Proposition 2 notes that if the two forecasts suggest the same value for anticipated foreign price, then the consumer's problem is unaffected by changes in uncertainty. In this case, changes in uncertainty (via θ) do not affect the expected foreign price level, and hence $c(\cdot)$ and $c^*(\cdot)$. Put different, uncertainty has no effect when $\bar{p}=p/e$.[8]

In general, however, the influence of uncertainty cannot be ignored.

Proposition 3. An increase in γ^2 *causes*

a. an increase in $g(c/c^*)$ *if* $\bar{p}<p/e$

b. a decrease in $g(c/c^*)$ *if* $\bar{p}>p/e$.

Proposition 3 focuses on uncertainty surrounding the forecast of foreign price based on past foreign prices. The influence of γ^2, however, has differential effects depending on the relationship between the magnitudes of the two forecasts. That is, whether higher uncertainty increases or decreases foreign travel spending depends on the relationship between $\bar{p}$ and p/e. To see this result, consider an increase in γ^2. This increase unambiguously reduces the value of θ which means that consumers rely relatively more on p/e rather then $\bar{p}$. If p/e is greater than $\bar{p}$, then consumers revise $E(p^*)$ upward. In this case, the increase in uncertainty favors domestic spending rather than spending abroad. If, on the other hand, p/e is less than $\bar{p}$, then expected foreign price is revised downward, causing consumers to increase travel spending and reduce domestic spending.

Uncertainty surrounding the forecast based on purchasing power parity also has

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[8] In a statistical sense, the probability that $\bar{p}=p/e$ is nil.