

Cigarette advertising and U.S. cigarette demand: A policy assessment

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Abstract

The effect of advertising on cigarette demand has been widely studied. Yet the demand-advertising nexus is not completely understood and there is little consensus in the literature. This paper sheds new light on the issue by examining the relationship using state-level data for the United States over three decades. Additional contributions include examining the effects of the Master Settlement Agreement, and studying the dynamic effects of advertising and smoking. Findings show that U.S. cigarette demand is inelastic, the income effects are mixed, advertising elasticities are relatively small, post-MSA advertising seems smoking-reducing and that the full effects of the MSA are probably still unfolding. Smoking habits tend to linger, while the effects of antismoking messages accompanying cigarette advertisements take time to be effective. Policy implications are discussed.

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1. Introduction

The impacts of cigarette marketing have interested researchers and policymakers for quite some time. Over time, various studies have been undertaken using different data and methodologies to untangle the relationship between cigarette advertising and cigarette demand (see [Schmalensee, 1972](#) for an earlier study; [Duffy, 1996](#); [Nelson, 2006](#); [Saffer & Chaloupka, 2000](#) for extensive

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surveys of the literature). Yet, the relationship between advertising and cigarette demand is not crystal clear. For instance, some studies have found a small positive impact of advertising on smoking, others have found the relation to be statistically insignificant, and some have even found the relation to be negative (Nelson, 2006; Saffer & Chaloupka, 2000). One reason for the ambiguity might be that cigarette advertising comes in various forms including print, broadcast, billboard, package, in-store, entertainment and Internet, etc. These forms can potentially have different qualitative impacts on demand. Further, some types of advertising might have a longer shelf life and thus might tend to linger over multiple periods. Therefore, the overall effects of advertising can be hard to ascertain.

Over time, policymakers at various levels of government have devised numerous policies to control and counter the effects of cigarette advertising. These initiatives have spawned a whole range including media advertising bans, restrictions on the content and location of advertisements, and anti-advertisement inclusions (health warnings) in advertisements, etc. Changing technologies, on the other hand, have enabled cigarette marketers to stay a step ahead of regulation. A glaring example of this is Internet advertising that is global in nature and beyond the restrictive control of individual governments. In light of this, policymakers remain interested in getting a better handle on the effects of advertising and this paper sheds some new light on this aspect.

This research examines the impact of cigarette advertising on cigarette demand at the state level in the United States over three decades. More significantly, the period of study encompasses two major events in this context—one technological and the other regulatory. Technologically, the decade of the nineties witnessed the explosion of Internet usage, resulting in Internet cigarette advertising that fell outside the jurisdictional authority of individual governments. A website advertising cigarettes could be located in any part of the world. On the regulatory side, 1998 witnessed the signing of the Master Settlement Agreement (MSA) between cigarette companies and state governments. This comprehensive agreement included wide-ranging restrictions on the marketing of tobacco products, with changes in both the content and transmission of such advertisements. We will be able to control for the influence of the MSA and examine how the advertising–cigarette demand relation has changed in the Agreement’s wake. What is the advertising elasticity of cigarette demand over 1975–2004? How has advertising elasticity changed after the MSA? Do the effects of advertising linger over time?

Besides shedding new light on the advertising–demand relation over an extended period of time, the findings of this research should be potentially useful to policymakers. Relatively small advertising elasticities would downplay the need for further advertising restrictions, while substantial elasticities would stress otherwise. In this context, the relative longevity of advertising also has some policy relevance. The formal model follows.

2. Model and data

The basic demand model for cigarette advertising used in numerous studies entails cigarette consumption as a function of cigarette price, personal income and some other control variables such as advertising, etc. (see Chaloupka & Warner, 2000; U.S. Department of Health and Human Services, 2000). Following this line of research, the estimated model in this study takes the following general form

$$\text{CONS}_{it} = f(\text{PRICE}_{it}, \text{INCOME}_{it}, \text{ADVRT}_t, \text{ADVRT}_{t-1}, \text{CONS}_{it-1}, \text{MSA}, \text{MSA} \\ \times \text{ADVRT}_t, \text{Year DUM}_t) \quad i = 1, \dots, 51 \quad t = 1975, \dots, 2004 \quad (1)$$

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