

Executive Summary

A major concern of airlines in today's competitive business environment is lowering the airplane-related operating costs. This thesis formulated the cost functions and examined the economic characteristics of Cathay Pacific Airways and China Eastern Airlines by using the semi-annual operating expenses and operating statistics.

A number of researchers had studied the cost structure and economies of commercial airline or airline industry in different region previously. The literature review is presented in Chapter 2. Based on the research methodologies introduced in Chapter 3, the results are obtained and presented in Chapter 4. The conclusion of this research is presented in Chapter 5.

The results show that Cathay Pacific has cost structures characterized by economies of density, economies of scale and economies of size. For China Eastern, the results show that there are moderate economies of density, slight economies of scale and slight economies of size.

It can be told from the output elasticity that Cathay Pacific would have more cost benefit from increasing its traffic volume than China Eastern.