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Foreign Price Perception

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This study investigated perception of foreign prices by New Zealanders returning from Australia and Australians returning from New Zealand (NZ). Prices in foreign countries often concern tourists (Edwards 1987). But how do their perceptions of prices relate to actual prices? The question has practical implications: If travelers perceive country A as more expensive than B, they may be biased towards B (Stevens 1992), even if their perception is inaccurate.

Perception that foreign prices differ from one's own might arise from a variety of causes. Obviously, prices often do differ between countries. Indeed, at the time of this research, the overall cost of living in NZ was about 14% lower than in Australia (Organization for Economic Cooperation and Development 1993).

However, perceptions of international price differences need not be based on reality. First, they might arise from nominal currency differences. At the time of the study, one NZ dollar was worth 0.75 Australian dollars, but something selling for A\$75 might be perceived as cheaper than the same item at NZ\$100, because its nominal cost is lower. If this confusion of nominal and real values of money, sometimes known as "money illusion" (Samuelson, Hancock and Wallace 1975:848), is present, New Zealanders should perceive Australia as relatively cheap and Australians perceive NZ as relatively expensive.

Second, foreign prices might appear more expensive because foreigners might not know the best places to shop or the cheapest brands of goods. Moreover, they often buy different types of goods or service (e.g., souvenirs, hotel accommodation) than local residents. This effect should cause foreign prices to be generally perceived as higher.

Australians returning from NZ completed questionnaires in an international departure lounge at Christchurch Airport, and New Zealanders return-

ing after a stay in Australia did so in a similar lounge at Melbourne Airport. Criteria for inclusion in the study were a stay of at least a week in the foreign country and actual residence in the home country. The study was carried out in March 1993.

Sixty-six questionnaires were completed by New Zealanders and 61 by Australians. Most were completed individually, but when people were in couples, one questionnaire was completed by each couple. The NZ sample comprised 26 men, 29 women, and 11 couples; the Australian sample 29 men, 16 women, and 16 couples.

New Zealanders were first asked whether, in comparison to NZ, things in Australia (in NZ dollars) were generally cheaper or more expensive. They responded by circling a number in a range from 100% cheaper to 100% more expensive, zero being the same price. Then respondents were given six item descriptions: an airmail stamp for a postcard between Australia and NZ; petrol (per litre of Super); adult cinema ticket; main course in a restaurant; local telephone box call (per minute); and an average suburban house, and asked whether they had bought the item while abroad and what it cost in NZ and in Australia. They could state the prices in either NZ or Australian dollars. An exchange rate question asked "How many Australian dollars do you get for NZ \$100?" Finally, information about the respondent's gender, age, length of stay in Australia, home city or town, and reason for visiting Australia were requested. Australians returning from NZ were given a questionnaire differing only in the substitution of "NZ" for "Australia" and vice versa.

The median perception of the New Zealanders was that Australian prices were about the same (0%) as NZ ones, with a range from 30% cheaper to 30% more expensive. The median Australian perception was that NZ was 5% more expensive (range 20% cheaper to 50% more expensive). A Mann-Whitney *U* test conducted on the percentage by which NZ prices were thought more expensive (i.e., responses to the original question were reversed in sign for New Zealanders) revealed a significant ($z = 3.13, p < .01$) bias to perceiving foreign prices as higher. Note also that neither sample correctly perceived the NZ prices as lower on average, although some individuals did.

Two multiple regressions used the percentage by which Australian prices were thought higher as the dependent variable. The first regression used sample (NZ/Australian), length of stay, and reason for travel (recreational/other) as independent variables; the second also included gender and age, but excluded all the couples. Both regressions produced significant ($p < .01$) effects of the sample, but not of the other independent variables. Thus, price perception differences between the samples did not arise from differing lengths of stay or reasons to travel.

The median estimate of the number of Australian dollars bought for NZ\$100 by New Zealanders was 75 (interquartile range 74 to 75). The median estimate of the number of NZ dollars bought for A\$100 was 130 (interquartile range 127 to 131). Thus, the exchange rate was quite accurately perceived by both sets of travelers.

Investigation of the estimated prices for the specific items showed these to be reasonably accurate for both samples, and for only one item was there a significant tendency for foreigners to overestimate prices: Australians (median estimate NZ \$10.00) overestimated NZ cinema prices (actual NZ \$8.50; median New Zealander estimate NZ \$8.00). All the visitors chose to give foreign prices for all the items in the foreign currency, indicating they remembered the price they had seen or paid, rather than its conversion to their home currency.

Clearly, travelers did not perceive the relative price structure of Australia

and NZ accurately, since neither sample correctly perceived the fact that NZ prices were, on average, lower than Australian prices, and there was a significant tendency for Australians to find NZ prices compared to Australian more expensive than the New Zealanders. Thus, the study provided clear evidence of price misperception. This did not generally extend to misperception of the prices of specific items. Indeed, these results and the accurate perception of the exchange rate suggest that the travelers were alert to price differences, and capable of obtaining similar price information to local residents, at least for the items investigated here.

The results suggest two causes of foreign price misperception. First, there was a small general tendency to find the foreign country a little more expensive. Second, neither sample perceived that NZ prices at the time of the survey were actually, on average, about 14% lower than Australian, although some individuals may have been aware of it. Hence, the respondents may have been subject to money illusion, and tended to equate NZ and Australian dollars. It should, however, be noted that the sample was small, and may not have been representative of all trans-Tasman travelers, or even of those returning from Christchurch or Melbourne. Nor need trans-Tasman results hold for travel between other neighboring countries, for example, the United States and Canada or between France and Germany. □ □

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Submitted 3 February 1994

Revised 3 May 1994

Accepted 4 May 1994

0160-7383(94)00056-5