Demand and Welfare Effects in Recreational Travel Models: A Bivariate Count Data Approach*

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Abstract

In this paper we present a non-linear demand system for households' joint choice of number of trips and days to spend at a destination. The approach, which facilitates welfare analysis of exogenous policy and price changes, is used empirically to study the effects of an increased CO_2 tax. In the empirical study, a bivariate zero-inflated Poisson lognormal regression model is introduced in order to accommodate the large number of zeroes in the sample. The welfare analysis reveals that the equivalent variation (EV) measure, for the count data demand system, can be seen as an upper bound for the households welfare loss. Approximating the welfare loss by the change in consumer surplus, accounting for the positive effect from longer stays, imposes a lower bound on the households welfare loss. From a distributional point of view, the results reveal that the CO_2 tax reform is regressive, in the sense that low income households carry a larger part of the tax burden.

Key Words: demand analysis, welfare effects, count data, bivariate zero inflation.

JEL Classification: C15, C34, C35, C51, D12.

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1 Introduction

In this paper we empirically evaluate and analyze welfare effects and changes in recreational demand due to increases in environmental taxes. More specifically, we examine the effect of an increased carbon dioxide tax, which aims to reduce the emissions of CO_2 and other greenhouse gases. The modeling approach considered in this paper accommodates for the count data feature of recreational demand, i.e., the number of trips and the number of days stayed, and further treats households' decisions as simultaneous choices. The approach renders a non-linear recreational demand system, which is used to calculate exact as well as approximative welfare measures, including/not including the welfare change due to changes in the length of the trips. The evaluation of demand and welfare effects relating to recreational activity is likely to be important in the future since many countries are committed to reducing the emissions of CO_2 and other greenhouse gases.

According to the Kyoto Protocol, the overall emissions of greenhouse gases from developed countries should be at least 5 percent below 1990 levels in the commitment period 2008–2012. The commitment by the European Union (EU) is for an 8 percent reduction for the same period. This reduction target has been divided between EU countries in such a way that some will have to achieve heavy reductions while a few are entitled to increase their emissions compared to 1990 levels. For example, Sweden is entitled to increase its emissions by up to 4 percent[1], while Germany and Denmark are to reduce their emissions by 21 percent.

Additionally, a few countries have adopted a more ambitious environmental policy than required by international agreements.[2] The UK, for example, has a national reduction goal of 20 percent for CO_2 emissions, which is higher than the 12.5 percent that the EU's burden share agreement requires. In Sweden, the national goal for CO_2 emissions has also been tightened relatively recently. Instead of increasing by 4 percent according to the original agreement between the EU member states, Sweden's emissions of greenhouse gases are to be at least 4 percent lower in 2010 compared to 1990 levels. Some US states have also adopted an environmental policy that aims to reduce the emissions of carbon dioxide, although the US has not yet ratified the Kyoto Protocol.

As a way of reducing emissions, greenhouse gas emissions permits were introduced in Sweden and the other EU member states in February 2005. The industries included in the trade system are iron and steel, chemicals, paper and pulp, oil refining, and some parts of the heating sector

[1] The burden share within the EU is the result of negotiation. For Sweden, the allowance of an increase in emissions is due to the fact that 1990 was an unusually warm year, which led to unusually low emission levels, and by the fact that Sweden already has relatively low emissions per capita.

[2] For example Germany, Sweden, and the UK.

(combustion installations, district heating). For Sweden, the CO_2 emissions from these industries amounted to an average of 20 million tons per year for the period 1998–2001, which is about 30 percent of Sweden's total emissions.

The trade in emissions permits implies that all participants in the trade system have the same marginal abatement cost. With respect to the participants in the trade system, the allocation of permits will thus be efficient. On the other hand, the system is also inefficient since it only includes a fraction of total emissions. This means that individuals outside the emission permit system can have quite different marginal abatement costs, which implies that the overall system is inefficient. How inefficient the permit system will be depends not only on how the emissions from the non-included sectors are treated, but also on the total emission allowance for the permit system, which is a determining factor in the establishment of the market price. A relatively low price for emission permits will imply that Swedish companies will be net buyers of permits.[3] This implies that emissions from sectors outside the permit system have to be reduced further if Sweden is to be able to reach the national emission target of a 4 percent reduction.

One of the sectors that is not included in the permit system is the transport sector, which accounts for roughly 40 percent of Sweden's emissions of carbon dioxide. Two-thirds of these emissions derive from passenger transport. It is also in the transport sphere that one can expect to find the greatest potential for emission reductions by households in the future. However, higher taxes on passenger transport will not only have welfare implications for the household sector, but will also affect other sectors in the economy, such as the tourism and leisure industry. These effects depend to a large extent on how price sensitive households are, and on the substitutions between the number of trips and days on vacation. Previous studies that have considered welfare measurement in recreational count data demand systems (e.g., Ozuna and Gomez 1994 and Englin, Boxall, and Watson 1998) have not considered duration of stay as an endogenous variable. In this paper, we provide some empirical results concerning different ways of measuring household welfare effects.

Modern recreational demand modeling usually utilizes some type of count data model to accommodate the integer-valued nature of the household's recreational demand, usually measured in terms of the number of trips. A number of authors have also considered time on site (the number of days/nights) as endogenously determined, e.g., McConnell (1992), Larson (1993), Berman and Kim (1999), Feather and Shaw (1999). In the present paper both of these features are accommodated. A non-linear (Poisson) demand system is specified and used to derive appropriate welfare measures. In contrast to most earlier empirical studies, the paper considers

[3] According to Östblom 2002, Swedish companies within the trade system will buy emission permits for between 2 and 6 million tons of CO at the estimated market price.

simultaneous estimation of the demand for trips and days in a count data regression framework. This is a similar approach to Hellström (2005), but the objective of the present paper as well as the choice of econometric model and estimation method differ. Since the data have an excess amount of zeros (see e.g., Gurmu and Trivedi, 1996), i.e., there is a large probability mass at zero not consistent with most conventional count data distributions (e.g., Poisson, negative binomial), a bivariate zero-inflated Poisson lognormal (BZIPLN) model is introduced.[4]

An advantage of this specification is that the Poisson lognormal distribution does not constrain the correlation between the two endogenous variables to be positive (as in most other count data models, see for example Munkin and Trivedi, 1999) and that count data models with a lognormal mixture density frequently provide a better fit to the data (Winkelman, 2004). Since it is not possible to obtain explicit distributional expressions for the BZIPLN model, Gauss-Hermite quadrature is utilized to evaluate the appropriate integrals needed for estimation. The paper can be viewed both as input to the evaluation of the effects and costs of Sweden's environmental policy and as input on future policy recommendations. According to the Kyoto Protocol, negotiations for the next period, 2013–2017, are to begin not later than 2005.

The outline of the paper is as follows: Section 2 presents the economic framework and introduces the empirical study. In Section 3 the data are presented and discussed. Section 4 discusses the econometric model specification and estimation, and Section 5 presents the empirical results. The concluding section contains a number of final observations.

2 The Economic Structure

In the modeling of recreational demand a number of different approaches have been used. The literature includes among other things models that consider the discrete choice of which sites to visit (e.g., Morey, Shaw, and Rowe, 1991 and Train, 1998) and studies that focus on the number of trips a persons undertakes (e.g., Gurmu and Trivedi, 1996 and Englin and Shonkwiler, 1995). To account for differences in the length of the stay, the approach has been to estimate different models depending on the duration of the trip. From both a demand and a welfare economic point of view, it is of interest to consider models that can accommodate the duration of the stay in a more flexible manner.

In this study we allow time on site to be endogenous and consider the choice of the number of trips (x_1) and the total number of days to stay (x_2) a simultaneous decision. Earlier studies that have treated time on site as endogenous are, for example, Larson (1993) and Hellström (2005). In the modeling the recreational choice is considered as a short-run decision conditioned

[4] Wang (1993) introduced the bivariate zero-inflated negative binomial model.

on longer-run labor supply (l). As we do not want to place any restrictions on the individual's attitude to work, labor supply is included as a conditional good in the optimization problem.[5] A nice feature of this approach is that consistency with microeconomic theory does not hinge at all on whether the individual is at a corner solution in the labor/leisure choice or not (Browning and Meghir, 1991).

Due to data limitations it is not possible observe the household consumption of other goods $\mathbf{w} = (w_1, ..., w_r)$. However, through the budget identity $y - \mathbf{p}'\mathbf{x} \equiv \mathbf{q}'\mathbf{w} \equiv m$, where $\mathbf{p}$ and $\mathbf{q}$ are prices for the goods in $\mathbf{x}$ and $\mathbf{w}$ and y is the household's total income, total expenditures on $\mathbf{w}$ are observed, i.e., m. This implies that the demand for trips and days can be specified as an incomplete demand system, see e.g., LaFrance (1990), LaFrance and Hanemann (1989), and Epstein (1975, 1982). Conditional on labor supply and household characteristics ($\mathbf{k}$), the conditional quasi-utility function associated with the incomplete demand system can be represented by

$$u = (x_1, x_2, m, \mathbf{q}; l, \mathbf{k}).$$

Besides the usual properties of a utility function for fixed $\mathbf{q}$ (quasi-concave, twice differentiable) this utility function possesses the properties of joint weak complementarity (Mäler 1974), i.e., $\partial u(0, x_2, m, \mathbf{q}; l, \mathbf{k})/\partial x_2 = 0$ and $\partial u(x_1, 0, m, \mathbf{q}; l, \mathbf{k})/\partial x_1 = 0$.[6] This approach, where the individual chooses the total number of days, implies that total time is valued; but how total time is packaged into shorter or longer stays on site is a matter of indifference to the individual, aside from the effects on more or less travel time and increased or decreased travel costs. The maximization of the utility function is done subject to the budget constraint $\sum_{i=1}^{2} p_i x_i + m \leq y$, where p_1 is the travel cost per trip and p_2 is the cost per day on site. The observed market demands for trips and days will then be given by the function

$$\mathbf{x} = f(\mathbf{p}, \mathbf{q}, y; l, \mathbf{k}).$$

The count data structure of the dependent variables makes us assume that they have an exponential mean function. The observed demand functions for a household can thus be expected to have the form

$$x_i = \exp\left(\alpha_i(q, \mathbf{k}) + \textstyle\sum_{j=1}^{2} \beta_{ij} p_j + \gamma_i y + \delta_i l\right), \qquad i = 1, 2. \tag{1}$$

Since all prices and income are assumed to have been deflated by a linear homogeneous function of the prices for $\mathbf{w}$, the demands are zero degree homogeneous in prices and income. As income

[5] The most common assumption in the literature has been that the marginal utility of work time is zero, thereby linking the value of time to the wage rate.

[6] Joint weak complementarity makes it acceptable to assume an interior solution, see e.g., McConnel (1992).

is greater than total expenditures on recreation, there is no adding-up restriction. Therefore, to have an integrable demand system, the only equality constraint is the symmetry of the Slutsky substitution terms $s_{ij} = \partial x_i/\partial p_j + x_j \partial x_i/\partial y$, i.e.,

$$\beta_{ij}x_i + \gamma_i x_i x_j = \beta_{ji}x_j + \gamma_j x_j x_i.$$

One set of restrictions consistent with this requirement is $\gamma_i = \gamma_j$ and $\beta_{ij} = \beta_{ji} = 0$. Although the restrictions imposed on the demand system appear severe, the requirement of zero cross-price effects are largely unavoidable when adapting an integrability consistent Poisson demand system.

The quasi-indirect utility function associated with the restricted demand functions is

$$v(\mathbf{p}, y; l, \mathbf{k}) \quad = \quad -\frac{\exp(-\gamma y)}{\gamma} - \sum_{i=1}^{2} \frac{\exp(\alpha_i + \beta_{ii}p_i + \delta_i l)}{\beta_{ii}}, \qquad \gamma > 0 \tag{2}$$

and is used in the calculations of Hicks' (1942) measure of equivalent variation (EV). For a price change from p^0 to p^c, EV can be written as

$$EV \quad = \quad -\frac{1}{\gamma} \ln \left[\exp(-\gamma y) + \gamma \left(\frac{\exp(\alpha_1 + \beta_{11}p_i^c + \delta_1 l)}{\beta_{11}} - \frac{\exp(\alpha_1 + \beta_{11}p_1^0 + \delta_1 l)}{\beta_{11}} \right) \right] - y, \tag{3}$$

for a positive income effect, $\gamma > 0$.

Since the EV measure neglects the substitution possibility to longer stays, we will also estimate a model without any parameter restrictions and use the change in consumer surplus (ΔCS) as an approximate welfare measure. The change in consumer surplus due to an increased CO_2 tax may be written as

$$\begin{aligned} \triangle CS \quad &= \quad \int_{p_1^0}^{p_1^c} \exp(\boldsymbol{\alpha}_1 + \beta_{11}p_1 + \beta_{12}p_2 + \gamma_1 y + \delta_1 l)dp_1 - \\ &\quad\quad \int_{p_1^0}^{p_1^c} \exp(\boldsymbol{\alpha}_2 + \beta_{12}p_1 + \beta_{22}p_2 + \gamma_2 y + \delta_2 l)dp_1 \\ &= \quad \frac{1}{\beta_{11}}[\exp(\boldsymbol{\alpha}_1 + \beta_{11}p_1^c + \beta_{12}p_2 + \gamma_1 y + \delta_1 l) - \exp(\boldsymbol{\alpha}_1 + \beta_{11}p_1^0 + \beta_{12}p_2 + \gamma_1 y + \delta_1 l)] - \\ &\quad\quad \frac{1}{\beta_{21}}[\exp(\boldsymbol{\alpha}_2 + \beta_{12}p_1^c + \beta_{12}p_2 + \gamma_2 y + \delta_2 l) - \exp(\boldsymbol{\alpha}_2 + \beta_{12}p_1^0 + \beta_{12}p_2 + \gamma_2 y + \delta_2 l)]. \end{aligned} \tag{4}$$

for a positive substitution effect. Although EV can usually be considered as an exact welfare measure, in our count data demand system it can be seen as an upper (lower) bound of the welfare loss since it does not account for the positive (negative) substitution effect concerning the number of days to stay.

3 Data

The data used in this study were obtained from the Tourism and Travel Database (TDB) and covers the period January 1990 to August 1996. The TDB is a monthly telephone survey covering the population of Swedish households aged 0-74 years. Approximately 28 000 people are interviewed each year using a computer-assisted telephone interviewing technique. The TDB classifies trips as either mainly for business or for recreation. Since the interest of the paper concerns household welfare effects, the empirical study is limited to recreational trips. The survey contains, among other things, information on the number of overnight trips made during the previous month, as well as socioeconomic information. For the two most recent trips, detailed information is available on for instance the origin and destination of the trip, the main purpose of the trip, and expenditure at the destination.

The sample used in the study has been obtained after a number of restrictions on the basic data set. Households with a total number of nights greater than 30 and an income over SEK 800 000 were deleted from the sample, to avoid extreme values in the sample. By imposing the income restriction the sample was reduced by 0.3 percent, the mean income amounts to SEK 243 000. As we have to estimate the transport cost, we also excluded households with individuals over 65 years, since this visitor group is able to travel at a reduced rate, which is difficult to capture in practice.

In order to speed up the estimation time,[7] the final sample has been randomly sampled (approximately 20 percent of the observations for each year) from the restricted sample. The final sample consists of 19 726 observations, where approximately 70 percent have made zero trips during the previous month. Conditional on trip participation, the mean number of trips and days are 1.57 (s.e. 1.28) and 4.40 (s.e. 4.13) respectively.

3.1 Variables

The theoretical model specifies a number of variables to include in the demand system. Some are directly observable in the TDB, such as the price or cost at the destination, whereas others are indirectly observable.

A drawback with the TDB is that the total cost of transportation is not reported. Therefore,

[7] The estimation time is rather long due to the large amount of variables and the numerical integration procedure.

the transportation cost is calculated based on the reported origin and destination of a trip. The transportation costs are calculated for the full household. For travel by car, distance traveled is used to compute the cost. It is assumed that decision makers only consider direct costs, i.e., gas. We used the average monthly gas prices during each year from 1990-1996. Gas prices from 1990 were used together with a gas price index to calculate gas prices for other periods. Data on fuel consumption per kilometer were obtained from the Swedish Automobile Association for each year. Bus costs are calculated using a ticket price per km obtained from bus price schedules. For air transportation, costs are calculated using price schedules and timetables obtained from SAS (Scandinavian Airline Systems). Air costs are based on the price for the summer of 1994 and the prices for the other periods are obtained using a monthly price index for domestic flights. Households are assumed to have used the closest airport to the reported origin of their trip. Based on household characteristics, the number of adults and children in different ages, seven different combinations of air fares are possible at each airport. Train costs are calculated using an average fare price per km obtained from Swedish Railways. We assumed that travelers who travel more than 600 km purchase a sleeper ticket, with a price corresponding to an average of the price in compartments with three and six beds. The prices are based on actual fares received by the operator, i.e., discounts are accounted for. For households with zero trips, we predict the market prices for transport and the prices at the destination by a linear model based on household characteristics.

Variables containing socioeconomic information are also used in the study. To control for possible age effects, a variable (age) containing the age of the oldest household member is used. Variables for the number of adults in the household and the number of children aged 0–6, 7–12, and 13–18 are also constructed to control for household composition effects. A dummy for the month of July is included to account for the main holiday season. Variables to control for different purposes of the trips are also included. The most common reported purposes of travel are visiting relatives and friends and visiting vacation homes. Since it is possible that households with these purposes may behave differently, e.g., the price at location may be close to zero, dummies are included for households with these reported purposes. The dummies are one if the purpose is visiting relatives and friends and vacation homes, otherwise zero. The reported purpose of the household's first trip is used as a proxy for the second trip.

The information in the TDB concerning labor supply is restricted to terms of employment for one of the adults in the household. Therefore, to account for labor supply, we include dummy variables for different terms of employment, such as part-time worker and full-time worker. Although we cannot observe the exact number of hours worked, the dummy variables will capture the main properties of labor supply that are of interest in a model for leisure days–

that is, we will capture the time constraints that different terms of employment place on leisure day demand. For example, one can expect that full-time workers will usually demand at most two guest nights per week.

Table 1 gives descriptive statistics for the explanatory variables.

[Table 1 about here]

4 The Econometric Model

To empirically model the demand for trips, x_{1h}, and the total demand for days to stay on these trips, x_{2h}, for household h, a bivariate count data regression model is specified. To account for possibly negatively correlated count variables, as suggested in a previous study by Hellström (2005), a bivariate Poisson lognormal model is chosen. Since there are a large amount of zero observations in the sample, the model is extended to accommodate for this feature of the data. This is accomplished by inflation of the "zero-zero" probability. Since the data only includes trips with a positive number of days, i.e., a trip is only recorded if there is a positive number of days, it is not possible to observe the outcome one trip-zero days. Hence, the structure of the data is either $(x_{1h} = 0, x_{2h} = 0)$ or $(x_{1h} > 0, x_{2h} > 0)$.

Assume that the total number of trips and the total number of nights have independent Poisson distributions conditional on random unobserved heterogeneity components ε_{1h} and ε_{2h} and explanatory variables z_{1h} and z_{2h}:

$$x_{ih}|\mathbf{z}_{ih}, \varepsilon_{ih} \sim P(\mu_{ih}),\ i = 1,\ 2$$

where the mean parameters are specified as $\mu_{ih} = \exp(z'_{ih}\beta_i + \varepsilon_{ih}) \geq 0$ and the unobservable variables ε_{ih} are assumed to be jointly normally distributed, i.e.,

$$(\varepsilon_{1h}, \varepsilon_{2h}) \sim N\{(0,0),(1,\rho\sigma_2,\sigma_2^2)\}, \qquad |\rho| \in [0,1]$$

with σ_1^2 normalized to 1. The bivariate zero-inflated Poisson lognormal (BZIPLN) model is then specified as

$$\Pr[x_{1h}{=}0, x_{2h}{=}0] = \pi_h + (1-\pi_h)\int_{-\infty}^{\infty}\int_{-\infty}^{\infty} \exp(-\mu_{1h}) \times \exp(-\mu_{2h}) f(\varepsilon_{1h},\varepsilon_{2h})\, d\varepsilon_1 d\varepsilon_2, \qquad (5)$$

$$\Pr[x_{1h}{>}0, x_{2h}{>}0] = (1-\pi_h)\int_{-\infty}^{\infty}\int_{-\infty}^{\infty} \frac{\exp(-\mu_{1h})\mu_{1h}^{x_{1h}}}{x_{1h}!}\frac{\exp(-\mu_{2h})\mu_{2h}^{x_{2h}}}{x_{2h}!} f(\varepsilon_{1h},\varepsilon_{2h})\, d\varepsilon_1 d\varepsilon_2, \qquad (6)$$

where $\pi_h = \exp(\widehat{\mathbf{z}}'\boldsymbol{\theta})/(1+\exp(\widehat{\mathbf{z}}'\boldsymbol{\theta})) \geq 0$, is the "inflation" parameter, parameterized as a function of the observable vector of covariates $\widehat{\mathbf{z}}$ and the parameter vector $\boldsymbol{\theta}$. To ensure that $\pi_h \in [0,1]$, a logistic function is utilized for π_h. The joint log-likelihood function is given by

$$l = \sum_{h=1}^{H}(1-d_h)\ln(\pi_h + (1-\pi_h)\Pr[x_{1h}{=}0, x_{2h}{=}0]) + d_h \ln((1-\pi_h)\Pr[x_{1h}{>}0, x_{2h}{>}0]),$$

where d_h is an indicator variable that takes the value 1 if $(x_{1h}{>}0, x_{2h}{>}0)$ and 0 otherwise.

4.1 Estimation

A closed form for the BZIPLN mixture is not available. Estimation by simulated maximum likelihood (SML) for the basic type of the bivariate Poisson log-normal model has been studied by Munkin and Trivedi (1999). Chib and Winkelmann (2001) use Markov Chain Monte Carlo methods for the same model. Hellström (2005) utilizes SML estimation for a truncated version of the model. In the present paper, Gauss-Hermite quadrature is utilized to evaluate the integrals (equations 5 and 6). A one-dimensional integral can be obtained by factorization of $f(\varepsilon_1\varepsilon_2)$ into a conditional and a marginal distribution. Details concerning the Gauss-Hermite quadrature are given in Appendix A.

5 Estimation results

The estimation result for the restricted BZIPLN model is presented in Table 2. The own price coefficients for both the trip and day equations are significantly negative, with the day equation more price sensitive than the trip equation. The mean price elasticities are calculated as

$$e_{ij} = \frac{1}{H}\sum_{h=1}^{H}\frac{\partial E[x_{ijh}|\mathbf{z}]}{\partial p_{ijh}}\frac{p_{ijh}}{E[x_{ijh}|\mathbf{z}]} = \frac{1}{H}\sum_{h=1}^{H}\beta_{ij}p_{ijh}, \quad i,j \in 1,2,$$

where $\partial E[x_{ijh}|\mathbf{z}]/\partial p_{ijh} = \beta_{ij}E[x_{ijh}|\mathbf{z}]$, which gives the mean own price elasticity $e_{11} = -0.24$ for the number of days and $e_{22} = -0.13$ for the number of trips. The estimated price coefficient in the π function shows the expected sign, as a higher price reduces the probability that a household will undertake a trip, i.e., a higher price increases the probability of observing an $(0,0)$ outcome. The table also reveals a positive income effect for trips and days, although this is insignificant. The significant income effect in the π also increases the demand, as a higher income will reduce the probability that a household will stay at home.

The effects from the labor supply variables are generally insignificant in the number of trips and the π equation. However, the lengths of the stays are significantly affected by the household's labor supply. Thus, the result indicates that the number of trips is separable from labor supply while the demand for number of days is not. In relation to full-time working households, the results indicate that households classified as part time-workers, students, or home workers will generally stay for a longer time. Since full-time workers usually undertake their leisure trips at weekends, with at most two days per trip, these results seem reasonable.

The presence of children in the household will generally reduce the number of trips and prolong the length of visits, although the effects are only significant in the trip equation. The variables representing visits to vacation homes, friends/family, and the July dummy are generally significant and increase both the number of trips and the number of days. The estimated correlation coefficient ρ is positive and significant.

The estimation results from the unrestricted model specification, reported in Table 3, are relatively robust compared to the results from the unrestricted model. The cross-price effects are, however, significant in both equations, with a positive substitution effect from a higher transportation price on the demand for days. The estimated cross-price elasticity for trips is, $e_{12} = -0.58$, while it amounts to $e_{21} = 0.33$ for the number of days.

By including the cross prices, the estimated own price coefficient in the trip equation decreases from -0.034 (s.e. 0.016) to -0.016 (s.e. 0.016), whereas we obtain an increase in the own price sensitivity in the day equation. The estimated mean own price elasticities for trips and days are -0.06 and -0.41 respectively in the unconstrained model.

By removing the parameter restriction, $\gamma_i = \gamma_j$, the unrestricted model also reveals significantly positive income effects for both the trip equation ($\gamma_1 = 0.042$ with s.e. 0.015) and the day equation ($\gamma_2 = 0.027$, s.e. 0.015). The income elasticities for these equations are 0.11 and 0.07.

[Table 2 about here]

[Table 3 about here]

5.1 Welfare effects

In the calculations of welfare effects, a scenario is considered where the CO_2 tax is increased by 100-percent . In the simulation we use the baseline taxes for 1998. In this year the excise duty, measured as the share of the producer price (price exclusive of taxes) for the energy and CO_2 tax, amounted to 2.23 for gasoline, which corresponds to SEK 3.61/litre. The CO_2 tax amounted to 0.43. Increasing this amount by 100 percent implies an increase of the total excise duty (or implicit tax rate) on gasoline from 2.23 to 2.66. The effect on the consumer price is an increase of 13.3 percent.[8]

Since we do not know the production function for air, bus, and train transport, we apply the same assumptions regarding energy use for these transport modes as in Brännlund and Nordström (2004). This means that we assume that 20 percent of the price for bus and train transport consists of energy costs (fossil fuel); the corresponding figure for air transport is 30 percent. These assumptions imply that the price for bus and train transport increases by 5.0 percent and air transport by 7.7 percent.

In Table 4 we present four different welfare measures, denoted by EV and CS_1 to CS_3. The first measure in column 1, EV, is the exact welfare measure derived in equation (3). In the second column we report the change in consumers' surplus for the trip equation, based on the parameter estimates from the restricted model. If the income effect had been zero, there would have been no difference between EV and CS_1. As the estimated income coefficient is relatively small, $\gamma = 0.012$, the difference between the values in columns 1 and 2 is also small. The measure in column 2 is given by

$$CS_1 = \frac{1}{\beta_{11}}\left[\exp(\boldsymbol{\alpha}_1 + \beta_{11}p_1^c + \gamma y + \delta_1 l) - \exp(\boldsymbol{\alpha}_1 + \beta_{11}p_1^0 + \gamma y + \delta_1 l)\right].$$

The same type measure is also presented in the third column, but in this case we use the parameter estimates from the unrestricted model, including the effect from the cross prices. The measure in column 3 is accordingly given by

$$CS_2 = \frac{1}{\beta_{11}}[\exp(\boldsymbol{\alpha}_1 + \beta_{11}p_1^c + \beta_{12}p_2 + \gamma_1 y + \delta_1 l) - \exp(\boldsymbol{\alpha}_1 + \beta_{11}p_1^0 + \beta_{12}p_2 + \gamma_1 y + \delta_1 l)],$$

and considers only the effect of the number of trips. Finally, in the fourth column we account for the reduction in the welfare loss due to the substitution towards longer stays, according to formula (4) in Section 2.

As Table 4 reveals, all four welfare measures show the same pattern for the different household categories; the difference is in the level of the welfare loss. If we start the analysis by studying EV, we see that the value of this measure is slightly less than CS_1, which is expected with a small positive income effect. The difference between the two measures amounts to SEK 0.30 or

[8] Further details about the calculation of the price change can be found in Brännlund and Nordström (2004).

0.4 percent, evaluated at the mean of the total sample. For the income categories, the results suggest that higher income groups have a higher welfare loss than lower income groups. For households in the highest income class the welfare loss amounts to approximately SEK 80, while the figure is SEK 60 for households in the lowest income group. However, if we relate the welfare loss to the household's income, we see from the last column that the tax reform is regressive in the sense that low income households will carry a larger proportion of the tax burden in relation to household income.

For single-adult households with and without children, the difference in welfare loss is relatively small. Compared to households with two adults, the welfare loss is at about the same level as for families with three or more children. However, relating the welfare loss to income, we see that the tax burden is approximately twice as large for single-adult households with children as it is for two-adult households with children. For households with two adults and no children, the tax burden (SEK 80) is the same as for households in the highest income group. As a result of a less frequent travel behavior for families with children, the results suggest a lower welfare loss as the number of children increases in families with two adults. For travelers to the different destinations, the results indicate that travelers to Norrbotten receive the highest welfare loss, both in absolute terms and in relation to income.

Using the same type of welfare measure as in column 2, but the parameter estimates from the unrestricted model, the welfare loss is reduced by SEK 5.20 or 7.3 percent (the difference between CS_1 and CS_2). As can be seen from the table, the difference between CS_1 and CS_2 increases with income. For the lowest income group the values are equal, while the difference amounts to SEK 10.40 or 12.9 percent for the highest income group. The results also reveal that there is a smaller difference between CS_1 and CS_2 for households with one adult, compared to households with two adults.

If we consider the effects of the substitution towards longer stays, the difference between CS_2 and CS_3, the welfare loss, is reduced by an additional SEK 5.20. Thus, if we use CS_3 as a measure of the welfare loss, the average loss is reduced by 15 percent or SEK 10.10 per month compared to EV. As the table reveals, there is a relatively large difference in substitution possibilities for the different household categories. For example, the reduction in welfare loss due to longer stays amounts to only SEK 1.00 SEK for households with two adults with and without children, while it amounts to about SEK 13 for households with one adult. The results also suggest that low income households have a greater substitution possibility than high income households. For the two lowest income groups, the difference between CS_2 and CS_3 amounts to SEK $10.30 - 8.70$, while the corresponding figure is SEK $2.00 - 1.50$ for the two highest income groups. Thus the time constraints generally faced by the workforce do seem to affect households' possibilities to reduce the negative effects of increased CO_2 taxes.

[Table 4 about here]

Aggregating the household-specific numbers for the last 12 months in the sample to a national level, the welfare loss measured as the change in consumer surplus amounts to SEK 280 million per year when we account for the length of the visits and the substitution toward longer stays (i.e., CS_3). Compared to the change in consumer surplus from the restricted model which does not account for this substitution possibility (CS_1), CS_3 is 22 percent smaller.[9] The difference between the consumers' surplus from the unrestricted and restricted trip equations, i.e., CS_2 and CS_1, amounts to SEK -55 million or -15.2 percent.[10]

As a result of the increase in the CO_2 tax, the estimated mean number of trips in the unrestricted model decreases from 1.496 to 1.486, whereas the positive cross-price effect in the day equation results in an increase of the mean number of days from 3.515 to 3.654.

5.2 Regional effects

If we study the price elasticities in Table 5, we see that the own price elasticity for trips is about half the size in the unrestricted model compared to the restricted model. For the day demand, the price sensitivity increases from -0.24 to -0.41 in the unrestricted model. Among the different destinations, travelers to Norrbotten turn out to have the highest own price elasticity for trips as a result of higher transportation costs, for this visitor category. As a result of higher transportation cost, visitors to Norrbotten also tend to prolong their stay more than visitors to other destinations.

[Table 5 about here]

At an aggregate level the number of trips to Stockholm amounted to 876,000 during the last 12 months of the sample. The corresponding numbers for the other destinations were 607,000 for Gothenburg, 372,000 for Dalarna, 214,000 for Malmo, and 91,000 for Norrbotten. The price elasticities in Table 5 are based on the parameter estimates included in the (Poisson) exponential function and do not consider the effects from changes in π. If we also consider the effect that fewer trips are undertaken as a result of the higher CO_2 tax via the π function, we observe a reduction in the number of guest nights in the different regions.

At an aggregate level, the number of days decreases by 1.9 percent in Norrbotten, 1.2 percent in Dalarna, and by about 1.1 percent for the other destinations. The percentage reduction in the aggregate number of trips to the different destinations are close to the estimated elasticities

[9] At an aggregate level CS_1 amounts to SEK 347 million.

[10] $CS_2 = 305$ million SEK. $CS_1 = 360$ million SEK.

presented in Table 3: -5.1% for Stockholm and Gothenburg, -5.7% for Dalarna, -5.6% for Malmo, and -7.5% for Norrbotten. Thus the prolong of the stays, due to the increased CO_2 tax, reduces the negative effects on the tourism industry to some extent.

6 Discussion and conclusions

In this paper we have studied the demand and welfare effects of an increased carbon dioxide tax. Since a large number of countries have committed themselves to reduce their emissions of carbon dioxide in accordance with the Kyoto Agreement, or as a result of national commitments, this paper can be seen as one input in the evaluation of such a policy. In the previous literature on emission reductions the main focus has been on efficiency issues, with relatively little attention paid to distributional questions.

The focus in this paper has been on recreational demand, and on the welfare and distributional effects that increased CO_2 taxes cause households. In the modeling framework we have considered households' choice of the number of trips and number of days on vacation as a simultaneous choice, where both trips and days create utility for the household. The simultaneous choices result in a non-linear count data demand system, which has been estimated using use of a bivariate zero-inflated Poisson lognormal model. The inflated model choice was motivated by the large number of $(0, 0)$ observations in the empirical sample. The estimation of the parameters of the model was accomplished by the use of Gauss-Hermite quadrature.

Although the integrability conditions place strong restrictions on the cross-price parameters in the non-linear demand system, we may still find the boundary welfare effects of the environmental policy by applying the welfare measures, equivalent variation and the change in consumers' surplus, where the change in consumers' surplus, given the positive substitution effect for the number of days to stay, represents a lower bound and EV an upper bound. The results indicate that, by accounting for the number of days on vacation, the welfare loss for the households decreases by 22 percent. The exact welfare measure equivalent variation over estimates accordingly the welfare loss since it does not account for the substitutions toward longer trips.

From a distributional point of view, both measures indicate the same pattern. In the income dimension the results suggest that higher income households have a higher welfare loss measured in SEK. However, if we set the welfare loss in relation to the household's income, we see that the tax reform is regressive, in the sense that low income households carry a larger burden of the tax reform.

The results also suggest that single-adult households with and without children carry a larger burden than households with two adults with children. As a result of higher transport costs (greater distance to travel), travelers to Norrbotten also receive a higher welfare loss than other travelers, both in SEK and relative to income. Finally, the results indicate that the tourism industry in Norrbotten will be more negatively affected than the tourist industries in the other regions included in the study.

7 Appendix A

Gauss-Hermite quadrature is utilized to evaluate the integrals in this paper (equations 5 and 6). A one-dimensional integral can be obtained by factorization of $f(\varepsilon_1\varepsilon_2)$ into a conditional and a marginal distribution. Noting that $\varepsilon_1|\varepsilon_2 \sim N(\rho\varepsilon_1/\sigma_2, 1-\rho^2)$, the one-dimensional integral is given by.

$$
\begin{aligned}
f(x_{1h}, x_{2h}|\mathbf{z}_{1h}, \mathbf{z}_{2h}) &= \int f(x_{1h}|\exp(z'_{1h}\beta_1 + \rho\varepsilon_{2h}/\sigma_2))f(x_{2h}|\exp(z'_{2h}\beta_2 + \varepsilon_{2h}))f(\varepsilon_2)d\varepsilon_2 \\
&= \int_{-\infty}^{\infty} f(x_{1h}|\exp(z'_{1h}\beta_1 + \rho\varepsilon_{2h}/\sigma_2))f(x_{2h}|\exp(z'_{2h}\beta_2 + \varepsilon_{2h})) \\
&\quad \times \frac{1}{\sqrt{2\pi}\sigma_2} e^{-\frac{1}{2}(\frac{\varepsilon_2}{\sigma_2})^2} d\varepsilon_2.
\end{aligned}
$$

The approximation with Gauss-Hermite quadrature is obtained by a change of variable. Define $\nu_h = \varepsilon_{2h}/\sigma_2\sqrt{2}$, then the equation may be written as

$$
\begin{aligned}
f(x_{1h}, x_{2h}|\mathbf{z}_{1h}, \mathbf{z}_{2h}) &= \frac{1}{\sqrt{\pi}} \int_{-\infty}^{\infty} f(x_{1h}|\exp(z'_{1h}\beta_1 + \rho v_h\sqrt{2})) \\
&\quad \times f(x_{2h}|\exp(z'_{2h}\beta_2 + v_h\sigma_2\sqrt{2}))e^{(-v_h^2)} dv_h \\
&= \frac{1}{\sqrt{\pi}} \sum_{h=1}^{H} h(w_h)g(v_h)
\end{aligned}
$$

where $h(w_h) = f(x_{1h}|\exp(z'_{1h}\beta_1 + \rho v_h\sqrt{2}))f(x_{2h}|\exp(z'_{2h}\beta_2 + v_h\sigma_2\sqrt{2}))$ and $g(v_h) = e^{(-v_h^2)}$. Weight factors, $g(v_h)$, and abscissas, w_h, for 20-point quadrature are obtained from Abramowitz and Stegun (1964).

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Table 1: Descriptive statistics for the explanatory variables.

	Mean	Stand.dev.
Transportation cost	389.89	69.75
Cost at location	552.29	112.77
Income*	242.84	116.33
Destination dummy Stockholm	0.04	0.21
Destination dummy Gothenburg	0.03	0.18
Destination dummy Malmo	0.02	0.13
Destination dummy Norrland	0.01	0.10
Destination dummy Dalarna	0.02	0.15
Dummy for home worker	0.02	0.12
Dummy for full-time worker	0.61	0.49
Dummy for part-time worker	0.13	0.34
Dummy for students	0.19	0.39
Dummy for unemployed	0.05	0.22
Dummy for military service	0.00	0.03
Age	41.53	11.82
Number of children aged 0–6	0.21	0.53
Number of children aged 7–12	0.26	0.57
Number of children aged 13–18	0.25	0.54
Transportation mode dummy airplane	0.01	0.10
Transportation mode dummy car	0.22	0.41
Transportation mode dummy train	0.03	0.18
Transportation mode dummy bus	0.02	0.13
Number of adults in the household	1.67	0.56
Dummy for purpose: visiting relatives/friends	0.14	0.35
Dummy for purpose: visiting vacation home	0.04	0.20
Dummy for July	0.13	0.33

*Income measured in SEK thousands

Table 2: Estimation results -Restricted model.

Variable	x_1	s.e.	x_2	s.e.	Variable	π	s.e
$p_{transport}$	-0.034*	(0.016)	-	-	p_{t+l}	0.162*	(0.015)
$p_{location}$	-	-	-0.045*	(0.015)	*income*	-0.310*	(0.019)
income	0.012	(0.010)	0.012	(0.010)	*d_home worker*	-0.068	(0.137)
d_gothenburg	0.014	(0.044)	-0.001	(0.035)	*d_part-time worker*	-0.084	(0.050)
d_malmo	0.065	(0.045)	-0.067	(0.046)	*d_student*	-0.344*	(0.046)
d_norrbotten	0.108	(0.060)	0.136*	(0.063)	*d_unemployed*	-0.008	(0.078)
d_dalarna	-0.102*	(0.049)	0.140*	(0.046)	*d_military service*	0.280	(0.501)
d_home worker	-0.045	(0.127)	0.170*	(0.082)	*age*	0.149*	(0.015)
d_part-time worker	0.042	(0.039)	0.077*	(0.036)	*n_children*$0-6$	0.658*	(0.325)
d_student	0.081*	(0.036)	0.222*	(0.030)	*n_children*$7-12$	0.034	(0.306)
d_unemployed	0.016	(0.065)	0.099	(0.055)	*n_children*$13-18$	0.892*	(0.317)
d_military service	0.199	(0.634)	-0.083	(0.543)	*Constant*	-0.554*	(0.130)
age	-0.008	(0.010)	0.028*	(0.011)			
n_children$0-6$	-0.551	(0.312)	0.052	(0.240)			
n_children$7-12$	-0.899*	(0.282)	0.358	(0.202)			
n_children$13-18$	-0.535*	(0.231)	-0.187	(0.212)			
d_air	-0.321*	(0.140)	0.138*	(0.060)			
d_train	-0.238*	(0.059)	0.089*	(0.037)			
d_buss	-0.178*	(0.067)	-0.117*	(0.052)			
n_adults	-0.370	(0.253)	-0.443	(0.325)			
d_friends/family	0.091*	(0.030)	0.044	(0.025)			
d_vacation home	0.498*	(0.034)	0.401*	(0.035)			
d_july	0.060*	(0.029)	0.597*	(0.024)			
Constant	0.531*	(0.077)	1.086*	(0.074)			
σ	0.610*	(0.022)					
ρ	0.182*	(0.021)					
Log-likelihood	-34 405						

* Significant at the 5 percent level, *d_*=dummy, *n_*=number of

Table 3: Estimation results unrestricted model.

Variable	x_1	s.e.	x_2	s.e.	Variable	π	s.e
$p_{transport}$	-0.016	(0.016)	0.083*	(0.016)	p_{t+l}	0.155*	(0.015)
$p_{location}$	-0.106*	(0.020)	-0.076*	(0.016)	*income*	-0.306*	(0.019)
income	0.042*	(0.015)	0.027*	(0.013)	*d_home worker*	-0.018	(0.137)
d_gothenburg	0.016	(0.044)	0.013	(0.035)	*d_part-time worker*	-0.077	(0.050)
d_malmo	0.064	(0.046)	-0.068	(0.046)	*d_student*	-0.345*	(0.046)
d_norrbotten	0.091	(0.060)	0.057	(0.064)	*d_unemployed*	-0.008	(0.078)
d_dalarna	-0.074	(0.050)	0.164*	(0.046)	*d_military service*	0.237	(0.493)
d_home worker	-0.035	(0.129)	0.231*	(0.081)	*age*	0.144*	(0.015)
d_part-time worker	0.026	(0.040)	0.077*	(0.036)	$n\_children0-6$	0.497	(0.325)
d_student	0.068	(0.037)	0.225*	(0.030)	$n\_children7-12$	0.072	(0.307)
d_unemployed	0.032	(0.066)	0.092	(0.056)	$n\_children13-18$	0.872*	(0.317)
d_military service	0.177	(0.566)	-0.068	(0.495)	*Constant*	-0.480*	(0.130)
age	-0.020	(0.011)	0.022	(0.011)			
$n\_children0-6$	-0.304	(0.315)	0.042	(0.241)			
$n\_children7-12$	-0.718*	(0.288)	0.365	(0.202)			
$n\_children13-18$	-0.472*	(0.233)	-0.227	(0.212)			
d_air	-0.348*	(0.140)	0.089	(0.061)			
d_train	-0.230*	(0.059)	0.081*	(0.037)			
d_buss	-0.193*	(0.069)	-0.132*	(0.052)			
n_adults	0.575	(0.362)	-0.502	(0.326)			
d_friends/family	0.085*	(0.031)	0.046	(0.025)			
d_vacation home	0.426*	(0.034)	0.368*	(0.035)			
d_july	0.054	(0.029)	0.606*	(0.024)			
Constant	0.855*	(0.100)	0.930*	(0.095)			
σ	0.609*	(0.022)					
ρ	0.176*	(0.022)					
Log-likelihood	-34 372						

* Significant at the 5 percent level, *d_*=dummy, *n_*=number of

Table 4: Mean welfare effect for different household categories

		EV	CS_1	CS_2	CS_3	EV/Inc[a]
Income	0-150	59.6	59.9	59.1	48.8	0.77
in SEK thousand	151-210	67.3	67.6	64.8	56.1	0.38
	211-280	71.5	71.8	66.8	63.2	0.29
	281-350	74.6	75.0	68.0	66.0	0.24
	351-785	80.4	80.8	70.4	68.9	0.19
One-adult households	-without children	63.4	63.6	61.8	49.9	0.57
	-with children	63.9	64.2	62.5	47.8	0.47
Two-adult households	-without children	80.4	80.9	73.1	71.9	0.31
	- 1 child	74.8	75.2	68.0	66.8	0.27
	- 2 children	68.3	68.6	62.3	61.1	0.23
	- 3 or more children	64.6	64.8	60.3	59.0	0.24
Destination	Stockholm	63.9	64.2	59.6	54.4	0.34
	Gothenburg	65.2	65.5	60.1	55.0	0.32
	Dalarna	69.8	70.1	64.6	60.1	0.34
	Malmo	65.2	65.5	60.1	55.3	0.38
	Norrbotten	94.3	94.9	90.8	82.7	0.54
Mean for total sample		70.7	71.0	65.8	60.6	0.37

EV equivalent variation. CS_1 consumers' surplus integrability restricted trip demand equation. CS_2 consumers' surplus unrestricted trip demand equation. CS_3 consumers' surplus unrestricted demand system (trip and day equations). [a] inc = income in thousand SEK.

Table 5: Price eacticities for visitors to different destinations

	Restricted		Unrestricted			
Destination	e_{11}	e_{22}	e_{11}	e_{22}	e_{12}	e_{21}
Stockholm	-0.134	-0.241	-0.062	-0.408	-0.572	0.328
Gothenburg	-0.126	-0.246	-0.058	-0.417	-0.585	0.307
Dalarna	-0.131	-0.246	-0.060	-0.416	-0.584	0.320
Malmo	-0.130	-0.245	-0.060	-0.415	-0.582	0.318
Norrbotten	-0.173	-0.237	-0.080	-0.402	-0.564	0.421
Mean of the sample	-0.134	-0.244	-0.062	-0.412	-0.578	0.327

e_{11}: Own price elacticity for number of trips, e_{22}: Own price elacticity for number of nights

e_{12}: Cross-price elacticity for number of trips, e_{21}: Cross-price elacticity for number of nights