Report on Bachelor / Master Thesis

Institute of Economic Studies, Faculty of Social Sciences, Charles University in Prague

Student:	Bc. Zuzana Juhásová
Advisor:	PhDr. Pavel Vacek, Ph.D.
Title of the thesis:	Definition of Relevant Market in Rail Transportation on the Route Prague - Košice using consumer survey

OVERALL ASSESSMENT (provided in English, Czech, or Slovak):

Both bus and rail transport markets have considerably changed in many countries in the last 15 years. Not many years ago, there were just monopoly national carriers providing transport services, for example Czech Railways. Incumbent operators did not offer a high quality services and they were not cost efficient. Reforms of transportation policy introduced competition in transportation industry with the aim to improve transport sector performance. New operators entered transport markets and compete with incumbent operators.

Competition on bus and train routes have naturally resulted also in several accusations of anticompetitive conduct of some firms. Cases of abuse of a dominant position by dominant undertakings in the form of price and non-price predation are frequent.

A standard approach to antitrust requires an assessment of the alleged abuse of dominance to consist of two stages. First, it has to be shown that the firm under investigation was indeed dominant in the market (necessary condition for an abuse of a dominant position). Second, it has to be shown that the firm indeed abused its dominant position. To complete the first stage of the investigation, one needs to define the relevant market to be able to calculate a correct market share of the firm in question. A large market share is the main indicator of dominance.

These competition developments and issues have inspired several IES students to deal with relevant market definition in transport industries. I have supervised Mgr. Adam Dobiáš who analyzed a case of STUDENT AGENCY, s.r.o. that was accused of predatory pricing on the Praha – Brno route. Bc. Iva Slámová has been working on a predatory case from a rail transport market – case České Dráhy v. Leo Express (not submitted yet). The thesis by Zuzana Juhásová fits well into this wave.

There are several features of Zuzana Juhásová's thesis that I appreciate:

- quite informative and detailed characteristics of the route Praha – Košice,

- field work research in the form of face to face surveys of passangers,

- interesting informative empirical evidence from the survey (e.g. there were 39 different prices on the route, which althouht is not surprising, nicely illustrates price discrimination (p. 52),

- a well-arranged text, tables and figures.

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I have the following comments and remarks:

Key question number 6 reads (p. 67):

Question 6: Imagine that the price of the ticket in this train would permanently rise by 10%, [in case of 500 CZK ticket, it is 50 CZK] while prices of all other tickets remained the same. How would you react to such a change?

a) I would travel with the same train
b) I would travel by train but with another operator
c) I would travel by bus
d) I would travel by car/rideshare
e) I would travel by plane
f) I would not travel at all/ I would travel elsewhere
g) I do not know/other (please, specify):

On page 55, the author sums up respondents who answered C, D, E and F on question 6. There were 13 out of 360 people like that. So, the author applies the hypothetical increase in price only to the operator with which the given respondent travelled at that moment. Prices of other rail operators did not change. I do not think that a design of this question correctly captures what the author wanted to capture. Zuzana Juhásová claims (page 55):

"This information tells us what percentage of the passengers using a particular type of ticket would not travel by train anymore if the price of the ticket increased by 10%."

I do not think this is true. In the thought experiment, the prices of other rail operators did not change by 10 percent. In my opinion, one needs to assume one hypothetical monopoly railway operator whose prices increase by 10 per cent. This would help us to learn what the diversion to different types of transport is (i.e. to bus, car, plane and no ride at all).

If you asked me, what I would do in case of a 10 per cent price rise of the railway operator that I would travel with at the moment and you would leave the prices of other railway operators unchanged – I may well answer B (I would travel with a different train operator), but if you asked me what I would do if all trains increased their prices by 10 per cent,[1] I might well go by bus (i.e. I would answer C).

In other words, by summing up answers C to F, you rather get an answer to what happens, if the given train operator increases its prices and the other train operators and other forms of transport between the two cities do not change their prices. In this case, I do not believe that the author is getting an answer to what percentage of the passengers using a particular type of ticket would not travel by train anymore if the price of the ticket increased by 10 per cent.

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[1] or more precisely a hypothetical monopoly train operator

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The author should comment on this remark during her defense. (The potential response to this comment that other authors proceeded in the same way, e.g. Kvizda (2013) should not be satisfactory.) – What is the logic and intuition for this approach? Am I right or am I wrong, and why?

One more minor comment:

In table 25 (p. 41) – the formula for a critical elasticity shown is correct only for a specific demand curve – the author should state for which demand curve the formula is valid.
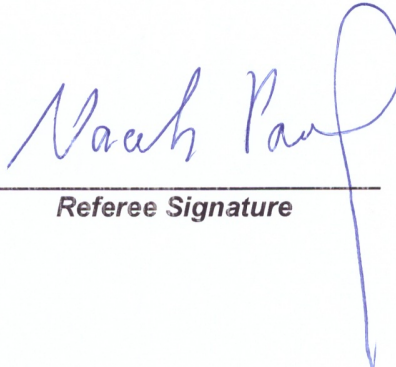
I consider the master thesis of Zuzana Juhásová to be a solid piece of work and I recommend a grade of 2 (good, velmi dobře).

SUMMARY OF POINTS AWARDED (for details, see below):

CATEGORY		POINTS
Literature	(max. 20 points)	15
Methods	(max. 30 points)	22
Contribution	(max. 30 points)	20
Manuscript Form	(max. 20 points)	19
TOTAL POINTS	(max. 100 points)	76
GRADE	(1 – 2 – 3 – 4)	2

NAME OF THE REFEREE: PhDr. Pavel Vacek, Ph.D.

DATE OF EVALUATION: September 4, 2016

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Referee Signature