

Effect of cigarette tax increase in malaysia



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1. 0 Introduction

The topic of our research is to examine the effect of cigarette tax increase to the change of the Malaysian's smoking consumption behaviour due to different demographic and smoking degree factors. In this chapter, we will present the research background, problem statement, research questions and objectives, significance of our study, and outline of our research. Basic information about cigarette tax topic and our research can be gained by reading this chapter.

1. 1 Research Background

Smoking has been proven to bring adverse impacts to the health of smoker and non-smoker (Department of Health and Children of Ireland, 2000; Napier, 1996). A smoker who smokes early in life is expected to die 6 years earlier than non-smoker due to smoking related diseases such as lung and heart disease (Cutler, Gruber, Hartmen, Landrum, Newhouse, & Rosenthal, 2001). There were almost 3 million smokers in Malaysia which made up of 2.8 million adults and 0.2 million minors below 18 years of age based on Malaysia 3rd National Health and Morbidity Survey 2006. The figures are believed have been increased throughout the years. In 2009, our country had almost 368,000 teenage smokers and the number of teenage smokers is increasing by 50 to 60 per day (Snus News & Other Tobacco Product, 2009).

According to the Malaysian Council for Tobacco Control (2005), 25% of all deaths in Malaysia are due to cigarettes smoking, with smoking-related deaths comprising three out of five top killers in Malaysia (Othman, Ong, &

Bindah, 2007). Dr. Abrizah Ahmad presented in the Malaysian Conference for Tobacco Control (2006) that the cost of treatment for disease attributed to smoking in Malaysia is almost RM450 million. Furthermore, according to Viscusi (1993), Viscusi and Aldy (2003), the cost for a loss in life is very high and can run to several millions of dollars. These facts show that government has to bear a heavy burden because of the loss of human capital and cost of medical treatment. Therefore, actions have to be taken and one of the most effective ways to reduce cigarette consumption is through imposing cigarette tax (Lee & Chen, 2008).

Effectiveness of tax control to the cigarette consumption has shown in many countries. To implement the tax control effectively, the cigarette consumption must be elastic (Gospodinov & Irvine, 2008). When the cigarette price is elastic, there is a larger reduction in the cigarette consumption. The studies had done in United States (Chaloupka, 1991; Warner, Chaloupka, & Cook, 1995), United Kingdom (Duffy, 1995), Canada (Goel, 2004) and other countries. Yoruzu and Zhou (2002), Kim and Seldon (2004) and Lee (2008) proved that the tax control policy is effective in Asian countries as in the Western countries. The increase of cigarette tax not only can reduce the cigarette consumption, it also can generate higher total tax revenue (Tsai, Yen, Yang, & Chen, 2003).

1. 2 Problem Statement

Our primary concern in this research is whether smokers will reduce consumption or quit smoking in response to cigarette tax increase. However, some researchers have thought that cigarette is addictive goods that do not conform to standard law of economic (Elster, 1999) and the addicted smoker

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is not rational. They think people will still consume same level of cigarettes even if tax has increased. Numerous studies had found that this is not true (Seldon & Boyd, 1991; Simonich, 1991; Sung, Hu, & Keeler, 1994; Barnett, Keeler, & Hu, 1995; Keeler, Hu, Barnett, & Manning, 1996). On average, they found that a 10% increase in cigarette price will result in 4% reduction in cigarette consumption.

However, most of the studies did not take into account impact of cigarette taxes on population subgroup. Studies on overall population are too general and may create tax regressivity problems for certain groups of people like low income youth (Chaloupka & Warner, 1999). A few analyses tried to address the issues in other country. Lewit, Coate, and Grossman (1981) and Chaloupka and Grossman (1996) studied the effect of cigarette tax on smoking behaviour of youth. Madden (2007) had looked into the role of education in affecting smokers' decision to quit given a tax increase. Stehr (2007) studied the differences in responsiveness to cigarette tax increase between men and women. Lastly, Townsend, Roderick, and Cooper (1994), Biener, Aseltine, Cohen, and Anderka (1998) and Lee (2008) had looked into the differential impact of cigarette tax on the overall population subgroup characterized by age, gender and socioeconomic status. However, there seems to be a lack of similar research in Malaysia. Therefore, we attempt to gauge the differential effect of cigarette tax on population subgroups in Malaysia through this research.

1. 3 Research Questions and Objectives

1. 3. 1 Research Questions

The research questions that guide our arguments and objectives are:

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- a) Do the responses on cigarette consumption differ when cigarette tax increased based on socio-economic factors (gender, age, income level and education level) ?
- b) Does the smoking degree create different responses to cigarette tax increased?

1. 3. 2 Research Objectives

Lee (2008) had suggested smokers' socioeconomic background and smoking characteristics influence their consumption behaviour. Our aim in presenting this research report is to:

- a) Investigate the likely responses on cigarette consumption given a hypothetical cigarette tax increased based on the different socioeconomic factors (gender, age, income level, and education level).
- b) Determine the effects of cigarette tax increase in cigarette to the cigarette consumption based on the smoking degree factor.

1. 4 Significance of study

This research is significant because we can know the effects of cigarette tax increase on population subgroups in Malaysia through our research. As stated in the problem statement section, there is lack of cigarette tax research in Malaysia. Malaysia's smokers may response differently from the overseas' smokers. Knowledge of differential price effect on each subgroup can benefit government in altering smoking control policy to maximize smoking cessation among different subgroups (Chaloupka, 1990). Besides that, if taxes alone are found to be not effective for high-income individual,

government can employ additional smoke-free indoor rules, advertisement ban for tobacco products or disclosure of smoking hazard (Ross & Chaloupka, 2004).

Youth smokers are a particularly important subgroup. Most smokers start smoking before their 21st birthday and continue for the rest of their life (Gilpin, Lee, Evans, & Pierce, 1994). Youth smokers are less concern about the health consequences of smoking and nicotine addiction (Kessler, 1995; Johnston, O'Malley, & Bachman, 2002). If our research shows that youth is more sensitive to price increase, therefore, increasing cigarette tax could possibly prevent youth smokers from initiating smoking behaviour. This could potentially save millions of lives.

1. 5 Outline of the Study

After present the background of our research, as well as the problem statement, the remainder of this research is organized in the following manner: Chapter 2 presents the rational addiction model, critical review of past studies. Chapter 3 explains the research methodology. This includes data analysis technique and variable measurement. Chapter 4 presents the results of our analysis and also descriptive statistics. Chapter 5 discusses about major findings, implications, recommendations, limitations, and conclusion of the study.

1. 6 Conclusion

In general, the cigarette tax policy is an important policy implemented by the governments throughout the world. An effective cigarette tax policy can change the smokers' smoking behavior and reduce the number of smokers.

As stated in the problem statement section, there is lack of researches on cigarette tax topic in Malaysia. The smoking behaviour in Malaysia may be different from overseas. Our study in this topic can give a clearer picture on the change of cigarette consumption behavior in Malaysia when the cigarette tax is increased.