MODULE # 4
TOURISM ECONOMICS

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OVERVIEW

Tourism Economics is an international peer reviewed journal, covering the business aspects of tourism in the wider context. It takes account of constraints on development, such as social and community interests and the sustainable use of tourism and recreation resources, and inputs into the production process. The definition of tourism used includes tourist trips taken for all purposes, embracing both stay and day visitors.

INTENDED LEARNING OUTCOMES

PROVIDE KNOWLEDGE ABOUT MACROECONOMICS
LEARN THE VARIOUS ECONOMIC TOURISM
UNDERSTAND THE CHARACTERISTICS OF MACROECONOMICS
KNOW THE DIFFERENTIATE OF MICROECONOMICS BETWEEN MACROECONOMICS

CONTENT

- MACROECONOMICS
- CHARACTERISTICS/FEATURES OF MICROECONOMICS
- DIFFERENCE BETWEEN MICROECONOMICS AND MACROECONOMICS

MICROECONOMICS

- **Explanation:**
- The key realization here is that microeconomics, as the prefix says, deals with the economy on a narrow scale, for instance, the economic decision making of individual factors.
- Here are some examples of microeconomics:
- How a local business decides to allocate their funds
- How a city decides to spend a government surplus
- The housing market of a particular city/neighbour hood
- Production of a local business
- Microeconomic concepts

MICRO ECONOMIC CONCEPTS

are involved with decisions made by firms and households. The specific concepts being focused on are:

- marginal utility and demand
- diminishing returns and supply
- elasticity of demand
- elasticity of supply
- market structures (excluding perfect competition and monopoly)
- role of prices and profits in determining resource allocation.

Teaching and learning for a topic involving microeconomic concepts from the list above would typically require a minimum of three different microeconomic concepts to be studied.

KEY CONCEPT INDICATORS

For each microeconomic concept:

- Defines or describes the microeconomic concept.
- Processes and/or presents sufficient data or information related to the microeconomic concept to support:
- A detailed explanation of the microeconomic concept
- A justification about the implications of microeconomic concept.
- Illustrates the microeconomic concept on an appropriate economic model.
- Provides a detailed explanation the microeconomic concept that is supported by reference to both:
- Specific processed and/or presented data or information on the economic model used to illustrate the concept.
- Provides a detailed explanation to justify the implication of the micro economic concept for one of:

- a consumer
- a producer
- government.

CHARACTERISTICS/FEATURES OF MICROECONOMICS

Classical economists always insisted on micro economics because they believed that it is better to understand concept at individual level and then go for general (or macro) level. E.g. first understanding individual consumer behavior and then analyzing the behavior of entire market.

1**. Nature of Analysis**

In micro economics, the behavior of individual consumers and producers in detail is analyzed. It is study of subject matter from particular to general.

2**. Method**

Micro economics divides the economy into various small units and every unit is analyzed in detail. It is a slicing method.

3. **Scope**

Micro economic analysis involves product pricing, factor pricing and theory of welfare.

4**. application**

Both theoretically and practically, micro economics is useful in formulating various policies, resource allocation, public finance, international trade, etc.

5. **Nature of Assumptions**

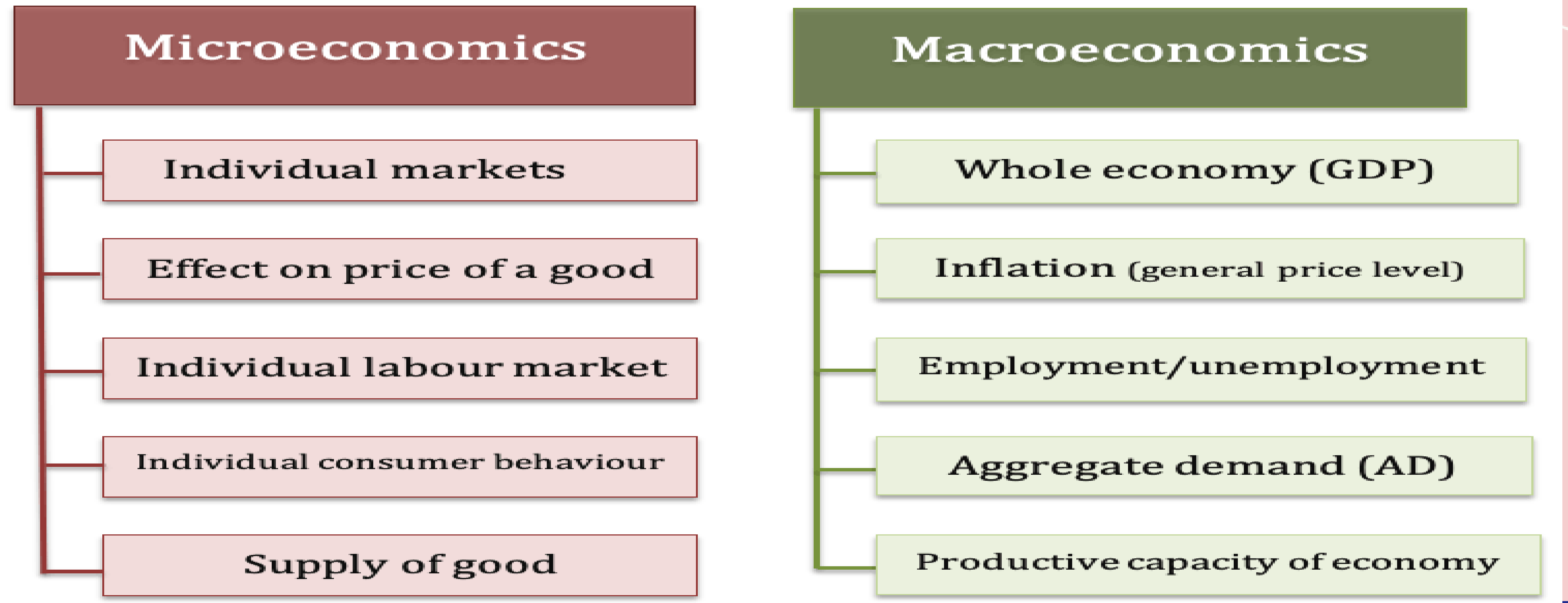
Assumption of Ceteris Paribus is always made in every micro economic theory. It means theory is applicable only when 'other things being same'.

DIFFERENCE BETWEEN MICROECONOMICS AND MACROECONOMICS

Could you differentiate between micro economics and macro economics?

- Microeconomics is the study of particular markets, and segments of the economy. It looks at issues such as consumer behaviour, individual labour markets, and the theory of firms.

- Macro economics is the study of the whole economy. It looks at ‘aggregate’ variables, such as aggregate demand, national output and inflation.



MICRO ECONOMICS INVOLVES

- Supply and demand in individual markets.
- Individual consumer behavior. e.g. Consumer choice theory
- Individual labor markets – e.g. demand for labor, wage determination.
- Externalities arising from production and consumption. e.g. Externalities

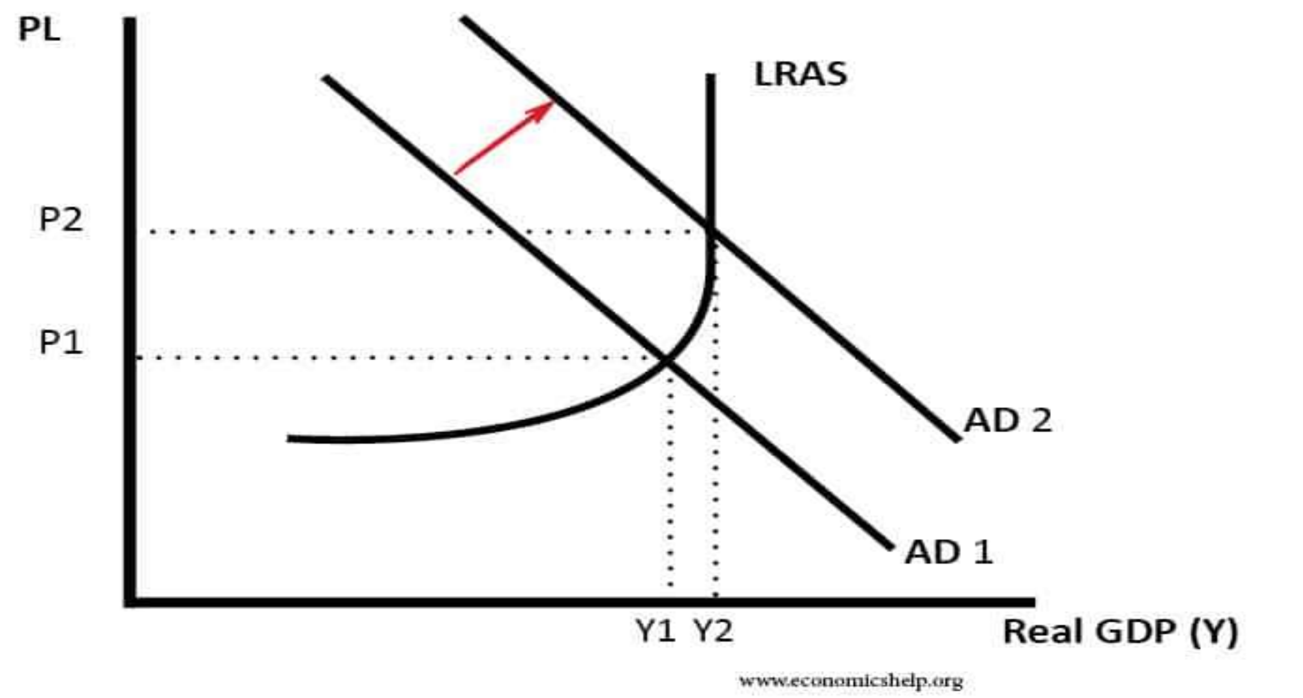
MACRO ECONOMICS INVOLVES

- Monetary / fiscal policy. e.g. what effect does interest rates have on the whole economy?
- Reasons for inflation and unemployment.
- Economic growth
- International trade and globalization
- Reasons for differences in living standards and economic growth between countries.
- Government borrowing

MOVING FROM MICRO TO MACRO

This micro economic analysis shows that the increased demand leads to higher price and higher quantity.

MACRO ECONOMIC ANALYSIS



- The macro diagram is looking at real GDP
- (which is the total amount of output produced in the economy) instead of quantity.
- Instead of the price of a good, we are looking at the overall price level (PL) for the economy. Inflation measures the annual % change in the aggregate price level.
- Instead of just looking at individual demand for cars, we are looking at aggregate demand (AD) – total demand in the economy.
- Macro diagrams are based on the same principles as micro diagrams; we just look at Real GDP rather than quantity and Inflation rather than Price Level (PL)

THE MAIN DIFFERENCES BETWEEN

MICRO AND MACRO ECONOMICS

1. Small segment of economy vs whole aggregate economy.
2. Microeconomics works on the principle that markets soon create equilibrium. In macro economics, the economy may be in a state of **disequilibrium** (boom or recession) for a longer period.
3. There is little debate about the basic principles of micro-economics. Macro economics is more contentious. There are different schools of macro economics offering different explanations (e.g. Keynesian, Monetarist, Austrian, Real Business cycle etc.).
4. Macro economics places greater emphasis on empirical data and trying to explain it. Micro economics tends to work from theory first –
5. though this is not always the case.

DIFFERENCES BETWEEN

MICROECONOMICS AND MACROECONOMICS

The main difference is that micro looks at small segments and macro looks at the whole economy. But, there are other differences.

Equilibrium – Disequilibrium

Classical economic analysis assumes that markets return to equilibrium (S=D). If demand increases faster than supply, this causes price to rise, and firms respond by increasing supply. For a long time, it was assumed that the macro economy behaved in the same way as micro economic analysis. Before, the 1930s, there wasn't really a separate branch of economics called macroeconomics.

Great Depression and birth of Macroeconomics

In the 1930s, economies were clearly not in equilibrium. There was high unemployment, output was below capacity, and there was a state of disequilibrium. Classical economics didn't really have an explanation for this dis-equilibrium, which from a microperspective, shouldn't occur.

In 1936, J.M.Keynes produced his The General Theory of Employment, Interest and Money; this examined why the depression was lasting so long. It examined why we can be in a state of disequilibrium in the macro economy. Keynes observed that we could have a negative output gap (disequilibrium in the macro-economy) for a prolonged time. In other words, microeconomic principles of markets clearing, didn't necessarily apply to macro economics. Keynes wasn't the only economist to investigate this new branch of economics. For example, Irving Fisher examined the role of debt deflation in explaining the great depression. But, Keynes' theory was the most wide-ranging explanation and played a large role in creating the new branch of macro-economics.Since 1936, macroeconomics developed as a separate strand within economics. There have been competing explanations for issues such as inflation, recessions and economic growth.

SIMILARITIES BETWEEN MICROECONOMICS AND MACROECONOMICS

Although it is convenient to split up economics into two branches – microeconomics and macroeconomics, it is to some extent an artificial divide.

1. Micro principles are used in macroeconomics. If you study the impact of devaluation, you are likely to use same economic principles, such as the elasticity of demand to changes in price.

2. Micro effects macroeconomics and vice versa. If we see a rise in oil prices, this will have a significant impact on cost-push inflation. If technology reduces costs, this enables faster economic growth.

3. Blurring of distinction. If house prices rise, this is a micro economic effect for the housing market. But, the housing market is so influential that it could also be considered a macro-economic variable, and will influence monetary policy.

4. There have been efforts to use computer models of household behavior to predict the impact on the macro economy.