

ECO 225 - Health Externalities

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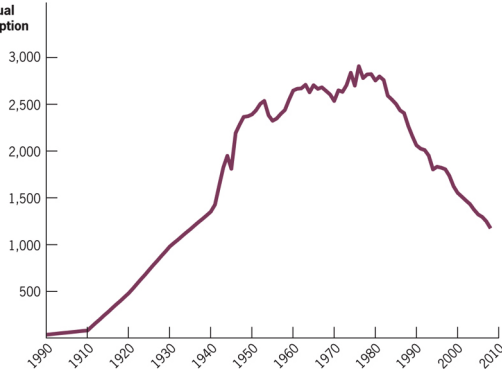
Davidson College

Wednesday 09/03/15

Some facts on cigarette smoking

■ **FIGURE 6-4**

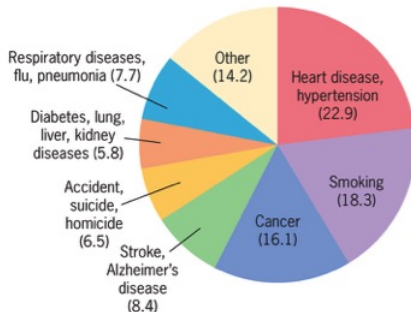
Per capita annual
cigarette consumption



Per Capita Annual Cigarette Consumption, 1900-2008 • Cigarette consumption in the United States rose steadily throughout the first half of the twentieth century, flattened in the 1960s and 1970s, and began to decline sharply after 1980.

Some facts on cigarette smoking

■ **FIGURE 6-5**



Leading Causes of Death, 2008 • Smoking-related deaths represent 18.3% of all deaths, more than other cancers combined and almost as much as other heart diseases.

Source: Centers for Disease Control and Prevention (2008).

Some facts on cigarette smoking

- 1 $\frac{1}{5}$ of Americans smoke.
- 2 Smoking is the second-leading cause of death in the US (worldwide, even worse).
- 3 By 2030, 8 million persons will die annually from smoking-related disease.

But do these facts justify the government regulating smoking?
What if people are acting rationally (i.e. weighing costs and benefits?)

Now, read the article and try and answer the following with your partner(s)...

- 1 List down some externalities of smoking.
- 2 What have some governments done to incentivize their people to quit or lessen their consumption of cigarettes (i.e. smoke)? What has worked well, according to the article? What other ways can you think of?
- 3 Could there be any positive externalities from smoking?

Should we also care about 'internalities'?

- Internality - the damage one does to oneself through adverse health (or other) behavior.
- Facts - Average smoker is estimated to live six years shorter than nonsmokers.
- A year of life is estimated by economists to cost \$200K. At this estimate, the value of life lost from smoking is \$35 per pack.
- **This is an enormous figure—75 times larger than the typical estimate of the external damage done by smoking.**

So now what?

- The theory of public finance says that when there are externalities, the government should intervene in the market to correct them.
- Given the extremely high personal health costs incurred by individuals who choose to smoke (the so-called 'internalities'), should the government also intervene in the personal consumption of smoking?