



Tobacco Consumption: Private and Society Decisions

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Questions

- Why might society want to reduce private tobacco consumption choices?
- Benefits and costs of tobacco consumption
- Irrational consumer choices
- External or spill over costs
- Some options for government intervention to reduce tobacco consumption



Private and Society Choices

- If individuals make rational choices bearing in mind all the benefits and costs, this decision coincides with society choice
- Government intervention to reduce consumption because of one or both of:
 - Irrational consumer choice
 - External costs

so that $MSC > MPC$

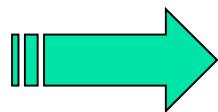


Benefits and Costs of Smoking

- Benefits. Mostly private
- Costs
 1. Purchase price
 2. Higher probability of early death
 3. Loss of worker productivity and income
 4. Spill over costs
 - Passive smoking
 - Less family income
 - Less taxation revenue
 - More health care
 - Fires caused

Questions on Rational Consumer

- If
 - Not fully informed on habit formation and on longer term costs
 - Inconsistent time preferences



Consume too much



External Costs on Third Parties

- Passive smoking
- Extra health costs funded by others
- Loss of labour income
 - Large part a cost to individual (private cost)
 - Loss for other family members
 - Loss of taxation revenue, higher on others
- More fires

Result: $MSC > MPC$, and too much consumption



Government Intervention Options to Reduce Smoking

- Provide information and education
- Restrict advertising
- Regulations, e.g. on age, location
- Taxes to raise purchase price