THE CONSUMER THEORY APPLIED TO THE TOURIST

Candela and Figini (2012): The Economics of tourism Destinations

Purchase of a Package Holiday

- Tourist asked to decide whether or not to purchase a set holiday
- Binary choice: Yes and No
- Not a continuum choice of deciding the length of stay
- All-inclusive 12-trip to Egypt for 2000 EUR, all-inclusive 17-day cruise in Caribbean sea for 3000 EUR
- Length and price given
- Y: Income; V: price of all-inclusive tour; T=0,1 binary choice
- U=U(Y, T) is tourist's utility function, depends on income and tour
- Not purchase: U(Y, 0); Purchase: U(Y-V, 1)
- Reservation price: U(Y-V*, 1) = U (Y, 0)
- In V* indifferent: Max price tourist is willing to pay
- If $V^* \geq V$ the holiday purchased; If $V^* \leq V$ the holiday not purchased

Purchase of a Package Holiday

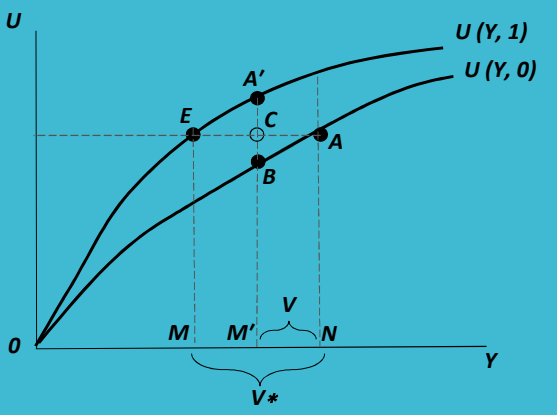
Initial income 0N gives utility NA if tourist does not buy holiday

Same level of utility reached ME at point E if holiday bought

MN gives reservation price V*
If price<MN purchased
If price>MN not p urchased

For example if price V is M'N tour is purchased, utility up from NA to M'A'

Surplus: A'C=A'B-CB with A'B utility from tour, CB disutility from income



Self-Organization of the Holiday

- Assume tourist has chosen pair (T_i; r) not available by tour operator
- Search, select, purchase each component of T_i, time consuming
- Overnight stays N direct function of time spent on planning L
- Destination management pays Q to ease process of self-organization
- N=k(Q)L
- v: daily price of holiday; w: unit cost of time spent in producing it
- C= vN + wL cost of self-organized holiday
- C= vN + ω(Q)N with ω(Q) = w/k(Q)
- C=[v + ω(Q)]N= πN where π = v + ω is shadow price of self-organized holiday: daily price when services independently purchased, etc.
- Price of holiday depnds on individual opportunity cost of time

Self-Organization of the Holiday

- Utility maximization with M_C detremining non-tourism consumption:
- Max $U(M_C,N)=U(M_C) + U(N)$ s.t. $M_C+\pi N=Y$
- Now budget constraint written in terms of shadow price
- Equilibrium where marginal utility of holiday $U'(N)$ is linked with marginal utility of money $U'(M_C)$
- $U'(N) / U'(M_C) = \pi$
- Equality between marginal rate of substitution between two options and marginal rate of transformation, i.e. relative price between them
- Allows to determine optimal length of stay N* and time to produce it L*