

- (a) *Studies indicate that the price elasticity of demand for cigarettes is about 0.4. If a packet of cigarettes currently costs £2 and the government wants reduce smoking by 20 per cent, by how much should they increase the price?*

Price elasticity of demand is equal to proportionate change in quantity demanded divided by the proportionate change in price, and so to calculate how much the government should increase the price of cigarettes to, the formula must be rearranged into the form, proportionate change in quantity divided by the price elasticity of demand, and so to calculate the new price of cigarettes we must divide 20 by 0.4, to get the percentage increase which is 50 percent. Therefore the new price for cigarettes will be £3.

- (b) *If the government permanently increases the price of cigarettes, will the policy have a larger effect on smoking one year from now or five years from now? Explain your answer.*

If the government permanently increases the price of cigarettes I believe the policy will have a larger effect in the short-run than in the long run. My premises is that when the government increase the price of cigarettes a proportion of the population will find that they are too expensive and so will have to quit smoking or reduce their consumption, and in one year's the strata of society who smoked when the price was increased, would have now quit, and so would not go back to cigarettes unless the price was decreased.

However in five years time, if the price of cigarettes has stayed static then a new generation of smokers will be introduced to them and not see them as expensive as it is all that they know, and so the policy would have no effect on reducing the number of smokers. Which was the government initial desire.

Also in 5 years time, if the government permanently increases the price of cigarettes, to a single amount, due to the effects of inflation this increase will gradually seem less and less as inflation is an increase in the general level of prices. So people will be earning more money and unless the government does not increase the price of cigarettes will inflations they will seem to become less expensive and so people may start to smoke again.

However there is an argument that some people may not simply be able to quit smoking in one year and it may take more time for them too quit smoking, but for them to continue there task of quitting, I believe the government will have continue to increase the price of cigarettes to continually remind, these smokers that they need to quit, as the price will continue to increase. But overall I believe that the government policy will have a larger effect in one years time than in five years time.

- (c) *Studies also find that teenagers have higher price elasticity than adults. Why might this be true?*

By saying that teenagers have a higher price elasticity than adults it means that they are more sensitive to a change in price, so by increasing the price of cigarettes by 1 percent the fall in teenage smoking might be 20 percent whereas in adults a 1 percent increase in price may only decrease smoking by 5 percent.

I believe that this is true due to the fact that smoking may not be as much of an ingrained habit in teenagers as it is amongst adults, as theoretically they would not

have been smoking as long as adults, due to their age, and so would not be as addicted as adults. So if the government increases the price to a level, which teenagers can no longer afford, the prospect of quitting or lower their consumption of cigarettes. Will not be that big of a deal as they are not as addicted as adults and quitting may simply be the easiest thing to do, whereas for an adult who is highly addicted it would be a very difficult task.

Another factor, which may affect the price elasticity of cigarettes amongst teenagers, is the fact that a large proportion of them may not be employed, or maybe on a strict budget and so they may have to reason every purchase and if the price of cigarettes is so high that the initial costs outweigh the initial benefits then most teenagers may not buy cigarettes. Whereas amongst the adult population most will have steady jobs, which provide an adequate income, so they can afford so called luxury items like cigarettes and a small increase in price will not affect their purchase of the luxury items.

I also believe that a lot of teenagers smoke due to the fashion or fad of the time, and so are only smoking because it looks good or due to the peer pressure of all of the friends doing it. Whilst I believe most adults smoke to get an end result, for example smoking maybe give them stress relief from situations which they find themselves in, these factors mean that when cigarette prices increase, it is clear to see that teenagers will have a higher price elasticity as they really are not that bothered by the fact that they are going to quit smoking, whereas for an adult that could be a large, life changing decision and an increase in price may not be a big enough reason to stop smoking.