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Measuring Demand for Illegal Drugs: Do Prices Matter?

Katie Hampson, '02
Illinois Wesleyan University

Robert Leekley, Faculty Advisor
Illinois Wesleyan University

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Oral Presentation O4.4

MEASURING DEMAND FOR ILLEGAL DRUGS: DO PRICES MATTER?

Katie Hampson and Robert Leekley*
Department of Economics, Illinois Wesleyan University

Despite Government efforts to control the proliferation of illicit drugs in this country, illegal drugs continue to burden both our society and economy. In 1998 alone, Americans spent \$11 billion on marijuana, \$39 billion on cocaine, and \$2.3 billion on heroin and other substances. In addition, billions of dollars are spent annually on incarceration, prevention, and rehabilitation for addicts and other drug users.

What causes people to use illegal drugs? How do the prices of drugs affect consumers' demand for them? This study addresses these questions by developing models to predict the elasticity of demand for marijuana, cocaine, and heroin. Separate double-log regressions are run for each of the types of drugs in order to test for differences in the patterns of demand among each of the drugs. In addition to looking at how prices affect demand for the drugs, the model also includes economic, demographic, and background variables that are used to see whether the same groups of individuals use all three types of drugs.