

# Economic Evaluation Tools

- Benefit-Cost Analysis
- Cost Effectiveness Analysis
- Financial Analysis/Feasibility
- Fiscal Impact Analysis
- Economic Impact Analysis
- Social/Environmental Impact Analysis

# TYPES OF ECONOMIC ANALYSIS

- **Economic impact analysis (EIA)** -- What is the contribution of tourism activity to the economy of the region?
- **Benefit Cost analysis (B/C)** – Which policy will generate the highest net benefit to society over time?
- **Environmental Impact assessment** – What are the impacts of an action on the surrounding environment?
- **Fiscal impact analysis** – Will government revenues from tourism activity (taxes, direct fees, etc.) cover the added costs for infrastructure and government services
- **Demand analysis** – How will the number or types of tourists change due to changes in prices, promotion, competition, quality, etc.?
- **Feasibility study** – Can/should this project or policy be undertaken?
- **Financial analysis** – Can we make a profit from this activity?

# Benefit-Cost Analysis

- Measures economic efficiency as ratio of benefits to costs
- Used in evaluating alternative actions
- Measure stream of benefits and costs over time resulting from a project
- Value these B/C in dollars
- Discounting, NPV to handle time
- Non-market benefits measured via WTP

# Cost Effectiveness Analysis

- Used in lieu of B/C when valuation of benefits is difficult; also measures efficiency
- Best for comparing alternative means of delivering similar benefits
- Evaluate in terms of Cost per unit of output
- E.g. \$ 4 per camper night to provide State Park camping experience

# Fiscal impact analysis

- Assess impacts of a project on government revenues and costs
- Identify added service requirements
- Estimate costs and revenues received from fees or taxes

# Economic Impact Analysis

- Assesses impacts on sales, income, jobs, in a region
- Action → Activity → Spending → Jobs
- Impact = Visits \* Spending \* Multiplier
- With vs Without Analysis

# Questions and EIA Answers

- How much do visitors spend in the area?
- What portion of sales by local businesses is due to tourism?
- How much income does tourism generate for households and businesses in the area?
- How many jobs in the area does tourism support?
- How much tax revenue is generated from tourism?
- How are businesses in an area linked

# Types of Park Impact Analyses

- By the Stimulus
  - Visitor Spending
  - Park Operations
  - Construction
- Which Spending is included
  - Significance
  - Impact
- Justification or Evaluation
  - Impacts of all visitor spending
  - Impacts of a management alternative



# Steps in an Economic Impact Analysis

- Define the action(s)
- Identify visitors/visits affected (segments)
- Define the study region
- Specify Inputs
  - Visits
  - Spending averages
  - Multipliers
- Inspect, Interpret & Communicate Results

# What are economic impacts of Recreation & Tourism?

## **Covered in EIA**

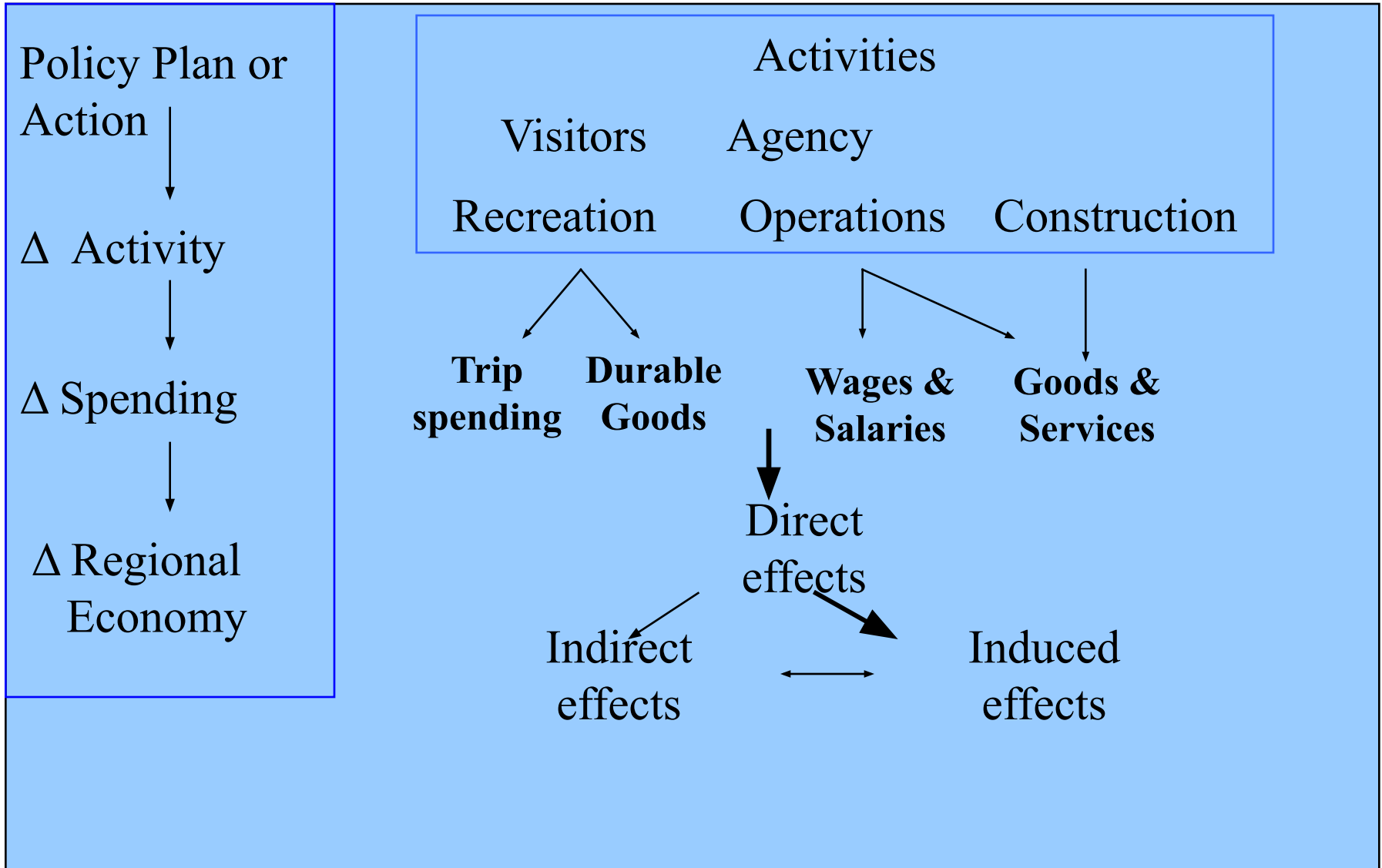
- Sales
- Income
- Jobs
- Tax Revenues

Direct & Secondary  
Effects

## **Usually Not Covered**

- Price Changes
- Changes in QL or QN of goods & services available in an area
- Seasonality
- Fiscal costs
- Non-market B/C  
e.g. Congestion

# The Economic Impact Process



**Economic Impact = USE \* SPENDING \* MULTIPLIER**



Spending per Visitor	*	Capture rate
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# Types of Effects

Direct effect - Businesses receiving money directly from tourists, e.g. hotel

Indirect Effects - Businesses receiving money from tourist businesses, e.g. linen supply firm

Induced Effects - Businesses receiving money from workers in a direct or indirectly impacted business - e.g. apartment rentals

## Measures of Effects

Sales

Income

Jobs

Value Added

# Multipliers

Express total effect in relation to direct effect

## Types of Multipliers

Sales, Income & Employment Multipliers

Ratio and Keynesian

Type I and, II

Aggregate, Sector-specific

$$\text{Type I} = \frac{\text{direct} + \text{indirect}}{\text{direct}}$$

$$\text{Type II} = \frac{\text{direct} + \text{indirect} + \text{induced}}{\text{direct}}$$