

The demand and supply of beach vacations

The most famous economics model is the demand and supply curve. This model is usually depicted as a graph that resembles an X. Unfortunately, many non-economists struggle to read graphs, so the graph does not benefit them. But the insights of the model can be described without a graph, which can make this powerful tool available to non-economists.

The demand and supply model has two main insights derived from consumers' behavior. First, when consumers place a lower

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value on a product, its price decreases. For instance, when spring arrives, consumers no longer want to wear heavy jackets, so they are unwilling to pay much for them. To get rid of their inventory, retailers will have to lower the price of their heavy coats. Second, when fewer consumers are available to purchase the product, firms will have to lower prices to unload their inventory. An example of this dynamic was when firms left New York City (perhaps because of high taxes and burdensome regulations). As a result, there were not enough commercial enterprises to fill the existing commercial spaces. In order to rent out their properties, landlords had to lower their prices.

There is also an insight derived from the supply side of transactions. When a product is abundant, it tends to have a low price and when the product is scarce it tends to have a high price. Diamonds provide an easy-to-understand example. Traditionally diamonds have been scarce, which allowed diamond dealers to charge high prices for these stones. Then labs began to produce diamonds. As a result, the supply of diamonds greatly increased, and diamond dealers could no longer get away with charging high prices. If they did, consumers would just buy cheap lab produced diamonds that were readily available.

Once people understand the demand and supply model, they see its implications everywhere. And they can use these implications to make better decisions. Here is a story of when I was able to use the model to understand a situation and how I hope to use this understanding to improve the welfare of both my friends and myself.

I am originally from New Jersey, so I have a lot of friends who live on the East Coast. When they want a beach vacation, they rent a property on the New Jersey Shore or on Cape Cod in Massachusetts. These vacation properties have characteristics that lead to high rental prices. The rental properties are near dense population centers, so there are a lot of people to bid up the prices of vacation rentals. That area is also relatively affluent, so people are willing to spend more money to rent a vacation property. And on the supply side – there is not a whole lot of land left to build new vacation properties. Also, zoning laws prevent builders from constructing large condominium complexes. These supply restrictions allow landlords to charge high rental prices.

In contrast, I just got back from a week on the Emerald Coast (on Santa Rosa Island in Florida on the Gulf). Beach rentals there have the characteristics of a place that will have low rental prices. The Emerald Coast beaches are not near large population centers like the East Coast beaches are. Also, the income levels in nearby states are relatively low, so consumers are not willing to pay high prices to rent properties. The supply of rental properties is also abundant, relative to the number of people who want to rent properties. The adequate supply is evidenced by two observations. First, in the town we went to, there were huge condominium complexes. Zoning laws did not restrict the supply of these units like zoning laws did on the East Coast. Second, there was a lot of undeveloped land. The number of rental properties was not being restricted by the amount of land available. In these areas, construction firms could build more vacation properties if they wanted to.

For the week my family stayed on the beach on the Emerald Coast, we paid about $\frac{1}{3}$ of what a similar place would cost my friends to rent on the East Coast. This price difference is understandable and predicted by the demand and supply curve model.

This price difference also makes an opportunity available that can enhance my friends' welfare. I am making the case to them that they should stop renting properties in New Jersey and on Cape Cod. Instead, they should rent a place on the Emerald Coast. If they can get relatively cheap plane tickets, going to an Emerald Coast beach will be cheaper for them than going to an East Coast destination. Finding cheap flights is certainly possible. Jet Blue has direct flights from Boston to Destin, Florida, at very reasonable prices.

The demand and supply curve model may help me make the case to my East-Coast-based family and friends that they should vacation with us on the Emerald Coast. If my argument is successful, I am better off as well since I will see these people more often.

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