

Demand for Tourism in the Maldives: A Co-Intergration Approach.

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Abstract

During the last four decades or so, a number of empirical studies seeking to estimate demand for international tourism from specific destinations have been published in both tourism and economics journals. A large majority of them have used econometric approaches with the use of ordinary least squares (OLS) being particularly frequent. Progress in econometric methodology in recent years suggests that the use of non-stationary time series data with the conventional OLS can lead to 'spurious' regression results. While many of the previous studies rely on time series data, only a few of them (all published in the last seven years) have actually attempted to address the issues relating to the use of time series data with OLS. Consequently many of the previous studies in tourism demand are susceptible to spurious results.

This thesis uses a relatively recent approach that has been developed to deal with non-stationary time-series data. It adopts an approach known as co-integration analysis to estimate long-run tourism demand models to the Maldives from selected markets; Italy, Japan, United Kingdom, Germany and Switzerland. This thesis uses a slightly modified version of the Engle-Granger-Yoo three-step method to look for co-integration (a long-run equilibrium relationship) amongst a set of variables included in the proposed demand model. Long-run relationships were found to exist in all cases. An error correction modelling (ECM) approach was used to analyse the short-run dynamics of the models. These were estimated using a general-to-specific approach.

The results confirmed that the level of tourist arrivals to the Maldives is determined largely by exogenous factors, with income in the origin countries and the price of substitute goods being significant determinants of arrivals from almost all markets investigated. In addition the findings suggests that arrivals are relatively insensitive to changes in the cost of living faced by tourists in the Maldives. The thesis also considered the impact of the terrorist attacks on New York in September of 2001 (9/11) and the creation of the Maldives Tourism Promotion Board (MTPB) on tourist arrivals from the individual markets. The results suggests that 9/11 is having an ongoing depressing effect on arrivals from all countries except Switzerland, while the creation of the MTPB had a permanent positive impact on the level of arrivals from Germany, Italy and Switzerland.