

The price sensitivity of cigarette consumption in Bangladesh: Evidence from the International Tobacco Control (ITC) Bangladesh Wave 1 (2009) and Wave 2 (2010) Surveys

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Abstract

Background: In Bangladesh, the average excise tax on cigarettes accounted for just 38% of the average retail price of cigarettes in 2009, and 45% in 2010. Both these rates are well below the WHO recommended share of 70% of the retail price at a minimum. There is thus ample room for raising taxes on cigarettes in Bangladesh. The objective of the present work was therefore to estimate the price elasticity of demand for cigarettes and the effect of tax increases on the consumption of cigarettes and on tax revenue in Bangladesh.

Methods: Based on data from Wave 1 (2009) and Wave 2 (2010) of the International Tobacco Control Bangladesh Survey, we estimated the overall impact of a price change on cigarette demand using a two-part model. The total price elasticity of cigarettes was measured by the sum of the elasticity of smoking prevalence and the elasticity of average daily consumption conditional on smoking participation. The price elasticity estimates were used in a simulation model to predict changes in cigarette consumption and tax revenue from tax and price increases.

Results: The total price elasticity of demand for cigarettes was estimated at -0.49 . The elasticity of smoking prevalence accounted for 59% of the total price elasticity. The price elasticity of cigarette consumption is higher for people belonging to lower socioeconomic status. Increases in taxes would result in a significant reduction in cigarette consumption while increasing tax revenue.

Conclusions: Raising cigarette prices through increased taxation could lead to a win-win-win situation in Bangladesh: it would reduce cigarette consumption, increase tobacco tax revenue and potentially decrease socioeconomic inequities.

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