in equilibrium and price and quantity level will be set.

**2. Explain how incident of September 11 will cause a fall in dd for air travel**
decrease in income – decrease in demand for air travel – air travel is a normal good (large proportion of income spent on it for average consumers) –
fear of flying – affecting the preference for air travel – reduce demand as individuals switch to other modes of transport – (suitability of substitutes)
- both situation will lead to fall in demand

**3. Explain how closure of the airlines will cause a decrease in ss of the air travel**
closure of firms – lesser no of suppliers – reduce the supply of air travel – decrease in supply ( the extent of impact of rise in price of oil on the airline industry)

**4. Explain that the quantity for air travel will reduce but the price level is uncertain**
If decrease in dd > decrease in ss, price will fall, output will fall
If decrease in dd < decrease in ss, price will rise but output will fall

**5. predict the result and draw and describe the graph – decrease in dd > decrease in ss**
the reduction in dd is from the whole industry / but price of oil is only a variable cost, airline will not close down just because of the increase in variable cost, the largest cost of variable is the plane.

**Draw diagram and describe the diagram**

**Conclusion**

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