**Paper Details**:(4-66)

**Title:** The Effect of Cost Structure on Predatory Pricing​

***\*\*\*\*\*\*\*\*\*\*\*\*Please read the paragraphs below in order to answer the required QUESTIONS in a 2 page paper.***

To win a predatory pricing case, law enforcement officials traditionally have had to prove that a company has sold products or services for less than their average variable cost. Companies with relatively high fixed costs and low variable costs are less likely to be accused of predatory pricing than are companies with high variable and low fixed costs. A court case in which the U.S. Department of Justice alleged that American Airlines had committed predatory pricing against smaller airlines demonstrates this point.

The airline industry has relatively high fixed costs and low variable costs, at least in the short run. If one defines a “unit” as a passenger flying an already scheduled flight, the additional cost of a passenger is small—charges for credit cards, a small amount of fuel because of extra weight, a beverage or two, and not much else. If one defines a “unit” as a flight, then more costs are variable—flight crew costs, fuel, and the cost of baggage handling, for example. Even if the unit is a flight, a large portion of the total costs is fixed.

American Airlines had dropped its fares when smaller airlines scheduled competing flights from the Dallas–Fort Worth airport to Kansas City, Wichita, and other cities, arguing that this was simply business competition in the marketplace. The judge in the case acknowledged that American had been a tough competitor but ruled that American had priced its tickets *above* their average variable cost. Therefore, he ruled that the case against American should be dropped.

**Questions--**

***Required to be answered in paper.***

1. Why is the relation between price and variable cost an issue in predatory pricing?
2. Identify companies or industries in which variable costs are relatively low compared to fixed costs, thus making predatory pricing hard to prove.
3. Identify companies in which variable costs are relatively high compared to fixed costs.