

MARKETING COLLOQUIA

FALL 2015

Anna Tuchman

Stanford University

Thursday, November 5, 2015

Where: 741 JMHH

When: 12:00 PM to 1:20 PM

ADVERTISING AND DEMAND FOR ADDICTIVE GOODS: THE EFFECTS OF E-CIGARETTE ADVERTISING

ABSTRACT: Although TV advertising for traditional cigarettes has been banned since 1971, advertising for electronic cigarettes remains unregulated. The effects of e-cigarette ads have been heavily debated by policymakers and the media, though empirical analysis of the market has been limited. To analyze the question, I leverage access to county-level sales and advertising data on cigarettes and related tobacco products, along with detailed data on the consumption behavior of a panel of households. I exploit a discontinuity in advertising along television market borders to present descriptive evidence that suggests that e-cigarette advertising reduces aggregate demand for traditional cigarettes. Analyzing household purchase data, I find that individuals reduce their consumption of traditional cigarettes after buying e-cigarettes, further suggesting that the products are substitutes. I then specify a structural model of demand for cigarettes that incorporates addiction and allows for heterogeneity across households. The model enables me to leverage the information content of both datasets to identify variation in tastes across markets and the state dependence induced on choice by addiction. I show how the model can be estimated linking both datasets in a unified estimation procedure. Using the demand model estimates, I evaluate the impact of a proposed ban on e-cigarette television advertising. I find that in the absence of e-cigarette advertising, demand for traditional cigarettes would increase, suggesting that a ban on e-cigarette advertising may have unintended consequences.