

Seminar
The Economics of Tobacco Control & Irish Fiscal Policy
19th September, 2002

Predicted Price Elasticity of Tobacco

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What Is Price Elasticity?

“A measure of how demand responds to a change in price”.



How Is Price Elasticity Measured?

✦ **What is the % change in demand for a given change in price?**

Price	Demand	Elasticity
+10%	-8%	0.8
+10%	-1%	0.1
+10%	-20%	2.0



Using Survey Data To Understand Cigarette Elasticity in Ireland

- * Nationally representative survey**
- * 1,503 interviews**
- * Republic of Ireland population 8+ years**
- * Face-to-face**
- * In-home**
- * Quota controlled by gender, age, social class & region**
- * Experienced MRBI interviewers**
- * Conducted August 2002**



Price Elasticity

- Actual Behaviour & Claimed Behaviour

- * **Real life data is best for accurately measuring price elasticity – actual behaviour.**

- * **Survey data is claimed behaviour.**



Benefits of Using Survey Data & Claimed Behaviour

- * Can predict behaviour outside historical range.**
- * Can examine variation in elasticity for different consumer groups.**
- * Added perspectives on smoking behaviour and attitudes to pricing.**



Smoking in Ireland



Cigarette Smoking

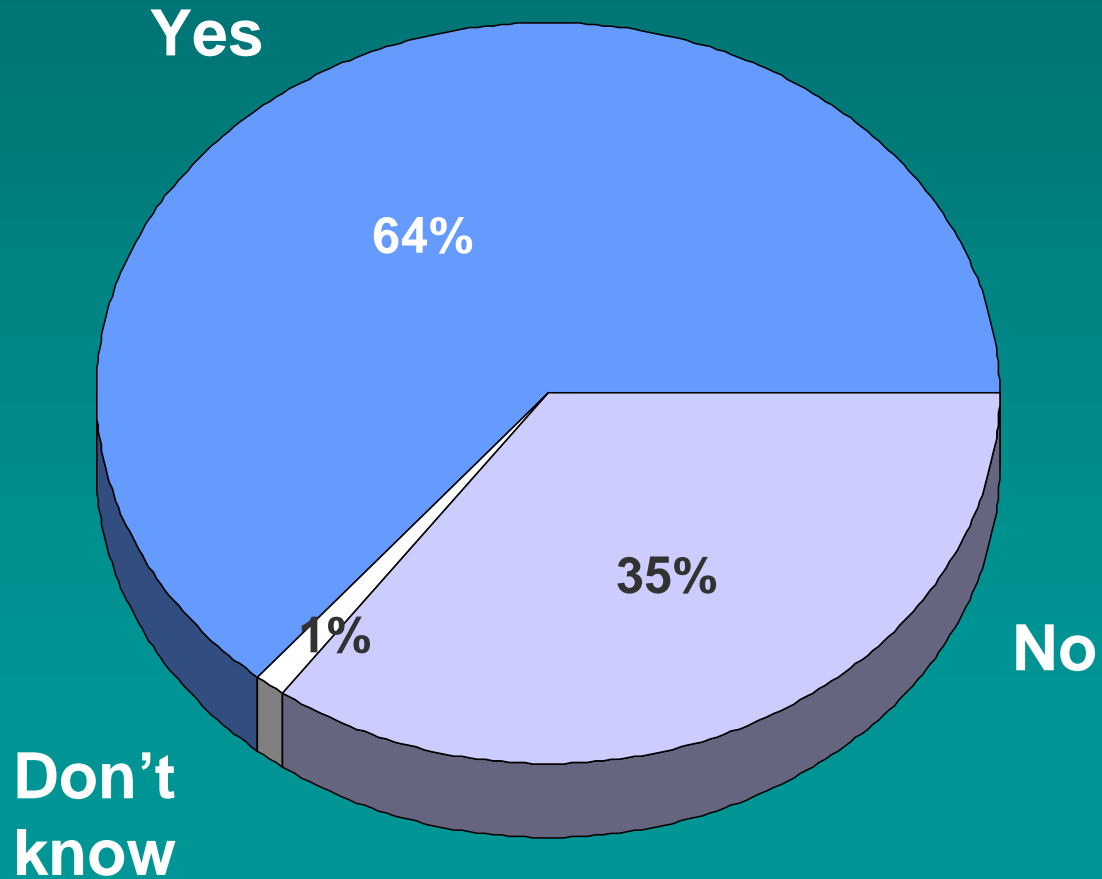
(Base: All 8+)

	Total	8-17
	%	%
Males	31	12
Females	29	10



Ever Tried To Give Up Cigarettes?

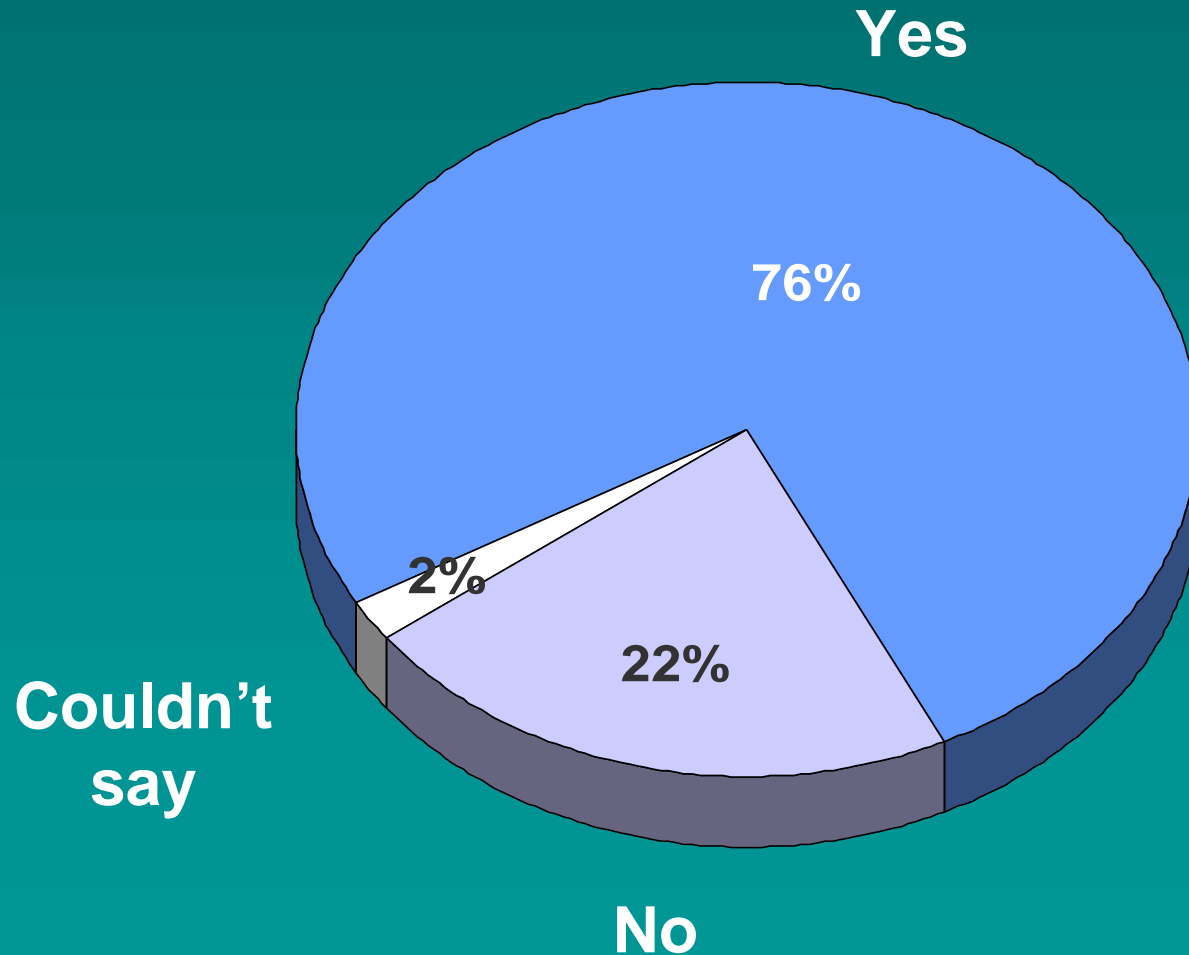
(Base: All smokers 8+)





Would Like To Give Up Smoking?

(Base: All smokers 8+)

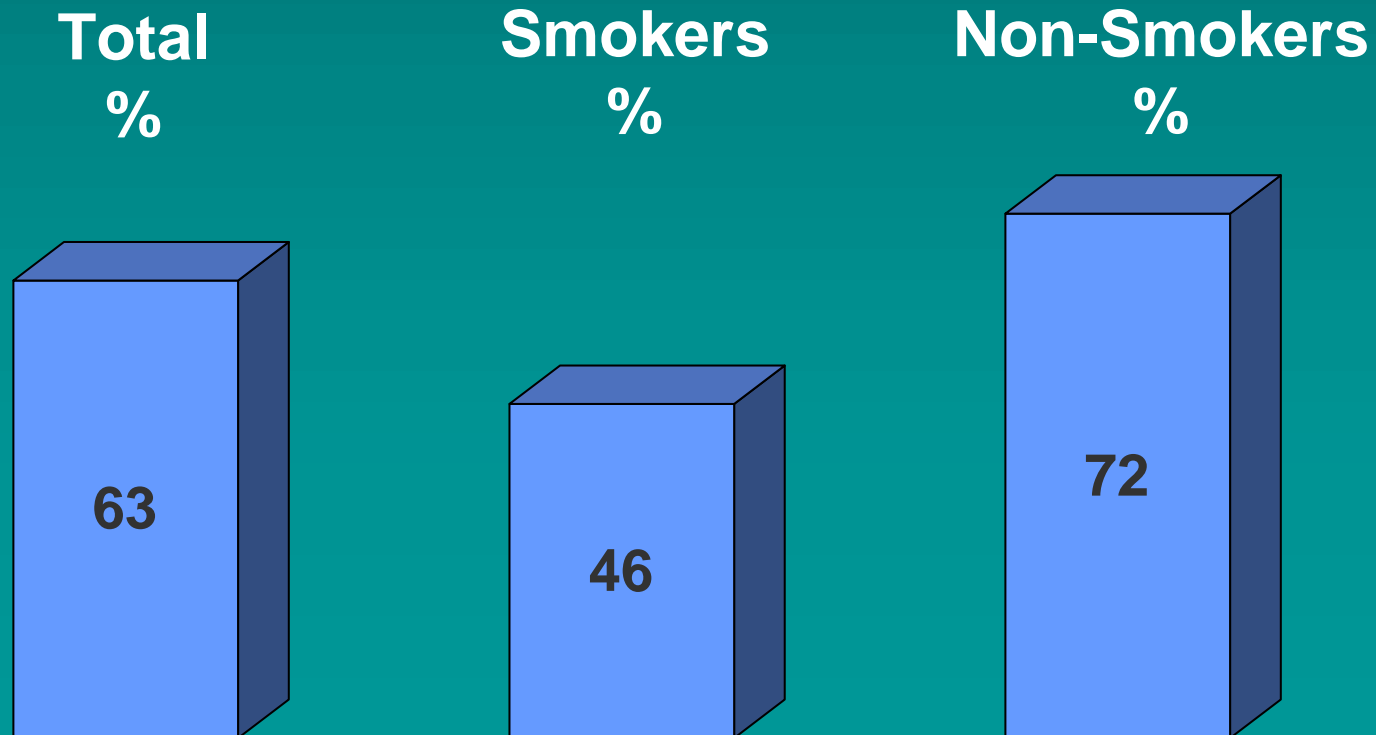




Attitudes To Initiatives To Discourage Young People From Smoking?

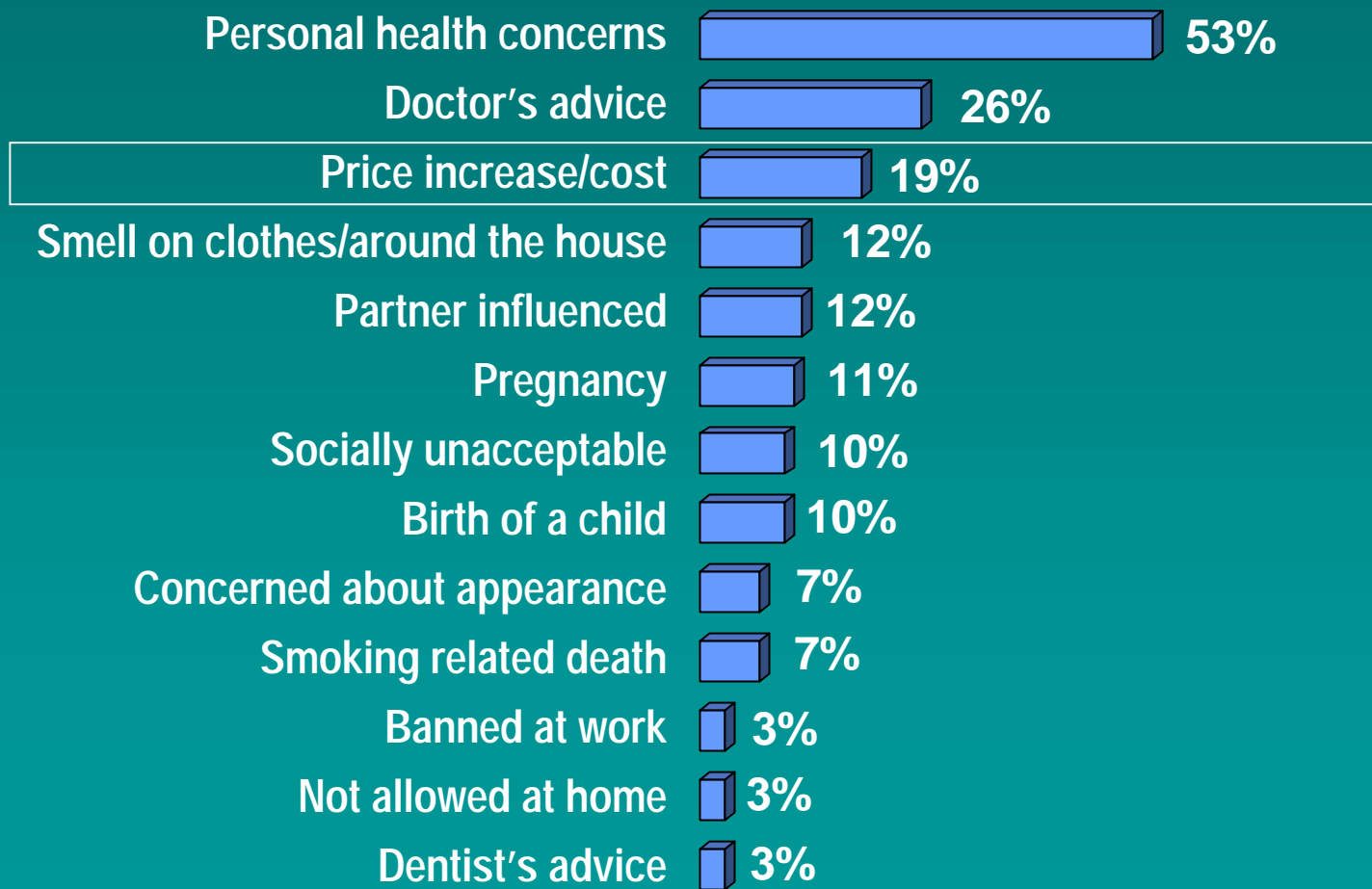
(Base: All 18+)

% Supporting Doubling of the Price of Cigarettes Overnight



What Influenced The Decision To Give Up Cigarettes?

(Base: All lapsed smokers)





Predicted Cigarette Price Elasticities in Ireland



'Top Box' Measure Of Likelihood To Continue Smoking Used To Indicate Intention To Quit

Q. *“If the price of cigarettes increased by x%, how likely would you be to continue smoking?”*

- Very unlikely** **Top Box**
- Fairly unlikely**
- Neither likely nor unlikely**
- Fairly likely**
- Very likely**



Predicted Elasticity Using Top Box Indicator





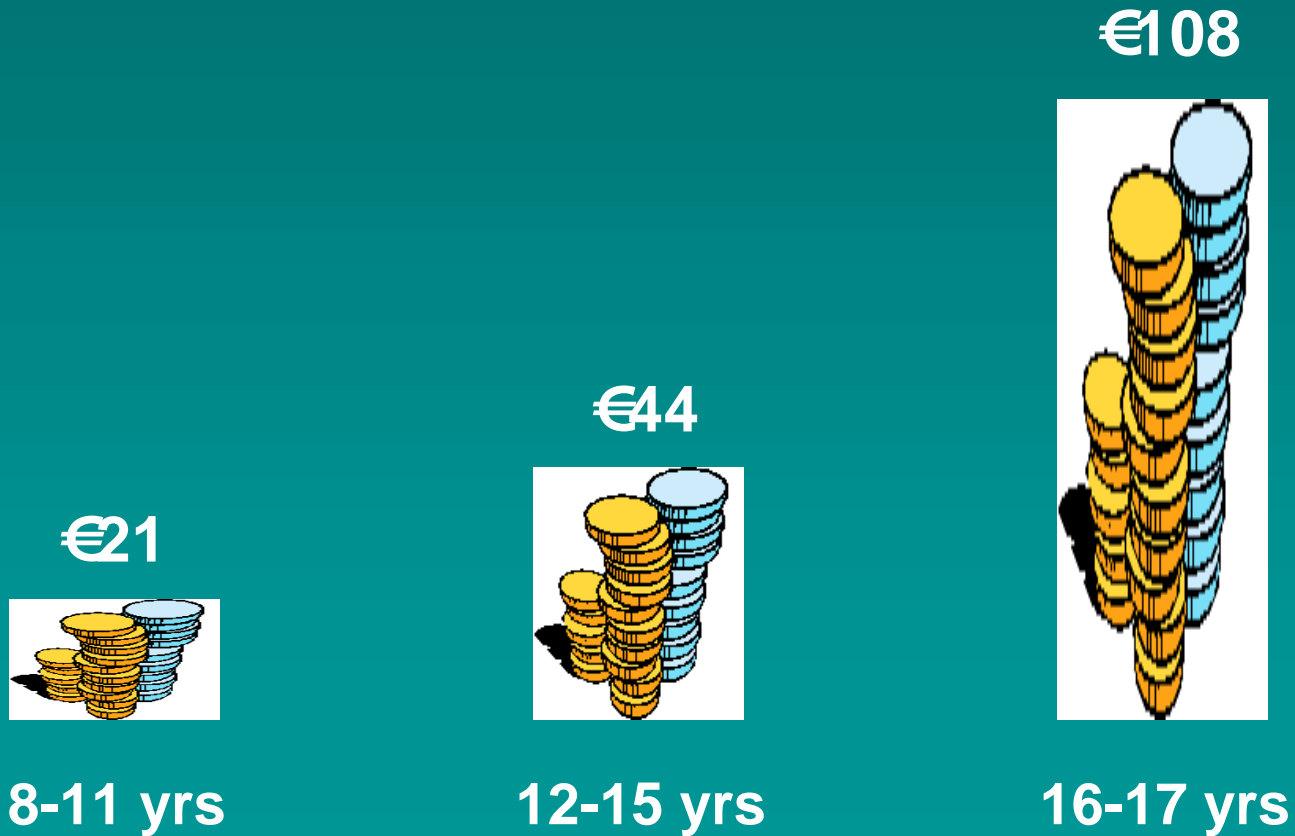
Predicted Elasticity Using Top Box Indicator - Social Class Variations





Price Is Not A Barrier To Underage Smokers

Average Weekly Spend





Predicted Elasticity Using Top Box Indicator – Age Variations





Beyond Elasticities



Likelihood Of Stopping Smoking If Cigarettes Could Only Be Bought In Packs Of 40

(Base: All Smokers 8+)

%

Would stop smoking - total

30

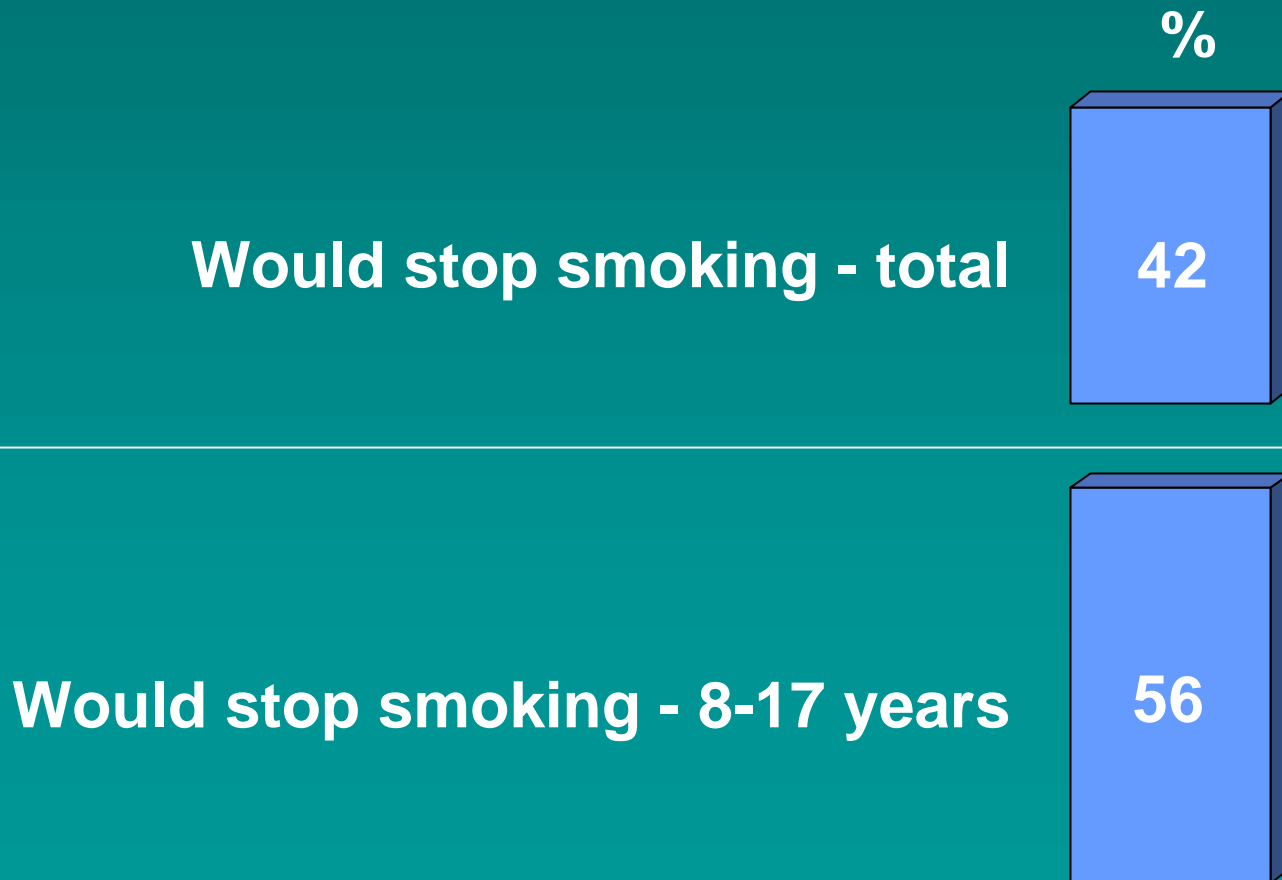
Would stop smoking - 8-17 years

46



Likelihood Of Stopping Smoking If Cigarettes Could Only Be Bought In Packs Of 60

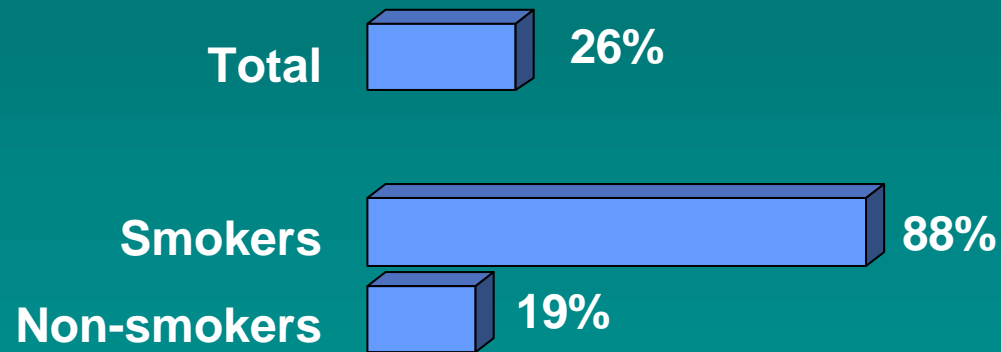
(Base: All Smokers 8+)





Peer Group Smoking - 8-17 Year Olds

Any friends smoking





Conclusions

- ✦ **With higher price increases accompanied by lower elasticities, the research suggests a greater return to the exchequer as more significant price increases are considered.**
- ✦ **Elasticity peaks at 0.6, indicating a net benefit to the exchequer at any price increase.**
- ✦ **Younger smokers more sensitive to significant price increases.**
- ✦ **Lower income smokers more likely than higher income smokers to quit in response to a price increase.**
- ✦ **Raising the minimum pack size will encourage smokers to quit, and younger smokers in particular.**

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Thank You

