

The Effect of Cigarette Taxation on Prices: An Empirical Analysis using City-Level Data

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Abstract:

This paper uses new data collected by the author on cigarette taxation in 443 municipalities from 1990 to 2009. These data are combined with state-level price and tax information to measure the relative effects of state and local taxes on cigarette prices. The results suggest that a \$1 increase in the state excise cigarette tax increases cigarette prices by \$1.10 to \$1.13, but that a \$1 increase in city or county-level excise taxes has a significantly smaller positive effect on prices of \$1.06. These findings are similar between premium and generic cigarette brands.