

San Diego County Taxpayers Association

For the Mayor's citizen taskforce on the San Diego convention center
project

Taxes & Elasticity of Demand



August 4, 2009

Presentation Outline

1. Review of price elasticity of demand
2. Summary of studies on hotel room taxes
3. Discussion of current San Diego taxes
4. Proposed and potential San Diego taxes
5. Analysis of comparative financing mechanisms for convention center expansion
6. Questions and comments



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Price Elasticity of Demand

- Most common measure used to determine consumers' sensitivity to price
- Proportional change in demand given a change in price
 - Measures how a percentage change in price of a given good will affect demand for that good

$$\text{Price elasticity of demand} = \frac{\% \text{ change in quantity demanded}}{\% \text{ change in price}}$$



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Inelastic and Elastic Goods

- **Inelastic goods:** consumer demand will not change, regardless of price increases, e.g. insulin.
- **Elastic goods:** consumers demand decreases drastically when the price of the good increases slightly, e.g. restaurant meals.

Factors that affect elasticity:

- Substitutes
- Transaction costs
- Percentage of income
- Time
- Necessity and luxury
- Breadth of definition



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Summary of Studies on Hotel Room Taxes

- In general, demand for lodging is relatively inelastic in urban hotels
- Nature of inelasticity is reflected in the consumer's total cost of travel
- Determinants of Hotel Lodging
 - Expectations of future income
 - Room rates of substitutes (motels)
 - Current income
 - Room rates (ADR)

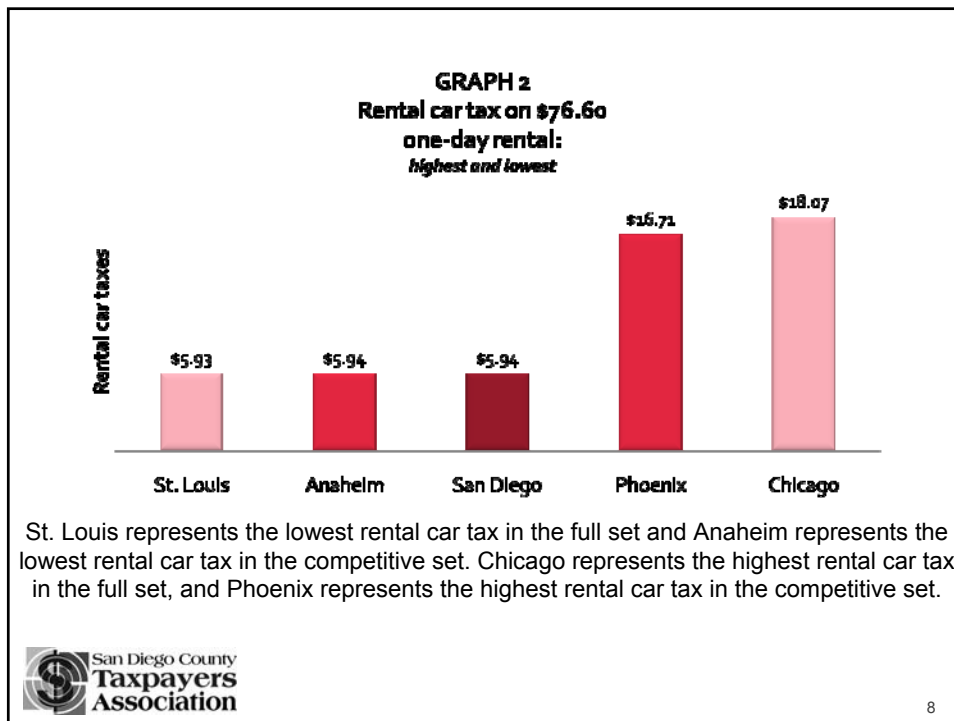
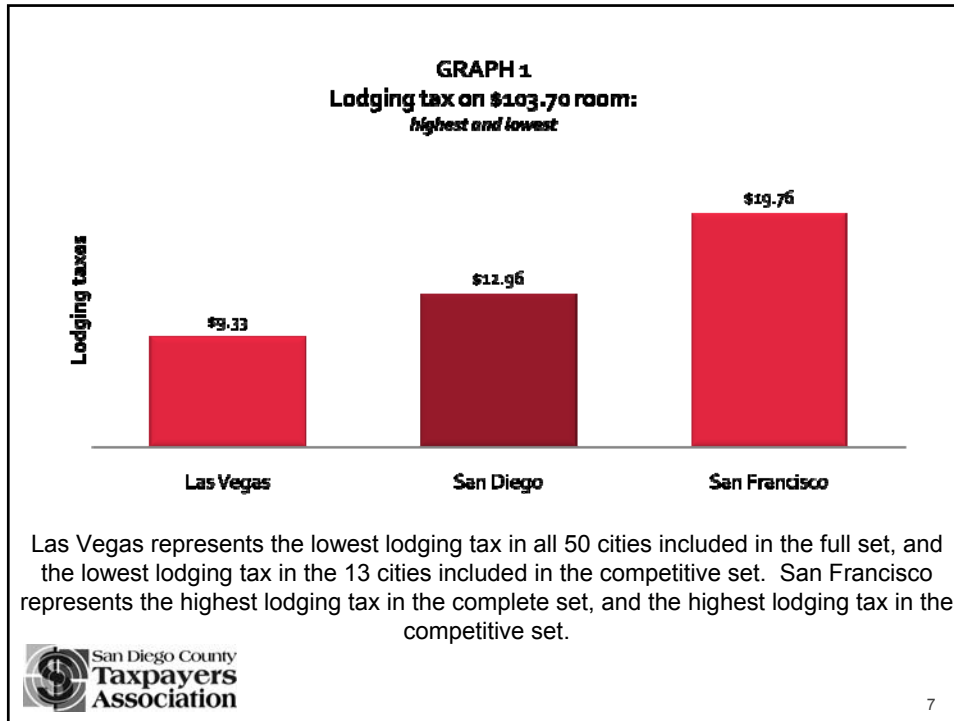


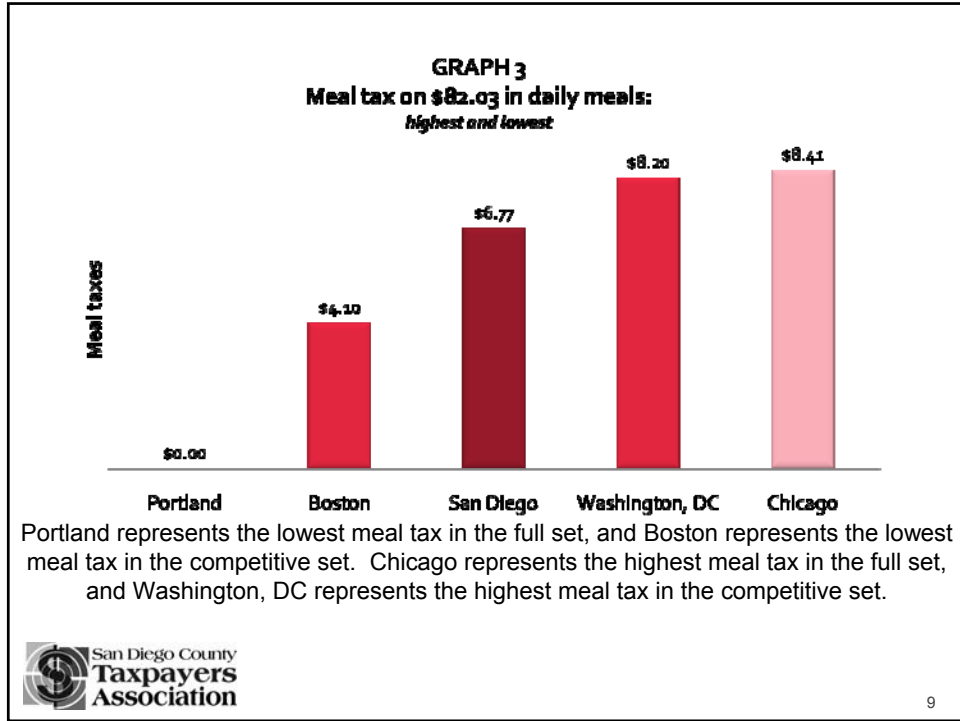
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Current San Diego taxes




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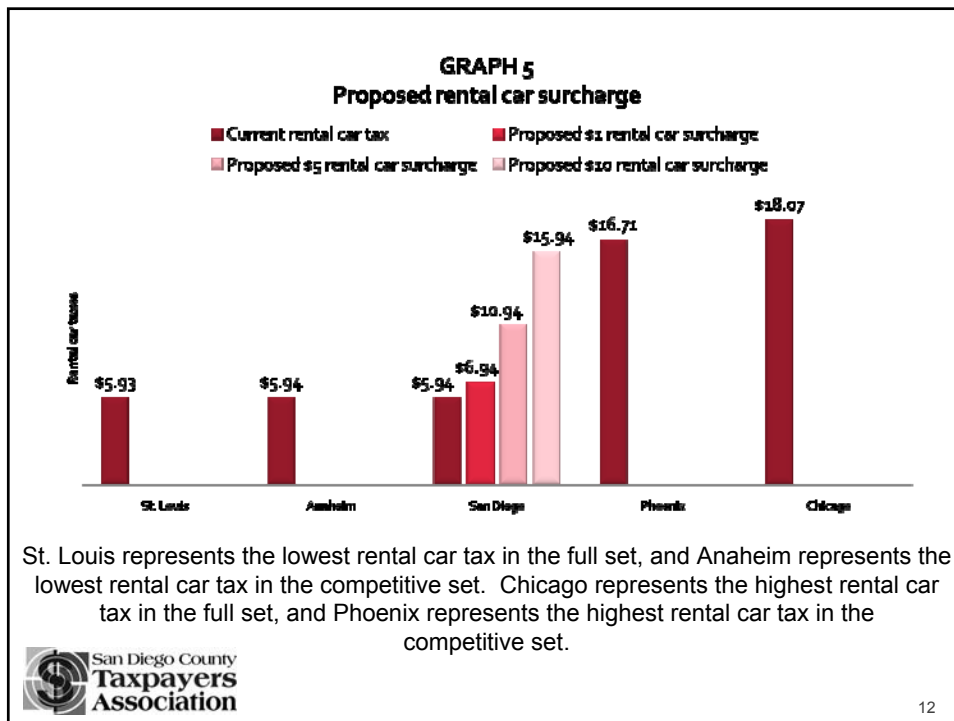
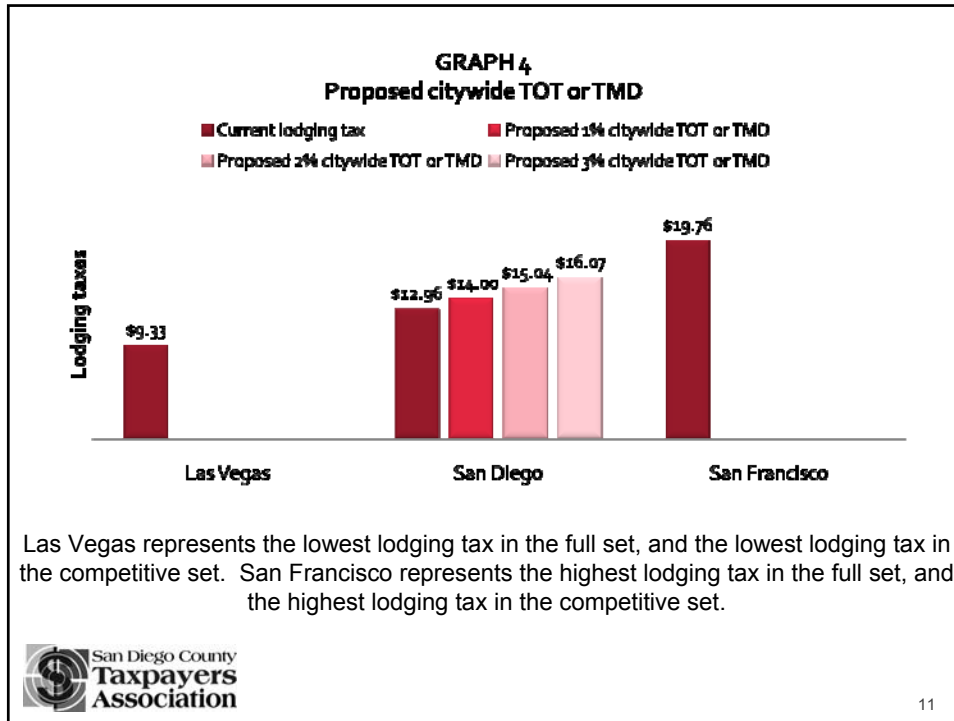


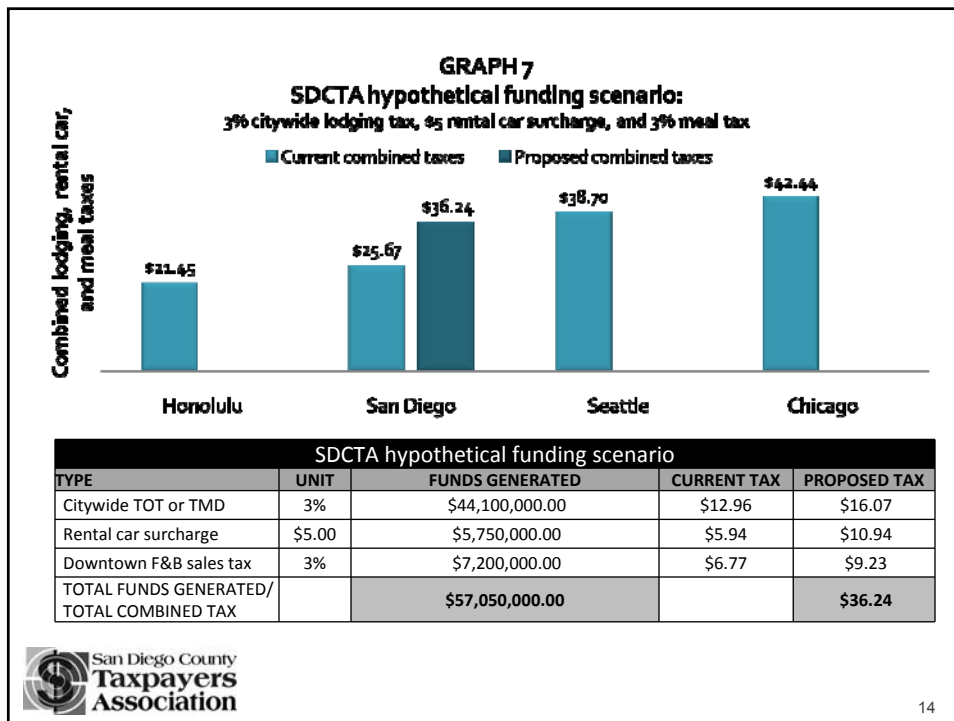
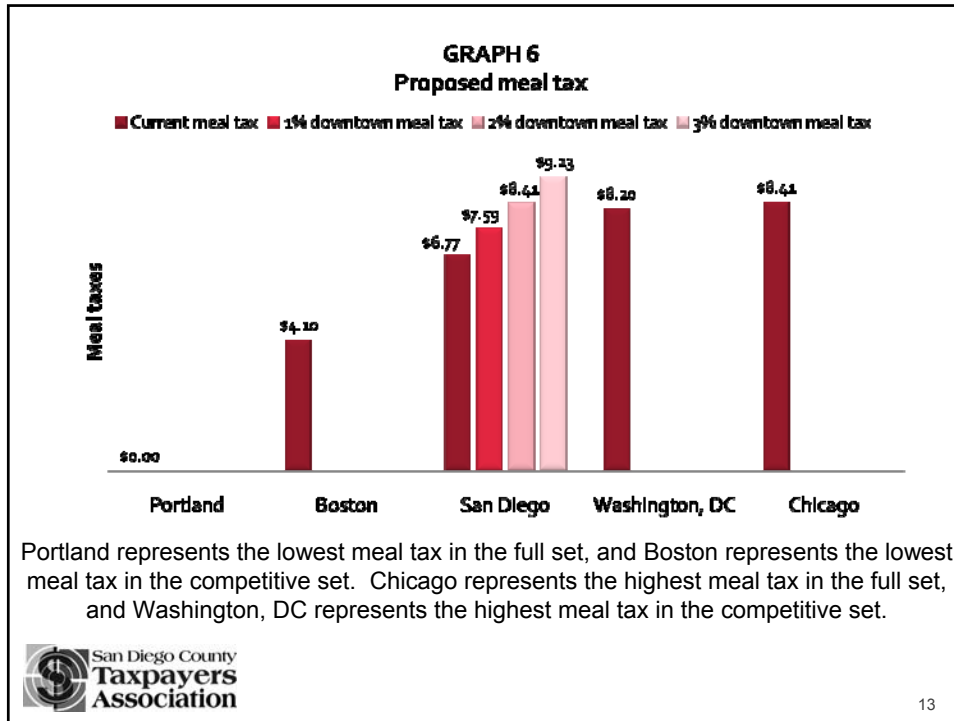


Proposed and potential San Diego taxes

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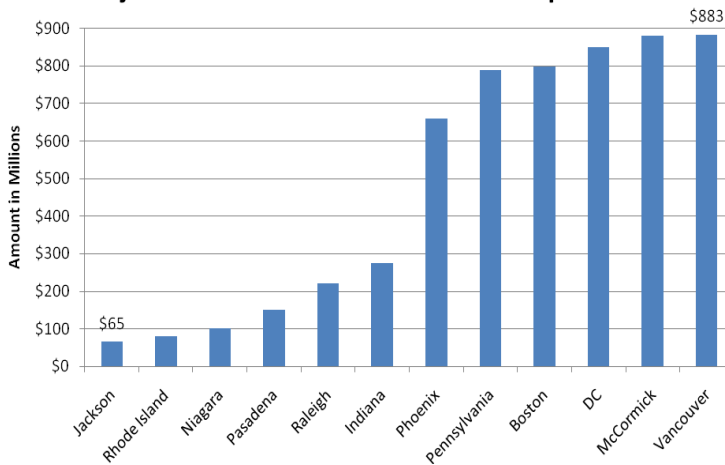


Analysis of comparative financing mechanisms for convention center expansions

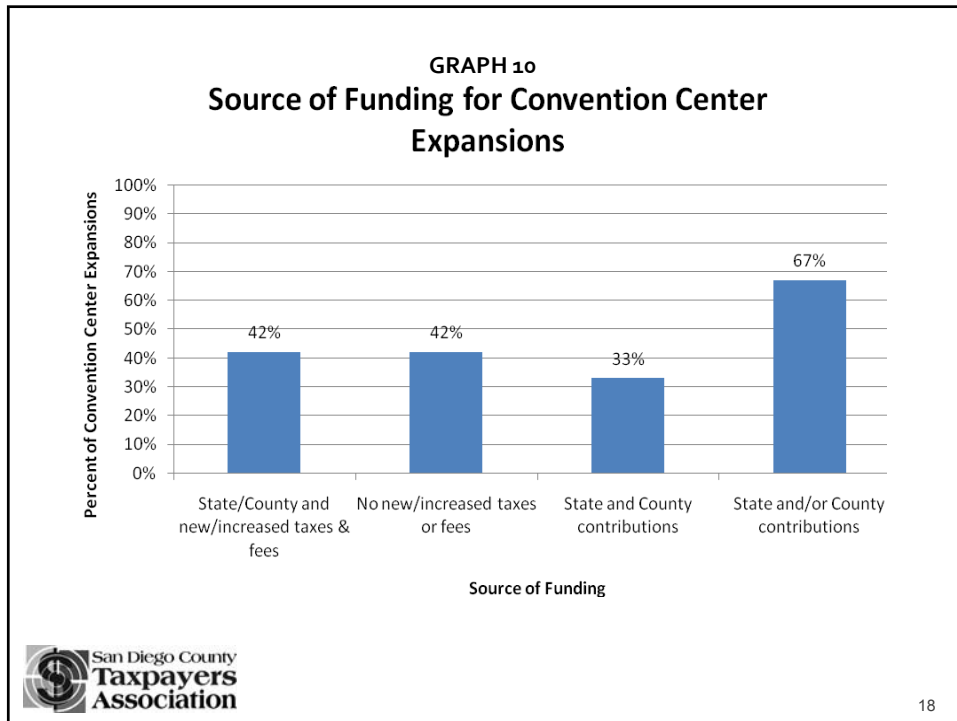
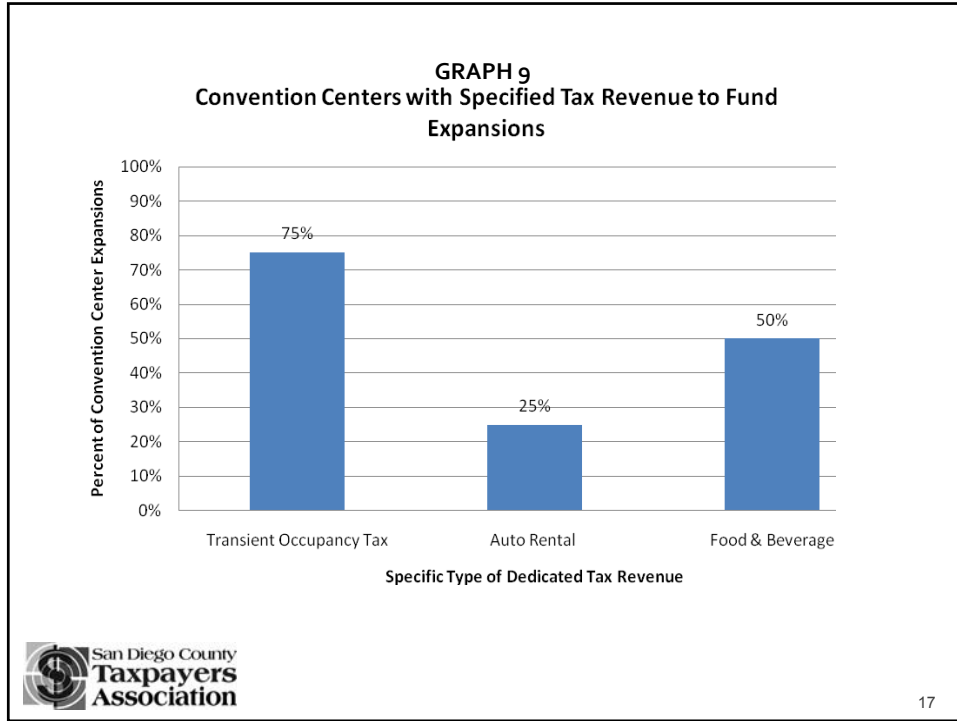


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GRAPH 8
Project Costs for Convention Center Expansions



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Questions and Comments

