

# Has the “Golden Rule” Lost Its Aura in the Airline Industry? Revisiting Multimarket Contact in Electronic Markets

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## Abstract

One might expect that repeated contact with rivals might lead to undercutting of prices. However, a seminal work in the early-nineties finds that airlines charge higher fares in markets where they engage in extensive multimarket contact, thus empirically attesting to industry expert claims that airlines live by the “golden rule” (i.e., avoid undercutting in jointly contested routes). In the context of many pricing-related technological advances, our research revisits the nature of this “tacit collusion” while including online and offline prices from the two hitherto ignored carriers Southwest Airlines and JetBlue Airways who are practitioners of the everyday low price (EDLP) strategy. Our work empirically examines the tension between an EDLP firm’s own choice of pricing and price-image and the prevalent competitive forces. We find that even in online markets, with purportedly reduced consumer search costs, there is rich evidence of tacit collusion by the non-EDLP firms. However, a granular analysis reveals that this golden rule is violated when these previously studied airlines are in contact with their EDLP competitors. The EDLP firms themselves not only appear to forgo opportunities for mutual forbearance offered by multimarket contact but they also eschew monopolistic pricing even when this power is afforded in some markets.

## Bio

Dr. Ramnath Chellappa is currently an Associate Professor and Caldwell Research Fellow in the [Information Systems & Operations Management](#) area at the [Goizueta Business School, Emory University](#).

He was formerly a faculty member at the [Marshall School of Business, University of Southern California](#) (1997 - 2005), and also served as the Director of [ebizlab](#) (Electronic Economy Research Lab). He is also affiliated with the [Center for Telecom Management](#) at USC and the [Center for Research in Electronic Commerce](#) (formerly known as CISM) at the [University of Texas at Austin](#).

He received his PhD in Management ([Information, Risk, and Operations Management](#)) from the business school (now the [McCombs School of Business](#)) at the University of Texas at Austin in 1997-98. He has a background in engineering (Mining Engineering (1987-91) Indian Institute of Technology (BHU), Varanasi, India) and Petroleum Engineering (1991-93, University of Texas, Austin) and has worked as a Unix and networks administrator.