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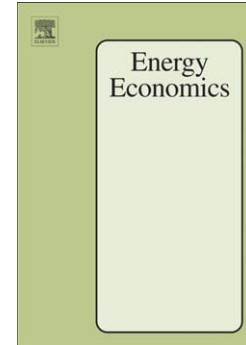
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Price Elasticity of Gasoline Smuggling: a Semi-Structural Estimation Approach[☆]

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Abstract

We estimate the price elasticity of the demand for gasoline smuggling in Iran. For this purpose, we employ a detailed panel of monthly gasoline consumption data from 160 distribution hubs during the period 2005-2014. We apply two different approaches which are diff-in-diff and panel data estimations. The results suggest that the foreign-to-home gasoline price ratios have a significant impact on the time-varying elasticity of demand. This finding supports the hypothesis that an increase in domestic gasoline prices will significantly reduce the demand for smuggling. In addition, as the distance of a region from its closest higher-price neighboring country diminishes, the price elasticity of demand for gasoline smuggling for that region declines as well. Finally, we find that when the ratio of foreign to domestic prices is higher, the gasoline demand sensitivities to price in neighboring countries go up. Our work offers new insights regarding the welfare impact of removing fuel subsidies and modifying fuel pricing policies.

Keywords: Gasoline Smuggling, Fuel Subsidy Removal, Price Elasticity, Gasoline Price Differential, Panel Data Estimation

JEL Classification Codes: C23, F15, H77, Q41

[☆]This paper is based on the masters thesis of Nima Rafizadeh at the Sharif University of Technology supervised by the other two co-authors.

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