

Should museums  
charge for  
admissions  
advantages  
disadvantages  
economics essay



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Museums are expensive to run, with the costs of acquisitions, conservation, maintenance, staff salaries and special exhibitions all weighing heavily upon their budgets. In many cases much of their funding comes from the government, whether at national or local level, with the remainder made up through endowments, income from museum shops and other commercial ventures, private donations and sponsorship, and, very often, through entry fees.

By for-profit standards, museums are illogical. Museums have a business model with costs much greater than their revenues. In a non-profit organization, an admission fee won't even begin to cover the costs of delivering its service. Museums have found various ways to increase their income opportunities, for example through gift shops and restaurants.

Logically, lowering the admission price, would increase the amount of visitors, these visitors would spend more money in gift shops and restaurants and could possibly result in a higher income. On the other hand, a museum misses out on extra income through admission fees.

Is there an equilibrium price? And what are the alternative pricing options?

The research question in this paper is: Should museums charge an admission fee?

Literature on this issue provides this paper with a theoretical framework, next I will explore the effects of digitalization for museums. A Dutch case study, done by Aarts de Jong Wilms Goudriaan Public Economics (APE) will complete the answer to this question.

### Museum economics:

Museums have high fixed costs. This results in a high average cost curve for museums. The demand curve often lies below this average cost curve. This makes it impossible to set an entrance price at which the total amount of income received through admission fees covers the costs of the museum. (Frey, 2006; Caves, 2000) However, admission prices are of the main determinants that influence the economic outcome of a museum. The economic value of a museum is often very high as a result of its collection and location. To increase revenue however, museums do not only depend on admission fees but also on the income that comes from museum gift shops, restaurants, and renting possibilities. Additionally, museums receive a great deal of support, sponsoring and donations. For example, for Boijmans van Beuningen Museum Rotterdam only 20% of its total revenue is derived from direct revenues, while 80% is derived from subsidies. For some Dutch museums however, revenue derived from entrance fees can be up to 50% (Munster et al. 2008). Most museums receive governmental or public support, for the government, their economic performance is of high interest for policy makers. In all cases, entrance fees prove to be a very important determinant that influence the economic outcome of a museum. Questions about what role museums are playing, should play and will play in society, are today subjects very much under discussion. Is the museum a storehouse for things and memories, a showground, a centre for education, a playground for academics, a castle for people with a suitable habitus the way Pierre Bourdieu describes it, or an institution with an important role to fulfil in

people's life and a far-reaching part to maintain in the development of a society?

In his article, ' National Museums: To charge or not to charge?' O'Hagan explains that the most important function of a museum is educational. " This function involves people educating and informing people concerning their past and origins, and if finance permits those of other peoples, through the artefacts of the museum, thereby contributing to the formation of a sense of the country's identity and position in the world." For education only however, physical presence is not entirely necessary and especially in the digital world a museum is able to perform its educational role partly through the use of Internet. With this educational function in mind, charging an entrance fee would limit certain groups of people in accessing the museum, and therefore learning about its content.

For museums admission fees maintain to be an important determinant of its revenues therefore museums use pricing options, such as price discrimination. Price differentiation occurs when a firm charges a different price to different groups of consumers for its service, for reasons not associated with costs. Students, children and elderly are often charged less than ' normal' adult visitors. Only a minority of visitors pays the full entrance price. There is however one issue when looking at cultural organizations. The price elasticity for cultural demand is rather low which means differentiating in price does not result in a significant change in demand. As a result of this by raising its entrance price, a museum can generate a significant increase in revenue. Given the income of a consumer (i. e. the spending limit), prices and individual preferences result in a package of goods and services that

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best satisfy their individual utility. This economic optimization process leads to certain features in which demand for different goods and services – such as visits to museums – depends on income and prices. Not only the price of the museum itself, but also the price of competing leisure activities and additional costs, such as travelling expenses play an important role in consumer behaviour. However tourists are less likely to feel limited by the admission fee. (Frey et al. 2006) The influence of competing leisure alternatives depends on the character of a museum; For a museum that is highly competing with other leisure alternatives, the price sensitivity of the visit turns out to be higher. In contrast, ‘ highbrow’ and unique museums show that their visitors are less sensitive to price changes. Blockbusters have also shown to be very price-inelastic. (Goudriaan et al, 2007)

People with higher incomes tend to be higher educated and more developed preferences for cultural activities (Frey, 2006; Throsby 2001) People who are accustomed to visiting a museum to visit, are not inclined to change this behaviour when their income decreases or admission fees increase. On the other hand, people who are not accustomed to a visiting a museum are insensitive to the incentive free of reduced admission are ought to give. (Goudriaan et al, 2007)

Digitalization allows museums to exhibit their collection online, this allows the museum to educate people online. Physical presence is no longer necessary to receive education about the museums artefacts. This could potentially lower the amount of visitors entering the museum. However, most museums gain great benefits from using the digitalization to their

advantage, they educate and communicate with their visitors through the Internet.

To charge or not to charge?

Much has been written about the advantages and disadvantages of setting the admission price of a museum to zero (O'Hagan 1995; Anderson 1998; Baily and Falconer 1998). In for example the United Kingdom, national museums grant free entry to their visitors. More and more services have free access, such as the Internet, newspapers, unauthorized downloading, public transport etc. As a result, free access has gained popularity.

Free access to museum has advantages, it enables all people to be able to visit the museum without getting charged. This might attract a new and bigger audience to experience the museum. In his article, Kirchberg (1998) found that income is the dominating characteristic influencing the subjective significance of entrance fees as a barrier to visiting museums. People in lower social classes experience admission charges as a barrier almost five times as much as higher sociological classed people. Increasing entrance fees increases revenues but according to Kirchberg, not only decreases the number of visitors but also change the socio-economic composition of the attendance. Distributing welfare is mainly the reason for subsidies, in the case of museums the distribution argument does not really hold up: studies have shown that visitors to a museum usually come from higher social classes. People from higher social classes can afford to pay an entrance fee, in practice this means that subsidizing admission prices, does not transfer welfare to lower social classes. Another benefit of free entry to a museum is

that is increases the amount of visitors. For a museum, a high number of visitors often reflects cultural prestige (O'Hagan 1995). In his article O'Hagan also points out that donors prefer non-profit firms. With higher entrance fees, donors are less willing to donate money or artefacts. The marginal costs of an additional visitor is zero, therefore another argument for free entry to a museum is the efficiency argument: entrance fees should then also be zero to satisfy efficiency (Frey, 2010). On the other hand, literature suggests that there are problems in determining the costs of museum services (Baily and Falconer 1998). There are still costs in allowing visitors into a building, they require security, heating, light and physical space).

Free access also has disadvantages. According to Frey, efficiency is not attained if the respective museums get overcrowded and the quality of a visit decreases. This results in museums limiting visitors by enhancing admission restrictions, such as requiring visitors to place a reservation in advance. This raises the danger than tickets can be sold on the black market, a visit then cab still become a costly experience. Visitors can also think that " something that has no price, has no value" resulting in a decrease in a museum's total revenue. In his article Steiner (1997) calculates the impact of free entry for one day to the total revenue of a museum. His study shows that the amount of additional visitors does not overcome the loss of the admission charges it would receive on a normal day. Additionally, the crowd of people the museum attracted contributed to the loss of value of the exhibition.

Most of the museums that offer free access, charges for access to special or blockbuster exhibitions. Another strategy for free museums to make visitors  
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pay is asking for a donation at the end of the visit. By doing so, they museum captures the willingness to pay from visitors (O'Hagan 1995). A visitor is not obliged to pay, but often willing to do so as they enjoyed the visit. The more satisfying the visit, the more a visitor is willing to pay. This is also a better distribution of welfare, as the social higher classes have the ability to pay more, and the lower social classes have the ability to pay less. With free entrance leading to a higher amount of visitors, exit donation can bring in significant extra financial resources for a museum.

Prices can be differentiated to allocate the resources as efficiently as possible. According to Frey, when demand is low, prices should be kept close to zero. When demand is high, prices can be higher to avoid overcrowding. This enables visitors with the highest willingness to pay to enter the museum. People with a low price elasticity should be charged higher prices than visitors with a high price elasticity of demand. Finally, price can be differentiated when visitors target a special exhibition, normal collection should be priced lower.

Another option is to charge local visitors less than foreign visitors or tourists as tourists have a significantly lower price elasticity of demand than locals. Often, when visiting a city, visiting the museum is a must, and the additional costs of entrance fee are often easily paid for. Another argument for entrance fees is that the extra benefits a visitor receives from going to a museum, added to for example the existence value (Frey, 2006) should be paid for. As pointed out before, price elasticity of demand for cultural services is low, therefore ticket prices may not be the best explanation for demand. O'Hagan finds that, when The Long Room of Trinity College Dublin <https://assignbuster.com/should-museums-charge-for-admissions-advantages-disadvantages-economics-essay/>



stated on entry that admission prices are required to improve the quality of the visit, the amount of visitors raised.

Another variant of entry fees is creating a museum club. A fixed contribution is required to become a member and receive free entry to the museum. For culturally active people, this is a good solution and often cheaper than paying full entrance fees. For a museum, it has the same advantages and disadvantages of free entrance but it raises revenues (Frey, 2010)

Problems with pricing is that it is often considered unfair. Considering the main role of a museum is education, it should be free for everyone to visit and become educated.

In his article, Frey proposes a whole new pricing mechanism for museum: the application of exit prices. Instead of charging visitors when they enter a museum, they are charged on exit. The amount of time spent in the museum sets the exit price. A disadvantage of this proposal is that the length of visit becomes a great part of an economic calculation. A major advantage is that the experience of the visit, is charged afterwards. If the experience was not satisfying for the visitor, he/she would leave early and pay a lower price. Visitors pay for their use of the facility, this raises efficiency. The price system can be considered to be less unfair, because up to a certain point, people can set their own prices. Frey also opts for the first 20 minutes to be free of charge, so that people who normally would not visit a museum, receive an incentive to stay only for a short period, maybe they will return later for a longer visit.

The Dutch case study

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Aarts de Jong Wilms Goudriaan Public Economics (APE) has been commissioned by the ministry to research the possibilities for free entry for Dutch museums. In several extensive research papers, they calculate the effects of free entrances fees.

Table 1: The quantitative effects of free entrance on all Dutch museums:

Additional visits (x1000)

Increase in visits (%)

Total costs

(x1mln.)

Total cost per extra visit in Euro's

Free entry to the entire collection

5. 867

30, 0

98, 9

17

Free entry every Sunday

416

2, 1

23, 4

56

Free entry once every month on Sunday

183

0, 9

6, 0

33

Free entry during one working day per week

267

1, 4

11, 2

42

Free museum card for students

1. 623

8, 3

12, 3

8

## Free entry to general collection

5. 207

26, 6

81, 9

16

Source: APE

Table 1 shows that the effects on the number of visits are most significant when free entry is given to the entire museum, including general collection and special exhibitions, followed by free entry to the general collection only. Both options also bring in the highest overall costs for the museums, costs per extra visit are relatively low because there is no real shift in the amount of visits from days on which visitors are charged, to days visitors are not charged an entrance price. A weekly free entry on Sunday raises the most costs for the museum because a shift appears from days on which visitors are charged to days visitors are not charged any admission fee. In all cases, the loss of entrance fees causes the greatest deal of costs for a museum.

Their research shows that free entry increases the number of visits, but they state: “ we do not expect miracles to happen from removing entrance fees.” The composition of visitors has proven to be very difficult to change.

In another research, done by APE they have calculated the price elasticity of Dutch museums.

From 1984- 2005 admission prices raised with 6, 2% per year, this does not lead to a significant change in the number of visits. They show that with a price elasticity of -0, 18 the museum sector has the lowest price elasticity of all cultural sectors. With every 1% increase in price, visits reduce by 0, 18%. According to the research this is a result of the fact that potential visitors value travelling expenses and consumption costs to be more important than admission prices. The price of substitutes is a major determinant for the number of visits to a museum: when substitutes raise their prices, the number of visits to a museum increases and vice versa.

Ape also predicts price sensitivity for 2005- 2015:

Figure 1: Predictions for changes in admission prices 2005-2015

Source: APE

The index shows that the number of visits to a museum is unlikely to be affected by an increase or a decrease in entrance prices.

## Conclusion

Museums have high fixed costs. This results in a high average cost curve for museums. The demand curve often lies below this average cost curve. This makes it impossible to set an entrance price at which the total amount of income received through admission fees covers the costs of the museum. However, admission prices are of the main determinants that influence the economic outcome of a museum. To increase revenue however, museums do not only depend on admission fees but also on the income that comes from museum gift shops, restaurants, and renting possibilities. Additionally, <https://assignbuster.com/should-museums-charge-for-admissions-advantages-disadvantages-economics-essay/>

museums receive a great deal of support, sponsoring and donations.

Museums have different roles to fulfil, educating is one of them, as is collection and researching. An important goal for many museums is reaching groups far from consuming culture. Other goals are financial revenue, conservation and gaining prestige.

In this essay, various literature has been discussed offering different pricing options. The most important ones are free entry and efficiency admission fees, which both have advantages and disadvantages. Free entry is likely to increase the number of visitors, but museum visitors often come from higher socio-economic classes, which transfers the benefits from no entrance fee mostly to these upper classed visitors instead of the social lower classes as it is intended to.

The existence value shows that museums radiate positive external effects for non-visitors, this effect supports free entrance. However, the benefits for visitors are higher than for non-visitors.

Low price elasticity for museums helps support the argument for admission fees. There are various pricing options. Standard pricing is considered to be unfair, as it does not consider the willingness and ability to pay for visitors, considering the educating role, different groups of people should all be able to enter the museum. Prices need to be differentiated, allowing elderly, students and other groups to enter for a reduced price to match their ability to pay. Another option is to charge local visitors less than foreign visitors or tourists as tourists have a significantly lower price elasticity of demand than locals or the application of exit prices.

The case study by APE, shows that removing entrance fees only results in a significant increase in the number of visitors when all Dutch museums would remove their entrance fees. As a result of a low price elasticity for museum visits, a change in price does not significantly affect the demand for a museum.

These findings indicate that free entrance is not the best option for a museum to reach many people. Price changes do not affect the number of visits that much, a museum is better off differentiating its price in a way that lower socio-economic classes are still able to afford a visit if they decide to. Since higher socio-economic classes continue to be the most dominant visitors in a museum, an entrance fee will not likely decrease the number of visits. Entrance fees can contribute to a museum's revenues and allow a museum to generate extra income that can be spent on increasing the quality of the experience for visitors.