

# Academic Weekly Digest

## School of Hospitality & Tourism Management



### The Impact of Loss Aversion and Diminishing Sensitivity on Airline Revenue

While most businesses actively adopt a data-driven approach for revenue management decisions, understanding how air travellers perceive and behave differently to pricing strategies is essential for yielding optimal financial outcomes. Drs [Bora Kim](#) and [Frankie O'Connell](#) with colleagues analysed the loss aversion and diminishing sensitivity mechanisms of prospect theory in economy and business cabin classes.

# The Impact of Loss Aversion and Diminishing Sensitivity on Airline Revenue: Price Sensitivity in Cabin Classes

Dr Bora Kim & Dr Frankie O'Connell

Affecting consumers' travel intention and behaviour in addition to the global financial crisis, the COVID-19 has created a more competitive environment where airline companies need to develop and implement sophisticated revenue management practices to remain relevant and competitive in the market post-pandemic. The main purpose of this study is to investigate the effect of loss aversion and diminishing sensitivity on airline revenue and the moderating role of product and consumer characteristics that are reflected in cabin class. The results show that air travellers encode lower-than-expected airfares as gains and obtain them, positively contributing to airline revenue while they register higher-than-expected tickets as losses and avoid them, imposing negative effect on airline revenue.



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The extent to which passengers avoided losses (vs. welcomed gains) had a greater impact on revenue, supporting that loss aversion applies to the airline revenue, especially for business passengers.  
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When the effect of loss-coded and gain-coded tickets were compared, the extent to which passengers avoid losses (vs. welcome gains) had greater impact on revenue, supporting the loss aversion mechanism in the airline revenue for business cabin class. This phenomenon is manifested differently in each cabin class due to different reference points on which passengers of each cabin class base their evaluation and different sensitivity to the quality of the in-flight services. This study contributes to the further refinement of prospect theory by showing that the loss aversion and diminishing sensitivity mechanisms manifest differently in each cabin class.

## Further Reading:

Nicolau, J. L., Shin, H., Kim, B., & O'Connell, J. F. (2022). The impact of loss aversion and diminishing sensitivity on airline revenue: Price sensitivity in cabin classes. *Journal of travel research*

Link: [bit.ly/3Q1mO0o](https://bit.ly/3Q1mO0o)