

Asymmetric price adjustments in the fuel market

Abstract

The purpose of the article is to verify a hypothesis about the asymmetric pass-through of crude oil prices to the selling prices of refinery products (unleaded 95 petrol and diesel). Given the complexity of the fuel price setting process, the distribution chain is considered at three levels: the European wholesale market, the domestic wholesale market and the domestic retail market. The analysis also addresses the direct relationship between the crude oil price and the resulting prices of fuels in order to determine whether the widespread opinion about the retail prices responding more readily to crude oil price increases than to its decreases is legitimate.

The threshold error correction model with threshold cointegration proved to be an appropriate tool for the empirical analysis based on the Polish data. According to the results, price transmission asymmetry in the fuel market is significant and its scale varies depending on the level of distribution. The only exception is the wholesale price transmission to the domestic refinery price. All conclusions drawn from the research are supported by the cumulative response functions. The analysis sheds new light on the price-setting processes in a medium-sized, non-oil producing European country.