

Tourism Policy and planning

Exercise 1

1. The annual demand function for spending a weekend in Rimini is equal to $D = 800 - 2P$ where 800 is the total spendable income and P is the price of a weekend package including accommodation and food.

(a) Draw the demand function.

(b) Show on the demand curve the point, which determines the number of weekends spent in Rimini if the price is equal to $P = 150$ EUR per weekend.

(c) Show on the figure what happens if the price is drastically decreased to 50 EUR as a special promotion to attract more tourism. What is the number of weekends bought in this situation?

(d) Show on the figure what happens to the demand curve if economic crisis reduces the purchasing power of tourists and cuts their income and therefore spending on tourism by half so that the maximum spending is reduced from 800 to 400. What is would the number of weekends be in price remains the same as in part (c) so that $p = 50$ EUR?

2. Suppose the demand for horse trails in Mongolia (horseback trips, expeditions, and trekking) measured in the number of overnight stays is measured by

$$N_{i,r} = 500 - 10v_{i,r} , \text{ where } v \text{ represents the price of horse trail tours in Mongolia.}$$

- (a) Compute the (own) price elasticity using the above demand function.

- (b) What is the price elasticity of demand when the price is 30 EUR.

- (c) What is the percentage change in the overnight stays if the price is 30 EUR and increases by 4.5%?

- (d) How should this change in demand inform the tourism management entities in Mongolia about the price change?