Universidad Politécnica de Cartagena

Introduction to Economics

Unit 3

The Demand

Grado en Turismo

Facultad de CC de la Empresa

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Contents

Bibliografía: Mochón, F. (2009): Economía. Teoría y Política. Ed. McGraw Hill. Madrid.

1. Utility and consumer choice

- Consumers choose goods which provide the most utility or satisfaction according to their tastes or preferences
- Assuming that utility is measurable, the higher the quantity consumed of the majority of goods, the higher the total utility
- Marginal utility: the change in the total utility the consumer gains from an additional unit of that good
- Marginal utility diminishes as more of a good is consumed
- Goods have a price and consumers have a disposable income; therefore, their resources are limited: budget constraint

Consumer choice theory

The consumer chooses the basket of goods which maximises consumer utility subject to a given budget constraint

1. Utility and consumer choice

- The result of maximizing total utility implies that the marginal utility of the last euro spent on each good is equal to the marginal utility of the last euro spent on any other good
- On the other hand, if spending one more euro on a good provides more utility than spending it on other goods, consumption of that good will increase and consumption of other goods will decrease until the marginal utilities are equal

Consumer equilibrium condition

$$\frac{UM_L}{P_L} = \frac{UM_H}{P_H} = \cdots = UM$$

- If the price of a good increases, consumption of that good must be reduced in order to ensure that the equilibrium condition is satisfied. In this way, marginal utility increases and the condition is again satisfied

Downward demand curve:

price increases → quantity decreases

2. Consumer surplus

- The concept of marginal utility explains the so-called paradox of value (water-diamond paradox). The total utility of water is higher than that of diamonds, but the marginal utility is lower. The willingness to pay is determined by marginal utility and therefore the price of water is lower

- Expenditure on a good = price x quantity, may not be a good indicator of what it contributes to welfare

- **Consumer surplus** is the difference between the total utility of a good and its total market value

On the market, we pay the same price for all the units of the good that we purchase. However, we value the first units more than the last. Consumer surplus is defined as the difference between the total value that we are willing to pay for a good or service and what we actually pay

3. Determinants of tourism demand

- **Economic factors:**
  - For leisure tourism:
    - Disposable income
    - Prices at the destination
    - Exchange rates (for international tourism)
  - For business tourism:
    - Factors that facilitate the conducting of business
    - Implies greater expense than leisure tourism
- **Non-economic factors**
  - Demographics
    - Ageing of the population
    - Smaller family size and higher disposable income
    - Shorter working hours
  - **Motivational**
    - Education
    - Living in urban areas
    - Effect of marketing and promotion