

## [Bye bye BA](#) [1]

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It was launched on 11 February 1987 at a price of 125p and trading closed last week for the last time with shares at around 293p. So, was British Airways a good investment?

Hardly! Since 1987 we have had 116 per cent inflation. This means that 125p in 1987 is the equivalent of 270p today; or, to put it another way, yesterday's share price of 293p was worth less than 136p in 1987. So a near quarter of a century would have yielded a real return on your investment of just 8.5 per cent.

By comparison, had one forgotten that one had the money and left it in a current account paying a nugatory interest rate of 0.35%, one would have done just as well.

Actually, that is a little unfair. It ignores the dividends that BA has paid out over 24 years. And it also ignores the fact that most people did not sit on their shares for a quarter of a century. Those who sold on 16 May 1997, when the shares hit 760p, did rather well. Had they instead hung on for another six years, they might have sold at a sorry 86p on 12 March 2003.

Economic theory suggests that shares should be fairly stable in value as long as a company's profits are also stable. The share price should be based on the discounted value of projected future profits, so if a firm makes exactly the same profit every year (in proportion to the capital invested) then the share price should remain the same. BA's share price fluctuated as its profits did: the peak came after pre-tax profits reached £640m, while the trough followed the slump in profits to £135m.

But the general trend of share prices defies simple economic theory. On average, share prices have trebled over the past quarter century – that is to say, the FTSE 100 has risen from around 2000 to around 6000, almost twice as fast as inflation. Had profits risen substantially over that period (relative to investment) then this would explain the change, but the rise in profits has not been enough to explain the different.

Shares are assets, and assets [tend to soak up expansions of the money supply more readily than consumer prices](#) [3]. However, not all assets are the same. British Airways has overall been a poor performer. One may speculate on the reasons – militant unions and competition from low cost airlines come to mind – but ultimately the problem is that BA has not managed to move with the times; it has been shackled by its past. One can only guess whether its merger with Iberia will liberate it from the straight jacket of the past, but considering that Iberia is the former Spanish national airline, itself only privatised in 2001, it doesn't look good.

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