

Cigarette tax

[Economics](#), [Tax](#)



Section 1: “ Cigarette tax hike sparks panic buying” By Ashley Hall Updated Thu Apr 29, 2010 What is the main issue presented in the media report?

Discuss what has actually happened: In the year of 2010, the Federal Government raised taxes on cigarettes by an extra 25 per cent, resulting in an increase price of \$2. 16 to every pack of 30 cigarettes. A proclamation stated by Prime Minister Kevin Rudd on the crackdown on Internet advertising of cigarettes was mentioned. Mr. Rudd also affirmed ‘ the government will spend \$27. million on an anti-smoking campaign (Hall, 2010)

This media report outlines the publics impulsive buying of cigarettes upon the government’s mention of the very rapid increase in taxes, thus resulting in an upward increase in price. It mentions the dismays retailers and tobacconists faced due to the tax hike. Further more, mentioning the concerns of philanthropists and other individuals. Highlight the reason for the issue being raised: This issue was one that arose quite soon after its announcement, as it impacted the country in its majority in numerous ways.

The justification behind this issue was the government’s lack of planning.

The release of the tax hike occurred only several hours before its prospected start of midnight that night, which ultimately left little or possibly even no time to adjust and prepare for the subsequent price increase. (Hall, 2010)

Outline what possible impacts this change could have: The unexpected change posed many impacts on an abundant area of the population. The change impacted the consumers (smokers), the suppliers/producers, retailers/tobacconists, charity workers and the government.

The sudden publication of the price increase would lead to a majority of smokers purchasing larger amounts of cigarettes than usual, in an attempt

to purchase the product at a cheaper price rather than at its increased price. The retailers/tobacconists face the prospects of higher demands and physical impossibilities such as lack of stock and time to prepare. Although on the contrary as stated by the executive director of Quit Victoria “ 100, 000 people will quit smoking as the result of the price increase and 250, 000 children will not take up the habit”. (Hall, 2010)

From another viewpoint, the rapid increase in tax had an immediate negative impact on the number of people seeking assistance. This is solely the case, as a widely held proportion of smokers come from low-income groups, “ In fact, people from low-income groups are 13 times more likely to quit smoking in the face of a price increase than those from higher income groups”. (Hall, 2010) Who are the key stakeholders that are impacted by the issue outlined in the report? The key groups that may be impacted by the issues raised in this report are ultimately the key stakeholders; i. e. the customers, suppliers, regulators and competitors. The customers (smokers) are faced with the increased price on packets of cigarettes. Which ultimately puts an excise burden on consumer's income. The suppliers were faced with a rapid increase in demand in the hours before the implementation of the tax increase, and perpetual demand between the periods after the tax. This is due to the notion that smokers are not willing to go cold turkey over night simply due to an increase of \$2. 16, but ultimately the possible immediate decline in number of packets bought/sold in the event prior to the tax increase.

Suppliers are also faced with the concern of consumers opting for substitute goods (This means a good's demand is increased when the price of another good is increased) for example replacing cigarettes with chewing gum (even considering that cigarettes are inelastic). (McTaggart, 2010) Regulators, which in this case are the Government, are faced with constant scrutiny regarding their decisions and lack of planning. However, this tax hike increased an extra \$5 billion over four years, which the Government would put towards its health and hospitals overhaul (Hall, 2010). So evidently, back into the economy.

An increase in people seeking assistance will also place possible strains on charity workers, as people will continue to spend money on cigarettes rather than necessities. Competitors are also faced with a possible increase in demand, as the price of one good is increased, the demand of the substitute good is increased (McTaggart, 2010). Students and groups of people from low socioeconomic status will be directly affected the greatest. For those who come from high-income classes, their wages are generally increasing as the 25 per-cent increment is implemented, which ultimately does not substantially affect their income as a whole.

However, students and people from low socioeconomic status groups are giving up necessities of life to feed their smoking addictions. What economic theories can be drawn from this media report? Opportunity cost: Graph 1: The theory of Opportunity cost (Graph 1): the amount of other products that must be sacrificed to obtain an extra unit of any product. The opportunity cost refers to the benefit forgone from the best alternative use of resources.

(McTaggart, 2010) As the economy moves from point B towards point C, it must give up successively larger amounts of good B to obtain the same equal increment in good C (Layton, 2009).

In relation to cigarette tax, people from lower income groups are giving up the necessities in order to feed their smoking addiction. Demand, Supply and Elasticity: Graph 2: The demand for cigarettes increased during the period of the government's announcement and until midnight when the price increase was implemented: i. e. a change in consumer's expectations about future prices brings forward an increase in consumption. (McTaggart, 2010) Graph 3: Change in demand is where the demand has shifted to the left hand side. Rise in price will see a greater quantity supplied (quantity will rise), shift in supply curve. (McTaggart, 2010), (Layton, 2009). From midnight the equilibrium shifted to the left side along the demand curve by the price increase. As the result, as it was mentioned above, the quantities demanded decreased, due to the tax increase. Result in consumer and producer paying the burden of the tax increase. (McTaggart, 2010) Section 2: " Apple Shares hit as iPhone sales Fall Short" Sky News Oct 19, 2011 What is the main issue presented in the media report? Apple, one of the leading technological companies in the world has recorded revenues uncharacteristically short of expectations.

Wall street analysts predicted iPhone sales during their fourth quarter earnings to be '20 million sales', with a short fall of '17 million sold'. With overall revenues recorded at \$28. 3 billion, substantially short of expectations (Sky News, 2011). Apple new chief executive ' Tim Cook' does

not seem concerned about the recorded short fall of the company since the passing of Co-founder Steve Jobs. Recorded losses in revenue for Apple fourth quarter could be significantly the result of many factors (Sky News, 2011). The main contributing factor, being the short after release of the iPhone 4s.

Due to the release of the iPhone 4s, consumers were withholding from purchasing older models of the iPhone, with the thought ' I would rather wait a litter longer to purchase a new and updated version'. Ultimately the thought of consumers' posses' greater opportunity for Apple sales in the future but resulted in revenue falling short in their fourth quarter. The recorded revenue had a negative impact on the company. With the actual versus predicted sales of the iPhone falling short, Apple shared dropped 5% upon the announcement (Sky News, 2011).

A drop in share price negatively affected the company, especially since a drop in share price has now only occurred since the passing of co-founder Steve Jobs. A drop in share price could result in consumers questioning whether they should continue to purchase Apple products, or if the drop in share price is a signaling factor that there is a higher demand for substitute goods. This could be the case as many other leading technological companies are constantly trying to innovate new and improve models of phones, laptops and tablets to keep up with Apples constant improvements.

For example Samsung release of their new tablet caused large amounts of disputes between themselves and Apple, as Apple saw a large opportunity for threat to sales of their iPad. Although this is the case, the new iPhone 4s

has sky rocketing sales of four million in its first three days on the market. As new chief executive ' Tim Cook' said: " customer response to iPhone 4s has been fantastic, we have momentum going into the holiday season, and we remain really enthusiastic about our product pipeline. " (Sky News, 2011).

Who are the key stakeholders that are impacted by the issue outlined in the report?

The key groups that may be impacted by the issues raised in this report are ultimately the key stakeholders; i. e. the customers, suppliers, shareholders and competitors. The customers are ultimately those who predict they continuing success of the company, without customer sales Apple would not exist. The hit of Apple shares could negatively impact consumer sales. A decline in the share price could signal a train of thought in consumers mind that possibly there is a need for greater innovative or the threat of higher competitors in regards to Apple products.

If consumers are being told that a company is recording predicted short falls in their expected revenue consumer might be apposed to their products, resulting in customers opting for substitute goods. (McTaggart, 2010) The suppliers in this report are in fact Apple and all other retailers that stock Apple products. The short fall of iPhone sales resulted in a decrease in revenue. Which ultimately lead to a decrease in the price of Apple shares. A decrease in share price could lead to a decline in possible sales, which results in a supplier surplus.

Suppliers have a greater number of products to sell in relating to consumers who are interested in buying their product (McTaggart, 2010). In the event of

the release of the iPhone 4s, suppliers are faced with higher consumer demand, which could result in a shortage of iPhone 4s in relation to consumer demands. Apples brand name and reputation is a very important asset to the company, with this issue being raised, it could have an impact on one of their largest assets. Shareholders, are those individuals or companies who have financially invested an interest in Apple, a decrease in share price negatively impacts shareholders.

Decline in the share price by 5% results in a decrease in the value of shareholders wealth. The final group that is impacted by issues of a decline in Apples share price is competitors. This could have a positive impact to competitors. Negative public announcement over such a large and dominant company could result in a substantial amount of consumers opting to purchase products competitors offer, simply due to the decisions of other individuals. A consistent pattern in the public shows, that if a product is negatively represented in more than one way consumers will be very reluctant to purchase that product.

Resulting in a positive advantage for competitor's products. The group that would be impacted the most would be the suppliers. They are the key foundation of the company, without continued success the company could face greater hardships and decline in sales leading to a decline in revenue and share price as which occurred in the month of October 2011. What economic theories can be drawn from this media report? Supply and Demand: Graph 1: Demand curve during period of Apple reporting shortfall of sales and decreased revenue in recording during their fourth quarter.

The graph above is a representation of changes in demand. Apple change in demand during this period is caused by consumer expectations, tastes and preferences. Where the soon to be released iPhone 4s resulted in the decrease of current iPhone sales. (McTaggart, 2010), (Layton, 2009). Graph 2: The Above graph is a representation of the supply and demand curve during the first release of the iPhone 4s. The supply curve remains constant (from period before and after the release of the iPhone 4s). Where significant changes occurred in relationship to the demand curve.

The increase in demand which resulted in a right ward shift of the demand curve was a direct result of ' taste or preferences of consumers' a key determinant in the changes in demand (Layton, 2009). This was the case as consumers withheld from purchasing older models of the iPhone with anticipation of purchasing the newer and improved version of the iPhone (iPhone 4s). This resulted in Apple experiencing greater quantities demanded as stated in the article " iPhone 4s has sky rocketing sales of four million in its first three days on the market". Change in demand results in change in new equilibrium (Sky News, 2011). References:

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