

Smokers' strategic responses to sin taxes: Evidence from panel data in Thailand

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Abstract

In addition to quitting and cutting consumption, smokers faced with higher cigarette prices may compensate in several ways that mute the health impact of cigarette taxes. This study examines three price avoidance strategies among adult male smokers in Thailand: trading down to a lower-priced brand, buying individual sticks of cigarettes instead of packs, and substituting roll-your-own tobacco for factory-manufactured cigarettes. Using two panels of microlevel data from the International Tobacco Control Southeast Asia Study, collected in 2005 and 2006, we estimate the effects of a substantial excise tax increase implemented throughout Thailand in December 2005. We present estimates of the marginal effects and price elasticities for each of five consumer behaviors. We find that, controlling for baseline smoking characteristics, sociodemographics, and policy variables, quitting is highly sensitive to changes in cigarette prices, but so are brand choice, stick-buying, and use of roll-your-own tobacco. Neglecting such strategic responses leads to overestimates of a sin tax's health impact, and neglecting product substitution distorts estimates of the price elasticity of cigarette demand. We discuss the implications for consumer welfare and several policies that mitigate the adverse impact of consumer responses.

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