

Tourism Policy and planning

Exercise 3

1. Recall from the last exercise the two complementary businesses (Blue Panorama and the Hotel board in Santorini Island) and their flight and accommodation services offered for Santorini. In the previous example they did not coordinate their activities. Now they have negotiated and decided to coordinate and choose the right price to maximize their joint profits. Tourists pay a package including flight and a one week stay at a all-inclusive price v . Total demand from Italy during the month of June remains the same as the previous exercise, that is, $D = 6000 - 3v$ trips.

Write out the profit function given the above information.

What is the optimal price set for the package? Maximize profits to find out.

Is the combined price (of flight and accommodation) higher or lower for the consumer than when the firms did not coordinate?

What is the number of total trips purchased (D)? Is it higher or lower than when the firms did not coordinate?

If the authorities required the two firms to set identical prices ($p_f = p_h = v/2$) what is the profit of each firm? Is it higher or lower than when they did not coordinate?

2. Demand for overseas travel by Thais is equal to $X = -5Y^2 + 55Y + 50$, where Y is household income.

a) We study this function for $2 \leq Y \leq 9.5$. Draw the corresponding Engel curve.

b) Compute the income-elasticity for $Y=5.5$. Comment.

c) Which is the nature of this good (overseas travel) for Thais?