

ABSTRACT

This research aims to determine the effect of socio-economic variables on cigarette demand and the value price elasticity of cigarette demand for youth in Indonesia. Socio-economic variables used in this study are the price of cigarettes, income, employment status, education, age, gender, marital status and location of residence. The subjects of the research were youths with an age range of 16 to 30 years. This study uses Indonesia Family Life Survey (IFLS-5) data with a total sample of 10,608 individuals.

The two-part model is used to analyze cigarette demand into two parts, namely the factors that influence the probability of youth to smoke are determined through probit regression, while the amount of cigarette consumption in youth is determined using Ordinary Least Square (OLS) regression. The results showed the price elasticity of youth cigarette demand in Indonesia of -0.11. An increase in cigarette prices by 10 percent will reduce the amount of cigarette consumption in youth by 1.1 percent.

Keyword: Cigarette demand; IFLS; two-part model; elasticity