Marginal Rule pricing & Continental Airlines  
(Source: Business Week: April 20\textsuperscript{th} 1963).

General rule for flights: 65\% capacity to fly. Reason: 
Average total cost (ATC) pricing: 
Total cost of flights/number of flights = average total 
cost = $4000

Plane had to be 65\% full to earn $4000.

Problems with ATC pricing:
1. ATC includes \textit{sunk costs}. Sunk costs are sunk 
whether plane takes off or not. They should be 
irrelevant to the decision.
2. Average cost \textit{changes} as output (flights) \textit{change}. 
Wrong to think of AC as constant in the pricing 
decision.

Continental took MR = MC approach.

What was the marginal cost of a flight? Done on 
variable costs: fuel, flight attendants, meals, ground 

Marginal revenue at 50\% capacity = $3000.
Because MR = MC rule, Continental made profit and expanded.