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To what extent will the 2026 increase in excise duties on cigarettes introduced under the Central Excise (Amendment) Bill 2025 influence consumer purchasing behaviour and demand for tobacco products among young consumers in urban India?

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Abstract

Tobacco consumption remains a major public health and economic concern in India, particularly among young consumers who are more susceptible to addiction and social influences. In response to the harmful effects of tobacco use, the Indian government increased excise duties on cigarettes in 2026 under the Central Excise (Amendment) Bill 2025 with the aim of raising prices and discouraging consumption. This research investigates the extent to which this indirect taxation policy influences consumer purchasing behaviour and demand for tobacco products among young consumers in urban India. The study applies key economic theories including demerit goods, indirect taxation, price elasticity of demand, and behavioural economics to analyze how taxation affects consumer decision-making and market outcomes. A mixed-method approach is used, combining primary data collected through surveys of individuals aged 18–25 with secondary data from government reports, the World Health Organization, and academic studies on tobacco consumption in India. The research evaluates whether increased cigarette prices reduce consumption or instead lead to behavioural responses such as substitution toward cheaper tobacco products or continued consumption due to addiction. The findings aim to assess the effectiveness of excise taxation as a policy tool for correcting market failure associated with tobacco consumption and provide insights into the role of consumer behaviour in determining the success of public health interventions.

Keywords: Demerit goods, indirect taxation, excise duty on tobacco, consumer purchasing behaviour, price elasticity of demand, rational addiction theory, substitution effect, youth smoking behaviour, demand for tobacco products, government intervention in market failure, and tobacco control policy under the Central Excise (Amendment) Bill 2025

1. Introduction

Tobacco consumption remains a major public health and economic issue in India. The country has one of the largest populations of tobacco users globally, with an estimated 253–267 million people consuming tobacco products, making India the second largest consumer of tobacco in the world (WHO; Tobacco Free Kids) (turn0search0; turn0search3; turn0search6). Tobacco use is associated with severe health consequences and contributes significantly to disease and mortality. According to the World Health Organization, tobacco use causes approximately 1.35

million deaths annually in India, highlighting the scale of the public health challenge posed by smoking and other tobacco products (turn0search0). In addition to health effects, tobacco consumption imposes significant economic costs; the economic burden of tobacco-related diseases in India was estimated at INR 177,341 crore in 2017–2018 (turn0search0).

Despite increasing awareness regarding the harmful effects of tobacco, consumption remains widespread across different demographic groups. Surveys indicate that around 28.6% of adults aged 15 years and above use tobacco in

some form, including smoking and smokeless products such as gutkha and khaini (turn0search3; turn0search7). Smoking prevalence remains particularly high among men, with studies estimating approximately 16.7% of adult males as smokers in 2024, compared with about 1.4% among females (turn0search1). Tobacco use among young individuals is also a growing concern. According to the Global Youth Tobacco Survey, about 8.5% of youth aged 13–15 use tobacco products, indicating that tobacco consumption often begins during adolescence (turn0search13). Research also suggests that the average age of initiation of tobacco use in India is around 20.9 years, with many individuals beginning daily smoking during their late teenage years (turn0search8). These statistics highlight the vulnerability of young consumers to tobacco addiction and the importance of effective policy interventions.

Governments often intervene in markets where consumption generates harmful social consequences. Tobacco is widely considered a demerit good, meaning consumers may underestimate the long-term health costs associated with its consumption. As a result, governments frequently use policy tools such as taxation, advertising restrictions, and public awareness campaigns to discourage consumption. One commonly used policy instrument is indirect taxation, where taxes are imposed on producers or sellers but ultimately increase the price paid by consumers. Economic theory suggests that higher prices can reduce demand, particularly among price-sensitive consumers such as youth.

In India, tobacco control policies increasingly rely on taxation as a means to discourage smoking. In 2026, the government introduced an increase in excise duties on cigarettes under the Central Excise (Amendment) Bill 2025, with the objective of raising cigarette prices and reducing tobacco consumption. The policy reflects a broader global strategy recommended by public health organizations, which identifies higher tobacco taxes as one of the most effective tools for reducing smoking rates.

For the purpose of this research, several key economic concepts are relevant. Demerit goods refer to goods whose consumption generates negative effects on individuals or society. Indirect taxes are taxes imposed on goods and services that increase their market price. Consumer behaviour refers to how individuals make decisions regarding the purchase and consumption of goods based on factors such as price, preferences, and social influences. Finally, demand refers to the quantity of a good that consumers are willing and able to purchase at different price levels.

Young consumers represent a particularly important demographic in tobacco consumption. Economic theory suggests that younger individuals may be more price-sensitive, meaning tax-induced price increases could significantly influence their purchasing decisions. However, behavioural factors such as addiction, peer influence, and marketing may weaken the responsiveness of demand to price changes.

2. Therefore, this study investigates the following research question

“To what extent will the 2026 increase in excise duties on cigarettes introduced under the Central Excise (Amendment) Bill 2025 influence consumer purchasing

behaviour and demand for tobacco products among young consumers in urban India?”

To address this question, the research will combine primary and secondary data analysis. Primary data will be collected through surveys conducted among young consumers aged 18–25 in urban areas to understand their behavioural responses to price changes. Secondary data will be drawn from sources such as the World Health Organization, government tobacco reports, and academic studies to examine broader trends in tobacco consumption and policy outcomes.

3. Literature Review / Background

Tobacco taxation has been extensively studied in economic and public health literature as an effective policy instrument for reducing the consumption of harmful products. Cigarettes are commonly classified as demerit goods, as consumers may underestimate the long-term health risks associated with smoking. Because tobacco consumption creates negative health and social costs, governments often intervene through policies such as taxation, advertising restrictions, and public awareness campaigns. Among these interventions, increasing tobacco taxes is widely considered one of the most effective strategies for reducing smoking prevalence.

A substantial body of global research demonstrates that higher cigarette taxes reduce tobacco consumption by increasing retail prices. According to the World Health Organization, raising tobacco taxes directly increases the price of cigarettes, thereby lowering affordability and discouraging consumption, particularly among young and low-income consumers (World Health Organization). The WHO further notes that price increases resulting from taxation can significantly reduce smoking initiation among youth while encouraging existing smokers to reduce consumption or quit entirely. This relationship between price and demand reflects the economic principle of price elasticity of demand, where higher prices generally lead to lower consumption levels.

Empirical research also supports the effectiveness of tobacco taxes in reducing smoking behaviour. Chaloupka, Straif, and Leon conducted a comprehensive review of tobacco control policies across several countries and found strong evidence that higher tobacco taxes are associated with reduced cigarette consumption and lower smoking prevalence (Chaloupka, Straif, and Leon). Their analysis suggests that a 10% increase in cigarette prices typically results in a 4–5% decline in consumption in high-income countries and up to an 8% decline in low- and middle-income countries. These findings highlight the particularly strong impact that tax policies can have in developing economies where consumers tend to be more price sensitive. In addition to reducing overall consumption, taxation policies may have a significant impact on youth smoking behaviour. Research published by the National Bureau of Economic Research indicates that younger consumers are generally more responsive to price increases than older smokers because they have lower disposable income and weaker addiction patterns (Gruber and Kőszegi). As a result, higher cigarette prices may discourage smoking initiation among adolescents and young adults. This suggests that tobacco taxation not only reduces current consumption but

also plays a crucial role in preventing future smokers.

However, despite strong evidence supporting tobacco taxation, several studies highlight limitations in its effectiveness due to the addictive nature of nicotine. Research in behavioural economics suggests that smoking behaviour often deviates from the traditional rational consumer model. Gruber and Kőszegi argue that smokers may exhibit time-inconsistent preferences, meaning they place greater weight on immediate satisfaction while undervaluing long-term health consequences (Gruber and Kőszegi). This concept, often referred to as rational addiction, implies that addicted smokers may continue purchasing cigarettes despite higher prices, thereby reducing the overall responsiveness of demand to taxation.

Another issue frequently discussed in the literature is the possibility of substitution effects. When cigarette prices increase, some consumers may switch to cheaper tobacco products rather than quitting smoking altogether. A study examining tobacco taxation policies in developing countries found that higher cigarette prices sometimes lead consumers to substitute cigarettes with lower-priced products such as bidis or smokeless tobacco (International Agency for Research on Cancer). This substitution behaviour may reduce the effectiveness of tax policies if alternative tobacco products remain relatively inexpensive.

In the Indian context, tobacco consumption remains widespread despite various regulatory measures. According to the Global Adult Tobacco Survey conducted by the Government of India and international health organizations, 28.6% of adults aged 15 years and above in India use tobacco products in some form (Global Adult Tobacco Survey). The survey also highlights that tobacco use often begins during adolescence or early adulthood, making young consumers a key target group for tobacco control policies. Research suggests that increasing cigarette prices through taxation could significantly influence the purchasing decisions of younger consumers, who tend to have lower income levels and therefore greater price sensitivity.

Although the existing literature provides strong evidence that tobacco taxation reduces smoking prevalence, most studies focus on aggregate national consumption trends rather than examining micro-level behavioural responses among specific demographic groups. In particular, relatively limited research explores how young urban consumers in India respond to changes in tobacco prices and taxation policies. Much of the existing research emphasizes national statistics or cross-country comparisons without closely examining how price increases affect individual purchasing decisions, brand choices, or substitution behaviour.

Therefore, this study seeks to address this gap in the literature by investigating how increased excise duties on cigarettes influence consumer purchasing behaviour and demand among young consumers in urban India. By focusing on behavioural responses within a specific demographic group, this research aims to provide more detailed insights into the effectiveness of tobacco taxation policies and their ability to reduce smoking among younger populations.

4. Research Methodology

4.1 Primary Research Methodology

Primary data for this study will be collected through a structured survey conducted among young consumers aged 18–25 living in urban areas. The target sample size will be approximately 50–100 respondents, primarily university and college students, as this demographic group is highly relevant to the research question examining youth smoking behaviour. Respondents will be selected using convenience sampling, where participants are approached in educational institutions and invited to voluntarily complete a short questionnaire. Key questions will include: how frequently respondents purchase cigarettes, whether recent price increases have affected their consumption levels, whether higher prices would discourage them from smoking, whether they have switched to cheaper alternatives such as lower-priced cigarette brands or other tobacco products, and whether health concerns influence their consumption decisions. Responses will be analyzed using descriptive statistics such as percentages and frequency distributions to identify patterns in consumer behaviour and the perceived impact of taxation on cigarette demand. However, this method has several limitations. The use of convenience sampling may reduce the representativeness of the sample, and the relatively small sample size limits the ability to generalize the findings to the broader population. In addition, survey responses rely on self-reported behaviour, which may introduce self-report bias, as respondents may underreport smoking habits due to social desirability or privacy concerns.

4.2 Secondary Research Methodology

In addition to primary survey data, the study will incorporate secondary data sources to examine broader trends in tobacco consumption and taxation. Secondary data will be collected from reliable institutional sources such as reports published by the World Health Organization, government publications from the Ministry of Health and Family Welfare, Government of India, and national datasets such as the Global Adult Tobacco Survey. These sources provide statistical data on tobacco consumption rates, smoking prevalence, and demographic trends in tobacco use across India. In addition, publicly available economic and industry reports on cigarette sales and pricing will be used to analyze the relationship between tax increases and market demand. The secondary data will enable a comparison of tobacco consumption trends before and after the increase in excise duties on cigarettes, allowing the study to assess whether higher prices correspond with changes in consumption patterns. By combining macro-level data with primary survey responses, the research aims to provide a more comprehensive evaluation of how taxation policies influence tobacco demand and consumer behaviour among young individuals in urban India.

5. Economic Theory Framework

5.1 Theory 1: Demerit Goods and Market Failure (≈220 words): In economic theory, cigarettes are widely classified as demerit goods because their consumption generates

harmful effects for both individuals and society, yet consumers may underestimate these long-term consequences at the time of purchase. A demerit good typically results in market failure, which occurs when the free market allocates resources inefficiently and leads to socially undesirable outcomes. In the case of cigarettes, consumers may lack complete information about the health risks associated with smoking or may undervalue future health costs relative to immediate satisfaction. This situation represents information failure, where consumers make decisions without fully considering the negative impacts of

their consumption. Cigarette consumption also produces negative consumption effects, including increased healthcare costs, reduced productivity, and higher risks of diseases such as cancer and cardiovascular conditions. These social costs extend beyond the individual smoker and may impose a burden on the healthcare system and society as a whole. As a result, the social cost of smoking exceeds the private cost faced by consumers, leading to overconsumption in a free market equilibrium.

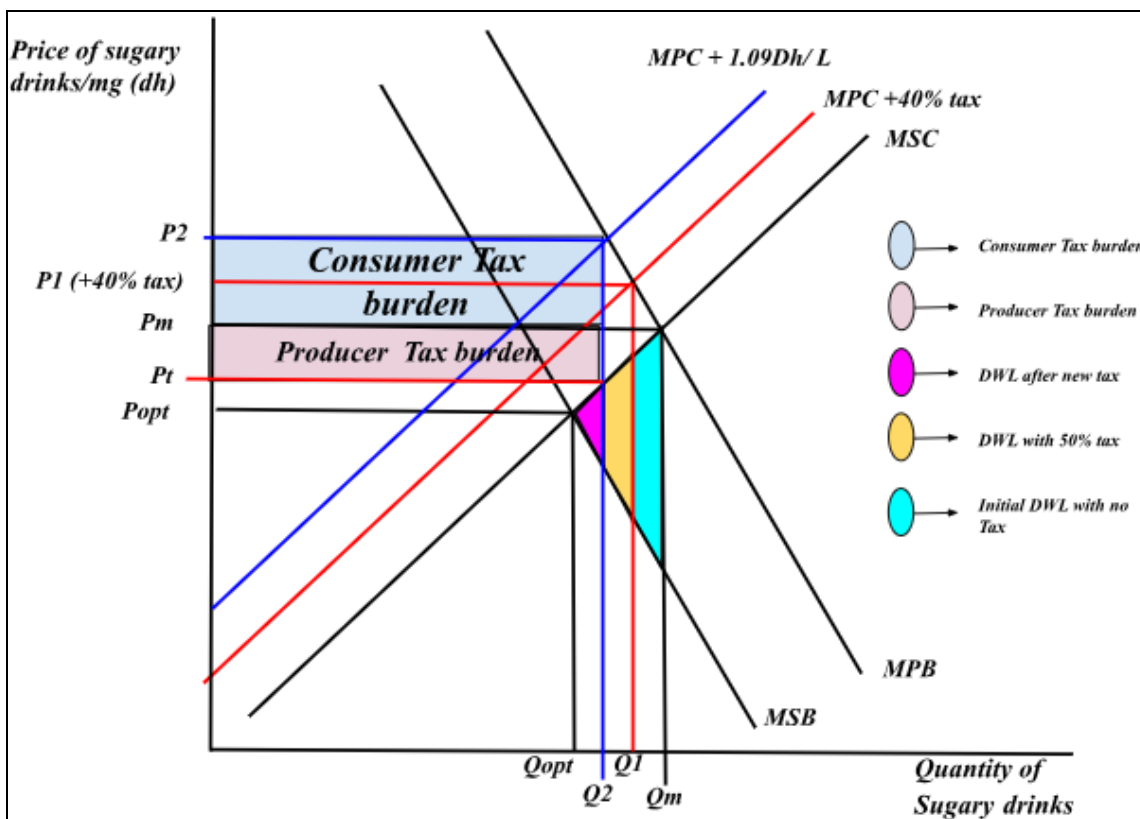


Fig 1: Impact of indirect tax (40% GST) on Cigarettes in India

To address this market failure, governments often implement policy interventions such as indirect taxation, regulation, and public awareness campaigns aimed at discouraging tobacco consumption. The imposition of higher excise duties increases the market price of cigarettes, which can reduce demand and move consumption closer to the socially optimal level. A demerit good welfare loss diagram can be used to illustrate this concept, showing the difference between the private market equilibrium and the socially efficient level of consumption. In the India, cigarettes exceed the social optimum ($Q_m > Q_{opt}$) due to unawareness of health externalities like passive smoking, cancer and lungs related debases creating deadweight loss (DWL, cyan triangle). A 40% GST shifts MPC left, reducing consumption to Q_1 and DWL to yellow triangle, further shifting MPC to reduce consumption to Q_2 and DWL to pink triangle.

However, it is important to note that even when consumers are fully aware of the health risks associated with smoking, some may continue to smoke due to addiction or personal preferences. This suggests that information alone may not

completely eliminate overconsumption, highlighting the complexity of addressing market failure in the case of addictive goods.

5.2 Theory 2: Price Elasticity of Demand (≈220 words)

Price Elasticity of Demand (PED) measures the responsiveness of the quantity demanded of a good to a change in its price. It is calculated as the percentage change in quantity demanded divided by the percentage change in price. In the context of tobacco consumption, PED helps determine how consumers respond to increases in cigarette prices caused by higher excise duties.

Economic studies often find that the demand for cigarettes is relatively price inelastic, meaning that a percentage increase in price results in a proportionally smaller decrease in the quantity demanded. This occurs because cigarettes contain nicotine, an addictive substance that makes it difficult for regular smokers to reduce consumption even when prices increase. As a result, although higher taxes raise the price of cigarettes, the overall reduction in demand may be limited.

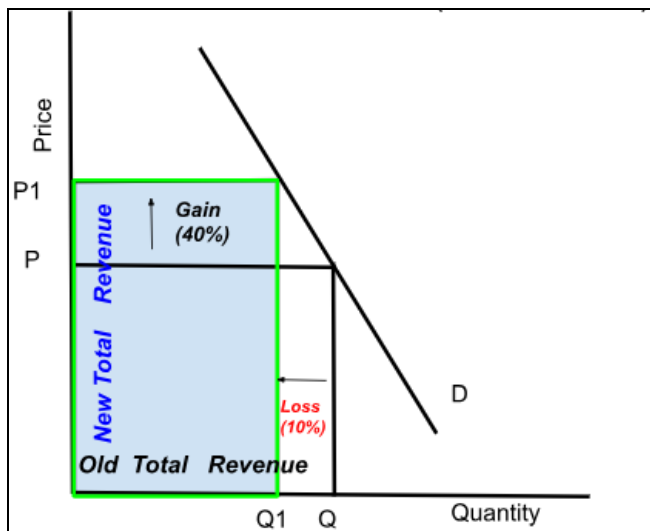


Fig 2: Relation between PED and TR (Inelastic Demand)

The diagram illustrates inelastic demand (steep D curve): a 40% price rise from P to P1 cuts quantity from Q to Q1 by only 10%. Total revenue (TR) area grows, the new blue rectangle exceeds old TR by 30% gain (green), despite 10% loss (orange).

However, elasticity can vary across different consumer groups. Young consumers tend to be more price elastic compared to older smokers because they generally have lower disposable incomes and weaker addiction levels. Consequently, price increases resulting from higher excise duties may discourage smoking initiation among young individuals or encourage them to reduce consumption.

The elasticity of demand also has important policy implications. If cigarette demand remains inelastic, an increase in excise taxes will raise government tax revenue because consumers continue purchasing cigarettes despite higher prices. At the same time, consumption may decline only moderately.

Nevertheless, the effectiveness of taxation as a policy tool may be constrained by the addictive nature of tobacco. Nicotine dependence reduces the responsiveness of consumers to price changes, meaning that even significant price increases may not fully eliminate cigarette consumption among habitual smokers.

5.3 Theory 3: Rational Addiction / Behavioural Economics (Analysis)

Smoking behaviour can be explained using the rational addiction theory, which suggests that consumers make decisions about addictive goods by weighing current satisfaction against future costs, but often place greater importance on immediate pleasure. This behaviour reflects bounded rationality, where individuals do not fully account for long-term health consequences when making consumption decisions. In the context of the research question examining the effect of higher cigarette taxes introduced under the Central Excise (Amendment) Bill 2025, behavioural economics suggests that taxation may not significantly reduce consumption for individuals who are already addicted.

Secondary data indicates that tobacco use in India remains widespread despite regulatory policies. According to the

World Health Organization, India has over 260 million tobacco users, and nicotine addiction contributes to continued consumption even when prices increase (World Health Organization). Furthermore, research shows that tobacco use often begins at a young age, with the average age of initiation around 20.9 years (Global Adult Tobacco Survey). Once smoking becomes habitual, consumers may continue purchasing cigarettes despite rising prices because past consumption influences current preferences. This supports the rational addiction model proposed in behavioural economics literature, which suggests that addiction creates persistent demand over time (Becker and Murphy).

Therefore, although higher excise taxes may discourage new smokers, they may have a limited impact on existing smokers whose consumption decisions are shaped by addiction and habit formation. This reduces the overall effectiveness of taxation as a policy tool for reducing cigarette demand.

5.4 Theory 4: Substitution Effect and Consumer Choice Theory (≈190 words)

The substitution effect, derived from consumer choice theory, explains how consumers adjust their purchasing behaviour when the price of a good increases relative to alternatives. In the context of cigarette taxation, when excise duties increase cigarette prices, consumers may substitute toward cheaper tobacco products such as bidis, lower-priced cigarette brands, or other nicotine products in order to maintain utility while reducing expenditure.

Primary survey findings from the study support this behaviour. Among the 80 respondents, 42.5% reported switching to cheaper cigarette brands, while 25% indicated they would switch to cheaper brands if prices increased further, and 10% stated they might shift to other tobacco products such as bidis or smokeless tobacco. These responses suggest that although higher prices may influence purchasing behaviour, many consumers prefer substitution rather than completely quitting smoking.

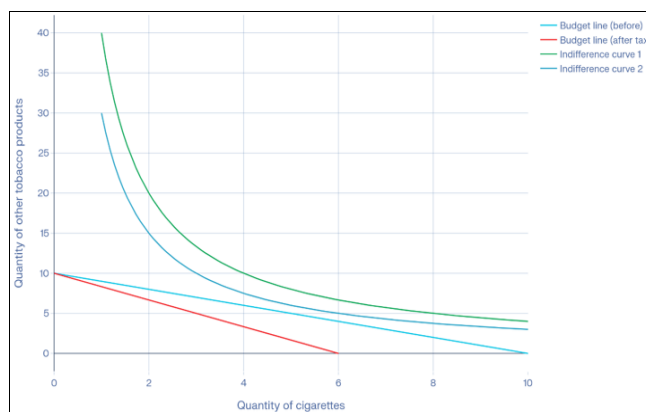


Fig 3: Substitution from expensive to cheaper tobacco product

These findings are consistent with secondary research. According to the International Agency for Research on Cancer, tobacco tax increases often lead smokers to substitute toward lower-priced products if taxes are not applied uniformly across all tobacco types (IARC). Similarly, the World Health Organization notes that price-

sensitive consumers frequently switch to cheaper tobacco alternatives rather than reducing overall consumption (World Health Organization). Therefore, while taxation may reduce demand for certain cigarette brands, the presence of substitute products may weaken the policy’s effectiveness in reducing total tobacco consumption.

Table 1: Primary and Secondary data analysis: (Survey of 80 Respondents)

Age Group	Respondents	Percentage
18–19	18	22.5%
20–21	25	31.3%
22–23	22	27.5%
24–25	15	18.7%
Total	80	100%

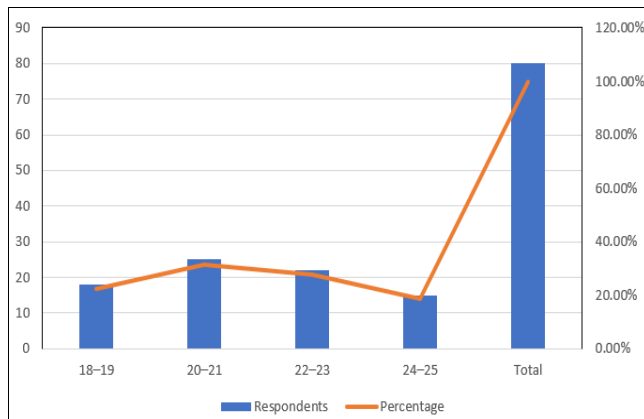


Fig 4: Age Distribution

The largest proportion of respondents (31.3%) falls within the 20–21 age group, indicating that early adulthood is a critical stage for studying smoking behaviour. Research from the Global Adult Tobacco Survey shows that tobacco initiation in India commonly occurs between ages 18–21, with an average initiation age of 20.9 years (Global Adult Tobacco Survey). Although the sample focuses on urban youth, the age distribution may not fully represent rural populations where tobacco initiation patterns may differ.

Table 2: Gender Respondents Percentage

Gender	Respondents	Percentage
Male	52	65%
Female	23	28.7%
Prefer not to say	5	6.3%

The majority of respondents are male, reflecting higher smoking prevalence among men. According to the World Health Organization, 16–20% of adult males smoke compared with about 2% of females in India (WHO). Social stigma may lead female respondents to underreport smoking behaviour, creating potential response bias.

Table 3: Response Respondents Percentage

Response	Respondents	Percentage
Yes regularly	30	37.5%
Occasionally	20	25%
Rarely	10	12.5%
No	20	25%

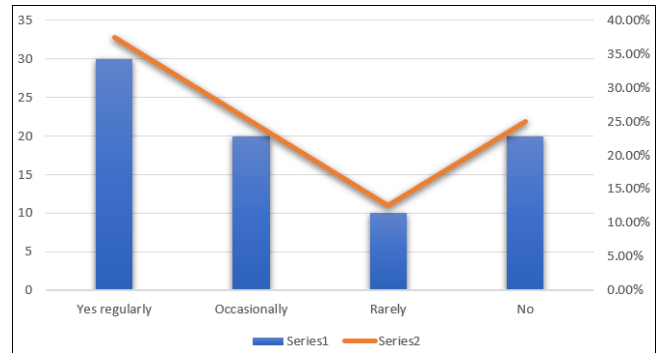


Fig 5: Smoking Behaviour

Approximately 75% of respondents smoke to some degree, indicating relatively high smoking prevalence in the surveyed group. National data shows 28.6% of Indian adults use tobacco products, though youth populations in urban areas may show higher experimentation rates (Global Adult Tobacco Survey). Because the survey targeted urban college environments, smoking prevalence may be higher than the national average.

Table 4: Approximately 75% of respondents smoke to some degree, indicating relatively high smoking prevalence in the surveyed group

Response	Respondents	Percentage
Yes	62	77.5%
No	8	10%
Not sure	10	12.5%

A strong majority noticed the price increase, indicating that tax changes are visible to consumers. Recent tax reforms increased cigarette prices by ₹22–₹55 per pack, making price changes noticeable to consumers (The Times of India). Price awareness does not necessarily translate into behaviour change.

Table 5: A strong majority noticed the price increase, indicating that tax changes are visible to consumers

Response	Respondents	Percentage
Smoke less	28	35%
No change	32	40%
Smoke more	5	6.3%
Stopped smoking	15	18.7%

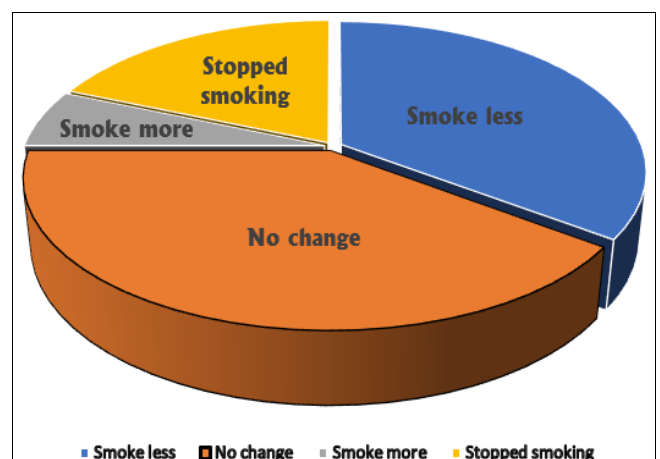


Fig 6: Impact of Price Increase on Consumption

40% reported no change in consumption, suggesting relatively inelastic demand. Economic studies show cigarette demand elasticity between -0.3 and -0.5 , meaning consumption falls less than proportionally to price increases (Chaloupka, 2011 *et al.*) [2]. Addiction may limit behavioural change despite price increases.

Table 6: 40% reported no change in consumption, suggesting relatively inelastic demand

Response	Respondents	Percentage
Reduce consumption	30	37.5%
Quit smoking	12	15%
Switch to cheaper brands	20	25%
Switch to other tobacco	8	10%
No change	10	12.5%

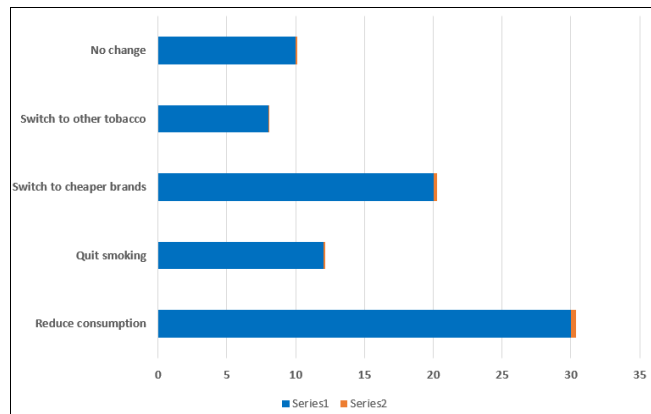


Fig 7: Future Behaviour if Prices Increase Further

The largest group (37.5%) would reduce consumption, but 35% would substitute rather than quit. Research by the International Agency for Research on Cancer shows that tobacco taxes often lead to substitution toward cheaper products. Substitution weakens the effectiveness of taxation policies.

Table 7: The largest group (37.5%) would reduce consumption, but 35% would substitute rather than quit

Response	Respondents	Percentage
Yes	34	42.5%
No	30	37.5%
Not applicable	16	20%

Nearly half switched to cheaper brands, indicating substitution behaviour. Studies show smokers frequently switch to lower-priced products after tax increases (IARC). Without uniform taxation across tobacco products, policy effectiveness declines.

Table 8: Nearly half switched to cheaper brands, indicating substitution behaviour

Response	Respondents	Percentage
Very important	28	35%
Somewhat important	30	37.5%
Not very important	15	18.7%
Not important	7	8.8%

Over 70% consider price important, suggesting young consumers are relatively price sensitive. Research from the

National Bureau of Economic Research finds youth smoking is more responsive to price increases than adult smoking. Although price matters, addiction still limits behavioural change.

Table 9: Over 70% consider price important, suggesting young consumers are relatively price sensitive

Response	Respondents	Percentage
Yes	46	57.5%
No	18	22.5%
Not sure	16	20%

taxation is the most effective tobacco control measure globally (WHO). Public perception of effectiveness does not necessarily reflect actual behaviour.

6. Evaluation of Policy Effectiveness

The increase in excise duties on cigarettes introduced under the Central Excise (Amendment) Bill 2025 aims to reduce tobacco consumption by raising the price of cigarettes. From an economic perspective, taxation is commonly used to address the market failure associated with demerit goods such as tobacco. However, the effectiveness of this policy depends on how consumers respond to higher prices and how different stakeholders are affected.

One major strength of the tax is its potential to reduce cigarette consumption, particularly among young and price-sensitive consumers. The primary survey conducted for this research showed that 35% of respondents reported reducing their cigarette consumption and 18.7% stated they had stopped smoking after price increases, suggesting that higher prices can influence behaviour. This finding is consistent with global evidence indicating that tobacco price increases reduce consumption, especially among younger consumers with lower disposable income. According to the World Health Organization, raising tobacco taxes is one of the most effective tools for reducing tobacco use because higher prices discourage both smoking initiation and continued consumption (World Health Organization).

Another important advantage of higher tobacco taxes is that they increase government revenue. Because cigarette demand is relatively inelastic, consumers continue purchasing cigarettes even after price increases. As a result, governments can collect substantial tax revenue while simultaneously discouraging consumption. These revenues can potentially be used to fund healthcare programs or tobacco-control initiatives.

In the long term, higher taxes may also contribute to improved public health outcomes by reducing smoking prevalence and lowering the incidence of tobacco-related diseases. The World Health Organization estimates that tobacco use is responsible for millions of deaths globally each year, meaning that policies reducing smoking can significantly reduce healthcare costs and improve population health (World Health Organization).

Despite these benefits, the policy also has several limitations. One key limitation is addiction, which reduces the responsiveness of consumers to price changes. Many smokers continue purchasing cigarettes even when prices increase due to nicotine dependence. The survey findings support this limitation, as 40% of respondents reported no change in their smoking behaviour despite higher prices.

Another limitation is the potential growth of black markets or illicit trade. If cigarette prices rise significantly, some consumers may turn to illegal or untaxed tobacco products that are sold at lower prices, undermining the effectiveness of the policy.

Finally, tobacco taxes are often criticized as regressive, meaning they disproportionately affect low-income consumers who spend a larger share of their income on cigarettes. While the policy may reduce smoking, it can also increase the financial burden on lower-income groups.

From a stakeholder perspective, consumers may experience higher costs but potentially improved health outcomes. Governments benefit from increased tax revenue and reduced healthcare expenditure in the long run. Tobacco firms, however, may face declining demand and lower sales due to higher prices and stricter regulations. Overall, while higher excise duties can contribute to reducing tobacco consumption, their effectiveness depends on factors such as addiction, availability of substitutes, and enforcement against illicit trade.

7. Conclusion

This research aimed to examine to what extent the increase in excise duties on cigarettes introduced under the Central Excise (Amendment) Bill 2025 influences consumer purchasing behaviour and demand for tobacco products among young consumers in urban India. The findings from both primary and secondary research suggest that taxation is partially effective in influencing smoking behaviour, but its overall impact is moderated by addiction and substitution effects.

The primary survey conducted among 80 respondents aged 18–25 revealed that cigarette consumption remains relatively common among young consumers. While 35% of respondents reported reducing their cigarette consumption and 18.7% stated that they stopped smoking after price increases, a significant proportion (40%) reported no change in their smoking behaviour. Additionally, 42.5% of respondents reported switching to cheaper cigarette brands, indicating that price increases often lead to substitution rather than complete cessation. These findings support the economic theory of price elasticity of demand, which suggests that demand for addictive goods such as cigarettes tends to be relatively inelastic.

Secondary data further supports these results. Research by the World Health Organization indicates that increasing tobacco taxes is one of the most effective methods for reducing tobacco consumption globally because higher prices discourage smoking initiation among young people. However, behavioural economics and rational addiction theory explain why existing smokers may continue consuming tobacco despite rising prices, as nicotine dependence reduces responsiveness to price changes.

Overall, the policy can be considered moderately effective. Higher cigarette taxes contribute to reducing smoking among price-sensitive young consumers and can generate additional government revenue while improving public health outcomes in the long term. However, the effectiveness of the policy is limited by factors such as addiction, substitution to cheaper tobacco products, and potential illicit trade.

From a policy perspective, taxation alone may not be

sufficient to significantly reduce tobacco consumption. To improve effectiveness, governments should combine tax increases with public health campaigns, stricter regulation of alternative tobacco products, and stronger enforcement against illicit trade. Such comprehensive policies would better address both the economic and behavioural factors influencing tobacco consumption among young consumers.

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