

Since of smoking
cigarettes are human
health



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Since the past few decades, Australia has tried to reduce the consumption of cigarettes which are demerit goods, within its borders. A demerit good is referred to as a good or service whose consumption is considered degrading, or socially undesirable due to the negative effects on the consumers. The use of such goods in turn leads to negative externalities of consumption, which is the negative spill over cost of the individual consumption of a commodity, on society as a whole.

The negative externalities of smoking cigarettes are human health issues such as serious cardiovascular and respiratory diseases, lung cancer and in some cases death. In fig. 1.0 the socially optimal amount of cigarette consumption is where $MSC = MSB$ and the market is in equilibrium with Price and Quantity represented by P^* and Q^* . However in this case, a larger quantity is consumed (Q_1) leading to welfare loss, represented by the orange triangle.

It should be noted that $MSB < MPB$, meaning that the marginal benefit is greater for the consumer than the society. This results in allocative inefficiency. In the selected article the government has tried to reduce this negative externality through advertising, legislation, taxation on tobacco and prohibition. Fig.

1.0 also shows the effect of government regulations and advertising in eliminating the negative externality. This can be seen through a shift in $D_1 = MPB$ towards MSB . This shall continue till D_1 overlaps with D_2 , eliminating the externality with price falling to P^* and quantity to Q^* .

Through advertising campaigns, the government has used harsh graphics

depicting health warnings and slogans such as “ It’s a toxic, poisonous mix of substances” exhibiting the harms that smoking causes to human health .

This has helped to discourage addicted tobacco cigarette smokers . With high costs of advertising (paid by government revenue received through taxes) , the government has to bear opportunity costs . These range from possible expenditure on education to national security . As a short term solution , advertising is not the most effective (Time required) but as a long term solution it may help to discourage smokers.

Regulations dealing with restrictions on smoking in public places , as those mentioned in the article “ smoking prohibited within 10m (33ft) of a playground, within 4m (13ft) of the entrance to a public building, at rail platforms....” can be very effective in reducing the external costs of smoking , alleviating the negative externality as it marginalises smokers . Also regulations on packaging cigarettes such as; Plain Packets , health warnings , ambiguous branding; reduce these externalities (Rules: 75% of the front is covered by health warning, and 90% of the back).

Take for example the graphic images of throat cancer on cigarette packs make individuals avoid looking at the pack of cigarettes , making them reconsider their decision to consume such products thereby making them avoid it , research shows that avoidance strategies of individuals become predictors of their quitting of something . Such regulations have major effects on different stakeholders (firms , governments and consumers). Large firms tend to lose their monopoly on the market and many lose the incentive to produce the good , reducing the supply of cigarettes, this leads

to the government not having to spend on anti-smoking campaigns but rather allows for spending on more lucrative sectors . In the case of consumers , it repels them and helps preserve human health . Now , if we consider “ taxation” as a solution .

Economists would prefer market based solutions to solve problems of negative externalities . This is probably , since imposing indirect taxes helps to internalise externalities and create incentives for consumers to change habits , much like imposing an indirect tax on something like sugary drinks could reduce consumption . The graph above exhibits a decrease in supply and an upward shift of the supply curve from MPC to MPC + tax , intersecting with MSB at Q_{opt} , dropping quantity demanded . Price increases from P_m to P_c . It may seem like a utopian solution for reducing smoking but there are issues . Firstly it is almost impossible to measure external costs of smoking and logistical assessment is a difficulty .

Secondly , goods such as tobacco cigarettes have inelastic demand , meaning that changes in the price have a proportionally smaller decrease in consumers than the relative price increment . Taxation however , may be beneficial for increasing government revenue which may mitigate the opportunity cost . Eg. the price increase of cigarette packs to AUD \$ 40 might greatly increase government revenue . To conclude , the Negative Consumption externalities caused by cigarettes can be reduced by a combination of policies and trends .