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# Gasoline Price Changes And The Petroleum Industry An Update

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Dynamic Fuel Price Pass-Through

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Effects of Gasoline Prices on Driving Behavior and Vehicle Markets

Price Changes in the Gasoline Market

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Gasoline Price Changes and the Petroleum Industry

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## **RAMOS ADRIENNE**

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### **Gasoline Price Changes** DIANE Publishing

This paper sheds new light on the asymmetric short-run dynamics of US gasoline prices. The model is inspired by Pindyck's inventory model of commodity price dynamics, that stresses the importance of volatility in crude oil markets for short-run market dynamics. We show that after February 1999 asymmetry in gasoline price dynamics is caused by changes in the net marginal

convenience yield: higher costs of marketing and storage lead to rising gasoline prices, whereas a drop in these costs hardly affects gasoline prices.

Dynamic Fuel Price Pass-Through Gasoline price changes the dynamic of supply, demand, and competition. Gasoline prices and driving behavior. Volume of traffic ; Speed of traffic ; Applicability of findings to other regions of the United States -- Gasoline prices and vehicle markets. Market shares for cars and light trucks ; Gasoline prices and vehicle market status ; Changes in new vehicle fuel economy and pricing ; Changes in the used vehicle market -- Study data -- Analytical approach and

economic results.

Gasoline Price Changes Cuvillier Verlag

This paper investigates the response of consumer price inflation to changes in domestic fuel prices, looking at the different categories of the overall consumer price index (CPI). We then combine household survey data with the CPI components to construct a CPI index for the poorest and richest income quintiles with the view to assess the distributional impact of the pass-through. To undertake this analysis, the paper provides an update to the Global Monthly Retail Fuel Price Database, expanding the product coverage to premium and regular fuels, the time dimension to December 2020, and the sample to 190 countries. Three key findings stand out. First, the response of inflation to gasoline price shocks is smaller, but more persistent and broad-based in developing economies than in advanced economies. Second, we show that past studies using crude oil prices instead of retail fuel prices to estimate the pass-through to inflation significantly underestimate it. Third, while the purchasing power of all households declines as fuel prices increase, the distributional impact is progressive. But the progressivity phases out within 6 months after the shock in advanced economies, whereas it persists beyond a year in developing countries.

Effects of Gasoline Prices on Driving Behavior and Vehicle Markets DIANE Publishing

The dissertation consists of three empirical studies and takes a closer look at price fluctuations using German gasoline prices as an example for a homogenous good. It analyzes consumers' reaction to price fluctuations and respectively the pricing

behavior of firms. The first paper, which was developed with co-authorship, explores consumers' online price search effects on the pricing behavior of firms (gasoline price level and price dispersion). As regulators have recently implemented a mechanism for reporting all price changes to a central data base, the core assumption of this price reporting scheme is that the increase in price transparency will lead to a decline in the price level and a reduction in price dispersion. The second study addresses the question whether German gas stations adjust their retail prices asymmetrically in response to crude oil price changes, i.e., whether gas stations react quicker to crude oil price increases than to crude oil price decreases. The third study aims to analyze whether consumers react more strongly to gasoline price increases or to price decreases when considering buying a new vehicle.

**Price Changes in the Gasoline Market** International Monetary Fund

Discusses how Connecticut's gasoline prices compared to those in the region and in the rest of the country during the spring and summer of 1998.

*The Responsiveness of Fuel Demand To Gasoline Price in Passenger Transport* Government Printing Office

Gasoline price changes the dynamic of supply, demand, and competition. DIANE Publishing  
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Gasoline Price Changes Gasoline Price Changes and the Petroleum Industry The Distributional Implications of the Impact of Fuel Price Increases on Inflation International Monetary Fund

Pain at the pump : the differential effect of gasoline prices on new

#### and used automobile markets DIANE Publishing

The present paper investigates whether Greek gasoline prices respond symmetrically to changes in international oil prices. The study uses all available observations and applies the TAR (Threshold Auto-Regressive) methodology, which is considered to be the most reliable econometric technique based on statistical criteria. The adjustment of domestic retail gasoline prices to international oil price changes turns out to be asymmetric. This finding shows that the suppliers of gasoline tend to reduce their retail prices slowly when international oil prices fall, but increase them faster when international oil prices rise. The above result indicates lack of competitive conditions in the market under consideration.

#### Energy Prices DIANE Publishing

As major energy legislation moved to conference, the high price of gasoline remained a major consideration. The legislative proposals of past Congresses have contained numerous provisions that would affect gasoline supply and demand. This is true also of the Energy Policy Act of 2005, H.R. 6, both the version passed by the House April 21, and the Senate bill, passed June 28. A large number of factors combined to put pressure on gasoline prices, including increased world demand for crude oil and US refinery capacity inadequate to supply gasoline to a recovering national economy. The war and continued violence in Iraq added uncertainty and a threat of supply disruption that added pressure particularly to the commodity futures markets. Numerous provisions in legislative proposals in the 108th Congress addressed perceived problems in the oil and gasoline markets. A comprehensive energy policy bill was reported out of

conference and approved by the House, but several issues kept the bill from passing the Senate. Among the most controversial were provisions regarding the use of ethanol and the additive methyl tertiary butyl ether (MTBE) in motor fuel, proposals to open up part of the Arctic National Wildlife Refuge (ANWR) to oil and gas development, measures concerning corporate average fuel economy (CAFE) standards, and proposals to aid construction of new refineries and to harmonise state "boutique fuels" standards. In the 109th Congress, the House passed a comprehensive bill, H.R. 6, with many of the same provisions of the bill considered in the previous Congress. As before, MTBE and ANWR, included in the House-passed bill, remain controversial. The House bill added another controversial provision, giving the Federal Energy Regulatory Commission (FERC) overriding authority over state entities in licensing terminals to receive and process liquefied natural gas. In the Senate version of H.R. 6, the MTBE safe harbour provision has been omitted. The Senate bill contains a provision, not in the House-passed version, directing the President to take measures to reduce total demand for petroleum by one million barrels per day (mbd) by 2015. An amendment by Senator Cantwell, which would have set the goal of reducing petroleum imports by 40% by 2025, was defeated on the floor by a vote of 47-53. The gasoline price surge heightened discussion of energy policy, but the urgency of previous energy crises has been lacking. In part this may be due to the fact that there has been no physical shortage of gasoline, and no lines at the pump. In addition, the expectation of former crises, that prices were destined to grow ever higher, has not been prevalent. However, the persistence of high gasoline and oil prices into a

second summer has raised alarms over the economic consequences of the situation.

**Gasoline price changes the dynamic of supply, demand, and competition.** International Monetary Fund

Consumers face significantly different gasoline prices across gas stations. Using gasoline price data obtained from 98,753 gas stations within the U.S., it is shown that such differences can be explained by a model utilizing the gasoline demand of consumers depending on their income and commuting distance/time, where the pricing strategies of both gas stations and refiners are taken into account. The corresponding welfare analysis shows that there are significant redistributive effects of gasoline price changes among consumers, where the welfare costs of an increase in gasoline prices are found to be higher for lower income consumers.

**Do Gasoline Prices Respond Asymmetrically to Crude Oil Price Changes?** International Monetary Fund

The dramatic increase in gasoline prices from close to \$1 in 1999 to \$4 at their peak in 2008 made it much more expensive for consumers to operate an automobile. In this paper we investigate whether consumers have adjusted to gasoline price changes by altering what automobiles they purchase and what prices they pay. We investigate these effects in both new and used car markets. We find that a \$1 increase in gasoline price changes the market shares of the most and least fuel-efficient quartiles of new cars by +20% and -24%, respectively. In contrast, the same gasoline price increase changes the market shares of the most and least fuel-efficient quartiles of used cars by only +3% and -7%, respectively. We find that changes in gasoline prices also

change the relative prices of cars in the most fuel-efficient quartile and cars in the least fuel-efficient quartile: for new cars the relative price increase for fuel-efficient cars is \$363 for a \$1 increase in gas prices; for used cars it is \$2839. Hence the adjustment of equilibrium market shares and prices in response to changes in usage cost varies dramatically between new and used markets. In the new car market, the adjustment is primarily in market shares, while in the used car market, the adjustment is primarily in prices. We argue that the difference in how gasoline costs affect new and used automobile markets can be explained by differences in the supply characteristics of new and used cars. *Retail and Wholesale Gasoline Price Adjustments in Response to Oil Price Changes* DIANE Publishing

Petrol prices tend to be subject to regular changes, often changing more than once a day in many countries, and the number of changes appears to increase. For example, a recent sector inquiry by Germany's competition authority has found that the number of price changes has almost tripled between 2007 and 2010. At the same time, economic theory suggests that gasoline retail markets are prone to collusive behavior. Oligopoly market structures prevail, market interactions occur frequently, prices are highly transparent, and demand is rather inelastic. As a result, a public debate has emerged whether or not to adopt regulatory pricing rules for gas stations similar to those implemented in Austria, parts of Australia, Luxembourg or parts of Canada. In order to increase consumer welfare these rules either restrict the number of price changes per day or they limit the mark-up for gasoline retail prices. As theoretical predictions about the impact of these measures are mixed and empirical

studies rare, we analyze the effects, using an experimental gasoline market in the lab. Our results reveal that two of the suggested rules rather decrease consumer welfare: The Austrian rule which only allows one price increase per day (while price cuts are always possible) and the Luxembourg rule which introduces a maximum markup for retailers. While no rule tends to induce lower retail prices, the Western Australian rule which allows at most one daily price change (no matter whether up or down) does at least not harm consumers.

Do gasoline prices respond asymmetrically to crude oil price changes? Univ of California Press

Retail gasoline prices are known to respond fairly slowly to wholesale price changes. This does not appear to be true for markets with Edgeworth price cycles. Recently, many retail gasoline markets in the midwestern U.S. and other countries have been shown to exhibit price cycles, in which competition generates rapid cyclical retail price movements. We show that cost changes in cycling markets are passed on 2 to 3 times faster than in markets without cycles. We argue that the constant price movement inherent within the Edgeworth cycle eliminates price frictions and allows firms to pass on cost fluctuations more easily.

*The Speed of Gasoline Price Response in Markets With and Without Edgeworth Cycles* International Monetary Fund

Prepared for the use of the Joint Economic Committee, Congress of the United States.

Nova Publishers

We examine how daily retail prices of gasoline stations in Seoul Korea responded to changes in costs from 2009 to 2019. During the sample period we find a substantial shift in the composition of

Seoul gas stations and in the pattern of pass-through of wholesale price increase and decrease. In 2009-2014 price adjustment of most stations exhibited a slight "rockets and feathers" type of "speed asymmetry": retail gasoline price rose faster after a wholesale price increase than it dropped after a wholesale price decrease. But in 2015-2019 we find an uncommon "size asymmetry": price rose about 0.8 unit after a unit cost increase but dropped by roughly 1 unit after a unit cost decrease. The uncommon size-asymmetry is most prevalent among stations that serve price conscious consumers, a market segment that experienced more intensive competition in 2015-19. We also find the retail price response to infrequent and large changes in fuel taxes differs from that to frequent cost shocks driven by daily oil price fluctuations.

*Export Competitiveness - Fuel Price Nexus in Developing Countries: Real or False Concern?* Stanford University

This paper investigates the impact of domestic fuel price increases on export growth in a sample of 77 developing countries over the period 2000-2014. Using a fixed-effect estimator and the local projection approach, we find that an increase in domestic gasoline or diesel price adversely affects real non-fuel export growth, but only in the short run as the impact phases out within two years after the shock. The results also suggest that the negative effect of fuel price increase on exports is mainly noticeable in countries with a high-energy dependency ratio and countries where access to an alternative source of energy, such as electricity, is constrained, thus preventing producers from altering energy consumption mix in response to fuel price changes.

### *Inventories and Wholesale Gasoline Price Dynamics*

The existing literature on price asymmetries does not systematically investigate the sensitivity of the empirical results to the choice of a particular econometric specification. This paper fills this gap by providing a detailed comparison of the three most popular models designed to describe asymmetric price behaviour, namely asymmetric ECM, autoregressive threshold ECM and ECM with threshold cointegration. Each model is estimated on a common monthly dataset for the gasoline markets of France, Germany, Italy, Spain and UK over the period 1985-2003. All models are able to capture the temporal delay in the reaction of retail prices to changes in spot gasoline and crude oil prices, as well as some evidence of asymmetric behaviour. However, the type of market and the number of countries which are characterized by asymmetric oil-gasoline price relations vary across models. The asymmetric ECM yields some evidence of asymmetry for all countries, mainly at the distribution stage. The threshold ECM strongly rejects the null hypothesis of symmetric price behaviour, particularly in the case of France and Germany. Finally, the ECM with threshold cointegration finds long-run asymmetry for each country in the reaction of retail prices to oil price changes.

### Social Unrests and Fuel Prices: The Role of Macroeconomic, Social and Institutional Factors

Our empirical investigation confirms the common belief that retail gasoline prices react more quickly to increases in crude oil prices than to decreases. Nearly all of the response to a crude oil price increase shows up in the pump price within 4 weeks, while decreases are passed along gradually over 8 weeks. The

asymmetry could indicate market power of some producers or distributors, or it could result from inventory adjustment costs. By analyzing price transmission at different points in the distribution chain we investigate these theories. We find that some asymmetry occurs at the level of the competitive spot market for gasoline, perhaps reflecting inventory costs. Wholesale gasoline prices, however, exhibit no asymmetry in responding to crude oil price changes, indicating that refiners who set wholesale prices are not the source of the asymmetry. The most significant asymmetry appears in the response of retail prices to wholesale price changes. We argue that this probably reflects short run market power among retail gasoline sellers.

### Price Changes in the Gasoline Market

This paper assesses the dynamic pass-through of crude oil price shocks to retail fuel prices using a novel database on monthly retail fuel prices for 162 countries. The impulse response functions suggest that on average, a one cent increase in crude oil prices per liter translates into a 1.2 cent increase in the retail gasoline price at peak level six months after the shock. However, the estimates vary significantly across country groups, ranging from about 0.5 cent in MENA countries to two cents in advanced economies. The results also show that positive oil price shocks have a larger impact than negative price shocks on the retail gasoline price. Finally, the paper underscores the importance of the new dataset in refining estimates of the fiscal cost of incomplete pass-through.

### **The Distributional Implications of the Impact of Fuel Price Increases on Inflation**

This paper investigates the impact of fuel price increases on



social unrests in addition to the macroeconomic, social and institutional factors driving this relationship. Using the IV fixed-effect estimator on a sample of 101 developing countries during 2001-2020, we find that changes in fuel prices are positively associated with the number of social unrests, mainly anti-government demonstrations. This impact is however amplified: (i) during economic downturns and periods of high exchange rate instability; (ii) when government spending is low, especially on health and education, thus suggesting that streamlining fuel subsidies and diverting parts of the reform savings to the health and education sectors is an appropriate policy that could appease social tensions; (iii) in countries with high income inequality, low institutional quality and high level of corruption. The results are robust to a battery of tests, including the use of an instrumental variable approach to address reverse causality concerns given that social unrests could also prompt a freeze in fuel prices. We also find consistent results using either changes in diesel or gasoline prices. Overall, the findings of the paper provide support to the grievance and deprivation theory in explaining the association between fuel price increases and social unrests, but fail to find evidence for the resource theory and the theory of political opportunities.

### **Essays on Market Response to Changes in Costs and Price Transparency**

When gasoline prices rise, people notice: the news is filled with reports of pinched household budgets and politicians feeling pressure to do something to ameliorate the burden. Yet, raising the gasoline tax to internalize externalities is widely considered by economists to be among the most economic efficiency-

improving policies we could implement in the transportation sector. This dissertation brings new evidence to bear on quantifying the responsiveness to changing gasoline prices, both on the intensive margin (i.e., how much to drive) and the extensive margin (i.e., what vehicles to buy). I assemble a unique and extremely rich vehicle-level dataset that includes all new vehicle registrations in California 2001 to 2009, and all of the mandatory smog check program odometer readings for 2002 to 2009. The full dataset exceeds 49 million observations. Using this dataset, I quantify the responsiveness to gasoline price changes on both margins, as well as the heterogeneity in the responsiveness. I develop a novel structural model of vehicle choice and subsequent utilization, where consumer decisions are modeled in a dynamic setting that explicitly accounts for selection on unobserved driving preference at both the time of purchase and the time of driving. This utility-consistent model allows for the analysis of the welfare implications to consumers and government of a variety of different policies, including gasoline taxes and feebates. I find that consumers are responsive to changing gasoline prices in both vehicle choice and driving decisions, with more responsiveness than in many recent studies in the literature. I estimate a medium-run (i.e., roughly two-year) elasticity of fuel economy with respect to the price of gasoline for new vehicles around 0.1 for California, a response that varies by whether the vehicle manufacturer faces a tightly binding fuel economy standard. I estimate a medium-run elasticity of driving with respect to the price of gasoline around -0.15 for new personal vehicles in the first six years. Older vehicles are driven much less, but tend to be more responsive, with an elasticity of



roughly -0.3. I find that the vehicle-level responsiveness in driving to gasoline price changes varies by vehicle class, income, geographic, and demographic groups. I also find that not including controls for economic conditions and not accounting for selection into different types of new vehicles based on unobserved driving preference tend to bias the elasticity of driving away from zero -- implying a greater responsiveness than the true responsiveness. This is an important methodological point, for much of the literature estimating similar elasticities ignores these two issues. These results have significant policy implications for policies to reduce gasoline consumption and greenhouse gas emissions from transportation. The relatively inelastic estimated responsiveness on both margins suggests that a gasoline tax policy may not lead to dramatic reductions in

carbon dioxide emissions, but is a relatively non-distortionary policy instrument to raise revenue. When the externalities of driving are considered, an increased gasoline tax may not only be relatively non-distortionary, but even economic efficiency-improving. However, I find that the welfare changes from an increased gasoline tax vary significantly across counties in California, an important consideration for the political feasibility of the policy. Finally, I find suggestive evidence that the ``rebound effect'' of a policy that works only on the extensive margin, such as a feebate or CAFE standards, may be closer to zero than the elasticity of driving with respect to the price of gasoline. This suggestive finding is particularly important for the analysis of the welfare effects of any policy that focuses entirely on the extensive margin.

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