Decomposition of retail gasoline prices and the sources of market power: evidence for Colombia

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Resumen:

In this study, we investigate adjustments in retail gasoline prices and their decomposition into the direct effect of wholesale costs, strategic complementarities, and other potential sources of market power. We use monthly frequency data from gas stations in four major Colombian cities between January 2017 and November 2019. We develop a theoretical model to decompose prices into their constituent sources and estimate them using the available data. The results indicate that the findings are consistent with our model's predictions. In equilibrium, marginal costs are fully or partially transferred to prices. A complete transfer was found for stations in Cali and Medellín, and a partial one for those in Bogotá and Barranquilla. Finally, we decompose retail prices by their sources and identify the part explained by market power.

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