

“On a Stochastic Programming for Revenue Management”

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Abstract:

Revenue Management (RM), either leg-based or network based, has become a standard in the airline industry and other matures service industries as well. This paper presents a scenario tree based multistage stochastic programming model. The paper proposes to replace the currently used bid price policies with Expected Future Value (EFV) curves as a methodology for deciding to accepting or rejecting offers to buy flight tickets in the airline industry (or, in general, perishable products or services in other industries). This methodology is based on a stochastic dynamic programming approach.