

School of Management and Marketing
Seminar Notice

TITLE : **Expense Estimation by Hedonic Regression**

SPEAKER : **Professor Dr Christian Laessar**
Institute for Public Services and Tourism
University of St. Gallen, Switzerland

BIOGRAPHY

Christian Laesser, *April 20th 1963. Studies in general economics and business administration at the University of St. Gallen and at the ESCP Paris. 1992-1996 doctoral program at the University of St. Gallen; then scientific assistant and project manager at the Institute for Tourism and Transport Economics. 2004/2005 visiting research fellow at LaTrobe University Melbourne, 2005 Habilitation at the University of St. Gallen (venia legendi: Tourism and Service Management).

At this point in time: Professor of Tourism and Service Management at the University of St. Gallen, Deputy director of the Institute for Tourism and Public Services at the University of St. Gallen, Co-editor-in-chief of *Tourism Review*, member of the board of the Swiss Transport Research Conference (annual conference), Secretary General of the Swiss Association for Transport Sciences, member of a number of scientific associations (including AIEST, EMAC, ANZMAC, TTRA, and other). Consulting (selection of customers: World Bank, UBS, DaimlerChrysler, TUI, Switzerland Tourism, Swiss Hotel Bank, Zurich International Airport, European Union, numerous DMOs, numerous federal offices), research and publishing activities.

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DAY/DATE : **Thursday, 7 February 2008**

TIME : 12.30-1.30p.m.

VENUE : **40A.681**

ABSTRACT

In this research seminar, theory as well as methodology of estimating travel expenses and utility allocation by means of a hedonic regression is presented.

2 cases - Swiss outbound (data: Travel Market Switzerland) and Australia inbound (International Visitor Survey) - shall illustrate the issue.

Theory: The underlying idea of hedonic regression is based on Working, Rosen, and other. They stipulate that the sum of all expenses (i.e. the total costs) of a given good (i.e. private trip) is assumed to be a function of its supply-sided characteristics. A difference in one of those characteristics (*ceteris paribus*) induces different prices and thus expenditures. That difference represents the implicit or hedonic price, reflecting the marginal difference in a given goods utility.

The approach is well supported by household production theory, according to which a household allocates its income on different goods, which represent different levels of utility. A leisure trip is one such good. However, it consists - more than other goods - of a bundle of goods, of which each one can be distinguished by customer oriented characteristics of its own. So, the individual must make an expenditure allocation decision with regard to each element of a given bundle. According to the principles of Gossen, the consumer

allocates resources for travelling by optimizing the partial marginal benefits of each element in a way that the overall utility of a given trip is maximized. Due to the necessary indivisibility of the good analysed a given element of the trip bundle does not generate an immediate utility but is bearer of characteristics generating indirect utility.

Methodology: Total and marginal expenses per person for a given trip with a given travel party can be estimated by log-linear regressing a selection of explicators towards overall expenses. Those explicators can include duration of trip, number of travel companions, distance travelled, choices of destination, accommodation, transportation, and other. By choosing a log approach, effects can be isolated and potential arbitrage between the items tested is reduced.

Results: Swiss Outbound: The results (all *ceteris paribus*) reveal that the travel expenses per person and trip underproportionally increase in the case of an increase of distance and duration, with an underproportional negative effect of the number of participating household members. The value drivers identified are the number of participating household members (with regard to domestic tourism) and the duration of a trip (with regard to international tourism). Overall, the type of accommodation has the comparably highest elasticity.

Australia Inbound: The results (all *ceteris paribus*) reveal that visitors from mature markets, most of them in Europe, tend to spend approximately 20 to 30 percent less on a trip to Australia than those from less mature markets, most of them in Asia. Attending conferences as a delegate, visitation to rural areas such as the outback, and travel aimed at enjoying local food and beverages, are associated with higher spending compared to other reasons for visiting Australia. In contrast, (commoditized) beach holidays and visitation to events lead to comparably less spending. With regard to accommodation, the use of hotels results in expenditure 20 percent higher than average for other forms of accommodation, whereas staying with friends and relatives leads to expenditure of 8 to 14 percent less than average. Finally, travelers on group tours spend up to 10 percent less than average.

Lunch will be provided.

SMM Research Seminar Series Convenor

Joshua Chang