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According to article ' Burkina: Parliament raises tobacco tax to 45 percent' from the Journal du Cameroun, taxation of tobacco products in Burkina Faso has risen by 15% in order to increase the government's revenue, align existing norms within the West African Economic and Monetary Union (UEMOA) and reduce mortality due to smoking. Tobacco products are an example of demerit goods – goods that are harmful to the individuals as well as the society as a whole – create negative externalities of consumption and therefore cause market failure. In Figure 1, at the free market equilibrium, price for tobacco is P_e and the quantity demanded is Q_e . The total benefit of the society is smaller than the private benefit because there is a negative social benefit of consuming tobacco for the society, which is second hand smoke that has unpleasant smell and most importantly affects the health of the rest of the society. Tobacco is over-consumed by $Q_e - Q_{so}$ and resources are over-located to the production of it from the point of view of a society. This negative externality of consumption causes welfare loss (a). In Burkina Faso government tried to correct this negative externality previously with corrective tax 30%, which increased the price of tobacco to $P_{30\%}$ and decreased the quantity demanded to $Q_{30\%}$.

However, as we can see in the diagram, marginal social benefit was still smaller than marginal private benefit because demand for tobacco is relatively inelastic – consumers are addicted and most of them will continue purchasing cigarettes even after imposing ' sin taxes' that increase the price of tobacco products. In order to internalize negative externality of consumption and make marginal private benefit equal to marginal social cost, government in Burkina Faso decided to impose a new corrective tax on

tobacco products that would be equal to the negative externality of consumption (estimated as 45%). With this tax imposed, marginal social cost curve shifted upwards, production of tobacco decreased even more and prices increased according to the law of supply creating a new equilibrium at $Q_{45\%} = Q_{so}$ and $P_{45\%}$, where marginal social benefit finally meets with marginal private benefit at Q_{so} . However, what is happening in Burkina Faso is not going to be exactly what the theory says. There are other external factors. For example, increasing prices of tobacco products might lead to creation of illegal tobacco market in the country. Also, consumers might start purchasing cheaper tobacco products from other countries in West Africa that are not part of UEMOA. In both of these cases, government would not receive the tax and would not increase its revenue but second hand smoke would be still produced and would cause market failure.

After imposing 45% tax on tobacco products, producers are worse off because when price increases, quantity demanded decreases. Producers lose some customers and their revenue decreases. Consumers are worse off because they cannot afford tobacco at all or they have to pay more for tobacco and have less to spend on other necessities, which causes their living standards to decrease. This policy also leads to unemployment of low-skilled workers, who work in cigarette factories. The society as a whole is better off because some people give up on smoking and there is less negative social benefit (less second hand smoke being produced).

The government is better off as it increases its revenue by the amount of the tax and they can choose to use this to fund merit goods – goods that create positive externalities. In the long run, this policy is beneficial because more

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and more people stop smoking and stop producing second hand smoke. The part of consumers, who could not afford cigarettes is actually better off and can spend their savings on products that will increase their living standards. People, who might have been affected by the second hand smoke before do not require health care for which the government and individuals would have to pay. Moreover, if the government used the amount of consumption that has been collected on 'sin taxes' to fund merit goods, the society as a whole is better off and the country is developing. In conclusion, considering all the advantages, disadvantages and exceptions from the theory, imposing another corrective tax (45%) on tobacco products in Burkina Faso, will be beneficial in the long run for both government and society as a whole.

However, I would suggest other complementary policies as well, such as informative campaigns and negative advertisements.