

# Consumer's disposable income essay



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Although the tax is being increased on alcohol every year these figures clearly show that the consumer is continuing to purchase alcohol. This in turn signifies that no matter how much tax is imposed on alcoholic spirits the consumer will continue buying it even though they are being burdened with the tax. Also it has been recorded that alcohol consumption has increased by 50% since 1970. (<http://news.bbc.co.uk/1/hi/health/3533315.stm>) This enhances my argument as to how alcoholic spirits have an inelastic demand.

The consumer is willing to pay the tax on alcohol. This theory is illustrated on graph 2. The demand curve in this case is not very slanted (D) as the demand is relatively inelastic. The red shading shows the producer surplus, this is much less than that of alcoholic spirits with an elastic demand. The blue shading shows the producer surplus.

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Evidently the consumer pays much more tax than the producer in this case. This makes the price of alcoholic spirits more expensive for a consumer. In this case the beer and wine markets will not be affected as the consumer is willing to pay the increased amount of tax on the alcoholic spirits. There will be no change in the demand for wine and spirits, the sales will remain at a constant. Wine and beer are not very useful substitute goods.

It is possible to measure the price elasticity of demand by simply dividing the percentage change in quantity demanded by the percentage change in price. Percentages are used in this case because quantity and price have two different units of measurement. In the case of a 2% tax increase if the price of alcoholic spirits rises by 2% overall and the quantity demanded declines

by 10% the price elasticity of oil over this range would be  $-10\%/2\%=-5\%$ .

This is a negative measurement but this stands to reason considering a rise in price causes a fall in quantity and a fall in price causes a rise in quantity, either way we have a result as a negative percentage. (John Sloman, 2003)

Having now considered the impact of this tax proposal on both markets I now must consider the Scottish case.

The Scotland Act was passed in 1998 giving Scotland a parliament with devolved powers however major decisions are made from 10 Downing Street where Scotland is well represented. It is quite interesting that Scotland wish to be exempt from the tax increase. From what I have researched so far it is obvious that Scotland would be better off without having a tax increase on alcohol, as it would work out more expensive for the consumer. This proposal does not state if Northern Ireland and Wales are exempt if they aren't then Scotland have no grounds to be exempt.

But on the other hand it could be perceived that Scotland wish to be exempt on serious economic grounds. The Scottish economy relies on the sales of spirits e. g. Black Douglas Ale, Grouse whiskey.

Undoubtedly Scotland is famous throughout the world for its whiskey.

Commenting on the Scottish budget Mrs Anne Mc Guire said, " I know that the Scotland's whisky industry will be raising a glass to the Chancellor. For the 6th year running whisky duty has been frozen. Whiskey is essential to the Scottish economy, I know that this latest freeze has been welcomed by the industry. " (<http://www.annemcguiremp>.

org. uk/PressReleases/Budget140403. ) She praised the Chancellor's decision on this tax as it benefited two distilleries in her constituency. If spirits are categorized as having an elastic demand this would have a dramatic impact in the Scottish economy as the consumer would move away from purchasing whiskey. The consumer may choose to buy a Scottish Ale instead however this is less likely as Scottish Ale is not as popular. Also in recent times Scotch distilleries e.

g. Edrington and Whyte and Mackay have faced tough competition from multi-nationals such as Diageo and Pernod Ricard. If this tax is proposed it may well result in a great upheaval within the Scottish economy and result in subsequent jobs losses for many people as Scotch distilleries provide a high amount of employment e. g.

the recent opening of Perthshire's Tullibardine Distillery, creating 120 jobs. The spirit industry is very popular too regarding tourism attracting thousands of people annually. ([http://www. whiskymag. com/links/producers\\_and\\_distilleries.](http://www.whiskymag.com/links/producers_and_distilleries.html)

html) In conclusion, considering the situation of all the different market sectors and the Scottish viewpoint I understand that alcohol would be a major target for the government to propose indirect tax as demand will remain constant. This is a useful means of increasing government revenue. It is also apparent that alcohol is without a doubt very inelastic. Almost a constant amount is consumed regardless of price. (Page 182, Murray Wolfson, 1978. ) This is only a proposal and the Chancellor of the Exchequer usually only increases alcohol taxation once a year in his budget.

Scotland will have to work hard to support their case. The consumer loses out with this proposal, as he has to pay more as taxation is burdening him, however I have outlined his choices and he has available substitutes. In the end it is a question of a consumer's disposable income as to what extent this tax could potentially burden him.