

THM 315

TOURISM ECONOMICS

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ECONOMICS AND TOURISM

- IN THIS PARTICULAR COURSE WE WILL TRY TO COVER CERTAIN TOPICS WHICH ARE IN THE INTERSECTION AREA OF THE SCIENCE OF ECONOMICS AND TOURISM INDUSTRY
- FIRST WE HAVE TO ANSWER SOME QUESTIONS LIKE
- WHAT IS ECONOMICS?
 - WHAT IS TOURISM ECONOMICS?

WHAT IS ECONOMICS?

- **ECONOMICS** STUDY PRODUCTION AND DISTRIBUTION OF PRODUCTS IN THE FORM OF GOODS AND SERVICES
- **PRODUCTION** CAN BE MADE BY THE USE OF RESOURCES
- BUT **RESOURCES** ARE LIMITED, IN ECONOMIC TERM **SCARCE**
- ON THE OTHER HAND HUMAN NEEDS WANTS ARE **ENDLESS**

ECONOMICS AND TOURISM

- SO WE HAVE TO MAKE CHOICE OUR **PRIORITIES** AT THE SATISFACTION OF OUR NEEDS

THAT IS TO SAY WE HAVE TO **DECIDE**

- WHICH NEED/WANT TO BE SATISFIED?
- WHAT PRODUCT TO BE PRODUCED?
- WHICH **ELEMENTS OF RESOURCES** TO BE USED?
- HOW PRODUCTS WILL BE DISTRIBUTED?

ELEMENTS OF RESOURCES ARE ALSO CALLED PRODUCTIVE FACTORS
OR **FACTORS OF PRODUCTION**

NATURAL RESOURCES-LAND

HUMAN RESOURCES-LABOR

ECONOMIC RESOURCES-CAPITAL

ECONOMICS AND TOURISM

SO ECONOMICS COULD BE DEFINED AS A SOCIAL SCIENCE, STUDYING HOW TO MEET THE CHOSEN NEEDS OUT OF SCARCE RESOURCES IN THE PROCESS OF PRODUCTION AND DISTRIBUTION

THE DECISIONS ARE MADE AT MACRO-ECONOMIC LEVEL
OR MICRO-ECONOMIC LEVEL

MACRO ECONOMICS DEAL WITH THE SUBJECTS AT NATIONAL AND GLOBAL LEVELS. AT LARGE SCALES LIKE, ECONOMIC GROWTH, PRICE LEVELS (INFLATION, DEFLATION) NATIONAL INCOME, MONEY SUPPLY, EMPLOYMENT-UNEMPLOYMENT LEVELS, EXCHANGE RATES.

ECONOMICS AND TOURISM

MICRO ECONOMICS, DEAL WITH THE SUBJECTS CONCERNING OPERATIONS, VENTURES AND INDIVIDUALS, SUBJECTS LIKE, PRICE, COST, PROFIT, MARKETING

TOURISM, ACTIVITY IN WHICH PEOPLE ARE ENGAGED IN TRAVEL AWAY FROM HOME (NOT MORE THAN ONE YEAR) PRIMARYLY FOR BUSSINESS AND PLEASURE.

TOURISM ECONOMICS MEASURE THE AMOUNT OF TRAVEL AND ITS DIRECT, INDIRECT AND INDUCED ECONOMIC CONSEQUENCES

ECONOMIC SIGNIFICANCE OF TOURISM

- Since World War II, tourism has grown to become a major socio-economic activity of the world due to several influencing factors:
- Rising disposable incomes
- Less working hours and paid holidays for large number of employees
- Increased levels of urbanization, leading to demands for escape to tourist destinations
- Important technological developments in transportation
- Attainment of high educational and cultural levels
- Rapid and dispersed economic development leading to business trip
- The global media network stimulates the desire to travel

Years (billion \$)	No of Tourists (million)	Tourism Expenditures
• 1950	25	2.1
• 1960	69	6.8
• 1970	170	18
• 1980	285	102.3
• 1990	456	261
• 2000	698	478
• 2004	760	662
• 2008	922	944
• 2014	1,138	1,245

- Source: WTO

POSITIVE ECONOMIC IMPACTS OF TOURISM

LIKE OTHER ACTIVITIES, TOURISM ALSO CREATES SOME IMPACTS ON NATIONAL ECONOMIES OF MARKET AND DESTINATION COUNTRIES. MAIN ECONOMIC IMPACTS CAN BE OUTLINED WITHIN THE FRAMEWORK OF 6 SUBJECTS:

1-Foreign Currency Earnings:

2-Increase at GNP (Economic Growth):

3-Distribution of National Income Among the Regions:

4-Distribution of National Income Among Social Segments:

5- Increase the Level of Employment:

6- Increase the Productivity at Other Sectors:

ECONOMIC IMPACTS OF TOURISM

1-Foreign Currency Earnings:

- International tourism activities generate foreign currency earnings for the destination countries and affect their Balance of Payments positively, as foreign tourists generally spend convertible currencies during holidays, by changing them to destination country's currency. International tourism expenditures have exceeded \$ 900 billion, generating over \$40 billion tourism earnings for number of countries every year

ECONOMIC IMPACTS OF TOURISM

2-Increase At GNP (Economic Growth):

INCREASE IN GNP

INCREASE IN TOURISM DEMAND

**CREATES INCREASE AT SALES OF TOURISM
PRODUCT**

INCREASE AT PRODUCTS OF 38 SUB-SECTORS

**THEREFORE INCREASE THE GNP AT DESTINATION
COUNTRY**

ECONOMIC IMPACTS OF TOURISM

3- Distribution of National Income Among the Regions:

- Domestic tourism demand mainly generates from developed and richer regions, towards less developed places (with the exception of tourism demand to major cities). Therefore, money earned at richer places are spent at the resort destinations, where other industrial activities could not be developed.

ECONOMIC IMPACTS OF TOURISM

4- Distribution of National Income Among Social Segments:

- Level of tourism expenditures is closely related to the level of family income. Tourism expenditures of people with higher earnings generate income for the workers, small traders, workshops and other low-income people at the destination, since tourism operations distribute their income through economic circulation and income multiplier system.

ECONOMIC IMPACTS OF TOURISM

5- Increase the Level of Employment:

With its labor-intensive structure, tourism sector is a leading job provider, with its high job-creating rate, for each unit of investments. Automation and new technologies cannot replace human skill with machinery. Its negative social and economic affects made unemployment a government responsibility. Because of its job creating affects, tourism development became an effective tool of government policies, aiming to reduce unemployment.

ECONOMIC IMPACTS OF TOURISM

6- Increase the Productivity at Other Sectors:

TOURISM CREATES POSITIVE ECONOMIC IMPACTS TO ITS SUB SECTORS AND IN THE MEAN TIME TO AGRICULTURE, INDUSTRY AND TERTIARY SECTORS

AGRICULTURE: INCREASE IN DEMAND OF AGR. PRODUCTS

INCREASE IN REVENUES OF AGR. SECTOR

INCREASE IN THE QUALITY OF AGR. PRODUCTS

SO NO SEASONAL EMPLOYMENT IN AGR. SECTOR AT ALL

INDUSTRY: POSITIVE IMPACTS ON FINISHED AND SEMI FINISHED INDUSTRIAL PRODUCTS SUCH AS CONSTRUCTION MATERIALS, FURNITURE, CHEMICALS, TEXTILE

SERVICES: POSITIVE DEVELOPMENT IN TRANSPORTATION, HEALTH, SECURITY, ART AND CRAFTS, AND COMMUNICATION SECTORS.

NEGATIVE ECONOMIC IMPACTS OF TOURISM

- 1 INCREASE IN PRICES
- 2 INFRASTRUCTURE COST
- 3 OVERDEPENDENCE ON TOURISM INDUSTRY
- 4 SEASONALITY OF JOBS
- 5 ENCLAVE TOURISM
- 6 INCREASED PRESSURE TO IMPORT (LEAKEAGE)

NEGATIVE ECONOMIC IMPACTS OF TOURISM

1 INCREASE IN PRICES

Increasing demand for basic services and goods from tourists will often cause price hikes that negatively affect local residents whose income does not increase proportionately. Increase in building costs land values and shopping items

NEGATIVE ECONOMIC IMPACTS OF TOURISM

2 INFRASTRUCTURE COST

Tourism development can cost the local government and local taxpayers a great deal of money. Developers may want the government to improve the airport, roads and other infrastructure, and possibly to provide tax breaks and other financial advantages, which are costly activities for the government. Public resources spent on subsidized infrastructure or tax breaks may reduce government investment in other critical areas such as education and health.

NEGATIVE ECONOMIC IMPACTS OF TOURISM

3 OVERDEPENDENCE ON TOURISM INDUSTRY

if a country or region becomes dependent for its economic survival upon one industry, it can put major stress upon this industry as well as the people involved to perform well. Many countries, especially developing countries with little ability to explore other resources, have embraced tourism as a way to boost the economy.

NEGATIVE ECONOMIC IMPACTS OF TOURISM

4 SEASONALITY OF JOBS

The seasonal character of the tourism industry creates economic problems for destinations that are heavily dependent on it. Problems that seasonal workers face include job (and therefore income) insecurity, usually with no guarantee of employment from one season to the next, difficulties in getting training, employment-related medical benefits, and recognition of their experience, and unsatisfactory housing and working conditions.

NEGATIVE ECONOMIC IMPACTS OF TOURISM

5 ENCLAVE TOURISM

"all-inclusive" vacation packages reduces the direct and induced income from tourism. When tourists remain for their entire stay at the same cruise ship or resort, which provides everything they need and where they will make all their expenditures, not much opportunity is left for local people to profit from tourism.

It is found that 'All-inclusive hotels generate the largest amount of revenue but their impact on the economy is smaller per dollar of revenue than other accommodation sub-sectors.' (smaller multiplier effect)

NEGATIVE ECONOMIC IMPACTS OF TOURISM

6 INCREASED PRESSURE TO IMPORT (LEAKEAGE)

the host country cannot supply all the tourists demand for various kind of products. Especially in less-developed countries, food and drinks must often be imported, since local products are not up to the hotel's (i.e. tourist's) standards or the country simply doesn't have a supplying industry. Much of the income from tourism expenditures leaves the country again to pay for these imports. This portion of tourism income called Leakage.

TOURISM PRODUCT

Tourism products are made up by the combination of goods and services and the elements of cultural and natural resources, allocated for a process of production and presented for sale and consumption (Examples: Hotels, transportation, food and beverages, recreation, shopping, natural and cultural resources).

Tourism product: the tourism activity or experience that a **tourist** participates in.

CHARACTERISTICS OF TOURISM PRODUCTS

- 1 Tourism Products are consumed at the place of production
- 2 Tourism Products are consumed at the time of production
- 3 List of inputs used in every product
- 4 Do not need packing and couldn't be packed
- 5 Cannot be stocked
- 6 Quantity of output is rigid

CHARACTERISTICS OF TOURISM PRODUCTS

1 Tourism Products are consumed at the place of production

Other products are always sent to the places where the consumers are and they consumed there. But tourism products are consumed at the **"place" of production**. Therefore the consumers travel to the place of production. In other words, at tourism industry consumers are transported to the product, instead of sending the products to the consumer.

CHARACTERISTICS OF TOURISM PRODUCTS

2 Tourism Products are consumed at the time of production

Other products are generally consumed after they are produced. But tourism products are consumed at the time of “production”. Production and consumption begin together at the same time and also finish at the same time.

CHARACTERISTICS OF TOURISM PRODUCTS

3 List of inputs used in every product

Very high diversity of tourism products necessitates the use of unlimited kinds of different inputs (ingredients) in them. At any other sector, there are certain raw materials included in every kind of product of that sector. Ex: At automotive industry, inputs like iron, paint, glass, rubber... are used in every automotive product.

CHARACTERISTICS OF TOURISM PRODUCTS

Therefore, a definition (list) of inputs included in every product of automotive, petro-chemical industry, or at any other sector can be made. But, there is not even a single item used in every tourism product, because of their unlimited diversity.

CHARACTERISTICS OF TOURISM PRODUCTS

4 Do not need packing and couldn't be packed

Tourism products can not be saved when their productions are completed. They are either sold or could not. If they are sold, it is consumed at the same time of its production. At the end of production, consumption also finishes and nothing remains for packing.

CHARACTERISTICS OF TOURISM PRODUCTS

- Most of other products are packed, as they have to be sent (transported) from the place of production, to the place where consumers are; or as they are stocked. But tourism products cannot be transported, since they are consumed at the place of production and also they can not be stocked.

CHARACTERISTICS OF TOURISM PRODUCTS

5 Cannot be stocked

Other products are consumed after they are produced and they have to be kept / stocked until they are sold. As above explained tourism product can not be saved after production is completed. A product is either sold or could not. At the end of production it is either consumed or turned to complete loss. At both cases, when the production complete, remain nothing to be stocked.

CHARACTERISTICS OF TOURISM PRODUCTS

6 Quantity of output is rigid

Output level of tourism operation is rigid in short-run and certain number of product have to be produced everyday / at every service. It cannot be increased or decreased (cannot be adjusted) in short-run. Regardless of changes at D. Level of output cannot be changed at a bus tour or at an accommodation facility, even if D is more or less than the capacity. Rigid output of tourism facility has to be completely supplied.

ECONOMIC CHARACTERISTICS OF TOURIST INDUSTRY

Tourism Industry has a number of different distinct characteristics distinguishable from other industries

- 1 Tourism is an invisible export industry
- 2 Tourist destination areas need ancillary (additional) good and services
- 3 Tourism is a fragmented product
- 4 Tourism is a highly unstable sector

ECONOMIC CHARACTERISTICS OF TOURIST INDUSTRY

1 Tourism is an invisible export industry

There is no tangible (material) product which is shipped from one place to another (like in banking and insurance) Consumers (tourists) actually collect the service personally from the place where it is produced

ECONOMIC CHARASTERICS OF TOURIST INDUSTRY

As a result the exporting destination incurs **no direct freight costs** outside its boundaries except where the transportation facility is owned by the destination. In developing countries tourism mostly sold **free on board (fob)** where in developed countries airlines are frequently owned by the exporter and tourism both sold fob and cif.

ECONOMIC CHARACTERISTICS OF TOURIST INDUSTRY

2 Tourist destination areas need ancillary good and services (transportation facilities, water supplies, sewerage systems and retail functions)

These have to be created expanded or imported depending upon the availability of existing supplies and the nature and magnitude of the tourist demands

ECONOMIC CHARACTERISTICS OF TOURIST INDUSTRY

3 Tourism is a fragmented product

This means

- integrated with many other sectors
- directly affecting these sectors

Ex: Tourist expenditure goes to

hotels +shops + restaurants+ recreational facilities (**Direct Benefits**)

And this creates

local tax revenues + infrastructural improvements + developing community services (**Indirect Benefits**)

ECONOMIC CHARACTERISTICS OF TOURIST INDUSTRY

4 Tourism is highly unstable Export

a Tourism is subject to strong seasonal variations

b Tourism is price and income elastic

c Unpredictable influences from outside forces

ECONOMIC CHARACTERISTICS OF TOURIST INDUSTRY

a Tourism is subject to strong seasonal variations

Since -tourism product cannot be stored and

-Tourism is highly seasonal

These lead to market fluctuations in all levels of the tourism industry

ECONOMIC CHARACTERISTICS OF TOURIST INDUSTRY

This means that

- Sufficient money must be earned during the peak season to offset a decline in the remainder of the year
- The cyclical pattern of the demand for tourist goods and services has implication for employment and investment

ECONOMIC CHARACTERISTICS OF TOURIST INDUSTRY

b Tourism is price and income elastic

This means that tourist decisions will be greatly influenced by small changes in price and income

Price elasticity is more easily identified than income elasticity because of its frequent and sudden effects

ECONOMIC CHARASTERICS OF TOURIST INDUSTRY

- When we **change the price of air tickets** we can easily observe the changes in the touristic activities
- Income changes are usually more gradual a their effects on demand may be identified only after a period of years

ECONOMIC CHARASTERICS OF TOURIST INDUSTRY

- Tourist traffic could be manipulated through international currency control
 - You can limit the volume of currency for outgoing tourists
 - Putting imporant duties of export taxes to affect the exchange rates for tourists
 - Duty free concessions

ECONOMIC CHARACTERISTICS OF TOURIST INDUSTRY

c Unpredictable influences from outside forces

Tourism demand is subject to change from unpredictable external influences

- Natural disasters (flood, earthquake)
- Energy shortages
- Unusual climatic events (tornadoes)
- political unrest
- war
- terrorist attack (Sept. 11)

Tourism and Economic Development

- Why tourism is selected as an development agent particularly in developing countries?
- What are the advantages of tourism as an export industry?

Tourism and Economic Development 2

Developing countries usually have

- Low levels of income
- Uneven distribution of income and wealth
- High levels of unemployment
- Low levels of industrial development which are hampered by the small size of the domestic market
- A heavy dependence on agriculture for the export earnings
- High levels of foreign ownership of manufacturing and service industries

Tourism and Economic Development 3

These trends have been associated with

- large regional disparities in economic wealth within many of the developing countries
- A substantial leakage of profits out of the country
- High inflation and
- Shortages of foreign exchange

Arguments on development models

- A considerable amount of literature emphasizes **export-led development** as a major factor contributing to sustained economic growth
- In developing countries generally argued that a transformation from a traditional agricultural economy to an industrial economy is required for modernization and economic development to take place
 - Such a transformation would demand enormous amount of capital and foreign earnings or loans

Arguments on development models 2

- However many developing countries have a strong **historical function** of **exporting primary commodities** and the export of primary products has usually been insufficient to meet the financial requirements of the proposed economic transformation
- This has encouraged governments in the developing countries to turn to tourism as a **means of acquiring the financial resources required for industrialization**

Arguments on development models 3

- Somewhat similarly at a more local level tourism has been viewed as a means of introducing new growth into declining rural economies in developing countries

In addition to general arguments proponents of tourism development in developing countries have argued that not only can tourism

- relieve the shortages of foreign earnings constraining economic development, but
- it can also alleviate problems of urban unemployment and,

Arguments on development models 4

- in the long term, provide a price and income elastic substitute for traditional exports

which face less secure futures

- As a result of such arguments the case for the promotion of tourism as a strategy for economic growth has received widespread approval, particularly among policy-makers in developing countries

Arguments on development models 5

- Tourism however has not escaped criticism, accompanying the widespread economic benefits, there are a variety of unquantified physical and social costs which may be of sufficient magnitude to supports arguments against its further expansion. However this criticism have made little impact upon governments and planners

Disadvantages of traditional approach

- Why **tourism is appealing** than other avenues of economic growth in developing countries?
- We need to consider disadvantages of trading on the international market primarily through the export of primary products, which is a characteristic feature of most developing economies

There are **4 major disadvantages**

1. The price obtained for raw materials is governed by the world market price and is subject to terms of trade conditions
2. The export commodities of developing countries are usually concentrated upon a limited number of products

Disadvantages of traditional approach 2

- 3 Export markets in raw materials are unstable and therefore foreign earnings are uncertain
- 4 Export of raw materials is helping to produce to a high propensity to import manufactured products in order to meet changing and increasing consumption patterns

Comparative advantage of tourism 1

Tourism as an invisible export, is not subject to these disadvantages to the same degree as many primary products

- Tourism also has a number of **comparative advantages** when compared with the export of primary products.
- 1. The tourist exporting country has a grater degree of control in establishing prices for tourist goods and services than it does for the export of raw materials. So countries are able to manipulate prices within the tourist industry

Comparative advantage of tourism 2

- 2 Tourism by complementing other export products adds diversity to the export base of a country and thereby helps to stabilize its foreign exchange earnings.
- 3 Tourism has the potential to furnish foreign exchange to offset deficits created by growing demands to import scarce raw materials and manufactured goods

Comparative advantage of tourism 3

- In theory then tourism offers developing countries considerable **potential for economic growth.**
 - The degree to which tourism is an agent of development **depends upon**
 - **the characteristics of the country,**
 - **the identification of realistic goods**
- which are in line with these characteristics and the ability to achieve these goals

Conditions for development 1

- Successful tourism development can only take place where the necessary pre-requisites or conditions exist for the goals to be achieved
- There has been a tendency for administrators in some developing countries to view tourism as an **easy means of economic development**. However, tourism will only flourish given the appropriate conditions. The ability of destinations to compete globally depends largely upon **4 following conditions**

Conditions for development 2

1. The **mixture, quality and prices** of the facilities and services being offered.
2. The **existence of a skilled and experienced organizational body**
3. The **geographical location of the destination area** in relation to the main tourist generating regions and the ability of these destinations to capitalize on the advantages of being well located, or the ameliorate the disadvantages of being poorly located.
4. The **nature and origin of financial investments**.

Conditions for development 3

1. Diverse facilities and services should cater to a number of tourist types. The facilities must be comparable in quality and competitive in price with those of other destination
2. Existence of a skilled **organizing, planning and marketing body** assists to enhance a coordinated set of complementary services and facilities. **Government office of tourism** is often the most appropriate organization to regulate and control the quality of service. Particularly in marketing the product, effective economies of scale can be achieved through government advertising rather than individual effort.

Conditions for development 4

- 3 The cost of transportation to and from the destination is a major expense in tourist packages. The demand for travel to one resort depends upon the cost of travel to and from that resort and the cost of travel to competing suppliers. Many developing countries lie at a great distance from the principal tourist-generating countries of Europe and North America. Therefore developing countries should sell their tourist products to them at very competitive prices.

Conditions for development 5

4. The success of tourism as a promoter to economic development is the nature and origin of investments.
Most developing countries **require more accommodation facilities, improvements and extensions to infrastructure, parks and upgrading of the quality of tourist services. These require substantial financial investments.** The nature of financial investments is as important as the amount. Favorable investment opportunities exist in tourism for both the public and the private sectors. Long term investments can be particularly rewarding in functions directly serving the tourist market, such as accommodation.

Tourism and Balance of Payments 1

- Instead of "self sufficiency" at their national economies Contemporary economic policies are based on
 - "specialization" and
 - "division of labor".

(Self sufficiency is an economic policy aiming to produce all their needed, in the country)

Tourism and Balance of Payments 2

- A household does not produce everything needed in the family. Each individual specializes on a certain product he/she can do best.
- A tailor cannot be good in baking bread or medical skill as well (it is called specialization and division of labor).

Tourism and Balance of Payments 3

- Countries also buy (import) and sell (export) products among each other
- Countries **buy** goods-services from other countries, if they are **better in quality and cheaper in price**.
- And **sell** their products that they can **produce better and cheaper** (or the **products, other countries do not produce**) similar to the commercial relations among individuals in a community.

Tourism and Balance of Payments 4

- Like domestic trade, international trade is also accounted and paid by the use of a national currency, as we do not yet have an international currency accepted by all countries. Therefore, trading partners (exporter and importer) agree on any national currency unit. National currency of either side or any other money, acceptable for the parties involved, can be used.
- Since Second World War, US dollar, UK sterling, and Russian ruble are used, by some countries, instead of their currencies. Nowadays US dollar, Euro, Pound Sterling and Yen are the most used in international trade.

Tourism and Balance of Payments 5

- Individuals have to increase their earnings, in order to increase their possibility of buying, and higher quality of life.
- Similarly countries have to sell (export) more, to increase their possibility of buying (import) from other countries, to develop their economy and to increase the prosperity of their people.
- Buying more foreign products necessitates more "foreign currency".
- Foreign currency (FC) transactions of a country are made for, international trade (Export and Import of products in form of goods/services) capital transfers, or international tourism.

Tourism and Balance of Payments 6

- At international tourism, buyer come to the place of production (destination).
- Therefore, because of its similarities, international tourism is also considered as a kind of export for destination country.
- It is defined as **invisible export**, because at export, when products are sent to the buyer, they are recorded (leave traces) on transportation, customs and banks files, but at international tourism, tourist come to destination and get the products there. Therefore do not leave any visible trace.

Tourism and Balance of Payments 7

- Tourist demand **two** different categories of product:
- a: **Tourism products consumed during the holiday, on the site:** Foreign tourists purchase every kind of tourism products, such as **accommodation, food, beverages, transportation, entertainment, recreational activities... etc.** Tourists consume these products during their holiday.
- b: **Durable goods, to be taken back home:** Foreign visitors buy these local products, as **souvenirs** if they are better in quality and in price, when compared to the availabilities at home. In Turkey, **foreign visitors buy rugs, carpets, leather garments, handicrafts...etc.**
- So in addition to the definition of invisible export sale of the products are also defined as **as export on site or invisible export.**

BALANCE OF PAYMENTS 1

- The **balance of payment** is the record of the residents of a country with the rest of the world
- International economic relations generate FC expenditures and receipts. Policy makers of every country have to keep an account of these transactions, to secure the best use of their limited FC resources.

Balance of Payments 2

- This account is kept by Central Bank and called "**Balance of Payments**" (BOP). BOP registers and reflects :
 - **All FC expenditures** made by the people/entities living at that country.
Expenditures are made by bank transfers, or taken out of the country in cash, by outbound travellers.
 - **All FC receipts** of the people/entities of the country in form of cash FC or bank transfers from other countries during a certain period (generally a calendar year).

BALANCE OF PAYMENTS 3

- Receipts and payments are registered in certain groups of accounts, according to their nature.
- In a general practice, accounts of BP. are kept in three basic groups: (At each account sign of “+” represent FC receipts, and “– “ FC expenditures):

BALANCE OF PAYMENTS 4

- **1: CURRENT ACCOUNTS (Cari işlemler) :**
- **a: Trade Account (Ticaret Dengesi)**
- +Export of goods
- -Import of goods
- +- Trade Balance
- **b: Invisible Accounts (Görünmeyen İşlemler)**
- +,- Tourism Account (BTP)
- +,- Workers Remittances (İşçi Dövizleri)
- +,- Interest Payments
- +,- Profit repatriations
- +,- Service fees and payments
- +,- Invisible Account Balance
- +,- Current Account Balance (a+b) (cari işlemler dengesi)

BALANCE OF PAYMENTS 5

- **2- CAPITAL ACCOUNT** (Sermaye Hareketleri)
 - +,- Credit Payments
 - +,- Foreign Investments
 - -Equity participation (Direct investments)
 - -Portfolio investments
 - +,- Grants and aids
 - +,-Balance of Capital Account (Sermaye Hareketleri Dengesi)
- **+,- Balance Of Transactions:** Total of (1) and (2)(Genel Denge)

BALANCE OF PAYMENTS 6

- **3- OFFICIAL RESERVES**
- +,- Official Reserves (Rezervler)
 Foreing Currency and Gold
- **OVERALL BALANCE** : + and – result of 3
accounts $(1 + 2) +,- 3 = 0$

Structure of Balance of Payments 1

- Structure of Balance of Payments has 3 sections
 - 1 Current Account
 - 2 Capital Account
 - 3 Official Reserves Account

Structure of Balance of Payments 2

- **Current Account** records all current transactions including earnings and expenditures in goods and services and as well as transfer payments

Current Account is divided into

- **Trade and**
 - **Invisible accounts.**
-
- **Trade Account reflects direct export and import of goods (Sale of goods to foreigners and and purchase of foreign goods by out citizens).**

Structure of Balance of Payments 3

- Invisible account covers international tourism earnings and expenditures, professional fees (like consultation fees) payments made for copyrights, banking, insurance and all other personal payments.
- Invisible accounts also include the benefits of capital (like interest, profit, rent) transfers made by immigrant workers (workers remittances). Invisible transactions work both ways, as + and - .

Structure of Balance of Payments 4

- Capital Account records all the transfers (+or-) in kind of equity participation, investment or credit at both directions
- **Equity investments** of foreign firms to companies here, or **money borrowed** from foreign sources, are FC earnings. But they become expenditure (-) when borrowings are paid back or foreign investors take their capital back home (=repatriation).

Structure of Balance of Payments 5

- Similarly, when our entities make **investments abroad or give credits** to other countries, it is FC expenditure (-).
- But FC earnings (+) when these **exported capital are brought back home**. (Because of widening international practices at stock exchanges, equity investments take place in forms of equity participation (Direct Investment) or portfolio investments.

Structure of Balance of Payments 6

- Each of these (+) and (-) transactions will reflect the conditions of **inflows and outflows of foreign currency** at the end of a period (year), for each account (current and capital accounts).
- If the net results of these currency flows for goods and services and for capital movements is such as that the
- **outflow exceeds inflow**, there is a “**deficit**” at the BOP or
- **inflow exceeds outflow** there is a “**surplus**” at BOP.

Structure of Balance of Payments 7

- since BOP ought to be in balance, result of first 2 accounts is neutralized by use of third account (Official Reserves Ac).
- Official Reserves Ac functions to equalize surplus or deficit (+,-) result at Balance of Transactions to establish a zero balance at BOP.

Structure of Balance of Payments 8

- Central Banks keep reserves in forms of FC and gold.
- In case of deficit result at Balance of Transactions,
Central Bank **withdraws FC (at the amount equal to deficit) from reserves and adds it to Official Reserve Ac**, increasing (+) side of BOP at an equal amount to the deficit and make overall balance zero.

Structure of Balance of Payments 9

- When Balance of Transactions gives surplus, Central Bank withdraws FC from the economy and adds them to the reserves, (increasing FC expenditures).

Thus, official reserves account establishes zero balance at BOP.

- In addition to reserves, Central Banks also use borrowing from international sources, lending abroad, and selling gold... to equalize BOP and to stabilize FC supply level at national economy.

BALANCE OF TOURISM PAYMENTS (BTP)

Definition of Balance of Tourism Payments:

- International tourism earnings and expenditures are also kept in an account, of BP.
- It is one of the accounts, included in **Invisible Transactions group**.
- Balance of Tourism Payments (BTP) (or Tourism Account) **keeps all international tourism earnings and expenditures of a country in a certain period of time** (generally one calendar year). But there is not a standard model of its contents.

BALANCE OF TOURISM PAYMENTS (BTP) 2

- Countries design their BTP in different contents, according to their need or understanding.
- Some countries use their BTP, for FC transactions made directly by the tourist and, keep other tourism related transactions at other accounts
- Ex. Sale of durables to tourist **at export ac.**,
- transfers of foreigners working in tourism operations **at worker remittance ac.** or
- some compile all tourism and travel related transactions **in BTP** in order to see FC impacts of tourism as comprehensively as possible.

Transactions kept at BTP 1

- Examples for subjects of tourism and travel related FC earnings and expenditures at a comprehensive understanding are illustrated below:
- TOURISM RECEIPTS (+)
- **-Transfers of foreigners for their holidays here (Advance payments)**
- **-Receipts from foreign travel agents**
- **-Fares earned by national transportation companies in the kind of foreign currency**
- **-Foreign tourism investments here**
- **-Expenditures of visiting foreign tourist**
-

Transactions kept at BTP 2

- **-Dividends earned from tourism investments abroad**
- **Repayment of loans given to foreign tourism entities**
- **-Sale of local products to the visitors**
- **-Commissions received by tourism operations**
- **-Promotional expenditures of foreign tourism organizations**
- **-Miscellaneous receipts**

Transactions kept at BTP 3

- TOURISM EXPENDITURES (-)
- -Transfers of local people for their holidays abroad (Advance payments)
- -Transfers made to the travel agents abroad
- -Fares paid to foreign transportation companies (by local people)
- Tourism investments abroad
- Expenditures of local residents for their holidays abroad.

Transactions kept at BTP 4

- Repatriated dividends of foreign investment.
- Repayments of foreign loans borrowed by tourism operations.
- Imported inputs used in tourism products (petrol, whisky, coffee)
- -Commissions paid to foreign tourism Operations
- Promotional expenditures at foreign markets
- Miscellaneous payments

Transactions kept at BTP 5

- As all other accounts of BOP, BTP also indicate deficit (when expenditures exceed total earnings) or surplus (when earnings exceed the expenditures).
- Despite very limited exceptions (like Japan) most of the countries try to **increase their international tourism earnings or to reduce their expenditures.**
- **Totalitarian administrations generally reduce the international tourism expenditures by restrictions and prohibitions on holidays abroad.**
- **Democratic regimes use economic measures like exit taxes, higher passport charges, limitations on foreign currency purchases.**
- In order to analyse economic impacts of international tourism, net FC earnings are needed.

Transactions kept at BTP 6

- To determine ways and means of increasing economic benefits, in addition to overall sectoral analysis, impacts of different kinds of tourism activities are also measured and analysed, since macro economic evaluations can be based on the facts about each component of it.
- Details on FC earnings and expenditures of each component enable policy makers to determine rational ways of increasing FC receipts and reducing expenditures.
- Contemporary policies aim to increase the tourist arrivals and their expenditures, rather than limiting freedom of travelling abroad.

EXCHANGE RATES AND INTERNATIONAL TOURISM 1

Nature of Exchange Rate(ER):

- In a national economy, money is used as "**medium of exchange**" to facilitate the exchange of products.
- Countries also **exchange their products** among themselves.
- This international trade also needs a medium of exchange. In other words, **a payment must be made by a currency,** trading partners agree on.

EXCHANGE RATES AND INTERNATIONAL TOURISM 2

- When a German sells TV set to a Swiss, payment can be made on
- any currency they agree on.
- It can be Euro (€), SF or any other currency,
- as long as the exporter can exchange it, to their national money.

In our example,

- German exporter accepts € or
- another currency that could be changed to € in Germany.

EXCHANGE RATES AND INTERNATIONAL TOURISM 3

- Therefore, in international trade, a currency can only be used,
- if it could be converted to exporter's currency. If the currency is "convertible".
- (Convertibility of a currency means, "Possibility of sale / purchase of that currency, at other countries").

EXCHANGE RATES AND INTERNATIONAL TOURISM 4

- Since price of a FC is expressed in local currency units,
- at an ER, there are two currencies involved,
 - 1 a FC and
 - 2 local currency,
- For example, if we take Germany and USA as trade partners,
- in Germany, ER of a \$ is, $1\$ = 0,80 \text{ €}$,
but at the same time,
- in USA ER of a € is $1 \text{ €} = 1,25 \$$.

EXCHANGE RATES AND INTERNATIONAL TOURISM 5

- Economic factors effecting prices of other products also fluctuate ERs at both countries.
- These **two ERs** are closely connected to each other.
- Any change at one ER, simultaneously change the other ER at reverse direction, but at the same proportion.

EXCHANGE RATES AND INTERNATIONAL TOURISM 6

The significance is,

- since price and product are both currencies,
- economic factors of either country
- affect and change both ERs simultaneously.

At our example,

- at USA $1 \text{ €} = 1,25 \text{ \$}$ corresponds to,
- $1 \text{ \$} = 0,80 \text{ €}$ at Germany.
- If the ER in Germany change to $1 \text{ \$} = 0,88 \text{ €}$ (\$- appreciate),
- ER of € at USA also simultaneously change at the opposite direction, at the same proportion
- from $1 \text{ €} = 1,25 \text{ \$}$ to $1 \text{ €} = 1,12 \text{ \$}$ (€ - Depreciate) because of ER change at Germany.

EXCHANGE RATES AND INTERNATIONAL TOURISM 7

- Although USA maintains a stable economy and does not have any reason for ER changes,
- but only ER of € automatically change because of ER change at Germany.
- Therefore, before analysing relations of ER and tourism activities, we will outline the factors affecting the level of ER.

EXCHANGE RATES AND INTERNATIONAL TOURISM 8

Factors Affecting the ER:

At general economic practices,

- changes at some macro economic variables
- affect the prices of products at that country.

Since ER is price of a FC,

- it is also affected from changes at macro economic factors.
- The difference is, prices of other products are mainly affected from the fluctuations at national economy,
- but ERs are affected from macro economic changes at both countries involved.

EXCHANGE RATES AND INTERNATIONAL TOURISM 9

Among these macro economic variables we will only outline the

two major factors effecting ER directly. These factors are,

1 change at supply / demand balance and

2 change at real value of that country.

- In addition to these 2 macroeconomic factors we will also explain the third factor,

3 changing ER of that currency at other countries.

1 Changes at the “**Real Value**” of local currency:

- **Inflation and deflation** are the cases when real value (purchasing power) of a currency decreases or increases.
- **In case of inflation,**
- since purchasing power of the national currency decreases,
- prices of products increase at, an average rate similar to inflation rate. (Because decreasing real value, at local currency necessitates higher nominal amount of currency payments).

EXCHANGE RATES AND INTERNATIONAL TOURISM 11

- As ERs are prices FC's
- ERs also increase, at a rate equal to inflation.
- Ex: If the inflation rate is %10,
- ER also increases for %10 at that economy.
- However, because of the bilateral relations,
- ERs of that currency at other countries also changes at same proportion but to opposite direction.
- Ex: %10 inflation at EU (European Union) **increase the price of \$ %10**, from 1\$=0,80 € to 1\$ = 0,88 € at EU (like other prices).
- But at USA, ER of € simultaneously decreases %10 (change same proportion but at reverse direction), from 1 € =1,25 \$ to 1 € = 1,12 \$. It is a change, only because of inflation at other country, real value of their money may remain stable.

EXCHANGE RATES AND INTERNATIONAL TOURISM 12

- With this example, we may remember the economic rule (If all other factors remain unchanged):
- "the level of ER increases if a currency loses its real value; or decreases, when its real value increases (in case of deflation)."
- ERs of that currency at other countries also change because of inflation or deflation of that country, not because of any economic fluctuations of those economies.

EXCHANGE RATES AND INTERNATIONAL TOURISM 13

- In case of inflation at both countries, ERs balance in accordance to the difference between two inflation rates. (If all other factors remain unchanged) Ex: When inflation rate is % 8 at EU and %3 at USA, $(8-3 = 5)$ ER of € at USA will decrease %5, against %5 increase at ER of \$ at EU. (Because inflation rate is higher at EU, € loses more value.) Changes of ER at other country only occur, because of the ER change at the country where real value of money changes, without any economic change there.

EXCHANGE RATES AND INTERNATIONAL TOURISM 14

2 Changes at supply - demand levels of a currency:

- The rule is “change at D levels, move the P at same direction.” But “change at S, change the P at opposite direction”.
- Similarly, changes at S and D of FC at a market, also change the price of FC (=ER).
- According to these general rules, P of a FC balance itself at the equilibrium (e) of S and D, establishing ER at P.
- Because of any reason, if D for € increases, while S remains at the same level at USA, D curve of € shifts towards right (D1), and ER raises to P1,

EXCHANGE RATES AND INTERNATIONAL TOURISM 15

- In general practices, changes at supply (S) or Demand (D) levels, change the price (P) of the product. According to these principles, when D increases, P also increases. If D decreases, P also decreases. But increase of S, decrease the P, while decreasing S, increase P. The rule is “change at D levels, move the P at same direction.” But “change at S, change the P at opposite direction”.

EXCHANGE RATES AND INTERNATIONAL TOURISM 16

- Similarly, changes at S and D of FC at a market, also change the price of FC (=ER).
- According to these general rules, P of a FC balance itself at the equilibrium (e) of S and D, establishing ER at P.
- Because of any reason, if D for € increases, while S remains at the same level at USA, D curve of € shifts towards right (D1), and ER raises to P1, (€ appreciates but \$ depreciates at both markets) when ER of € at USA increases, ER of \$ simultaneously decrease at EU. When supply of € increases to Q2 with shift to S, (while D remains the same) ER of € decrease to P2. (Similar to S-D-P relation of any product.) When ER of € decrease at USA, at the same time ER of \$ increase at EU.

EXCHANGE RATES AND INTERNATIONAL TOURISM 17

- When BP is at surplus (means Balance of Transactions is at +) S of FC exceeds D for it.
- At such conditions, ERs of most FCs decrease at that country, because of higher S.
- In case of deficit, D for FC exceeds the S;
- therefore, ER of most FCs increases at that country. (As increase of D to a product, increase its price.)
- It is no need to indicate that, the result of BTP cannot determine the ER by itself. It can be effective in accordance to its relative share in BP. In short, changes at international tourism demand affect ERs at that country, because of changes at international tourism earnings (FC supply) and international tourism expenditures (FC demand)

EXCHANGE RATES AND INTERNATIONAL TOURISM 18

3 Change of ER of a currency at other countries:

ERs in a country also change, if ER of that country's change at other countries, simultaneously at same proportion but opposite direction, without any economic changes there. Change of apple prices in EU do not affect apple prices at USA, but any change at price of \$ in EU, immediately change the price of € in USA, without existence of any economic factor in USA.

EXCHANGE RATES AND INTERNATIONAL TOURISM 19

ER and Prices of Tourism Products:

- Prices of tourism products are also generally expressed by local (destination) currencies, except package tours.
- Consumers convert these prices to their currencies.
- Therefore, ER changes affect the cost of tourism products for international tourist, even if the operations keep prices, on their currencies stable.
- ER change, also affect inbound and outbound travel D, as it changes the costs of products, in term of consumer's currency.

EXCHANGE RATES AND INTERNATIONAL TOURISM 20

- As international tourism earnings and expenditures affect the ER, changes at ER also affect the cost of tourism product at international markets and subsequently affect international tourism demand. Prices of tourism products are generally expressed in currencies of destination country (With exceptions of package tour prices).
- But at international tourism, consumers always convert the prices to their own currency to compare alternative opportunities.
- It is similar to how ER changes affecting international trade (export – import).

Government and Tourism Economy 1

With the welfare state

- responsibilities of governments have increased and widened.

Welfare state have to

- increase people's prosperity,
- safeguard the civil rights and
- provide equal opportunities for the society.

Government and Tourism Economy 2

- To increase the prosperity of people, states have to
- avoid undesirable cycles at macro-economic variables and
- to maintain a reasonable growth at the economy,
- to sustain productivity of national resources.

Government and Tourism Economy 3

In order to **fulfill these responsibilities** governments have to

- interfere into economic activities and
- **generate sufficient income**

to cover ever-increasing cost of these functions

Government and Tourism Economy 4

In terms of tourism economy policies
interfering the touristic activities

mainly aim

- to increase foreign currency and
- therefore GNP

by rational utilization of national resources.

Tourism Policies

Tourism policies

design government attitude towards tourism sector and

answer the questions like:

- How tourism supply will be planned?
- Who will make the superstructure and infrastructure?
- How domestic/international demand will be developed?
- How freedom of travel will be regulated?

Some Common Principles of Tourism Policies 1

- 1 Tourism policies aim to increase the major benefits of international and/or domestic tourism (FC, GNP, employment)
- 2 Profit making superstructure investments and operations are expected to be made by private sector
- 3 The governments undertake infrastructure facilities and international promotion

Some Common Principles of Tourism Policies 2

- 4 Introducing measures for the protection of natural and socio-cultural resources
- 5 Organizing the condition of relation among tourism operations and consumers to protect the interest of consumers (cheat, fraud, bunkruptcy)
- 6 Preventing loss of life, physical damages,, harm to health and property at tourism facilities.

Government Income and Tourism 1

Governments use several ways to acquire their share from **various economic sources**

- Taxation,
- borrowing,
- selling property,
- commercial enterprises,
- issuing money

Government Income and Tourism 2

- **Taxation** is considered to be “participation of every person to public expenditures in proportion to his/her capability”
- Among other sectors, tourism activities also serve as a potential source for government income.
- Increase of tourist expenditures
- increase both the revenue from taxes levied on sales (VAT) and
- the profits of the tourism operations (Income Tax-Corporation Tax)

Government Income and Tourism 3

- In addition to these 2 major taxes gvt. Also use some other subjects for taxation

From Residents:

Exit taxes on travel to other countries

Passport fees

Airport Charges

FC exchange taxes

From Foreign Tourists

Visa Charges

Entry-exit taxes

Airport/port charges

Economic Impact Analysis of Tourism

- **Impact analysis** estimates the impact of dollars from outside the region, on the region's economy.
- Tourism has a variety of economic impacts. Tourists contribute to sales, profits, jobs, tax revenues, and income in an area.
- The most **direct effects** occur within the primary tourism sectors --lodging, restaurants, transportation, amusements, and retail trade .

Economic Impact Analysis of Tourism 2

- **Direct effects** are production changes associated with the immediate effects of changes in tourism expenditures. For example, an increase in the number of tourists staying overnight in hotels would directly yield increased sales in the hotel sector. The additional hotel sales and associated changes in hotel payments for wages and salaries, taxes, and supplies and services are direct effects of the tourist spending.

Economic Impact Analysis of Tourism 3

- Through **secondary effects**, tourism affects most sectors of the economy. An economic impact analysis of tourism activity normally focuses on changes in sales, income, and employment in a region resulting from tourism activity

Economic Impact Analysis of Tourism 4

- So actual visitor expenditures made by foreign visitors within the home country and residents of the country abroad called as **primary effects** . These effects are direct, immediate and easy to measure.
- **Secondary effects** arise, when tourism affects most sectors of the economy. In other saying direct expenditure is gradually felt in other sectors of the economy. Secondary effects are more complex and more difficult to measure. They are divided into two categories:

Economic Impact Analysis of Tourism 5

1 Indirect Secondary Effects

2 Induced Secondary Effects

Indirect Secondary Effects; tourist service industry passes some of its earnings on to other business (industries supplying products and services to hotels)

Induced Secondary Effects; are the changes in economic activity resulting from household spending of income earned directly or indirectly as a result of tourism spending. Ex: Hotel worker spends his wage or salary for housing, food, transportation and other household products and services. The sales, income and jobs that results from household spending of added wage, salary or proprietors income are induced effects.

Economic Impact Analysis of Tourism 6

- By means of indirect and induced effects changes in tourist spending can impact virtually every sector of the economy in one way or another
- The magnitude of secondary effects depends on the propensity of businesses and households in the region to purchase goods and services from local suppliers.
- Induced effects are particularly noticed when a large employer in a region closes a plant. The entire economy suffers due to the reduction in households income within the region. The leakage in the form of imports (import leakage) causes the income from tourism expenditures to leave the country again to pay for these imports.

Economic Impact Analysis of Tourism 7

- **Tertiary Effects** are the currency flows which do not come from direct tourist expenditure and relate to things like investment opportunities stimulated by tourist activity. Ex; Japanese tourists in New Zealand began buying large quantities of sheepskin products it led to the growth of an industry to export them abroad.

Economic Impact Analysis of Tourism 8

- How are Tourism Economic Impacts Measured?
- The economic impacts of tourism are typically estimated by some variations of the following simple formula.
- $$\text{Economic Impact of Tourism} = \text{Number of Tourists} \times \text{Av. Spending per Visitor} \times \text{Multiplier}$$

Economic Impact Analysis of Tourism 9

The formula suggests 3 distinct steps and corresponding measurements or models:

1. Estimate the change in the no and types of tourist to the region due to the proposed policy or action
2. Estimate average levels of spending of tourists in the local area. (Sample surveys, type of tourist, type of accommodation used, type of transportation etc.)
3. Apply the change in spending to a regional economic model or set of multipliers to determine secondary effects (secondary effects are estimated using multipliers)

It is easy to estimate the change in the number and type of tourists and estimate average levels of tourist spending. What is important is to calculate the size of multiplier for the detection of **secondary effects and total economic impact of tourism**

Economic Impact Analysis of Tourism 10

- **Multiplier:** The multiplier measures the impact of **extra expenditure** introduced into an economy. It is therefore concerned with the marginal rather than average changes. Multipliers capture the size of the secondary effects in a given region (country), generally as a ratio of the total change in economic activity in the region (country) relative to the direct change.

Economic Impact Analysis of Tourism 11

- **This extra expenditure can be analyzed as follows:**
 - **Direct Expenditure**
 - **Indirect Expenditure**
 - **Induced Expenditure**

Economic Impact Analysis of Tourism 12

- **Direct Expenditure**

in the case of tourism this is expenditure made by tourists on goods and services in hotels, restaurants, shops, other tourist facilities, and for tourism generated exports, or by tourism related investment in the area.

Economic Impact Analysis of Tourism 13

- **Indirect Expenditure**

this covers successive rounds of inter-business transactions which result from the direct expenditure, such as purchases of goods by hoteliers from local suppliers and purchases by local suppliers from wholesalers.

Economic Impact Analysis of Tourism 14

- **Induced Expenditure**

this is the increasing consumer spending resulting from the additional personal income generated by the direct expenditure, e.g. hotel workers using their wages for the purchase of goods and services.

Economic Impact Analysis of Tourism 15

- **Indirect and induced expenditure together are called secondary expenditure.**

Economic Impact Analysis of Tourism 16

The Tourist Multiplier can be defined as the number by which initial tourist expenditure must be multiplied in order to obtain the total cumulative income effect (sum of direct, indirect and induced effects) for a specific time period.

The process of re-spending continues until all the money leaked away. The re-spending of incomes, thereby creating additional incomes is known as the **Multiplier Effect**.

Economic Impact Analysis of Tourism 17

- **The Size and Magnitude of the Tourist Multiplier**

The size of the multiplier is an important component of the economic benefit of tourism to the community, because this reflects how many times the impact of each tourist dollar goes around the local system before disappearing entirely through the various leakage channels.

The size and magnitude of the tourist multiplier depends on 3 main factors:

1. **The volume of imported goods and services consumed by tourists**
2. **The size and complexity of local economy**
3. **People's propensity to save**

Economic Impact Analysis of Tourism 18

- 1 The higher the regions propensity to import, the higher will be the leakage of money out of the local region, and lower will be multiplier (TPI)
- 2 In general, the smaller the economic base, the less self-sufficient will be the region and much of the tourist expenditure will be re-spent outside the local region leading to a low economic multiplier
- 3 The tendency of local residents to save, resulting the withdrawal of portion of their earnings from circulation (MPS). And local residents need to buy imported goods and services for their household needs (MPI)

Tourism Multiplier 1

- The formula for **Tourism Multiplier** is:

$$TM = \frac{1 - TPI}{MPS + MPI}$$

Tourism Multiplier 2

- Where TM = Tourism Multiplier
- 1 = Tourist Dollar
- TPI = Tourist Propensity to Import
- MPS = Marginal Propensity to Save by residents
- MPI = Marginal Propensity to Import by residents

Tourism Multiplier 3

- **MPI**, the proportion of any increase in income spent on imported goods and services as part of GDP
- **MPS**, the proportion of any increase in income saved as part of GDP by residents
- **TPI**, the proportion of any increase in income spent on imported goods and services by foreign visitors

Tourism Multiplier 4

- **TPI** (proportion of import in aggregate tourism supply) % **7.5**
- **$MPS = 1 - MPC$**
- **$MPC = 0.80$**
- **$MPS = 1 - 0.80$**
- **$MPS = 0.20$**

Tourism Multiplier 5

- Expenditures of outgoing local tourists

1998 592 m \$

1999 776 m \$

- GNP of the country

1998 147,368

1999 153,625

Tourism Multiplier 6

776-592

MPI=-----

153,625-147368

184

MPI=----- =0.0294

6,257

Tourism Multiplier 7

- $$TM = \frac{1 - 0.075}{0.20 + 0.0294}$$
$$TM = \frac{0.925}{0.2294} = 4.03$$

Tourism Multiplier 8

- THE COEFFICIENT CALCULATED HERE SHOWS THAT ONE DOLLAR OF FOREIGN TOURIST SPENDING CREATE 4.03 DOLLARS OF INCOME IN THE ECONOMY

Economics of Tourism Demand 1

- Economic activities are based on the **relation among supply and demand**, aiming the exchange of products with money.
- In this relation,
- the demand seeks to satisfy a need, by consumption of a product and
- the supplier aims the economic reward (profit).

Economics of Tourism Demand 2

- These two components
(Economic potential generate with the relation of supply, trying to sell, and demand willing to buy)
- meet at a **market**, to finalize the sale and complete the transactions (exchange of product and payment).

Economics of Tourism Demand 3

TOURISM MARKET

- In a general description, “Market” is the place where supply and demand meets, for the sale of the product.
- A well-known example is a neighbourhood market place (pazar yeri) serving as the platform where supply, demand and grocery products meet, for the sales to take place. In this market, suppliers display their products and their prices.

Economics of Tourism Demand 4

- Consumers examine and compare products of alternative suppliers, and choose one, to buy.
- Fish markets or stock exchanges (Borsa) also provide the physical platforms for supplier, product and demand to meet.

Economics of Tourism Demand 5

But tourism sector does not have a market place with all these functions.

- Because, tourism products can neither be transported to a market
- nor can be displayed at a market.
- They are produced and consumed at the same time and place.

Economics of Tourism Demand 6

- Retail travel agents may be considered as market places of tourism products, with certain limitations.
- But they collect all relevant information concerning alternative travel-holiday products and describe them to their customers.
- Buyers can not see the alternative products and physically examine the samples, like apples at a marketplace.
- But they make the comparison of alternative products by the descriptions in the promotional materials and buy one.
- Although agencies arrange the sale of the product buyer choose, but customer cannot take the product home, with them.

Economics of Tourism Demand 7

- Therefore, functions of retail agents may be considered as similar to marketplaces, but in limited possibilities, because of differences of tourism sector.

Economics of Tourism Demand 8

- **Travel / tourism fairs** also **arrange platforms** for **demand and supply of tourism industry to meet**. Instead of supplier and final consumers mainly **tourism operations meet at tourism fairs**. Tourism operations, select inputs for their products, or promote their operations at these fairs.
- **Travel agents** meet the **tour operators**, transportation, accommodation, rent a car **operators** and make retail arrangements with them, while collecting data (about travel / tourism products) they need for their services.

Economics of Tourism Demand 9

- **Tour operators** meet suppliers of tourism products, for the inputs of their package tours, like accommodation, transportation, transfers, day tours... Transportation, accommodation operations, regional and national tourist offices, promote their operations / destinations; to other members of travel trade. Therefore, tourism fairs can be considered as the platforms where the suppliers of travel trade meet. Consumers are admitted to certain and limited periods of these fairs.

Economics of Tourism Demand 10

- Rapid developments at **computer based electronic communication technologies** created a new medium where demand and supply meet. **Global information networks (or internet)** could enlarge functions of market places to worldwide scale.
- With the possibilities of on-line computer networks, consumers are reaching to every detail of travel / tourism information on the world. Suppliers are loading all relevant information, about their products to their pages at electronic medium and consumers reach to the details of alternative products, any time at home or office.

Economics of Tourism Demand 11

- At tourism industry, the word of **market also defines a country, region or place, demand generate from**, when it is used after a word indicating a location. In this sense, it may define **4 geographic scales**:
- **Local Market** defines the demand potential of the place where the operation is located.
- **Regional Market** defines the demand potential of the region, operation is located.
- **Domestic Market** defines the demand from the same country.
- **International Market** defines the demand potential from other countries in general. But may also be used for a specific country or a continent like German Market, European market, American market.

Economics of Tourism Demand 12

- **Definition of Demand:** In economic sense, demand is described as "willingness and ability of a consumer to buy a product at a certain price".
- For tourism products, in addition to wish and disposable money, "available uninterrupted time" is also needed, to become a tourism demand.
- So the demand for tourism is the total number of people willing to travel around the world and can spare the sufficient money and time for this purpose.

Economics of Tourism Demand 13

- Thus a wish or need become a tourism demand if there are:
 - - A need or wish,
 - - Decision to buy the product,
 - - Ability to pay the price – affordability,
 - - To be able to spare the necessary time uninterruptedly.

Economics of Tourism Demand 14

Motives of Demand

- Consumers demand a certain product, with certain specifics, capable of satisfying a certain need or a wish. Consumers determine the specifics of the product, according to the nature of their wish/need. **Specifics of the products are expected to meet the specifics of the need** and must satisfy the wish/need, by its consumption. These certain **specifics and requirements of the consumer, expected from the product are defined as motives of demand.** It is what consumer dreams. **Consumers only buy the product, completely matching the motives and capable of satisfying the need, not any other kind.**

Economics of Tourism Demand 15

- Tourists search for the tourism product, exactly similar to his / her choice / motive, as they dream. Because of their unlimited diversity, complete list on kinds and varieties of D motives for tourism/travel, cannot be made. However for the sake of our analysis, we tried to **categorize** them, in **three basic groups**:

Economics of Tourism Demand 16

1 Holiday-Pleasure

- -Sea-sun-sand: Seaside resort holiday, yachting holiday,
- -Relaxation: Fishing holiday, holiday at highland cottages,
- -Sport: Ski, Rafting, Tracking, Mountain climbing, Golf,
- -Curiosity: To see new places, other cultures, life styles,
- -Change of environment: Farmhouse holiday, camping
- -History: Visiting Historical + Archaeological sites and museums
- -Natural Interest: landscape, natural landmarks,
- -Adventure, Excitement: Safari holiday
- -Visiting Relatives + Friends
- -Shopping
- -Romance and Nostalgia
- -Hobbies: Bird watching, botanical, zoological tours
- -Tradition: Travelling for Bayram, Christmas, Thanksgiving

Economics of Tourism Demand 17

2 Business - Professional

- -Meetings, Conference, Conventions, Seminars (Incentive tourism)
- -Business Contacts
- -Professional concerts, sport, competitions
- -Official assignments

3 Others

- -Health-Thermal tourism
- -Religion
- -Education
- -Amateur sports and tournaments
- -Transit

Economics of Tourism Demand 18

DEMAND SEGMENTS

- In a simple description, demand segment defines “**the group of consumers with similar kind of motives and travel preferences**”.
- It is, in a way, group of people with similar choice and preferences at certain specifics of travel / tourism activities.

Segmentations are mainly based on

- **kind of holiday** (like seaside, ski, yachting holidays)

but also based on

- **mode of transportation** (air, bus, ship; private car...) income / price levels, age, education... etc
- These preferences change according to culture, age, education, personality, level of income...Choice of seaside resort, winter resort, sporting, yachting, prearranged package, using private car, aircraft, ship, caravan, are the examples of different consumer preferences, establishing demand segments.

IMPACTS OF TOURISM DEMAND 1

A Sources of Tourism Demand

Demand to tourism products generate from

- **Domestic tourism** – Domestic demand: Tourism coming from another place in the same country.
- **Foreign tourist** – International demand: Tourist coming from another country.
- **Excursionists**: Tourist staying for less than 24 hours.
- **Local (Non tourism) demand**: Demand from the same city/town where the facility is located.

IMPACTS OF TOURISM DEMAND 2

- kinds of tourism Demand (according to their sources) create different **impacts** on national economy.

B Sectoral Characteristics of Tourism Demand:

1 Seasonality of demand:

2 Price Elasticity of Tourism Demand

3 Demand Elasticity of Price of Tourism Operations

4 Irrationalities at tourism demand

IMPACTS OF TOURISM DEMAND 3

1 Seasonality of demand:

Level of tourism demand change at certain periods of the year, week and day. D level of each period repeats itself regularly, as expected.

Therefore seasonal D level (high, mid or low) of each period is known and anticipated by the operations, but

because of its **non storable** product and **nonadustable** output

seasonality of demand affects the tourism industry more strongly than other industries.

IMPACTS OF TOURISM DEMAND 4

- D to a winter resort increase / decrease at certain months of the year and certain days of the week. Similarly D to a restaurant or bar increase / decrease at certain hours of a day.
- Seasonal D changes affect the price, employment capacity use and marketing policies of an operation or a destination.

IMPACTS OF TOURISM DEMAND 5

2 Price Elasticity of Tourism Demand

As D is negatively related to price (P), any change at P, cause to change of D at opposite direction.

. Increase at P decrease the D

But D may not be changed at similar proportion to the change at P

D may change more or less than change at P

If P change for one unit, at which proportion D change? It is expressed with “Price elasticity of D”, indicating “proportion (%) of change at quantity of D to a product, as a result of one unit change at its P.”

IMPACTS OF TOURISM DEMAND 6

- If D change (increase or decrease) is high, it is defined as “high P elasticity of D” otherwise “Low P elasticity or rigidity of D”.
- P elasticity of D is high at tourism sector, because of 3 basic reasons
 - -High competition among tourism operations, encourage the consumer to shift their D to any other operation.
 - -Wide variety of substitutes for any kind of tourism product also enables shifts to other kinds, qualities or places.
 - -Holiday is not yet an essential need for people and can be easily given up.

IMPACTS OF TOURISM DEMAND 7

3 Demand Elasticity of Price of Tourism Operations:

Prices of tourism operations also react when demand to them change. Extent of such P changes is indicated with “D elasticity of price” and measured with “percentage of P change, as a result of one unit change at D”. D elasticity of P can also be high or low (rigid).

- D elasticity of P at tourism sector is high, (especially at short run, unexpected D changes) because;

IMPACTS OF TOURISM DEMAND 8

- - Tourism output and S are both rigid and cannot be adjusted (increased or decreased), according to D changes, in short run.
- Operations have to continue producing same quantity and supplying them completely.
- When D increase, since S and Output can not be increased, prices have to be increased.
- If D decrease, since tourism S can not be reduced and excess output turn to complete loss, operators highly reduce their prices, in order to decrease their losses.
- - Tourism product cannot be stocked, if they are not sold and turn to complete loss.
- Therefore, when D unexpectedly decrease in short-run, tourism operations have to decrease their prices, to increase D , since they can not save their unsold product by storing them, nor can they reduce their level of output and S .

IMPACTS OF TOURISM DEMAND 9

4 Irrationalities at tourism demand:

- Before buying a product, a rational consumer determines the specifics (like substance, functions, appearance, amount, and price) of it, according to the motive of D. Then search for available alternatives complying with determined specifics, and examine them, compare them choose most suitable product.
- Consumer seek for the product, with specifics, completely matching the requirements and capable of providing full satisfaction. If alternative products have all specifics, consumer demand, comparison is made according to their prices, to decide and choose for purchase.
- But does every tourist make similar comparisons among alternative possibilities? In principle they should. But there are some special factors preventing rational choice. Some of these factors are:

IMPACTS OF TOURISM DEMAND 10

- **Habits:** Some prefer to go to same places, to stay at same hotels and use same restaurants, without any search for better possibilities. Reasons for such attitudes are, sense of safety at the places they know and satisfaction of being known by the operation's staff.
- **Fashion:** At certain periods, some destinations or operations are considered to be fashionable, and people prefer these places, simply because of being at fashionable places. In certain times, St. Tropes, Acapulco, Hawaii, Davos became fashionable places.

IMPACTS OF TOURISM DEMAND 11

- **Patriotic feelings:** Spending holidays at home is a common preference of the people living out of their town or country, despite availabilities of more attractive holiday destination.
- **Show off:** Some prefer to be seen at the places where rich and famous go and also expect to meet them.
- **Convenience and accessibility to reach :** Places with easy and comfortable possibilities to reach are preferred, just for the sake of their easy accessibility.
- **Hobbies:** Like travelling for golf, gambling, bridge, collecting certain items...
- These factors very often overcome above explained rational comparisons and people often prefer them despite availabilities of lower priced alternatives.

IMPACTS OF TOURISM DEMAND 12

C Economic Factors Affecting Tourism Demand:

- We have outlined how tourism developments and increasing tourism D affect the national economies. Changes at, Global and national macro economic variables also affect tourism D, more than other sectors. In addition to price changes, tourism D is also affected by environmental, social, political and psychological factors. Some of them are;
- **Macro economic cycles at home.** Changes at some macroeconomic variables, like decreasing GNP, increasing unemployment or rate of taxes, recession... affect the domestic D negatively. (These cycles reduce economic capability of domestic consumers). Increased GNP, employment and wage levels increase the domestic tourism D, in return.
- **Changes at macroeconomic variables at market countries :** Macroeconomic cycles at other countries do not create considerable impacts on the D to other products. But recession, decreasing GNP or increased unemployment at market countries, reduces the international tourism D of destination countries.

IMPACTS OF TOURISM DEMAND 13

Change at exchange rates :

- Prices of imported products, are determined on importer's currency, after price and custom duties are paid. Afterwards, prices do not generally change. But (as it was explained at chapter 3 D), even if original price at destination do not change, cost for international tourist at market country may change, because of **exchange rate fluctuations** and affect the tourism D from that country.

IMPACTS OF TOURISM DEMAND 14

D Environmental Factors and Tourism Demand:

- **Externalities** (conditions surrounding) of operations, do not affect demand of **other sectors**. It does not make any affect if it is good or bad. A pen factory can be surrounded by rose gardens or a garbage dump, but these conditions around the factory do not affect the demand to their product positively or negatively, because these products are consumed at the place where the consumer is. Buyer can not see the factory's environment.
- **Qualities of these products are established by the technological level of the factory and inputs of the products.**

IMPACTS OF TOURISM DEMAND 15

- Quality and D to tourism products are highly affected positively or negatively by the conditions surrounding them.
- Because unlike other sectors, consumer come to tourism facility and consume the product in that environment.
- Conditions around the operation and near-by natural or socio-cultural attractions affect their D.

IMPACTS OF TOURISM DEMAND 16

- How high quality of a hotel or a restaurant in their facility can be, a negative factor
- (like a garbage dump or a leather treatment factory) next to it, destroy its quality and D. Odour, noise, disturbing sights, polluted air or water and other similar external factors reduce, even destroy the operational quality and the demand level of any tourism facility or place.

IMPACTS OF TOURISM DEMAND 17

On the other hand,

- an attractive view, a well-designed garden, natural or cultural attractions near-by, increases the demand to a tourism facility.
- It may even create a monopoly for some operations. Example: Capadocia, Club-Med has the monopoly with its view to Göreme Valley.
- To summarize, some external factors developing or existing around tourism facilities can increase or decrease the demand to it or to a destination as tourism product is consumed in that environment.

IMPACTS OF TOURISM DEMAND 18

E Social Factors and Tourism Demand:

- During the last 50 years some **social changes increased** tourism D. On the other hand, **behaviour of destination community towards tourist** also affects the D to that destination negatively or positively.

IMPACTS OF TOURISM DEMAND 19

- Some social changes have increased tourism D, during last few decades. Some of these **social factors** are:

Increasing Education Level: Average levels of education of the people have increased during the last few decades. It is a fact that educated people travel more. They wish and dare to go to unknown places, to see other cultures, ancient art and life style, learn about them, experiencing different excitements.

- Increasing education particularly increased international tourism demand to distant destinations.

IMPACTS OF TOURISM DEMAND 20

- Higher education also affected the relation between buyers and operations. Educated consumers search for alternative products, make comparisons among them, to find the most suitable possibility for their requirements. Searching consumers are also getting more demanding about the contents of the products and are not contented with limited kinds of functions, operations offer. They demand more than just a room and beach, from the operators of summer resort facilities. Entertainment, sports, 24 hour animation, variety of F+B facilities ... had to be provided under the pressure of demanding consumers

IMPACTS OF TOURISM DEMAND 21

- Social Status:** Being single or married, and number-age of children affect the tourism demand. Singles and couples without children can travel more, since travelling with babies is difficult, and children increase the cost of holiday. Increasing average age for marriage delays having children and extended the single years for young professionals.
- **Single young professionals and couples without children can travel more.** Increase at the rate of working women also increased economic possibility of young couples to travel. These changes at social behaviour contribute to the increase of tourism demand.

IMPACTS OF TOURISM DEMAND 22

Improving Labour Relations:

- Legal holiday rights and holiday benefits of workers have increased with every collective bargaining.
- Length of paid holidays, subsidies to holiday expenses, social tourism facilities, package holiday arrangements of managements, incentive travel arrangements have increased the tourism demand of employees.

Behaviour of destination community: People from different culture, religion, language, attitude and appearance, meet by international tourism. These socio-cultural differences create reactions at destination community. Levels of reactions are proportionally related to the socio-cultural differences among these communities.

IMPACTS OF TOURISM DEMAND 23

- For international tourist, travelling to another country and observing different life styles, customs, clothing or attitude is an experience of few days or weeks; but their attitude, clothing...are also unfamiliar for the host society. When the existence and the number of visitors increase, and turn into a crowd, generate discomfort and irritation on the host society, creating reactions towards the visitors. Such a reaction develops in 3 stages

IMPACTS OF TOURISM DEMAND 24

- **First Stage Reactions:** Early tourist arrivals usually receive positive reactions. Their interest in the cultural and natural heritage, pleases the local people, and they proudly try to show some other attractions in a hospitable manner. Rapid developments at communication possibilities increased awareness of the people about other nations and races. Therefore first stage behaviour of destination community is not seen, as strong as it used to be.
- **Second Stage:** Initial joy turns to discomfort and resentment, because of inconveniences and disturbances created by increasing and continue flow of visitors. In addition to their different attitudes and appearances; social congestion, noise, increased prices, and crime...turn the hospitable attitude to, dislike, then to higher price charges (to punish and discourage the visitors), insults and assaults towards visitors. Local people blame the visitors for noise, traffic congestions, higher prices, theft, prostitution, drug...increased with tourist arrivals.
- **Third Stage:** Reaction decreases, because of economic benefits of tourism and getting used to the disturbing affects. After a while some local people even begin to imitate the attitude and clothing of foreign tourist.

IMPACTS OF TOURISM DEMAND 25

- If these reactions of the 2nd stage exceed the reasonable levels, it affects tourism D negatively and discourages foreign tourist arrivals. If destination community behave positively towards tourist arrivals from the beginning, tourism develop more rapidly at that region. Visitors are also be affected by some cultural elements of the host country. They try to create similar home designing, food, music...at home, upon their return. That is how, some ethnic restaurants of popular holiday places (Italian, Chinese) were opened at tourist exporting countries.
- Above outlined reactions do not take place at the same magnitude, at every destination. The scale and kind of reactions are related to strength of the conservative nature of the host community and the cultural differences of two societies. Influx of French tourist to Italy and Uganda cannot cause similar reactions at these two destinations.

IMPACTS OF TOURISM DEMAND 26

F Political Factors and Tourism Demand:

Political policies and relations among destination and market countries affect the level of international tourism relations.

Some of these conditions are:

- **Authorities** of some market countries have affected the tourism demand to other countries by **limiting the travel abroad**.

Measures generally take shape by actual

IMPACTS OF TOURISM DEMAND 27

- limitations-prohibitions or by economic measures like exit taxes, higher passport charges...) making outbound travel more expensive.
- Some administrations do not encourage foreign tourist arrivals in general or from specific countries.
- War, civil war, street clashes, terrorism, at destination country and even at that region affects the international tourism D. If such conditions exist at a country, governments of tourist exporting countries discourage their people to travel these places by “travel advisory” bulletins they issue.
- Unlawful, totalitarian, fundamentalist religious, racist administrations always discourage international tourism D to their countries.
- Political relations between market and destination governments affect tourism demand. Peaceful relations motivate tourist traffic between these countries, but crisis or hostile relations diminish it. (Ex: USA and Italy or Libya, and USA or UK).

IMPACTS OF TOURISM DEMAND 28

G Technological Developments and Tourism Demand:

- Developments at transportation technology have increased the accessibility, comfort and speed while reducing seat/per mile cost of travel. Increase at speed and capacity of aircrafts; have decreased the seat/mile cost and fares of air travel. Larger capacity, faster and ability of non-stop flights to distant destinations made far places reachable in reasonable times and affordable costs. Increased car ownership, quality of highways and busses have increased highway transportation and facilitated the demand to short haul destinations.

ADMINISTRATION OF TOURISM DEMAND 1

- Initiatives to administrate tourism demand aims, **generating a D for optimum occupancy throughout the year** for national or regional tourism industry or for an operation.
- **Demand can be administrated by promotion.** In other words, **promotion aims to generate the year-round optimum demand / sale / production.**

ADMINISTRATION OF TOURISM DEMAND 2

1: Promotion / Marketing:

Promotion is an initiative, “to give some relevant information to public or consumer, aiming to create, to improve or to change image of a subject”.

At **tourism sector** it can be about a country, a region, a city, an operation, etc.

Promotion aims to establish public awareness and a desired image (if the subject is not known by the public), **to improve an existing image**, to change an undesirable perception, to a favourable image.

At **tourism industry**, subject of promotion is destination (country, region, city), an operation or a product (like a package tour). **It informs a market segment about specifics and existence of tourism / holiday opportunities.** Sometimes it aims to change a perception/ undesirable image or to overcome worries generated by terrorist activities in the country or war at the region. **Ultimate aim of promotion is to change the decision and behaviour of the target segments in a way to increase the demand to the subject.**

ADMINISTRATION OF TOURISM DEMAND 3

- In this chapter the word **Marketing** defines a commercial promotion activity.
- aiming to increase consumer awareness
- to establish a favourable image about a brand/trademark of a product,
- to increase its sales, by affecting consumer choice and purchasing decision.

ADMINISTRATION OF TOURISM DEMAND 4

- What is “**image**” of a country,
- an operation,
- a brand name
- or a person?
- image is the impression, evaluation, opinion, imagination of majority of people, at public opinion or target market, concerning a certain subject.

ADMINISTRATION OF TOURISM DEMAND 5

2 To Prepare a Promotion Model :

- A promotional model uses various kinds of instruments, like
 - advertising,
 - public relation (PR) brochures,
 - posters, web pages, electronic mail, etc.
- findings of a comprehensive market research used to decide on best combination of these instruments,

ADMINISTRATION OF TOURISM DEMAND 6

Preparing a promotion model needs following procedures:

- - Data Collection:
- - Evaluating target segments
- - Choice of promotional elements:
- - Choosing promotional materials:

ADMINISTRATION OF TOURISM DEMAND 7

Data Collection:

- - **information about specifics of supply** are to be collected. Like kind, quality, capacity, location, of tourism operations. Also information about major attractions.
- - **Identifying existing domestic and foreign D** separately. Preferences of existing D on kind, quality, price, season of tourism facilities collected. Then **trend** of their change are projected. This information establishes our base D and projection of possible changes, if promotion would not be made.
- - **Analysis for target market segments at home and abroad:** Information about these potential segments are collected. Like their sizes, preferred destinations, seasons of travel, quality of facility, price...

ADMINISTRATION OF TOURISM DEMAND 8

Evaluating target segments:

- After collecting the detailed information about each alternative market segments, these details are compared to establish the priorities among market segments

Choice of promotional elements:

- initial task is to select the right images (visual elements like pictures, films, video...) reflecting both the characteristics of supply and dominant motives of the demand.

ADMINISTRATION OF TOURISM DEMAND 9

Choosing promotional materials:

- - All **promotional materials**, such as advertisements, brochures, posters, video cassettes, slide shows, web pages... are to be designed and produced with these selected images and messages, in order to **create a certain “Image” in targeted** consumer's mind.
- Before execution of the model, **size of the promotion and kinds of materials** are to be determined. **Kinds of materials** like, advertisement, web pages, brochures, posters, video shows, mail releases or PR.

ADMINISTRATION OF TOURISM DEMAND 10

3 Determining Size of Promotion:

To determine optimum size of promotion is a delicate work, to generate the required D structure.

Neither excessive, nor less D are desirable. Lower promotional effectiveness cause, shortage of demand and cause to the waste of unsold output, while excessive promotion causing waste of expenditures,

ADMINISTRATION OF TOURISM DEMAND 11

- Effectiveness of promotion is measured by “**Rate of return of promotional investment**”.
- It is, “quantity of additional demand, created by, one unit of promotional investment”. It is rate (%) of D increase, resulting from every one unit (shall we say one million \$) promotional expenditures. Rate of return differs at every market segment and for every one unit additional promotional investment.

ADMINISTRATION OF TOURISM DEMAND 12

Factors effecting level of **rate of return of promotion** are:

- 1 **Public or consumer awareness about the subject** increase the rate of return and decrease the size of promotion.
- **If target market is aware of the product and already informed about it**, promotion becomes more productive and rate of return become higher there. Higher awareness about the product make quicker and easier reach to consumer's conscious and generate higher rate of return.
- **If target segment do not know about the product, to attract their attention**, to inform them on specifics and functions of product, to create awareness and to convince them to buy, become much more expensive and at such cases, initial rate of return bound to be low.

ADMINISTRATION OF TOURISM DEMAND 13

- 2 **Rate of return increase as promotion continues.** At the beginning of marketing initiatives, promotional messages cannot be noticed and do not reach to public conscious. Messages are repeated until people receive and distinguish it, among hundreds of others.
- 3 **Attractiveness, distinction and originality of promotion** increase, initial rate of return of promotion and reach to the public attention quicker. Hundreds of different promotional messages are conveyed to consumers every day. To attract consumer attention / interest among them depends on the originality and attractiveness of promotion and comprehensiveness of promotion mix. How sooner people distinguish the promotional message, among hundreds, higher rate of return it creates.

ADMINISTRATION OF TOURISM DEMAND 14

4 Ways of Promotion

All marketing activities are planned and designed by the **promoter**, ultimately aiming to optimize demand to a product/destination, generating from consumers and from other operations.

Promotions are made in two ways, according to the method of conveying promotional messages: **Direct way and indirect way.**

ADMINISTRATION OF TOURISM DEMAND 15

- **a: Direct way of promotion** Promotions are generally made by this conventional way, when messages and information are prepared and expressed by the promoter.
- **Advertisement is best-known instrument of direct way.** They are placed at
 - **printed media** (newspapers, magazines, books) at
 - **visual media** (TV, video or cinema)
 - **sound media** (radio),
 - **on billboards and on computer based electronic medium** (web pages and e-mails).
- It is known by the public that, this information expressed in the promotion are not related to the media they appear in, but **designed, expressed and placed by the promoter**. It is why; these ways of promotion are defined as “direct way”. Other materials (instruments) of direct promotion are
 - **printed information materials** (brochures, posters), **mail and press releases, documentary video cassettes, web pages** at computer networks, **stands** at tourism fairs/workshops

ADMINISTRATION OF TOURISM DEMAND 16

- **b: Public Relations (PR)** (Indirect way of promotion): It is also a method of promotion, but messages and information are neither expressed nor directly related to the promoter, although they are designed and arranged by the promoter. In this way, promotional messages are conveyed in two different methods :

ADMINISTRATION OF TOURISM DEMAND 17

- Messages are arranged by promoter but expressed by third parties (other people or establishments) Third parties at such practices are mostly well-known personalities or establishments, capable of attracting and influencing public opinion.
- Personalities like, **a TV celebrity, a writer, a scientist, a statesman, a sports hero, an artist...** If a writer is convinced to publish a favourable critic about a film or holiday product, or if a talk show personality is made to talk about a hotel, in the way, promoter design...

ADMINISTRATION OF TOURISM DEMAND 18

- ... (A famous personality taking part at an advertisement is not P.R. Favourable talk at a T.V or an article cannot be considered as P.R. if it is not arranged and made possible by the promoter).
- Establishments like, newspapers, magazines, TV and radio stations are also used for PR. Articles, news programs or other TV/radio programmes serve as mediums for PR messages.

ADMINISTRATION OF TOURISM DEMAND 19

Messages can also be conveyed in disguised, by implying, without any word or comment.

To show a famous tennis player drinking coca-cola during a Wimbledon final, (gives the message of getting fresh and gaining vitality, without using any word).

Or at a film, to focus on the brand of the cigarette when a film star is smoking (implying the satisfaction), to show THY aircraft cabin, (comfortable seats and pleasant service) at a film scene...

Similarly arranging an interesting news, interview, documentary at media attract interest and public attention on a destination or a facility.

At these examples, promotional messages are not clearly expressed

ADMINISTRATION OF TOURISM DEMAND 20

5 Instruments of Promotion

At direct ways of promotion,

- in addition to conventional materials (like advertisements, brochures, posters, documentary videocassettes, mail releases, hand out leaflets, billboards...),
- computer based electronic communication networks are used. Using computer based communication systems (internet) is the latest but rapidly developing medium, to distribute promotional information. Information about the products is offered at the “web pages” and travelers can reach them, from all over the world.

ADMINISTRATION OF TOURISM DEMAND 21

6 Choice of Instruments and Mediums

Last decision of the promotional model is **choice of relevant materials to be used** at implementation and media or communication channels,

Choice of mediums and communication channels depends on specifics of the target segment.

Papers, magazines, radios and TV channels reaching to target segments must be identified and used:

For 3rd age market, magazines of retired people's associations,

for businessmen Financial Times,

for women Vogue magazine could be right mediums.

So to identify right medium, increase the effectiveness of the campaign.

ECONOMICS OF TOURISM SUPPLY 1

- **Narrow Definition:** narrow definitions of tourism supply included, the accommodation facilities only.
- **Broader Definition** includes, like F+B, entertainment, recreational, travel agency, transportation, souvenir retail operations and non commercial services...besides accommodation facilities
- **Tourism Supply** “All operations, organizations, individuals and resources; taking part at the process of production and marketing tourism product at a country”.

ECONOMICS OF TOURISM SUPPLY 2

COMPONENTS OF TOURISM SUPPLY

experts compile the components of tourism supply in 4 major categories

1. Infrastructure facilities
2. Superstructure facilities
3. Travel agencies and other travel related services.
4. Transportation operations.

ECONOMICS OF TOURISM SUPPLY 3

1 Infrastructure facilities

tourism infrastructure can be defined as “facilities and services, increasing the quality, effectiveness, and productivity of tourism industry”.

Tourism infrastructure is divided into **three** major categories :

a: Basic Facilities:

b: Special Infrastructure for Tourism Industry Only :

c: Social and Technological Infrastructure:

ECONOMICS OF TOURISM SUPPLY 4

a: Basic Facilities:

- **Conventional facilities:** Electricity, sewage, water, gas, garbage collecting and processing...
- **Transportation Related Facilities:** Road, highway, railway, cable car, port, marina, station, airport, terminals...(Facilities increasing effectiveness and functioning of transportation operations.)
- **Communication related facilities:** Telephone, telex, fax, radio, TV, computer networks (internet), communication satellites ... and all other facilities, enabling, and contributing to better functioning of communication operations.

ECONOMICS OF TOURISM SUPPLY 5

b: Special Infrastructure for Tourism Industry Only :

In general understanding, these facilities are not considered as infrastructure facilities but because of their function to increase productivity / sale and quality of tourism operations at that place they are considered among infrastructure of tourism industry (see definition of infrastructure). Like;

- Public beaches, picnic areas, stairs from top of cliffs to sea level...
- Convention, conference, exhibition, concert, tournament facilities...

ECONOMICS OF TOURISM SUPPLY 6

- They increase sales, functions and attractions of the destination area and increase demand, to their region. Therefore they increase productivity / sales of all tourism operations. Public beaches increase the demand to the accommodation operations in that area. A seaside resort area can not attract summer demand without beach facilities. Convention halls enable meetings and conventions at that region and increase occupancies / sales of tourism operations (like accommodation, F+B, entertainment, transportation, retail shops...) by the people attending meetings. Therefore these facilities are considered among tourism infrastructure.

ECONOMICS OF TOURISM SUPPLY 7

c: Social and Technological Infrastructure:

- **Social infrastructure:** It is the level of support, provided by the **structure, organisations, cultural characteristics of the destination community**, for tourism industry.
- **Industrial – Technological - Scientific Infrastructure:** **Higher production and construction technology increases the quality of supply facilities, because of higher quality materials, equipments and machinery used in them.** Scientific achievements also attract travel demand from other countries for medical, educational, academic reasons or technological discussions.

ECONOMICS OF TOURISM SUPPLY 8

2) Superstructure Facilities:

are described as “the operations where tourism products are produced and submitted for the need and satisfaction of the tourists”. In other words, they are the **factories of the tourism industry**.

The word "**FACILITY**" implies **“The physical location, where activities of the tourism operations are performed.”** Like a place, a land, a building, where the production actually takes place and where the product is presented for consumption.

ECONOMICS OF TOURISM SUPPLY 9

these operations may be divided into 4 groups:

a) Accommodation facilities:

- Hotels, motels, holiday villages, guest houses (bed and breakfast), hostels,
- Camping, caravan sites...
- Self-catering facilities, apart hotels
- Holiday homes, time-shares
- Food and Beverages facilities:
- Restaurants, bars, cafeterias, fast-food facilities

ECONOMICS OF TOURISM SUPPLY 10

b) Food and Beverages facilities:

- Restaurants, bars, cafeterias, fast-food facilities

c) Entertainment and Recreation Facilities:

- Night clubs, discos, dancing
- Casinos
- Sports facilities
- Theme parks, computer shows

d) Yacht Chartering operations and cruise boat operations:

3) Tour Operators, Travel Agencies and Other Travel Related Services:

Travel Agencies, Tour operators and travel related services constitute the third component of this industry.

a: Tour Operators (TO) :

- **TO are the organizations specialized on producing package tours / inclusive tours (IT) by combining every component of a holiday.**

ECONOMICS OF TOURISM SUPPLY 12

- **All inclusive package holidays** offer, problem - free and fixed cost holiday for the consumer. Every part and necessity of the holiday, from home, to back home are **prearranged** and provided by the TO, with a fixed price, covering all expenses. There is not any worry or unfortunate surprise for the traveller. TO's make their arrangements with tourism operations (like hotels, airlines, and transfers, F + B) on high quantities and can obtain very low prices.

ECONOMICS OF TOURISM SUPPLY 13

- b : Travel Agents (TA) :** are **retailers of tourism products** like package tours, tickets of transportation operations, accommodation, rent a car, etc. and advisors to consumers
- c: Other travel related services:** They are mainly **activities and services providing travel / holiday related information to the consumers and arranging connection between supply and demand.** Like, information and reservation services, offered by non-profit organizations. These services are offered at **regional or sub-sectoral basis**. Regional services function in city, region or country basis. Sub-sectoral organizations work on a certain kind of activity like accommodation, transportation, yacht chartering, car rentals... or for a certain chain of operations, working under same brand name.

ECONOMICS OF TOURISM SUPPLY 14

4) TRANSPORTATION OPERATIONS

Kinds of transportation operations

- Air transportation: Scheduled, charter, shuttle, air taxi, rent a plane, rent a helicopter services.
- - Railway transportation.
- - Maritime services: Passenger line, ferryboat
- - Highway transportation: Bus, rent a car services

ECONOMICS OF TOURISM SUPPLY 15

- From macro economic point of view transportation is the essential need for all economic activities and have to be provided for the movement of people and goods. But investment costs of most transportation operations (air, and railway in particular) are very high, against their low and risky operational profitability. Therefore, mostly undertaken by state enterprises. Governments bare the operational losses for the sake of maintaining economic benefits, generated by the movement of people and goods.

ECONOMICS OF TOURISM SUPPLY 16

- In order to overcome the problem of supply rigidity, airline operations have established affiliated charter companies, operating with more flexible schedules, according to demand cycles, or practice price differentiation policies, like first class, business, economy, inclusive tour (-IT) fares.

ECONOMICS OF TOURISM SUPPLY 17

RESOURCES OF TOURISM SUPPLY

- 1) Human Resources:
- 2) Economic Resources: (Capital)
- 3) Natural Resources:
- 4) Socio-Cultural Resources:

ECONOMICS OF TOURISM SUPPLY 18

1) Human Resources:

Human elements contribute to tourism supply in **two levels**:

- - **As Laborer** : Make physical contributions, by working as laborer at the production of tourism products.
- - **As enterpriser**: Make mental contributions by identifying the product consumers need (or may like), determining the best inputs, organizing production and marketing. Such a function needs creative wisdom, sense of enterprise and capability of organization, which can only be provided by the human being. This function also necessitate, selecting and employing workers - other people.
- Because of this dominant and decisive role, human elements acquire the highest rate of economic return, generated by tourism activities.

ECONOMICS OF TOURISM SUPPLY 19

2) Economic Resources: (Capital)

- Like all other economic activities, tourism industry also requires allocation of relevant economic resources, as the capital is an essential need for every venture. Need for capital is highly different for each component of the sector. A 5 star city hotel or air transportation are highly capital intensive while a day tour or retail agency operations can be started with limited amount of capital.

ECONOMICS OF TOURISM SUPPLY 20

3) Natural Resources:

- **a: Land:** it is the only element of the nature used at every enterprise. Like all other ventures, tourism operations also use the land to establish their facilities on.
- **b: Other elements of nature :** Tourism operations also use variety of other elements, offered by the nature, in their products. In fact most of these natural resource elements are only used by tourism industry. They are mostly non-productive, by nature, for other sectors. They gain temporary productivity during the consumption of the tourism product they are included in. Their temporary productivity begins with the beginning of consumption and end when consumption of the product finish. At the end of the use (consumption), they become unproductive again. Like a beach, snow covered slope or a steep mountain (for mountain climbing).

ECONOMICS OF TOURISM SUPPLY 21

- These elements can only be borrowed temporarily and cannot be bought. view cannot be purchased Snow, sunshine, seawater or a scenic, but they add certain values to the product they are included in. When they are included in a tourism product, they add a value to the price of it. Despite practical impossibility of making a complete list of them, we will give some examples of elements, tourism industry borrow from natural resources.
- Beaches, mountains, caves, earth formations, natural landmarks, national parks, forests...
- Hydro-geological elements: water sources, sea, lake, under water, river, waterfalls, thermal springs...
- Climate: Sun, snow, wind, warm weather...
- Fauna: Wild life and all living zoological elements on the land.
Flora: Every kind of natural plant, covering the earth.
- Agricultural products: All of the products used in F + B products.

ECONOMICS OF TOURISM SUPPLY 22

4) Socio-Cultural Resources:

- Similar to the contributions of natural resources, tourism industry also uses the elements of social and cultural resources, more than any other sector. Elements of socio-cultural resources also non-productive by nature, but gain temporary productivity if they are included (as inputs) in a tourism product. Their productivity begins with beginning of consumption and ends when consumption complete. Other words, elements of social and cultural resources are also (like natural resources) :
 - -Non-productive by nature for other sectors.
 - -They become productive when they are used as inputs of tourism products.
 - -Their productivity is temporary and only last, during consumption of tourism product they are included in.
 - -They can only be borrowed, cannot be bought.

ECONOMICS OF TOURISM SUPPLY 23

- Some examples for the elements of these resources, serving as inputs of tourism products are:
 - - **Elements from the past:**
 - - Historical landmarks, museums, archaeological sites,
 - - Examples of past architecture, art
 - - Re-creation or simulation of past life style
 - - Replicas of ancient art
 - - Art, music, folklore, dance, sport of the past.
 - - **Contemporary elements:**
 - - Tradition, life style
 - - Music, art, folklore, carnivals, exhibition, handicraft
 - - Technology, science, industry, medicine, education
 - - Sports
- Examples of using social and cultural resource elements are seen in tourism industry like a "Yörük Çadırı" at Antalya, simulating a special life style. A local woman preparing "bazlama" or "durum" is combining some social elements in tourism product. ("Bazlama or Dürüm" are also produced by some operations at cities as a product itself. But tourism products combine some social elements like clothing of the woman, show of preparation, equipments used and the process of production...etc.) Combination of all these elements make tourism product.

ECONOMICS OF TOURISM SUPPLY 24

- Similarly, dinners at cave restaurants of Göreme, combine, the environment, display of "Kuzu çevirme", folklore shows and local food are inputs of a composite product. "Yağlı Güreşler" or "Cirit competitions", "change of guards at Buckingham palace" are the similar practices. Using ancient buildings or furniture for tourism facilities are other examples of using cultural elements of past.
- As can be seen, in addition to the art, life style, traditions, considerable achievements at science, technology and industry become ingredients of tourism products. Epcot Centre (Orlando-Florida) displays, most significant example of using science and technology at a theme park. Space technology is successfully used at Cape Kennedy (Florida) as a part of this product. Achievements at medical science and skill are inputs of health tourism products. (All of these elements are inputs of tourism products but they are not products by themselves.)

ECONOMICS OF TOURISM SUPPLY 25

CHARACTERISTICS OF TOURISM SUPPLY:

1) Rigidity of Tourism Supply

2) Factors limiting capacity increase

a: Structure of seasonal demand cycles

b: Natural Factors

c: Location Of The Facility

ECONOMICS OF TOURISM SUPPLY 26

1) Rigidity of Tourism

In our short run economic analysis of other sectors :

“Any change at demand, cause immediate change at supply”.

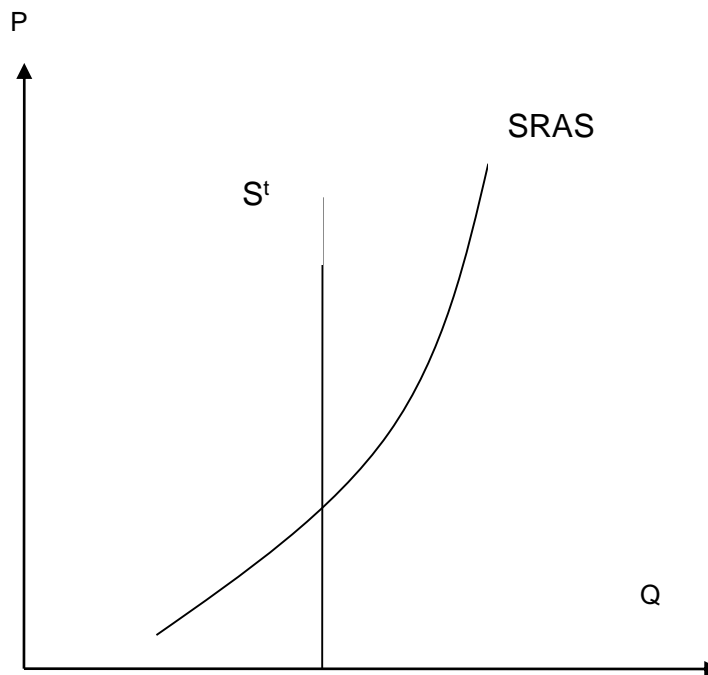
Therefore SRAS (Short run aggregate supply) is illustrated as a curve.

- supply level can be adjusted by changing quantity of output or by use of stock.
- **if D exceeds the regular output level**, difference can be met by adding product from the **stock**, to the regular and stable output.

ECONOMICS OF TOURISM SUPPLY 27

- If output exceeds the D,
excess output can be kept at the **stock**.
- Therefore at other sectors, S can be increased or decreased, to match the D, even without changing the regular level of output, to maintain $D = S = (\text{Output} + / - \text{Stock})$.
- If D unexpectedly change, (increase or decrease), output can be adjusted (by increasing / decreasing **working hours** or, can even be **stopped by temporary closures**). Even in case of temporary close down, S can be maintained from the stock, at a level to match the D completely.

ECONOMICS OF TOURISM SUPPLY 28



ECONOMICS OF TOURISM SUPPLY 29

But at tourism sector

Level of tourism supply (S_t) cannot be changed instantly, like other sectors in the short-run.

since

- Tourism product can not be stocked.
- Tourism output has to be completely supplied. Can not be kept.

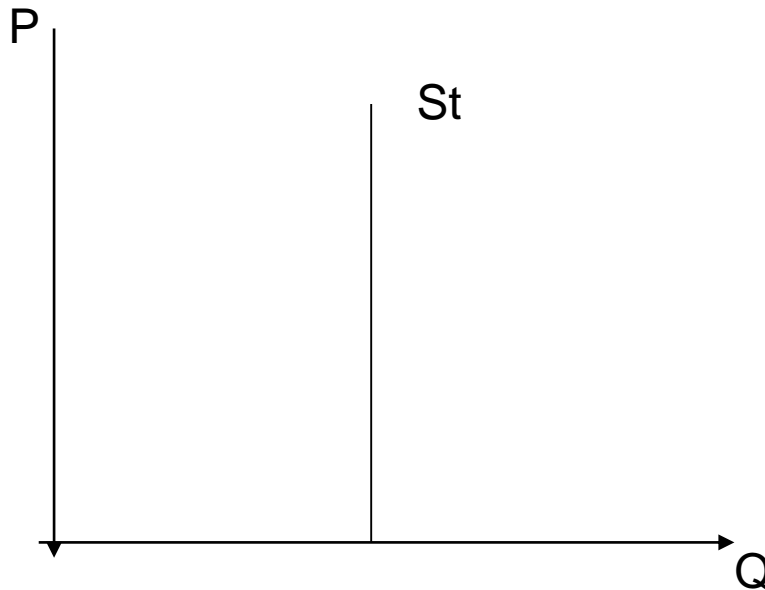
S_t is also rigid and can not be changed with the change at D levels

ECONOMICS OF TOURISM SUPPLY 30

- Therefore, S_t can not be decreased (by keeping excess output at stock) nor can be increased by adding products stock. Subsequently,
- S_t and D is not equal in tourism sector
- On the other hand tourism output level cannot be increased or decreased in the Short-run.
- For example it is not possible to increase or decrease the output level of tourism facilities by increasing and decreasing the working hours.
- Tourism operations (hotel, aircraft, tour bus) have to maintain fixed quantity of output and have to supply all of them regardless of D levels.
- So S_t is always equal to rigid output it is also rigid at quantity. $D \neq S_t = \text{output}$

ECONOMICS OF TOURISM SUPPLY 31

- So non-adjustable nature of S_t at short-run is defined as rigidity of tourism supply



Therefore S_t curve is illustrated as a vertical line

ECONOMICS OF TOURISM SUPPLY 32

- A seaside resort operation cannot be altered to a ski resort facility when demand to this kind increases (**Rigidity at kind**). Nor a 5 star hotel could be changed to a 2 star hotel (in short run) when demand to lower standard accommodation increases (**Rigidity at quality**). The product of a holiday village at Erdek cannot be sent to Antalya, if demand increases there (**Rigidity at location**).

ECONOMICS OF TOURISM SUPPLY 33

- Tourism operations try to reduce negative impacts of rigidity by long-term measures aiming to spread the D to the year and increasing the sales of mid or low seasons. Some of these measures are;
 - - To diversify the markets / segments: By increasing kinds of functions, appealing to variety of market segments can be made. Like health tourism, incentive tourism facilities or reaching to 3rd age demand segments.
 - - To design promotional strategies, in a way to increase the D at low seasons and reduce unsold products.
 - -

ECONOMICS OF TOURISM SUPPLY 34

- To use price policies according to seasonal demand levels : Price policies are the effective instruments to administrate the D levels.
- - Partial or temporary closures (capacity use policies) : To close a portion of the facility or to close the establishment completely, for period, at low demand seasons, reduce the cost of these terms.

2) Factors limiting capacity increase

some natural and sectoral factors also affect the decisions on the level of capacity. We will outline three of these limiting factors:

a: Structure of seasonal demand cycles

b: Natural Factors

c: Location Of The Facility

ECONOMICS OF TOURISM SUPPLY 36

a: Structure of seasonal demand cycles

As explained above, at other sectors, capacity of an operation is determined by the estimated **total yearly demand**. Total demand is simply divided to 12 or 52, to find monthly or weekly production level / capacity use. Operations normally maintain this stable production level. At these calculations seasonal changes at demand level and their duration do not affect these decisions.

ECONOMICS OF TOURISM SUPPLY 37

However capacity of tourism operations cannot be determined as simple as other, because tourism products cannot be saved and stocked.

At the end of the day or service, unsold products turn to complete loss. Therefore level and duration (length) of high, low and mid seasons demand levels affect / limit the capacity.

ECONOMICS OF TOURISM SUPPLY 38

- Capacity of tourism operations can neither be set at the highest demand level, nor at the lowest.
- To determine the capacity requires search for optimum capacity (Capacity level, generating highest profit).
- Demand levels for each period of time have to be projected, with the guidance of past practices (Seasonal D trends)

ECONOMICS OF TOURISM SUPPLY 40

b: Natural Factors

- **Natural elements (land in particular) can only be used at a certain capacity, without damaging them.**
- **(Sustainable tourism) The level of sustainable utilization for each element differs according to their nature and condition.**
- **Level and conditions of their use are limited and determined by their “carrying capacity”. (Size of the beach, limit the capacity of the hotel, to be built next to it. Or capacity of a thermal hotel is limited with the daily capacity of thermal water).**

ECONOMICS OF TOURISM SUPPLY 41

- In other words, elements of natural resources can be used **in the limits of their conditions and their carrying capacities.**
- Capacities of facilities, built to utilize these resource elements are limited, even if the demand is higher.

ECONOMICS OF TOURISM SUPPLY 42

c: Location Of The Facility:

- Other economic activities choose the location of their operations among high number of alternatives.
- For a pen factory , any piece of land (at required size) inside 30 km. of diameter area could serve the purpose.
- Other operations are only limited with few factors (like availability of water, road, energy) but they have the opportunity of selecting their location, among high number of alternatives.
- Neither their location nor their environments affect their quality and profitability. Because products of other sectors are sent to the place where the buyers are and consumed there.
- Consumers are not aware of conditions in or around factory and are not affected from them.

ECONOMICS OF TOURISM SUPPLY 43

- Tourism operations have to be established at the locations consumers prefer and **close to the tourism attractions** because buyers consume tourism product in the facility and its environment.
- Therefore they are strongly dependent on these factors, which **reduce the number of alternative investment sites** and **limit the supply possibilities**. A seaside resort facility cannot be located at a place 2 km away from the coast. A hotel in Ankara, must be established around Kavaklıdere – Çankaya, as consumers insist on that area.

ECONOMICS OF TOURISM SUPPLY 44

SPECIFIC ISSUES RELATED TO TOURISM SUPPLY

Tourism sector has some specific subjects, because of its special characteristics

- 1) Occupancy Rate of Tourism Operations**
- 2) Classification of Tourism Facilities:**
- 3) Integration (Merger) of Tourism Operations:**
 - a) Vertical integration**
 - b) Horizontal integration**

ECONOMICS OF TOURISM SUPPLY 45

1) **Occupancy Rate of Tourism Operations**

- **Occupancy rate is “percentage (%) of sold output, compared to total capacity.”**
- **It is calculated by 100 x quantity of sold output divided by total capacity and expressed in percentage (%) of the capacity. (No of room / bed sales × 100 ÷ Room / bed capacity × 365 = Occupancy rate %)**

ECONOMICS OF TOURISM SUPPLY 46

- At accommodation facilities, capacity is expressed by, **number of bed or room**, which also indicate total output of the facility.
- At transportation operations, occupancy rate is expressed as "**load factor**" and calculated on number of seats.
- At some operations, defining a concrete capacity is not as simple as accommodation or transportation operations. At these kinds (like **disco, casino, golf, theme park...**) capacities are defined in **hypothetical estimations and assumption**. These hypothetical capacities are compared with actual number of costumer arrivals, to calculate their occupancy rates.

Calculation of Occupancy Rate

We have the following data:

- a) Number of tourist accommodated: 260,000
- b) Average Length of Stay: 4.50 nights
- c) Bed-nights: $(a) \times (b) = 1,170,000$
- d) Bed Capacity: 11,000 (total no of beds in tourism sector)
- e) Total Capacity: No of beds x no of nights
 $= 11,000 \times 365$
 $= 4,015,000$

ECONOMICS OF TOURISM SUPPLY 48

$$\text{OR} = \frac{\begin{array}{l} \text{No of Tourists} \\ \text{Accommod} \end{array} \times \begin{array}{l} \text{Average} \\ \text{Length of Stay} \end{array}}{\begin{array}{l} \text{Total no of beds} \\ \text{in the sector} \end{array} \times \begin{array}{l} \text{No of available bed} \\ \text{nights in one year} \end{array}} \times 100$$

ECONOMICS OF TOURISM SUPPLY 49

$$= \frac{1,170,000}{4,015,000}$$

= % 29.1 = Occupancy Rate = Percentage of Capacity Used

ECONOMICS OF TOURISM SUPPLY 50

2) Classification of Tourism Facilities:

- **Standardization or classification is a work of evaluation, to determine the quality and the substance of a product.**
- **It is a general practice, made for number of products, in different kinds and brands. In general, standardization aims to give an indication on the substance (raw material), quality and durability of a product, aiming to secure consumer's confidence, as buyer can not analyze a product, before purchase.**
- **Standardization of other sectors' products aim to certify the compliance with certain quality that can be reached by production technology, raw material and post-production quality control facilities.**

ECONOMICS OF TOURISM SUPPLY 51

- **Classification of tourism operations** also aims to provide certain indications on the quality and substance of the product / facility.
- But instead of setting a certain criteria for one standard, **classifications mostly establish, several categories, for a kind.**
- Classes and standards of each kind are indicated by a **certain sign like numbers (first, second class) letters (A,B,..) stars or words (Luxury, business, economy...)**
- At the classification of each kind, functions, facilities, services, equipments, furniture, decoration, physical and service quality... are used as criteria. Facilities like swimming pool, bar, health clubs..., equipments like TV, air condition, mini bar..., and qualities of these elements. Services like room service, laundry, secretarial...etc.

ECONOMICS OF TOURISM SUPPLY 52

- Some specific characteristics of tourism industry, make the classification more **difficult**, but also more necessary than other sectors.
- **Difficulties at the classification of tourism operations generate from the nature of the product.**
- Unlike many others, **tourism products can hardly be kept, analysed and compared with a basic sample**, since they are consumed and produced at the same time. They do not leave any sample to be evaluated and compared.

ECONOMICS OF TOURISM SUPPLY 53

- **Qualities of labor skill determine the quality of product at every unit.** Therefore every product can be produced in different qualities. Tourism products are not manufactured at the factory with mass production. Consequently, quality of tourism products cannot be same at every unit and a unit can not represent millions of other units, like sausages or pencils. Quality of each item of tourism product may change according to the labor skill, even if the same inputs are used.
- **To summarize,** it is difficult to maintain a certain standard at tourism products (**because they are not manufactured, fabricated by mass production and every unit is produced separately**) and to control the standards (because products can not be saved, as production and consumption take place at the same time and do not leave any sample).

ECONOMICS OF TOURISM SUPPLY 54

- Classification is much more needed at tourism industry, since consumers cannot see, examine and test the product before purchase.
- There is a need for some **indicators** and **reliable references** to compare substance and quality of alternative products.
- Five star, at a hotel should indicate a luxury room with air condition, TV, minibar, wall-to-wall carpeting, room service ...etc.
- Consumers expect a certain quality, equipment, services and facilities without any need to inspect the hotel at a standard, before making a reservation.
- Similarly, a consumer have to make a judgement on the quality of food, service and environment of a first class restaurant since there is not any possibility to test the service and taste the food before purchase.

ECONOMICS OF TOURISM SUPPLY 55

- Classification of tourism operations does not only aim to guide and assist the consumer at the choice of an operation, among alternatives; **it also gives the opportunity to make price comparisons among similar standards.**
- Because of the explained reasons, most of the countries classified their tourism operations, even if they do not have standards for other products.
- **Classifications are made by government authorities, tourism organizations (like automobile clubs, associations for each kind of operation...) chain of operations (for their own facilities) or consumer organizations.** Because of its international nature, some international organizations initiated to set up criteria for the worldwide uniformity of classification at tourism industry, such as World Tourism Organization (WTO), European Union (EU).

3) Integration (Merger) of Tourism Operations:

- In commercial sense, integration means, "Purchase of controlling (majority) share of equity of a firm by another company".
- In other words, it happens if a company buys the majority of equity share of another firm and gain the management control of it.
- At such practices, despite the joint ownership, integrated companies maintain their separate status and identities but controlled and managed by the same owners.
- Main objective of the integration is to increase the profit by increased control of business.

ECONOMICS OF TOURISM SUPPLY 57

Integration may take place in **two** directions:

a) Vertical integration:

b) Horizontal integration

a) Vertical integration

- Takes place among the companies, “**working on the different levels of the same business; but linked with providing inputs for one or another**”. Like mergers of tour operators with retail agents, transportation companies or accommodation operations.

ECONOMICS OF TOURISM SUPPLY 58

- Another example: Wheat farm, mill, spaghetti factory and restaurants are operations, at the different levels (stages) of this chain of business. (And operation at each level provides input to the firms at the following stage. Integration of spaghetti factory with restaurant or wheat mill are input – output relations and purchasing of one the other is vertical integration).
- The basic objective of vertical integration is, to secure a stable input or output relation and / or quality of operation.

ECONOMICS OF TOURISM SUPPLY 59

b) Horizontal integration

- Takes place among the operations, “working in the same kind of business and producing similar products”.
- Like mergers among hotels, airlines, retail agents, hamburger operations.
- Integrated firms work under the same name, (by establishing a chain) or work under different names-brands, but maintain their separate identities.
- Basic objective of the horizontal merger is, to increase their market control and market share at that particular line of business and to reduce the disadvantages of competition. It even aims monopoly at some cases.

Benefits of vertical integrations:

- Because of providing inputs for one another, integration secures the continuation of inputs or sales at required quantity, quality and price.
- **Ex:** Integration of a tour operator with an air transportation company ensures a stable price and continuation of aircraft seats at required number for the tour operator and dependable sale for the air company.

ECONOMICS OF TOURISM SUPPLY 61

- Dominating company can control the quality of inputs and can **prevent any undesirable changes** at these **inputs** which may damage the quality and commercial reputation of the final product.
- **Ex:** Quality deterioration at air transportation or accommodation damages the quality and reputation of the tour operator. But if tour operator control management of carrier or hotel, their quality can be maintained as tour operator wish.

ECONOMICS OF TOURISM SUPPLY 62

Benefits of Horizontal Integration:

- Reduce the average unit cost by increasing the total sales. Mergers can consolidate some functions of integrated companies (like accounting, research, market analysis) and also reduce total of these fixed costs.
- Inputs of integrated companies can be purchased in larger quantities, on bulk (whole sale) prices. Bulk purchases give better bargaining power, reduce the price and total cost, subsequently increase the profit margin.

ECONOMICS OF TOURISM SUPPLY

63

- Joint promotional initiatives reduce the share of cost for each entity and increase effectiveness of the campaign.
- Higher market share increases the possibilities of controlling supply and market price levels. In other words, higher market share increases the possibility of determining the optimum price and optimum level of supply. It even creates cartel or monopoly conditions at the market.

ECONOMICS OF TOURISM SUPPLY 64

Administration of Tourism Supply:

Governments try to interfere, affect and guide formation of supply components with 3 basic objectives :

a: To optimise benefits

b: Sustainable Development :

c: Consumer Protection

ECONOMICS OF TOURISM SUPPLY 65

a: To optimise benefits :

- Generating expected benefits require the **development of superstructure facilities** at priority regions, at required kind, capacity and standard, in correlation with relevant infrastructure.
- Governments are concerned with the **economic potential, a sector generates and their contribution to economic growth**. Therefore try to secure the optimum growth in that particular industry.

ECONOMICS OF TOURISM SUPPLY 66

- In order to lead the sector to such an optimum structure, **incentives** are offered to motivate private enterprises.
- Economic and social benefits of every sector, generate by the **use of national resources**. Every generation have the right to have benefits of national resources, for maximization of their prosperity and life quality.

ECONOMICS OF TOURISM SUPPLY 67

b: Sustainable Development :

every generation have the right of using national resources,

for a better life quality,

- but also have the responsibility of protecting interest and rights of future generations, by protecting productive ability of resources.
- Necessities of such responsibility cannot be let to sense of responsibility of the citizens. The governments have to take protective measures and set the criteria for sustainable use of resources.
- authorities are also responsible for determining and implementation of these conditions.

ECONOMICS OF TOURISM SUPPLY 68

- Protection models criteria and procedures of practices have to be designed by effective regulations. Regional and city plans for constructions (for land use) and permission procedures for constructions are instruments of sustainable land use policies.
- Governments also take precaution measures to protect cultural resources and even for allocation of economic resources.

c: Consumer Protection :

Governments also try to discipline tourism operations for consumer protection.

- It aims to protect **physical well being** and **economic interest of people** against negligence, cheat and wrong – doings of the operations.

ECONOMICS OF TOURISM SUPPLY 70

- To protect life, health and physical well being of the people against any harm, injury is considered to be a responsibility of contemporary states.
- Governments impose regulations to interfere relations among suppliers and buyers, instead of allowing them to solve the problems among them.
- It aims to protect and comfort unorganized, weak, individual consumer.

PROJECTING DEMAND FOR BEDS

No of Tourists Accomodated x av. Length of stay

No of nights x accomodation occupancy factor

Number of tourist accommodated: 150,000

Average Length of Stay: 7 nights

no of nights: 300

accomodation occupancy factor: % 39

Calculating the annual demand for beds:

150,000 x 7

300x39%

=8974 beds

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