patterns.[4] Rhomberg and Boissonneault (1964) identify income as the primary determinant of spending abroad. Gray (1966) and Kwack (1972) extend this work to include relative prices between domestic and foreign goods. These authors report that relative prices and income are the principal factors explaining movements in travel spending. In a recent paper, Di Matteo (1993) develops a consumer choice model where Canadian consumers base their travel spending decisions on domestic price, foreign price, and income. If consumers possess full price information, then travel spending is determined primarily by the real exchange rate.[5]

We also present a model of the consumer choice problem, but we do not assume that consumers know foreign prices with certainty. Instead, travel spending is in part determined by expected foreign prices. By eliminating a full information setting, a potential role for uncertainty is introduced. In addition to foreign price uncertainty, the model also identifies income, expected foreign prices, domestic prices, and the nominal exchange rate as the determinants of Canadian spending in the United States.

Our empirical findings suggest that travel spending is significantly linked to the set of determinants identified by the model. We find, however, that the estimated effects of each determinant on travel spending differs substantially. Specifically, consumers do not respond in the same manner following changes in domestic prices and changes in foreign prices. In other words, travel spending is not homogeneous in prices, a finding that is consistent with numerous

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[4] Although numerous studies have been commissioned, Di Matteo (1993) notes that debate surrounding the effects of cross-border spending on the Canadian economy has relied primarily on anecdotal evidence rather than statistical evidence.

[5] Di Matteo (1993) finds that the real exchange rate and income are the key factors that influence cross-border spending over the period 1979-1991.