



**COLLEGE OF BUSINESS & ECONOMICS  
DEPARTMENT OF TOURISM - STH**

**June Main Examination**

**DEPARTMENT**

Tourism Management

**MODULE**

Tourism Development: Tourism Economics 3A

**CODE**

TOW3A11

**DATE**

06 June 2018

**DURATION**

180 Minutes

**TIME**

12H30 – 15H30

**TOTAL MARKS**

100

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**EXAMINER**

Dr Love O. Idahosa

**MODERATOR**

Dr Norman Chiliya

**NUMBER OF PAGES**

4

**NUMBER OF QUESTIONS**

4

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**INSTRUCTIONS TO CANDIDATES:**

- This is a closed book assessment.
- Read the questions carefully and answer only what is asked.
- Number your answers clearly.
- Write neatly and legibly.
- Pay attention to mark allocation.
- Failure to apply knowledge will result to loss of marks.
- The general University of Johannesburg policies, procedures and rules pertaining to written assessments apply to this assessment.

**Question 1****[30]**

Read the following adapted thesis abstract and in addition to your knowledge gained in class answer the following questions.

**Adapted Thesis Abstract: Smith, J., 2006. The determinants of the international demand for tourism to South Africa. North-West University.**

Globally, the tourism industry is recognised as one of the fastest growing industries, generating high revenues and creating a vast number of job opportunities. In South Africa, this is no different and, in recent years, the tourism industry has outshone the country's gold exports therefore claiming its position as the fourth highest earner of foreign exchange to date. Yet the industry is still to receive the attention it deserves from conventional economics. The research aimed to fill this gap in South Africa by providing an understanding on the determinants of international tourism demand for South Africa. The first objective of the study was to provide a broad overview of the tourism industry of South Africa. The discussion focused on the supply and demand sides of tourism which, in turn, are divided into the domestic and international tourism markets. There has been a high growth, especially in the international market since 1994 and, while domestic and international markets continue to grow. The second objective was to create a theoretical understanding on the different factors that could determine the international demand for the tourism product. The study found various economic and non-economic factors that are believed to have an influence on tourism demand. (1) decrease in domestic income, (2) a global economic recession (3) decreasing in international (flight) transport cost, and (4) the strengthening of the South African exchange rate are amongst the key economic variables with (5) decrease in travel time due to cheaper direct flight costs, (6) increase in marketing expenditure in the local tourism market, (7) increase in violent crime rates in South Africa, (8) climate change leading to longer summers and shorter winter in South Africa, (9) water shortages in popular tourist destinations, and (10) increasing tourism accommodation capacity being the more popular non-economic factors. Among these, certain threats were also identified that could have harmful impacts on tourism growth.

- 1.1 List in two columns the 10 factors described above (see underlined) which would tend to: (20)
  - a. Shift the demand curve for tourism in South Africa to the left.
  - b. Shift the demand curve for tourism in South Africa to the right.
- 1.2 Distinguish between the factors which cause a movement along a demand curve and those which cause a shift of the curve. (4)
- 1.3 What is the likely equilibrium effect of a decrease in the consumption tax for a good/service? Explain the effect on the availability of the good in the market and on equilibrium price and equilibrium quantity in the market. (6)

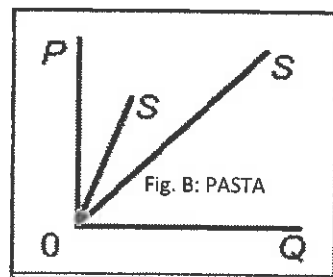
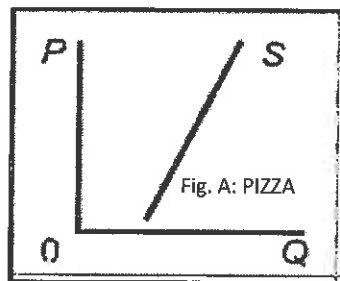
**Question 2****[20]**

- 2.1 Economic activities sometimes have undesirable effects/externalities on the environment. Briefly explain the 4 categories of negative externalities with examples. (16)
- 2.2 Critically identify any 2 reasons why the real GNP per capita may give a misleading impression about improvements in economic wellbeing. (4)

**Question 3****[20]**

3.1 The price elasticity of supply for an Italian restaurant's competing delicacies (Pasta and Pizza) are presented in Figure A and B respectively. Answer the following questions:

- Explain elasticity of supply and provide the formula (6)
- What elasticity of supply does Pizza have? Explain (3)
- What elasticity of supply does Pasta have? Explain (3)
- Briefly explain what happens to the supply elasticities of the two goods in the long-run? (4 marks)



3.2 Given that the Safari Tour Guides, who are employees in the Wildlife Safari Industry, decide to have a strike actions and suspend their work activities, answer the following questions.

- How would you expect the supply curve and quantity supplied of Wildlife Safaris to react to the strike actions by Safari Tour Guides? (3)
- Assuming that the market was initially in equilibrium, what would happen to the availability of the service in the market and to equilibrium price and equilibrium quantity? (5)

**Question 4****[30]**

Read the following case study and in addition to your knowledge gained in class answer the following questions.

**Case Study: Protea, Marriot hotel seal R2bn deal**

US hotel giant Marriott announced on Wednesday it had finalised a deal to buy the Protea group, Africa's largest hotel chain, for \$186-million. *"Marriott and Protea plan to close the transaction on April 1, 2014,"* the firm said in a statement. Based in South Africa, Protea manages 10,148 rooms in 116 hotels in eight African countries -- South Africa, Zambia, Nigeria, Namibia, Malawi, Uganda and Tanzania. The Nasdaq-listed Marriott Group has 3,900 properties around the world and is worth around \$15.4-billion at current market prices.

After the deal was announced Protea CEO, Arthur Gillis told AFP that he expected Marriott to "sprinkle professionalism" on top of an already well-functioning business. *"One cannot compare the resources of a company with 120 hotels, with the resources of a company with 3,900 hotels."* The deal gives Marriott a formidable position in a rapidly growing market, nearly doubling its footprint in Africa to 23,000 rooms. Last year, a record 56 million travellers visited Africa, according to UN statistics. That was up six percent from the figure for the previous year and a similar increase is expected for 2014. Business travel is also picking up on the continent as the sub-Saharan region grows at an average of five percent a year.

Gillis said the deal placed Marriott at an advantage over global competitors which had decided to build African hotels themselves, rather than acquire them. Marriott, he said, "looked at what the other global players had said they were going to do in Africa, then what the other global players have done in Africa." "Sadly they are two entirely different things. I've got many newspaper clippings, (detailing plans for) '50 hotels in five years,' '75 hotels in ten years'" He said: "Marriott have said something completely different," in going for a takeover.

Gillis added the US firm had undertaken to take on all of Protea's staff, who number around 15,000. Responding to suggestions that Marriott may have got Africa's most prized hotel chain at a bargain, Gillis laughed. *"Both Marriott and Protea are moderately unhappy about the price that was paid,"* Gillis joked. *"We have left a lot of value on the table, but that value is going to be unlocked by Marriott."* *"It was an absolutely unanimous board decision."*

The deal is subject to regulatory approval.

Source: <https://www.enca.com/south-africa/protea-marriot-hotel-deal-closed>

- 4.1 Briefly explain what type of integration took place between Protea Hotels and Marriot International? (5)
- 4.2 Explain 1 potential disadvantages of this integration in terms of diseconomies of scale. (5)
- 4.3 What are the potential advantages (economies of scale) of this integration to the two companies? Explain one (1) advantage for each company. (10)
- 4.4 According to Gillis (see underlined) in the Case Study above, in terms of how firms grow, briefly discuss the advantage of this form of growth over the other form of growth (i.e. identify the two ways firms grow and the advantage of the method adopted by Marriot). (10)