proposition:[7]

Proposition 1. There exists a continuous function $g(c/c^*) \equiv c(\cdot)/c^*(\cdot)$ such that

    a. $g(\cdot)$ is increasing in $E(p^*)e$ and

    b. $g(\cdot)$ is decreasing in p

where $c(\cdot)$ and $c^*(\cdot)$ satisfy (2), (5), and (6) for a given value of θ.

Proposition 1 notes that higher anticipated foreign prices lead consumers to expand domestic spending while travel spending falls. Here, there is a shift from foreign consumption to domestic consumption because consumers believe that foreign prices have risen. An increase in the domestic price level, in contrast, favors foreign consumption. In this case, foreign goods become more attractive to consumers because foreign goods are relatively less expensive.

    Uncertainty encompasses the consumer's confidence in the forecasts of foreign price through the forecast error variances α^2 and γ^2. The influence of uncertainty on the consumer's choice problem stems from the effects of uncertainty on the expected value of foreign price. In general, a change in uncertainty alters $E(p^*)$ -- via equations (3) and (4) -- which in turns affects the value of domestic and foreign consumption. There is, however, a special case where a change in either α^2 or γ^2 has no effect on $c(\cdot)$ or $c^*(\cdot)$:

Proposition 2. $g(c/c^*)$ is independent of θ if $\bar{p} = p/e$.

---

[7] Proofs of propositions are included in the appendix.