Exam 1

1. During the second half of the twentieth century the number of international tourists increased from 25 million to nearly 700 million, an annual growth rate of 7%. Please answer the following questions. *(10 points)*

(a) Name and briefly explain three factors that led to such a large increase in international tourism arrivals.

(b) Where do most tourists (the top three countries) in the world come from? Why?

(c) Do you expect the number of tourists to continue growing at the rate of 7% per year? Why or why not?

(d) How will socioeconomic changes affect the regions from which tourists depart and the regions to which tourists travel to?

(e) What is a better way to measure tourism activity besides number of travelers? Why is it superior?

2. Explain what type of effects is the Internet likely to have on tourism. Consider how it is likely to affect the number of tourists, prices, how tourists book their travel, the places tourists travel to and the activities tourists engage it. Use numbers and specific examples to support your answers. Find at least two articles to help answer this question and correctly cite them. Answer in no more than a page.

3. Decide whether each of the following statements is true or false and provide a BRIEF rational for your decision.

(a) Hotel prices in Myrtle Beach are less likely to fluctuate over the course of the year than hotel prices in New York

(b) The number of tourists traveling from India is likely to increase over the next decade.

(c) Europeans are more likely than Japanese to travel on a package tours

(d) Value added in the tourism industry is always higher than profit

(e) The tourist industry is very capital intensive

4. Suppose that you are given the following utility function: $U = \ln(L) + \frac{1}{2}(C)$. Where L is leisure and C is consumption of all other goods. Let P_L be the price of leisure and suppose that the price of consumption, P_C, is 1 (for simplicity). Assume that the wage rate is $10 and there are 24 hours per day (T=24). Solve the following question and make sure to show ALL your work and to circle your answers.

(a) Write the utility maximization problem and the budget constraint

(b) What are the first order conditions of the utility maximization problem

(c) Express L as a function of the price of leisure

(d) If $P_L = 1/3$ how much consumption would the consumer choose and how much leisure

(e) What would the consumer do if the price of leisure was 1/4?