

# Report on Rigorous Thesis

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<b>Title of the thesis:</b>	Optimal Tax Modeling – The Case of Alcohol

## **OVERALL ASSESSMENT** (provided in English, Czech, or Slovak):

This Rigorous thesis is a truly scholarly piece of work. It sets up three highly ambitious goals: (i) to calculate external costs of alcohol consumption in CZ, (ii) estimate AIDS-demand system with alcohol demand elasticities, and finally (iii) derive the optimal Pigouvian tax of particular alcoholic beverages based on a general multiple-good model. The thesis definitely satisfies conditions for an excellent thesis, hence I unambiguously **recommend A**.

My major concern relates to the lack of data on how the individual level of drinking relates to the external cost. This is relevant since we may expect a very large non-linearity btw individual drinking and external costs (e.g., you note that alcohol content exponentially increases the car accident rate). Therefore, total consumption is not indicative of costs; what really matters is excessive drinking. From the point of elimination of the cost, we need to know precisely how the tax impacts high, not average amounts of alcohol.

On p.70, you claim: "As discussed above, it is not possible to distinguish abusers and non-abusers from the rest of population in BHS." This is probably too defensive, and given sophistication of the other parts of the analysis, it makes it arguably the weakest link of the analysis. Perhaps you may select only households with large drinking and check for elasticities in this subsample (then, you may separately check for elasticities for non-abusers, and calculate their DWL). This problem cannot be solved by arbitrarily assigning half-elasticity to the abusers; first, you need something more precise, and secondly, there is magnitude effect: it is probably just a portion of total consumption that is actually responsible for costs. The beverage-type idea (using detention centres) is helpful, but it constitutes a very indirect way of identifying abusers. Notice how sensitive your results are to this; considering the beverage-type differences (by comparing Cases 1 and 2) accounts for extra 50% in tax for beer (or 35 % under modified elasticity, by comparing Cases 3 and 4). This is by far too much.

Also, conventional welfare approach for alcohol, especially excessive drinking, is currently largely debatable (e.g., see temptation and self-control in Gul, Pesendorfer 2001, Econometrica). I think some reflection of behavioral welfare economics is necessary in this context.

## **SUMMARY OF POINTS AWARDED** (for details, see below):

<b>CATEGORY</b>	<b>POINTS</b>
Literature (max. 20 points)	20
Methods (max. 30 points)	30
Contribution (max. 30 points)	25
Manuscript Form (max. 20 points)	19
<b>TOTAL POINTS</b> (max. 100 points)	<b>94</b>
<b>GRADE</b> (1 – 2 – 3 – 4)	<b>1</b>

**NAME OF THE REFEREE:** Martin Gregor

**DATE OF EVALUATION:** September 21, 2009



Referee Signature