**Essay Question 35**

**Explain whether the price elasticity of demand is price elastic or inelastic for the demand of tour packages.**

Introduction

* Definition of price-elasticity of demand
* Meaning of price-elastic or price-inelastic demand for tour packages
* Examine the determinants of PED to assess whether demand for tour packages are price-elastic or price-inelastic

Main Body

**1) Identify the determinants of PED**

* Assess how it will affect the value of PED
* Discuss it in the context of tour packages
* Degree of necessity of dd
* Availability of substitutes
* Proportion of income spent on the good
* Time period for consideration of purchase

**2) Analysis of the significance of determinants of PED**

* Time period - search time is longer – PED-elastic
* Tour agency organizes more tour exhibitions with fall in price to increase in QtyDD

Conclusion
The understanding of the determinants of PES will reveal the economic profile of the consumers which reflects the consumption behavior and purchasing power and thus will determine when the demand for tour packages is price-elastic or price-inelastic.

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Introduction

Price elasticity of demand measures the responsiveness of change in quantity demanded in response to change in the price of the good concerned. This can be expressed through the formula given below:

$$Price elasticity ofdemand= \frac{\% change in quantity demanded}{\% change in price of good concerned}$$

 The price elasticity of demand for goods like tour packages is considered price-elastic when the percentage change in quantity demanded is more than proportional than the percentage change in price of the tour package. On the other hand, the price elasticity of demand for tour package is considered price inelastic when the percentage change in quantity demanded for the good like tour package is less than proportional than the percentage change in the price of the good itself.

 To determine the price elasticity of demand for tour package, there is a need to understand the influences on the determinants of price elasticity of demand which will shape the value of price-elasticity of demand for tour packages. One such determinant for price elasticity of demand is the degree of necessity of demand for tour packages which is shaped by influences such as the degree of need for tour. Families who see tour packages as a critical point of family activity will have a higher degree of demand for the tour package. During the period of school holiday, the degree of necessity of demand will be higher as this will be the only time period that the whole family can travel together.

 Besides this, the price elasticity of demand is also shaped by the degree of availability of substitutes for tour packages. If the consumers have specific destination of travel, there will be limited substitutes and the price-elasticity of demand for tour package is price-inelastic, given that there are less choices for selection of tour packages. Vice versa, if the consumers have no specific destination for the tour, the availability of substitutes is more and the price-elasticity of demand for tour package is price elastic.

 The proportion of income spent on tour packages will be another factor to consider in determining the price elasticity of demand for tour packages. The tour package which has farther distance of travelling and more luxurious experiences will raise the price of the tour and this will raise the proportion of income spent on tour package for average income earners. When the proportion of income spent on the good concerned is large, the demand for tour package will be price-elastic and this can be seen from the demand for tour packages to countries like Europe and America. As compared to tour packages to neighbouring countries, consumers have price-inelastic demand given the lower price of tour.

Lastly, the time period for consideration of purchase is also a factor to consider in determining the value of price elasticity of demand. When the search time for purchase of the tour package till the time of travel is long, the price elasticity of demand for the good is price-elastic. The time period is influenced by the consumer’s degree of preparation for the tour, whereby consumers who are spontaneous in travelling will have a shorter time period for consideration of purchase, shaping the demand for tour package to be price-inelastic.

 Based on the analysis of the various determinants of price elasticity of demand, the two more significant factors that will shape price elasticity of demand for tour packages are time period for consideration of purchase and the proportion of income spent on tour packages. This can be seen from how tour agencies organize trade fair for tour packages like NATAS (National Association of Travel Agents Singapore) will discount prices at very early period to capture greater market demand as they know that these are critical factors of influence on the price elasticity of demand that will affect the revenue of the firm.

 In sum, the knowledge in determining price elasticity of demand for tour package is imperative as this will help the firm in the derivation of price strategy to maximize revenue for the tour agency.

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