

Homework- Economics 8681

Due: Weds, March 29th

In this homework, I would like you to build a model of entry in the airline industry. The data set comes from the paper on airline predation by Connan Snider. The data is described in the document IO_09.pdf.

In a well known paper, Steve Berry builds a static model of entry by airlines to provide service between a city pair. See Steven Berry (1992), "Estimation of a Model of Entry in the Airline Industry,". *Econometrica* , 60, 889–917.

The estimation method I would like you to use is the one we discussed in class, based on my paper with Han Hong, John Krainer and Denis Nekipelov. You will need to choose the model specification including the covariates and the strategic interactions. The work of Bery and the papers we discussed in class should provide a starting point.

You should provide a 5-7 page write up of your results. These 5-7 pages should be clearly and carefully written (e.g. like a journal article). In the document, carefully describe the data, the model and the results. Your final table should present a variety of specifications with standard errors and measures of fit. Discuss whether your results make sense and whether you learned anything interesting.