

Gasoline Pricing, Taxation and Asymmetry: The Case of Turkey

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Abstract

This study analyzes the role of tax policy in the gasoline pricing in Turkey by using error-correction model (ECM). It provides and compares empirical results by using daily gasoline prices between January 2005 and July 2012, with and without the effect of taxation. Our results do not support the “rockets and feathers” pricing hypothesis in Turkey. There is no evidence on asymmetric pricing with taxes, which implies implicitly that the government does not benefit from the adjustment of gasoline prices via taxation at least in the short term. However, one can miss the big picture in gasoline pricing by concentrating only on the price adjustment dynamics via error-correction models. Therefore, we analyzed the long-run relationships between crude oil and gasoline prices with and without taxes. Results indicate that Turkish government succeeded at implicitly imposing an exceptionally high tax burden on gasoline (about 70%) over the longer term via adjusting the excise tax (special consumption tax) amounts on gasoline and benefited from the resultant tax revenues as means of public finance.

Keywords: *Gasoline Pricing, Taxation, Asymmetry, Error Correction Model, Turkey*