

Museums: the market for education



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Introduction

A museum is an institution where objects of scientific, historical, cultural and artistic artefacts are stored and exhibited. They continue to attract over 17 million visitors from around the world every year. However, over recent years, there has been a large debate about making admission to museums free of charge. This dilemma is significant for both the government and consumers therefore; I hope to provide a detailed unbiased report regarding this issue. I will firstly consider the effects of markets, demand and supply and in the latter the microeconomics environment of museum visits.

Museums have a valued role of in preserving a country's history and heritage to upcoming generations, therefore, free access will encourage more people to promote national unity and identity whilst gaining a greater understanding in foreign cultures.

Markets, Demand and Supply

Museum Visits – Demand

When considering the economics of the museum market there are two types of demand: private and public demand. Museum demand is where visitors are interested in museum exhibitions as a leisure activity or as part of someone's profession for example an art dealer.

By far the majority of demand comes from museums visits are considered as a leisure time activity. Below provides a screen shot of monthly visits to the British Museum in the UK. It is evident that consumers were more willing to visit the museum before the recession in the year 2007/2008 hence an increase in demand of museum visits.

Museum Visits – Supply

Museum visits will affect the nature of supply and supply decisions if they choose to price or not price visitors for admission. Price will have an impact on supply and will need to be carefully assessed with regards to museum admissions.

Firstly, if museums choose the no admission route, it is likely they will not be able to cover fixed and variable costs. Such costs may include maintenance of the museum or producing souvenirs for visitors. On the basis of supply this would not be appropriate for museums as there would be an additional need for external sources of finance to cover up costs.

On the other hand, there are some positive factors if museums decide to choose the admission fee route, the costs are able to be covered through the fees and hence increase supply of museum services. However, there is likely to be conflict because an increase in price will drive down consumer demand for museums therefore it is important to remain near an equilibrium to gain advantages from both demand and supply.

Museum Visits – Demographic Change

[http://reachadvisors.typepad.](http://reachadvisors.typepad.com/museum_audience_insight/2010/04/whos-coming-to-your-museum-demographics-by-museum-type.html)

[com/museum_audience_insight/2010/04/whos-coming-to-your-museum-demographics-by-museum-type.html](http://reachadvisors.typepad.com/museum_audience_insight/2010/04/whos-coming-to-your-museum-demographics-by-museum-type.html)

Recent demographic studies have released information on how there has been a change in the demographic demand pattern for museum visits. For example one study included 103 museums participants which found results in different museum categories; art, science and history.

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From the study, they found that 65% of respondents were more attracted to art museums of visitors that were over the age of 50. So with regards to the art museums there is a higher demand for them for older visitor bases – which can influence the customer demand. Therefore, there are two sides to when thinking of making admission free to museums. Firstly, an older visitor base means the elderly may be willing to pay the price for museum admission because they are most likely not employed. On the other hand, older visitors that have been visiting the museums for a long period of time for example, may not be willing to pay the price because they have been ‘loyal’ by coming to the museum on a regular basis. These aspects will need to be covered when bearing in mind museum admissions.

Also, the study suggests the science museums/centres have had a generally younger visitor base with 72% of respondents under the age of 50. This statement is understandable as there has been a rapid change of technology of the past years, with new inventions and technologies. This also explains why there is a younger visitor base because of the new changes being witnessed by the upcoming generations. An admission for museums may be suitable because this visitor base will be employed and have to capital to spend it. However, a younger visitor base is more likely to have more liabilities, for example children, and may not be attracted to an admission fee.

Furthermore, the study states that like the art museums, history museums also have a generally older visitors based with 65% of respondents over the age of 50 with nearly 40% being male. Therefore, an admission would have a similar impact to the view based on art museums.

Shifts in the Demand Curve

It is possible to encounter shifts in demand, but most importantly how these shifts can affect museums. Below I have described what type of causes will shift the demand curve and why they do:

Substitute Services – These can include from a range of activities such as cinemas, sports, leisure centres etc. If the demand for other substitute services are high than museums will need to consider research and development in order to improve more demand; one way they could do this is by increasing the amount of money spent on marketing or creating a new tour for museums. Museums can acquire such support through government intervention e. g. subsidies.

Opportunity Cost Of Time -This can influence the demand of museums visits. This is because the opportunity cost of a museum visit not only depends on the time spent at the museum, but also time taken to be at the museum. For example, tourists visiting museums will have a lower opportunity cost of time as they will be exploring other parts of a country rather than just the museum.

Individual Preferences – The more desirable visitors find museums, the more they will demand. These preferences are affected by advertising, viral marketing, experience from previous occasions etc. Having free admission would also affect the preference for each individual.

Economy – Whether the economic climate is in recession or in a ‘boom’ will cause certain shifts in demand. With regards to a recession, visitors are less likely to spend vast capital therefore; a free admission to museums may be

more suitable for that climate. However, when the economy is booming, economic growth is rising and people are more confident with spending capital – hence a more suitable time to charge museum admission.

Shifts in the Supply Curve

I will now consider why the supply curve may shift in the market and the effect it can produce. I will outline the main reasons for these shifts, using free admission as an example.

Unpredictable Events – This determinant of supply could affect museums in various ways; one way could be critical weather conditions. Heavy snow and Ice could heavily impact the supply curve because they are examples of poor weather conditions especially when travelling. Museums will not be able to supply their services in these weather conditions and it is likely to also affect the demand for museum visits. Therefore, the most efficient way for museums to overcome this is by attracting more customers during good weather conditions e. g. the summer season.

Elasticity

‘Elasticity is the responsiveness of one variable to a change in another’.

When considering the price of admission at museums it is important to understand the elasticity of demand. If, for example, museums were short of funds then they may consider charging for museum admission. Whether or not the museums decide to charge for admission depends on the elasticity of demand.

If the demand for museum visits is inelastic, then an increase in the price of admission will increase total revenue. But if the demand is elastic, then an

increase in the price would cause the visitor numbers to fall, which would also decrease total revenue.

Cross price elasticity of demand measures the responsiveness of one good to another; where a distinction is made between substitute and complementary goods or services. As part of my report, I would like to compare the cross price elasticity of demand between museum visits and a similar leisure activity – cinemas.

Cinemas would be substitute's goods when compared with museums.

Museums are not complemented with cinemas unless there is a discount for UK attractions of which being cinemas and museums. The Cross price elasticity for the two substitutes is likely to be positive because an increase in the admission price of museums leads to an increase in a demand for cinemas. This can be illustrated from the diagram below where good B is museums and good A is cinemas.

In addition to the above, the income elasticity also plays an important role to admission charges. 'Income elasticity of demand can be defined as the responsiveness or relationship between a change in quantity demanded for good "X" and change in real income'. For this specific type of service, museums can be referred to as normal goods – these goods having a positive income elasticity as consumer income rises.

The UK economy has been in recession since early 2008, this has impacted overall household income over the past years. A comparison of UK family incomes was made between the first quarter of 2011 and 2012. The bar chart illustrating this has been displayed below to show that consumer

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income has decreased in 4 out of 5 categories on the bar chart. This suggests that the recession is creating a decline in income hence consumers not willing to spend vast sums of capital.

However, if we were to consider free admission to museums it is likely that this would not affect the income elasticity of demand. A free admission means customers will not need to expend when going to museums therefore reducing costs and saving capital. This would overall reduce household income and is also likely to increase demand for museums compared to its substitutes.

Market Failure

Market failure can be described when the allocation of goods or services of a free market is not considered efficient. Government intervention occurs when the market is not efficient enough, and seek to correct any distortions created by market failure. They are there to help improve social efficiency for example, new policies to introduce competition into markets. I will discuss the likely outcomes of market failures facing the museum market.

Museums can have effects on society which go beyond the experiences of the actual museum visitors. These effects also known as social effects include externalities. Museums social values are not compensated in monetary terms, therefore museums tend not to produce these values.

Some positive externalities of the museum market may include:

Existence- This externality is where visitors benefit from knowing that a museum exists.

Education – This is where visitors are aware that a museum contributes to their own sense of value.

Networking – This externality can provide cultural links to other museums for tourists as well as artist, historians etc.

Consumption – Cultural connections with museums provide an increased use of museums by customers.

Despite these positive externalities it is important to consider negative externalities facing the museum:

Noise- The congestion and the amount of noise museum visitors inflict on the local community.

Furthermore, a museum is considered a merit good when looking at market failure. Merit goods are products that tend to be under consumed by the free market because of information failure. This could be one possible market failure the museum market could face if the positive externalities are left wholly to the private sector. The reason for merit goods being under consumed is partly because individuals do not appreciate the social benefits that can result from consumption of education in the museum market. For example, teenagers may prefer to spend their time watching a new movie at the cinema rather than an exhibition. Therefore, a free admission to museums may increase government spending which in return would lead to an improvement in total economic welfare (and vice versa).

Government Intervention

When discovering possible market failures, it is vital to create options for government intervention to correct such failures. Below I have created a table in a clear, concise form of how the government can intervene:

Problem

Intervention

Positive Externalities of the Museum Market

With positive externalities, the government can intervene through financial support. For example, subsidies can be made to museums – in which museums can use for research and development. Another way the government can intervene is through legislation. The government could possibly make museum visits part of compulsory education for school children.

Negative Externalities of the Museum Market

With negative externalities, the government can support the market through financial intervention through taxes. For example, pollution permits can be introduced to avoid pollution. The government can also enforce more education campaigns and advertisements. However, it may be time consuming and the benefits of the campaigns must outweigh costs of implementation for it to be successful.

Government Intervention and Demand

Some form of government intervention can encourage increased consumption with regards to merit goods such as museums. This can take

the form of a government subsidy to reduce costs of consumption and cause and expansion or increase in demand.

Government intervention through negative externalities can significantly affect demand. If the government decides to use pollution permits this would reduce demand for museums because there is more cost of consumption.

Education campaigns and advertisements are likely to improve the demand for museums as it create more awareness and publicity.

There are also limitations to government intervention based on the political system of the country. Since Labour has been in government they decided to end charges for England's national museums as part of a government plan to widen access to the nation's culture. The political system will have restrictions on certain decisions and it is often difficult and time consuming to finalise a decision within the government.

Recommendations

Overall, this report indicates that the governments can decide whether or not they wish to give free admission to museums and should know the benefits and consequences of making this decision. The report identifies the economics of the museum market, demand and supply and the microeconomic environment. The UK's approach to free admission found greater demand but was not producing capital. Therefore, I would recommend charging for temporary exhibitions, such as artistic or historic shows; in this way the museums will still be able to produce some sort of capital.

Resources

<http://www.tutor2u.net/economics/revision-notes/as-marketfailure-merit-goods.html>

<http://www.bbc.co.uk/news/uk-15979878>

http://www.aviva.com/data/report-library/Family_Finances_Report_5_Jan_2012.pdf

[com/data/report-library/Family_Finances_Report_5_Jan_2012.pdf](http://www.aviva.com/data/report-library/Family_Finances_Report_5_Jan_2012.pdf)

http://books.google.co.uk/books?id=kqE0B9pRoqAC&pg=PA104&lpg=PA104&dq=externalities+museums&source=bl&ots=_GE1K0UunJ&sig=i4PC5-o5Bnl4XwNytPovu71CooM&hl=en&sa=X&ei=9FapUOzzL4S60QW8-oGgCQ&ved=0CCwQ6AEwAg#v=onepage&q=externalities%20museums&f=false

http://www.bsfrey.ch/articles/446_06.pdf

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