Duopoly in the Japanese Airline Market: Bayesian Estimation for the Entry Game

Shinya Sugawara [*]   Yasuhiro Omori [†]

Abstract

This paper provides an econometric analysis on a duopoly game in the Japanese domestic airline market. We establish a novel Bayesian estimation approach for the entry game, which is free from the conventional identification problem and thus allows the incorporation of flexible inference techniques. We find asymmetric strategic interactions between Japanese firms, which implies that competition will still be influenced by the former regulation regime. Furthermore, our prediction analysis indicates that the new Shizuoka airport will suffer from a lack of demand.

Key words: Japanese airline market, Bayesian analysis, Entry game, Markov chain Monte Carlo, Multiple equilibria, Mixed strategy.

[*]Graduate School of Economics, University of Tokyo, Tokyo 113-0033, Japan E-mail: ee077007@ecc.u-tokyo.ac.jp
[†]Faculty of Economics, University of Tokyo, Tokyo 113-0033, Japan. E-mail:omori@e.u-tokyo.ac.jp.