

Abstract

This project focuses on modeling the optimal alcohol tax for the Czech Republic, based on microeconomic findings on consumer's behavior. After stating the key statistical facts on alcohol consumption in the Czech Republic, problems of abusive alcohol consumption are identified and an estimate of costs arising from its consumption is calculated. From these costs we identify that part, which is external to the alcohol abuser (e.g. which affects the other members of society). Using the methodology by Anderson and Baumberg (2006), together with macroeconomic data on local alcohol production, we estimate the net external costs of alcohol consumption. The next step focuses on theoretical modeling of optimal alcohol tax for various alcoholic beverages, using an analogy to a method developed by Pogue and Sgotz (1989) and Saffer and Chaplupka (1994). Analyzing several scenarios, we get an insight view to the problem and we state the requirements on empirical data necessary for numerical calculation of optimal tax. Therefore in the next part, we analyze microeconomic behavior of alcohol consumers in the Czech Republic and estimate demand elasticities using AIDS (Almost Ideal Demand System) estimate on data from Household Budget Statistics by Czech Statistical Office. Then, using the results of microeconomic analysis we compare tax induced reduction in external abuse costs to the dead weigh loss to the consumer's surplus. Taking various assumptions on "social optimality" and consumer behavior and given the elasticities of demand for alcohol, we will create various scenarios for modeling socially optimal taxation.