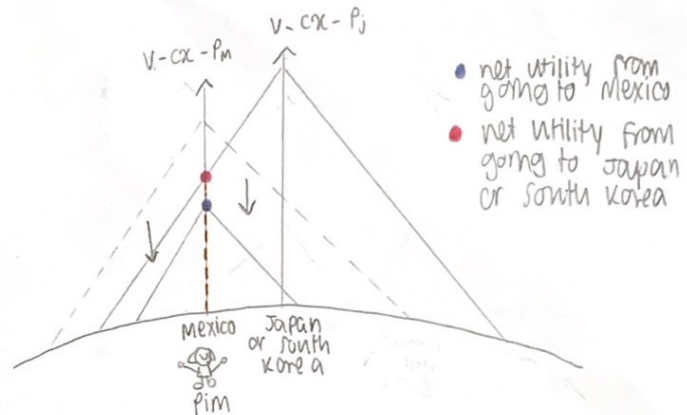
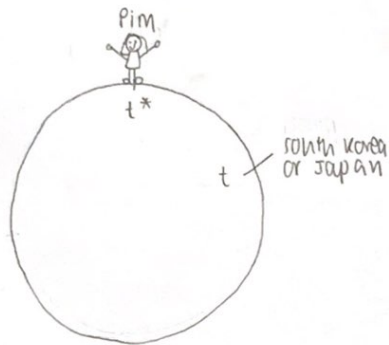


Q: Pim's favourite destination is Mexico. However, the travelling cost is beyond her budget. Therefore, she usually ended up going to closer (cheaper) destinations like South Korea or Japan.

→ use the Salop circle model mentioned in class to explain Pim's situation



The first illustration represents the Salop's circle where the location of Pim is t^* . Location of her favourite destination (Mexico) and t is the location of the place she went to (South Korea or Japan). Each circle can be used to represent different preferences of consumers in different market, and in this case, it is the travel destinations market.

The second illustration also represents the Salop's circle with each country competing in a competitive region. The net utility from going to Japan or South Korea is $V - cx - P_j$ and the net utility from going to Mexico is $V - cx - P_m$. If price of going to Mexico is higher, the net surplus of Pim, who is in that region, would decrease. As it can be seen from the illustration, now going to Mexico will give Pim less utility than going to Japan or South Korea

$$V - cx - P_j > V - cx - P_m \quad ; \quad P_j < P_m$$

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