INFLUENCE OF PRICE AND FINANCIAL STABILITY OVER THE PRICE IN TOURISM

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Abstract: The paper presents the rationale underlying the choice of price stability as the primary objective of monetary policy and examines the connections between price stability and financial stability, there being analyzed also the influence over the prices in tourism. Price stability is essentially the primary responsibility of central banks as sustainable growth can only be achieved through low prices and their small fluctuations. Also, central banks play a role in financial stability, which I define as the feature of the financial system to face the systemic shocks on a sustainable basis and without major disruptions, to efficiently allocate financial resources in the economy and identify and effectively manage the risks.

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Financial stability is particularly important for price stability; in case there are constraints to choose between an alert process and to preserve financial stability, the latter must be prioritized in order to achieve the objective of maintaining price stability over a long term. It is worthy to mention the fact that countries that have initiated the process of disinflation must choose the appropriate pace of disinflation in order to avoid conflict with financial stability.

Considering the long-term price stability as the primary objective, the central bank should pay special attention to financial stability, and overall general development

On a long term, price stability is the primary appropriate objective of the monetary policy. Price stability is both a purpose in itself and a means for monetary policy as it contributes to the achievement of a sustainable economic growth and to the macroeconomic stability. Promoting price stability is not only the single thing the monetary policy can effectively achieve, but also the best it can do regarding the level of general social welfare. Price stability is achieved when money keeps its value over time or the erosion speed of its purchasing power is very slow. The concept of monetary stability overlaps the one of price stability.

Financial stability is a relatively new concept, which is closely related to the process of globalization. It is not as easy to define as price stability, but although "we benefit from a well structured framework for discussing and implementing the monetary policy, our thinking concerning financial stability is less advanced".

Financial stability is a situation when the financial system is able to effectively attract and place monetary funds and to withstand the shocks without prejudicing the real economy.

Financial stability can also be defined as a situation when: banking crises do not occur, the asset prices and particularly interest rate show a high degree of stability.

In a broad sense, financial stability must be approached as a situation when the financial system can ensure the efficient granting of savings to investment opportunities and can handle the shocks without major disruptions. In a narrower, but more useful perspective of a central bank, financial stability can be defined as the situation characterized by the absence of banking crises and the existence of a certain level of stability in asset prices, including interest rates.

According to the Treaty of Founding the European Community, "the primary objective of the European System of Central Banks is to maintain price stability". ESCB defines price stability as an annual increase of the harmonized index of consumer prices for the euro area below the 2% level.

Currently, the new EU member states in Central and Eastern Europe use three standard monetary policy strategies, namely aiming for the monetary aggregates, exchange rate and inflation.

Price is the only element of the marketing mix that generates revenue for the tour operator; all others are sources of expenses. The main characteristics of tourism that have implications for setting the prices are:

- high elasticity of demand with respect to prices, especially in the entertainment and voyages sector;
- the moment of price setting and the purchase moment are generally distanced;
- the possibility of some major and unpredictable changes of some cost elements (such as energy and gasoline costs or exchange rates);
- competitors apply the tactics of reducing prices many times when the offer is higher than the demand, which leads to the risk of some "price wars" that can ruin the profit of a tourism company on short terms;
- the authorities' attempts to control prices;
- the need to seasonally adapt prices;
- the customers' high degree of involvement, which, in tourism, leads to the high probability of a price to be associated with the product;
- the high fix cost of operations, which also encourages massive discounts with the purpose of selling excess capacity;
- the high level of vulnerability of the tourism demand, as a consequence of some economic or political events.

In tourism, prices are set using a specific methodology, because it never starts from costs as it is done in the other sectors of activity. In tourism, the value of the product is dependent on natural factors and the use of land as a production factor. The selling price of tourist products is set taking into account the higher costs required to obtain one unit of product.

The main features of tourism prices are as follows:

1. The existence of a wide range of prices for the same tourist product of the same quality;
2. The relatively independent evolution of supply and demand relationships;

3. Limited effect on consumption;

4. Inflationary event.

1. Prices are set differently for the same product depending on the time of consumption; there are differences of up to 40% between prices in high season and low season. Prices vary depending on offer location relative to the elements of tourist attraction. Prices are differentiated according to the exchange ratio. They can be > or < depending on the parity of the emitent currency at the receiver's currency.

Prices are also differentiated according to the production's degree of concentration. The lower the concentration degree, so there is a large number of small and medium-sized manufacturers for the same tourism product, prices record a wide range of values.

Prices are also differentiated according to the type of tourism consumer and the type tourism practised.

2. The tourism market is a market difficult to appreciate according to the quantity relationships. Sometimes, there occur agreements on the market between manufacturers, which turns free competition into conducted competition.

3. The behaviour of the tourism consumer is subjective, established by psychological factors and this behaviour associated with the consumer's lack of information regarding price comparability determines a relative independence of the consumption from the prices.

4. Tourism consumption maintains inflation manifestations as the changes in increasing prices for the tourism products are superior to the increasing of the prices of those goods and services which are part of the tourism product, which have a seasonal character. Tourism prices are substantially influenced by certain circumstantial factors, namely the price of energy, the price of fuel.

It is difficult to achieve price comparison on the tourist market, both in terms of consumer and manufacturer. It is therefore that a basket of tourism consumption is used according to the consumers' of origin and according to the tourist destination. Thus a detailed tourist consumption basket is established for each category of consumers who prevails in the tourism of a welcoming country or on a microeconomic level in a manufacturer's clients. The value of the tourism consumption basket expressed in the currency and prices of the remittent country is reported to the value of the tourism consumption basket calculated in currency and in the prices of the welcoming country.

The factors of influence upon the prices of the tourist services are: the other variables of the marketing mix, the objectives of the price policy, the consumers' perceptions, the production costs, competition and legal regulations...

Taking into consideration the variables of the mix marketing, there is a very tight connection between price and the other elements of the marketing mix. For example, a luxury hotel will have other prices than a budget hotel for mid-range tourists – the price reflects the quality level of services provided to the client. Also, booking a luxury hotel can not be done through intensive distribution channels used for cheap and affordable tourist services; it is likely that these hotels to seek exclusive distribution channels or to form their own marketing consortium for selling the services. Finally, the promotional materials of a luxury hotel will reflect the high standard of services that justifies the high prices charged by the hotel.

As for the objective of the price policy, the tour operator may wish, as the case may be, either to attract a large number of customers in a short time (to penetrate the market) or to select customers and maximize profits. Each of these objectives has specific price strategies. Although price is not the only factor which determines the level of demand for a product, in many cases it is the decisive factor.

The perceptions of the consumers in the target segment. It is very important for the tourist potential to sense a tight connection between the quality of the services and their prices. For example, a voyage including a plane trip and accommodation at three or four stars hotels can not be cheap (the offer will be considered as "too good to be true"), as a simple bus tour for middle levelled clients can not be too expensive (the potential clients will be removed price).

A fair established price shows very well the image of the product or service on the market, as well as the client's expectations across it. After researching the market and using the experience gained through the price tests previously achieved, the marketing managers can determine the best price levels for each offer, according to the perceived value of the product or price.

When it comes to production costs, the perceived value of the product is the maximum limit that should be taken into account in establishing prices and production costs are the minimum limit: for the company to be profitable, prices should not be smaller than the costs. Viewed in this light, the prices are the main factor which determines both the company's long-term profitability, and its profit and cash flow on a short term. As we will see when we discuss pricing strategies, some tourist providers are content with establishing prices by guiding themselves only after the level of the costs.

Pricing decisions taken according to the competition actions are more often tactical decisions, in the short term, which aim to preserve the status quo on the market; that is aligning the company to the policy of the most important competitor (especially the leader). Small companies many times have to settle for the status of "price follower", establishing their prices as the market dictates.

Any tourist provider can still use a number of ways to "move" competition on a field other than the price field. We especially consider adding additional components of high value for the customers to the basic service. By doing so, the provider can expect to a significant increase of the benefits the products provide to a certain categories of customers; therefore, he will be entitled to request higher prices and rates corresponding to the added value of the product. Any provider should carefully build and cultivate one or two clear, special advantages he can offer to the potential customers; this way, his price decisions will be less affected by market fluctuations and competitors' strategies.

Another important element that sometimes should be taken into consideration at this point is substitutes' competition. Generally transporters have problems with this kind of competition (e.g. railway transports face on some routes strong competition from motor carriers), but also other categories of providers, which will sometimes be forced to cut prices because of the substitutes' competition.

Although pricing decisions are mainly determined by commercial considerations, travel and tourism industry prices often suffer from governmental authorities' interventions. For example, major American airlines set prices according to agreements with the government, meant to ensure the consumers' protection. In some countries, the prices for hotel services are determined by the tourism authorities, hotels being able only to adjust them within certain limits. Consequently, the prices of tourism products are formed based on market mechanisms, but also according to the features that mark the evolution in time.

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