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# Holiday Airfares

## Dynamic Pricing and Peak Demand

**Includes:** Student reading, case study, differentiated questions, teacher key

Name: Period: Date:

### Holiday Airfares: Dynamic Pricing and Peak Demand

**Why Holiday Plane Tickets Feel So Expensive**

Every year, as Thanksgiving, Christmas, and New Year's approach, students and families have the same reaction when they check flight prices: "How can it cost this much just to fly home?" From an economics perspective, holiday airfare is a clear example of peak demand and limited supply colliding. Airlines sell seats on planes, and each flight has a fixed number of seats—that is the capacity. During normal weeks, not every seat is filled, and airlines use sales or discounts to attract more customers. During the holidays, many more people want to travel on the same few days (for example, the Wednesday before Thanksgiving or the Sunday after New Year's). Demand rises sharply, but the number of planes and seats can't instantly expand to

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### Dynamic Pricing: Changing the Fare Without Changing the Seat

You may have noticed that flight prices change from one day to the next, or even within the same day, without anything obvious happening. This is dynamic pricing: adjusting prices in real time based on demand, remaining capacity, booking patterns, and sometimes even the time of day people are searching. Airlines use complex revenue management systems (also called yield management) to decide how many seats they will sell at each fare class. Imagine a single flight with 150 seats. The airline might set up several fare levels: a small number of very cheap seats, more at

a mid-range price, and some at a high last-minute price. Early in the year, you may see lower fares because many cheap seats are still available. As the flight fills up, especially for holiday dates, the system automatically closes the cheapest fare classes and offers only higher-priced ones. The seat itself hasn't changed, but its price has, based on how many people are trying to buy it. This is not random or personal; it's based on patterns of consumer behavior. Airlines know that some travelers are price-sensitive (they will shop around and change dates to save money) while others are time-sensitive (they must travel on specific days, no matter the cost). Dynamic pricing is designed to capture more revenue from people who are less flexible, especially around holidays, while still filling the plane with a mix of passengers at different price points. Here is a simplified illustration of how prices can change as the departure date approaches for a popular holiday flight (these numbers are just for teaching, not a rule):

**Peak Demand, Elasticity, and Who Pays What**

During off-peak times, demand for flights tends to be more elastic—when prices rise, many customers change their plans, delay travel, or switch to other airlines or even other modes of transportation. During holidays, demand becomes more inelastic. People want to be with family on specific dates, so they are less likely to cancel or change plans just because prices go up. Inelastic demand gives airlines more room to raise prices without losing too many customers. Airlines also use forms of price discrimination, which in economics means charging different prices to different groups based on their willingness or ability to pay, not on the cost of providing the service. Holiday examples include: Advance-purchase discounts for people who book early (often more price-sensitive) Non-refundable tickets that are cheaper than fully flexible ones Basic economy fares with fewer benefits for budget travelers Higher fares for last-minute bookings, which often include business travelers or people with urgent plans These strategies allow airlines to fill as many seats as possible while earning more revenue from those who are willing—or forced—to pay more. It's not always fun for passengers, but it is a textbook example of how firms use pricing to manage scarce resources in high-demand periods.

**Key Information**

| Days Before Flight | Seats Remaining | Typical One-Way Fare | What's Going On? |
|---|---|---|---|
| 90 days | 120 | $190 | Many cheap fare classes still open |
| 45 days | 80 | $260 | Cheaper seats mostly sold, mid-level open |
| 14 days | 40 | $340 | High demand, fewer seats left |
| 3 days | 10 | $480 | Last-minute travelers pay top prices |

**Case Study Excerpt – The Rodriguez Family's Ticket Hunt**

**In October, the Rodriguez family started searching for flights so their college-aged daughter, Elena, could fly home for Christmas. The first time they checked, a round-trip ticket leaving December 22 and returning January 2 cost about $320. "Let's wait a bit and see if it drops," her dad said. Two weeks later, the same flights were $375. By mid-November, they were over $430. When Elena tried again in early December, only a few seats were left, and the fare had jumped above $550. After calling relatives, they discovered that flying a day earlier and returning on January 3 brought the price down to $410, because those dates were slightly less popular. In class, Elena's economics teacher helped her map the situation using dynamic pricing and peak demand. The most popular travel days were filling up quickly, which pushed prices higher as cheaper fare classes sold out. By shifting to less crowded dates, the family moved from the highest-priced section of the demand curve to a slightly cheaper one—even though the airline, route, and basic service were the same.**

1. How did waiting to buy the ticket affect the price Elena's family had to pay for the most popular travel dates?

_____

_____

2. What decision did the Rodriguez family make to lower the fare again, and how does this relate to the idea of peak demand?

_____

_____

**Multiple Choice**

1. According to the reading, holiday airfares are often higher because:

    a) Planes magically cost more to build in December

    b) Demand for specific travel dates increases while the number of seats stays limited

    c) Airports always close half their runways in winter

    d) Pilots are required by law to double their salaries on every holiday flight they fly

2. Dynamic pricing in airline tickets means that:

    a) Ticket prices can only be changed once per month

    b) Planes change size depending on how many people want to fly

    c) Every passenger pays exactly the same price no matter when or where they book

    d) Ticket prices change over time based on factors like demand and remaining seats

3. When demand for holiday flights is inelastic, airlines can:

a) Raise prices without losing many customers, because people feel they must travel

b) Ignore capacity and sell unlimited seats

c) Eliminate dynamic pricing and charge one flat fare for the whole holiday season

d) Never raise prices, or everyone will stop flying

**Matching**

Write the letter of the correct definition on the line next to each term.

| Term | Definition |
|---|---|
| 1. ___ Peak demand | A) Airline practice of managing seat inventory to maximize revenue |
| 2. ___ Dynamic pricing | B) Percentage of seats filled on a flight |
| 3. ___ Yield management | C) System that adjusts fares over time based on demand and capacity |
| 4. ___ Price discrimination | D) Time period when demand for a service is unusually high |
| 5. ___ Load factor | E) Pricing strategy that charges different customers different prices |

**Fill-in-the-Blank**

1. The fixed number of seats available on a plane is its _____, which cannot be quickly increased during the holidays.

2. When an airline raises or lowers fares frequently based on demand and remaining seats, it is using dynamic _____.

3. A ticket buyer who must fly on a certain date, even if the price goes up, is showing more inelastic _____ for that trip.

**Short Answer**

Answer each question in 2-4 complete sentences.

1. Using the table in the reading, explain how ticket prices changed as the flight date approached and why this is an example of dynamic pricing.

2. Describe one way a flexible traveler might reduce the cost of a holiday flight using the concepts of peak demand and price discrimination.

3. From an airline's point of view, why is it more profitable to sell the same flight at many different prices instead of one single price for everyone?