

We would like to thank both reviewers for their insightful comments on the paper, as these comments led us to an improvement of the work. Our revisions reflect all reviewers' suggestions and readers' comments. Detailed responses to reviewers are given below.

MAIN POINTS

1. Reviewers' comments on Lesser Developed tourism Destinations (LDDs) and Foreign Direct Investments (FDI) / Technological Transfers (TT)

- **REVIEWER 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.
- **REVIEWER 1:** 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).
- **REVIEWER 2:** It is not clear what is the relation between the case history that inspired the model, that concerns Sardinia and the firm "Chia Invest s.p.a.", and the problem of FDI in less developed tourism destinations: first, it is hard to consider Sardinia a less developed country and secondly, the authors do not say where the "Chia Invest s.p.a" stock capital comes from. For what they say "Chia invest s.p.a." could be a local firm. Moreover, how is it relevant the assumption that the firm is not local? Could not the model work even without this assumption?
- **REVIEWER 2:** The authors also distinguish FDI from Technological Transfers: how is it relevant this well-known difference in the model? If they think that making this difference is useful for their model they should give an example of what they mean for technological transfers in tourism; otherwise they could totally neglect this difference.

Response

We thank the reviewers because these points were useful to clarify the main focus of the paper. We agree with both reviewers that reference to LDC, FDI and TT may be disregarded. Furthermore, the assumption that the firm is a non-local firm is not really necessary. Therefore we followed the reviewers suggestions, and we decided to reform the research questions within the framework of "tourism destinations where there is unutilized land, unemployment and limited financial resources". We clarified these points in Section 1 (see Footnote 1) and Section 2 (see Footnote 13), and we removed the term non-local (local) firm from the paper.

2. Reviewers' comments on common interest and principal-agent model

- **REVIEWER 1:** 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.
- **REVIEWER 2:** It is not clear, on the one hand, if and what are the relations between the conflict economics and the principal-agent model and, on the other hand, the relations of these two lines of the literature and the model presented.
- **REVIEWER 2:** In the three solutions proposed, the compatibility constraints have been graphically represented. This is the only clear remind to the theoretical framework on which the model is founded. However, it is not clear to which extent the model is a principal-agent model as the other characteristics typical of a principal-agent model are not explained.

Response

Following the reviewers' suggestions, we revisited Section 1 to make it clearer what we mean by “common interest”. Therefore we explicitly defined the “common interest” and “conflict” variables within the framework of game theory. Moreover, in Footnote 6 we made it clear that several authors, although with slight differences, analyzed the theory of investments also within the framework of the principal-agent model, but that in this paper we only apply the conflict resolution model. Furthermore, in Footnote 7 we quoted Acocella *et al.* (2011) for a recent application of game theory to the policy problems where agents' preferences are overlapping and conflicting. We really thank the reviewers for these suggestions

3. Reviewers' comments on linear preferences

- **REVIEWER 1:** 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.

Response

We are really grateful to the reviewer for inviting us to clarify this important point. Accordingly, in Footnote 8 we discussed the assumption of linearity: “If the agents are characterized by (different) non-linear preferences the problem does not change substantially, even if in this case the clash and the compromise solutions are both internal solutions. Therefore the distance between the two clashing individual optimal choices is smaller, but it is possible to show that a compromise solution may still be preferable for both agents, and consists of a linear combination of their optimal choices as in the case of linear preferences”.

4. Reviewers' comments on taxation policy

- **REVIEWER 2**: Even if the tax levied on the profits of private investments in second homes is an instrument of indirect control and it has not the primary scope to increase the fiscal revenues, is it reasonable the assumption not to enter explicitly the tax in the objective function of the public actor?
- **REVIEWER 2**: If the tax would have been introduced in the Destination manager objective function, the taxation policy and the direct control regulation could have been no longer equivalent, as the authors radically say. If the revenues would have been allocated by the public agent to reduce her financial constraint and to carry on the tourism investment on her own, which would have been the optimal choice?

Response

We thank the reviewer for bringing this critical point to our attention. To better clarify this point, in Footnote 21 we explained that since the goal of a “Pigouvian tax” is the environmental control (or internalizing the externalities), equilibrium investments in second homes will not be profitable any more, such that the corresponding tax yields would be null. For this reason and only within this framework, it is not necessary that the tax explicitly enters in the policy maker objective function. Moreover, according Poole (1970) and Weitzman (1974), an equivalent policy to taxation would be a direct control regulation (see Footnote 20). However, as we explained in Footnote 25, if we include the tax in the Destination manager objective function and if the Destination manager can use tax revenues to relax her financial constraint and to undertake the tourism investments on her own, the indirect and direct control policies may not be equivalent. But in this paper since we do not take into consideration the implementation costs of the economic policies, we cannot say which is the most efficient economic policy (second best analysis).

MINOR POINTS

- **REVIEWER 2**: The assumption that the agents share the common interest to minimize the unutilized land that is relevant to design the compromised solution can suffer from an environmental critique that is also briefly considered at page 7: investments in second houses can cause a net negative externality. Are we really sure that the political consensus increase if all the land available is built?

Response

It is reasonable to assume that the political consensus increases if all the available land is finally built because by “building area” (S) we mean only a portion of the whole available land within the tourism destination, and this portion of land is exogenously given. In fact, the allocation of the total available land between building and non-building area is defined by the tourism destination-planning scheme. However, to prevent further misunderstandings we replaced the terms “available land” with the terms “building area” throughout the paper.

- **REVIEWER 1**: Is the stylized fact that “the average market price of new second homes is higher than 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.

Response

In Footnote 11 we supported the first stylized fact by some empirical evidence and bibliographic references (Mazzuchelli, 2007; Kim *et al.*, 2002).

- **REVIEWER 1**: 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.

Response

In Footnote 14 we supported this point with some empirical evidence and literature (Corgel, 2007; Smith, 2004; Colwell and Ramsland, 2003) the sentence “second homes last longer than hotels and therefore have a lower depreciation rate”.

- **REVIEWER 2**: In the conclusions the authors quote as an example an Italian Law mentioned also in the introduction. As they consider an international journal as the outlet of the article, they should remind very briefly in the conclusion what is the issue of the Italian Law 383/2001.

Response to reviewer

In Footnote 24 we briefly presented the Italian Law 383/2001 (so called “Tremonti-bis”).

FINAL REMARKS

- **REVIEWER 1**: What does it mean (at the beginning of Section 4) that “the firm’s optimal choice does not overlap with the Destination manager’s preference”?
- **REVIEWER 1**: 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)”].
- **REVIEWER 2**: “de-taxation policy, consisting of taxation of investment in hotels (??) together with a temporary tax exemption....”. Is it correct?
- **REVIEWER 2**: A final check of the English language by a mother-tongue is suggested.

Response

We amended the mistakes, we clarified the unclear parts and we accepted the reviewers suggestions. Finally, to accommodate all potential editing problems, a mother-tongue checked and fixed the paper.