

# **Retail Fuel Price Response to Oil Price Shocks in EU Countries**

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## **Abstract**

There is a widely held belief that retail fuel prices rise very quickly following an increase in international oil prices but fall slowly when oil prices decrease. This study uses data from European Union countries to investigate the response of retail gasoline prices to changes in the world oil price. The findings indicate significant variation in the adjustment mechanism across countries. Fluctuations in the international price of oil are transported to local prices with some delay but evidence of asymmetric adjustment is fairly weak. Statistically significant evidence of asymmetric responses is only found in a small number of countries, while in some countries there is even (weak) evidence of asymmetry in the reverse direction: prices drop faster than they rise. For the case of Cyprus our estimates show that prices adjust somewhat faster to an increase in the international price than they do to a decrease, but the difference is neither statistically significant nor substantial in terms of economic consequences.

**Keywords:** asymmetric price response, rockets and feathers, retail fuel prices.