

NONOPTIMALITY OF OPTIMUM TARIFFS: THE CASE OF INTERNATIONAL TRAVEL AND TOURISM

Sarath Divisekera
School of Economics & Finance
Victoria University
PO Box 14428
Melbourne City MC
Australia VIC 8001
Sarath.Divisekera@vu.edu.au

ABSTRACT

This paper examines the issue of taxing foreign tourists. In the spirit of conventional optimum tariff theory, a model of optimal pricing is developed by incorporating interdependencies of demand for international tourism with its counterpart international travel. The results suggest that if one ignores the interdependencies of the two sectors and prevailing market structures, the resulting pricing policies may not necessarily be optimal. Pricing strategies that ignore these interdependencies could lead to disastrous economic consequences.