Managerial Economics for Tourism

TOURISM SUPPLY

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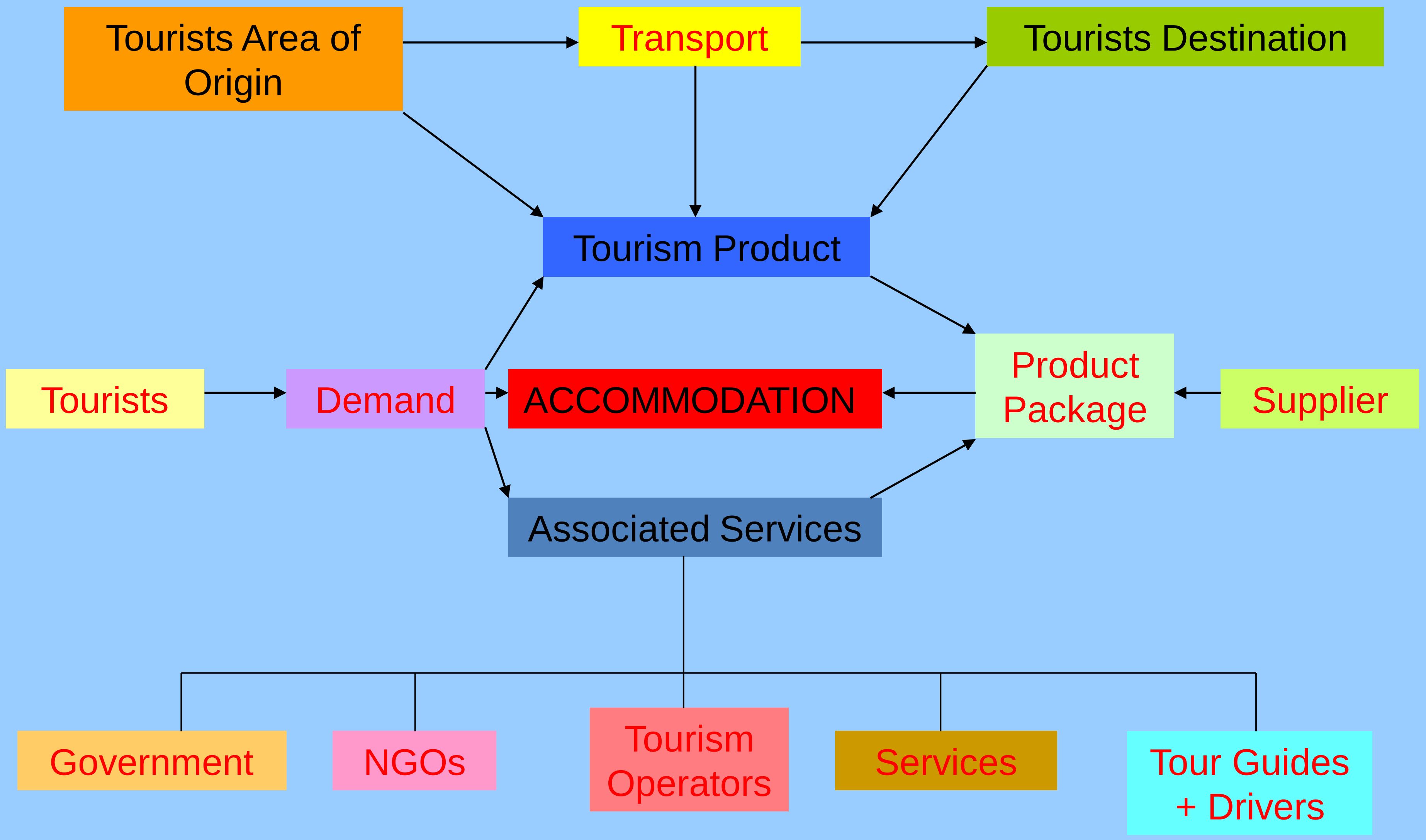
The supply of all assets, services and goods to be enjoyed or bought by visitors and occasioned by the journeys of visitors.

TOURISM SUPPLY

Tourism supply is a composite product involving transport, accommodation, catering, natural resources, entertainment, and other facilities and services, such as shops and banks, travel agents and tour operators.

Components of Tourism Supply *(supply chain)*



SUPPLY COMPONENTS

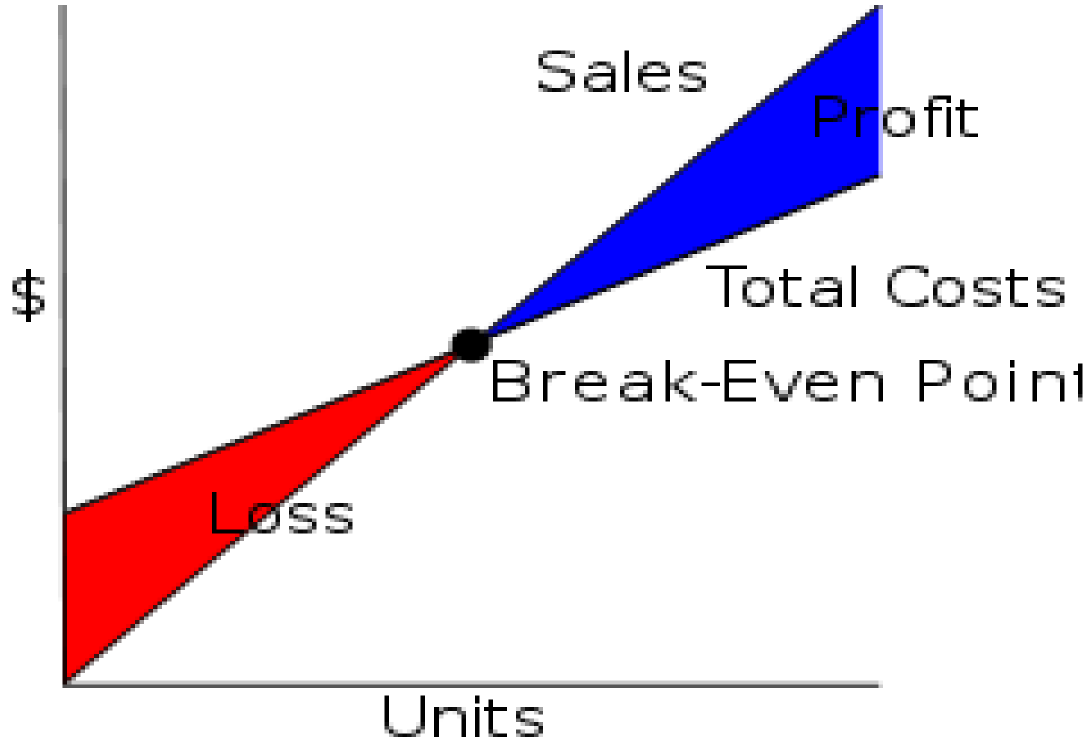
- **Natural or environmental resources (physiographic of the area, landforms, flora, fauna, water bodies, air quality and similar natural phenomena)**
- **Attractions (theme parks, museums, buildings, ski-slopes)**
- **Built or man-made resources**
- **Transportation**
- **Hospitality and cultural resources (friendliness, courtesy, sincere interest and willingness to serve and to be better acquainted with visitors)**
- **Infrastructure (telecommunications, accommodation and transport)**
- **Superstructure (include facilities constructed primarily to support visitation and visitor activities.)**
- **Marketing/Promotion and Destination Image**

FACTORS AFFECTING TOURISM SUPPLY

1. **Economic**
2. **Political**
3. **Geographical**
4. **Legal**
5. **Technological**
6. **Social**

DEMAND-SUPPLY LINK

BREAK-EVEN ANALYSIS



MANAGERIAL ECONOMICS FOR TOURISM

The Break-Even Point

- The **break-even point** (BEP) in economics, business—and specifically cost accounting—is the point at which total cost and total revenue are equal. There is no net loss or gain, and one has "broken even," though opportunity costs have been paid and capital has received the risk-adjusted, expected return. In short, all costs that must be paid are paid, and there is neither profit nor loss.

Overview

- The break-even point (BEP) or break-even level represents the sales amount—in either unit (quantity) or revenue (sales) terms—that is required to cover total costs, consisting of both fixed and variable costs to the company. Total profit at the break-even point is zero. It is only possible for a firm to Break-even, if the dollar value of sales is higher than the variable cost per unit. This means that the selling price of the good must be higher than what the company paid for the good or its components for them to cover the initial price they paid (variable costs). Once they surpass the break-even price, the company can start making a profit.

- The break-even point is one of the most commonly used concepts of financial analysis, and is not only limited to economic use, but can also be used by entrepreneurs, accountants, financial planners, managers and even marketers. Break-even points can be useful to all avenues of a business, as it allows employees to identify required outputs and work towards meeting these.

- The Breakeven value is not a generic value and will vary dependent on the individual business. Some businesses may have a higher or lower breakeven point, however it is important that each business develop a break-even point calculation, as this will enable them to see the number of units they need to sell to cover their variable costs. Each sale will also make a contribution to the payment of fixed costs as well.

- If the business does not think that they can sell the required amount of units, they could consider the following options:
- 1. Reduce the fixed costs. This could be done through a number or negotiations, such as reductions in rent, or through better management of bills or other costs.
- 2. Reduce variable costs by, for example, finding a new supplier that sells tables for less.
- 3. Increase the quantity of tables they sell.
- Any of these options can reduce the break-even point so the business need not sell as many tables as before, and could still pay fixed costs.

Purpose

- The main purpose of break-even analysis is to determine the minimum output that must be exceeded for a business to profit. It also is a rough indicator of the earnings impact of a marketing activity. A firm can analyze ideal output levels to be knowledgeable on the amount of sales and revenue that would meet and surpass the break-even point. If a business doesn't meet this level, it often becomes difficult to continue operation.

- The break-even point is one of the simplest, yet least-used analytical tools. Identifying a break-even point helps provide a dynamic view of the relationships between sales, costs, and profits. For example, expressing break-even sales as a percentage of actual sales can help managers understand when to expect to break even (by linking the percent to when in the week or month this percent of sales might occur).

- The break-even point is a special case of Target Income Sales, where Target Income is 0 (breaking even). This is very important for financial analysis. Any sales made past the breakeven point can be considered profit (after all initial costs have been paid)
- Break-even analysis can also provide data that can be useful to the marketing department of a business as well, as it provides financial goals that the business can pass on to marketers so they can try to increase sales.

- Break-even analysis can also help businesses see where they could re-structure or cut costs for optimum results. This may help the business become more effective and achieve higher returns. In many cases, if an entrepreneurial venture is seeking to get off of the ground and enter into a market it is advised that they formulate a break-even analysis to suggest to potential financial backers that the business has the potential to be viable and at what points.

MANAGERIAL ECONOMICS FOR TOURISM

Balance of payment

* Introd
uction
* Definition of BoP
* Importance of BoP
* Composition of BoP

Content

* The **balance of payments** (BOP) records financial transactions made between consumers, businesses and the government in one country with others

* What is the Balance of Payments?

* A record of all transactions made between one particular country and all other countries during a specified period of time.

Definition of BoP

* The Current Account
* The Capital and financial Account
* **Official Settlements Account**
* **Errors and Omissions**

Composition of BoP

Importance of BoP

* Income Growth
* External orientation
* Relationship between trade in goods and services and direct investment flows
* Links between the exchange rate and the current and financial accounts
* International banking transactions
* Assets securitization and financial market developments
* External debt situation

- *Trade* – buying and selling of goods and services
  - *Exports* – a credit entry
  - *Imports* – a debit entry
    - *Trade balance* – the sum of Exports and Imports
- *Factor income* – repayments and dividends from loans and investments
  - *Factor earnings* – a credit entry
  - *Factor payments* – a debit entry
    - *Factor income balance* – the sum of earnings and payments.

Current account

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* **Capital Account** = Foreign direct investment + Portfolio investment + other investment + Reserve account

* Current Account=trade balance + Service + Income-Transfers

* Current Account and Capital Account

* BALANCE OF PAYMENTS SURPLUS
* BALANCE OF PAYMENTS DEFICIT
* CAPITAL ACCOUNT DEFICIT
* BALANCE OF TRADE SURPLUS

* Running a deficit on the current account means that the country is not paying its way in the global economy. There is a net outflow of demand and income from the circular flow of income and spending.

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* High income elasticity of demand for imports – when consumer spending is strong, the volume of imports grows quickly
* Long-term decline in the capacity of manufacturing industry because of de-industrialization.

What are the main

Main causes of a Current Account deficit

* High income elasticity of demand for imports
* Long-term decline in the capacity of manufacturing industry because of de-industrialization.
* India is a net importer of foodstuffs and beverages and has also seen a sharp rise in spending on imports of oil and gas.
* The trade balance is vulnerable to shifts in world commodity prices and exchange rates. The Sri Lanka imports a large volume of raw materials, component parts and pieces of capital equipment.

Balance of Trade

MANAGERIAL ECONOMICS FOR TOURISM

Introducti
on

- It is the difference between a country's imports and exports over a period of time.
- It is the largest component of the balance of payments for all nations.
- Debit items of a country include are important in balance of trade. They include:

a. foreign aid
b. imports and domestic spending
c. investments abroad.

- The credit items on the other hand include :

a. exports
b. foreign spending
c. investments in the domestic economy

- Balance of trade is one of the indicators of economy.
- It is measured in monetary value and also over a period of time.

Positive and Negative Balance of Trade

- It is positive when the exports are more than the imports.
- This can also be referred to as trade surplus.
- When the imports are more than the exports, it is said to be negative.
- The balance of trade can be divided into a balance of goods and services at times.

Discussion

- Trade balance is similar to the difference that exists between a nation's domestic demand and output.
- This is the difference between the value of goods that a country produces and the ones that it purchases from abroad.
- It does not include money that is re-spent on foreign stock.
- It measurement include an equal debit or credit in the account of every country.

Factors Affecting Balance of Trade

- Cost of production in the exporting economy compared to that in the importing economy.
- Exchange rates
- Restrictions on trade
- Cost and availability of inputs like raw materials.
- Price of locally manufactured goods
- Availability of sufficient foreign exchange to be used for payment for imports.

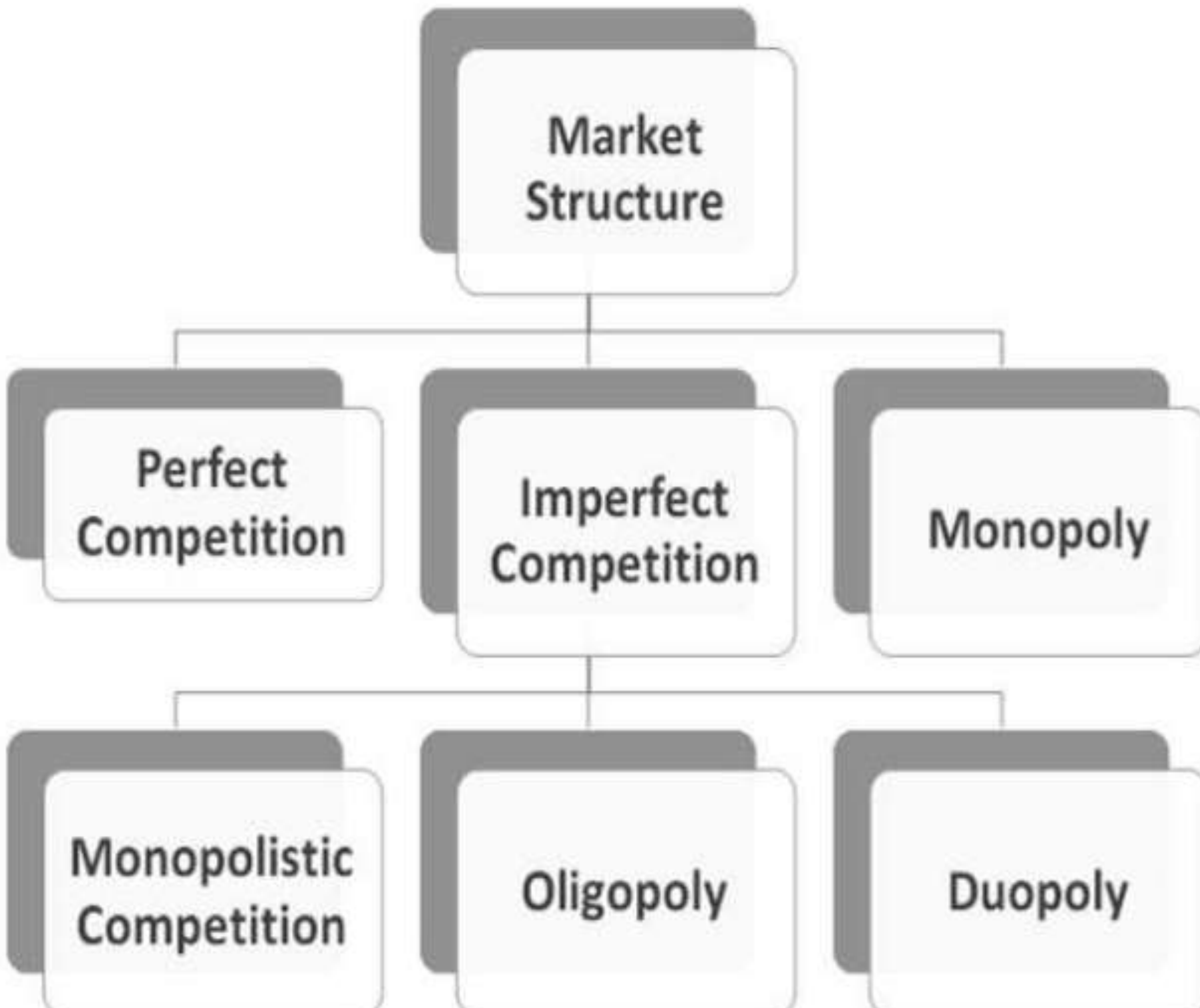
Conclusion

- Balance of trade usually differs across business cycles.
- Where exports are more than imports, there will be an improvement balance of trade.
- This is during expansion of the economy.
- A country that is characterized with high domestic or import demand will experience an unfavorable balance of trade .
- This is when it gets to a similar stage in the business cycle.

MANAGERIAL ECONOMICS FOR TOURISM

Market Structure

Market Structure



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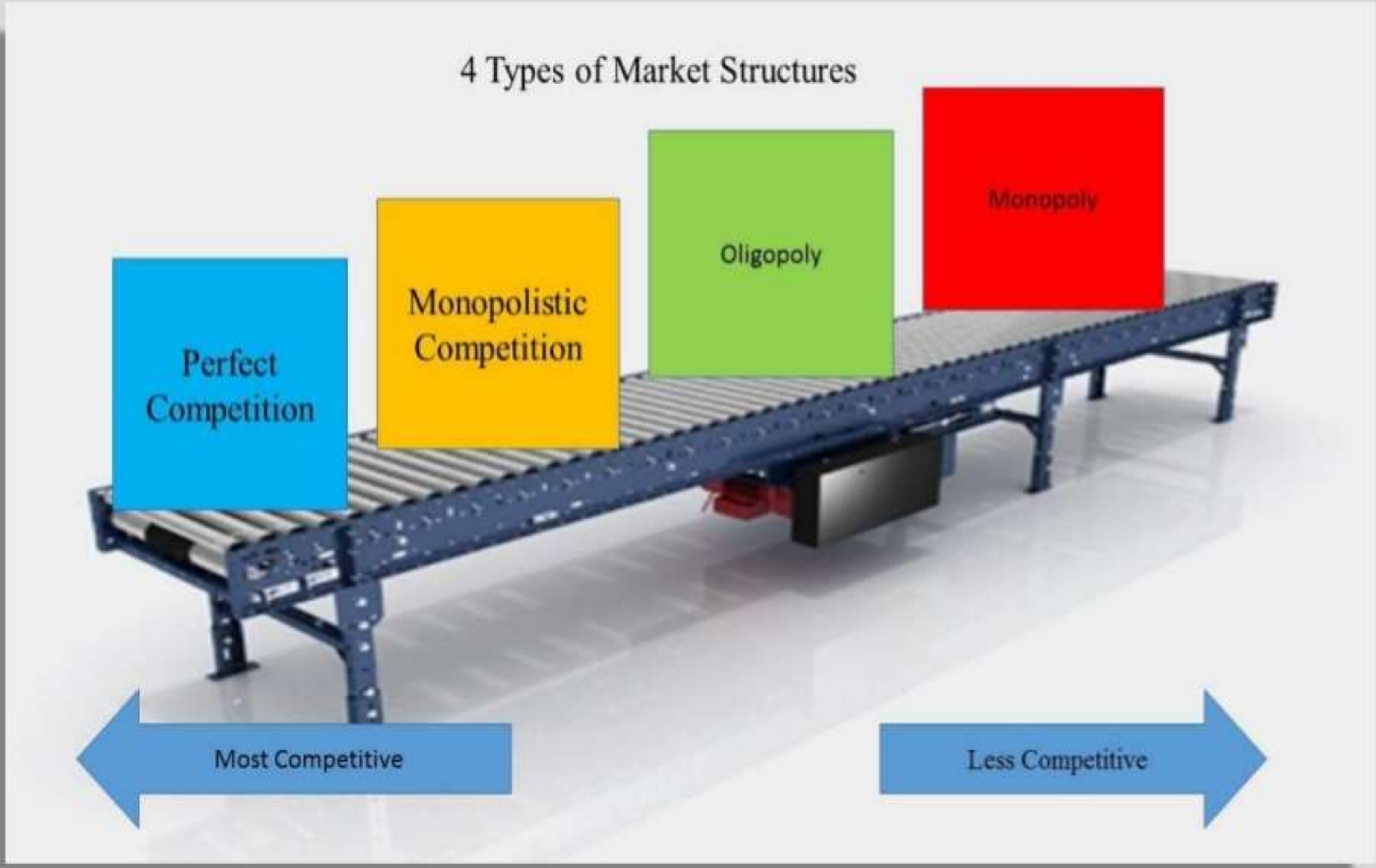

Market Structure

PERFECT COMPETITION

- It is such a market structure where there are large numbers of sellers and buyers.
- Homogeneous product .
- The price of the product is determined by the industry .
- One price prevails in the market and all the firms sell the product at the prevailing price .

CHARACTERSTICS

- Large number of buyers and sellers
- Homogeneous product
- No barriers to entry
- Perfect knowledge of the market
- No transportation cost
- Perfect mobility of factors of production

MONOPOLY

- It is a market structure in which there is only a single seller of the product .
- One firm has full control over the supply of the product .
- Example : Indian Railways , Rajasthan State Electricity Board etc.

CHARACTERSTICS

- Sole supplier of the product
- Large number of buyers
- No close substitutes
- One firm industry
- Varies from industry to industry
- Absence of entry
- Monopolist is price maker

Monopolistic competition

- It is a mid-way between perfect competition and monopoly .
- In this the number of buyers and sellers is relatively low .

CHARACTERSTICS

- Large number of firms
- Product differentiation
- Freedom of entry and exit
- Non price competition
- Price policy
- Less mobility
- No perfect knowledge
- Selling cost
- Close substitutes

OLIGOPOLY

- It is a market structure in which there are few sellers of a product selling identical or differentiated products .
- If they are selling identical products, it’s a case of Pure Oligopoly.
- If they are selling differentiated products, it’s a case of Differentiated Oligopoly .

Characteristics

- Relatively small number of sellers
- Interdependence of the firms
- Price rigidity and price war
- Difficulty in entry and exit
- Selling Costs
- Indeterminateness of the demand curve
- Complex market structure

END

THANK YOU