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CHAPTER III
MANAGERIAL PERCEPTIONS/ECONOMICS, PROBLEMS AND DEVELOPMENT OF TOURISM INDUSTRY

Introduction

Management of Tourism Industry has direct concern to Economics since the management concern with the resource management or the management of the factors of production a core part of managerial economics. Managerial Economics has concern with the attainment of an optimum return from the use of scarce resources. Whether it is an individual seeking psychic benefit from Tourism Industry or a businessmen interested in providing tourist goods and services at a profit or a host community government manages the tourism in terms of the economic benefits resulting from tourist expenditures, the managerial principle is the same. Economic agents seek to fulfill psychic and physical needs (which, as a rule, are limited). The problem that managerial pursuits attempts to solve is how these scarce resources should be allocated in the chase of a variety of unfulfilled needs and wants. At least three groups may be identified in Tourism Industry Product (TIP) development each with its own goal:¹

1. **Tourist** seeking maximizes the amount of psychic benefits or rewards which they expect to gain from travel experiences.
2. **Firms** providing tourist goods and services seeking to maximize profits.
3. **Host Communities and their governments** attempting to maximize the primary and secondary benefits through the expenditure on Tourism development in the area concern.
These goals are often compatible. Suppose the tourist views the psychic benefits of travel to an area favourably, business are willing to provide necessary facilities and services and the host community views tourism positively in terms of its economic impact on the area and its people. In such a situation, a vibrant TIP will be managed to be developed and as long as the goals remain compatible, the TIP industry will flourish.

On the contrary, if the goals do not coincide, there is little hope that TIP will flourish in a long-term context. For example, if the host community is leery of the potential benefits of tourism and does not actively participate in the TIP industry, short-run profit maximization by firms may largely determine development policy. Typically, this would result in overdevelopment of the area, leading to the overuse of the resource base. This overuse, in turn, will probably result in diminished profits to firms and diminished psychic rewards to visitors. Quite clearly, the first requirement for successful TIP management is the compatibility of goals among these three groups of participants and management of their combined, concerted effort towards the achievements of these goals.

**Conceptualities, Problems there in and Managerial Realities**

According to the Classical Theory in Tourism Industry (TI), each firm aims at maximizing its profit. But empirical evidence indicates that TI firms try to manage certain other objectives, besides profits. Eminent managerial economists delineated the same issue in different angles which are discussed as ahead :-

1. **Profit Maximization:-**
The Classical Theory of the firm in TI was based on the objective of profit maximization, given the tastes and preferences of the consumers, technology, perfect competitive conditions etc. Profit is defined as a surplus that remains after making payments to all the factors of production. It is supernormal profit, which is to be maximized at MC=MR and MC curve MR revenue curve intersects from below.

**Criticism:**

1. Profits are difficult to maximize under the conditions of uncertainty like war like ambiance, terrorism, vagaries of monsoon.
2. Profit maximization objective is relevant to the competitive firms and is not relevant to a monopoly or oligopolistic firms in given area where they enjoy profit.
3. Profit maximization hypothesis is based on the assumption that all firms in TI have perfect knowledge about cost and revenue conditions of all firms in TI, is not true. These firms always work under the conditions of uncertainty due to factors mentioned in (1) above.
4. Businessmen in TI are not aware of marginal cost and marginal revenue. Then how can they calculate maximum profits?
5. As firms in TI are not quite sure about demand conditions of their products so they approximately determine and try to manage a certain level of output to be produced which they may think as maximum.
6. It is relevant objective in the short term that they should manage to maximize the profits in the long run.
(7) It fails to provide sound basis for comparing alternatives that generate different flows of revenues and expenditures over time.

(8) Profit maximization may be relevant objective for an entrepreneur in TI but modern firms in TI are motivated by different objectives because of the separate roles of the managers and owners.

Modern firms in TI are mostly motivated by the objectives that are related to their internal organization. These may be summarized as follows:

2. **Sales Maximization:**

   Baumol (Baumol, Oligopoly in Tourism Management, Oxford University Press, 1999, pp 191-200) studied oligopolistic tourist business in U.S.A. and found that, because of separation of ownership and control, modern managers want to expand, company sales even at the expense of profits for which they are always proud of. Thus size of sales is considered as important and they are not ready to suffer from declining sales. Oligopoly firms earn profit initially but later on insist upon sales maximization to be a market leader rather than maximizing profits.

**Criticism:**

1. It is a single period sales maximization model, which is applicable to single moment of time. So it is static in nature.

2. Managers aim at maximizing sales because they are interested in higher wages and more prestige even at the cost of profits.
3. Sales maximization with minimum profit is not a suitable objective because it is difficult to determine the level of minimum profit.

3. **Output Maximization:**

Milton Kafolgis argued that the Tourist business firms are interested in maximizing the output while revenue occupies a secondary position. Given some minimum level of profits, a firm in TI tries to maximize output. It spends its funds on producing larger output than going for advertisement.

This approach is criticized as unsatisfactory explanation of the objective of the TI firm. If TI firm aims at output maximization and neglects sales maximization then it cannot survive. Secondly in case of multi product tourist firm how to maximize output is a problem. It will only be the total sales of each product that can be added together. But then it is a sales maximization objective.

4. **Security Motive:**

Rothschild observed that the aim of the producer is not to manage for maximum profits but to satisfy his sense of security. He aims at getting a good income over several years in future. So that he has not to suffer from insecurity. Thus he expects a steady flow of profits for a long time.

This view is criticized on grounds that it is not a new addition but a revised version of profit maximization objective.

5. **Satisfaction Maximization:**
Scitovsky argued that, firms in TI aim manage the maximization of customers' satisfaction and keep their outputs and profits below the level of maximum profits. Because, if profits and income of a manager increase he may prefer leisure than work to produce output.

This view is criticized stating than an entrepreneur's ambition is to make money and manage for still more money and it has no end. Secondly to say that an entrepreneur manages to maximize customers' satisfaction is a vague statement. It does not tell about his exact behavior. So it cannot be empirically tested.

6. Utility Maximization:-

Williamson has developed a managerial discretion theory like sales maximization objective and has argued that in modern large organizations managers and owners are two separate groups. Owners want maximum profits. The managers (or the any other working in absence of owners) wish to maximize their own compensations and increase size of the staff and expenditure on them. Thus managers maximize their utility by way of increasing salaries of the staff, increase in perks and other facilities and raising discretionary funds to invest in those projects, which will promote their interests.

This view is also criticized as it involves many factors for maximization of utility to people in industry hence it may not yield definite results.

7. Growth Maximization:-

According to Penrose, the managers of modern TI firms are interested in growth maximization and not profit maximization.
Morris has also observed that the managers of big firms have fat salaries they are is motivated to expand the size of the firms beyond profit maximizing limit Thus a manager makes his position and that of his subordinates more secure in the eyes of the members of the board of directors.

Mams has developed a steady growth model where a manager prefers a constant rate of growth at which the sales, profits, assets etc. grow. If higher growth rate is preferred, more expenditure on the advertisement and R&D will be necessary. So managers choose such a growth rate that maximizes market value of the shares.

Marris’s growth model is criticized stating that it is oversimplification of reality. It is also difficult to find out a growth rate, which maximizes market value of the shares of the firm, and the rate at which the take over is likely to take place. Thirdly, a firm may prefer to grow at a faster rate and not at constant rate.

8. **Satisfying Objective:**

Herbert Simon held that the Tourist firm’s main objective is satisfying and not profit maximization. Every firm aims at achieving target level of profits. A firm has an aspiration level based on its different objectives such as production, price, sales, profits etc. Once the target level of profits is achieved, it may not like to improve its position still further.

This view is criticized saying that how this target level of profit will be determined by any firm is not clear.
9. **Behavioral Theory:-**

Cyert and March argued that modern tourist business firms are organizational coalition of managers, workers, shareholders, suppliers, consumers etc. Hence a firm has to manage many goals such as production, inventory, sales, and market share and profit etc. goals. All goals have to be satisfied as they are relevant to price, output, sales etc. and are the product of bargaining-learning process in the organizational coalition. There may be conflict in goals and hence organizational coalition may be a coalition of conflicting interests. However this theory has been criticized on the grounds that it deals with particular cases and hence it cannot be called a theory.

10. **Maximization of Consumer's Surplus**

Dupuit used the concept of consumer's surplus \((C_iS_i)\) for the first time in economics, although Prof. Marshall popularized it. Prof Marshall slated that, when a consumer buys a commodity, the satisfaction derived by him; from it may be in excess of the dissatisfaction experienced by him in spending money for paying its price. This excess satisfaction is called as consumer's surplus.

A consumer Purchases the commodity because the commodity has the capacity to satisfy human Wants or utility. Marginal utility is the addition to total utility by way of consuming one more unit of it. Thus,

Uses of the concept: -

1. The concept of consumer's surplus is useful to a monopolist. He manages to change higher price for the product if the consumer's surplus is high.
2. Finance Minister can manage to levy higher tax rate on tourist product where consumer's surplus is higher.

3. Gains from international trade can be measured in terms of consumer surplus obtained from imported goods.

4. People in tourist areas enjoy higher consumer surplus than non-tourist areas hence they may be taxed for financing an additional tourists facilities to increase the flow of tourists

5. While consuming tourist product, the tourist must experience consumer surplus for all the time and for this the resources are to be managed properly

Constraints

The theories mentioned in the forgoing based optimization process relates to the obstacles that constrain the extent to which each TIP can be fulfilled. It is reasonable to assume the desirability of unlimited amounts of psychic enjoyment, profits and regional impacts, but this is not achievable because something is always getting in the way. In other words, constraints prevent the limitless pursuit of TIP goals. An obvious example is a traveler's income. The income constraint will limit the amount of TIP a person can consume in a given period of time. Similarly, the amount of profit a firm can make is constrained by the demand for its products and services. Income and the level of demand are just two of a vast array of constraints and apply to the TIP industry. To analyze the relationships, it will be necessary to identify and classify the constraints.

The straightforward constraints can be really identified, can be clearly distinguished from one another and managed to overcome. An
exhaustive list of all constraint applicable to the TIP industry is practically impossible. The breadth and complexity of the TIP industry leads to an extraordinary large number of constraints. However, the following are considered the more important simple constraints, affecting TIP.

**Individual Tourists Constraints /Problems**

*From the Tourist's point of view, the following constraints apply:*

**Income**: As already mentioned, the amount and type of TIP demanded by a tourist is constrained by the income of the person and the amount of money the tourist is willing to pay for a particular Tourist Product.

**Time**: The amount of vacation time also limits what the vacationer can do. The trend towards shorter work weeks (and therefore, more leisure) coupled with faster and better means of transportation and longer paid vacations suggest that, in the future, time constraints will not be severe as they have been in the past.

**Knowledge**: To most efficiently achieve goals, travelers must have adequate information about the vacation choices available to them. TIP professionals, advertising and media coverage may do much to reduce the severity of this constraint.

**TIP Preferences**: Tourist preferences, as determined by their psychological makeup, interests and their demographic profile, limit their choices of activities and TIP consumption.
Tourism Industry Product

For TIP, the following constraints are of particular significance:

Demand: Every firm providing goods and services for tourist must operate under the constraint of the demand functions of its customers. These demand functions determine what quantities will be purchased by persons in the TIP market, given their particular constraints (such as their income) and the prices charged. It is vital for the TIP to recognize and appreciate the demand patterns of its clientele, if it is to pursue its profit objective successfully.

Technical and Environmental Constraints: They are usually related to a particular site or situation and involve the visitor capacities of the site in question. There is e.g. a technological limit to the number of persons who can be present in an "Ajintha" without causing irreparable damage. Similarly, there are environment limits that determine the number of elephants supportable on a wildlife range, the number of tourist that can use hotel at a given point in time and so on.

Capital: Tourist product production & marketing requires investment and the scale of operation is quite clearly a function of the amount of available capital.

Host Community / Government

Constraints that typically concern the host community are: 2

Supply of Attractive Resources: The benefit a community can derive from tourism is importantly dependent on the supply of
resources available for tourist enjoyment. Cultural and natural resources are included in this concept. Particularly when the geographic distribution of sites is considered, some areas are better supplied with natural and cultural tourist attractions than others and hence possess greater potential as tourism destinations.

*Supportive Resources:* This refers to the concept that simply possessing attractive tourist resources are not sufficient. Certain amounts of social capital are needed to transform tourist potential into tourist attractions by providing infrastructure (namely, highway, airports, and parks). The amount of such capital certainly limits the benefits to be derived from tourism.

**Common Constraints**

Constraints that are common to tourists TIP by firms and communities are:

*Indivisibilities:* There are situations in which it is necessary to deal with whole units of something. For example, a Tourist Travel Agency cannot operate half a bus portion – it operates the entire bus, even if the seats are not filled or it doesn’t operate the bus at all. In hiring a hotel room, a traveler does not have the choice of buying only some portion of the room in Star Hotels. Similarly, if a road needs to be build, it must be built all the way from one point to another. This is an important concept and greatly affects the decisions of tourists, TIP and government.

*Legal Constraints:* There are several types of legal constrains affecting TIP Production. Zoning and building laws influence the
construction of facilities. Activities of TIP are determined largely by existing legislation. Laws regarding contractual relations or the granting of entry permits (visas) to a country may limit the number of travelers or their activities.

*Self-imposed:* The constraint arises from the need to reconcile conflicting goals. A firm may restrain from selling its product in particular areas because it disagrees with political or social system there; a community may limit the growth of tourism because of potential adverse social impacts on the resident population.

**Compounding of Constraints**

Very often, a particular activity will be affected by the interaction of several simple constraints.

A person’s choice of TIP consumption may be constrained not only by income, but also by other considerations. For health reasons the traveler may be able to vacation in certain climates. If the traveler has a fear of flying this may restrict the choice of destinations to those close to home. In this case, income, health and a fear of flying combine to constrain the choice of TIP consumption.

The limited supply of attractive resources plus the lack of supportive resources combine to limit the extent of TIP development.

Finally, we can consider the case of a firm that is interested in a tourism venture but lacks the managerial skills and capital. Therefore,
it cannot undertake the venture. Hence, the combined constraints on managerial skills and capital limit the firm’s profit seeking activities.

Optimization of Satisfaction Management by the Individual Tourist

The simplest managerial approach to the problem of optimization of tourist satisfaction is based on a concept called utility, which is the satisfaction of a tourist obtains from the TIP consumption. Satisfaction is, of course, a highly individualized concept, since each person's psychographic and physical make up is different, and his satisfaction scale is also different from others.

Earlier we assumed that wants were unlimited satisfaction was not possible. This means that each additional “unit” of TIP consumed adds to the total unity. But it is reasonable to say that each subsequent unit adds less utility than the previous one.

The addition to the total satisfaction attribute to the addition of one more unit of the service or good being consumed is called marginal Utility. In view of the above, we can say that the marginal utility is positive but declining.

Indifference Curves

Based on the forgoing discussion, we can now specify two additional concepts fundamental to the Managerial theory of tourist behavior.

An indifference curve is a locus of points or particular combinations of different Tourist Product each of which yields the
same level of utility or satisfaction. Thus, all points on an indifference curve represent equally acceptable combinations of various tourists Product. Because of the assumptions of positive but declining marginal utility, indifference curves are downwards sloping and curve away from the origin (i.e., they are convex), as shown in Fig. 3.1. Two indifference curves cannot intersect.

By the definition of indifference curves, a tourist manage to get equal satisfaction from consuming the combination of X and Y represented by points A and B. That is, whether the tourist consumers OX₁ and OY₂ of travel experiences X and Y respectively (Point A) or OX₂ and OY₂ (Point B), he will get equal satisfaction or utility.

**Figure 3.1: Indifference Curve**

![](image)

**Units of Tourist Product (TIP)**

A graph showing a set of indifference curves is called an *Indifference Map*. Fig. 3.2 is an indifference map. A higher indifference curve represents higher levels of satisfaction derived by consuming the combination of Tourist Products by Point B, because both points lie on
the same indifference curve. The utility at C is, however, higher than at A and thus equally higher than at B.

Figure 3.2:- Indifference Curve Map

What is to prevent a tourist, seeking to maximize utility from Tourist Product, to move to higher a higher utility curves? For example, if the tourist is initially at point A, consuming 50 units of Y and 20 units of X, why cannot he or she endlessly increase the consumption of both X and Y? Such moves would increase satisfaction from higher levels of consumption of TIP, since after each move he or she is on higher indifference curve. One factor that limits the extent to which a tourist can increase consumption of tourist experience is cost. How much a tourist can spent is determined by income level. This is just one constraint. Additional constraint such as leisure time and
others discussed earlier, will also limit the tourist's ability to increase utility through increased consumption of travel experiences.

**An Example**

Let us examine the constrained overcoming and satisfaction optimization management process described above, using a specific example. Suppose that a tourist has a travel budget (based on his income) of Rs. 800 and that he has a choice of two vacation destinations – Ellora and Ajinha. Also, assume that a vacation at Ellora cost Rs 40 per day and at Ajinha, Rs. 80 per day. Abstracting from travel cost, for simplicity, we can then identify the following as the tourist's options:

i. Either spends 20 days at Ellora
ii. Or spend 10 days at Ajinha
iii. Or divide vacation between Ellora and Ajinha subjecting to available disposable income.

Because of the difference in cost, the tourist must forego two days at Ellora for each day that he chooses to spend on Ajinha.

**General Application**

The example gives a limited and simplified view of the decision making process which is a highly personal and complex one. Nevertheless, it is a realistic view. Much of the popularity of packaged tours derives from the fact that both time and costs are known in advance. Therefore, it is possible for the tourist to compare different packaged tours in terms of these two constraints.
What is important in the foregoing discussion is the analytical process, not whether the particular example chosen is directly applicable. Recognize the importance of an understanding of how the feasible set is reduced each time a constraint is added and that it may not be possible to exactly reconcile all the constraints simultaneously.

The Govt. can manage to maximize the tourist satisfaction in the following ways

- Providing infrastructural facilities at reasonable rates
- Subsidizing the payments for the various services especially in off seasons in the favor of lower income group
- Stimulating Leave Travel concessions for the employees in govt., public and private enterprises
- Declaring compulsory two days (Saturday and Sunday or any other two consecutive days in the week) holidays

Persons employed in TIP are faced almost daily with clients with incompatible demands in limited money to spend. It may not always be possible to design a TIP exactly satisfies all the demands made under numerous constraints at once. In such a case, it is a wise to point this out and gauge which demands are most important to the customer.

Optimization by the Firm

Firms in TIP seek to maximize their profits, much like tourists attempt to maximize their discerning or intuitive benefits from tourism. And like tourists, firms also operate under constraints which limit the amount of profits that they can make. Truly speaking the technological and capital constraints were important considerations from a firm’s point of view. This is because the technology and capital
availability to a firm largely determine its cost structure. And quite evidently, costs play a vital role in determining how much a firm is willing to supply. If the market price (the other major constraint for a firm) is too low to cover its out-of-pocket expenses, the firm would supply nothing. And if price were high enough, it would be willing to supply much more.

This concept of cost is rather complex and merits deeper scrutiny before we can actually analyze a firm’s optimization problem.

Total cost has two major components: Fixed cost and Variable costs. Fixed costs are incurred whether or not any production takes place. Rent on a property, insurance premiums, interests on borrowed investment capital are examples of fixed costs. Even if a hotel is unable to rent a single room, it must incur these expenses in the short run. Thus fixed costs do not fluctuate with the level of sales. Variable costs, on the other hand, vary with the level of business activity. As a hotel becomes busier, it must increase the number of housekeepers to keep the rooms cleaned; it must hire additional waiters and waitresses to service the increased clientele.

To decide how many rooms to supply, the firm will want to know the extra cost of each additional room occupied. In other words, by how much will total cost increase when one more room is sold (rented)? This is the marginal cost and can be defined as “the increment to total cost that arises from making one additional unit (room in this example) available for sale”.

The Govt may manage to play an imperative role in boosting the confidence of the firms engaged in TIP by practicing the following:-
• Subsidizing the expenditure on the production, development, expansion or maintenance of tourist products

• Granting the loans at the rates lower than bank rates

• Supplying the qualified and trained skilled personnel for the use of firms under TIP

• Subsidizing the overheads and some portion of the fixed cost entail in manufacturing TIP

**Why does the Govt manage for the TIP development?**

There are many reasons for the same which obliges the Govt. to manage for the development of TIP; the major of them are as discussed ahead

**TIP Increases the Income of Host Region**

The host region is defined loosely as a country, a state or a nation, depending on the level at which the problem is being considered. For a country-level government, the income of the country is of primary interest. A state government would perceive the maximization of the combined income of the entire state to be its objective. And so on.

Regardless of which definition of host region is being considered, expenditures in this area by tourists coming from another region represent injections into the area’s economy.

A British traveling to India presumably earned his income in UK. When he spends money in as a tourist, he is “injecting” money into our economy that wasn’t here before. As such, expenditures by foreigners in India (for travel purposes) represent tourism exports for the UK.
When tourists spend money in an area, this money becomes income for the recipient. For example, the amount our UK tourist pays for a hotel room is income for the hotel. This is the primary benefit from tourist expenditures. And if this were all that happened, the host India’s income would increase by precisely the amount of the tourist expenditure. But this is not the entire story. The hotel must spend part of the room rent to pay for expenses (salaries, wages) and this money becomes income for the employees. The employees, in turn, spend part of their incomes to purchase food, clothing, and shelter and so on and save the rest. Clearly, the money that was spent in this (the third) round becomes the income of the recipients (supermarkets, departmental stores). This process of responding continues over the over, the amount being spent becoming smaller after each round (since part of income is saved, that is, removed from circulation). These types of spending constitute the secondary benefits of tourism expenditure.

**International Tourism Increases Foreign Exchange Earnings**

Another important economic benefit of tourism to the host region is increased foreign exchange earnings. Foreign travelers must exchange their currency into local currency for spending purposes. This means that, initially, the foreign exchange earnings of the host country increase by the amount of tourism expenditure. While foreign exchange holdings are considered important by most countries, they are of particular importance to the less-developed nations. Such countries have constantly increasing foreign exchange requirements to finance their concerted development plans. Lacking the requisite technology, they need to import, among other things, large amounts of capital (investment) goods, for which they need large amounts of foreign exchange.
The success of their development plans depends on the ability to pay for these imports. It is therefore not surprising that many countries assign to priority to the development of tourism, because it generates much needed foreign exchange.

The conclusion then is that for a government to reap the maximum benefits from tourism's foreign exchange earning potential, the industry must be developed carefully. This should be in a manner suitable to the local situation and in a way that local tourism supply items are efficiently used to reduce imports.

**Tourism Generates Employment**

While the industry requires substantial investment in super and infrastructure, once operational, it also provides employment for large numbers of semi-skilled people. It is a highly labour-intensive industry and thus is an efficient way to generate employment. Each Rs. Invested in the tourism industry creates more jobs than Rs. invested in, say, an automobile factory. In addition, the scarcity of skilled employees is not as strong a constraint, except at the managerial level, as it can be in other industries.

**Tourism Stimulates Investment**

The tourist industry has a unique structure. It is characterized by and in fact is, an agglomeration of a large number of very small units, covering a variety of different service trades-small restaurants, models, guest houses, laundries, arts and crafts shops and others. Thus, Investment in infrastructures and sometimes expensive superstructure by the government stimulates Investment in numerous
smaller businesses. Because of the small size of these businesses, capital requirements are relatively low and investment generally proceeds at a rapid pace. In this respect, too, governments view tourism rather favourably. The initial investment in tourism brings forth a large investment in supporting and tertiary industry.

**Tourism is a Means of Redistributing Wealth**

This point is closely related to the income effect. When a tourist earns income in one region and spends it in another for travel purposes, a redistribution of wealth has taken place. Income "leaks" out of the origin area and is "injected" in the destination area.

**Tourism Benefits to Host Population and increase the national income**

As mentioned earlier, tourism is characterized by the existence of a large number of very small businesses that support and are ancillary to the industry. The following chart, based on a hypothetical example, illustrates exactly how quickly tourism receipts seep through the economy and the diversity of the business that benefit from it.

**Chart No. 3.1:-Expenditure and Benefits**

<table>
<thead>
<tr>
<th>Visitors Spend For</th>
<th>TIP Industry Spends for</th>
<th>Ultimate Beneficiaries</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
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<td>Lodging</td>
<td>Wages and Salaries</td>
<td>Accountants</td>
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<td>Tips-Gratuitues</td>
<td>Advertising...and</td>
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<td>Payroll Taxes</td>
<td>Public Relations</td>
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<td>Commission</td>
<td>Appliance Stores</td>
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<td>Music &amp; Entertainment</td>
<td>Architects</td>
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<td>Administrative and</td>
<td>Arts and Crafts</td>
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<td></td>
<td>General Expenses</td>
<td>Producers</td>
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<td>Legal and Professional</td>
<td>Attorneys</td>
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<td>Services</td>
<td>Automobile Agencies</td>
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<td>Food</td>
<td>Purchases of Food,</td>
<td>Bakers</td>
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<td>Beverages, etc.</td>
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<td>Purchases of Goods</td>
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<td>Entertain</td>
<td>Purchases of Materials</td>
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<td>and Supplies</td>
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<td>Clothing</td>
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<td>etc.</td>
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<td>Gift and</td>
<td>Repairs and</td>
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<td>Souvenirs</td>
<td>Maintenance</td>
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<td>Utilities-electric, Gas,</td>
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| | Publishers  
| | Real Estate Brokers & Developers  
| | Restaurants  
| | Room Maids  
| | Shareholders  
| | Sporting Events  
| | Return to Investors  
| | Transportation  
| | Travel Brokers  
| | Taxi-Hire Car Services  
| | Unions  
| | Wholesale  
| | Establishments |

**TIP Increases Tax Revenue**

Tourists have to pay taxes like most other people. Since they come from other regions or countries, their expenditures represent an increased tax-base for the host government. In addition to the usual sales tax, tourists sometimes pay taxes in less direct ways. Airport taxes exist fees, customs duty and charges assessed for granting visas are just a few examples of commonly used methods of taxing tourists. The wisdom of imposing such special taxes on tourists is questionable, since it merely serves to reduce demand. In some countries, for instance, the room rate at a hotel can be different for tourist (generally higher) than for residents. This is a questionable practice, for it leaves the tourist with a feeling that he has been “taken”. 
Apart from these special cases, the usual taxes collected from both tourists and residents increase due to tourism expenditures.

**Problem of Inflationary Pressure**

Tourists inject money (earned elsewhere) into the destination economy. While this increases the income of the region it also causes inflationary pressures. Tourists typically have a higher expenditure capability than the residents do—either because tourists have higher incomes or because they have saved for the trip and are inclined to “splurge” while on vacation. Hence, they are able to bid up the prices of such commodities as food, transportation and arts and crafts. This causes inflationary pressures and is detrimental to the economic welfare of residents of the host community. This is particularly true when inflation affects the prices of essentials such as food, clothing, transportation and housing. Land prices have been known to escalate rapidly in tourist destination areas. Often, the prices that foreigners are willing to pay for TIP are higher than the native residents, who are often dissatisfied while paying more for necessaries than the neighboring residents.

Truly speaking at Mahabaleshwar a hill station, for example, has caused to increase land prices sharply. In a particular underdeveloped area, the amount of investment in land constituted just 1 percent of the total investment for a hotel project. By contrast, this ratio increased to 200 percent in Mahabaleshwar an area where tourism was already overdeveloped. With such increases in land prices, it can be expected that local residents (with their lower incomes) are effectively “chased out” from the housing market in a tourism-developing section of the country.
Problem of Structural Changes:
A shift of economy from agricultural to ..... 
A case of particular hill station

Mahabaleshwar, a hill station primarily relies on agriculture, but later on after the introduction of tourism has often led to a decrease in the agricultural base causing the decrease in the food grains. Agricultural as compared to tourism is an extremely low productivity( in terms of capital and labor input) industry in Mahabaleshwar. The promise of much higher wages in the TIP industry draws people away from farming. Agricultural investment declines as a result, just when the demand for food is increasing due to the influx of tourists. The inflationary pressure on food prices is further aggravated and can lead to considerable social upheaval. Naturally food prices increase.

Dependence on Tourism creates
a number of problems

Permitting tourism to become the subsistence industry is not desirable for a number of reasons. First tourism is by its very nature subject to considerable seasonability. While seasonal fluctuations in demand can sometimes be reduced, they cannot be eliminated. Thus, when tourism is the primary industry in an area, the off-season periods inevitably result in serious unemployment problems. Such areas find that the seasonal character of tourism leaves severe economic and social effects on the host region.

In other words, total dependence on a TIP industrial sector is undesirable. If it cannot be avoided, then dependence on domestic agriculture is in many ways preferable to dependence on tourism.
Moreover, tourism imposes certain environmental and social costs on the host region and its residents. Permitting it to develop to the extent that the host region becomes totally dependent on tourism poses this dilemma; if further development is curtailed, economic devastation would result; if tourism is permitted to continue growing, the natural and cultural resources can be depreciated due to overexploitation.

**Investment Priorities on the cost of**

**Other fundamental needs of down trodden elsewhere**

Sometimes, governments of developing, countries take an overly optimistic view of tourism. They undertake aggressive investment programmes to develop tourism, assigning it top priority in their development plans. In extreme cases, such an approach can lead to the neglect to more fundamental investment needs of the country.

"The conclusion is that although tourism has tremendous potential as a tool in economic development, it is no panacea. Governments should attempt to optimize (not maximize) the benefits that tourism provides, being ever mindful of the costs that it can impose. It should be noted also that the probability and the intensity of the economic costs of tourism are greater for developing nations (or regions) than for wealth ones".

**Demand for TIP entails numerous premises**

1. Economically speaking, demand for TIP may be defined as the quantity of TIP goods and services that will be purchased at a given price and within a given time period. The concept of "quantity" is a
difficult one to define in TIP. We briefly addressed these problems when the various measures of demand were discussed. Regardless of the particular definition of demand used-arrivals, visitor days or tourism expenditures—we can usually conclude that the higher the price of tourist service, the lower the demand will be for it.

This relationship can be discussed by using the concept of a demand schedule. A demand schedule shows the levels of demand at various prices.

2. One can derive information about the elasticity of demand, which is an extremely important concept for tourism planners at all levels.

3. Clearly, the price elasticity is different over different ranges of the demand curve. In absolute value, elasticity is lower at high prices and higher low prices. And because the demand curve always slopes downward, price elasticity is always negative. It is customary, for simplicity, to ignore the negative sign and refer to price elasticity by its absolute value. To keep the reader reminded of its negative value, we shall denote price elasticity as  $|\varepsilon_p|$ when the discussion involves the consideration of its absolute values.

4. The linear demand curve (such as the one employed in the example) is a special case. Demand curves need not all be linear. The linear approach is taken here to simplify discussion so that essential arguments can be made without introducing unnecessary complexity. The results can, nevertheless, be directly applied to non-linear demand curves.
5. As incomes rise, more travel is demanded at any given price. Thus the relationship between income and demand is positive. The responsiveness of demand to changes in income is called income elasticity of demand. It is defined as the percentage change in quantity demanded in response to a given percentage change in income, price remaining unchanged.

6. Inferior TIP is exceptions to the positive relationship between income and quantity demanded. A family accustomed to consuming margarine (which is cheaper than butter) may purchase less margarine and buy better instead when family income increases. Tourism as a whole is a normal good, although particular segments may exhibit inferior-good characteristics.

Therefore, a family whose income has increased can be expected to travel more. However, the family may now choose to stay in a hotel rather than camp (or fly instead to drive). Thus camping or driving may be considered inferior goods since an increase in income led to a decreased demand for them. At the same time, travel increased and therefore tourism is a normal or superior good.

7. In general, tourism is believed to be income elastic (\( \varepsilon_y < 1 \)), at least in affluent countries. The contention is that people in United States, for instance, have come to expect an annual vacation as an integral part of the family calendar. In the event that family income declined in a particular year other things will be given up to afford vacations. It may be true that income elasticity declines as a national
becomes wealthier. But there is no evidence to support the claim that travel demand is actually income inelastic, even in the United States.

8. The tourism product, as mentioned earlier, has four main components: transportation, lodging, food and entertainment (or synonymously, activities and attractions). Each of these four components is, in turn, comprised of several subcomponents called elements. For example, lodging can take the form of resorts, hotels, motels or campsites. The list of elements within a category is almost endless. The demands for the four components and for the elements in each component are closely related, though in different ways.

Complementary goods (or services) are goods that are consumed in combination. For instance, bread and butter: If more bread is consumed (say due to a decline in the price of bread), then the demand for butter will rise. Even if the price of butter is unchanged, more of it will be demanded, since it is consumed in conjunction with bread.

Similarly, in tourism the four components are consumed in combination. A tourist on vacation requires transportation to get to a destination. Once there, there tourist needs food and lodging and will also participate in some activities related to the trip. Thus, the demands for the components are directly related. If demand for one component increases, so will the demand for other components.

The demands for the elements within a component are, on the other hand, inversely related to each other. A tourist can stay either at a hotel or at a motel and cannot possibly stay in both facilities
simultaneously. Therefore, it due to a decrease in hotel room rates, the tourist chooses to stay in a hotel rather than a motel, what has happened? The demand for hotels increased in response to hotel prices and, as a consequence, the demand for motels declines. Thus hotels and motels are substitutes for each other.

We can generalize the discussion and state that the four components of tourism are complements, while the elements within a give component are substitutes for each other. Following figure summarizes these concepts.

**Chart 3.2 Components of the Tourism Product**

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<th>Attractions</th>
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Each component is complimentary goods to the other components.

Within each component the elements are substitutes for each other.
The purpose of this discussion is to underscore the interdependence of the various parts of the tourist industry. A hotel manager, for instance, must realize that what happens in other parts of tourism are critical to the future of the hotel industry, the hotel manager should view the hotel industry not in isolation, but as an integral part of overall tourism (that is, the four major components and the elements in each of these components). Keeping abreast of developments and trends in all segments of the industry will lead to better decision-making capability.

**Demand for Tourists Product?**

Economist define demand as a schedule of the amount of any product or service which people are willing and able to buy at each specific price in a set of possible prices during some specified period of time. Thus, there exist at any one time a definite relationship between the market price and the quantity demanded.

A demand curve graphically depicts the relationships between amounts tourist would purchase TIP at varying prices. We can indicate a range of prices on the vertical (left) side of a graph with the price at zero at the bottom and a maximum price at the top. Similarly, we show a zero amount of TIP purchased at bottom left and maximum TIP to be purchased at the extreme right end of the horizontal (bottom) axis. A curve can then be drawn. The curve will connect intersecting points where price and TIP quantity meet. Typically, TIP quantity and price are inversely related. TIP quantity purchased will rise when the price
is lowered. This condition is known as the law of demand and is true for most commodities. However, there are important exceptions some of which are described already.

**Demand to a Destination**

In somewhat more specific terms, the demand for a particular TIP will be a function of the propensity of the individual to consume and the reciprocal of the resistance of the link between tourist and TIP. Thus:

\[ D = f(\text{Propensity, Resistance}), \text{ where } D \text{ is demand} \]

Propensity can be thought of as a person’s predisposition to TIP. In other words, how willing is the individual to consume TIP, what types of TIP does he or she prefer and what types of TIPs are considered. A person’s propensity to TIP will, quite obviously, be largely considered. A person’s propensity to TIP will, quite obviously, be largely determined by his or her psychographic profile and consumption motivation. In addition, a person’s socio-economic status will also have an important bearing of propensity to consume. It follows that to estimate a person’s propensity to consume; we most understand both psychographic and demographic variables concerning the person. Propensity is directly related to demand.

Resistance, on the other hand, relates to the relative attractiveness of various TIP. This factor is, in turn, a function of several other variables, such as economic distance, cultural distance, the cost to tourist TIP the quality of TIP, effectiveness of advertising
and promotion and seasonality. Resistance is inversely related to demand.

**Economic Distance a Problem for TIP Management/Consumption**

Economic distance for TIP Management / consumption relates to the time and cost involved in traveling from the origin to the TIP destination area and back. The higher the economic distance, the higher the resistance for that TIP and consequently the lower the demand. It follows, conversely, that between any origin and destination point, if the travel time or travel cost can be reduced, then demand will increase. Many excellent examples of this are available, such as the introduction of the Motor Transport. The first cut travel time between Pune and Mahabaleshwar from 12 hours to 5 hours and demand grew dramatically.

**Cultural Distance Problem**

Cultural distance refers to the extent to which the culture of the area from which the tourist originates differs from the culture of the host region. Middle class from Pune visit Mahabaleshwar, since they experience culture of their choice where TIP is available at affordable cost. Those middle class people, however, will not visit cosine at Mumbai where rich people visit. The Pune people due to cultural difference will not perhaps visit the cosine in Mumbai but will enjoy Tamasha Theatre in Pachgani. In general, the greater the cultural distance the greater will be the resistance and greater is difficult to manage by the sellers of Tourist products. In some rare cases,
however, the relationship might be the opposite. For example, the higher the cultural distance between particular origin and destination areas, the more an eccentric person may wish to travel to that destination, to experience this extreme difference. People many times prefer to visit tribes for experiencing different culture.

**Cost of Services Problem**

The higher the cost of TIP at a destination, the higher resistance to TIP to that destination will be and therefore, the lower the demand and more complexities in survival of tourist product firm.

**Quality of Service Problem**

Clearly, the higher the quality of TIP at a destination the lower the resistance will be for TIP to that destination. Although the relationship between quality of service and demand is straight forward enough, a difficulty arises in the interpretation and evaluation of "quality". Evaluation of quality of TIP is a highly subjective matter and what is TIP quality to one tourist is not necessarily quality to another. Secondly, if a tourist does not have previous TIP experience at a destination, can the tourist must select a destination based on what the quality of TIP is perceived to be. Often, due to misleading advertisements or inaccurate input from others, the tourist’s perception of the quality of TIP may not be realized at the destination. Such a situation has serious implications for establishing a repeat clientele, which is an important ingredient for success in the TIP business.

**Seasonality Problem**


The effect of seasonality on TIP demand is quite apparent. The relative attractiveness of a given TIP will depend on the time of year for which a vacation is planned. For a bill station for example, the demand will be at the highest level during the summer months. Resistance is at a minimum in this season.

The following chart illustrates the relationship between propensity, resistance and demand, in terms of these variables as described above.

\[
\text{Demand} = f (\text{Propensity, Resistance})
\]

\[
\begin{align*}
\text{Propensity Depends On:} & \\
\text{Psychographics} & \text{Economic Distance} \\
\text{Demographics (socio-economic status)} & \text{Cultural Distance} \\
\end{align*}
\]

\[
\begin{align*}
\text{Resistance Depends on:} & \\
\text{Economic Distance} & \text{Cost of Tourist Services} \\
\text{Cultural Distance} & \text{Quality of Service} \\
\text{Cost of Tourist Services} & \text{Seasonality} \\
\end{align*}
\]

**Demand, Supply and Measuring Demand**

Demand is strongly affected and limited by the supply. If the TIP supply aspects are not taken into consideration when using TIP demand or use figures, then planners might be led into a false assumption that, in a particular area, the TIP supply should be increased to meet the TIP demand when, in actuality, the increased TIP supply may be needed much more elsewhere.
There are several measures of TIP demand:

1. Visitor arrivals
2. Number of visitor days or nights
3. Amount spent

Visitor Arrivals

These would simply be the number of persons who have appeared at the particular destination with the exception of persons who remain in a carrier terminal building or the immediate vicinity en route to another destination.

Visits and visitors are not the same. A visit is made by a visitor when present at a given time at a destination area. The visitor may make numerous visits to the same place in the course of the year or over a period of years. Each time it is visit-yet the same visitor. The most practical measure of demand then, is visitor days or visitor nights.

Number of Visitor Days or Nights

These are the statistical results of multiplying the number of visitors by the number of days which each visitor spends at the destination. In most cases, this will be an average figure which has been determined by sampling.

There is some however, to a simple report of the number of arrivals. This is the most easily gathered of all data, particularly if visitors come predominantly by public transportation. It is far more difficult to measure the number of visitors who may come by automobile, particularly if a destination is served by many major highways. Regular reporting of visitor arrivals does give planning
personnel some indication of the demand and, particularly, a measure of the changes in demand month by month.

A regular statistical report of average length of stay is also important. Changing trends in the average length of stay, either longer or shorter, can be very significant in determining trends. Another useful statistical device is the average occupancy in motels or hotels. All well managed lodging places keep records of occupancy and a confidential reporting to the tourism organization (then publicized as averages) can provide very significant data.

To make an estimate of the total visitors and visitor days, a combination of statistics is usually necessary. Data is readily obtainable from public carriers such as planes, trains and buses. However, in regard to automobile travel an analysis of the traffic count must be made. Depending on the location, an analysis should exclude local cars, commercial vehicles, business vehicles and obvious commuter type vehicles. Samples can be taken of auto travelers by having them drive off the highways at certain check-points.

If the area has a visitor reception centre, a statistical relationship between the numbers of drivers who pass by the station in relation to those who stop for information may be determined. Then a tabulation of the visitors who enter the reception point can be projected to the total number of visitors. Statistics relating to different modes of transportation can be distributed by months to determine seasonal trends. Also, of course, year by year statistics are helpful in this respect.
Amounts Spent

This is the most meaningful measure of demand, if accurately determined. However, it is the most difficult measure to obtain and to use. Statistics of this type tend to be hidden or partially forgotten by the traveler and are often not as accurate as would be desired.

Measuring Tourism Expenditure through Tax Collections

A case of Mahabaleshwar, there is a sales tax on consumer items which provides a convenient method for determining the amount of money which the tourist spends in Mahabaleshwar. If we know what taxes are paid by the tourist, we can capitalize this tax item by the tax rate or percentage and arrive at a total estimate of tourist expenditures. If we know what purchases were made by tourists and what percentage these particular purchases were of the tourist expenditures, we could calculate the estimated total volume of tourist expenditures at Mahabaleshwar. If we know that percentage of the typical tourist Rs. Is spent for hotel and motel rooms, we could make an estimate of total expenditure. In addition to this, we could have to know the percentage of tourist who use commercial accommodations as opposed to those who stay with friends and relatives, camp or who do not stay overnight in commercial accommodations.

Measuring Expenditure through Questionnaire

Tourist on sample basis staying in hotels would be interviewed for their expenditure and total expenditure will be estimated.
Predicting Demand for Tourist Product

While it is critical to know what the TIP demand level is at present, it is even more important for planning purposes to have an estimate of what TIP demand will be in the future. This is because any new or existing TIP business venture requires the commitment of resources at the present in the hope of getting suitable returns in the future. And to predict what revenues will be in the future, it is necessary for the planner to obtain reliable estimates of future TIP demand. Such estimates can be in terms of one or more of the measures of demand. All demand estimates are just that—estimates—and the planner should be cognizant of the uncertainties surrounding them.

For every profile the following five sets of data must be available:

1. Estimates of the number of tourists anticipated during the target year and interim periods as forecast under various alternatives of promotion policy and relative prices. Forecasting can either follow the conventional path of extrapolation or employ more sophisticated methods such as econometric models based on demand functions.

2. Quantitative information on anticipated demand for the various tourist activities in physical terms (duration of stay in terms of number of tourist-days spent at the seaside, number of hours spent visiting various types of tourist sites) and on minimum requirements for predefined standards of services.

3. Detailed breakdown of the anticipated outlays for various types of tourist services (hotels, restaurants, shopping, tours, entertainment, transportation and so forth) expressed in
monetary terms, including direct and indirect foreign currency expenditures.

4. Seasonal distribution of the demand unless the demand profile defines a particular season.

5. Regional distribution consistent with the demand profile and some indication of regional trade-off from the demand point of view.

Having defined the demand profiles, their behavior and the associated outlay functions, the coefficients from these functions will be calculated for every demand profile in appropriate units.

Several statistical methods or econometric analyses can be used to project demand. All require a degree of statistical or mathematical sophistication, familiarity with computers and a clear understanding of the purposes (and limitations) of such projections. Listed are several such methods with brief explanations.

Executive Judgment (Delphi) Method

Mathematical and statistical models are most useful and often produce accurate results. However, the combined experience of tourism executives is also valuable. The Delphi method, in essence, consists of a systematic survey of such experts. A series of questions is asked and then the results, as a consensus, are reached. Mathematical-statistical tools cannot incorporate the influences of variables not explicitly included in the model. For example, under multiple regressions, income and travel prices were the only two variables used to predict demand. However, other factors such as the fuel situation,
changes in taste, and amounts of leisure and the effectiveness of promotion campaigns obviously have an impact on demand levels. By the Delphi method, the combined effects of all such factors are carefully considered from the base of the executive’s experience.

For estimating tourism demand, then, a combination of various mathematical-statistical methods and the Delphi method is believed to produce the most reliable demand estimates in any given situation.

**Economic Benefits of Travel and Tourism**

An “economic benefit” is best understood as a gross increase in the wealth or income, measured in monetary terms, of people located in an area over and above the levels that would prevail in the absence of the activity under study, *ceteris paribus*.

We are interested in “gross” increases because we will estimate the cost of the activity separately. Subtracting the gross costs from the gross benefits produces a measure of net economic benefit, either positive or negative.

We concentrate on the economic benefits (or costs) for the sake of convenience only, not because other, non-monetary benefits are insignificant. Economic benefits are measured in terms of money and are amply documented in available data. It is far more difficult to measure the psychic benefits of travel, such as a relaxed feeling, lower blood pressure, or enjoyment of beautiful surroundings. Techniques to measure these non-monetary benefits are beyond the scope of these chapters. Indeed, little work has been done in this area. This does not
mean these non-momentary benefits are insignificant, only that we have few objective means of measuring them at the current time.

It is important to understand that economic benefits should actually accrue to the people located in the area under study. If we want to estimate the economic benefits of travel to the people who live or work in Missouri, we should be sure the economic benefits actually redound to these people.

Our analysis assumes the absence of these benefits if travel did not occur in the area, ceteris paribus. One could argue that with the cessation of tourism in an area, other industries would spring up to provide the same amounts of employment and income. However, this is by no means assured. Employees and proprietors skilled in tourism service could not necessarily find immediate employment in a manufacturing plant. We want to know what travel is contributing to the economy of an area under certain conditions. Analysis of alternative industries that could replace tourism, should tourism disappear is beyond the scope of the study of travel’s economic benefits.

Finally, a word about terms used to represent economic benefits. The one most often found in economic discussions of travel is “travel expenditures”. However, a little thought reveal that expenditures mean little in themselves to the income and wealth of community.

If travelers purchase all their goods and services from residents who employ labour and supplies originating solely in the area, then
travel expenditures represent income to the community. However, it is far more common for travel-related business to purchase most of the supplies they need, and often labour as well, from sources outside the community. The gasoline station operator must buy gasoline from supplier usually refining oil many miles away. Expenditures on an airline ticket do not remain in the community for long, but rather are remitted to same central office to pay for salaries, depreciation, fuel, and other items not found in the community where the ticket was bought.

Many of the goods purchased by travelers are likely to have high import content, that is, consist primarily of intermediate goods produced outside the community. Even services, especially common carrier transportation, may have few linkages with the local economy. Consequently, of focus on travel expenditures as the measures of economic benefits to an area’s residents is to grossly misstate the actual benefits generated in the area in many cases.

For a more accurate view, we must calculate the personal income and corporate profits generated by travel spending. We can also look at employment as an important economic policy objective. Government revenue generated by travel expenditures is a valuable measure as well, for it helps convince governments to include tourism in public economic development strategies and treat tourism fairly in energy, regulatory, and other public policies.

Travel expenditures are an initial cause of economic benefits, but should not confuse with these effects. Table 11.1 provides a
comprehensive outline of them major types of economic benefits derived from travel and tourism.

Economic Costs of Travel and Tourism

We normally think of the "costs of travel" as the explicit prices the traveler pays for his trip his "private costs". He purchases transportation, lodging, food, entertainment, and numerous other goods and services, all explicit prices in the market Place.

However, it is important to recognize that all of the costs associated with a trip are not paid explicitly by the traveler. Some are paid explicitly and implicitly by others. These costs borne by others but related to the traveler’s activities fall into the general class economists call “spillover effects” or “externalities”. The distinction is between the "private cost" of the trip, those paid explicitly by the traveler for goods and services in the market Place, and "social costs," which represent all other values that must be sacrificed, all the disutility generated by the production processes that is not recompensed by traveler purchases (Heilbroner and Thurow 1978, pp.229-235).
### Chart No. 3.3: Economic Benefits of Travel and Tourism

<table>
<thead>
<tr>
<th>A.</th>
<th>Primary or Direct Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Business Receipts</td>
</tr>
<tr>
<td>2.</td>
<td>Income</td>
</tr>
<tr>
<td></td>
<td>(a) Labour and proprietor’s income</td>
</tr>
<tr>
<td></td>
<td>(b) Corporate profits, dividends, interest and rent</td>
</tr>
<tr>
<td>3.</td>
<td>Employment</td>
</tr>
<tr>
<td></td>
<td>(a) Private employment</td>
</tr>
<tr>
<td></td>
<td>(b) Public employment</td>
</tr>
<tr>
<td>4.</td>
<td>Government Receipts</td>
</tr>
<tr>
<td></td>
<td>(a) Federal</td>
</tr>
<tr>
<td></td>
<td>(b) State</td>
</tr>
<tr>
<td></td>
<td>(c) Local</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>B.</th>
<th>Secondary Benefits</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>Indirect Benefits generated by primary business outlays, including investTIPent</td>
</tr>
<tr>
<td></td>
<td>(a) Business receipts</td>
</tr>
<tr>
<td></td>
<td>(b) Income</td>
</tr>
<tr>
<td></td>
<td>(c) Employment</td>
</tr>
<tr>
<td></td>
<td>(d) Government receipts</td>
</tr>
<tr>
<td>2.</td>
<td>Induced Benefits generated by spending of primary income</td>
</tr>
<tr>
<td></td>
<td>(a) Business receipts</td>
</tr>
<tr>
<td></td>
<td>(b) Income</td>
</tr>
<tr>
<td></td>
<td>(c) Employment</td>
</tr>
<tr>
<td></td>
<td>(d) Government receipts</td>
</tr>
</tbody>
</table>

To the extent that we can make all spillover cost explicit and include them in the costs the traveler pays, we will maximize welfare. The traveler then faces higher costs which reflect all of the costs of his trip, and on this basis chooses whether to purchase travel or not. The higher costs are also a signal to industry that competitive advantage can be gained by producing at lower than the prevailing costs, through greater efficiency either indirectly serving the traveler or mitigating the
externalities generated by the traveler. However, in practice, there will always be uncompensated externalities to deal with.

As table indicates, we can make a useful distinction between the "private costs" of visiting community and the "social cost" depending upon whether the visitor explicitly pays the market prices for travel goods and services to the costs are borne by the residents of the community as results of the visit.

<table>
<thead>
<tr>
<th>Chart 3.4</th>
<th>Outline of the Costs of Travel and Tourism</th>
</tr>
</thead>
<tbody>
<tr>
<td>I.</td>
<td>Private costs</td>
</tr>
<tr>
<td>II. Social Costs</td>
<td></td>
</tr>
<tr>
<td>A. Direct Social Costs</td>
<td></td>
</tr>
<tr>
<td>1. Life quality costs</td>
<td></td>
</tr>
<tr>
<td>(a) Congestion</td>
<td></td>
</tr>
<tr>
<td>(b) Pollution</td>
<td></td>
</tr>
<tr>
<td>(c) Danger to life, health and property</td>
<td></td>
</tr>
<tr>
<td>2. Fiscal costs</td>
<td></td>
</tr>
<tr>
<td>(a) Public services</td>
<td></td>
</tr>
<tr>
<td>(b) Public investTIPent</td>
<td></td>
</tr>
<tr>
<td>B. Indirect Social Costs</td>
<td></td>
</tr>
<tr>
<td>1. Life quality costs</td>
<td></td>
</tr>
<tr>
<td>2. Fiscal costs</td>
<td></td>
</tr>
</tbody>
</table>

Frequently, other distinctions are made in the discussing the overall costs of tourism; economic costs, social costs, environmental costs, fiscal costs, and life quality costs. These distinctions are valid if we are interested in who initially bears the burden, or what is initially sacrificed. They are also useful for actually measuring the costs associated with tourism. However, it should be recognized that these distinctions are not very useful for determining who finally bears the
burden of visitation to a community. Instead, they reflected how a
given community has decided to allocate the social costs of visitors at a
given point in time.

The term "economic costs" covers all costs, private and social,
explicit and implicit, and refers to the value of what must be scarified
(called the "opportunity cost" by economists) to provide the visitors
experience. It is important to remember that we are interested in the
sacrifice or scarce goods and services to provide the experience. The
fact that a visitor breathes air or absorbs the sun is not a cost to the
economy, because the residents are not giving up anything scarce that
they own and value.

The term "social costs" is used to cover all of the implicit
externalities of the visitor experience, as noted above. "Environmental
costs" are reductions in the quality of air, water, land, flora, and fauna
in our area. These are initially imposed upon those who "consume"
them, either directly (e.g. breathing air) or in recreation and enjoyment.
"Fiscal costs" are those imposed by government on residents or
visitors through taxes, user fees, license fees, fines, and admission
charges. "Life quality costs" are those that reduce our standard of
living in some non-momentary way. For example, highway congestion
increases the time I must spend commuting to and from work. Since I
do not enjoy time spent commuting, this is a reduction in the quality of
my life. Virtually all environmental costs are life quality costs, but not
all life quality costs are environmental costs.

Environmental costs, fiscal costs, and reduction in resident
standards of living or quality of life are all social costs, and demote
which groups or entity is initially bearing the cost at the current time. They do not designate who finally sacrifices value.

An example will make this clear. Tourists crowd a park that I enjoy visiting in my town. If nothing is done, then I bear the burden as a reduction in the quality of my life. I do not enjoy visiting the park as much as I would in the absence of the visitors. The visitors may also pollute the stream running through the park, again reducing the quality of life for us residents. If nothing is done about this, we residents directly bear these costs and the visitors do not.

However, as residents we have several options. For one, we can persuade the government to impose admission fees for the park. This will not only limit visitor demand somewhat and reduce crowding, but also provide funds for cleaning up the stream and hiring park attendants to prevent pollution. If the admission fees now reduce crowding to its pre-visitor level and provide funds for returning the environment to its pre-visitor state, then the environmental life qualities costs have becomes private costs and have been shifted to the visitors and residents who use the park. (In actual practice, it is unlikely that admission fees will both reduce visitor demand significantly and provide enough fund for cleaning up the park, since these are conflicting objectives: we achieve fewer visitors at the expense of revenue).

There is another option. The residents can vote to spend public funds on enlarging the park and fencing in the stream. If successful in returning the park to its pre-visitor level of congestion and environmental quality, this tactic has turned one type of social cost (life quality) into another (fiscal). However, in the absence of higher
admission fees, the citizens run the danger of attracting even more visitors than before, and there is no guarantee that the taxes required to pay for the park enlargement will be generated by the visitors or local users. The fact that the costs are now fiscal instead of life quality does not tell us who finally pays them. It could be that the residents have just transformed the costs but still must bear them on behalf of the visitors.

Residents can also attempt to reduce congestion and other ill effects of tourism by treating visitors in a repellent manner. In this way, travelers may be dissuaded from returning. It is not clear that negative resident attitudes are effective in reducing visitation, but the resident may not approach this issue in a rational manner (Pizam and Acquaro 1977, pp. 7-11).

Measuring the economic costs of tourism and comparing them to the economic benefits are discussed in a following chapter.

Uses of Economic Impact Studies

Measurement of the economic benefits and costs of travel and tourism can help meet a variety of objectives for both marketers and planners. These studies can inform public officials and business managers of the net benefits of investing in travel promotion or tourism and recreation facilities. The studies can also show how the costs and benefits are distributed geographically and among residents. Economic impact studies can help tourism marketers evaluate the effectiveness of marketing efforts and the effects of additional facilities on demand for current ones. Estimates of tourism's economic impact can educate travel-related employees about their role in economic and
business development and how their services contribute to the economic health of their communities. By displaying the net returns to promotional and facility investment, these studies can encourage both business and government to seek out cooperative ventures with other organizations for mutual benefit. By demonstrating the effects of travel development to the general public, economic impact studies can help citizens rationally choose whether to encourage or resist additional tourism marketing or development efforts. Economic impact studies also aid public officials in developing laws and policies that best promote the economic, social, and cultural health of their citizens and in avoiding, decisions that would threaten this health.

In short, the estimation of the economic benefits and costs of travel and tourism activities permit consumers, business, and government to make efficient and effective marketing and development decisions.
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