CLASHES AND COMPROMISES: INVESTMENT POLICIES IN TOURISM DESTINATIONS

REFEREE REPORT

The paper presents an original model, in which a conflict-resolution rule (borrowed from the conflict economics literature) is used, to analyze the choice of private firms and destination manager, in a tourism destination where land can be used for building either private houses or hotels.

I believe that this paper is brilliant in bridging two different fields of literature, namely economics of conflict and tourism economics. Perhaps it could represent a new, fruitful approach in examining interdependence between public subjects and private agents in the broad filed of tourism economics, and for this reason I support its publication.

However, I have some general questions, and I ask to make some points clearer.

GENERAL QUESTIONS:

- 1. Why do the Authors refer to Lesser Developed Countries?? (perhaps, because they assume that private and public subjects have limited financial resources?) In fact, the model appears to me to be appropriate also to Developed countries, (where constraint to free land are perhaps more stringent than in Less Developed Countries). As a matter of fact, the example of Sardinia (offered by Authors) represents a case far from "lesser developed countries". In short, I do not find that the particular reference to LDC is appropriate.
- 2. In Introduction and Conclusions, the Authors mention FDI and TT (Technological Transfer), but their role in the model is disregarded (at least, in my personal reading and interpretation of the model).
- 3. Are results robust to non-linear preferences? Or better, Which results are robust to non-linear preferences and which are not? The assumption of linearity is discussed, but I would like to know whether all substantial results rely on linear preference, or some results are -broadly speaking-robust to different assumptions.

SPECIFIC (MINOR) POINTS:

- 4. Is the stylized fact that "the average market price of new second homes is higher that new hotel market price" true always and everywhere? Perhaps yes, it is true (I do not know), but in any case the sentence has to be supported by empirical evidence or appropriate bibliographic references.
- 5. The same applies to the sentence "second home last longer than hotels and therefore have a lower depreciation rate": this sentence appears sensible, but it needs support from evidence or literature.
- 6. The "common interest" plays a crucial role in the comments of the results; for this reason, the Authors should provide a formal (general) definition of "common interest", when it is introduced for the first time.
- 7. What does it mean (at the beginning of Section 4) that "the firm's optimal choice <u>does not overlap</u> with the Destination manager's preference"?
- 8. At the end of Section 4, the Authors mention eqs. (26) and (27), which do not appear in text (they appear in Appendix); I find that it is not nice to refer in text to equations that do not appear [I suggest to write: "Obviously, this policy can be implemented only if specific conditions are met (see Appendix B)".