

# The Effect of Label Informativeness on Price Sensitivity in the Cigarettes Market

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## Abstract

Cigarettes are sold in different strengths, commonly categorized as regular, light, or ultralight. In 2009, Congress passed Tobacco Control Act (TCA) which banned tobacco companies from communicating product strengths to consumers on any marketing or packaging materials. Cigarette companies continue to sell products of different strengths by using less informative color codes, i.e., relabeling Marlboro Light to Marlboro Gold or Camel Light to Camel Blue. Different brands do not use the exact same color codes, creating room for confusion. This paper investigates the effect of such change in label informativeness on consumer choices. Using a panel of smokers from 2007 to 2012, I find a sharp decline in price elasticity after the passage of TCA. This observation is robust to specifications that account for potential changes in consumer heterogeneity, state dependence, price endogeneity, or limited attention/consideration sets. These results suggest that consumers perceive the products as more differentiated after the cigarettes labels changed from strengths to color codes. This paper provides new evidence on the linkage between product labeling and consumer choice.

**Keywords:** informational differentiation, search cost, consideration, packaging.

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