



The Economics of Drinking: Evidence From UW-Eau Claire

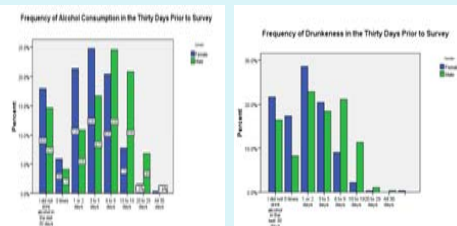
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By administering our survey to the UW – Eau Claire student body, we were able to track price sensitivities for different types and quantities of alcoholic beverages. Also, our regression analysis indicates that variables such as a student's gender, perceived academic importance, and organizational involvement have significant impact on a student's drinking habits. Further regression analysis indicates that parental lifestyle choices also have a significant impact.

Objective

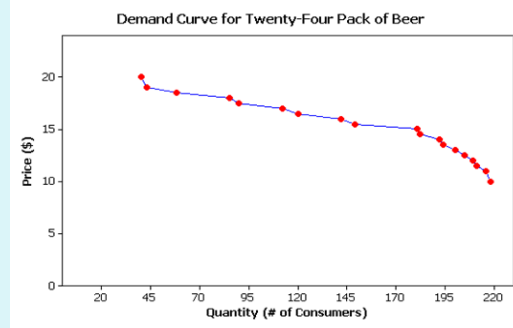
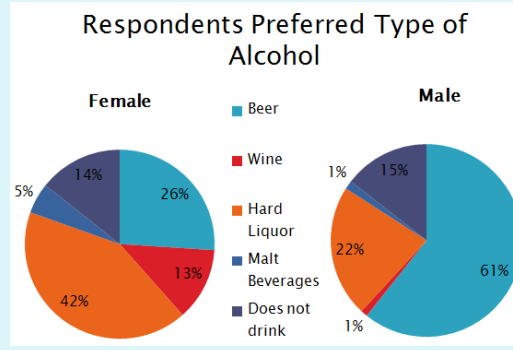
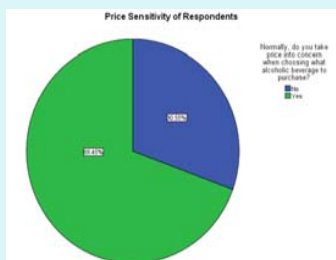
The aim of this project is to find evidence of causes and impact of underage drinking, by administering a questionnaire survey of lifestyle habits amongst students at UWEC. The research project explores the following questions: (1) Incidence and consumption levels of alcohol, (2) Price elasticity of demand for alcohol (i.e. the sensitivity of consumption to price) and its policy implication, (3) Impact of campus atmosphere and parental background and (4) brand loyalty.

This study is unique because: *First*, by including campus atmosphere and parental background, we will add a new dimension in understanding the reasons for high incidence of underage alcohol consumption in Wisconsin as a state. *Second*, we are also adding policy implications to existing studies by tracking price sensitivity.

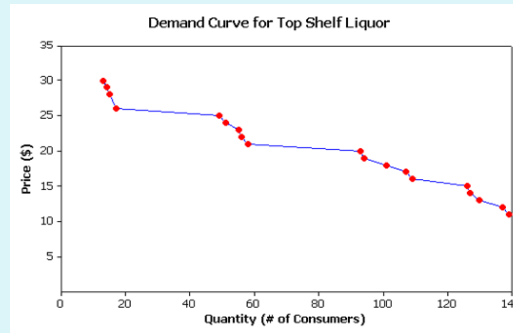


Reasons that Respondents Drink (Percentage):

- Allows people to have more fun, 63%
- Facilitates a connection with peers, 62.4%
- Breaks the ice, 59.2%
- Makes it easier to deal with stress, 43%
- Gives people something to talk about, 42.9%
- Facilitates male bonding, 38%
- Facilitates sexual experiences, 24.7%



For every 1% increase in price of beer, the quantity demanded reduces by 2.06%



For every 1% increase in price of top shelf liquor, the quantity demanded reduces by 2.96%

Policy Implications of Estimated Price Elasticity:

- Students would be least affected by a price change in 24 packs of beer, whereas student response would be greatest by a price change in top shelf liquor.
- By implementing a sales tax increase of 10%, college students' quantity demand of top shelf liquor would decrease by almost 30%
- In 2007, 70,200 24 packs beer were consumed in Wisconsin. According to our findings, if a sales tax of 10% was implemented, consumption would be discouraged by 14,460 packs. This represents a reduction in quantity demanded by about 20%.

Regression Analysis

n = 620

Dependent Variable: Frequency of drinking in the 30 days prior to survey

Explanatory variables: Student characteristics, parental characteristics

Variables that have the most significant impact on drinking frequency (t-statistic):

Significant Student Variables:

- Gender (3.189)
- Sophomore (-2.169)
- Perceived Academic Importance:
 - Mildly important (-2.627)
 - Important (-2.566)
 - Very important (-2.723)
- Off campus residency, with peers
 - Unrelated to organization (4.129)
 - Related to organization (2.281)

Organization affiliation

- Business organizations (2.843)
- Religious and interfaith organizations (-1.927)

Significant Parental Variables:

- Father drank 3-5 times (2.928)
- Mother drank 30 times (-2.203)
- Father drunk 1-2 times (3.621)
- Mother drank 6-9 times (2.099)
- Mother drank 20-29 times (2.517)

Main Conclusions

- Some evidence that parents' lifestyle choice significantly increases the drinking frequency of students
- Parental education or income has no significant impact
- Male students are significantly more likely to drink than female students
- Students of higher academic classification are less likely to drink, though this is not always significant
- Higher perceived importance of academic performance reduces the frequency of drinking significantly, but this significance is lost when parental characteristics are included
- Residing off campus with related or unrelated peers significantly increases drinking frequency
- Membership of business organization significantly increases the frequency, while membership of religious and interfaith organizations significantly reduces the frequency