

INVESTIGATING THE ASYMMETRY OF THE OIL PRICE PASS- THROUGH TO PUMP PRICES: THE CASE OF TURKEY

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Abstract:

The behavior of oil prices has attracted much attention and generated much debate because many depressive oil shocks hit the World economies by causing stagflations. Oil prices not only affect the production level of the whole economy, but also the living condition of the consumers through the pump prices.

The oil market is often questioned about the existence of the asymmetric prices due to stickiness in pump prices. This paper studies the transmission mechanism of crude oil price changes to pump prices focusing on an oil-importer country, Turkey, which is located near the half of the oil reserves. To assess the reaction of oil companies due to a change in crude oil prices, we used pre-tax pump prices as the tax rates are relatively high in the country. The price asymmetry in oil market is analyzed for the 2005:01-2016:11 period, using a recently proposed Nonlinear Autoregressive Distributed Lag (NARDL) model. The empirical results exhibit some evidence of asymmetric pass-through in the long-run.

Keywords: oil prices, pass-through, asymmetry, Nonlinear Autoregressive Distributed Lag model