

CASHING IN ON DYING EARLY?
**“THE IMPACT OF ERROR TERMS ON THE ESTIMATION OF THE
EXTERNAL COSTS OF SMOKING.”**

By

Christopher J. Ensign

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APPROVED:

Dr. Roger Waud, Chairman

Dr. Tom Lutton

Dr. Brian Reid

Dr. Nancy Wentzler

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(ABSTRACT)

Cigarette taxation is a topic which economists have focused on for years. The purpose of the cigarette tax is to force individuals who engage in risky activities to pay for the negative externalities caused by said activities. In the case of cigarette smoking, the notion has been that society as a whole subsidizes the smoking related external expenses through programs such as Medicare, Medicaid and group life and health insurance. At the center of this debate is “Cigarette Taxation and the Social Consequences of Smoking” by W. Kip Viscusi. Viscusi’s paper written in 1995 for the NBER publication Tax Policy and the Economy contains estimates of both the net external costs and benefits of smoking. This paper evaluates the confidence level of Viscusi’s external cost and savings estimates and assesses the impact of error terms on his conclusions. By allowing the potential for error to factor into the cost estimates of external costs per pack, Viscusi’s point estimate becomes questionable.

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(DEDICATION)

“For Mom and Dad, who instilled in me at an early age the value of learning, and were
the first to challenge and nurture my mind.”

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